



Agenda Item No. _____

File Code No. _____

CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

ITEM 6C

AGENDA DATE: April 26, 2016

TO: Mayor and Councilmembers

FROM: Water Resources Division, Public Works Department

SUBJECT: Montecito Water District Desalination Water Sales Agreement Status Update

RECOMMENDATION:

That Council receive an update on the status of discussions regarding a Water Sales Agreement with the Montecito Water District regarding the City's Charles E. Meyer Desalination Plant as a potential regional water supply.

DISCUSSION

Background

The Charles E. Meyer Desalination Plant (Desal Plant) was constructed by the City as an emergency facility to supply water to the City, the Goleta Water District (GWD), and the Montecito Water District (MWD) during the last serious drought (1987-1991). The Desal Plant planned and permitted for a maximum capacity of 10,000 acre feet per year (AFY); however, only 7,500 AFY of reverse osmosis filtration capacity was constructed. The Desal Plant operated from March through June 1992, and delivered approximately 419 acre feet of desalinated water. Abundant rainfall in March of 1992 ended the drought, and the Desal Plant was placed into 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.

On June 16, 2015, MWD sent a letter to the City requesting to have the Desal Plant operate as a regional water supply. Both the Central Coast Regional Water Quality Control Board and the California Coastal Commission have provided some degree of confirmation that, based on the current permits, the Desal Plant could be operated as a regional water supply.

The current drought is the worst in recorded history, which has made it necessary for the City to reactivate the Desal Plant. The current schedule will have the Desal Plant operational in October 2016, at a capacity of 3,125 AFY.

On September 15, 2015, Council directed staff to initiate formal discussions with MWD regarding a potential Water Sales Agreement involving the Desal Plant as a regional water supply. An Ad Hoc Council Committee was appointed and has recommended that this item be brought back to Council for a briefing on the draft terms developed by the City, and the status of negotiations to date. The parties began negotiations by entering into a Memorandum of Understanding (MOU) which set out the parameters under which the parties agreed to negotiate. The MOU anticipated that negotiations would be concluded by January 1, 2016. Although negotiations were not concluded in the anticipated timeframe, they have continued into 2016.

Negotiations Status Update

In October 2015, staff presented MWD with a Term Sheet for a Water Sales Agreement. In summary, the Term Sheet contemplated an arrangement where MWD would receive water from the City from an unspecified source, but the cost of that water would be based on the water supply development expenses associated with the Desal Plant and its operation. To ensure delivery of water to MWD, a dedicated conveyance pipeline would need to be constructed at the expense of MWD from the Desal Plant to the South Coast Conduit. At the time, the City offered up to 2,500 AFY on a 20-year term. On December 31, 2015, the City received a response from MWD that contemplated a different approach, involving MWD-shared ownership, management and operation of the Desal Plant. This approach was unacceptable to City staff.

In February 2016, the City was again approached by MWD with a desire to continue discussions. An updated Term Sheet was provided on March 18, 2016. At the Ad Hoc Committee meeting held on March 23, 2016, consensus was reached on providing an initial capacity to MWD of 1,250 AFY, based on a potential need by the City to utilize that water, should drought conditions worsen. On April 1, 2016, the City received a more favorable response to the City's Term Sheet, and it appears there is general alignment on the basic terms of an agreement. Staff believes it is appropriate to begin drafting a Water Sales Agreement which will define the details supporting the Term Sheet. Completion of the Water Sales Agreement is likely to take several months, given the complexity and financial commitment it will represent for MWD.

The City Attorney's Office has retained outside counsel in a not-to-exceed contract for \$35,000, to provide specialized legal support services related to drafting the Water Sales Agreement. Staff will return to Council for additional authorization as necessary.

Next Steps

To continue negotiations and the development of the Water Sales Agreement there will be a need for technical support. This would include support to staff on the following:

- Negotiations with IDE America, (under contract with the City to reactivate and operate the City's Desal Plant) for the additional treatment capacity and the revised parameters for operation.

- Additional hydraulic modeling, related to conveyance of water to MWD.
- Engineering and permitting support services related to the conveyance piping required to insure delivering of water to MWD.

Staff is working with MWD on a reimbursement agreement for costs attributable to the Water Sales Agreement and anticipates bringing this item back for Council approval in May.

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SUBMITTED BY: Rebecca J. Bjork, Public Works Director

APPROVED BY: City Administrator's Office