

SAN GORGONIO PASS WATER AGENCY
1210 Beaumont Avenue, Beaumont, CA
Board of Directors Meeting
Agenda
July 17, 2017 at 7:00 p.m.

- 1. Call to Order, Flag Salute, Invocation and Roll Call**
- 2. Adoption and Adjustment of Agenda**
- 3. Public Comment:** Members of the public may address the Board at this time concerning items relating to any matter within the Agency's jurisdiction. To comment on specific agenda items, please complete a speaker's request form and hand it to the board secretary.
- 4. Reports:**
 - A. General Manager's Report
 1. Operations Report
 2. General Agency Updates
 - B. General Counsel Report
 - C. Directors' Reports
- 5. New Business:**
 - A. Consideration of Resolution 2017-12 Setting the Appropriation Limit for Fiscal Year 2017-2018* (p. 3)
 - B. Consideration and Possible Action to Approve Amendment No. 3 to the Employment Agreement of the General Manager* (p. 6)
 - C. Discussion of Potential Funding Mechanisms for Water Acquired from Antelope Valley East Kern Water Agency* (p. 9)
- 6. Topics for Future Agendas**
- 7. Announcements:**
 - A. Finance and Budget Workshop, July 24, 2017 at 4:00 p.m.
 - B. San Gorgonio Pass Regional Water Alliance, July 26, 2017
 1. Regular Meeting at 5:30 p.m. – Banning City Hall
 - C. Regular Board Meeting, August 7, 2017 at 7:00 p.m.
- 8. Closed Session (3 Items)**
 - A. PUBLIC EMPLOYEE PERFORMANCE EVALUATION
Pursuant to Government Code Section 54957
Title: General Counsel
 - B. CONFERENCE WITH REAL PROPERTY NEGOTIATORS
Pursuant to Government Code section 54956.8
Property: Potential water rights/supplies offers from the South Mesa Water Company
Agency negotiator: Jeff Davis, General Manager
Negotiating parties: David Armstrong, General Manager, South Mesa Water Company
Under negotiation: price and terms of payment

MEMORANDUM

TO: Board of Directors

FROM: General Manager

RE: Funding of Nickel Water Acquisition

DATE: July 17, 2017

Summary:

During the discussion surrounding the acquisition of Nickel water, the Board made it clear that a funding mechanism would be needed and that it should be decided upon soon. The purpose of this agenda item is for the Board to get input from stakeholders, including staff and retail water agencies, and to discuss possible funding mechanisms for the water. A consultant will be present to help the General Manager present some information related to the cost of the Nickel water, as well as the cost of the Agency's Table A water.

Detailed Report:

Last year, the Board directed staff to contract with Provost & Pritchard to perform a study identifying potential opportunities for the Agency to acquire additional water supplies. Upon completion of that study, and a presentation to the Board, the Board authorized staff to pursue multiple opportunities to acquire such supplies, and staff has actively been engaged in doing so.

Last month, the Board approved the first new supply of long-term water supplies, a 20-year lease of "Nickel" water from the Antelope Valley-East Kern Water Agency. Upon approval of the agreement finalizing this deal, the Board directed staff to set up a workshop in order for the Board to discuss potential funding mechanisms for this water.

Staff has been in contact with other owners of water and water rights, and discussed other potential opportunities for the Agency, and based on these conversations, staff feels comfortable that the fixed cost of the Nickel water is representative of the water market as a

whole—in other words, other deals yet to come will likely have similar fixed costs. It is unlikely that the Agency will find an opportunity to acquire long-term water supplies at a price significantly lower than the Nickel water. Sites Reservoir is an example of an opportunity in which the projected cost of the water, \$600-\$800 per AF, could be less, but it remains to be seen if this is a realistic projection.

While State Water Project Table A supplies are and will remain an important part of the Agency's water supply portfolio, the Board should be cognizant that Table A water has been challenged in court in Southern California as a basis for water supply assessments, and could be again. Because of this, it is critical to the future of the region that the Board continue to seek out and procure additional water supplies, including long-term supplies, outside of the State Water Project, such as the Nickel water. A twenty year supply is considered a long-term supply.

Staff continues to seek out such supplies, and also continues to seek additional Table A supplies. At this point in time, staff is actively ——— involved in discussions for six separate transactions. These include various “types” of water such as additional Table A water, “surplus” Table A water, pre-1914 water rights water both north and south of the Delta, and other water that is available in 2017 due to the nature of the wet year.

The Board has made it clear in the past that its view is that growth should pay for its fair share of additional water supplies and infrastructure. With that in mind, the Board should consider the Nickel water as well as other supplies currently in negotiation as a “package” of water that could be sold for the use of new development. The Board could also choose to look at the Nickel water as a separate “type” of water that could be used to augment current supplies for existing residents, particularly in dry years. Under this scenario, the Board could choose to fund the Nickel water through water rates, which would necessitate an increase in the current commodity rate.

The Board has a number of options in deciding how to fund the Nickel water purchase. If the demand from proposed development is sufficient, all of the Nickel water could be sold as water for new

development, either by itself or as part of a package with other water supplies to be procured in the near future. If the demand from new development exceeds the supply of Nickel water, staff will in the near future bring forward additional supplies of long-term water to make up the difference. If demand from new development is insufficient for the Nickel water, the Board could choose to sell the water as augmented reliability to existing users and include it in a new water rate, or the Board could decide to market the Nickel water to others outside of the service area. Any of these options could provide the revenue stream necessary to fund the fixed costs of the leased water. Staff will continue to seek out long-term water supplies even in the event that there is an insufficient demand for the Nickel water from proposed development, based on conversations with numerous stakeholders indicating that such a demand exists.

Staff will present information at the workshop related to the cost of current Table A water and its expected cost increases, as well as the cost of the Nickel water and its expected cost increases. Staff will also present information related to the cost of the Nickel water if it were to be sold as water for proposed development or if it were to be incorporated into the Agency's water rate. A consultant will be present to describe how each of these might work.

Recommendation:

Staff has no recommendation. Staff is seeking direction from the Board regarding how to structure a financing plan for the Nickel water. No final decisions need to be made at this meeting, though the Board could provide direction to staff to move in a particular direction if it feels comfortable doing so based on the information presented and the discussion at the meeting.