

Agenda Report

December 15, 2014

TO: Honorable Mayor and City Council

THROUGH: Municipal Services Committee (December 9, 2014)

FROM: Water and Power Department

SUBJECT: AUTHORIZATION TO ENTER INTO A 10-YEAR CONTRACT WITH METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA FOR PURCHASED WATER

RECOMMENDATION:

It is recommended that the City Council:

1. Find that the action recommended herein is exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15061(b) (3) (General Rule).
2. Authorize the City Manager to enter into a 10-year contract with Metropolitan Water District of Southern California for purchased water with Base Firm Demand Option 1 B and Payment Option 2 A. At today's Tier 1 rate the total cost of the contract to meet the minimum commitment for 10 years would be approximately \$136.3 million.
3. Find that the proposed contract is exempt from competitive bidding pursuant to City Charter Article X Section 1002 (C) contracts for labor, materials, supplies, or services available from only one vendor.

EXECUTIVE SUMMARY:

In January 2003, the City of Pasadena ("City") and Metropolitan Water District of Southern California ("MWD") entered into a 10-year contract, which provided authority to the City Manager to purchase water from MWD. The contract was extended for two additional years and will expire on December 31, 2014.

Currently, MWD is offering its member agencies a new 10-year contract for future water supplies. The proposed contract is voluntary and would allow member agencies to buy additional water at MWD's Tier 1 rates, but requires a minimum commitment of purchased water for 10 years.

The Water and Power Department's analysis of the new contract is that it would offer to the City approximately 18,000 acre feet (AF) more water at the lower Tier 1 rates with Base Demand Option 1 B. The payment Option 2A will reduce the financial and timing risks by paying the higher Tier 2 rates annually. Based on historical data and forecast purchases even with conservation factored in the City can easily meet the minimum commitment for 10 years of 153,100 AF.

BACKGROUND:

MWD's current Tier 2 rate is 15% higher than the Tier 1 rate. The new contract permits an agency to select the annual usage for the calculation of the minimum 10-year commitment and the timing to pay for Tier 2 rates.

Options for Base Firm Demand

The minimum commitment will be calculated based on a Base Firm Demand, the maximum annual volume of water purchased from MWD in the past (Base Demand). The City can choose one of two periods upon which the Base Demand would be selected. The periods are based on a fiscal year (FY) (July 1 to June 30):

- Option 1A - period FYs 1990-2002:

○ City's Base Demand was	23,533 AF
○ Minimum commitment for 10 years	141,200 AF
○ Purchased water at Tier 1 rates up to	211,800 AF

- Option 1B - period FYs 2003-2014:

○ City's Base Demand was	25,517 AF
○ Minimum commitment for 10 years	153,100 AF
○ Purchased water at Tier 1 rates up to	229,650 AF

Option 1B provides the City with more water at the lower Tier 1 rates. The risk for not meeting the minimum commitment is low based on historical usage and forecasted purchases of water even with conservation factored in. The dollar value of this risk calculated at today's Tier 1 rate would be \$13.6 million for 1 year, which is equal to the annual payment to MWD even if the City does not buy any water for one full year.

Payment Options for Tier 2 Rate

Currently, the City pays MWD's Tier 1 rates for up to 90% of the annual Base Demand and the Tier 2 rates thereafter. The proposed contract has three payment options for Tier 2 water, calculated on cumulative volume purchases over 10 years (Total Volume).

- Option 2A (Pay As You Go) – Agencies pay Tier 2 rates annually when annual purchase volume exceeds 90% of the Base Demand. At the end of the 10-year contract if the Total Volume is less than 90% of the Base Demand for ten years, MWD will provide a refund to the City for the purchases made at the Tier 2 rates. If the Total Purchase is more than 90% of the Base Demand the City will pay MWD

the current Tier 2 rate for the difference in volumes. In this option there is a true-up term at the end of the 10-year contract, proposed by MWD for the first time.

Option 2A is very similar to the current contract payment and limits the impact of Tier 2 rates to monthly charges rather than the full amount, if any, at the end of the contract.

- Option 2B – Agencies pay the Tier 1 rates for the 10-year term, even if the purchases exceed 90% of the Base Demand in a calendar year. At the end of the contract if the calculated Total Volume exceeds 90% of the Base Demand for 10 years, the City will pay the difference in volume based on the average difference between Tier 1 and Tier 2 rates over the 10-year term.
- Option 2C – During the first five years of the contract the agencies pay Tier 1 rates regardless of usage. If an agency uses more than five times 90% of the Base Demand during the first 5 years, the agency will begin paying Tier 2 rates annually on the 6th year, after the annual volume exceeds 90% of the Base Demand. The outstanding Tier 2 obligations from the first 5 years can be amortized over the next five years or paid at the end of the contract term.

Option 2C is a hybrid of Options 2A and 2B, and allows deferral of Tier 2 payments to the mid-term of the contract.

Staff recommends that the City Council authorize the City Manager to enter into a new contract with MWD with Base Firm Demand Option 1B and Payment Option 2A. The proposed contract will allow the City to purchase approximately 18,000 more AF of water over ten years at Tier 1 rates than without a contract. Base Firm Demand Option 1B will provide for a greater volume at the lower Tier 1 rates; Payment Option 2A will reduce the financial and timing risks by paying the Tier 2 rates on an annual basis with an option for a refund at the end of the contract. The contract will not have any impacts on the water rates, because MWD rate increases are not set in this contract.

COUNCIL POLICY CONSIDERATION:

Local water supplies are insufficient to meet all of the City's retail service demands, thus the City needs to purchase water from other sources. The largest water wholesaler in southern California is MWD. Providing for a clean and adequate water supply to the City is critical for maintaining and improving both public and private functions in the City. Purchased water from MWD is consistent with Land Use Objective 10, which promotes economic vitality throughout the City for new and expanding businesses. Ensuring adequate sources of water is also consistent with Land Use Objective 13, which promotes healthy family communities through adequate services such as water, power, schools and parks. MWD is regulated by the California State Water Resources Control Board, Division of Drinking Water to ensure that the water served by the agency meets stringent federal and state regulations. This source of purchased water is consistent with Land Use Policy 18.4, which promotes improving water quality standards.

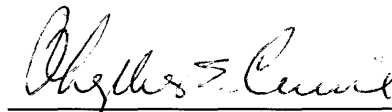
ENVIRONMENTAL ANALYSIS:

Entering into a purchase water agreement with MWD is determined to be exempt from the CEQA process pursuant to State CEQA Guidelines Section 15061(b)(3), the general rule that CEQA applies only to projects that have the potential for causing a significant effect on the environment. Where it is seen with certainty that there is no possibility the activity in question, such as extending an existing contract, has a significant effect on the environment, the activity is not subject to CEQA. Further, while no physical construction is contemplated to be undertaken solely as a result of entering into this contract, CEQA review may apply if any construction projects are proposed, or terms of the contract are changed, in the future.

FISCAL IMPACT:

As a result of this contract the City can purchase approximately 1,800 acre feet per year additional water at Tier 1 rate, which at the current rates will save annually approximately \$256,000. The cost for purchased water is budgeted annually in account 8139-402-881000-01-0704. The current budget for purchased water, based on MWD current rates is approximately \$21 million. The budget is revised annually based on MWD rate increases for the following year.

Respectfully submitted,

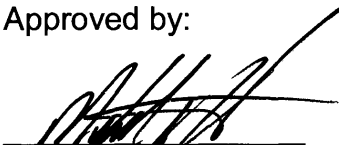


PHYLLIS E. CURRIE
General Manager
Water and Power Department

Prepared by:


Roumiana Voutchkova
Engineer

Approved by:


MICHAEL J. BECK
City Manager