



CITY COUNCIL STAFF REPORT

TO: Honorable Mayor and City Council **DATE:** June 1, 2020
FROM: Mathew Bronson, City Manager
PREPARED BY: Greg Ray, Public Works Director
SUBJECT: Central Coast Blue Memorandum of Agreement

RECOMMENDATION

Review and provide input on the revised Central Coast Blue Cost Sharing Memorandum of Agreement (MOA) framework and authorize the City Manager to enter into a MOA consistent with Council direction on behalf of the City.

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 I of the project will treat and inject wastewater produced by the City of Pismo Beach WWTP at a potential advanced treatment facility location in Grover Beach. If additional supplemental water is needed by the participating agencies or other nearby uses such as farming, an additional phase would allow the project to purify and inject wastewater from the South San Luis Obispo County Sanitation District's WWTP, creating additional available groundwater supply.

The three contributing agencies (Arroyo Grande, Grover Beach, and Pismo Beach) have drafted the Memorandum of Agreement framework included as Attachment 1 to this report which outlines how costs and benefits for the project will be allocated. The Oceano Community Services District (OCSD) was participating initially in the development of Central Coast Blue, however OCSD has recently indicated that it does not need the water produced from the project and does not intend to support the project financially. The South San Luis Obispo County Sanitation District is also a participating agency and has committed to funding Construction Costs associated with project elements necessary to facilitate future implementation of Phase 2.

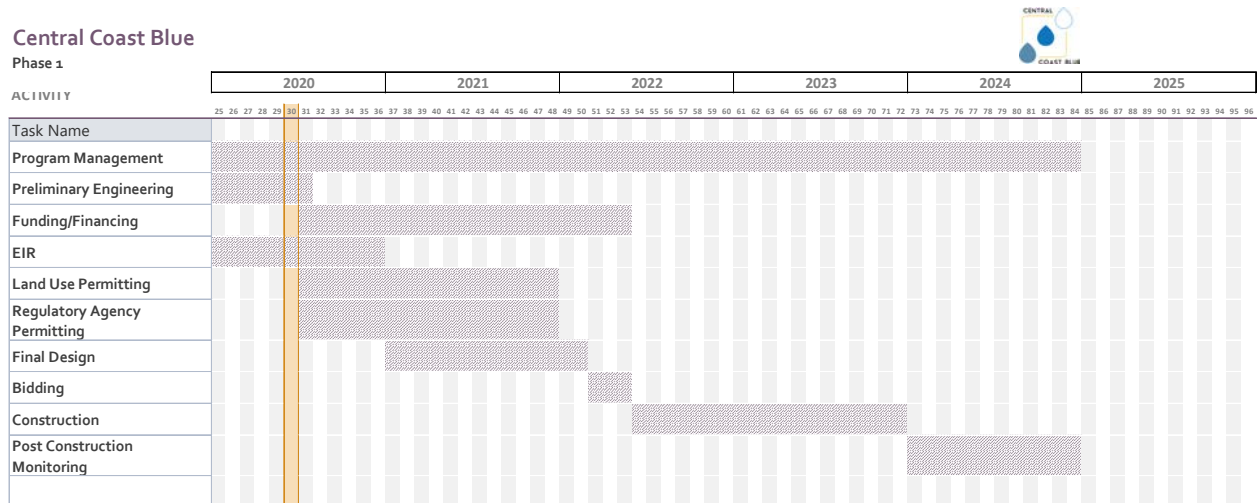
In addition to outlining costs and benefits, the MOA framework indicates how non-participating agencies will manage their groundwater resources without impacting the benefits from Central Coast Blue and provides a way for non-participating agencies to join Central Coast Blue at a later date. Based on staff's evaluation of existing water supplies under multi-year drought conditions compared to anticipated development and population growth, staff has determined that Grover Beach would need approximately 36% of the supplemental water supply provided by Phase 1 of the project which is reflected in the MOA and project cost estimates. This supplemental water will be an important water supply for the City to ensure water sustainability and health of the groundwater basin in future drought conditions.

A draft MOA was presented to the contributing agencies in late 2019 and early 2020 including a January 21, 2020 presentation with the Council. Feedback was received from each of the agencies and the draft MOA was revised accordingly with input from an ad hoc subcommittee

with Council Member Lance selected by the Council to represent the City. Following is a summary of significant revisions to the MOA:

- New section 4 – This section will allow Contributing Water Purveyors the opportunity to opt-out of the Cost Sharing MOA at key project milestones such as determination of grant funding and impacts of rate setting processes.
- New Section 7 – Better definition of “replacement water cost”.
- New Section 8 – Revised the cost share shown in table 3 to reflect the amount of water needed by each agency with the 5% unsubscribed portion of water either purchased by one of the participating agencies or sold to an outside party, however for now it will be evenly split between the participating agencies. This section also added subsection “e” which defines how legal costs shall be shared.
- New Section 9 – Added subsection “b” which requires that the cost sharing agreement be re-evaluated in the event of legislative or regulatory requirements which require the diversion of WWTP ocean outfall to establish equity between the cost contributions and the benefit received including but not limited to the value of wastewater provided to the project, value of the benefit received by the wastewater agency through the reduced outfall wastewater discharges and other potential benefits agencies receive from the project.

The schedule below identifies the major project milestones and anticipated completion dates.



Staff recommends that the Council review and provide input on the revised Central Coast Blue Cost Sharing Memorandum of Agreement (MOA) framework and authorize the City Manager to enter into a MOA consistent with Council direction on behalf of the City. It is estimated that a final document will need to be executed within the next three to six months to remain eligible for significant grant funding opportunities as further explained in the Fiscal Impact section. The City of Pismo Beach was awarded a Proposition 1 grant of \$2 million and Federal Title XVI grant of \$800,000, which represent additional pre-construction revenues and corresponding expenditures for grant applications. The contributing agencies with Pismo Beach as the lead are continuing to pursue additional grant funding with a possibility of funding as much as 75% of the construction costs but the project must have approval from participating agencies at this time to remain eligible to apply for these grants. The Pismo Beach City Council is considering the MOA framework on June 2, 2020 and the Arroyo Grande City Council is considering it on June 9, 2020.

FISCAL IMPACT

There is no immediate fiscal impact from providing input on the MOA framework. However, there is a significant financial impact for the overall cost of the Central Coast Blue project as shared previously with the Council and the following information provides further context on this cost information. The revised MOA framework identifies agency cost shares as shown on Table 1 below with the City's cost share decreasing from 41% in the draft MOA to 36% in the revised version. The 5% unsubscribed portion of water may either be purchased by one of the other agencies or by an outside party but for now will be evenly split between the participating agencies.

Table 1: Project Cost Sharing

Contributing Water Purveyors	Cost Share Percentage	Adjusted Cost Share Percentage
Arroyo Grande	39%	40.67%
Grover Beach	36%	37.67%
Pismo Beach	20%	21.67%
Unsubscribed	5%	
Total	100%	100%

The total cost of Central Coast Blue for Phase 1 is estimated to be approximately \$41.9 million in pre-construction and construction costs. The construction costs are expected to be amortized through a financing mechanism for an annual debt service cost along with an annual operations and maintenance cost shown below in Table 2:

Table 2: CCB Costs and City of Grover Beach's Estimated Share

Cost	Total Cost	Grover Beach Share
Pre-Construction	\$6,515,683	\$2,454,241
Construction	\$35,432,845	\$13,346,372
Operations and Maintenance (annual)	\$2,255,500	\$849,572
Debt Service (annual)	\$2,180,000	\$821,133

Central Coast Blue has been a project in the City's approved Capital Improvement Program for several years and the City currently has sufficient funding from the Water Enterprise Fund to cover its share of initial estimated pre-construction costs over this next fiscal year (\$746,200). Staff is conducting a utility rate study Request for Proposals for a consultant to assess the City's water and wastewater needs and develop an updated utility rate structure to fund these needs in the Water Enterprise Fund including remaining pre-construction and construction costs of Central Coast Blue. Staff anticipates bringing the completed rate study to the Council in early 2021 and would note that the amount of grant funding received will ultimately lessen the cost to each agency and its respective ratepayers.

The MOA also provides for reimbursement of pre-construction funds paid to date by the City of Pismo Beach as the lead agency. The pre-construction costs include preliminary design work, program management, regulatory agency permitting of the Phase 1 treatment facility, state grant applications, CEQA processing, and final design. To date, Pismo Beach has advanced \$1,913,914 for these efforts and received \$680,955 in reimbursement from participating agencies (including \$110,000 from the City) and other agencies such as the County and the South San Luis County Obispo County for specific portions of these pre-construction costs. A separate cost-sharing agreement will be developed between the participating agencies to specify the remaining

reimbursement provisions. Table 3 below shows this funding allocation for these pre-construction costs by the three participating agencies with the additional contributions remaining:

Table 3: Central Coast Blue Advance Funding Analysis

City	Adjusted Cost Allocation	Preconstruction Costs	Contribution to Date	Contribution Remaining
Arroyo Grande	40.67%	\$881,948	\$144,811	\$737,137
Grover Beach	37.67%	\$816,887	\$110,000	\$706,887
Pismo Beach	21.67%	\$469,890	\$1,913,914	\$(1,444,024)
TOTAL	100%	\$2,168,725	\$2,168,725	

\$4,014,720 is projected to be spent in additional pre-construction costs through FY 2021-22 as part of the total pre-construction cost of \$6,515,683. Although the City's proposed participation is 36%, the MOA framework proposes to split remaining pre-construction costs 50% by the City of Arroyo Grande and 50% by the City of Grover Beach and if needed structure construction financing to compensate the City of Pismo Beach for funds advanced on behalf of the project until each agency's contributions match the approved cost-sharing allocation. These future pre-construction costs will be funded through the City's Water Enterprise Fund using existing and future water rate revenues.

ALTERNATIVES

The Council has the following alternatives to consider:

1. Review and provide input on the revised Central Coast Blue Cost Sharing Memorandum of Agreement (MOA) framework and authorize the City Manager to enter into a MOA consistent with Council direction on behalf of the City; or
2. Provide alternate direction

PUBLIC NOTIFICATION

The agenda was posted in accordance with the Brown Act.

ATTACHMENTS

1. Central Coast Blue Memorandum of Agreement framework

Draft Central Coast Blue Cost Sharing MOA Term Sheet v2

5/28/2020

SUBJECT: CENTRAL COAST BLUE – GROUNDWATER MANAGEMENT & COST SHARING TERMS

1. Purpose
 - a. The purpose of this Memorandum of Agreement (MOA) is to identify and agree upon the groundwater pumping and cost sharing frameworks for Central Coast Blue, Phase 1 (PROJECT).
2. Background
 - a. The Northern Cities Management Area (NCMA) agencies have worked collaboratively to manage groundwater pumping in their portion of the Santa Maria Groundwater Basin (SMGB) since development of the 1983 Gentlemen’s Agreement, which allocated the estimated available groundwater amongst the municipal and agricultural pumpers in the NCMA.
 - b. The Gentlemen’s Agreement was further formalized in the 2002 Agreement Regarding Management of the Arroyo Grande Groundwater Basin (Management Agreement) and incorporated into the SMGB Adjudication in the 2005 Stipulation. The NCMA Municipal Pumping Allocations from the Management Agreement are outlined in Table 1.

Table 1. NCMA Municipal Pumping Allocations

NCMA Agencies	Groundwater Allocation (AFY)	Ag Conversion Credits (AFY)	Current Groundwater Allocation (AFY)	Fraction of Groundwater Allocation
Arroyo Grande	1,202	121	1,323	0.31
Grover Beach	1,198	209	1,407	0.32
OCSD	900		900	0.21
Pismo Beach	700		700	0.16
Total	4,000	330	4,330	1.00

- c. Seawater intrusion was identified as a threat to SMGB in the 1960s and was one of the driving factors for the construction of Lopez Dam and connection to the State Water Project.
- d. Evidence of seawater intrusion was detected in 2009 in NCMA Sentry Well 32S/13E-30N02 and the Oceano Blue Well (32S/13E-31H11).
- e. In response to the detection of seawater intrusion, the NCMA agencies dramatically reduced their groundwater pumping and began investigating supplemental supply opportunities to improve water supply reliability and groundwater protection.
- f. Through numerous supplemental supply alternative studies, outlined below, the PROJECT was identified as the preferred alternative for protecting NCMA groundwater and improving water supply reliability for the region.
 - i. 2008 South San Luis Obispo County Sanitation District (SSLOCSD) Desalination Feasibility Study – prepared by Arroyo Grande, Grover Beach and Oceano Community Services District (OCSD)
 - ii. 2012 Lopez Spillway Raise Project Report – NCMA Technical Group

- iii. 2014 Regional Recycled Water Strategic Plan – San Luis Obispo County Flood Control and Water Conservation District
 - iv. 2015 Recycled Water Facilities Planning Study – Pismo Beach
 - v. 2017 Recycled Water Facilities Planning Study - South San Luis Obispo County Sanitation District
 - g. The effluent from the Pismo Beach and SSLOCSD Wastewater Treatment Plants (WWTP) was identified as a significant water supply source that could be put to beneficial use.
 - h. There continues to be legislative and regulatory pressure to limit ocean outfall discharges that could impact the Pismo Beach and SSLOCSD WWTPs disposal operations.
- 3. Central Coast Blue Overview
 - a. Central Coast Blue is a regional, multi-phase groundwater protection project that will allow beneficial use of water currently discharged to the ocean as a seawater intrusion barrier.
 - i. Phase 1 – advanced treatment and injection of Pismo Beach WWTP flows
 - a. The “PROJECT” refers to Phase 1
 - ii. Phase 2 – add SSLOCSD WWTP flows for additional injection or delivery to agricultural users
 - b. Key Project Components
 - i. Treated wastewater conveyance infrastructure
 - ii. Advanced treatment facility (ATF)
 - iii. Recycled water distribution infrastructure
 - iv. Injection wells
 - v. Monitoring wells
 - vi. Potential new extraction wells
 - c. Values and Benefits
 - i. Provides protection from seawater intrusion
 - ii. Improves groundwater basin quality
 - iii. Reduces ocean discharge of treated wastewater effluent
 - iv. Provides a new, local, sustainable water supply
 - v. Offsets demand for State Water Project and Lopez Reservoir surface water supplies
 - d. Participating Agencies
 - i. NCMA Agencies
 - a. City of Arroyo Grande (Arroyo Grande)
 - b. City of Grover Beach (Grover Beach)
 - c. Oceano Community Services District (OCSD)
 - d. City of Pismo Beach (Pismo Beach)
 - ii. South San Luis County Sanitation District (SSLOCSD)
 - e. Contributing Agencies
 - i. Three Contributing Water Purveyors have financially committed to implementing PROJECT: Arroyo Grande, Grover Beach, and Pismo Beach.
 - ii. OCSD has chosen not to contribute funds to the PROJECT.
 - iii. SSLOCSD has committed to funding Construction Costs associated with expanding specific components of the PROJECT to support the implementation of Phase 2.
- 4. PROJECT/Agreement Coordination

- a. Contributing Water Purveyors shall have the opportunity to opt-out of the Cost Sharing MOA at the following key PROJECT Milestones:
 - i. Selection determination for Round 3 Prop 1 Groundwater Grant Program Grant Funding by State Water Resources Control Board
 - ii. Submittal of Final Design PROJECT cost estimates
 - iii. Determination of Prop 218 rate increase approval
 - iv. Approval of the updated 2002 Management Agreement
5. Groundwater Management without PROJECT
 - a. To protect the groundwater basin from seawater intrusion, the NCMA Agencies agree to manage municipal pumping sustainably to prevent seawater intrusion from occurring in the NCMA.
 - b. The quantity of NCMA groundwater the NCMA Agencies can pump on an annual basis without inducing seawater intrusion or causing other undesirable effects shall be identified based on the methodology outlined in the 2020 update to the 2002 Management Agreement and termed the "Basin Municipal Yield".
 - c. The Basin Municipal Yield shall be divided amongst the NCMA agencies based on their groundwater allocation percentages, see Table 1.
 - d. Prior to the implementation of PROJECT, the NCMA agencies shall agree to limit their groundwater pumping to the Basin Municipal Yield as identified in the Management Agreement.
6. Groundwater Management with PROJECT
 - a. The NCMA Agencies shall include in the 2020 update of the Management Agreement a methodology for estimating the amount of additional groundwater that the NCMA Municipal Agencies can pump, associated with the implementation of PROJECT, without inducing seawater intrusion or causing other undesirable effects. This additional groundwater shall be termed the "PROJECT Yield".
 - b. The PROJECT Yield shall be allocated based on Water Purveyor Contribution Percentages, which is based on their percentage cost share to PROJECT, see Cost Share Terms section below.
 - c. The Contributing Water Purveyors will be able to pump their portion of the PROJECT Yield, in addition to their portion of the Basin Municipal Yield.
7. Excessive Groundwater Pumping
 - a. The updated Management Agreement will contain provisions to address any scenario where a NCMA Agency pumps more than their agreed upon portion of the Basin Municipal Yield in a given year. These provisions will require the NCMA Agency that pumps an amount greater than their Basin Municipal Yield to reimburse the other NCMA Agencies for the cost of replacement water. These Replacement Water payments shall be distributed to the NCMA Agencies proportionally based on the NCMA Municipal Pumping Allocation percentages.
 - b. If a Contributing Water Purveyor pumps more than their agreed upon portion of the Basin Municipal Yield and PROJECT Yield in any given year, then they will reimburse the other Contributing Water Purveyors for the cost of Replacement Water. The Replacement Water Cost shall be distributed to the other Contributing Water Purveyors proportionally based on the other Water Purveyor Contribution Percentages.
 - c. The Replacement Water Cost shall be equivalent to the unit cost for PROJECT water, which shall be calculated as the capital repayments, variable and operations and maintenance costs divided by the PROJECT yield for that year.

- d. If a Contributing Water Agency reduces their pumping in response to another agency pumping more than their Basin Municipal Yield or PROJECT Yield, then the agency that reduced pumping shall receive the Replacement Water Cost directly proportional to the volume of groundwater that they pumped below their Basin Municipal Yield or PROJECT Yield allocation.

8. Cost Sharing Terms

a. PROJECT Yield Cost Sharing

- i. The PROJECT Yield shall be allocated to the Contributing Water Purveyors based on their percentage of the cost share for PROJECT. The Water Purveyor Contribution Percentage is based on a negotiated cost share arrangement, see Table 2.

Table 2. PROJECT Water Purveyor Contribution Percentages

PROJECT Contributing Water Purveyors	Cost Share Percentage
Arroyo Grande	39%
Grover Beach	36%
Pismo Beach	20%
Unsubscribed	5%
Total	100%

- ii. Until a Contributing Water Purveyor is identified for the Unsubscribed portion the existing Contributing Water Purveyors shall split the Unsubscribed portion evenly, see Table 3.

Table 3. PROJECT Water Purveyor Contribution Percentages with Unsubscribed Apportioned Evenly

PROJECT Contributing Water Purveyors	Cost Share Percentage
Arroyo Grande	40.7%
Grover Beach	37.7%
Pismo Beach	21.7%
Total	100%

b. Pre-Construction Costs

- i. PROJECT Pre-Construction Costs are those costs paid by each Contributing Water Purveyor starting with the 2015 Pismo Beach Recycled Water Facilities Planning Study through award of the first construction contract, include land purchases to support the PROJECT, for the full-scale PROJECT implementation.
- ii. To-date, Pismo Beach has funded most pre-construction costs. To reconcile pre-construction cost allocation in line with Water Purveyor Contribution Percentages, Arroyo Grande and Grover Beach shall split (Arroyo Grande 50%, Grover Beach 50%) the remaining pre-construction costs, if funding is available, until the cumulative contributions approximately match the Water Purveyor Contribution Percentages. A more specific reimbursement agreement will be developed.

- iii. Once pre-construction cost contributions approximate Water Purveyor Contribution Percentages, the remaining pre-construction costs will be split at the Water Purveyor Contribution Percentages.
- iv. Reimbursement Structure
 - 1. Pismo Beach will manage primary contracts for PROJECT pre-construction activities. Pismo Beach will enter into cost share agreements with Arroyo Grande and Grover Beach for reimbursement of their portions of the pre-construction costs.
 - 2. In the event that the costs funded by Pismo Beach, Arroyo Grande, and Grover Beach do not match the cumulative contributions in the Water Purveyor Contribution Percentages prior to construction, the cities shall structure the construction financing to achieve the contributions in the Water Purveyor Contribution Percentages.
- ii. Any current or future SSLOCSD Contributions to pre-construction costs shall be credited toward its Member Agencies' (i.e. Arroyo Grande, Grover Beach and OCSD) contributions proportionally to their revenue contribution to SSLOCSD.
- c. Construction Cost Sharing
 - i. PROJECT construction costs are those costs that start with the first construction contract for the PROJECT through determination of construction Substantial Completion.
 - ii. PROJECT construction cost sharing will be split between the SSLOCSD and the Contributing Water Purveyors according to the methodology outlined below.
 - a. SSLOCSD Contributions
 - a. To provide for the opportunity to divert water from its ocean discharge in the future, SSLOCSD will contribute to the incremental capital costs to expand PROJECT facilities necessary to accommodate Central Coast Blue Phase 2 in the future.
 - b. The framework for calculating the Phase 2 incremental costs will be developed through collaboration between SSLOCSD and the Contributing Water Purveyors.
 - b. Contributing Water Purveyor Contributions
 - a. The Contributing Water Purveyors will pay for the remaining Construction Costs, after the SSLOCSD Contribution, based on the Water Purveyor Contribution Percentages.
- d. Operations Cost Sharing
 - i. PROJECT Operations Costs are those costs that start after determination of Substantial Completion of PROJECT construction.
 - ii. PROJECT Operations Cost sharing will be split between the Contributing Water Purveyors based on Water Purveyor Contribution Percentages.
- e. Legal Costs
 - i. Contributing Water Purveyors shall split any legal costs related to the design, construction and operation of the PROJECT according to the Water Purveyor Contribution Percentages.
- f. Buy-in Costs
 - i. Buy-in Agencies that want to "buy-in" to the project after project construction, shall be responsible for paying an equivalent cost to the Contributing Water Purveyors to participate in the project. Equivalent costs shall account for the

costs and when those costs were paid by the Contributing Water Purveyors and the depreciated value of the infrastructure at the time of purchase.

- ii. The Buy-in costs shall be negotiated between the Contributing Water Agencies and the Buy-in Agency.
- g. Grant Funding
 - i. Grant funds obtained to offset PROJECT pre-construction or construction costs will be applied to reduce the total cost of the project. The Contributing Water Agencies will then split the remaining project costs based on the Water Purveyor Contribution Percentages.
- 9. Cost Sharing Modifications
 - a. Changes to cost sharing of pre-construction, construction, and operations costs may be re-considered if OCSD, SSLOCSD or any of the Contributing Water Purveyors negotiate a different costs and benefit sharing ratio or methodology. PROJECT Yield and/or benefits would be re-visited accordingly.
 - b. In the event that legislative or regulatory requirements require the diversion of water from the Pismo Beach/SSLOCSD outfall, this cost sharing agreement will be re-evaluated to establish equity between the cost contributions and the benefit received, including but not limited to accounting for the value of wastewater provided to the project, the value of the benefit received by the wastewater agency through reduced outfall wastewater discharges and other potential benefits agencies receive from the PROJECT.