



Irvine Ranch  
WATER DISTRICT

July 11, 2017

Mr. Mike Markus, P.E.  
General Manager  
Orange County Water District  
18700 Ward Street  
Fountain Valley, CA 92708

Subject: Support for the Proposed In-lieu Recharge Program

Mike:

On July 12, 2017, OCWD staff will recommend to the Water Issues Committee that OCWD purchase up to 100,000 acre-feet of in-lieu water through a Cyclic Storage Agreement with Metropolitan Water District of Southern California. OCWD's participation in this program, as described in the materials being presented to the Committee, is an efficient and cost effective method for OCWD to restore depleted groundwater levels in the Orange County Groundwater Basin. As expressed on past occasions, IRWD encourages and supports OCWD's purchase of in-lieu water for the expressed purpose of filling the Orange County Basin. IRWD also supports OCWD's participation in the Cyclic Storage Program in a manner that will benefit all of the Orange County Groundwater Producers.

In implementing this program, one of OCWD's key considerations is determining the best way to finance the purchase of water through the Cyclic Program. OCWD staff recommends that the Board authorize access to \$25 million using the Commercial Paper Program to pay for 36,738 acre-feet of the water, which would not result in an increase to the Replenishment Rate (RA). Another 63,262 acre-feet of treated water would be paid for by increasing the RA by \$30 in July 2018. Funds collected from the RA increase would allow OCWD to pay Metropolitan for 12,652 acre-feet per year of water over the next five years consistent with the Cyclic Storage Agreement.

While IRWD considers OCWD's proposed water payment strategy to be feasible, we suggest that OCWD also consider alternatives that would finance the purchase of the 63,262 acre-feet of water by issuing Certificates of Participation or other instruments to pay for the water over a longer timeframe. Using such financial tools would allow OCWD to take advantage of the discounted water supply that is available from Metropolitan to refill the Basin, while reducing impacts to the operating budgets of the groundwater producer agencies.

To illustrate the cost differences in the financing alternatives for purchasing the 63,262 acre-feet of water, the following table was prepared to compare OCWD's current water payment proposal against financing options that would result in the repayment of debt over different time periods. The table shows the required RA increase, starting in Fiscal Year 2018-19, associated with each repayment period. The table also compares the net present values of the costs of implementing an In-Lieu Recharge Program under each alternative.

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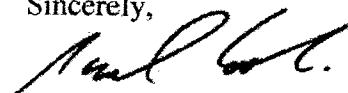
Comparison of Financing Alternatives for the  
 Purchase of 63,262 Acre-feet of Treated Water for  
 the Proposed In-Lieu Recharge Program

Water Purchase Alternative	Increase in RA in July 2018 (\$/AF)	Net Present Value of Cost of In-Lieu Recharge Program (\$ Million)
OCWD Current Proposal: Pay for Water Over 5 Years Without Financing	\$30	\$43.3
Finance Water Over 7 Years	\$24	\$43.9
Finance Water Over 10 Years	\$18	\$44.1
Finance Water Over 15 Years	\$13	\$44.6
Finance Water Over 20 Years	\$10	\$45.0

\* Assumes interest rate for financing water purchases at 4.0% and a discount rate for Net Present Value calculations at 3.5%.

IRWD is not advocating for one specific financing alternative in the above table; the alternatives analysis was prepared to show how the length of the repayment period affects the required changes in the RA and the net present value of the purchases. When considering the appropriate repayment period for a large purchase of water, an agency could consider the frequency of being able to make a large water purchase, such as the one being contemplated. For example, if OCWD's opportunity to purchase water on a large scale is assumed to happen once every 10 years, perhaps a 10-year financing period is most appropriate. We hope that the above comparison of financing options will facilitate a discussion with the producer agencies to develop a consensus that the In-Lieu Recharge Program is implemented in a manner that is acceptable to all of the agencies, including OCWD, in advance of you bringing this to your Board for final consideration. Thank you for all of the work that you and your staff have done to pursue and develop this opportunity. We look forward to working with you and your staff, as well as the producer agencies, to refine any financing options that may be considered by OCWD in implementing the proposed In-Lieu Recharge Program. Please contact me at (949) 453-5590 or [cook@irwd.com](mailto:cook@irwd.com) if you wish to discuss this information prior to the Groundwater Producers Meeting.

Sincerely,



Paul A. Cook, P.E.  
 General Manager

cc: IRWD Groundwater Producer Agencies