

Date of Hearing: March 25, 2026

ASSEMBLY COMMITTEE ON LOCAL GOVERNMENT

Juan Carrillo, Chair

AB 1712 (Pacheco) – As Amended March 16, 2026

SUBJECT: City of Santa Fe Springs: sale of water utility property.

SUMMARY: Authorizes the City of Santa Fe Springs to utilize alternative procedures to sell their public water utilities for consolidation. Specifically, **this bill:**

- 1) Authorizes the City to sell its public utility for furnishing water service for the purpose of consolidating its public water system with another public water system if its legislative body determines that it is not in the public interest to own and operate the public utility for furnishing water service, subject to all of the following requirements:
 - a) The City shall not sell the water utility property for less than its fair market value, as defined.
 - b) The City shall not sell the water utility property without obtaining a 4/5ths vote of its legislative body.
 - c) The City's existing water supply is contaminated, impaired, or otherwise presents a risk to public health, and the City lacks the technical, managerial, or financial capacity to provide for necessary treatment or replacement, or the cost of continued operation, maintenance, or treatment by the City would impose an unreasonable financial burden on ratepayers, as demonstrated by an independent financial analysis applying financial industry standards in adherence to Section 6 of Article XIII D of the California Constitution, commonly referred to as Proposition 218.
 - d) Consolidation of the water systems shall be economically feasible for the ratepayers of the subsumed water system. Ratepayers of the subsumed water system shall be notified of the applicable rate that will be in effect during the first year after consolidation has been completed. Any rate increases following the sale of a public utility for furnishing water service shall be phased in over time.
 - e) Consolidation of the water systems shall ensure continued water service to all existing customers without interruption or degradation in service quality.
 - f) The City shall not sell its public utility for furnishing water service unless it considers oral and written protests at its second regularly schedule meeting following the adoption of a specified resolution and publication pursuant to g), below. The resolution shall allow 45 days for hearing protests to the sale and shall state the city's intended use of the sale proceeds. Notice of the sale may be given by including notice in the agency's regular billing statement. One written protest per parcel, filed by an owner or tenant of the parcel, shall be counted in calculating a protest. The City shall maintain all written protests for a minimum of two years following the date of the hearing to consider written protests.
 - g) The resolution shall be published at least once in a daily newspaper published and circulated in the City or, if there is none, the City shall designate a newspaper published

in the county. It shall also be posted for not less than 10 days in at least three conspicuous places in the City.

- h) If the City finds that protests have been filed by at least 10% of interested persons, the City shall call an election, as specified. If an election is called, the City shall not sell the public utility for furnishing water service unless the sale is approved by a majority of the City's registered voters voting on the issue.
 - i) If 50% or more of interested persons protest the sale of the public utility, the city shall not take further steps for the sale of the public utility. The City, after one year has passed, may sell the public utility if the requirements of this bill are met, including adoption of a new resolution.
 - j) Defines "interested person", for the purposes of this bill, to mean a person who is a resident of the City proposing to sell its public utility pursuant to this bill and a person who is not a resident of the City but who is a ratepayer of the public utility proposed to be sold.
 - k) The City has adopted a resolution, at a regularly scheduled meeting that a), through j), inclusive, have been met.
- 2) Specifies that this bill shall remain in effect only until January 1, 2032, and as of that date is repealed.
 - 3) Provides that the Legislature finds and declares that a special statute is necessary and that a general statute cannot be made applicable because of the unique circumstances in the City.

EXISTING LAW:

- 1) Establishes a policy of the state that every human being has the right to safe, clean, affordable, and accessible water adequate for human consumption, cooking, and sanitary purposes (Water Code § 106.3).
- 2) Encourages the consolidation of small community water systems that serve disadvantaged communities, under specified conditions [Health and Safety Code (HSC) §§ 116680 & 116682].
- 3) Allows, under specified conditions, the State Water Resources Control Board (State Water Board) to order the consolidation of a public water system or a state small water system within a disadvantaged community (HSC § 116682).
- 4) Limits the liability of any agency in the chain of distribution that delivers water to a consolidated water system (HSC § 116684).

FISCAL EFFECT: This bill is keyed fiscal.

COMMENTS:

- 1) **Background.** According to the 2024 Annual Compliance Report from the State Water Resources Control Board, there were 3,189 violations of the National Primary Drinking Water Regulations from the 7,313 water board regulated public water systems. Of these

systems in non-compliance, over 91 percent are the smaller public water systems.

A community water system is a public water system that serves at least 15 service connections used by yearlong residents, or regularly serves at least 25 yearlong residents. These water systems primarily serve cities, neighborhoods, schools and businesses. The State Water Board data primarily captures community water systems; of systems in the State Water Board data, almost 70% are very small systems serving populations of 25-499 connections. Those very small systems represent 92% of all drinking water standard violations in 2024.

In 1997, the Public Utilities Commission (PUC) was required to use fair market value when setting rates creating a greater incentive for PUC regulated water providers to consolidate. In 2015, the State Water Board was given the authority to order consolidation of a public water system within a disadvantaged community under specified conditions. In 2016, the State Water Board was given the authority to evaluate of the ability of a proposed new public water system's ability to meet drinking water standards for the foreseeable future and to deny a permit if it is determined that the new public water system will not be sustainable into the future. Today, it is generally the policy of the state to encourage the consolidation of small water systems when possible.

- 2) **Santa Fe Springs.** The City is located in Southeast Los Angeles County with a population of approximately 19,000 residents. According to the City's 2024 Annual Water Quality Report, the City obtains its water from treated groundwater and water from the Metropolitan Water District of Southern California. As of 2020, the City's water system had 6,788 municipal water connections. The City's water system does not include the entire city, but it does include ratepayers within the cities of Downey and Norwalk.
- 3) **Sales of Water Utilities.** Cities can own and operate public utilities. The city can sell its public utility when the public interest and necessity demand with 2/3 vote of the governing board and voters when it provides any authorized service. However, the Legislature provided that cities can lease, sell, or transfer their water utilities with majority governing board and voter approval instead [SB 2111 (Beverly), Chapter 169, Statutes of 1996]. The supermajority vote continues to apply to sales of other types of public utilities such as power, drainage, and transportation.

Under SB 2111, a city can sell all or any portion of a utility within its jurisdiction to another public entity or utility upon a majority vote of the board, if the city:

- a) Determines that the utility is not necessary for supplying water to its own inhabitants, or that its inhabitants will be provided with equal or better service by the acquiring entity on terms that are just and reasonable and do not discriminate against the customers of the acquired entity.
- b) The city submits the issue to the qualified voters of the municipality at a special or general election, and a majority of voters approve it.
- c) The acquiring agency concurs.

- d) The acquiring agency discloses to the customers they are seeking to acquire within 30 days of the election a summary of the price and terms of the proposed acquisition, a comparison of the applicable water charges, and the estimated costs or savings resulting from the acquisition.
- 4) **Special Circumstances.** AB 2339 (Gipson), Chapter 866, Statutes of 2018, authorized the Cities of El Monte, Montebello, and Willows, until January 1, 2022, to sell their water systems for the purpose of consolidating with another public water system under specified circumstances. Specifically, this bill required these cities to determine that it is uneconomical and not in the public interest to own and operate the public water utility and allows the sale if fourth-fifths of the city's legislative body adopts a resolution at a regularly scheduled meeting and all the following requirements have been met:
- a) The sale is not for less than fair market value.
 - b) There are at least two water suppliers that provide drinking water to residents in the city prior to the sale.
 - c) The city has deferred maintenance for the public water system as demonstrated by a study conducted by an independent third party, as specified.
 - d) The potentially subsumed public water system is wholly within the boundaries of the city.
 - e) The receiving water system's service area borders the service area of the subsumed public water system.
 - f) The subsumed water systems' customers will pay the same rates as customers of the receiving water system. The consolidation shall be economically feasible for the ratepayers in the subsumed system, the ratepayers will be notified of the applicable rate that will be in effect during the first year after consolidation has been completed, and any rate increases will be phased in.
 - g) Consolidation of the water systems is technically and economically feasible.
 - h) The city has considered oral and written protest at its second regularly scheduled meeting following adoption of a resolution, as specified, to sell the public utility, and has allowed 45 days for hearing protests. The city must state its intended use of the sale proceeds.
 - i) The resolution has been published at least once in a daily newspaper published and circulated in the city, or if there is none, the city council shall choose a newspaper published in the county. The resolution must also be posted for not less than 10 days in at least three conspicuous places within the city.
 - j) The sale is subject to a majority vote of voters voting on the issue if at least 10% of residents of the city protest the sale at a regularly scheduled meeting. If 50% or more protest the sale, the city shall not sell the utility until one year has passed. If the sale fails, the city must wait at least one year before attempting another sale.
 - k) The legislative body has adopted a resolution that all of the above provisions have been met.

AB 850 (Gallagher), Chapter 705, Statutes of 2021, extended the sunset date of the authorization of the Cities of El Monte, Montebello, and Willows to use alternative procedures to sell their water systems from January 1, 2022 to January 1, 2024. Approved by the PUC, the City of Montebello successfully sold its water utility to the San Gabriel Valley Water Company in 2023 for \$15.9 million. Later in 2023, California Water Service purchased the City of Willow's water utility. The City of El Monte did not sell its water utility prior to January 1, 2024.

- 5) **Bill Summary and Author's Statement.** Current law requires a city to obtain a majority vote of its electorate before property owned by its public utility before it can be sold. This bill instead allows, in limited circumstances, the City to sell its drinking water property without an election. However, the City must first conduct protest proceedings similar to the method required by Proposition 218 (1996). A majority vote election is required if 10% of residents file a written or oral protest. This bill requires all property to be sold for fair market value, among other requirements. This bill is sponsored by the City of Santa Fe Springs.

According to the author, "All Californians deserve access to clean, affordable water. However, smaller water systems – such as the one owned by the city of Santa Fe Springs – cannot always afford to hold rates steady while performing much-needed upgrades. If Santa Fe Springs were to finance its desperately needed upgrades, ratepayers would see a nearly 300% increase on their bills. In contrast, if the city sells its system to a larger entity regulated by the California Public Utilities Commission, the larger ratepayer base will allow the new entity to perform critical upgrades with significantly lower rate increases. AB 1712 allows the city to sell its water system through a public protest process (rather than a municipal election), thus saving the city, and ultimately ratepayers, money while supporting much-needed upgrades to the water system."

- 6) **Policy Consideration.** Protest processes and elections are common practices for the general public to become involved in the local agency decision-making process. While elections are more common, protest proceedings are used in a number of ways to gauge a community's support or opposition to a proposed local agency action. For instance, agencies are required to conduct protest proceedings when following Proposition 218's rate setting process, and local agency formation commissions (LAFCOs) typically hold a public protest hearing when making a change of organization, such as an annexation or agency consolidation. Nonetheless, there are some key differences between elections and protest.

In this instance, elections require a minimum of 50% plus one of those that vote to approve the sale of public utility property. For example, if only 15% of 5,000 people vote, 376 people need to vote "no" in order to successfully oppose the sale of property. A protest process, on the other hand, requires 10% of the parcels to provide an oral or written protest to trigger an election and for the protest to be successful. Continuing this example, out of the same 5,000 people, in order to reach a protest of 10%, opponents (one per parcel) would have to file 500 protests, and 2,501 to reach 50% protest to stop the sale outright. While circumstances may differ in each property sale, it is possible that the proposed protest process in this bill makes it more difficult for opponents to stop the sale. In light of the differences between protest processes and elections, the Committee may wish to consider if this bill allows for sufficient opportunity for ratepayers to object to the sale of the City's water utility.

- 7) **Related Legislation.** AB 272 (Gipson) of 2018, was substantially similar to AB 2339 (Gipson) of 2018. AB 272 was held in Assembly Appropriations Committee.

SB 1263 (Wieckowski) Chapter 843, Statutes of 2016, required a person submitting an application for a permit for a proposed new public water system to first submit a preliminary technical report, with specified information, to the State Water Board at least six months before initiating construction of any water-related development. Authorized the State Water Board to direct the applicant to engage in negotiations to receive services from existing water systems.

SB 88 (Committee on Budget), Chapter 27, Statutes of 2015, allowed the State Water Board to order consolidation of a public water system or a small water system within a disadvantaged community under specified conditions. Additionally, limits the liability of any agency in the chain of distribution that delivers water to a consolidated water system.

AB 685 (Eng), Chapter 524, Statutes of 2012, established the human right to water policy that every human being has the right to safe, clean, affordable, and accessible water adequate for human consumption, cooking, and sanitary purposes.

- 8) **Arguments in Support.** According to the City of Santa Fe Springs, the sponsors of this bill, “The City of Santa Fe Springs Water System has become a financial drain on the city’s budget. The system does not serve the entire city but does include portions of the City of Downey and the City of Norwalk. It is, however, subsidized by all the residents of Santa Fe Springs. It currently runs an annual deficit between \$2.5 to \$3.0 million. It faces extensive deferred infrastructure upgrades and groundwater contamination issues that are beyond the means of the city. Raising the capital would require a significant rate hike or bonds that would place more pressure on our annual budget.

“...The city is unable to finance the improvements and with the economy slowing budget revenues are expected to be lower in the coming year. The Tariff’s imposed by the Trump administration have increased cost for materials and made budgeting more difficult.”

- 9) **Arguments in Opposition.** None on file.

- 10) **Double-referral.** This bill has been double-referred to the Assembly Committee on Water, Parks, and Wildlife.

REGISTERED SUPPORT / OPPOSITION:

Support

City of Santa Fe Springs [SPONSOR]

Opposition

None on file

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