

SOUTH ORANGE COUNTY WASTEWATER AUTHORITY (SOCWA)

**PROPOSAL TO TRANSITION THE REGIONAL TREATMENT PLANT (RTP) TO MOULTON NIGUEL
WATER DISTRICT (MNWD) & FACILITATE MNWD'S WITHDRAWAL FROM SOCWA**

Note: This proposal is contingent upon (1) the concurrence of the members of (a) PC-17: Regional Treatment Plant, (b) PC-2: J.B. Latham Treatment Plant, (c) PC-5: San Juan Creek Outfall, (d) PC-15: Coastal Treatment Plant, (e) PC-21: Effluent Transmission Main and (f) PC-24: Aliso Creek Outfall, and (2) the required unanimous vote of the SOCWA members to authorize MNWD's withdrawal from SOCWA.

**1. Transition of full ownership and operation of the RTP to MNWD and dissolution of
SOCWA PC-17**

- 1.1 All physical and real property assets, operations, and all liability for the RTP would be transferred to MNWD on June 30, 2024, or as soon thereafter, when (a) the agreements reflecting the terms and conditions described herein are executed among the affected parties, and (b) the SOCWA members have unanimously voted to (i) waive the 120-day notice requirement and (ii) approve MNWD's withdrawal from SOCWA.
- 1.2 SOCWA PC-17 would be concurrently dissolved with the transfer of RTP to MNWD.
- 1.3 MNWD would absorb SOCWA's current RTP operations staff and provide comparable positions and compensation. MNWD and SOCWA members acknowledge that (a) certain RTP staff are periodically used to support functions at other SOCWA facilities and (b) SOCWA has operations staff assigned to support multiple facilities, including the RTP. SOCWA and MNWD will commit to working in good faith to equitably resolve the disposition and sharing of costs for these overlapping staff positions so current levels of service are maintained for SOCWA facilities.
- 1.4 Lab Operations at the RTP would continue to be operated and managed by SOCWA. MNWD and SOCWA will work in good faith to develop an operating agreement that will allow SOCWA staff to continue to perform all necessary lab operations for SOCWA facility operations and regional permit compliance.
- 1.5 All CalPERS obligations, including Unfunded Accrued Liability (UAL), and Other Post Employment Benefits (OPEB) for the RTP operations staff and operations staff positions described above would be transferred to MNWD.
- 1.6 MNWD would make transitional payments to SOCWA for general Administrative Overhead costs that are proportionally attributable to the RTP. Administrative Overhead costs include insurance, utilities, supplies, administrative building maintenance, legal fees, outside professional services, executive and professional

services staff, administrative and office support staff, and related costs allocated in SOCWA's budget for the general administrative functions of SOCWA. Such payments would continue for a period of five (5) years and decrease by 20% per year through the five-year transition. After those five years, MNWD would have no further obligation for Administrative Overhead costs. Payments would be due each year on the anniversary date of MNWD's withdrawal from SOCWA.

2. Solids Treatment and Handling Services at RTP for PC-17 Members

2.1 MNWD would agree to provide solids treatment and handling services ("Solids Agreement") at the RTP to the former PC-17 members on a contractual basis under the following terms and conditions:

2.1.1 Operating costs would be allocated to the former PC-17 members using a methodology consistent with the methodology described in the PC-17 agreement.

2.1.2 Administrative Overhead costs charged by MNWD would be fixed at 6.5% in accordance with MNWD's June 6, 2023, operating proposal.

2.1.3 Rehabilitation & Replacement (R&R) costs, defined as costs for capital improvements required to maintain the solids handling facilities in working order and to extend the useful life thereof, would be proportionately charged to the former PC-17 members based upon their percentage of capacity ownership in the solids handling facilities under PC-17.

2.1.4 Major Capital Improvement Program (CIP) costs, defined as costs for new construction projects benefitting the former PC-17 members, which are undertaken for (a) system betterment, (b) capacity enhancement, and (c) major technology changes, would be assessed (i) by MNWD in an annual amortized CIP assessment (ii) to the former PC-17 members (iii) based upon their percentage of capacity ownership in the solids handling facilities under PC-17. The annual assessment would be (1) based upon 30-year amortized capital costs of any given Major CIP project at the BVAL Municipal AA bond published rate, adjusted annually, and (2) assessed for as long as the Solids Agreement is in effect. Former PC-17 members would not be assessed for Major CIP costs associated with capacity enhancement projects that are exclusively for MNWD's benefit.

2.1.5 The term of the Solids Agreement would be for 10 years. Former PC-17 members may terminate the Solids Agreement before 10 years under no further obligation with one (1) year written notice.

2.1.6 The Solids Agreement will be amended to extend beyond a 10 year term upon the request of the former PC-17 members.

2.2 Upon transfer of the RTP to MNWD, termination of PC-17, and the execution of the Solids Agreement, the RTP would be under the full control and governance of MNWD.

3. MNWD withdrawal from SOCWA upon transfer of Regional Treatment Plant

3.1 MNWD would withdraw from SOCWA on June 30, 2024, or as soon thereafter, when (a) the agreements reflecting the terms and conditions described herein are executed among the affected parties, and (b) the SOCWA members have unanimously voted to (i) waive the 120-day notice requirement and (ii) approve MNWD's withdrawal from SOCWA.

3.2 Prior to the transfer of the RTP and MNWD's withdrawal from SOCWA:

3.2.1 MNWD would vote to extend the term of the PC-2 agreement to February 2030;

3.2.2 MNWD will transfer its capacity ownership in J.B. Latham to SCWD; and

3.2.3 MNWD's outfall ownership capacity rights will be proportionately distributed to the respective, remaining outfall agencies.

4. MNWD On-going Contractual Services from SOCWA

4.1 MNWD would enter into separate agreements with SOCWA for (a) needed wastewater treatment at the J.B Latham facility, (b) effluent conveyance through the Effluent Transmission Main, and (c) outfall services through the San Juan Creek Outfall and the Aliso Creek Outfall ("Treatment, Conveyance, and Outfall Agreements") under the following terms and conditions:

4.1.1 Operating and Administrative Overhead costs would be charged to MNWD in a manner consistent with the current cost allocation described in the PC-2, PC-5, PC-8, PC-10, PC-2SO, PC-21, and PC-24 agreements.

4.1.2 Replacement and Refurbishment (R&R) costs, defined as costs for capital improvements required to maintain the treatment, conveyance, and outfall facilities in working order and to extend useful life thereof, would be charged to MNWD based upon its current capacity ownership in the facilities included in PC-2, PC-5, PC-10, PC-21, and PC-24.

4.1.3 Major Capital Improvement Program (CIP) costs, defined as costs for new construction projects undertaken for (a) system betterment, (b) capacity enhancement benefitting MNWD, and (c) major technology changes, would be (i) assessed by SOCWA in an annual amortized CIP assessment (ii) to MNWD (iii) based upon its existing percentage of capacity ownership in the

PC-2, PC-5, PC-10, PC-21, and PC-24 facilities. The annual assessment would be (1) based upon 30-year amortized capital costs of any given Major CIP project at the BVAL Municipal AA bond published rate, adjusted annually, and (2) assessed for as long as the Treatment, Conveyance, and Outfall Agreements were in effect. MNWD would not be assessed for Major CIP costs associated with capacity enhancement projects that are exclusively for the remaining PC-2, PC-5, PC-10, PC-21, and PC-24 members' benefit.

4.1.4 The terms of the Treatment, Conveyance and Outfall Agreements are proposed to be:

- A. 10 years for wastewater treatment at the J.B. Latham facility.
- B. 20 years for (i) conveyance through the Effluent Transmission Main, and (ii) outfall services through the San Juan Creek Outfall and Aliso Creek Outfall.

4.1.5 MNWD may terminate the Treatment, Conveyance, and Outfall Agreements with no further obligation with one (1) year written notice and will be responsible for paying their above defined share of Major CIP costs for the remaining duration of their debt obligation

4.1.6 The wastewater services agreement for the J.B. Latham facility may be extended beyond 10 years, and the outfall services and effluent transmission agreements may be extended beyond 20 years, by mutual agreement of MNWD and the PC-2, PC-5, PC-10, PC-21, and PC-24 members of SOCWA, respectively.

4.1.7 MNWD would have no governance authority under the Treatment, Conveyance, and Outfall Agreements.

4.2 Should SOCWA or the PC-2, PC-5, PC-8, PC-10, PC-2SO, PC-21, PC-24 agreements be terminated during the term of the Treatment, Conveyance, and Outfall Agreements with MNWD, the successor(s) to those PCs shall be obligated to provide service to MNWD under the same terms and conditions and for the same duration as the Treatment, Conveyance, and Outfall Agreements proposed in this section.

5. MNWD Buyout to exit SOCWA

5.1 Upon the transfer of the RTP to MNWD and its withdrawal from SOCWA, MNWD would make a buyout payment to SOCWA for application towards future PC 15 capital improvements in the amount of \$20,000,000.

6. Other MNWD Obligations – Pretreatment Program, Recycling and Discharge Permits

6.1 During the term of the wastewater services agreement with SOCWA, MNWD shall be obligated to pay a proportionate share of the costs for the Pretreatment Program and Discharge Permit attributable to the J.B Latham Plant and the San Juan Creek Outfall, proportionate share of costs attributable to water recycling permitting, and proportionate share of the costs of the Discharge Permit attributable to the Aliso Creek Outfall.