



CITY COUNCIL STAFF REPORT

TO: Honorable Mayor and City Council **DATE:** September 27, 2021

FROM: Matthew Bronson, City Manager

PREPARED BY: Matthew Bronson, City Manager
Greg Ray, Public Works Director/City Engineer

SUBJECT: Central Coast Blue Update and Project Framework

RECOMMENDATION

Authorize the City Manager to negotiate a cost-sharing agreement and a Joint Powers Agreement governing the City's participation in the Central Coast Blue recycled water project consistent with a Project Delivery and Governance Framework.

BACKGROUND

Central Coast Blue is a regional recycled water project that will purify wastewater and inject it into the groundwater basin in order to protect the basin against seawater intrusion and to provide a reliable supplemental water supply for the participating agencies. Phase 1 of the project will treat and inject wastewater produced by the City of Pismo Beach Wastewater Treatment Plant (WWTP) at an advanced treatment facility location in Grover Beach at 980 Huber Street which would create approximately 1,000 additional acre-feet of water annually. If additional supplemental water is needed by the participating agencies or other nearby uses such as farming, an additional phase (Phase 2) would allow the project to purify and inject wastewater from the South San Luis Obispo County Sanitation District's WWTP to create additional available groundwater supply.

The City relies on two sources of water to supply the needs of the City and its residents. These sources include the Lopez Lake Reservoir (also known as a multi-agency partnership known as Zone 3) and the Santa Maria Groundwater Basin. Both supplies are dependent on adequate rainfall in the upper watershed of Lopez Lake. Recent historic drought conditions have resulted in low lake levels and diminishing groundwater supplies. Following two consecutive dry winters, Lopez Lake currently has approximately 30% capacity or 15,000 acre feet of water which is a level that has triggered a conservation response plan by partner agencies. In addition, as groundwater elevations decline there is a greater potential for onshore flow of saltwater into the aquifer which would be detrimental to this water supply. Environmental concerns including protection of endangered species have also impacted the availability of water from both sources.

For these reasons and to assure a reliable and adequate supply of water into the future, the City has partnered since 2017 with the cities of Pismo Beach and Arroyo Grande with support from the Oceano Community Services District and the South San Luis Obispo County Sanitation District to develop the Central Coast Blue project. The three partner cities worked together beginning in 2019 to draft a framework Memorandum of Agreement (MOA) outlining how costs and benefits for the project will be distributed, how non-participating agencies will manage their groundwater resources without impacting the benefits from Central Coast Blue, and how non-participating agencies could join Central Coast Blue in the future.

The draft MOA framework was presented to the partner agencies in late 2019 and early 2020 with a revised framework presented in mid-2020 at which time the Council authorized the City Manager to work with partner agencies to enter into a full MOA consistent with the framework. The partner agencies worked diligently to expand the framework into a more defined Operating Agreement and convened ad-hoc stakeholder meetings with the City represented by former Council Member Lance in 2020 and by Mayor Lee in 2021 and assisted by the City Manager and Public Works Director. The Operating Agreement was approved by the Council on March 22, 2021 along with adoption of CEQA findings and related actions. This action was preceded by the Pismo Beach City Council's certification of the project Environmental Impact Report on February 16, 2021.

On March 23, 2021 the Arroyo Grande City Council approved the Operating Agreement and related CEQA findings and actions subject to the condition that the cities of Pismo Beach and Grover Beach separately agree to enter into a "Community Workforce Agreement" (CWA) for the construction of the project. A CWA is a labor agreement that requires certain contract procedures for contractors working on the project and is a complex policy approach that involves various issues such as local hire provisions, unionized labor, cost considerations, and other factors. The Council has expressed its interest in considering a CWA along with other contracting approaches to achieve local hire goals as a future discussion topic as the project progresses further towards construction. Given this direction, staff indicated that the City would not support this upfront condition with similar indication expressed by the City of Pismo Beach.

Following this response, the Arroyo Grande City Council rescinded their conditional approval of the Operating Agreement on April 13, 2021 and directed their staff to draft a letter to both Grover Beach and Pismo Beach requesting that specific items be included in the Operating Agreement including changes in the oversight and governance of the project. The City Managers in Grover Beach and Pismo Beach responded with letters sent to Arroyo Grande in May 2021 which proposed a process of dialogue to resolve these issues including a joint meeting of the three City Councils. The Arroyo Grande City Council considered this response and took action on June 8, 2021 requesting that Pismo Beach and Grover Beach revise the Operating Agreement to address Arroyo Grande's concerns and that Arroyo Grande would not provide further funding to the project until such a revised agreement was in place. Arroyo Grande's action meant that technically at that time, their city was not part of this regional project with Grover Beach and Pismo Beach.

Project Delivery and Governance Framework

Following these actions, the City Managers of Grover Beach, Pismo Beach, and Arroyo Grande worked together in summer 2021 to develop a framework of updated terms to bring the three cities back together on this important regional project that provides additional water supply and protects the groundwater basin. Central Coast Blue is a stronger project with all three cities participating as partners and investors in the project which builds on the extensive work carried out by the cities over many years. The City Managers developed a Project Delivery and Governance Framework (shown in Attachment 1) with key terms highlighted below:

- Pismo Beach remains lead agency through project construction and completion of the infrastructure of Phase 1 of the project
- Costs will be shared by the three cities in proportion to their share of benefits (additional water) allocated to the jurisdiction with Arroyo Grande's share to be lower than the 39% allocated thus far
- Each City Council will review and approve the scope, budget, contingency and procurement for the remainder of pre-construction and construction phases of the Project, and need to approve costs in excess of the agreed-upon budget

- Joint meeting of the three City Councils will be held 1-2 times per year during project design and construction to provide transparency on project progress, receive project updates, and discuss policy issues such as project expenditures and local hire provisions
- Technical Advisory Committee made up of staff by the three cities will meet monthly to discuss matters related to scope, schedule and budget of the project.
- Prior to construction, the cities would form a Joint Powers Authority (JPA) that would become effective at completion of construction for the purpose of long-term ownership, operation and maintenance of the facilities post-construction.
 - JPA Board of Directors would consist of one representative of each city with each member retaining an equal vote on the Board.
 - JPA will own Project assets and contract or employ operations and administrative staff.
 - A Technical Advisory Committee consisting of staff representatives from the three cities will meet and provide input into operations.
- The cost-sharing agreement and JPA agreement will not impose groundwater pumping limitations on participating parties but will recognize the participants' contribution of new water for their exclusive use.
- Arroyo Grande will be requested to make an immediate contribution toward pre-construction costs incurred by Pismo Beach and Grover Beach in developing the Project to date.

Staff believes this framework is fair and reasonable to bring this regional project to fruition and will lead to effective implementation and equitable decision-making for project operations. The JPA model also enables a path forward for future expansion of partner agencies with Phase 2 of the project. On September 14, 2021 the Arroyo Grande City Council endorsed the framework and authorized their City Manager to negotiate a cost-sharing agreement and a Joint Powers Agreement governing the City's participation in the project. The Arroyo Grande City Council also approved a contribution of \$86,000 to the project for a total contribution to date of \$210,000 towards pre-construction activities which matches the pre-construction contribution level to date in Grover Beach.

Staff is recommending a similar action by the Council with subsequent action to follow by the Pismo Beach City Council. Following these actions, the three City Managers will work with their respective staff and technical consultants to draft a final cost-sharing agreement and Joint Powers Agreement for the project consistent with the Project Delivery and Governance Framework. Such agreements are anticipated to come to the Council for approval by the end of 2021 or early 2022 which would be followed by the initial joint meeting of the three City Councils. Land use and regulatory permitting is underway with final design anticipated to begin in early 2022 and construction projected to begin in mid-2023.

FISCAL IMPACT

There is no immediate fiscal impact from authorizing the City Manager to negotiate a cost-sharing agreement and Joint Powers Agreement consistent with the Project Delivery and Governance Framework. The cost-sharing agreement that will be brought to the Council for approval will include the various categories of costs associated with the project including pre-construction, acquisition, construction, ongoing operations and maintenance, and debt service costs. These categories and initial cost estimates were also identified in the March 22nd Council agenda item for the Council's reference.

Cost estimates have been updated in recent months and the current cost of the project is estimated at \$57 million of which approximately \$40 million will be requested in federal and state grant funding. To date, the project has received \$4.5 million in federal and state grants including \$1.7 million in federal Title XVI Water Reclamation and Reuse Grant funding awarded on August 5, 2021. The project team has also submitted an application on September 7, 2021 seeking \$28.6 million in state Proposition 1 Groundwater Grant Program funding which would provide over half of the funding for the project. If these grant funds were received, the local agencies would be responsible for approximately \$11.9 million in project costs which would be paid based on the respective agency cost-share.

As proposed, the City's cost-share of the project would remain at 36% as identified in the Operating Agreement in March 2021 which staff would seek to leave in place in the cost-sharing agreement as this percentage ties to projected needs and anticipated revenues in the City's multi-year water rate structure. The FY 2021-23 two-year budget includes \$1.4 million in Water Enterprise Fund funding for the Central Coast Blue project which should be sufficient for the City's share of anticipated expenditures over the next two years.

ALTERNATIVES

The City Council has the following alternatives to consider:

1. Authorize the City Manager to negotiate a cost-sharing agreement and a Joint Powers Agreement governing the City's participation in the Central Coast Blue recycled water project consistent with a Project Delivery and Governance Framework; or
2. Do not authorize the City Manager to negotiate a cost-sharing agreement and Joint Powers Agreement; or
3. Provide alternative direction to staff.

PUBLIC NOTIFICATION

The agenda was posted in accordance with the Brown Act.

ATTACHMENTS

1. Central Coast Blue Project Delivery and Governance Framework

Central Coast Blue Project Delivery and Governance Framework - DRAFT

The outline below reflects a conceptual framework for delivering Central Coast Blue. In this model, the City of Pismo Beach remains Lead Agency and acts as project developer through final completion of the advanced water purification facility and required infrastructure (“Facilities”). Costs would be shared by the participating agencies (“Participants”) in proportion to their share of the benefits. The City of Pismo Beach would maintain project accounting and will invoice the other Participants consistent with their share of the overall project.

Prior to project construction, the Participants would form a Joint Powers Authority (“JPA”) that would become effective at completion of construction for the purpose of long-term ownership, operation and maintenance of the Facilities post-construction. The City of Pismo Beach would transfer ownership of the Facilities to the JPA after construction completion, start-up and commissioning.

Prior to initiating construction, the Councils for each Participant would have the ability to review the scope, schedule and budget of the project, including contingency, and consider it for approval. If all Participant Councils approve the project to proceed, the City of Pismo Beach would be responsible for delivering the scoped project within the approved budget and schedule.

During project design and construction, the three City Councils will meet jointly at least once but no more than twice per year to provide a venue for discussion and transparency for the public on the project progress, to receive project updates, and discuss policy issues as needed (e.g. unexpected timeline extensions, approvals of expenditures beyond the project budget, etc.). A Technical Advisory Committee made up of staff of the three cities designated by the City Managers will meet monthly to discuss matters related to scope, schedule and budget of the project. The Technical Advisory Committee will prepare a joint report to the Participant Councils for consideration at the joint City Council meetings. Any change in scope, schedule or budget would require approval by all three Participant Councils.

Pre-Construction/Construction Agreement

- Cost share agreements developed amongst Participants for equitable cost sharing of Pre-Construction and Construction Phases (Implementation)
 - Cost sharing percentages to be altered and negotiated among the three cities
 - Arroyo Grande share to be reduced as determined through further negotiations among the three cities
- Scope, Budget, Contingency and Procurement for remainder of Pre-Construction and Construction Phases approved by each of the Participants upon execution of Pre-Construction/Construction Agreement
 - Cost in excess of agreed upon budget, plus contingency, would require approval of all three Participant City Councils
 - Opt-out available prior to award of project construction contract
 - Any Participant exercising the opt-out clause would be responsible for their Cost Share Percentage for project costs to date and any currently outstanding contracts
- Pismo Beach is lead agency and procures and manages contracts with consultants and contractors

- Meetings of the three City Councils
 - Pismo Beach Staff/Consultants will provide reports to the three City Councils
 - The three City Councils will review and make recommendations to Pismo Beach as the Lead Agency
 - At least one public meeting will be held prior to procurement to discuss methods for implementing local hire provisions, including discussion of various agreements
- Technical Advisory Committee consisting of Staff representatives from the Participants meets monthly (non-Brown Act) to oversee and provide input into project Implementation
- Identify intent to treat CCB water as “New Development Water” under the terms of the 2005 Stipulation, section IV.E.

Operations

- Joint Powers Authority (JPA) Governance structure formed prior to completion of construction
 - JPA takes over ownership of project assets and contracts/employs operations and administrative staff
 - JPA Consists of a 3 Member Board of Directors (BOD)
 - Equal Director voting rights equal
 - BOD meets Bi-monthly or Quarterly (Brown-Act Meetings)
- Technical Advisory Committee consisting of Staff representatives from the Participants meets monthly (non-Brown Act) to oversee and provide input into operations

Other Issues of Concern/Needs

- Pumping limitations – The cost-sharing agreement and JPA will not impose groundwater pumping limitations on participating parties but will recognize the Participants’ contribution of new water for their exclusive use. Any proposed groundwater pumping limitations will be addressed through amendments to the NCMA Management Agreement.
- Arroyo Grande will make an immediate contribution toward pre-construction costs incurred by Pismo Beach and Grover Beach in developing the project
- Consideration of cost-sharing agreement and Joint Powers Agreement by the three City Councils:
 - At least one joint meeting of the three City Councils will be held to consider the proposed cost-sharing agreement and the proposed Joint Powers Agreement
 - The Arroyo Grande City Council will hold at least one meeting to consider the proposed cost-sharing agreement and the proposed Joint Powers Agreement prior to the joint meeting described above and prior to approval of the agreements by the City Councils of Grover Beach and Pismo Beach.