

**EXHIBIT 11-B**

**BOARD OF SUPERVISORS OF THE  
MONTEREY COUNTY WATER RESOURCES AGENCY**

<b>MEETING:</b> November 30, 2004	<b>AGENDA NO.:</b>
<b>SUBJECT:</b> Consider Approach to Development of an Urban Water Supply Project for Coastal and Northern Communities of Monterey County including Salinas	
<b>DEPARTMENT:</b> Water Resources Agency	

**RECOMMENDATION:**

It is recommended that the Board of Supervisors consider an approach to develop an urban water supply project for the coastal and northern communities of Monterey County including Salinas. The recommended approach consists of the following base elements:

1. Initiate and facilitate a regional collaboration process with general purpose governments and water resource and water supply organizations to determine a scope for the project including a discussion of potential management strategies
2. Convene a strategy discussion meeting with the Mayor's Select Committee, and Board of Supervisors Desal Committee
3. Recommend that senior management of the general purpose governments and water resource and supply organizations convene and develop management alternatives
4. Recommend formation of a urban water supply working group consisting of community leadership from North County, Salinas, FORA/Marina and the Monterey Peninsula

**SUMMARY:**

On October 21, 2003, the Board of Supervisors of the Monterey County Water Resources Agency (Agency) directed the Agency to document the regional water demand needs of the proposed Coastal Water Project, and begin formal contract negotiations with California-American Water Company (CAW) in order that the scope of the proposed Coastal Water Project was planned to adequately address the water supply needs of Monterey County. On March 16, 2004 the Board of Supervisors of Monterey County Water Resources Agency (MCWRA) approved a "Letter of Intent" which developed a set of guidelines and principles for the proposed partnership between California-American Water and the MCWRA. As the Agency brought forward Interim Agreement No. 1 on August 17, 2004 between the Agency and CAW, concern regarding the nature of the proposed partnership and the development of competing desalination projects resulted in a decision to further evaluate how the Agency and Monterey County should lead the regional water supply development effort. Acknowledging that the project must be owned and operated by an organization accountable to the public and that this regional effort should be lead by the regional organization (Monterey County), the follow-on determination reevaluated the proposed approach and concluded that the Board considers the above proposed recommendations.

**DISCUSSION:**

In September 2003, the California Public Utilities Commission (CPUC) issued a decision closing California-American Water's March 1997 application proceeding and directed CAW to file a new application for the Coastal Water Project (CWP), together with a Proponent's Environmental Assessment (PEA). As part of the CPUC action on application No. 97-03-052, its Office of Ratepayer Advocates, on August 5, 2003, directed California-American Water "to thoroughly explore opportunities for partnerships with other regional entities as it prepares its PEA and to incorporate such partnerships into the project (CWP) if applicable."

As CAW began to move towards developing a water supply solution for the Monterey Peninsula in 2003, the Agency and Monterey County advocated for lead agency status for the project's environmental review process. As CAW worked towards developing a project application with the CPUC, the Agency and County sought to define a relationship with CAW that would result in public ownership of the project, and that would result in a project expanded to address regional water supply needs. CAW had been focused on solving only water supply needs to offset State Water Resources Control Board Order 95-10 dealing with Carmel River over pumping. As currently envisioned (attachment 1), the CWP has been proposed as a desalination facility in the Moss Landing area, using Duke Power Plant intakes and outfall. Because of the Agency's and County's efforts, the CWP, as developed under the Letter of Intent, would be a publicly-owned facility configured to provide water to Castroville, the former Fort Ord, and North Monterey County, which begins to address the required regional solution.

The Agency believes the project must also consider Salinas as another area requiring desalted water as part of a portfolio of water supply options for the region. The Agency also acknowledges that the proposed CWP water allocations for future water to the Monterey Peninsula cities will also need further evaluation. Because the project definition needs additional refinement and the management issues among the participating water purveyors and municipal jurisdictions have yet to be developed, the Agency has recommended a collaborative process to bring areas to be served together around the central issue of providing adequate water supply.

CAW's CWP is not the only desal project that has been suggested to be constructed in the Moss Landing area or to meet some of the coastal communities water supply needs. Pajaro Sunny Mesa Community Services District (PSM) is moving forward with plans to construct a desal facility to meet north county and other water supply needs at the former National Refractories site in Moss Landing (attachment 2). The Monterey Peninsula Water Management District (MPWMD) has developed its own desal and Aquifer Storage and Recovery project located within MPWMD's boundaries (attachment 3).

Marina Coast Water District (MCWD) and Sand City have considered stand-alone desal plants to meet their respective water supply needs. Finally, there have been ongoing plans to develop an urban recycled water project by the Monterey Regional Water Pollution Control Agency (MRWPCA) and MCWD. All of these projects are at differing levels of design and development, have varying water yields, and have costs ranging from the tens of millions to hundred of millions of dollars (attachment 4).

With the number and range of alternatives being considered, a coordinated collaborative process is needed to bring the County, Peninsula cities, Salinas and water agencies together to address management and development of water supply solutions on a regional scale. The structure and form of the collaboration will be determined following the initial meeting with elected representatives of the general purpose governments and the County. It is anticipated that development of the management framework will take approximately six months of work with the senior staff representatives. Following the senior staff work, the urban water supply working group community will need six months to a year to outline the cost framework, funding alternatives and project delivery method. Best estimates of when a project could be developed to a point where it is ready for CEQA review by any of the organizations listed above is mid-year 2005. Completed CEQA work would require additional time, as much as six months or more. Permitting and final design would remain to be completed following CEQA development.

Financing an infrastructure project (or projects) of this size will also be a key consideration. Because of

the magnitude and number of issues to be resolved, it is premature to select what type of financing will result in the lowest cost project, and hence the lowest delivery cost to consumers. What is clear is that a regional project could provide economy of scale to decrease the cost for all consumers. In addition, project delivery and selection also need to be determined before a funding strategy can be launched.

## **Conclusion**

It is recommended that the Board direct Agency and County staff to:

1. Initiate and facilitate a regional collaboration process with general purpose governments and water resource and water supply organizations to determine a scope for the project including a discussion of potential management strategies
2. Convene a strategy discussion meeting with the Mayor's Select Committee, and Board of Supervisors Desal Committee
3. Recommend that senior management of the general purpose governments and water resource and supply organizations convene and develop management alternatives
4. Recommend formation of a urban water supply working group consisting of community leadership from North County, Salinas, FORA/Marina and the Monterey Peninsula

Working with the key organizations discussed above towards development of a management and governance strategy, the Board of Supervisors will lead the community forward with an implementation strategy to resolve our urban water supply challenges.

---

Curtis V. Weeks  
General Manager

---

Date

## **Attachments**

1. Coastal Water Project Presentation
2. North Monterey County Desalination Project Presentation
3. MPWMD Comparison of Five Water Supply Options
4. MPWMD Strategic Planning Workshop Review Comparative Matrix of Water Supply Projects