
SENATE COMMITTEE ON LOCAL GOVERNMENT

Senator María Elena Durazo, Chair

2025 - 2026 Regular

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Fiscal: Yes
Consultant: Peterson

CITY OF SANTA FE SPRINGS: SALE OF WATER UTILITY PROPERTY

Allows the City of Santa Fe Springs to sell its water utility without voter approval under specified circumstances.

Background

Cities can purchase, lease, receive, hold and enjoy real and personal property, and control and dispose of it for the common benefit. A city can sell property it owns when its governing board finds the public interest and convenience requires the sale of any public building and site dedicated to a public use, and approves a resolution authorizing the sale with specified contents. Anybody can protest the sale in writing or orally, which the city can override with a 4/5 vote of its governing board. If no protests are received, the city can proceed with the sale with majority approval of its governing board. If a protest is received, and the city does not override it, the sale must be approved by a majority of voters.

Sales of water utilities. Cities can own and operate public utilities. Cities can sell their public utilities when they determine doing so to be in the public interest with a 2/3 vote. However, cities can lease, sell, or transfer their water utilities with majority governing board and voter approval instead (SB 2111, Beverly, 1996). The supermajority vote continues to apply to sales of other types of public utilities such as power, sewage, 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 if:

- The city 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;
- A majority of the city council approves the issue;
- 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;
- The acquiring agency concurs; and
- 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.

Proposition 218. Proposition 218 (1996) generally prohibits taxes, assessments, fees, and charges “assessed by any agency upon any parcel of property or upon any person as an incident

of property ownership.” The initiative sets forth a specific notice, hearing, and protest process, which agencies must comply with to impose a new fee or increase an existing one. After the agency provides written notification to all property owners subject to the fee, the agency must hold a meeting within 45 days on the new or increased fee. The agency cannot impose or increase the fee if a majority of the affected property owners file written protests opposing the rates before the end of the public hearing.

In 2018, the Legislature allowed the Cities of El Monte, Montebello, and Willows to sell their water utilities for the purposes of consolidating with another agency without voter approval under specific circumstances (AB 2339, Gipson):

- The potentially subsumed public water system be wholly within the boundaries of the city;
- The city determines that it is uneconomical and not in the public interest to own and operate the public utility for furnishing water service;
- The sale is not for less than fair market value, as defined;
- The legislative body of the city approves the sale by four-fifths vote;
- At least two water suppliers that provide drinking water to residents in the city exist prior to the sale;
- The city has deferred necessary maintenance for its aging or failing water infrastructure, demonstrated by a study conducted by an independent third party that evaluates performance of the system applying American Water Works Association standards or its equivalent;
- The receiving water system’s service area borders the service area of the subsumed water system;
- The subsumed water system’s customers do not pay water rates different from customers already receiving service from the receiving water system;
- Consolidation of the water systems is economically feasible for the ratepayers of the subsumed water system;
- Ratepayers of the subsumed water system are 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 must be phased in over time; and
- Consolidation of the water systems is technically and economically feasible.

Additionally, AB 2339 only allows the three cities to sell the utility after complying with protest process similar to that required by Proposition 218. Specifically, the cities must:

- Include in the resolution authorizing the sale a 45-day period for hearing protests to the sale, and state the city’s intended use of the sale proceeds;
- Consider oral and written protests at its second regularly scheduled meeting following adopting the resolution authorizing the sale;
- Maintain all written protests for a minimum of two years following the date of the hearing to consider written protests;
- Publish the resolution at least once in a daily newspaper published and circulated in the city or, if there is none, then a newspaper published in the county designated by the city’s legislative body; and
- Post the resolution for ten or more days in at least three conspicuous places in the city.

If the legislative body of the specified cities finds that protests have been filed by at least 10% of interested persons, it must call an election. In this case, AB 2339 precludes the city from selling the public utility unless the sale is approved by a majority of the city's registered voters voting on the issue. The bill also prohibits the city from taking further steps for the sale of the public utility if 50% or more of interested persons protest the sale of the public utility. However, the city can reinstate the sale after one year.

AB 850 (Gallagher, 2021) extended the sunset on the authorization for the Cities of El Monte, Montebello, and Willows to sell their water utilities without voter approval under specified circumstances from January 1, 2022, to January 1, 2024.

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. So far, the City of El Monte has not sold its water utility.

Santa Fe Springs. The City of Santa Fe Springs 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 serves most, but not all, of the City, and parts of the cities of Downey and Norwalk.

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 of Santa Fe Springs wants the authority to sell their water utility without a vote.

Proposed Law

Assembly Bill 1712 allows the City of Santa Fe Springs to sell its water utility for the purpose of consolidating its public water system with another public water system if its legislative body determines it is not in the public interest for the city to own and operate the utility, subject to the similar requirements as AB 2339 except that the utility's service area does not have to be entirely within the City of Santa Fe Springs.

AB 1712 sunsets the city's authority on January 1, 2032.

Comments

1. **Purpose of the bill.** 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.”

2. Public participation. Cities form municipal utilities to control the provision of vital public services, such as water. Instead of distant private corporations owned by shareholders, municipal ownership of utilities provides public control and accountability: voters know who to contact when service is substandard, infrastructure improvements are needed, or rates are too high. If the city sells to a private water utility, residents have to go to the California Public Utilities Commission in San Francisco and navigate the Commission’s complex intervenor process to have their voices heard. Like AB 2339 before it, AB 1712 gives residents the opportunity to protest the proposed sale of the utility if they want to keep it in the hands of local officials. However, if the city receives an insufficient number of protests, it can move forward with the sale of the utility without an election. Does the protest process give residents sufficient opportunity to weigh in on a potential sale of a city’s water utility?

3. One of many. Before it enacted AB 2339 in 2018, the Legislature had previously approved a series of specific exemptions to the majority voter requirement subject to varying requirements, including the Cities of Montebello (SB 248, Montoya, 1987), Fontana (AB 2867, Brulte, 1995), and West Covina (AB 1128, Miller, 1997). In 2005, Governor Schwarzenegger vetoed a bill that would have allowed the City of Palm Springs to sell its wastewater utility to the Desert Water Agency (SB 557, Battin, 2005). However, in 2007, the Legislature provided that voter approval did not apply to the lease, sale, or transfer of public utilities by a municipal corporation to another local agency when completing the Local Agency Formation Commission process under the Cortese-Knox-Hertzberg Act (SB 558, Cogdill, 2007).

4. Special legislation. The California Constitution prohibits special legislation when a general law can apply (Article IV, §16). AB 1712 contains findings and declarations explaining that a special statute is necessary, because of the unique circumstances in the City of Santa Fe Springs.

Assembly Actions

Assembly Committee on Local Government:	10-0
Assembly Committee on Water, Parks, and Wildlife:	13-0
Assembly Committee on Appropriations:	14-0
Assembly Floor:	77-0

Support and Opposition (6/12/2026)

Support: City of Santa Fe Springs (Sponsor)
 California Contract Cities Association
 California Water Association

Opposition: None Submitted