



CITY OF COMMERCE AGENDA REPORT

TO: Honorable City Council

FROM: City Manager

SUBJECT: Commerce Water System

MEETING DATE: November 19, 2019

Item No. _____

RECOMMENDATION:

It is recommended the City Council consider and adopt a Resolution authorizing staff to develop and release a Request for Proposals (RFP) for the potential sale of the Commerce water system without water rights.

BACKGROUND:

On November 5, 2019, staff presented a report to the City Council regarding the Commerce Water System. The presentation included information on the system's infrastructure owned by the City, its current condition, needed capital improvement and costs, necessary rate increases every three years which include the costs of capital improvements, legally required Proposition 218 process for public entity rate adjustments, a lease agreement with California Water Service Company for the operations and maintenance of the system to meet Federal and State Drinking Water Standards and implementation of the system's Capital Improvement Program.

Two options were presented for City Council consideration: *Option 1* included selling the system and retaining the City's water rights as revenue in perpetuity at an estimated amount of \$838,000/year in present value. *Option 2* included retaining ownership of the system and water rights and implementing a 7.5% rate increase that includes CIP costs over the next three years. Pros and cons were discussed for each option in addition to providing an additional option for consideration.

ANALYSIS:

The Commerce water system consists of the following:

- 6 sites
- 2 active wells operating, one constructed in 1917 and the other in 1938 with an expected lifespan of approximately 50 years.
- 5 reservoirs
- 3 water treatment plants
- 5 panelboards – control electrical circuits

- 16 pumps and motors
- 2 generators
- 27 miles of distribution pipelines and other lines used for draining and flushing water, control valves, fittings, meters, and water mains.

The two wells are significantly past their life expectancy and the drilling of new wells is costly at approximately \$2.5 million each excluding land purchase, site remediation, water quality assessment and treatment with a timeline of approximately 4-5 years for full operation.

Three options for City Council consideration are as follows:

1. Authorize staff to develop and release an RFP for the potential sale of the Commerce Water System without water rights; and/or
2. Retain the system and implement a Proposition 218 process for a 7.5% rate increase each year for the next three years of which 80% of the increase would be applied to commercial and 20% to residential; or
3. Retain the system and implement a Proposition 218 process for an accelerated rate increase until the Commerce system rates are level with the rates charged under the Cal Water system to generate the required revenue to fully implement the CIP needed in the next 5-7 years, a potential \$11 - \$16 million investment.

Staff recommends, given the age of the system and the amount of capital investment needed to meet water quality standards, the City Council pursue Option 1 and direct staff to develop and release a Request for Proposals (RFP) for the potential sale of the system. Following a formal RFP process, staff will return to City Council with the RFP results for further discussion. It is important to note, the release of the RFP does not obligate the City to any decision but does provide the City Council additional pertinent information when considering all options.

ALTERNATIVES:

1. Approve staff recommendation
2. Disapprove staff recommendation
3. Approve one of the other options presented
4. Provide further direction to staff

FISCAL IMPACT:

There is no fiscal impact to the City of Commerce for release of an RFP.

RELATIONSHIP TO STRATEGIC GOALS:

This item is related to a specific 2016 Strategic Goal to “create and pursue opportunities for collaboration and regional partnerships to maximize resources and address regional issues.”

Approved by: Daniel Hernandez, Director of Public Works and Development Services
Prepared by: Gina Nila, Deputy Director of Public Works Operations
Reviewed by: Josh Brooks, Acting Finance Director
Reviewed by: Vilko Domic, Assistant City Manager
Approved as to form: Noel Tapia, City Attorney
Respectfully submitted: Edgar P. Cisneros, City Manager

Attachments:

1. Resolution
2. Presentation