



CITY OF

NEWPORT BEACH

City Council Staff Report

November 4, 2025
Agenda Item No. 4

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

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TITLE: Water Well Permit and Encroachment Agreement with the City of Fountain Valley; and Resolution No. 2025-76: Declaration of Intent to Issue Tax-Exempt Obligations (Bonds)

ABSTRACT:

On September 24, 2024, the City of Newport Beach (Newport Beach) entered into a cooperative Memorandum of Understanding (MOU) with Laguna Beach County Water District (Laguna Beach) to develop a new water well. The proposed water well site is at 17902 Bushard Street in the City of Fountain Valley (Fountain Valley). As part of the MOU, Newport Beach's role was to lead the project planning, design and construction efforts.

For the City Council's consideration is a water well permit and an encroachment agreement with Fountain Valley to secure compliance with the local permitting authority and a Resolution of Intention, which will allow early project costs to be reimbursable via bond financing if pursued by the Newport Beach.

RECOMMENDATIONS:

- a) Find this project exempt from the California Environmental Quality Act (CEQA) pursuant to Section 15332 (Class 32, In-Fill Exemption) of Title 14 of the California Code of Regulations (14 CCR § 15332) (Class 32 exemptions are for projects of certain criteria on a development site of five acres or less) of the CEQA Guidelines, because this project has no potential to have a significant effect on the environment;
- b) Approve a Water Well Permit and Encroachment Agreement with the City of Fountain Valley and Laguna Beach County Water District for the construction, operation and maintenance of a new municipal water well facility at 17902 Bushard Street; and
- c) Adopt Resolution No. 2025-76, *A Resolution of the City Council of the City of Newport Beach, California, Regarding Its Intention to Issue Tax-Exempt Obligations*, if needed.

DISCUSSION:

An additional water well for the City's water system has been a long-term goal to improve water reliability, redundancy and local control over the City's water needs. The 2019 Water Master Plan reinforced the need and incorporated it into the 30-year plan. Water supply reliability and local control are key tenets of a well-run water system.

Newport Beach is a member of the Orange County groundwater basin, which is managed by the Orange County Water District (OCWD). The groundwater basin is strategically managed to maximize local water resources, enhance water reliability, ensure high-quality water, prevent seawater intrusion and protect Orange County's water rights. The region's imported water supplies - from Northern California and the Colorado River - have become less available and more restricted. For the foreseeable future, groundwater is the best path toward ensuring the City's water reliability.

On September 24, 2024, the City Council approved an MOU with Laguna Beach and a technical memorandum prepared by the Utilities Department regarding a new water well site at 17902 Bushard Street in Fountain Valley. Newport Beach and Laguna Beach staff believe the Bushard Street site is a viable groundwater location and will significantly improve both agencies' groundwater capacity, even in a shared configuration. The Bushard Street site is situated in a highly productive location within the groundwater basin and is approximately 1,700 feet away from Newport Beach's main 36-inch water transmission line, two key factors for a viable site.

Staff from both agencies developed an MOU outlining the roles and responsibilities of each agency. In general, the MOU states that each agency is interested in a partnership and will work on separate project tasks, ultimately moving toward a formal partnership. With Newport Beach's long history and experience in the development and operation of the existing water wells, our responsibility was to lead the preliminary design, land use entitlements, and environmental efforts.

Over the last year, Public Works and Utilities Department staff prepared the preliminary project design and have secured the final project entitlements. The key components of the entitlements are the environmental review, (which is explained in the Environmental Review section of the staff report) and the permit/agreement with Fountain Valley. Per Fountain Valley Municipal Code (FVMC) Section 14.16.040, a well that is intended to transport water outside their city limits must be in the public interest and requires a City Council approved agreement. Cooperatively, staff from all agencies developed the attached Water Well Permit and Encroachment Agreement (Agreement) (Attachment A); which satisfies the Fountain Valley's Municipal Code requirements. It also preserves Fountain Valley's primary rights-of-way, assigns all maintenance to Newport Beach, and secures public benefit/mitigation payments and in-kind improvements.

The Agreement provides the following public interest benefits to Fountain Valley: \$82,000 one-time mitigation payment for lost permit revenue; a \$10,000 annual public benefit payment for property tax loss; a \$45,000 one-time payment towards all encroachment and inspection fees; \$100,000 one-time public benefit payment toward Fountain Valley public safety or future water/well projects; a system interconnect stub-out for a future Fountain Valley-built interconnection; and a Newport Beach constructed, Fountain Valley owned and operated water main from La Amapola Circle to Bushard Street with an easement. Newport Beach and Laguna Beach staff believed these shared costs to be reasonable in securing the project entitlement and permits. Further details are available in the Fountain Valley Staff report (Attachment B).

With the entitlement approved, staff will continue to complete the final designs and move towards construction. Staff estimates the overall project completion (i.e. produced water) will be in 2028. Similar to the previous 1990's well(s) project, staff is designing and will build the project in three phases: drilling the well, expected to start in late 2026; pump house and site development, expected to start in 2027; and the water transmission pipeline, expected to start in 2027. Also, in first quarter of 2026, staff will return with the formal Laguna Beach partnership agreement. This agreement will formalize the ownership, the well production capacity rights, the operation of the well and all funding.

FISCAL IMPACT:

The adopted budget includes sufficient funding for this agreement and the ongoing project development. Funding will be provided from the Water Enterprise Fund and expensed to the Public Works Department Capital Improvement Program, Project 24W13, which has a current budget allocation of \$1.5 million. The preliminary cost estimate for the overall project is approximately \$30 million, of which Newport Beach's share is expected to be \$20 million.

The value of groundwater is significant compared to imported water purchased from the Metropolitan Water District (\$711 per acre-foot versus \$1,395 per acre-foot). Even after accounting for maintenance, pumping, electricity, treatment, and asset depreciation, water produced from this well is expected to generate annual cost savings.

Staff is preparing a comprehensive multi-source funding plan, which will be presented to the City Council in 2026. The plan will include a combination of set-aside water capital funds (pay-as-you-go funding derived from water rates), use of Water Fund reserves, and payments from the City of Laguna Beach. It will also include consideration of a low-interest loan from the OCWD and/or a debt financing issuance.

OCWD has established a low-interest loan program to incentivize local water producers to develop new wells, and City staff has submitted a Notice of Intent to participate. If the program remains available at the time of construction, staff will continue to pursue this financing opportunity. Staff also believes bond financing to be a viable alternative and has prepared a Resolution of Intention (Attachment C). Adoption of this resolution does not commit the Newport Beach to debt financing; however, it preserves Newport Beach's ability to reimburse early project costs should bond financing ultimately be pursued.

Although grant funding for this type of project is uncommon, staff has actively pursued such opportunities with limited success. Other potential funding options include deferring existing Water Capital Improvement Program projects or increasing water rates; however, these alternatives are not recommended at this time.

ENVIRONMENTAL REVIEW:

Staff recommends the City Council find this project exempt from the California Environmental Quality Act (CEQA) pursuant to Section 15332 (Class 32, In-Fill Exemption) of Title 14 of the California Code of Regulations (14 CCR § 15332) because it has no potential to have a significant effect on the environment.

Section 15332 (Class 32, In-Fill Exemption) of Title 14 of the California Code of Regulations (14 CCR § 15332) – Class 32 exemptions are for projects that are proposed on a development site of five acres or less. To qualify for this exemption, the project must be consistent with the general plan and zoning; shall be on a project site that is five acres or less within an incorporated city; the site does not contain habitat for endangered, rare or threatened species; the project would not result in any significant effects relating to traffic, noise, air quality, or water quality; and the site can be adequately served by all required utilities and public services. Staff prepared a full analysis of the project's compliance with the Class 32 CEQA exemption (Attachment D) and found that the project meets the qualifications for the exemption. Furthermore, the project does not meet any of the exceptions outlined in Section 15300.2 of the CEQA Guidelines that would disqualify the exemption.

Section 21080(b) of the California Public Resources Code (PRC § 21080(b)) and CEQA Guideline Sections 15268 and 15300.1 (14 CCR § 15268 and 14 CCR § 15300.1) – These sections provide statutory and categorical exemption for ministerial projects. Fountain Valley regulates water well permits through Chapter 8.12 (Construction and Abandonment of Wells) of the Municipal Code. Section 8.12.045 (Permit issuance/denial) provides that the well permit shall be issued if it meets the criteria provided in that section. Likewise, permits are issued for the related work in the public right-of-way provided the work complies with code. Inasmuch as the Fountain Valley does not exercise discretion when issuing these permits, the project is classified as ministerial and qualifies for the statutory and categorical exemption for ministerial project.

NOTICING:

The agenda item has been noticed according to the Brown Act (72 hours in advance of the meeting at which the City Council considers the item).

ATTACHMENTS:

- Attachment A – Water Well Permit and Encroachment Agreement with the City of Fountain Valley
- Attachment B – City of Fountain Valley Staff Report Regarding the Agreement
- Attachment C – Resolution No. 2025-76: Intention to Issue Tax-Exempt Obligations
- Attachment D – Environmental Analysis