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Antelope Valley Regional Water Management Group
Antelope Valley-East Kern Water Agency
Antelope Valley State Water Contractors Association
City of Lancaster
City of Palmdale
County Sanitation Districts Nos. 14 and 20 of Los Angeles County
Littlerock Creek Irrigation District
Los Angeles County Waterworks District No. 40
Palmdale Water District
Quartz Hill Water District
Rosamond Community Services District

May 15, 2008

Mr. Lester Snow, Director
California Department of Water Resources
1416 Ninth Street, Room 1115-1
Sacramento, CA 95814

Ms. Tam Doduc, Chair
State Water Resources Control Board
1001 I Street
Sacramento, CA 95814

Dear Mr. Snow and Ms. Doduc:

Proposition 50, Chapter 8, Round 2 Draft Funding Recommendations

This letter is submitted on behalf of the 11 members of the Antelope Valley Regional Water Management Group (RWMG) listed above in response to the preliminary funding recommendations for the Proposition 50 Integrated Regional Water Management (IRWM) Implementation grants for Round 2, Step 2. The first part of this letter provides justification for additional implementation grant funding for Round 2, Step 2 applications. The second part provides specific responses to comments provided to the RWMG on its grant application, and the third part provides some specific information about the Antelope Valley region that demonstrates our unique needs for funding support. The RWMG believes the information in all three parts provides compelling justification to allocate full funding to the RWMG and other Round 2, Step 2 applicants.

Before discussing our comments, the RWMG would like to commend the Department of Water Resources (DWR) and the State Water Resources Control Board (SWRCB) for the thorough and well-considered process used to evaluate the applications for Proposition 50 Round 2. The RWMG greatly appreciates the time and effort that went into this evaluation process.

Part 1 – Additional Funding for Proposition 50 IRWM Grant Program Round 2 Applicants

The RWMG is very disappointed that the limited funds available for Round 2 were further reduced by a transfer of nearly $13 million to the AB 303 Local Groundwater Assistance Act. This followed a reduction of over $150 million in funding available to Round 2 applicants. Due to the limited funds available for this funding cycle, only one out of nine regions that competed is being recommended for full funding. Three regions will be partially funded; and the Antelope Valley region, along with the remaining four regions, will not be funded at all.

To address this situation, the RWMG requests that a portion of the $100 million unallocated funds under the Proposition 84 IRWM Grant Program be used to fully fund all of the nine regions that competed under the Proposition 50 IRWM Grant Program Round 2 Step 2. The RWMG also recommends that money proposed for Disadvantaged Communities (DACs) within this $100 million should remain dedicated to planning and implementation for DACs. The RWMG offers the following points in support of this proposal for your consideration:

1. **A funding source exists under Proposition 84.** With the passage of Proposition 84, $1 billion was allocated for the IRWM Grant Program. Of that amount, $900 million was allocated to 11 funding

areas throughout the state. The remaining $100 million is unallocated and could be used by DWR for various water-related efforts. The RWMG strongly believes that this source of funding should be leveraged to provide additional funding now for projects submitted in Round 2, Step 2 that are ready to proceed.

2. **Proposition 84 funds can be made available to Proposition 50 applicants.** According to the IRWM Grant Program Proposal Solicitation Package (PSP) for Proposition 50 Round 1 Implementation Grants, the original Proposition 50 Round 1 Implementation program was to award $150 million. After the evaluation process was completed and submitted to DWR and SWRCB for approval, the amount of funding for these grants was increased from $150 million to $307 million. The result was that the funding available for the Proposition 50 Round 2 Grant Program, for which the RWMG was competing, was reduced from over $220 million to $64.5 million. The state then further reduced the funding for Round 2, Step 2 again by allocating $12.8 million to the AB 303 Local Groundwater Assistance Grant Program. The total amount remaining for Round 2 Implementation Grants was $51.7 million. These transfers indicate that the state has the flexibility to transfer funds between grant programs under various circumstances.

   In addition, Public Resources Code, Section 75026 (d) states that "The department shall coordinate the provisions of this section with the program provided in Chapter 8 of Division 26.5 of the Water Code and may implement this section using existing Integrated Regional Water Management Guidelines." Based on this Section, the RWMG believes that the state has the discretion to award the Proposition 50 Round 2 applicants using Proposition 84 funds.

3. **Our proposal will provide several benefits to the State**. According to a recent Proposition 84 workshop presentation delivered by the state, funds under Proposition 84, Chapter 2 for the IRWM Implementation grants may not be released until 2010 at the earliest. Any delay in awarding these implementation funds will reduce the purchasing power of the grant funds as construction costs continue to rise due to inflation. Awarding the Proposition 84 funds now would support the economy by providing a short-term economic stimulus and building a foundation for long-term economic growth. Moreover, additional water resource projects would be constructed earlier, thus meeting the voter intent of generating new water supplies and improving water reliability in the state in a timely manner.

4. **Providing funds to Proposition 50 Round 2 applicants will support the implementation of valuable projects**. Although streamlined evaluation criteria were used to rank all proposals submitted for Round 2, Step 2 funding, the criteria were similar to the criteria used in Round 1, Step 2, which enabled the RWMG to compare the scores of proposals from both rounds. The RWMG found that all proposals from Round 2, Step 2 received scores that were well within the mix of scores of the proposals in Round 1, Step 2. Since all proposals from Round 1, Step 2 were funded based on the rationale that all were qualified and that it was in the best interest of the state to award the grants sooner, the RWMG requests that the state consider funding all proposals from Round 2, Step 2, which were determined to be equally qualified proposals.

Part 2 – Specific Comments Related to Scoring

1. ***Work Plan*** (12/15 points received)

   The RWMG requests that DWR and SWRCB revisit the scoring in our application related to the *Work Plan*. The RWMG feels that points deducted for a lack of discussion of sediments for Littlerock Reservoir (Reservoir) are unwarranted.

   DWR stated that no discussion of deposition of sediments for the Reservoir project was included. This is incorrect. On page II.E 3-9 the following is stated: "*Sediment removal will be conducted in areas lacking riparian vegetation and subject to current off-highway vehicle (OHV) use.* Although emergent riparian vegetation could be present in isolated areas of the Reservoir, this vegetation is not persistent and is lost each year by desiccation, OHV use, and by inundation as the Reservoir is filled by natural inflow. If any clearing and grubbing is required, the vegetation removed will be disposed of in accordance with Angeles National Forest approved polices. No clearing of riparian vegetation will occur during the avian nesting season. *Excavated materials will be stockpiled in temporary storage areas on-site prior to being trucked off-site for disposal at existing sand and gravel mines.*"

On page II.E 3-10 the following is stated: "*Sediment removed from the Reservoir would be trucked off-site to an approved facility. Construction debris would be removed from the site and transported to an approved recycling or disposal facility.* Following the excavation and removal of sediment from the Reservoir, the area would be graded to smooth the Reservoir bottom and remove any scarps resulting from the excavation activities. In areas where any persistent native vegetation is removed for project activities, the area would be re-vegetated and restored to its previous state. Noxious weed controls would be implemented to ensure that restored areas are not colonized by invasive plants. *At the completion of sediment removal activities, Palmdale Water District (PWD) crews would remove all debris to an approved site and restore all access roads and travel paths not required for future maintenance activities.* In addition, other disturbed areas (sediment stockpiling, construction equipment storage, and staging areas) would be restored."

On page II.E 3-10 the following is stated: "*An agreement will be required between PWD and the identified Palmdale Quarry Pit property owner(s) for potential disposal of excavated sediment. If an agreement can not be reached, PWD proposes to purchase an exhausted (closed) quarry for purposes of ongoing sediment removal and disposal following completion of the proposed project.*"

2. ***Budget*** (3/5 points received)

The RWMG requests that DWR and SWRCB revisit the scoring in our application related to the *Budget*. DWR asserts that no supporting documentation was provided for the budgets. This is incorrect. There are differing levels of support for each project depending on the design stage of the project, with detailed supporting documentation being provided for RW-1, WI-2, RW-2, and WS-1.

DWR states that there is an inconsistency with regard to differing pipeline lengths that results in different budget costs. Assuming DWR is referring to RW-1, where we have indicated in two places that the pipeline length will be 10 miles and 16 miles in another; the budget accounts for 80,920 linear feet of pipe, or approximately 15 miles. Thus the budget covers both pipeline lengths. The final pipeline length would be determined at the last design stage. In addition, a point was already deducted for inconsistencies in pipeline length in the *Work Plan* section of the application.

DWR also states that the grand total of requested grant funding in Table 4-9 should be $300,954, but that it was shown as zero on Attachment 4. This is a typo. The final column of the summary table on page 13 of Attachment 4 correctly calls out the $300,954 administration costs and includes those in the overall grand total for grant funds requested.

3. ***Monitoring, Assessment, and Performance Measures*** (4/5 points received)

The RWMG requests that DWR and SWRCB revisit the scoring in our application related to *Monitoring, Assessment, and Performance Measures*. DWR states that for each project, a thorough narrative description included project overview, performance measures, output, outcome indicators, and feasibility. A Performance Measures Table was provided for each project with goals, desired outcomes, output indicators, outcome indicators, measurement tools and methods, and targets. DWR then asserts that some measures cannot be supported. DWR states that using groundwater level as an *output* indicator to track reduction in groundwater withdrawal is doubtful as water measurable level change would be too low in this case (<0.5'). We are in agreement that this will be difficult to track, which is acknowledged in the IRWM Plan. The IRWM Plan states the following starting on the bottom of pages 8-41: "the ability to stabilize long-term groundwater levels in the region by showing groundwater recharge and extractions are in balance can be measured through monitoring groundwater levels through a Groundwater Ambient Monitoring and Assessment Program well monitoring program, and recording volumes of groundwater pumped and banked. Groundwater levels should be monitored, at a minimum, on a quarterly basis to account for seasonal variations. *In order to sufficiently measure the performance of this planning target, a number of details about measuring needs to be identified including, but not limited to, the number of groundwater monitoring wells, which wells to be monitored, which sub-basins to be monitored, who will collect the data, and how it will be coordinated.*"

DWR asserts that the targets for the education and outreach tasks could be improved by including a knowledge assessment target in addition to attendance target. WC-1 does include an attendance target for the Water Demonstration Garden. It is not clear why a knowledge assessment target would be included

separately. Overall, if the project goals are being contributed to, it may be assumed that the community is implementing conservation measures and are knowledgeable about the benefits of conservation.

DWR states that a discussion was not provided evaluating what would be done if targets were not met. The description of what is to be provided in the "Performance Measures" evaluation within the PSP Guidelines (page 35), does *not* state that a discussion of what would be done if targets were not met must be provided in the application. Further, in the IRWM Plan, this issue is addressed in Section 8 (pages 8-44), which states: "The results from monitoring project performance will be used to guide future project implementation and sequencing. If project monitoring reveals that a project is progressing as planned and regional changes do not necessitate revisiting project implementation, then changes to project sequencing are not anticipated. *However, if project monitoring reveals that a project is not producing the anticipated result, the governance structure will dictate the responsible party to work with the project proponent to identify and implement corrective actions.*"

4. ***Water Supply and Water Quality Economic Analysis*** (6/15 points received)

The RWMG requests that DWR and SWRCB revisit the scoring in our application related to the *Water Supply and Water Quality Economic Analysis.* Most of the comments related to Attachment 8 were related to the benefit cost ratio. The benefits claimed for this application were low when compared with project costs ($55 million in benefits claimed compared to $471 million in costs, in present value terms). It is clear from discussion with DWR's economists during the May 8, 2008, meeting that the low level of benefits claimed was the reason for the relatively low score given to Attachment 8.

The consensus from that discussion was that the monetary value of project benefits in this application is much higher than was claimed in the proposal. DWR economists emphasized that several of the benefits that were only physically quantified or qualitatively discussed in the application should have been monetized, and that a few monetary benefits claimed were valued too conservatively (the approach in the proposal was based on experience with Proposition 50 IRWM Round 1 submittals, and input from project proponents). These include the value of avoided fines for overflows in violation of waste discharge requirement (WDR) permits, the value of avoiding import of salts into the Antelope Valley Groundwater Basin and associated higher levels of total dissolved solids in the groundwater, the value of enabling Palmdale Hybrid Power Plant construction, and the value of avoided future water shortages.

It became clear after that discussion that if a less conservative approach had been used to value avoided fines related to wastewater discharge, the ratio of benefits to costs for this proposal would have gone from being the lowest of proposals submitted in Proposition 50 Round 2 to the highest, with a benefit cost ratio of approximately 30 to 1. The value of avoided wastewater discharge fines comes from two sources: the amount and duration of effluent-induced overflows onto a nearby dry lakebed, and the value of not exceeding nitrate concentration limits for wastewater discharges to receiving groundwater. These fines were valued conservatively in the proposal because the state Regional Water Quality Control Boards has discretion in setting the amount of a fine[1], and have done so in the past. Approximately $15 million in present value of avoided fines were claimed in the proposal, assuming the Regional Board used this discretion to issue lower fines.

DWR economists indicated that use of the maximum fine might have been acceptable for valuing avoided fines. A simple calculation shows that if the maximum possible fine amounts are used in valuing avoided fines, the benefit value is over $20 billion, which is over 40 times the costs claimed in the proposal. The Water Code states that the maximum fine amounts are $5,000 per day for every day that the nitrate limits are exceeded, and $10 for every gallon of waste discharge in excess of volume limits[2].

- For avoiding fines for wastewater overflows, the average annual overflow amount is 2.025 billion gallons. If fines are conservatively assumed to be levied only for one year until new financing

[1] See State Water Resources Control Board Water Quality Enforcement Policy, February 19, 2002, which can be accessed at http://www.waterboards.ca.gov/plnspols/docs/wqep.doc

[2] Maximum fine amounts are defined in the Water Code section 13350, subdivision (e)(1).

can be put in place to address the problem, when valued at $10 per gallon the value of avoided fines from overflow is $20.25 billion.

- For exceeding nitrate concentration limits, again assuming the without-project delay in financing would be one year, the value of avoided fines is 365 days multiplied by $5,000 per day, or $1.825 million.

- The combined amount of avoided fines is therefore $20.252 billion. When discounted to 2006 dollars, that total is over $15 billion, representing a benefit cost ratio of approximately 30 to 1.

This demonstration of potential adjustment to the monetized benefits claimed in the Antelope Valley proposal does not include adjustments for other benefit values listed above, including the value of avoiding import of salts into the Antelope Valley basin and associated higher levels of total dissolved solids in the groundwater, the value of enabling Palmdale Hybrid Power Plant construction, and the value of avoided future water shortages. Monetization of these values in future submittals will help ensure that the benefits of using funds available for IRWM projects in the Antelope Valley are fully represented.

DWR stated that it is not clear that an added reliability benefit should be counted for the recycled water project suite. Additional reliability would come from use (RW-1) and recharge (RW-2) of recycled water in lieu of imported water. Recycled water is relatively drought insensitive while the reliability of imported State Water Project (SWP) water is officially projected to average 77 percent of Table A obligations in the long term.

DWR stated that for the Upper Amargosa Creek Recharge, Flood Control, and Restoration Project, the cost of water for recharge should be included. The cost of water for recharge was included in the write-up and was assumed to be $20 per acre-foot, assuming that Article 21 water is used for recharge. This cost is netted out of the "avoided dry-year reserve water costs," as discussed in Attachment 8, Section II.G, on that benefit.

Part 3 – Unique Needs of the Antelope Valley

1. **The need for funding in the Antelope Valley is great**. The Antelope Valley region has experienced exceptionally high rates of population growth during the last couple of decades, from 140,000 people in 1985 to over 500,000 people in 2005, and this trend is expected to continue. Recent projections indicate that over 1 million people will reside in the Valley by the year 2030. Such a rapid population growth rate has resulted in higher demands for water in agricultural, municipal, industrial, recreational and environmental uses, and competition and conflict for available water supplies in the Antelope Valley have intensified. Aside from population growth, the Antelope Valley imports approximately 60 percent of its water supply. This not only presents a problem with reliability but also brings salts to the region, which is a closed basin with no outlet to the Pacific Ocean. A large amount of new water infrastructure is needed for the region. The Proposition 50 Round 2 application identified approximately $471 million (present value) in water supply, water quality, and other water resource projects that are in need of funding. The RWMG is aware that additional funding will be made available through Proposition 84, but the North/South Lahontan region has a very small amount allocated relative to other funding regions ($27 million for all IRWM groups in this large funding region).

2. **Some <u>critical</u> aspects of progress in a region are difficult to measure with numerical scoring**. The Antelope Valley has no existing regional governing body to oversee water resource management, as many other regions do. In fact, prior to the IRWM process, the Antelope Valley had a history of contentiousness involving multiple water-related interests. This IRWM grant program provided the Antelope Valley with an effective incentive for bringing together over 45 stakeholders representing federal, state, county, and local government; water agencies; environmental groups; disadvantaged communities; and private businesses. The stakeholder group has met for two years on at least a monthly basis, if not more frequently, to draft and adopt an IRWM Plan for the Antelope Valley region. The stakeholders set ambitious goals to ensure adequate future water supplies to the burgeoning urban population in the Antelope Valley, while at the same time setting a framework for working together on many shared water resource strategies, including increase of water supply reliability, reduction of conflict between water users, water quality improvement, critical water infrastructure repair and replacement, habitat, open space, and recreation enhancements. This process also involved crafting and electing a seven-member "Leadership Team" to provide a temporary governance structure for implementation of the IRWM Plan and to develop a permanent governance

structure in the near future. Finally, the stakeholder groups pulled together during the month of January 2008 to educate politicians and the community on issues that were hampering the complete adoption of the IRWM Plan by all 11 RWMG members. This educational meeting, held at the City of Palmdale, was hugely successful and received much positive press coverage afterwards. This level of cooperation and collaboration is unprecedented in the Antelope Valley and clearly demonstrates that this group has met both the letter and spirit of the intent of the IRWM program. Unfortunately, however, without the incentive of some level of state financial support for this resource-intensive effort, it is possible that this collaborative approach may founder.

In addition to these written comments, verbal comments were delivered by Randy Williams at the May 8, 2008, public meeting held at 2:30 P.M. in the Cal EPA Building. A transcript of those verbal comments is included with this letter.

Thank you for your time and consideration of this matter. If you have any questions or concerns about any of these comments, please contact Brian Dietrick at (562) 908-4288, extension 2703.

Sincerely,

Antelope Valley Regional Water Management Group
Leadership Team

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