

REPORT

To the Honorable Mayor and City Council
From the City Manager

September 25, 2006

Subject

Master Water Sales Contract – San Francisco

Recommendation

Adopt a resolution appointing the Bay Area Water Supply and Conservation Agency (BAWSCA) as authorized representative of the City in discussions/negotiations with San Francisco for an agreement to provide a reliable supply of high quality water at a fair price.

Background

1. Existing Water Contracts Will Expire in July, 2009

The Settlement Agreement and Master Water Sales Contract signed in 1984 by San Francisco and all wholesale customer agencies will expire on June 30, 2009.

The contracts are expiring at a time of change and uncertainty. San Francisco faces a challenge of unprecedented scale – rebuilding and improving the regional water system after decades of deferred maintenance to standards designed to withstand major earthquakes on the three faults that lie beneath the system's dams, pipelines, and treatment plants. A top priority for all residents, businesses and community organizations of the four-county service area is for San Francisco to complete this vital Water System Improvement Program (WSIP), on time (by 2014) and on budget (\$4.3 billion).

The multi-billion cost of the WSIP will also affect negotiations for a new agreement. Continued application of the cost allocation principles embedded in the current contract would result in a nearly 300% increase in wholesale water rates by 2015. And San Francisco has indicated that it may seek changes to the financial provisions of the Master Contract. One such change that has been mentioned would require wholesale agencies to contribute more quickly to the cost of capital projects, by sharing in debt service as soon as bonds are issued rather than waiting until projects are completed and placed into service.

We expect the discussions and negotiations leading to a new agreement will be complex and technical as regards both the water supply and the financial provisions.

2. BAWSCA

BAWSCA was formed in the spring of 2003 by unanimous decisions of the governing bodies of city and special district members. The State law that authorized BAWSCA's formation was enacted in 2002, one of three landmark pieces of legislation supported by the Bay Area Water Users Association (the non-profit corporation that preceded BAWSCA and that played a leading role in the negotiations that culminated in the 1984 water sales contract). These bills were supported by the cities, water districts and other water suppliers now represented on BAWSCA's board of directors and were voted for by the overwhelming majority of State legislators.

3. BAWSCA Agencies' Objectives

Some of the specific elements that contribute to each of these goals include:

a. Reliable Supply

- Completion of the seismic rehabilitation/WSIP on time and on budget.
- Commitment to good system maintenance practices in the future.
- Equal treatment in delivery of water by San Francisco to customers inside and outside of San Francisco in the event of a major system disruption.
- Management of the system by San Francisco so that generation of hydroelectric power at Hetch Hetchy remains subordinate to providing a reliable water supply to the Bay Area.
- Firm individual entitlements for each agency, with flexibility to trade water entitlements, and water, among BAWSCA agencies.
- Ability for BAWSCA to "wheel" water from outside sources during drought.

b. High Quality

- A commitment by San Francisco to deliver potable water requiring no additional treatment.
- Prompt notification of possible Safe Drinking Water Act violations or changes in water quality affecting individual customers.

c. Fair Price

- In general, agencies expressed desire to preserve the basic cost allocation architecture of the existing Master Contract:
 - Cost of water to be limited to facilities and services and benefit wholesale customers (i.e., no in-City costs, no Hetch Hetchy power costs, unless power revenues also shared.)
 - Costs of regional facilities allocated between San Francisco and wholesale customers on basis of relative usage.

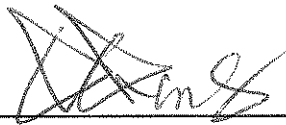
- Maintenance of the balancing account to monitor and account for overpayments/underpayments.
- Provide greater flexibility in administration to prevent sharp rate fluctuations from year-to-year.

Alternative

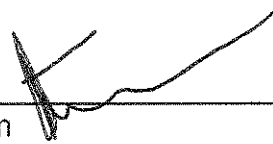
City Council could choose not to authorize the Bay Area Water Supply & Conservation Agency (BAWSCA) representing the City of Redwood City, to do the negotiations with San Francisco. However, the unity of Agency members is one of the key factors of successful negotiations with San Francisco.

Fiscal Impacts

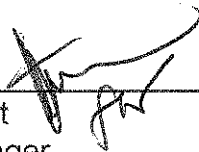
There are no fiscal impacts to the City. The City of Redwood City is one of the members of the BAWSCA. The cost of representing member agencies is included in the membership.



Chu Chang, P.E.
Manager, Engineering & Construction



Peter Ingram
Community Development Director



Ed Everett
City Manager

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RESOLUTION NO. _____

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF REDWOOD CITY APPOINTING THE BAY AREA WATER SUPPLY AND CONSERVATION AGENCY AS AUTHORIZED REPRESENTATIVE OF CITY IN DISCUSSIONS/NEGOTIATIONS WITH SAN FRANCISCO FOR AN AGREEMENT TO PROVIDE A RELIABLE SUPPLY OF HIGH QUALITY WATER AT A FAIR PRICE

WHEREAS, in 1984 City, together with other water suppliers in Alameda, San Mateo and Santa Clara counties, entered into a "Settlement Agreement and Master Water Sales Contract" with the City and County of San Francisco (San Francisco). The 1984 Contract settled a federal lawsuit brought by the City and other water suppliers to these communities challenging the legality of water rates charged by San Francisco; and

WHEREAS, the 1984 Contract and the individual water supply contract entered into concurrently by City and San Francisco will expire on June 30, 2009; and

WHEREAS, In April 2003, the City and other water suppliers in Alameda, San Mateo and Santa Clara counties established the Bay Area Water Supply and Conservation Agency (BAWSCA) as authorized by Water Code Section 81300 et seq. pursuant to State Legislation enacted in 2002 (AB 2058). The City is represented on the BAWSCA board of directors; and

WHEREAS, BAWSCA has proposed to serve as the representative of its members in discussions and negotiations with San Francisco leading toward a continued, and improved, contractual relationship with San Francisco for delivery of drinking water after June 2009 and has provided funds for this activity in its budget for Fiscal Year 2006-07; and

WHEREAS, BAWSCA has the capabilities required to serve in this capacity by virtue of Agency staff and consultants in relevant disciplines including civil engineering, water supply planning, finance, economics, accounting, and law; and

WHEREAS, BAWSCA's General Manager has met with City's representatives to discuss their perspectives on a continued contractual relationship with San Francisco for water supply.

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF REDWOOD CITY AS FOLLOWS:

Section 1. City appoints BAWSCA as its authorized representative in discussions and negotiations with San Francisco for the terms and conditions of delivery of drinking water after June 2009, to be incorporated in a new overall agreement between San Francisco and its regional customers.

Section 2. BAWSCA, through its General Manager, shall confer with and keep the City informed on the status of these discussions and negotiations. To that end, the BAWSCA General Manager shall provide a report to City no less frequently than each calendar quarter, on developments during the preceding three months and expected activities during the ensuing three months.

Section 3. This appointment shall continue unless and until revoked by the City Council.

Section 4. This resolution confers no authority on BAWSCA to enter into a contract with San Francisco or to make any commitments legally binding on City. The authority to enter into any contracts is expressly reserved to the City Council.

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