

**MNWD RESPONSE - JANUARY 31, 2024**

**SCWD RESPONSE TO MNWD'S PROPOSAL TO TRANSITION REGIONAL  
TREATMENT PLANT OPERATIONS TO MNWD ON JUNE 30, 2024**

*Note that many of the following points are contingent upon agreement by the other members of PC-17 (i.e., City of Laguna Beach, Emerald Bay, and El Toro WD).*

- 1) SCWD is recommending a date of transition to full MNWD operation of RTP no sooner than June 30, 2024.

MNWD initially provided a framework to assume operations of RTP in its South OC Wastewater Optimization Blueprint in January 2023 and proposed meetings with all necessary parties to develop the process to do so at the same time. MNWD continued to work to develop the necessary framework. Following several months of weekly Tri-Agency staff meetings that were open to all interested SOCWA agencies, and concurrent with the facilitated process, MNWD ultimately developed a term sheet for its operation of RTP that was provided to all SOCWA member agencies on June 5, 2023. No substantive feedback was received. These documents would form the basis to develop an RTP Operations Agreement, hence our providing them for review and comment prior to developing a draft operating agreement.

In the third and fourth quarters of 2023, it should be noted that SCWD proposed a transition date for MNWD operation of RTP of December 31, 2023. At this time, we acknowledge that all participating agencies in the RTP have agreed that MNWD should operate the RTP by June 30, 2024.

- SCWD is requesting that MNWD develop a DRAFT RTP Operations Agreement for PC-17 review by February 28, 2024.

MNWD provided an operating framework and detailed description of its operations plan for RTP in the June 5<sup>th</sup> Term Sheet (separated by liquid and solids) to all PC 17 members - no response has been received. As noted above, these documents would form the basis to develop an RTP Operations Agreement, hence our providing them for review and comment prior to developing a draft operating agreement.

- SCWD will work diligently with MNWD (and the other PC-17 agencies) to finalize this agreement by May 31, 2024.
- MNWD will need to work with SOCWA staff, OCEA, and other interested SOCWA member agencies' staff to identify existing SOCWA employees that will be transitioning to MNWD. To complete the above agreement in a timely fashion, MNWD should furnish the proposed SOCWA staffing plan (post-June 30, 2024) by January 31, 2024.

MNWD first detailed its proposal to absorb the entire RTP staff in its South OC Wastewater Optimization Blueprint in January 2023. MNWD then provided a framework and detailed description of its operations plan for RTP in the June 5<sup>th</sup> Term Sheet (separated by liquid and solids) to all PC 17 members - no response has been received.

## 2) Governance structure:

### ○ LIQUIDS

- The SCWD Board supports MNWD having sole authority on decisions re: operations and capital projects (& related costs) for RTP “Liquids” projects/programs.

This is consistent with the Blueprint and MNWD's June 5<sup>th</sup> Term Sheet.

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### ○ SOLIDS

- However, the SCWD Board is WILLING TO consider an alternative, to-be-proposed by MNWD for RTP “Solids” projects/programs (maintaining similar rights as the current SOCWA governance structure)

MNWD proposed a governance plan for the Solids Handling Facilities in the June 5<sup>th</sup> Term Sheet - no response or substantive feedback was received.

- This proposed governance structure should be drafted by MNWD and submitted to all PC-17 agencies by January 31, 2024.

MNWD proposed a governance plan for the Solids Handling Facilities in the June 5<sup>th</sup> Term Sheet - no response or substantive feedback was received.

## 3) MNWD Buyout from CTP

- SCWD will work diligently with the PC-15 agencies for a resolution to this buyout number by January 31, 2024.

SCWD, EBSD and CLB have been discussing a potential “buyout” number for at least a year, with the number ranging from \$12M to \$20M. On January 4, 2024, MNWD met with the other PC-15 agencies and the buyout number proposed was \$17M. The next day, MNWD received an e-mail stating that the buyout number had dropped to \$13.45M without explanation.

#### 4) Shifting of Costs from MNWD operations of RTP

- The SCWD Board is firm that the CTP buyout number will be contingent upon MNWD's commitment to pay all costs that will be shifted to the remaining six (6) SOCWA member agencies through 2030.

The administration costs associated with two (2) treatment plants should be substantially less than three (3) treatment plants, particularly because RTP is the largest plant. MNWD has previously offered to absorb all of the RTP O&M staff, along with a portion of the administrative staff, but has serious concerns about continued subsidies of other SOCWA member agencies at the expense of MNWD's ratepayers. MNWD's June 5<sup>th</sup> Term Sheet already offered the following benefits to the other PC-17 agencies:

- Approximately 40% annual O&M savings to partner agencies;
- Provides financial clarity, stability, and financing options for CIP;
- Provides millions of dollars in projected O&M savings over 10-year period;
- Provides millions in total reduced expenses over 10-year period (with capital financing);
- Partner agencies maintain rights for potential new revenues or grants secured;
- Provides a combination of decision making and price certainty with 10-year assurances;

No other plan for operation of RTP with comparable benefits to its members has been proposed.

MNWD remains committed to the financial savings at RTP presented above. However, as demonstrated by Acting GM Burror at the November SOCWA Board meeting, it is clear that MNWD has been subsidizing the administration of SOCWA through the operation of the RTP to the financial benefit of the other SOCWA member agencies. Acting GM Burror's presentation demonstrated the egregious nature of additional subsidy funds proposed going forward that will have to be reviewed in the upcoming budget discussions.

- On November 2, 2023, the Interim GM of SOCWA presented the preliminary costs number to the SOCWA Board, and the costs will continue to be refined by the SOCWA Finance Committee members. The costs need to be finalized by February 28, 2024, along with a corresponding commitment by the MNWD Board to pay this annual dollar amount through 2030, when plant ownership officially transitions away from SOCWA.

See above. MNWD's proposal to operate the RTP provided substantial savings to the members of SOCWA and their ratepayers. MNWD will not

continue to subsidize inefficient operations going forward.

5) MNWD Ownership of RTP

- The SCWD Board considered the request by MNWD to own RTP in 2024, rather than awaiting the rough 7-year waiting period for ownership. The SCWD Board is recommending that PC17 continue with the original 7-year plan and allow MNWD to own RTP in 2030.

Allowing MNWD to assume the ownership of the RTP assets, of which MNWD maintains more than 75% of all the capacity rights, simplifies the transition and administration process for the SOCWA member agencies, saving the members both staff time and money. MNWD proposed the appropriate deed/land restrictions in its Draft Term Sheet to facilitate ownership with oversight of the member agencies in mind.

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- Note that MNWD will be the only member agency allowed to operate a SOCWA treatment plant in the year 2024.
  - SCWD or Laguna Beach plan to operate the CTP in 2030.
  - SCWD will operate JBL Secondary upon SMWD's readiness to operate their Advanced Treatment facility. Ownership of JBL would not transition until the same time as RTP in 2030.