



City of Morgan Hill

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CITY COUNCIL STAFF REPORT MEETING DATE: OCTOBER 19, 2016

PREPARED BY: Dan Repp, Deputy Director Utility Services/Public Works Department
APPROVED BY: City Manager

POTENTIAL CONSOLIDATION WITH THE FOOTHILL MUTUAL WATER COMPANY AND MECCHI WATER COMPANY

RECOMMENDATION(S)

1. Receive report on current status of the Foothill Mutual Water Company and the Mecchi Water Company; and
2. Provide direction on whether or not to further investigate the consolidation of the Foothill Mutual Water Company and the Mecchi Water Company with the City's water utility system.

COUNCIL PRIORITIES, GOALS & STRATEGIES:

Ongoing Priorities

Enhancing public safety
Protecting the environment

2016 Focus Areas

Planning Our Community
Enhancing Our Services
Participate in Regional Issues

REPORT NARRATIVE:

INTRODUCTION

Councilmember Siebert requested that staff report back to the Council regarding the status of two

small private water systems within the City's sphere of influence but outside of the City's boundaries. These two private systems - the Foothill Mutual Water Company and the Mecchi Water Company - have been cited in recent Local Area Formation Commission of Santa Clara County (LAFCO) studies as having "contamination challenges" with respect to the water they deliver to their customers. In one case, water quality is the main issue and in the other it is a system reliability problem. The State Department of Health (DPH) encourages these small water purveyors to consolidate with larger and more reliable providers. The Office of Drinking Water (ODW) has regulatory jurisdiction over small water systems. The ODW is concerned about potential health risks to the water customers of the two systems and has asked the City to consider consolidating them into the City's drinking water utility system.

Attached to this report are location maps for the Foothill Mutual Water Company and the Mecchi Water Company. The following provides a summary of each water company and the challenges they face. Also included below are discussions about service options, potential state funding to support consolidation, and regulatory considerations.

FOOTHILL MUTUAL WATER COMPANY

The Foothill Mutual Water Company (FMWC) is located east of the City in an area along Foothill Road between Tennant Avenue and Maple Avenue. Attachment 2 is a map showing the area served by the FMWC. The FMWC consists of two wells serving twelve (12) residential connections. The FMWC is experiencing both water quality and quantity problems. The water in its two wells has nitrate concentrations above the State required maximum contaminant level (MCL). High levels of nitrite in drinking water can pose a health risk to infants. FMWC has tried drilling other wells in its service area but all have exceeded the MCL for nitrate. The remaining option left for FMWC is to install a treatment system; however, the capital and operation costs for a nitrate removal plant are too high for those residents.

MECCHI WATER COMPANY

The Mecchi Water Company (MWC) is located south of the City in an area bounded by Monterey Road on the west, Middle Avenue on the north and railroad on the east. A map showing the area served by MWC is provided as Attachment 3. The MWC consists of two wells and thirty (30) connections. One of the MWC wells is not permitted for operation. The MWC has no backup power and no water storage capacity in the system. Consequently, when the power goes out or another failure occurs with the well, the system loses pressure and the customers are left without water. The lack of reliability and redundant features result in the system being only one power outage (or similar event) away from having to issue Boil Water Notices and dealing with a potential public health emergency. The MWC is currently meeting drinking water quality standards. The owner of the MWC has indicated that he would be willing to consider selling the company to the City.

SERVICE OPTIONS

There are three water service options available to the City should it choose to include FMWC and MWC in its water utility system:

1. operate each as a satellite system
2. provide water to each through a wholesale connection
3. provide water through City owned mains and metered services meeting City standards.

The ODW encourages water utilities like the City to consolidate smaller water systems particularly if the smaller systems are experiencing difficulty meeting state standards. The ODW has funding

available through the State Drinking Water Revolving Fund to assist utilities in the consolidation process. However, these funds are limited and only available when the consolidation meets the State's definition. The ODW defines consolidation as a project that involves the restructuring of two or more public water systems into a single public water system. The ODW translates this definition to mean that consolidated systems are connected to and operated to the same standard as the utility's main system.

Satellite System

The City could operate the two water companies as satellite systems. In this option the City would take over the existing water production and distribution facilities and operate them as independent systems similar to the way they operate now. The City would need to make improvements to correct the current deficiencies in each system. The ODW regulates satellites as individual systems requiring separate water system operating permits and monitoring for each. The ODW does not consider operating satellite systems as a consolidation of a water system and; therefore, State funding assistance would not be available. Without funding, the existing customers for each system would need to bear the full cost for all system improvements. Operating satellite systems would put an additional burden on city utility staff to ensure regulatory compliance as each satellite would require separate monitoring and reporting.

Wholesale Connection

The City could provide a wholesale connection to FMWC and MWC by constructing a new water main and meter connection for each company. The companies would abandon their wells and use City water as their water supply. Through an agreement, each water company would be held financially responsible for water consumed. The water companies would still be responsible for regulatory compliance and operations and maintenance of their respective system. The City would need to build two wholesale connection points consisting of water main (one to each company), meter vault, backflow device, meter, and telemetry system. Each water company would be responsible for the cost to design and build the wholesale connection. The ODW does not consider wholesale connections as a consolidated water system; and therefore, State funding assistance would not be available.

Full Service Connection

The full service connection option would be a complete transfer of FMWC and MWC customers to the City's water system. The City would build the required water main(s), install individual meter services, and decommission the water company wells and other unneeded infrastructure. The City would acquire all water system rights held by FMWC and MWC. The City would take on all regulatory compliance, billing, and operation and maintenance. The City would work with the ODW to terminate the two water companies as entities and cancel their water system permits. The ODW considers full service connections as a consolidated water system; and therefore, State funding assistance would be available.

FUNDING SOURCES

ODW staff have indicated that if the City decides to pursue a full consolidation of the FMWC and the MWC, they would assist the City in securing State Drinking Water Revolving Fund monies to help pay for the project. The money would be in the form of system improvement grants. The grants could be used to pay for planning, permitting, engineering, and construction of water mains and service connections necessary to bring FMWC and MWC customers into the City's water utility system. The maximum grant funding available per connection would be \$30,000, which is less than the estimated amount to complete full consolidation. The State would also provide an incentive to the City in the

form of a zero interest loan if the City decides to consolidate the two water companies. These funds could be used for improvements anywhere in the City's water system. The loan amount would be up to \$5 million.

UTILITY BOUNDARY CONSIDERATIONS

Extending City water service to the FMWC and MWC in any form will require changing the water utility service boundary to include the subject areas. LAFCO will need to approve any changes in the City's utility service boundary. LAFCO staff has indicated that they would be willing to discuss the issue with the City. The ODW has indicated that they would be willing to support the City in changing the service area boundary to include FMWC and MWC customers.

CHALLENGES

The biggest challenge in providing water to the FMWC and MWC customers will be their willingness and/or ability to pay the costs for the new service. These costs will be substantial and will exceed the \$30,000 per connection maximum allowed by State funding. Staff made some preliminary estimates which suggest that the connection cost (after consideration of State funds) could be as much as \$85,000 for some customers.

A second challenge will be developing a mechanism to pay for the improvements should the costs exceed available State funding. The City would need to work with other agencies to determine if other, significant funding sources are available. As part of this, the City may need to form an assessment district(s) to pay for the improvements. The affected residents and/or businesses may protest the assessment in which case the project may not have enough funding to move forward.

RECOMMENDATIONS

If the City Council decides to direct staff to continue to research the feasibility and cost of providing water service to the FMWC and the MWC, then staff recommends that the City pursue the full service connection option. The full service connection option is the only option with an external funding source.

The following are some actions that would need to be completed to determine if water system consolidation would be feasible from a cost and regulatory perspective.

1. Define a benefit area associated with the water main extension(s) and confirm the number of potential water connections.
2. Complete a detailed cost estimate to determine a per connection cost and discuss with FMWC and MWC customers.
3. Confirm support for water system consolidation from LAFCO.
4. Form an assessment district(s)

Since neither of these water systems are the responsibility of the City, no funds have been budgeted for a feasibility and cost study or any other potential expenses. Should the Council direct staff to perform the full evaluation, staff will return with a recommendation for funding the effort. Staff would work to have all expenses paid for by sources other than those of the City. Staff would also commence conversations with the existing customers of the two systems and other public agencies.

COMMUNITY ENGAGEMENT: Inform

This staff report provides the initial introduction of the potential consolidation of water systems. The City would inform the impacted customers of any future actions.

ALTERNATIVE ACTIONS:

Do not proceed with small water system consolidation at this time.

PRIOR CITY COUNCIL AND COMMISSION ACTIONS:

None

FISCAL AND RESOURCE IMPACT:

Total cost to the City is not known at this time. Should the Council choose to pursue a feasibility and cost analysis for consolidating the two private water companies, staff will return with a recommendation to fund this effort with outside resources, including the use of available State assistance.

CEQA (California Environmental Quality Act):

Not a Project

LINKS/ATTACHMENTS:

Attachment 1 - Water Company Location Map

Attachment 2 - Foothill Mutual Water Company Service Area Map

Attachment 3 - Mecchi Water Company Service Area Map