



# Santa Clara Valley Water District

**File No.:** 19-0213

**Agenda Date:** 3/26/2019

**Item No.:** 5.1.

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## BOARD AGENDA MEMORANDUM

### **SUBJECT:**

2019 Contra Costa Water District Cost Share Agreement for Los Vaqueros Reservoir Expansion Project Planning.

### **RECOMMENDATION:**

- A. Receive and discuss information on the Los Vaqueros Reservoir Expansion Project (LVE Project);
- B. Authorize the CEO to execute the 2019 Contra Costa Water District Cost Share Agreement for Los Vaqueros Reservoir Expansion Project Planning;
- C. Authorize Valley Water to participate in funding the 2019 Cost Share Agreement for an amount not to exceed \$355,000; and
- D. Direct staff to continue engagement in the Los Vaqueros Expansion Project.

### **SUMMARY:**

In 2016 the Board authorized the CEO to execute an agreement to participate in the Los Vaqueros Expansion Reservoir Project (LVE Project) and contributed \$100,000 to support Contra Costa Water District's (CCWD) Proposition 1 application. The LVE Project is set to run out of funds and needs more money from Local Agency Partners (LAP) to continue with environmental, federal feasibility, financial evaluation, governance, permitting and design efforts. Some of the funds will be used as matching local funds required for Proposition 1 Water Storage Investment Program (WSIP) and Water Infrastructure Improvement for the Nation Act (WIIN Act). CCWD is offering the Santa Clara Valley Water District (Valley Water) the opportunity to continue participating in the LVE Project by executing the 2019 Contra Costa Water District Cost Share Agreement for the Los Vaqueros Reservoir Expansion Project Planning (2019 LVE Project Agreement), which will cover calendar year 2019 work activities including the formation of a Joint Powers Authority (JPA). The total near term cost to local partners is estimated at \$3 million as part of the 2019 LVE Project Agreement. Costs are being divided evenly between the LAPs, which would require Valley Water to contribute up to \$355,000 in funding. A copy of the proposed 2019 LVE Project Agreement is included as Attachment 1.

### **2019 Project Agreement and Objectives**

Execution of the 2019 LVE Project Agreement would obligate Valley Water to provide funding for continued work on the LVE Project in the calendar year 2019. The total 2019 budget is roughly \$27 million, with about \$3 million of this to be funded by LAPs. The remaining budget is expected to be

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funded using WSIP early funding and funds secured from provisions under the WIIN Act.

Key information to be developed in 2019 includes the following:

1. The development of a long-term governance structure (currently envision as a Joint Power Authority) and selection of special counsel for this purpose;
2. Completion of the Final Supplement to the 2010 Final EIS/EIR;
3. Release of the Final Federal Feasibility Report in partnership with Reclamation;
4. Initiation of consultations with federal, state, and local entities for project permits, approvals, certifications, and agreements;
5. Design of the Los Vaqueros Reservoir Dam to the 50% level and advance of design work on the other project facilities; and
6. Independent financial review of usage fees developed by CCWD and East Bay Municipal Utility District (EBMUD); and other activities mutually agreed to by all parties.

Valley Water's funding contribution is not a final decision to participate in the LVE Project, but supports a focused effort during the calendar year 2019 to develop additional information and establish governance which could enable individual LAPs to decide whether to continue participation in the LVE Project.

## **Background**

Valley Water staff have continued to review the LVE Project, which proposes to expand an off-stream reservoir located in Contra Costa County and operated by CCWD (Attachment 2). Originally constructed in 1998 with a capacity of 100,000 acre-feet (AF), it was expanded to 160,000 AF in 2012. The LVE Project would further expand the reservoir to 275,000 AF and add a new pipeline, the Transfer Bethany Pipeline, connecting CCWD's system to the California Aqueduct. Regardless of whether Valley Water stores water in the Los Vaqueros Reservoir, imported water could be moved from CCWD's intakes in the Delta to Valley Water's system without relying on the South-of-Delta pumps.

## **Project Participants**

The project started with 14 LAPs; since then Eastern Contra Costa Irrigation District (ECCID) has dropped out, and some members have consolidated under the San Luis & Delta Mendota Water Authority (Authority), including Westlands Water District, Del Puerto Water District, and San Luis Water District. Therefore, there are currently ten (10) LAPs. Valley Water would be required to contribute between \$283,000 to \$355,000, depending on further consolidation under the Authority (e.g., Byron Bethany Irrigation District) or whether any additional LAPs drop out of the LVE Project.

The current LAP participants are:

1. Alameda County Water District (ACWD)
2. Bay Area Water Supply & Conservation Agency (BAWSCA)
3. Byron Bethany Irrigation District (BBID)
4. City of Brentwood (Brentwood)
5. East Bay Municipal Utility District (EBMUD)
6. Grassland Water District (GWD)
7. Santa Clara Valley Water District (Valley Water)

8. San Francisco Public Utilities Commission (SFPUC)
9. Zone 7 Water Agency (Zone 7)
10. San Luis & Delta Mendota Water Authority (Authority)
  - 10.1. Del Puerto Water District (DPWD)
  - 10.2. San Luis Water District (SLWD)
  - 10.3. Westland Water District (WWD)

### Project Participation Analysis

Staff continues working with CCWD and other potential partners to evaluate Valley Water's participation level in the LVE Project, including how much, if any, dedicated storage to reserve in the reservoir and use of the Transfer Bethany Pipeline (TBP), an example modeling scenario is provided as Attachment 3. Staff has evaluated preliminary modeling results provided by CCWD to access the share of yield that could be delivered to Valley Water depending on level of participation (Table 1). The evaluation aims to balance Valley Water needs with the potential cost. Staff has also had preliminary discussions with the other South Bay Contractors about non-participants use of the South Bay Aqueduct which could result from the LVE Project.

Table 1. LVE Project Participation Options

Bookend Scenario Analysis	Scenario A (with storage & TBP)	Scenario B (TBP only)
Total construction cost (2018\$)	\$864 million	\$359 million
Present Value Lifecycle Cost to Valley Water (2018\$) <sup>§</sup>	\$131 million	\$78 million
Average annual yield* (acre-foot/year)	3,600	3,500
Unit cost per acre-foot*	\$1,200	\$700

§ Valley Water lifecycle cost includes the capital, operation, maintenance, rehabilitation, and replace costs as applicable for a 100-year period, discounted back to 2018 dollars.

\* Rounded to the nearest hundred

Ultimately the amount of project yield and benefit that is usable by Valley Water depends on the portfolio of water supply projects that Valley Water ultimately implements and the outcome of ongoing regulatory processes. Additional modeling refinements are currently being implemented to better estimate potential yields and benefits.

### Project Risk

The LVE Project risks were initially evaluated in the Risk Ranking Report from summer 2017 (Attachment 4). Evaluation criteria included cost, implementation, operations, and stakeholder risks. The report ranked the LVE Project risk as high. Based on direction from the Board on November 20, 2018, staff did an abbreviated risk analysis of the projects under consideration. The new risk analysis considered the probabilities and consequences of projects not achieving their projected water supply yields by 2040, the planning horizon for the Master Plan. The results were similar to the results reported in the 2017 Risk Ranking Report. The notable difference was that the risk ranking for LVE Project is lower than the 2017 result, going from a high risk to medium risk, due to increased certainty

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in funding and additional information on project benefits.

#### Project Governance

The LVE Project currently is being led by CCWD. CCWD's financial consultant will work with the LAPs to develop a JPA agreement, anticipated to be established in 2019. The LAPs are still discussing whether to hire independent counsel to represent them individually during JPA negotiations. Once the JPA is in place, design and construction responsibilities will transition from CCWD to the JPA.

#### Potential Valley Water Benefits

The LVE Project water supply and operational benefits could be realized by diverting State Water Project (SWP), Central Valley Project (CVP), and/or surplus water without relying on the South-of-Delta pumps for direct delivery or pumped into an expanded Los Vaqueros Reservoir for later delivery. Staff anticipates the LVE Project could provide the following benefits to Valley Water:

- An increase in water supply, primarily in dry years;
- The ability to bank SWP and CVP contract supplies in an expanded Los Vaqueros Reservoir;
- The LVE Project's expanded storage and conveyances may provide alternate points of diversion for Valley Water during periods when SWP and CVP exports are restricted by regulatory requirements that do not apply to CCWD diversions;
- Imported water could be routed from CCWD to the California Aqueduct through a new Transfer-Bethany Pipeline; and
- Transfer-Bethany Pipeline could support other regional projects (e.g., desalination, refinery recycled water exchange, Bay Area Regional Reliability (BARR) water market).

The extent to which these benefits can be realized depends on several issues that have yet to be resolved, including the level of participation (i.e., with or without storage), permit requirements, adequate conveyance capacity in the South Bay Aqueduct (SBA), and integration of operations with the SWP and CVP projects.

#### Total Project Cost

The total construction cost of the LVE Project in constant 2015 dollars is roughly \$980 million based on assumptions made in the WSIP application. LVE Project costs have come down due to elimination of project elements no longer needed (East Contra Costa Irrigation District pipeline) and a more cost-efficient alignment for the Transfer-Bethany Pipeline. Based on CCWD version 2.0 proforma model the project cost in constant 2018 dollars is \$864 million. CCWD received the maximum eligibility award of \$459 million from the California Water Commission (CWC) as part of WSIP funding. CWC authorized \$13.65 million in early funding for planning and design. CCWD received an eligibility award of \$2.15 million in federal funding for planning and design through the WIIN Act. Staff will provide an updated financial analysis prior to requesting any additional funding for the LVE Project.

#### Next Steps:

Key near-term meetings and decision points on the LVE Project include the following:

- Winter 2018/2019 - LAPs execute the multi-party cost-share agreement

- Spring/Summer 2019 - Third party consultant review of user fees
- Spring/Summer 2019 - Form committee to select outside counsel to form JPA
- Summer 2019 - Partners & CCWD negotiate key terms of cost and governance
- Winter 2019 - Finalize JPA

**FINANCIAL IMPACT:**

Valley Water's total payment for the 2019 Cost Share Agreement will not exceed \$355,000. Funds are available in the Water Utilities FY19 operating budget.

**CEQA:**

The recommended action does not constitute a project under CEQA because it does not have a potential for resulting in direct or reasonable foreseeable indirect physical change in the environment.

**ATTACHMENTS:**

Attachment 1: Agreement  
Attachment 2: Project Map  
Attachment 3: Model Scenario  
Attachment 4: 2017 Risk Ranking Report  
Attachment 5: PowerPoint

**UNCLASSIFIED MANAGER:**

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