

AGENDA SUBMITTAL R/P

To: GCSD Board of Directors

Type: Info Item

From: Dir. Steve Perreira

Date: July 08, 2016

Subject: Privatization: Visit to GCSD by California American Water

Background:

A few months ago I informed the Board that I would be inquiring about and making a presentation regarding privatization of GCSD Water and Sewer operations. In the intervening time I have kept the Board President and GM informed on my progress. After requesting Board approval for California American Water (CAW) to visit GCSD, the Board directed the Budget Committee to meet with them and provide a preliminary tour of facilities. This is my report of their visit on July 08, 2016, 10 AM. CAW is interested in purchasing GCSD outright and operating it as a private company subject to regulation by the California Public Utilities Commission (CPUC).

Attendance at the meeting:

GCSD: GM Jon Sterling, Collections Supervisor Luis Melchor, Dir. Bob Swan & Steve Perreira

CAW: VP Biz Development Tom Brunet (CE), GM North. Div., S. Audie Foster

The Meeting:

Tom Brunet opened the meeting with back and forth exchanges of information primarily with GM Sterling. Jon Sterling provided an overview of our systems for water and sewer services as well as some demographics about the number of customers and the census information about disadvantaged communities of Groveland and BOF, as well as PML being borderline. Some points answered by Tom:

- 1) Services include water & wastewater, expanding into reclaimed water
- 2) North Div. of CAW wants to grow, especially down from Sac. On HW 99 corridor
- 3) CAW has been active working with Disadvantaged Communities (SDAC & DAC)
- 4) Grants for SDAC & DAC are actively sought (some other companies do not)
- 5) Private Util. such as CAW can get the Grants GCSD now eligible for (Jon, Tom)
- 6) CAW wants to grow – purchases small companies, mostly private, some public
- 7) Typical purchase is a private small utility with 200 to 400 customers
- 8) Northern Division in Sac. has about 60,000 customers, Monterey ~ 40,000
- 9) If GCSD was purchased, it would be under the wing of the Northern Division
- 10) CAW has not purchased a Special District in CA, but has in other states
- 11) Rates and CIP Projects are regulated the California Public Utilities Commissions
- 12) Nearest Operation is Meadowbrook in Merced (water only?), 1600 customers.

GM Sterling & Bob Swan discussed the matter of GCSD retirement liabilities with CAW. In spite of our liabilities, CAW remained interested. If GCSD was purchased, the liabilities would be deducted from the purchase price. Tom spoke a bit about a typical acquisition from a gov't agency, saying that the typical motivating force behind most municipalities throwing in the towel

7. Flushes water lines with recycling trucks that re-inject water into mains
8. CIP schedule with 3 year prioritized filing with CPUC (also longer schedule kept)
9. Private operators like CAW are subject to SB7X-X (save 20% water by 2020)
10. Not subject to Prop. 218, rates set by CPUC review, including automatic adversary

Reasons for California American Water to buy GCSD:

1. Tom: Biz. Opportunity benefits your customers and our investors
2. Tom: Interest in developing N. CA. division So. on HW 99 Corridor (Meadowbrook)
3. Audie: We know how to operate small facilities (b4 Sac., had 3300 customers in IL)
4. Tom: We grow by buying individual companies, not large acquisitions
5. Audie: Typical purchase is a private company with 200 to 400 customers
6. Audie: Also operate larger systems such as Monterey, Carmel, Seaside, Sand City
7. Tom: Groveland is a good area for our employees to work and live
8. Tom: Have not bought a PERS facility in CA, but have done so outside CA

GCSD Budget Committee members weigh in on motivations to investigate Privatization:

Jon: Expressed some concern about the ability to operate under draconian CalPERS

Bob: 1) Looking for a Sustainable Future
 2) Prioritized concerns: Manpower staffing, CalPERS, CIP Funding

Steve: Still NOT funding CIP near enough even with Good Mngmnt and a Responsible Board

Tour of Facilities:

Collections Supervisor Louis Melchor provided an informative tour for Tom & Audie. Dir. Steve Perreira tagged along. We visited 2nd Garrotte Water Treatment Plant and Pump Station, including the Filtration Plant. CAW was impressed with the neatness. We also visited the Alternative Water Treatment Plant at PML Maint. for backup supply from PML. Also visited were lift stations #5 & #7. Lastly we toured Reservoirs 1 & 2, and the Sewer Treatment Plant outside facilities. CAW took lots of pictures and seemed to be impressed with the overall neatness and functionality of the operations.

Next Step:

California American Water is seeking Board approval to send 2 to 3 maintenance personnel to evaluate our facilities, including select testing of some assets such as pumps, SCADA effectiveness, etc. From this visit a report will be written and shared – in total – with GCSD as well as CAW's staff. CAW would like to do this within the next 2 to 3 weeks. Their maintenance supervisor is Jesus Sanchez, and the likely engineer to visit at some time in the future is Aman Gonzales.

Recommendation:

Continue investigation of Privatizing GCSD.