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Lenzi, Chelsea

From: Van Wingerden, Cam
Sent: Friday, December 11, 2015 11:29 AM
To: Abib, Daniela; Alexander, Jacquelyne; Allen, Michael (COB); Barker, Russ; Cohen, Robert; Lenzi, Chelsea
Subject: FW: BOS Meeting 12/15/2015. File no. 15-00937. Public Comment addition
Attachments: EDITORIAL.Understanding the Cost of Water in Montecito 5.docx; EDITORIAL.Whats Up With Montecito Water 3. docx.docx

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From: Bob Hazard [mailto:bobhazard@gmail.com]
Sent: Friday, December 11, 2015 10:53 AM
To: CAO email
Subject: BOS Meeting 12/15/2015. File no. 15-00937. Public Comment addition

Clerk, Santa Barbara County, Board of Supervisors

Please add the enclosed attachments as "public comment" to:

BOS Meeting, December 15, 2015
Agenda Item: "Long Term Supplemental Water Supply Alternatives Study"
File Number: 15-00937
6. Public Comment

Thank you for your help.

Bob Hazard
Associate Editor
Montecito Journal

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EDITORIAL
by Bob Hazard

Understanding the Cost of Water in Montecito

Water in Montecito has historically been our least expensive utility, behind electricity, natural gas and cable TV. Not anymore. Some shocked Montecito residents have found that their water bills have tripled, even when they have cut usage by 40 to 50% or more. When residents use less gasoline they save money. When they use less electricity they save money. If they eat out less frequently they save money. Why is it when we use less water, we pay more--a lot more?

What Has Happened to Water Rates?

Back in 2013, MWD water rates for single family residential users were $3.90 per unit per month for tier 1 use (0 to 25 units). Today, two years later, water rates have risen to $8.48 for tier 1 use, a 117% increase. Water rates for tier 4 users (121 units or more per month) have risen from $5.90 per unit in 2013 to $11.36 today, a 93% increase in the last two years.

Catch 22 on Conservation

Montecito residents have conserved water at a remarkable rate of just under 50% of 2013 usage, easily surpassing Governor Brown's target of a 25% reduction. Unlike Beverly Hills, Bel-Air and Rancho Santa Fe, our community has one of the best conservation records in all of California. Unfortunately, Montecito Water District (MWD) is a small district with large fixed costs. The severe decline in water sales revenue, combined with an inability to cut fixed and variable costs, has sent water rates skyrocketing.

Regrettably, added rate jumps may be necessary, even if we are blessed with record-shattering El Niño rains this winter. The question is, "Will MWD customers buy more water if more water is available, or will this community continue to use less water driving up MWD rates. The downside of conservation is that our community is morphing from green to brown, trees are dying, more wells are being dug and large users are trucking in water from neighboring communities as MWD water sales plunge.

Plan for the Future

How MWD restructures its water portfolio will determine future water rates.

1. Desalination. MWD is currently negotiating with the City of Santa Barbara for permission to participate in the City's Charles E. Meyer desalination plant--drawing water from the largest surface reservoir in the world--the Pacific Ocean. The delivery of reliable, locally controlled, desalinated water would end Montecito's unhealthy dependence on rainfall and imported surface water, but at what expense?

The City already has the rate structure to fund its $55 million facility reactivation with a 20-year loan at 1.66% from the state revolving fund. Unfortunately, MWD has no rate structure and no reserves to fund its participation in the City desalination program.

Good news. The projected cost to City residents for their 3,125 AFY of desalinated water is $2,350 per AF, or an affordable $5.40 per billable HCF unit. If plant capacity is increased from its 3,125 AFY planned production to 7,500 AFY in modules at an added cost of $25 million, economies of scale could drop the cost per acre foot from $2,350 per AF to a more reasonable range of $1,450 per AF, a blessing for both MWD and City customers.

Bad news. The City Term Sheet may ask MWD to pay as much as half of the City's $55 million original upgrade cost, plus a share of the $25 million for a capacity increase, plus a share of increased operating expenses, plus the cost of any new pipes and pumps needed to transport desalinated water to Montecito. That could amount to $6 million or more in annual expenditures for MWD, when these costs are amortized by the City over the next 20 years.

The City's rationale is that their MWD offer sheet is a whole lot less expensive than MWD building its own desalination plant at a proposed cost of $90 million, plus decades waiting for California Coastal Commission approval, other regulatory approvals, and potential Environmental Impact lawsuits from disgruntled Montecito ratepayers.

Reliable and unlimited desalinated water offers a realistic insurance policy for the preservation and protection of our community character and our $9.6 billion investment in residential real estate.

2. State Water Commitment. In 1991, this community, and 10 other water districts in Santa Barbara County, voted to import state water via the Coastal Branch of the State Water Project (SWP), operated and controlled by the State Department of Water Resources (DWR) and the Central Coast Water Authority (CCWA). Availability of State Water was sold to voters as the permanent remedy for future droughts. The project was estimated to cost $270 million. Unfortunately, the total project cost has now ballooned to $595 million and counting. Tragically, the State promised five times more water to southern California water districts than it has available, making State Water a bad joke as a drought insurance policy.

In 2014-15, MWD's water allocation of 3,000 acre feet per year (AFY) of state water was reduced by 95% to 145 AFY, but the fixed costs of State Water for MWD remained at $5.4 million per year. With only 5% of allocated water delivered, the cost per AF of State Water soared to close to $40,000 per AF, or a whopping $85 per billable unit, or more than 10 times the projected cost of desalinated water.

Starting now, MWD needs to actively pursue a possible disposal of its State Water allocation and at least a portion of the cost of its pipes and pumps to connect State Water to the Cachuma reservoir. Unlike the City of Santa Barbara, a smaller MWD can afford either State Water or desalinated water as its emergency drought backup plan, but not both.

3. Water Exchange Liabilities. MWD's recent purchases of supplementary water carry a liability that at least an equal amount of water must be paid back to the sending party within the next 5 to 10 years. As of June 15, 2015, MWD has purchased 3,413 AF of supplementary water that must be paid back at an estimated cost of just under $900,000. This liability may have to be funded by future rate increases.

4. Ending Mandatory Rationing. Ending rationing would mean that more than $2.5 million per year in rationing penalty fees would no longer be collected by MWD. MWD would have to raise rates to make up for the $2.5 million it now receives.

5. Aging Infrastructure. Rate increases that were levied in 2007, 2008 and 2013 were supposed to build reserves to fund the replacement of 23 miles of corroded pipeline that is now heading toward its 100th birthday. Nearly all of that aged pipeline still remains in place.

6. Legality of a Tiered Rate System for Water Usage. In April 2015, a three judge California Appeals Court unanimously ruled that San Juan Capistrano's tiered rate system that charges a lower amount ($2.47 per unit) to smaller 1st tier users and a higher amount ($9.05) to larger 4th tier users was unconstitutional, dismaying the two-thirds of water districts in the state that have adopted tiered rates to incentivize lower usage and punish large users. The Court decided it was arbitrary and unfair to charge larger users higher rates, and that tiered rates are in violation of the State Constitution and Proposition 218 passed in 1996 that prohibits government agencies from charging more than the cost of service. State lawyers are now reviewing the decision in the hopes that tiered rates are legal so long as the District can show that each rate is tied to the cost of providing the water to that tier. Elimination of rate tiers penalizes preference low users who benefit by shifting costs to higher users.

What Happens Next?

MWD Finance Committee chairman **Doug Morgan** and new MWD Director **Charles Newman** have requested a bid from **Doug Dove** of Bartle Wells & Associates to perform an updated "*Cost of Service Analysis*" for MWD to propose a new, and perhaps innovative rate structure. Newman expressed a desire to get away from rationing with its penalties ASAP.

A Cost of Service study is a start, but it is not a substitute for an in-depth community conversation. Public input is essential when discussing the future of the character of Montecito and the value of its $9.6 billion in residential real estate, with and without water. The MWD Board needs full transparency in keeping the Montecito community informed and involved in water strategy and future rate-making decisions. We need to all work together---the community, our special districts, our neighboring communities and our elected officials---to develop a sensible long-term strategy for water independence at an affordable cost.

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SIDEBAR STORY

What is the History of Water Rate Increases in Montecito?
by Bob Hazard

To plan for the future, one has to study the past and learn the hard lessons of water management in a tiny district.

The 2013 Rate Increase

Two years ago, faced with a budget that showed a $1.5 million net operating loss to be funded by appropriations from reserves, MWD retained Hoag Consultants, who recommended a 55% rise in rates and meter charges, spread over the next five years, from 2013 to 2017. This was intended to be a long-term solution as opposed to annual adjustments in rates.

The first step was a 16.3% increase in water rates and meter charges beginning on September 1, 2013, followed by four successive compounded increases of 7.4% in each of 2014, 2015, 2016 and 2017. The stated purpose was to generate sufficient "*funds to upgrade and replace aging facilities, especially 23 miles of 80 year old pipelines that cost up to $1.8 million per mile to replace.*" According to Tom Mosby, the rate increase was expected to raise $2.4 million a year for pipe replacement. As it turned out, little to none of this five-year increase was spent on planned replacement of aging and corroded cast iron pipes, pushing that priority down the road.

The 2014 Rationing Penalties

Four months later, on February 11, 2014, the MWD Board declared a water shortage emergency. Ten days later MWD adopted Ordinance 93, setting mandatory monthly water rationing allocations for all customer classifications and severe financial penalties for consumption in excess of rationing amounts.

In explaining the need, MWD General Manager Tom Mosby announced "*that without rain, the district could run out of water completely by October 2014. The only solution was mandatory rationing to force a reduction in usage of 30%.*" Penalty fees, estimated to produce $3 million in new MWD revenue were imposed. For each unit used over the rationed allotment, customers were to be billed a penalty fee of $30 per unit for the first offense, $45 per unit for a second offense and a water shutoff and reconnect fee for further offenses.

The 2015 Rate Increases

A year later, beginning April 1, 2015, MWD introduced a new rationing wrinkle--a temporary **Water Shortage Emergency Surcharge** of $1.87 per HCF billing unit applied to all customers, with the right to increase the surcharge to $4.16 per HCF, as needed. The stated reasons were that (1) water sales in the last half of 2014 were half of water sales in the prior year, and (2) a surcharge was needed to fund the purchase of supplementary water.

Community protesters and the Montecito Association (MA) argued that the implementation of any surcharges or further rate increases should be deferred until a comprehensive and rational short and long-term plan for water resources and infrastructure in Montecito had been developed, presented to the community and adopted by the MWD Board. MWD responded by claiming that the Montecito Association and others in the community who were calling for a strategic plan, were putting the entire MWD operation at risk.

After imposing a $1.87 per unit surcharge on April 1, 2015, and imposing its second 7.4% increase in water rates in July as part of the 2013 five-year plan, MWD came back again in September 2015 and bumped the Water Shortage Emergency Surcharge up to $3.45 per unit for all users. MWD explained its action by noting that "*the surcharge will apply until water conditions have returned to normal and drought related costs have been recovered.*" In other words, record-breaking El Niño rains that could refill Cachuma and Jameson reservoirs and bring an end to the drought, but the surcharge could remain in place until "*all drought related charges have been recovered.*"

Calculations of the cost of water in Montecito will have to wait until after the MWD Board completes a long sought after strategic plan. What are the costs of alternative MWD water options? This community deserves a MWD long-term strategic plan for providing reliable water at an affordable and definable cost?

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EDITORIAL

by Bob Hazard

What's Up With Montecito Water?

While most of Montecito residents turn their eyes skyward, praying that El Niño will deliver a record-breaking downpour this Winter, Montecito Water District (MWD) faces a more immediate challenge--negotiating with the City of Santa Barbara for an ample share of the City's desalinated water at an affordable cost.

We are now entering the fifth year of California's worst-ever drought. The National Weather Service predicts that El Niño rains could either fill our reservoirs, or do little to end the drought. Worst case--El Niño could trigger massive floods and mudslides in bone dry Southern California. However, climatologists are uncertain whether El Niño will produce the cold temperatures and snowfall necessary to renew the current non-existent snow pack in the Northern High Sierras, which is the primary source of Southern California's overpromised, but under-delivered State Water.

Where Are We Now?

Montecito and the City of Santa Barbara have received permission from the California Coastal Commission to open negotiations for regional use of the city's reactivated Charles E. Meyer Desalination facility. The City of Santa Barbara has successfully crafted a reliable, multi-faceted, water supply portfolio that offers its residents reliable water at an affordable cost. It has deployed both the will and the wallet to add desalinated water to its water portfolio to better protect its community from climate change and future droughts. Montecito is still struggling to find an affordable way to end mandatory rationing, that has turned much of Montecito from a verdant green to dry, dingy and distressed, threatening Montecito's former world-class semi-rural image and character.

Negotiations With the City of Santa Barbara for a Regional Santa Barbara Desalination Facility

Back in the early '90s, the City of Santa Barbara, the Montecito Water District and the Goleta Water District formed a partnership to fund, build and operate the Charles E. Meyer regional desalination plant. After the the 1992 March Miracle rainfall, both Montecito and Goleta opted out of paying their fair share of modest stand-by maintenance costs and permit renewal fees to allow a subsequent start-up. The City alone footed the reduced costs and took sole ownership of the mothballed desalination facility, preserving the right to reopen the desalination facility at a production level of up to 10,000 acre-feet per year (AFY).

Where Are We Now?

Fast forward to today. The City is rehabilitating its desal plant with new energy-efficient membranes, while retaining its original open-ocean intake system, saving millions in costs. The City has moved rapidly and aggressively to secure favorable financing from the State Revolving Fund (1.66% for a 20-year loan), reducing desal water costs from the $3,500 per acre-foot range ($8.04 per billable HCF unit) to a more reasonable $2,350 per acre-foot range ($5.40 per billable HCF).

The City has convinced the California Coastal Commission and the labyrinth of water regulators that its original permits for the $55 million desalination rehabilitation facility are still valid, cutting years off the approval expense, thus saving more millions of dollars. In record time, the City of Santa Barbara has entered into a contract with IDE Technologies Americas and Kiewitt Infrastructure West, to rehab and reopen the facility. Site demolition started on September 21, 2015. Desal water production of 3,125 acre-feet per year (AFY) for City use is scheduled to begin in September 2016. Completion of the contract is set for October 7, 2016.

To put the City's efforts into perspective, compare its desalination plant approval process to the 14-year permitting paralysis imposed by State regulators on the Carlsbad-San Diego desalination plant, now scheduled to be opened by the end of this year.

What Are Montecito and Santa Barbara's Common Interests?

For both Montecito and Santa Barbara, their outdated and inadequate surface reservoir systems have failed during this prolonged drought, which may be the new norm in California. Lake Cachuma is going dry. Water releases from Cachuma are being restricted to stored carryover water, downstream releases and feeding federal fish. The City's Gibraltar reservoir and MWD's Jameson reservoir are nearly empty, silt-filled, and approaching mudhole status. Over-promised State Water allocations of 3,000 acre-feet for both Santa Barbara and MWD have dwindled to near zero at a time when they are needed most.

Both the City and MWD have convinced their customers to conserve water at levels well above Governor Jerry Brown's call for cuts of 25% over 2013 levels. MWD has successfully purchased supplementary water to prevent a more severe shortage. Santa Barbara, with greater stored reserves, has relied less on emergency supplementary water purchases. The City has avoided mandatory rationing, severe rationing penalty payments and rapidly rising emergency drought surcharges. The City has incorporated the cost of desalinated water into its current rate system, while Montecito continues to offset declining sales revenue and rising operating expenses by depleting reserves, living off rationing penalty fees and raising emergency drought surcharges.

Prudent planning and funded strategic investment have enabled the City to develop a more diversified water portfolio, one that adds desalination as a new source of locally-controlled water that is totally independent of rainfall. The City has also incorporated recycled wastewater into their strategic portfolio plan, while Montecito still discharges 600,000 gallons a day of treated wastewater into the ocean off Butterfly Beach.

The Tom Mosby Factor

Sources in the City report that one of the best things MWD has going for it in its negotiations is the longstanding personal relationship, built on mutual respect and trust, between Tom Mosby, recently retired GM of MWD, but now re-retained, and Rebecca Bjork, Public Works Director for the City of Santa Barbara, and former Water Resources Manager, a position now held by the gifted Josh Haggmark.

Ms. Bjork now presides over the City of Santa Barbara's $117 million Public Works annual budget that includes the Charles E Meyer desalination facility, the El Estero Wastewater treatment plant, the Cater Water Treatment plant shared with Montecito and Carpinteria, city road maintenance, city parking garages and all municipal property in Santa Barbara. Meanwhile, Montecito planners are restrained by the challenge of operating under two separate agencies--one for water and a second for recycled water--that have different priorities.

The City believes that friendly negotiations with Montecito have the best chance of success when crafted by knowledgeable, professional staff members, rather than attorneys or paid consultants.

How Are Negotiations Going?

At the October 20, 2015 MWD Board meeting, Tom Mosby reported to the Board that "a term-sheet from the City may be expected within two weeks, and that the City expects to complete a deal by January 1, 2016." City sources report that a 2½-page term sheet was sent to MWD last week for consideration by the MWD Board.

City sources also report that progress has been made in identifying and aligning goals, compiling the advantages of regional cooperation and estimating the benefits of economies of scale which have the potential to drop desalinated water costs for both parties from the $2,350 range ($5.40 per HCF billing unit) to nearer the $1,450 per acre-foot range (a more attractive $3.33 per HCF billing unit).

Still to be resolved is whether or not to increase the annual capacity of the City's desalination facility in modular increments from its current 3,125 acre-feet up to the 7,500 acre-feet, which would allow Montecito to become rainfall independent and to maximize economies of scale. Also, MWD and the City still have to negotiate how capital and operating costs might be shared.

Can Montecito Strike a Reasonable Deal With the City That Could Promise an End to Rationing and the Restoration of Our Community's Natural Beauty?

Hopefully yes, because MWD is running out of time and money to implement any other options. 54 years ago on April 12, 1961, President John F. Kennedy told this country: "*If we could ever competitively--at a cheap rate--get fresh water from salt water, that would be in the long-range interest of humanity, and would really dwarf any other scientific accomplishment.*"

Reliable, affordable water, locally-produced, rain or no rain, is technology's best response to possible global warming and cyclical drought. Israel, Australia and 14,000 current desalination facilities heeded JFK's challenge, and have successfully turned their deserts into green gardens by innovatively embracing scientific breakthroughs and delivering fresh water from an inexhaustible supply of salt water at an affordable price. Can Montecito and the City negotiate a deal that is fair to all parties and solve our collective water problem for the next 50 years?