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REPORT TO THE CITY COUNCIL

June 23, 2016

FROM: THOMAS C. ESQUEDA, Director
Department of Public Utilities

SUBJECT

Authorize the City Manager to Execute Agreements for Water Sale and Transfer to the Kern-Tulare Water District for 5,000 Acre Feet, at \$500 per Acre Foot.

RECOMMENDATION

The Administration recommends Council approve agreements with the Kern-Tulare Water District (KTWD) to purchase and transfer 5,000 acre feet (AF) of Class 1 Central Valley Project (CVP) water (Project Water) at a cost of \$500 per AF, and authorize the City Manager to execute such agreements.

EXECUTIVE SUMMARY

The City of Fresno has a Class 1 water supply contract ("9D Contract") with the United States Bureau of Reclamation (Bureau) for 60,000 AF per year. The Bureau's Water Year runs from March 1 to February 28 each year. During Water Years 2014-2015 and 2015-2016, the Bureau was unable to deliver water to the City of Fresno (0-percent declarations) due to severe drought conditions. During this current 2016-2017 Water Year, Bureau has announced a 65-percent Class 1 Declaration (39,000 AF) for the City and all other Class 1 Friant Division Contractors, and the City has been working

closely with the Fresno Irrigation District (FID) and the Bureau to increase the volume of water available to the City from Millerton Lake above the 65-percent declaration.

Through the cooperative efforts of the City and FID, the City has been able to secure additional water supply from Millerton Lake through a combination of Uncontrolled Season Release (UcS) water and Unreleased Restoration Flow (URF) water. These additional water supplies will increase the volume of water available to the City during Water Year 2016-2017 from 39,000 AF to 58,880 AF at an average price of \$84.18 per AF. With a surplus of water above the official 65-percent declaration, the City is in a position to provide water to other Friant Division Contractors that are in need of additional water supply during Water Year 2016-2017. The Kern-Tulare Water District (KTWD) has requested an opportunity to purchase 5,000 AF of the City's Class 1 water supply during July and August 2016.

On May 21, 2015, Council approved a request from the Department of Public Utilities to purchase 2,990 acre-feet of surface water supply from Millerton Lake for \$1,011,925.94 from the Friant Water Authority and the Bureau. As a condition of approving the water purchase, Council directed that staff develop criteria for evaluating the features, benefits, advantages and disadvantages of future water transactions, to be brought to Council for consideration. City staff has developed such criteria to evaluate water transactions, and the proposed water sale to KTWD is consistent with the proposed criteria.

The Administration recommends the City Council authorize the City Manager to execute a Water Sale and Transfer Agreement with the KTWD for 5,000 AF, at a cost of \$500 per AF. The physical diversion and transfer of 5,000 AF of Millerton Lake water from the City of Fresno to the KTWD will be accomplished by FID. As a result of this recommended transaction, the City will retain a surplus of surface water supply for Water Year 2016-2017 above the official 65-percent declaration, and the City's ratepayers will pay a reduced cost for surface water from \$78.01 to \$45.59 per acre-foot.

BACKGROUND

On December 22, 2010, the City entered into a contract with the United States Bureau of Reclamation (Bureau) providing for a Class 1 allocation of CVP Water (Project Water) from Millerton Lake (the "9D Contract"). In accordance with the 9D Contract, on an annual basis the USBR shall make available for delivery to the City 60,000 acre-feet of Class 1 water for municipal and industrial purposes, subject to the terms and conditions of the 9D Contract and regional hydrologic conditions such as rainfall, snow pack, watershed yield, and pumping operations in the Sacramento-San Joaquin Delta. The Bureau's Water Year for Millerton Lake operations runs from March 1 to February 28 each year.

On or about February 20 of each year, the 9D Contract requires the Bureau to declare an initial allocation of Project Water to be made available to the City and other Friant Division Contractors. The annual allocation can be adjusted during the year depending upon CVP operational conditions and regional hydrologic conditions. Once the annual allocation is made, the City submits to the Bureau a written schedule defining when the City will take delivery of surface water from Millerton Lake. The 9D Contract requires the City to submit its delivery schedule by March 1 of each year. The Bureau made 0-percent allocations for Water Years 2014-2015 and 2015-2016 to the City of Fresno and other Friant Division Contractors.

City staff has been working with the Fresno Irrigation District and the Bureau to increase the volume of water available to the City above the 65-percent declaration (roughly 39,000 AF) announced by the Bureau for Water Year 2016-17. Through the cooperative efforts of City staff and FID staff, the City

has been able to work with the Bureau to secure additional water supply beyond the 65-percent declaration through a combination of Uncontrolled Season Release (UcS) water and Unreleased Restoration Flow (URF) water. These additional water supplies will increase the volume of water available to the City during Water Year 2016-2017 from 39,000 AF to 58,880 AF at an average price of \$84.18 per AF.

Given that the City has access to 19,880 AF of water above the official Bureau Declaration of 65-percent, the City is in a position to provide water to other Friant Division Contractors that are in need of additional water supply during Water Year 2016-2017. The Kern-Tulare Water District (KTWD) has requested an opportunity to purchase 5,000 AF of the City's Class 1 water supply during July and August 2016. The sale of 5,000 AF of water to the KTWD will leave the City with 53,880 AF of water supply for Water Year 2016-2017, which represents a surplus of 14,880 AF above the Bureau's current declaration of 65-percent and reduces the City's costs for Millerton Lake water supply to \$45.59 per AF.

On May 21, 2015, Council approved a request from the Department of Public Utilities to purchase 2,990 acre-feet of surface water supply from Millerton Lake for \$1,011,925.94 from the Friant Water Authority and the Bureau. As a condition of approving the water purchase, Council directed that staff develop criteria for evaluating the features, benefits, advantages and disadvantages of future water transactions, to be brought to Council for consideration. City staff has developed such criteria to evaluate water transactions, and the proposed water sale to KTWD is consistent with the proposed criteria.

The Administration recommends the City Council authorize the City Manager to execute a Water Sale and Transfer Agreement with the KTWD for 5,000 AF, at a cost of \$500 per AF. The physical diversion and transfer of 5,000 AF of Millerton Lake water from the City of Fresno to the KTWD will be accomplished by FID. As a result of this recommended transaction, the City will retain a surplus of surface water supply for Water Year 2016-2017 above the official 65-percent declaration, and the City's ratepayers will pay a reduced cost of \$45.59 versus \$78.01 per acre-foot.

Current Water Supply Conditions

The City's surface water supply resources are stored in Pine Flat Reservoir and Millerton Lake, with total combined entitlements of 180,000 acre-feet (AF) per year during a normal-precipitation, normal snow pack, normal watershed yield year. However, given the severity of California's ongoing four-year drought, the City's surface water entitlements from Pine Flat Reservoir and Millerton Lake have been reduced along with entitlements for all parties throughout the State. Fortunately, the rainfall precipitation for Water Year 2016 has been above normal, and while snowpack depths remain below normal, snowpack totals for water year 2016 are greater than during the 2015 water year. Following is a summary of the current surface water supply conditions for the City of Fresno:

- 1) For Pine Flat Reservoir, FID estimates the City's surface water entitlements for the 2016 Water Year (Oct 1 to Sep 30), will be approximately 84,000 AF. This is a 70-percent entitlement, as the City's entitlement during a normal precipitation year is 120,000 AF.
- 2) For Millerton Lake, the Bureau is making water supply available to the City through three types of water supply sources - Uncontrolled Season Releases; Unreleased Stream Restoration Flows, and Class I. The sequence of declarations is presented below:

- a. Class 1 Declaration (65%) = 39,000 AF
- b. Uncontrolled Season = 11,938 AF
- c. Tier 1 Unreleased Restoration Flows = 2,317 AF
- d. Tier 2 - Unreleased Restoration Flows = 5,625 AF

Total Millerton Lake Water Supply 2016-2017 Water Year = 58,880 AF

During Water Year 2015-2016, the City's available surface water supplies were 42,582 AF - all exclusively from Pine Flat Reservoir. For Water Year 2016-2017, the City's available surface water supplies will be 128,880 AF from Millerton Lake and Pine Flat Reservoir, and the water will be used for surface water treatment, groundwater recharge, and other beneficial uses in the City's service area. When the City completes construction of the Recharge Fresno Program, the City proposes to use 110,000 AF of surface water for surface water treatment.

Water Transaction Policy Considerations

The following criteria have been developed by City staff for Council consideration for this proposed water sale to the KTWD.

- 1. All water transactions shall provide a direct benefit to the City's ratepayers (Proposition 218 Requirements);
- 2. Water transaction benefits shall be defined to include, but not be limited to, the following:
 - a. The ratepayers receive return water in current year or future year (not more than 5 years);
 - b. The ratepayers receive cash payments in current year;
 - c. The ratepayers receive return water and cash payments; or
 - d. Other ratepayer benefits as defined by the City Council
- 3. Water transactions shall be limited to supporting agricultural purposes, and not urban growth, development, and sprawl in other jurisdictions;
- 4. Water transactions shall only be considered when the City has a surplus of surface water supply available above the City's water supply needs for surface water treatment and groundwater recharge;
- 5. Revenues resulting from water sales shall be used in the following sequence:
 - a. Supplemental payments for existing O&M debt owed to the Bureau for Friant Dam (currently about \$12.4 million);
 - b. Supplemental payments on capital debt owed by the Water Division for outstanding revenue bonds or state revolving loans;

- c. Payments to the Rate Stabilization Fund in the Water Division to offset future rate increases;
- d. Payments to the Water Affordability Credit Program for qualified residents; and
- e. Revenue offsets for general operating costs in the Water Division.

The proposed water sale to the KTWD is consistent with these proposed criteria, and the revenue resulting from the sale will be applied to an existing debt owed to the Bureau for O&M costs incurred for the Friant Dam.

Recommendation

This proposed water sale is consistent with the criteria recommended by City staff for such transactions. The Administration recommends the City Council authorize the City Manager to execute a Water Sale and Transfer Agreement with the KTWD for 5,000 AF, at a cost of \$500 per AF. The physical diversion and transfer of 5,000 AF of Millerton Lake water from the City of Fresno to the KTWD will be accomplished by FID. As a result of this recommended transaction, the City will retain a surplus of surface water supply for Water Year 2016-2017 above the official 65-percent declaration, and the City's ratepayers will pay a reduced cost of \$45.59 versus \$78.01 per acre-foot.

ENVIRONMENTAL FINDINGS

Staff has performed a preliminary environmental assessment of this project and has determined that it falls within the Statutory Exemption set forth in CEQA Guideline Section 15282(u), which exempts temporary changes in the point of diversion, place of use, or purpose of use due to a transfer or exchange of water or water rights as set forth in Section 1729 of the Water Code, because the agreements will result in delivery of water to KTWD rather than the City.

LOCAL PREFERENCE

Local preference was not considered because the sale and change of diversion point of surface water does not include a bid or award of a construction or services contract.

FISCAL IMPACT

There is no financial obligation for the General Fund for this surface water purchase. The funding source for this surface water purchase will be the Water Division Enterprise Fund. For Fiscal Year 2016, the Water Division did not budget for additional revenues to be generated from the sale of surface water to other agencies. The revenue resulting from this transaction will be applied to existing debt owed to the Bureau for O&M costs associated with Friant Dam.

Attachments:

Water Purchase Agreement Between Kern-Tulare Water District and City of Fresno - Attachment 1
Water Transfer Agreement Between Kern-Tulare Water District and City of Fresno - Attachment 2