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July 26, 2021

Oceano Community Services District
1655 Front Street
Oceano, CA 93445

RE: July 28, 2021 agenda item 9.A. Drought Issues and Review of Water Supply

Dear Board of Directors,

The premise of the staff report for the above referenced agenda item relates to “current drought conditions” and the need to review the District’s water supply and possible impacts of an extended drought. Rather than drought related implications, the impetus for reviewing the District’s water supply should consider the water demands from fellow NCMA members, especially the City of Arroyo Grande. The OCSD has an opportunity to enhance its water portfolio for current demands and future build-out while also generating additional revenues for the district.

The staff report, while fairly detailed, fails to discuss the cost of the various sources in the District’s water portfolio. Moreover, the staff report neglects to explore the opportunities for the OCSD to secure additional Table A and/or Drought Buffer from the San Luis Obispo County Flood Control and Water Conservation District (SLO CO FC&WCD) related to State Project Water (SPW). The SLO CO FC&WCD is currently determining how to deploy almost 15,000 AFY of unallocated SPW.

Currently the OCSD subscribes annually to 750 acre feet of Table A water and 750 acre feet of Drought Buffer. According to the 21-22FY proposed budget for the District, the combined cost of SPW is \$1,151,000. The Table A cost is approximately \$1,019,750 or \$1,360.00 per acre foot. The Drought Buffer cost is approximately \$131,250 or \$175 per acre foot.

The OCSD should consider acquiring 250 acre feet of additional Table A SPW and 750 acre feet of additional Drought Buffer. The total entitlement would become 1,000 acre feet of Table A SPW and 1,500 acre feet of Drought Buffer. Consequently, by way of example, in a year with 40 percent or greater deliveries of SPW, the District would receive up to 1,000 acre feet of guaranteed water.

Table A	1,000AFY
Drought Buffer	+ <u>1,500AFY</u>
	2,500AFY (0.40) = 1,000AFY of delivered water

ACQUISITION MARKETING LAND USE REDEVELOPMENT

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The cost of the additional Table A water is	250AFY x \$1,360/AF = \$340,000
The cost of additional Drought Buffer is	750AFY x \$175/AF = <u>\$131,250</u>
	\$471,250

The combined additional cost equates to approximately \$1,000/AFY

The City of Arroyo Grande may be willing to pay as much as \$2,000AF for 400 acre feet of water, or \$800,000 per year. By way of comparison, Arroyo Grande was going to pay \$1,606,334 per year for 400 AF of water from Pismo Beach’s Central Coast Blue project. This represents an opportunity for Arroyo Grande to secure permanent additional water supplies for half the price. This also has the potential to generate over \$300,000 (\$800,000-\$471,250) per year in revenue for the OCSD to deploy for various water infrastructure improvements such as new water tank(s), water transmission pipeline repair and well upgrades. Without this additional revenue the OCSD will have to rely on grants or water rate increases to accomplish much of the water infrastructure improvements contemplated. This arrangement could be a “win-win” for both the OCSD and the City of Arroyo Grande.

Other issues not discussed in the staff report include:

1. The cost and benefit of the Delta Conveyance Project. Early indications are the cost will be approximately \$255 per acre foot; however it is likely to result in a benefit of increased reliability by approximately 10 percent.
2. The majority of the current cost of Table A water at \$1,360/AFY is comprised of \$1,050/AF for the Coastal Branch of the SPW. In 2035 the Coastal Branch will be paid in full and the associated cost will cease. So, Table A water will then likely cost \$1,360 - \$1,050 + \$255 = \$565.00/AFY.
3. State Project Water stored in Lopez Lake becomes Zone 3 water, making it readily to the City of Arroyo Grande without constraints.

This strategy would not only generate additional revenues for the District, but it would enhance the water portfolio for their own current demands and future build-out.

OCSD Water Portfolio,

- | | |
|-------------------|---|
| 1. Groundwater | 900AFY |
| 2. Lopez Lake | 303 AFY |
| 3. SPW (proposed) | Table A 1,000AFY plus Drought Buffer 1,500AFY |



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Example: Groundwater at 30% = 270AFY
 Lopez at 80% = 242AFY
 SPW at 40% = 1,000AFY
 1,512AFY
 -400AFY City of Arroyo Grande
 1,112AFY
 -743AFY OCSD Current Demand
 369AFY Surplus water for build-out

Why Arroyo Grande?

The OCSD and the City of Arroyo Grande have a historical relationship in connection with the sale or transfer of water. In March of 2009, the OCSD entered into an agreement with the City of Arroyo Grande for the temporary sale (rental) of water. Arroyo Grande could pump the water from their own wells or take delivery of OCSD Lopez water at the turnout. The agreement was for 100AFY over five (5) years.

A wholesale water supply agreement could be structured between the OCSD and the City of Arroyo Grande to facilitate the suggested scenario related to multiple sources of the OCSD water portfolio. The delivery of 400AFY to the City of Arroyo Grande could incorporate groundwater and Lopez water similar to the 2009 agreement with the addition of SPW; as a third source of water or any combination thereof, for transfer to the City. Any such agreement with the City would likely be consistent with the 2012 Oceano voter initiative regarding the sale of water, in that the transfer would include water secured over and above that contemplated by the initiative and resulting ordinance.

Conclusion

The OCSD should consider requesting augmentation of their Table A and Drought Buffer allocations from the SLO CO FC&WCD as soon as possible. Furthermore, the OCSD should initiate discussions and negotiations with Arroyo Grande with the prospect of entering into a long-term wholesale water supply agreement

Sincerely,

Jeff Edwards

Cc: Whitney McDonald, City Manager-City of Arroyo Grande
John Diodati, SLO County Public Works Director-FC&WCD

