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NAPA COUNTY BOARD OF SUPERVISORS Board Agenda Letter

TO: Board of Supervisors
FROM: Robert Peterson - Director
Public Works
REPORT BY: Felix Riesenber, Principal Water Resources Engineer, 259-8620
SUBJECT: MST Recycled Water Project - Joint Meeting with Napa Sanitation District Board

RECOMMENDATION

Director of Public Works requests:

1. Discussion with the Napa Sanitation District regarding its desire to share financial participation in the North Bay Water Reuse Authority (NBWRA) for the possible benefit of the Milliken-Sarco-Tulocay (MST) Recycled Water Project; and
2. Direction to continue to proceed with MST project development, including environmental clearance and assessment proceedings, independent of NBWRA, with a goal of project implementation in the fastest possible timeframe.

EXECUTIVE SUMMARY

The Napa Sanitation District (NSD) Board has requested a joint meeting with the County Board of Supervisors to discuss regional recycled water projects, including the Milliken-Sarco-Tulocay (MST) Recycled Water Project, and continued participation in the North Bay Water Reuse Authority (NBWRA) Program.

An opportunity to pursue federal funding currently exists through the NBWRA Program that NSD has been participating in for the past several years. The County will be asked by the NSD Board to participate in this program since one of the primary beneficiaries is the MST Recycled Water Project. The Carneros area could also receive some residual benefit through participation in the NBWRA Program, but any contributions for Carneros would need to be funded by NSD, as recycled water projects in Carneros are not an authorized use of County Measure A funds, and no additional funding sources from the County have been identified.

On October 9, 2007, staff provided an update to the Board of Supervisors on the progress of the MST Recycled Water Project. Several issues were raised during this meeting, including costs, project timing, and environmental review. Public comment at this meeting included requests to move forward with the project as quickly as possible and to attempt to secure additional grant funding to help lower the costs to members of the benefit assessment district that would need to be formed.

The Board of Supervisors has many factors to consider regarding joining the NBWRA Program: these are summarized briefly here and discussed in more detail in the Background and in Attachment 2. The NBWRA Program offers an opportunity to receive up to \$10 million in federal grant funds for MST Recycled Water Project construction, but will require the County to participate (staff, elected officials, and funding) in the program administration and tie the County to a schedule dictated by the federal funding process. Potential delays to the local project include waiting for the completion of a more significant environmental document (due to the federal review process), increased opportunities for environmental document delay due to issues affecting other agencies involved, and slower than anticipated delivery of federal funds should they even be appropriated. As the County has experienced directly as part of the Napa River Flood Control Project, federal funding appropriations have always been lower than requested, resulting in an inability to construct the entire project in a timely manner. In the case of the Napa River Flood Control Project, these lower funding levels have resulted in the project schedule being pushed back several years. Delays in project construction could result in increased project costs of \$2 million per year for the MST Recycled Water Project due to inflation in the costs of construction. Because the local contribution share of the project costs would be generated by the MST area residents through the formation of an assessment district, delays could cause myriad other problems with assessment district formation.

Even though the concept of being part of a regional process and seeking federal funding has some positive aspects to it and certainly sounds like a reasonable approach, staff believes that this is not the way to implement the MST project. This project has urgency to it. Involving the federal government in any project, based on our experience, will only serve to slow the project down. The federal component of this project is relatively small and the inflationary impacts of delay to a large project like this can quite quickly erode the value of the grant we are seeking. Staff recommends that we proceed with the MST project independent of NBWRA in order to better control costs and deliver the project in a timely manner to the community.

Procedural Requirements

1. Announce the agenda item
2. Report on the item
3. Technical questions for clarification
4. Public comments
5. Invite a motion
6. Second for the motion
7. Discussion and debate
8. Take the vote
9. Announce the result

FISCAL IMPACT

Is there a Fiscal Impact?	Yes
Is it currently budgeted?	No
What is the revenue source?	Additional funding would be required for the preparation of an environmental document and/or participation in the NBWRA Program. Additional funds would need to be dedicated to the MST Recycled Water Project from the County unincorporated share of Measure A.
Is it Mandatory or Discretionary?	Discretionary
Discretionary Justification:	The additional funds are needed to prepare the necessary environmental

document for the project. This environmental document is the critical path item affecting the overall project schedule and is needed prior to considering the formation of a benefit assessment district.

Is the general fund affected?

No

Future fiscal impact:

The use of Measure A funds for this work will reduce the overall amount of Measure A funds available for other eligible projects in the County. However, there is currently a portion of County Unincorporated Measure A funds that have not been allocated to any specific project. Therefore, the allocation of additional Measure A funds to the MST Recycled Water Project would not impact any other currently planned projects. Also, it is possible to have these costs added to the assessment district costs, so that a successful assessment district formation will result in the reimbursement back into Measure A. If the assessment district were not supported, these funds would not be reimbursed. Alternatively, the County may wish to contribute these funds to the project in an effort to lessen the costs to those being assessed.

There should not be additional future fiscal impacts beyond the use of Measure A funds currently being contemplated. This funding allocation would take the County through the assessment district formation vote. Future project funding would be provided through assessment district proceeds.

Consequences if not approved:

The County would not be able to fund the environmental work required to move the Milliken-Sarco-Tulocay Recycled Water Project forward and the project would stop, unless another funding source were identified or unless another agency was willing to provide funding.

Additional Information:

ENVIRONMENTAL IMPACT

The proposed action (project status presentation) is not a project as defined by 14 California Code of Regulations 15378 (State CEQA Guidelines) and therefore CEQA is not applicable.

BACKGROUND AND DISCUSSION

The County first began actively addressing the groundwater situation in the Milliken-Sarco-Tulocay (MST) area in early 1997, when an urgency ordinance was passed that temporarily prohibited additional water usage in this portion of the County. That action led to the County contracting with the United States Geological Survey to perform a study of the MST groundwater basin. The MST groundwater study was presented to the Board of Supervisors in January 2004 and since that time, Napa Sanitation District (NSD) has started and completed their Recycled Water Strategic Plan and the County has identified Measure A as a funding source to help with the initial steps to address the problem, and identified the formation of an assessment district as the most feasible mechanism to fund the project construction.

On October 9, 2007, staff provided an update to the Board of Supervisors on the progress of the Milliken-Sarco-Tulocay (MST) Recycled Water Project. Specifically, information was provided on the technical engineering work, environmental documentation requirements, public outreach and discussions with Napa Sanitation District (NSD) regarding a Memorandum of Understanding between NSD and the County.

Several issues were raised at the October 9th Board meeting, including costs, project timing, and environmental review. The current project costs range from \$41 million to \$48.8 million depending on the pipeline and pump station sizing for different water use scenarios. Funding for the project would be provided by the MST area residents through the formation of an assessment district. At the current project cost estimates these assessments would range from \$9,200 to \$11,000 per acre for users that receive the highest benefit. Initial public feedback, in very general terms, is that the costs are high and will be difficult, but that they are not a "deal-breaker" at this point in time. Public comment at the October 9th Board meeting included requests to move forward with the project as quickly as possible and to attempt to secure additional grant funding to help lower the costs to the members of the benefit assessment district that would need to be formed. There were concerns about the length of time required to perform an environmental review. Staff has discussed this matter with County Counsel and the environmental review process must follow normal California Environmental Quality Act (CEQA) procedures.

Since the October 9th Board meeting, the NSD Board has requested a joint meeting with the County Board of Supervisors to discuss recycled water opportunities in the County in general and to discuss possible County participation in the North Bay Water Reuse Authority (NBWRA) program, which has potential impacts (positive and negative) to the MST Recycled Water Project timing, federal funding opportunities and environmental review. Part of the joint discussion of the two Boards will be about current and future participation of NSD and/or the County in the NBWRA program.

The NBWRA includes the following agencies: NSD, Sonoma County Water Agency, Novato Sanitary District, Las Galinas Valley Sanitary District and the Sonoma Valley County Sanitation District. This group has been working for several years to help guide the development of federal legislation that would enable the construction of a regional recycled water distribution system to serve Marin, Sonoma and Napa counties. The program proposes to reuse treated wastewater from Marin, Sonoma and Napa for beneficial uses, including agricultural irrigation, urban landscaping and environmental restoration, thereby reducing existing discharges to San Pablo Bay. The NBWRA Program includes two phases at nearly \$100 million each. Phase 1 includes \$40 million for the MST Recycled Water Project (this represents the anticipated construction costs - not assessment district bonding costs). At the 25% federal cost share, that would mean \$10 million would be available to the MST Recycled Water Project to reduce assessment costs, assuming federal appropriation of the funds. Currently, Phase 1 has been passed by the full Resources Committee and will go to the floor of the House of Representatives most likely at the beginning of 2008. This bill is a necessary step in the Federal process but only would authorize the project to seek future funding from Congress. Funding requests would have to occur in future years and are not guaranteed. However, as the County has experienced directly as part of the Napa River Flood Control Project, the process for actually receiving funds is much slower than anticipated. For example, since funding appropriations for the project began in 2000 these appropriations have consistently been lower than requested, resulting in an inability to complete the project in a timely manner. These lower funding levels have resulted in significant delays of several years to the project construction schedule adding considerably to the cost of construction which further exacerbates the community's desire to finish the project.

NSD is evaluating whether to stay involved in the NBWRA Program and will ask the County to participate at some level in future NBWRA activities, since the MST project is a primary beneficiary of this effort. Attachment 1 is a list of questions that NSD staff is asking its Board to consider and will likely be brought up for discussion at the joint meeting.

An EIR is being prepared for the NBWRA Program and currently includes a "project level" review of the MST project. The currently scheduled completion date (Federal certification of the document) of the EIR is June 2009. The estimated cost for NSD to continue to participate in the NBWRA Program is just under \$500,000. This cost could increase if the project schedule gets delayed. But more importantly, the cost of construction will also increase for each year that we wait for the appropriation of the federal share. For example, with a currently estimated construction cost of \$40 million and assuming a 5% increase in construction costs for each year of delay,

construction costs for the project could increase \$2 million for each year of delay (potential delays include federal certification of the EIR and federal funding appropriation). If the project is delayed by 5 years waiting for the federal funds, the construction costs will have risen enough to fully offset the \$10 million in federal funds that we might get but are not assured of.

Because the environmental documentation is the critical path issue, County staff solicited a proposal from the same environmental consultant that was competitively selected to perform the environmental review for the larger NBWRA Program. This proposal was for the preparation of an environmental document specifically for the MST Recycled Water Project with the County serving in the Lead Agency role. The proposed cost to perform this work is \$400,000. An important item to note is that if the County elects to perform an independent environmental document, only the MST Recycled Water Project would be addressed. Measure A funds cannot be used to perform work related to recycled water projects in Carneros. If the County participates in the NBWRA program, Carneros could be addressed with NSD contributions and Carneros could receive a program level review in the EIR prepared for the regional project.

At this point, County staff is seeking direction on the most desirable way to proceed. In general, the primary decision that needs to be made is whether the County wishes to pursue federal funding for the MST Recycled Water Project and participate in the NBWRA Program or whether the County should forego participation in the NBWRA Program in an effort to move the project along as quickly as possible. A number of alternatives exist and these are summarized in Attachment 2 along with the "pros and cons" associated with each. Staff recommends that we proceed with this project independent of NBWRA in order to be able to deliver this project in a timely manner to the community (Alternative 1). In our opinion, being tied to NBWRA will only slow the project down, with no assurance that federal funding will be forthcoming. Our experience with Federal flood control funding has proven that no matter how environmentally beneficial a project is, the optimal amount of federal funding is never forthcoming. All large projects are time sensitive when it comes to construction costs. The federal funds that are offered in the NBWRA proposal will be completely consumed by increased construction costs if the federal process slows the project down by only 5 years, which in staff's opinion is quite possible.

SUPPORTING DOCUMENTS

- A . Attachment 1 - Key Questions for NSD Board to Consider
- B . Attachment 2 - Participation Alternatives for Board of Supervisor Consideration

CEO Recommendation: Approve

Reviewed By: Helene Franchi