



# County of Santa Cruz

## HEALTH SERVICES AGENCY

701 OCEAN STREET, ROOM 312, SANTA CRUZ, CA 95060-4073

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### ENVIRONMENTAL HEALTH

[www.co.santa-cruz.ca.us/eh/ehhome.htm](http://www.co.santa-cruz.ca.us/eh/ehhome.htm)

April 8, 2008

**April 15, 2008 Agenda**

Board of Supervisors  
County of Santa Cruz  
701 Ocean Street  
Santa Cruz, CA 95060

### **SUBJECT: Pajaro Valley Water Management Agency**

Dear Members of the Board:

On November 20, 2007, the Board directed the Water Resources Division Director to request a report from the Pajaro Valley Water Management Agency (PVWMA) that would outline their anticipated plan of action to secure necessary financing to fully address groundwater overdraft in the Pajaro Groundwater Basin. The Water Resources Division Director was also directed to evaluate the PVWMA plan and provide a recommendation on April 15, 2008, for the Board to consider whether to initiate the process to declare a groundwater emergency and take other necessary actions to address the groundwater overdraft in the Pajaro Groundwater Basin.

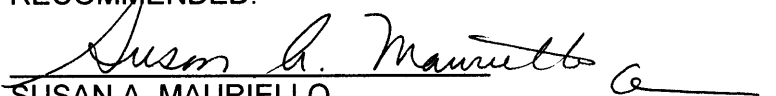
The requested report from PVWMA was not released until March 31 (attached). The report addresses many County concerns, but also leaves future actions undetermined pending a resolution of more immediate concerns. The report and the potential implications of declaring a groundwater emergency were discussed at the April 2 meeting of the County Water Advisory Commission. Staff and the Commission believe additional time is necessary to fully consider the potential actions that could be taken as a part of a declaration of groundwater emergency and to consult with other affected agencies. Staff intends to make a full report to the Water Advisory Commission at their May 7 meeting so that they can also make a recommendation to your Board.

It is therefore **RECOMMENDED** that your Board accept this report on the status of the Pajaro Valley Groundwater Management Agency and that you direct the Water Resources Division Director to provide a further report and recommendation on May 20, 2008 for the Board to consider whether to initiate the process to declare a groundwater emergency and take other necessary actions to address the groundwater overdraft in the Pajaro Groundwater Basin.

Sincerely,

Rama Khalsa, Ph.D.  
Health Services Agency Director

RECOMMENDED:

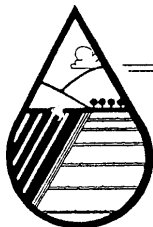


SUSAN A. MAURIELLO  
County Administrative Officer

Attachments:

March 25, 2008 Letter of Dennis Osmer, Chair of PVWMA  
Attachments to Dennis Osmer Letter (on file with the Clerk of the Board)

cc: County Administrative Office  
County Counsel  
Planning Director  
HSA Administration  
Water Resources Division/EH  
Water Advisory Commission  
PVWMA  
City of Watsonville  
Monterey County Water Resources Agency



## PAJARO VALLEY WATER MANAGEMENT AGENCY

36 BRENNAN STREET • WATSONVILLE, CA 95076

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email: info@pvwma.dst.ca.us • www.pvwma.dst.ca.us

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ENVIRONMENTAL  
HEALTH SERVICES

March 25, 2008

John A. Ricker  
Water Resources Division Director  
County of Santa Cruz  
701 Ocean St. Room 312  
Santa Cruz, CA 95060-4073

Subject: Response to December 14, 2007 Letter to Bruce Laclergue

Dear John,

As you are aware, the Pajaro Valley Water Management Agency has been without a General Manager for some time, so this response is being made by the Ad Hoc Executive Committee. This committee is comprised of Directors Michael Dobler, David Kegebein and Dennis Osmer. We have been charged by the Board to act in the absence of a General Manager.

We appreciate the interests of the County of Santa Cruz and understand your concerns for the future of the Agency in view of projected funding shortfalls. The Board has two major areas of focus at this time. The first is strengthening the short-term stability of the Agency. The second is the completion and operation of the Pajaro Valley Supplemental Water System. Beyond these priorities we are committed to the achievement of the highest degree of community consensus possible on the long-term prospects for the Agency.

### Short Term Stabilization

We have made significant progress in our short-term stabilization efforts. A finance analysis team was formed comprised of the Ad Hoc Executive Committee, Technical Divisions Manager Mary Bannister, Financial Analyst Nancy Trevino, Lidia Gutierrez of Gutierrez Consulting, Steve Clary of RMC Water and Environment and Marc Pimentel, Administrative Services Manager of the City of Watsonville. In short order, this team identified and addressed a number of deficiencies in our grant reimbursement claims submissions and financial management. The work of this group was continued by former Santa Cruz County Auditor Controller Gary Knutson, who favored us with a 3 month contract for his services. In conjunction with Technical Division staff and others, he prepared a budget amendment for the current fiscal year which was adopted by the Board last Wednesday and is attached to this letter. It represents a real milestone for the Agency in its clarity and transparency.

Painful as it was, the Board reduced staff by 5 positions. While this low staffing level may not be sustainable in the future, it was a necessary step towards reducing expenses in the face of declining revenue.

Another milestone achieved was the stipulated settlement of a number of long standing court cases. The entry of judgment was made February 22, 2008. This settlement is attached for your review. The Board agreed to pay back over-collected fees estimated to be in the amount of \$13.5 Million over a period of 3 years beginning July 31, 2008. While we are still within the 60 day appeal period regarding this action, it is a positive sign that the Agency will be free of these cases that have chained it to the past.

Director Michael Dobler made the trip to Washington, D.C. last month to lobby for funds for the Watsonville Water Recycling Project. U.S. Bureau of Reclamation Title XVI funds have been authorized to pay for construction of the City of Watsonville's Wastewater Recycling project, but must be appropriated by Congress in each year's budget. The amount received will reduce the Agency's indebtedness to the City.

Fortunately, the Agency has been very successful in securing state grants and low-interest loans to help offset the costs of the Pajaro Valley Supplemental Water System. Unfortunately, previous Agency administration did not make it a priority to prepare and submit reimbursement claims, resulting in over \$10 million of unreimbursed Agency expenditures. The finance team worked quickly to address this issue and reimbursement claims are now being submitted monthly, resulting in a significant and steady cash flow to the Agency. Additionally, the Agency received a Proposition 50 Integrated Regional Water Management Grant from the Department of Water Resources and the State Water Resources Control Board. This grant will provide an additional \$11.5 million to further offset the costs of the Pajaro Valley Supplemental Water System. The Agency is committed to dedicating the resources necessary to ensure timely reimbursement of these grant funds.

Our current efforts toward in short term stabilization involve the development of next year's budget and analysis of longer term financial projections to identify additional opportunities. Even though our work has been difficult, our team of employees is comprised of exceptionally committed and competent individuals.

#### Pajaro Valley Supplemental Water System

The Agency is in the home stretch toward a substantial increase in the delivery of supplemental water to growers. This system will deliver up to 7000 acre/feet of safe clean water from the City of Watsonville's Recycled Water Facility (RWF) in conjunction with the existing Harkins Slough Project and the Coastal Distribution System (CDS). The CDS is 98% complete and the RWF is 82% complete. The Agency is in the process of doing a potable well survey in the area and working with growers on preparing for the delivery of recycled water in March of 2009. We are committed to finding the most cost effective method of operation for this system with the City of Watsonville.

#### Long Term Prospects

The Board has taken the approach that we are faced with a great opportunity to strengthen the work of the Agency in the long term despite predictions of doom. As with most government institutions, public confidence in the Agency has eroded to the point where restoring funding by ballot is difficult in the extreme. The Board has not rushed to force a solution. This has been a source of surprise to some and consternation to others. Board Members have indicated that we must get to a new level of support by being transparent, open and honest. While these strategies don't address the need for instant gratification, they are most certain to lead to a greater chance of success in the future. A memo is attached that indicates possible funding options.

Certainly many positive developments have occurred as we move towards a solution. As the structure of the Agency has been pulled down over the past months, it has become easier to see the possibilities for improvement. The open consideration of what institution might replace the Agency, should we not be successful, reinforces the need for the Agency's continued existence. In an effort to energize community dialogue on water issues, the Board held three successful forums with the last being co-sponsored by the Santa Cruz County Farm Bureau. The headline for the report from the Register- Pajaronian used the words "PVWMA" and "optimism" in the same sentence. No one can recall a previous such occurrence. These forums provide the first part of a foundation on which we might build greater consensus.

An essential element in getting to the ballot (whatever form that might ultimately take) is the repayment of over-collected augmentation fees. While the Board agreed to a three-year repayment, as was prudent at the time, Board Members have indicated that an early repayment should be a priority. Our current budget shows that there may be a possibility to do this within the next year. It is very much a matter of maintaining an adequate cash flow.

Meetings are ongoing to develop a formal plan and process for reviewing funding options and related issues. It is safe to say that all aspects of control - rates, governance, zones of benefit, restrictions and use are on the table. This plan will be centered on an open and inclusive community dialogue.

An imported supply is still part of our Basin Management Plan (BMP) and we are talking with our partners in the San Felipe Division of the Central Valley Project (CVP) (Santa Clara Valley Water District and San Benito County Water District) about some type of conjunctive use program that would give Pajaro a supply without waiting for our un-contracted CVP commitment that is indefinitely tied up.

Work continues on the ground water modeling update project started in 2005 with the assistance of a grant from the U.S. Geological Survey (USGS). Staff continues to work with the technical advisory committee (TAC) to guide the development of the MODFLOW model as outlined in the contract with the USGS.

#### New Lawsuit

This report would not be complete without reference to a new suit against the Agency filed February 20, 2008 by the Pajaro Sunny Mesa Community Services District ("Pajaro Sunny Mesa"), a community services district located in northern Monterey County and within a portion of the Agency's jurisdictional boundaries. Pajaro Sunny Mesa is governed by an appointed board that serves at the pleasure of the Monterey County Board of Supervisors. A copy of the amended complaint is attached for your review. The lawsuit seeks (among other things) to limit the agency's income further

The Board is moving steadily toward a realistic and reasonable approach to achieving our mission as established by the Agency Act in 1984. We appreciate the support of the County of Santa Cruz in maintaining the local control over local water resources that the Pajaro Valley Water Management Agency represents. We welcome any contribution you may offer to the effort in which we are now involved to achieve a new level of local support for long range solutions.

Sincerely,



Dennis Osmer  
Chair, District C



David Kegebein  
Director, Monterey County Appointed



Michael Dobler  
Director, District B

Attachments:

2007-2008 Amended Budget

Stipulated Settlement

Memo of Tony Condotti Dated August 30, 2007

Amended Complaint PSMCSD