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Agenda Date: 11/19/2025

Agenda Item No: 4.

FROM: Robert Thompson, General Manager
Originator: Mike Dorman, Director of Engineering

SUBJECT:

FLOW EXCHANGE AND GAP FLOWS AGREEMENTS

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION: Recommend to the Board of Directors to:

- A. Approve and authorize the General Manager to execute the Flow Exchange Agreement between Orange County Sanitation District and Irvine Ranch Water District, in a form approved by General Counsel; and
- B. Approve and authorize the General Manager to execute the GAP Flows Agreement between Orange County Sanitation District, Irvine Ranch Water District, and Orange County Water District, for a term of 20 years, in a form approved by General Counsel.

BACKGROUND

Orange County Sanitation District (OC San) and Irvine Ranch Water District (IRWD) have had cooperative agreements dating back to the early 1960s. IRWD formally joined the Joint Powers Authority that defined the County Sanitation Districts of Orange County (OC San's predecessor agency) in 1986 as County Sanitation District of Orange County #14.

IRWD owns and operates the Michelson Water Recycling Plant (MWRP) and is able to recycle most of the wastewater generated within their service area. Accordingly, when the County Sanitation Districts of Orange County consolidated to form Orange County Sanitation District in 1998, IRWD, through County Sanitation District of Orange County #14, chose not to be consolidated in the same way as the other districts.

For accounting purposes, OC San is now separated into two areas:

- 1. Consolidated Revenue Area (CRA)
- 2. Revenue Area 14 (RA14)

Businesses and residents in the CRA pay fees directly to OC San for regional wastewater collection, treatment, and disposal. Businesses and residents in RA14 pay these fees to IRWD as most of this wastewater is conveyed to, treated, and recycled at MWRP. There are some areas where direct payment and service do not currently align with current boundaries; thus, there are four situations to

consider for realignment:

1. Wastewater from RA14 that flows to OC San Reclamation Plant Nos. 1 or 2
2. Wastewater from CRA that flows to MWRP
3. Wastewater that IRWD chooses to divert from MWRP to OC San
4. Wastewater that IRWD diverts from CRA to MWRP

For the first and second cases described above, IRWD and OC San have cooperated for many years. In most cases, these areas exist to minimize the construction of pump stations. Associated “flow credits” are traded between the agencies through a series of flow accommodation agreements to properly account for costs of service. Debit and credit flow amounts are tracked to create a monthly “net flow” between CRA and RA14.

For the third case described above, IRWD will retain the right to divert wastewater attributable to MWRP to OC San. This is necessary because IRWD does not have an ocean outfall and uses this diversion as a last option when wastewater flow cannot be treated or recycled by IRWD. When this occurs, OC San bills IRWD since we do not collect fees directly from ratepayers in RA14.

The fourth case described above is also associated with an existing agreement. Some wastewater attributable to CRA was previously routed to infrastructure owned and operated by IRWD to eliminate OC San pumps. IRWD constructed facilities to divert OC San and IRWD wastewater to MWRP for treatment and recycling. This wastewater can flow to OC San if IRWD’s diversion is not utilized.

Within in the current agreement IRWD collects a fee for regional wastewater treatment service and pays a different per gallon fee to OC San; though serviceable, this is an accounting challenge. Staff from IRWD and OC San have been working together to simplify the current arrangements. The guiding principle is for wastewater to flow by gravity to existing facilities for treatment and to align the agreements accordingly. Applying this principle will minimize the costs of flow monitoring across boundary lines and will result in system users paying the agency that provides service directly.

In addition, IRWD’s service area currently extends beyond that of OC San’s. Annexing the Los Alisos Water Recycling Plant (LAWRP) area of IRWD into OC San’s service area as part of RA14 will provide a more unified operation and create additional flexibility for IRWD moving forward.

Under the current Green Acres Project (GAP)/Groundwater Replenishment System (GWRS) agreement, OC San, IRWD, Orange County Water District (OCWD), and the City of Newport Beach partnered to provide IRWD the right to discharge treated, reclaimable wastewater into the GAP pipeline for utilization by OCWD (to GAP customers or as GWRS feed) or for disposal via OC San’s ocean outfall through January 2027. This functionality is used when IRWD’s recycled water storage facilities are at capacity and demand in IRWD’s recycled water network is less than the supply of reclaimable water produced by MWRP. This agreement is ecologically beneficial because it is a superior alternative to discharging reclaimable water into the Newport Back Bay estuary.

RELEVANT STANDARDS

- Sound engineering and accounting practices, complying with local, state and federal laws
- Maintain collaborative and cooperative relationships with regulators, stakeholders, and

- neighboring communities
- Maintain a culture of improving efficiency to reduce the cost to provide the current service level or standard

PROBLEM

As Orange County has developed, there are multiple locations where flow accommodation agreements have been entered into to handle wastewater flows. These areas must be routinely monitored and tracked to ensure accurate invoicing and this recurring process requires significant resources from both OC San and IRWD. In addition to these boundary overlaps, IRWD's boundary extends beyond that of OC San's service area limiting how IRWD can manage wastewater service in these areas.

The existing GAP agreement will expire in January 2027. Without a similar agreement in place, the shared beneficial use of reclaimable water between OC San, IRWD, and OCWD will no longer be available in its current form.

PROPOSED SOLUTION

Approve the proposed flow exchange agreement that consolidates and updates the prior flow exchange agreements to simplify and streamline operations and finances, and to provide for cleaner jurisdictional lines and more logical service areas.

Approve the proposed GAP agreement that reestablishes the rights and duties of OC San, IRWD, and OCWD with respect to IRWD's supply of recycled water to OCWD's GAP and GWRS and IRWD's capacity to discharge recycled water to OC San's outfall system.

TIMING CONCERNS

Timely execution of the recommended agreements is important to facilitate their implementation. The flow exchange agreement will require performance of a comprehensive rate study that will require Proposition 218 notification to ratepayers. To complete this process in advance of the next fiscal year, it is important to commence this process as soon as possible.

In addition, the GAP Agreement is set to expire in January 2027. Approving a replacement agreement well in advance ensures continuity, prevents a contractual gap, and preserves the ability to manage effluent discharges in an environmentally and fiscally responsible manner.

RAMIFICATIONS OF NOT TAKING ACTION

If no action is taken, OC San and IRWD would be required to continue relying on the existing flow accommodation agreements to account for wastewater service responsibilities. This would perpetuate a more complex and resource-intensive administrative process, increasing staff time spent on accounting and reconciliation, while potentially creating confusion for ratepayers about service costs. Maintaining the existing structure also limits opportunities to simplify cost allocation, reduce administrative overhead, and improve transparency in financial management.

Upon expiration of the GAP Agreement, IRWD's treated effluent cannot be provided to OC San or OCWD for ocean discharge or beneficial reuse. This valuable resource would be discharged in a less environmentally beneficial manner and could pose operational challenges.

PRIOR COMMITTEE/BOARD ACTIONS

September 2025 - Authorized the preparation of two new agreements and a resolution to streamline operations, better align billing with services provided, and maximize the use of existing infrastructure in Orange County as follows:

1. Agreement No. 1 between Orange County Sanitation District (OC San) and Irvine Ranch Water District (IRWD) will realign boundaries and payment structures with current service provisions. This agreement will consolidate many prior agreements that were created as development occurred.
2. Agreement No. 2 between OC San, IRWD, and Orange County Water District (OCWD) will replace the current Green Acres Project (GAP) Agreement which expires in January 2027.
3. An OC San Board of Directors resolution will support the Orange County Local Agency Formation Commission (OC LAFCO) process to annex the former Los Alisos Water District (LAWD) area into OC San's service area.

ADDITIONAL INFORMATION

Flow Exchange Agreement:

This Agreement will supersede the long series of flow exchange agreements under which OC San and IRWD have worked together to manage wastewater transmission, treatment, and disposal to most efficiently provide service. Due to the substantial overlap of service areas, OC San and IRWD have provided these cross-services to each other to eliminate inefficient pumping of wastewater against gravity to treatment facilities, utilize existing treatment facility capacity, facilitate planning for peak flow conditions and growth, and avoid potential duplication of facilities and services. These prior agreements contain complicated financial "truing up" and reconciliation of ad valorem taxes and user fees between the Parties.

This Agreement consolidates and updates the flow exchange provisions of the prior agreements to simplify and streamline operations and finances, and to provide for cleaner jurisdictional lines and more logical service plans.

This Agreement is divided into three major parts:

1. The first part consolidates and updates the flow accommodation arrangements between the agencies where their territories overlap, relying largely on gravity flow to determine which agency is responsible for regional wastewater transmission, treatment, and disposal. It provides for direct revenue recovery by the agency providing services, rather than maintenance of sub-ledgers, routine flow monitoring, and cross-payments to each other.
2. The second portion of the Agreement authorizes IRWD to act on OC San's behalf for regional services in the Jamboree and Bison Service Area.

3. The third portion of the Agreement provides for the annexation of the Los Alisos area of IRWD into OC San. The Parties agree to submit a joint application to OC LAFCO for the annexation, subject to standard terms and conditions used with other similar OC LAFCO applications. It provides that pending the annexation, the Parties will use an out-of-area agreement with the essential parameters of this Agreement until the final boundary change is approved.

GAP Flows Agreement:

The purpose of this Agreement among OC San, IRWD, and OCWD, is to establish the rights and duties of each agency with respect to IRWD's supply of recycled water to OCWD's GAP or GWRS and IRWD's capacity to discharge recycled water into OC San's Outfall.

GAP provides recycled water to approximately 100 different end users in Costa Mesa, Fountain Valley, Huntington Beach, Newport Beach, and Santa Ana. The GAP system has two sources of supply: (i) tertiary treated wastewater by OCWD, supplied from secondary treated wastewater received from OC San; and (ii) tertiary treated wastewater from IRWD that is received intermittently, usually during the winter months, through IRWD's intertie facility (Intertie) that connects to GAP.

On December 21, 2011, the Parties and the City of Newport Beach entered into the Agreement for Irvine Ranch Water District Interties to Orange County Water District Green Acres Project and Groundwater Replenishment System and Orange County Sanitation District Outfall (2011 GAP II/GWRS Agreement) relating to the Parties' operation of the Intertie, GAP II, and the Outfall. Then, on October 2, 2013, OCWD and IRWD entered into an Annexation Agreement, under which IRWD agreed to convey 4 million gallons per day (mgd) of sewage, recycled water, and/or runoff flows generated within IRWD's service area to OC San until 2033.

The proposed Agreement amends, restates, and supersedes the 2011 GAP II/GWRS Agreement with an effective term of 20 years, as follows:

- a. The Agreement gives IRWD the right to discharge to the Intertie at its sole discretion up to 8 mgd of recycled water ("Recycled Water") treated in accordance with applicable regulatory and OC San standards, without additional compensation.
- b. OC San agrees to accept up to 5 mgd of Recycled Water not accepted by OCWD and deemed to have been discharged by IRWD through the GWRS Connection to the Outfall. OC San commits to accepting up to an additional 3 mgd of Recycled Water discharged by IRWD directly to the Outfall Connection.
- c. IRWD agrees to limit its discharge to the amount OC San and OCWD reasonably deems appropriate when the Outfall is shut down.
- d. The agencies agree that all associated discharges shall be subject to OC San's source control requirements and ensure that the wastewater is reclaimable by OCWD.
- e. The parties agree to notifications and coordination of their operations to further their joint missions.

Concurrent approval of the GAP Agreement will be necessary for the Flow Exchange Agreement to

take effect. OC San and IRWD are committed to a near-future update of the various outdated and obsolete provisions of their other existing contracts.

CEQA

This action is exempt from CEQA under the Class 20 categorical exemptions set forth in CEQA Guidelines (14 California Code of Regulations) Section 15320. Section 15320 (Class 20) “consists of changes in the organization or reorganization of local governmental agencies where the changes do not change the geographical area in which previously existing powers are exercised.” Specifically, this action is exempt because this annexation is only an administrative boundary change of OC San’s service area.

A Notice of Exemption will be filed with the Orange County Clerk-Recorder’s office after approval of this item.

FINANCIAL CONSIDERATIONS

The proposed flow exchange agreement will streamline financial administration by eliminating multiple flow accommodation agreements, thereby reducing administrative costs and simplifying accounting. Annexation of the area serviced by IRWD’s LAWRP into OC San’s service boundary will provide long-term financial and operational benefits.

ATTACHMENT

The following attachment(s) may be viewed on-line at the OC San website (www.ocsan.gov) with the complete agenda package:

- Flow Exchange Agreement
- GAP Flows Agreement
- 2011 IRWD GAP II/GWRS Agreement
- Presentation