



STAFF REPORT

Report To: Board of Supervisors **Meeting Date:** July 18, 2019

Staff Contact: Darren Schulz, Public Works Director

Agenda Title: For Possible Action: Discussion and possible action regarding an interim Interlocal Agreement with the State of Nevada for the purchase of water by Carson City from the Marlette Lake Water System in FYs 2020 and 2021, for a total not-to-exceed amount of \$2,700,000. (Eddy Quaglieri, equaglieri@carson.org)

Staff Summary: The City's negotiations with the State are ongoing for a long-term agreement; however, in the interim, City and State staff propose an interim water agreement for FYs 2020 and 2021 for the City to purchase water from the Marlette Lake Water System. Through the agreement, the City agrees to pay for the ongoing bond service, approximately \$50,000 per month, a monthly charge for operation and maintenance fees of \$12,099 per month, and to pay for raw water at the rate of \$0.75 per thousand gallons. The City's payments for the operation and maintenance fee and for the raw water, combined, are capped at \$550,000 in both FY 2020 and 2021. Thus, the City's yearly payments are subject to a cap of approximately \$1.15 million per year (approximately \$600,000 in bond payments and \$550,000 for operation and maintenance fees and for raw water). The City also pledges to make reasonable, good-faith efforts to purchase additional raw water if the water, and the City's funding is available, and an additional \$400,000 is requested in the not-to-exceed amount for this purpose.

Agenda Action: Formal Action / Motion **Time Requested:** 10 minutes

Proposed Motion

I move to approve the Water Agreement with the State of Nevada as presented.

Board's Strategic Goal

Sustainable Infrastructure

Previous Action

N/A

Background/Issues & Analysis

The Marlette Lake Water System has provided water to Carson City and Virginia City for well over 100 years. The system consists of Marlette Lake, the Hobart Reservoir, a system of catchments on the east slope of the Sierra Nevada Mountains above Washoe Valley, and a system of pumps, interconnecting pipes, tanks, and an inverted siphon that feed water to Virginia City and Carson City. Water from the Marlette Lake Water System is critical to the City and is an integral part of the City's water plan. The water supply is important from a conjunctive management standpoint, in other words, to be fully used during wet years in order to save our groundwater for dry years, when groundwater is the only source available. Marlette and Hobart reservoirs are and will become increasingly more critical in buffering against a changing climate, which is forecast to produce more rain in the future which requires reservoirs in order to release the water when demand requires. This

water also plays a part in diluting inorganics when mixed with our groundwater. Historically, water from the Marlette Lake Water System has generally been available during the City's peak demand months in July, August and September.

In past years, the Marlette Lake Water System has delivered to the City approximately 2,000 acre-feet per year (AF/YR) of water (about 652 million gallons). More recently, however, the City has had difficulty treating the water from Marlette/Hobart Lakes at the Quill Treatment Plant due to organics that the City's treatment plant cannot handle, and the volume of water that the City has purchased from the East Slope of the Marlette System has been approximately 806 AF/yr, or about 263 million gallons. The City is currently working on a Surface Water Treatment Study with a consultant to determine the City's needs and to utilize all available surface water. While the Surface Water Treatment Study is being completed and pending upgrades to the Quill Treatment Plant to treat the Marlette Lake water, the City is working on developing other ways to put the water to beneficial use, including, but not limited to, the newly revised Vicee Canyon Recharge Program, water right trades for irrigation, enhanced system operations and exploring other water right transfers downstream. The City is aggressively pursuing these options while focusing on the maximum benefit to the City.

The City and the State of Nevada are in discussions concerning a long-term water agreement. In the interim, City and State staff propose an interim water agreement for FYs 2020 and 2021 for Carson City to purchase water from the Marlette Lake Water System. Under this interim agreement, the City agrees to pay for the ongoing bond service, approximately \$50,000 per month, a monthly charge for operation and maintenance fees of \$12,099 per month, and to pay for raw water at the rate of \$0.75 per thousand gallons. The City's payments for the bond service will total approximately \$600,000 per year. The bond service payments are scheduled to continue at this level until 2035, after which time the bond service payments will diminish and cease after 2038. The City's payments for the operation and maintenance fee and for the raw water, combined, are capped at \$550,000 in both FY 2020 and 2021. Thus, the City's yearly payments are subject to a cap of approximately \$1.15 million per year (approximately \$600,000 in bond payments and \$550,000 for operation and maintenance fees and for raw water).

The City does pledge, however, to make reasonable, good-faith efforts to purchase additional raw water if the water, and the City's funding, is available. At \$550,000, less the \$12,099 per month operation and maintenance fee (\$145,188 per year), there is \$404,812 available for raw water purchases. At \$0.75 per thousand gallons, this equates to approximately 540 million gallons of water, or 1,656 acre-feet. It is not clear if the Marlette Lake Water System will be able to provide to Carson City as much water as it has historically. But given the recent wet years and the State's ongoing recommissioning of the Marlette Lake pump, 652 million gallons, or more, may be available for the City's purchase, at least by FY 2021. At a rate of \$0.75 per thousand gallons, 652 million gallons is approximately \$491,250 per year, or an additional approximately \$86,438 per year. If the City is fiscally able to, purchasing additional water from the Marlette Lake Water System will help financially support the System, will help to offset the City's fixed water costs, and will ensure that the City can continue to rely upon a critical source of water for the City. For this reason, a not to exceed amount of \$2.7 million is requested, \$2.3 million of which is contracted, and \$400,000 of which, if budgeted and available, could be used to purchase additional available raw water.

Applicable Statute, Code, Policy, Rule or Regulation

Public Law 101-618; NRS Chapter 533; State Engineer Water Right Permit 30896 and Certificate 8855

Financial Information

Is there a fiscal impact? Yes

If yes, account name/number: Property Services-Water Purchase/State Monthly - 5203502-500452

Property Services-Water Purchase/State Usage - 5203502-500455

Property Services-Water Purchase/State Pump Service Fee - 5203502-500456

Property Services-Water Purchase/State System Wide Improvements - 5203502-500456

Is it currently budgeted? Yes

Explanation of Fiscal Impact: The FY 2020 and 2021 provisions provide an interim water purchase agreement. The budgeted amount in FY 2020 is \$1,128,136, consisting of \$612,392 for the bond payments, \$145,188 for the operation and maintenance fee, and \$370,556 for water purchases. Together with the budgeted, but not spent, amounts from FY 2019 for water purchases, this will cover the obligated \$1.15 million payments in FY 2020. For FY 2021, staff will request an increase in the amount budgeted for the purchase of raw water from the Marlette Lake Water System.

Alternatives

Do not approve the agreement and provide staff with alternative direction.

Attachments:

[2019 Marlette Lake Interim Agreement.pdf](#)

Board Action Taken:

Motion: _____	1) _____	Aye/Nay
	2) _____	_____

(Vote Recorded By)

**INTERIM INTERLOCAL CONTRACT FOR FYs 2020 AND 2021
WATER SALE AGREEMENT**

This Agreement is made by and between Carson City (City) a Consolidated Municipality and a political subdivision of the State of Nevada, and the State of Nevada (State), by and through the State Public Works Division of the Department of Administration, Buildings and Grounds Section on behalf of the Marlette Lake Water System (collectively referred to as the Parties, and individually as a Party).

RECITALS

WHEREAS, the Marlette Lake Water System, composed of the water rights, easements, pipelines, flumes and other fixtures and appurtenances used in connection with the collection, transmission and storage of water in Carson City and Washoe and Storey Counties, was acquired by the State of Nevada pursuant to law; and

WHEREAS, pursuant to Nevada Revised Statute 331.160, the Public Works Division of the Department of Administration is responsible for the supervision and administration of the functions of the Marlette Lake Water System; and

WHEREAS, Carson City is a political subdivision of the State of Nevada and pursuant to Nevada Revised Statute 331.160 is entitled to water from the Marlette Lake Water System; and

WHEREAS, Carson City and the State Public Works Division are Public agencies as defined by NRS 277.100, and pursuant to NRS 277.180, are authorized to contract for the performance of any activity, service or undertaking which they are authorized by law to perform; and

WHEREAS, for purposes of this Interim Agreement City and State seek to cooperate to set rates (excluding costs for major capital costs of improving and modernizing the System) for FYs 2020 and 2021, as may be further amended by the Parties under the terms of this Agreement;

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, the Parties agree as follows:

1. **Term.** This Agreement shall govern the water rates State charges to City from July 1, 2019 to June 30, 2021. The Parties agree that the terms of this Agreement are effective, even if retroactively, beginning on July 1, 2019.
2. **Termination.** This Agreement shall terminate upon mutual consent of both Parties, or when the Parties enter into an interlocal agreement for the sale of water from State to City.
3. **Bond Payments for FYs 2020 and 2021.** City shall pay to State monthly fees to service Marlette Lake Water System Bond payments. The bond payments shall be approximately \$50,000 per month, as required by the State's bond repayment schedule. The bond payments of approximately \$50,000 are not included in the calculation of the \$550,000 Cap on City Payments for FYs 2020 and 2021.
4. **Operation Maintenance Fee Payments for FYs 2020 and 2021.** City shall pay to State a monthly Operation Maintenance fee of \$12,099.00.
5. **Raw Water Rates for FYs 2020 and 2021.** For the raw water received from the Marlette Lake Water System City shall pay to State a rate of \$0.75 per 1000 gallons (per kgal). City shall buy all water provided by the Marlette System to City, subject to the cap on City's payments and delivery of associated water. Water shall be delivered based upon normal operations, other water commitments, and availability.

6. Cap on City Payments for FYs 2020 and 2021.

a. **FY 2020.** City's payments for raw water and the Operation Maintenance Fee, combined, shall be capped at \$550,000.00. If additional raw water is available beyond this amount, City will make reasonable, good-faith efforts to buy the additional raw water.

b. **FY 2021.** If additional raw water is available in FY 2021 beyond the \$550,000.00 cap, City will make reasonable, good-faith efforts to increase raw water purchases from the Marlette system for FY 2021.

7. Entire Agreement and Modification. This Agreement constitutes the full and final agreement between the Parties. This Agreement may not be amended or assigned except by an agreement in writing signed by both Parties and it will be binding upon and inure to the benefit of the Parties' respective successors and assigns.

8. Required Approval. This Agreement requires approval of the Carson City Board of Supervisors, and the Public Works Division of the Department of Administration and the Nevada Board of Examiners. However, by its express terms the Agreement applies retroactively and becomes effective on July 1, 2019.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be signed and intend to be legally bound thereby.

ON BEHALF OF THE NEVADA PUBLIC WORKS DIVISION, DEPARTMENT OF ADMINISTRATION:

David Patrick _____ 7/9/19 _____
Signature Date

Administrator, SPWD _____
Title

ON BEHALF OF CARSON CITY, A CONSOLIDATED MUNICIPALITY:

Signature

Date

Title

Board of Examiners

Date

Approved as to form by:

[Signature] _____
Deputy Attorney General
for Nevada Attorney General

7/9/19 _____
Date

Deputy District Attorney
for Carson City District Attorney

Date