



## *La Habra Utility Authority Agenda Report*

Meeting Date: December 16, 2013

**TO: CHAIRMAN & AGENCY DIRECTORS**

**FROM: EXECUTIVE DIRECTOR**  
**By: Elias Saykali, Director of Public Works**

**SUBJECT: APPROVE A MEMORANDUM OF UNDERSTANDING WITH CALIFORNIA DOMESTIC WATER COMPANY TO TRANSFER THEIR LA HABRA AREA RETAIL WATER MAIN FACILITIES AND SERVICES TO THE CITY OF LA HABRA**

### **SUMMARY RECOMMENDATION:**

Approve a Memorandum of Understanding (MOU) with CDWC to transfer their La Habra area water main facilities and services to the La Habra Utility Authority (Authority).

### **DISCUSSION:**

California Domestic Water Company (CDWC) desires to cease provision of retail water service to their La Habra area customers. Currently, CDWC has approximately 400 retail water service connections in the northern portion of the City, as well as several unincorporated Orange County areas and a portion of unincorporated Los Angeles County. Attachment 1 shows the CDWC retail water service areas shaded in gray.

CDWC informed Authority staff that they had previously requested the La Habra Heights County Water District (LHHCWD) to consider acquiring the right to serve these customers, but that the LHHCWD declined. Subsequently, CDWC approached the Authority with the same request and has proposed entering into an MOU that would transfer the ownership of their La Habra area water mains and their approximately 400 retail service accounts to the Authority. The CDWC service areas currently create a physical impediment to the Authority's ability to consolidate several pressure zones in the northern portion of the City into a single pressure zone. Acquisition of these service areas will provide the means for the Authority to establish water system continuity and efficiency in the northern portion of the City. Zone consolidation can be accomplished by installing water mains that will connect the various CDWC service areas with the City's water system. These improvements will increase water pressure and flow for firefighting efforts and will provide better water reliability for approximately 1,200 retail water accounts.

Agenda Item No. UA II.2

Meeting Date: 12/16/13

*removed for separate discussion and approved*

The MOU terms provide CDWC the legal authority to transfer ownership of its retail water system at no cost to the Authority. In turn, CDWC will pay \$1,000,000 to the Authority to pay for upgrades to the transferred CDWC water system. CDWC's cost share of \$1,000,000 was determined by a hydraulic analysis that was recently completed by Psomas Engineering Consultants. Part of the study was paid for by the Authority, with CDWC funding the cost of the portion of the study related to the areas identified for transfer. The Psomas analysis indicated that many of CDWC's existing 4 and 6 inch water mains needed to be upgraded to either 8 or 10 inches to meet current firefighting standards. The improvements also address abandonment of water mains in easements and installing new water mains in streets to allow proper access for maintenance and repairs.

The Authority's Water Master Plan of 2007 had identified the need for \$4.5 million in system consolidation work and the construction of a new pump station whether or not it acquires CDWC's retail water system. These improvements are needed to improve firefighting capability and water reliability in the Authority's higher pressure zones (3, 4 and 5) at an estimated cost of \$3,000,000. An additional \$1,500,000 is necessary for the new pump station that would replace the existing substandard Old Reservoir Pump Station.

The benefit to the Authority by entering into this MOU, would be an ability to integrate the existing CDWC's system into the Authority's water system to make the overall operation of the system more integrated and efficient. The Psomas hydraulic analysis has identified the additional upgrades necessary in the CDWC areas and has estimated those costs at \$1,000,000, which has been agreed to by CDWC.

With respect to the current CDWC customers in the affected areas, they may continue to hold their shares in CDWC and be billed for water service from CDWC, with the Authority simply acting as the water provider who will bill CDWC for the water used by their customers. If, however, the customers choose to sell their shares back to CDWC, they will become Authority customers and their shares will be made available to the primary CDWC shareholders (La Habra, Brea and Suburban Water) for purchase in equal increments. Any shares the Authority purchases will increase its water rights with CDWC.

If this MOU is approved, the Authority and CDWC will continue working with the relevant regulatory and oversight agencies in both Orange and Los Angeles counties to secure approval for the transfer and establishment of the Authority as the water service provider in the identified CDWC service areas. In the event final approval cannot be secured, the MOU contains provisions allowing it to be dissolved.

#### **FISCAL IMPACT / SOURCE OF FUNDING:**

The acquisition of CDWC's retail water system and services does not have a financial impact on the City's General Fund.

Acquisition of the 400 retail service connections from CDWC will generate approximately \$140,000 annually of net revenues to the Utility Authority Water Fund through retail water sales. The net revenue is computed based on gross water sales to the new customers, estimated at \$410,000 per year at current water rates, minus

\$218,000 for anticipated water purchase costs and \$52,000 for estimated maintenance and overhead costs.

The capital improvement costs to upgrade the transferred CDWC retail water mains and services will be funded by the CDWC payment of \$1,000,000. The Authority's previously planned capital improvement costs to consolidate the multiple pressure zones and pump station improvements will be funded by Utility Authority Water Fund over a three year period at an estimated cost of \$4,500,000, of which \$3,000,000 will come from the 2013 Water Revenue Bonds and the remaining \$1,500,000 from available unencumbered cash in the Water Fund. The current water rates will adequately fund City's share of improvements with no impact on current water rates as the City's 10 year capital improvement costs were included in the recent rate adjustments.

**RECOMMENDATION / REQUESTED ACTION:**

Approve a Memorandum of Understanding (MOU) with California Domestic Water Company to transfer their La Habra area water main facilities and services to the La Habra Utility Authority.

- ATTACHMENTS:**
1. Memorandum of Understanding between CDWC and the Utility Authority to transfer CDWC's retail water system and services
  2. MOU Exhibit A - Maps of La Habra Area Facilities service area
  3. MOU Exhibit B/Attachment 1 - Facilities
  4. MOU Exhibit C/Attachment 1 - Facilities
  5. MOU Exhibit D - Improvements to La Habra Area Facilities
  6. PowerPoint Presentation