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Agenda Item No: 3.

FROM: Robert Thompson, General Manager
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SUBJECT:

IRWD/OC SAN AGREEMENT DEAL POINTS

GENERAL MANAGER'S RECOMMENDATION

RECOMMENDATION: Recommend to the Board of Directors to:

Authorize 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.

BACKGROUND

Relating to the first agreement, IRWD and OC San 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. Map No. 1, attached, shows the districts that cooperated to share the costs of wastewater treatment via shared treatment works and outfall facilities before consolidation.

When the County Sanitation Districts of Orange County consolidated to form OCSD in 1998, IRWD, through County Sanitation District of Orange County #14, chose not to be consolidated in the same way as the other districts. IRWD owns and operates the Michelson Water Reclamation Plant (MWRP), which has the capacity to recycle the majority of the wastewater generated within County Sanitation District of Orange County #14 and is located within IRWD's service area.

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 treatment, recycling, and disposal. Businesses and residents in RA14 pay wastewater fees to IRWD as the majority of wastewater is treated at MWRP. There are some areas where direct payment and service provision do not align well with the current boundaries thus there are four additional situations to consider for realignment:

1. Wastewater from RA14 that flows to OC San Reclamation Plants No. 1 or No. 2
2. Wastewater from CRA that flows to MWRP
3. Wastewater that IRWD chooses to divert from MWRP to OC San; and
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. Map No. 2 is attached showing these areas. 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 that wastewater flow cannot be utilized or treated by IRWD. OC San bills IRWD for the treatment of these wastewater flows as OC San does not collect fees directly from ratepayers in RA14.

The fourth case described above is also associated with an existing agreement as this wastewater is attributable to CRA but flows through infrastructure owned and operated by IRWD. IRWD has constructed facilities to divert this flow to MWRP for treatment and reclamation; however, this wastewater could still flow to the CRA if the diversion was shut down.

The current arrangement where IRWD collects a fee for regional wastewater treatment service and pays a different per gallon fee to OC San, though serviceable, is a challenge from an accounting point of view. The staffs of IRWD and OC San have been working together to simplify the accounting and reduce the number of flow accommodation agreements between the agencies. The guiding principle is for wastewater to flow by gravity to existing facilities for treatment. Applying this principle will minimize the costs of flow monitoring across boundary lines and will allow for system users to directly pay the agency providing service.

For the second agreement, OC San, IRWD, OCWD, and the City of Newport Beach originally partnered on the GAP agreement which provides IRWD the right to discharge treated wastewater into OC San’s outfall system. IRWD is able to transport treated, reclaimed wastewater from MWRP to either of OC San’s Reclamation Plants through the OCWD GAP pipeline. This capability is used when IRWD’s reclaimed water storage facilities are at capacity and reclaimed water demand in both IRWD’s and OCWD’s reclaimed water system is less than the reclaimed water produced by MWRP. This agreement is ecologically beneficial because it is a superior alternative to discharging reclaimed

water into the Newport Back Bay estuary. The reclaimed water can also be made available to the Groundwater Replenishment System (GWRS) as a feed water supply.

For the proposed resolution, in 2000, IRWD annexed the former LAWD area, which was previously associated with the South Orange County Wastewater Authority. Currently, wastewater from within the LAWD is not allowed to be brought into OC San's service area for treatment. Annexing this area into OC San's service area will provide IRWD with operational flexibility between MWRP and its Los Alisos Water Recycling Plant (LAWRP). This annexation will require OC LAFCO approval.

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 simplify the handling of wastewater flows. These areas must be routinely monitored and tracked to ensure accurate invoicing and require significant resources from both OC San and IRWD.

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

Lastly, IRWD has limited flexibility for the treatment of wastewater flows within their service area as portions of these flows are generated outside of OC San's service area.

PROPOSED SOLUTION

Authorize the development of a new agreement to adjust the boundary between CRA and RA14 and supersede the existing flow accommodation agreements.

Authorize the development of a new agreement to replace the current GAP prior to its expiration in 2027.

Authorize the development of a resolution to support annexation of the former LAWD area into OC San's service area.

TIMING CONCERNS

Timely execution of the recommended agreements and annexation is important to facilitate their processes. The boundary adjustment agreement will require performance of a comprehensive rate study that will require Proposition 218 notification requirements 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.

The annexation of the former LAWD area requires OC LAFCO approval, and early initiation of this process is necessary to avoid unnecessary delays and to provide IRWD with the flexibility to optimize operations between its facilities.

RAMIFICATIONS OF NOT TAKING ACTION

If no action is taken, OC San and IRWD would be required to continue relying on multiple 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, and 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.

Similarly, without approval of the annexation of the former LAWD area into OC San's service boundary, IRWD's operational flexibility between MWRP and the LAWRP would remain constrained. This could hinder regional efficiency, delay future opportunities for OC San to receive additional flows and associated revenue and leave the service area with inconsistent cost-of-service alignment.

PRIOR COMMITTEE/BOARD ACTIONS

N/A

ADDITIONAL INFORMATION

The new agreement that will replace the existing flow accommodation agreements will result in impacts on four zones as described below and as shown in Map No. 3. Zones 1 through 3 will shift from RA14 to the CRA while Zone 4 still covers wastewater generated in the CRA and is treated by MWRP:

- Zone 1: The Orange Park Acres Agreement area.
- Zone 2: Portions of the Irvine Business Complex (IBC) and Tustin Marine Corps Air Facility (MCAF) Agreement area; the United States Food and Drug Administration (USFDA) Agreement area; and additional adjacent areas that were identified during review.
- Zone 3: The San Joaquin Hills Planned Community Agreement area and the Coyote Canyon/Gas Recovery System (GRS) Agreement area.
- Zone 4: The Jamboree and Bison Agreement area.

This boundary adjustment will shift approximately 3.8 million gallons per day of attributable flow from RA14 to the CRA.

Wastewater from portions of Lemon Heights and Cowan Heights flows through IRWD's Havard Avenue Trunk Sewer (HATS) and then continued via gravity flow to OC San's Reclamation Plant No. 1. IRWD has since built facilities to divert that wastewater to MWRP for reuse. IRWD may either divert that wastewater to MWRP or allow that wastewater to continue to OC San facilities at no charge and with no flow credit. These areas will remain in the CRA.

Annexation will provide IRWD additional treatment flexibility and provide IRWD and those it serves a more robust system. The proposed annexation limits are shown in Map No. 4.

CEQA

N/A

FINANCIAL CONSIDERATIONS

The proposed boundary transfers will streamline financial administration by eliminating multiple flow accommodation agreements, thereby reducing administrative costs and simplifying accounting. Annexation of the former LAWD area into OC San's service boundary will not create new short-term costs but 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:

- Map No. 1: Service Areas (Districts) Before Consolidation
- Map No. 2: OC San/IRWD Flow Accommodation Agreement Areas
- Map No. 3: Proposed Modifications
- Map No. 4: Proposed Annexation of Los Alisos Area