

Bond Case Briefs

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WATER LAW - CALIFORNIA

Santa Clarita Organization for Planning and the Environment v. Castaic Lake Water Agency

Court of Appeal, Second District, Division 2, California - July 28, 2016 - Cal.Rptr.3d - 2016 WL 4045243 - 16 Cal. Daily Op. Serv. 8150

Objector brought action against water agency, water purveyor, their boards of directors, the company that sold the purveyor to the water agency, and an affiliate of that company for inverse validation, writ of mandate, violations of the California Environmental Quality Act (CEQA), illegal expenditure of taxpayer funds, and conflict of interest.

The Superior Court sustained demurrer with leave to amend on objector's CEQA claim, denied objector's claims for invalidation and for a writ of mandate, and rejected objector's claim based on the improper use of taxpayer funds. Objector appealed.

The Court of Appeal held that:

- Objector's pleading of validation statutes did not judicially estop objector from arguing that the validation statutes' shorter deadline to file a notice of appeal did not apply;
- Purveyor did not become agency's alter ego such that the agency was improperly engaged in the retail sale of water; and
- Agency's acquisition of purveyor's stock did not violate the constitutional provision limiting agency ownership of company stock.

Water agency's acquisition of water purveyor, through a settlement agreement in the agency's eminent domain action against the purveyor's owner, was not subject to validation proceedings under the uncodified provision of the water agency's enabling act authorizing validation proceedings for "any bonds, warrants, promissory notes, contracts, or other evidences of indebtedness" of the kinds authorized by provisions dealing with issuing bonds and borrowing money.

Water agency's acquisition of water purveyor, through a settlement agreement in the agency's eminent domain action against the purveyor's owner, was not subject to validation proceedings under the uncodified provision of the water agency's enabling act providing that retail sale of water within an area that had been serviced by another water district until the agency absorbed that district was governed by the Water Code provision making validation proceedings applicable "to determine the validity of an assessment, or of warrants, contracts, obligations, or evidence of indebtedness," since the purveyor operated outside the boundaries of the district that had been absorbed.

Water agency's acquisition of water purveyor, through a settlement agreement in the agency's eminent domain action against the purveyor's owner, was not subject to validation proceedings under the statute making validation proceedings available to determine the validity of a local agency's "bonds, warrants, contracts, obligations or evidences of indebtedness," where the agency purchased purveyor's stock using cash on hand, and the agency's settlement contract to acquire

purveyor's stock did not deal with bonds, warrants, or other evidence of indebtedness, and was not inextricably bound up with other contracts that did.

Objector's invocation of the validation statutes by pleading them in its inverse validation complaint challenging water agency's acquisition of water purveyor, seeking the trial court's permission to publish the requisite constructive notice required by the validation statutes, and by informing the court that it gave that notice, did not judicially estop objector from arguing on appeal that the validation statutes' shorter deadline to file a notice of appeal did not apply, since objector's contest to the applicability of the validation statutes amounted to a dispute over the court's subject matter jurisdiction.

Trial court's finding that water agency's acquisition of retail water purveyor did not cause the purveyor to become agency's alter ego, in concluding that the purveyor's retail sales of water did not violate a provision of the water agency's enabling act requiring it to sell water at wholesale only, was supported by substantial evidence, including evidence that only three of the purveyor's five directors were agency employees, and that the acquisition agreement addressed a merger between the agency and the purveyor as at most a possible contingency.

Water agency's acquisition of all of retail water purveyor's stock did not violate the constitutional provision limiting agency ownership of company stock, where the purveyor was a corporation, and the water agency held purveyor's stock for the purpose of furnishing a supply of water for public purposes.