



# SOUTH COAST WATER DISTRICT

*Partnering With The Community*

February 24, 2023

Board of Directors  
South Orange County Wastewater Authority  
34156 Del Obispo Street  
Dana Point, CA 92629

Dear SOCWA Member Agencies and SOCWA staff,

**Subject: South Coast Water District's Proposal to Optimize SOCWA**

The purpose of this letter is to convey South Coast Water District's (SCWD's) recommended course of action for optimizing and modernizing the South Orange County Wastewater Authority (SOCWA) and to acknowledge and address the January 23, 2023, South Orange County Wastewater Blueprint (Blueprint) proposal developed by Santa Margarita Water District (SMWD) and Moulton Niguel Water District (MNWD).

At the outset, SCWD sincerely appreciates the insights and efforts put forth by SMWD and MNWD to develop the Blueprint proposal. We have reviewed and analyzed the Blueprint and acknowledge several salient and beneficial concepts; however, from our standpoint the development of a future roadmap and proposal for modernizing SOCWA must be undertaken through a collaborative process. Ideally, reforms should be jointly formulated to beneficially meet the needs of all SOCWA members and, among other things, incorporate opportunities for operational reforms, financial efficiencies, and augmented recycling opportunities as generally outlined in the Blueprint proposal. In this regard, while SCWD has several concerns and questions regarding the Blueprint proposal which are detailed in Attachment 1, we propose that elements of the Blueprint along with a full range of other proposals and ideas be formulated, evaluated, and considered for implementation through a consensus-based process among all the SOCWA members. Such a process would involve identifying and seeking common agreement on the issues and challenges at SOCWA, establishing long term goals and objectives, and jointly developing a full range of appropriate solutions and reforms.

In reviewing the Blueprint proposal, we note several key objectives put forth by SMWD and MNWD including the optimization of operations and administration, and the need for

**Board of Directors**

Doug Erdman  
*President*

Scott Goldman  
*Vice President*

Rick Erkeneff  
*Director*

Bill Green  
*Director*

Joe Muller  
*Director*



949.499.4555

 SCWD.ORG



31592 West St. Laguna Beach, CA 92651

control of wastewater treatment to support potable reuse initiatives. From SCWD's perspective, all these objectives as well as others such as agreed-to levels of service and strong regional collaboration can be successfully accomplished at SOCWA under the existing joint powers structure. For example, an inter-agency wastewater treatment and flow agreement to support the Orange County Groundwater Replenishment System (GWRS) has been in place and effectively implemented between Orange County Sanitation District (OC San) and the Orange County Water District (OCWD) for over two decades. Such agreements could also be put in place between SOCWA and its member agencies if members are willing to collaboratively work through SOCWA to address such issues. This example illustrates SCWD's position and a key point that SCWD Director Scott Goldman has made in several SOCWA Board and PC-2 committee meetings: that opportunities to improve SOCWA and address the specific goals and objectives of the member agencies can effectively be accomplished under SOCWA's existing structure. What's been missing, and is recommended by SCWD, is a framework for all SOCWA members to work in partnership by engaging in a process to jointly develop proposals and constructively affect change.

**SCWD Recommended Course of Action:**

SCWD proposes a collaborative workgroup process facilitated by a neutral third party that engages and involves all SOCWA member agencies. The primary goals of the facilitated workgroup process will be to:

1. Identify the key issues and challenges with the existing SOCWA structure, service, and governance;
2. Come to consensus on a common set of goals and objectives for improving SOCWA, addressing issues and challenges identified by SOCWA's member agencies, and positioning the organization for the future;
3. Develop mutually acceptable proposals and reforms to successfully address the goals and objectives and identify specific actionable changes within SOCWA;
4. Identify opportunities to streamline SOCWA administrative, engineering, and financial functions; and
5. Work toward the development of new policies and amendments to each of the applicable SOCWA agreements (e.g., JPA agreement, Project Committee agreements, and others) to implement the agreed-to changes that are needed to modernize SOCWA and meet the member agencies' goals for the organization.

**Proposed Timeline:**

The following table outlines SCWD's recommended workplan for this process and a proposed timeline. This workplan highlights a collaborative decision-making process and critical due

diligence items that SCWD recommends take place prior to the consideration of significant changes at SOCWA. To support this overall effort and provide a reasonable time allowance to address issues, SCWD recommends amending the existing PC-2 Agreement to extend its term, with December 31, 2023, as the new date of termination.

Item	Task	Milestone Completion Date
Facilitated process	<ul style="list-style-type: none"> <li>• Select a neutral third-party facilitator to manage all collaborative tasks.</li> <li>• SOCWA Board approval of facilitator proposal and scope of work.</li> <li>• Facilitated workshops with all member agency representatives to undertake and build consensus on the following:                             <ul style="list-style-type: none"> <li>○ Critical issues that need to be resolved at SOCWA.</li> <li>○ Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis using AWWA Effective Utility Management guidelines.</li> <li>○ Guiding principles for addressing issues and evaluating proposed changes.</li> <li>○ Development of consensus-based solutions and proposed reforms.</li> <li>○ Identification of performance benchmarks and success metrics.</li> </ul> </li> <li>• Submittal of a summary report with items recommended by the member agencies for implementation:                             <ul style="list-style-type: none"> <li>○ Policy revisions, new agreements, revisions to SOCWA’s existing Project Committee (PC) and Joint Powers agreements, and other mechanisms.</li> <li>○ Proposed milestone implementation schedule.</li> </ul> </li> </ul>	<p>March 2023</p> <p>April 2023</p> <p>May through October 2023</p> <p>December 2023</p>
Due diligence studies to support decision making	<p>To support the facilitated process and member agencies’ decision making on proposed changes, SCWD recommends SOCWA consider contracting for the following due diligence items:</p> <ul style="list-style-type: none"> <li>• Financial study to evaluate the current cost allocation methodology and model potential changes, with specific attention to a proportionate share of costs considering peak flows (including Infiltration and Inflow).</li> <li>• Condition Assessments of SOCWA treatment plants.</li> </ul>	<p>November 2023</p> <p>December 2023</p>

Project and other agreements	<ul style="list-style-type: none"> <li>• Extend Term of PC-2 Agreement to December 31, 2023.</li> <li>• Develop terms and conditions, as needed, for SOCWA’s existing PC agreements and Joint Powers Agreement based upon consensus recommendations.</li> <li>• Develop terms and conditions, as needed, for new inter-agency agreements such as recycled water flow and quality, contract operations and administrative support, and others based upon consensus recommendations.</li> </ul>	<p>April 2023 December 2023</p> <p>December 2023</p>
------------------------------	---	--

SCWD acknowledges that meeting the schedule provided above will depend on the complexity of the issues and the ability of the parties to work toward consensus. We believe that with a good faith effort, the schedule is achievable. Furthermore, if positive progress is being made during the process and the SOCWA members collectively believe more time is necessary, then the dates outlined above, including the termination date for the PC-2 Agreement, can be adjusted accordingly.

In closing, SCWD appreciates the extensive effort by both MNWD and SMWD to prepare the Blueprint proposal. The Blueprint outlines potentially beneficial concepts, provides constructive feedback and identifies important considerations regarding the future of SOCWA. SCWD maintains that the existing SOCWA structure can work well but agrees there are areas for improvement and reform that will potentially improve service, modernize the organization, and better meet the needs of all member agencies. Notwithstanding the need for change, SOCWA was formed and has operated successfully through a collaborative process among its member agencies. It has very effectively and efficiently operated and managed wastewater treatment facilities, land outfalls, ocean outfalls and other facilities for many years with an excellent record of service and regulatory compliance. SOCWA has also proven its ability to consistently produce high-quality recycled water at the request of its member agencies, and has successfully implemented capital and other projects directed by the various PC members.

The existing SOCWA joint powers framework has served its members well and was founded on the basis of regional cooperation. In this context, SCWD (and the undersigned agencies) recommend that an intensive collaborative process as outlined in this letter be undertaken for SOCWA to identify critical issues, define an appropriate level of service, identify areas of improvement, develop recommendations, complete associated due diligence studies, and amend or develop new agreements, policy changes and other mechanisms to successfully move SOCWA into the future.

Sincerely,

Douglas Erdman  
President of the Board  
South Coast Water District

Scott Goldman  
SOCWA Director representing  
South Coast Water District

Attachment

cc: Bill Green  
Rick Erkeneff  
Joe Muller  
Rick Shintaku

City of Laguna Beach

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

City of San Clemente

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

El Toro Water District

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Emerald Bay Service District

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Irvine Ranch Water District

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Moulton Niguel Water District

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Santa Margarita Water District

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Trabuco Canyon Water District

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

## ATTACHMENT 1

### SCWD Analysis of Blueprint Proposal February 2023

- **COVER LETTER:**

- SCWD disagrees with the premise on page 2 of the cover letter that SOCWA did not foresee the advancements and opportunities for additional water reuse and the inference that SOCWA inhibited recycled water utilization. As indicated in the February 2, 2023, SOCWA Board meeting presentation by Amber Baylor (Agenda Item 8.C.), SOCWA staff have facilitated, properly planned and implemented water recycling in the region as requested by the member agencies. In fact, SOCWA staff successfully operate SCWD's Advanced Water Treatment facility that treats the Coastal Plant effluent to a high, Title 22 level, which is in turn used to provide landscape water for SCWD service area golf courses, resorts, HOAs, parks, City parkways, and more. Furthermore, SCWD does not agree that the retail water/recycled water agency needs full control of the wastewater treatment plant to ensure proper source water for planned water recycling project(s). OCWD and OC San (and many other separate water and sewer utilities) have successfully addressed this issue through interagency agreements.

- **FACILITY ASSETS:**

- The Blueprint initially identifies contract operations, including the transfer of assets to MNWD and SMWD. SMWD General Manager Dan Ferons clarified at his presentation of the proposal that there is flexibility in that SMWD and MNWD would be willing to accept either: (Option 1) a transfer of assets to SMWD and MNWD; or (Option 2) no asset transfer. Neither the Blueprint document nor General Manager Ferons' presentation indicated that under Option 1, compensation would be provided to the remaining respective PC members for their past investment in the treatment plant assets.
- The Blueprint does not provide a rationale for why the San Juan Creek and Aliso Creek Ocean outfalls are not being acquired by SMWD and MNWD. These facilities are integral to the operation of the JBL and Coastal Treatment plants.

- **OPERATIONS & ENGINEERING:**

- Under the Blueprint, SOCWA would retain the NPDES and Recycled Water regulatory permit responsibilities for the treatment plants (which are proposed to be owned/operated by SMWD and MNWD). It is not clear that this arrangement would provide the appropriate level of regulatory accountability.
- The Blueprint does not specify which staff (and how many FTEs) SOCWA will retain to maintain the outfalls and related infrastructure, or if it is anticipated that this function will be performed by a combination of SMWD and MNWD staff, and SOCWA staff.

- There are significant potential cost savings identified in the Blueprint from existing SMWD and MNWD staff supplementing SOCWA staff in the operation of facilities (e.g., operations, finance, engineering, etc.). SCWD has several questions and concerns regarding this plan, as follows:
  - What is the term of this supplemental period and agreement? 50 years?
    - Is the 6.5% specified in the Blueprint sufficient to recover all SMWD's and MNWD's labor costs for the operation of the treatment facilities?
    - What assurances are there that SMWD and MNWD will absorb these costs and duties in the long term?
    - Does this meet all existing and future legal requirements, such as Prop 218?
  - The Blueprint Proposal does not provide an attachment that shows the data used to calculate the individual agency's cost savings.
  - It appears that the cost savings proposed in the Blueprint are significantly offset by costs for staffing and risks being absorbed by SMWD and MNWD. From SCWD's perspective, this provides further evidence that the existing SOCWA structure can work (i.e., why would this supplemental staffing be needed if SOCWA staff have already been satisfactorily operating the SOCWA facilities under the current structure).
  
- It is not clear in the Blueprint that the proposed staff deployment plan (hours and availability) is materially different or better than SOCWA's current staffing plan, or if there is an operational coverage problem with existing SOCWA staff that needs to be addressed.
  
- It appears that the energy consumption practices referenced on pages 10 and 11 of the Blueprint Proposal could all be implemented under the existing SOCWA structure.
  
- There is no specific information offered in the Blueprint as to why SOCWA's preventative maintenance program needs improvement (page 12 of the proposal).
  
- The Blueprint does not provide a comparative table of available performance metrics for the SOCWA, MNWD, and SMWD wastewater treatment plants, or specifically indicate where SMWD's and MNWD's metrics meet or exceed SOCWA's metrics. SCWD recommends that identifying these performance metrics could effectively inform the proposed collaborative review process.
  
- It's not clear why the capital planning proposal (pages 14 and 15) can't be implemented under the existing SOCWA structure. If needed, SOCWA could utilize consultant assistance to accomplish this pursuant to expectations set forth by SMWD, MNWD and the other member agencies.
  
- It's not evident how SMWD and MNWD would provide an improvement in the engineering service areas (e.g., CIP execution, emergency project delivery, etc.), as compared to SOCWA staff with sufficient consultant help. It appears that SOCWA engineering is understaffed due to the budgetary pressures applied by various member



agencies. As such, a more relevant “apples-to-apples” analysis may be to compare for the same levels of service, the fully burdened costs for SOCWA engineering staff plus consultant help, with the proposed MNWD and SMWD engineering staffs with consultant support and remaining SOCWA engineering staff.

- **WATER RECYCLING – IPR, DPR, TITLE 22, ETC.**

- The Blueprint does not provide a compelling rationale why proposed water recycling opportunities cannot be pursued under the current SOCWA structure.
- Presentations by SMWD and MNWD and the Blueprint indicate that SMWD and MNWD need better control of the treated sewage for potable reuse purposes and, hence, the agencies are proposing to assume control of the sewage treatment process (currently assigned to SOCWA operations). It appears that other potable reuse projects, such as the Orange County Groundwater Replenishment System (GWRS), function effectively with interagency agreements to ensure quality and quantity of treated wastewater flows without transferring operational responsibility to the “water agency.” The interagency agreement between Orange County Sanitation District (OC San) and Orange County Water District (OCWD) has been in place for over 20 years and provides a successful framework for the operation of the GWRS.
- It is not clear in the Blueprint if SMWD or MNWD are proposing to recycle sewage in excess of their respective allocated flows. If this is the case, information should have been included in the Blueprint as to how the remaining agencies would be compensated for their sewage flows (and, potentially, sewage rights).
- The purported expansion of recycled water service from the Coastal Treatment Plant under the proposed operation by SMWD or MNWD is not sufficiently explained in the Blueprint.
- It is not clear why SOCWA would hold the master Recycled Water use permit, when under the Blueprint proposal SMWD and MNWD would respectively own and operate the treatment plants.

- **FINANCE:**

- The existing cost allocation structure at SOCWA does not disincentivize peak flows on each treatment plant and the Blueprint does not address this important issue. Peak flows directly increase infrastructure needs, increase operational costs, and add significant risk to the other participating agencies for the respective treatment plant.
  - Peak flows include sewer Infiltration & Inflow (I&I) from the sewers that each member agency is responsible for (flowing to a treatment plant). Reduction for I&I needs to be “incentivized” via a proper cost allocation structure for treatment. The Proposal does not account for this.
- No backup data or calculations are provided as attachments to the Blueprint proposal to support the proposed budgets and justify the assured savings (pages 22 through 24 of the Blueprint proposal).

- It is not clear in the Blueprint how the costs will be reduced for the ocean outfalls, the pretreatment program, and the water reclamation permits. These functions are provided by SOCWA under both scenarios.
  - The Blueprint does not provide assurances that SMWD's and MNWD's "absorbed expenses" will not be transitioned back to the other member agencies over time.
  - It is not stated in the Blueprint if SOCWA employees that are transferring to SMWD or MNWD will be terminated when/if the need comes for SMWD and MNWD to maximize efficiencies and reduce costs.
  - It is unclear if benefit structures and planned salary increases for SMWD and MNWD, respectively, are considered in the Blueprint proposal when compared with SOCWA labor and burden rate forecasts.
- **RISK & LIABILITY:**
    - If the treatment plants and associated physical infrastructure are owned by SMWD and MNWD under the proposal, why wouldn't these agencies have complete responsibility for liability and property claims? More clarity is needed on why the liability is proposed under the Blueprint to be shared.
    - Although the PERS Unfunded Accrued Liability (UAL) for the transferred employees is held at \$1.8 million, would prospective PERS Annual Required Contribution (ARC) employee expenses be greater under MNWD's and/or SMWD's operations given the higher PERS benefit structures as compared to SOCWA?
    - Page 28 of the Blueprint proposal states that for property or liability claims, the responsible agency (i.e., SMWD or MNWD) would assume full responsibility for claims or fines if determined to be operator error or negligence. What happens, for example, if a retail water agency were to send a significant peak flow of sewage (e.g., high discharge from an upstream treatment plant, a high Inflow and Infiltration (I&I) incident, etc.) and cause an overflow condition? Who would be liable? This was not addressed in the Blueprint proposal.
- **GOVERNANCE:**
    - The agencies on the Administrative Committee have an equal vote, but only a majority vote is required on the budget. This appears to diminish the representation of the remaining members with capacity rights in each plant.
    - Would a separate budget be presented and voted on for each plant and land outfalls?
    - The Blueprint proposal only allows for a change of operator with a 2/3 vote of the participating member agencies and minimum 50% capacity rights for the facility. This is a significant change and does not appear to be equitable or appropriate.

- The ownership of the treatment plants by SMWD and MNWD presents challenges on several different levels. One example is if the operator were to be changed in the future (from MNWD or SMWD). What would happen to the ownership of the facilities? Would these remain assets of SMWD and MNWD, or is there a “transfer” provision assumed in the agreement?