



CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: June 30, 2020

TO: Mayor and Councilmembers

FROM: Water Resources Division, Public Works Department

SUBJECT: Authorization To Execute A Water Supply Agreement With The Montecito Water District

RECOMMENDATION: That Council:

- A. Introduce and subsequently adopt, by reading of title only, an Ordinance of the Council of the City of Santa Barbara Approving a Water Supply Agreement for the Long Term Wholesale Supply to the Montecito Water District of Water Made Available from the Operation of the Charles E. Meyer Desalination Facility;
- B. Authorize an increase in appropriations and estimated revenue in the Water Capital Fund in the amount of \$18,860,047 million, funded by a settlement of claims against Southern California Edison for losses sustained by the water utility from the 2018 Thomas Fire and debris flow events;
- C. Approve the Conveyance Pipeline Project as described in the Water Supply Agreement and Authorize the Public Works Director to procure and award contracts for construction of the Conveyance Pipeline Project and ancillary improvements and facilities necessary to implement the Water Supply Agreement; and
- D. Consider the environmental review documents discussed in the Council Agenda Report, determine that no further environmental review is required for the reasons stated therein, and direct the Public Works Director to cause a Notice of Determination to be filed pursuant to the California Environmental Quality Act.

EXECUTIVE SUMMARY:

In June 2015, the City entered into a contract to reactivate the Charles E. Meyer Desalination Plant (Desal Plant). Around the same time, the Montecito Water District (MWD) approached the City with an interest in partnering in the reactivation of the Desal Plant to improve the reliability of MWD's water supply. Extensive negotiations with MWD occurred over a period of several years. In January 2019, both City Council and the Montecito Water District Board of Directors approved a Term Sheet for a Water Supply Agreement. The Term Sheet laid out the governing principles for a 50-year Water Supply Agreement, whereby the City will make available 1,430 acre feet of water annually to the MWD. The Water Supply Agreement

(WSA), as drafted and presented for approval, is consistent with the approved Term Sheet. Approval of the WSA was considered by the MWD Board on June 25, 2020, and is now before the City Council for authorization to execute. The MWD prepared an Addendum to the City's Desalination Environmental Impact Reports (EIRS) (1991, 1994) for this project.

DISCUSSION:

Background

The Desal Plant was constructed by the City as an emergency facility to supply water to the City, MWD, and the Goleta Water District (GWD) during the 1987-1997 drought. The Desal Plant was designed and permitted to provide a maximum capacity of 10,000 acre feet per year (AFY); however, only 7,500 AFY of water treatment membrane capacity was constructed at that time. Abundant rainfall in March 1992 ended the drought, and the Desal Plant was placed in standby mode. At that time, GWD and MWD indicated that they did not wish to continue to use the Desal Plant as an emergency water supply. Following the departure of the GWD and MWD, the City chose to continue efforts to make the Desal Plant a permanent part of its water supply infrastructure and by 1997, all permits had been updated to establish it as a permanent facility. Operation of the Plant as required by the WSA is consistent with existing permits.

In June 2015, the City entered into a design/build/operate contract with IDE Americas, Inc., to reconstruct the Desal Plant. On June 16, 2015, MWD sent a letter to the City requesting that the Desal Plant operate as a regional water supply. On September 15, 2015, Council directed staff to initiate formal discussions with MWD regarding a potential WSA involving the Desal Plant as a regional water supply. The parties began negotiations by entering into a Memorandum of Understanding (MOU), which set the parameters within which the parties agreed to negotiate. The MOU anticipated that negotiations would be concluded by January 1, 2016; however, negotiations resulted in no significant progress toward an agreement.

Recognizing the significant technical and legal costs associated with negotiating a complex agreement, the City and MWD entered into a Funding Agreement. The Funding Agreement provided shared costs for technical and legal services, and the costs for preliminary design of a Conveyance Pipeline that is necessary to deliver water to MWD.

The Term Sheet was negotiated from August 2016 through December 2019, and it was approved by the MWD Board and City Council in January 2020. City and MWD staff have negotiated a WSA based on the Term Sheet. The negotiated WSA was made publicly available on May 23, 2020, as part of the MWD board agenda packet. Attachment No. 1 is the final draft of the WSA and below is a summary of the major terms of the agreement.

WSA Terms Summary

The WSA is a 50-year agreement providing the MWD 1,430 AFY (Contract Water) of water from the City. Currently, the Desal Plant has a production capacity of 3,125 AFY.

This amount of water is anticipated to be needed for the City's own purposes over the life of the agreement. In order to provide sufficient surplus supplies to MWD over the life of the agreement, the treatment production capacity of the Desal Plant is expected to increase within the permitted capacity. To accomplish this, the City plans to administer incremental increases in treatment production capacity based on forecasted needs consistent with our water supply plan and three year supply look-ahead.

To ensure delivery of water under this agreement, a Conveyance Pipeline Project will be constructed to allow water to be pumped from the Desal Plant to the Cater Water Treatment Plant (CWTP) finished water reservoir, known as the Cater Clearwell, for delivery to the MWD. The Conveyance Pipeline Project consists of several construction contracts, which will each be brought to Council for approval. The Conveyance Pipeline Project consists of the construction of a new 24-inch diameter pipeline from the Desal Plant up towards the Santa Barbara Mission. Near the Santa Barbara Mission, the new pipeline will intersect an existing 24-inch diameter City transmission main installed in the 1960's. The project includes repairs to the existing pipeline to ensure continued reliability as the pipeline will be reconfigured so flows are reversed to move water up towards the CWTP. Attachment No. 2 depicts the route and segments of the new and existing infrastructure that will be utilized to move desalinated water.

The cost of the Conveyance Pipeline Project has been allocated equitably between the City and the District based on a cost avoidance model that took into account cost estimates for the construction of a pipeline capable of conveying 10,000 AFY of water, and cost estimates for construction of a smaller pipeline capable of conveying only 1,430 AFY of water to the CWTP. Based on the costs of building a dedicated pipeline for the MWD, the City negotiated that MWD will pay 64.6 percent of the capital costs associated with the Conveyance Pipeline Project, which has been sized for the full permitted capacity of 10,000 AFY. This Conveyance Pipeline Project has significant value to the City by improved water quality and reliability in the form of being able to move water to all parts of the City's service area from the Desal Plant.

Consistent with the approved Term Sheet the WSA includes the following key provisions:

- MWD is purchasing a wholesale supply of water made available by the City. In exchange for a reliable water supply, MWD will pay the full annual contract amount, even if hydrological conditions make the water surplus of MWD's needs (commonly referred to as a "take or pay" commitment). The price is based on the Desal Plant's fixed and variable costs, as well as additional payments in consideration of the City's investments and risks. In addition, MWD will participate in Desal Plant costs that may result from future capital modifications and operating cost increases required in response to uncontrollable circumstances.
- The City is committing to provide MWD with a reliable water supply. Thus, the City will manage its water supplies, including the Desal Plant, such that the annual amount of water committed to MWD is surplus to the quantity of water needed to provide service to customers of the City's water system. The City's obligation to

provide water to MWD will be subject to specified uncontrollable events and a shortage sharing provision.

The City will own and operate the Desal Plant and the Conveyance Pipeline. The WSA does not grant any ownership interest in either the Desal Plant or the Conveyance Pipeline to MWD.

- The WSA recognizes the City's unique contribution as owner of the Desal Plant, including City expenditures and risks, such as the permitting and maintenance costs of the Plant dating back as early as 1995.
- Expansion of the Desal Plant and construction of the Conveyance Pipeline Project will be necessary to ensure the City can reliably meet its supply obligations to MWD over the term of the agreement. The City shall have the right to supply MWD water from the City potable water supply system as a whole.

The price for the Contract Water generally includes costs associated with the production and conveyance of Contract Water, including a portion of the Desal Plant fixed and variable costs and additional payments in consideration of the City's investments and risks. The WSA recognizes the City's unique contribution as owner of the Desal Plant, including its site, intake and outfall facilities, physical assets, environmental review, permitting, construction, maintenance, operation, and administration costs dating from the mid-1990s to the present. Therefore, the District's payments under the WSA include an amount to reasonably compensate the City for these activities. In addition, the District will pay a ratable portion of potential increases in Desal Plant costs that may result from future capital modifications or operating cost increases generally, including those resulting from uncontrollable circumstances.

The water price will be calculated by allocating costs in proportion to the 1,430 AFY and the Desal Plant capacity (3,125 AFY), or in the case of variable operating costs, in proportion to actual water produced. MWD will participate at a proportionate level in the administrative costs associated with managing the operations of the Desal Plant, including the WSA and the contract for operations of the Plant. For the term of the agreement, an index-linked Water Supply Development Fee of \$237,500 will be paid by MWD annually to recognize the City's unique contribution as owner of the Desal Plant. MWD will also be responsible for contributing to a debt service coverage deposit and reserve account as well.

Water non-delivery events and excuses from performance have been a key focus of the negotiations, especially since MWD has requested a 50-year term for the WSA. The WSA describes uncontrollable circumstances in which the City's obligation to deliver water may be excused and MWD's obligation to make payments is reduced. It also contains a provision for shortage sharing in the event that the Desal Plant is fully operational at a production capacity of 7,500 AFY, but there is a water shortage emergency resulting from a catastrophic event or extended drought that causes a reduction of the City's other water supplies such that water for basic health and safety is needed. Under the Term Sheet, a

water shortage emergency would allow the City to reduce deliveries if the Desal Plant has a production capacity of 7,500 AFY, and the City's other water supplies are reduced to the point that the City has insufficient water to meet minimum customer service needs. In this extreme scenario, the City would be excused from performance to the extent that a portion of the 1,430 AFY is required, along with available supplies, to meet the City's basic needs for human consumption, sanitation, and other critical services such as fire protection, hospitals, clinical care, schools, or industry needs for employment of workers within the City, as determined by Council. If there is a regional drought or other water shortage emergency affecting both the City and MWD (as declared by the governing bodies of the City and MWD, or by the Governor), an assessment of available water necessary to meet basic needs for human consumption, sanitation, and other critical services will be conducted for both agencies. Available water will be distributed between both agencies in such a way that the respective residential customers of each agency receive the same health and basic safety needs based on gallons per capita per day; other critical service needs will be apportioned equitably. In such shared allocation circumstance, the amount of water provided to MWD may be less than 1,430 AFY.

BUDGET/FINANCIAL INFORMATION:

The WSA has a direct benefit to City customers in that it will help reduce the costs and mitigate risks associated with operating the Desal Plant, which will take pressure off of future water rate increases to City customers. The City's water supplies are currently in a state where water can be provided to MWD without increasing the treatment capacity of the Desal Plant or having to purchase supplemental water over the next three years. Initially, the City will fund the construction of the Conveyance Pipeline Project from the settlement with Southern California Edison for damages to Gibraltar Reservoir as a result of the Thomas Fire. Ultimately, the District will be responsible for 64.6 percent of Conveyance Pipeline Project capital costs and 45.7 percent of the Desal Plant capital costs (at the current capacity of 3,125 AFY). Funding to build the conveyance pipeline project will be fronted by the City and repaid by the District in the future. Staff have successfully secured a \$1 million grant from the Department of Water Resources to be used for the construction of the conveyance pipeline. In addition to ensuring the City's ability to meet the WSA obligations, the pipeline will also significantly improve the reliability and water quality in the City's water system, enabling the pumping of Desal water anywhere in the City's service area.

If the WSA is approved, water deliveries will commence on January 1, 2022, and the City will receive approximately \$4.5 million in revenue annually for the delivery of 1,430 AFY to the MWD. Staff believe that the WSA is both an example of good regional cooperation and a fair deal for City water customers that fully reimburses the City for the costs of providing MWD with water.

WATER COMMISSION RECOMMENDATION:

This item was brought to the Water Commission on May 21, 2020 and again on June 18th, 2020 for a recommendation. The Water Commission voted 4-0, in support of staff's recommendations.

ENVIRONMENTAL REVIEW:

Two Environmental Impact Reports (EIR's) were previously prepared for the Desal Plant. The first was prepared in 1991, and analyzed the construction and operation of the plant as a temporary five-year project. Since the life-cycle of the Desal Plant was approximately 25 years, the City decided to convert the approvals for the Desal Plant to a permanent status. The environmental effects of the permanent operation were analyzed and certified in 1994, as part of the Long Term Water Supply Plan (LTWSP) EIR. The 1994 LTWSP and EIR project description and objectives included 5,000 AFY of additional desalination capacity for potential regional use, and provided the basis for review of potential regional participation in the City's desalination plant, including service specifically to Goleta and Montecito.

The LTWSP was updated in 2011, and addressed plant reactivation and provided estimates for energy use, capital, and operational costs. As part of the adoption of the 2011 LTWSP, the City issued a CEQA Notice of Exemption which concluded that the reactivation of the Desal Plant would not result in substantial changes in environmental effects beyond those previously analyzed. In addition, the City's 2011 General Plan EIR included substantial discussion and specific details regarding the reactivation of the Desal Plant as a permanent part of the City's water supply. In 2015, the City prepared a CEQA Addendum for the project to review the environmental impacts of the reactivation project and found that the reactivation of the Desal Plant would not result in substantial changes in environmental effects beyond those that were experienced during operation of the plant in the 1990's and as constructed. The facility is now operating on a permanent basis as a component of the City's overall water resource portfolio under Coastal Development Permits approved by the City (Resolutions 017-91 and 069-95) and the California Coastal Commission (CDP 4-96-119). The current approvals allow the Desal Plant to be operated in a manner required by the WSA.

In April 2020, MWD prepared an addendum to the City's 1991 and 1994 Desalination and LTWSP EIR's for the WSA. The 2020 EIR addendum analyzed the impacts of the WSA purchase, which provides that MWD would purchase and receive 1,430 acre-feet of potable water from the City annually. The analysis concluded that the WSA is in accordance with the State CEQA Guidelines Sections 15162 and 15164. No subsequent negative declaration or EIR is required for the Project because there are no impacts. No Project changes require any major or minor revisions to the previous EIR's and there are no significant or potentially significant impacts that require mitigation. Moreover, there are no increases to the severity of any identified significant impacts discussed in either the 1991 or the 1994 EIR.

City staff prepared an additional EIR addendum to the 1991 Desalination and 1994 LTWSP EIR's to include the construction of the conveyance main, which was completed on April 21, 2020 (SCH 9010859, SCH 9010859). The addendum project description includes the underground installation of approximately 11,800 linear feet of 24-inch Polyvinylchloride (PVC) potable water pipe in and under existing City streets from the Desalination Plant (located at 525 E. Yanonali St.) to the intersection at Mission Street and Garden Street. The analysis concluded that the construction of the conveyance main would result in no substantial changes to the project, circumstances, or prior information that would introduce a new significant environmental effect or substantial increase in the severity of a previously identified significant effect to Biological Resources.

Both EIR Addenda are available for review by contacting Arielle Zamora, Public Works Department Executive Assistant, at AZamora@SantaBarbaraCA.gov to request copies. The EIR Addenda were made available for review by the City Council members through electronic transmission.

City of Santa Barbara Public Works Water Resources has also prepared and submitted a Substantial Conformance Determination Request to the Community Development Department for a substantial conformity determination of the small portion of the conveyance main in the City's Appealable jurisdiction of the Coastal Zone to City Resolutions 017-91 and 069-95.

ATTACHMENTS: 1. Water Supply Agreement
 2. Conveyance Pipeline Project

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SUBMITTED BY: Rebecca J. Bjork, Public Works Director

APPROVED BY: City Administrator's Office