



RECEIVED

AUG 29 2017

BY: _____

August 25, 2017

Judge James Herman
County of Santa Barbara
Superior Court, Department 1
1100 Anacapa Street
Santa Barbara, CA 93101

Re: Response to Santa Barbara County Grand Jury Report titled *Managing Regional Water Supplies*, Published June 13, 2017.

Board of Directors

President
Richard Shaikewitz

Vice President
W. Douglas Morgan

Director
Samuel Frye

Director
Tobe Plough

Director
Floyd Wicks

General Manager
and Board Secretary
Nick Turner

Dear Judge James Herman,

Please find attached the Montecito Water District's (District's) response to the Grand Jury Report titled, *Managing Regional Water Supplies*. During a special meeting on August 23, 2017, the District's Board of Directors reviewed and approved the attached Board response. Per the Grand Jury's letter to the Board dated June 9, 2017, a copy is also being provided to the Grand Jury Foreman Pro Tem.

Sincerely,

Richard Shaikewitz
Board President

cc: Santa Barbara County Grand Jury
Bob Cohen, District Counsel

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FINDINGS AND RECOMMENDATIONS

FINDING 1 - *No single entity has decision or enforcement power within Santa Barbara County to lead regional planning.*

The Montecito Water District disagrees with this finding.

The Central Coast Water Authority (CCWA) is a single entity with decision and enforcement power organized under a joint exercise of powers agreement dated August 1, 1991, by twelve cities and special districts located within Santa Barbara County responsible for planning and management of the State Water Project Supply for the County. Although CCWA is not a party to the contract with the Department of Water Resources for participation in the State Water Project, CCWA plays an active role in regional planning as relating to the acquisition, storage and import of State water and other supplemental water supplies which remain a vital part of the water supply for the south coast. CCWA has been successful at treating and transporting water via State Water Project facilities to its member agencies, securing regional groundwater banking opportunities to store surplus water, and securing supplemental water purchase opportunities to offset reductions in State Water Project allocations.

RECOMMENDATION 1 – *That the Santa Barbara County Water Agency be designated as the permanent lead agency of the Santa Barbara Cooperating Partners and granted enforcement power to ensure reliability of Santa Barbara County water supplies.*

The Montecito Water District strongly disagrees with this recommendation. State law provides local agencies with enforcement and decision-making authority over the planning and management of their water supplies. The Santa Barbara County Water Agency does not have the authority under state law to serve in the contemplated role, and may lack the knowledge and/or expertise to serve as the permanent lead agency of the Santa Barbara Cooperating Partners. The State recognizes that decision-making at a local level is important for accountability as evidenced in recent SGMA legislation respecting local groundwater management.

Given the complexity of water management within Santa Barbara County, there is no single, “one size fits all,” solution to regional planning. Because each water agency has its own unique water supplies, customer base, budget considerations, policies, and planning approach, what is appropriate for one agency may not be appropriate for another. An example of an effective governance structure for regional management and planning is joint powers authorities. Agencies with mutual interests commonly form joint powers authorities, e.g. Central Coast Water Authority, to help manage common issues and achieve common goals. Decisions by a joint powers authority are made by designated representatives of the member agencies. The County lacks an appropriate governance structure to fairly represent individual water agencies

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in the decision-making process. Individual water agencies are authorized, and best equipped, to make decisions affecting their water supplies.

The District agrees that Santa Barbara County Water Agency (SBCWA) does act as the lead agency for the Integrated Regional Water Management (IRWM) program. The IRWM program is strictly a mechanism by which member agencies work collaboratively in pursuit of State and Federal grant funding for projects that have a regional benefit. In this capacity, IRWM presents recommendations, but does not make planning decisions. Projects agreed to by the participating agencies must be specifically authorized by the agencies receiving the benefit. Thus, neither the SBCWA nor IRWM, perform regional planning as it relates to water. Neither entity manages water supplies, treats, conveys or distributes water, or has direct accountability to customers. While the District appreciates the County's efforts in managing the IRWM program, neither IRWM nor the Santa Barbara County Water Agency is positioned to act as the permanent lead regional planner for water in Santa Barbara County.

FINDING 2 - *Additional supply sources such as desalination and recycled water are available to localized agencies but there is no concerted effort to develop them regionally.*

The Montecito Water District respectfully disagrees with this finding. The District has pursued and continues to pursue the potential development of desalination and recycled water supplies at both a local and regional level.

Desalination

In 2014 following three consecutive years of drought, the District began an evaluation of the development of a Montecito desalination facility. A conceptual feasibility study was prepared focusing on key aspects of the desalinated water supply including size, operation, intake and discharge alternatives, and conveyance. The study also discussed regulatory and permitting requirements, costs, and scheduling. In addition, field investigation and testing were performed both on and offshore.

This analysis was halted in 2016, when the District diverted its individual efforts to explore a potential partnership with the City of Santa Barbara regarding the regional use of the City's recently reactivated desalination facility. The City's reactivation of their decommissioned but permitted plant presented an opportunity for regional partnership, sharing in both the costs and benefits of a local, reliable, drought proof supply. For over two years, both the District and City dedicated significant resources towards negotiating a water supply agreement whereby the City would sell, and the District would purchase, 1,250 acre feet of water per year. In February, 2017 following months of negotiations, District staff presented draft terms of a potential water supply agreement to the District's Board of Directors and received an unfavorable response on a number of the terms, including but not limited to: 1) the contract term; 2) the District's right to acquire additional future capacity in the desalination facility; and 3) the City's right to deliver

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to the District water from any source, including the delivery of “direct potable reuse” recycled water once authorized by the State.

Before deciding whether to participate with the City in a long-term water supply arrangement, the District’s Board of Directors gave Staff direction to evaluate alternatives. Alternatives identified by the District include the development of a Montecito desalination facility and/or the development of a recycled water facility. The District’s decision whether to partner with the City on desalination will be made upon completion of the assessment of alternatives and will depend on many factors including the District’s control over the source of supply and the unit cost of water. The District agrees that regionalization of desalination has its benefits, but the proposed partnership with the City must make good sense for the District’s customers in light of the aforementioned factors.

The Grand Jury’s assertion that there has been no concerted effort to regionalize desalination is incorrect.

Recycled Water

The District has assessed the feasibility of recycled water multiple times, dating back to the 1970’s. These assessments discussed the infrastructure required to treat, distribute, and store recycled water and provided cost estimates for the development of this infrastructure. Due to high costs of development of recycled water included in the assessments, the District had elected not to move forward with a recycled water program.

Following the five consecutive driest years on record for Santa Barbara County, and recognizing the benefits of local drought proof supplies, on June 2, 2017, the District submitted an application to the State for grant funding to prepare a Recycled Water Feasibility Study. The feasibility study will consider all recycled water opportunities available to the District including participation with neighboring public agencies to regionalize the production, storage and/or use of highly treated recycled water within the region. All recycled water opportunities and challenges will be evaluated in the study with the goal of developing a proposed implementation plan and schedule, thereby providing the District with the basis for making a reasoned decision on how to proceed with recycled water.

Developing local, drought proof sources of supply such as desalination and/or recycled water are identified as a top priority for the District in its 2015 Urban Water Management Plan.

RECOMMENDATION 2B - *That the Montecito Water District and Carpinteria Valley Water District develop more cooperation in water recycling efforts.*

The District disagrees with this recommendation. The District and Carpinteria Valley Water District already work cooperatively with one another in many areas, including recycled water.

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As explained above, the District has submitted an application to the State for grant funding to prepare a Recycled Water Feasibility Study. The feasibility study will consider all recycled water opportunities available to the District including participation with neighboring public agencies such as Carpinteria Valley Water District and the City of Santa Barbara to regionalize the production, storage and/or use of highly treated recycled water within the region, in addition to fully utilizing the wastewater from the Montecito Sanitary District.

The District has been in discussions with Carpinteria Valley Water District for several months, assessing how regionalization of the production, storage and use of recycled water may benefit the two agencies.

FINDING 4 - *The Upper Reach Reliability Project portion of the South Coast Conduit pipeline was not completed as originally planned.*

The Montecito Water District agrees with this finding.

RECOMMENDATION 4 – *That the Upper Reach Reliability Project portion of the South Coast Conduit pipeline be completed.*

The *Upper Reach Reliability Project* is included in the Cachuma Operations and Maintenance Board's (COMB) Five Year Infrastructure Improvement Plan, which identify and prioritizes needed capital improvements. This project could be implemented pending approval by COMB and acquisition of project funding.

While the Upper Reach Reliability Project would improve the reliability of the South Coast Conduit, the District is without a major portion of its current water should the Tecolote Tunnel or South Coast Conduit experience temporary failure. While failure of these facilities would temporarily shut down water supplies delivered from Lake Cachuma, the District receives water from other local sources including groundwater, Jameson Lake and Doulton Tunnel. The District has the ability to supply up to 75 acre feet per month from groundwater and treat/deliver approx. 215 acre feet per month from Jameson Lake and Doulton Tunnel combined. Should these combined local supplies be insufficient to meet monthly demands, temporary water use restrictions would be mandated, such as a restriction of non-essential use landscape irrigation. It is important to note that supplies delivered from groundwater and Doulton Tunnel alone are sufficient to meet the District's public health and safety needs of approx. 80-90 acre feet per month.

The District also has multiple interconnections with Carpinteria Valley Water District and the City of Santa Barbara. Under emergency conditions, water is moved between agencies as needed. These interconnections could also be used in the event of a temporary failure of the Tecolote Tunnel or South Coast Conduit.

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It is also worth noting that pipeline failures are typically localized and repairs are made relatively quickly. Shutdown of the South Coast Conduit for repairs and maintenance has been successfully performed in the past by the COMB. During these temporary outages, the District utilizes water from its other local water sources, i.e. groundwater, Jameson Lake and Doulton Tunnel. Similar types of system repairs, including dewatering, are routinely made by the District without extended outages.

FINDING 5 - *Critical pipeline infrastructure, including redundancy has not been developed throughout southern Santa Barbara County.*

The Montecito Water District respectfully disagrees with this finding.

RECOMMENDATION 5 – *That critical pipeline infrastructure, including redundancy, be developed throughout southern Santa Barbara County.*

The District's water supplies and distribution system are designed to provide redundancy to ensure continuous water deliveries to our customers during short- and long-term interruptions. Infrastructure such as distribution piping, water storage reservoirs, pumps, and treatment facilities are designed to be taken out of service so that maintenance/repairs/ replacement and operational modifications can be made without causing an interruption in the supply. Should the need arise, the District has limited ability to receive water from and/or provide water to its neighboring water agencies, i.e. the City of Santa Barbara and Carpinteria Valley Water District via four interconnections.

In addition, the District has a diverse water supply portfolio capable of meeting customer demands in the event of a short-term interruption in supply. Should regional infrastructure such as the South Coast Conduit or Tecolote Tunnel be interrupted, water from other District supplies, such as groundwater, Jameson Lake and Doulton Tunnel would be used to offset the temporary loss of that supply. During an extended shut down of the South Coast Conduit or Tecolote Tunnel, the District could impose mandatory water use restrictions, if needed, in accordance with the District's adopted 2015 Urban Water Management Plan. Further, the District's 2015 Urban Water Management Plan calls for more local supplies to be developed, such that by 2025, 85% of the District's water supply will be local and drought proof.

FINDING 9 - *None of the Santa Barbara County south coast water purveyors has established capital replacement accounts.*

The Montecito Water District respectfully disagrees with this finding.

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RECOMMENDATION 9 – *That each Santa Barbara County south coast water purveyor establish and fund a restricted capital replacement account.*

A key element of the District's financial planning is to ensure that sufficient funding is available for operating, debt service, and capital replacement needs. The District's 5-year Capital Improvement Program (CIP) provides a strategic plan identifying the capital improvements necessary to maintain an efficient and functional water system. The District budgets annually for the repair and/or replacement of a portion of its aging infrastructure. Most recently, the District's FY 2017/18 budget includes the replacement of over 2 miles of distribution pipeline. Since the late 1990's, the District has made significant investments in capital replacements including the replacement of over 24 miles of 1920's and 1930's distribution pipelines, nearly 50% of the total pipe from that era.

The District collects revenue for capital replacement through both water rates and property taxes. The District's current 5-year capital improvement plan (CIP) includes the replacement of over 10 miles of aging pipelines, storage reservoir rehabilitations/replacements and other infrastructure. The CIP is incorporated into the District's current 5-year financial plan and subsequently into the current water rates. The District currently collects approx. \$1,800,000 per year through water rates to fund capital replacement. In addition, the District has a Water Availability Charge (WAC) which is an annual charge assessed to all properties located within the District's service area. The WAC provides an additional \$300,000 for capital replacement. Depending on the specific capital replacement need, some larger projects are financed to spread the cost over the life of the asset.

The District also has an adopted *Reserves Policy* which establishes reserves to ensure sufficient cash flow to meet operational needs and for emergency purposes. The policy includes the following "unrestricted" reserves.

- **Reserve for Operations:** Utilized to pay the cost of the District's operating expenses including unanticipated costs of operations and to meet routine cash flow needs. The District maintains an amount sufficient to pay for a minimum of 90 days and a maximum of 180 days of normal operations. The District's *Five Year Financial Plan* suggests a reserve amount of \$3,000,000. This reserve balance is currently set by the District's Board of Directors at \$3,400,000.
- **Reserve for Emergencies.** Utilized in the event of a hydrological, meteorological or man-made emergency in which the District's infrastructure is severely damaged. While the District strives to have adequate insurance coverage and protection, it may be necessary for the District to have cash available in the interim. The District's *Five Year Financial Plan* suggests a reserve amount of \$1,000,000. This reserve balance is currently set by the District's Board of Directors at \$1,000,000.
- **Reserve for Unanticipated Capital Repair & Replacement.** Utilized to construct, reconstruct and/or replace infrastructure that was otherwise not scheduled for

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replacement. This reserve balance is currently set by the District's Board of Directors at \$1,000,000.

While these funds are not designated as *Restricted* in accordance with the U.S. Generally Accepted Accounting Principles, the District's Board of Directors has designated these funds as *Board Assigned Reserves*. A *Board Assigned Reserve* is a reserve designated for the specific purpose of funding items such repair or replacement of existing infrastructure, and general operating reserves. These board assigned reserves are used periodically as needed for capital replacement.

OTHER COMMENTS

Page 1 Summary, 2nd Paragraph. "...Lake Cachuma (Lake), the heart of the system."

Lake Cachuma is not part of the State Water Project, and is therefore not the heart of that system.

Page 2, Historical Background, last paragraph. "...By 2015, the lake was at historic lows and Santa Barbara actually began receiving State Water."

Contrary to this statement, the District has delivered State water to Lake Cachuma since the commencement of State water deliveries to Santa Barbara County in 1997. Certainly, as the drought deepened, deliveries of State water to Lake Cachuma increased. It is important to understand that there are other considerations that must be evaluated before making a determination to how much water to import into Lake Cachuma, like water lost due to evaporation and reservoir spill.

Page 7, 3rd Paragraph. "The Montecito Water District derives only 14 percent of its supply from groundwater and is dependent on Lake Cachuma. If the Tecolote Tunnel were to fail, Montecito would be disproportionately affected in a negative manner. Montecito owns eight wells, four of which produce potable water. None of the Montecito wells are rechargeable."

While the production capacity of the Montecito Groundwater Basin is limited, the District has other local sources of supply, i.e. Jameson Lake and Doulton Tunnel that it could rely on in the event of a failure of the Tecolote Tunnel. During 2016 following 4 years of exceptional drought, the District delivered water from Jameson Lake, Doulton Tunnel and groundwater in excess of its public health and sanitary needs, estimated to be approx. 80-90 AF per month. During normal hydrologic periods, these local supplies collectively can deliver enough water to meet the District's projected demands during most months of the

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year. It is inaccurate to assert that the District would be disproportionately affected by a failure of Tecolote Tunnel.

For clarification, the District owns 12 wells, 6 of which produce potable water. All wells are replenished over time by recurring rainfall events, and therefore are all "rechargeable."

Page 9, 3rd Paragraph. "...During good rain years, Lake Cachuma provides 80 percent of the water to the four south coast water districts."

During normal hydrologic periods, a 100% Cachuma Project allocation can equate to as much as 2,654 acre feet per year for the District. In 2012 & 2013, prior to exceptional drought conditions, the Cachuma Project allocation averaged approx. 45% of the District total annual supplies. Currently, in accordance with the maximum annual production of 4,800 acre feet per year as established in the District's adopted 2015 Urban Water Management Plan, the Cachuma Project allocation could equate to as much as 55% of the District's total annual supply at 100% allocation. This assertion that Lake Cachuma provides 80% of the water to the District is factually incorrect.

Page 10, 2nd Paragraph. "...Semitropic Water Storage District Groundwater Banking Program, located in Kern County (the Montecito Water District is the only Partner in this Program in Santa Barbara County),"

The District would like to clarify that, while the Board has voted in favor of participating in Semitropic's banking program, the District is not yet officially a partner. The District is currently preparing the required environmental documentation and contracts necessary to facilitate the partnership. It is projected that the partnership will be in effect in October 2017.

Appendix B, Page 22, Montecito Water District.

For clarification, the District currently has five sources of supply including Jameson Lake, Doulton Tunnel, groundwater, Cachuma Project and the State Water Project. In addition, the District utilizes the State Water Project facilities to deliver supplemental water purchased from various suppliers across the State.

The District has six active groundwater wells, rather than four as indicated in the report, that collectively can produce nearly 750 acre feet per year.

Doulton Tunnel is a 2-1/4 mile long tunnel through the Santa Ynez coastal range that connects the Jameson Lake supply to the District service boundary. The District receives water provided by groundwater infiltration through the Doulton Tunnel. Doulton Tunnel infiltration provides approximately 300 to 350 AFY during consecutive years of normal

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rainfall. Water from Doulton Tunnel is treated at one of the District's two surface water treatment facilities before being delivered to District customers.

The District also relies upon the State Water Project infrastructure to provide the District with the ability to augment its supplies with supplemental water. The District has participated in supplemental water purchase programs negotiated between CCWA and other SWP Contractors to increase the available water supply when annual SWP allocations fall short. Since 2014, the District has acquired over 10,000 acre feet of supplemental water from various providers across the state. With the acquisition of groundwater banking facilities at Semitropic Water Storage District, the District's State Water Entitlement will be far more reliable during dry periods.