



October 6, 2022

TO: LOCSD Board of Directors
FROM: Ron Munds, General Manager
SUBJECT: **Agenda Item 3A - 10/06/2022 Board Meeting**
Water Supply Resiliency Intertie Project

STAFF RECOMMENDATION

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Matthew D. Fourcroy

Vice President
Charles L. Cesena

Directors
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Motion: I move the Board direct staff to:

- 1. Send a correspondence to the County expressing the District's interest in acquiring State Water;**
- 2. Continue negotiations to secure water, preferably Table A State Water, which is a more assured and reliable water contract;**
- 3. Move forward with the environmental work based on the preliminary preferred design presented in the Technical Memorandum in order to position the project for future grant and other funding;**
- 4. Reallocate \$80,000 of Zone A revenue from Fund 301 to Fund 500 to cover the cost of the environmental work.**

DISCUSSION

Background

In September 2021, the Board provided staff direction to investigate alternative water supply resiliency project to address current and future water demands of the District. The direction and action of the Board were based on a County Regional Water Infrastructure Resiliency Plan (Plan) completed in 2021, which ranked Los Osos as one of the top five most vulnerable communities for future water supplies because of its single source, local groundwater.

The options in the Plan identified the State Water Project and Whale Rock Reservoir as potential water sources. Since Whale Rock Reservoir is a raw water source which would require the construction of a treatment facility, the focus became a connection to the Chorro Valley State Water pipeline which branches off the Coastal Branch of the state project near San Luis Obispo and runs to Morro Bay.

Operationally, the conceptual plan is to use supplemental water as a strategy to help, in the short-term, balance and add long-term resiliency to the groundwater basin. With the variability of water supply available from the State Water Project from year to year, the plan is to take State Water during wet years when supplies are readily accessible. This would allow for maximum recharge of the Los Osos groundwater basin and fosters long-term recovery of the basin. During periods of reduced State Water supplies, the District would rely more on the groundwater basin.

The over-arching goal is to achieve long-term resiliency of the groundwater while not be overly reliant on outside water sources. The District will remain committed to the basin management strategies in the Los Osos Basin Plan, but with the changing climate and unknowns of future weather events like extended drought periods; it is prudent and good planning to consider other water sources.

Water Resiliency Project Components

There are two components to the project being considered, one being the pipeline and the second securing additional water for the community. The following is a summary of the components.

Intertie Pipeline

The attached Technical Memorandum prepared by the Wallace Group provides a high-level snapshot of the pipeline alignment with the three options that were considered along with a realistic cost estimate for the preferred alternative.

Staff and District Engineer had several meetings with County and City of Morro Bay staff to discuss the project alignment and the challenges that may be encountered during design and construction. Wallace Group considered the escalation in the cost of labor and material when developing the cost estimate. As recent history shows, it's hard to predict costs too far into the future because of supply chain issues and inflation. The estimated cost of the pipeline in 2022 dollars is \$8 million.

The recommended action in this report includes funding the environmental work necessary to position the project for future grant funding and/or low-interest loans. The estimated cost of the work is \$60,000. Adding in administrative support, staff estimates the work will cost in the range of \$80,000. In order to equitably pay for the work, staff is recommending that the Board reallocate the Zone A revenue since this is a District wide property tax since the project has a District wide benefit. By doing this, it will not place the burden of paying this expense solely on the District's water customers. The following summarizes the recommended action:

Current Allocation

Zone A Property Tax Allocation	Estimated Tax Revenue	
	\$282,428.00	
	% Allocation	\$ Allocation
Fund 301 - Fire	67.3%	\$190,074.04
Fund 500 - Water	17.7%	\$49,989.76
Fund 900 - Parks & Rec	15.0%	\$42,364.20
Total	100.0%	\$282,428.00

Proposed Revised Allocation

Zone A Property Tax Allocation	Estimated Tax Revenue	
	\$282,428.00	
	% Allocation	\$ Allocation
Fund 301 - Fire	38.5%	\$108,734.78
Fund 500 - Water	46.5%	\$131,329.02
Fund 900 - Parks & Rec	15.0%	\$42,364.20
Total	100.0%	\$282,428.00

Water Supply

The State Water Project is undergoing some significant changes both at the State and local levels. The State has instituted new water management tools, which make it easier to purchase and sell water within the system. Additionally, the County holds approximately 14,000 acre-feet of un-allocated water, which the Board of Supervisors has indicated needs to be allocated in the near future to remove the property tax burden from properties not benefitting from the project.

State Water Sub-contractor Delivery Contracts			
Flood Control District "Table A" Allocation (AFY)	25,000		
Total "Table A" Sub-contracted (AFY)	10,577	Includes Drought Buffer	
Unsubscribed Excess Allocation (AFY)	14,423		

These changes, plus the willingness of some State Water subcontractors wanting to sell some of their excess allocation, provide the District a unique opportunity to secure water for the community. Inquiries and negotiations on multiple fronts are complicated but staff is confident that there will be water available as the separate prospects unfold.

Staff is seeking direction from the Board to continue these negotiations in order to keep this component of the project moving forward. Additionally, the County has indicated that it would advantageous to the negotiations to have an "official" letter of interest regarding the acquisition of State Water from the District. Staff is requesting approval to submit such a letter with the Board President's signature as part of the action in this report.

Utilities Advisory Committee Recommendation (UAC)

The UAC unanimously supports the recommendations made in this report.

FINANCIAL IMPACT

As previously discussed, staff is recommending revising the allocation of Zone A property tax revenue by decreasing the allocation to Fund 301 by approximately \$80,000 and increasing the allocation to Fund 500 by this amount to support the environmental work for the intertie phase of the project. Though it is important to maintain a high level of funding for emergency services, Fund 301 recently received a \$331,000 refund from Cal Fire for an overcharge for fiscal year 2021-22 and realized a \$300,000 decrease in Schedule A charges for fiscal year 2022-23 from the previous year. It is important to acknowledge that there will be increases in Schedule A charges based on the recent labor negotiations at the State level for Cal Fire employees. It is unknown at this time what the impact of these negotiations will have in the future.



October X, 2022

John Diodati
Public Works Director, SLO County
976 Osos Street, Ste. 207
San Luis Obispo, CA 93408

Dear Mr. Diodati,

The purpose of this correspondence is to apprise the San Luis Obispo County Flood Control and Water Conservation District (District) of the Los Osos Community Services District (CSD) interest in acquiring a State Water allocation for the community of Los Osos. As you are aware, Los Osos, with a population of approximately 14,500, currently relies on a single source of water, groundwater, which has experienced nitrate contamination and seawater intrusion issues for decades.

Though progress has been made in implementing the Los Osos Basin Plan, the uncertainties of climate change and future drought conditions point to the need of supplying supplemental water to the community. Based on this and the recommendations in the County's Regional Water Infrastructure Resiliency Plan, the CSD Board of Directors voted, on October 6, 2022, to support a project to connect the community to the State Water Project in the Chorro Valley.

It is understood that before the project moves forward, the CSD will need to negotiate a water allocation, preferably Table A water, with the District and/or sub-contractors willing to sell a portion of their State Water allotment. Per the County's 2003 State Water Excess Entitlement Policies, the number two priority on the list is giving preference to local agencies and water purveyors regardless of whether a transfer is on an annual, multi-year, or permanent basis. Given the critical need to secure a supplemental water supply for Los Osos, it is our hope that the County will assist in facilitating the transfer of a State Water allocation, on a permanent basis, to meet the current and future water needs of the community.

Please feel free to contact me if you have any questions or need additional information.

Sincerely,

Matthew Fourcroy
Board President
Los Osos Community Services District

c: San Luis Obispo County Board of Supervisors
Wade Horton, San Luis Obispo County CAO

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State Water Project
Excess Entitlement Policies
Approved by Board of Supervisors January 14, 2003

Excess Entitlement - Definition

The District State Water Project "Excess" Entitlement is the portion of the District's total entitlement that is not contracted to others for their deliverable or drought buffer uses.

Priority of Use

1. Prior to transferring the excess entitlement for any other use, contractors of state water entitlement with capacity in Phase II of the Coastal Aqueduct shall have the first right to utilize the excess entitlement for "drought buffer" (reliability) purposes under the terms of a drought buffer agreement.
2. Preference shall be given to local agencies and water purveyors regardless of whether a transfer is on an annual, multi-year, or a permanent basis.
3. No permanent transfer of the excess entitlement for use outside District boundaries shall be made prior to a final update of the District's Master Water Plan adopted by the Board of Supervisors, and then only if the transfer is consistent with the then adopted Master Plan. (See 'Note' below)
4. No multi-year transfer for use outside District boundaries shall be made with a term in excess of five years prior to a final update to the District's Master Water Plan adopted by the Board of Supervisors, and then out of District transfers can only take place if the transfer is consistent with the adopted Master Plan.
5. On any out -of-District transfer, preference shall be given to those that provide: a) revenues that recover current costs and some or all of the District's past costs, b)

maintain the District's right to use the water in the future, or c) which are used for environmental mitigation.

6. The Public Works Director is authorized to determine the annual amount of the excess entitlement to transfer to the State Water Project "Turnback Pools" established under the existing terms of State Water Agreements. In making that determination, the Public Works Director shall first consider local needs and how the use of the Turnback Pool might impact other potential transfers.

Note:

These policies were adopted by the Board of Supervisors "with the understanding there will be no permanent sales outside the District."