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## CITY OF SANTA BARBARA

### COUNCIL AGENDA REPORT

**AGENDA DATE:** February 12, 2019

**TO:** Mayor and Councilmembers

**FROM:** Water Resources Division, Public Works Department

**SUBJECT:** Letter Of Support For State Water Contract Assignment To Central Coast Water Authority

#### **RECOMMENDATION:**

That Council authorize the Mayor to execute a letter to the County of Santa Barbara Board of Supervisors in support of assignment of the State Water Project Contract to the Central Coast Water Authority.

#### **EXECUTIVE SUMMARY:**

The City of Santa Barbara receives imported water from the State Water Project (SWP) through a Water Supply Agreement with the Central Coast Water Authority (CCWA). The CCWA is a joint powers authority (JPA) formed in 1991 to finance, construct, manage, and operate regional treatment and conveyance facilities that deliver State Water to its member agencies. Councilmember Eric Friedman is the City representative on the CCWA Board of Directors.

While the CCWA is responsible for financial and operational management of regional SWP facilities, the CCWA does not hold the current State Water Contract with the State Department of Water Resources (DWR). The State Water Contract with DWR is held by the Santa Barbara County Flood Control and Water Conservation District (County).

On October 24, 2017, City Council authorized amendments to the JPA Agreement with the CCWA necessary to effectuate the assignment of the State Water Contract from the County to the CCWA. In conjunction, all other CCWA member agencies unanimously approved the same amendments to the JPA Agreement. Subsequently in 2018, the CCWA received confirmation of DWR's willingness to accept assignment of the contract to CCWA. The CCWA is now working with the County for the remaining approvals to assign the contract to CCWA. The County Board of Supervisors is anticipated to consider the assignment of the contract to CCWA sometime during the first half of 2019.

Staff is recommending that the Council reaffirm its support for assignment of the contract to CCWA by authorizing the Mayor to sign the attached letter to the County Board of Supervisors.

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**BACKGROUND:**

The contract under which SWP water is delivered to Santa Barbara County was first executed in February 1963 (1963 Contract). The contract, as amended, is referred to as the State Water Contract. The parties to the State Water Contract are the DWR and the County.

In 1978, the County sponsored a ballot measure authorizing issuance of bonds to finance construction of an in-county distribution and treatment system for SWP water. The ballot measure was defeated and, following that election, the Santa Barbara County Board of Supervisors considered whether to terminate the 1963 Contract due to lack of local political support for importation of SWP water. A number of local cities and water districts urged the Board of Supervisors to retain the water and find a way to shift the cost of that water to the local agencies (and their ratepayers). In response, in the mid-1980s, the County executed certain "Water Supply Retention Agreements" with the water purveyors (cities and water districts), whereby the water purveyors agreed to assume the annual costs for 45,486 acre feet per year (AFY) of SWP water. Of the 45,486 AFY, the City's original share was 3,000 AFY, which was later increased to the current amount of 3,300 AFY when contract rights became available from other jurisdictions.

In 1991, after five years of severe drought, elections were held in 14 local jurisdictions to authorize financing for construction of SWP water distribution and treatment facilities. The ballot measures were approved in 11 of the 14 jurisdictions, and those 11 jurisdictions cooperated in forming the CCWA to finance, construct, manage, and operate Santa Barbara's regional facilities for distribution and treatment of SWP water. They also executed certain "Water Supply Contracts," whereby the participants transferred their rights under the Water Supply Retention Agreements to CCWA, in return for water service in an amount equivalent to their rights under the Water Supply Retention Agreements. Of the 11 local participants, 8 public agencies are the voting members of the CCWA: City of Buellton, City of Guadalupe, City of Santa Barbara, City of Santa Maria, Goleta Water District, Montecito Water District, Carpinteria Valley Water District, and Santa Ynez River Water Conservation District - Improvement District No. 1.

In November 1991, the CCWA and the County signed a Transfer of Financial Responsibility Agreement (TFRA) under which the CCWA agreed to assume all the County's financial obligations under the State Water Contract. The TFRA expresses the County and the CCWA's joint interest in securing DWR's approval to release the County from its obligations under the SWP to the extent those obligations had been assumed by the CCWA.

Since 1991, there have been periodic efforts to secure the DWR's approval of assignment of the State Water Contract to the CCWA, as envisioned by the TFRA. DWR was previously unwilling to consent to the assignment due to the requirement in Article 34 of the State Water Contract that if in any year sufficient funds are not raised to make all payments due or to become due within that year under the contract, the governing body (in that case the County) shall levy a tax or assessment upon all property not exempt from

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taxation sufficient to provide payment under the contract. This tax would be applied to properties in all areas of the County, including those areas that do not receive State Water (e.g. Lompoc, Cuyama, etc.).

Prior to 2015, there had been some uncertainty as to whether the CCWA, a JPA, could satisfy the requirements of Article 34 of the State Water Contract to levy a property tax. That uncertainty was removed when Government Code section 6502 was amended in 2015 to clarify that a JPA has all powers common to the contracting parties, including, but not limited to, the authority to levy a fee, assessment, or tax. With the power of taxation common to CCWA's member agencies, the DWR is now willing to accept assignment of the State Water Contract from the County to the CCWA.

## **DISCUSSION:**

The CCWA is a JPA made up of water purveyors, and the City has direct representation on its governing board. The CCWA is the lead regional agency responsible for the financial and operational aspects of SWP water delivery in the Santa Barbara area. The CCWA has treated and conveyed State Water entirely at member agency costs, which have in turn been passed on to member agency customers, the water ratepayers.

Since its formation, the CCWA has successfully managed regional water treatment and conveyance facilities on behalf of its member agencies, and was instrumental during the recent drought in managing and coordinating the effort to secure supplemental water purchases and groundwater banking opportunities. Given the CCWA's financial and operational management responsibilities, the CCWA has an important role in decision-making on matters related to the SWP.

In comparison, the County does not provide service to convey, treat, or distribute water supply, nor does the County have any water customers. As such, the County does not have experience managing water supply nor direct fiduciary responsibility to water rate payers. With the CCWA as the State Water Contract holder, local decision-making related to the SWP would be aligned with financial and operational management responsibility to water ratepayers, and bureaucratic decision-making would be streamlined to the agencies that have expertise with matters related to the SWP (DWR, CCWA, and local water agencies).

In addition, with assignment of the contract to CCWA, the County would be relieved from its obligations to levy a property tax or assessment if the CCWA is in default on its payments to the DWR. This would protect communities who do not receive State Water (e.g. Lompoc, Cuyama, etc.) from any potential future financial obligations under the 1963 Contract. Instead, the CCWA, as the contracting party, would be required to comply with Article 34 of the State Water Contract. The CCWA's jurisdiction includes all properties within the boundaries of the City and other CCWA member agencies. It should be noted that the CCWA, like the City, will not have the authority to impose a tax on properties located outside of City boundaries or outside of the boundaries of other member

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agencies. In the event a tax is levied, the City may consider some other mechanism to attain equality between in-City and out-of-City water customers.

It is important to understand that it is not the intent of the CCWA to levy a tax or assessment. Article 34 of the State Water Contract already requires the contracting party (now the County) to levy a tax or assessment in the event of a default by the CCWA, and only after all other remedies have been exhausted. There are two remedies that must be implemented prior to levying a tax. First is the so-called “step up” provision whereby other CCWA member agencies within the defaulting agency’s “step up” group (generally divided between North and South County) would pay up to 25% of their annual State Water payment and temporarily receive the defaulting agency’s water until the defaulting agency has recovered financially. Second, the CCWA may terminate the water supply agreement with the defaulting agency and permanently sell the rights to another agency. The implementation of these remedies has never been required in the history of the CCWA.

The Water Commission reviewed this item at its regular meeting on January 17, 2019 and voted **X-X-X** in support of the letter to the County Board of Supervisors. The related discussion regarding amendments to the CCWA JPA Agreement necessary to effectuate contract reassignment was discussed with the Water Commission on October 19, 2017. At that time, the Commission unanimously supported the amendments, which were subsequently approved by Council on October 24, 2017.

### Environmental Review

As the lead agency under the California Environmental Quality Act (CEQA), the CCWA has determined that the State Water Contract assignment and all related actions are exempt from CEQA under CEQA Guidelines section 15061, and categorically exempt under CEQA Guidelines Section 15320. The assignment involves an administrative change that will not result in physical changes or environmental effects. The City Environmental Analyst has confirmed that City actions approving the assignment would be exempt from further CEQA environmental review.

**ATTACHMENT:** Letter of Support to County Board of Supervisors

**PREPARED BY:** Kelley A. Dyer, Water Supply Manager/DC/js

**SUBMITTED BY:** Rebecca J. Bjork, Public Works Director

**APPROVED BY:** City Administrator’s Office



# City of Santa Barbara

Office of the Mayor

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**Cathy Murillo**

Mayor

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Honorable Steve Lavagnino, Chair, and  
Members of the Board of Supervisors  
County of Santa Barbara  
101 E. Anapamu Street  
Santa Barbara, CA 93101

Re: Assignment of 1963 State Water Contract to the Central Coast Water Authority

Dear Chair Lavagnino and Members of the Board of Supervisors:

The City of Santa Barbara respectfully requests that the Board of Supervisors approve the proposed assignment of the 1963 State Water Project Contract (“1963 Contract”) to the Central Coast Water Authority (CCWA). Assignment of the 1963 Contract to CCWA has been contemplated since 1991, when CCWA and the County signed a Transfer of Financial Responsibility Agreement. At that time, it was deemed necessary for the County to remain the contract holder in order to satisfy the requirements of Article 34 of the State Water Contract to levy a property tax. Recent 2015 amendments to Government Code section 6502 now clarify that a joint powers authority, such as CCWA, has all powers common to its member agencies, including, but not limited to, the authority to levy a tax. With power of taxation common to its member agencies, CCWA now clearly meets the eligibility requirements of Article 34 of the State Water Project Contract.

In 1991, the CCWA assumed 100 percent of the County’s financial obligations under the 1963 Contract, which it has done successfully. Between 1991 and 1997, CCWA constructed the local State Water Project facilities on schedule and within budget. The County had zero financial obligation toward the construction of State Water Project facilities.

Since 1997, the CCWA has received water via the State Water Project from the California Department of Water Resources, and CCWA delivered that water to the City of Santa Barbara, one of its member agencies, as well as other CCWA member agencies. CCWA has treated and conveyed the State Water Project water entirely at member agency costs, which, in turn, have been passed on to member agency customers, the water rate payers. The County has also had zero financial obligation toward the cost of those water delivery operations.

CCWA has a 27 year record of fiscal responsibility, and its financial management and reporting systems have been recognized for their excellence. Since 1991, CCWA has not missed a single payment to the State of California. CCWA has been scrupulous in monitoring and auditing the costs imposed by the State on CCWA, and CCWA has been one of the statewide leaders in efforts to promote accuracy and transparency in the State’s cost accounting for the State Water Project.

Given CCWA's track record, along with confirmation that CCWA meets requirements for State Water Contract eligibility, it is now time to fulfill the promises made in 1991. The assignment of the 1963 contract to CCWA would provide numerous benefits to the County and its residents, including:

1. Placing decision-making authority in the hands of the water rate payers and customers who pay for State Water Project water;
2. Relieving the County of all financial obligations and liability under the 1963 Contract;
3. Protecting residents in local cities and other communities who do not receive State Water Project water (e.g., Lompoc, Mission Hills, Vandenberg Village) from any potential future financial obligation under the 1963 Contract; and
4. Streamlining bureaucratic decision-making at the local level.

We respectfully ask that the Board of Supervisors approve the proposed assignment of the 1963 Contract to CCWA.

Thank you for your kind consideration.

Sincerely,

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Cathy Murillo, Mayor, City of Santa Barbara