

STAFF REPORT

Report To:Board of SupervisorsMeeting Date:December 3, 2020

Staff Contact: Darren Schulz, Public Works Director

Agenda Title: For Possible Action: Discussion and possible action regarding a proposed interim interlocal contract ("Agreement") with the State of Nevada for the purchase of water by Carson City from the Marlette Lake Water System in fiscal year ("FY") 2022 and 2023, for a total not to exceed amount of \$2,700,000. (Darren Schulz, dschulz@carson.org and Eddy Quaglieri, equaglieri@carson.org)

Staff Summary: The City's negotiations with the State are still ongoing for a long-term agreement concerning the Marlette Lake Water System. At this time, the State has engaged in a rate study, the City has engaged in a Marlette Lake Water System present and future demand study, and the City and State are awaiting the outcomes of both studies. However, in the interim, City and State staff propose an interim contract for FY 2022 and 2023 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 2022 and 2023. 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.

Agenda Action: Formal Action / Motion

Time Requested: 10 minutes

Proposed Motion

I move approve the Agreement as presented.

Board's Strategic Goal

Sustainable Infrastructure

Previous Action

July 18, 2019 - Board of Supervisors approved the FY 2020 and 2021 interim water agreement with the State of Nevada.

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 the City's 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 forecasted to produce more rain in the future and will require 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 interlocal contract for FY 2022 and 2023 for Carson City to purchase water from the Marlette Lake Water System. Under this interim interlocal contract, 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 2022 and 2023. Thus, the City's yearly payments are subject to a cap of 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 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 Chapters 277 and 533; State Engineer Water Right Permit 30896 and Certificate 8855.

Financial Information Is there a fiscal impact? Yes **If yes, account name/number:** Water Utility Fund: 5203502-500452 - Property Services - Water Purchase/State - Monthly 5203502-500453 - Property Services - Water Purchase/State - Usage 5203502-500455 - Property Services - Water Purchase/State - State Pump Svc Fee 5203502-500456 - Property Services - Water Purchase/State - Sys Wide Improvements

Is it currently budgeted? Yes

Explanation of Fiscal Impact: The FY 2022 and 2023 Water Utility budget will be developed to incorporate these costs to purchase water which consists of approximately \$612,392 for bond payments, \$145,188 for the operation and maintenance fee, and \$370,556 for water purchase. Although it is estimated that these two years will cost a minimum of \$1,128,136 each for the water purchase, this could vary based solely on how much water is actually used. For comparison, FY20 Actual is \$1,165,015 and FY 21 Budget is \$1,128,136.

Alternatives

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

Attachments:

Interim Interlocal Contract for FY22 -FY23 Water Sale Agreement.pdf

Recorded MOU.pdf

| Board Action Taken: | | |
|---------------------|----|-----------|
| Motion: | 1) | _ Aye/Nay |
| | 2) | |
| | | |
| | | |
| | | |

(Vote Recorded By)

INTERIM INTERLOCAL CONTRACT FOR FISCAL YEARS 2022 AND 2023 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 (NRS) 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 NRS 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 fiscal years (FYs) 2022 and 2023, 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, 2021 to June 30, 2023. The Parties agree that the terms of this Agreement are effective beginning on July 1, 2021.

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 2022 and 2023. 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 2022 and 2023.

4. **Operation Maintenance Fee Payments for FYs 2022 and 2023.** City shall pay to State a monthly Operation Maintenance fee of \$12,099.00.

5. Raw Water Rates for FYs 2022 and 2023. 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 2022 and 2023.

a. **FY 2022.** 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 2023.** If additional raw water is available in FY 2023 beyond the \$550,000.00 cap, City will make reasonable, good-faith efforts to increase raw water purchases from the Marlette system for FY 2023.

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, the Public Works Division of the Department of Administration and the Nevada Board of Examiners.

(The remainder of this page is blank; the signature blocks follow on the next page.)

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

| Wardd Latuck Signature | DIVISION, DEPARTMENT OF ADMINISTRATION: |
|---|---|
| Administrator | |
| ON BEHALF OF CARSON CITY, A CONSOLIDA | TED MUNICIPALITY: |
| Signature | Date |
| Title | |
| Board of Examiners | Date |
| Approved as to form by: | 11 24 20 |
| Deputy Attorney General for Nevada Attorney General | Date ¹ |
| Deputy District Attorney for Carson City District Attorney | Date |

Doc # 511362

Recorded 10/6/2020 11:22 AM Requested by CLERK TO THE BOARD Carson City - NV Aubrey Rowlatt Clerk - Recorder Pg 1 of 8 Fee: \$0.00 Recorded By: SY

| APN: _ | | | |
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APN:

FOR RECORDER'S USE ONLY

MEMORANDUM OF UNDERSTANDING

Marlette Lake Water System

Storey County, Truckee Meadows Water Authority, Carson City

TITLE OF DOCUMENT

I, the undersigned, hereby affirm that the attached document, including any exhibits, hereby submitted for recording does not contain personal information of any person or persons. (NRS 239B.030)

□ I, the undersigned, hereby affirm that the attached document, including any exhibits, hereby submitted for recording does contain personal information of a person or persons as required by law. State specific law: (Enter Text Here)

henryl Eggent

Signature

Cheryl Eggert – Chief Deputy Clerk

Print Name & Title

WHEN RECORDED MAIL TO:

<u>Carson City</u> <u>885 E. Musser Street. suite 1032</u> <u>Carson City. NV 89701</u> DRAFT Internal Review as of 08/26/20.

MEMORANDUM OF UNDERSTANDING MARLETTE LAKE WATER SYSTEM

This Memorandum of Understanding ("<u>MOU</u>") is entered into by and between the Truckee Meadows Water Authority ("<u>TMWA</u>"), Storey County ("<u>Storey</u>") and Carson City ("<u>Carson</u>"). TMWA, <u>Storey</u>, and Carson are individually referred to as "<u>Party</u>" and collectively as "<u>Parties</u>".

RECITALS

WHEREAS, Carson, Storey and TMWA are each responsible for providing municipal water service to customers within their respective jurisdictions.

WHEREAS, the State of Nevada ("<u>State</u>") owns and may sell water from the Marlette Lake Water System (MLWS) for beneficial use in Carson City, Storey County, and Washoe County. MLWS includes water rights totaling approximately 11,476 acre-feet; however, the State is not maximizing the beneficial use of MLWS water resources and only a portion are currently used by Carson and Storey. Additionally, State operations of MLWS are challenged by funding constraints, aging infrastructure and the need for additional data to inventory and quantify system flows and capacities.

WHEREAS, the Parties desire to enter this MOU as a preliminary expression of general intentions and to provide the basis for negotiations of a definitive agreement with the State with respect to deliveries of MLWS water. The Parties anticipate that the terms of a definitive agreement can be reached within two years from the date of execution of this MOU.

WHEREAS, if properly planned and managed, the MLWS will remain an important water source for and meet the needs of Storey and Carson while also delivering surplus water to TMWA, and by working together the Parties can facilitate more efficient and economic alternatives to address the State's funding constraints in operating and maintaining the MLWS.

WHEREAS, the MLWS is the sole source of municipal supply to Storey. The Parties recognize Storey's reliance on and historic priority to MLWS water usage and desire to protect and facilitate MLWS deliveries to Storey for its existing and future demands.

WHEREAS, Carson relies on the MLWS to meet a portion of its existing municipal supply. Based on past master planning and current forecasted conditions subject to change, Carson estimates it will require approximately 3,000 acre feet per year of MLWS water to meet existing demands and future build out demands for 80,000 residents.

WHEREAS, TMWA is the regional water manager for the Truckee Meadows. Through the Truckee River Operating Agreement, TMWA can utilize surplus MLWS resources, water beyond the needs of Carson and Storey, to enhance the resiliency and operational efficiency of TMWA's water resource supplies, especially in years of normal or better than normal precipitation where surplus MLWS resources are available.

WHEREAS, the Parties desire to work cooperatively to identify surplus water resources in the MLWS that can be made available and delivered to TMWA in a manner that does not adversely impact or diminish MLWS deliveries to Storey and Carson. The Parties recognize Storey's and

Carson's reliance on and historic priority to MLWS water usage and desire to protect and facilitate MLWS deliveries for existing and future demands as described herein.

WHEREAS, TMWA, Storey and Carson are political subdivisions of the State of Nevada and are public agencies as defined by NRS 277.100, and under NRS 277.180 are authorized to contract regarding any activity, service or undertaking which they are authorized by law to perform.

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

A. <u>PURPOSE AND OBJECTIVE</u>

The purpose of this MOU is to set forth common objectives of the Parties in working with the State. TMWA, Storey and Carson desire to assist the State in maximizing the beneficial uses of MLWS water resources, and work with the State to explore mutually beneficial opportunities to enhance revenues for funding operations and maintenance of MLWS, improve operating procedures, allocate water resources to Carson and Storey for municipal demands including critical water storage supplies in Marlette Lake, and identify surplus resources for delivery to TMWA. TMWA, Storey and Carson desire to offer their collective utility operational expertise to assist the State to further such objectives and improve water management and operational aspects of MLWS.

B. <u>GOALS</u>

The common objectives include the following terms and/or elements:

1. <u>Maximize Use of MLWS Resources</u>. The Parties desire to assist the State in maximizing the beneficial use of the State's available water resources from the MLWS by TMWA, Carson and Storey, while preserving the historic priorities for MLWS water usage described in the recitals above.

Identification of Existing and Future Municipal Demands. Carson and Storey will 2. provide to all parties their existing and potential future municipal water demands from MLWS, including existing Marlette Lake storage requirements ("Carson and Storey Existing Demands"). The Parties recognize Carson's desire, based on current forecasted conditions based subject to change, for 3,000 acre feet per year of MLWS supplies for its existing and future build out demands, and will work cooperatively to identify Storey's and Carson's future build out demands for municipal water from the MLWS ("Carson and Storey Future Demands"). Storey's Future Demands include those for Virginia City, Gold Hill, Silver City (Silver City is located in Lyon County but is served by the Virginia City Water System), American Flat and their immediate surrounding areas of the Comstock, and also include the Virginia City Highlands, Highland Ranches, and Mark Twain Estates. The Parties will take into account existing infrastructure, paid for by Carson and Storey, that serves existing demands of Carson and Storey, which should shall not be restricted by surplus water beneficially used by TMWA, and improvements to the East Slope collection system and increase in capacity of infrastructure necessary to transport water in connection with the Carson and Storey Future Demands.

3 <u>Identification of Surplus MLWS Water.</u> The Parties will work cooperatively to identify surplus water resources owned by the State that can be made available for delivery to

TMWA and Storey ("<u>Surplus MLWS Water</u>") and to develop information necessary to assist the State with developing the master plan and operating agreement described in Section 4. It is the Parties' intention that deliveries to TMWA will not adversely impact or diminish Carson and Storey Existing Demands or Carson and Storey Future Demands.

4. <u>Assistance with State Master Plan</u>. The Parties will work cooperatively with the State on the following:

i) Identifying and defining the amount, timing and source of water resources available to TMWA, Carson and Storey, allocations, priority and availability of water supplies, including in times of drought or varying hydrologic conditions;

ii) Establishing a long-term operating agreement that:

- a) maximizes the beneficial use of the State's available water resources;
- b) preserves the priority of Carson and Storey Existing Demands;

c) protects and facilitates MLWS deliveries for Carson and Storey Future

Demands;

- d) addresses an agreed upon delivery schedule;
- e) addresses special conditions of service; and

f) addresses pre-determined adjustments to the quantity of water available for sale under variable hydrologic conditions which may occur in any given year;

iii) Identifying necessary long-term infrastructure replacements, improvements, costs and potential funding mechanisms;

iv) Installing and/or improving monitoring and gauging devices in the Marlette Lake Water System to accurately account for the available water resources;

v) Cost of service study and methodology for rate setting procedures which establish an equitable allocation of capital and operating costs between the Parties;

vi) Memorializing with the Nevada Department of Wildlife ("<u>NDOW</u>") the specific operating restrictions, if any, on discharges of water impounded in Marlette Lake in connection with fisheries operations on Marlette Lake; and

vi) Establishing operating guidelines for storage in Marlette Lake for the Parties.

5. <u>Permitting and Regulatory Approvals</u>. Storey and Carson shall cooperate with TMWA and the State regarding any necessary permitting, authorizations, or approvals required by the State Engineer, Federal Water Master, Bureau of Reclamation, or any other agency or entity to use the surplus MLWS for TMWA's intended purposes consistent with this MOU.

C. <u>TERM</u>

This MOU may be extended or terminated by mutual consent of the parties or unilaterally by any party without cause upon thirty (30) days written notice.

D. <u>GENERAL PROVISIONS.</u>

1. <u>Notice</u>. All notices or other communications required or permitted to be given under this Agreement must be in writing and will be deemed given if delivered: personally by hand; by facsimile with simultaneous regular mail; or mailed certified mail, return receipt requested, and addressed to another Party at the following address:

TMWA

Director, Natural Resources Truckee Meadows Water Authority 1355 Capital Blvd. Reno, NV 89502 Tel: (775) 834-8250

Carson

Public Works Director Carson City Public Works 3505 Butti Way Carson City, NV 89701 Tel: (775) 887-2355 Fax: (775) 887-2112

Storey

County Manager P.O. Box 176 Virginia City, NV 89440

Any Party may, by notice in writing sent to the Parties as described above, designate a different mailing address to which or a different person to whose attention all such notices or demands must thereafter be addressed.

2. <u>Required Approval</u>. This Agreement shall not become effective until and unless approved by appropriate authorized representative of or official action of the governing body of each Party.

3. <u>Limited Liability</u>. The Parties do not waive and intend to assert available liability limitations, including NRS Chapter 41, in all cases. Contract liability of the Parties shall not be subject to punitive or liquidated damages.

4. <u>Independent Public Agencies</u>. The Parties are associated with each other only for the purposes and to the extent set forth in this Agreement. Each Party is a public agency separate and distinct from any other Party. Nothing contained in this Agreement may be deemed or construed to create a partnership or joint venture, to create relationships of an employer-employee or principal-agent, to convey ownership of any asset, or to otherwise create any liability for one Party whatsoever with respect to the indebtedness, liabilities, and obligations of another Party. This Agreement does not contemplate any transfer of property or ownership interest between the Parties and each Party will each maintain ownership of their own facilities.

5. <u>Severability</u>. If any provision contained in this Agreement is held to be unenforceable by a court of law or equity, this Agreement will be construed as if such provision did not exist and the non-enforceability of the provision will not render any other provision or provisions of this Agreement unenforceable.

6. <u>Counterparts</u>. This Agreement may be executed in one or more counterparts, each of which will be deemed an original and all of which together will constitute one and the same instrument.

7. <u>Governing Law; Jurisdiction</u>. This Agreement and the rights and obligations of the Parties shall be governed by and construed according to the laws of the State of Nevada. The Parties consent to the jurisdiction of, and agree that disputes will be resolved by, the courts of the First Judicial District Court of the State of Nevada.

8. <u>Entire Agreement and Modification</u>. 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 all Parties and it will be binding upon and inure to the benefit of the Parties' respective successors and assigns.

9. <u>Force Majeure</u>. No Party shall be deemed to be in violation of this Agreement if it is prevented from performing any of its obligations hereunder due to strikes, failure of public transportation, civil or military authority, act of public enemy, accidents, fires, explosions, or acts of God, including, without limitation, earthquakes, floods, winds, or storms. In such an event the intervening cause must not be through the fault of the Party asserting such an excuse, and the excused Party is obligated to promptly perform in accordance with the terms of the Agreement after the intervening cause ceases.

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the last date written below.

TMWA: CARSON: TRUCKEE MEADOWS WATER CARSON CITY, a political subdivision of the AUTHORITY, a joint powers authority and political subdivision of the State of Nevada State of Nevada By: べ Brad Bunkowski By: MARK FOREE, General Manager Dated: 9-30-20 Dated: APPROVED AS TO FORM: APPROVED AS TO FORM: By: By: MICHAEL PAGNI Deputy District Attorney Todd Reese TMWA Legal Counsel STOREY: STOREY COUNTY, a political subdivision of the State of Nevada BS. Markan Ale Dud. tt mc Brile Dated: September 1, 2020 APPROVED AS TO FORM: gn (l Deputy District Attorney By: ANNE M. Langer

IN WITNESS WHEREOF, the parties have duly executed this Agreement as of the last date written below.

| TMWA: TRUCKEE MEADOWS WATER AUTHORITY, a joint powers authority and political subdivision of the State of Nevada By: | CARSON: CARSON CITY, a political subdivision of the State of Nevada By: |
|--|--|
| By: MARK FOREE, General Manager Dated: 9/80/20 | Dated: |
| APPROVED AS TO FORM: By: MICHAEL PAGNI TMWA Legal Coursel | APPROVED AS TO FORM: By: Deputy District Attorney |
| | STOREY: |
| | STOREY COUNTY, a political subdivision of the State of Nevada |
| | Ву: |
| | Dated: |
| | APPROVED AS TO FORM: |
| | By: Deputy District Attorney |
| | 1 |

| The document to which this c | FIED COPY ertificate is attached is a full, true al on file and of record in my office. |
|---|---|
| | Autrey Rowlast |
| | Aubrey Rowlatt, Clerk-Recorder |
| Brtukec | Deputy |
| Per NRS 239 Sec. 6 the 9 \$N affects the legality of the docu | may be redacted, but in no way |