

Date of Hearing: April 14, 2026

ASSEMBLY COMMITTEE ON WATER, PARKS, AND WILDLIFE

Diane Papan, Chair

AB 1712 (Pacheco) – As Amended April 6, 2026

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

SUMMARY: Permits the City of Santa Fe Springs to sell and consolidate its water utility with another public water system if its city council determines doing so is in the public interest and other requirements are met. Specifically, **this bill**:

- 1) Authorizes the City of Santa Fe Springs to sell and consolidate its water utility to another public water system if its city council determines it is not in the public interest to own and operate the water utility and the following requirements are met:
 - a) The city shall not sell water utility property for less than its fair market value;
 - b) The city council must approve the sale by a 4/5's vote;
 - c) The city's existing water supply is impaired or otherwise presents a risk to public health and the city lacks the managerial and financial resources necessary to treat the water or replace the system or the cost of continued management of the water utility by the city would impose an unreasonable financial burden on ratepayers. An independent rate study meeting the standards under Proposition 218 shall be required to demonstrate that there is an unreasonable financial burden on ratepayers;
 - 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 provide notice of the sale and allow 45 days to receive and hear and consider protests to the sale of its water utility. The city shall include in the notice its intended use of proceeds from the sale of the water utility.
 - g) If the city receives protests from at least 10% of the interested persons affected by the sale, the city council shall call a special election on the sale of the water utility and not sell the water utility unless a majority of those voting on the question approve the sale; and
 - h) If the city receives protests from 50% or more of the interested persons affected by the sale, the city council shall not proceed with the sale of the water utility.
- 2) Defines "interested person" as a person who is a resident of the city proposing to sell its water utility or a person who is not a resident of the city, but a ratepayer of the water utility to be sold.

- 3) Sunsets this bill on January 1, 2032.
- 4) 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 of Santa Fe Springs.

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) Authorizes the city council to sell city-owned property if it finds such sale is in the public interest and convenience. The city council must provide public notice and an opportunity for the public to protest the sale. A 4/5's vote of the city council is then required to finalize the sale. However, if a member of the public protests the sale of property, the city council must over-rule the protest by a 4/5's vote or, if it does not achieve the 4/5's vote threshold, submit the question to its voters in a special election. If a majority of voters approve the sale at the special election, the city may sell the property (Government Code §§ 37420 – 37430).
- 3) Authorizes a city to sell any public utility it owns if its city council determines that the public interest and necessity demand such sale and the city council, by a 2/3's vote of its members, submits the question to qualified voters at an election held for that purpose. A vote of 2/3's of the voters voting in the special election is necessary to authorize the sale [Public Utilities Code (PUC) §§ 10051 – 10055].
- 4) Authorizes a city to lease, sell, or transfer any part of its water or sewer utility that serves customers outside its city limits if a majority of its city council determines that the utility is not necessary to provide water or sewer service to its residents and approves the lease, sale, or transfer [PUC § 10061(b)].
- 5) Authorizes a city to sell or transfer any part of its water or sewer utility that serves customers within its city limits to another city, public agency, water corporation, or sewer system corporation if the sale or transfer is approved as follows:
 - a) A majority of the city council determines that its residents will be provided with equal or better service by the acquiring entity on terms that are just and reasonable and that the sale or transfer does not discriminate against existing customers of the acquiring entity;
 - b) A majority of the city council or board of directors of the acquiring entity approves the sale or transfer;
 - c) A majority of residents of the city selling or transferring the water or sewer utility approves the sale or transfer at a special election; and
 - d) The entity acquiring the water utility provides the following information to the water utility's existing customers at least 30 days prior to the election: the price and terms of the sale; a comparison of water or sewer rates before and after the sale; and the savings to be achieved or additional costs expected as a result of the sale [PUC § 10061(c)].

- 6) Permits a city to lease its water or sewer utility by a resolution adopted by a majority of its city council. The lease need not include term or meet other restrictions under law [PUC § 10061(d)].

FISCAL EFFECT: Unknown. This bill is keyed fiscal.

COMMENTS:

- 1) **Purpose of this bill.** Current law requires a city to obtain a majority vote of its electorate before property owned by its public water or sewer utility can be sold. This bill, instead, allows the City of Santa Fe Springs to sell its drinking water utility 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, and 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. [This bill] 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.”

- 2) **Background.** Cities can own and operate public utilities to provide various services to their residents, including water; light; heat; power; sewage collection, treatment, or disposal; transportation; or means of communication. Generally, if a city determines that it is necessary and in the public interest, it can sell a utility it owns and operates if 2/3's of its city council and 2/3's of its residents approve the sale after notice and an opportunity for protest is provided. SB 2111 (Beverly), Chapter 169, Statutes of 1996, created a separate process for the sale or transfer of a water utility operated by a city. Under this process, a city can lease, sell, or transfer a water utility it operates by a majority vote of its city council and a majority vote of its residents. AB 2179 (Gibson), Chapter 863, Statutes of 2018, expanded the application of majority vote process created by SB 2111 to also apply to the sale of a sewer utility; nonetheless, the supermajority vote requirement still applies to sales of other types of public utilities such as light, heat, power, transportation, or communication.

City of Santa Fe Springs. Santa Fe Springs is located in Southeast Los Angeles County with a population of approximately 19,000 residents. According to its 2024 Annual Water Quality Report, Santa Fe Springs 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. Santa Fe Springs' water system does not include the entire city, but it does have customers within the cities of Downey and Norwalk.

Proposition 218. Enacted in November 1996, Proposition 218 amended the California Constitution by placing restrictions on how local agencies use fees, charges, or special

assessments (“property-related services”) to cover the cost of providing services, including for water service. In order to assess a fee, water agencies must ensure it meets five standards under Proposition 218: that a fee or charge (1) not exceed the cost of providing the service for which it is charged or (2) be used for any purpose other than that for which it is charged; (3) that a fee not exceed the proportional cost of providing a service to an individual property; (4) that no fee be imposed for a service unless that service is actually used by or available to a property owner; and (5) that no fee or charge may be imposed for general governmental services that are available to the public in the same manner as it is to property owners. To comply with Proposition 218, water agencies have to undertake a detailed rate study to establish the basis upon which the amount of a proposed fee or charge is calculated, notify customers of a proposed fee or charge, and hold a public hearing on the proposed fee or charge. If a majority of the property owners that will be subject to the proposed fee or charge protest the fee or charge, a local agency may not impose the fee or charge.

- 3) **Arguments in support.** According to the City of Santa Fe Springs, the sponsor 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.”

- 4) **Dual referral.** This bill was also referred to the Assembly Local Government Committee where it passed by a vote of 10-0 on March 25, 2026.
- 5) **Related legislation.** AB 850 (Gallagher), Chapter 705, Statutes of 2021, extends the deadline for the cities of El Monte, Montebello, and Willows to sell their public water utilities for consolidation by two years, from January 1, 2022, to January 1, 2024.

AB 2339 (Gibson), Chapter 866, Statutes of 2018, authorizes the Cities of El Monte, Montebello, and Willows to sell their water systems, until January 1, 2022, for the purpose of consolidating with another public water system without obtaining voter approval.

AB 2179 (Gibson), Chapter 863, Statutes of 2018, authorizes the sale or transfer of a city’s sewer utility to another entity if a majority of its legislative body and its residents approve the sale or transfer.

AB 2501 (Chu), Chapter 871, Statutes of 2018, revises and expands the State Water Resources Control Board’s (State Water Board) authority granted in SB 88 to order the consolidation of, and appoint an administrator for, drinking water systems that serve a disadvantaged community and that consistently fail to provide safe, affordable drinking water.

SB 88 (Committee on Budget), Chapter 27, Statutes of 2015, among other provisions, 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.

SB 558 (Cogdill), Chapter 209, Statutes of 2007, provides that voter approval does not apply to the lease, sale, or transfer of public utilities by a city to another local agency when completing the Local Agency Formation Commission process.

SB 557 (Battin) of 2005 would have allowed the City of Palm Springs to sell its wastewater utility to the Desert Water Agency. SB 557 was vetoed by Governor Schwarzenegger.

SB 2111 (Beverly), Chapter 169, Statutes of 1996, authorized a city to sell or transfer its water utility to another entity with a majority vote of its legislative body and its residents.

REGISTERED SUPPORT / OPPOSITION:**Support**

City of Santa Fe Springs (sponsor)
California Water Association
San Gabriel Valley Water Company

Opposition

None on file

Analysis Prepared by: Pablo Garza / W., P., & W. / (916) 319-2096