



Dedicated to Preserving the Napa River for Generations to Come

August 13, 2010

Mr. John K. Morris
Foreperson
2009-2010 Napa County Grand Jury
P.O. Box 5397
Napa, CA 94581

FILED

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Clerk of the Napa Superior Court
By: C. Brennan
Deputy

SUBJECT: Agency response to Findings and Recommendations in Grand Jury Report:
WATER: Our Precious, Critical Resource

Dear Mr. Morris:

The Board of the Napa Sanitation District (NSD) would like to thank the Grand Jury for its work in researching and preparing its report, *WATER: Our Precious, Critical Resource*. We agree entirely that access to safe, sufficient water supplies is of critical importance to the residents of our region, and we commend the Grand Jury's effort to highlight and elevate this issue in public discourse.

As part of a strategy to increase the supply and reliability of potable water, promoting the use of recycled water where appropriate and practical is good public policy. NSD supports this community goal and works with Napa County, the City of Napa and other local partners toward these means.

Since 1945, NSD has been responsible for the collection and treatment of wastewater for most of the city of Napa and some surrounding unincorporated areas. As part of its operations, NSD treats wastewater to levels that are appropriate for use as recycled water in landscape irrigation. NSD has invested over \$40 million in the necessary treatment processes and distribution infrastructure to deliver from 320 million gallons to 475 million gallons (1,000 to 1,450 acre feet) of recycled water annually to commercial and industrial customers.

Based on the Grand Jury's inquiries and research, the report makes numerous findings. As required under Section 933.05(a) of the California Penal Code, the following represents NSD's comments regarding the findings in the report.

NSD either agrees with or has no reason to disagree with all of the Findings, except for Finding #12.

NSD partially disagrees with Finding #12, which states, "As more City of Napa water customers convert to using recycled water the revenues for Napa City Water Department decline since recycled water is delivered to customers at a lower rate than potable water." It is true that if a City of Napa potable water customer converts to recycled water use for irrigation or other appropriate uses, there would be a loss of

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revenue to the City from that customer. It is for this reason the City and NSD have entered into an agreement to help offset these revenue losses in the short term. This agreement provides that NSD reimburse the City for 100% of its lost revenue the first year, with decreasing compensation for the second and third years. While it does not reimburse the City for the long term financial impact, it does provide some short term relief and allows the City the opportunity to use a redistribution of the available water to new customers and future rate adjustments to make up some or all of the lost revenue over the longer term.

NSD is committed to the reimbursement agreement with the City. However, more important than the agreement is the commitment by NSD that we work cooperatively with the City to ensure that the revenue impact of customers converting from potable water to recycled water does not hinder the expansion of recycled water delivery, nor significantly harm the customers of the City's potable water system. We believe that the City of Napa shares this commitment, and we are currently discussing this agreement to ensure this goal is met.

It might be of interest to note that in the history of NSD's recycled water programs, only three existing City water customers have converted to recycled water.

The report also includes many recommendations, several of which apply specifically to NSD. As requested in the Grand Jury report, and as required under Section 933(c) and 933.05(b) of the California Penal Code, the following represents NSD's responses to the specific Recommendations made in the report.

Recommendation 8 -- The City of Napa and NSD identify a process for, and develop an implementation plan to, integrate NSD and PWD into a single department.

This recommendation will not be implemented because it is not warranted. This recommendation, rooted in concerns noted in the report about a loss of revenue to the City of Napa when customers transition to recycled water use, appears to conclude that this contributes to competition between the two agencies and acts as a barrier to recycled water expansion.

As noted in the Grand Jury report in the Findings and above in this letter, the City of Napa and NSD have an agreement to manage the transition of City potable water customers to recycled water. This agreement addresses this concern straight on, providing for compensation to the City for lost revenues. NSD has been and continues to be in full support of this agreement. NSD has not seen any evidence that there is competition for customers, as the City supports conversion to recycled water and NSD supports the compensation agreement. In fact, City, County and NSD staff and elected officials meet regularly to discuss coordination and cooperation regarding the expansion of recycled water delivery. In addition, the City cites expansion of recycled water use as a way to manage City water demand in its 2005 Urban Water Management Plan update. We do not see NSD's status as an independent agency as an impediment to expanding the recycled water system.

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Additionally, it must be noted that the delivery of recycled water is only one part of NSD's operation, and that the majority of its budget and staff effort is related to the collection and treatment of wastewater.

Recommendation 9 – The County and all municipalities continue development and expansion of recycled water projects to alleviate future water shortages.

NSD agrees that development and expansion of recycled water delivery can improve the availability and reliability of potable water systems. Additionally, recycled water is itself a reliable source of water for the region that will be available even when there are potable water shortages. Promoting the expanded use of recycled water is sound public policy, which NSD supports.

This recommendation has been implemented. NSD shares the desires of potential recycled water users to participate in the pursuit of opportunities to expand the recycled water system. In fact, since 1990, NSD has spent roughly \$1.2 million on planning and environmental studies in support of expanding its recycled water distribution system. NSD has developed strategies and policies through its Recycled Water Strategic Plan and other policy documents that promote the continued development and expansion of recycled water projects with local partners. NSD stands ready to cooperate with local partners and potential end users to develop feasible recycled water projects.

Recommendation 10 – The County, all municipalities, and NSD investigate the process and economics for the formation of a countywide utility district to benefit the County residents and holistically manage the availability, distribution, and economics of potable and recycled water.

This recommendation will not be implemented because it is not warranted at this time. NSD has a long history of working cooperatively with the area jurisdictions on issues related to potable and recycled water. As noted above, NSD has taken a very active role in investing in recycled water infrastructure and in pursuing partnerships to expand the recycled water distribution system.

The combination of all potable and recycled water purveyors into one utility district would have significant hurdles to overcome. Rates and service levels are set at the local level based on infrastructure investments, outstanding debt levels, and local values. The combination of these systems into one utility district would create significant conflict and problems that, we believe, would be greater than any benefits derived from the consolidation.

Being a separate district allows us to be responsive to local resident needs and priorities, and to set the levels of service and the rates for those services according to local resident desires. NSD is in sound financial condition and has a professional, competent management team that operates NSD efficiently and effectively. At this time, we do not believe that the formation of a utility district would provide sufficient additional benefits to the customers of NSD.

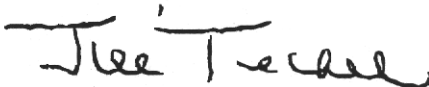
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Recommendation 12 – NSD proactively and aggressively identify funding sources to accelerate expansion of recycled water service in Napa.

This recommendation has been implemented. NSD is currently a member of the North Bay Water Reuse Authority, an organization committed to securing state and federal resources to promote the expansion of recycled water throughout Marin, Sonoma and Napa Counties. Through membership in this organization, which has been supported financially by Napa County, NSD has been awarded \$1.5 million in federal grants to expand recycled water pipeline through the Napa State Hospital and into the MST area. If partnership agreements are reached with future beneficiaries of an expanded recycled water system to other areas, NSD will continue to develop projects and pursue external funding sources to expand the use of recycled water.

Again, we would like to thank the Grand Jury for conducting the difficult work of research and reporting on this vitally important issue. Local governments and community organizations must do what we can to protect and improve the reliability of potable water, which includes expanding the use of recycled water. We hope that the comments provided here improve your and the community's understanding of the issues regarding the distribution of recycled water, and that they serve to promote the underlying goals of the Grand Jury report.

Sincerely,



Jill Techel
Chair, on behalf of the Board of the Napa Sanitation District

cc: Board of Directors
Michael Abramson, General Manager
Mike Riback, Legal Counsel