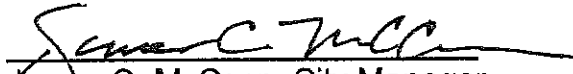


City of Calistoga

Staff Report

TO: Honorable Mayor and City Council
FROM: James M. Smith, Senior Civil Engineer
VIA: Dan Takasugi, Public Works Director/City Engineer
DATE: May 19, 2009
SUBJECT: Consideration of a Resolution Authorizing the Purchase of 150 Acre Feet of Water from the California Department of Water Resources 2009 Drought Water Bank Program and Authorizing a Budget Adjustment to Fund the Purchase from Water Utility Reserves

APPROVAL FOR FORWARDING:


James C. McCann, City Manager

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2 **ISSUE:**
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4 Consideration of a Resolution authorizing the purchase of 150 acre feet of water from the
5 California Department of Water Resources 2009 Drought Water Bank Program and
6 authorizing a Budget Adjustment to fund the purchase from Water Utility Reserves.
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8 **RECOMMENDATION:**
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10 Adopt resolution.
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12 **BACKGROUND/DISCUSSION:**
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14 The California Department of Water Resources (DWR) has initiated the 2009 Drought
15 Water Bank Program. This program is based on:

- 16 a) agricultural users of the State Water Project (SWP) fallowing and idling
17 croplands, and thus allowing the transfer of SWP water from agricultural to urban uses.
- 18 b) various members of the SWP system utilizing groundwater for this years' water
19 (irrigation) needs, thereby reducing the need for SWP (surface) water to be used for
20 irrigation.
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22 The water that is conserved by either crop idling or groundwater substitution would then
23 be made available for water transfer to and through the Drought Water Bank.
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25 The DWR has identified and established a pool of Sellers of water, as well as a pool of
26 Buyers of water, to enable the Drought Water Bank to function. By State-wide negotiated
27 agreement, the cost of the water for the 2009 Drought Water Bank is \$275 per acre foot.
28 The DWR has developed the Drought Water Bank in consultation with State attorneys
29 and other water contractors throughout the state. As such, DWR is confident that the
30 Bank has been properly formed and is fully functioning. Nonetheless, two environmental
31 organizations have filed legal challenges to the Drought Water Bank, largely on the basis
32 of allegations that the environmental review process (CEQA) was deficient. DWR has
33 provided assurance that the legal foundations of the program are sound, and intends to
34 rigorously defend the Drought Water Bank program.

35
36 Each of the cities within Napa County (including Calistoga) that is a part of the SWP (as
37 subcontractors to the Napa County Flood Control and Water Conservation District) has
38 expressed an interest in participating in the 2009 Drought Bank. In order to be
39 considered a bona fide Buyer, each City was requested earlier this spring to provide an
40 estimate of the amount of water desired from the Drought Bank, and pay a (mostly)
41 refundable deposit for the water requested.

42
43 Based on the initial SWP allocation of 15%, and also in consideration of the anticipated
44 increase to a 20% allocation (which was made on March 18, 2009), Calistoga requested
45 an initial Drought Water Bank allocation of 360 acre feet of water. For that amount of
46 water, the City paid a \$75 per acre foot deposit (\$27,000). \$70 per acre foot will go
47 directly toward the cost of the water purchased through the Water Bank on behalf of the
48 City, and this is refundable if not all the water is purchased. The remaining \$5 per acre
49 foot is for DWR administrative costs and is non-refundable.

50
51 On April 15, 2009, the DWR increased the SWP allocation to 30%, and that is anticipated
52 to be the final SWP allocation for the year. That current SWP allocation, and the other
53 circumstances of the City's water supply and demand picture, is indicated in the following
54 Table:

55
56

Sources of Supply	
NBA Allocation @ 30%	500 AF
2008 Carryover	<u>150 AF</u>
<i>Subtotal SWP Supply</i>	650 AF
Kimball Reservoir*	<u>250 AF</u>
<i>Subtotal of All 'Regular' Supplies</i>	900 AF
Drought Water Bank Purchase	<u>150 AF</u>
<i>Subtotal of Total Proposed Water Supply</i>	1,050 AF
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Estimated Demand for 2009	<u>800 AF</u>
Remainder	250 AF

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**Reduced from normal production due to significant construction earlier this year*

The 250 AF remainder would be available for carryover into 2010, which will provide a prudent reserve in case next winter is dry. If next winter is dry, that would be the fourth consecutive year of below-normal precipitation. If that occurs, the SWP allocation would be anticipated to be less than the current 30% allocation. Further, future Drought Water Bank supplies would likely be scarcer next year, and the cost for water through this program would likely be much higher. If next winter is actually wet, then carryover water may not be available, but then the SWP allocation would be expected to be substantial (at least 50%). An SWP allocation in excess of 40% would be sufficient to meet the City's needs.

As indicated in the Table above, staff recommends purchasing 150 AF of Drought Bank water this year. This is less than the originally estimated 360 acre feet, which is due to the increased current SWP allocation and the additional rainfall received in early May. We would commit to taking the Drought Bank water being purchased in May through September, when demands are typically highest. This supplemental purchase of water would secure the City's water supply for this year and for next year, and provide a buffer against water supply impacts in the event that next winter is also drier than normal.

FISCAL IMPACT:

The estimated cost of this purchase is \$41,250 for the direct cost of the water purchased through the Water Bank. In addition, there is the possibility that costs could increase slightly due to legal costs incurred by DWR in defending the Water Bank from challenges. The City would be responsible for a small proportional share of the cost, which would be commensurate with our very small final water allocation. Based on input from DWR staff, it is estimated that such cost increases would be less than 5%. Therefore, to be prudent, staff recommends that the estimated cost for this purchase include an additional contingency of approximately \$2,050 in the event that extra legal costs are accrued.

The budgeted cost for wholesale water purchases is \$575,300 for FY08-09, and \$586,800 for FY09-10. Therefore, the cost of the proposed Drought Water Bank purchase will be about 3.7% of the sum of those two budgets. Although the purchase cost will accrue this fiscal year, the benefits of the water purchased will be realized over the two fiscal years.

A budget adjustment in the amount of \$43,300 from the water utility reserve account will be required; the attached Resolution provides the opportunity for the Council to authorize said budget adjustment.

ATTACHMENTS

Resolution

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RESOLUTION 2009- _____

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF CALISTOGA,
COUNTY OF NAPA, STATE OF CALIFORNIA, AUTHORIZING THE PURCHASE OF 150 ACRE FEET
OF WATER FROM THE CALIFORNIA DEPARTMENT OF WATER RESOURCES
2009 DROUGHT WATER BANK PROGRAM AND AUTHORIZING A BUDGET ADJUSTMENT TO
FUND THE PURCHASE FROM THE WATER UTILITY RESERVE ACCOUNT**

WHEREAS, the Dept. of Water Resources (DWR) has set the State Water Project (SWP) allocation to 30% for 2009, and that is anticipated to be the final SWP allocation for the year; and

WHEREAS, in light of the low State-wide precipitation and low SWP allocation this year, the DWR has initiated and created a 2009 Drought Water Bank Program; and

WHEREAS, water that is conserved by either crop idling or groundwater substitution will be available for water transfer to and through the Drought Water Bank; and

WHEREAS, the City of Calistoga desires a supplemental supply of water, through the Drought Water Bank, to secure the City's water supply for this year and to provide a prudent reserve in case next winter is dry; and

WHEREAS, by State-wide negotiated agreement, the cost of the water for the 2009 Drought Water Bank is \$275 per acre foot; and

WHEREAS, staff recommends purchasing 150 AF of Drought Water Bank water this year, which will allow for the establishment of a water carryover reserve of water for next year; and

WHEREAS, the estimated cost of the water purchase is \$43,300, which includes the direct cost of the purchase plus an allowance of 5% as a contingency for potential legal costs; and

WHEREAS, a budget adjustment in the amount of \$43,300 from the water utility reserve account will be required to accommodate this additional water purchase.

NOW, THEREFORE BE IT RESOLVED that the City Council of the City of Calistoga hereby authorizes the purchase of 150 acre feet of water from the 2009 Drought Water Bank Program in the amount of \$275 per acre foot, and authorizes the City Manager of the City of Calistoga to execute any related documents on behalf of the City; and

BE IT FURTHER RESOLVED that a budget adjustment in the amount of \$43,300 from the water utility reserve account is hereby approved.

PASSED, APPROVED, AND ADOPTED by the City Council of the City of Calistoga at a regular meeting held this 19th day of May 2009, by the following vote:

AYES:

NOES:

ABSTAIN/ABSENT:

JACK GINGLES, Mayor

ATTEST:

SUSAN SNEDDON, City Clerk

