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CITY OF SANTA BARBARA

COUNCIL AGENDA REPORT

AGENDA DATE: June 2, 2020

TO: Mayor and Councilmembers

FROM: Water Resources Division, Public Works Department

SUBJECT: Execution Of Grant Funding Agreement For The Desalination Plant

RECOMMENDATION:

That Council introduce and subsequently adopt, by reading of title only, an Ordinance of the Council of the City of Santa Barbara Authorizing the City Administrator to execute a Grant Funding Agreement with the State of California Department of Water Resources in an amount of \$10 million for the Reactivation of the Charles E. Meyer Desalination Plant Project.

DISCUSSION:

The City's 2011 Long Term Water Supply Plan (LTWSP) included the Charles E. Meyer Desalination Plant (Desal Plant), which was completed in March 1992, and put into long-term standby mode in 1997. In response to Santa Barbara's worst drought on record, the City took action to reactivate the Desal Plant, which began construction in September 2015, and has been supplying drinking water to City water customers since May 2017. The project to reactivate the Desal Plant was funded by a \$72 million State Revolving Fund (SRF) loan.

In an effort to reduce financial impacts to the Water Fund and minimize rate increases for customers, the City pursued a grant under the State of California Department of Water Resources' (DWR) Round 4 Water Desalination Grant Program (Grant Program). The Grant Program was funded by Proposition 1, which was passed by California voters as part of the Water Quality, Supply, and Infrastructure Improvement Act of 2014.

Proposition 1 provided \$7.5 billion in funding to improve California's water reliability through increased water supplies, protection and restoration of watersheds, water quality improvement, and increased flood protection. Of that funding, \$100 million in grants were set aside for brackish or seawater desalination projects. It is important to note that State Senator Hannah-Beth Jackson was instrumental in making it possible for the City to compete for the grant funds, given the accelerated scheduled of the Desal Plant project.

The City received the \$10 million grant award on March 18, 2018. Since then, staff members from each agency have exchanged several versions of the funding agreement, with the majority of time devoted to the Desal Plant operating covenants. In the grant

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application, the City put forth an operating scenario that satisfied DWR's criterion for economic benefit, but showed the Desal Plant operating at full capacity (3,125 Acre Feet per Year) for 36 out of the expected 40-year useful life. Failing to meet these operating stipulations may be considered a breach of contract and require the City to immediately repay all or a portion of funding received, plus interest, to the State. Staff members have worked cooperatively to agree that State and Federal actions that change the operating environment would be circumstances beyond the control of the City and not be a breach of contract, and should an operating issue arise, the parties would enter into consultation and attempt to negotiate a solution that is in accordance with the intended outcomes of Proposition 1 and the Grant Program. For that reason, staff is recommending that Council move forward with an ordinance authorizing the execution of the agreement and accepting \$10 million in grant funding.

BUDGET/FINANCIAL INFORMATION:

Upon execution of the funding agreement, staff will begin preparing reimbursement invoices for a total of \$10 million. This funding would come at a critical time for the Water Fund, as commercial rate revenue has declined sharply as a result of the COVID-19 stay-at-home order. Additionally, if Council decides to reduce planned rate increases, this grant funding will help prevent some reductions to capital project funding.

ENVIRONMENTAL REVIEW:

The execution of a grant funding agreement is exempt from CEQA review.

WATER COMMISSION RECOMMENDATION:

This item was presented to the Water Commission at its meeting on May 21, 2020, and the Commission voted **X-X** in support of staff's recommendations.

A copy of the grant funding agreement may be requested from the Public Works Department for public review; please contact us at PWInfo@SantaBarbaraCA.gov to request a copy.

PREPARED BY: Joshua Haggmark, Water Resources Manager/MBH/rb

SUBMITTED BY: Rebecca J. Bjork, Public Works Director

APPROVED BY: City Administrator's Office

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ORDINANCE NO. _____

AN ORDINANCE OF THE COUNCIL OF THE CITY OF SANTA BARBARA AUTHORIZING THE CITY ADMINISTRATOR TO EXECUTE GRANT FUNDING AGREEMENT WITH THE STATE OF CALIFORNIA DEPARTMENT OF WATER RESOURCES IN AN AMOUNT OF \$10 MILLION FOR THE REACTIVATION OF THE CHARLES E. MEYER DESALINATION PLANT PROJECT.

THE CITY COUNCIL OF THE CITY OF SANTA BARBARA DOES ORDAIN AS FOLLOWS:

SECTION 1. The City Administrator is hereby authorized to execute Funding Agreement No. 4600013131 between the State of California Department of Water Resources and City of Santa Barbara for funding assistance in the amount of \$10 million from the Water Desalination Grant Program for a construction project titled "Reactivation of the Charles E. Meyer Desalination Plant."