

**SAN JUAN WATER DISTRICT and
SACRAMENTO SUBURBAN WATER DISTRICT
Joint Committee Meeting**

San Juan Water District
9935 Auburn Folsom Road
Granite Bay, CA 95746

2x2 Ad Hoc Water Management Committee

**AGENDA
December 13, 2013
11:00 a.m.**

1. Phase 1 Evaluation of Water Management Alternatives - Update and Discussion
2. Other Matters
3. Next Meeting
4. Public Comment

STAFF REPORT

Date: December 10, 2013

To: 2X2 Water Management Ad Hoc Committee

From: Robert Roscoe, SSWD General Manager
Shauna Lorance, SJWD General Manager

Subject: Update on Phase I Study of Alternatives

Staff Recommendation

The information provided is for information only.

Background

At the joint Board meeting on August 20, 2013, the San Juan Water District and Sacramento Suburban Water District Boards approved issuance of the Request for Proposal – Phase 1 Evaluation of Water Management Alternatives. The Municipal Consulting Group, LLP (MCG) was retained to conduct this analysis.

MCG will present an update regarding opportunities for increasing water supply availability through integrated, conjunctive use and beneficial use of the Districts' respective surface and groundwater resources and associated infrastructure. Please see the attached report.

File Memorandum

DATE: December 10, 2013

SUBJECT: Phase 1, High Level Water Supply Reliability Study: Option 2,
Alternatives Based on Existing Water Supply Contracts

The primary interest by Sacramento Suburban Water District (SSWD) and San Juan Water District (SJWD) in pursuing the Phase 1 Evaluation is to identify opportunities for increasing certainty in water supply reliability in the long term through integrated, conjunctive and beneficial use of the Districts' respective surface water and groundwater resources and the associated infrastructure.

Purpose

Using existing water supply contracts, this summary focused on Option 2 and provides a preliminary assessment (Preliminary Assessment) of potential strategies identified with "Phase I Evaluation of Water Management Alternatives between San Juan Water District & Sacramento Suburban Water District" (Phase 1 Evaluation). Ultimately, Phase 1 Preliminary Assessment is intended to serve as a frame of reference in determining whether to proceed with Phase 2, a more detailed Evaluation Study.

Approach:

Phase 1 analysis identified two major categories to develop strategies, under Option 2, for increasing reliability of water supplies for both SSWD and SJWD. Eleven benchmark strategies are identified in Category 1 and 2, which individually or in combination, could potentially meet the Districts' primary interest.

Water Supply Reliability Through Collaborative Water Management

The analysis supports the original objective identified by the Districts to establish a water supply reliability framework through a collaborative use of SSWD's groundwater facilities and transmission pipelines, and SJWD's treatment and surface water supplies. Conceptually, SJWD could provide surface water to SSWD during normal and wet years establishing in-lieu banking of groundwater. During the drier/driest years, SSWD could use the groundwater system to serve areas where surface water may not be accessible or may be needed to supplement surface water deliveries. This framework supports state and federal objectives for maximizing regional self-sustainability and conjunctive-use programs, and provides for potential rate relief or program funding through access by using SJWD's surface water supplies for water supply transfers, assignments or exchanges with SSWD to provide a means to potentially secure funds for infrastructure necessary to allow SJWD to achieve water supply reliability through conjunctive use.

Option 2-Category 1: Category 1 includes nine benchmark strategies that individually, or in combination, could potentially meet the Districts' primary interest. Category 1 assumed the following definitions:

1. No changes to Board structure, service area boundaries, assets, liabilities, permits, contracts or other formal instruments that together legally authorize and define the two Districts respectively; and

2. Within this context, pursue strategies for advancing or meeting the Districts primary interest through a range of available authorities, agreements, contracts, and processes.
3. Each benchmark strategy was assessed as a water transfer, an assignment, or a water exchange.

The nine-benchmark strategies include:

Strategy	Description
Water Transfers	<u>WT-A</u> : Transfer a portion of SJWD Central Valley Project (CVP) contract water supply to SSWD.
	<u>WT-B</u> : Transfer a portion of Placer County Water Agency (PCWA) Middle Fork Project (MFP) water supply to SSWD.
	<u>WT-C</u> : Transfer a portion of SJWD Pre-1914 Water Rights supply to SSWD.
Contract Assignments	<u>CA-A</u> : Assign a portion of SJWD CVP contract water supply to SSWD.
	<u>CA-B</u> : Assign a portion of SJWD Pre-1914 water rights entitlement to SSWD.
	<u>CA-C</u> : Assign a portion of SJWD Pre-1914 Water Rights supply to SSWD.
Water Exchanges	<u>WE-A</u> : Exchange a portion of SJWD’s CVP contract water supply for groundwater supply extracted and conveyed by SSWD to SJWD.
	<u>WE-B</u> : Exchange a portion of SJWD’s MFP water supply for groundwater supply extracted and delivered by SSWD to SJWD.
	<u>WE-C</u> : Exchange a portion of SJWD’s Pre-1914 water rights entitlement for groundwater supply extracted and delivered by SSWD.

Option 2-Category 2. Category 2 includes two benchmark strategies that focus on a service area boundary changes that would amend or apply to SJWD’s long-term water service contract with Reclamation or with PCWA. The service boundary strategies include:

Strategy	Description
Boundary Amendments	<u>BA-A</u> : Amend or apply SJWD’s long-term water service contract with Reclamation (Contract No. 6-07-20-W1373-LTR1, dated February 28, 2006) to allow delivery by SJWD of a portion of their CVP water supply beyond the SJWD service boundaries defined by the Reclamation contract to SSWD.
	<u>BA-B</u> : Amend or apply SJWD’s Long-Term Water Supply Contract with PCWA dated December 7, 2000 (PCWA Contract) to allow delivery by SJWD of a portion of their Middle Fork Project (MFP) water supply beyond the SJWD service boundaries defined by the PCWA Contract to SSWD.

STRATEGIES		Authority	Past Practice	Time Factors	Other Constraints	PCWA	Roseville	Wholesale	DWR	SWRBB	NFMS	FWS	USBR	Assuming no protest and litigation										TOTAL ESTIMATED TIME
														Board Actions (Budgets, Contracts, Policy Direction)	Analysis	Inter-Agency Framework	Pre-Application Framework	Process/PD Development	Inter-Agency Agreements	Regional Agreements/Outreach	Pre-consultations (Federal agencies; ESA; etc.)	ESA / CESA Consultation	Enviro. Analysis	
														Administrative			Negotiations			Environmental Analysis			TOTAL	
Water Transfers																								
WT-	A	SJWD's CVP Supply to SSWD	Regional Manager or delegated to Area Manager	Yes	LOA; Negotiations Environmental Anal; Cult Res.; ESA Consult.									x	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD		
	B	SJWD's PCWA Supply to SSWD	SJWD/PCWA Contract	No	Dependent on ESA/CESA requirements Subject to CA state water code Negotiations Environmental Anal; Cult Res.; ESA Consult. Before PWTP - subject to LTWAC After PWTP - subject to State Water Code	4,000 af contract with Roseville PCWA Approval Subject to PCWA water rights	x	o		x	o	o			TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD		
	C	SJWD's Pre 1914 Water Right	State Board, Water Right	Yes	Dependent on ESA/CESA requirements Subject to CA state water code Negotiations Environmental Anal; Cult Res.; ESA Consult. Influence from BDCP	Assignment of pre-1914 water rights will be controversial.				o	x	o	o		TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD		
Assignments																								
	A	SJWD's CVP Supply to SSWD	Reclamation Law	Yes	LOA Negotiations Environmental Anal Cult Res ESA Consult	NEPA-FONSI Current Remand Process Incidental Take Permit - BDCP Requirements of transfer GL								x	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD		
	B	SJWD's PCWA Supply to SSWD	State Board, Water Right	TBD	Dependent on ESA/CESA requirements Subject to CA state water code Negotiations Environmental Anal; Cult Res.; ESA Consult. Before PWTP - subject to LTWAC After PWTP - subject to State Water Code Additional time may be required to secure Water Board approval, depending upon the terms of SJWD's water rights permits.	4,000 af contract with Roseville PCWA Approval Subject to PCWA water rights	x	o		o	x	o	o		TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD		
	C	SJWD's Pre 1914 Water Right	State Board, Water Right	TBD	Dependent on ESA/CESA requirements Subject to CA state water code Negotiations Environmental Anal; Cult Res.; ESA Consult. Influence from BDCP	Assignment of pre-1914 water rights will be controversial.				o	x	o	o		TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD		
Water Exchanges																								
	A	SJWD's CVP water supply for groundwater supply extracted and conveyed by SSWD to SJWD.	No formal definition. Section 14 of the Reclamation Project Act of 1939: Typically requires "convey CVP water in return for a like amount from another source"	Yes	See WT-A, considerations for additional time required to address requirements for the groundwater extraction and conveyance component of any potential SJWD/SSWD Water Exchange Agreement.	Comparable to WT-A, plus necessary to provide detailed PD for groundwater component of exchange.	o	o	x					x	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD		
	B	Exchange some quantity of SJWD PCWA MFP water supply for groundwater supply extracted and delivered by SSWD to SJWD.	State Board, Water Code	Yes	Comparable to Strategy WT-B, except additional time required for requirements associated with the groundwater extraction and conveyance component of any potential SJWD/SSWD Water Exchange Agreement.	Comparable to Strategy WE-B. Assumes the LTWAC with Reclamation imposes no constraint on SJWD's use of the 2000 Water once water is delivered at the PWTP. Assume to convey water, there is no further use of Reclamation facilities to SSWD. Thus, neither NEPA nor ESA would apply.	x	o	x	x	o	o			TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD		
	C	SJWD's Pre 1914 Water Right for GW Extraction/Delivery	State Board, Water Right	TBD	Comparable to Strategy WT-B, except additional time required for requirements associated with the groundwater extraction and conveyance component of any potential SJWD/SSWD Water Exchange Agreement.		o	o	x	x	o	o			TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD		
Water Service Boundary																								
	A	Amend or apply SJWD's 2006 long-term water service contract with Reclamation (Contract No. 6-07-20-W1373-LTR1) to allow delivery by SJWD of their CVP water supply beyond the SJWD service boundaries defined by the Reclamation contract to SSWD.	Regional Manager or delegated to Area Manager	Yes	LOA Negotiations Environmental Anal Cult Res ESA Consult	NEPA-FONSI Preliminary review of publicly available records, most service area requests are accomplished through an Environmental Assessment (EA)/Finding of No Significant Impact (FONSI).	o	o	x					x	TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD		
	B	Amend or apply SJWD's 2000 Long-Term Water Supply Contract with PCWA to allow delivery by SJWD of their Middle Fork Project (MFP) water supply beyond the SJWD service boundaries defined by the PCWA Contract to SSWD.	Article 19 of the Contract provides the potential for SJWD to deliver the PCWA contract water outside Placer County and portions of Sacramento County within SJWD boundaries, subject to approval by PCWA.	No	Dependent on ESA/CESA requirements Subject to CA state water code Same requirements as A Before PWTP - subject to LTWAC After PWTP - subject to State Water Code	4,000 af contract with Roseville PCWA Approval Subject to PCWA water rights	x	o	x	x	o	o	x		TBD	TBD	TBD	TBD	TBD	TBD	TBD	TBD		

Index: x - Primary Involvement
o - Indirect Involvement

**2x2 Water Management Ad Hoc Committee Meeting Notes
San Juan Water District
November 21, 2013
10:00 a.m.**

- Committee Members:** Ted Costa, SJWD Director
Ken Miller, SJWD Director
Neil Schild, SSWD Director
Kevin Thomas, SSWD Director
- District Staff:** Shauna Lorance, SJWD General Manager
Rob Roscoe, SSWD General Manager
Teri Hart, Board Secretary/Administrative Assistant
- Members of the Public:** Bob Churchill, Citrus Heights Water District
Rich Allen, Del Paso Manor Water District
Debra Sedwick, Del Paso Manor Water District
Tom Gray, Fair Oaks Water District
Joe Charest, Katz & Associates
Ken Payne, Municipal Consulting Group
Derrick Whitehead, Municipal Consulting Group
Dan York, Sacramento Suburban Water District (SSWD)
William Eubanks, SSWD Customer
Keith Durkin, San Juan Water District
Jason Mayorga, San Juan Water District

Director Thomas chaired the meeting and opened the meeting at 1:00 p.m.

Phase 1 Evaluation of Water Management Alternatives - Proposal Review and Discussion

Mr. Roscoe informed the committee that the consultants, Municipal Consulting Group (MCG), will be giving an update on the Phase 1 Evaluation of Water Management Alternatives and there is no recommendation for action at this time. He mentioned that additional input is being requested from the committee and members of the public to ensure that the consultants are headed in the right direction.

Director Schild inquired about the meeting minutes referring to a revised scope of work and he would like a copy of the revised document. Director Thomas informed the committee that Ms. Lorance would provide a copy of the revised scope of work.

Mr. Whitehead explained that an overview of the progress to date will be reviewed with the committee and any input from the committee and members of the public will be implemented into the data gathering phase of the scope of work.

Mr. Whitehead informed the committee that there have been two executive team meetings with Ms. Lorance, Mr. Roscoe, Mr. Durkin and Mr. York to look at the scope of work and make sure MCG was on track with the assumptions. In addition, MCG has enlisted the help of Mike Finnegan, former USBR Area Manager, to take a look at various alternatives that would fall under any of the three Alternatives.

Mr. Whitehead explained that a baseline of the existing independent districts needed to be identified as part of Alternative 1 to show the existing structure and potential risks. Under Alternative 2, MCG will identify options that could be done that would utilize different mechanisms that might be in play, such as water transfers, exchanges or water sales. Under Alternative 3, MCG will identify any elements of Alternative 2 which might come into play with consolidation. Mr. Whitehead informed the committee that they have enlisted the help of Public Financial Management to assist with other aspects of potential consolidation such as financial issues when looking at the risks and opportunities.

Mr. Whitehead reported that they met with the wholesale customer agencies and will be looking to have additional discussions with them. In addition, MCG met with LAFCo to discuss potential issues related to the alternatives.

Mr. Whitehead commented that they are in the process of collecting information, reviewing contracts and formation documents, and getting statistics on the districts. He commented that due to the condensed schedule, MCG is gathering information, evaluating and analyzing as they move forward.

Mr. Payne defined the three alternatives as:

Alternative 1 – Do Nothing; what are the consequences of doing nothing, the potential costs associated including the threats to water rights and water supply reliability.

Alternative 2 – What can be done between the agencies to work together to secure water supply reliability and financial stability as separate agencies.

Alternative 3 – What is it going to take to consolidate and what are the benefits and costs associated and how to address supply reliability.

Mr. Payne informed the committee that MCG is focusing on the water supply reliability aspect of the study, which is a principle driver for the study. MCG has identified approximately eight different options under the Alternatives. In reviewing these options, MCG is looking at contract authority, costs, time constraints, and environmental processes to determine how feasible these options are.

Mr. Payne commented that one critical indicator is past practice. For example, there is Reclamation law regarding moving water between service boundaries/areas, but there is no past practice for long term contracts. Since there is no past practice, do the

agencies want to be the first to try to accomplish this? Director Schild commented that moving water has been accomplished under interim contracts between CVP contractors. Mr. Payne informed the committee that as MCG proceeds through the study, they are focusing on the water supply contracts, Reclamation law, State Board code, and proposed and pending state legislation.

For Alternative 3, MCG is looking at District Administration and Operations which includes operational sequences, governance structures, and policies and procedures to identify potential issues. Director Costa voiced concern that MCG is looking at the technical aspects of consolidation prior to Alternative 3 being approved by the joint Boards. Mr. Payne informed the committee that MCG is following the scope of work which includes a high level analysis. Ms. Lorange commented that MCG is looking for fatal flaws, pros and cons and will provide a recommendation of which Alternative to study further.

Director Costa voiced concern regarding potential loss of water rights if they are not utilized. The committee discussed water rights versus contractual rights. Mr. Whitehead commented that MCG will be looking at the risks to water supply reliability and the authorities that allow the agencies to utilize the water.

Mr. Payne requested the committee to give some feedback on any concerns they might have on the operations & maintenance, governance issues, water supply and reliability, and any other considerations.

Director Schild commented that for this scope of work he believes the focus should be primarily water supply and once that is determined then the next phase of the study will be implemented.

Director Thomas suggested that a breakdown of the pros and cons for each agency be provided in the report, since each Alternative might not affect each agency equally.

Mr. Whitehead commented that MCG has been tasked with looking at costs for each Alternative and they will meet with the executive team to discuss the costs to each agency.

Director Miller requested clarification on what he has heard at most of the meetings regarding a ten-year process for Alternative 1 and 2. Mr. Roscoe responded that Alternative 1 is to continue as the agencies are currently structured today and the study would review the risks and benefits associated with doing nothing. Mr. Roscoe stated that Alternative 2 would be looking at staying as two separate districts but looking at opportunities for better sharing of resources between the two districts. This could include amending the SJWD CVP contract to change the area of use to include SSWD. Mr. Roscoe commented that he and Ms. Lorange were told by the Bureau that approval for this would be a discretionary action by the Bureau and it would trigger NEPA, which is a very involved and prolonged process, in addition to being extremely costly.

Mr. Roscoe commented that, based on meetings with the Bureau, there may be other options available in order to obtain additional water supply to SSWD. Therefore, MCG is looking at other options within Alternative 2 which may be available. Mr. Roscoe stated that Alternative 3 would look at the possibility of consolidation in order to achieve water supply reliability. Ms. Lorance commented that initially staff was under the impression from the Bureau that Alternative 2 might be too lengthy and cost too much for implementation; therefore, they are looking for information in writing as leadership at USBR has changed and may impact the analysis of the alternatives. Ms. Lorance confirmed that, under Alternative 1, agreements with SSWD would not involve external approvals.

Mr. Whitehead inquired of the committee if there was an acceptable timeline versus a non-acceptable timeline for any of the Alternatives. Director Schild responded that MCG should report on the timelines along with all the other important factors in order for the joint Boards to make a decision.

The committee discussed Alternative 1 including looking at the risks and costs of doing nothing and the potential risk of losing water supply, so that Alternative 1 can be used as a baseline. Ms. Lorance commented that in better defining the Alternatives, Alternative 1 should be looked at as “do what is being done right now, meaning anything that can be done between the two agencies without any other approvals”; Alternative 2 would be “what could the agencies do for better water management that would require external approvals”; Alternative 3 would be “what would happen and how would water be managed if the agencies became one agency.”

Other Matters

There were no other matters discussed.

Next Meeting

Mr. Payne informed the committee that MCG would like to address the committee two more times prior to presentation to the Joint Boards. The next committee meeting date was scheduled for December 13, 2013 at 11:00 am. The committee agreed to postpone the December 17th Joint Board meeting until after the committee meeting in January.

Public Comment

Mr. Gray commented that there were several comments made regarding Alternative 1 and he suggests that Alternative 1 should look at how existing operations could be modified to increase reliability and protect water rights without seeking extensive approvals from regulators. The committee discussed Alternative 1 and existing water supply contracts. Mr. Roscoe pointed out that an added risk to SSWD water supply through PCWA is the re-licensing of the Yuba-Bear Project.

Director Miller suggested that Alternative 1's title be changed from “do nothing” to “continue business as is.” Ms. Lorance agreed, and suggested that for all future documentation that Alternative 1 be classified as “things we can do without external

approvals,” Alternative 2 as “things we can do that require external approvals,” and Alternative 3 as “what would we do if we became one district.” Director Schild voiced concern with changing language in the scope of work without negotiating a new contract. Mr. Payne commented that no change is needed to the contract and this is just giving clarification to each Alternative.

Director Costa commented that SJWD would like to move water around so that we never get into a use it or lose it situation with the District’s water rights, regardless if it is under Alternative 1, 2 or 3.

Mr. Churchill commented that if the agencies consolidated then it would probably trigger a NEPA process and that needs to be considered. Director Schild commented that he expects to see something in the report that identifies if it is required or not. Mr. Churchill commented that expensive water is better than no water at all and customers need the water supply.

In response to Director Schild, Mr. Payne informed the committee that today’s discussion provided them with clarification on how to present the analysis to the committee, refined the Alternatives, and validated the drivers. Mr. Payne expects to present the committee with a draft report at the next meeting. Director Schild requested that the draft report be sent to the committee prior to the next meeting.

Director Miller asked why SSWD couldn’t just join the wholesale customer agencies as a retailer. Director Costa responded that it would essentially be the same process as Alternative 2. Director Miller inquired since there have been changes to Alternative 2 due to administrative changes, will this now be considered. Mr. Roscoe commented that Alternative 2 does not include a LAFCo process, so this option might be considered under Alternative 3. Ms. Lorance commented that if Alternative 3 is the recommended option to study further then there is a possibility that part of the detailed study could include review of adding SSWD as a wholesale customer agency.

Ms. Sedwick requested clarification on Alternative 2 and 3. Ms. Lorance responded that Alternative 2 requires external approval while the agencies remain as separate entities, and Alternative 3 would be some form of consolidation into one entity. Ms. Lorance commented that SSWD as a wholesale customer agency could be looked at under Phase 2 of the study.

Director Miller commented that he wants to protect water rights in an expeditious and low cost manner and will support actions which accomplish this. He is concerned that the timeline on Alternative 3 might take just as long as Alternative 2. Director Costa suggested that the timelines for the options under each Alternative be in the report.

The meeting was adjourned at 11:16 a.m.