Board Presentation

Montecito Water District

Proposed Water Supply Agreement

with the City of Santa Barbara

May 26, 2020

CleanEnergyCapital

May 2019 Board Meeting Objectives

"Montecito Water District delivers our most precious resource!"

Today: Informational Presentation of Water Supply Agreement (No Action Needed)

May/June: Additional Community and Public Information Sessions

June 25: Board consideration and potential approval of Water Supply Agreement

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Section I
Background

MWD Water Supply – Existing Supply

- Existing water supply (in AFY) versus approximately 5,100 AFY projected Montecito Water District ("MWD") customer demand:

Source	Normal Year	Critical Dry Year
State Water Project / CCWA	2,015	165
Lake Cachuma (Cashuma Project)	2,651	-
Jameson Lake	1,500	350
Doulton Tunnel Infiltration	320	160
Groundwater Wells	250	640
Total Potable Supplies	6,736	1,315

Source: 2015 Urban Water Management Plan

- Less than 10% of existing water supply is ranked as highly reliable (Doulton Tunnel and Groundwater)
- 90% is vulnerable to weather-induced shortages, and environmental and regulatory constraints.

Improving Water Supply Reliability

- MWD is targeting significant new water supply sources that are local and drought proof
- Targeted new sources were summarized in Montecito's Urban Water Management Plan (in AFY):

Source	Volume (2025)
Water Storage (Banking)	1,000
Recycled Water	1,000
Purchased Water / Ocean Water Desalination	1,250
Total New Supplies	3,250

- Water purchased from the City of Santa Barbara, made surplus to the City's needs by the Charles E. Meyer Desalination Facility, plays a key role in Montecito's water reliability objectives

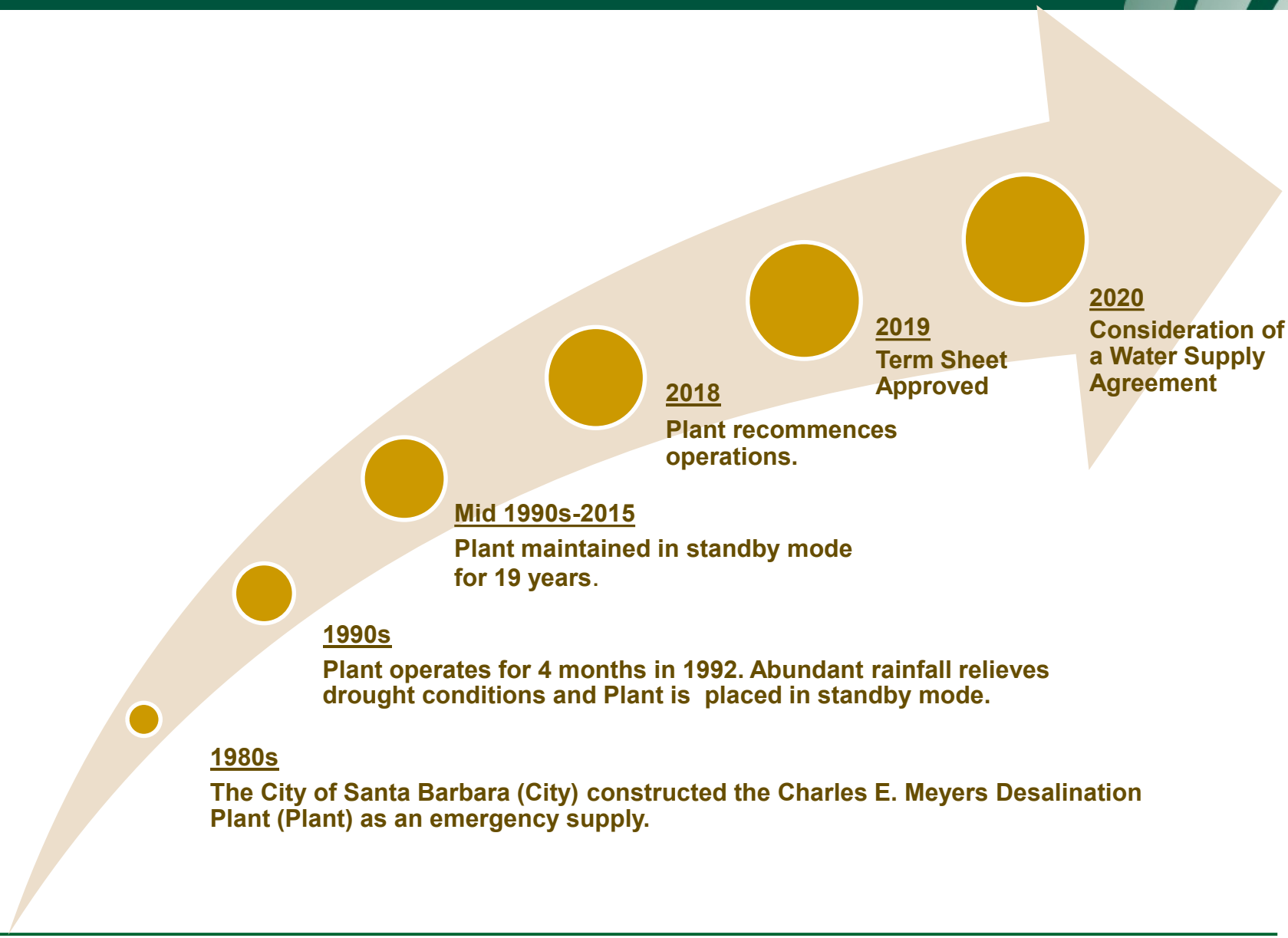
Charles E. Meyer Desalination Project

Initial Construction	• The City of Santa Barbara (City) constructed the Charles E. Meyers Desalination Plant (Plant) as an emergency supply. • Plant capacity of the facility was 7,500 acre feet per year (AFY) with the potential for expansion up to 10,000 AFY. MWD and Goleta contracted for entitlements of 1,250 AFY and 3,069 AFY, respectively. • The plant began operations in 1992.
Long-Term Standby	• Due to abundant rainfall in the 1991-1992 winter and subsequent winters, the region's drought condition was relieved and the desalination plant was placed into a standby mode. • MWD and Goleta elected not to extend or renew their interest in the Plant. The City bought out MWD and Goleta's interests and placed the plant in long-term standby mode.
Restart	• In 2015, the City approved reactivation of the Plant. • In January 2018, the Plant resumed operations with a 3,125 AFY production capacity. • The City currently operates the Plant through contract with IDE Americas.

Water Supply Agreement

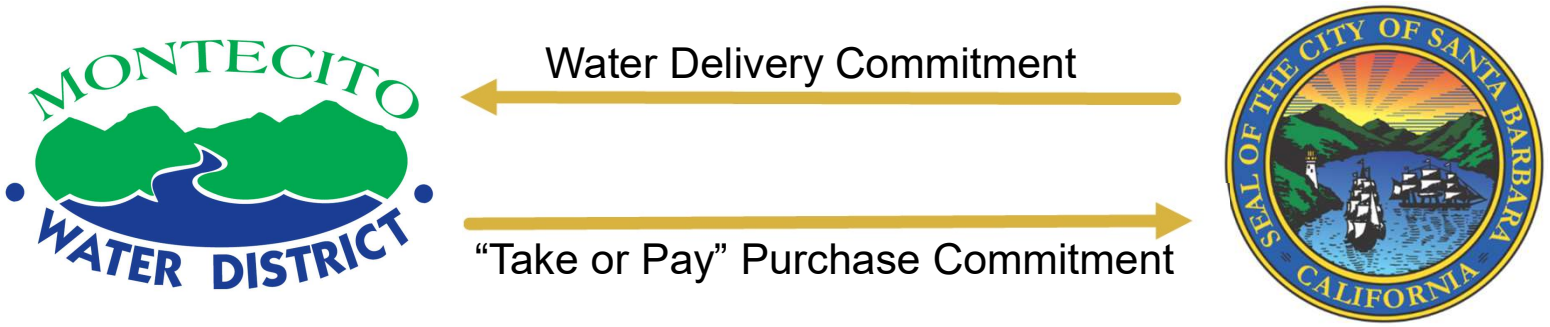
2014	• MWD began conversations with the City of Santa Barbara (the "City") regarding desalination
2015	• MWD formally requested that the City provide it with water through a long-term Water Supply Agreement ("WSA") • City Council authorized staff to initiate discussions with MWD towards a WSA • MWD and the City receive positive initial feedback from regulatory authorities on regionalization of the Desal Plant
2019	• City Council and MWD review a draft Term Sheet negotiated by staff, and direct staff to produce a definitive WSA
2020	• City Council and MWD Board consideration of the final WSA

An Historic Moment



Section II
Key Terms of WSA

Water Supply Agreement Overview



Roles of MWD	Roles of the City
• Commit to purchase water from the City for term of the Agreement • Pay for committed volume of water in every year, whether or not water is needed	• Commit to supply water to MWD for term of the Agreement • Own, operate, and maintain the Desalination Plant and Conveyance Pipeline • Control decisions over Desalination Plant and Conveyance Pipeline operations

Term of Agreement

- 50 Year Term
  - 50 years represents the longest-term contracting consistent with the City's statutory authority
- Water deliveries to commence January 1, 2022
- Water deliveries continue through December 31, 2071

Water Supply

- 1,430 acre-feet per year (AFY)
  - Approximately 28% of Montecito's projected customer demand
  - Delivered in equal monthly amounts
  - Conveyance loss of 1.5%
- Potable water from any source determined by the City for operational flexibility
- The delivery point is the Clearwell at the regional Cater Water Treatment Plant
- Water is then conveyed to MWD via the South Coast Conduit

Desalination Plant Operations

- The City has full discretion over operations and maintenance of the Plant, provided that:
  - Except as provided below, the City will keep and maintain the Plant in a condition allowing the Plant to be continuously available for water production
  - If shut down, the Plant must be able to resume operations within 10 days
  - The City will operate the Plant at full production during a critical water emergency
- The City has limited rights to replace the Plant after 25 years with another water production facility or source that has greater or equal reliability and lesser or equal cost to the District

Conveyance Pipeline

- The City is expected to construct a Conveyance Pipeline connecting the Plant to the Cater Water Treatment Plant
  - Newly built pipeline
  - Improvements to the City's existing pipeline system
  - Improvements to Cater Clearwell
- Completion of the Conveyance Pipeline is NOT a pre-condition to commencement of water deliveries
- MWD is committed to pay for a portion of the Conveyance Pipeline, but only when the City:
  - Completes the Conveyance Pipeline
  - Also expands the Plant to 5,000 AFY capacity

Capital Modifications

- The City has full discretion over plant expansion, and potential capital modifications to the Plant
  - Montecito's water payments are based on a "Core Plant" defined as the existing 3,125 AFY facility, plus potential future upgrades up to 5,000 AFY
  - Generally, MWD will pay a portion of the costs of capital modifications to the Core Plant
  - MWD is not obligated to pay for any portion of capacity expansions beyond 5,000 AFY and related capital modifications
- Late-Term Modifications
  - If capital modifications are undertaken in the last 20 years of term, MWD will only pay for its ratable use for the remainder of the term

Annual Contract Water Supply Charge

- Water supply is made possible by the Desalination Plant, and its ability to produce water surplus to City needs
- Water pricing is based on the cost of desalinated water, irrespective of the actual source of supply

Component	Estimated Cost (2020$s)	Estimated Cost ($/AF)
Plant Capital Charge	$2,305,389	1,612 $/AF
Fixed O&M Charge	$769,848	538 $/AF
Variable O&M Charge	$1,104,602	772 $/AF
Adminstrative Charge	$150,372	105 $/AF
Development Fee	$237,500	166 $/AF
Total	$4,567,712	3,194 $/AF

Plant Capital Charge Component

$$\text{City's Annual Capital Charge Amount} \times \frac{\text{Annual Contract Water Volume}}{\text{Plant Capacity (Core Plant)}}$$

Illustrative Computation:

$$= \$5{,}038{,}001 \text{ X } \frac{1{,}430}{3{,}125} = \textbf{\$2,305,389} \text{ or } \textbf{1,612 \$/AF}$$

- Primarily reflects debt service on the City's SRF Loan
- Falls away after 20 years, when the SRF Loan is repaid

Fixed O&M Charge Component

City's Annual Fixed O&M Costs × $\frac{\text{Annual Contract Water Volume}}{\text{Plant Capacity}}$

Illustrative Computation:

$$= \$1{,}682{,}361 \times \frac{1{,}430}{3{,}125} = \textbf{\$769,848} \text{ or } \textbf{538 \$/AF}$$

- Reflects the City's actual costs of operating and maintaining the plant in a ready-to-produce state
- Currently derived from the City's operating contract with IDE Americas

Variable O&M Charge Component

$$\text{City's Annual Variable O\&M Costs} \times \frac{\text{Annual Contract Water Volume}}{\text{Total Annual Desal Plant Production}}$$

Illustrative Computation:

$$= \$2{,}413{,}903 \text{ X } \frac{1{,}430}{3{,}125} = \textbf{\$1,104,602} \text{ or } \textbf{772 \$/AF}$$

- Reflects the City's actual volumetric costs of producing Contract Water
- Currently derived from the City's operating contract with IDE Americas

Administrative Charge Component

$$\text{City's Annual Administrative Costs} \times \frac{\text{Annual Contract Water Volume}}{\text{Plant Capacity (Core Plant)}}$$

Illustrative Computation:

$$= \$328{,}610 \times \frac{1{,}430}{3{,}125} = \textbf{\$150,372} \text{ or } \textbf{105 \$/AF}$$

- Reflects the City's actual costs of administering the Plant and Conveyance Pipeline

Water Supply Development Fee Component

Computation:

$237,500 or **166 $/AF**

- Reflects the City's partial recovery of its investment costs in the Plant, outside of costs financed through the SRF Loan
- Escalates over the term of the WSA

Special Payments

- The WSA provides for special payments and deposits in addition to the Annual Water Supply Charge
  - Conveyance Pipeline Payment
  - Debt Service Coverage Deposit
  - Debt Service Reserve Deposits
  - Plant Capital Maintenance costs

Conveyance Pipeline Payment

- MWD will make a lump-sum payment to the City for its allocated costs of the Conveyance Pipeline
  - Due the later of:
    - Completion of the Conveyance Pipeline, and
    - Completion of Plant upgrade to 5,000 AFY
  - Based on the City's actual costs of construction, escalated to the date of payment
  - MWD pays 64.6% of the City's costs, with the percentage representing the approximate ratio of a smaller pipeline with 1,430 AFY capacity to a large pipeline with 10,000 AFY capacity
  - Montecito's payment obligation is partially offset by grant monies received or expected to be received by the City

Conveyance Pipeline Payment - Example

- Assuming the Conveyance Pipeline costs $12.5 million, Montecito's lump sum payment to the City would be:

Lump Sum Payment to City - Illustrative Example	
Illustrative Capital Costs of Pipeline Project ($)	15,000,000
Pipeline Allocation Percent	64.6%
District Capital Cost Allocation ($)	9,690,000
Application of Grant Money	
Grant Received and Expected by the City	11,000,000
Capital Charge Allocation Percent	28.6%
District Grant Allocation	3,146,000
Lump Sum Payment to City	6,544,000

- It is assumed that MWD would borrow money for the lump sum payment, and repay the borrowing over time

Conveyance Pipeline – Additional Payments

- Conveyance Pipeline O&M
  - The District will pay a portion of Conveyance Pipeline costs for ordinary maintenance. Such portion will be calculated as follows:

$$\frac{\text{Annual Contract Water Volume (1,430 AFY)}}{\text{Plant Capacity at the time Conveyance Pipeline Phase 1 is Complete}}$$

- Major Maintenance, Repairs and Replacements to the Conveyance Pipeline
  - The District will pay a portion of Conveyance Pipeline costs for major maintenance, repairs, and replacements.
  - Such portion will be the Capital Charge Allocation Percentage.

Financial Deposits

- MWD will fund its portion of the City's financial deposits required by the City's SRF Loan
  - These deposits, and interest earnings thereon, are for the account of MWD and are not considered costs of water supply
- Debt Service Reserve Deposit
  - MWD funds its portion of the City's Debt Service Reserve Requirement over 10 years
  - Accumulated monies will be applied toward final loan payment
- Debt Service Coverage Deposit
  - MWD will fund a debt service coverage deposit of 0.25x of Montecito's portion of the City's debt service
  - Deposits are refunded to MWD at the end of each Contract Year and used to fund the following year's requirement

Plant Capital Maintenance Costs

- MWD will pay its proportionate share of major maintenance, repair and replacements costs incurred by the City with respect to the Core Plant (up to 5,000 AFY capacity)
- MWD is proposing to establish a dedicated reserve to help cover Plan Capital Maintenance Costs (Part of MWD's "2020 Water Cost of Service and Rate Study")

Billing and Payment Procedures

- The City will prepare an annual budget in advance of each Contract Year
- MWD will pay equal monthly payments to the City, reflecting budgeted amounts
- After the end of each Contract Year, the City will provide the District an annual settlement statement
- MWD or the City, as appropriate will make a “true-up” payment

City Relief – Adverse Water System Event (1)

- Conditions to City Relief from its Water Supply Obligation:
  - The occurrence of an asset failure (other than to the Plant or the Conveyance Pipeline), contamination, or severe drought.
  - The Plant is being operated at full production.
  - The Plant has a capacity of 5,000 AFY (for asset failure or contamination) or 7,500 AFY (for severe drought).
  - The City is not selling water to a third party other than the District.
  - The City is unable to meet its basic public health, safety, and sanitation needs as a result of the event.

City Relief – Adverse Water System Event (2)

- Allowable Relief for the City:
  - The City is relieved from its obligation to deliver water to the extent required to meet its basic public health, safety, and sanitation needs.
  - If both parties are unable to meet their basic public health, safety, and sanitation needs, the water will be divided equitably.
- Effect on District Obligation to Pay:
  - District will not be obligated to pay for the water that the City is excused from delivering.

City Relief – Adverse Plant Event (1)

- Conditions to City Relief from its Water Supply Obligation:
  - The occurrence of an (1) Uncontrollable Circumstance affecting the production of Plant Water, (2) a failure for any reason by the Operating Services Provider to produce water, or (3) damage to the Conveyance Pipeline caused by a Force Majeure Event.
  - Either (1) The Plant Capacity is 3,125 AFY and the event causes a full Plant shutdown or (2) the Plant Capacity has been upgraded to at least 5,000 AFY and the event causes a full shutdown or a reduction in Plant production.
  - The Plant is being operated to produce water at an annualized rate of at least 1,430 AFY at the time of the event.

City Relief – Adverse Plant Event (2)

- Allowable Relief for the City:
  - If a full plant shutdown occurs, the City is relieved of its obligation to deliver water.
  - If a partial plant shutdown occurs, the City is relieved of a portion of its obligation to deliver water. The amount required to be delivered will be calculated as follows:

$$\text{Water actually produced by the Plant} \times \frac{\text{Annual Contract Water Volume}}{\text{Plant Capacity (when the event occurred)}}$$

  - If both parties are unable to meet their basic public health, safety, and sanitation needs, the water will be divided equitably.
- Effect on District Obligation to pay:
  - Obligation unchanged.

City Relief – MWD Inability to Receive Water

- Conditions to City Relief from its Water Supply Obligation:
  - The District is physically unable to accept water for any reason, including a Force Majeure Event affecting the District's water distribution system or the portion of the South Coast Conduit after the Delivery Point.
  - Voluntary decision by the District not to accept deliveries does not apply.
- Allowable Relief for the City:
  - The City may use the water for any purpose and such water will become District Banked Water in Lake Cachuma.
  - Until such water is delivered, it will be subject to all conveyance restrictions, losses, and costs applicable to District owned water at Lake Cachuma and the District will pay all costs associated with its storage and conveyance.

MWD Remedies

- Deductions:
  - The District is entitled to deductions to the Annual Contract Water Supply Charge in the following situations:
    - The City fails to deliver contract water without relief.
    - The City is relieved from its delivery obligation due to an Adverse Water System Event.
  - Deductions are calculated on a per unit basis as follows:

$$\frac{\text{Annual Contract Water Supply Charge}}{\text{Annual Contract Water Volume}}$$

MWD and City Remedies

- District Right to Specific Performance:
  - The District has the right to compel specific performance for delivery of water in the event of breach by the City.
- City Right to Withhold Water:
  - The City has the right to withhold water deliveries if the District is delinquent for more than 60 days on payment of undisputed amounts.
- Right of Termination:
  - Either party has the right of termination if a material breach of the other party is not cured after the allowable cure period.

Section III
Projected Cost of Water

Projected Cost of Water: Existing Facility

Proposed Water Supply Agreement
Full Term Cost Projection - Existing 3,125 AFY Facility

	Cost of Water in $s							Cost of Water in $/AF					
Year Ending	Plant Capital Charge	Standby O&M	Variable O&M	Admin Charge	Devel. Fee	Total ($s)	Annual Contract Water Volume	Plant Capital Charge	Standby O&M	Variable O&M	Admin Charge	Devel. Fee	Total ($/AF)
6/30/2022	1,152,695	404,411	580,261	78,992	118,750	2,335,109	715 AF	1,612	566	812	110	166	3,266
6/30/2023	2,305,389	829,043	1,189,536	161,934	244,625	4,730,526	1,430 AF	1,612	580	832	113	171	3,308
6/30/2024	2,305,389	849,769	1,219,274	165,982	251,964	4,792,378	1,430 AF	1,612	594	853	116	176	3,351
6/30/2025	2,305,389	871,013	1,249,756	170,132	259,523	4,855,812	1,430 AF	1,612	609	874	119	181	3,396
6/30/2026	2,305,389	892,788	1,281,000	174,385	267,308	4,920,871	1,430 AF	1,612	624	896	122	187	3,441
6/30/2027	2,305,389	915,108	1,313,025	178,745	275,328	4,987,594	1,430 AF	1,612	640	918	125	193	3,488
6/30/2028	2,305,389	937,986	1,345,850	183,214	283,587	5,056,026	1,430 AF	1,612	656	941	128	198	3,536
6/30/2029	2,305,389	961,435	1,379,497	187,794	292,095	5,126,210	1,430 AF	1,612	672	965	131	204	3,585
6/30/2030	2,305,389	985,471	1,413,984	192,489	300,858	5,198,191	1,430 AF	1,612	689	989	135	210	3,635
6/30/2031	2,305,389	1,010,108	1,449,334	197,301	309,884	5,272,015	1,430 AF	1,612	706	1,014	138	217	3,687
6/30/2032	2,305,389	1,035,361	1,485,567	202,234	319,180	5,347,730	1,430 AF	1,612	724	1,039	141	223	3,740
6/30/2033	2,305,389	1,061,245	1,522,706	207,289	328,756	5,425,385	1,430 AF	1,612	742	1,065	145	230	3,794
6/30/2034	2,305,389	1,087,776	1,560,774	212,472	338,618	5,505,028	1,430 AF	1,612	761	1,091	149	237	3,850
6/30/2035	2,305,389	1,114,970	1,599,793	217,783	348,777	5,586,712	1,430 AF	1,612	780	1,119	152	244	3,907
6/30/2036	2,305,389	1,142,844	1,639,788	223,228	359,240	5,670,489	1,430 AF	1,612	799	1,147	156	251	3,965
6/30/2037	2,305,389	1,171,415	1,680,783	228,809	370,017	5,756,413	1,430 AF	1,612	819	1,175	160	259	4,025
6/30/2038	2,305,389	1,200,701	1,722,802	234,529	381,118	5,844,539	1,430 AF	1,612	840	1,205	164	267	4,087
6/30/2039	391,852	1,230,718	1,765,872	240,392	392,551	4,021,386	1,430 AF	274	861	1,235	168	275	2,812
6/30/2040	391,852	1,261,486	1,810,019	246,402	404,328	4,114,087	1,430 AF	274	882	1,266	172	283	2,877
6/30/2041	391,852	1,293,023	1,855,269	252,562	416,458	4,209,165	1,430 AF	274	904	1,297	177	291	2,943
6/30/2042	195,926	1,325,349	1,901,651	258,876	428,951	4,110,754	1,430 AF	137	927	1,330	181	300	2,875
6/30/2043	-	1,358,483	1,949,193	265,348	439,675	4,012,698	1,430 AF	-	950	1,363	186	307	2,806
6/30/2044	-	1,392,445	1,997,922	271,982	450,667	4,113,016	1,430 AF	-	974	1,397	190	315	2,876
6/30/2045	-	1,427,256	2,047,870	278,781	461,934	4,215,841	1,430 AF	-	998	1,432	195	323	2,948
6/30/2046	-	1,462,937	2,099,067	285,751	473,482	4,321,237	1,430 AF	-	1,023	1,468	200	331	3,022
6/30/2047	-	1,499,511	2,151,544	292,894	485,319	4,429,268	1,430 AF	-	1,049	1,505	205	339	3,097
6/30/2048	-	1,536,998	2,205,332	300,217	497,452	4,540,000	1,430 AF	-	1,075	1,542	210	348	3,175
6/30/2049	-	1,575,423	2,260,466	307,722	509,888	4,653,500	1,430 AF	-	1,102	1,581	215	357	3,254
6/30/2050	-	1,614,809	2,316,977	315,415	522,636	4,769,837	1,430 AF	-	1,129	1,620	221	365	3,336
6/30/2051	-	1,655,179	2,374,902	323,301	535,702	4,889,083	1,430 AF	-	1,157	1,661	226	375	3,419
6/30/2052	-	1,696,559	2,434,274	331,383	549,094	5,011,310	1,430 AF	-	1,186	1,702	232	384	3,504
6/30/2053	-	1,738,973	2,495,131	339,668	562,821	5,136,593	1,430 AF	-	1,216	1,745	238	394	3,592

Projected Cost of Water: Existing Facility

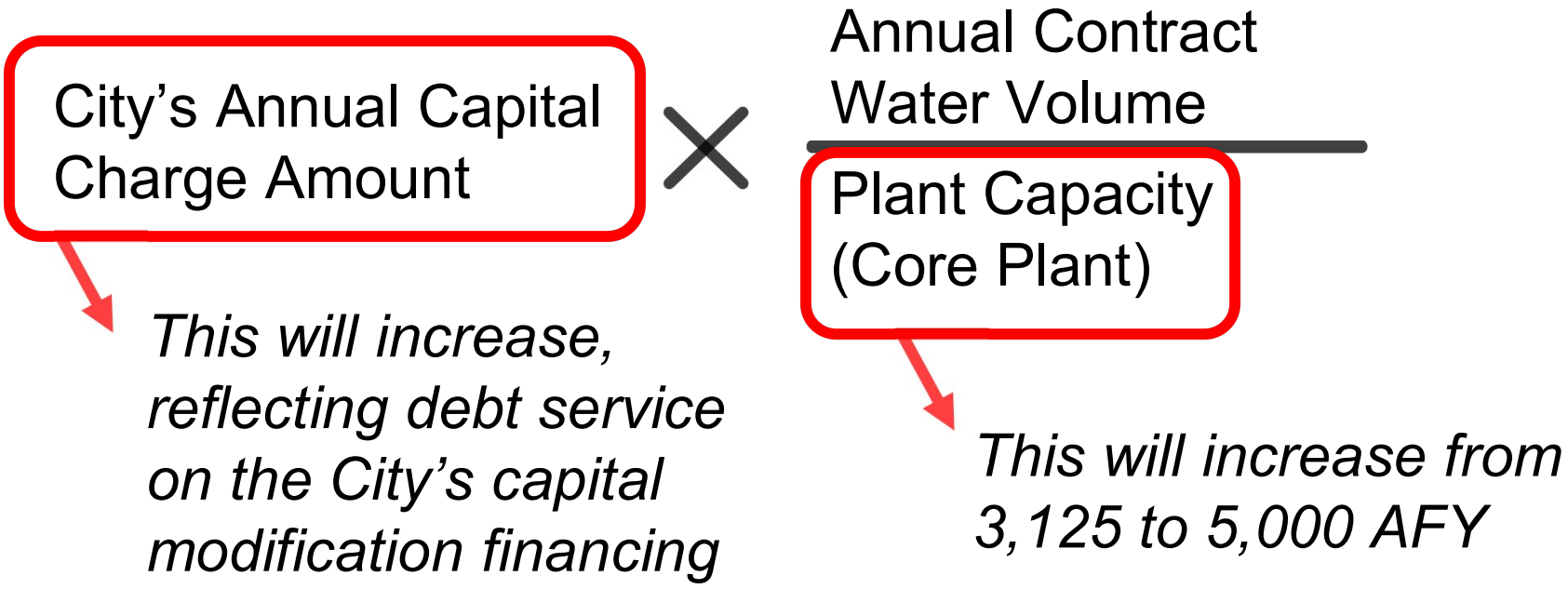
Proposed Water Supply Agreement
Full Term Cost Projection - Existing 3,125 AFY Facility

	Cost of Water in $s							Cost of Water in $/AF					
Year Ending	Plant Capital Charge	Standby O&M	Variable O&M	Admin Charge	Devel. Fee	Total ($s)	Annual Contract Water Volume	Plant Capital Charge	Standby O&M	Variable O&M	Admin Charge	Devel. Fee	Total ($/AF)
6/30/2054	-	1,782,447	2,557,509	348,159	576,892	5,265,008	1,430 AF	-	1,246	1,788	243	403	3,682
6/30/2055	-	1,827,008	2,621,447	356,863	591,314	5,396,633	1,430 AF	-	1,278	1,833	250	414	3,774
6/30/2056	-	1,872,683	2,686,983	365,785	606,097	5,531,549	1,430 AF	-	1,310	1,879	256	424	3,868
6/30/2057	-	1,919,500	2,754,158	374,930	621,250	5,669,838	1,430 AF	-	1,342	1,926	262	434	3,965
6/30/2058	-	1,967,488	2,823,012	384,303	636,781	5,811,584	1,430 AF	-	1,376	1,974	269	445	4,064
6/30/2059	-	2,016,675	2,893,587	393,910	652,700	5,956,873	1,430 AF	-	1,410	2,023	275	456	4,166
6/30/2060	-	2,067,092	2,965,927	403,758	669,018	6,105,795	1,430 AF	-	1,446	2,074	282	468	4,270
6/30/2061	-	2,118,769	3,040,075	413,852	685,743	6,258,440	1,430 AF	-	1,482	2,126	289	480	4,377
6/30/2062	-	2,171,739	3,116,077	424,199	702,887	6,414,901	1,430 AF	-	1,519	2,179	297	492	4,486
6/30/2063	-	2,226,032	3,193,979	434,803	720,459	6,575,273	1,430 AF	-	1,557	2,234	304	504	4,598
6/30/2064	-	2,281,683	3,273,828	445,674	738,470	6,739,655	1,430 AF	-	1,596	2,289	312	516	4,713
6/30/2065	-	2,338,725	3,355,674	456,815	756,932	6,908,147	1,430 AF	-	1,635	2,347	319	529	4,831
6/30/2066	-	2,397,193	3,439,566	468,236	775,856	7,080,850	1,430 AF	-	1,676	2,405	327	543	4,952
6/30/2067	-	2,457,123	3,525,555	479,942	795,252	7,257,872	1,430 AF	-	1,718	2,465	336	556	5,075
6/30/2068	-	2,518,551	3,613,694	491,940	815,133	7,439,318	1,430 AF	-	1,761	2,527	344	570	5,202
6/30/2069	-	2,581,515	3,704,036	504,239	835,512	7,625,301	1,430 AF	-	1,805	2,590	353	584	5,332
6/30/2070	-	2,646,053	3,796,637	516,845	856,399	7,815,934	1,430 AF	-	1,850	2,655	361	599	5,466
6/30/2071	-	2,712,204	3,891,553	529,766	877,809	8,011,332	1,430 AF	-	1,897	2,721	370	614	5,602
6/30/2072	-	1,390,005	1,994,421	271,505	449,877	4,105,808	715 AF	-	1,944	2,789	380	629	5,742
Total	39,410,402	79,833,076	114,546,939	15,593,530	25,544,968	274,928,915	71,500 AF						

*Annual Escalation estimated at: 2.50%

Potential Plant Expansion to 5,000 AFY

- When and if the City expands the Plant to 5,000 AFY capacity, the Plant Capital Charge Component will change as follows:



- Economies of scale in Plant expansion are expected to LOWER the Plant Capital Charge Component

Potential Plant Expansion to 5,000 AFY

- Impacts on other components of the Annual Contract Water Supply Charge:
  - The Fixed and Variable O&M Charges may change as well (but are modeled as unchanged)
  - The Administrative Charge is expected to decline, reflecting economies of scale
  - The Development Fee will remain unchanged
- Additionally, if the City has completed the Conveyance Pipeline, the lump-sum payment will be due

Estimated Cost of Water: 5,000 AFY Plant

- The following table shows estimated costs of the existing 3,125 AFY Plant vs an expanded 5,000 AFY Plant

Estimated Cost and Unit Price

Component	Three-Train Plant (3,125 AFY) (2020$s)	(2020$/AF)	Four-Train Plant (5,000 AFY) (2020$s)	(2020$/AF)
Plant Capital Charge	$2,305,389	1,612 $/AF	$1,797,641	1,257 $/AF
Fixed O&M Charge	$769,848	538 $/AF	$769,848	538 $/AF
Variable O&M Charge	$1,104,602	772 $/AF	$1,104,602	772 $/AF
Adminstrative Charge	$150,372	105 $/AF	$93,982	66 $/AF
Development Fee	$237,500	166 $/AF	$237,500	166 $/AF
Total Payment to City	$4,567,712	3,194 $/AF	$4,003,573	2,800 $/AF
Pipeline Debt Service	$0	0 $/AF	$415,252	290 $/AF
Total Cost of Water	$4,567,712	3,194 $/AF	$4,418,825	3,090 $/AF

Comparison with January 2019 Cost Estimates

3,125 AFY Plant (Three Trains)

Component	Jan 2019 Cost Estimate		Current 2020 Cost Estimate		Change	
Plant Capital Charge	$2,148,436	1,502 $/AF	$2,305,389	1,612 $/AF	110 $/AF	7.3%
Fixed O&M Charge	$658,758	461 $/AF	$769,848	538 $/AF	77 $/AF	16.8%
Variable O&M Charge	$1,155,644	808 $/AF	$1,104,602	772 $/AF	-36 $/AF	-4.4%
Adminstrative Charge	$60,000	42 $/AF	$150,372	105 $/AF	63 $/AF	150.4%
Development Fee	$237,500	166 $/AF	$237,500	166 $/AF	0 $/AF	0.0%
Total Cost of Water	$4,260,338	2,979 $/AF	$4,567,712	3,194 $/AF	215 $/AF	7.2%

Reconciliation notes:

- The Plant Capital Charge Component increased due to shorter remaining loan term from commencement of water deliveries, the addition of City cash-funded construction costs and pump station upgrade
- The Fixed O&M Charge Component increased due to the addition of standby electric costs incorrectly excluded from the Jan 2019 estimate, and index-linked adjustments for 2019 and 2020 contract years
- The Variable O&M Charge Component decreased due to lower electricity use
- The Administrative Charge Component increased due the City's hiring of a Water Quality Superintendent allocated 40% to desal, and other inter-department allocated costs

Comparison with January 2019 Cost Estimates

5,000 AFY Plant (Four Trains)

Component	Jan 2019 Cost Estimate		Current 2020 Cost Estimate		Change	
Plant Capital Charge	$1,699,545	1,188 $/AF	$1,797,641	1,257 $/AF	69 $/AF	5.8%
Fixed O&M Charge	$657,321	460 $/AF	$769,848	538 $/AF	79 $/AF	17.1%
Variable O&M Charge	$932,629	652 $/AF	$1,104,602	772 $/AF	120 $/AF	18.4%
Adminstrative Charge	$60,000	42 $/AF	$93,982	66 $/AF	24 $/AF	56.6%
Development Fee	$237,500	166 $/AF	$237,500	166 $/AF	0 $/AF	0.0%
Total Payments to City	$3,586,995	2,508 $/AF	$4,003,573	2,800 $/AF	291 $/AF	11.6%
Pipeline Debt Service	$333,663	233 $/AF	$415,252	290 $/AF	57 $/AF	24.5%
Total Cost of Water	$3,920,658	2,742 $/AF	$4,418,825	3,090 $/AF	348 $/AF	12.7%

Reconciliation notes:

- The current estimate assumes that the Fixed and Variable O&M Charge Components will scale proportionately with increased Plant capacity and production
- The current estimate also assumes a higher Conveyance Pipeline cost of $15 million, versus the prior estimate of $12.5 million

Section III
Environmental Review

Environmental Review

- Environmental Review of the Proposed WSA
  - In late 2019, MWD began preparation of a California Environmental Quality Act (CEQA) Addendum to the City's 1991 and 1994 Environmental Impact Reports (EIRs) for the Desalination Plant.
  - The CEQA Addendum found no new significant environmental effects resulting from the proposed WSA, nor would there be a substantial increase in the severity of previously identified environmental effects.
  - In April 2020, MWD's Board of Directors considered the administrative record, made findings in accordance with that record, and adopted the CEQA Addendum pursuant to the California Code of Regulations and Public Resources Code.

Section IV
Benefits and Alternatives

Benefits of the Water Supply Agreement

Benefits for the City	Benefits for MWD
• Provides the City with a material new revenue source to cover a portion of the City's fixed and variable costs of the Plant • Over time, regional use of the Plant is expected to lower the unit cost of water • Regionalization increases likelihood of future governmental/regulatory approvals and grant funding	• Local, drought-proof source of water supply enhances water supply reliability • Supply portfolio diversification • Rapidly deployable • The City's desal plant is cost-effective versus potential development, permitting, and construction of a stand-alone MWD desal facility

Benefits for both Parties

- Continues a long history of collaboration for nearly a century
- Enhances prospects for future projects of mutual benefit

Major Alternatives Considered

- Continue with existing water resources (i.e. no new resource)
  - Exposes MWD to potential water shortages in times of drought
  - Water supply and cost uncertainty
- Develop an independent ocean-water desalination plant
  - "Greenfield" development is high-risk, time consuming, and unlikely to result in a significantly lower cost of water
- Pursue other locally-controlled, drought-proof water supply opportunities
  - Other water supply opportunities are included in Montecito's long-term planning as supplements to desal water from the City

Section V
Next Steps

Next Steps

1. Board to provide staff with feedback on draft WSA
2. Staff to present overview of WSA and proposed new water rates to the Montecito Association on June 9, 2020
3. Board to tentatively host a public meeting (Open House) in early June to share information about the proposed WSA and new water rates
4. Final WSA to be presented to the Board of Directors for possible approval at its June 25, 2020 Special Board Meeting, subject to adoption of new water rates
5. City Council expected to consider approval of final WSA in June and July
6. If mutually approved by MWD and the City, Contract execution in mid-August
7. Pending approval and execution, water deliveries will commence January 1, 2022

Questions and Discussion

Thank you!