



April 23, 2020

Santa Clara Valley Water District Board
Santa Clara Valley Water District
5750 Almaden Expressway
San Jose, CA 95118

RE: Agenda Item 2.1, April 28, 2020

Dear Board Chair Hsueh and Directors Santos, LeZotte, Verela, Keegan, Kremen, and Estremera:

Recognizing that the Valley Water Board is facing, along with other local public agencies, imminent economic impacts due to the COVID-19 Pandemic, Poseidon Water has a suggestion related to the District's Purified Water Program.

Since the first Board meeting of this year when you conducted a workshop session on the FY2021-25 Capital Improvement Program (CIP) and the preliminary FY2020-21 (PAWS) ground water production charge rate scenarios, there have been recommended changes (Agenda Items 2.4 and 2.5) that would replace the P3 Expedited Purified Water Program (EPWP) for 24,000 acre/feet of water per year with District funding of \$220 million (District opting to contribute 30% of the construction cost), with a non-P3 project in North Santa Clara County for 13,000 acre/feet per year with District funding of \$645 million

This change to not utilize a P3 approach increases the District funding and raises water rate projections. Valley Water staff has identified an option in Agenda Item 2.1 to push construction of the Purified Water Program from either FY24 to FY30 or from FY24 to FY27 which lowers water rates projections during the next ten years.

Poseidon Water would like to suggest that the Board consider another option of not replacing the P3 EPWP. This could be accomplished by not changing the current CIP's and PAW's P3 Expedited Purified Water Program, but instead carrying it forward another year.

Back in 2017 and 2018, when the Board directed staff to pursue the P3 option for the EPWP, Valley Water staff had identified advantages of using a P3 approach including:

- Third party (private sector) financing.
- Transfer of cost and schedule risk to private partner.
- Lender's reps provide added oversight.
- Life-cycle O&M (including rehabilitation) addressed by private partner.
- Hand-back conditions secured.
- Frees up District debt capacity for other pressing projects.

Staff had presented projections showing from \$75 to \$125 per acre foot reductions in water rate increases needed to implement the program through a P3 approach. In April 2017 staff projected that from FY2020 to



FY2027 the water rates needed for a P3 approach would have been \$79 million less than a progressive design build alternative. Poseidon Water had also provided comments during this period that a P3 approach would not only decrease water rate increases, but would also help diversify the District's funding sources, positively improve debt capacity, have less impact on debt coverage and provide access to some additional grant funds.

We believe that the Board decision to use a P3 approach for the purified water program was sound and that current conditions make it an even more important tool to respond to the economic impacts of the current pandemic. An injection of private sector funding would be particularly important to getting infrastructure projects started and providing much needed local and regional employment. For example, in 2011 Poseidon explored the projected economic impacts of the then proposed Carlsbad Desalination Project. With an estimated construction expenditure of \$560 million, the estimated impact on California's Statewide economy was a cumulative output of \$974 million with the creation of over 2,500 annual jobs.

Another factor to consider is that the City of San Jose, the potential partner for the P3 EPWP, has instituted a hiring freeze and halted non-essential capital projects as they project a budget shortfall of \$110 million due to coronavirus. This condition may increase the importance of a partnership with Valley Water to take wastewater and purify it to become part of a locally produced water supply.

If the Board favors retaining the change to a smaller North County 13KAF purified water project, then an alternative to delaying construction would be to have it included in the CIP and PAWS as a P3 project which would reduce both Valley Water's funding and water rate increases.

Thank you for considering the option of staying the course on the P3 EPWP,

Sincerely,

A handwritten signature in blue ink, appearing to read "Stan Williams", is written over a light blue horizontal line.

Stan Williams
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