Agenda Item No. 11

File Code No. 540.08

CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: October 22, 2013

TO: Mayor and Councilmembers

FROM: Water Resources Division, Public Works Department

SUBJECT: State Water Project Contract Extension

RECOMMENDATION:

That Council receive a presentation on the role of State Water in Santa Barbara's water supply, on the State Water Project contract extension, and on the Bay Delta Conservation Plan.

DISCUSSION:

Role of State Water in Santa Barbara's Water Supply

The City has a diverse water supply portfolio. It includes water received from the State Water Project, water from lake Cachuma and the Gibraltar Reservoir, groundwater, a permitted desalination plant, and recycled water. The City also has a comprehensive water conservation program to reduce demand and stretch water supplies.

The City's state water entitlement is 3,300 acre feet/year (AF/yr) of the highest priority water entitlement for the State Water Project. An entitlement of 3,300 AF/yr does not translate to a guaranteed supply of that amount of water each year as actual deliveries are dependent on how much precipitation occurs in the watersheds flowing to Lake Oroville and the Sacramento Delta (Delta). Each year, the Department of Water Resources (DWR) allocates some percentage of the total water as available for deliveries. The 2013 allocation is 35% (1,155 AF), and in recent years, the allocation has averaged 54%.

The City has been able to "carry forward" unused state water allocations from year to year. Currently, there is 4,886 AF of City water stored in reservoirs or groundwater banks in other parts of the state. This is approximately one third of the typical annual demand for the City. In the current dry period, this stored water will augment local supplies and delay the need to restart the City's desalination plant. Additionally, being connected to the State Water Project makes it possible for the City to buy and import water from other parts of the state during periods of water shortage.

Contract Extension

The terms and conditions for delivery of and payment for the City's allocation of state water, and the infrastructure necessary to deliver it, are specified in a Water Supply Agreement between the City and the Central Coast Water Authority (CCWA). Similarly, the terms and conditions regulating CCWA's participation in the State Water Project are governed by a State Water Supply contract between the DWR and Santa Barbara County. The County has assigned the rights and obligations of the contract to CCWA.

Although the contract between Santa Barbara County and DWR does not expire until 2035, the parties have begun the formal extension process. The need to extend the contract is primarily driven by the need to finance upcoming capital improvements. Currently, any bonds issued to finance capital work must be repaid by the end of the contract period (22 years). The State currently sells $200 million a year in bonds to finance capital improvements on the State Water Project and it is estimated that upwards of $2.5 billion dollars of capital improvements and upgrades are needed to repair and restore aging State Water Project infrastructure such as pumping plants and electrical turbines, and to strengthen dams at reservoirs. If the contract is not extended, the City and other CCWA members will have to pay for the projects over a much shorter time, significantly compressing costs.

In addition to extending the term of the agreement, a number of issues, primarily related to funding, are being negotiated. CCWA's Executive Director is representing CCWA and Santa Barbara County and is part of the group leading negotiations with DWR. Contract negotiations are expected to be completed in the near future, with agreements in principle to be drafted thereafter. An Environmental Impact Report will be prepared to analyze the agreements in principle. Although the County has assigned the rights and obligations of the Water Supply Agreement to CCWA, it is still the party responsible for signing the contract extension. The terms of the City's Water Supply Agreement with CCWA provide that it remains in place until the State Water Supply Agreement expires. Therefore extension of the State agreement would also extend the City's agreement.

Bay Delta Conservation Plan (BDCP)

Currently, water for the State Water Project is pumped out of the southern end of the Sacramento Delta into the 444-mile long State Water Project canal. The pumps used to pump water from the Delta to the canal are so powerful that they change the way water flows through the Delta. The disruption of natural water flow and the entrainment of fish in the pumps have created environmental impacts that are currently being mitigated by managing the pumping schedule. The changed pumping schedule has reduced the reliability of state water supplies by reducing the amount of water than can be pumped out of the Delta. The BDCP is a comprehensive conservation strategy aimed at protecting dozens of species of fish and wildlife, while permitting the reliable operation of the State Water Project. The BDCP is being prepared through a voluntary collaboration of state, federal, and local water agencies, state and federal fish and wildlife agencies, environmental organizations, and other interested parties. The Draft

Environmental Impact Report (EIR) for the proposed project is currently being completed and is expected to be released on November 15, 2013, unless delayed by the Federal government shut down. There is a 120 day comment period on the Draft EIR and the final document is expected to be completed and certified in September 2014.

The BDCP calls for the construction of two 30-mile long tunnels under the Delta to allow water to be transported to communities south of the Delta without travelling through the Delta. It also includes the restoration and protection of 145,000 acres of habitat in the Delta. The BDCP would result in long-term permits from regulatory agencies in return for meeting the Delta's ecological needs. It creates a durable regulatory framework that would allow for fundamental and systematic improvements in the Delta. This reflects a significant departure from the species-by-species approach, utilized in previous efforts to manage Delta-specific species and habitats. Instead, the BDCP seeks to improve the health of the ecological system as a whole.

Restoration and protection of habitat will occur as large restoration projects are implemented. Conservation measures that address water operations and other stressors will be implemented beginning soon after environmental regulatory permit issuance, which is currently estimated to be the end of 2014. Construction of the new conveyance facilities would begin approximately two years after permit issuance and continue for an estimated nine to ten years. Operations could begin as early as year eleven.

BUDGET/FINANCIAL INFORMATION:

The BDCP is projected to cost approximately $25 billion. Cost allocation is still being negotiated. Current estimates would require the State Water Contractors to pay $10 billion and Federal Water Contractors to pay approximately $7 billion. Assuming capital costs can be financed over 40 years, annual operating and capital costs for the city would increase by approximately $500,000. Current annual operating and capital costs for CCWA are $4.7 million.

Under the terms of the current contracts, the City is responsible for its proportionate share of operating and capital costs for the State Water Project. Contract extension would allow financing of capital costs over a longer period of time. This is particularly important as the state continues to move forward with the BDCP.

PREPARED BY: Rebecca Bjork, Water Resources Manager/mh

SUBMITTED BY: Christine F. Andersen, Public Works Director

APPROVED BY: City Administrator's Office

State Water Project Contract Extension

City Council Meeting

October 22, 2013

Presentation Overview

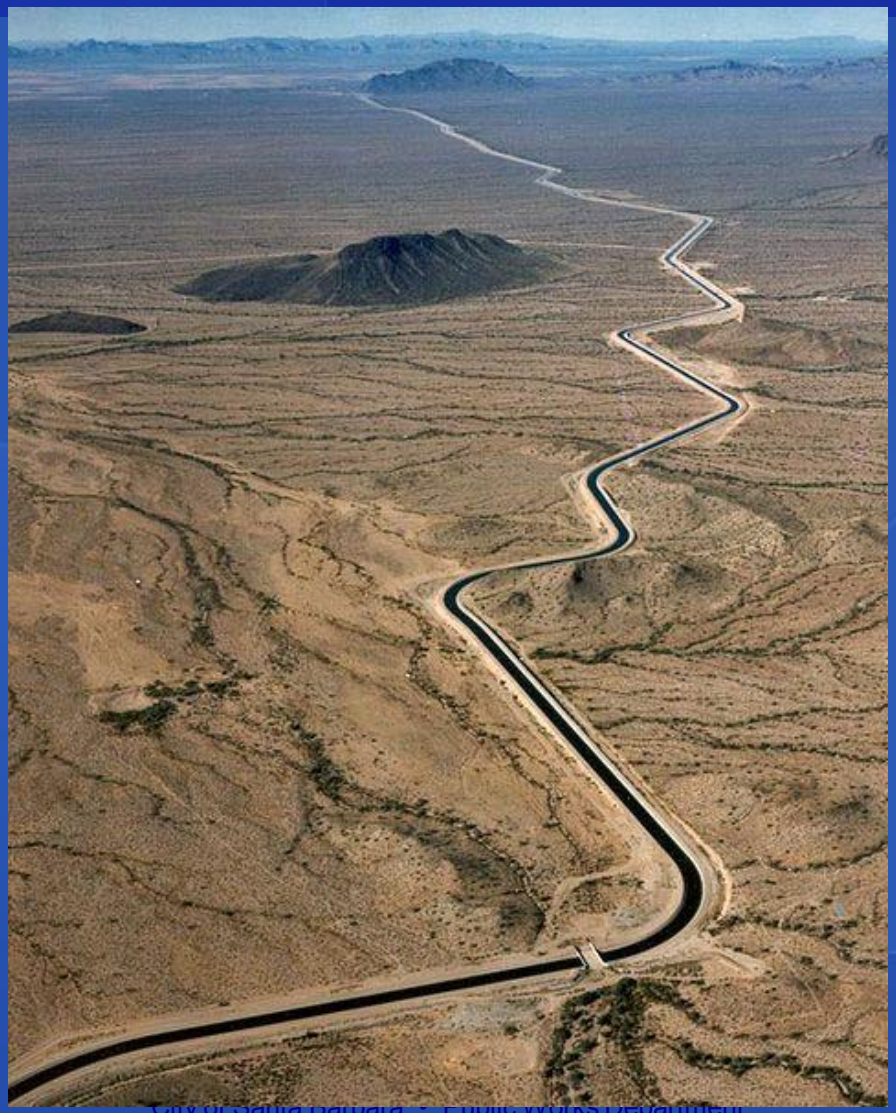
- State Water Project Overview
- Role of State Water in City Supplies
- Contract Extension
  - Why Now
  - What Terms
- Bay Delta Conservation Plan

SWP Overview

- Constructed 1960s
- Coastal Branch Extension 1997
- 29 State Water Project Contractors
  - 25 Million People
  - 750,000 Acres of Farmland

Lake Oroville

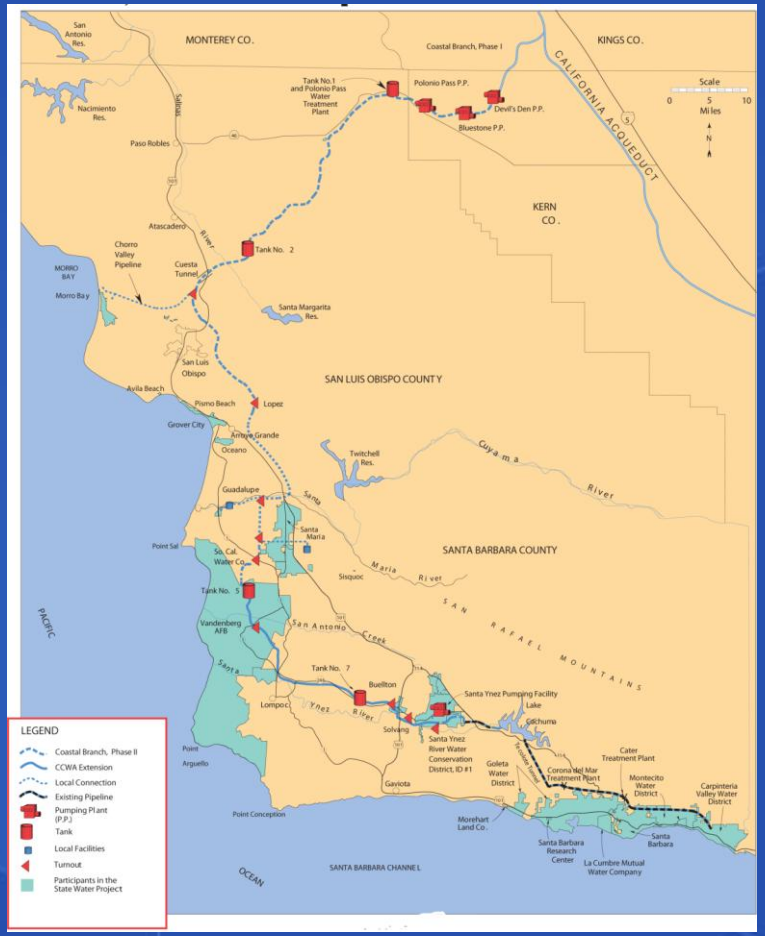
444 Mile Aqueduct




In-Stream/River
Canal/Pipeline
Delta Boundary
Redding
Upper Feather
Oroville
Oroville-Thermalito
Sacramento
North Bay
San Francisco
South Bay
San Luis
Fresno
Coastal Branch
South San Joaquin
West Branch
Los Angeles
East Branch
San Diego

Coastal Branch Extension

- 1991 Voters approved bond issuance
- 1997 Coastal Branch and CCWA Facilities Completed



Coastal Branch Extension

DWR - $480 million

- 100.6 miles of pipeline & other facilities

CCWA - $115 million

- 50 MGD water treatment plant
- 42.5 miles of pipeline & other facilities

STATE WATER ROLE IN CITY WATER SUPPLY

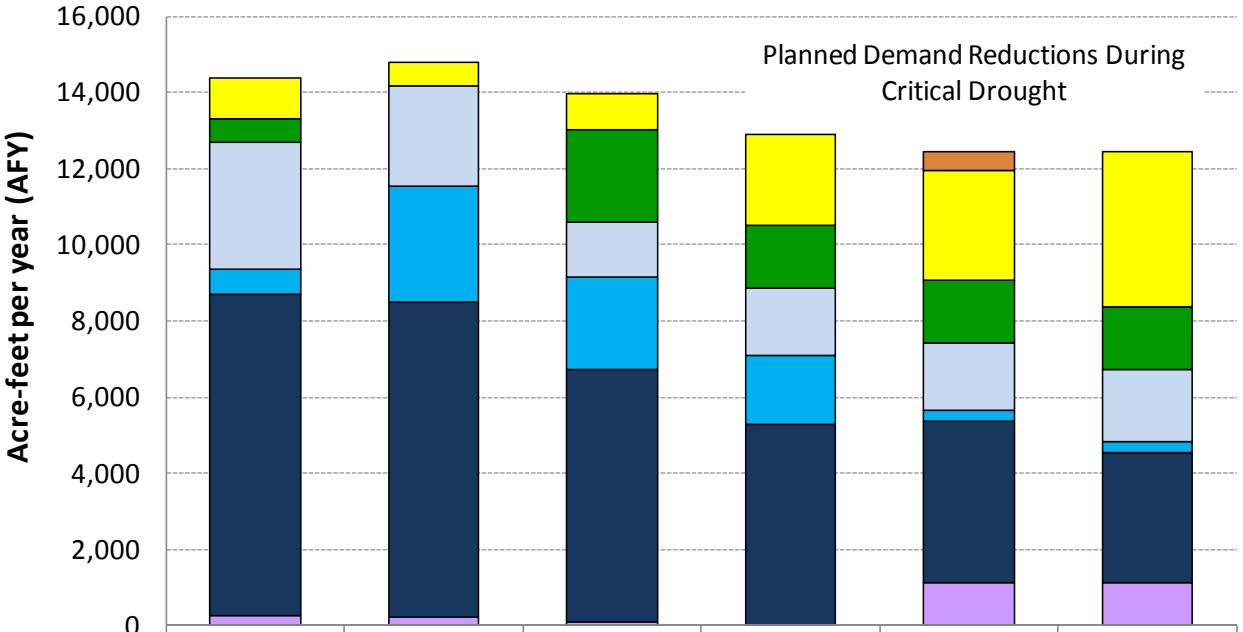
Santa Barbara Water Supplies

- Gibraltar
- Cachuma
- State Water
- Groundwater
- Recycled Water
- Desalination
- Conservation

Current Water Supply Plan

6-Year Dry Weather Water Supply Projection

Assumes Below Average Rainfall & Planned Demand Reductions Up to 15% During Critical Drought

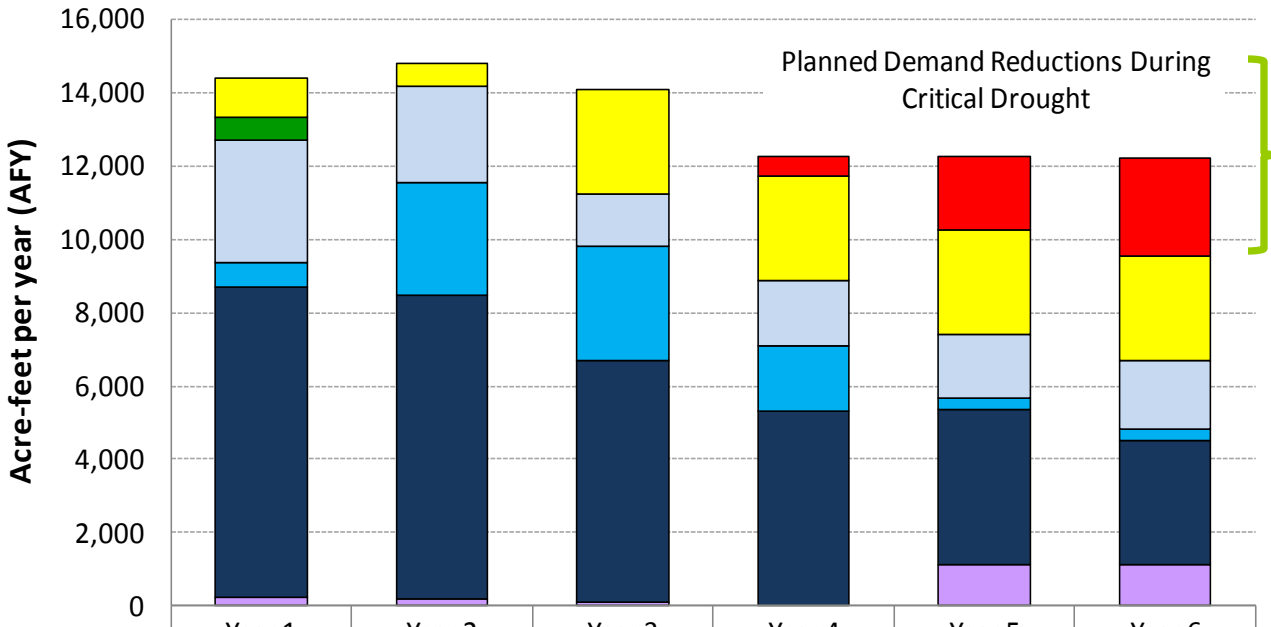


	Year 1 (2012)	Year 2 (2013)	Year 3 (2014)	Year 4 (2015)	Year 5 (2016)	Year 6 (2017)
Banked Water/ Water Purchases	0	0	0	0	500	0
Groundwater	1,070	621	910	2,379	2,883	4,100
State Water	625	0	2,450	1,650	1,650	1,650
Gibraltar/Mission Tunnel	3,330	2,607	1,427	1,794	1,767	1,883
Cachuma Carryover/MWD	658	3,084	2,451	1,785	300	300
Cachuma	8,469	8,277	6,622	5,297	4,238	3,390
Recycled Water	242	197	90	0	1,115	1,130

No Imported Water

6-Year Dry Weather Water Supply Projection

Assumes Below Average Rainfall & Planned Demand Reductions Up to 15% During Critical Drought



	Year 1 (2012)	Year 2 (2013)	Year 3 (2014)	Year 4 (2015)	Year 5 (2016)	Year 6 (2017)
Shortage	-	-	-	540	2,014	2,668
Banked Water/ Water Purchases	0	0	0	0	0	0
Groundwater	1,070	621	2,827	2,827	2,827	2,827
State Water	625	0	0	0	0	0
Gibraltar/Mission Tunnel	3,330	2,607	1,427	1,794	1,767	1,883
Cachuma Carryover/MWD	658	3,084	3,101	1,785	300	300
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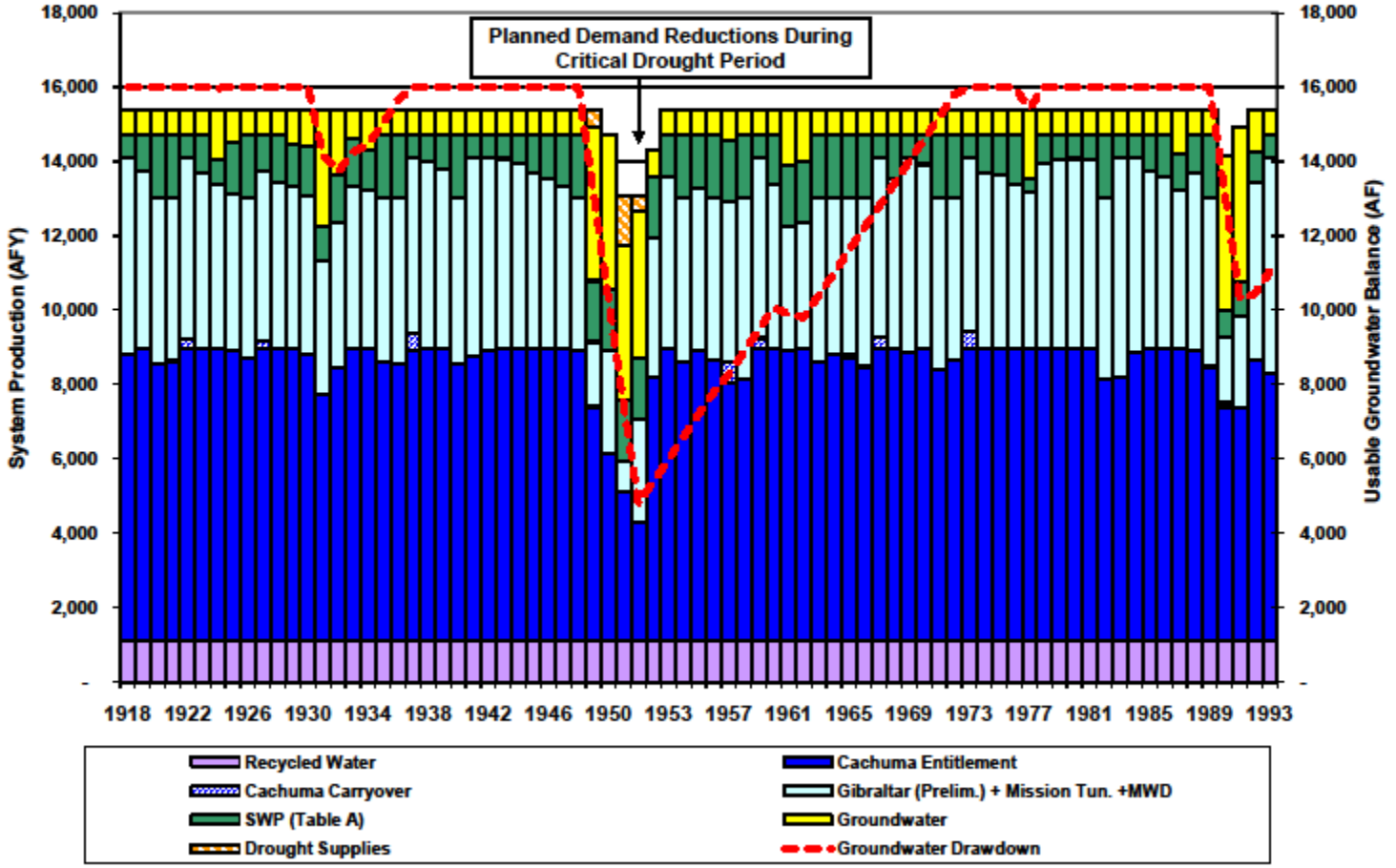
Water Supply Performance: Scenario C - 2030 Conditions

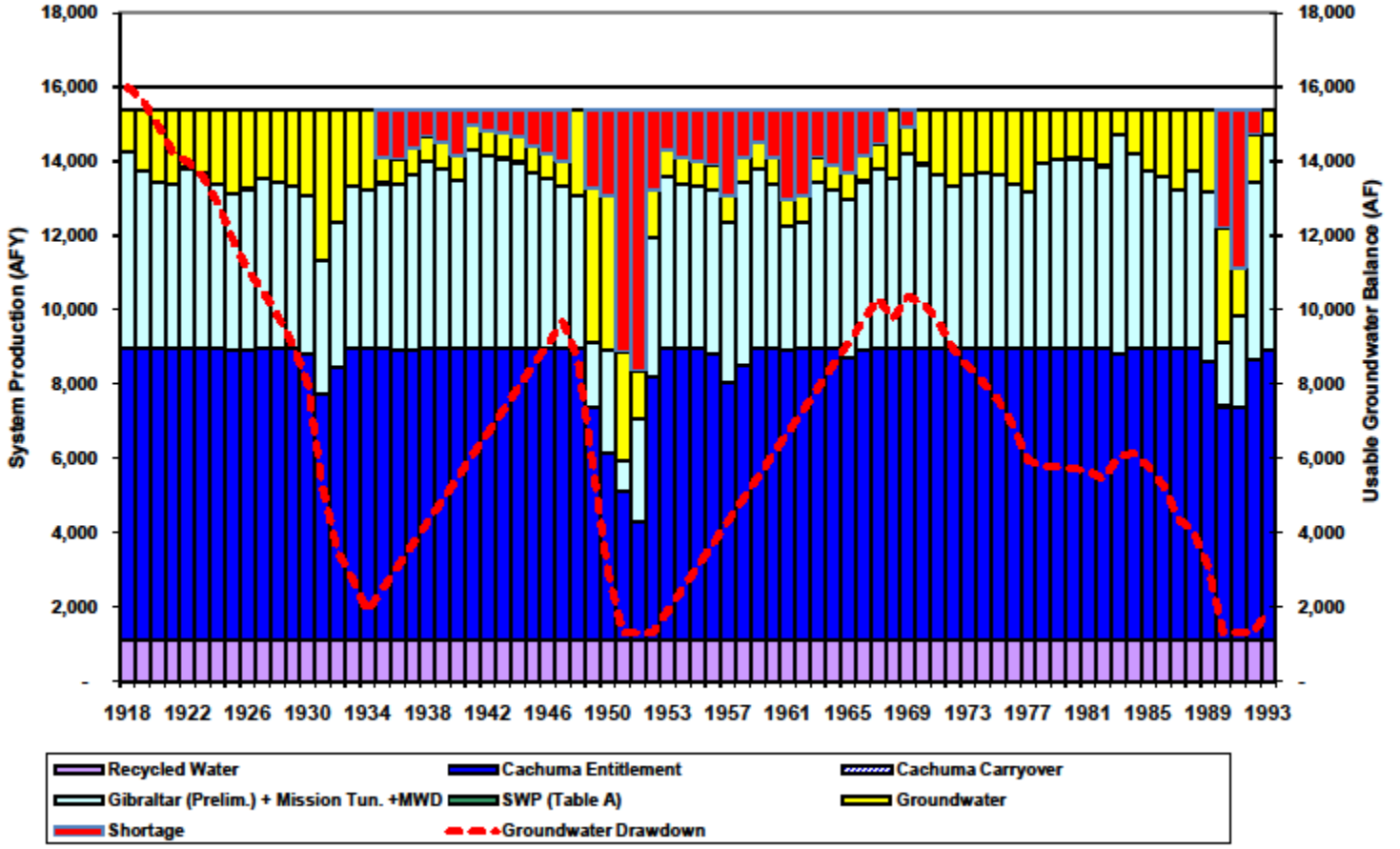
Projected System Demand (AFY):	14,000	Water Supply Target (including Safety Margin):	15,400		
Cachuma Yield Assumption:	Full Entitlement	Planned Demand Reductions:	Stage 1	Stage 2	Stage 3
Total Critical Period Drought Supplies Required (AF):	2,228		10%	15%	15%



Water Supply Performance: **Scenario C - 2030 Conditions, No Imported Water**

Projected System Demand (AFY): **14,000** Water Supply Target (including Safety Margin): **15,400**

Cachuma Yield Assumption: **Projected Entitlement**



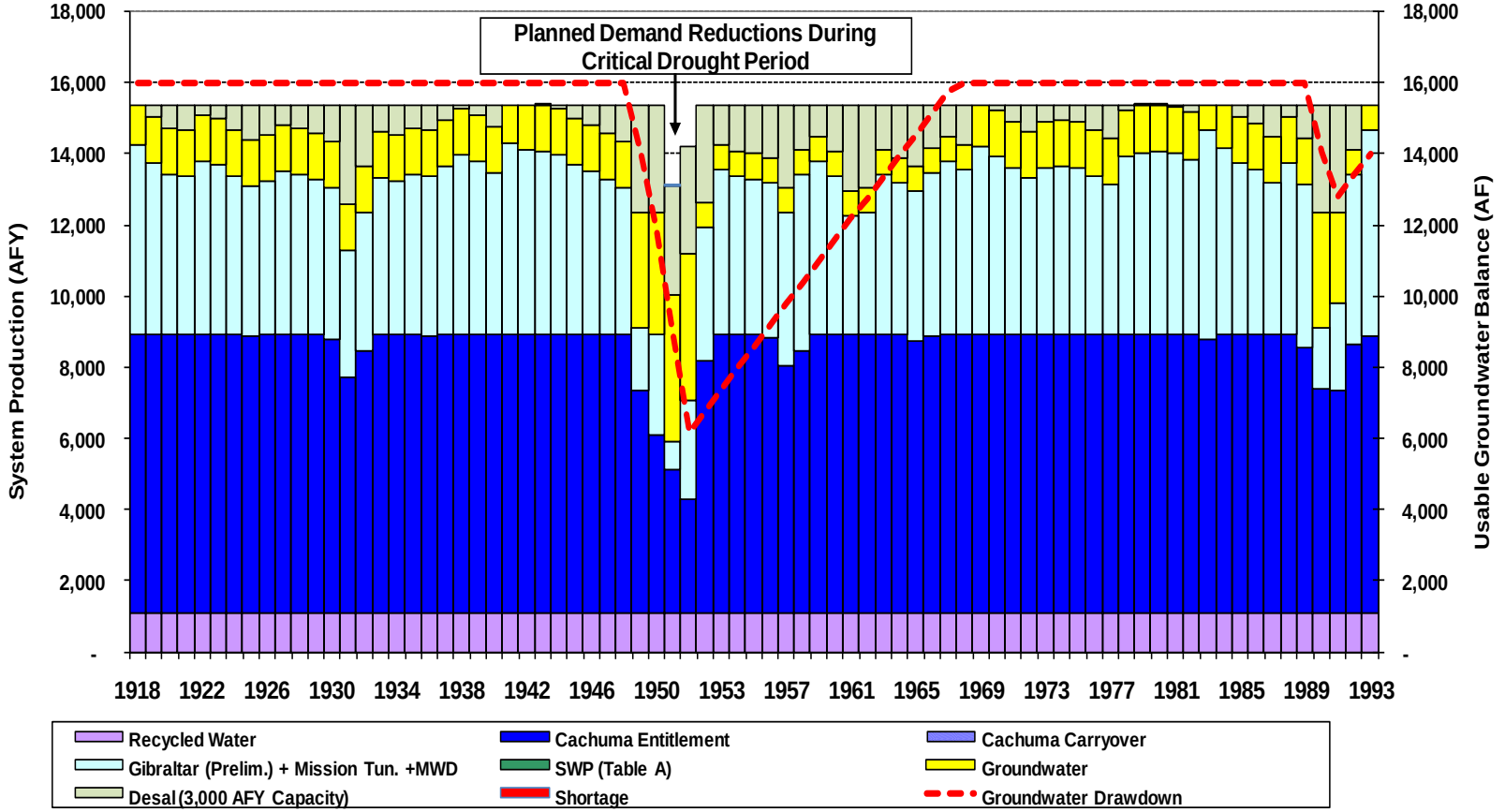
Water Supply Performance: Scenario C - 2030 Conditions, No Imported Water, With Desal

Projected System Demand (AFY): **14,000**

Cachuma Yield Assumption: **Projected Entitlement**

Water Supply Target (including Safety Margin): **15,400**

Planned Demand Reductions:	Stage 1	Stage 2	Stage 3
	10%	**15%**	**15%**



CONTRACT EXTENSION

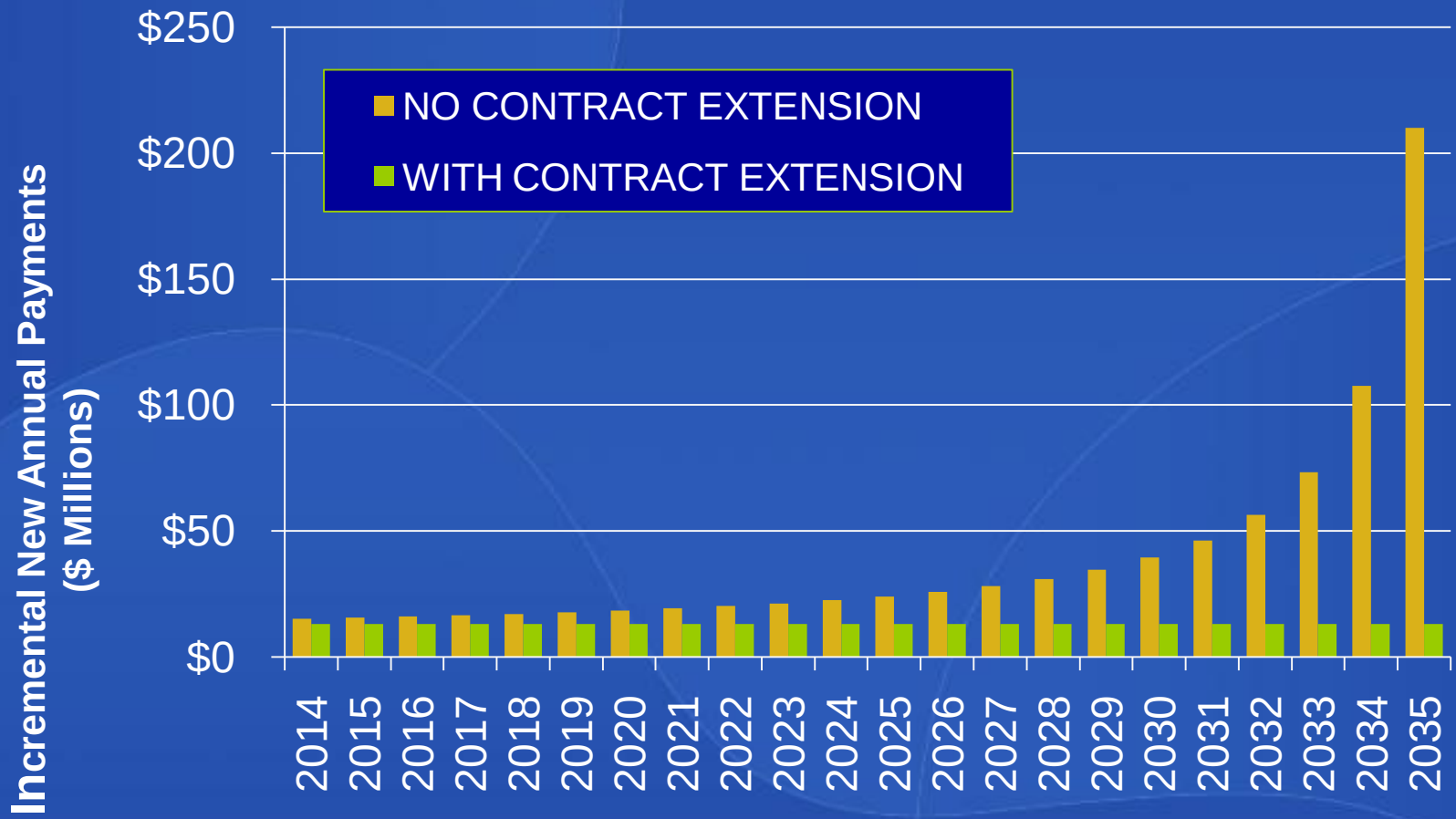
Contract Extension

- Contract between State DWR and Santa Barbara County
- Current Contract Expires 2035
- City Contract with CCWA Extended with County Contract

Contract Extension Issues

- Term of Contract
  - 40 to 75 year Extension
  - Financing for Capital Projects
  - $200 Million in Bonds Sold Annually
- Better Financial Management
- Clarification of Funding Requirements
- Simplification of Billing

Example Payment Schedule



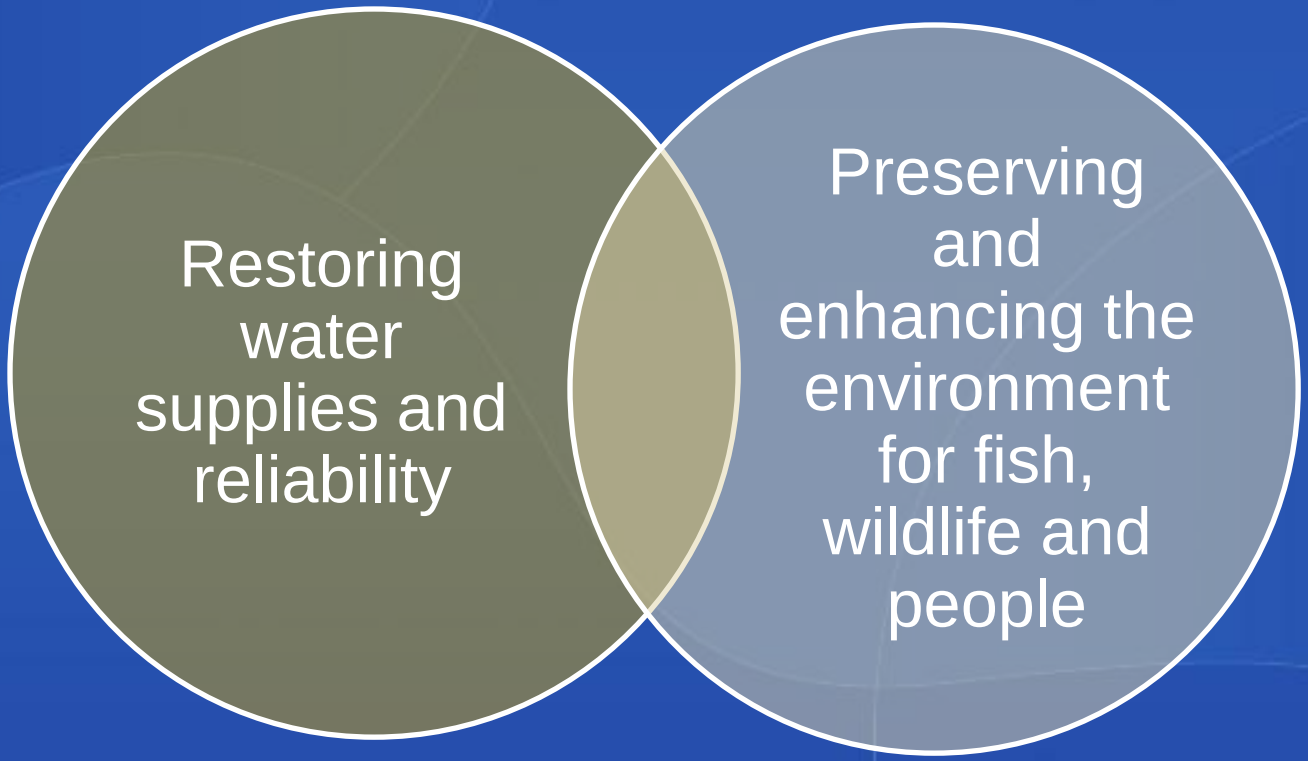
Contract Extension

- Next Steps
  - Agreements in principle
  - EIR/EIS
  - Approval by State Water Contractors (County of Santa Barbara)

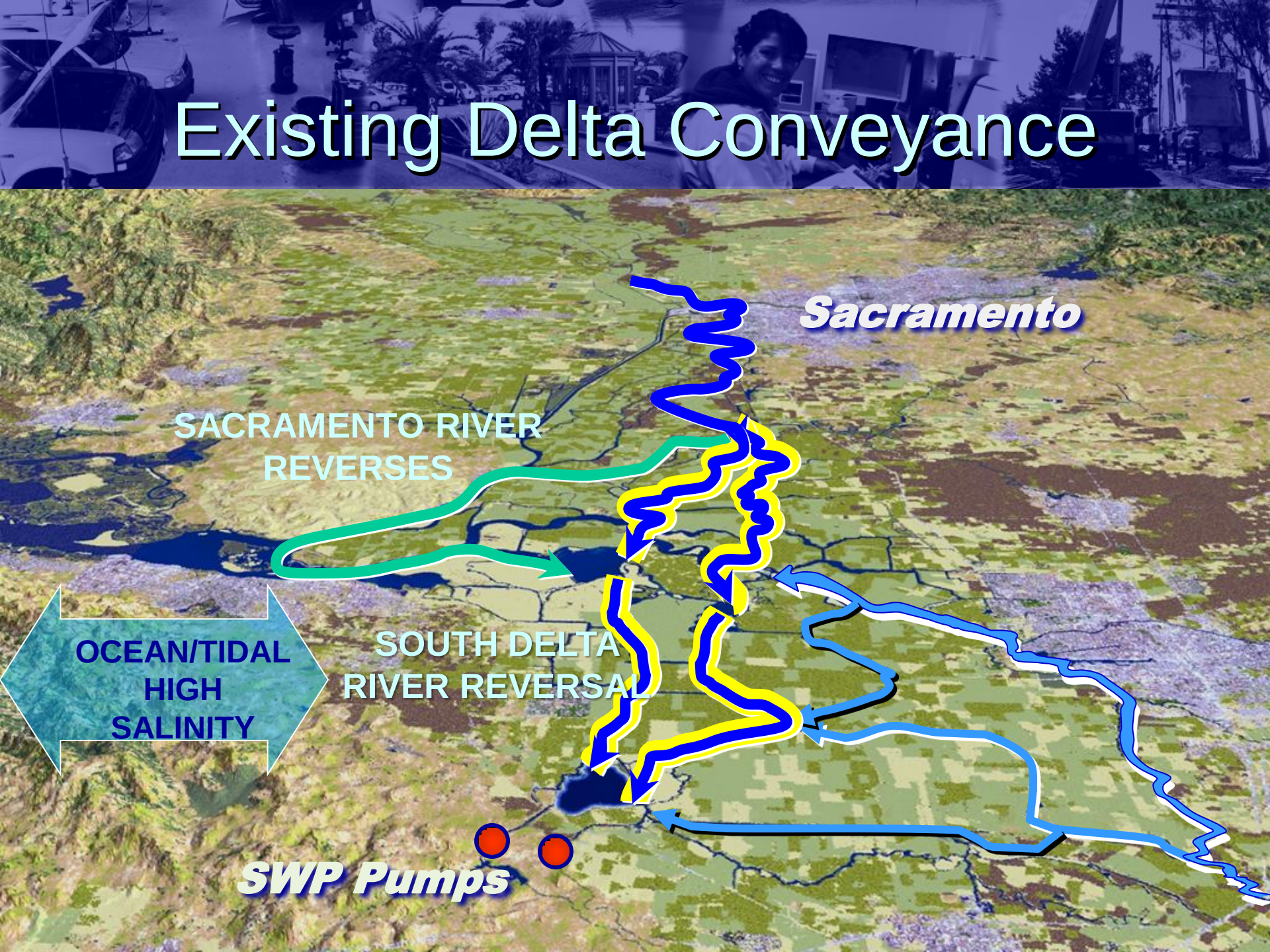
BAY DELTA CONSERVATION PLAN BDCP

BDCP

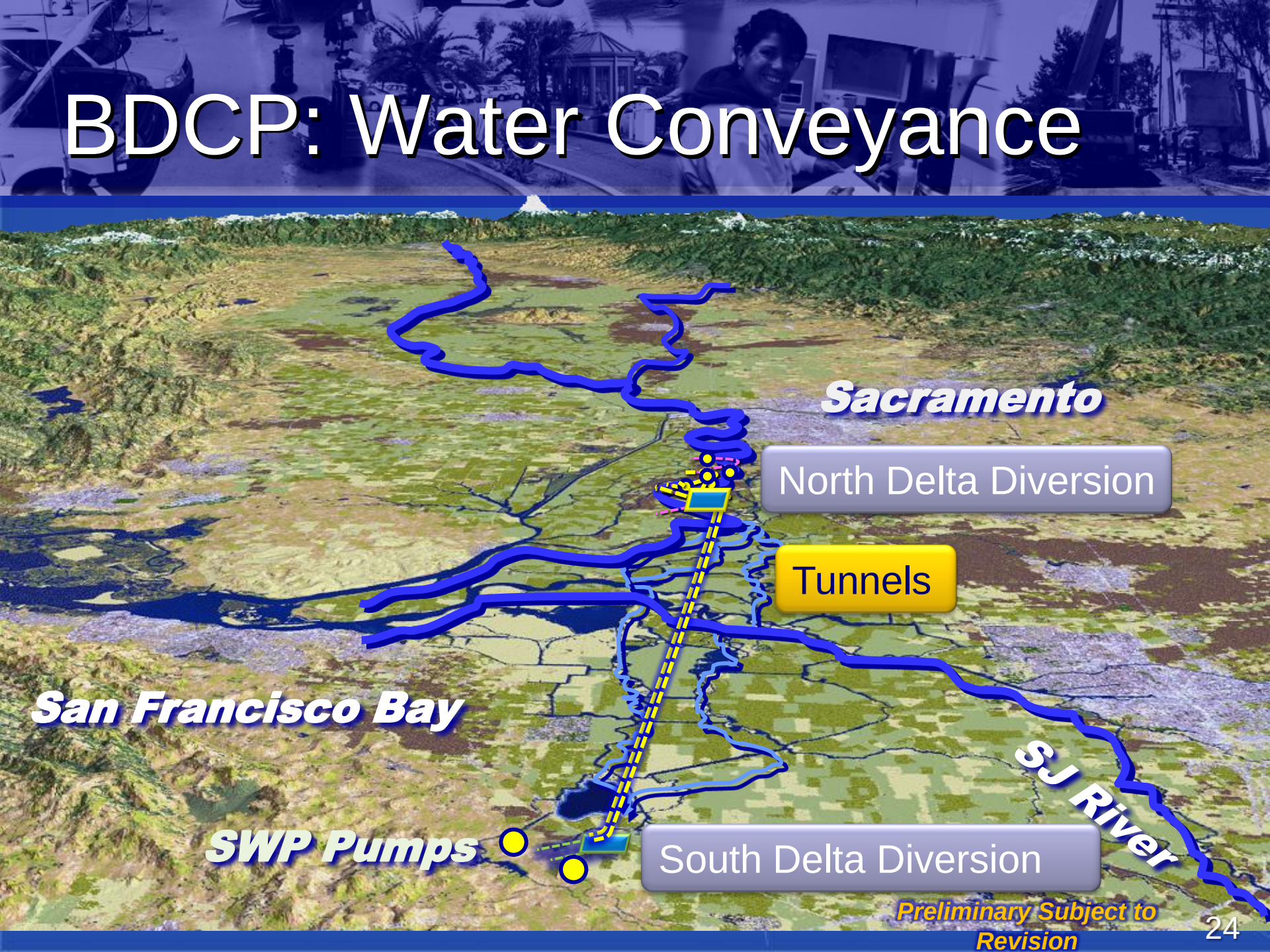
Two Equal Goals



Existing Delta Conveyance



BDCP: Water Conveyance



Preliminary Subject to Revision

Bay Delta Conservation Plan Costs

- $25 Billion projected costs
  - Capital + O&M for 50 years
- $10 Billion State Water Contractors
- $7 Billion Federal Water Contractors
- $ Other sources

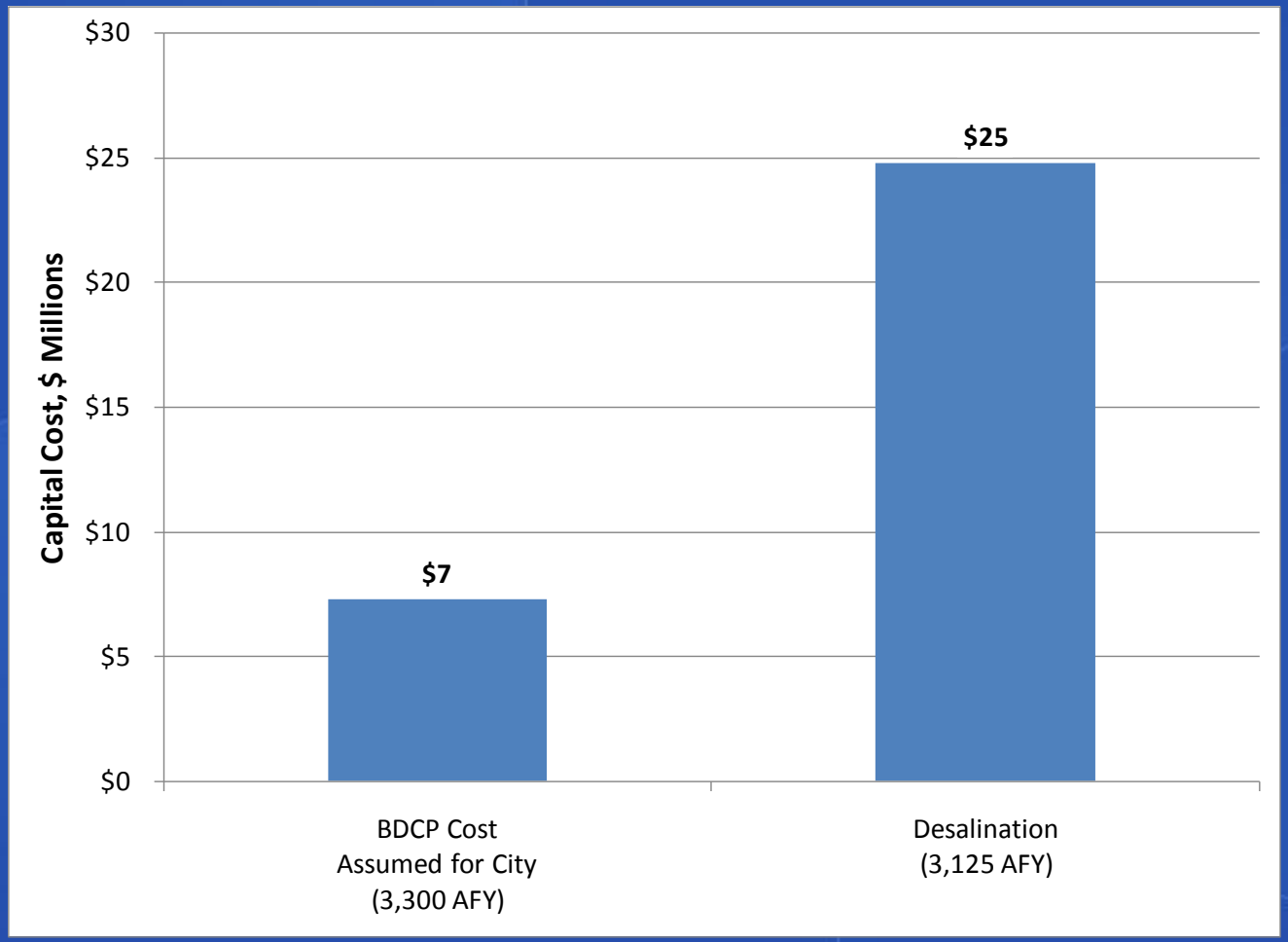
Bay Delta Conservation Plan

- Draft EIR/EIS due November 15, 2013
- 120 Day Comment Period
- Record of Decision September 2014
- Environmental Regulatory Permits end of 2014

Estimated Cost of Desalination

Project	Yield (AFY)	Capital Cost ($ M)	O&M Cost ($M/year)	O&M ($/AF)
Santa Barbara Ocean Desalination (Adjusted)	3,125	$24.8	$4.6	$1,470
Imported Water (Incremental Average Yield with BDCP)	600	$7.3	$0.018	$30

Capital Cost Comparison: Desal versus Imported Water



O&M Cost Comparison: Desal versus Imported Water

Questions