Amador Regional Sanitation Authority

"Servicing Amador City, Martell, & Sutter Creek"

STAFF REPORT

TO:	**ARSA BOARD OF DIRECTORS**
MEETING DATE:	**JULY 16, 2026**
FROM:	**TOM DUBOIS, GENERAL MANAGER**
SUBJECT:	**PROPOSED FRAMEWORK FOR O&M AGREEMENT DISCUSSION WITH THE CITY OF IONE AND IMPORTANT CONTRACT TERMS**

RECOMMENDATION:

Discuss and recommend ARSA terms and a negotiation position if a new contract is to be negotiated with Ione for disposal costs.

BACKGROUND:

ARSA and Ione are currently operating under an operating and management agreement that was signed in May of 2016, as part of a mediated settlement. This agreement modified the previous agreement from 2007.

During the time that ARSA, CDCR, and the City of Ione have been busy responding to the Regional Water's Balance Orders to come up with individual and joint water balances, City Manager George Lee has verbally asked me to propose a new agreement with Ione. I suggested that Ione propose changes, since they are not happy with the current agreement and then ARSA could respond to that. All parties were busy with the requests from the Water Board and the discussion did not move forward.

In December, 2025, Michele Chester, Attorney for Ione, Derek Cole, Attorney for ARSA, and I had a detailed discussion on what would be needed in a new agreement. We indicated that any new agreement would need to identify what costs were needed to support ARSA, and should not include costs caused by concerns with CDCR effluent pollution, or future capital improvements for the City of Ione.

We discussed a potential new two- or three-party agreement between ARSA, Ione, and CDCR to address operational balance, timing of the City of Sutter Creek's new wastewater plant (targeting completion in 5 - 8 years), CDCR's role, and the uncertainty of the Water Board's permitting timeline. We also discussed the value of recycled water, potential capital expenses for the tertiary plant, and aligning a new agreement with anticipated regional board direction to avoid contractual and regulatory incompatibilities. One of the challenges is the varying demand for treated water based on dry and wet years.

Michelle Chester noted that Ione also wants to connect the city to the tertiary plant, which would add more treated water to an already overcommitted golf course. However, it would be an eventual alternative when Sutter Creek's new plant came online. Michelle stressed that the use of the connection by the City of Ione must be consistent and compliant with any contractual obligations to ARSA or others.

I described aiming for a soft landing if all the parties involved can communicate and align the timing - COSC builds its plant and fades out as Ione ramps up, leading to a balanced system. Michelle mentioned that during the water balance process, CDCR was considering options to break away from the three-party group, and acknowledged that all parties are currently in planning phases for their respective alternatives (city connection to secondary facility, ARSA facility, CDCR alternatives). This was forced by the water balance exercise. Michelle agreed to follow up on several next step items including more specifics of what they would want to see in a new agreement.

On April 8, I received a letter from George Lee (attached) formally requesting discussions to increase payment from ARSA and provide them more flexibility in how much wastewater they commit to take. My response to him is also attached. At this point, I think it best for ARSA to propose a framework for a new agreement rather than wait for Ione to make a proposal.

Current Agreement - The original 2007 agreement and the updated 2016 agreement are attached. Ione commits to taking 650 acre feet per year (while not party to this agreement, CDCR uses 350 of that acre feet) ARSA pays 46% of the net annual O&M costs of $274,284 for the Ione Tertiary Plant after deducting fixed golf course payment for treated water ($70,000) and regulatory permit credits(which increase annually)**.** Ione must also credit funds back to ARSA if it does not take the full 650 AF in a year at $245 an AF it is short.

DISCUSSION:

Ione is requesting an amendment to reflect rising operational costs. Any changes must protect ARSA from funding Ione's long-term municipal capital expansion, eliminate mid-year rate hikes, modernize recycled water credits, and safeguard the planned 5-to-8 year system exit.

We suggest the following framework for engaging in discussions to update the O&M agreement.

1. Financial Predictability & Budget Alignment
To eliminate unplanned budget variances and align billing with public agency accounting, all cost adjustments must:

- **Transition to Fiscal Year Billing:** The current agreement is on a calendar year. Propose converting to a standard municipal Fiscal Year (July 1 – June 30). Rate adjustments may only take effect once annually on July 1.
- **Mandatory Annual Budget Calendar:** Replace the the 120-day notice provision before the end of the calendar year to adjust cost splits to an auditable review schedule:
    - **March 1:** Ione submits an itemized Preliminary O&M Budget supported by 3 years of audited wastewater actuals (strictly excluding overhead/administrative charges).
    - **April 15:** Joint Committee meets to review and discuss line-item variances.
    - **May 15:** Final net O&M budget locked in for adoption by member agency boards.
    - **June:** Agencies adopt budget
- **Automatic Freeze Default:** If Ione fails to deliver the audited Preliminary Budget by March 1, the previous fiscal year’s O&M rate automatically rolls over and remains frozen for the upcoming fiscal year.
- **Prohibition on Mid-Year True-Ups:** Routine operational cost overruns incurred by Ione during the fiscal year cannot be billed retroactively. Any verified deficit or surplus must be absorbed and addressed during the following year's review cycle.

- **Annual Rate Cap (Circuit Breaker):** Annual net O&M increases shall be capped at the regional **Consumer Price Index (CPI-U)** or **4.0%**, whichever is lower, unless an extraordinary operational increase is unanimously approved.

2. Capital Improvement Plan (CIP) & Infrastructure Firewalls
Given ARSA's intended 5-to-8 year exit timeline, ARSA must not fund capital infrastructure that confers post-departure benefits to the City of Ione.

Infrastructure Category	Proposed Contract Condition
Capital vs. O&M Separation	Strictly define O&M consumables versus capital infrastructure upgrades. Capital improvement projects (CIP) are excluded from the O&M split.
Depreciation-Based Amortization	ARSA pays its pro-rata share of GAAP/GASB annual asset depreciation *during active years of use*, not upfront lump-sum capital payments
Future Municipal Expansion	Plant expansions or upgrades driven by Ione's residential growth or independent regulatory compliance shall be funded 100% by Ione.
3-Year Rolling CIP Notice	Major capital projects (> $15,000) must appear on a reviewed Rolling 3-Year CIP at least 12 months prior to expenditure to be eligible for shared cost allocation. Allows ARSA to factor costs into long-range fiscal planning.

Sunsetting Obligations	All capital debt and depreciation obligations terminate immediately upon ARSA's formal cessation of discharge. Set up a clean financial exit when Sutter Creek's plant is operational.

3. Recycled Water End-User Pricing (Castle Oaks Golf Course)
Under the 2016 Agreement, the golf course pays a flat $70,000 for recycled water.

- **Eliminate Flat-Rate Subsidies:** Propose replacing the flat $70,000 with a cost escalator tied directly to inflation.
- **Fair Market Benchmarking:** Require periodic rate studies against Northern California agricultural/recycled water benchmarks so that the end-user absorbs an equitable share of plant operational cost increases.

4. Flow Commitments & Weather Contingencies

- **Preservation of Delivery Obligations:** Maintain Ione's obligation to take at least the water shown in the updated water balance studies. It is unlikely the water board would accept less.
- **Index the Non-Take Penalty:** Retain the $245 per acre-foot penalty reduction applied to ARSA's bill when Ione fails to take available water. If O&M baseline costs rise proportionally, this credit reduction should be indexed to scale upward accordingly.
- **Wet/Dry Year Operational Balancing:** Establish formal operating protocols prioritizing delivery during drought years while preserving ARSA's emergency discharge rights during severe storm events.

5. System Exit Horizon & Contingency Options
To protect ARSA against potential construction or permitting delays regarding its long-term disposal alternatives:

- **Rolling Evergreen Extension Option:** Grant ARSA the unilateral right to extend discharge access under the agreed formulaic cost split on a rolling, year-to-year basis beyond the initial 5-to-8 year target window.
- **Advance Exit Notice:** ARSA agrees to provide a formal 18-to-24 month notice prior to complete cessation of wastewater flows.

6. Governance, Voting & Conflict-of-Interest Mitigations
With three parties, and Ione and CDCR often having political overlaps with personnel, need a fair process for governance and decision making.

- **Unanimous Consent :** Establish a Tri-Party Advisory Committee where any adjustment to O&M budgets, cost-split percentages, or capital expenditures requires unanimous consent.
- **Separate agreements are OK:** Ione can negotiate and obtain written sign-off independently from ARSA (for its 46% share) and CDCR (for its 54% share). CDCR's acceptance of a budget increase shall have no binding effect on ARSA.
- **Mandatory Ethics & Recusal Protocols:** Prohibit any representative or municipal decision-maker from participating in joint financial determinations if they concurrently hold employment or

direct financial ties with another participating party (e.g., city council members employed by CDCR must recuse themselves from shared budget votes).

- **State-Level CDCR Representation:** Require that CDCR's representative on financial and budgeting matters be occupied by a state-level budgeting executive from Headquarters in Sacramento rather than local prison operational staff.

7. Dispute Resolution & Operational Protections

- **Tiered Escalation Ladder:** Establish strict deadlines for disputes before legal filings are permitted:
  - *Step 1:* Technical Staff Inspection & Review (15 Days).
  - *Step 2:* Executive Leadership Mediation (30 Days).
  - *Step 3:* Mandatory Neutral Mediation with a specialized California water law mediator (60 Days).
- **Operational Status Quo:** Contractually mandate that during any active financial dispute, physical plant operations must continue uninterrupted. Ione is strictly prohibited from restricting flow intake, and ARSA pays undisputed baseline quarterly invoices into an interest-bearing escrow account until resolution.

ATTACHMENTS:

A. April 8 letter from Ione to ARSA
B. Response
C. May 2016 Agreement (currently in force)
D. 2007 Agreement