
State Water Resources Control Board

Division of Drinking Water

December 5, 2025

Paul Latala
Latala Group, LLC
1999 S. Bascom Avenue, Suite 700
Campbell, CA 95008

APPLICANT: LATALA GROUP, LLC
CHIALA-TENNANT AVENUE RESIDENTIAL HOUSING PROJECT
CALIFORNIA HEALTH AND SAFETY CODE, SECTION 116527
PRELIMINARY TECHNICAL REPORT REVIEW – COMPLETE

Dear Paul Latala:

California Health and Safety Code section 116527 (section 116527) requires that before a person submits an application for a permit for a proposed new public water system, the person shall first submit a preliminary technical report (PTR) to the State Water Resources Control Board (State Board), Division of Drinking Water (Division) at least six months before initiating construction of any water-related improvement.

1. PTR Deemed Complete

On May 29, 2025, the State Board received a PTR regarding the proposed construction of the Chiala-Tennant Avenue residential housing project located on a 55-acre site (Assessor's Parcel Numbers 817-20-008 and 817-20-010) in unincorporated Santa Clara County adjacent to the City of Morgan Hill. The PTR was prepared by Questa Engineering Corporation on behalf of Latala Group, LLC. Along with the PTR, a supplemental letter was submitted by David Cameron, a partner for Atkinson, Andleson, Loya, Rudd, & Romo. In September 2025, the State Board discussed with Cassie Gilson, co-founder of Axiom Advisors, the PTR, the feasibility to annex, connect or otherwise receive domestic water from an adjacent community water system, the future ownership and management of the proposed public water system, and the path forward.

The State Board has reviewed the PTR and supporting documentation, and considered the information discussed in September 2025, and hereby deems the PTR complete.

E. JOAQUIN ESQUIVEL, CHAIR | ERIC OPPENHEIMER, EXECUTIVE DIRECTOR

2. Next Steps Depend on Who Will Provide Water Service

The Chiala-Tennant Avenue residential housing project site is located immediately adjacent to the City of Morgan Hill Urban Service Area and within the City's General Plan Urban Growth Boundary. On March 10, 2025, Questa Engineering Corporation made a formal request, on behalf of Latala Group, LLC, to the City to seek a domestic water supply connection to the City public water system. In a letter dated March 24, 2025, the City responded stating that the development site must be annexed into the City Urban Service Area to receive utility connections. On November 5, 2025, the City stated in a letter to the State Board that the City is willing to issue conditional water and wastewater "will serve" letters to development projects located in proximity to the City municipal water and wastewater systems, contingent upon approval by the Local Agency Formation Commission (LAFCO) of Santa Clara County at a future date. The City further requested that the State Board require proposed developments to pursue annexation into the City Urban Service Area.

A. Formation of a New Public Water System and Ownership by California-American Water Company

In lieu of pursuing annexation into the City Urban Service Area, the PTR proposed to form a new public water system to serve the Chiala-Tennant Avenue residential housing project. California-American Water Company (Cal-Am) would then acquire, operate, and manage the proposed new public water system at a future date. Cal-Am, as an investor-owned water utility, is under the regulatory oversight of the California Public Utilities Commission (CPUC) – Water Division regarding business operations and customer rate structures, and therefore, must obtain the necessary approvals from the CPUC to expand its service boundaries to provide water service to the project area. The procedural timeline to file and seek approval from the CPUC is lengthy, and it is uncertain whether the CPUC will provide the necessary approvals, and within the necessary timeline. Cal-Am would also need to apply for and obtain an Amended Domestic Water Supply Permit from the State Board to serve the new public water system.

B. Permitting Small Mutual or Small Local Entity Would be Difficult

The State Board has concerns that, if Cal-Am is not able to obtain approval from CPUC to expand its service boundaries and the proposed public water system is not acquired by another entity, the developer may try to form a small mutual water company or small local entity to own, operate, monitor and maintain the proposed water system. Obtaining a permit, however, requires demonstration of adequate technical, managerial, and financial (TMF) capacity to ensure the delivery of pure, wholesome, and potable drinking water. (Health & Saf. Code, § 116540, sub. (a)(1).)¹ The State Board recommends against the formation of a small mutual water company or small local entity to own, operate, monitor and maintain the water system. Small, stand-alone water

¹ The TMF Assessment form is available on the State Board's website at [TMF - Capacity Development | California State Water Resources Control Board](#).

systems frequently lack the financial resources to fund basic capital costs and ongoing costs of maintenance, energy and treatment. Small mutual water companies are also often managed by community volunteers who lack the time, knowledge and experience to achieve and maintain long-term sustainability, including maintaining adequate TMF capability, and compliance with safe drinking water regulations.

Further, in considering a permit application from a new, small water system, the State Board must consider the sustainability of the proposed new public water system and its water supply in the reasonably foreseeable future, in view of climate change, potential migration of groundwater contamination and other potential treatment needs, and other factors that can significantly erode a system's capacity. (Health & Saf. Code, § 116540, sub. (c).) For the reasons noted above, small water systems often struggle to cope with these challenges. Their limited resources make them less resilient to natural disasters, such as drought and fire, and they have more difficulty adjusting to regulatory changes, which could require the installation of expensive new treatment.

If an application were submitted for a new small water system, the State Board could also deny it on the basis that "it is feasible for the service area of the public water system to be served by one or more of permitted public water systems identified pursuant to paragraph (1) of subdivision (c) of section 116527." (Health & Saf. Code, § 116540, subd. (d).) In the March 24, 2025 letter from the City, the City stated that "[i]f an applicant chooses to submit a formal annexation request, the City will process it." Furthermore, in the November 5, 2025 letter, the City stated that it is committed to support annexation and is willing to issue conditional water and wastewater "will serve" letters to the development projects located in proximity to the City municipal water and wastewater systems. Although the State Board is aware that the City cannot consider any proposal for an amendment to the City Urban Service Area until an Environmental Impact Report is prepared and certified under CEQA, taking steps to pursue annexation with the City while working with Cal-Am on the potential acquisition of the proposed new public water system would help to avoid potential denial of a permit for a small water system. The State Board, therefore, strongly recommends Latala Group, LLC to file a complete application as part of the City annexation process and design and construct the water distribution system serving the residential housing project in accordance with City-adopted design standards to facilitate integration with the City's water system infrastructure. By taking these steps, the development could still be potentially served by the City if there were setbacks with being owned and operated by Cal-Am or a similar investor-owned utility with adequate TMF capacity, or if annexation proves feasible.

If Latala Group, LLC ultimately decides to apply for a permit despite the State Board's concerns raised in this letter, the permit application package must include each element specified in California Code of Regulations, title 22, section 64552. The links to the California Code of Regulations and California Health and Safety Code are available on the State Board's website at [California Drinking Water-Related Laws | California State Water Resources Control Board](#). Please note that additional reports, plans, forms and

information may be required based upon the information provided regarding the proposed water system.

Please do not hesitate to contact me by email at Van.Tsang@waterboards.ca.gov or by phone at (510) 620-3602 if you have any questions regarding this letter.

Sincerely,

 Digitally signed by Van Tsang
Date: 2025.12.05
09:52:07 -08'00'

Van Tsang, P.E.
District Engineer
Santa Clara District
Division of Drinking Water
State Water Resources Control Board

Cc: Santa Clara County Environmental Health (via email)

Kimberley Niemeyer – Office of Chief Counsel, State Water Resources Control Board (via email)

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