

June 19, 2015

The Honorable Billy O'Connell  
City of Huntington Beach  
2000 Main Street  
Huntington Beach, CA 92648

Dear Councilman O'Connell:

I am writing in response to your June 3, 2015 letter requesting clarification from Poseidon Water regarding the financial benefits associated with certain permits and entitlements issued by the City for the proposed Huntington Beach Desalination Project ("Project").

While many of the financial benefits are memorialized as permit conditions, and thus enforceable, Poseidon has every intention of honoring its obligations in its various agreements with the City of Huntington Beach for the Project. Over the fifty-year life of the Project, the cumulative City of Huntington Beach financial benefits are anticipated to total approximately **\$198,000,000 (Exhibit A)**.

In 2010, the City approved the Huntington Beach Desalination Project's Entitlement and Plan Amendment 10-001 to include Tentative Parcel Map (TPM 10-130); Coastal Development Permit (CDP 10-014); Conditional Use Permit (CUP No. 02-04); an Amended and Restated Owners Participation Agreement, Non-Exclusive Pipeline Franchise Agreement (Ordinance No. 3891) and a Property Exchange/Lease & Escrow Agreement (all public documents that are available from the City).

Imbedded in these permits and agreements are various conditions of approval that guarantee Huntington Beach direct financial benefits including:

- **\$1,900,000 paid to the City's General Fund within 5 days of the close of the Project's construction financing<sup>1</sup>**
- **\$2,000,000 paid to the City's General Fund no later than the completion of the Project's construction<sup>2</sup>**
- **\$3,867,000 paid to the City for purchase of the City-owned property on Project site<sup>3</sup>**

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<sup>1</sup> Amended and Restated Owners Participation Agreement, Page 16

<sup>2</sup> Amended and Restated Owners Participation Agreement, Page 17

- **\$689,769 paid to the City for Water Storage Tank Property Lease Payments<sup>4</sup>**
- **\$26,506,000 of avoided capital costs related to water storage and facility construction<sup>5</sup>**
- **\$640,000 in property tax distributed annually to the City's General Fund<sup>6</sup>**
- **\$1,760,000 in property tax distributed annually to the General Funds of the Huntington Beach Elementary and Union High School Districts<sup>7</sup>**

The Project's property basis will not be determined until the value of the work on the Project is finalized but is expected to be substantially more than the \$2M property minimum tax assessment floor as required in the Owners Participation Agreement. Attached is a copy of the Orange County Tax Assessor's City of Huntington Beach property tax breakdown (**Exhibit B**). Once operating and assuming that the plant has a taxable value similar to our Carlsbad Desalination Project, the estimated tax revenue in the first year of operations distributed to the City of Huntington Beach's General Fund is **\$640,000**. An additional **\$1,760,000** will be distributed to the General Funds of the Huntington Beach Elementary and Union High School Districts.

- **Pipeline franchise fee (\$8 per linear foot) paid to the City's General Fund<sup>8</sup>**

It is currently contemplated that the Orange County Water District ("OCWD") will finance, construct, own and operate the product water distribution system. While this arrangement is not final, OCWD's statutory authority does not require a municipal franchise agreement to construct, own and operate water facilities in public rights-of-way.

- **Desalinated water pricing discounts**

In addition to these direct financial benefits within the City of Huntington Beach, as a condition to the City-issued permits, Huntington Beach, at its option, can receive up to 3,360 acre feet per year of desalinated water at the lower of a 5% discounted

<sup>3</sup> Property Exchange/Lease & Escrow Agreement, Page 4

<sup>4</sup> Property Exchange/Lease & Escrow Agreement, Exhibit C Lease Agreement, Page 4

<sup>5</sup> City of Huntington Beach Financial Benefits (Exhibit A)

<sup>6</sup> Amended and Restated Owners Participation Agreement, estimated first year property tax; Page 17

<sup>7</sup> Ibid.

<sup>8</sup> Non-Exclusive Pipeline Franchise Agreement (Ordinance No. 3891)

price off the rate the City pays the Municipal Water District of Orange County for imported water and the cost of the desalinated water<sup>9</sup>. This option guarantees that when the desalination Project comes online Huntington Beach residents and businesses will be paying less for imported water than they would without the Project. This benefit alone is estimated to save the City's water ratepayers **\$75,000,000** dollars over the 50-year term of the project.

Furthermore, the plant being built by Poseidon is a 100% private investment in Huntington Beach's and Orange County's drinking water supply. Over the course of the Project's construction phase over **3,000 jobs** will be generated and over **\$500 million** infused into the regional economy.

Past Huntington Beach City Councils have carefully considered the environmental effects and the economic and water security benefits to the City and the County and found the Project to be in the best interests of the community. Thank you for the opportunity to clarify the financial and water supply reliability benefits of the proposed Huntington Beach Desalination Project.

Sincerely,



Scott Maloni,  
Vice President, Poseidon Water

*Attachments:*

*Exhibit A: City of Huntington Beach Financial Benefits*

*Exhibit B: Orange County Tax Assessor's City of Huntington Beach property tax breakdown*

cc: City Manager Fred Wilson  
City Attorney Michael Gates  
City Councilmembers

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<sup>9</sup> Coastal Development Permit No. 10-014, Section 4.b.1

**Exhibit A**  
**City of Huntington Beach Financial Benefits**  
Poseidon Water  
Huntington Beach Desalination Project

Description of Benefit	One-Time Revenue	One-Time Capital Cost Avoidance	Annual Revenue or Avoided Costs	Cumulative 50-year Revenue/Benefit (\$2015) <sup>1</sup>
<b><u>Water Enterprise Fund</u></b> <sup>4</sup>				
Avoided Water Tank Construction Costs and O&M		\$9,500,000	\$2,000	\$9,600,000
Avoided Booster Pump Station Construction Costs and O&M		\$4,000,000	\$63,350	\$7,167,500
Avoided OC-44 Capital Investment and O&M		\$12,006,000	\$12,176	\$12,614,800
Water Purchase Savings <sup>2,3</sup> (3,360 AF @ 5% Discount (CDP #10-014, Section 4.b.1))			\$240,000	\$75,000,000
<b>Total Water Enterprise Fund</b>	<b>\$0</b>	<b>\$25,506,000</b>	<b>\$317,526</b>	<b>\$104,382,300</b>
<b><u>Infrastructure Funds</u></b>				
Right-of-Way Improvement Fee (OPA, Part 3, Section 302)	\$1,900,000			\$1,900,000
<b>Total Infrastructure Fund</b>	<b>\$1,900,000</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,900,000</b>
<b><u>General Fund</u></b>				
City Improvement Funds (OPA, Part 3, Section 302)	\$2,000,000			\$2,000,000
Water Storage Tank Property Purchase Price (HB Exchange Agreement Section 2.2.27)	\$3,867,009			\$3,867,009
Water Storage Tank Property Lease payments (HB Exchange Agreement, Exhibit C, Article 2)	\$689,769			\$689,769
Property Tax Payments (16%)			\$640,000	\$22,100,000
<b>Total General Fund</b>	<b>\$6,556,778</b>	<b>\$0</b>	<b>\$640,000</b>	<b>\$28,656,778</b>
<b><u>Elementary and Union High School Fund</u></b>				
Property Tax Payments (44%)			\$1,760,000	\$62,900,000
<b>Total Elementary and Union High School Fund</b>	<b>\$0</b>	<b>\$0</b>	<b>\$1,760,000</b>	<b>\$62,900,000</b>
<b>TOTAL FINANCIAL BENEFIT</b>	<b>\$8,460,000</b>	<b>\$25,510,000</b>	<b>\$2,720,000</b>	<b>\$197,840,000</b>

<sup>1</sup> Above estimates do not include increases for CPI or inflation except for Water Purchase Savings.

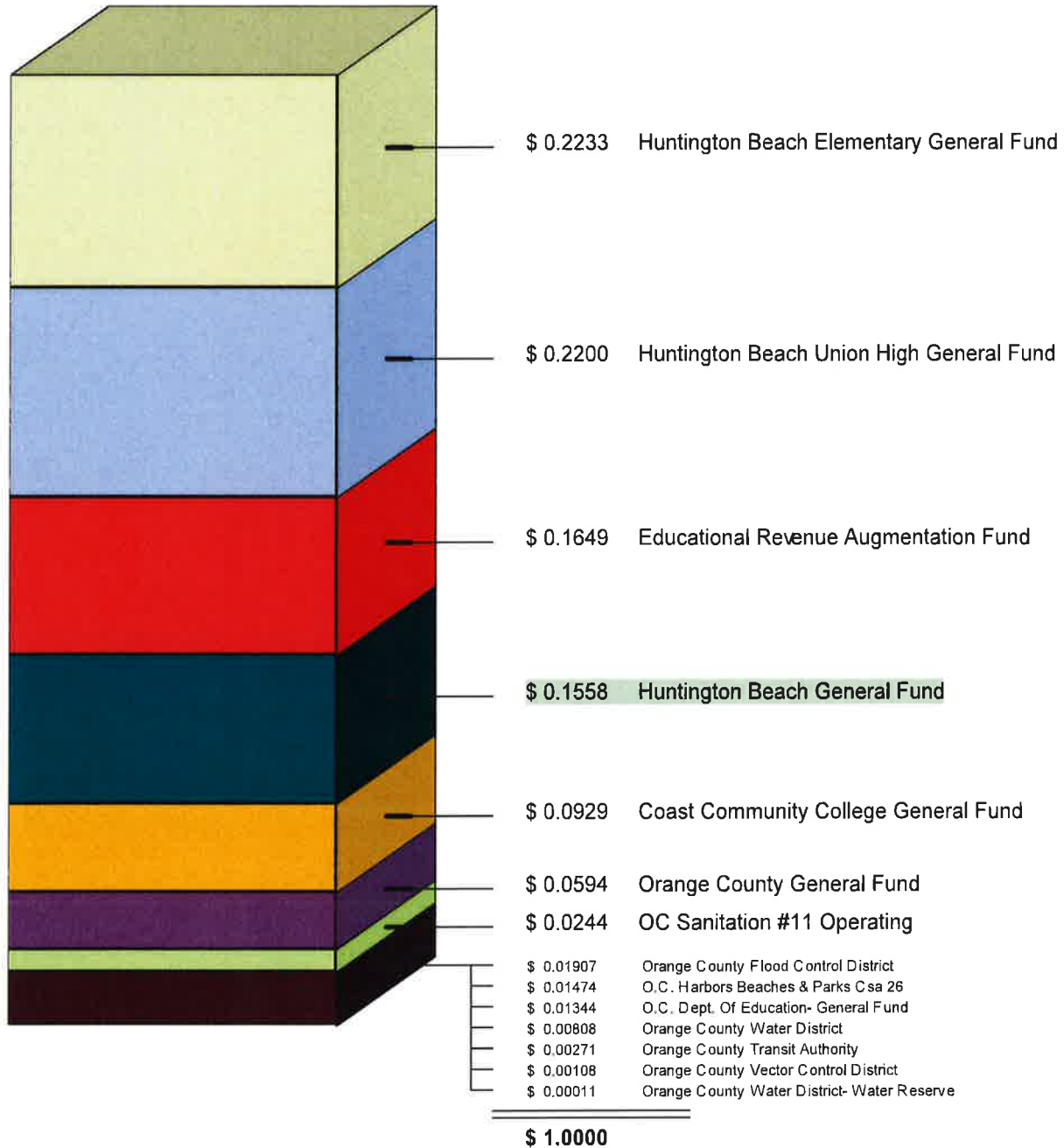
<sup>2</sup> First full year (2019) 5% savings from MWD; annually over 50 years

<sup>3</sup> MWD Full Service, Treated Tier 1 Rate Escalates at 6.41% (Historical Avg)

<sup>4</sup> Avoided Capital and O&M provided by City of Huntington Beach Public Works Department



# THE CITY OF HUNTINGTON BEACH PROPERTY TAX DOLLAR BREAKDOWN



**ATI (Annual Tax Increment) Ratios for Tax Rate Area 04001, Excluding Redevelopment Factors & Additional Debt Service**

Data Source: Orange County Assessor 2014/15 Annual Tax Increment Tables

Prepared On 3/6/2015 By MV

This report is not to be used in support of debt issuance or continuing disclosure statements without the written consent of HdL, Core & Cone