
File No.: 19-0060

Agenda Date: 1/14/2019

Item No.: 2.1.

BOARD AGENDA MEMORANDUM

SUBJECT:

Water Supply Master Plan 2040 Update. (Continued from January 8, 2019)

RECOMMENDATION:

- A. Reaffirm the 2012 “Ensure Sustainability” Strategy for the Water Supply Master Plan 2040;
- B. Approve changing the water supply reliability level of service goal from meeting 90 percent of normal year demands, as identified in the Water Supply Master Plan, in drought years to meeting 80 percent of demands in drought years;
- C. Receive information and provide direction on the approach to the monitoring and assessment plan (MAP) for implementing the Water Supply Master Plan 2040; and
- D. Direct staff to return with updates on projects with near-term decisions points.

SUMMARY:

The Water Supply Master Plan (Master Plan) is the District’s strategy for providing a reliable and sustainable water supply in a cost-effective manner. It informs investment decisions by describing the type and level of water supply investments the District is planning to make through 2040, the anticipated schedule, the associated costs and benefits, and how Master Plan implementation will be monitored and adjusted. The Board last received information on the Master Plan update at its November 20, 2018 meeting. At that time, the Board received and discussed staff’s recommendations to change the water supply reliability level of service goal, reaffirm the 2012 “Ensure Sustainability” strategy, and provide input on the monitoring and assessment approach. The Board requested that staff return to the Board at a later date for formal Board action and include additional information on project risks and other agencies’ level of service goals. This memorandum summarizes prior analyses including the risk analysis, provides a rationale for updating the District’s current water supply reliability level of service goal including other agencies’ level of service goals, and describes how the Master Plan will be monitored and adapted to changing conditions.

Summary of Prior Analyses

Staff has analyzed anticipated water supply and demand conditions for 2040, without any new projects. The supply conditions assume dam retrofits are completed, the Fisheries and Aquatic Habitat Collaborative (FAHCE) settlement agreement is implemented, and State Water Project (SWP) and Central Valley Project (CVP) supplies decline over time due to additional regulatory restrictions and climate change. The demands are based on 2020 water use targets in retailers’

Urban Water Management Plans, extended through 2040 to account for updated regional growth projections and expected water conservation program savings. The analysis continues to indicate that extended droughts are our greatest challenge and the county could experience shortages of up to about 150,000 acre-feet (AF) in the most critical year.

A number of projects and combinations of projects have been evaluated for addressing these projected shortages. The analyses considered:

- Water supply yields under different scenarios,
- Other benefits such water quality or environmental benefits,
- Costs,
- Risks,
- Performance with different demand assumptions,
- Performance with different imported water supply assumptions,
- Performance under late century climate change,
- Input from the Expert Panel, and
- Stakeholder and Board interests.

Staff presented the results of these analyses at prior Board meetings, with most of the information provided at the September 19, 2017 and June 12, 2018 meetings. Based on direction from the Board on November 20, 2018, staff has now added an abbreviated risk analysis of the projects the Board has approved for planning. Most of these projects were evaluated in the Risk Ranking Report from Summer 2017 (Attachment 1). The projects are summarized in the Project List (Attachment 2). The new risk analysis considers the probabilities and consequences of projects not achieving their projected yields by 2040, the planning horizon for the Master Plan. The results are similar to the results reported in the Risk Ranking Report. The notable difference is that the risk ranking for Pacheco Reservoir is lower than last year’s result, probably due to increased certainty in funding and additional information on project benefits. In general, projects with lower yields have less risk, because the consequence of not delivering is low. Projects with higher yields and higher probabilities of not succeeding have higher risk rankings. The results are summarized in the following table.

Project	Risk Ranking
California WaterFix - Federal Side	Extreme
California WaterFix - State Side Only	High
No Regrets - Complete Package	Medium
No Regrets - Advanced Metering Infrastructure	Low
No Regrets - Graywater Rebate Program Expansion	Low
No Regrets - Leak Repair Incentives	Low
No Regrets - Model Water Efficient New Development Ordinance	Medium
No Regrets - Stormwater/Ag Land Recharge	Low
No Regrets - Stormwater/Rain Barrels and Cisterns	Low

No Regrets - Stormwater/Rain Gardens	Low
No Regrets - Stormwater/San Jose	Low
No Regrets - Stormwater/Saratoga	Low
Pacheco Reservoir	Medium
Potable Reuse and/or Additional Non-Potable Reuse	Medium
South County Recharge	Low
Transfer-Bethany Pipeline	Medium

A number of different approaches or strategies will meet the District’s water supply reliability goals, but there are tradeoffs. Some projects perform better during droughts and a changed climate, but are expensive. Other projects may be relatively inexpensive, but do not contribute to drought reliability or are high risk. Some projects have significant benefits for the environment or other interests, but relatively little water supply benefit. Some projects types are preferred more than others by the community. Stakeholders all agree that 1) water supply reliability is important, 2) we should maximize water conservation, water reuse, and stormwater capture, and 3) we need to keep water rates affordable. Based on stakeholder input, technical analyses, and the climate of uncertainty, staff’s recommendations are intended to provide a framework for balancing multiple needs and interests while making effective and efficient investment decisions.

Recommended Water Supply Strategy

The Board adopted the “Ensure Sustainability” strategy in 2012 as part of the Water Supply and Infrastructure Master Plan. The “Ensure Sustainability” strategy is comprised of three elements:

- 1) Secure existing supplies and infrastructure,
- 2) Expand the water conservation and reuse, and
- 3) Optimize the use of existing supplies and infrastructure.

Together these elements protect and build on past investments in water supply reliability, leverage those investments, and develop alternative supplies and demand management measures to manage risk and meet future needs, especially during extended droughts in a changing climate. Staff recommends that the Board continue with the “Ensure Sustainability” strategy, combined with the District’s Asset Management and Infrastructure Reliability programs, as it provides a pathway to a sustainable water supply system. The following discussion describes the three elements of the recommended strategy and how different potential projects could support them.

1. Secure Existing Supplies and Infrastructure

The District should secure existing supplies and facilities for future generations because they are, and will continue to be, the foundation of the county’s water supply system. Existing supplies include about 55,000 acre-feet per year (AFY) of natural groundwater recharge, 85,000 AFY of local surface water supplies, about 20,000 AFY of recycled water, 55,000 AFY of San Francisco Public Utilities Commission (SFPUC) deliveries, and 160,000 AFY of

combined Central Valley Project (CVP) and State Water Project (SWP) imported supplies. These baseline supplies are conveyed, treated, and stored in a complex and integrated system of water supply infrastructure.

Key ongoing projects and programs that support this strategic element include the Fisheries and Aquatic Habitat Collaborative Effort (FAHCE), dam retrofits, pipeline maintenance and other asset management activities, and the Rinconada Water Treatment Plant Reliability Project. These and similar projects support securing our local supplies and infrastructure and are considered baseline projects.

Projects and programs that could support securing existing imported water supplies and infrastructure include:

- California WaterFix (SWP and/or CVP sides),
- Dry Year Options/Transfers,
- Sites Reservoir, and
- Water Contract Purchases.

Staff recommends that the Master Plan include at least 60,000 AFY of SFPUC deliveries and 150,000 AFY of CVP/SWP supplies. These numbers are based on modeling how much of these supplies are needed to meet a goal of meeting at least 80 percent of normal year demands in drought years and assume other elements of the recommended strategy are implemented.

The 60,000 AFY of SFPUC deliveries is within existing SFPUC contract amounts with its Santa Clara County customers, but may need to be revised based on how the State Water Resources Control Board implements recent changes to the Bay Delta Water Quality Control Plan. The Board decided to participate in California WaterFix on May 8, 2018, which would secure up to about 170,000 AFY of CVP/SWP water supplies.

2. Increase Water Conservation and Reuse

Master Plan analyses show that demand management, stormwater capture, and water reuse are critical elements of the water supply strategy. They perform well under current climate conditions and late century climate change. Water recycling and reuse provide local supplies that are not hydrologically dependent, so they are resilient to extended droughts when the District most needs additional supplies. They make efficient use of existing supplies, so they are sustainable and consistent with a “One Water” approach. In addition, these activities are broadly supported by stakeholders.

A more diverse portfolio of supplies will also be more resilient to risks and uncertainties, including climate change, than a portfolio with increased reliance on imported water supplies. Imported supplies are particularly vulnerable to climate change and regulatory actions like the Bay Delta Water Quality Control Plan. Furthermore, State policy, as stated in the Delta Reform Act of 2009 (Water Code Section 85021), is to “*reduce reliance on the Delta in*

meeting California's future water supply needs through a statewide strategy of investing in improved regional supplies, conservation, and water use efficiency. Each region that depends on water from the Delta watershed shall improve its regional self-reliance for water through investment in water use efficiency, water recycling, advanced water technologies, local and regional water supply projects, and improved regional coordination of local and regional water supply efforts."

The analysis for the Master Plan assumes that non-potable recycled water use will increase by about 13,000 AFY consistent with projections in the water retailers' 2015 Urban Water Management Plans and that long-term water conservation programs will achieve 99,000 AFY of savings by 2030. Other programs and projects that contribute to increasing water reuse and conservation include:

- Countywide Water Reuse Master Plan Projects,
- Local Land Fallowing,
- Morgan Hill Recycled Water,
- No Regrets Package of Water Conservation and Stormwater Capture Projects,
- Potable Reuse: Ford Pond,
- Potable Reuse: Injection Wells,
- Potable Reuse: Los Gatos Ponds,
- Refinery Recycled Water Exchange,
- Bay Area Brackish Water Treatment, and
- Stormwater: Saratoga #2.

Staff plans to include the "No Regrets" package of water conservation and stormwater projects in the Master Plan. The Board approved moving this package of projects into planning in September 2017 and the FY 19 budget includes \$1 million for beginning implementation of the "No Regrets" package. Attachment 3, a memo presented to the Board's Water Conservation and Demand Management Committee on October 31, 2018, describes the implementation approach for the "No Regrets" package. The "No Regrets" package should reduce future demands by about 10,000 AFY and increase water supplies by about 1,000 AFY by 2040.

Staff recommends that the Master Plan include at least 24,000 AFY of additional reuse by 2040. This could be potable reuse and/or non-potable recycled water (purple pipe). Staff believes that additional reuse, along with the "No Regrets" package, is vital to the long-term sustainability of water supply reliability in the county. As described above, water reuse and conservation are local drought resistant supplies that are resilient to climate change.

The Board approved pursuing a public-private partnership for up to 24,000 AFY of potable reuse (with Los Gatos Ponds as the likely location) in December 2017. Like other major projects being considered, there are challenges and uncertainty with this project. However, there are alternatives to the project and there is time to address the challenges. Additional water reuse projects, both potable and non-potable, and governance options will be evaluated through the Countywide Water Reuse Master Plan, which is scheduled for completion in 2019.

A pre-feasibility study of the Refinery Recycled Water Exchange project is scheduled for completion in Winter 2018. The Refinery Recycled Water Exchange project would be a partnership with Central Contra Costa Sanitary District and Contra Costa Water District that would increase recycled water deliveries in Contra Costa County and provide in-lieu surface water to the District.

3. Optimize the Use of Existing Supplies and Infrastructure

This element of the strategy includes projects that increase the District's ability to use existing supplies and infrastructure. The District's existing supplies are more than sufficient to meet current and future needs in wet and above normal years. In some years, supplies exceed needs and additional facilities would increase flexibility and the ability to use or store those excess supplies. Additional infrastructure could increase the District's ability to respond to outages and respond to challenges such as droughts and water quality problems. Projects that support this element of the recommended water supply strategy include:

- Anderson Reservoir Expansion,
- Calero Reservoir Expansion,
- Church Avenue Pipeline,
- Groundwater Banking,
- Lexington Pipeline,
- Los Vaqueros Reservoir Expansion,
- North County Recharge,
- Pacheco Reservoir Expansion,
- South County Recharge: Butterfield Channel,
- South County Recharge: San Pedro Ponds,
- South County Water Treatment Plant,
- Transfer-Bethany Pipeline portion of Los Vaqueros Reservoir Expansion,
- Uvas Pipeline, and
- Uvas Reservoir Expansion.

Staff is planning to include a South County recharge project (either Butterfield Channel or San Pedro Ponds) in the Master Plan, because groundwater modeling indicates the need for additional recharge capacity. Pacheco Reservoir is consistent with the Board's priority to actively pursue efforts to increase water storage opportunities. Both the Transfer-Bethany Pipeline portion of the Los Vaqueros Reservoir Expansion and the Pacheco Reservoir Expansion increase the District's water supply operations flexibility and increase emergency water storage. The State, in approving funding of at least half the Pacheco Reservoir Expansion and Los Vaqueros Reservoir Expansion projects' construction costs (in 2015\$), recognized those projects also provide ecosystem improvements, recreation opportunities, and/or flood protection benefits.

The three projects - South County Recharge, Pacheco, and Transfer-Bethany Pipeline - would provide a combined average annual yield of about 5,000 AFY, increase system flexibility,

and/or emergency supply.

In summary, staff is recommending that the Board reaffirm the “Ensure Sustainability” strategy, because it:

- Protects existing assets,
- Leverages past investments,
- Meets new demands with water reuse and conservation,
- Supports “One Water” approach,
- Develops local and regional supplies to reduce reliance on the Delta,
- Increases flexibility, and
- Increases resiliency to climate change.

The three elements of the recommended strategy work together to provide a framework for providing a sustainable and reliable water supply. Furthermore, they strike a balance between protecting what we have, investing for the future, and making the most of the water supply system.

Water Supply Reliability Level of Service Goal

The water supply reliability level of service goal is important because it guides long-term water supply planning efforts and informs Board decisions regarding investments. The current level of service, which was approved by the Board in June 2012, is an interpretation of Board Policy E-2 that “there is a reliable, clean water supply for current and future generations.” The current goal is to “develop water supplies designed to meet at least 100 percent of average annual water demand identified in the District’s Urban Water Management Plan during non-drought years and at least 90 percent of average annual water demand in drought years.” Staff is recommending a water supply reliability level of service goal to “develop water supplies designed to meet 100 percent of demands identified in the Master Plan in non-drought years and at least 80 percent of average annual water demand in drought years.”

Staff recommends using the Master Plan demand projection because it is closer to historic trends than the Urban Water Management Plan projection and will be reviewed and updated annually as part of Master Plan monitoring. Staff recommends updating the level of service goal for planning for drought reliability to meeting 80 percent of demands because it strikes a balance between minimizing shortages and the costs associated with the higher level of service. Furthermore, the community was able to reduce water use as much as 28 percent in 2015, indicating that shortages in the range of 20 percent are manageable. The recommendation for reducing the level of service to meeting 80 percent of demands in droughts is consistent with the following:

- **April 2017 Telephone Survey of Santa Clara County Voters re: Water Conservation:** The survey results (Attachment 4) indicate that voters see the need to invest in a more reliable water supply and the majority are open to small rate increases, but oppose large increases.
- **Stakeholder Input:** Staff conducted two stakeholder workshops in January 2018 (Attachment

5). During the workshops, staff discussed an interim level of service goal of meeting 85 percent of demands in drought years. Some stakeholders were interested in a lower level of service goal with planned mandatory water use restrictions to force more efficient water use. Others expressed interest in a lower level of service goal to reduce costs. Others thought the interim level of service goal was about right, and one retailer preferred the existing Board-approved goal. Stakeholders were concerned about overinvesting and impacts on water rates and affordability.

- Incremental Costs:** The incremental costs of increasing the level of service from meeting 80 percent of demands in drought years to meeting 90 percent of demands in drought years exceed the value of benefits achieved by the increase. The present value lifecycle cost (in 2017 dollars) of additional projects that are needed to increase the level of service from 80 percent to 90 percent range from about \$90 million to over \$450 million. However, the present value (in 2017 dollars) of the benefits of fewer shortages over the lifecycle of the projects range from \$0 to about \$300 million. In other words, few projects provide incremental benefits that are worth the incremental cost of increased reliability.
- Frequency of Shortage:** Modeling indicates that most scenarios that achieve the recommended level of service goal have shortages in less than 10 percent of years. Scenarios that meet 90 percent of demands in droughts years typically have shortages in less than five percent of years, which is a very high level of water supply reliability. By comparison, the District has called for mandatory water use reductions in about 30 percent of the last 30 years.
- Planning for Uncertainty:** The water supply planning model evaluates water supply conditions under a variety of scenarios, but it cannot anticipate every potential scenario and there is inherent uncertainty in projections. For example, staff is using a demand projection that is based on current water use trends and growth projections. State efforts on “making water conservation a California way of life” or initiatives like Climate Smart San Jose could drive water use lower. On the other hand, climate change could result in more extended droughts, which continue to be our greatest water supply challenge. The recommended level of service strikes a balance between overinvesting in new supplies that may not be needed and underinvesting in supplies needed to manage future extreme conditions. In addition, uncertainty will be managed through annual review of the Master Plan and its assumptions and periodic updates to reflect changed conditions.
- Regional Agencies’ Goals:** Staff reviewed the water supply reliability goals for other Bay Area water agencies, including Alameda County Water District, Zone 7 Water Agency, East Bay Municipal Utility District, Contra Costa Water District, San Francisco Public Utilities Commission, and Marin Municipal Water District. The water supply reliability level of service goals for these agencies ranged from meeting 75 percent to 90 percent of demands during droughts, with the median being 85 percent.

Agency	District Equivalent
Alameda County Water District	Meet at least 90% of demands during droughts
Zone 7 Water Agency	Meet at least 85% of demands during droughts
East Bay Municipal Utility District	Meet at least 85% of demands during droughts

Contra Costa Water District	Meet at least 85% of demands during droughts
San Francisco Public Utilities Commission	Meet at least 80% of demands during droughts
Marin Municipal Water District	Meet at least 75% of demands during droughts

Staff previously evaluated goals of 80, 85, and 90 percent as part of the Master Plan update. The projects, and therefore costs, needed to achieve the 80 and 85 percent levels of reliability were almost the same in numerous scenarios that were evaluated. However, increasing the level of reliability from 80 or 85 percent to 90 percent required significant additional investment. Staff is recommending the 80 percent level of reliability rather than 85% because it better aligns with the Water Shortage Contingency Plan (WSCP) stages in the “Making Water Conservation a California Way of Life” legislation, the Board’s current call for a 20 percent reduction in water use compared to 2013, and was exceeded during 2015.

The recommended level of service is intended to be used for long-term planning purposes and guiding associated long-term investments. While long-term planning considers a range of hydrologic conditions, uncertainties, and risks, the actual level of service in a particular year will depend on actual conditions and could be affected by hydrologic conditions, short-term outages, and extreme situations.

The Water Conservation and Demand Management Committee concurred with staff’s recommended updates to the level of service goal at its June 25, 2018 meeting. The Committee did request that staff further elaborate on the State water conservation requirements and uncertainty and their relationship with the level of service goal. That is part of the monitoring and assessment plan discussed below.

The projects already approved by the Board for planning (California WaterFix (SWP and CVP), 24,000 AFY of reuse, the “No Regrets” package of additional water conservation and stormwater capture projects, Transfer-Bethany Pipeline, and Pacheco Reservoir), along with South County Recharge, exceed the recommended level of service goal. However, it is unlikely that all the projects would be implemented and delivering their assumed benefits by Year 2040, the planning horizon for this Master Plan. Staff also evaluated a subset of the potential Master Plan projects (SWP side of California WaterFix (no CVP side), 24,000 AFY of reuse, the “No Regrets” package, and South County Recharge). This subset of projects, as well as others, meets the recommended level of service goal. The present value of the lifecycle benefits range from about \$2.48 billion to \$2.7 billion. The present value lifecycle costs (2017\$) to the District from the two scenarios range from about \$1.6 billion to \$2.45 billion.

The water rate impacts associated with different scenarios are not included at this point because the impacts depend on the timing of project implementation and the project funding mechanisms. Additional information on the range of potential water rate impacts will be included in the draft Water Supply Master Plan 2040 report, along with a schedule for project implementation. It is important to note that not all the Master Plan projects need to be implemented in the near future. Project phasing will allow the District to implement projects to align with supply and demand projections, as well

manage cash flow and impacts on rates.

Scenario	Without Projects (Basecase)	With Some Projects Approved for Planning	With All Projects Approved for Planning
Minimum Drought Reliability	Meets 50% of demands	Meets 80% of demands	Meets 90% of demands
Present Value Benefits (2017\$)	Not applicable	\$2,480,000,000	\$2,700,000,000
Present Value Cost to District (2017\$)	Not applicable	\$1,600,000,000	\$2,450,000,000
Benefit:Cost Ratio	Not applicable	1.6	1.1

Monitoring and Assessment Plan (MAP) Approach

A primary purpose of the Master Plan is to inform investment decisions. Therefore, a critical piece of the water supply plan is a process to monitor and report to the Board on the demands, supplies, and status of projects and programs in the Master Plan so the Board can use that information in its annual strategic planning sessions, which inform the annual water rate setting, Capital Improvement Program (CIP), and budget processes. Monitoring will identify where adjustments to the Master Plan might be needed to respond to changed conditions. Such adjustments could include accelerating and delaying projects due to changes in the demand trend, changing projects due to implementation challenges, adding projects due to lower than expected supply trends, etc. This section describes the Monitoring and Assessment Plan (MAP) approach for the Master Plan.

The first step in the MAP is to develop an implementation schedule for the Master Plan based on Board direction on the recommended water supply strategy and Master Plan projects. The implementation schedule will consider how projects should be timed to meet reliability goals, costs, cash flow, rate impacts, and other needs and opportunities. The schedule will include anticipated start and completion dates for planning, permitting design, and construction, and major decision points. Staff will monitor the status of all these components and plans to report to the Board on Master Plan implementation at least annually.

The second step of the MAP is to manage unknowns and risks through regular monitoring and assessment. Master Plan monitoring and assessment will build on regular reports on projects and annual water supply conditions and will look at how all the different deviations from schedule affect the long-term water supply reliability outlook. Staff will also evaluate how changing external factors such as changes in policy, regulations, and scientific understanding affect the long-term water supply reliability outlook. Examples of external factors include policies and regulations affecting the Delta (e.g., Bay Delta Water Quality Control Plan) and land use decisions.

Another external factor that the District will be monitoring closely is the state’s effort to make water conservation a California way of life. There are various components to the effort, including requiring

that all urban water retailers in the state establish an urban water use objective (i.e. a water budget for their service area). Much of the methodology on how to calculate that objective will be determined over the next few years, so it is still to be determined how that may affect the District's long-term water supply reliability outlook. However, the District already has an aggressive water conservation target out to 2030 that will be further expanded with implementation of the No Regrets package of projects. Staff estimates that water conservation savings will be equivalent to over 20 percent of what water use would be in 2040 without conservation savings.

Staff will also identify and monitor the status of projects that could serve as alternative projects should changes to the Master Plan be needed. Examples of such projects include Sites Reservoir, groundwater banking, and shallow groundwater reuse. Staff will also continue to track and participate in projects currently in development, such as the Refinery Recycled Water Exchange project. Ideally, the District will be able to keep all project opportunities open at minimum cost. Realistically, keeping some opportunities open will be costly.

The third step of the MAP is to report to the Board on Master Plan implementation on at least an annual basis, usually during the summer. In addition, the Board will receive reports on specific projects and pertinent policy and regulatory developments as needed. If changes to or decisions about the Master Plan, Master Plan projects, or other projects appear needed, staff will develop recommendations for the Board based on how decisions would affect the level of service, costs and rate impacts, risk management, and relationships between projects. Staff will also describe how projects relate to each other and stakeholder input. The intent is for staff to provide as complete a picture as possible to inform the Board's strategic planning and investment decisions and to incorporate the Board's decisions into the CIP, budget, and water rate setting processes.

The fourth step of the Map is to adjust projects as necessary upon approval by the Board. It is more likely than not that projects, both existing and new projects, will evolve and change over time. The path we are on today will look different in the future, near and distant. We cannot forecast the future and identify a specific response for every possible scenario. However, having a balanced, diverse, and sustainable water supply will help us adapt to future challenges and a strong monitoring and assessment plan (MAP) will help us stay on top of challenges and uncertainties and our options for managing them.

This paragraph illustrates how the MAP would work, in the context of the Master Plan's inclusion of 24,000 AFY of reuse. The placeholder project for implementing the 24,000 AFY of reuse is the Los Gatos Ponds Potable Reuse Project, which has a current CIP construction estimate of about \$215 million (District share of construction cost; private partner would pay difference) and a completion date of 2027, followed by P3 water service agreement costs and post-P3 agreement term operations, maintenance, and replacement costs. If the Master Plan were prepared today, staff would use the CIP budget and schedule, as well as estimated post-construction costs, in Step 1 of the MAP - developing the implementation schedule. Step 2 would include ongoing evaluation of the project in light of ongoing discussions with wastewater producers, the Countywide Water Reuse Master Plan, the Recycled Water Exchange Pre-Feasibility Study and other potential reuse project analyses, and the Board's direction on water rates. As part of Step 3, staff would report to the Board on the status of the Los Gatos Ponds Potable Reuse Project and other projects, as well water supplies, demands,

financial considerations, any pertinent regulatory changes, etc. Based on the information, staff could recommend that the Board adjust the scope, schedule, and/or budget for the Los Gatos Ponds project or consider alternative projects. For example, if demands remain low, finances are a concern, and/or there is a lack of progress securing wastewater for treatment, the Board could choose to delay the project. Based on the Board's direction, staff would adjust the CIP, budget, and water rate forecast as part of Step 4 of the MAP. Then, the annual MAP process would restart. This same analysis would be performed for all the projects in the Master Plan on at least an annual basis.

Next Steps

The next steps for the Master Plan are to prepare a draft Master Plan 2040 based on Board direction. Staff anticipates having a draft Master Plan ready for Board and stakeholder review in March 2019. The intent is to have at least two workshops - one with water retailers and one with other stakeholders. Additional presentations may be made at Board advisory committees. Staff plans to present a final Master Plan to the Board in June 2019.

Staff anticipates returning to Board in the next six months on several projects that are currently in development and will require Board deliberation on next steps. These projects include, but are not limited to, Sites Reservoir, Los Vaqueros Reservoir, and California WaterFix Long-Term Transfers. Staff will incorporate the Board's input on the Master Plan's water supply strategy and level of service into these presentations.

FINANCIAL IMPACT:

There is no financial impact associated with this item. The water supply reliability level of service goal and water supply strategy help inform Board investment decisions but do not commit the District to a specific course of action regarding projects. Rather, it affirms the District's commitment to balance the costs and benefits of investments in long-term water supply reliability.

CEQA:

The recommended action does not constitute a project under CEQA because it does not have a potential for resulting in direct or reasonable foreseeable indirect physical change in the environment. The water supply reliability level of service goal and water supply strategy help inform Board investment decisions, but do not commit the District to a specific course of action regarding projects. All projects that are planned for implementation will go through environmental review consistent with CEQA.

ATTACHMENTS:

- Attachment 1: Risk Ranking Report
- Attachment 2: Project List
- Attachment 3: No Regrets Memo
- Attachment 4: 2017 Survey Results
- Attachment 5: 2018 Stakeholder Workshops Summary

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Attachment 6: PowerPoint

UNCLASSIFIED MANAGER:

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