



**PROFESSIONAL SERVICES AGREEMENT  
SOUTH BAY CITIES COUNCIL OF  
GOVERNMENTS**

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**South Bay Cities Council of  
Governments**

**Water Programs Educational Outreach Support Proposal Between  
Water Replenishment District of Southern California and  
South Bay Cities Council of Governments**

**SCOPE OF WORK**

This Scope of Work (SOW) covers the programs and activities that the South Bay Cities Council of Governments' (SBCCOG) South Bay Environmental Services Center (SBESC) will conduct in support of educational outreach support for the Water Replenishment District of Southern California (WRD) water programs and selected legislation commencing on April 1, 2018 through June 30, 2019. The total agreement amount is \$62,500 the fifteen month period.

The SOW tasks include education, coordination, and implementation of WRD's water programs and specified legislation as shown below.

**Section I. Program Overview**

The proposed program partnership focuses on advancing the WRD's mission in the SBCCOG's service area which includes the cities of: Carson, El Segundo, Gardena, Hawthorne, Hermosa Beach, Inglewood, Lawndale, Lomita, Manhattan Beach, Palos Verdes Estates, Rancho Palos Verdes, Redondo Beach, Rolling Hills, Rolling Hills Estates, Torrance, and Los Angeles 15<sup>th</sup> Council District communities of San Pedro, Harbor City/Harbor Gateway, and Wilmington as well as the unincorporated South Bay areas of Los Angeles County. The SBCCOG Board of Directors is comprised of elected officials from each of the SBCCOG's member cities and serves as the primary governing body taking actions to support endeavors aimed at maximizing the quality of live and productivity of the South Bay region.

The program will primarily be delivered through the SBESC, a program of the SBCCOG, which operates as a local clearinghouse for sustainability information and education. The SBCCOG receives funding through partnerships with Southern California Edison, SoCalGas, West Basin Municipal Water District, Torrance Water Department, Los Angeles Department of Water and Power, Los Angeles County Sanitation Districts, and LA County Metropolitan Transportation Authority. The SBESC increases exposure and availability of these partners'

programs to the South Bay community and promotes the overall message of sustainability through saving water, energy, money, and the environment. As demonstrated with these partners, the WRD mission to provide, protect, and preserve high quality groundwater through innovative, cost-effective, and environmentally sensitive basin management practices will be incorporated into the SBCCOG messaging.

## **Section II. Program Elements**

The SBESC will assist with marketing and promotion of existing and developing WRD's water programs. This partnership allows for a wide range of water program strategies to be presented to all sectors of the community at educational and outreach events in which SBESC participates.

## **Section III. Core Tasks**

SBESC will perform the following core tasks as part of the SOW.

### **Task 1: Communication and Information to SBCCOG Member Cities**

- A. Communicate to and promote attendance of South Bay local, state, and federal elected officials at WRD informational meetings, special events, and/or festivals.
- B. Distribute WRD information at SBCCOG Board and committee meetings and other SBCCOG special events along with specified legislative updates.
- C. Promote WRD information including legislative information/updates to the SBCCOG member cities for inclusion in their city website, city newsletters and recreational guides.
- D. Display a WRD-provided pull-up and materials at the SBCCOG's South Bay Environmental Services Center.

### **Task 2: Marketing and Community Outreach to the South Bay General Public**

- A. Collaborate with WRD's staff to disseminate WRD's educational and informational materials in support of WRD's mission and legislation, including the 2040 Master Plan and the WRD Brackish Water Desalter program to the general public.
- B. Display WRD information at community events throughout the South Bay at SBESC- staffed exhibit table. The SBESC has the capacity to deliver outreach in Spanish.
- C. Explain the value of the WRD water replenishment services at outreach events where SBESC has materials and displays.
- D. Promote WRD's programs and events to the general public's through SBCCOG and SBESC communication channels including websites, press releases, newsletters, e- blasts, and social media platforms.
- E. Include WRD-provided articles in the SBESC monthly e-newsletter, with a monthly circulation of over 15,000 members of the public who have all self-selected to be on the distribution - exhibiting at least one step toward sustainability.
- F. Maintain and update display of WRD-provided materials at existing kiosk at the Promenade on the Peninsula

WRD will agree to the following in support of these tasks:

- A. Brief SBESC staff on timely educational and information issues of importance to WRD so that they can perform the outreach activities.

- B. Provide materials for dissemination to the general public.
- C. Provide SBESC a calendar of the events that should be publicized at least one month in advance.
- D. Provide a pull-up display

**Section IV. Reporting and Documentation**

- A. The SBCCOG will provide quarterly reports including a list of events and activities

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# The Case for the Repeal of Section 60290 of the Water Code

## *A Critical State Audit Leads to Legislation and Subsequent Change*

Section 60290 was added to the Water Code in 2000 to place a \$10 million cap on the general reserves of a water replenishment district commencing with Fiscal Year 2000-01; the cap may be adjusted annually commencing with FY 2001-02 to reflect percentage increases or decreases in the blended cost of water from district supply sources. Section 60290 also requires a minimum of 80 percent of the reserve to be expended for water purchases. [Note: The Legislature temporarily removed the latter requirement in 2014 until FY 2019-20.]

Section 60290 was added to the Water Replenishment District Act along with several other new provisions in response to a critical December 1999 Bureau of State Audit's report regarding the Water Replenishment District of Southern California. [Note: WRD of Southern California is the only water replenishment district in California.] One of the bureau's 1999 recommendations was that the district should reduce its reserve funds, which totaled \$67 million in 1998. The district responded by lowering its reserve funds to a projected balance of slightly more than \$6 million by June 30, 2002. The Auditor noted in an audit update in 2004, that this significant depletion may pose a threat to the district's ability to maintain the quantity of groundwater in the basins. The district, the state auditor noted, uses its reserve funds to ensure an adequate supply of groundwater, to stabilize its assessment rate, and to develop capital improvement projects that increase the reliable supply of clean groundwater in the basins.

While the reserve level restrictions imposed under Section 60290 established a good control and monitoring mechanism to prevent WRD from accumulating higher reserve levels, the Board of Directors began working diligently following the 2004 audit update to make the District completely independent of expensive and unreliable imported water through its Water Independence Now (WIN) initiative. WRD also implemented significant changes in response to the recommendations contained in the 1999 and 2004 state audits. These changes included, but were not limited to, the preparation of accurate budgets and the preparation and adoption of strategic and capital improvement plans.

In October 2016, the WRD Board of Directors approved an agreement with the State Water Resources Control Board that provides WRD \$95 million in funding for the construction of the Groundwater Reliability Improvement Project (GRIP), an advanced water treatment facility currently under construction in the City of Pico Rivera. GRIP is the final and most significant project within WRD's Water Independence Now (WIN) program which aims to eliminate WRD's need to purchase imported water from Northern California and the Colorado River for groundwater replenishment. Once built, the

region's groundwater basins will be completely locally sustainable. Under this agreement, WRD is saving its ratepayers \$45 million in interest loan payments.

In November 2017, the leading global credit rating agency, Fitch Ratings, reaffirmed the AA+ bond rating for the Water Replenishment District of Southern California (WRD), reflecting the water agency's exceptional financial standing. Fitch attributes the rating to the WRD's financial strength, stability, and sound fiscal management. For WRD, California's largest groundwater agency, the rating is positive news since it all but ensures the lowest possible interest rates for future infrastructure projects the District plans to pursue to increase local water sustainability and resilience for its four million residents.

WRD has been awarded the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting for outstanding budget presentation and process ten years in a row (2008-2017).

### *A Change in the Approach to Replenishment*

Starting in 1959, the District purchased imported water to meet 100% of the annual replenishment requirement for the West Coast and Central Groundwater Basins ("the Basins"). In 1963, the District started using recycled water for replenishment decreasing the need for imported water by about 30%. Today, with the District's Water Independence Now (WIN) initiative, WRD is quickly becoming completely independent of imported water.

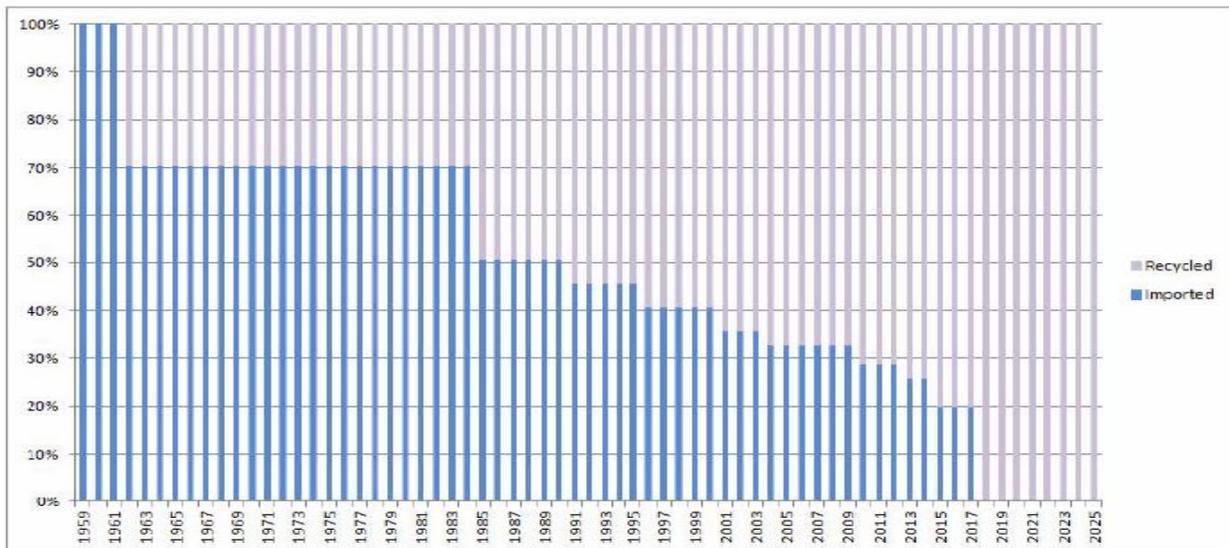
The need to the move to self-sustainability became clear soon after the start of the new millennium. The cost of imported water began increasing significantly since Water Code §60290 became law. In Fiscal Year 2000-01, the District budgeted to purchase 76,700 acre-feet of imported water with a total cost of \$22,773,200. In 2016-17, the budgeted imported water needs dropped to 12,140 acre-feet of imported water for a total cost of \$59,705,200. Demand decreased by (84.2%) yet costs increased 162.2%; this trend as it began convinced WRD of the financial need to become independent of imported water. Aside from the cost implications, the reduced reliability of imported water supplies due to the impact of pumping restrictions on the State Water Project imposed by various biological opinions coupled with state policy enacted in 2009 that export areas should reduce reliance on the Sacramento-San Joaquin Delta for future water supplies, made a strong case for WRD shifting from imported water purchases to the production of local, reliable water supplies for purposes of replenishing the Central and West Coast groundwater basins.

In October 2016, the WRD Board of Directors approved an agreement with the State Water Resources Control Board that provides WRD \$95 million in funding for the construction of the

Groundwater Reliability Improvement Project (GRIP), an advanced water treatment facility currently under construction in the City of Pico Rivera. This funding covers roughly 90% of the cost of this project. The Water Quality, Supply, and Infrastructure Improvement Act of 2014,

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### WRD Historical Depiction of Shift from Imported Water Purchases to Local Sources



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better known as Proposition 1, made one-percent financing and grant funds available for the construction of water projects that met specific criteria. WRD submitted its construction financing application to the State Water Board for GRIP in April 2015. GRIP is the final and most significant project within WRD's Water Independence Now (WIN) program which aims to eliminate WRD's need to purchase imported water from Northern California and the Colorado River for groundwater replenishment. WRD combined a Federal grant, a State grant and loan, and its local cost share to build GRIP. Once built, the region's groundwater basins will be completely locally sustainable. Under this agreement, WRD is saving its ratepayers \$45 million in interest loan payments as compared to conventional financing.

By becoming completely independent of imported water, Water Code §60290 becomes severely limiting to the general operations of the District. The adjusted calculation of the \$10 million cap for fiscal year 2016-17 allows for a reserve level up to \$25 million; adjusted for the increase in the blended cost of water from District supply sources since FY 2001-02. As the District eliminates its imported water needs and instead produces and uses advanced treated water, the WRD moves from buying water for replenishment to operating facilities to replace imported water.

Moving from purchasing water to producing water using advanced water treatment science and techniques, means that the WRD will need additional operating reserves for issues related to operating its own facilities. Along with operations, there are large replacement costs associated with items such as microfiltration units, reverse osmosis membranes and ultra-violet light bulbs. When these items need replacing, the District will need reserve balances to cover the costs when they need to be replaced. By leaving Water Code §60290 as it is currently written, the decreased use of purchased water negatively impacts the \$10 million calculation. However, there are still substantial operating and debt service costs for the advanced water treatment facilities used to produce the water.

WRD must operate and maintain its physical assets in a manner that protects the public investment and ensures achievement of their maximum useful life. Ensuring the maximum useful life for public assets is a primary responsibility. WRD has established clear policies and procedures for monitoring, maintaining, repairing and replacing essential components of each of its operating facilities

WRD must establish a Renewal & Replacement Reserve account for each operating fund responsible for major capital assets. Ensuring that the public receives the maximum benefit for their investments in major facilities and equipment requires an ongoing financial commitment. WRD's Renewal & Replacement Reserve is based on the value of the asset and consideration of known best asset management practices. Periodic condition assessments will identify both upcoming renewal and replacement projects and the need to adjust reserves to support future projects. If resources are not sufficient to fully fund the Reserve without program impacts, the Board would need to consider alternatives during the annual budget process. Establishing and funding the Reserve demonstrates WRD's ongoing capacity and commitment to these public investments.

WRD annually prepares, adopts and updates a five-year Capital Improvement Plan (CIP). The Plan establishes priorities for all major capital assets to be acquired or constructed by WRD. The CIP provides for a comprehensive look at WRD's capital needs for both new facilities and renewal and replacement of existing ones, and allows the Board to make the necessary decisions to ensure financial resources match forecasted needs.

An assessment of each WRD facility is conducted at least every five years using WRD's Asset Management and Computerized Maintenance and Management Systems, respectively. The assessment report identifies repairs needed in the coming five years to ensure the maximum useful life of the asset. This information is used as the basis for capital improvement planning for existing facilities and in determining the adequacy of the existing Renewal & Replacement Reserves.

Finally, the Capital Improvement Plan identifies adequate funding to support repair and replacement of deteriorating capital assets so as to avoid a significant unfunded liability from deferred maintenance.

## *Conclusion*

The California State Auditor recommended in its 2004 audit report of the Water Replenishment District of Southern California (Report 2002-016) that WRD: "Set its assessment rate at a level that will support the district's planned activities and allow it to replenish its reserve funds, if necessary, and keep them at an appropriate level." Due to the shift toward producing high quality, advanced treated water for replenishment in place of purchasing imported water, reserve levels will need to increase in order to be properly prepared for any financial issues that may arise during the fiscal year.

No other local agency in California has a statutory limitation on its annual reserve fund.