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COUNTY OF LOS ANGELES

DEPARTMENT OF PUBLIC WORKS

"To Enrich Lives Through Effective and Caring Service"


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TO: Paul Novak, Executive Director
Local Agency Formation Commission

FROM: Mark Pestrella 
Director of Public Works

SATIVA WATER SYSTEM QUARTERLY REPORT ENDING JUNE 2019

In accordance with Resolution No. 2019-00RMD of the Local Agency Formation Commission for Los Angeles County, attached is the first quarterly report on the County of Los Angeles' temporary management of the Sativa Water System.

Please address any questions regarding this report or other matters concerning the Sativa Water System to Deputy Director, Daniel J. Lafferty. Mr. Lafferty can be reached at dlaff@pw.lacounty.gov or (626) 458-4012.

RB:me

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Attach.

**Sativa Water System
LAFCO Quarterly Report
March 19, 2019 to June 19, 2019**

On March 19, 2019, the Sativa Water System (Sativa) was consolidated with Los Angeles County (County). This report summarizes notable actions taken by the County during the first quarter of its temporary management of Sativa.

PROVISIONS OF RETAIL WATER SERVICE

The County continues to provide water service to Sativa's 7,000 customers and to oversee day-to-day management of the water system.

Water Quality Testing

State-mandated water quality testing of Sativa's water continued during this reporting period. Certified tests continued to show that Sativa's water meets all Primary Drinking Water Standards and is safe to drink. However, those same tests continued to show that Sativa's water was near and occasionally slightly above Secondary Drinking Water Standards for manganese. Secondary standards are set on the basis of aesthetic concerns such as taste, odor, and color.

Brown Water Research

The County continued to conduct various diagnostic tests to determine the source of Sativa's brown water. Testing showed brown water conditions were intermittent and loosely correlated with sudden changes in circulation patterns, periods of high demand, and other disturbances to their distribution system. Over time, the source of the brown water was tracked back to Sativa's wells. It's believed that over many years, sediment and other material from the wells have built up in their distribution system and when disturbed, mix with the water created a brown tint.

Sativa's water system has little to no resiliency. The system has no storage tanks to store water when their wells are offline, and both of their wells must be in operation in order to meet peak water demand from customers. Because of this, the wells cannot be taken offline to continue diagnostic testing and confirm they are the source of the brown water. Additionally, because the wells are believed to be the source of the brown water, well water cannot be used to conduct flushing of Sativa's distribution system to remove the built up sediment.

Financial Audit

The County completed preparations for a financial audit of Sativa's Fiscal Year 2017-18 activities and hired a Certified Public Accountant (CPA) firm to conduct the independent financial audit. The CPA firm is expected to complete their work by the end of June 2019.

The final audit report, including all of the auditor's findings, will be published online, made available to Sativa's customers and the public, and a copy will be provided to LAFCO.

Staffing

As of the end of this reporting period, two of the original six Sativa employees remain employed by Sativa. The County is operating Sativa with temporary contract employees and support from the County workforce as necessary. The remaining Sativa employees and contract staff have gone through the County's standard process for background checks.

Lawsuits

Prior to the County becoming the Administrator of Sativa, a class action lawsuit Martha Barajas, et al v Sativa LA County Water District, et al. case no, BC713381 (Barajas v Sativa) was filed by a few ratepayers of Sativa regarding the water quality and other claims. On April 29, 2019, after the County became the successor agency, the County was named a defendant in the Barajas v Sativa matter. The County is having to defend itself in this action as the successor agency notwithstanding that Health and Safety Code section 116687 subsection (f) purports to provide immunity to the successor agency.

CAPITAL IMPROVEMENTS

An alternate source of water supply must be established before the cause of brown water conditions can be addressed. As soon as this became clear, the County immediately shifted its focus to establishing an interconnection with an adjacent water system to bring new water supply to Sativa.

Interconnection with City of Compton

Sativa has an existing interconnection for emergency water supply with the City of Compton. However, because of infrastructure issues, the City of Compton has not been able to provide water to Sativa for a considerable period of time. The County worked with the State Water Board to address the situation and as of May 7, 2019, the interconnection is back online. While this is good news for system resiliency, Sativa's agreement with the City of Compton requires Sativa to be billed for any water received at Compton's standard customer rates. It would be cost-prohibitive to use this interconnection for system flushing or other non-emergency purposes.

Interconnection with Liberty Utilities

Prior to the County's appointment as Administrator, Sativa was in negotiations with Liberty Utilities to construct an interconnection between Liberty Utilities' water system and Sativa's. However, the project stalled, and the interconnection was not constructed. After taking over operations, the County restarted negotiations and Liberty Utilities agreed to

temporarily provide continuous water supply to Sativa until conditions at Sativa stabilized. An acceptable billing arrangement was negotiated, and a formal agreement was executed. Construction began in early April 2019. It is estimated the interconnection will be online and Sativa will be able to begin serving customers with this new clean water source in mid-July 2019.

Once the interconnection with Liberty Utilities is online, the resiliency of Sativa's water system will be greatly increased. Diagnostic testing can resume and much needed system maintenance activities like flushing out the brown water causing sediment can begin.

Flushing Program

Sativa's distribution system has a number of operational challenges, which make traditional flushing techniques less effective. In April 2018, Sativa attempted to flush out the sediment in their pipes. Due to a number of factors, that work resulted in a massive system-wide brown water incident. Flushing was immediately stopped, an emergency was declared, and bottled water was temporarily provided to all Sativa customers.

Flushing work must be completed in order to improve the brown water situation at Sativa. However, the County is concerned that resuming flushing work may cause another system-wide brown water incident. County experts have consulted with experts from other water agencies and the State Water Board about the best way to carry out a flushing program at Sativa. In order to minimize the possibility of another system-wide brown water incident, the County has decided to partner with a vendor that uses cutting-edge technology and a patented process to carry out a new flushing method. Additionally, flushing work will be done between 10 p.m. and 5 a.m., the period of lowest water usage, to minimize impacts to customers. Customers will be notified before flushing activities begin.

Flushing of Sativa's distribution system is being scheduled for immediately after the interconnection with Liberty Utilities is online, likely in mid-July, and will be carried out over a period of 3 weeks.

Upcoming Work

Once the interconnection is online and flushing of the distribution system has been completed, the County can begin construction of infrastructure improvements.

- Well and Pipeline Repairs – The County has secured a grant from the State Water Board to rehabilitate Sativa's wells and to repair damage to a key segment of pipeline. Refer to the GRANTS section for additional information. This work is planned for fall 2019.

- Manganese Treatment System – Prior to the County's appointment as Administrator, the Water Replenishment District agreed to explore installation of a manganese treatment system at Sativa's well. A technical evaluation study of methods for manganese removal was completed, but additional work was put on hold due to Sativa's deteriorating administrative situation. After taking over operations, the County reached out to the Water Replenishment District and they agreed to restart their work. The Water Replenishment District has since completed the California Environmental Quality Act process for the project and is now designing the treatment system. Design is estimated to be completed by fall 2019. The County is currently pursuing grant funds for construction of the treatment system through the State Department Water Resources' Integrated Regional Water Management (IRWM) Program. Please see GRANTS Section of this report.

GRANTS

In June 2018, the State Water Board issued a compliance order to Sativa to develop a corrective action plan for known operational issues at Sativa. A draft plan was prepared and it was determined the estimated cost for Sativa to address the issues was approximately \$14 million (note: Sativa's annual revenue is approximately \$1.4 million). Immediately upon being appointed Administrator, the County carried out a rapid assessment of Sativa's infrastructure and determined the extent of operational issues at Sativa was far in excess of what was known by the State Water Board. That list continued to grow in length and severity over the following months.

State Water Board – Infrastructure Grant

The County has aggressively pursued grant funding from the State Water Board for Sativa's infrastructure issues. After a series of negotiations, the State Water Board recommended the County receive \$1.77 million in grant funds to address the most serious infrastructure issues at Sativa. A grant agreement is now being prepared. Grant funding will be allocated as follows:

- Pipeline Repair: \$600,000 – Repair damage to a critical segment of Sativa pipeline under the Blue Line railroad tracks.
- Well Rehabilitation: \$350,000 – Disassemble, clean, and repair the major components of Sativa's two wells.
- Electrical/Mechanical Replacements at Well Sites: \$175,000 – Completely replace all electrical systems and mechanical equipment used to pump water from Sativa's two wells.
- Chlorination System Conversion: \$60,000 – Replace or rebuild Sativa's chlorination system to be safer and more secure.

- Supervisory Control and Data Acquisition (SCADA) System: \$120,000 – Install technology at Sativa's wells to allow remote monitoring and remote control of operations.
- Associated Design and Administration: \$465,000

Preparations for the above bulleted work is currently underway. Construction is planned for fall 2019.

State Water Board – Training for Sativa Staff

The County has also aggressively sought support from the State Water Board to provide training to Sativa's field staff on best practices for maintenance techniques, safety procedures, and other field issues. While not technically a grant, the State Water Board was able to identify an existing training program and assign trainers to Sativa. Training will occur over six, half-day sessions and is being conducted on-site at Sativa. The first two training sessions occurred in late May and early June 2019. The remaining four sessions are scheduled and will be completed by August 2019. The training is conducted at no cost to the County.

State Department of Water Resources – Manganese Removal Grant

The County has applied for grant funding from the State Department of Water Resources' IRWM Program for a manganese treatment system for Sativa. The application process has multiple stages. This project has been well received by reviewers and has passed the first stages of the application process. It is expected the State Department of Water Resources will make a final decision on grant awards in late 2019.

COMMUNITY ENGAGEMENT

Building trust with Sativa's customers is one of the County's highest priorities at Sativa. In addition to improving customer service, the County is working on building trust through sharing information with customers and improving transparency of its operations. The following notable community meetings and customer service improvements were carried out.

Community Meetings

During this reporting period the County met multiple times in small group settings with Community leaders. A large-scale community meeting and open house event was held on May 18, 2019. In order to improve attendance, the meeting was held on a Saturday and food and music were provided. English and Spanish invitation flyers were sent out with customer bills and a 4 foot by 12-foot banner was hung outside Sativa's office building. The County also arranged for the flushing vendor to attend and bring one of

their actual pumping and filtration trailers for customers to inspect. As always, Spanish translation of speakers and presentation materials was provided.

While updates were provided on the audit of Sativa's financial records and there was discussion regarding the identification of a permanent service provider to take over operation of Sativa, the main theme of this community meeting was preparing Sativa's customers for the impacts of upcoming work on Sativa's distribution system. Customers were walked through construction, flushing activities, and advised of possible service interruptions and brown water spikes. The County also shared that it was preparing an emergency response plan in the event of a system-wide brown water spike.

At the conclusion of the meeting, in an effort to further break down barriers and build trust, attendees were taken on a tour of Sativa's office and adjacent facilities.

Customer Service

Installation of a 24-hour payment box – A secure payment box was installed in the exterior wall of Sativa's office building. Customers can now pay their Sativa water bill in person with cash, money order, or check 24 hours a day, 365 days a year. Prior to installation of the 24-hour payment box, customers paying in person could only do so during business hours. Flyers in English and Spanish advising customers of the 24-hour payment box were included with customer bills.

Clarification of Billing Policies – In response to customer concerns that Sativa's former Board of Director had not been applying fees and charges uniformly, the County created a flyer notifying customers of Sativa's billing policies. The flyer included information on how and when late fees and shutoff fees are applied, how customers are notified of water service shutoff due to failure to pay their bill, and advised customers that Sativa's billing policies would be applied uniformly to all customers without exception. The flyer was written in English and Spanish and was posted on the Sativa website and included with customer bills.

Signage – Large informational signs in English and Spanish have been installed on the exterior of Sativa's office building. These signs advise Sativa customers of Sativa's business hours, the various methods customers can use to pay their Sativa water bills, and the telephone number for water emergencies.

Customer Newsletters

Beginning in April, the County started publishing a monthly newsletter that summarizes recent and upcoming activities at Sativa. Topics have included progress on brown water issues, upcoming construction, new methods for customers to pay their water bill, the financial audit, and others. The newsletter is included with customer bills and is written in both English and Spanish.

BOARD OF SUPERVISORS ACTIONS

At their May 14, 2019 meeting, the Board of Supervisors unanimously approved a Motion by Supervisors Mark Ridley-Thomas and Janice Hahn directing County staff to identify and provide funding for the County's temporary operation of Sativa.

The motion indicated that the cost to the County to serve as Interim Administrator and then Successor Agency is estimated to be \$13.8 million through June 2021. However, Sativa's revenue and the grant funds secured by the County are projected to only be \$5.7 million. The County will use \$8 million of its general funds to close the gap.

IDENTIFICATION OF A PERMANENT WATER SERVICE PROVIDER (RFP PROCESS)

The County has identified and brought onboard a team of experts familiar with the processes required to identify a permanent water service provider for Sativa and then transfer operation of Sativa to that entity. The permanent service provider will be identified through a Request for Proposals (RFP) process.

Work has begun to prepare a water system evaluation report. The report will provide an inventory of Sativa's assets and debts including infrastructure facilities, water rights, real estate, contract obligations, and fixed assets; a summary of upcoming infrastructure improvements; and other relevant information. Once the report is completed, that information will be used to conduct an appraisal and valuation of Sativa.

Work is also underway to develop criteria that will be used to evaluate proposers' ownership and operating qualifications and as a basis for ranking of proposals.

The report, appraisal, evaluation criteria, and other information will be assembled into a bidder's notebook. The notebook will serve to provide sufficient information to proposers about Sativa, allowing for responsive and complete proposals. The bidder's notebook will be made available to governmental agencies and investor owned utilities.

A schedule is under development for the RFP bid solicitation process to become Sativa's permanent service provider. The following are tentative dates for milestone activities:

- RFP Issued: mid-fall 2019
- Proposals Due: late 2019
- Evaluation of Proposal Complete: early 2020
- Target Board of Supervisors Meeting Date: late winter 2020
- Transfer to permanent water service provider: late winter 2020 to mid- 2021.

CALIFORNIA PUBLIC UTILITIES COMMISSION APPROVAL OF A PERMANENT WATER SERVICE PROVIDER (IF APPLICABLE)

If an investor owned utility is selected as Sativa's permanent water service provider, that entity will be required to submit an application to the California Public Utilities Commission (CPUC) requesting approval to take over operation of Sativa. The CPUC approval process could last up to 18 months. The identification of a permanent water service provider has not been completed; therefore, CPUC has no role in Sativa at this time.