

**MUNICIPAL WATER DISTRICT OF  
ORANGE COUNTY**

**OC LAFCO GOVERNANCE STUDY**

**RECORD OF PROCEEDINGS**

**Submitted by  
Municipal Water District of Orange County**

**August 26, 2009**

**Record of Proceedings  
MWDOC Governance Study  
August 26, 2009**

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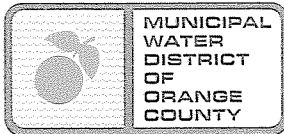
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December 17, 2007

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Joyce Crosthwaite, Executive Officer  
LAFCO  
10 Civic Center Plaza, Room 235  
Santa Ana, CA 92701

Dear Ms. Crosthwaite,

**Subject: Comments on OCLAFCO Draft MWDOC Governance Alternatives Study**

Thank you for the opportunity to comment on the draft scope of work for OCLAFCO's proposed Study of MWDOC Governance Alternatives. By separate letter MWDOC has raised issues concerning the legality of OCLAFCO moving ahead with the proposed study, but also felt the need to respond directly regarding the proposed scope of work.

We should note that several of the water purveyors we serve in Orange County have expressed concern that they did not receive a notice inviting comments on the draft scope of work directly from OCLAFCO. While MWDOC provided the document to them, we note that the most recent portion of the MSR process was focused on discussions involving six of the twenty nine entities that purchase water from MWDOC. However, this study will impact all twenty nine entities and they should each be invited directly by OCLAFCO to participate in the process.

We understand that a number of these entities has requested that any action on this matter be postponed by OCLAFCO for one month so that appropriate comments can be solicited and incorporated into the draft scope of work by OCLAFCO staff. We believe input from all affected entities is essential to this process and support these requests.

We should also note our concerns about the nature and intent of this study, which has been characterized as a "reorganization alternatives study" in the initial draft scope document circulated by OCLAFCO staff, and appears to pre-suppose or imply the existence of a proposal for reorganization by parties as yet unstated. We are not aware that either the OCLAFCO or any other public agency has initiated a reorganization proposal at this time. OCLAFCO staff has since clarified that this is indeed intended to be the "governance" study that was requested by action of the Commission in November, but the substance of the scope of work is not consistent with this stated intention.

Since we do not yet know whether a request for extension of comment time will be accommodated by OCLAFCO, we offer the following initial observations and comments relative to the Draft Scope of Work circulated by OCLAFCO. MWDOC reserves all rights to submit further comments and corrections at a later date:

**1) Clarify the term “governance”**

It would be very helpful to clarify what is meant by governance in this study. Governance can apply to the process by which an agency consults, engages, and affords opportunity for input of the public and key stakeholders in reaching decisions and establishing priorities. The study scope seems to consider governance to be a more narrowly defined “governance structure” that involves only the nature (i.e. municipal water district act or county water authority act) and geographic scope (county wide or a split between selected areas of the county) of the agency. We believe the term should be broadened to include the broader “governance process.” Not doing so may limit the opportunity to explore strengths, weaknesses and potential enhancements to “governance” under MWDOC’s current structure of an elected Board of Directors. For example, when considering the current MWDOC governance, the study should not only consider the structure of MWDOC (a Municipal Water District similar to many other Metropolitan member agencies), but also the governance process at MWDOC. This includes the formal board and committee meetings where decisions are ultimately reached, as well as many other forums where information is shared and viewpoints gathered.

**2) Provide for stakeholder input throughout the study process**

The Draft Scope of Work should provide for an open, transparent and inclusive process to offer ample opportunity for stakeholder involvement and engagement. With that in mind, both the study process and the study timeline should be modified to allow for early and ongoing input and participation of all 29 entities that purchase water from MWDOC, as well as input from the public and other key stakeholders who have an interest in effective provision of all of MWDOC’s services. Part of the stakeholder input to the process should focus on identifying a basis for any evaluation or comparison of alternatives. For example, what does a successful study outcome look like? When comparing alternatives, will different service levels be assumed and what impact will that have on the validity of any comparison? As such, the timeline of 4 to 6 months to complete the process and the number of meetings for stakeholder engagement need to be increased.

**3) Include the current MWDOC governance as an alternative**

The study should be careful to include consideration of the current MWDOC governance model as a valid option. This structure was put in place by vote of the people to form a municipal water district in 1951, and was updated by OCLAFCO in 1985 and again in 2000 as part of the consolidation of MWDOC and Coastal Municipal Water District. Ten of the eleven other Metropolitan regional wholesale member agencies use the Municipal Water District Act structure. Benchmarking of the other Metropolitan regional wholesale member agencies should be informative and should be made part of the study. We believe MWDOC benchmarks quite well in most areas, including cost, services, value, and level of stakeholder engagement. To this point, LAFCO appears to have accepted opinions about MWDOC's service costs or cost allocation methods made by some parties as fact without appropriate comparative analysis of other similar agencies in the area. We believe benchmarking other Metropolitan regional wholesale agencies would also further inform the consultant and stakeholder participants in the process, as well as the OCLAFCO Commission, as to the nature, scope and cost of activities and form of governance in other areas of southern California. We believe the current close coordination model employed by MWDOC, the Metropolitan member cities of Anaheim, Fullerton and Santa Ana, and with OCWD, the major groundwater management agency over a significant portion of the county, offers advantages in form, function and cost to the residents of Orange County as well.

**4) Include the draft seven agency agreement as an alternative**

Recently, MWDOC and six water agencies that purchase water from MWDOC worked diligently with the assistance of a facilitator provided by OCLAFCO to examine a list of issues put together by the six agencies. At the conclusion of this process, a draft statement and set of actions was developed for potential implementation by MWDOC. Ultimately, the only outstanding issue preventing full agreement was a clause on dispute resolution as it related to circumstances when an agency could effectively "opt out" of a regional service provided by MWDOC. MWDOC and two of the agencies approved a version with mediation. At least two of the remaining four agencies expressed a preference for "binding arbitration". One agency represented to the commission in November that despite the discussions and the near agreement, the real issues had never been addressed. We believe the governance study needs to look at the draft seven agency agreement as a potentially viable alternative for moving forward.

**5) Include other options as appropriate**

The study process should be designed so that opportunities for improving the strength, value and effectiveness of regional wholesale water service and related services is enhanced. Participants may have valuable ideas or insights into how to improve on the status quo. These may not fit neatly under the two models preferred in the OCLAFCO Draft Scope (a water authority or a separate south county municipal water district).

**6) Basis for Financial Analysis and Findings**

A major part of this analysis will be determined by assumptions on the services and level of services being provided as related to projected costs for these services. The opinions of costs and benefits to the agencies will vary considerably under these alternatives. Who will make the determination regarding the level of services to be analyzed? In the facilitated discussions, the six agencies apparently felt comfortable moving MWDOC's annual budget to between \$4.0 and \$4.8 million without a complete analysis. This would not be a proper basis for OCLAFCO findings without further prioritization of service levels to match hypothecated budget amounts. MWDOC advocated the need for and benefits of a budget closer to \$6 million, based on the current services provided. We believe an approach that links these two issues would produce more reliable results, and we would suggest that you expand on your study methodology to insure projected costs and service levels are properly linked.

**7) Legal Analysis**

Under some alternatives, the legal analysis would need to include the issues related to Metropolitan and the addition of a new member agency.

**8) Impacts on Electorate**

The impacts on the electorate and their level of access and accountability should be included in the evaluation of alternatives. For example, under a water authority option, voters who can now choose from candidates for the MWDOC Board would no longer have a direct voice in the governance of the agency or the board that selects Directors to Metropolitan. Voters who reside in areas served by a publicly regulated utility would have no voice. We believe some form of public input could be appropriate during the study as well, inasmuch as some alternatives have implications on the ability of the public to participate in electing a governing body.

Ms. Joyce Crosthwaite  
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December 17, 2007

#### **9) Qualifications and Conflicts**

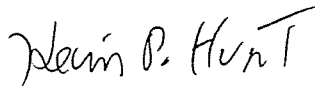
The request for proposals should include a thorough examination of the experience and qualifications of the firm or team selected to do the work. Given the rather sensitive nature of this study, OCLAFCO should be careful to avoid use of consultants who may have a conflict of interest (real, potential or perceived) through affiliation or economic interest with any of the agencies.

#### **10) Cost sharing**

We note that the costs of such a study should be shared among all of the participants to avoid any perception that funding agencies are driving the process or have a greater say than non funding agencies. We reiterate our belief that, at a minimum, all 29 agencies that purchase water from MWDOC should be involved in the study.

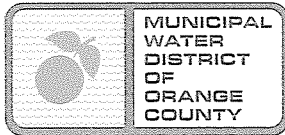
We hope these comments are helpful in further developing a scope for a governance study, should the OCLAFCO decide ultimately to proceed with the study.

Sincerely,



Kevin P. Hunt, P.E.  
General Manager

cc: MWDOC Contracting Agencies  
OCLAFCO Commissioners  
MWDOC Board

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January 31, 2008

Joyce Crosthwaite, Executive Officer  
Local Agency Formation Commission of Orange County  
12 Civic Center Plaza, room 235  
Santa Ana, CA 92701

Dear Ms. Crosthwaite,

**Subject: Draft Scope for MWDOC Governance Alternatives**

Thank you for the opportunity to comment on the revised draft scope of work for OCLAFCO's proposed Study of MWDOC Governance Alternatives. We would like to also express our thanks to the Commission for extending the comment period to February 1 to allow several interested water purveyors to provide additional review and comment on the draft scope. We encourage OCLAFCO to continue to invite participation from and inform all twenty nine water agencies we serve, as well as other parties of interest in Orange County.

We have expressed MWDOC's concerns and objections to the proposed study in previous correspondence and expressly reserve our rights in that regard. Although we do not agree the study is necessary, and we fear it may prove to be divisive and a poor use of public resources, we also want to be responsive and make every effort to assist OCLAFCO and ultimately its consultant in conducting a fair and effective study. Toward that end, we offer these comments on the January 9, 2008 draft study scope:

1. Goal statement

We suggest the OCLAFCO consider developing an appropriate goal statement for the study, so that its purpose is more clearly understood by all.

2. Inclusion of Stakeholders

Task 1 should elaborate on the requirements of stakeholder input. It is essential that all 29 agencies served by MWDOC are involved in the process. The potential changes in governance addressed in this study would have a significant impact on all agencies served as well as on MWDOC's role as a regional body. In order for the impact of such changes to be identified, defined, and understood, all stakeholders in the region should be involved in an open process.



Ms. Joyce Crosthwaite  
Page 2  
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### 3. Regional Perspective

Concerns from all member agencies should be addressed from a regional needs' perspective. Language in the draft scope that focuses on identifying separate types or regional groups of agencies (see Task 2 – “different service requirements for various types of agencies”, and Task 3 – “cooperative South County agencies”) tends to suggest a bias towards outcomes that are not focused on regional needs. We believe this approach has thus far resulted in exacerbating differences rather than developing a regional vision that can be supported by all.

### 4. Governance Alternatives

We appreciate that the list of governance alternatives has been broadened somewhat from the initial draft scope. We would suggest that the list in Task 3 be reformatted somewhat to include these alternatives in addition to the formation of a countywide water authority or detachment of south county water agencies' alternatives:

- Current Municipal Water District of Orange County structure
- Current MWDOC structure with governance process enhancements, including but not limited to the 2007 draft seven agency agreement.
- Any other viable governance structure alternative

We also recommend that the study include a comparative analysis of the governmental structure and process of other wholesale water providers within the Metropolitan Water District service area. A careful examination of these other agencies may reveal strengths to be incorporated into alternatives or potential weaknesses to be avoided.

### 5. Analysis of public interest

The scope of services should include an analysis of the benefits and drawbacks to the public as a stakeholder. The study should identify MWDOC services and activities that directly or indirectly serve, benefit, inform or engage the public. Alternatives that involve an elected representative governing body should be contrasted with alternatives that remove the ability of the public to elect a governing body. Implementation paths should be identified which include voter approval of any proposed changes in governance structure.

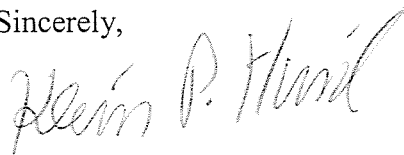
Ms. Joyce Crosthwaite  
Page 3  
January 31, 2008

6. Study funding

Given the clear need to involve all stakeholders – the 29 water agencies served by MWDOC, other water agencies impacted by potential changes, and the public – the funding for a governance study should be widely distributed.

We thank you again for the opportunity to comment on the draft scope of work.

Sincerely,

A handwritten signature in cursive script, appearing to read "Kevin P. Hunt".

Kevin P. Hunt, P.E.  
General Manager



April 22, 2008

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Joyce Crosthwaite  
LAFCO Executive Director  
Orange County Local Agency Formation Commission  
12 Civic Center, Room 235  
Santa Ana, CA 92701

Dear Ms. Crosthwaite:

Subject: LAFCO RFP for MWDOC Governance Study

Recently, OCLAFCO issued a request for proposals for qualified consultants to prepare a "Governance Study" for OCLAFCO concerning the Municipal Water District of Orange County. Our understanding is that OCLAFCO advertised the RFP exclusively in the State LAFCO newsletter. In response to the RFP, OCLAFCO received proposals from two consultants and a letter from a third consultant declining the RFP based a lack of expertise in water-related issues but indicating an interest in otherwise assisting OCLAFCO if needed. We appreciate this opportunity to provide input on the RFP responses received by OCLAFCO, and we ask for your careful consideration of the following important issues. These issues involve potential bias and the appearance of bias which our special LAFCO legal counsel, Nancy C. Miller of the Sacramento firm of Miller, Owen & Trost advises us are inappropriate and should disqualify the consultant.

OCLAFCO received proposals from the Davis Group and from Winzler & Kelly. After reviewing the proposal from Winzler & Kelly, we are concerned by the fact that several members of the consultant team proposed by Winzler & Kelly hold positions that would establish a bias, or the appearance of a bias, if Winzler & Kelly is selected to perform the Governance Study. Winzler & Kelly's proposed Project Manager and Governance expert, Mr. Gary Thompson, is currently serving as a council member of the City of Rancho Santa Margarita. In addition, Mr. Thompson is a member of the Santa Margarita Water District Citizen Advisory Council, a consumer advisory group sponsored by the Santa Margarita Water District's Board of Directors. Mr. Thompson clearly has strong ties to the Santa Margarita Water District, which was a key proponent of the Governance Study. We are concerned that these strong ties will inevitably prevent Mr. Thompson from serving as a truly unbiased, disinterested Project Manager for the Governance Study, even though he may proceed with the best intentions and the highest degree of professionalism. And even if he is able to reconcile his many connections to the Rancho Santa Margarita Water District with duties as Project Manager under the contract he seeks with OCLAFCO, there would be no way to avoid the appearance of bias and conflicting interests.

Ms. Joyce Crosthwaite  
Page 2  
April 22, 2008

Similarly, Winzler & Kelly proposes to use Dr. Carmen Cave as its Senior Planning Advisor for the Governance Study. Dr. Cave currently serves as a City Council member for the City of Aliso Viejo. As you know, much of Aliso Viejo is served by the Moulton Niguel Water District, which neighbors the Santa Margarita Water District in south Orange County. Again, our concern is that Dr. Cave will have interests as a City Council member that may prevent her from being neutral in the performance of the Governance Study. Again it is not just the possibility of bias, but the certainty of the appearance of bias, that concerns us. The resume for proposed project manager for this study, George Wentz, indicates he worked for the City of Rancho Santa Margarita as Assistant City Manager for five years. This again is indicative of very strong ties in this area of the county. We have the utmost respect for each of these individuals, but we are concerned about the potential conflicts that will undermine the Governance Study if Winzler & Kelly is selected.

Furthermore, Winzler & Kelly's proposal states that their proposed legal consultant for the Governance Study, Jim Markman of Richards, Watson & Gershon, also serves as counsel to Trabuco Canyon Water District – another proponent of the Governance Study. While Mr. Markman has a sound reputation, this once again raises the question of whether the study would be performed in an unbiased and objective manner, and once again we must conclude that irrespective of whether there is actual bias on the part of Mr. Markman, the appearance of bias is inevitable.

We are informed by our special legal counsel Nancy C. Miller that the law prohibits local government officials from engaging in activities that are incompatible with their duties as local officials. As city council members, both Dr. Cave and Mr. Thompson are expected to represent their respective city's interests. If Winzler & Kelly is selected to perform the Governance Study, however, both Dr. Cave and Mr. Thompson would be required by OCLAFCO to consider what is best for the entire region, not just their cities. We will be forwarding attorney Miller's legal analysis on these issues for your consideration in the near future.

In light of these potential conflicts and the potential for bias and the appearance of bias within the team proposed by Winzler & Kelly, we request that Winzler & Kelly not be selected to perform the Governance Study. This would leave only a single proposal by the Davis Group for consideration by OCLAFCO.

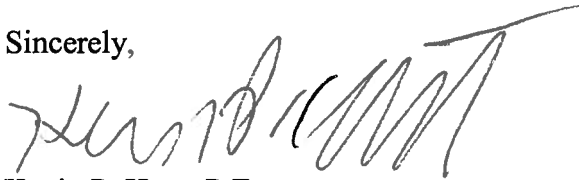
Ms. Joyce Crosthwaite

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April 22, 2008

Given the significance of this effort to the many agencies and residents served by MWDOC in Orange County, the limited advertisement of the original RFP, and the relatively few responses received, we respectfully request that OCLAFCO re-advertise the RFP more widely and obtain other proposals from qualified consultants for review prior to proceeding with the consultant selection effort. OCLAFCO should take care not to include consultants with significant ties to governmental interests within the County, as the Governance Study touches on matters of representation and financial equity that will inevitably give rise to questions of bias if parties serving local Orange County interests are proposed as technical experts for OCLAFCO.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin P. Hunt", with a long horizontal line extending from the end of the signature.

Kevin P. Hunt, P.E.  
General Manager



October 29, 2008

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Joyce Crosthwaite, Executive Officer  
Local Agency Formation Commission of Orange County  
12 Civic Center Plaza, Room 235  
Santa Ana, CA 92701

Dear Ms. Crosthwaite,

**Subject: MWDOC Comments on the Draft Technical Study on Governmental Structure Alternatives by Winzler and Kelly dated October 21, 2008**

The Municipal Water District of Orange County (MWDOC) submits these comments on the above referenced Draft Technical Study. We thank you for the opportunity to submit these comments but had requested a longer comment period than just one week. This request was denied by you, and thus we submit the following comments within your time frame:

1. **Additional information is required to be included in the Background section of the Draft Technical Study:** We believe that the Background section does not provide enough information as to how and why this Draft Technical Study was commissioned. This Draft Technical Study was commissioned, over the objections of MWDOC and most of its 28 wholesale customers, at the request of 6 other south county MWDOC customers. The Background section should also provide information about the regional approach that has been taken by MWDOC regarding water issues and should state what the issues are to be currently studied. It is important to clearly specify (1) who requested the study, (2) why the request was made, (3) the issues to be studied, and (4) the study's objectives. We request the following specific changes to the Background section:

*"MWDOC has been working for the past 22 months, since approval of the December 2006 policy and procedural changes, to implement those changes aimed at improving relations with all of its customers, including:*

1. *Per this policy, two budgets have been developed well within the baseline and CPI cap established in the policy. In fact, the proposed 2008/09 budget is less than the 2006/07 budget and only \$40,000 more than the 2005/06 budget.*

2. *MWDOC has engaged its customers in the budget development process, gaining valuable input into the prioritization of proposed studies and other efforts.*
3. *MWDOC has followed through on its commitment to transition the Dana Point Desalination project to a consortium of five interested agencies. All five agencies have approved participation and funding for the next phase of work. Metropolitan WD is also considering direct participation in the project.*
4. *MWDOC also committed to sharing the cost of Federal lobbying for projects that benefit five or fewer agencies. In keeping with this policy, a portion of MWDOC's Federal lobbying costs are included in the cost sharing arrangement with the agencies pursuing the Dana Point Desalination project.*
5. *MWDOC has demonstrated additional efforts to work collaboratively in partnership with its customers to serve their shared customer and constituency in Orange County. These efforts include outreach on water supply and conservation through the Orange County Water Summit, OC Water Hero, and numerous workgroups, training sessions, agency, and community forums.*
6. *In addition, MWDOC has revamped its monthly special workshop meeting of MWDOC's Board of Directors and MWDOC's Metropolitan WD Directors to include a roundtable discussion with MWDOC's customers on issues related to Metropolitan WD*
7. *Of the 28 agencies that comprise MWDOC's wholesale customers, only 6 are actively seeking the study. Wholesale water issues should be reviewed as a regional consideration not as single special district issues."*

2. **The Draft Technical Study must state its objectives and that it will determine whether any changes are needed in the current governance structure.** The current text of the Draft Technical Study does not state what the objectives are and that part of the analysis will be to determine whether governance changes are necessary. It is our understanding that the Draft Technical Study will review the perceived problems raised by a few (6) south county customers but these problems are not currently articulated. The purpose of the Draft Technical Study is to first, determine if the alleged problems exist, and second, whether any change in governmental structure will solve the confirmed problems and therefore is necessary. This is why the option to maintain the status quo exists. It should be recognized that regional agencies such as MWDOC are expected to have controversies given their regional role. The fact that some MWDOC customers are asking for more control or having difficulty is not indicative of a true governance structure problem, without a more in-depth analysis to verify there is a real problem. Typically such problems are addressed at the time of election of the Board of Directors. If those served are unhappy with current representation, alternative candidates are sought. The Draft Technical Study does not mention the fact that

governance changes may not be advisable. Thus we request that the following text be added to page 2 prior to the listing of Alternatives:

*“The study will also address whether any change is needed in the current governance structure.”*

3. **The governance alternatives should include an option that MWDOC voluntarily make changes to address any recommendations.** This is similar to the status quo option but with an important difference; the Draft Technical Study may conclude that no changes are necessary. Thus, the status quo option is available. However, if the Draft Technical Study makes recommendations for changes that MWDOC can or should voluntarily adopt, this would constitute a separate governance option. This option has the benefit of not requiring any additional governmental reorganization and special legislation may not be needed. Therefore, we recommend that at page 2, in the Purpose section, the following should be added under Option 1 as 1.a.:

*“1.a. MWDOC Board makes recommended 2008 Study Changes.”* (In addition, this option should be included as a viable alternative at page 8.)

4. **The governance alternatives should state that they are not weighted equally.** The Draft Technical Study seems to state that the listed alternatives have equal weight. We believe this is inaccurate. Reorganizing a current government should be done only if clearly needed and if it would result in cost and governance efficiencies. We realize this is a preliminary fatal flaw analysis, but there may be some issue raised in the future that renders an alternative infeasible or not advisable due to Cortese-Knox-Hertzberg statutory considerations. Depending upon the governance alternative, impacts to the affected agencies will need to be addressed. These impacts include considerations under Government Code sections 56668, 56886, 56886.5, 56375,<sup>1</sup> and others. The study does not address this issue. We recommend the following suggested changes at p. 8:

- i. *“The alternatives are not equally weighted and, in the future, the study will address whether the feasible alternatives are supported under the Cortese-Knox-Hertzberg Government Reorganization Act of 2000 as amended.”*

*and*

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<sup>1</sup> Impacts include, but are not limited to, impacts upon an affected agency, customer representation, revenue and debt allocation, environmental justice, employment, boundary consistency, consistency with general plans, overlapping jurisdictions, single purpose agency benefits, accountability, and efficiencies.



- ii. *"The study will evaluate whether possible alternatives, although initially determined potentially feasible, are advisable to implement given the problem identified."*

5. **A County Water District should not be considered a preliminarily feasible alternative.** It is our understanding that this alternative was deleted by the stakeholders at the October 22, 2008 meeting, due to the fact that it provided no beneficial alternative. (If deleted then the option needs to be removed at p. 2.) To the extent that this alternative remains we have the following comments. The study does not acknowledge that a County Water District is composed of a five member board and thus special legislation would be required to increase membership. (Gov. Code §30500.) Special legislation is considered a fatal flaw in the study (see p. 8) and consequently, a County Water District's board is not a preliminarily feasible alternative. Thus, if the alternative is not deleted, the text at p. 9 of the Draft Technical Study under the heading "Dissolve MWDOC and form a County Water District" needs to be replaced with the following:

*"Because a County Water District is composed of a five member board and special legislation would be required to permanently increase membership, this is not a preliminarily feasible alternative."*

6. **A County Water Authority may not include a private company and therefore should not be considered as a preliminarily feasible alternative.** At p. 10 of the Draft Technical Study it does not state that a County Water Authority must include only public members. A County Water Authority will not allow for private companies to be members and therefore is not a preliminarily feasible alternative as it will disenfranchise existing MWDOC customers from representation. (Water Code Appendix Ch. 45, § 45-3.) We request replacing the text at p. 10 of the Draft Technical Study under the heading "Dissolve MWDOC and form a County Water Authority" with the following:

*"Since a County Water Authority allows only public membership, it would disenfranchise current customers of MWDOC, the private water company rate payers, and should not be considered as a preliminarily feasible alternative."*

7. **The Study should address potential CEQA issues.** The Draft Technical Study does not address any environmental issues that may result in one governance option being environmentally superior to another.<sup>2</sup> The study should be amended to state, where appropriate:

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<sup>2</sup> The impact of new statutory changes, such as AB 32 and SB 375, should also be evaluated.

Ms. Joyce Crosthwaite  
Page 5  
October 29, 2008

*"The study will review the potential environmental factors associated with each governance option."*

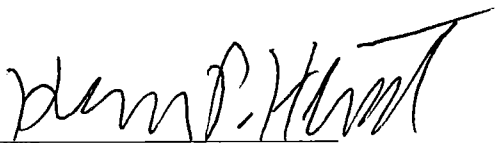
8. **The Study should consider Metropolitan's policies toward admission of new member agencies in every Alternative that includes formation of a new entity.**

Metropolitan has longstanding policies developed over the past 70 years that emphasize the importance of limiting the number of member agencies and thereby avoiding a large, unwieldy and inefficient Board. Under these policies, for example, Metropolitan encourages annexing areas to form into larger units, primarily through the formation of municipal water districts. These policies for limiting the number of member agencies have been termed the "regional nuclear annexation concept," and they are not consistent with any proposal to split MWDOC's current service area into smaller units. The Draft Technical Study should be amended to address these policies for every Alternative that considers formation and admission of a new Metropolitan member agency. Similarly, for the options which detach areas from MWDOC, it should be recognized that they are concurrently detached from Metropolitan. They would then have to reapply to join Metropolitan, which is a discretionary action of the Metropolitan Board.

In light of the short amount of time permitted to provide comments, MWDOC reserves the right to raise additional concerns as it works through this process.

MWDOC is available to answer any questions or provide more background. We look forward to working with your consultants.

Sincerely,



Kevin P. Hunt, P.E.  
General Manager

c: Russell G. Behrens



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El Toro Water District  
Emerald Bay Service District  
City of Fountain Valley  
City of Garden Grove  
Golden State Water Co.  
City of Huntington Beach  
Irvine Ranch Water District  
Laguna Beach County Water District  
City of La Habra  
City of La Palma  
Mesa Consolidated Water District  
Moulton Niguel Water District  
City of Newport Beach  
City of Orange  
Orange County Water District  
Orange Park Acres Mutual Water Co.  
City of San Clemente  
City of San Juan Capistrano  
Santa Margarita Water District  
City of Seal Beach  
Serrano Water District  
South Coast Water District  
Trabuco Canyon Water District  
City of Tustin  
City of Westminster  
Yorba Linda Water District

January 21, 2009

Joyce Crosthwaite, Executive Officer  
Local Agency Formation Commission of Orange County  
12 Civic Center Plaza, Room 235  
Santa Ana, CA 92701

**Dear Ms. Crosthwaite:**

**Subject: MWDOC Comments on the Governance Study, List of Assumptions for the Fiscal Analysis for Stakeholder Review and Comment, January 7, 2009**

As an introductory matter, the Municipal Water District of Orange County (MWDOC) notes that the current process of segmenting the OCLAFCO Governance Study and reviewing it one piece at a time inevitably obscures important and longstanding policies that are fundamental to the water industry in Orange County. First, OCLAFCO's own policies promote consolidation and coordination rather than proliferation, and second, the Metropolitan Water District of Southern California (Metropolitan) favors fewer member agencies rather than more in the interests of increased efficiency and economies of scale. As discussed in more detail below, these policies have not been adequately acknowledged or addressed by consultant Winzler & Kelly so far in the process.

In addition, we note that the consultant has not incorporated or addressed MWDOC's previous comments to the Fatal Flaw Analysis. Those comments and the issues they addressed remain relevant because the Fatal Flaw Analysis serves as the basis for the Fiscal Analysis. The fundamental issue for the study is whether MWDOC's provision of services can be modified to result in more efficient and cost effective services to the public. For reasons explained below, proceeding with any of the reorganizations discussed in the Assumptions will increase costs to water agencies in the county and weaken the county's representation and effectiveness at Metropolitan. Dividing one regional agency serving Orange County into two smaller agencies serving respective portions of the county cannot be the most efficient and cost effective approach to the provision of services.

With these general statements in mind, MWDOC submits the following specific comments on the above-referenced List of Assumptions for the Fiscal Analysis:

1. **The consultant has not contacted MWDOC's staff in reaching the Assumptions for the Fiscal Analysis.** If the study is to go forward, we believe it would be improved by having the consultant team work with MWDOC via direct contact, consultation, and discussions. This has not occurred. We are also concerned that the consultant may be talking to non-MWDOC parties in reaching assumptions about MWDOC. This process is supposed to be interactive, with all stakeholders, and the consultant, working together to develop accurate information.
2. **The Assumptions fail to recognize that MWDOC is willing to consider policy changes beyond those specifically committed to in December 2006.** The consultant's analysis should not be based on the assumption that MWDOC will not consider further policy changes to the status quo option. Failing to include additional policy changes eliminates these options from being considered. Examples of specific policy changes MWDOC was willing to consider at the time of the Facilitated Meetings in October 2007 include the budget approval process, changing the method for charging agencies for the School Education Program, allowing choice in services "when it can be demonstrated by the member agency or agencies that the services the agencies may choose not to receive from MWDOC can be reasonably segregated without undermining MWDOC's regional service approach" and studying how the rates and charges for MWDOC are formulated and if they can be made more equitable.
3. **The Fiscal Analysis must provide necessary background as to why the study came about and the problems the study is intended to solve.** The Fiscal Analysis must provide more information as to why and how the Fiscal Analysis is being conducted. The Fiscal Analysis must identify (1) the fact that study came about at the request of six of the twenty-eight wholesale customers, (2) the perceived problems being raised by the six South County Agencies that the analysis is supposed to address, and (3) whether a change in governmental structure would solve any of these perceived problems.
4. **The baseline analysis of MWDOC's current service model should be completed before the Fiscal Analysis Assumptions are finalized.** Task 3 in the consultant's scope of service requires analysis of key elements of MWDOC's current service model, including defining essential services and service requirements; defining necessary regional services; preparing a cost of service analysis, including direct and indirect costs of services provided; preparing a complete cost recovery analysis; comparing revenue sources from member agencies with recipients of services provided; and identifying past and existing costs to ratepayers. Making these findings would provide the basis for some of the changes being proposed. Further, documentation of these findings would establish a baseline description of services and costs to which the three options -- status quo with additional policy changes, county water authority, and a new south county agency -- can be compared.
5. **The list of Assumptions must be expanded to identify the full range of assumptions needed for a realistic Fiscal Analysis.** The list of Assumptions is too limited and high-level to support a realistic financial analysis. As a first step, the Fiscal Analysis should define in detail the scope, objectives, and methodology. The objectives should describe the purpose of the analysis, identifying the comparative costs, level-of-service impacts, and rate effects, and how the various analyses will lead to meaningful and accurate findings. The methodology should provide the framework for the analysis, describe how the analysis will be performed, and identify the extent, level of detail, and steps to be used in the analysis in order to identify and define all the necessary assumptions. Finally, while OCLAFCO will determine which fiscal impacts should be quantified, some examples might include, but are not limited to:

- Identify the formation and transition costs of each alternative except the status quo, including costs for each of the following: elections, legal services, lobbying and other legislative activity, consultants or other outside services, and new or expanded facilities, all by year.
  - Identify the ongoing costs for personnel, services, and capital for each option, including staffing size and the functions various personnel would perform.
  - Estimate the impact on total revenue and water rates required by each alternative.
  - Estimate the impact of each alternative on the level-of-service for each service MWDOC currently provides.
6. **Projected growth rates should be based on the most recent information.** The draft list of Assumptions states that the projected growth rates for each option will be taken from the MSR and/or the 2005 UWMPs. MWDOC annually surveys its agencies and has spring 2008 data that is more current than the 2005 UWMP, which used spring 2005 data. The assumptions on the OCWD groundwater basin operations have changed substantially. MWDOC can provide the consultant team with these more recent projections.
7. **The assumption on the 20 x 2020 initiative should be dropped entirely from all three options.** The consultant's intention to base overall demand projections on 20 x 2020 should be omitted because this decline will only occur if the necessary capital investments are made, and it is speculative at this time how compliance to this program will be measured. In light of California's current fiscal crisis, any assumption that this program will move forward on the current timeline is tenuous at best. Instead, the consultant should use MWDOC's current demand projections.
8. **The assumption that the cost of purchased water will be 20% higher than current Metropolitan rates and will increase by 5% per year thereafter should be supported by facts.** MWDOC notes that the cost of purchased water should not be an important factor in the study because it will be the same under the different options; however, to the extent the consultant has a need for such information, MWDOC can provide recently prepared projected rate data.
9. **A County Water Authority should not be considered a preliminarily feasible alternative.** MWDOC reasserts its previous statement that a County Water Authority (CWA) is not a preliminarily feasible alternative because a CWA cannot have private companies as members. (Water Code Appendix Ch. 45, § 45-3.) Since Golden State Water Company is a private company, reorganizing MWDOC as a CWA would disenfranchise their representation.
10. **If the CWA analysis remains, the Fiscal Analysis should include assumptions regarding the process for forming a CWA and transitioning MWDOC into a CWA.** The Fiscal Analysis should provide more detail regarding the process for forming a CWA and should list the assumptions and costs for elections, legal analysis, lobbying and other legislative costs, and any related activities that are necessary to complete the process. The Fiscal Analysis should provide greater detail about the composition of the CWA Board, including the compensation and expenses that would be paid to its directors. There must also be analysis of the potential for additional staff costs in supporting a board of at least 28 members. There must be assumptions regarding the costs and impacts on service continuity if any current MWDOC retail customer does not resolve to join a CWA.

11. **The 15% reserve assumption is inappropriate for an agency such as MWDOC and should include more detail.** This assumption needs to analyze whether this level of reserves is sufficient to cover contingencies and cash flow needs that are consistent with the services being provided by MWDOC. The analysis should include an analysis of MWDOC's cash flow and potential contingencies. The need for reserves must cover reduced water sales, lower than expected interest earnings, unexpected operating costs, late water payments, the costs of implementation of water use efficiency programs and grants until such time as reimbursement occurs, litigation costs, project development costs, business recovery costs, repair and replacement costs for our building and a water purchase reserve. The 15% assumption substantially underestimates the reserve needs of MWDOC.
12. **The assumption for formation of a New South County Agency fails to assess Metropolitan and OCLAFCO policies.** The assumptions behind formation of a New South County Agency fail to assess, recognize, and analyze the policies of Metropolitan that emphasize the importance of limiting the number of member agencies to avoid a large, unwieldy, and inefficient Board of Directors. Further, splitting MWDOC into two service areas is inconsistent with Metropolitan's "regional nuclear annexation concept." Further, there is no discussion of the necessary steps and costs for joining Metropolitan. Additionally, there is no recognition that formation of a New South County Agency goes against OCLAFCO's policies of agency consolidation, as evidenced in the 2001 consolidation of MWDOC and Coastal MWD.
13. **The assumption for formation of a New South County Agency adds a six agency and a nine agency option to the mix.** Three agencies to be added were not part of the previous detachment discussions (City of San Clemente, City of Laguna Beach and City of San Juan Capistrano), so why would they now be included? Indeed, MWDOC suggests that before the study proceeds further, the six agency composition be reviewed to see if it is still appropriate.
14. **The assumption regarding MWDOC continuing to provide WEROC services to the New South County Agency fails to include the projected costs.** This assumption fails to include the costs to continue to provide the WEROC services.
15. **The analysis must account for the pre-formation costs that will be borne by the reorganized retail agencies and Board member compensation.** To provide an accurate Fiscal Analysis, the pre-formation costs must be accounted for. Whether these costs are paid for by the reorganized retail agencies, or the New South County Agency, they are still real costs borne by the public. They must be quantified so an accurate Fiscal Analysis can be completed.
16. **The assumption regarding Tier 1 purchases must be more detailed.** The assumption regarding Tier 1 allocations does not provide a prescribed formula. The basis of the formation of MWDOC's Tier 1 allocation from MET goes back to 1989-90. Based on whatever period is selected, anomalies will arise and must be addressed. A formula must be provided to permit an accurate analysis, which is critical to any outcome.
17. **The assumption to use the 5 year percent average (2004-2008) must have more background information.** The consultant must provide greater rationale in recommending allocation of reserves based on 2004 – 2008 revenue. Using this data may give too much credit to the newer agencies. Alternative assumptions may better track the source of the funds.
18. **Using a transition staffing assumption skews the analysis for the first three years.** The assumption that it will take three years to secure the full complement of staffing does not provide

a comparable basis for the analysis. It is unlikely that the New South County Agency would remain understaffed for the first two years of operation, and such an assumption will provide an inaccurate picture of the true costs of a New South County Agency. The proposed assumption will compare the limited staffing against MWDOC's full and normal operation and will undoubtedly show savings to the New South County Agency when comparing the two. Instead, the comparison should be based on a fully operational MWDOC and a fully operational South County Agency.

19. **The assumption that two separate agencies can be staffed by the same number of people currently employed by one agency is incorrect.** The study must not assume that operating costs for one agency can simply be divided among two agencies, and that the two agencies will then be able to operate for the same total cost as one. The reality is that two agencies performing the exact same services will have overlapping and duplicated services and require more total staff members than a single agency servicing the same area. Examples include general management, engineering, public affairs, finance and accounting, and administrative support. Each service area should be analyzed to estimate the staffing needs related to it for each of the two agencies and the costs associated with such staff. Furthermore, the inherent inefficiency in duplicating these functions should be described and quantified.<sup>1</sup> The costs for providing these services by two separate agencies versus one consolidated agency should be included.
20. **The assumption that the New South County Agency would not secure a permanent facility until its third full year of operation skews the analysis.** Any costs, including retail agency staff costs or a representative per-square-foot lease should be included in the analysis since the occupied space would make that space unavailable for other uses by the retail agency and use of staff time would make that staff time unavailable for other uses.
21. **The assumption that the New South County Agency will not provide a School Program and Water Use Efficiency Program goes against Best Management Practices.** The Fiscal Analysis should identify how the School and Water Use Efficiency Programs will be performed. Both of these services are Best Management Practices and the second full year of operation assumptions indicate that these programs might be implemented. The analysis must either discuss why Best Management Practices are being ignored or quantify the cost of providing these programs. Currently, significant portions of MWDOC's efforts in these areas are spent for the six-agency area.
22. **Attachment A's details regarding the staffing plans should provide more detail and quantify the differences in staffing level.** The staffing plan for a New South County Agency results in increases in Administrative Services, Metropolitan and Special Projects, Public Affairs, Finance/IT, and Overhead. The staffing plan has decreases in the Water Use Efficiency Program and Planning. More detail should be provided behind the methodology in reaching these figures. The staffing plan appears to be simplistic, not supported with foundation and would cost ratepayers more.

MWDOC is still in the process of reviewing the Fiscal Analysis Assumptions in greater detail and reserves the right to raise additional concerns as it works through this process.

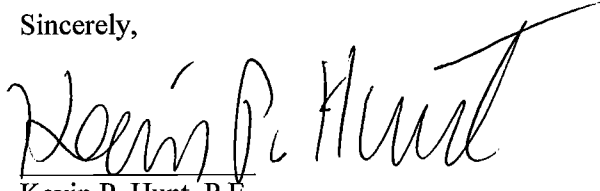
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<sup>1</sup> If the need for additional staffing that appears inevitable under a two-agency scenario is not recognized and quantified, at a minimum the assumptions should specify those positions in Attachment A that would be assumed to be staying at MWDOC and those that would be transferred to the New South County Agency. The costs associated with those positions should be assigned to the respective agencies.

Ms. Joyce Crosthwaite  
January 21, 2009  
Page 6 of 6

MWDOC is available to answer any questions or provide more information to help improve the fiscal Assumptions. We look forward to, and would encourage, the consultants contacting us directly.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin P. Hunt". The signature is fluid and cursive, with a long horizontal stroke extending from the end of the name.

Kevin P. Hunt, P.E.  
General Manager

cc: Russell G. Behrens





March 4, 2009

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City of Garden Grove  
Golden State Water Co.  
City of Huntington Beach  
Irvine Ranch Water District  
Laguna Beach County Water District  
City of La Habra  
City of La Palma  
Mesa Consolidated Water District  
Moulton Niguel Water District  
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City of San Clemente  
City of San Juan Capistrano  
Santa Margarita Water District  
City of Seal Beach  
Serrano Water District  
South Coast Water District  
Trabuco Canyon Water District  
City of Tustin  
City of Westminster  
Yorba Linda Water District

Joyce Crosthwaite, Executive Officer  
Local Agency Formation Commission of Orange County  
12 Civic Center Plaza, Room 235  
Santa Ana, CA 92701

Dear Ms. Crosthwaite,

**Subject: MWDOC Comments on LAFCO's Draft Financial Analysis**

Thank you for the opportunity to comment on the Governance Study Preliminary Financial Analysis dated February 18, 2009. We also very much appreciate being able to discuss some of the assumptions and calculations used in the analysis with Harry Ehrlich and Mary Grace Pawson. That discussion helped us understand how some of the findings were made. This paper describes our findings and suggested corrections.

**0. Overall Findings**

Our major findings are as follows:

- The analysis overstates costs and rates for the MWDOC Baseline option while understating costs for all the remaining options.
- For the Baseline option, the analysis shows excessive amounts of future reserves and assumes that general fund-related rates would increase faster than costs.
- For all the other options, the analysis establishes an unrealistically low limit on general fund reserves; uses up the prudent amount of reserves MWDOC has built to date to subsidize future costs; fails to take into account the reasonable costs of providing so-called non-essential, subscription services; understates costs related to elections; and ignores the costs of Board compensation and support.
- If the analysis made reasonable assumptions regarding the matters described above, it would show that none of the four alternatives to the Baseline would efficiently extend the government services currently being provided by MWDOC. Throughout this report we describe corrections that are needed to make the comparison of costs among the options balanced and reasonable. Our analysis shows that making some of the key needed changes would show that all of the options to the Baseline would increase costs to ratepayers. The added costs in FY 19-20 range from \$468,387 to \$3,386,381. These results are presented in MWDOC Response Table B on the last page of this response and are explained in an Appendix 2.

### **1. Inconsistent Treatment of Operational Reserves and of Incremental and Meter Rates**

In the spreadsheets used for the fiscal analysis, two separate methodologies are used to calculate rates and reserves, one for the MWDOC Baseline option and another for the four county water authority (CWA) options. Two of the key sets of assumptions used to calculate rates and reserves are (1) how rates are driven in the model, and (2) how maximum operational reserve levels are set.

For the Baseline option only, incremental and meter charges are increased by three percent annually, regardless of budget. Because it is also assumed that both water purchases and the number of meters will increase over time, the resulting revenue from these three-percent increases in rates actually exceeds three percent. At the same time, general fund costs are increased by a flat three-percent annually. As a result, revenues exceed budgeted expenditures. This excess revenue is added to operational reserves, producing some remarkable impacts: In five of the final six years of the projection period reserves increase more than ten percent over the previous year, and in FY 19-20, the last year projected, reserves reach \$8.5 million, exceeding 100 percent of the budget.

By contrast, rates in all four CWA options are cost-driven, and operational reserves are limited to 15 percent of the budget. So, for all options but Baseline, the model assumes that both rates and reserves are constrained while neither is limited in the Baseline.

Further, the reserves in all options other than Baseline are drawn down over time and used to subsidize rates. The effect is to provide diverging scenarios in which the Baseline builds reserves and increases rates so that they spiral unacceptably high while the reserves and rates in the other options decline unrealistically over the projection period.

Consistently raising rates in excess of inflation and allowing operational reserves to reach the levels shown in the analysis would be out of the question for the Board and management and should not be assumed in the Baseline option.

The analysis does not take into account several important factors regarding reserves:

- MWDOC has a stated policy of limiting operational reserves to \$5 million. (This policy is documented on page 4 of Attachment B in the consultant report.)
- It is highly questionable that the Board of a countywide CWA would set reserves as low as 15 percent of the general fund budget, a level that is insufficient to meet likely contingencies and that would therefore be imprudent.
- Distributing existing MWDOC reserves to the six and nine agencies in the south county CWA options should be done on the basis of original contribution by agencies, i.e., the distributions should be made in proportion to agencies' contributions. It is unlikely that the six/nine agencies would receive as high a level of existing reserves as shown in the analysis if this proportionality were taken into account.

- Finally, the rate subsidies that occur due to reserve drawdowns in the countywide and 6- and 9-agency south county options would no longer be possible after the end of the projection period, when the drawdown would be complete. Thus, starting in FY 20-21, after the end of the analysis' projection period, rates would start to rise faster than during the projection to meet inflationary costs. So, the pattern of rate increases during the projection period is unsustainable and misrepresents the longer-term impact of these options.

Needed Corrections:

- **Eliminate existing reserves from the analysis.** This would better reflect the long-term impact that the various options would have on ratepayers. It would also avoid the need to determine a proportional distribution of the reserves as noted above.

If it is determined that existing reserves are to be left in the analysis:

- **Limit Baseline general fund reserves to \$5 million** throughout the projection period in accordance with MWDOC's stated policy.
- Determine and use a **reserve distribution method that reflects the proportion of reserves contributed by each MWDOC member agency.**
- Whether or not reserves are left in the analysis, **assume for Baseline that MWDOC will raise rates only enough to equal general fund budget requirements**, i.e., that they will be cost-driven as is assumed for all the other options.

If neither of the above suggestions is accepted, the analysis should at a minimum deplete all reserves prior to FY 19-20 so that at least for the final year of the analysis the comparison is shown in cost-to-cost terms only.

## **2. Missing Figures in Tables Showing Comparisons of Revenue Contributions of Rate Payers**

Tables 7, 10, 13, 16, and 19 in the analysis show the total amounts of revenue to be recovered from ratepayers for each governance option for FYs 09-10, 14-15, and 19-20. These tables are very important to the way the report will be understood by readers because they reduce comparative results to two measures, costs to be recovered through rates and "annual impact to rate payer." The total revenues to be recovered in these tables are made up of (1) general fund costs, which are allocated to the increment charge and the meter charge, and (2) that portion of water sales costs to be recovered through either the melded rate charge, where applicable, or through Tier 2 rates. The tables also show either the annual cost to each ratepayer in each member agency in the case of Baseline, or the "annual impact to each ratepayer" (i.e., the difference between cost per ratepayer in the Baseline and the cost per ratepayer in each of the other options) for each of the three years.

The tables do not, however, total the costs to be recovered for each option. When the columns showing costs to be recovered are totaled, the analysis shows that the 6- and 9-agency south county options are higher-cost than the Baseline in FY 19-20. So, although the analysis includes excessive reserve costs and rate increases for the Baseline option while drawing down

existing reserves for all the other options, the two south county options are still projected to be more costly than the Baseline by the final year of the projection period.

Also, we found an anomaly in Table 10 of report that appears to understate the total amount of costs to be recovered. Because the matter is complicated, our explanation of it is presented in Attachment 2 to this response.

Needed Corrections for this Finding:

- On all five tables (7, 10, 13, 16, and 19) in the analysis show totals for costs to be recovered from ratepayers. Also show subtotals for the amount of costs to be recovered for south county agencies on one hand and for the remaining MWDOC agencies on the other. **This would help the reader understand the full impacts of each option both countywide and also on the groupings of agencies within each option** (i.e., comparing the six non-subscribing agencies to subscribing agencies for the MWDOC Subscription CWA and comparing the six and nine agencies in the south county to remaining MWDOC agencies for the south county CWAs).
- On all five tables **break out the two elements of costs**. That is, show both general fund recovery costs and the melded rate or Tier 2 costs. This would help the reader understand the cost impacts attributable to general fund costs versus water-purchase costs.
- In Tables 10, 13, 16, and 19 **show the annual cost to ratepayers as well as the "annual impact to rate payer."** The annual impact is the difference in dollar-amounts, but dollar-amounts for rates are not shown. It might also be helpful to show the percentage differences as well as the dollar-amount differences to provide a broader understanding of impacts.

### **3. Inconsistent Treatment of Costs for Subscription Services**

In the countywide, subscription CWA option, the analysis indicates that MWDOC will continue to provide the four "non-essential" subscription services (Governmental Affairs, Water Awareness, Water Use Efficiency, and School Programs) and that 22 agencies will subscribe to them. At the same time, it is assumed that the six south county members of this countywide CWA will not subscribe to or bear any costs for such services. The report states that the reason for this assumption is that "the six agencies indicated that they had alternative means for providing these services."

In the 6- and 9-agency county options, the costs for the School Program are zero and the cost for WUE in the base year (FY 10-11) is only \$7,500 while it is approximately \$450K for remaining agencies. Thus, it is assumed that the cost impact of these two programs for the 22 remaining agencies would be 60 times as high as the cost for the six non-subscribing agencies. The report cites the same rationale for the reduced costs of these "non-essential" services in this option as in 2b, i.e., that there are other means of providing them. That is, the cost simply disappears from the fiscal impact on the six south county agencies.

Inherent in the rationale cited above is one or a combination of the following assumptions:

- The south county agencies can, without adding resources and attendant costs, provide comparable levels of School and WUE Program services to those currently being provided by MWDOC
- The agencies will provide either no school/WUE services or will provide them at a lower level than is currently provided by MWDOC
- If there are any resources/costs for School and WUE Programs in addition to those currently being provided by the retail south county agencies, those costs will not be assigned to the south county CWA, but to the retail agencies and passed along to ratepayers in retail rates.

The School and WUE are best management practice-required services. Failure to provide these services would make agencies ineligible for numerous state grants. And, whether paid for by the wholesale agency or by retailers, any costs for these services would be borne by the ratepayers and should be reflected in the analysis. It should also be noted that MWDOC is currently providing these services to the customers in the jurisdictions of all the six agencies and at a very high level to some of them.

MWDOC's WUE Programs are separate from the programs currently provided by MWDOC member agencies. MWDOC's programs bring annual funding in the range of \$3-7 million into the County. These funds come from Metropolitan as well as additional state and federal grants. MWDOC provides the day-to-day management for these programs, including grant-required reporting and coordination between local consumers, retail agencies, the implementation vendor, and Metropolitan. MWDOC also develops and prints marketing materials for distribution to consumers, and provides customer service for residents throughout its service area. Without significant, added resources and costs, the south county agencies would not be able to obtain grant funding from Metropolitan and other sources comparable to the proportionate share of benefits they receive from current grant funding.

Finally, the current proportion of MWDOC School and WUE resources used on behalf of the south county agencies is quite high. For several years MWDOC has kept records of use by its member agencies. MWDOC Response Table A, below, summarizes the three-year average (FY 05-06 through 07-08) use by the six south county agencies (those assumed to be non-subscribing agencies) compared to the remaining 22 agencies for each program.

**MWDOC Response Table A**

	School Program		WUE Program	
	Number of Students	Percent Of Total	Number of Interventions*	Percent Of Total
Six South County Agencies	14,006	24.3%	11,182	53.7%
Remaining MWDOC Agencies	43,562	75.7%	9,643	46.3%
Total	57,568	100.0%	20,834	100.0%

\* Each intervention represents the service and equipment with one of the following: Smart timer, high-efficiency clothes washer, low-flush toilet, commercial plumbing fixture device, synthetic turf application, rotating nozzle, landscape certification.

Appendix 1 to this paper details the numbers of students reached and the numbers of WUE device/service-type completed by agency. The appendix also shows comparable figures for the agencies in the 9-agency south county CWA versus the remaining 19 MWDOC agencies.

Taking the above into account, it seems appropriate that the analysis should show substantial costs for these services either at the wholesale level or through additional retail agency resources.

Needed Corrections:

- In the countywide subscription CWA, reduce the costs of the School and the WUE Programs for remaining MWDOC agencies by percentages approximating actual usage by south county CWA agencies. **That is, assume that MWDOC will reduce the size of its programs if it is no longer serving the south county agencies.** So, MWDOC's costs for the School and WUE programs would be reduced by 24.3 percent and 53.7 percent respectively. Also, assign costs equal to MWDOC's School and WUE Programs multiplied by the percentages above to the non-subscribing agencies. This would reflect those agencies' approximate costs of providing similar services independently of MWDOC. Alternatively for the countywide subscription CWA, assume that the six agencies will continue subscribing at recent historical rates and will pay corresponding shares of costs.
- **For the 6- and 9-agency south county CWA options, assume that the agencies will incur costs reflecting their historical use percentages of MWDOC's annual costs** for School and Water Use Efficiency Programs as shown above. That is, for the 6-agency south county option, assume that those member agencies will have costs equal to 24.3 percent of MWDOC's School Program costs and 53.7 percent of MWDOC's WUE Program. Use corresponding figures for the 9-agency south county option. Correspondingly, reduce remaining MWDOC's costs by these percentages.

#### 4. Understated Election Costs

The analysis shows one-time election costs of \$100K for the countywide CWA options (basic and with subscription) and an equal amount for the south county CWA options (6-agency and 9-agency). The \$100K estimate seems low. Actual 2008 election costs for MWDOC were \$175K per district. Also, the costs for a countywide election would be higher than for elections only in the south county.

Needed Correction:

- Either **obtain estimated costs for a countywide CWA and for 6- and 9-agency CWAs from the Registrar of Voters and use those estimates** in the analysis, or **use recent, actual MWDOC experience.** Using the latter, the countywide CWA cost would be \$1,225,000 (\$175 X 7 areas comprising the current area served by MWDOC), and the 6- and 9-agency cost would be \$350K (\$175K X 2 since the south county agencies comprise two of MWDOC's seven districts).

## 5. Incomplete Board Compensation Costs

In all the CWA options, board compensation costs are shown as zero for all options except Baseline because it is assumed that any such costs will be borne by the member agencies. Similar to one of the inherent assumptions regarding the School and WUE Programs, this would seem to imply that the costs for Board members and representatives to Metropolitan would be passed on to customers through retail rates.

### Needed Correction:

- **Estimate realistic costs for CWA board members' and Metropolitan representatives' compensation, seminar fees, and travel expenses and reflect them in the analysis in order to show full cost impact to customers.** This could either be done by including such costs in the CWAs' general fund expenses or accounting for them separately from the CWAs, but recognizing their impact on customers through local agencies' rates and including these amounts in the analysis.

## 6. Incomplete Board Support Costs

The countywide CWA options would result in 28 Board members compared to the seven in the Baseline. Despite this, no additional costs for Board support are assumed for the two countywide CWA options. In fact, costs would increase substantially. Such costs would include sending written communications, responding to questions and requests, and providing laptops and related support.

### Needed Correction:

- **Reflect reasonable costs in the two countywide CWA options for supporting a much larger Board of Directors.**

## 7. Impact of Some of the Needed Corrections

MWDOC Response Table B, below, summarizes the effects of making most of the needed corrections presented in this response. The results are shown for FY 19-20, the last year of the analysis' projection period. Because the spreadsheets used in the LAFCO analysis are quite complex, we have not attempted to go into the spreadsheets and make the numerous changes that would be needed to reflect needed changes in assumptions. Rather, the table below is the result of calculations that are simple and straightforward. We are confident that the results shown below are more realistic than those inherent in the analysis. Our calculations are explained in Attachment 2.

## MWDOC Response Table B

Total Needed Countywide Revenue Contributions in FY 19-20 After Several Needed Corrections Are Made							
Option	Revenue Contribution In LAFCO Analysis	Corrected Reserves	Corrected Board Compensation	Corrected WUE and School Programs	Total Corrections	Corrected Revenue Contribution	Difference from Baseline
Baseline	\$17,634,836	(\$1,041,751)	\$0	\$0	(\$1,041,751)	\$16,593,085	\$0
CWA [1]	\$15,746,374	\$390,933	\$924,165	\$0	\$1,315,098	\$17,061,472	\$468,387
CWA Cafeteria	\$15,837,735	\$387,024	\$924,165	\$0	\$1,311,189	\$17,148,924	\$555,839
6-Agency CWA	\$18,578,770	\$399,000	\$231,045	\$735,382	\$1,365,428	\$19,944,197	\$3,351,112
9-Agency CWA	\$18,536,067	\$390,000	\$317,687	\$735,651	\$1,443,339	\$19,979,406	\$3,386,321

[1] general fund balance plus melded rate. See explanation in Appendix 2

### 8. Unlikely Lowering of Total General Fund Costs by Splitting Agency

The costs shown in Table B include both general fund and Tier 2-related water costs. Table B shows that when appropriate corrections are made, all the alternatives to the Baseline option result in increased cost to customers on a countywide basis. Even if Tier 2-related costs are taken out of the analysis and only general fund costs are considered, our analysis shows that all the alternative options would result in higher costs than the Baseline as long as the needed corrections are made. Without these corrections, the findings in the consultant's analysis would persist and continue to show lower general fund costs for the other options.

Such a finding, especially in so far as the two south county agency options are concerned, seems incredible simply on the face of the matter and without the specific factual findings we have described above. That is, it is hardly believable that two agencies would operate more cheaply than one. Further, splitting the wholesale water function into two agencies would not provide a simplified and streamlined governmental structure for these services.

### 9. Conclusion

We respectfully request that LAFCO revise the fiscal analysis to reflect the needed corrections cited in this report. We believe doing so will result in a more supportable study. We are available to discuss our comments with you, and we appreciate the opportunity to submit this response.

Sincerely,



Kevin P. Hunt, P.E.  
General Manager

Enclosures



# **Attachment 1 – MWDOC School Program and Water Use Efficiency Program by Client Agency Participation**

**MWDOC School Program**  
**Total Number of Students by Agency**

<b>Client Agency</b>	<b>FY 2005/06</b>	<b>FY 2006/07</b>	<b>FY 2007/08</b>
Brea	603	1,527	1,859
Buena Park	3,092	4,483	4,249
East Orange	0	0	0
El Toro	1,122	1,246	1,453
Fountain Valley	1,876	2,619	2,693
Garden Grove	4,313	6,412	6,235
Golden State	3,295	3,883	3,508
Huntington Beach	3,853	5,066	4,634
Irvine Ranch	655	0	215
La Habra	1,601	1,555	1,959
La Palma	1,275	1,206	1,235
Laguna Beach	737	920	341
Mesa Consolidated	1,442	2,898	3,483
Moulton Niguel	5,698	6,487	5,384
Newport Beach	207	688	1,111
Orange	2,503	1,892	2,617
San Clemente	1,668	1,207	1,009
San Juan Capistrano	1,298	1,446	1,959
Santa Margarita	4,666	5,050	5,394
Seal Beach	558	649	695
Serrano	166	644	180
South Coast	869	765	963
Trabuco Canyon	676	660	716
Tustin	3,735	3,572	3,837
Westminster	871	4,135	5,068
Yorba Linda	1,198	3,127	1,794
<b>Total</b>	<b>47,977</b>	<b>62,137</b>	<b>62,591</b>

<b>3 Year Ave</b>	<b>% of Total</b>
1,330	2.3%
3,941	6.8%
0	0.0%
1,274	2.2%
2,396	4.2%
5,653	9.8%
3,562	6.2%
4,518	7.8%
290	0.5%
1,705	3.0%
1,239	2.2%
666	1.2%
2,608	4.5%
5,856	10.2%
669	1.2%
2,337	4.1%
1,295	2.2%
1,568	2.7%
5,037	8.7%
634	1.1%
330	0.6%
866	1.5%
684	1.2%
3,715	6.5%
3,358	5.8%
2,040	3.5%
<b>57,568</b>	<b>100%</b>

**6 Agency School Program**  
**Total Number of Students by Agency**

Agency	FY 2005/06	FY 2006/07	FY 2007/08
Brea	603	1,527	1,859
Buena Park	3,092	4,483	4,249
East Orange	0	0	0
Fountain Valley	1,876	2,619	2,693
Garden Grove	4,313	6,412	6,235
Golden State	3,295	3,883	3,508
Huntington Beach	3,853	5,066	4,634
La Habra	1,601	1,555	1,959
La Palma	1,275	1,206	1,235
Laguna Beach	737	920	341
Mesa Consolidated	1,442	2,898	3,483
Newport Beach	207	688	1,111
Orange	2,503	1,892	2,617
San Clemente	1,668	1,207	1,009
San Juan Capistrano	1,298	1,446	1,959
Seal Beach	558	649	695
Serrano	166	644	180
Tustin	3,735	3,572	3,837
Westminster	871	4,135	5,068
Yorba Linda	1,198	3,127	1,794
<b>Sub-Total MWDOC</b>	<b>34,291</b>	<b>47,929</b>	<b>48,466</b>

Agency	FY 2005/06	FY 2006/07	FY 2007/08
El Toro	1,122	1,246	1,453
Irvine Ranch	655	0	215
Moulton Niguel	5,698	6,487	5,384
Santa Margarita	4,666	5,050	5,394
South Coast	869	765	963
Trabuco Canyon	676	660	716
<b>-Total 6 Agency CWA</b>	<b>13,686</b>	<b>14,208</b>	<b>14,125</b>

<b>Total MWDOC</b>	<b>47,977</b>	<b>62,137</b>	<b>62,591</b>
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3 Year Ave	% of Total
1,330	2.3%
3,941	6.8%
0	0.0%
2,396	4.2%
5,653	9.8%
3,562	6.2%
4,518	7.8%
1,705	3.0%
1,239	2.2%
666	1.2%
2,608	4.5%
669	1.2%
2,337	4.1%
1,295	2.2%
1,568	2.7%
634	1.1%
330	0.6%
3,715	6.5%
3,358	5.8%
2,040	3.5%
<b>43,562</b>	<b>75.7%</b>

3 Year Ave	% of Total
1,274	2.2%
290	0.5%
5,856	10.2%
5,037	8.7%
866	1.5%
684	1.2%
<b>14,006</b>	<b>24.3%</b>

<b>57,568</b>	<b>100.0%</b>
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**9 Agency School Program**  
**Total Number of Students by Agency**

Agency	FY 2005/06	FY 2006/07	FY 2007/08
Brea	603	1,527	1,859
Buena Park	3,092	4,483	4,249
East Orange	0	0	0
Fountain Valley	1,876	2,619	2,693
Garden Grove	4,313	6,412	6,235
Golden State	3,295	3,883	3,508
Huntington Beach	3,853	5,066	4,634
La Habra	1,601	1,555	1,959
La Palma	1,275	1,206	1,235
Mesa Consolidated	1,442	2,898	3,483
Newport Beach	207	688	1,111
Orange	2,503	1,892	2,617
Seal Beach	558	649	695
Serrano	166	644	180
Tustin	3,735	3,572	3,837
Westminster	871	4,135	5,068
Yorba Linda	1,198	3,127	1,794
<b>Sub-Total MWDOC</b>	<b>30,588</b>	<b>44,356</b>	<b>45,157</b>

3 Year Ave	% of Total
1,330	2.3%
3,941	6.8%
0	0.0%
2,396	4.2%
5,653	9.8%
3,562	6.2%
4,518	7.8%
1,705	3.0%
1,239	2.2%
2,608	4.5%
669	1.2%
2,337	4.1%
634	1.1%
330	0.6%
3,715	6.5%
3,358	5.8%
2,040	3.5%
<b>40,034</b>	<b>69.5%</b>

Agency	FY 2005/06	FY 2006/07	FY 2007/08
El Toro	1,122	1,246	1,453
Irvine Ranch	655	0	215
Laguna Beach	737	920	341
Moulton Niguel	5,698	6,487	5,384
San Clemente	1,668	1,207	1,009
San Juan Capistrano	1,298	1,446	1,959
Santa Margarita	4,666	5,050	5,394
South Coast	869	765	963
Trabuco Canyon	676	660	716
<b>Sub-Total 9 Agencies</b>	<b>17,389</b>	<b>17,781</b>	<b>17,434</b>

3 Year Ave	% of Total
1,274	2.2%
290	0.5%
666	1.2%
5,856	10.2%
1,295	2.2%
1,568	2.7%
5,037	8.7%
866	1.5%
684	1.2%
<b>17,535</b>	<b>30.5%</b>

<b>Total MWDOC</b>	<b>47,977</b>	<b>62,137</b>	<b>62,591</b>
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<b>57,568</b>	<b>100.0%</b>
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## MWDOC WATER USE EFFICIENCY (WUE) PROGRAMS

Total Interventions by Agency [1]

Agency	FY 05-06	FY 06-07	FY 07-08
Brea	247	167	253
Buena Park	188	169	278
East Orange	31	31	34
El Toro	410	872	700
Fountain Valley	328	406	353
Garden Grove	395	457	437
Golden State	557	1,423	721
Huntington Beach	1,102	1,150	3,145
Irvine Ranch	3,961	5,010	12,592
La Habra	157	664	362
La Palma	50	54	63
Laguna Beach	108	121	241
Mesa Consolidated	787	924	973
Moulton Niguel	1,046	1,063	1,617
Newport Beach	409	614	1,192
Orange	726	628	664
San Clemente	891	678	755
San Juan Capistrano	236	176	233
Santa Margarita	1,377	1,514	1,979
Seal Beach	117	776	67
Serrano	56	44	130
South Coast	192	191	518
Trabuco Canyon	93	184	226
Tustin	235	371	333
Westminster	368	410	274
Yorba Linda	509	537	1,123
<b>MWDOC Totals</b>	<b>14,576</b>	<b>18,634</b>	<b>29,263</b>

3-yr Ave	% of Total
222	1.1%
212	1.0%
32	0.2%
661	3.2%
362	1.7%
430	2.1%
900	4.3%
1,799	8.6%
7,188	34.5%
394	1.9%
56	0.3%
157	0.8%
895	4.3%
1,242	6.0%
738	3.5%
673	3.2%
775	3.7%
215	1.0%
1,623	7.8%
320	1.5%
77	0.4%
300	1.4%
168	0.8%
313	1.5%
351	1.7%
723	3.5%
<b>20,824</b>	<b>100%</b>

Program Totals as of Feb 2009
4,921
9,800
562
8,304
13,752
29,167
28,515
37,408
56,981
9,501
2,261
2,792
20,452
16,401
10,900
21,455
6,087
6,699
13,497
3,746
1,084
3,829
1,383
11,600
17,916
12,028
<b>351,041</b>

[1] Interventions include: installation of HETs, ULFTs, Irrigation Timers, Rotating Nozzles, Commercial Plumbing Fixtures, as well as applications for Synthetic Turf rebates, and meters receiving monthly Irrigation Performance Reports.

## 6 AGENCY WUE PROGRAMS

### Total Interventions by Agency

Agency	FY 05-06	FY 06-07	FY 07-08
Brea	247	167	253
Buena Park	188	169	278
East Orange	31	31	34
Fountain Valley	328	406	353
Garden Grove	395	457	437
Golden State	557	1,423	721
Huntington Beach	1,102	1,150	3,145
La Habra	157	664	362
La Palma	50	54	63
Laguna Beach	108	121	241
Mesa Consolidated	787	924	973
Newport Beach	409	614	1,192
Orange	726	628	664
San Clemente	891	678	755
San Juan Capistrano	236	176	233
Seal Beach	117	776	67
Serrano	56	44	130
Tustin	235	371	333
Westminster	368	410	274
Yorba Linda	509	537	1,123
<b>Sub-Total MWDOC</b>	<b>7,497</b>	<b>9,800</b>	<b>11,631</b>

Agency	FY 05-06	FY 06-07	FY 07-08
El Toro	410	872	700
Irvine Ranch	3,961	5,010	12,592
Moulton Niguel	1,046	1,063	1,617
Santa Margarita	1,377	1,514	1,979
South Coast	192	191	518
Trabuco Canyon	93	184	226
<b>Sub-Total 6 Agencies</b>	<b>7,079</b>	<b>8,834</b>	<b>17,632</b>

<b>Total MWDOC</b>	<b>14,576</b>	<b>18,634</b>	<b>29,263</b>
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3-yr Ave	% of Total
222	1.1%
212	1.0%
32	0.2%
362	1.7%
430	2.1%
900	4.3%
1,799	8.6%
394	1.9%
56	0.3%
157	0.8%
895	4.3%
738	3.5%
673	3.2%
775	3.7%
215	1.0%
320	1.5%
77	0.4%
313	1.5%
351	1.7%
723	3.5%
<b>9,643</b>	<b>46.3%</b>

3-yr Ave	% of Total
661	3.2%
7,188	34.5%
1,242	6.0%
1,623	7.8%
300	1.4%
168	0.8%
<b>11,182</b>	<b>53.7%</b>

<b>20,824</b>	<b>100.0%</b>
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## 9 AGENCY WUE PROGRAMS

### Total Interventions by Agency

Agency	FY 05-06	FY 06-07	FY 07-08
Brea	247	167	253
Buena Park	188	169	278
East Orange	31	31	34
Fountain Valley	328	406	353
Garden Grove	395	457	437
Golden State	557	1,423	721
Huntington Beach	1,102	1,150	3,145
La Habra	157	664	362
La Palma	50	54	63
Mesa Consolidated	787	924	973
Newport Beach	409	614	1,192
Orange	726	628	664
Seal Beach	117	776	67
Serrano	56	44	130
Tustin	235	371	333
Westminster	368	410	274
Yorba Linda	509	537	1,123
<b>Sub-Total MWDOC</b>	<b>6,262</b>	<b>8,825</b>	<b>10,402</b>

3-yr Ave	% of Total
222	1.1%
212	1.0%
32	0.2%
362	1.7%
430	2.1%
900	4.3%
1,799	8.6%
394	1.9%
56	0.3%
895	4.3%
738	3.5%
673	3.2%
320	1.5%
77	0.4%
313	1.5%
351	1.7%
723	3.5%
<b>8,496</b>	<b>40.8%</b>

Agency	FY 05-06	FY 06-07	FY 07-08
El Toro	410	872	700
Irvine Ranch	3,961	5,010	12,592
Moulton Niguel	1,046	1,063	1,617
Laguna Beach	108	121	241
San Clemente	891	678	755
San Juan Capistrano	236	176	233
Santa Margarita	1,377	1,514	1,979
South Coast	192	191	518
Trabuco Canyon	93	184	226
<b>Sub-Total 9 Agencies</b>	<b>8,314</b>	<b>9,809</b>	<b>18,861</b>

3-yr Ave	% of Total
661	3.2%
7,188	34.5%
1,242	6.0%
157	0.8%
775	3.7%
215	1.0%
1,623	7.8%
300	1.4%
168	0.8%
<b>12,328</b>	<b>59.2%</b>

<b>Total MWDOC</b>	<b>14,576</b>	<b>18,634</b>	<b>29,263</b>
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<b>20,824</b>	<b>100.0%</b>
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**SUPPORTING DATA:**

**HIGH EFFICIENCY AND ULTRA LOW FLUSH TOILET PROGRAMS**

**HIGH EFFICIENCY CLOTHES WASHER PROGRAM**

**ROTATING NOZZLES PROGRAM**

**WEATHER BASED IRRIGATION CONTROLER PROGRAM**

**SYNTHETIC TURF PROGRAM**

**SAVE WATER SAVE A BUCK COMMERCIAL PLUMBING FIXTURES**

**LANDSCAPE PERFORMANCE CERTIFICATION PROGRAM**



## High Efficiency and Ultra Low Flush Toilet Programs

### Total Interventions by Agency [1]

Agency	FY 05-06	FY 06-07	FY 07-08	Program Total as of Feb 2009
Brea	48	19	11	3,741
Buena Park	40	19	11	8,382
East Orange	18	13	12	345
El Toro	205	453	58	6,721
Fountain Valley	111	127	53	12,038
Garden Grove	106	81	78	26,423
Golden State	118	517	79	24,771
Huntington Beach	310	156	180	29,391
Irvine Ranch	655	1365	955	31,771
La Habra	31	9	25	6,960
La Palma	27	21	27	2,105
Laguna Beach	26	31	23	1,844
Mesa Consolidated	124	303	33	16,703
Moulton Niguel	381	207	204	7,915
Newport Beach	76	41	35	7,294
Orange	219	108	115	16,840
San Clemente	66	44	56	3,160
San Juan Capistrano	125	52	46	4,706
Santa Margarita	143	106	43	6,616
Seal Beach	10	684	20	3,089
Serrano	17	14	3	763
South Coast	74	34	51	2,379
Trabuco Canyon	20	12	18	646
Tustin	89	212	40	9,953
Westminster	105	87	49	15,884
Yorba Linda	136	95	130	8,087
<b>MWDOC Totals</b>	<b>3,280</b>	<b>4,810</b>	<b>2,355</b>	<b>258,527</b>

#### Description of Program:

High-efficiency toilets use 20% to 33% less water than standard toilets. Rebates starting at \$100 per toilet

[1] Includes High Efficiency Toilet (HET) Program, Ultra Low Flush Toilet Program

## HIGH EFFICIENCY CLOTHES WASHER PROGRAM

### Total Washers by Agency

Agency	FY 05-06	FY 06-07	FY 07-08	Program Total as of Feb 2009
Brea	143	132	175	959
Buena Park	84	85	114	566
East Orange	11	18	22	109
El Toro	83	91	113	668
Fountain Valley	178	205	219	1,267
Garden Grove	243	238	304	1,656
Golden State	342	339	401	2,264
Huntington Beach	680	761	750	4,717
Irvine Ranch	1,445	1,976	2,060	9,474
La Habra	66	96	136	567
La Palma	18	33	35	150
Laguna Beach	68	57	77	546
Mesa Consolidated	212	239	249	1,411
Moulton Niguel	570	652	716	4,574
Newport Beach	243	245	270	1,669
Orange	330	366	365	2,204
San Clemente	136	204	261	1,353
San Juan Capistrano	102	109	103	708
Santa Margarita	592	654	683	4,246
Seal Beach	46	47	46	313
Serrano	39	30	31	225
South Coast	103	107	130	845
Trabuco Canyon	44	69	60	401
Tustin	127	152	146	886
Westminster	186	213	171	1,281
Yorba Linda	333	288	350	2,087
<b>MWDOC Totals</b>	<b>6,424</b>	<b>7,406</b>	<b>7,987</b>	<b>45,146</b>

**Description of Program:**  
High-Efficiency Clothes Washers save 14 gallons of water a day. Rebate amount of \$85 per washer.

## ROTATING NOZZLES PROGRAM

Total Nozzles Installed by Agency [1]

Agency	FY 05-06	FY 06-07	FY 07-08	Program Total as of Feb 2009
Brea	-	-	-	0
Buena Park	-	-	-	0
East Orange	-	-	-	105
El Toro	-	-	-	59
Fountain Valley	-	-	51	134
Garden Grove	-	-	44	156
Golden State	-	-	161	168
Huntington Beach	-	-	2,140	2378
Irvine Ranch	-	-	8,485	9802
La Habra	-	535	9	1459
La Palma	-	-	-	0
Laguna Beach	-	-	115	245
Mesa Consolidated	-	83	368	496
Moulton Niguel	-	-	417	2833
Newport Beach	-	-	591	805
Orange	-	-	158	1059
San Clemente	-	-	118	336
San Juan Capistrano	-	-	70	997
Santa Margarita	-	-	165	781
Seal Beach	-	-	-	115
Serrano	-	-	94	94
South Coast	-	-	207	247
Trabuco Canyon	-	-	130	130
Tustin	-	-	23	328
Westminster	-	-	-	111
Yorba Linda	-	-	563	1466
<b>MWDOC Totals</b>	<b>-</b>	<b>618</b>	<b>13,909</b>	

### Description of Program:

Rotating Sprinkler Nozzles properly direct water flow and use 20% less water than conventional spray heads. Rebate amount of \$4-\$9 per nozzle.

[1] Totals include Small Residential and Commercial Nozzles and Large Commercial Nozzles

# WEATHER BASED IRRIGATION CONTROLLER (SmarTimer) PROGRAM

Total Controllers by Agency [1]

Agency	FY 05-06	FY 06-07	FY 07-08	Program Total as of Feb 2009
Brea	4	14	40	63
Buena Park	-	-	-	2
East Orange	2	-	-	3
El Toro	8	99	175	306
Fountain Valley	4	11	4	25
Garden Grove	12	2	4	24
Golden State	17	36	16	70
Huntington Beach	30	24	8	79
Irvine Ranch	179	594	249	1057
La Habra	-	8	1	9
La Palma	-	-	-	0
Laguna Beach	5	21	5	34
Mesa Consolidated	40	20	12	81
Moulton Niguel	35	91	79	224
Newport Beach	39	211	138	453
Orange	50	66	4	136
San Clemente	484	53	81	632
San Juan Capistrano	9	9	12	36
Santa Margarita	23	136	123	341
Seal Beach	-	-	-	0
Serrano	-	-	-	0
South Coast	7	46	56	120
Trabuco Canyon	29	103	4	136
Tustin	5	-	5	13
Westminster	20	6	1	30
Yorba Linda	36	36	61	142
<b>MWDOC Totals</b>	<b>1,038</b>	<b>1,586</b>	<b>1,078</b>	<b>4,016</b>

**Description of Program:**  
Weather-based irrigation controllers allow for more accurate, customized irrigation by automatically adjusting the schedule and amount of water in response to changing weather conditions. Rebates starting at \$60 per controller.

[1] Includes Commercial and Residential Smart Timers

## SYNTHETIC TURF PROGRAM

### Total Applications by Agency [1]

Agency	FY 05-06	FY 06-07	FY 07-08	Program Total as of Feb 2009
Brea	-	-	-	3
Buena Park	-	-	-	2
East Orange	-	-	-	0
El Toro	-	-	2	6
Fountain Valley	-	-	9	11
Garden Grove	-	-	2	2
Golden State	-	-	4	15
Huntington Beach	-	-	19	37
Irvine Ranch	-	-	14	31
La Habra	-	-	-	0
La Palma	-	-	1	1
Laguna Beach	-	-	1	5
Mesa Consolidated	-	-	5	11
Moulton Niguel	-	-	12	43
Newport Beach	-	-	2	8
Orange	-	-	4	18
San Clemente	-	-	10	21
San Juan Capistrano	-	-	-	7
Santa Margarita	-	-	14	48
Seal Beach	-	-	-	1
Serrano	-	-	2	2
South Coast	-	-	3	7
Trabuco Canyon	-	-	2	10
Tustin	-	-	4	9
Westminster	-	-	3	10
Yorba Linda	-	-	9	17
<b>MWDOC Totals</b>	<b>-</b>	<b>-</b>	<b>122</b>	<b>325</b>

#### Description of Program:

Synthetic turf (also known as artificial grass) is a man-made grass substitute for landscapes. Rebate amount of \$0.30 per square foot.

[1] Includes Residential and Commercial applications. Total square footage varies between applications.

## SAVE WATER SAVE A BUCK COMMERCIAL PLUMBING FIXTURES

Total Devices Installed by Agency [1]

Agency	FY 05-06	FY 06-07	FY 07-08	Program Total as of Feb 2009
Brea	52	2	27	155
Buena Park	64	65	153	848
East Orange	-	-	-	0
El Toro	5	2	-	168
Fountain Valley	35	63	17	277
Garden Grove	34	136	5	906
Golden State	80	531	46	1212
Huntington Beach	82	209	48	806
Irvine Ranch	1,044	429	121	3849
La Habra	60	16	191	483
La Palma	5	-	-	5
Laguna Beach	9	12	20	109
Mesa Consolidated	241	141	141	1468
Moulton Niguel	3	-	9	371
Newport Beach	24	94	98	549
Orange	127	88	18	1198
San Clemente	40	173	2	352
San Juan Capistrano	-	6	2	245
Santa Margarita	-	-	6	81
Seal Beach	61	45	1	228
Serrano	-	-	-	0
South Coast	8	4	9	114
Trabuco Canyon	-	-	-	11
Tustin	14	7	115	411
Westminster	57	104	40	582
Yorba Linda	4	118	10	229
<b>MWDOC Totals</b>	<b>2,049</b>	<b>2,245</b>	<b>1,079</b>	<b>14,657</b>

### Description of Program:

The Save A Buck program is designed to assist commercial, industrial and institutional customers in installing water saving devices. Businesses receive rebates for retrofitting approved devices.

[1] Retrofit devices include ULF Toilets and Urinals, High Efficiency Clothes Washers, Cooling Tower Conductivity Controllers, Flush Valve Retrofit Kits, Pre-rinse Spray heads, Hospital X-Ray Processor Recirculating Systems, and Water Pressurized Brooms.

## LANDSCAPE PERFORMANCE CERTIFICATION PROGRAM

### Total Number of Meters in Program by Agency

Agency	FY 05-06	FY 06-07	FY 07-08	Program Total as of Feb 2009
Brea	-	-	-	0
Buena Park	-	-	-	0
East Orange	-	-	-	0
El Toro	109	227	352	376
Fountain Valley	-	-	-	0
Garden Grove	-	-	-	0
Golden State	-	-	14	15
Huntington Beach	-	-	-	0
Irvine Ranch	638	646	708	997
La Habra	-	-	-	23
La Palma	-	-	-	0
Laguna Beach	-	-	-	9
Mesa Consolidated	170	138	165	282
Moulton Niguel	57	113	180	441
Newport Beach	27	23	58	122
Orange	-	-	-	0
San Clemente	165	204	227	233
San Juan Capistrano	-	-	-	0
Santa Margarita	619	618	945	1384
Seal Beach	-	-	-	0
Serrano	-	-	-	0
South Coast	-	-	62	117
Trabuco Canyon	-	-	12	49
Tustin	-	-	-	0
Westminster	-	-	10	18
Yorba Linda	-	-	-	0
<b>MWDOC Totals</b>	<b>1,785</b>	<b>1,969</b>	<b>2,733</b>	<b>4,066</b>

#### Description of Program:

The Landscape Performance Certification Program is a free program for homeowner associations, landscapers and property managers. Participants use the internet to track their irrigation meter's monthly water use and compare it to a custom water budget. This enables property managers and landscapers to easily identify areas that are over watered, and enhances their accountability to homeowner association boards.

**Attachment 2 – Explanation of Calculations  
Made in MWDOC Response Table B**



**MWDOC Response Table B**

Total Needed Countywide Revenue Contributions in FY 19-20 After Several Needed Corrections Are Made							
Option	Revenue Contribution In LAFCO Analysis	Corrected Reserves	Corrected Board Compensation	Corrected WUE and School Programs	Total Corrections	Corrected Revenue Contribution	Difference from Baseline
Baseline	\$17,634,836	(\$1,041,751)	\$0	\$0	(\$1,041,751)	\$16,593,085	\$0
CWA [1]	\$15,746,374	\$390,933	\$924,165	\$0	\$1,315,098	\$17,061,472	\$468,387
CWA Cafeteria	\$15,837,735	\$387,024	\$924,165	\$0	\$1,311,189	\$17,148,924	\$555,839
6-Agency CWA	\$18,578,770	\$399,000	\$231,045	\$735,382	\$1,365,428	\$19,944,197	\$3,351,112
9-Agency CWA	\$18,536,067	\$390,000	\$317,687	\$735,651	\$1,443,339	\$19,979,406	\$3,386,321

MWDOC Response Table B, which is included in the body of the response as well as above, shows total revenue contributions countywide for FY 19-20 after most of the needed corrections in this response are made. Below is a description of those corrections:

### 1. Possibly Anomaly in Model

Table B above shows the total amount of revenue to be recovered from ratepayers for each governance option in FY19-20. These totals are found in tables 7, 10, 13, 16 and 19 of the report. However, there appears to be an anomaly in table 10 of the report. The sum of the increment and meter charge as recovered in FY 19-20 for the County Water Authority option (Option 2a) in table 10 equals \$6,579,550. The general fund budget for FY 19-20 as found in Attachment F is \$7,534,451. This is a discrepancy of \$954,901. These should be equal. It appears that the full cost of this option was not spread among the agencies. We have corrected for this by replacing the total revenue contribution for the CWA option with the total of (1) the general fund budget for FY 19-20, and (2) the melded rate for FY 19-20.

### 2. Operational Reserves

The total contributions and drawdowns of operational reserves in FY 19-20 for each option are illustrated in the following table:

**Contribution to Reserves (FY 19-20)**

Option	Contribution to Reserves in LAFCO Analysis
Baseline	\$1,041,751
CWA	(\$390,933)
CWA Cafeteria	(\$387,024)
6 Agency CWA	(\$399,000)
9 Agency CWA	(\$390,000)

Table B above, shows the effect of the following:

- Eliminating all contributions to reserves in the Baseline option.
- Eliminating all drawdowns from reserves in the other options.

### 3. Board Compensation

MWDOC's total approved budget for Board Compensation for FY 08-09 is \$229,000. That includes the amount budgeted for seven Directors on the MWDOC Board, and four Metropolitan directors. The table below calculates the annual cost per director in MWDOC's FY 08-09 budget and multiplies it by the estimated number of directors in each of the alternative options. The table below also adjusts these totals by an annual 3-percent rate of inflation out to FY 19-20.

In Table B above the totals for Board Compensation shown below have been added to each of the alternative options.

**Board Compensation Costs**

Option	Number of Directors	FY 08-09		FY 19-20	
		Annual Cost Per Director	Corrected Board Compensation	Annual Cost Per Director	Corrected Board Compensation
MWDOC Baseline	7 Board, 4 MET	\$20,864	\$229,500	\$28,881	\$317,682
County Water Authority	28 Board, 4 MET	\$20,864	\$667,636	\$28,881	\$924,165
6 Agency CWA	6 Board, 2 MET	\$20,864	\$166,912	\$28,881	\$231,045
9 Agency CWA	9 Board, 2 MET	\$20,864	\$229,504	\$28,881	\$317,687

### 4. Water Use Efficiency (WUE) and School Program

The tables below allocate proportionate shares of the MWDOC's Baseline WUE and School Program budgets for FY 19-20 to the 6- and 9-agency CWA options and the remaining MWDOC agencies. These proportions can be found in Attachment 1. A 6-agency CWA, for example, would share 54% of the cost of the total budget for WUE and 24% of the costs of the School Program, and the remaining 22 agencies would share the remaining portions of the cost. The last column in the two tables below subtracts these new totals from totals in the report to show the net result.

(see next page)

**Water Use Efficiency Program (FY 19-20)**

Option	Totals in LAFCO Analysis	Corrected WUE Totals	Net Result of Corrections
6 Agency CWA	\$ 9,224	\$ 566,574	\$ 557,350
22 Agency MWDOC	\$ 583,433	\$ 488,593	\$ (94,840)
Total	\$ 592,657	\$ 1,055,167	\$ 462,510

9 Agency CWA	\$ 8,955	\$ 624,659	\$ 615,704
19 Agency MWDOC	\$ 583,433	\$ 430,508	\$ (152,925)
Total	\$ 592,388	\$ 1,055,167	\$ 462,779

**School Program (FY 19-20)**

Option	Totals in LAFCO Analysis	Corrected School Program Totals	Net Result of Corrections
6 Agency CWA	\$ -	\$ 119,588	\$ 119,588
22 Agency MWDOC	\$ 219,260	\$ 372,544	\$ 153,284
Total	\$ 219,260	\$ 492,133	\$ 272,873

9 Agency CWA	\$ -	\$ 149,898	\$ 149,898
19 Agency MWDOC	\$ 219,260	\$ 342,234	\$ 122,974
Total	\$ 219,260	\$ 492,133	\$ 272,873

The table below combines the net correction required in FY 19-20 for both the WUE Program and School program for the 6 and 9 agency CWA options.

**Combined WUE and School Program (FY 19-20)**

Option	Combined Net Corrections
Total 6 Agency CWA	\$ 735,382
Total 9 Agency CWA	\$ 735,651

Table B above, shows the effect of:

- Adding the net increase in cost for WUE programs.
- Adding the net increase in cost for the School program.



May 27, 2009

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**MEMBER AGENCIES**

City of Brea

City of Buena Park

East Orange County Water District

El Toro Water District

Emerald Bay Service District

City of Fountain Valley

City of Garden Grove

Golden State Water Co.

City of Huntington Beach

Irvine Ranch Water District

Laguna Beach County Water District

City of La Habra

City of La Palma

Mesa Consolidated Water District

Moulton Niguel Water District

City of Newport Beach

City of Orange

Orange County Water District

City of San Clemente

City of San Juan Capistrano

Santa Margarita Water District

City of Seal Beach

Serrano Water District

South Coast Water District

Trabuco Canyon Water District

City of Tustin

City of Westminster

Yorba Linda Water District

Joyce Crosthwaite  
Executive Officer  
Orange County Local Agency Formation Commission  
12 Civic Center Plaza, Room 235  
Santa Ana, CA 92701

Dear Ms. Crosthwaite,

**Subject: MWDOC Comments on LAFCO's First Draft Governance Study**

Thank you for the opportunity to review and comment on the "Municipal Water District First Draft Governance Study" dated May 6, 2009. On May 19, 2009, we submitted comments on the policy issues raised by the Draft Study to the Chairman and the Commissioners. The following letter summarizes the major issues we believe should be addressed before the study is concluded, and should be considered together with the letter of May 19th.

In some cases we repeat comments and suggestions that we made in response to the draft fiscal analysis earlier this year. While some of the suggestions we made were adopted, several other critical matters still need to be corrected before the study is concluded.

In an effort to understand the fiscal impact of making needed corrections, MWDOC has, using the LAFCO model as a base, calculated the estimated impact of making the changes we believe would be required under the options being considered. The revised findings show that the countywide CWA and 6 Agency CWA options would result in countywide costs that are approximately a third higher than the Baseline option.

In some cases we were unable to determine the assumptions and calculation methodologies used by the LAFCO consultant. We suggest a meeting of LAFCO, its consultant, and MWDOC to discuss the issues presented below. We believe this would help clarify some of these unknowns and allow for a dialog that could substantially improve the accuracy and credibility of the study.

We describe our major findings in the following paragraphs. In the appendix we present several technical findings and suggestions.

**The study continues to show two agencies operating as efficiently as one.**

It is clear that it would cost more to operate two agencies to do the same work that is currently being done by one. The study, however, estimates that general fund costs for a new Six Agency CWA plus a 22-agency remaining MWDOC would be about the same as for the single, countywide MWDOC Baseline option. The main reason for this is that the study does not take into account the need for additional resources that would result from adding a second agency to duplicate MWDOC functions in the south county. Even after discounting the cost of Public Affairs and Governmental Affairs for the 6 Agency CWA, in accordance with the assumptions in Attachment C, more direct-program staff would be needed than is shown in the study. Staffing for finance, human resources, and information technology services would be required to support the direct programs. If the study assumes that such additional staff would be provided by one of the six agencies, the costs of these resources should be accounted for.

The study does not explain and quantify how the costs associated with facility space for the Six Agency CWA would be met.

The study does not explain the expectations for, and the amount of costs that would be incurred by the 6 Agency CWA board of directors. If the study assumes that these costs would be paid for by the six agencies, these costs should be accounted for.

It has been MWDOC's experience that LAFCO recognizes the economy-of-scale principle, as it showed in its approval of the merger of MWDOC and the Coastal Municipal Water District. In that instance, LAFCO cited efficiencies as a key reason for supporting the consolidation. The same principle applies in reverse; that is, creating a second agency will result in inefficiencies.

**Tier 2 costs are significantly overstated for some options.**

The model incorrectly assumes for the Baseline and Countywide CWA options that the current melded rate increment of \$18 would increase at 25 percent in the first year after implementation and at five percent per year thereafter. It also assumes that these rates would be applied to all water sales. This would not be the case. The melded rate reserve fund is capped at the amount needed to purchase 25,000 to 50,000 acre feet of Tier 2 water (when needed). When the reserves reach the higher limit, the melded rate increment would be suspended until the reserves are again drawn down below the capped level. In fact, MWDOC is considering suspension of its melded rate beginning in July 2009 because additional funds are not needed at this time. This error in the model results in \$40 million in unnecessary revenues being collected in the Baseline and Countywide CWA options over the 10-year period.

Further, the study shows in the 6 Agency CWA and Remaining 22 scenario that the remaining 22 agencies would continue to pay a Tier 2 surcharge after the scenario was implemented. Yet, as shown in Table 15 on pages 45-46 of the study, the remaining 22

agencies would not exceed their combined Tier 1 allotment at any time during the 10-year period. Thus, the remaining 22 agencies would not incur Tier 2 charges.

**The study brushes aside significant cost impacts related to full Tier 2 pricing.**

The study needs a clearer, more forthright statement explaining that creating a Six Agency CWA would expose county residents to unnecessary Tier 2 costs, with the result that the overall cost for imported water in the county will increase substantially. It should also include a clear justification for south county residents' having to incur these costs, that is, an explanation of how creating a separate wholesale water agency has benefits that offset millions of dollars in additional Tier 2 fees. These excess fees amount to approximately \$2.1 million in FY 09-10 alone.

In its "Conclusions" section, the study states, "While the Six Agency South CWA and the Nine Agency South CWA options remove the 'rate smoothing' affects [sic], of the Melded Rate Surcharge and cause higher rate impacts in some cases, even these impacts are not significant." We differ in our assessment and assert that these costs are indeed significant. Santa Margarita Water District and Trabuco Canyon Water District are examples that clearly demonstrate this. Under the 6 Agency CWA, each of these districts would incur 122-percent increases in imported water costs in FY 19-20 above what they would experience under the Baseline option. (This finding is made by comparing the total dollar and percentage differences calculated from Table 16 on page 47 of the report.) Further, the impact of the difference between the options on the average rate payer in Trabuco Canyon would be over \$60 per year. The study should demonstrate how these major increases in costs and rates represent a good value, especially given that the cost of MWDOC services today is less than \$12 per year per rate payer.

Unless there is clear justification for substantial increases in water-purchase costs due to loss of rate melding, we believe that these additional costs to residents should be regarded as a fatal flaw.

**The study lacks focus and comprehensibility.**

The study is difficult to understand in many respects. This is due in part to its failure to summarize key findings in focused, concise, and meaningful ways. One of the most important instances of this is the failure to show the total comparative costs of the options. Table 16 on page 47, for example, shows cost comparisons between the Six Agency CWA and the Baseline. As we noted in our comments on the draft fiscal analysis, this table should show both the countywide total costs and the subtotals for the six- and 22-agency sections of the table compared to the Baseline. This would allow the reader to meaningfully assess the overall, comparative costs of the options. In response to our comment on the draft fiscal analysis, you stated, "Agreed, the subtotals will be provided as requested in the final report." Unfortunately, they are not provided.

The totals for the two next-to-the-last columns on the right side of Table 16 should be shown at the bottom of the page with subtotals shown above for both the 6- and 22-agency components. The totals would reveal that in Fiscal Year 19-20 the Six Agency CWA, including both water-purchase and general fund costs, are projected to be nearly \$2.5 million more than the Baseline option, a difference of nearly 15 percent. (As noted on page 1 of this letter, this difference is nearly 33 percent if our revised assumptions are used.) We strongly urge that you openly present the differences between the total costs of options in both the Countywide CWA Subscription and Six Agency CWA tables. This would facilitate an informed comparison between these two options and the Baseline. Including percentage differences and charts along with absolute dollar figures would help bring these important findings to the front and focus attention on this highly important aspect of the study.

**The study lacks needed detail and explanation and contains faulty assumptions and calculations.**

Among the reasons the study is difficult to understand is the fact that the spreadsheet used in the fiscal analysis is almost entirely undocumented in the report. It took many MWDOC staff hours to discover some of the most important, yet unidentified assumptions and underlying calculation approaches that were used. In analyzing the model, we found that many of the assumptions and formulaic approaches lead to erroneous results.

Most readers will not have the time to analyze the model, and the result would likely be a lack of understanding of what led to the study's findings. Among the major shortcomings we found are:

- The model does not accrue interest earnings on Baseline reserves. Partially as a result of this, the Baseline option is shown to rely on rate increases to build its general fund reserves from \$4.7 million to \$5 million in FY 14-15. In fact, interest earnings would make up this amount without using revenues from rate increases.
- Rather than building Baseline reserves during the initial years of the 10-year period, the model leaves the Baseline general fund reserves at approximately \$4.7 million for several years and then all at once in FY 14-15 adds approximately \$283 thousand to bring the rate base to \$5 million. So, there is a large, one-time cost in that year. As it happens, FY 14-15 is one of the three focus years that the study uses when summarizing comparative costs among options. The result of raising all the revenue needed to reach the targeted reserve level in FY 14-15 is an exaggeration of Baseline costs in that focus year and a resulting distortion of the comparison among the options. This error is compounded by the fact that, as explained above, no rate-based revenue is needed to reach target reserve levels because interest earnings would provide the needed amount.

- As we noted in our response to the draft fiscal analysis, the model used in the study has the Six Agency CWA continuing to draw down on the reserves it receives in the first year all the way through the tenth year of the study. Besides being unrealistic in terms of likely practice, this draw-down device distorts the comparison between options. Once reserves reach the 15-percent level, additional rate-based revenues will be needed to fund operations. By using contributions from reserves throughout the ten-year period, the study shows relative rate levels that could not be sustained over the longer term.
- No rationale is provided for the split of staffing that is used in the Six Agency CWA option. This is important because staffing-related costs are the largest part of the general fund budget. The study only states that it will "assume a staffing and overhead budget as outlined in Attachment A." So, while the study cites an assumption, it provides no underlying logic for it. LAFCO should in some way substantiate its position that two agencies can be staffed with essentially the same number of employees as would be needed in one, unified agency.
- In the Countywide CWA Subscription option there is no rationale for the amount of Board expenses except to say that the average cost per Director from the San Diego County Water Authority (SDCWA) was used. The study does not explain what types of costs from SDCWA are included, that is, whether the amounts include per diem and travel for board members or only staff support for them. When we investigated the costs from SDCWA, we were unable to arrive at the same number as shown in the model. The number used appears to be the staff support for directors and not to include any per diem or travel related costs. We would hope to be assured that per diem and expenses were included in these costs. After all, there would be a large number of directors (36) who would be receiving payments for meeting and travel under a Countywide CWA, and the total amounts would be substantial.
- The difficulty in being able to understand the model because of lack of documented assumptions is exacerbated by the fact that the major listing of assumptions provided (Attachment A to Attachment C) has not been revised to reflect changes that were made as part of the revisions to the draft fiscal analysis. For example, Attachment C still lists the election costs for options other than Baseline as \$100,000. We understand that higher estimates as provided by the Registrar of Voters are being considered.

**The study fails to address election costs.**

In your March 16 letter in response to our comments regarding the draft fiscal analysis, you indicated that the Registrar of Voters had estimated election costs for the various options at between \$1 million and \$6 million as opposed to the \$100,000 that had been used in the draft fiscal analysis. The May 6<sup>th</sup> study defers estimating the costs for elections until it is determined whether the entire county or the affected jurisdictions would be required to pay for them. Because these are potentially the largest one-time costs that would attend the possible formation of any new wholesale water agency, we



Ms. Joyce Crosthwaite  
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May 27, 2009

urge you to reach a well-founded conclusion on who would bear the expenses and reflect them in the study.

**The impact of diffused representation at MET is understated.**

Our comments above relate primarily to how cost-related matters are treated in the study. But we have another highly important concern regarding the 6 Agency CWA and 22 Remaining Agency scenario, one that is not considered in the study: Separating the representation at MET of current MWDOC member agencies could significantly reduce Orange County's force and unity. The county is currently an effective and robust participant in regional imported water issues. Separating the representation would likely weaken the county's influence.

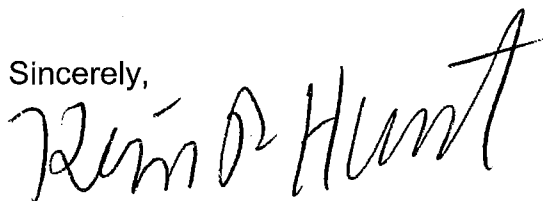
**There are no criteria for fatal flaws.**

Finally, we question what criteria are used to define a fatal flaw. As noted above, we believe that the significant Tier 2 cost increases that would result from creating a new south county agency are of such magnitude that they should rule out further consideration of that option. We suggest that a set of relatively objective criteria be established to determine what type and/or magnitude of circumstances should lead to invoking a fatal flaw for an option. And we would request that the definition be included in the study.

As described above and in the appendix, there appear to be many erroneous assumptions and faulty calculation methodologies used in the model. We repeat that we would very much like the opportunity to meet with you and your consultant to go through the model and to discuss these assumptions and calculations. We believe that this could lead to strengthening the model and immeasurably enhancing the study's accuracy and credibility.

We appreciate the opportunity to submit these comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin P. Hunt". The signature is stylized with a large, sweeping "H" and a long, trailing flourish.

Kevin P. Hunt, P.E.  
General Manager

Enclosures

# **Attachment A - Specific Findings and Suggestions for LAFCO's First Draft Governance Study**

**Attachment A**  
**Specific Findings and Suggestions for Draft MWDOC Governance Study**

Below is a detailed list of issues identified in the Draft MWDOC Governance Study and suggested changes that will enhance the accuracy and usefulness of the study.

**1. Issues Identified in the Tier 2 and General Fund Reserve analysis**

Melded Rates

**MWDOC Finding:**

- The study fails to accurately model the melded rate for the MWDOC Baseline option and countywide CWA options. Attachment C of the study states that MWDOC's current melded rate of \$18 is assumed to increase by 25% in FY 9-10 and by 5% each year after that. Under this assumption the increase in the melded rate will outpace the district's actual Tier 2 requirements. Over the 10 year study period this would result in an estimated \$40 million in over collections.

**Needed Changes:**

- The melded rate should be modeled to collect only enough revenue to cover the cost of water purchased at the MET Tier 2 supply rate.

Tier 2 Analysis

**MWDOC Finding:**

- The study fails to accurately model the projected Tier 2 costs for the 6 and 9 Agency CWA and Remaining MWDOC options. The study shows that agencies in the Remaining MWDOC option would continue to pay a Tier 2 surcharge. However, table 15 on pages 45-46 of the report shows that the 22 Remaining MWDOC option would not exceed its Tier 1 allocation at any time during the 10 year study period.

**Needed Changes:**

- No Tier 2 costs should be assigned to the Remaining 22 Agencies.
- Re-evaluate the Tier 2 cost-modeling approach in the model to ensure all Tier 2 costs are appropriately allocated among the six south county agencies.

Tier 2 Rates

**MWDOC Finding:**

- The Tier 2 analysis fails to incorporate MET's recently adopted water rates. In CY 2010, the difference between MET's Tier 1 and Tier 2 supply rates will be reduced from \$141 per acre-foot to \$110 per acre foot.

**Needed Changes:**

- For FY 09-10, the Tier 2 analysis should use MET's adopted CY 2010 water rates. Table A below shows the total amount of projected Tier 2 purchases for each option using the demand predictions from Attachment D.

Table A – Projected Tier 2 Purchases

Agency	FY 09-10	FY 14-15	FY 19-20
Countywide Options	\$ -	\$ 1,905,948	\$ 4,678,707
6 Agency CWA	\$ 2,114,574	\$ 3,593,363	\$ 5,918,872
Remaining MWDOC	\$ -	\$ -	\$ -

Reserves Levels

## MWDOC Findings:

- In the 6 Agency CWA, 22 Remaining MWDOC, and countywide CWA options reserves continue to be drawn by roughly \$400,000 a year. As was noted in MWDOC's previous comment letter, this approach distorts rate comparisons with the baseline option and creates savings that would not be sustainable beyond FY 19-20.
- In the MWDOC Baseline option contributions are made to reserves to achieve a \$5 million reserve balance. However, if the interest earnings on MWDOC's reserve funds were modeled as part of the analysis, no contributions would be necessary.

## Needed Changes:

- Any excess in reserves should be refunded to member agencies.
- Interest earnings at 4% should be included in reserve analysis.

**2. Issues Identified in the 6 Agency CWA and 22 Remaining MWDOC Options**Staffing Assumptions

## MWDOC Findings:

- The study assumes that the 6 Agency CWA and 22 Remaining MWDOC options can be operated with only 1 additional FTE from the MWDOC Baseline option. The staffing assumptions do not accurately reflect the amount of staffing that would be needed for essential services such as Planning and MET Activities. The staffing assumption also does not take into account the duplicative costs that would be created in areas such as Administration, Personnel, Finance, and Information Technology.

## Needed Changes:

- The staffing assumptions in Attachment A should be increased beyond those shown in the model to more accurately reflect the number of FTEs required for each agency to maintain a continuous level of service:
  - For the 6 Agency CWA a minimum of 1 additional FTE would be necessary in areas of Administration, Planning, Finance and Information Technology
  - For the 22 Remaining MWDOC option a minimum of 2 additional FTEs would be necessary for Administration, 1 additional FTE would be needed for Planning, MET Issues, and Finance
- Increase services and supplies costs proportionately to the suggested increases in staffing, i.e., on a per-FTE basis.

Subscription Services

**MWDOC Findings:**

- The study fails to include any costs for a School Program in the 6 Agency CWA option despite the fact that this program is no longer categorized as a subscription service.

**Needed Changes:**

- The program budgets for the Water Use Efficiency and School Program should accurately reflect recent participation in the program as calculated in Attachment 1 MWDOC's previous comment letter.

Budget for Board Compensation and Expenses

**MWDOC Findings:**

- It is unknown whether the Administrative/Personnel budget for the 6 Agency CWA includes an increase in board compensation and expenses. The study should be revised to use MWDOC's current budget data to more accurately estimate the additional cost for board compensation and expenses.

Budget for Board Support

**MWDOC Findings:**

- It is unknown whether the Administrative/Personnel budget for the 6 Agency CWA includes an increase in board support costs. The study should be revised to use MWDOC's current budget data to more accurately estimate the additional cost for board support.

Lease Costs

**MWDOC Findings:**

- The study fails to include a description of the formation and transition costs that would occur as a result of the formation on a 6 Agency CWA.

**Needed Changes:**

- For the 6 Agency CWA, a lease cost of \$57,225 per year should be added to represent the cost of housing the new agency. This is based on \$25/square foot, 150 feet per employee, and an estimate of 15 employees.

Table B below shows the general fund budgets for the 6 Agency CWA and 22 Remaining MWDOC option once the needed changes are adopted.

**Table B – Projected General Fund Budgets**

Agency	FY 09-10	FY 14-15	FY 19-20
6 Agency CWA	\$ 3,122,440	\$ 3,619,764	\$ 4,196,299
Remaining MWDOC	\$ 4,890,466	\$ 5,669,391	\$ 6,572,378

**3. Issues Identified in the Countywide CWA Option**

Budget for Board Compensation and Expenses

**MWDOC Findings:**

- The study fails to show an increased cost for board compensation and expenses between the MWDOC Baseline and countywide CWA options. The study should be revised to use MWDOC's current budget data to more accurately estimate the additional cost for board compensation and expenses.

**Needed Changes:**

- A current cost per director of \$34,791 should be calculated using MWDOC's current year budget of \$243,536 for board compensation, benefits, travel, and conference attendance
- The current cost per director should be reduced by half to account for a likely reduction in the number of meeting days per month
- The current cost per directors should be multiplied by 36 board members, for a total of \$626,235. (Page 27 of the report states that a countywide CWA would be entitled an estimated 36 directors).

**Table C – Projected Budget for Board Compensation and Expenses**

Agency	FY 09-10	FY 14-15	FY 19-20
MWDOC Baseline	\$ 250,842	\$ 290,795	\$ 337,111
Countywide CWA	\$ 645,022	\$ 747,758	\$ 866,856
Difference from Baseline	\$ 394,180	\$ 456,963	\$ 529,746

**Budget for Board Support**

**MWDOC Findings:**

- The study fails to show an increase in staff support for a larger board of directors between the MWDOC Baseline and countywide CWA options. The study should be revised to use MWDOC's current budget data to more accurately estimate the additional cost for board support.

**Needed Changes:**

- A current cost per FTE of board support should be calculated at \$157,273 using the MWDOC's current budget of 1.6 FTEs and \$251,637 in labor and benefits costs for Board Administration
- A minimum of 1 additional FTE should be added for board support at a current cost of \$157,273.

**Table D – Projected Labor and Benefits for Board Administration**

Agency	FY 09-10	FY 14-15	FY 19-20
MWDOC Baseline	\$ 259,186	\$ 300,468	\$ 348,324
Countywide CWA	\$ 421,177	\$ 488,260	\$ 566,027
Difference from Baseline	\$ 161,991	\$ 187,792	\$ 217,703

**Capital Improvements**

**MWDOC Findings:**

- The study fails to include a description the formation and transition costs that would occur as a result of the formation on a countywide CWA.

**Needed Changes:**

- For the countywide CWA options, a minimum of \$500,000 should be added in the first year to cover the costs of creating additional office space, and expanding the boardroom to accommodate up to 36 directors.

### **Cumulative Results of Necessary Changes**

Tables A and B below show what the cumulative effect should be if the changes discussed above are adopted. These results are calculated using the data provided in Attachments D through H of the study. Table A below shows the total projected countywide revenue contributions under each option, included the combination of the 6 Agency CWA and the 22 Agency Remaining MWDOC. Table B below shows projected revenue requirements and incorporates the cost of water purchases at MET's Tier 2 supply rate.

**Table E – Projected Revenue Contributions**

<b>Agency</b>	<b>FY 09-10</b>	<b>FY 14-15</b>	<b>FY 19-20</b>
MWDOC Baseline	\$ 6,097,968	\$ 7,029,664	\$ 8,181,162
Countywide CWA	\$ 6,755,326	\$ 7,866,383	\$ 9,119,294
6 Agency CWA and Remaining MWDOC	\$ 8,305,599	\$ 9,294,764	\$ 10,766,120

**Table F – Projected Revenue Contributions and Tier 2 Purchases**

<b>Agency</b>	<b>FY 09-10</b>	<b>FY 14-15</b>	<b>FY 19-20</b>
MWDOC Baseline	\$ 6,097,968	\$ 8,651,320	\$ 12,497,033
Countywide CWA	\$ 6,755,326	\$ 9,488,039	\$ 13,435,164
6 Agency CWA and Remaining MWDOC	\$ 10,420,173	\$ 12,888,127	\$ 16,684,991

### **Conclusions**

- All of the options included above result in a significant increase in cost from the MWDOC Baseline option.
- The creation of a Countywide CWA would result in an additional \$938,132 in cost to the county by FY 19-20
- The creation of a 6 Agency CWA would result in a an additional \$4,187,959 in costs to the county by FY 19-20



July 29, 2009

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Ed Royce, Sr.  
*Director*

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*General Manager*

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East Orange County Water District  
El Toro Water District  
Emerald Bay Service District  
City of Fountain Valley  
City of Garden Grove  
Golden State Water Co.  
City of Huntington Beach  
Irvine Ranch Water District  
Laguna Beach County Water District  
City of La Habra  
City of La Palma  
Mesa Consolidated Water District  
Moulton Niguel Water District  
City of Newport Beach  
City of Orange  
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City of San Clemente  
City of San Juan Capistrano  
Santa Margarita Water District  
City of Seal Beach  
Serrano Water District  
South Coast Water District  
Trabuco Canyon Water District  
City of Tustin  
City of Westminster  
Yorba Linda Water District

Joyce Crosthwaite

Executive Officer

Orange County Local Agency Formation Commission

12 Civic Center Plaza, Room 235

Santa Ana, CA 92701

Dear Ms. Crosthwaite:

**Subject: Draft Governance Study for Municipal Water District of Orange County**

Thank you for the opportunity to review and comment on the "Draft Governance Study for Municipal Water District of Orange County" dated July 15, 2009.

On May 27, 2009, MWDOC submitted extensive technical comments in response to the First Draft Governance Study dated May 19, 2009. Apart from the inclusion of an Executive Summary, the study appears to be, for the most part, unchanged. MWDOC has expended a great deal of time in good faith developing accurate information to improve the Study. We feel that there are still several important technical problems that need to be addressed before an accurate study can be issued. For example, the Study's financial analysis contains the following problems related to its Tier 2 analysis:

- The study shows that remaining MWDOC agencies would continue to pay a Tier 2 surcharge even after the formation of a south county CWA. Yet, as shown in Table 15 on pages 49-50 of the study, the remaining MWDOC agency would not exceed its Tier 1 allotment at any time during the 10-year period. Thus, the remaining 22 agencies would not incur any Tier 2 charges from Metropolitan.
- The model incorrectly assumes for the Baseline and Countywide CWA options that MWDOC's fiscal year 2008-09 melded rate increment of \$18 would increase at 25 percent in the first year after implementation and at five percent per year thereafter. This would not be the case. In fact, as of July 1, 2009 MWDOC has suspended the melded rate entirely because additional collections are not necessary at this time. MWDOC has recommended that the Study should model the melded rate to collect only enough revenue to cover the projected cost of water purchased at the Metropolitan Tier 2 supply rate.

These and other faulty assumptions and methodologies in the Study, as outlined in our May 27, 2009 letter, skew the final results in the range of millions of dollars a year. Although the study is not intended to be an "optimization study," or a "sensitivity analysis" as repeatedly stated by LAFCO, these faulty calculations make a significant difference and would be easy to correct for the final Study. It is important that the information included is as accurate as is possible for the level of detail contained in the study.



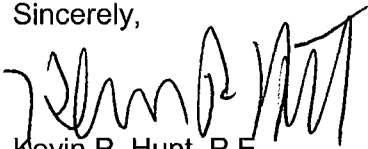
Ms. Joyce Crosthwaite

Page 2

July 29, 2009

MWDOC is the Principal Agency being considered in the Study, and the final results will be used as the basis for future decisions over reorganization. MWDOC, therefore, has a vested interest in assuring that the report is as complete and accurate as possible. We reiterate our offer to meet with LAFCO and its consultants to go through and explain our previous comments and suggestions. We believe that this could lead to strengthening the study's accuracy and credibility.

Sincerely,

A handwritten signature in black ink, appearing to read 'Kevin P. Hunt', with a stylized flourish at the end.

Kevin P. Hunt, P.E.

General Manager

cc    MWDOC Board of Directors  
      MWDOC Client Agencies  
      LAFCO Commissioners



June 30, 2009

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City of La Palma  
Mesa Consolidated Water District  
Moulton Niguel Water District  
City of Newport Beach  
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Santa Margarita Water District  
City of Seal Beach  
Serrano Water District  
South Coast Water District  
Trabuco Canyon Water District  
City of Tustin  
City of Westminster  
Yorba Linda Water District

Joyce Crosthwaite  
Executive Officer  
Orange County Local Agency Formation Commission  
12 Civic Center Plaza, Room 235  
Santa Ana, CA 92701

Dear Ms. Crosthwaite:

**Subject: LAFCO Executive Officer's June 9, 2009 Response  
to MWDOC Comments**

Thank you for the response to our comments. We are concerned that the tone of the response indicates there is a belief that MWDOC is somehow providing improper information for inclusion in the Governance Study. MWDOC is the Principal Agency being considered in the Study for reorganization, including possible detachment and formation of a new South County wholesale water agency. MWDOC, therefore, has a vested interest in assuring that the report is as complete, accurate and understandable as possible by providing LAFCO with detailed factual information. As you know, water supply has always been and always will be a vital issue for Orange County, especially now in light of drought conditions and regulatory reductions in regional supplies. MWDOC has had a long history of taking its mission seriously to protect Orange County wholesale water supplies and has been dedicated to providing the best representation possible at Metropolitan Water District. Furthermore, it has followed LAFCO recommendations and policies to provide more efficient service by consolidating wholesale service with Coastal Municipal Water District in 2001.

MWDOC has been required to expend a great deal of time in good faith developing accurate information for inclusion in the Study to avoid erroneous conclusions being reached by persons utilizing the report. Responding to MWDOC comments as being "false," "inaccurate and misleading," "...inaccurate to maintain," is not consistent with OCLAFCO's role to be objective and judicious in considering information to be included in the Study that will promote sound and well-reasoned decisions concerning governance of future water supplies for Orange County.

In several areas, MWDOC's information has been dismissed in the response because the Study is not intended to be an "optimization study," or a "sensitivity analysis." MWDOC is not requesting an optimization study, or a

sensitivity analysis, but we believe the information and analysis included should provide a “bracketing” around reasonable outcomes. MWDOC’s request to modify the assumptions based on facts is a request for accuracy to make the assumptions reasonable, which will lead to sound decision-making. If the “bracketing” approach is to work, the brackets need to reasonably cover the range of outcomes. The Baseline analysis represents an end of the bracket and a reasonable analysis of the Water Authority option is the other end of the bracket. MWDOC has submitted information that should be used to help define the brackets. Some examples of the inaccuracies are as follows:

1. Tier 2 Water Rate Assumption Distorted for Baseline and SCWA Alternative.

The Baseline and the assumption for the Tier 2 water rate increase results in the Baseline costs being overstated by \$40 Million. That is a major skewing of a bracket and is not reasonable.

2. Formation of SCWA Ignores LAFCO Policies.

The assumptions concerning the formation of a South County Water Authority are included as being reasonable, but the discussion totally ignores OCLAFCO, CALAFCO, and Cortese-Knox policies which work against this assumption because they encourage simplification, streamlining, and efficiency with a preference to use existing agencies. The policy issues raised in our May 19, 2009 letter need to be addressed to avoid the potential for the Study turning well-established OCLAFCO, CALAFCO, and Cortese-Knox policies on their head.

3. SCWA Assumptions are Not Reasonable.

The response also asserts that the Study assumptions are reasonable because they were approved by all the Stakeholders. The conclusion is belied by the Stakeholder comment letters that question the assumptions. For example, since the release of the initial staffing assumptions in January 2009, the City of Fountain Valley, the City of Huntington Beach, the six South County Agencies, MWDOC, Mesa Consolidated Water District, and the City of San Clemente have all raised concerns regarding the staffing assumptions. However, despite these valid concerns, the table detailing staffing assumptions has never changed since its initial release. Consequently, the idea that the staffing assumptions were approved by all Stakeholders is not accurate.

## **ACCURATE DATA AND REASONABLE ASSUMPTIONS SHOW INCREASED COSTS FOR SCWA**

A recalculation of costs based on more accurate data and reasonable assumptions is set forth on Attachment A. This analysis shows that it is reasonable to estimate that the costs of

operation for the SCAs to detach from MWDOC and form a 9-agency SCWA, exceed the cost of staying in MWDOC by \$ 580 thousand per year or a 22% increase over the proportional nine-agency share of MWDOC's FY 2009-10 operating budget. Attachment A illustrates that the SCWA alternative is understated as to staffing, facilities, professional fees, and other costs. Overall, MWDOC estimates that it would cost an additional \$ 2 million a year county-wide to operate two separate MET member agencies.

#### **COUNTY WATER AUTHORITY ACT UNCOMMON AND DISENFRANCHISES VOTERS**

Additional information should be included about the difference between municipal water districts and county water authorities. First, CWA's are a very uncommon form of governance structure in California. In fact, since the CWA Act was enacted in 1944, only one CWA has been formed, San Diego CWA. In contrast, there are twenty-four Municipal Water Districts currently operating in California. One belief is that the disuse of the CWA governance structure could result from the difficulty in navigating the provisions of the CWA Act and the diffused representation it provides to citizens. Others would argue that it puts those on the board who are directly responsible for assessing charges to the various members of the CWA. In regards to difficulties working with the CWA Act, it should be noted that San Diego CWA, the only known CWA, has found it sufficiently difficult that it has sought special legislation to revise the Act to deal with these difficulties. As a form of government, the CWA option removes the citizens from being elected to the Board of Directors. The Board of Directors of the CWA is appointed by the executive officers of the member public agencies with the legislative body consenting to the appointment (Water Code Appendix, §45-6, subd. (b)). The ultimate ratepayers have no choice in voting on the Board, nor even the appointing executive officers of the public agencies, but the agencies supporting the CWA membership do have a say in the board operation. In contrast, MWDOC, as a Municipal Water District, has its Board of Directors directly elected by the ratepayers they serve. This direct participation gives its Directors greater incentive to respond to the concerns of the ultimate ratepayers. In contrast, an insulated CWA Board would have no such incentive. In sum, MWDOC believes that any discussion of the feasibility of a CWA should include a discussion of the uniqueness and issues with a CWA form of governance.

#### **ADDITIONAL STAKEHOLDER MEETING NEEDED**

The Stakeholders meetings have not been conducive to developing the issues and information to a sufficient degree to create a reliable Study. MWDOC's prior experiences at Stakeholders meetings are that very little dialogue takes place between MWDOC, the

June 30, 2009

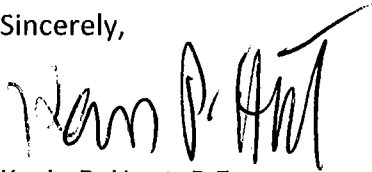
Stakeholders, OCLAFCO, and Winzler & Kelly. Instead, MWDOC and the Stakeholders offer their comments, but OCLAFCO and Winzler & Kelly simply receive the comments and ask for more detailed comments with specific recommendations. MWDOC would like to see another Stakeholders meeting where OCLAFCO and Winzler & Kelly are prepared to answer questions related to previously submitted detailed comments and recommendations and discuss how the Governance Study will reflect those comments and recommendations. Now that the draft Study and comments have been submitted, a more meaningful and informative Stakeholders meeting can take place involving probing questions, answers, and exchange of ideas which should strengthen the Study.

#### **MWDOC IS DEDICATED TO COLLABORATION AND COOPERATION**

MWDOC, as always, is committed to working with its Member Agencies to find and implement reasonable and cost-effective changes to its policies and budget process. Despite MWDOC's numerous attempts, the draft Governance Study continues to view the MWDOC Baseline option as only including the policy changes MWDOC agreed to in December 2006. The Baseline option should be updated to reflect the fact that MWDOC has expressed its strong commitment to cost-effectively improving the services it provides its Member Agencies, including continuing to negotiate and meet with those Member Agencies desiring accommodations with MWDOC. Updating the Baseline option accordingly would increase the accuracy of the draft Governance Study by accurately representing MWDOC's position in this matter. Additionally, MWDOC believes that this update should also include a short identification and analysis of the potential MWDOC has to address the issues of the Stakeholders. Only by including such a section is the Baseline option fully discussed and assessed. MWDOC asks that you consider this important change.

In conclusion, MWDOC reiterates its commitment to working with its Member Agencies to resolve their issues. MWDOC asks that the draft Governance Study be revised to reflect this commitment. MWDOC also asks that the draft Governance Study analyze the potential ways the issues could be resolved through discussion with MWDOC and the Stakeholders. Including this analysis will increase the reliability and accuracy of the draft Governance Study. While MWDOC will not always be able to make every Member Agency entirely content, it will remain committed to working to solve any problems in a cost effective manner for Orange County's ratepayers.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin P. Hunt". The signature is stylized with a large, sweeping "K" and "H".

Kevin P. Hunt, P.E.  
General Manager

**Attachment A**  
**Estimated Annual Operating Budgets**

Full Time Equivalents by Program	MWDOC FY 2009-10 Budget	Nine Agency South County CWA	Remaining MWDOC
Administrative - General	1.45	0.67	1.45
Administrative - Board	2.57	0.67	2.07
Personnel / Staff Development	1.3	0.33	1.3
Planning & Resource Development	3.77	2.00	2.77
Met Issues and Special Projects	3.86	1.33	2.86
Governmental Affairs	1.26	0.75	1.01
Water Use Efficiency Program	6.47	3.25	4.47
Water Awareness	1.14	0.75	0.64
School Programs	0.86	0.25	0.86
Finance	3.77	3.00	3.77
Information Technology	1.09	0.50	1.09
Overhead	3.39	1.00	2.39
Contributions to WEROC	1.8	0.00	1.8
<b>Total</b>	<b>32.74</b>	<b>14.50</b>	<b>26.48</b>

Operating Expenses	MWDOC FY 2009-10 Budget	Nine Agency South County CWA	Remaining MWDOC
Salaries & Wages	\$ 2,684,771	\$ 1,338,000	\$ 2,172,097
less for Recovery from Grants	\$ (66,400)	\$ -	\$ (33,200)
Employee Benefits	\$ 874,816	\$ 602,100	\$ 707,764
Director Compensation	\$ 168,656	\$ -	\$ 120,469
MWD Representation	\$ 72,568	\$ -	\$ 36,284
Director Benefits	\$ 63,265	\$ -	\$ 45,189
Conference Expense - Directors	\$ 8,400	\$ -	\$ 6,000
Travel & Accommodations - Directors	\$ 18,780	\$ -	\$ 13,414
Audit Expense	\$ 18,500	\$ 15,000	\$ 17,500
Automotive & Toll Road Expenses	\$ 15,203	\$ 6,000	\$ 12,300
Building Lease & Maintenance Expense	\$ 133,518	\$ 79,000	\$ 133,518
Capital Acquisition	\$ 16,700	\$ -	\$ 8,350
CDR Participation	\$ 36,700	\$ -	\$ 18,350
Conference Expense - Staff	\$ 8,796	\$ 5,000	\$ 7,116
Contribution to WEROC	\$ 90,359	\$ 45,000	\$ 45,359
Depreciation Expense	\$ 35,000	\$ -	\$ 35,000
Election Expense	\$ 125,000	\$ -	\$ 89,286
Engineering Expense	\$ 150,000	\$ -	\$ 150,000
Health Insurance Coverage for Retirees	\$ 36,152	\$ -	\$ 36,152
Insurance Expense	\$ 115,200	\$ 49,000	\$ 115,000
Legal Expense - General	\$ 217,500	\$ 95,000	\$ 200,000
Membership / Sponsorship	\$ 104,626	\$ 50,000	\$ 79,523
Miscellaneous Expense	\$ 67,864	\$ 55,000	\$ 59,245
Office Supplies	\$ 54,960	\$ 21,000	\$ 44,465
Outside Printing, Subscription & Books	\$ 56,440	\$ 40,000	\$ 28,220
Postage / Mail Delivery	\$ 25,036	\$ 14,000	\$ 12,518
Rents & Leases	\$ 22,720	\$ 5,000	\$ 22,720
Software Support & Computer Maintenance	\$ 34,000	\$ 12,000	\$ 27,507
Telecommunications Expense	\$ 24,108	\$ 12,000	\$ 19,504
Temporary Help Expense	\$ 4,800	\$ -	\$ 4,800
Training Expense	\$ 10,000	\$ 14,000	\$ 8,090
Travel & Accommodations - Staff	\$ 25,680	\$ 13,000	\$ 20,776
Lobbying Services	\$ 194,000	\$ 60,000	\$ 120,000
Public Affairs Services	\$ 124,625	\$ 90,000	\$ 95,000
Water Use Efficiency Services (minus grants)	\$ 132,000	\$ 75,000	\$ 85,800
School Program (Discovery Science Center)	\$ 225,400	\$ 108,436	\$ 116,964
Other professional fees	\$ 35,500	\$ 50,000	\$ 50,000
<b>Sub-Total Operating Expenses</b>	<b>\$ 5,965,243</b>	<b>\$ 2,853,536</b>	<b>\$ 4,731,081</b>
<b>Contingency Amount</b>	<b>-</b>	<b>335,603</b>	<b>-</b>
<b>Total Operating Budget</b>	<b>5,965,243</b>	<b>3,189,138</b>	<b>4,731,081</b>

Proportional Share of FY 2009-10 Operating Budget [1]	\$ 5,965,243	\$ 2,609,179	\$ 3,356,064
Additional Costs for Two Wholesale Agencies	\$ -	\$ 579,960	\$ 1,375,017

[1] Calculated as the proportional share of total increment and meter charges over the total operating budget



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*Director*

Ed Royce, Sr.  
*Director*

Kevin P. Hunt, P.E.  
*General Manager*

#### MEMBER AGENCIES

City of Brea  
City of Buena Park  
East Orange County Water District  
El Toro Water District  
Emerald Bay Service District  
City of Fountain Valley  
City of Garden Grove  
Golden State Water Co.  
City of Huntington Beach  
Irvine Ranch Water District  
Laguna Beach County Water District  
City of La Habra  
City of La Palma  
Mesa Consolidated Water District  
Moulton Niguel Water District  
City of Newport Beach  
City of Orange  
Orange County Water District  
City of San Clemente  
City of San Juan Capistrano  
Santa Margarita Water District  
City of Seal Beach  
Serrano Water District  
South Coast Water District  
Trabuco Canyon Water District  
City of Tustin  
City of Westminster  
Yorba Linda Water District

August 14, 2009

Joyce Crosthwaite, Executive Officer  
Orange County LAFCO  
12 Civic Center Plaza, Room 235  
Santa Ana, CA 92701

Dear Ms. Crosthwaite,

**Subject: Information on Outside Funding and Water Use  
Efficiency Program Participation**

This letter is in response to requests for information made by LAFCO and its consultants at the final stakeholder meeting of the MWDOC Governance Study on August 10, 2009. We would like to thank LAFCO for providing MWDOC and the other stakeholders a final opportunity to ask questions, discuss issues, and recommend final changes before the Governance Study is presented to the Commission.

Enclosed please find the following:

1. A table summarizing the amount of outside funding that MWDOC has brought into Orange County from Metropolitan, state, federal, and other sources since fiscal year 2001-02. (Please note that figures shown are in the year the grant was awarded and not necessarily the year the money was spent.)
2. Tables with the participation by client agency in MWDOC's Water Use Efficiency Programs since fiscal year 2001-02.

As was stated at the stakeholder meeting, MWDOC believes that Draft Governance Study dated July 15, 2009 does not adequately describe the significant amount of outside funding that MWDOC brings into Orange County each year. We understand that this is a difficult fact to represent in a fiscal analysis. However, to leave out this information is to greatly understate the value and effectiveness of MWDOC.

The enclosed tables show that since fiscal year 2001-02, MWDOC has been awarded \$45 million in competitive grants from Metropolitan, state, federal, and other sources. MWDOC has also brought in \$44 million in funds from Metropolitan's Local Resources Program. In comparison, MWDOC's adopted budget over that same period totals about \$41 million.

Ms. Joyce Crosthwaite  
Page 2  
August 14, 2009

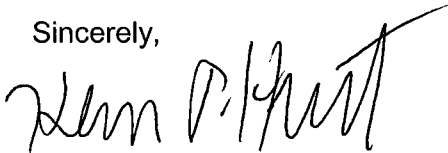
The majority of the grant money awarded over that time period has gone towards MWDOC's Water use Efficiency Programs. In the years after fiscal year 2001-02, MWDOC began expanding its efforts beyond toilets and washers and began aggressively pursuing newly available funding sources for landscape based programs such as SmarTimers, Rotating Nozzles, Synthetic Turf, and Landscape Certifications. The South County agencies account for the majority of the participation in these new programs. This is appropriate for several reasons, the major one being the area's greater portion of irrigated open space.

MWDOC maintains accurate records of the participation of each client agency in its Water Use Efficiency programs. Overall, participation by the 9 South County agencies in MWDOC's Water Use Efficiency Programs has increased from 22% in fiscal year 2001-02 to 66% in 2008-9 as measured by total interventions<sup>1</sup>. Thus, the expansion of MWDOC's budget and staffing levels over that period has in large part benefited the South County agencies who have taken advantage of MWDOC's funding for landscape based programs.

We believe that that this information is important for providing a context that is needed if the final product is to be complete and accurate. We ask that a description of the information we have provided be incorporated into the body of the Study as well as the summary.

Thank you for your consideration of our requests. Please do not hesitate to contact us if you have any questions.

Sincerely,



Kevin P. Hunt, PE  
General Manager

cc MWDOC Board of Directors  
MWDOC Client Agencies

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<sup>1</sup> Interventions include: rebates processed for each HET, ULFT, Irrigation Timer, Rotating Nozzle, Commercial Plumbing Fixture, as well as applications for Synthetic Turf rebates, and total meters receiving monthly Irrigation Performance Reports.



### Outside Funding Received and Competitive Grant Awards by Fiscal Year<sup>[1]</sup>

Water Use Efficiency Program	Funding Sources	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	Total
Landscape Performance Certification Program	Metropolitan	\$ 57,352	\$ 74,405	\$ 88,971	\$ 56,703	\$ 51,468	\$ 35,729	\$ 43,775	\$ 62,293	\$ 470,696
Residential Toilets	OCWD & OCSD	\$ 1,323,354	\$ 1,585,180	\$ 608,863						\$ 3,517,397
	Metropolitan	\$ 1,590,120	\$ 1,701,180	\$ 1,768,320	\$ 212,160	\$ 208,245	\$ 596,958	\$ 395,328	\$ 1,901,173	\$ 8,373,484
Residential Clothes Washers	Metropolitan	\$ 23,170	\$ 325,226	\$ 625,740	\$ 415,870	\$ 700,065	\$ 582,167	\$ 885,106	\$ 870,150	\$ 4,427,494
SmartTimers and Landscape Surveys	Competitive Grants	\$ 560,700		\$ 774,340	\$ 144,240	\$ 149,240	\$ 1,391,775	\$ 384,919	\$ 113,900	\$ 3,519,114
	Metropolitan	\$ 6,139	\$ -	\$ 21,282	\$ 11,569	\$ 178,601	\$ 707,845	\$ 1,255,721	\$ 292,740	\$ 2,473,898
Sprinkler Nozzles	Competitive Grants						\$ 851,333			\$ 851,333
	Metropolitan	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,335	\$ 75,335	\$ 219,660	\$ 298,330
Synthetic Turf	Metropolitan	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 101,422	\$ 33,120	\$ 134,542
Commercial, Industrial and Institutional Rebates	Metropolitan	\$ 57,922	\$ 495,147	\$ 208,903	\$ 205,304	\$ 232,193	\$ 832,120	\$ 369,874	\$ 755,390	\$ 3,156,852
Industrial Process Water Use Reduction Program	Competitive Grants				\$ 404,801			\$ 100,000	\$ 371,650	\$ 876,451
	Metropolitan	\$ 2,523	\$ 8,809	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 42,092	\$ 53,424
Hotel Water Use Reduction Program	Competitive Grants					\$ 741,564			\$ 415,925	\$ 1,157,489
Home Water Surveys	Metropolitan	\$ 49,812	\$ -	\$ 688	\$ 1,274	\$ 2,909	\$ 20,063	\$ 12,810	\$ 14,137	\$ 101,690
Low-Flow Showerheads	Metropolitan	\$ 3,785	\$ -	\$ 75	\$ 120	\$ 95	\$ 10	\$ -	\$ -	\$ 4,085
Public Sector Program	Metropolitan	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 533,556	\$ 1,029,460	\$ 1,563,016
Research and Development (2)	Competitive Grants	\$ 100,000	\$ 25,000			\$ 1,057,000	\$ 785,000			\$ 1,967,000
	Metropolitan	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Total Water Use Efficiency Competitive Grants</b>		\$ 660,700	\$ 25,000	\$ 774,340	\$ 144,240	\$ 554,041	\$ 4,041,672	\$ 1,269,919	\$ 901,475	\$ 8,371,387
<b>Total Water Use Efficiency Metropolitan Credits</b>		\$ 1,790,822	\$ 2,604,767	\$ 2,713,978	\$ 903,000	\$ 1,373,575	\$ 2,778,229	\$ 3,672,927	\$ 5,220,215	\$ 21,057,512
<b>Total OCWD &amp; OCSD Water Use Efficiency Funding</b>		\$ 1,323,354	\$ 1,585,180	\$ 608,863	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,517,397
<b>Grand Total Water Use Efficiency</b>		\$ 3,774,876	\$ 4,214,947	\$ 4,097,181	\$ 1,047,240	\$ 1,927,616	\$ 6,819,901	\$ 4,942,846	\$ 6,121,690	\$ 32,946,296
<b>Other Competitive Grant Programs (3)</b>										
South County Study & Ocean Desalination		\$ 500,000			\$ 1,554,300		\$ 1,500,000			\$ 3,554,300
Natural Resources Protection					\$ 574,000					\$ 574,000
Emergency Response, Mitigation & Interconnections						\$ 8,168,053		\$ 85,000		\$ 8,253,053
<b>Total Other Competitive Grant Programs</b>		\$ 500,000	\$ -	\$ -	\$ 2,128,300	\$ 8,168,053	\$ -	\$ 1,500,000	\$ 85,000	\$ 12,381,353
<b>Grand Total Grants</b>		\$ 4,274,876	\$ 4,214,947	\$ 4,097,181	\$ 3,175,540	\$ 10,095,669	\$ 6,819,901	\$ 6,442,846	\$ 6,206,690	\$ 45,327,649
<b>Metropolitan Local Resources Program (LRP)</b>		\$ 3,998,901	\$ 4,109,070	\$ 3,791,884	\$ 4,097,749	\$ 5,119,636	\$ 5,060,531	\$ 6,548,764	\$ 11,688,869	\$ 44,415,404
<b>Grand Total Grants Plus LRP</b>		\$ 8,273,777	\$ 8,324,017	\$ 7,889,065	\$ 7,273,289	\$ 15,215,305	\$ 11,880,432	\$ 12,991,610	\$ 17,895,559	\$ 89,743,053

(1) Numbers shown are by the fiscal year the funds were awarded and not necessarily the year the money was spent

(2) Research and Development includes Residential Runoff Reduction Study, Water Softener Pilot Program, Water Audit Demonstration Project I, Water Audit Demonstration Project II, Water Loss Management Project, SmartTimer and Edgescape Evaluation Program, and other miscellaneous activities.

(3) Numbers do not reflect MWDOD efforts towards Prop 50 and Prop 84 South Orange County Integrated Regional Watershed Management Plan grant awards of \$25 million and \$12 million respectively

**Total Interventions by Agency<sup>[1]</sup>**  
**through MWD OC and Local Agency Conservation Programs**

<b>Agency</b>	<b>FY 01-02</b>	<b>FY 02-03</b>	<b>FY 03-04</b>	<b>FY 04-05</b>	<b>FY 05-06</b>	<b>FY 06-07</b>	<b>FY 07-08</b>	<b>FY 08-09</b>	<b>8 Year Total</b>
Brea	602	499	579	182	247	167	253	343	2,872
Buena Park	1,248	2,453	1,638	186	188	169	278	821	6,981
East Orange CWD RZ	53	49	64	40	31	31	34	134	436
Fountain Valley	1,443	1,621	1,013	437	328	406	353	626	6,227
Garden Grove	3,915	3,520	2,446	720	395	457	437	1,335	13,225
Golden State WC	2,191	3,614	2,243	773	557	1,423	721	1,431	12,953
Huntington Beach	2,817	4,429	2,831	1,297	1,102	1,150	3,146	3,011	19,783
La Habra	663	1,774	1,363	138	157	664	362	1,392	6,513
La Palma	176	348	206	52	50	54	63	237	1,186
Mesa Consol. WD	1,953	2,659	1,238	758	787	924	973	2,030	11,322
Newport Beach	484	770	2,235	559	409	614	1,192	888	7,151
Orange	2,586	3,073	2,225	1,116	726	628	664	2,352	13,370
Seal Beach	97	196	830	108	117	776	67	197	2,388
Serrano WD	82	139	152	59	56	44	130	62	724
Tustin	1,236	1,299	995	290	235	371	333	1,161	5,920
Westminster	1,576	2,760	1,385	495	368	410	275	1,075	8,344
Yorba Linda WD	1,726	1,405	981	555	509	537	1,123	1,779	8,615
<b>Remaining MWD OC Total</b>	<b>22,848</b>	<b>30,608</b>	<b>22,424</b>	<b>7,765</b>	<b>6,262</b>	<b>8,825</b>	<b>10,404</b>	<b>18,874</b>	<b>128,010</b>
El Toro WD	608	583	505	410	410	872	700	1,086	5,174
Irvine Ranch WD	2,367	3,974	7,915	2,292	3,961	5,010	12,594	15,582	53,695
Laguna Beach CWD	104	389	239	137	108	121	241	497	1,836
Moulton Niguel WD	1,080	1,432	1,590	1,304	1,046	1,063	1,617	11,107	20,239
San Clemente	515	419	787	360	726	474	528	1,038	4,847
San Juan Capistrano	168	330	292	564	401	380	460	2,550	5,145
Santa Margarita WD	930	1,190	1,006	1,358	1,377	1,514	1,979	3,890	13,244
South Coast WD	393	360	642	241	192	191	518	620	3,157
Trabuco Canyon WD	191	166	106	81	93	184	226	152	1,199
<b>9 South County Agency Total</b>	<b>6,356</b>	<b>8,843</b>	<b>13,082</b>	<b>6,747</b>	<b>8,314</b>	<b>9,809</b>	<b>18,863</b>	<b>36,522</b>	<b>108,536</b>
<b>MWD OC Totals [2]</b>	<b>29,204</b>	<b>39,451</b>	<b>35,506</b>	<b>14,512</b>	<b>14,576</b>	<b>18,634</b>	<b>29,267</b>	<b>55,396</b>	<b>236,546</b>
<b>Remaining MWD OC %</b>	<b>78%</b>	<b>78%</b>	<b>63%</b>	<b>54%</b>	<b>43%</b>	<b>47%</b>	<b>36%</b>	<b>34%</b>	<b>54%</b>
<b>9 South County Agency %</b>	<b>22%</b>	<b>22%</b>	<b>37%</b>	<b>46%</b>	<b>57%</b>	<b>53%</b>	<b>64%</b>	<b>66%</b>	<b>46%</b>

[1] Interventions include: rebates processed for each HET, ULFT, Irrigation Timer, Rotating Nozzle, Commercial Plumbing Fixture, as well as applications for Synthetic Turf rebates, and total meters receiving monthly Irrigation Performance Reports.

[2] Totals for MWD OC service area only. Does not include additional interventions for the three cities of Anaheim, Fullerton, and Santa Ana.

**Residential Toilets Installed by Agency<sup>[1]</sup>**  
**through MWD OC and Local Agency Conservation Programs**

<b>Agency</b>	<b>FY 01-02</b>	<b>FY 02-03</b>	<b>FY 03-04</b>	<b>FY 04-05</b>	<b>FY 05-06</b>	<b>FY 06-07</b>	<b>FY 07-08</b>	<b>FY 08-09</b>	<b>8 Year Total</b>
Brea	585	341	401	26	48	19	11	43	1,474
Buena Park	1,229	2,325	1,522	50	40	19	11	124	5,320
East Orange CWD RZ	50	41	44	19	18	13	12	12	209
Fountain Valley	1,406	1,400	802	176	111	127	53	262	4,337
Garden Grove	3,855	3,148	2,117	176	106	81	78	443	10,004
Golden State WC	2,143	3,222	1,870	167	118	517	79	444	8,560
Huntington Beach	2,698	3,752	1,901	367	310	156	180	607	9,971
La Habra	645	1,697	1,225	12	31	9	25	296	3,940
La Palma	173	343	193	31	27	21	27	36	851
Mesa Consol. WD	1,505	2,387	988	192	124	303	33	736	6,268
Newport Beach	463	396	1,883	153	76	41	35	163	3,210
Orange	2,444	2,682	1,899	193	219	108	115	427	8,087
Seal Beach	81	134	729	29	10	684	20	21	1,708
Serrano WD	73	123	98	20	17	14	3	13	361
Tustin	1,206	1,096	827	69	89	212	40	387	3,926
Westminster	1,523	2,492	1,118	145	105	87	49	541	6,060
Yorba Linda WD	1,690	1,155	627	158	136	95	130	323	4,314
<b>Remaining MWD OC Total</b>	<b>21,769</b>	<b>26,734</b>	<b>18,244</b>	<b>1,983</b>	<b>1,585</b>	<b>2,506</b>	<b>901</b>	<b>4,878</b>	<b>78,600</b>
El Toro WD	564	472	324	176	205	453	58	75	2,327
Irvine Ranch WD	1,902	2,263	6,741	593	655	1,365	955	5,088	19,562
Laguna Beach CWD	85	271	118	32	26	31	23	91	677
Moulton Niguel WD	891	728	684	410	381	207	204	447	3,952
San Clemente	483	201	547	91	66	44	56	202	1,690
San Juan Capistrano	152	201	151	85	125	52	46	76	888
Santa Margarita WD	790	664	260	179	143	106	43	304	2,489
South Coast WD	358	191	469	88	74	34	51	102	1,367
Trabuco Canyon WD	181	102	30	17	20	12	18	23	403
<b>9 South County Agency Total</b>	<b>5,406</b>	<b>5,093</b>	<b>9,324</b>	<b>1,671</b>	<b>1,695</b>	<b>2,304</b>	<b>1,454</b>	<b>6,408</b>	<b>33,355</b>
<b>MWD OC Totals</b>	<b>27,175</b>	<b>31,827</b>	<b>27,568</b>	<b>3,654</b>	<b>3,280</b>	<b>4,810</b>	<b>2,355</b>	<b>11,286</b>	<b>111,955</b>
Remaining MWD OC %	80%	84%	66%	54%	48%	52%	38%	43%	70%
9 South County Agency %	20%	16%	34%	46%	52%	48%	62%	57%	30%

[1] Includes High Efficiency and Ultra Low Flush Toilets

**Residential Clothes Washers Installed by Agency  
through MWDOC and Local Agency Conservation Programs**

Agency	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY05-06	FY 06-07	FY 07-08	FY 08-09	8 Year Total
Brea	17	107	178	132	143	132	175	156	1,040
Buena Park	9	45	88	81	84	85	114	146	652
East Orange CWD RZ	3	8	20	20	11	18	22	17	119
Fountain Valley	36	127	209	196	178	205	219	243	1,413
Garden Grove	39	173	278	243	243	238	304	332	1,850
Golden State WC	37	195	339	374	342	339	401	447	2,474
Huntington Beach	114	486	857	738	680	761	750	751	5,137
La Habra	8	40	86	81	66	96	136	83	596
La Palma	3	5	13	21	18	33	35	51	179
Mesa Consol. WD	24	117	228	240	212	239	249	246	1,555
Newport Beach	17	144	343	277	243	245	270	259	1,798
Orange	58	247	304	358	330	366	365	403	2,431
Seal Beach	13	28	57	39	46	47	46	57	333
Serrano WD	9	16	54	39	39	30	31	23	241
Tustin	21	89	152	138	127	152	146	144	969
Westminster	37	159	235	196	186	213	171	233	1,430
Yorba Linda WD	36	214	342	355	333	288	350	367	2,285
<b>Remaining MWDOC Total</b>	<b>481</b>	<b>2,200</b>	<b>3,783</b>	<b>3,528</b>	<b>3,281</b>	<b>3,487</b>	<b>3,784</b>	<b>3,958</b>	<b>24,502</b>
El Toro WD	21	88	108	103	83	91	113	130	737
Irvine Ranch WD	159	626	1,087	1,093	1,445	1,976	2,060	1,844	10,290
Laguna Beach CWD	17	88	119	84	68	57	77	77	587
Moulton Niguel WD	158	630	841	640	570	652	716	742	4,949
San Clemente	32	182	235	170	136	204	261	278	1,498
San Juan Capistrano	16	95	120	107	102	109	103	127	779
Santa Margarita WD	140	510	743	573	592	654	683	740	4,635
South Coast WD	35	138	165	97	103	107	130	148	923
Trabuco Canyon WD	10	63	76	58	44	69	60	62	442
<b>9 South County Agency Total</b>	<b>588</b>	<b>2,420</b>	<b>3,494</b>	<b>2,925</b>	<b>3,143</b>	<b>3,919</b>	<b>4,203</b>	<b>4,148</b>	<b>24,840</b>
<b>MWDOC Totals</b>	<b>1,069</b>	<b>4,620</b>	<b>7,277</b>	<b>6,453</b>	<b>6,424</b>	<b>7,406</b>	<b>7,987</b>	<b>8,106</b>	<b>49,342</b>
Remaining MWDOC %	45%	48%	52%	55%	51%	47%	47%	49%	50%
9 South County Agency %	55%	52%	48%	45%	49%	53%	53%	51%	50%

**SmarTimers (Controllers) Installed by Agency<sup>[1]</sup>  
through MWDOC and Local Agency Conservation Programs**

Agency	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY05-06	FY 06-07	FY 07-08	FY 08-09	8 Year Total
Brea	0	0	0	2	4	14	40	12	72
Buena Park	0	0	0	0	0	0	0	4	4
East Orange CWD RZ	0	0	0	1	2	0	0	0	3
Fountain Valley	0	0	0	6	4	11	4	1	26
Garden Grove	0	0	0	4	12	2	4	3	25
Golden State WC	0	0	0	0	17	36	16	3	72
Huntington Beach	0	0	0	7	30	24	8	14	83
La Habra	0	0	0	0	0	8	1	0	9
La Palma	0	0	0	0	0	0	0	0	0
Mesa Consol. WD	0	0	0	5	40	20	12	13	90
Newport Beach	0	0	0	20	39	211	138	54	462
Orange	0	0	0	12	50	66	4	7	139
Seal Beach	0	0	0	0	0	0	0	0	0
Serrano WD	0	0	0	0	0	0	0	0	0
Tustin	0	0	0	1	5	0	5	16	27
Westminster	0	0	0	1	20	6	1	3	31
Yorba Linda WD	0	0	0	0	36	36	61	13	146
<b>Remaining MWDOC Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>59</b>	<b>259</b>	<b>434</b>	<b>294</b>	<b>143</b>	<b>1,189</b>
El Toro WD	0	0	0	1	8	99	175	23	306
Irvine Ranch WD	0	0	0	4	179	594	249	90	1,116
Laguna Beach CWD	0	0	0	3	5	21	5	2	36
Moulton Niguel WD	0	0	0	2	35	91	79	44	251
San Clemente	0	0	0	4	484	53	81	35	657
San Juan Capistrano	0	0	0	0	9	9	12	10	40
Santa Margarita WD	0	0	0	3	23	136	123	69	354
South Coast WD	0	0	0	2	7	46	56	17	128
Trabuco Canyon WD	0	0	0	0	29	103	4	1	137
<b>9 South County Agency Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>19</b>	<b>779</b>	<b>1,152</b>	<b>784</b>	<b>291</b>	<b>3,025</b>
<b>MWDOC Totals</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>78</b>	<b>1,038</b>	<b>1,586</b>	<b>1,078</b>	<b>434</b>	<b>4,214</b>
Remaining MWDOC %	0%	0%	0%	76%	25%	27%	27%	33%	28%
9 South County Agency %	0%	0%	0%	24%	75%	73%	73%	67%	72%

[1] Includes residential and commercial SmarTimers

**Sprinkler Nozzles Installed by Agency  
through MWD OC and Local Agency Conservation Programs**

Agency	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY05-06	FY 06-07	FY 07-08	FY 08-09	8 Year Total
Brea	0	0	0	0	0	0	0	22	22
Buena Park	0	0	0	0	0	0	0	112	112
East Orange CWD RZ	0	0	0	0	0	0	0	105	105
Fountain Valley	0	0	0	0	0	0	51	83	134
Garden Grove	0	0	0	0	0	0	44	259	303
Golden State WC	0	0	0	0	0	0	161	83	244
Huntington Beach	0	0	0	0	0	0	2,140	1,515	3,655
La Habra	0	0	0	0	0	535	9	915	1,459
La Palma	0	0	0	0	0	0	0	10	10
Mesa Consol. WD	0	0	0	0	0	83	368	198	649
Newport Beach	0	0	0	0	0	0	591	235	826
Orange	0	0	0	0	0	0	158	1,124	1,282
Seal Beach	0	0	0	0	0	0	0	115	115
Serrano WD	0	0	0	0	0	0	94	24	118
Tustin	0	0	0	0	0	0	23	549	572
Westminster	0	0	0	0	0	0	0	111	111
Yorba Linda WD	0	0	0	0	0	0	563	1,053	1,616
<b>Remaining MWD OC Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>618</b>	<b>4,202</b>	<b>6,513</b>	<b>11,333</b>
El Toro WD	0	0	0	0	0	0	0	378	378
Irvine Ranch WD	0	0	0	0	0	0	8,485	6,787	15,272
Laguna Beach CWD	0	0	0	0	0	0	115	148	263
Moulton Niguel WD	0	0	0	0	0	0	417	9,295	9,712
San Clemente	0	0	0	0	0	0	118	491	609
San Juan Capistrano	0	0	0	0	0	0	70	2,094	2,164
Santa Margarita WD	0	0	0	0	0	0	165	1,147	1,312
South Coast WD	0	0	0	0	0	0	207	115	322
Trabuco Canyon WD	0	0	0	0	0	0	130	0	130
<b>9 South County Agency Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>9,707</b>	<b>20,455</b>	<b>30,162</b>
<b>MWD OC Totals</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>618</b>	<b>13,909</b>	<b>26,968</b>	<b>41,495</b>
Remaining MWD OC %	0%	0%	0%	0%	0%	100%	30%	24%	27%
9 South County Agency %	0%	0%	0%	0%	0%	0%	70%	76%	73%

**Synthetic Turf Installed by Agency<sup>[1]</sup>**  
**through MWD OC and Local Agency Conservation Programs**

<b>Agency</b>	<b>FY 01-02</b>	<b>FY 02-03</b>	<b>FY 03-04</b>	<b>FY 04-05</b>	<b>FY 05-06</b>	<b>FY 06-07</b>	<b>FY 07-08</b>	<b>FY 08-09</b>	<b>8 Year Total</b>
Brea	0	0	0	0	0	0	0	4	4
Buena Park	0	0	0	0	0	0	0	3	3
East Orange CWD RZ	0	0	0	0	0	0	0	0	0
Fountain Valley	0	0	0	0	0	0	9	2	11
Garden Grove	0	0	0	0	0	0	2	0	2
Golden State WC	0	0	0	0	0	0	4	12	16
Huntington Beach	0	0	0	0	0	0	20	20	40
La Habra	0	0	0	0	0	0	0	0	0
La Palma	0	0	0	0	0	0	1	0	1
Mesa Consol. WD	0	0	0	0	0	0	5	8	13
Newport Beach	0	0	0	0	0	0	2	8	10
Orange	0	0	0	0	0	0	4	17	21
Seal Beach	0	0	0	0	0	0	0	2	2
Serrano WD	0	0	0	0	0	0	2	2	4
Tustin	0	0	0	0	0	0	4	6	10
Westminster	0	0	0	0	0	0	4	8	12
Yorba Linda WD	0	0	0	0	0	0	9	11	20
<b>Remaining MWD OC Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>66</b>	<b>103</b>	<b>169</b>
El Toro WD	0	0	0	0	0	0	2	4	6
Irvine Ranch WD	0	0	0	0	0	0	16	20	36
Laguna Beach CWD	0	0	0	0	0	0	1	5	6
Moulton Niguel WD	0	0	0	0	0	0	12	37	49
San Clemente	0	0	0	0	0	0	10	14	24
San Juan Capistrano	0	0	0	0	0	0	0	9	9
Santa Margarita WD	0	0	0	0	0	0	14	36	50
South Coast WD	0	0	0	0	0	0	3	7	10
Trabuco Canyon WD	0	0	0	0	0	0	2	13	15
<b>9 South County Agency Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>60</b>	<b>145</b>	<b>205</b>
<b>MWD OC Totals</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>126</b>	<b>248</b>	<b>374</b>
<b>Remaining MWD OC %</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>52%</b>	<b>42%</b>	<b>45%</b>
<b>9 South County Agency %</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>48%</b>	<b>58%</b>	<b>55%</b>

[1] Calculated as total residential and commercial applications

**Commercial, Industrial, and Institutional Rebates by Agency<sup>[1]</sup>**  
**through MWDOC and Local Agency Conservation Programs**

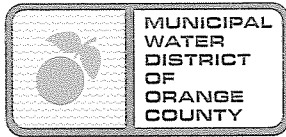
Agency	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY05-06	FY 06-07	FY 07-08	FY 08-09	8 Year Total
Brea	0	51	0	22	52	2	27	106	260
Buena Park	10	83	28	55	64	65	153	432	890
East Orange CWD RZ	0	0	0	0	0	0	0	0	0
Fountain Valley	1	94	2	59	35	63	17	35	306
Garden Grove	21	199	51	297	34	136	5	298	1,041
Golden State WC	11	197	34	232	80	531	46	408	1,539
Huntington Beach	5	191	73	185	82	209	48	104	897
La Habra	10	37	52	45	60	16	191	75	486
La Palma	0	0	0	0	5	0	0	140	145
Mesa Consol. WD	424	155	22	130	241	141	141	543	1,797
Newport Beach	4	230	9	77	24	94	98	27	563
Orange	84	144	22	553	127	88	18	374	1,410
Seal Beach	3	34	44	40	61	45	1	2	230
Serrano WD	0	0	0	0	0	0	0	0	0
Tustin	9	114	16	82	14	7	115	59	416
Westminster	16	109	32	153	57	104	40	161	672
Yorba Linda WD	0	36	12	42	4	118	10	12	234
<b>Remaining MWDOC Total</b>	<b>598</b>	<b>1,674</b>	<b>397</b>	<b>1,972</b>	<b>940</b>	<b>1,619</b>	<b>910</b>	<b>2,776</b>	<b>10,886</b>
El Toro WD	23	23	73	42	5	2	0	92	260
Irvine Ranch WD	306	1,085	87	325	1,044	429	121	745	4,142
Laguna Beach CWD	2	30	2	18	9	12	20	117	210
Moulton Niguel WD	31	74	65	172	3	0	9	69	423
San Clemente	0	36	5	95	40	173	2	18	369
San Juan Capistrano	0	34	21	181	0	6	2	1	245
Santa Margarita WD	0	16	3	56	0	0	6	23	104
South Coast WD	0	31	8	54	8	4	9	114	228
Trabuco Canyon WD	0	1	0	6	0	0	0	4	11
<b>9 South County Agency Total</b>	<b>362</b>	<b>1,330</b>	<b>264</b>	<b>949</b>	<b>1,109</b>	<b>626</b>	<b>169</b>	<b>1,183</b>	<b>5,992</b>
<b>MWDOC Totals</b>	<b>960</b>	<b>3,004</b>	<b>661</b>	<b>2,921</b>	<b>2,049</b>	<b>2,245</b>	<b>1,079</b>	<b>3,959</b>	<b>16,878</b>
<b>Remaining MWDOC %</b>	<b>62%</b>	<b>56%</b>	<b>60%</b>	<b>68%</b>	<b>46%</b>	<b>72%</b>	<b>84%</b>	<b>70%</b>	<b>64%</b>
<b>9 South County Agency %</b>	<b>38%</b>	<b>44%</b>	<b>40%</b>	<b>32%</b>	<b>54%</b>	<b>28%</b>	<b>16%</b>	<b>30%</b>	<b>36%</b>

[1] Retrofit devices include ULF Toilets and Urinals, High Efficiency Toilets and Urinals, Zero Water Urinals, High Efficiency Clothes Washers, Cooling Tower Conductivity Controllers, Ph Cooling Tower Conductivity Controllers, Flush Valve Retrofit Kits, Pre-rinse Spray heads, Hospital X-Ray Processor Re-circulating Systems, Steam Sterilizers, Food Steamers, and Water Pressurized Brooms.



**Landscape Performance Certification Program by Agency**  
**Total Meters in Program**

Agency	FY 01-02	FY 02-03	FY 03-04	FY 04-05	FY 05-06	FY 06-07	FY 07-08	FY 08-09	8 Year Total
Brea	0	0	0	0	0	0	0	0	0
Buena Park	0	0	0	0	0	0	0	0	0
East Orange CWD RZ	0	0	0	0	0	0	0	0	0
Fountain Valley	0	0	0	0	0	0	0	0	0
Garden Grove	0	0	0	0	0	0	0	0	0
Golden State WC	0	0	0	0	0	0	14	34	48
Huntington Beach	0	0	0	0	0	0	0	0	0
La Habra	0	0	0	0	0	0	0	23	23
La Palma	0	0	0	0	0	0	0	0	0
Mesa Consol. WD	0	0	0	191	170	138	165	286	950
Newport Beach	0	0	0	32	27	23	58	142	282
Orange	0	0	0	0	0	0	0	0	0
Seal Beach	0	0	0	0	0	0	0	0	0
Serrano WD	0	0	0	0	0	0	0	0	0
Tustin	0	0	0	0	0	0	0	0	0
Westminster	0	0	0	0	0	0	10	18	28
Yorba Linda WD	0	0	0	0	0	0	0	0	0
<b>Remaining MWDOC Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>223</b>	<b>197</b>	<b>161</b>	<b>247</b>	<b>503</b>	<b>1,331</b>
El Toro WD	0	0	0	88	109	227	352	384	1,160
Irvine Ranch WD	0	0	0	277	638	646	708	1,008	3,277
Laguna Beach CWD	0	0	0	0	0	0	0	57	57
Moulton Niguel WD	0	0	0	80	57	113	180	473	903
San Clemente	0	0	0	0	0	0	0	0	0
San Juan Capistrano	0	0	0	191	165	204	227	233	1,020
Santa Margarita WD	0	0	0	547	619	618	945	1,571	4,300
South Coast WD	0	0	0	0	0	0	62	117	179
Trabuco Canyon WD	0	0	0	0	0	0	12	49	61
<b>9 South County Agency Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,183</b>	<b>1,588</b>	<b>1,808</b>	<b>2,486</b>	<b>3,892</b>	<b>10,957</b>
<b>MWDOC Totals</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>1,406</b>	<b>1,785</b>	<b>1,969</b>	<b>2,733</b>	<b>4,395</b>	<b>12,288</b>
Remaining MWDOC %	0%	0%	0%	16%	11%	8%	9%	11%	11%
9 South County Agency %	0%	0%	0%	84%	89%	92%	91%	89%	89%



December 17, 2007

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MEMBER AGENCIES

City of Brea

City of Buena Park

East Orange County Water District

El Toro Water District

Emerald Bay Service District

City of Fountain Valley

City of Garden Grove

Golden State Water Co.

City of Huntington Beach

Irvine Ranch Water District

Laguna Beach County Water District

City of La Habra

City of La Palma

Mesa Consolidated Water District

Moulton Niguel Water District

City of Newport Beach

City of Orange

Orange County Water District

Orange Park Acres Mutual Water Co.

City of San Clemente

City of San Juan Capistrano

Santa Margarita Water District

City of Seal Beach

Serrano Water District

South Coast Water District

Trabuco Canyon Water District

City of Tustin

City of Westminster

Yorba Linda Water District

Supervisor Bill Campbell  
Chairman  
Orange County LAFCO  
12 Civic Center Plaza, Room 235  
Santa Ana, CA 92701

Dear Supervisor Campbell:

Subject: MWDOC Objection to Proposed LAFCO Reorganization Study

On behalf of the Board of Directors of the Municipal Water District of Orange County (MWDOC), I wish to first thank you for your reasoned and thoughtful comments at the November 14, 2007 public hearing on MWDOC's Municipal Service Review and Sphere of Influence report. Although we are not in complete agreement with many of the statements in these documents, the MWDOC Board appreciated the Commission's action in receiving and filing them. We were surprised and dismayed, however, at the Commission's last-minute addition of a request for preparation of an RFP to hire a consultant to conduct an independent study of MWDOC. That proposed study is the focus of this letter.

MWDOC objects to the study on general principles, as discussed below, and also objects to many specific features of the Draft Scope of Work (Draft RFP) distributed by Joyce Crosthwaite on November 28, 2007. As a precaution, we have elected to respond separately to Ms. Crosthwaite with proposed changes and corrections to her Scope, but we strongly believe that a study like the one outlined in the Draft RFP would be inappropriate, unprecedented and outside the Commission's authority at this time. The MWDOC Board requests that the legality and substance of any study be reviewed carefully by the Commission and its legal counsel before any further action is considered.

The study proposed in the Draft RFP is nothing less than a reorganization study. This is obvious from the substance of the Draft Scope of Work for the RFP circulated by Ms. Crosthwaite and even from the title -- "Study of MWDOC Reorganization Alternatives." Such a study would circumvent established OCLAFCO procedures for reorganization by commencing the reorganization process without a reorganization proposal from the Commission or a reorganization application from an interested agency. If it proceeds in this manner, the Commission will fail to address threshold issues and findings that are required by statute and OCLAFCO guidelines prior to reorganization proceedings.

For example, under both Government Code section 56375 and the OCLAFCO policies and procedures for the initiation of proposals, the Commission is authorized to initiate only certain types of reorganization proposals, and prior to doing so it must make formal determinations that (1) the cost of public service under the proposed alternative will be the same or less and (2) the reorganization authorized by the Commission promotes public access and accountability for community services needs and financial resources. The Commission has made none of these determinations and has deprived MWDOC and other agencies throughout the County of the ability to assess whether the Commission is proceeding based on a reorganization proposal that is within the Commission's authority.

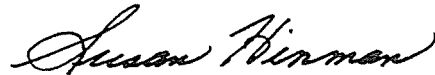
The MSR/SOI process conducted during the past year has consumed a large amount of time and resources for MWDOC, OCLAFCO and many of the cities and contracting water agencies in Orange County. After a tremendous investment in the Facilitated Meetings, MWDOC and the South Orange County agencies involved in the meetings reached compromise positions on the substantive issues, but ultimately failed to reach a consensus due to disagreement over a legal issue (mediation versus arbitration for dispute resolution). If OCLAFCO goes straight into the reorganization study proposed by the Draft RFP, MWDOC will never have an opportunity to implement the lessons learned from the Facilitated Meetings and the policy changes that have already been adopted by MWDOC's Board. You made a similar point yourself during the November 14 hearing.

The word "study" sounds innocuous, but in this case it is not. Even taking the first step of approving an RFP for preparation of a reorganization study is commencement of a process that cannot be commenced without certain prerequisite steps that have not been taken. The MWDOC Board requests withdrawal of the Draft RFP circulated by Ms. Crosthwaite and a properly agendized public discussion of the process proposed by the Commission. These are critical decisions for the future of our County, and they should be made carefully and with full participation by all of MWDOC's contracting agencies.

Chairman Bill Campbell  
Page 3  
December 17, 2007

Thank you for your consideration of these matters. Please feel free to contact me if you have any questions.

Very truly yours,

A handwritten signature in cursive script, reading "Susan Hinman".

Susan Hinman  
President

cc: Honorable Patricia Bates  
Honorable Robert Bouer  
Joyce Crosthwaite  
Honorable Peter Herzog  
Honorable Patsy Marshall  
Honorable John Moorlach  
Rhonda McCune  
Honorable Arlene Schafer  
Honorable Charley Wilson  
Susan Wilson  
Honorable John Withers  
MWDOC Contracting Agencies

## CALIFORNIA LEGISLATURE

STATE CAPITOL  
SACRAMENTO, CALIFORNIA  
95814

RECEIVED

APR 30 2008

MWD OF OC

April 25, 2008

**Re: Support for the Municipal Water District of Orange County, the services it provides, and maintaining its existing governance structure.**

To Whom It May Concern:

As members of the Orange County State Legislative Delegation, we wish to express our support for the Municipal Water District of Orange County (MWD OC) and the wide range of cost-effective and efficient services it provides to and through its 28 member agencies.

MWD OC is a wholesaler of imported water for Orange County through the Metropolitan Water District of Southern California, but it also plays other valuable roles that include: regional water resource planning agency; coordinator for water reliability projects; facilitator of grant funding; creator of innovative water education programs for students and teachers; organizer of countywide water emergency planning and response; advocate for Orange County water interests with legislative and other governmental bodies; and originator of regional water conservation programs including rebate programs for residents, businesses and industry, to name a few.

MWD OC has been engaged since mid-2006 in an extensive review of its services, budget, and related policies both through direct dialogue with its member agencies and through the state-mandated Municipal Service Review (MSR) complete in late 2007 by the Orange County Local Agency Formation Commission (OC LAFCO). This exhaustive review and dialogue has resulted in MWD OC directing hundreds of hours of staff time and an estimated \$250,000 in consulting and legal expenses to respond to a range of concerns expressed by a few member agencies over its services, governance structure, rates and financial practices, and even its reason for existence. Some of these agencies have more recently expressed satisfaction with MWD OC after completing the MSR process.

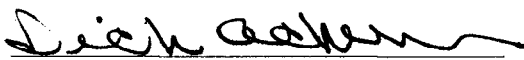
Despite the strong satisfaction expressed by the vast majority of the member agencies that MWD OC serves, a governance study is now being pursued by OC LAFCO that would evaluate options to dissolve, reorganize or split MWD OC. We question the need for the study given MWD OC's performance over the years and the high level of satisfaction indicated by its member agencies. In light of the current water challenges confronting the state today, this governance study seems to be an unnecessary and costly distraction from what city water departments and retail water agencies in the County should be focused on – ensuring water reliability for their communities and their customers.

There has never been a more important time than now to have MWD OC working on behalf of our county's water interests and securing our future water needs. Given its proven track record as an


effective water resources advocate and coordination and planning agency, now is not an appropriate time to conduct a study that could alter how MWDOC serves Orange County.

We strongly urge OC LAFCO to reconsider its decision to conduct a MWDOC governance study, and instead embrace the unique and valuable role that MWDOC plays in contributing to a more reliable water future for Orange County.

Sincerely,



Senator Dick Ackerman



Senator Tom Harman



Senator Lou Correa

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# Assembly California Legislature



**MICHAEL D. DUVALL**  
ASSEMBLY MEMBER, SEVENTY-SECOND DISTRICT

COMMITTEES  
TRANSPORTATION, VICE CHAIR  
INSURANCE  
BUDGET  
JOINT LEGISLATIVE BUDGET  
BUDGET SUBCOMMITTEE #2  
EDUCATION FINANCE

May 5, 2008

Orange County Local Agency Formation Commission  
Attn: John Withers, Chairman  
12 Civic Center Plaza, Room 235  
Santa Ana, CA 92701

RECEIVED

MAY 09 2008

MWD OF OC

## Re: Support for the Municipal Water District of Orange County Services & Governance Structure

To Whom It May Concern:

As members of the Orange County State Legislative delegation, we support the Municipal Water District of Orange County (MWDOC) and the wide range of cost-effective and efficient services it provides to and through its 29 member agencies.

MWDOC distributes water imported into Orange County through the Metropolitan Water District of Southern California. However, it also plays other valuable roles that include: regional water planning; coordinating water reliability projects; facilitating grant funding; creating innovative water education programs for students and teachers; organizing countywide water emergency planning and response; advocating Orange County water interests with legislative and other governmental bodies; and originating regional water conservation programs, including resident, business, and industry rebates.

Since 2006, MWDOC has been extensively reviewing its services, budget, and related policies through direct dialogue with member agencies and the state-mandated Municipal Service Review (MSR), completed in late 2007 by the Orange County Local Agency Formation Commission (OC LAFCO). This exhaustive review resulted in MWDOC directing hundreds of hours of staff time and an estimated \$250,000 in consulting and legal expenses to respond to a range of concerns expressed by a few member agencies about its services, governance structure, rates, financial practices, and even its reason for existence. Some of these agencies have expressed satisfaction with MWDOC after completing the MSR process.

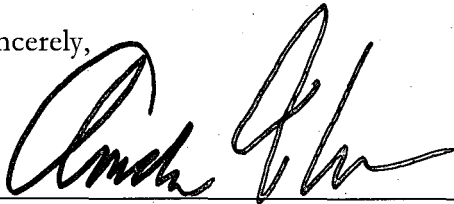
Despite the strong satisfaction expressed by the vast majority of the member agencies MWDOC serves, a governance study is now being pursued by OC LAFCO that would evaluate options to dissolve, reorganize, or split MWDOC. We question the need for the study given MWDOC's recent review, service enhancement, performance, and the high level of satisfaction indicated by its member agencies. In light of the current water challenges confronting the state, this study seems an unnecessary and costly distraction from what city water departments and retail water agencies in the county should be focused on – ensuring water reliability for communities and customers.

Orange County Local Agency Formation Commission  
May 5, 2008  
Page Two

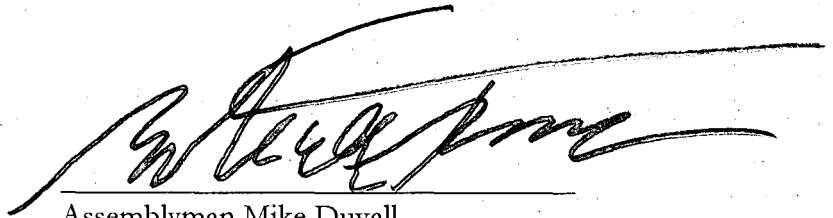
There has never been a more important time than now to have MWD OC working on behalf of our county's water interests and securing our future water needs. Given its proven track record as an effective water resources advocate and coordination and planning agency, now is not an appropriate time to consider restructuring how MWD OC serves Orange County.

We strongly urge OC LAFCO to reconsider its decision to conduct a MWD OC governance study, and to embrace, instead, the unique and valuable role that MWD OC plays in contributing to a more reliable water future for Orange County.

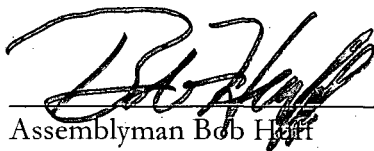
Sincerely,



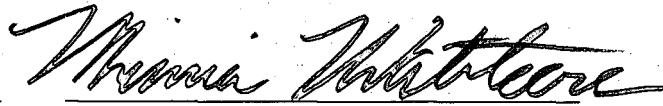
Assemblyman Chuck DeVore



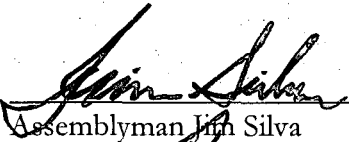
Assemblyman Mike Duvall



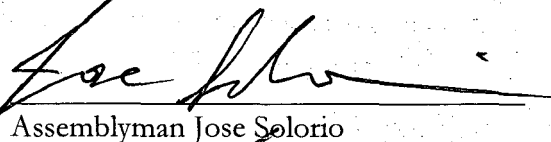
Assemblyman Bob Huff



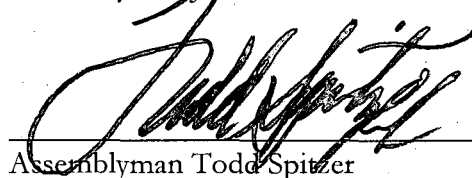
Assemblywoman Mimi Walters



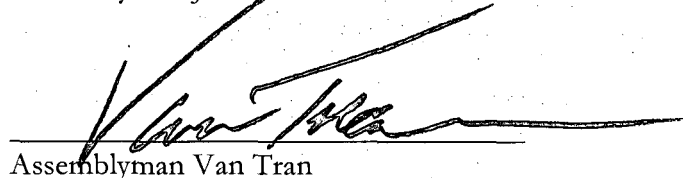
Assemblyman Jim Silva



Assemblyman Jose Solorio



Assemblyman Todd Spitzer



Assemblyman Van Tran





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Kevin P. Hunt, P.E.  
*General Manager*

**MEMBER AGENCIES**

City of Brea

City of Buena Park

East Orange County Water District

El Toro Water District

Emerald Bay Service District

City of Fountain Valley

City of Garden Grove

Golden State Water Co.

City of Huntington Beach

Irvine Ranch Water District

Laguna Beach County Water District

City of La Habra

City of La Palma

Mesa Consolidated Water District

Moulton Niguel Water District

City of Newport Beach

City of Orange

Orange County Water District

City of San Clemente

City of San Juan Capistrano

Santa Margarita Water District

City of Seal Beach

Serrano Water District

South Coast Water District

Trabuco Canyon Water District

City of Tustin

City of Westminster

Yorba Linda Water District

May 19, 2009

The Honorable Susan Wilson, Chairperson  
Local Agency Formation Commission of Orange County  
12 Civic Center Plaza, Room 235  
Santa Ana, Ca 92701

Dear Chairperson Wilson:

**Subject: OC LAFCO First Draft Governance Study,  
Municipal Water District of Orange County**

On behalf of the Municipal Water District of Orange County (MWDOC), please accept the following comments on the MWDOC "First Draft Governance Study" (Study) dated May 6, 2009. These comments address many of the broad policy issues raised by the Study itself and by the events that gave rise to the Study. This letter is submitted at this time, and under separate cover, to focus the Commission's attention on important policy issues that should be remembered when considering the Study. MWDOC believes attention to the policies surrounding reorganization will help the Commission make a more informed decision. MWDOC will also submit a more technical letter before the May 27, 2009, deadline for comments that will fully address financial, implementation and other issues in detail.

Most of the governance structure options identified in the Study have already been rejected, for a variety of reasons. MWDOC believes the remaining governance options identified in the Study would be contrary to the policies and procedures adopted by the Commission and significant parts of the Cortese-Knox-Hertzberg Act of 2000. These conflicts, which are discussed in detail below, should be addressed and analyzed by the Study. If a conflict cannot be resolved the Study should acknowledge this fact.

## **I. MWDOC Coordinates Local Perspectives to Present a Regional Approach**

- *Historically, MWDOC has been a useful and efficient medium for bringing the "local plan oriented" agencies together and attaining the LAFCO goal of providing cost efficient water service. Individually, the local agencies could never attain the economies of scale that MWDOC provides for them.*
- Creating two or more agencies that compete for a limited resource would be an inefficient division within Orange County.
- Since its consolidation with the Coastal Municipal Water District in 2000, which was part of implementing a regional approach to water management, MWDOC has served Orange County as a whole and has provided centralized services that allow for economies of scale in water conservation, development of water reliability and emergency response, to name just a few.
- Consolidation also streamlined local government and allowed for more efficient provision of wholesale water services.
- Keeping MWDOC as a consolidated agency for all of Orange County keeps costs down, and provides Orange County with the strongest possible voice in competing for water.
- A single Orange County wholesale agency is the most efficient and cost-effective approach to the services MWDOC currently provides.

## **II. Formation of a New South County Agency (SCA) Is Inconsistent with LAFCO Policies.**

While OC LAFCO previously advised MWDOC that formation of a new South County Agency (hereinafter SCA) is "consistent with OC LAFCO policies," MWDOC believes a more detailed analysis of this consistency, or lack thereof, would greatly serve the Commission when it considers the results of the Study. By specifically analyzing the consistency with OC LAFCO policies, the Commission is provided with the information necessary when, and if, it adopts findings and conclusions on the Study.<sup>1</sup>

---

<sup>1</sup> Should the Commission decide to further analyze the formation of a new SCA, additional analysis is needed to comply with OC LAFCO policies and Cortese-Knox-Hertzberg statutory requirements. For example: (1) OC LAFCO policy requires public workshops in the affected community if requested by an affected agency (OC LAFCO Policies, "Meetings to be Held Within an Affected Community," Arts. II and III). MWDOC and its client agencies will likely request these meetings and the costs thereof need to be included in the Study; (2) OC LAFCO policy provides for establishment of transitional spheres of influence ("SOI") pending consideration of service delivery alternatives (OC LAFCO Policy, "Sphere of Influence Policies, Art. II, §J). A transitional SOI would need to be established pending implementation and the costs thereof need to be included in the Study. An SCA should be consistent with established SOIs (OC LAFCO Policies, "Sphere of Influence," Art. IV, §D) and consider factors set out in OC LAFCO Policies, "Sphere of Influence," Art. IV, §D); and (3) OC LAFCO policy requires a plan for services be submitted to OC LAFCO (OC LAFCO Policies, "Standards for Evaluating Service Plans..." Art. II, §B; Water Code Appendix §45-4).

**A. Formation of a new SCA Should Be Analyzed for Consistency with OC LAFCO's Mission.**

POLICY (a): OC LAFCO's mission is, among other things, to "serve the citizens of Orange County by facilitating constructive changes in governmental structure and boundaries...that resolve intergovernmental issues, foster orderly development and governance, and promote the efficient delivery of services."

POLICY (b): OC LAFCO "conducts special studies which review ways to reorganize, simplify and streamline governmental structures." (OC LAFCO, Policies & Procedures, "Bylaws of the Local Agency Formation Commission," Art. I, § 1.2) (Hereafter "OC LAFCO Policies.")

- MWDOC serves the residents and businesses of Orange County by marshalling the water needs of the County as water is distributed through the "local" water agencies, resulting in a cooperative effort among 28 separate agencies to provide regional water service with the goal of achieving economies of scale.
- Changing MWDOC's structure by creating a new SCA would curtail MWDOC's opportunities to resolve intergovernmental issues, foster orderly development and governance, and promote the efficient delivery of services.
- A full analysis of MWDOC's governance structure should include a clear and detailed analysis of how a new SCA would resolve intergovernmental issues (not intra-governmental), foster orderly development and governance, and promote efficient delivery of water. MWDOC believes that the appropriate way to resolve intergovernmental issues is not always through the creation of more agencies and bureaucracy.
- While no governmental structure involving 28 separate agencies will ever be perfect, MWDOC is the ideal source of overall efficiency, which benefits all of Orange County.
- Additionally, MWDOC believes a new SCA that provides a smaller range of services and requires the establishment of new school and water efficiency programs, at substantial cost, is inconsistent with OC LAFCO's mission. A new SCA would increase the cost of these services over the cost of similar services under the Status Quo option.
- Finally, a new SCA does not simplify and streamline the governmental structure for wholesale water services. A cursory review of the map detailing the boundaries of a new SCA reveals it would not be a constructive change in governmental structure and boundaries, since it would create even more odd and irregular boundaries for Orange County's citizens to navigate.

**B. Formation of a new SCA is Inconsistent with OC LAFCO's Policies.**

**POLICY: Simplify the Provision of Government Services** "The Commission desires to exercise its powers under State law to restructure and simplify the system for providing local governmental services in the county...." (OC LAFCO Policies, "Policy & Procedures for the Initiation of Proposals by the Local Agency Formation Commission," Art. I.)

- If a new SCA is formed, the wholesale water services, water use efficiency programs, and school education services provided for all MWDOC retail customers under MWDOC's current governance structure would be fractured and the relative simplicity of the programs that currently exist would be unduly complicated.
- If a new SCA is formed, education services would be provided by a variety of agencies, all with different programs, water use efficiency programs would not be uniformly applied and promoted throughout the region, and wholesale water services, which are effectively provided by one agency, would be split into two agencies.
- Finally, MWDOC believes formation of a new SCA, only 8 years after the merger of MWDOC and Coastal MWD, only complicates the system for providing wholesale water services

**C. Formation of a New SCA is Inconsistent with the Cortese-Knox-Hertzberg Act of 2000 <sup>2</sup>**

- **Formation of a new SCA Does Not Efficiently Extend Government Services.**

---

<sup>2</sup> Ultimately any reorganization considered by the Commission will have to satisfy a number of factors and conditions for reorganization established in the Cortese-Knox-Hertzberg Act of 2000. These factors should be analyzed by the Governance Study and considered in any recommendation so that stakeholders have a realistic idea which proposals are viable. For example, see Government Code sections 56375 (in deciding proposals for reorganization, commission has many obligations, including the duty to makes its decision consistent with the written policies, procedures, and guidelines adopted by the commission); 56668 (in reviewing proposals for reorganization, commission must consider numerous factors, including the present cost and adequacy of governmental services, the effect on the local governmental structure, the comments of affected local agencies, the ability of the new entity to provide services, and many others); 56885.5 and 56886 (in approving any reorganization, commission may impose a variety of conditions, including payment of money for property and facilities, apportioning payments for revenue bonds, contracts and other obligations, fixing and establishing priorities and rights of use in any public facilities, including water, the employment, transfer, or discharge of employees, and many others); and 56886.5 (if proposal includes formation of a district, commission shall determine whether "existing agencies can feasibly provide the needed service or services in a more efficient and accountable manner").

Gov. Code § 56001: (Responsibility for providing governmental services “should be given to the agency or agencies that can best provide government services.”)

- In encouraging orderly growth and development, the Legislature recognized the important state interest in “efficiently extending government services.”
  - The potential governance options being analyzed in this Study should be analyzed to determine their consistency with this important state interest.
  - MWDOC believes such an analysis would reveal that MWDOC continues to be the most efficient agency to provide these essential services.
- **Formation of a new SCA Must Be Analyzed to Determine if an Existing Agency Can Feasibly Provide Water Delivery Services.**  
Gov. Code § 56301: (“When the formation of a new government entity is proposed, a commission shall make a determination as to whether existing agencies can feasibly provide the needed service or services in a more efficient and accountable manner. If a new single-purpose agency is deemed necessary, the commission shall consider reorganization with other single-purpose agencies that provide related services.”)
    - Faced with the proposed formation of a new government entity, OC LAFCO must determine “whether existing agencies can feasibly provide the needed service or services in a more efficient and accountable manner.”
    - MWDOC believes the current analysis of the new SCA governance option insufficiently accounts for this policy.
      - First, the analysis does not evaluate whether MWDOC is able to provide the services in a more efficient and accountable manner.
      - Second, the analysis does not evaluate whether there are other Orange County agencies that could provide the water services without forming a new SCA.

MWDOC asserts that the Study’s analysis of the new SCA should include a determination of whether existing agencies can feasibly provide water services in a more efficient and accountable manner than a new SCA so that the Commission has the information it needs to make an informed conclusion

### **III. The Governance Study Fails to Specify the Problems It is Supposed to Solve.**

MWDOC believes that there is no clearly stated goal of the Governance Study because the Study has never fully embraced the significance of MWDOC's history of a regional approach to water management to provide efficient and cost effective service to the local agencies and their constituencies within Orange County. The Study is too general and unspecific about what the problems really are. Without specific identification of the problems it is impossible to tell if reorganization is truly appropriate.

- The Study fails to identify any specific problems with MWDOC's current role and the functions it currently performs.
- The Study fails to identify any specific problems with MWDOC's reserves, budgeting or rates.
- The Study fails to identify how the cost sharing among MWDOC's client agencies is inequitable.
- The Study fails to identify how MWDOC is insufficiently accountable to the client agencies as constituents.

Even without specific identification of problems, MWDOC is committed to continue working as hard as possible with its client agencies to address and alleviate their concerns. Further, there will always be some client agencies that are not fully satisfied with all of MWDOC's policies. That dynamic creates a healthy check and balance on implementing policies and programs for the overall good of Orange County water users.

- Individual agencies have individual agendas with respect to policy issues; MWDOC works hard to take a regional view to the individual policy issues.
- Where genuine issues exist, they are best resolved by direct cooperation between MWDOC and its client agencies.
- MWDOC has made many changes in light of client agency comments, and has repeatedly offered to discuss additional changes to reasonably accommodate its client agencies.
- *MWDOC is in the unique position of gathering all of the "local plan oriented" agendas and goals of the member agencies and filtering them through a region-wide lens to present a strong and unified approach to Metropolitan WD and the State. Some tension between the different agendas and goals of the member agencies is inevitable and desirable.*

#### **IV. The Governance Study Insufficiently Analyzes What Service Costs Savings or Substantially Similar Costs Would Be Amongst Specific "Local" Member Agencies.**

- The Study fails to meaningfully consider the merger or two or more agencies to achieve additional economies of scale, even though it is

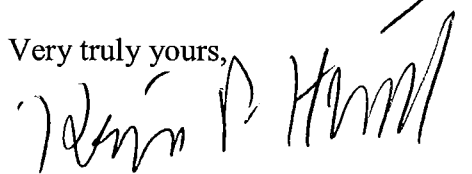
intended to evaluate and analyze all potential governance options. Instead, the Study limits itself to a meaningful analysis of only a partial detachment from MWDOC and formation of an entirely new public entity that provides the same services that MWDOC provides.

- MWDOC believes it is axiomatic that the costs to run two public entities to provide the same services that one public entity currently provides is inconsistent with the goals of Cortese-Knox-Hertzberg and OC LAFCO's policies and procedures.
- The Study also fails to discuss how to balance/evaluate/analyze cost savings for one MWDOC member agency against cost increases for another MWDOC member agency. Instead, MWDOC believes the Study embellishes any potential or perceived savings for some member agencies and downplays the cost impacts to other member agencies as though the conclusion was reached before the analysis was completed. In fact, the Study appears to have a predetermined set of conclusions that cost savings for particular member agencies must be found "somewhere."

MWDOC believes formation of an SCA does not satisfy the goals and policies of OC LAFCO and the Cortese-Knox-Hertzberg Act. The fact that a spin-off SCA would increase bureaucracy and agencies within the County with no new services, no increase in service efficiencies, and no cost savings, and potential costs increases, goes against what OC LAFCO's policies and the Cortese-Knox-Hertzberg Act intend to do. This is without addressing the substantial transactional costs of forming a new SCA. A new SCA would just be an inefficient and more expensive way to provide the same services MWDOC already provides.

In conclusion, MWDOC remains committed to meeting with OC LAFCO and all stakeholders to actively work to address the issues and concerns of all member agencies. MWDOC cares so deeply about this issue because, as stated above, it takes a regional approach to the water needs of Orange County and believes a consolidated effort is the best way to support all water agencies of the County.

Very truly yours,



Kevin P. Hunt, P.E.  
General Manager

Copy: Joyce Crosthwaite, Executive Officer/OCLAFCO  
MWDOC Client Agencies

**Orange County  
Local Agency Formation Commission**



**Municipal Water District of Orange County  
Governance Study  
Technical Report 1  
Potential Governance Structure Alternatives**

December 2008

*Prepared by:*

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Richard Watson & Gershon  
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Madigan Consulting Inc.  
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## Appendix

Attachment A - Overview of MWDOC

Attachment B - MWDOC 12-20-06 Staff Report and Policy Statement

Attachment C - Complete Governance Study Timeline

## Background of Governance Alternatives Study

In November of 2007, the Orange County Local Agency Formation Commission (LAFCO) reviewed the Municipal Services Review (MSR) for the Municipal Water District of Orange County (MWDOC) and, consistent with the California Environmental Quality Act and the Cortese-Knox-Hertzberg Local Government Reorganization Act (Government Code Section 56000 et.seq.), received and filed the MSR report. *(A brief history of the formation of MWDOC, its current responsibilities and a listing of its 28 member agencies is included as Attachment A in the Appendix to this report.)*

The MWDOC MSR was developed through a stakeholder driven process. The stakeholder process raised a number of issues, summarized in the MSR:

*“Based on all the stakeholder meetings and discussions, it is clear that there are fundamental differences between MWDOC and some of the member agencies with regards to appropriate service levels, approach and policies. Key issues were discussed related to: (1) MWDOC’s role and its core functions, (2) reserves, budgeting and rates, (3) equitable cost sharing among member agencies, and (4) accountability to the member agencies as constituents. Each of these issues points to a fundamental question: Is the government structure of MWDOC, as a Municipal Water District, the appropriate government structure to serve Orange County?”*

MWDOC continues to serve its member retail agencies and has implemented changes to its policies and budget process as a result of participation in the joint MWDOC/LAFCO stakeholder program (see Appendix Attachment B, MWDOC 12-20-06 Staff Report and Policy Statement). However, as the November 2007 LAFCO staff MSR transmittal letter to LAFCO Commissioners notes, “...despite the extensive nature of the stakeholder process and best intentions of everyone involved, the issues have not been resolved to the satisfaction of everyone.” In response to a request from some MWDOC member agencies, the LAFCO Commissioners directed the preparation of a Governance Study to further examine the government structures identified in the MSR.

## Steps in Completion of the Governance Study

The purpose of the Governance Study is to analyze government structure alternatives for MWDOC by:

- Identifying alternatives which may have the potential to resolve issues raised in the MWDOC MSR
- Identifying which government structure alternatives are legally and practically feasible
- Determining the fiscal impacts that could result from each alternative

- Determining any impacts on representation at Metropolitan that could result from each alternative
- Summarizing actions and steps necessary to implement any viable alternative

It is not the purpose of the Governance Study to recommend a preferred reorganization of MWDOC. Instead, the study is designed to provide sufficient information, data and analysis to better understand the possibilities and impacts associated with each of these government options.

The Governance Study will be developed through the completion of six key steps identified below. Steps two through four will each result in a draft analysis or technical report that will be subject to review and comment of the Working Group, which consists of MWDOC and its 28 member retail agencies. Steps five and six include the completion of draft and final versions of the comprehensive Governance Study.

Steps	Status
1. Review of Assumptions, Data and Relevant Documents. Participate in 1 <sup>st</sup> Working Group Meeting.	Data review ongoing. 1 <sup>st</sup> Working Group Meeting completed.
2. Identify Potential Governance Structure Alternatives and complete legal analysis of options. Participate in 2 <sup>nd</sup> Working Group Meeting.	The draft of this Technical Report was presented at the 2nd Working Group Meeting. This final version incorporates comments received, as appropriate.
3. Develop Baseline Analysis of MWDOC Current Service Model and Financial Analysis.	To be completed.
4. Develop Viable Fiscal and Legal Alternative Comparison.	To be completed.
5. Develop Draft Governance Study.	To be completed.
6. Develop Final Governance Study.	To be completed.

Three draft reports (Steps 2 through 4) will be completed to form the basis of the Governance Study:

- This report constitutes the first of three technical reports, and it provides an initial screening of feasible governance structure alternatives;
- The second technical report will discuss MWDOC's current service model and will provide a financial analysis for each feasible governance alternative including transition and long-term administrative and operating costs; and
- The third technical report will discuss the process for implementation of each viable option under current law, including, but not limited to legal

barriers and an analysis of any changes to the current voting rights and representation at Metropolitan.

## Alternative Governance Options

LAFCO's November 2007 Municipal Service Review for MWDOC identified 5 potential governance structure options (items 1 through 5 below) for further review. Two additional options (items 6 and 7) were subsequently added by LAFCO staff for consultant evaluation as part of this study.

1. Maintain the status quo with policy changes agreed upon by the MWDOC Board in December 2006 (See Appendix, *Attachment B*).
2. Dissolve MWDOC and form a new entity authorized to provide representation at the Metropolitan Water District of Southern California (Metropolitan).
3. Reorganize the South County<sup>1</sup> agencies by detaching from MWDOC and forming a new entity authorized to provide representation at Metropolitan.
4. Merge MWDOC and the Orange County Water District (OCWD) which could include an option to detach the South County agencies to form a new entity.
5. Reorganize MWDOC with the East Orange County Water District (OCWD).
6. Dissolve MWDOC and form a Joint Powers Authority.
7. Maintain the status quo but restructure the existing MWDOC governance board representation.

During the initial Working Group meeting held on October 22, 2008, each of the potential governance options were discussed and evaluated. Option 5 ("Reorganizing MWDOC with the East Orange County Water District"), was eliminated by the Working Group from further consideration. The consultant was directed to include only the remaining six options in the Governance Study.

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<sup>1</sup> The South County agencies include El Toro, Irvine Ranch, Moulton Niguel, Santa Margarita, South Coast and Trabuco Canyon Water Districts.

## Fatal Flaw Criteria

For the purposes of this analysis, each governance alternative is measured against 4 primary criteria listed below. Failure to meet any of these criteria is considered to be a fatal flaw.

- The ability to provide representation at Metropolitan
- The ability to provide a similar range of services
- The ability to be implemented without special legislation
- The potential to solve issues outlined within the MWDOC MSR

Each of these criteria is discussed below.

### Representation at Metropolitan

The primary purpose of MWDOC is to import water from Metropolitan into Orange County. This is a core function that cannot be compromised. Because of this criterion, the range of governance structures is limited to the six types of agencies outlined as eligible members in the Metropolitan Water District Act.<sup>2</sup> These are:

- Cities
- Municipal Water Districts
- Municipal Utility Districts
- Public Utility Districts
- County Water Districts
- County Water Authorities

Representation at Metropolitan is also determined by Metropolitan's principal act. Each member agency is entitled to one member on Metropolitan's board plus an additional member for each full 5 percent of assessed valuation of property taxable for Metropolitan's purposes within the member agency's boundaries.<sup>3</sup>

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<sup>2</sup> Chapter 2, Metropolitan Water District Act, Statutes 1969, Chap 2, as amended

<sup>3</sup> Metropolitan Water District Act, Section 52.

One governance structure option selected for further review was dissolving MWDOC and forming a Joint Powers Authority (JPA), however this type of agency is not eligible for membership at Metropolitan. Therefore this option is considered fatally flawed and will not be carried forward for further analysis.

## Provision of a Similar Range of Services

MWDOC provides a range of services in accordance with its principal act and any alternative governance structure must be able to provide a similar range of services. Table 1, following, summarizes the authorized services for each of the six governance structures authorized to provide representation at Metropolitan. A more detailed discussion of each governance structure follows the table.

**Table 1: Range of Services by Governance Structure**

Service	California City	Municipal Water District	MWDOC Current Service Model	Municipal Utility District	Public Utility District	County Water District	County Water Authority
Development of Water Supplies	X	X		X	X	X	X
Sale of Water	X	X	X	X	X	X	X
Standby Charges for Water*	X	X	X	X	X	X	X
Recycled Water	X	X		X	X		X
Recreation	X	X			X	X	
Electrical Power Power Generation	X	X		X	X	X	
Light/Heat	X			X	X		
Transportation	X			X	X		
Communication	X			X	X		
Sewage Disposal/Sewers	X	X		X	X	X	
Storm Water Disposal	X	X					
Fire Protection	X	X			X	X	
Water Replenishment Assessment		X					X
Sanitation	X	X		X	X	X	

*\*Specifically authorized for a Municipal Water District. Presumed to be available to the other governance structures under general law (The Uniform Standby Charge Procedures Act, Government Code Section 54984 et. seq.).*

## Cities

California cities are authorized to provide services as described in Government Code Title 4, beginning with Section 34000. A city's authority to provide water supply is outlined in Government Code Title 4, Division 3, Chapter 10 beginning with Article 5. California cities also have broad authority to provide police, fire, sewer and park and recreation services as well as to run municipal utilities (gas and electricity). Cities are governed by an elected City Council generally consisting of 5 or 7 members.

## Municipal Water Districts

Municipal Water Districts (MWDs) can provide a broad range of water supply services, including levying water standby charges and water replenishment assessments. MWDs are also empowered to provide sewer and sanitation services, storm water disposal services, fire protection services, recreation services and electrical power services. Currently MWDOC's functions are limited to water supply services.

MWDs are generally governed by a 5 member board elected from divisions, although LAFCO has the authority to expand the board to 7, 9 or 11 members as a result of reorganization or consolidation. This expanded board is to include members of the boards of the districts being reorganized or consolidated.<sup>4</sup> The Water Code makes provisions for returning the Board to a directly elected board once the terms of members appointed during the reorganization/consolidation expire.

## Municipal Utility Districts

Municipal Utility Districts (MUDs) can provide a wide range of public services including light, water, power, heat, transportation, telephone or communication services, and the collection, treatment, or disposition of garbage, sewage, or refuse matter. MUDs are governed by a 5-member board, elected from specific geographic areas known as wards.

## Public Utility Districts

Public Utility Districts (PUDs) can provide a wide range of public services including light, water, power, heat, transportation, telephone or communication service, and garbage, sewage, or refuse matter. PUDs may also provide fire, street lighting and

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<sup>4</sup> Water Code Section 71250.1

recreation services. PUDs are governed by an elected board consisting of at least 3 members. The Board is composed of 3 or 4 directors elected at large and a member from each territorial unit with a population of 5,000 or more. The Board of Supervisors is charged with naming and designating the territorial units.<sup>5</sup>

### County Water Districts

County Water Districts (CWDs) generally have the same range of authority as MWDs. A CWD has express powers to protect water rights, similar to those outlined for a MWD.<sup>6</sup>

CWDs are generally governed by a 5 member elected board, although, similar to a MWD, LAFCO has the authority to expand the board to 7, 9 or 11 members as a result of reorganization or consolidation.<sup>7</sup> There are also similar provisions for returning the Board to a smaller size as terms expire. Additionally there is at least one case, the Pleasant Valley Water District in Ventura County, where non-resident property owners are eligible to run for the board of directors.<sup>8</sup>

A primary difference between a CWD structure and a MWD is that the CWD Board is elected “at large”, while the MWD Board is elected from districts with similar populations.

### County Water Authorities

County Water Authorities (CWAs) have a more limited range of services; their authority is limited to water supply functions. Because MWDOC does not currently utilize its authority for any type of service except water service, this distinction is not considered a fatal flaw. Agencies represented by MWDOC would not experience a reduction in service under the CWA governance structure. CWAs are governed by Water Code Appendix 45 (the County Water Authority Act). Under that code section, the agency is governed by an appointed board of directors, with at least one director appointed from each member agency.

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<sup>5</sup> Public Utilities Code Section 15960

<sup>6</sup> Water Code Section 31000 et. seq.

<sup>7</sup> Water Code Section 30500.1

<sup>8</sup> Water Code Section 30511



## Summary

All governance structures authorized to provide representation at Metropolitan are able to provide the same general range of services as MWDOC currently provides, although there are differences in the manner in which the various boards of directors are selected. While some structures, such as the CWA, are limited to water activities, this is not considered a fatal flaw because MWDOC does not currently provide services beyond those associated with the imported water supply.

### **Ability to be Implemented without Special Legislation**

Governance structures that require special legislation are considered infeasible because successfully securing special legislation is not guaranteed and not within the control of LAFCO or the Stakeholders. However, based on input from the Stakeholders, alternatives that require changes to existing law to implement will be summarized and “parked” as part of this report. Those alternatives which were “parked” include:

- Modifying the Municipal Water District Act of 1911 to provide for changes in governance board representation.
- Expanding the definition of public agency in the Municipal Utility District Act to include the full range of agencies represented by MWDOC.
- Expanding the contemplated service area of a Public Utility District to include incorporated areas.
- Modifying OCWD’s principal act to allow merger with MWDOC.
- Modify the Municipal Water District Act of 1911 and County Water District Law to clearly allow for consolidation of these two types of agencies.
- Expanding the definition of a “public agency” in Metropolitan’s principal act to include Joint Powers Authorities.

### **Solving Issues Outlined within the MWDOC MSR**

The issues that were identified in the MWDOC MSR reflect the divergent interests among some MWDOC member agencies. Because of their dependency on imported water, the South County agencies have a different service approach than the agencies in the northern and central portions of the County that have groundwater resources. The divisions result from different land use patterns, development, water demand, sources of water, governmental structure, geography and location. The key issues identified in the MWDOC MSR include:

- Disagreement among some of the agencies about MWDOC’s mission and what services it should provide;

- Differences in the need and level of services among member agencies;
- Disagreement among some member agencies about to whom MWDOC reports and is accountable – the public or member agencies;
- Limited input by member agencies on MWDOC budget adoption;
- Disagreement on the amount of unrestricted budget reserves for MWDOC.

Government structure options that cannot address and resolve each of these issues are considered fatally flawed and will not be studied further as part of the Governance Study.

## Summary

Tables 2 and 3, below, summarize the results of the preliminary review of alternative governance structures. Table 2 includes those alternatives that would retain a county-wide entity. Table 3 identifies four additional sub-alternatives should the six South County agencies detach from MWDOC and form a new entity.

Both tables identify those alternatives that are either: (1) preliminarily feasible and warrant further analysis (in bold italic), or (2) fatally flawed and eliminated from further consideration as part of this Governance Study (in plain-face type).

**Table 2: County-wide Governance Alternative Status**

<b>Governance Alternative</b>	<b>Status</b>	<b>Comments</b>
<b><i>Status Quo with MWDOC's December 2006 Policy Changes</i></b>	<b><i>Feasible</i></b>	<b><i>MWDOC could review policy changes and revise as deemed necessary</i></b>
Dissolve MWDOC and form a Joint Powers Authority	Fatal Flaw	Joint Powers Authorities are not authorized to provide representation at Metropolitan
Restructure MWDOC governance board representation	Fatal Flaw	Needs special legislation. MWD law limits boards to 5 members elected from districts. <i>Water Code Section 71250 to 71256.</i>
Dissolve MWDOC and form a Municipal Utility District	Fatal Flaw	Needs special legislation. MUDs cannot represent the full range of agencies represented by MWDOC. <i>Public Utilities Code Section 11504.</i>
Dissolve MWDOC and form a Public Utility District	Fatal Flaw	The PUD Act states that only unincorporated territory can be included. PUDs cannot represent the full range of MWDOC membership. <i>Public Utilities Code Section 15533.</i>
Dissolve MWDOC and form a County Water District	Removed from consideration following additional legal analysis	<p>Broadly written principal act provides for full range of services. Board elected at large. Could include the 3 cities that are not members of MWDOC. <i>Water Code Sections 30064, 30065 30500.1 and 30203.</i></p> <p>Stakeholders agreed to eliminate this option after subsequent legal analysis. Legal review found that CWD Boards can be elected at large, thus addressing one issue with current MWDOC structure. However CWD structure does not address other issues.</p>
<b><i>Dissolve MWDOC and form a County Water Authority</i></b>	<b><i>Feasible</i></b>	<p><b><i>Broadly written principal act provides for full range of services. Needs additional legal analysis regarding inclusion of the private water company. Provides for an appointed board designated by the member agencies.</i></b></p> <p><b><i>Could be initiated by resolution of member agencies or voters. Could also include the 3 cities. Water Code Appendix 45, Sections 45-2 and 45-4.</i></b></p>

**Table 3: Governance Alternative Status Assuming Agencies Detach from MWDOC**

<b>Governance Alternative</b>	<b>Status</b>	<b>Comments</b>
Reorganize South County agencies to form a Municipal Water District	Removed from consideration by LAFCO staff	Broadly written principal act provides for full range of services. Generally provides for an elected board comprised of resident, registered voters. <i>Water Code Section 71060 and 71061.</i>  Removed from consideration by LAFCO staff. Forming a second MWD for south county agencies has potential to replicate identified issues with current MWDOC structure.
Reorganize South County agencies to form a County Water District	Removed from consideration following additional legal analysis	Broadly written principal act provides for full range of services.  Very similar to MWD structure and removed from further consideration based on legal input.
<b><i>Reorganize South County agencies to form a County Water Authority</i></b>	<b><i>Feasible</i></b>	<b><i>Broadly written principal act provides for full range of services. Provides for an appointed board designated by the member agencies. Can be initiated by Resolution of member agency boards or petition from voters.</i></b>  <b><i>Financial Analysis/Viable Alternative Comparison may include sub-alternatives to explore logical boundaries.</i></b>
Dissolve South County agencies and allow for City representation at Metropolitan	Fatal flaw	Some of the six South County agencies serve unincorporated area. This alternative could potentially leave territory without representation.

## Conclusions and Next Steps

The purpose of this analysis was to provide an initial screening of a range of potential governance structures, including the status quo, to assess any legal barriers that would make an option infeasible. Based on this analysis, there are three preliminarily feasible governance structure options that will be considered in the Financial Analysis. The alternatives include:

- Status Quo with MWDOC's December 2006 Policy Changes
- Dissolution of MWDOC and Formation of a County Water Authority (requires additional legal analysis regarding participation of a private water company)

- Reorganization of South County agencies to form a County Water Authority

## Next Steps

Table 4, below, provides a revised timeline for completion of the MWDOC Governance Study. Additional time has been inserted to ensure stakeholders have adequate time for review and comment (*see Attachment C in the Appendix for a complete timeline of the Governance Study Process*).

**Table 4: Revised Timeline for Completion of the Governance Study**

Date	Activity
January 7, 2009	Outline for <u>Technical Report 2 - Baseline Analysis of MWDOC Current Service Model &amp; Financial Analysis of Alternatives</u> together with “Key Assumptions” distributed to Stakeholders
January 21, 2009	Stakeholder comments on Outline and Key Assumptions due to LAFCO staff
<b>February 18, 2009</b>	<b>Stakeholder Meeting: <u>Draft Technical Report 2 –Baseline Analysis of MWDOC Current Service Model &amp; Financial Analysis of Alternatives</u></b>
March 4, 2009	Stakeholder Comments on <u>Draft Technical Report 2</u> due to LAFCO staff
<b>May 12, 2009</b>	<b>Stakeholder Meeting: <u>Draft Technical Report 3 - Alternative Analysis, Findings and Implementation Plan</u></b>
May 20, 2009	Stakeholder Comments on <u>Draft Technical Report 3</u> due to LAFCO staff
July 15, 2009	Draft <u>Governance Study</u> distributed for Stakeholder/Public review

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## APPENDIX

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## Attachment A - Overview of MWDOC

## Overview of MWDOC

This attachment provides a short summary of MWDOC's history and its relationship to other key Southern California water agencies.

In 1928, recognizing that the availability of water from groundwater sources was limited, several Southern California water purveyors formed Metropolitan with the objective to build an aqueduct to the Colorado River to deliver additional water to Southern California. Twenty years later, in 1948, several Orange County coastal communities from Newport Beach south to the San Diego County line formed the Coastal Municipal Water District (Coastal), under the Municipal Water District Law of 1911 (Water Code Section 71000 et. seq.) to purchase and import water from Metropolitan. MWDOC was subsequently formed in 1951 under the same authority and for a similar purpose – to purchase and import water from Metropolitan to communities in northern Orange County. Fifty years later in 2001, Coastal and MWDOC consolidated into a single agency that now sells wholesale water to retail agencies serving residents and businesses throughout Orange County. MWDOC currently represents twenty eight (28) agencies at Metropolitan which are presented in the Table A-1 on the following page.

As the LAFCO MSR notes, “MWDOC's primary focus is on importing water, representing its member agencies at Metropolitan, and facilitating a regional approach to water reliability and water use efficiency.” Today, as the wholesale provider for most of Orange County (its boundaries exclude the cities of Anaheim, Fullerton and Santa Ana which each have direct representation at Metropolitan), MWDOC has 4 of the 37 members of Metropolitan's Board of Directors, and is entitled to purchase a share of Metropolitan's contractual allotment for water deliveries from both the Colorado River Aqueduct and the California State Water Project. MWDOC does not own water treatment or delivery facilities or any other major infrastructure. Instead, MWDOC contracts for water from Metropolitan, which is delivered to MWDOC's retail agencies from Metropolitan facilities through approximately 60 system connections.

In addition to the sale of wholesale water and providing representation at Metropolitan, MWDOC's other current services include water use efficiency programs, emergency preparedness programs, reliability studies, project development, water awareness/public information programs, school programs and legislative advocacy. As part of its December 2006 Policy changes MWDOC has committed to:

- A project initiation policy when project costs are expected to exceed \$25,000;
- A project participation policy when project costs are expected to exceed \$100,000 and fewer than five retail agencies benefit; and



- A federal advocacy cost-sharing policy when fewer than five retail agencies benefit.

Attachment B, in the following section, provides the MWDOC staff analysis and the formal Policy Statement adopted in December 2006.

**Table A-1: Agencies Represented by MWDOC**

California Cities		
Brea	La Habra	San Juan Capistrano
Buena Park	La Palma	Seal Beach
Fountain Valley	Newport Beach	Tustin
Garden Grove	Orange	Westminster
Huntington Beach	San Clemente	
California Water Districts (Water Code Section 34000 et. seq.)		
El Toro Water District	Santa Margarita Water District	
Irvine Ranch Water District	Serrano Water District	
Moulton Niguel Water District		
County Water Districts (Water Code Section 30000 et. seq.)		
East Orange County Water District	Trabuco Canyon Water District	
Laguna Beach County Water District	Yorba Linda Water District	
South Coast Water District		
Community Services Districts (Government Code Section 61000 et. seq.)		
Emerald Bay Community Services District		
Agencies Authorized by Special Legislation		
Mesa Consolidated Water District		
Orange County Water District		
Private Water Companies		
Golden State Water Company		

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## Attachment B- MWDOC 12-20-06 Staff Report and Policy Statement



Item No. 8-3

**ACTION ITEM**

December 20, 2006

**TO:** Board of Directors

**FROM:** Administration & Finance Committee  
(Directors Finnegan, Bakail, Dick)

Kevin Hunt  
General Manager

**SUBJECT: PROPOSED CHANGES TO IMPROVE  
MEMBER AGENCY RELATIONS**

**STAFF RECOMMENDATION**

Staff recommends the Board of Directors adopt the policies herein.

**COMMITTEE RECOMMENDATION**

Committee recommendations are reflected in this document.

**DETAILED REPORT**

The MWDOC Board has been together now for six years and has molded the consolidated MWDOC and Coastal districts into a unified agency serving 2.3 million people and 29 water agencies. The District has a clear mission, defined goals each year, a detailed budget, and systems in place to communicate and work closely with our member agencies.

A key benefit coming from the consolidation and articulated in MWDOC's 2001 Strategic Plan is to work *regionally* to address water issues. Examples of this regional approach in recent years include the many water use efficiency programs pursued by MWDOC in cooperation with our agencies and the three Metropolitan cities; the WEROC emergency preparedness program which includes thirty-four agencies; work on watershed and reliability planning including many water retailers and the County of Orange; engagement with OCBC on the Value of Water Reliability study; work to secure an "Emergency Services Program" agreement between the groundwater basin and South County area; and success in developing a number of conjunctive use storage agreements between OCWD, MWDOC and Metropolitan. As these efforts have come to fruition, our success in bringing in outside funding that benefits our agencies has also grown.

Over the last six years, the District's budget and rates have increased greater than the rate of inflation. Additionally, the activities of the District have not been fully understood or

Budgeted (Y/N):	Budgeted amount:
Action item amount:	Line item:
Fiscal Impact (explain if unbudgeted):	

embraced by some member agencies. Tensions between MWDOC and the agencies to which it serves water and represents at Metropolitan have developed over ocean desalination activities, water resource study activities, legislative and public outreach activities, and reserve levels. Concerns have been raised over whether the rate structure is equitable for larger agencies, and whether agencies should be able to opt out of a portion of the budget if they believe they already provide the service.

The tension between MWDOC and some of its member agencies were demonstrated every year by a letter or "white paper" written annually at budget time by several water retailers. Issues and rate proposals were generally agreed to between the Board and member agencies by the time of final adoption of the budget each June. This year, in reviewing the "white paper", MWDOC committed to a series of meetings with representatives of our agencies. Since this year was also our LAFCO Municipal Services Review (MSR), we invited LAFCO representatives to attend.

We have had three "Ad Hoc" Member Agency Relations Committee meetings with elected and appointed representatives of our water agencies. In addition, at the request of the Ad Hoc Committee, we have held four meetings with the managers of the agencies, with another scheduled on December 18. The results of these meetings and discussions with the Board of MWDOC are represented in this report and its recommendations.

#### Budget Process

In order to allow more time for agency input and to meet potential Bighorn water rate setting decision requirements, we propose to start our budget process earlier. We propose to:

1. Identify new initiatives in December and request input.
2. Request information on member agency needs in December.
3. Have a conceptual draft budget for Board and agency input in January.
4. Have a revised draft budget in March.
5. Solicit formal comment letters from agencies in April.
6. Present formal budget together with comments to Board in May.

#### Budget Amount

We propose the Board instruct the General Manager to limit our General Fund Budget from 2007/2008 to 2011/2012 to our current General Fund Budget of \$6.258 million less the \$290,000 contribution to desalination activities, plus annual inflation at the March to March LA/OC CPI. Our base General Fund Budget is, therefore, \$5.968 million. Our rates would reflect a balanced budget and reserves would be able to even out fluctuations in water sales.

In the event extraordinary circumstances or opportunities require a budget above this cap, the General Manager is instructed to obtain support from both a numerical majority of the agencies and a majority of the agencies based upon revenue, prior to taking the budget to the Board.

Project Initiation Policy

In order to facilitate member agency input and participation in engineering and planning projects (studies, investigations, etc.) , we propose the Board direct the staff to:

1. Identify projects during the budget process to the extent possible and present member agency comments as part of the Budget review process.
2. Solicit input from member agencies on needed projects or assistance.
3. For projects identified during the year and not part of the budget:
  - A) If within General Manager's authority of \$25 K or less, proceed as normal
  - B) If over \$25 K, General Manager to inform the Board and seek input from member agency managers prior to requesting committee and board approval.
4. All projects must fit within the overall budget commitment level.

Project Participation Policy

Historically, MWDOC does not own facilities. The planning and feasibility studies we do can, however, be expensive. Ocean desalination studies are such an example. In order to create an equitable expenditure of funds while still accomplishing our mission, we propose the Board establish the following guidelines for project participation:

- If the study or project is projected to cost over \$100 K and directly benefit fewer than five agencies, MWDOC is obligated to seek partners.
- If the project or study cost is over \$100 K, and directly benefits 5 or more agencies, MWDOC can fund the entire cost, but partners are welcome.
- All projects must fit within the overall budget commitment level.

Federal Lobbying Cost-Sharing Policy

Discussions regarding our need for Federal and State lobbyists led to a better understanding of the need for and benefits of their services. The availability of funds from Proposition 50 and newly passed Proposition 84, the variety of water legislation each year and the complexity of the local political environment provide ample justification for our State and local lobbyist. However, concern was expressed that our Federal lobbyist's key efforts may be on a project that benefits few agencies. Consequently, we propose the Board require staff to recover a portion of our Federal lobbyist costs if it is:

- A significant sustained effort that benefits fewer than five agencies

Cost sharing will be developed from a minimum of \$500/month, possibly up to the entire amount of the Federal lobbying contract.

Core or Ancillary Services

Considerable information was provided on our categories of service and whether they were "core" or ancillary. We have resolved some of the concerns with the proposed guidelines

for Project Initiation, Project Participation and Federal Funding. One recurring issue is IRWD's school program in its service area in Grades 1—5, which eliminates the need for a MWDOC school program in that area. We recommend the Board authorize staff to negotiate with IRWD for resolution of this issue.

#### Governance and Board/Agency Relationship

MWDOC has always had a form of governance tension as a publicly elected wholesale agency. All publicly elected wholesale agencies have similar tensions in that the electorate votes for the directors (of both the wholesale and retailer), but the majority of the agencies' activities and funding come from their water purveying agencies. Some address this with a governance approach of appointed as opposed to elected directors, while others successfully solve the issues politically, through dialogue and through a collaborative process. A starting point is recognition of the mutual responsibility of both parties to serve the public and work with each other.

MWDOC/Coastal consolidation years ago provided an opportunity to better serve the people of 2/3 of Orange County. It is imperative now that efforts be made by the MWDOC Board and the elected officials of our member agencies to work together to ensure Orange County's water reliability. We, therefore, propose the Board adopt the policy statement (attached) reflecting its joint responsibility to both the public and its water agencies, and to work through and with the water agencies on all water-related issues.

#### Reserve Levels

The Board adopted a reserve policy this year. That policy sets a target range of \$5 to \$6 million. Several agencies believe our reserves are too high, while many others are comfortable with the current level. Given the budgeting and project initiating constraints we are proposing, we do not recommend any changes in the reserve levels currently, but do recommend that they be reviewed periodically.

Other reserves are held to balance and stabilize Metropolitan rate components implemented in 2003—the Tier 2 supply rate and the Capacity (peaking) Charge. These funds are held in trust in restricted accounts and levels can be adjusted as conditions warrant. With the implementation of the new MWDOC capacity charge allocation method, we can return or credit capacity charge reserve funds in 2007. The Tier 2 contingency fund account can likely be reduced in 2007 given the water demand conditions forecasted. Neither of these accounts has been used to fund or generate District activities.

#### Financial Equity Issues

We are still discussing financial equity issues with the member agencies and do not expect to be completed with this discussion and study (if needed) until mid to late February. We will keep the Board informed.

#### Conclusion

The proposed policies herein provide a basis for an improved relationship and better partnerships with our water agencies. The success of it depends upon goodwill and trust of both parties.

**Attachment A**  
**MWDOC Proposed Policy Statement**

MWDOC works through its Member Agencies to provide reliable and high quality water for the benefit of Orange County residents in its service area. The Board maintains a responsibility to both the Member Agencies and the people as their customers and constituents. Orange County's public can best be served by a cooperative and collaborative partnership between MWDOC and its Member Agencies. MWDOC pledges to work in such a manner.



## Memorandum

**DATE:** May 8, 2006  
**TO:** MWDOC Board of Directors  
**FROM:** Kevin Hunt  
**SUBJECT:** Input Regarding Municipal Water District of Orange County's (MWDOC) Scope of Activities, Policies, Priorities and Budget for 2006-07 and Beyond

In advance of both the budget process for 2006-07 and the Municipal Service Review (MSR) process by LAFCO, Karl and I have had a number of meetings and discussions with our member agencies regarding the scope of activities (services), policies and priorities for MWDOC involvement in future activities. I would like to bring a number of the issues to your attention for discussion and input as we continue developing our budget for 2006-07. My recommendations and conclusions, heading into the budget process, are included where appropriate.

The issues brought to light in these discussions include the following:

1. MWDOC Role and Services
  - a. Service Philosophy
  - b. Urban Water Management Plan
  - c. MWDOC's Desalination Efforts
  - d. Priorities for Supply and System Reliability Enhancement
  - e. Conversion of Projects from Planning to Implementation
2. MWDOC's Representation with State and Federal Legislative Advocates
3. Budget Process for 2006-07
4. Budget Process Beyond 2006-07

### MWDOC's Service Philosophy

In most cases, MWDOC does a good job serving the needs of its member agencies and the staff are very "service oriented" towards our "client agencies". This was recently noted by several agencies in a recent MWDOC Manager's meeting when discussing the services provided by MWDOC. MWDOC's interface and representation with MET, regional planning and facilitation of reliability improvements, and coordination of conservation, emergency preparedness and education programs are all excellent examples.

However, concern was expressed by some on the philosophical issue of MWDOC autonomy, governance and the lack of alignment with some of the member agencies needs. Some agencies understand that the MWDOC board members are directly elected by the public and,



therefore, have independent decision-making responsibility and authority. Others express the view that MWDOC's revenue is derived from the member agencies and hence decisions should be made that are consistent and in agreement with the member agencies needs. In a perfect world, these two points of view would be one and the same and MWDOC strives for this balance. MWDOC is tasked with balancing and serving the needs of 30 retail agencies. Still, the view exists that MWDOC's activities and actions are not in alignment with the desires from the member agencies. This is especially true, not only on the Dana Point Ocean Desalination Project, but on other activities as well. The agencies desire that the discussions include both governance and accountability issues to resolve questions of how services are decided upon and how they are funded.

Another issue has been expressed when considering MWDOC's role and services and that is the concept of "core" activities in which all member agencies participate versus "beneficiary pay" activities which are spin-off activities to be handled among groups of agencies. The catalyst for this belief was the Dana Point Ocean Desalination Project where many felt that it should have been set up under a JPA sooner, but other questionable activities are also of concern to the member agencies. This issue embodies several questions:

- What are the core activities (services) that generally benefit all member agencies and what is the appropriate cost-recovery mechanism for these activities (water rates & charges to all agencies)?
- When do planning and facilitation activities convert from core to project specific activities and what is the appropriate cost-recovery mechanism for these activities (allocation of project costs among beneficiaries)?
- What is the role and purpose of MWDOC's outreach, communication and lobbying contracts? If they align with the member agencies, should they be included in the general charges? If they align with beneficiary pays activities, should they be supported as part of the cost of these activities? And finally, if they do not align with the member agency activities, should be dropped altogether?

Conclusion: MWDOC will conduct an independently facilitated and comprehensive Municipal Service Review (MSR) through the Local Agency Formation Commission (LAFCO) process. This process will provide a good opportunity for stakeholder input to review and comment on MWDOC's services and for consideration of the questions posed above. This process is already scheduled to begin in July 2006 and provides an opportunity to seek input regarding MWDOC's role and services in discussions with the member agencies and to examine how the services are paid for by the member agencies. The MSR recommendations are only advisory in nature, but should help to gain better alignment with our agencies. We are encouraging all of our Member Agencies to actively participate and are hopeful of an open, productive process.

#### **MWDOC's Urban Water Management Plan**

A discussion was held on the scope and nature of MWDOC's Urban Water Management Plan prepared for 2005, the legal requirements for such and the extensive level of coordination conducted by MWDOC with its member agencies. Disagreement exists on interpretation of the legal requirements for the scope and level of detail MWDOC included in its UWMP, and in the legal powers MWDOC asserted in initial drafts of the UWMP to allocate supplies during water shortages. However, there was agreement to fully coordinate again prior to the next update in 2010 with particular attention to be paid to resolving legal issues and defining an appropriate scope prior to initiating the preparation process.

#### **MWDOC's Desalination Efforts**

Over the past two years, a substantial portion of MWDOC's staffing and resources have been dedicated to the development of the Dana Point Ocean Desalination Project. MWDOC forecasts that by the end of 2006-07, almost \$2.8 million will have been expended on "project development" work, including \$887,000 of MWDOC funds.

This subject has been central to a number of discussions with the Member Agencies. Comments provided by the member agencies include:

- The basic comment provided at the March MWDOC Member Agency Manager's Meeting indicated that a number of agencies thought MWDOC had gone too far in pursuing the Dana Point Ocean Desalination Project without forming a Project Committee to take over the feasibility work started by MWDOC. The feeling was that in this instance, MWDOC had gone beyond its role and mission, at least using general fund dollars.
- MET's Water Surplus and Drought Management Plan allocates water based on need with only a small benefit given for investments in local resources. One of MWDOC's roles should be to resolve this policy penalty for investments in local resources.
- The project's system reliability benefits accrue to a limited number of MWDOC's South County agencies and therefore should be financially supported by those agencies.
- Other system reliability options exist such as reservoirs, interconnections, groundwater basin conjunctive use, use of the untreated system (Baker Pipeline) and the Central Pool Augmentation Project (CPAP). The appearance to some is that MWDOC is working towards implementation of the ocean desalination facility regardless of the other options and agency input.
- The financing arrangement for the project has been left vague by MWDOC. The general recommendation from the agencies is that the local agencies that benefit from the project should be financing the development of the project.
- There are other costs associated with ocean desalination including memberships, travel, public outreach and the use of legislative advocates that are not always captured as part of the process.

**Conclusion:** Feasibility work on the project will be completed in sufficient detail and provided to the local agencies by the end of December 2006 to allow them to consider a "go/no-go" decision and the concomitant commitment to funding and implementing the project. Because the feasibility work is in mid-stream, the MWDOC agencies noted that it

does not appear to be appropriate to curtail work efforts between now and December 2006. However, the Member Agencies have suggested MWDOC commit to the following:

- Begin now to seek letters of interest from those agencies potentially willing to financially participate and take ownership of the project.
- Prepare a financial plan that realistically projects the likely amount of Federal, State and other outside funding, calculates the resulting cost of water, and quantifies the expected level of reliability enhancement.
- Initiate the process of forming a JPA, or an equivalent contractual mechanism, that includes agencies that have expressed interest in the project. The JPA could be structured to become effective immediately upon completion of the feasibility work, if the member agency participants elect to go forward with the project. However, if the agencies review the financial and feasibility data, weigh reliability alternatives, and subsequently determine that they do not want to proceed ahead with the project, the JPA or equivalent contractual mechanism would not be implemented.
- Work with the future potential project participants to identify what portion of MWDOC's project development costs would be reimbursable by the JPA or equivalent mechanism.
- Curtail expenditures on implementation and operation considerations such as design/build procurement methods or similar items. These decisions appropriately rest with the agencies potentially implementing the project. *[Comment: It should be noted that I have requested ARI, Inc. to put these activities on hold until such time as a JPA is formed and becomes willing to take them over.]*

The entire list of bullets above is in accordance with MWDOC's planned schedule and budget activities.

- As part of these recommendations, it was requested by some of the agencies that MWDOC should clarify that it will not independently pursue the ocean desalination project using general funds or water rate increases imposed on all of MWDOC's agencies. This is a policy issue for the Board. Historically, MWDOC has not done this nor do we recommend it now.

I would like to clarify that even given formation of a JPA MWDOC will continue to have a role to play in ocean desalination projects. MWDOC would provide staff and policy support to the JPA in a manner similar to our support of other projects, if requested by members of the JPA. Other activities would include completion of the Camp Pendleton Feasibility Study, coordination work with MET and its member agencies relative to the ocean desalination supplies within the IRP and helping MET's role in ocean desalination to evolve from one of simply providing subsidies and coordination to a more proactive role of taking over and building projects. MWDOC staff time would also be spent on general activities not specific to the Dana Point Project such as regulatory issues with once-through-cooling, assisting on technical issues such as energy recovery and seeking funding towards ocean desalination projects that benefit the MWDOC service area. These activities would generally be supported through staff time out of the general fund budget.

#### **Priorities for Supply and System Reliability Enhancement**

As previously noted, MWDOC has done a good job in planning and facilitating Orange County system and supply reliability improvements. However, given the questions regarding the scope of the ocean desalination project and the level of effort being spent by MWDOC, it is important for MWDOC to work with all its member agencies to develop a consensus on reliability efforts for the upcoming year.

Some suggestions from the agencies were as follows.

- MWDOC should prioritize facilitation of the member agencies' implementation of the South County emergency storage reservoirs, the Emergency Water Service Program, and interconnection improvements.
- MWDOC should continue to analyze and develop parameters for an acceptable second phase of the Emergency Water Service Program between the groundwater basin agencies and South County agencies, and should support planning other feasibility work on in-county reliability enhancement projects that are less costly and provide potentially greater benefits than a desalination plant. Examples include an inland well field, expanded treatment and utilization of the Baker Pipeline, as well as others. Many of these reliability projects can optimize the use of existing infrastructure and have other financial benefits such as avoiding MET peaking charges, and reducing exposure to MET treatment surcharge increases.
- Equally important is for MWDOC to maintain its vigilance with MET on implementing the Second Lower Feeder extension to the East Orange County Feeder #2, and ultimately the Allen-McColloch Pipeline; and most importantly in supporting the CPAP. These projects should be given a higher priority than the feasibility work on ocean desalination. (My personal observation is that these projects have always had a higher or equal priority to ocean desalination, however, in recent times more outside funding and publicity has been put forth on ocean desalination.)

We concur with the agency suggestions and will include these activities, and others, in the budget.

#### **Conversion of Projects from Planning to Implementation**

During the discussion on the Dana Point Ocean Desalination Project, the member agencies indicated that MWDOC had gone too far in funding the feasibility studies for a project that only benefits a small portion of the County. The question discussed was how to properly transition from feasibility work to a JPA? Should there be a dollar amount that triggers the conversion? Should there be a time limit? Should it just be considered on a case-by-case basis? After discussion, it was generally agreed that a hard and fast rule would likely be difficult to develop at this time. Most of the agencies were comfortable with the range in costs per study included in Table 2, although some agencies questioned whether MWDOC should be conducting some of the listed studies or if they would be more appropriately conducted by the benefiting agencies. What was suggested was preparation of a clearer budget document to flag when a potential study may ultimately become a JPA Beneficiaries Pay Project. This visibility and improved communications will provide time for member agency input. This issue will also be a key issue to be addressed in the MSR process.

### MWDOC's Representation with State and Federal Legislators

Over the past several years, MWDOC has systematically increased its Board, staff and lobbyist activities at the State and Federal level. MWDOC's efforts have been successful in increasing its visibility in the region, but have raised concerns with both the magnitude of the effort, and the message being delivered to State and Federal officials, particularly regarding the region's priorities for external grant funding and MWDOC's role. The coordination of legislative advocates on State priorities has included periodic meetings with agencies who have legislative advocates to facilitate two-way communication. In this manner, all of the interests of MWDOC get supported.

On the Federal priorities, 2006 represented the first year that the legislative process was opened up to IRWD, SMWD and others with an interest in Federal activities and funding. During the year, MWDOC held a Federal Funding Workshop to expose our agencies to opportunities and to explore whether a more proactive effort could gain greater outside funding. MWDOC anticipates continuation of these activities in closer support of our agencies needs. The agencies specifically requested investigation of a joint contract with OCWD for the State advocacy contract.

Conclusion: MWDOC will coordinate its advocacy of State and Federal legislation and funding requests with its member agencies to ensure there is a clear two-way understanding of the member agencies' priorities and role. In addition, staff will revisit the issue of State Lobbying support with the Board, when the current contract expires in December of 2006.

### Budget Process for 2006-07

Staff has begun preparation of the budget process for 2006-07 and will take the above recommendations into account as the budget is compiled. Critical issues from the member agencies' perspective are the process for identifying "core" versus "beneficiaries pay" portions of the budget and the ultimate water rate that is set. Several of the water agencies have requested a review of our method of charging for our services due to the historical increases in MWDOC's annual budget over the last 5 years, combined with the magnitude of charges being imposed (budget increased from \$4.1M in 2000-01 to \$5.4M in 2005-06, an increase of 32%).

The ocean desalination activities work to be included in the 2006-07 budget is the following:

- Completion of the feasibility work as required under the BUREC, EPA and DWR Grants. The main emphasis of the work is the groundwater modeling to estimate the quantity and quality of water to be delivered to a treatment plant and documentation of the subsurface feasibility work.
- Financial and Technical Feasibility Study -- This document will pull together all of the information gathered over the past several years and provide a detailed estimate of the cost of the project, including a subsurface intake system, pre-treatment (if required) and use of the SOCWA outfall system for brine disposal. Energy costs will be estimated and a sensitivity analysis will be completed. Key for the study will be a detailed schedule and list of steps and costs for proceeding with the project in the event the local agencies decide that formation of a JPA to move forward is warranted. This will provide direction and a cost estimate for the subsequent steps.
- The above costs are estimated as follows:

Table 1 Ocean Desalination Study Efforts in 2006-07	
Camp Pendleton Study with SDCWA (MWDOC Portion)	\$43,000
Dana Point HDD/Slant Well Drilling Technology Report to BUREC, DWR and EPA	\$70,000
Subsurface Feasibility Assessment and Groundwater Modeling due to BUREC and DWR	\$212,000
Doheny Park Light Replacement (condition of permit)	\$50,000
Technical and Financial Feasibility Study for Dana Point	\$225,000
Subtotal	\$600,000
Estimated Remaining Grant Reimbursement	\$310,000
MWDOC Supported Funding	\$290,000

Listed below are potential study topics, justification and a general level of budget that may be required. The MWDOC budget will include up to \$200,000 for these efforts:

1. Inland Wellfield/Phase 2 of Emergency Water Service Program - This work envisions work with OCWD to site a wellfield to be used for basin operations that could also be used by South Orange County for emergency situations. Work will occur with DHS and MET to gain acceptance of the proposal. Cost sharing scenarios will be developed via a draft Agreement. Specific work on a potential site will take place with OCWD and DHS. This may involve pump-in via the IRWD System, from the YLWD wellfield near Mira Loma and the EOCF#2 or participation in another wellfield site.
2. Water Treatment Plant Study - This could involve up to four locations, either the Baker Plant site, a site near Irvine Lake, a site along the Santiago Lateral or expansion of the Trabuco Canyon site. The purpose of the study is to examine options for developing a new treated source of water into South Orange County. Use of Irvine Lake may be considered. Discussions may be held with Serrano Water District on exchanging local water rights and reservoir capacity for a connection to the Allen McCulloch Pipeline.
3. West County Water Recycling - Phase 2 of the study would be initiated if the Phase 1 irrigation conversion area investigation is successful. The purpose of the study is to utilize up to 10,000 AF of recycled water from Long Beach to help Long Beach share in the cost of facilities needed to serve some of their irrigation demands.
4. San Juan Basin Authority Water Salvage Study - Based on the findings of the subsurface intake system at San Juan Creek, there appears to be more opportunity for salvage of brackish water than once thought. Collaborative work between the SJBA and MWDOC would occur to determine the amount of additional brackish water that might be available and outline what would be needed to expand existing local projects to take advantage of the water.

5. La Habra Basin – The La Habra Basin is not well understood. However, it may be an underutilized source of local groundwater in the 1,000 AF to 4,000 AF range. The Cities of La Habra, Brea and Fullerton are interested in evaluating additional use of water from the basin. MWDOC's role would be to search for funding options for study money to be matched with local funding from the three cities to conduct a reconnaissance survey of the groundwater potential in the area.
6. Energy for Local Projects – This work is envisioned as a scoping study to determine what would be required to access power resources available to MET and the MET Member Agencies and whether there exist any opportunities to utilize power resources more efficiently and/or develop new ones that can be shared. The overarching concern is that another energy crisis will develop within the state and adversely affect water and the cost of local projects (such as GWRS, recycling or desalination). Advance planning by a large group may be able to influence the future outcome and opportunities.
7. Feather River or Other Water Transfers – Additional work is expected in working on the Feather River Water Transfer or in working with IRWD or SMWD on other transfer options. Feather River Water and Power has both water and energy resources for sale. Preliminary work has been completed on getting the water moved through the Delta. Additional work is required before considering a Water Transfer Agreement.
8. CALFED Monitoring – Many changes are taking place within CALFED. MWDOC has increased its presence somewhat to maintain "inside" knowledge regarding the opportunities, costs, risks and constraints. For 2006, work is expected to occur on a Delta Visioning Plan.
9. Desalination Regulatory Issues – Many regulatory issues surround ocean and brackish desalination. MWDOC is expected to continue its coordination and planning role with the five MET ocean desalination agencies. Participating in this arena will help gain a better understanding of the issues regarding success of MET's IRP and will also help to focus MET's policy on ocean desalination.
10. Central Pool Integrated Area Study Follow-up – These study efforts are underway at this time and may extend into next year. It may be advantageous for MWDOC to utilize outside study assistance to help analyze and follow-up on policy issues as they evolve from MET.
11. Value on Tap – The next session of this effort is just beginning. A key element is the coordination and communication required between retail, wholesale and MET regarding talking points, roles, missions and investments required in the water industry. The current phase of work is included in this year's budget. Additional work may spin-off into next year.

The initial reaction from some of the member agencies was that a number of the studies listed could be "beneficiary pays" studies.

Table 2 Potential General Fund Study Efforts in 2006-07	
	Potential Range of Consultant Costs
Inland Wellfield/Phase 2 of Emergency Water Service Program	\$25k to \$75k
Water Treatment Plant Study	\$25k to \$50k
West County Recycling – Phase 2	\$25k to \$50k
SJBA Water Salvage Study	\$10k to \$25k
La Habra Basin Study	\$0k to \$5k
Energy for Local Projects	\$0k to \$15k
Feather River or other Water Transfers	\$0k to \$20k
CALFED	\$10k to \$25k
Desalination Regulatory Issues	\$10k to \$25k
Central Pool Integrated Area Studies	\$0k to \$15k
Value on Tap	\$0k to \$8k
Total <sup>(1)</sup>	\$105k to \$313k
(1) Not all of these will be initiated; the budget total is \$200,000	

#### **Budget Process for Beyond 2006-07**

The member agencies have requested a meeting format to allow members of their Boards to have direct input and discussions with an Ad Hoc Committee of the MWDOC Board on the issues discussed above. Other issues discussed include reviewing the method MWDOC uses to charge its member agencies (combination of a per AF charge and an annual per retail meter charge) and whether any changes to MWDOC's cost recovery method, including having certain programs, services or projects paid for by "beneficiary agencies" to maintain equity. This meeting will be set for early June. Each of our member agencies will be invited to send elected officials to the meeting, if they desire.

#### **Attachments:**

Attached is an issues paper prepared and presented by nine of MWDOC's agencies for input prior to the budget process. The staff responses to the points raised in the issues paper are included herein.



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## Attachment C – Complete Governance Study Timeline

## MWDOC GOVERNANCE STUDY TIMELINE

June – December 2006	MWDOC facilitated stakeholder meetings
June 2007	LAFCO facilitated stakeholder meetings
February 2007	LAFCO facilitated stakeholder meetings
April 2007	Request for additional stakeholder meetings
June – September 2007	Additional LAFCO-facilitated stakeholder meetings
November 2007	Commission directed staff to prepare RFP for selection of Firm to conduct governance study
January 2008	Draft RFP continued for additional review and comment
April 2008	Firms interviewed by MWDOC, City of Huntington Beach, LAFCO and Rancho Santa Margarita Water District
May 2008	Commission directed LAFCO staff to negotiate with firms
June 23, 2008	Commission approved Contract with Winzler & Kelly to Conduct Study
<b>SEPTEMBER 9, 2008</b>	<b>STAKEHOLDER MEETING: LAUNCH OF STUDY</b>
October 15, 2008	Draft “Fatal Flaw” Review of Governance Options Distributed to LAFCO Staff
<b>OCTOBER 22, 2008</b>	<b>STAKEHOLDER MEETING: DRAFT GOVERNANCE OPTIONS SECTION DISTRIBUTED FOR REVIEW AND COMMENT</b>
October 29, 2008	Stakeholder Comments on Draft Governance Options Section Due

December 1, 2008

Final Technical Memorandum on Governance  
Options due to LAFCO

January 7, 2009	Draft Outline for <i>Technical Report 2 - Baseline Analysis of MWDOC Current Service Model &amp; Financial Analysis of Alternatives</i> together with “Key Assumptions” distributed to Stakeholders
January 21, 2009	Stakeholder Comments on Draft Outline for Technical Report 2 and “Key Assumptions” due to LAFCO staff
<b>FEBRUARY 11, 2009</b>	<b>STAKEHOLDER MEETING: RELEASE OF DRAFT TECHNICAL REPORT 2 - BASELINE ANALYSIS OF MWDOC CURRENT SERVICE MODEL AND FINANCIAL ANALYSIS OF ALTERNATIVES</b>
March 4, 2009	Stakeholder Comments on Draft Technical Report 2 due to LAFCO staff
<b>May 12, 2009</b>	<b>STAKEHOLDER MEETING: RELEASE OF DRAFT TECHNICAL REPORT 3 - ALTERNATIVE ANALYSIS, FINDINGS AND IMPLEMENTATION PLAN</b>
May 20, 2009	Stakeholder Comments on Draft Technical Report 3 due to LAFCO staff
July 15, 2009	Draft Governance Study released for Stakeholder/Public review
July 29, 2009	Stakeholder/Public Comments due to LAFCO staff
August 12, 2009	Final Governance Study delivered to LAFCO staff
<b>SEPTEMBER 9, 2009</b>	<b>LAFCO COMMISSION PUBLIC HEARING</b>

Municipal Water District of Orange County  
Governance Study  
List of Assumptions for the Fiscal Analysis  
For Stakeholder Review and Comment

*DRAFT for LAFCO REVIEW*  
*January 7, 2009*

In order to develop a fiscal analysis for each of the government structure alternatives to be included in the next phase of study, some assumptions must be made with respect to Agency Profiles, Services and Budgets. Winzler & Kelly's team is proposing the following assumptions for stakeholder review and comment.

**Assumptions for the Status Quo with December 2006 Policy Changes**

**MWDOC Profile**

- MWDOC will remain a Municipal Water District with directors elected by district.
- Projected growth rates for MWDOC's retail agencies will be brought forward from the MWDOC Municipal Services Review (MSR) report and/or the retail agencies' UWMP, as updated by the agency, as necessary to confirm growth rates within each retail agencies' service area.

**Services Provided by MWDOC**

- Services provided by MWDOC will be unchanged and will reflect the policy commitments made by the MWDOC Board in December 2006.

**MWDOC's Budget**

- The budgets will be developed based on MWDOC's FY 2008/2009 staffing as outlined in Attachment A, including part-time and consultant support staff costs.
- Since there are significant uncertainties around the imported water supply, the cost of purchased water is assumed to be 20% higher than the current Metropolitan WD rates for FY 09/10. MWDOC's blended rate is also assumed to be 20% higher in FY 09/10. The cost of water will increase by 5% per year after that.
- The volume of water purchased is also assumed to be impacted because of the Governor's 20 x 2020 initiative. Winzler & Kelly will assume a 20% reduction in per capita demand over the 10-year cost projection period. The projected growth rate will be applied to the reduced per capita demand in order to create overall demand projections.
- For the purpose of the 10-year cost projections included in Winzler & Kelly's scope of work, an inflation factor of 3% per year will be used.

## **Assumptions for MWDOC reorganized as a County Water Authority (CWA)**

### **CWA Profile**

- The CWA Board composition will be developed using the representation formula outlined in County Water Authority law.
- Projected growth rates for CWA's retail agencies will be brought forward from the MWDOC Municipal Services Review (MSR) report and/or the agencies' UWMP, as updated by the agency, as necessary to confirm growth rates within each retail agencies' service area.

### **Services Provided by the CWA**

#### **Two Service Options Will Be Developed**

- Option 1: Current MWDOC Service Model with December 2006 Policy Commitments
- Option 2: "Cafeteria Plan"
  - Core Services provided by the CWA include:
    - Metropolitan WD Representation and Advocacy
    - Water Operations and Administration
    - Emergency Preparedness (WEROC).
  - Remaining services will continue to be provided and will be "subscribed" to by agencies served by MWDOC who elect to receive such services

### **CWA Budget**

- The budgets will be developed based on MWDOC's FY 2008/2009 staffing as outlined in Attachment A, including part-time and consultant support staff costs.
- Since there are significant uncertainties around the imported water supply, the cost of purchased water is assumed to be 20% higher than the current Metropolitan WD rates for FY 09/10. The CWA's blended rate is also assumed to be 20% higher in FY 09/10. The cost of water will increase by 5% per year after that.
- The volume of water purchased is also assumed to be impacted because of the Governor's 20 x 2020 initiative. Winzler & Kelly will assume a 20% reduction in per capita demand over the 10-year cost projection period. The projected growth rate will be applied to the reduced per capita demand in order to create overall demand projections.
- Operating reserves will be budgeted at 15% of regular general fund operating revenues based on the recommendations of the Government Finance Officers Association.
- For the purpose of the 10-year cost projections included in Winzler & Kelly's scope of work, an inflation factor of 3% per year will be used.

## **Assumptions for New South County Agency (2 Boundary Options)**

### **New South County Agency Profile**

- Two options will be developed
  - A New South County Agency including El Toro, Irvine Ranch, Moulton Niguel, Santa Margarita, South Coast and Trabuco Canyon Water Districts.
  - A New South County Agency including the six agencies together with the cities of San Clemente and San Juan Capistrano and Laguna Beach County Water District in order to provide contiguous boundaries.
- Under both options, projected growth rates for New South County Agency's retail agencies will be brought forward from the MWDOC Municipal Services Review (MSR) report and/or the agencies' UWMP, as updated by the agency, as necessary to confirm growth rates within each retail agencies' service area.

### **Services Provided by the New South County Agency (both boundary options)**

- Central services provided by the New South County Agency will include :
  - Metropolitan WD Representation & Advocacy
  - Water Operations and Administration
- The New South County Agency will not own any infrastructure. The retail agencies will continue to utilize imported water infrastructure under Metropolitan WD rules and regulations and any existing ownership/access agreements.
- Emergency Preparedness Services will continue to be provided by MWDOC throughout Orange County. Winzler & Kelly assumes that the New South County Agency will fund its share of these costs under a cost-sharing agreement and that payments to MWDOC for WEROC services will be made through the New South County Agency.

### **Budgets for New South County Agency (both boundary options)**

- For the purpose of establishing an Administrative and Overhead Budget, Winzler & Kelly will assume a staffing and overhead budget as outlined in Attachment A.
- The New South County Agency will make a contribution to MWDOC for WEROC services.
- The New South County Agency will purchase water at Metropolitan WD's Tier 1 rates consistent with existing MWDOC allocations.
- Winzler & Kelly will use the retail agencies' UWMPs to determine the local supply resources (groundwater/recycled water) that will supplement their existing Tier 1 allocations.
- Water demands above the current Tier 1 allocations + local supply resources will be purchased at Metropolitan WD's Tier 2 rates.
- Because of the significant uncertainties around the imported water supply, the cost of purchased water is assumed to be 20% higher than the current Metropolitan WD rates for FY 09/10 and 5% per year after that.
- The volume of water purchased is also assumed to be impacted because of the Governor's 20 x 2020 initiative. Winzler & Kelly will assume a 20% reduction in per capita demand over the 10-year cost projection period. The projected growth rate will be applied to the reduced per capita demand in order to create overall demand projections.
- A contingency fund for Tier 2 water purchases will be budgeted based on the same percentages used by MWDOC.
- Operating reserves will be budgeted at 15% of regular general fund operating revenues based on the recommendations of the Government Finance Officers Association.

- MWDOC's existing reserves will be allocated between the New South County Agency and the remaining MWDOC based on the 5-year percent average (2004-2008) of the revenue provided to MWDOC from the reorganized agencies.
- For the purpose of the 10-year cost projections included in Winzler & Kelly's scope of work, an inflation factor of 3% per year will be used.
- The pre-formation costs for the new agency will be born by the reorganized retail agencies from their reserves and will not be accounted for in the financial analysis
- A transition staffing scenario will be budgeted over three years as outlined below beginning in FY 09/10 (formation election occurs in June 2010):

#### **First Full Year of Operation**

After the formation elections, for the first fiscal year of existence, the New South County Agency will:

- Seat and organize the Board of Directors; select MWD representatives;
- Initially utilize outside legal counsel and governmental consultants to process the various legal fillings, seek membership to MWD and develop basic operating rules and regulations; and
- Rely on the resources of one or several of the participating agencies for staff and housing. Transitioning MWDOC staff might also be considered to meet staffing requirements of the new entity.

#### **Second Full Year of Operation**

With the completion of the first full year, it is assumed that the New South County Agency would:

- Begin to function in the central roles of MWD representation and overall water operations/administration;
- Through interaction with and input from the member agencies, determine which of the optional or subscription services, i.e., lobbying, conservation services, public education, would be provided by the new entity;
- Start securing its own staff. With expanding activities and functions as it may no longer be practical or desirable to continue utilizing consultants and member agency staff resources; and
- Begin negotiations to lease a permanent facility to house its staff and Board of Directors.

#### **Third Full Year**

During the third full year of existence and operation, the new entity would:

- Secure its full compliment of staff (as outlined in Attachment A) as well as an outside legal consultant, in order to implement all functions desired by the members; and
- Secure a permanent facility by lease to house the staff and Board functions.

## **Assumptions for the smaller MWDOC (both boundary options)**

### **Smaller MWDOC Profile**

- MWDOC will continue as an MWD representing either 19 or 22 retail agencies.
- Under both options, projected growth rates for the smaller MWDOC's retail agencies will be brought forward from the MWDOC Municipal Services Review (MSR) report and/or the agencies' UWMP, as updated by the agency, as necessary to confirm growth rates within each retail agencies' service area.

### **Services Provided by the smaller MWDOC**

- Services provided by the smaller MWDOC will be unchanged and will reflect the policy commitments made by the MWDOC Board in 2006.
- Emergency Preparedness Services will continue to be provided by MWDOC throughout Orange County. MWDOC will continue to carry its, reduced, WEROC contribution in its budget.

### **Budget for the Agency**

- For the purpose of establishing an initial Administrative and Overhead Budget, Winzler & Kelly will assume a staffing and overhead budget as outlined in Attachment A.
- Water purchase costs will be reduced to account for the amount of water purchased by the New South County Agency.
- The smaller MWDOC will purchase water at Metropolitan WD's Tier 1 rates consistent with existing MWDOC allocations.
- Winzler & Kelly will use the retail agencies' UWMPs to determine the local supply resources (groundwater/recycled water) that will supplement their existing Tier 1 allocations.
- Water demands above the current Tier 1 allocations + local supply resources will be purchased at Metropolitan WD's Tier 2 rates.
- Since there are significant uncertainties around the imported water supply, the cost of purchased water is assumed to be 20% higher than the current Metropolitan WD rates for FY 09/10.
- The volume of water purchased is also assumed to decline because of the Governor's 20 x 2020 initiative. Winzler & Kelly will assume a 20% reduction in per capita demand over the 10-year cost projection period. The projected growth rate will be applied to the reduced per capita demand in order to create overall demand projections.
- MWDOC's existing reserves will be allocated to the smaller MWDOC based on the 5-year percent average (2004-2008) of the revenue provided to MWDOC from the remaining retail agencies.
- For the purpose of the 10-year cost projections included in Winzler & Kelly's scope of work, an inflation factor of 3% per year will be used.



## Attachment A – Agency Staffing Assumptions

MWDOC Baseline Staffing Analysis (Based on Exhibit I of the FY 2008/09 Budget)

Budget Category	Admin/Board	Planning & Coordination	Met Issues & Special Projects	Water Use Efficiency	Government/ Public Affairs	Finance/IT	WEROC	Overhead	Totals
<b>Staff Department</b>									
General Manager	0.60		0.25					0.15	1.00
Executive Secretary	0.22	0.51	0.13					0.14	1.00
Engineering	0.24	3.20	0.47				0.02	0.56	4.49
WEROC Staff							1.75		1.75
Administrative Services	4.13		1.11		0.01			0.49	5.74
Met & Special Projects	0.20		1.39	0.10	0.16			0.27	2.12
Finance/IT	0.13		0.04	0.17		4.53		0.67	5.54
Public Affairs	0.16		1.00	0.52	2.35			0.45	4.48
School Program					0.82				0.82
Water Use Efficiency	0.10		0.03	4.82				0.52	5.47
<b>Totals</b>	<b>5.78</b>	<b>3.71</b>	<b>4.42</b>	<b>5.61</b>	<b>3.34</b>	<b>4.53</b>	<b>1.77</b>	<b>3.25</b>	<b>32.41</b>

Reorganized South County Agency (Assume School Program & Water Use Efficiency Program Provided by Retailers)

Budget Category	Admin/Board	Planning & Coordination	Met Issues & Special Projects	Water Use Efficiency	Government/ Public Affairs	Finance/IT	WEROC	Overhead	Totals
<b>Staff Department</b>									
General Manager	0.60		0.25					0.15	1.00
Engineering	0.13	1.10	0.47					0.30	2.00
WEROC Staff									0.00
Administrative Services	2.00		0.55					0.45	3.00
Met & Special Projects	0.13		0.72					0.15	1.00
Finance/IT	0.13		0.04			2.38		0.45	3.00
Public Affairs	0.13		0.22		0.50			0.15	1.00
School Program									0.00
Water Use Efficiency									0.00
<b>Totals</b>	<b>3.12</b>	<b>1.10</b>	<b>2.25</b>	<b>0.00</b>	<b>0.50</b>	<b>2.38</b>	<b>0.00</b>	<b>1.65</b>	<b>11.00</b>

Remaining MWDOC

Budget Category	Admin/Board	Planning & Coordination	Met Issues & Special Projects	Water Use Efficiency	Government/ Public Affairs	Finance/IT	WEROC	Overhead	Totals
<b>Staff Department</b>									
General Manager	0.60		0.25					0.15	1.00
Executive Secretary	0.22	0.51	0.13					0.14	1.00
Engineering	0.13	2.00	0.40				0.02	0.45	3.00
WEROC Staff							1.75		1.75
Administrative Services	1.79		0.75		0.01			0.45	3.00
Met & Special Projects	0.20		1.39	0.10	0.16			0.27	2.12
Finance/IT	0.13		0.04	0.17		3.00		0.45	3.79
Public Affairs	0.13			0.42	2.00			0.45	3.00
School Program					0.82				0.82
Water Use Efficiency	0.10			2.50				0.40	3.00
<b>Totals</b>	<b>3.30</b>	<b>2.51</b>	<b>2.96</b>	<b>3.19</b>	<b>2.99</b>	<b>3.00</b>	<b>1.77</b>	<b>2.76</b>	<b>22.48</b>

Orange County  
Local Agency Formation Commission



Municipal Water District of Orange County  
Governance Study  
Draft Technical Reports 1 and 2  
Potential Governance Structure Options  
And  
Preliminary Financial Analysis

February 18, 2009

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### Appendix

Attachment A - Overview of MWDOC

Attachment B - MWDOC 12-20-06 Staff Report and Policy Statement

Attachment C – Assumptions as Modified by Stakeholders

Attachment D - Water Demand and Retail Meter Projections

Attachment E – MWDOC Baseline 10-year Financial Model Summary

Attachment F – MWDOC CWA 10-year Financial Model Summary

Attachment G – MWDOC Subscription CWA 10-year Financial Model Summary

Attachment H - Six Agency South CWA 10-year Financial Model Summary

Attachment I - Nine Agency South CWA 10-year Financial Model Summary

Attachment J - Complete Governance Study Timeline

Draft

## 1. Background of Governance Alternatives Study

In November of 2007, the Orange County Local Agency Formation Commission (LAFCO) reviewed the Municipal Services Review (MSR) for the Municipal Water District of Orange County (MWDOC) and, consistent with the California Environmental Quality Act and the Cortese-Knox-Hertzberg Local Government Reorganization Act (Government Code Section 56000 et.seq.), received and filed the MSR report. *(A brief history of the formation of MWDOC, its current responsibilities and a listing of its 28 member agencies is included as Attachment A in the Appendix to this report.)*

The MWDOC MSR was developed through a stakeholder driven process. The stakeholder process raised a number of issues, summarized in the MSR:

*"Based on all the stakeholder meetings and discussions, it is clear that there are fundamental differences between MWDOC and some of the member agencies with regards to appropriate service levels, approach and policies. Key issues were discussed related to: (1) MWDOC's role and its core functions, (2) reserves, budgeting and rates, (3) equitable cost sharing among member agencies, and (4) accountability to the member agencies as constituents. Each of these issues points to a fundamental question: Is the government structure of MWDOC, as a Municipal Water District, the appropriate government structure to serve Orange County?"*

MWDOC has implemented changes to its policies and budget process as a result of participation in the joint MWDOC/LAFCO stakeholder program (see Appendix Attachment B, MWDOC 12-20-06 Staff Report and Policy Statement). However, as the November 2007 LAFCO staff MSR transmittal letter to LAFCO Commissioners notes, "...despite the extensive nature of the stakeholder process and best intentions of everyone involved, the issues have not been resolved to the satisfaction of everyone." In response to a request from some MWDOC member agencies, the LAFCO Commissioners directed the preparation of a Governance Study to further examine the government structures identified in the MSR.

## 2. Purpose & Steps in Completion of the Governance Study

The purpose of the Governance Study is to comply with LAFCO Commission direction and to analyze government structure alternatives for MWDOC by:

- Identifying alternatives which may have the potential to resolve issues raised in the MWDOC MSR
- Identifying which government structure alternatives are legally and practically feasible
- Determining the fiscal impacts that could result from each alternative

- Determining any impacts on representation at Metropolitan that could result from each alternative
- Summarizing actions and steps necessary to implement any viable alternative

It is not the purpose of the Governance Study to recommend a preferred reorganization of MWDOC. Instead, the study is designed to provide information, data and analysis to better understand the possibilities and impacts associated with each of these government options.

The Governance Study will be developed through the completion of six key steps identified below. Steps two through four will each result in a draft analysis or technical report that will be subject to review and comment from the Stakeholders, which consist of MWDOC and its 28 member retail agencies. Steps five and six include the completion of draft and final versions of the comprehensive Governance Study.

Steps	Status
1. Review of Assumptions, Data and Relevant Documents. Participate in 1 <sup>st</sup> Stakeholder Meeting.	Data review ongoing. 1 <sup>st</sup> Stakeholder Meeting completed.
2. Identify Potential Governance Structure Alternatives and complete legal analysis of options. Participate in 2 <sup>nd</sup> Stakeholder Meeting.	This Technical Report was presented at the 2nd Stakeholder Meeting and finalized to incorporate comments received, as appropriate, in December 2008.
3. Develop Preliminary Financial Analysis.	This Technical Report was presented at the 3 <sup>rd</sup> Stakeholder Meeting.
4. Develop Viable Options Analysis.	To be completed.
5. Develop Draft Governance Study.	To be completed.
6. Develop Final Governance Study.	To be completed.

Three draft reports (Steps 2 through 4) are intended to be completed to form the basis of the Governance Study:

- The first technical report provided an initial screening of feasible governance structure alternatives. This first reported concluded that there were three potentially feasible governance options: the Status Quo, dissolve MWDOC to form a County Water Authority and detach the South County agencies and form a new County Water Authority (two boundary options);
- This second technical report includes the first report, discusses MWDOC's current service model and provides a financial analysis for each feasible governance option including transitional and long-term administrative and operating costs; and

- The third technical report will discuss the process for implementing each viable option under current law, including, but not limited to legal barriers and an analysis of any changes to the current voting rights and representation at Metropolitan.

### 3. Alternative Governance Structure Options

LAFCO's November 2007 Municipal Service Review for MWDOC identified 5 potential governance structure options (items 1 through 5 below) for further review. Two additional options (items 6 and 7) were subsequently added by LAFCO staff for consultant evaluation as part of this study.

1. Maintain the status quo with policy changes agreed upon by the MWDOC Board in December 2006 (See Appendix, *Attachment B*).
2. Dissolve MWDOC and form a new entity authorized to provide representation at the Metropolitan Water District of Southern California (Metropolitan).
3. Reorganize the South County<sup>1</sup> agencies by detaching from MWDOC and forming a new entity authorized to provide representation at Metropolitan.
4. Merge MWDOC and the Orange County Water District (OCWD) which could include an option to detach the South County agencies to form a new entity.
5. Reorganize MWDOC with the East Orange County Water District (OCWD).
6. Dissolve MWDOC and form a Joint Powers Authority.
7. Maintain the status quo but restructure the existing MWDOC governance board representation.

During the initial stakeholder meeting held on October 22, 2008, each of the potential governance options were discussed and evaluated. Option 5 ("Reorganizing MWDOC with the East Orange County Water District"), was eliminated by the stakeholders from further consideration. The consultant was directed to include only the remaining six options in the Governance Study.

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<sup>1</sup> The South County agencies include El Toro, Irvine Ranch, Moulton Niguel, Santa Margarita, South Coast and Trabuco Canyon Water District

## 4. Fatal Flaw Criteria

For the purposes of this analysis, each of the six governance options were measured against four primary criteria listed below. Failure to meet any of these criteria is considered to be a fatal flaw.

- The ability to provide representation at Metropolitan
- The ability to provide a similar range of services
- The ability to be implemented without special legislation
- The potential to solve issues outlined within the MWDOC MSR

Each of these criteria is discussed below.

### 4.a Representation at Metropolitan

The primary purpose of MWDOC is to import water from Metropolitan into Orange County. This is a core function. Because of this criterion, the range of governance structures is limited to the six types of agencies outlined as eligible members in the Metropolitan Water District Act.<sup>2</sup> These are:

- Cities
- Municipal Water Districts
- Municipal Utility Districts
- Public Utility Districts
- County Water Districts
- County Water Authorities

Representation at Metropolitan is also determined by Metropolitan's principal act. Each member agency is entitled to one member on Metropolitan's board plus an additional

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<sup>2</sup> Chapter 2, Metropolitan Water District Act, Statutes 1969, Chap 2, as amended



member for each full 5 percent of assessed valuation of property taxable for Metropolitan's purposes within the member agency's boundaries.<sup>3</sup>

One governance structure option identified for further review was dissolving MWDOC and forming a Joint Powers Authority (JPA), however this type of agency is not eligible for membership at Metropolitan. Therefore this option is considered fatally flawed and will not be carried forward for further analysis.

#### 4.b Provision of a Similar Range of Services

MWDOC provides a range of services in accordance with its principal act and any governance structure option must be able to provide a similar range of services. Table 1 summarizes the authorized services for each of the six governance structures authorized to provide representation at Metropolitan. A more detailed discussion of each governance structure follows the table.

**Table 1: Range of Services by Governance Structure**

Service	California City	Municipal Water District	Current MWDOC	Municipal Utility District	Public Utility District	County Water District	County Water Authority
Development of Water Supplies	X	X		X	X	X	X
Sale of Water	X	X	X	X	X	X	X
Standby Charges for Water*	X	X	X	X	X	X	X
Recycled Water	X	X		X	X		X
Recreation	X	X			X	X	
Electrical Power Generation	X	X		X	X	X	X
Light/Heat	X			X	X		
Transportation	X			X	X		
Communication	X			X	X		
Sewage Disposal/Sewers	X	X		X	X	X	
Storm Water Disposal	X	X					

<sup>3</sup> Metropolitan Water District Act, Section 52.

Service	California City	Municipal Water District	Current MWDOC	Municipal Utility District	Public Utility District	County Water District	County Water Authority
Fire Protection	X	X			X	X	
Water Replenishment Assessment		X					X
Sanitation	X	X		X	X	X	

*\*Specifically authorized for a Municipal Water District. Presumed to be available to the other governance structures under general law (The Uniform Standby Charge Procedures Act, Government Code Section 54984 et. seq.).*

### Cities

California cities are authorized to provide services as described in Government Code Title 4, beginning with Section 34000. A city's authority to provide water supply is outlined in Government Code Title 4, Division 3, Chapter 10 beginning with Article 5. California cities also have broad authority to provide police, fire, sewer and park and recreation services as well as to run municipal utilities (gas and electricity). Cities are governed by an elected City Council generally consisting of 5 or 7 members.

### Municipal Water Districts

Municipal Water Districts (MWDs) can provide a broad range of water supply services, including levying water standby charges and water replenishment assessments. MWDs are also empowered to provide sewer and sanitation services, storm water disposal services, fire protection services, recreation services and electrical power services. Currently MWDOC's functions are limited to water supply services.

MWDs are generally governed by a 5 member board elected from divisions, although LAFCO has the authority to expand the board to 7, 9 or 11 members as a result of reorganization or consolidation. This expanded board is to include members of the boards of the districts being reorganized or consolidated. <sup>4</sup> The Water Code makes provisions for returning the Board to a directly elected board once the terms of members appointed during the reorganization/consolidation expire.

### Municipal Utility Districts

Municipal Utility Districts (MUDs) can provide a wide range of public services including light, water, power, heat, transportation, telephone or communication

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<sup>4</sup> Water Code Section 71250.1

services, and the collection, treatment, or disposition of garbage, sewage, or refuse matter. MUDs are governed by a 5-member board, elected from specific geographic areas known as wards.

### Public Utility Districts

Public Utility Districts (PUDs) can provide a wide range of public services including light, water, power, heat, transportation, telephone or communication service, and garbage, sewage, or refuse matter. PUDs may also provide fire, street lighting and recreation services. PUDs are governed by an elected board consisting of at least 3 members. The Board is composed of 3 or 4 directors elected at large and a member from each territorial unit with a population of 5,000 or more. The Board of Supervisors is charged with naming and designating the territorial units.<sup>5</sup>

### County Water Districts

County Water Districts (CWDs) generally have the same range of authority as MWDs. A CWD has express powers to protect water rights, similar to those outlined for a MWD.<sup>6</sup>

CWDs are generally governed by a 5 member elected board, although, similar to a MWD, LAFCO has the authority to expand the board to 7, 9 or 11 members as a result of reorganization or consolidation.<sup>7</sup> There are also similar provisions for returning the Board to a smaller size as terms expire. Additionally there is at least one case, the Pleasant Valley Water District in Ventura County, where non-resident property owners are eligible to run for the board of directors.<sup>8</sup>

A primary difference between a CWD structure and a MWD is that the CWD Board is elected “at large”, while the MWD Board is elected from districts with similar populations.

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<sup>5</sup> Public Utilities Code Section 15960

<sup>6</sup> Water Code Section 31000 et. seq.

<sup>7</sup> Water Code Section 30500.1

<sup>8</sup> Water Code Section 30511

### County Water Authorities

County Water Authorities (CWAs) have a more limited range of services; their authority is limited to water supply functions. Because MWDOC does not currently utilize its authority for any type of service except water service, this distinction is not considered a fatal flaw. Agencies represented by MWDOC would not experience a reduction in service under the CWA governance structure. CWAs are governed by Water Code Appendix 45 (the County Water Authority Act). Under that code section, the agency is governed by an appointed board of directors, with at least one director appointed from each member agency.

### Summary

All governance structures authorized to provide representation at Metropolitan are able to provide the same general range of services as MWDOC currently provides, although there are differences in the manner in which the various boards of directors are selected. While some structures, such as the CWA, are limited to water activities, this is not considered a fatal flaw because MWDOC does not currently provide services beyond those associated with the imported water supply.

### **4.c Ability to be Implemented without Special Legislation**

Governance structures that require special legislation are considered infeasible because successfully securing special legislation is not guaranteed and not within the control of LAFCO or the Stakeholders. However, based on input from the Stakeholders, alternatives that require changes to existing law to implement will be summarized and “parked” as part of this report. Those alternatives which were “parked” include:

- Modifying the Municipal Water District Act of 1911 to provide for changes in governance board representation.
- Expanding the definition of public agency in the Municipal Utility District Act to include the full range of agencies represented by MWDOC.
- Expanding the permitted service area of a Public Utility District to include incorporated areas.
- Modifying OCWD’s principal act to allow merger with MWDOC.
- Modifying the Municipal Water District Act of 1911 and County Water District Law to clearly allow for consolidation of these two types of agencies.

- Expanding the definition of a “public agency” in Metropolitan’s principal act to include Joint Powers Authorities.

#### 4.d Solving Issues Outlined within the MWDOC MSR

The issues that were identified in the MWDOC MSR reflect the divergent interests among some MWDOC member agencies. Because of their dependency on imported water, the South County agencies have a different service approach than the agencies in the northern and central portions of the County that have groundwater resources. The divisions result from different land use patterns, development, water demand, sources of water, governmental structure, geography and location. The key issues identified in the MWDOC MSR include:

- Disagreement among some of the agencies about MWDOC’s mission and what services it should provide;
- Differences in the need and level of services among member agencies;
- Disagreement among some member agencies about to whom MWDOC reports and is accountable – the public or member agencies;
- Limited input by member agencies on MWDOC budget adoption;
- Disagreement on the amount of unrestricted budget reserves for MWDOC.

Government structure options that cannot address and resolve each of these issues are considered fatally flawed and will not be studied further as part of the Governance Study.

### 5. Identification of Preliminarily Feasible Governance Structure Options

Tables 2 and 3, below, summarize the results of the preliminary review of alternative governance structures. Table 2 includes those options that would retain a county-wide entity. Table 3 identifies four additional sub-alternatives should the South County agencies detach from MWDOC and form a new entity.

Both tables identify those options that are either: (1) preliminarily feasible and warrant further analysis (in bold italic), or (2) fatally flawed and eliminated from further consideration as part of this Governance Study (in plain-face type).

Based on this analysis, there are three preliminarily feasible governance structure options that will be considered in the Financial Analysis. These include:

- Option 1- MWDOC Baseline: This option consists of the Status Quo with MWDOC's December 2006 Policy Changes. Other options will be compared with MWDOC Baseline.
- Option 2 – Dissolve MWDOC and Form a CWA
  - a. MWDOC CWA: This option reorganizes MWDOC's governance model to conform to the requirements of the County Water Authority Act but does not change MWDOC's service delivery model.
  - b. MWDOC Subscription CWA: This option not only reorganizes MWDOC's governance model but also allows the retail agencies to elect to subscribe to some of MWDOC's services.
- Option 3 – Reorganize South County Agencies to Form a CWA
  - a. Six Agency South CWA: This option reorganizes the El Toro, Irvine Ranch, Moulton Niguel, Santa Margarita, South Coast and Trabuco Canyon Water Districts (defined above as the Six Agencies) as a CWA and results in a smaller MWDOC representing 22 retail agencies.
  - b. Nine Agency South CWA: This option reorganizes the Six Agencies together with the Laguna Beach Water District and the cities of San Clemente and San Juan Capistrano as a CWA and results in a smaller MWDOC representing 19 retail agencies.

**Table 2: County-wide Governance Option Status**

<b>Governance Option</b>	<b>Status</b>	<b>Comments</b>
<b><i>Option 1 MWDOC Baseline: Status Quo with MWDOC's December 2006 Policy Changes</i></b>	<b><i>Feasible</i></b>	<b><i>MWDOC could review policy changes and revise as deemed necessary</i></b>
Dissolve MWDOC and form a Joint Powers Authority	Fatal Flaw	Joint Powers Authorities are not authorized to provide representation at Metropolitan
Restructure MWDOC governance board representation	Fatal Flaw	Needs special legislation. MWD law limits boards to 5 members elected from districts (with exceptions for consolidations and reorganizations). <i>Water Code Section 71250 to 71256.</i>
Dissolve MWDOC and form a Municipal Utility District	Fatal Flaw	Needs special legislation. MUDs cannot represent the full range of agencies represented by MWDOC. <i>Public Utilities Code Section 11504.</i>
Dissolve MWDOC and form a Public Utility District	Fatal Flaw	The PUD Act states that only unincorporated territory can be included. PUDs cannot represent the full range of MWDOC membership. <i>Public Utilities Code Section 15533.</i>
Dissolve MWDOC and form a County Water District	Removed from consideration following additional legal analysis	Broadly written principal act provides for full range of services. Board elected at large. Could include the 3 cities that are not members of MWDOC. <i>Water Code Sections 30064, 30065 30500.1 and 30203.</i>  Stakeholders agreed to eliminate this option after subsequent legal analysis. Legal review found that CWD Boards can be elected at large, thus addressing one issue with current MWDOC structure. However CWD structure does not address other issues.
<b><i>Option 2a and 2b MWDOC CWA and MWDOC Subscription CWA: Dissolve MWDOC and form a County Water Authority</i></b>	<b><i>Feasible</i></b>	<b><i>Broadly written principal act provides for full range of services. Needs additional legal analysis regarding inclusion of the private water company. Provides for an appointed board designated by the member agencies.</i></b>  <b><i>Could be initiated by resolution of member agencies or voters. Could also include the 3 cities. Water Code Appendix 45, Sections 45-2 and 45-4.</i></b>

**Table 3: Governance Option Status Assuming Agencies Detach from MWDOC**

Governance Option	Status	Comments
Reorganize South County agencies to form a Municipal Water District	Removed from consideration by LAFCO staff	<p>Broadly written principal act provides for full range of services. Generally provides for an elected board comprised of resident, registered voters. <i>Water Code Section 71060 and 71061.</i></p> <p>Removed from consideration by LAFCO staff. Forming a second MWD for south county agencies has potential to replicate identified issues with current MWDOC structure.</p>
Reorganize South County agencies to form a County Water District	Removed from consideration following additional legal analysis	<p>Broadly written principal act provides for full range of services.</p> <p>Very similar to MWD structure and removed from further consideration based on legal input.</p>
<b>Option 3a and 3b Six Agency South CWA and Nine Agency South CWA: Reorganize South County agencies to form a County Water Authority</b>	<b>Feasible</b>	<p><b><i>Broadly written principal act provides for full range of services. Provides for an appointed board designated by the member agencies. Can be initiated by Resolution of member agency boards or petition from voters.</i></b></p> <p><b><i>Financial Analysis/Viable Alternative Comparison may include sub-alternatives to explore logical boundaries.</i></b></p>
Dissolve South County agencies and allow for City representation at Metropolitan	Fatal flaw	<p>Some of the six South County agencies serve unincorporated area. This alternative could potentially leave territory without representation.</p>



## 6. Financial Analysis of Governance Structure Options

The financial analysis reviews the following governance structure options identified in Section 5 as preliminarily feasible:

- Option 1- MWDOC Baseline
- Option 2 – Dissolve MWDOC and Form a CWA
  - a. MWDOC CWA
  - b. MWDOC Subscription CWA
- Option 3 – Reorganize South County Agencies to Form a CWA
  - a. Six Agency South CWA
  - b. Nine Agency South CWA

Each of the preliminarily feasible governance structure options provides for a different governing board composition and the potential for different budgeting and cost allocation priorities. The financial analysis models projected budget estimates associated with each governance structure option in order to compare possible effects on the cost of operations, the cost to retail agencies currently represented by MWDOC, and the cost to rate payers.

This financial analysis is a high-level screening analysis intended to provide information, facilitate comparisons between options, and determine if any “fatal flaws” exist in terms of impacts to rate payers. This analysis is not an optimization analysis nor is it a detailed rate study. It is intended to provide information that can be used by either the LAFCO Commission or the stakeholders.

### 6.1 Assumptions as Modified by Stakeholder Input

In order to develop the financial analysis, assumptions were made about water demands, projected growth rates, the cost of water, inflation and the costs of transitioning to a new governance structure. These assumptions were circulated to the stakeholders and modified based upon comments received. The full list of assumptions as modified by stakeholder input is included as *Attachment C*.

## 6.2 Financial Model

A spreadsheet-based financial model was developed in order to analyze and compare the fiscal impacts of the governance structure options. The model takes into account costs, reserve accounts and revenue recovery strategies. The model predicts cost impacts at both the retail agency level and the rate payer level for each option.

### Input Data for the Model

There are three sets of basic input data to the model. These are:

- Budgets;
- Water consumption;
- Retail meters.

### Budget Data

MWDOC's budgets from Fiscal Year 2004-05 through Fiscal Year 2008-09 were used in the model. The Fiscal Year 2008-09 budget is used as the base budget from which 10-year cost projections were developed.

The 10-year cost projections for MWDOC Baseline, MWDOC CWA and MWDOC Cafeteria CWA are based directly on MWDOC's Fiscal Year 2008-09 budget and escalated in accordance with the assumptions included in Appendix, *Attachment C*.

The 10-year cost projections for the Six Agency South CWA, the Nine Agency South CWA and remaining MWDOC are based on the staffing projections outlined in *Attachment C* and the budgeted costs for staff and consultants in MWDOC's Fiscal Year 2008-09 budget.

Historical MWDOC budget data (Fiscal Years 2004-05 through 2008-09) was used to analyze trends in budgeted costs, reserve balances and revenue contributions made by each retail agency.

### Water Consumption and Retail Meter Data

MWDOC's charges for water use and for retail meters, therefore both water consumption and retail meter data for each of MWDOC's retail agencies are also used in the model.

*Attachment D* shows the water consumption and retail meter data that was used in the model. The water consumption projections in *Attachment D* directly reflect the water use projections in MWDOC's Urban Water Management Plan (UWMP). Projections for retail water meters are taken from individual retail agency UWMPs where available. When this information was not available, water meter projections were modeled using the growth projections in the MWDOC MSR Report.

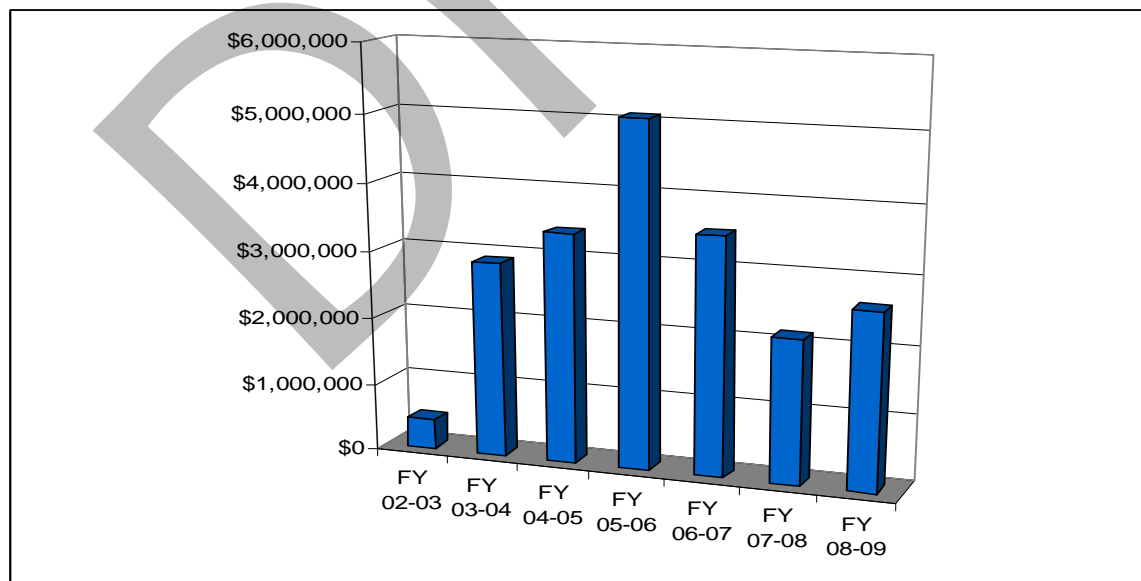
### MWDOC Charges

MWDOC's three cost recovery tools - (1) a Merged Water Rate including a Merged Water Rate Surcharge, (2) a Water Increment Charge, and (3) a Retail Meter Charge were also incorporated into the model.

### Merged Water Rate Surcharge

MWDOC uses its Merged Water Rate to fund water purchases and a restricted Water Purchase Reserve Fund. This reserve account is funded from its Merged Water Rate Surcharge. Its current balance is approximately \$2,620,000<sup>9</sup>. Between 2003 and 2008 the fund balance has ranged from under \$450,000 to over \$5,000,000. Figure 1 illustrates the Water Purchase Reserve Fund balance over time.

**Figure 1: Water Purchase Reserve Fund Balance**



<sup>9</sup> Recap of the Tier 2 Contingency and Capacity Charge Funds from January 2003 to December 2008 (source MWDOC)

Metropolitan currently charges its member agencies, including MWDOC, a Tier 1 water rate and a Tier 2 water rate. The Tier 1 water is less expensive and reflects agreements between Metropolitan and its members on the long-term volume of water purchased. Metropolitan's more expensive Tier 2 water rate applies when the volume of water purchased by a member exceeds the agreed upon Tier 1 amounts.

Each MWDOC retail agency has a Tier 1 allocation. However, rather than assess its retail agencies separate charges for Tier 1 and Tier 2 purchases, MWDOC uses a single "melded" wholesale rate so that all agencies pay the same per AF charge. This melded wholesale rate consists of Metropolitan's charges – which include but are not limited to its Tier 1 water rate - and an \$18.00/AF surcharge (Melded Water Rate Surcharge). MWDOC invests this \$18.00 surcharge in a restricted Water Purchase Reserve Fund and uses the fund to purchase Tier 2 water when necessary. This strategy allows MWDOC to capitalize on the combined Tier 1 water allocation of its retail agencies, minimizing Tier 2 water purchases, and therefore reducing the overall cost paid for imported water in Orange County.

Consistent with the assumptions in *Attachment C*, the 10-year financial analysis for MWDOC Baseline, MWDOC CWA and MWDOC Cafeteria CWA all incorporate the Melded Water Rate Surcharge. The 10-year financial analysis for the Six Agency South CWA, the Nine Agency South CWA and remaining MWDOC removes the Melded Water Rate Surcharge and instead applies Tier 1 and Tier 2 water rates based on each retail agency's use.

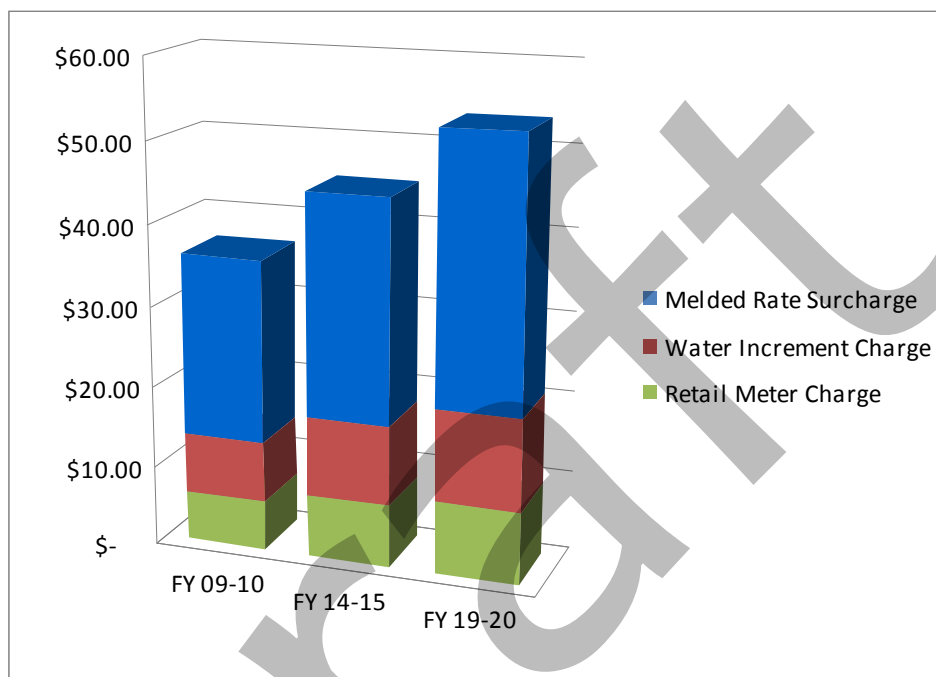
#### Water Increment and Retail Meter Charges

MWDOC's Water Increment and Retail Meter Charges fund its general fund and provide its operating reserve. The Water Increment Charge, which is currently \$6.50, is applied to each AF of water purchased by a retail agency. The Retail Meter Charge, which is currently \$5.50, is applied annually to each meter in the retail agency's service area. MWDOC's revenue history indicates that approximately seventy percent (70%) of general fund expenditures are recovered through Retail Meter Charges and thirty percent (30%) are recovered from Water Increment Charges.

MWDOC Baseline assumes that MWDOC continues to collect Water Increment and Retail Meter Charges from each retail agency to cover its general fund costs, including operational reserves. Consistent with the assumptions in *Attachment C*, future estimates for the Water Increment and Retail Meter Charges were brought forward from MWDOC's Fiscal Master Plan through Fiscal Year 2013-14 (the end of the Fiscal Master Plan projections). After Fiscal Year 2013-14, the Water Increment and Retail Meter

Charges are escalated at 3% per year consistent with the assumptions in *Attachment C*. Figure 2 illustrates the rate and charge trends for MWDOC Baseline.

**Figure 2: Rate and Charge Trends – Option 1 MWDOC Baseline**



For MWDOC Baseline, the model calculates how much each retail agency's Water Increment Charge and Retail Meter Charge contributes, on a percentage basis, to MWDOC's general fund. This calculation is illustrated in Table 4 using El Toro Water District's Fiscal Year 2009-10 data as an example.

**Table 4: Example Revenue Contribution Calculation**

Agency	Revenue Contribution	Revenue Contribution Percentage
El Toro Water District		
Increment Charge (AF)	\$ 77,305	1.32%
Retail Meter Charges (EA)	\$ 59,879	1.02%

The retail agency revenue contribution percentages calculated for MWDOC Baseline are used to allocate MWDOC CWA's projected general fund costs. For example, returning

to Table 4, 1.32% of the MWDOC CWA's Fiscal Year 2009-10 costs are recovered through El Toro Water District's projected Water Increment Charges, and 1.02% are recovered through that District's Retail Meter Charges.

For the MWDOC Subscription CWA, a Water Increment Charge is modeled that recovers the cost of "essential" services, including a reserve, from each retail agency based on their projected water consumption. A Retail Meter Charge is modeled that recovers the cost of "subscription" services, including a reserve allowance. (See Section 6.5 for a definition and discussion of essential and subscription services as they pertain to the MWDOC Subscription CWA option).

For the Six Agency South CWA and the Nine Agency South CWA, a Water Increment Charge is modeled that recovers projected general fund costs from the retail agencies in the new South CWA based on their water consumption. For the remaining MWDOC, a Retail Meter Charge is modeled that recovers 70% of the projected general fund costs, and a Water Increment Charge is modeled that recovers the remaining 30% of the general fund costs, consistent with MWDOC's revenue history.

### 6.3 Option 1 – MWDOC Baseline

This first governance option is the baseline against which other options will be compared.

#### Essential Services

Table 5 outlines the services provided by MWDOC Baseline. For this option, all services provided are considered essential services. The service descriptions generally follow the program categories and program numbers used in MWDOC's Fiscal Year 2008-2009 budget.

**Table 5: MWDOC Baseline Services <sup>10</sup>**

Program & Number	Description
Wholesale Water Purchases	MWDOC is the wholesale water importer for Orange County. It does not operate infrastructure or have jurisdiction over local supplies. MWDOC performs planning and coordination activities that serve to improve the overall reliability of the regional water portfolio while minimizing costs. MWDOC balances Orange County's Tier 1 allocations from Metropolitan to minimize Tier 2 purchases and costs.
Administration & Personnel (1010, 1020, 1050)	This service category includes a portion of the General Manager's and Assistant General Managers' salaries together with Board compensation, Metropolitan director compensation, travel and legal costs and employee training.
Planning & Resource Development (2010, 2050)	MWDOC coordinates with OCWD to estimate water demands and supplies, minimize Tier 2 water purchases and undertake long-term planning efforts (such as UWMP preparation, planning of reliability projects and assistance to agencies seeking grants from Metropolitan or other sources). MWDOC also uses this budget category to account for engineering consulting services.
Met Issues & Special Projects (Met Representation) (2500)	MWDOC has four members on the Metropolitan Board of Directors to represent Orange County at Metropolitan. MWDOC staff provides support to the Metropolitan representatives. This currently includes just over 2 Full Time Equivalent staff in order to assure Orange County is fully represented at Metropolitan negotiations and policy decisions.
Government Affairs (3010)	MWDOC provides state and federal legislative advocacy, legislative tracking, outreach, briefings, and water policy dinners.
Water Use Efficiency (3040)	MWDOC provides a water use efficiency program including California Urban Water Conservation Council (CUWCC) dues, landscape efficiency programs, installation verification programs, and weather station maintenance. The program satisfies most CUWCC Best Management Practices and MWDOC's retailers <b>can use</b> the wholesale program to demonstrate their BMP compliance. BMP compliance is required to secure state grant funding.
Water Awareness (3510)	MWDOC works to increase overall water awareness. This includes the "OC Water Hero" program together with various merchandise and the regional consumer confidence report required by California Department of Public Health. The program helps satisfy CUWCC BMPs and MWDOC's retailers <b>can use</b> the wholesale program to demonstrate their BMP compliance.
School Programs (3520)	MWDOC provides two school programs which include a curriculum program (Water Quality 101), and an assembly program (aimed reaching 88,000 students). This service category accounts for the MWDOC staff, Discovery Science Center costs and supply and printing costs. The program satisfies a CUWCC BMP and MWDOC's retailers <b>can use</b> the wholesale program to demonstrate their BMP compliance. Anaheim, Fullerton and Santa Ana contract for service from this program and a student count basis.
Finance & IT (4010, 4050)	This service category includes MWDOC's information technology and finance staff.

<sup>10</sup> Summarized from Exhibit B Expenditures by Program General Fund, MWDOC Annual Budget for Fiscal Year 2008-2009 (June 18, 2008)

Program & Number	Description
Overhead (6500)	This service category includes District administration, rent, site maintenance, equipment, records management and health care benefits for retirees and vacation, sick leave and holiday costs for employees.
WEROC (9600)	The Water Emergency Response Organization of Orange County (WEROC) coordinates and supports emergency response on behalf of all Orange County water and wastewater agencies. WEROC supports planning and preparedness activities and maintains two Emergency Operations Centers (EOCs) in a state of readiness. MWDOC shares costs on this program with other beneficiaries based on population served.

### Cost of Service and Reserves

The foundation for the cost of service analysis is the 10-year budget developed for MWDOC Baseline (*Attachment E*). Table 6 provides a summary of the MWDOC Baseline budget by presenting estimates for the current Fiscal Year and for Fiscal Years 2009-10, 2014-15 and 2019-20. Figure 3 graphically illustrates the relationship of the various budget programs to one another.

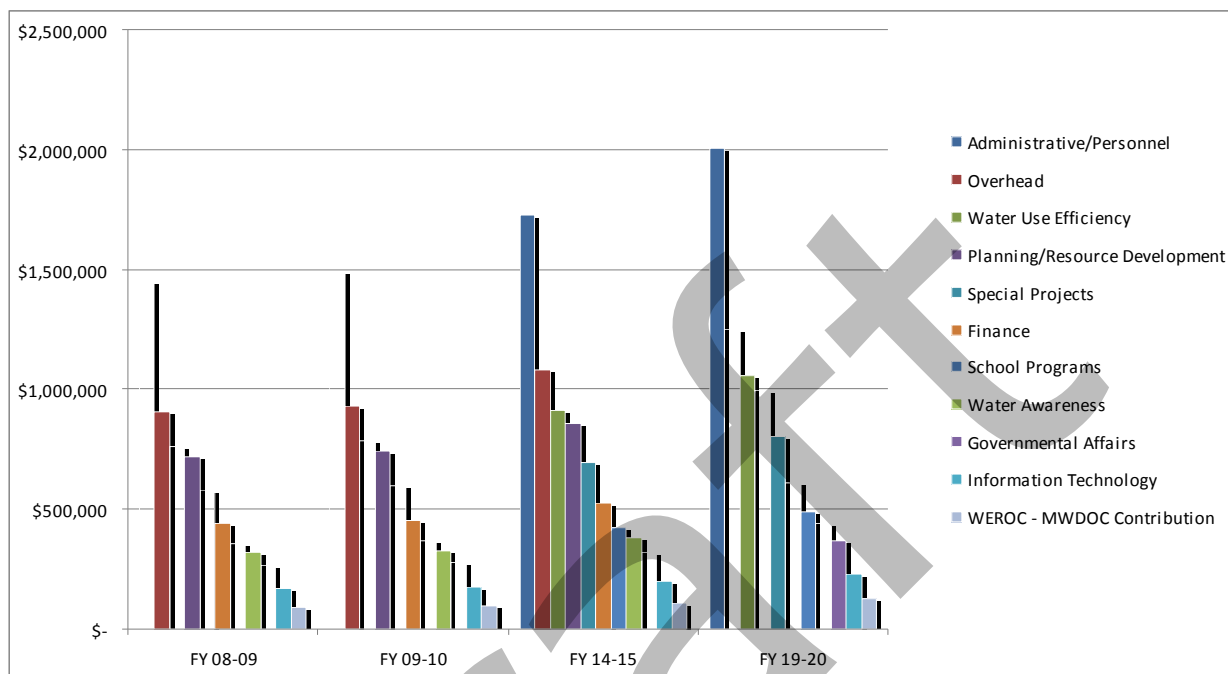
**Table 6: Projected General Fund Budgets – Option 1 MWDOC Baseline<sup>11</sup>**

	FY 08 09	FY 09 10	FY 14 15	FY 19 20
Administrative/Personnel	\$ 1,446,528	\$ 1,489,924	\$ 1,727,230	\$ 2,002,333
Planning/Resource Development	\$ 720,514	\$ 742,129	\$ 860,331	\$ 997,360
Special Projects	\$ 582,211	\$ 599,677	\$ 695,190	\$ 805,916
Governmental Affairs	\$ 266,939	\$ 274,947	\$ 318,739	\$ 369,506
Water Use Efficiency	\$ 762,275	\$ 785,143	\$ 910,196	\$ 1,055,167
Water Awareness	\$ 317,852	\$ 327,388	\$ 379,532	\$ 439,982
School Programs	\$ 355,527	\$ 366,193	\$ 424,518	\$ 492,133
Finance	\$ 440,098	\$ 453,301	\$ 525,500	\$ 609,199
Information Technology	\$ 167,100	\$ 172,113	\$ 199,526	\$ 231,305
Overhead	\$ 904,458	\$ 931,592	\$ 1,079,970	\$ 1,251,981
WEROC - MWDOC Contribution	\$ 91,228	\$ 93,965	\$ 108,931	\$ 126,281
<b>Subtotal General Fund</b>	<b>\$ 6,054,730</b>	<b>\$ 6,236,372</b>	<b>\$ 7,229,664</b>	<b>\$ 8,381,162</b>
<b>Budgeted Reserves</b>	<b>\$ 5,069,000</b>	<b>\$ 4,739,000</b>	<b>\$ 5,227,013</b>	<b>\$ 8,494,534</b>

<sup>11</sup> The “Subtotal General Fund” row may differ slightly from the sum of individual line items due to rounding within the model.



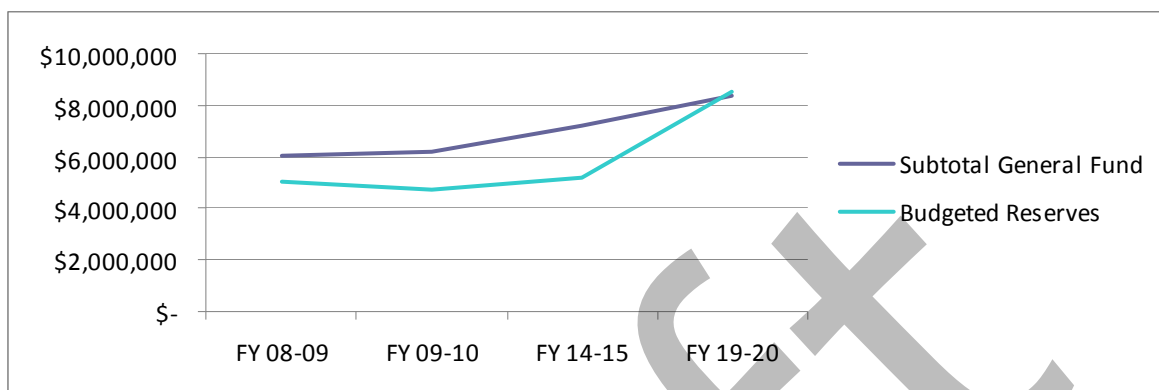
**Figure 3: Program Budget Relationships – Option 1 MWDOC Baseline**



The MWDOC Baseline budget contains an operational reserve which can be used to cover unanticipated costs, such as variations in operating costs and/or revenues. MWDOC Baseline's budgeted operating reserve for Fiscal Year 2008-09 is \$5,069,000.<sup>12</sup> Table 6 illustrates that when the 3% inflation factor is applied after FY 2013-14, large reserve surpluses begin to accumulate. This is graphically depicted on Figure 4. The operating reserve accumulation is a result of the modeled assumptions and does not preclude MWDOC from operating under different assumptions in order to assure that its general fund reserve balance remains consistent with its December 2006 Policy Commitments.

<sup>12</sup> Exhibit C, 2008-2009 Fiscal Master Plan Projections, MWDOC Annual Budget for Fiscal Year 2008-2009 (June 18, 2008)

**Figure 4: General Fund and Operational Reserve Trends – Option 1 MWDOC Baseline**



As is discussed in Section 6.2, MWDOC maintains a second reserve account, the Water Purchase Reserve Fund. These reserve funds are not included in the 10-year budget because these revenues are not used for general fund purposes; use of the Water Purchase Reserve Fund is restricted to the purchase of Tier 2 water from Metropolitan.

#### Revenue Recovery and Cost Impact to Rate Payers

The cost recovery strategies described in Section 6.2 for MWDOC Baseline were used in the 10-year budget projections in order to estimate potential impacts to each retail agency's rate payers. The model accounts for the Melded Water Rate Surcharge, the Water Increment Charge and the Retail Meter Charge to determine each retail agency's share of costs. Each retail agency's cost share was then divided by the number of retail meters in the service area in order to develop a cost per ratepayer. Table 7 illustrates the results of this modeling for Fiscal Years 2009-10, 2014-15 and 2019-20.

The model results reveal several key findings:

- Historically, MWDOC's general fund budget has averaged between 4.5% and 5.5% of its total budget; the majority of MWDOC's costs, and the costs passed on to ratepayers through the retail agencies, are associated with the purchase of wholesale water.
- The model results also indicate that over the past several years MWDOC's Water Increment Charge and Retail Meter Charge have not fully funded the general fund budget. MWDOC has relied on a combination of interest earnings and drawing on reserve funds to supplement the Water Increment Charge and Retail Meter Charge.

- MWDOC's Fiscal Master Plan projects increases to the Water Increment Charge and Retail Meter Charge beginning in Fiscal Year 2009-10. When these rate increases are taken into account the model predicts that MWDOC will begin to recover more of its general fund costs and make contributions to its general fund reserves, beginning in FY 2012-13.

*Attachment E*, in the Appendix, presents the complete, annual 10-year model results for MWDOC Baseline.

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**Table 7: Cost to Rate Payer – Baseline MWDOC**

	FY 09-10		FY 14-15		FY 19 20	
	Baseline	Annual Cost to Payer	Baseline	Annual Cost to Payer	Baseline	Annual Cost to Payer
<b>EI Toro WD</b>						
Totals	\$ 393,330	\$ 38.22	\$ 496,477	\$ 47.10	\$ 602,535	\$ 55.84
<b>Irvine Ranch WD*</b>						
Totals	\$ 1,710,731	\$ 14.84	\$ 2,296,867	\$ 19.77	\$ 2,967,110	\$ 24.19
<b>Moulton Niguel WD</b>						
Totals	\$ 1,489,931	\$ 21.16	\$ 1,864,079	\$ 26.48	\$ 2,237,790	\$ 31.78
<b>Santa Margarita WD</b>						
Totals	\$ 1,289,705	\$ 22.15	\$ 1,711,798	\$ 26.93	\$ 2,203,872	\$ 32.19
<b>South Coast Water District</b>						
Totals	\$ 295,630	\$ 23.10	\$ 348,737	\$ 27.03	\$ 393,593	\$ 30.28
<b>Trabuco Canyon WD</b>						
Totals	\$ 165,988	\$ 34.65	\$ 218,219	\$ 43.37	\$ 272,755	\$ 52.25
<b>Laguna Beach CWD</b>						
Totals	\$ 132,092	\$ 15.38	\$ 166,841	\$ 19.26	\$ 200,161	\$ 22.99
<b>San Clemente</b>						
Totals	\$ 412,578	\$ 21.60	\$ 522,900	\$ 26.81	\$ 624,412	\$ 31.52
<b>San Juan Capistrano</b>						
Totals	\$ 216,684	\$ 18.79	\$ 272,063	\$ 23.29	\$ 325,734	\$ 27.62
<b>Brea</b>						
Totals	\$ 258,060	\$ 20.47	\$ 343,054	\$ 26.18	\$ 430,671	\$ 31.95
<b>Buena Park</b>						
Totals	\$ 262,695	\$ 12.86	\$ 385,191	\$ 18.37	\$ 514,150	\$ 24.03
<b>East Orange County WD*</b>						
Totals	\$ 95,838	\$ 80.00	\$ 123,255	\$ 102.37	\$ 148,902	\$ 123.06
<b>Fountain Valley</b>						
Totals	\$ 189,608	\$ 10.81	\$ 263,589	\$ 14.68	\$ 320,829	\$ 17.53
<b>Garden Grove</b>						
Totals	\$ 370,229	\$ 10.60	\$ 534,111	\$ 14.97	\$ 657,414	\$ 18.14
<b>Golden State Water Company</b>						
Totals	\$ 560,801	\$ 10.39	\$ 886,361	\$ 12.93	\$ 1,237,382	\$ 14.21
<b>Huntington Beach</b>						
Totals	\$ 587,584	\$ 10.79	\$ 813,748	\$ 14.68	\$ 987,143	\$ 17.57
<b>La Habra</b>						
Totals	\$ 148,547	\$ 11.26	\$ 196,013	\$ 14.65	\$ 238,494	\$ 17.62
<b>La Palma</b>						
Totals	\$ 46,253	\$ 10.47	\$ 63,863	\$ 14.22	\$ 77,663	\$ 17.10
<b>Mesa Consolidated</b>						
Totals	\$ 167,517	\$ 6.97	\$ 251,193	\$ 10.24	\$ 302,312	\$ 12.13
<b>Newport Beach</b>						
Totals	\$ 336,301	\$ 10.58	\$ 481,730	\$ 14.89	\$ 582,418	\$ 17.77
<b>OCWD</b>						
Totals	\$ 120,000		\$ 148,700		\$ 178,536	
<b>Orange</b>						
Totals	\$ 453,861	\$ 12.45	\$ 650,905	\$ 17.58	\$ 790,822	\$ 21.10
<b>Seal Beach</b>						
Totals	\$ 67,255	\$ 12.26	\$ 94,998	\$ 17.07	\$ 116,951	\$ 20.78
<b>Serrano WD</b>						
Totals	\$ 14,310	\$ 6.20	\$ 17,924	\$ 7.77	\$ 20,779	\$ 9.00
<b>Westminster</b>						
Totals	\$ 231,903	\$ 11.26	\$ 322,729	\$ 15.38	\$ 394,269	\$ 18.52
<b>Yorba Linda WD</b>						
Totals	\$ 489,990	\$ 20.04	\$ 656,456	\$ 26.05	\$ 808,139	\$ 30.12

\* EOCWD's total water purchases include water it wholesales to su-member agencies. EOCWD's retail meter count includes only its retail service area. Therefore the annual cost to rate payer over states cost because it includes the wholesale purchase

### Comparison to Other Metropolitan Member Agencies

In order to understand MWDOC's practices, it is helpful to compare them to other Metropolitan member agencies. Table 8 below, provides a brief comparison of governance structures and wholesale water programs for Metropolitan member agencies. MWDOC is one of 12 special districts that are members of Metropolitan (the remaining Metropolitan member agencies are full-service cities with a very different service model). Most other special districts that are Metropolitan members own and operate varying types and levels of infrastructure. There is one other agency (Upper San Gabriel Valley MWD) which, like MWDOC, does not own or operate infrastructure. While most other special districts that are Metropolitan members charge a Tier 1 and Tier 2 water rate, San Diego County Water Authority and Eastern MWD, which like MWDOC also have access to substantial alternative sources of water, use a Melded Water Rate<sup>13</sup>.

**Table 8: Metropolitan Water District Member Agency Comparison**

Agency	Governance Structure	Services	Facilities	Wholesale Water Rates	
				2008	2009
MWDOC	MWD representing: 28 agencies 2,300,000 people	Wholesale Water Supply	None	\$522	\$597
Calleguas MWD	MWD representing: 21 agencies 592,000 people	Wholesale Water Supply; Hydroelectric Power Generation	Reservoirs, pipelines and pump stations	T1 \$657 T2 \$755	T1 \$769 T1 \$885
Central Basin MWD	MWD representing: 41 agencies 2,000,000 people	Wholesale Water Supply; Recycled Water Distribution	Water Quality Protection Project; recycled water system	T1 \$564 T2 \$662	T1 \$635 T1 \$751
Eastern MWD	MWD representing: 9 agencies 660,000 people	Wholesale & Retail Water Supply; Wastewater Collection & Treatment; Recycled Water Distribution	4 Wastewater Treatment Plants; 2 Water Treatment Plants, potable water distribution system, sewer collection system, storage tanks and pumping stations	\$702	\$786

<sup>13</sup>SDCWA charges a melded rate to all retailers. In cases where SCDWA exceeds its Tier 1 allocation, it collects Tier 2 charges from the agencies that caused it to exceed its allocation.

Agency	Governance Structure	Services	Facilities	Wholesale Water Rates	
				2008	2009
Foothill MWD	MWD representing: 7 agencies 88,000 people	Wholesale Water Supply	Pipeline, Storage and Pump Stations.	T1 \$700 to \$794 T2 \$798 to \$892	T1 \$848 to \$903 T2 \$964 to \$1046
Inland Empire Utilities Agency	MWD representing: 7 agencies 800,000 people	Wholesale Water Supply (untreated); Wastewater Treatment; Recycled Water Distribution; Power Generation	Water Recycling Facilities; Biosolids Treatment Facilities; Chino Desalter	T1 \$361 T2 \$459	T1 \$422 T2 \$538
Las Virgenes MWD	MWD representing: 0 agencies 65,000 people	Water Supply; Wastewater Collection & Treatment; Recycled Water Distribution; Power Generation	Reservoir; Water Treatment Plant; Water Recycling Plant; recycled water distribution system	Not Applicable. Agency provides retail water service	
San Diego County Water Authority	CWA representing: 25 agencies 3,070,000 people	Wholesale Water Supply, Power Supply	Pipelines, Pump Stations Hydroelectric Plant	\$614	\$695
Three Valleys MWD	MWD representing: 11 agencies 600,000 people	Wholesale Water Supply; Hydroelectric Power Generation	Water & Hydroelectric Facilities, storage tanks, distribution pipeline	T1 \$528 T2 \$626	T1 \$600 T2 \$716
Upper San Gabriel Valley MWD	MWD representing: 8 agencies 900,000 people	Wholesale Water Supply	None	T1 \$549 T2 \$650	Not Yet Available
West Basin MWD	MWD representing: 12 agencies 900,000 people	Wholesale Water Supply; Recycled Water Treatment and Distribution	Groundwater wells, Desalination Facilities, Recycled Water Treatment and Distribution System	T1 \$611 T2 \$709	T1 \$689 T2 \$805
Western MWD	MWD representing: 8 agencies 853,000 people	Wholesale & Retail Water Supply; Wastewater Collection & Treatment	Groundwater wells, potable water pipeline and storage tanks; Wastewater collection, treatment and disposal system	T1 \$508 T2 \$606	T1 \$579 T2 \$695

## 6.4 Option 2a – MWDOC CWA

This is one of two options that includes dissolving MWDOC and replacing it with a CWA formed under Water Code Appendix 45.

### Essential Services

MWDOC CWA includes the same essential services described for Option 1 – MWDOC Baseline.

### Cost of Service and Reserves

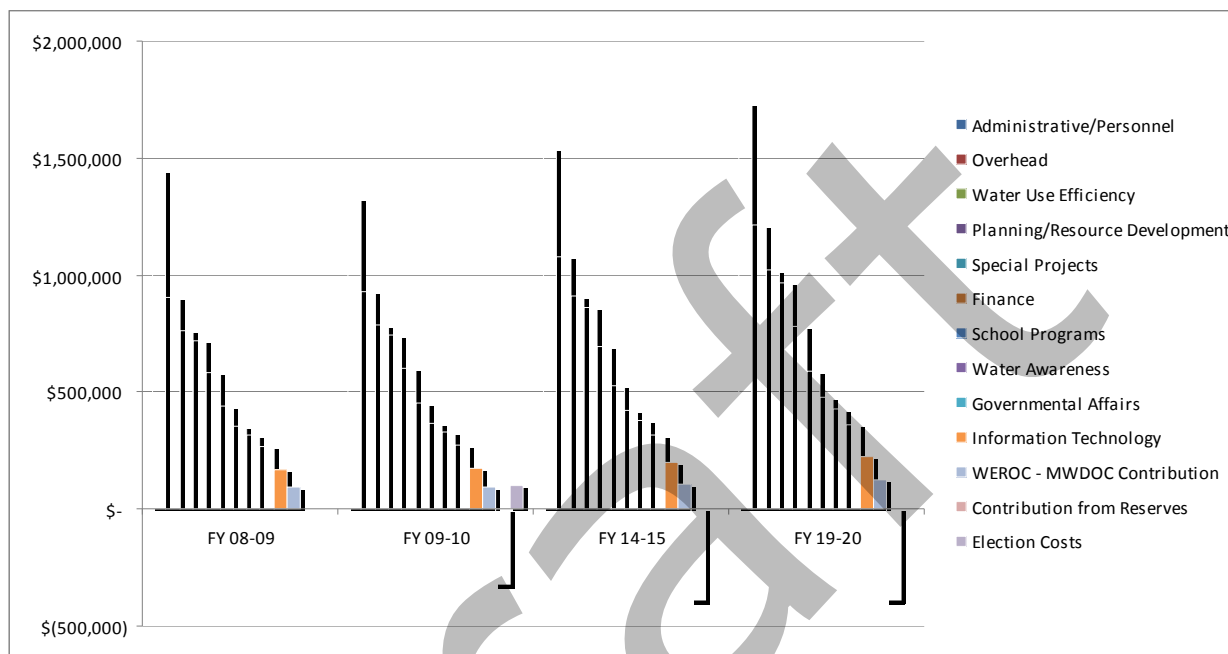
The foundation for the cost of service analysis is the 10-year budget developed for MWDOC CWA. This budget is very similar to the budget for MWDOC Baseline, except it includes a cost for the formation election, it reduces the costs for Board compensation because it assumes that the Board members are compensated by their retail agency, and it reduces operational reserves to 15% of the general fund budget over the 10-year projection period. Table 9 provides a summary of the MWDOC CWA budget by presenting estimates for the current Fiscal Year and for Fiscal Years 2009-10, 2014-15 and 2019-20. Figure 5 graphically illustrates the relationship of the various budget programs to one another.

**Table 9: Projected General Fund Budgets – Option 2a MWDOC CWA<sup>14</sup>**

	FY 08-09	FY 09-10	FY 14-15	FY 19 20
Administrative/Personnel	\$ 1,446,528	\$ 1,327,699	\$ 1,539,167	\$ 1,732,346
Planning/Resource Development	\$ 720,514	\$ 742,129	\$ 860,331	\$ 968,311
Special Projects	\$ 582,211	\$ 599,677	\$ 695,190	\$ 782,443
Governmental Affairs	\$ 266,939	\$ 274,947	\$ 318,739	\$ 358,744
Water Use Efficiency	\$ 762,275	\$ 785,143	\$ 910,196	\$ 1,024,434
Water Awareness	\$ 317,852	\$ 327,388	\$ 379,532	\$ 427,167
School Programs	\$ 355,527	\$ 366,193	\$ 424,518	\$ 477,799
Finance	\$ 440,098	\$ 453,301	\$ 525,500	\$ 591,455
Information Technology	\$ 167,100	\$ 172,113	\$ 199,526	\$ 224,568
Overhead	\$ 904,458	\$ 931,592	\$ 1,079,970	\$ 1,215,516
WEROC - MWDOC Contribution	\$ 91,228	\$ 93,965	\$ 108,931	\$ 122,603
Contribution from Reserves	\$ -	\$ (322,000)	\$ (390,933)	\$ (390,933)
Election Costs	\$ -	\$ 100,000	\$ -	\$ -
<b>Subtotal General Fund</b>	<b>\$ 6,054,730</b>	<b>\$ 5,852,147</b>	<b>\$ 6,650,668</b>	<b>\$ 7,534,451</b>
<b>Budgeted Reserves</b>	<b>\$ 5,069,000</b>	<b>\$ 4,739,000</b>	<b>\$ 2,784,335</b>	<b>\$ 1,220,600</b>

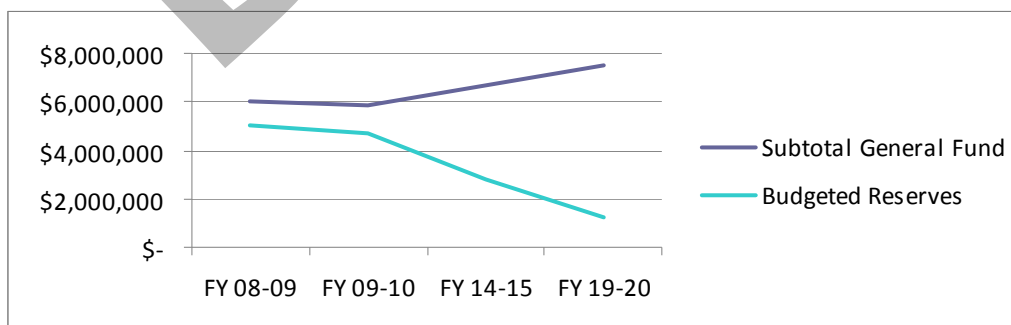
<sup>14</sup> The “Subtotal General Fund” row may differ slightly from the sum of individual line items due to rounding within the model.

**Figure 5: Program Budget Relationships – Option 2a MWDOC CWA**



The MWDOC CWA budget maintains an operational reserve. However this reserve is reduced to 15% of the general fund budget over the 10-year projection period. In contrast to Baseline MWDOC, which has a projected \$8,494,534 operational reserve balance in Fiscal Year 2019-20, MWDOC CWA has a projected \$1,220,600 operational reserve balance in Fiscal Year 2019-20. Figure 6 graphically represents the relationship between the MWDOC CWA general fund budget and its' operating reserve.

**Figure 6: General Fund and Operational Reserve Trends – Option 2a MWDOC CWA**



While not included in the general fund budget, because it is a restricted fund, the MWDOC CWA does maintain a Water Purchase Reserve Fund, which is funded from



its Melded Water Rate Surcharge, in order to purchase Tier 2 water when necessary. This is identical to MWDOC Baseline.

#### Revenue Recovery and Cost Impacts to Rate Payers

The MWDOC CWA continues to use three rate-recovery tools: a Melded Water Rate Surcharge, a Water Increment Charge and a Retail Meter Charge.

The amount of the Melded Water Rate Surcharge is identical to that used for MWDOC Baseline.

As in the MWDOC Baseline model, Water Increment Charges and Retail Meter Charges are used to recover general fund costs. The model projects that each retail agency will pay a slightly lower combination of Water Increment and Retail Meter Charges because the operational reserve requirement is reduced to 15%.

*Attachment F* presents the complete, 10-year model results for MWDOC CWA. Table 10 compares the projected cost to each retail agency of the combined Melded Water Rate Surcharge, Water Increment and Retail Meter Charges (revenue contribution) for the MWDOC CWA to the MWDOC Baseline for Fiscal Years 2009-10, 2014-15 and 2019-20. Each retail agency's MWDOC CWA revenue contribution was divided by the number of retail meters within its' service area in order to develop a cost per rate payer to compare against the MWDOC Baseline "Annual Cost to Rate Payer" shown on Table 7 in Section 6.3 and again in Table 10. The resultant increase or decrease from the MWDOC Baseline rate is then shown on Table 10 in the column "Annual Cost to Ratepayer."

Fiscally, MWDOC CWA is very similar to the MWDOC Baseline; both have very similar budget assumptions and identical revenue recovery strategies. Small cost savings accrue to ratepayers over time because of reduced operational reserve levels. MWDOC CWA is therefore considered a fiscally feasible option.

**Table 10: Revenue Contribution Comparison – MWD OC CWA to MWD OC Baseline**

	FY 09-10			FY 14-15			FY 19 20		
	Baseline	Base CWA	Annual Impact to Rate Payer	Baseline	Base CWA	Annual Impact to Rate Payer	Baseline	Base CWA	Annual Impact to Rate Payer
El Toro WD									
Totals	\$ 393,330	\$ 384,324	\$ (0.88)	\$ 496,477	\$ 459,998	\$ (3.46)	\$ 602,535	\$ 534,301	\$ (6.32)
Irvine Ranch WD*									
Totals	\$ 1,710,731	\$ 1,651,345	\$ (0.51)	\$ 2,296,867	\$ 2,054,703	\$ (2.08)	\$ 2,967,110	\$ 2,490,408	\$ (3.89)
Moulton Niguel WD									
Totals	\$ 1,489,931	\$ 1,446,812	\$ (0.61)	\$ 1,864,079	\$ 1,693,554	\$ (2.42)	\$ 2,237,790	\$ 1,923,001	\$ (4.47)
Santa Margarita WD									
Totals	\$ 1,289,705	\$ 1,253,159	\$ (0.63)	\$ 1,711,798	\$ 1,556,385	\$ (2.44)	\$ 2,203,872	\$ 1,895,606	\$ (4.50)
South Coast Water District									
Totals	\$ 295,630	\$ 287,409	\$ (0.64)	\$ 348,737	\$ 317,130	\$ (2.45)	\$ 393,593	\$ 336,979	\$ (4.35)
Trabuco Canyon WD									
Totals	\$ 165,988	\$ 162,059	\$ (0.82)	\$ 218,219	\$ 201,752	\$ (3.27)	\$ 272,755	\$ 241,188	\$ (6.05)
Laguna Beach CWD									
Totals	\$ 132,092	\$ 127,597	\$ (0.52)	\$ 166,841	\$ 149,007	\$ (2.06)	\$ 200,161	\$ 167,127	\$ (3.79)
San Clemente									
Totals	\$ 412,578	\$ 400,752	\$ (0.62)	\$ 522,900	\$ 475,336	\$ (2.44)	\$ 624,412	\$ 536,245	\$ (4.45)
San Juan Capistrano									
Totals	\$ 216,684	\$ 210,042	\$ (0.58)	\$ 272,063	\$ 245,644	\$ (2.26)	\$ 325,734	\$ 276,786	\$ (4.15)
Brea									
Totals	\$ 258,060	\$ 250,474	\$ (0.60)	\$ 343,054	\$ 311,514	\$ (2.41)	\$ 430,671	\$ 370,231	\$ (4.48)
Buena Park									
Totals	\$ 262,695	\$ 252,798	\$ (0.48)	\$ 385,191	\$ 342,970	\$ (2.01)	\$ 514,150	\$ 431,258	\$ (3.87)
East Orange County WD*									
Totals	\$ 95,838	\$ 94,018	\$ (1.52)	\$ 123,255	\$ 115,737	\$ (6.24)	\$ 148,902	\$ 134,987	\$ (11.50)
Fountain Valley									
Totals	\$ 189,608	\$ 181,665	\$ (0.45)	\$ 263,589	\$ 230,765	\$ (1.83)	\$ 320,829	\$ 259,097	\$ (3.37)
Garden Grove									
Totals	\$ 370,229	\$ 354,520	\$ (0.45)	\$ 534,111	\$ 468,372	\$ (1.84)	\$ 657,414	\$ 533,470	\$ (3.42)
Golden State Water Company									
Totals	\$ 560,801	\$ 536,702	\$ (0.45)	\$ 886,361	\$ 767,096	\$ (1.74)	\$ 1,237,382	\$ 965,907	\$ (3.12)
Huntington Beach									
Totals	\$ 587,584	\$ 562,926	\$ (0.45)	\$ 813,748	\$ 712,434	\$ (1.83)	\$ 987,143	\$ 797,417	\$ (3.38)
La Habra									
Totals	\$ 148,547	\$ 142,479	\$ (0.46)	\$ 196,013	\$ 171,573	\$ (1.83)	\$ 238,494	\$ 192,739	\$ (3.38)
La Palma									
Totals	\$ 46,253	\$ 44,276	\$ (0.45)	\$ 63,863	\$ 55,760	\$ (1.81)	\$ 77,663	\$ 62,494	\$ (3.34)
Mesa Consolidated									
Totals	\$ 167,517	\$ 158,050	\$ (0.39)	\$ 251,193	\$ 211,846	\$ (1.60)	\$ 302,312	\$ 228,613	\$ (2.96)
Newport Beach									
Totals	\$ 336,301	\$ 322,018	\$ (0.45)	\$ 481,730	\$ 422,251	\$ (1.84)	\$ 582,418	\$ 471,233	\$ (3.39)
OCWD									
Totals	\$ 120,000	\$ 118,152		\$ 148,700	\$ 141,211		\$ 178,536	\$ 164,787	
Orange									
Totals	\$ 453,861	\$ 436,426	\$ (0.48)	\$ 650,905	\$ 577,810	\$ (1.97)	\$ 790,822	\$ 654,076	\$ (3.65)
Seal Beach									
Totals	\$ 67,255	\$ 64,647	\$ (0.48)	\$ 94,998	\$ 84,156	\$ (1.95)	\$ 116,951	\$ 96,557	\$ (3.62)
Serrano WD									
Totals	\$ 14,310	\$ 18,385	\$ 1.77	\$ 17,924	\$ 14,509	\$ (1.48)	\$ 20,779	\$ 14,509	\$ (2.72)
Westminster									
Totals	\$ 231,903	\$ 222,428	\$ (0.46)	\$ 322,729	\$ 283,634	\$ (1.86)	\$ 394,269	\$ 320,839	\$ (3.45)
Yorba Linda WD									
Totals	\$ 489,990	\$ 475,438	\$ (0.60)	\$ 656,456	\$ 595,962	\$ (2.40)	\$ 808,139	\$ 691,616	\$ (4.34)

\* Impact to rate payers overstated because of wholesale purchases

## 6.5 Option 2b – MWDOC Subscription CWA

This is the second of two options that assumes that MWDOC will be dissolved and replaced by a CWA formed under Water Code Appendix 45.

### Essential Services

During the development of the MWDOC MSR Report, LAFCO's stakeholder process included an effort to define services provided by MWDOC as "core" (essential) and "non-core" (subscription).<sup>15</sup> Option 2b – MWDOC Subscription CWA builds on this effort and analyzes the impact of allowing retail agencies to have a choice about whether or not to subscribe to certain services provided by MWDOC.

Based on the information provided in the MWDOC MSR Report, the following services are considered essential and will be paid for by all retail agencies:

- Wholesale Water Importation
- Planning and Resource Development<sup>16</sup>
- Metropolitan Issues and Special Projects
- Emergency Preparedness (WEROC).

MWDOC will continue to provide the following services as subscription services.

- Government Affairs
- Water Use Efficiency
- Water Awareness
- School Programs.

During the MSR process, the Six Agencies indicated that they had alternative means for providing these services. The model therefore assumes that the subscription services will be subscribed to by all retailers except the Six Agencies.

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<sup>15</sup> Section 3 Stakeholder Working Group, *Municipal Services Review & Sphere of Influence Study for Municipal Water District of Orange County* (June 2007).

<sup>16</sup> The analysis assumes that MWDOC's Policy regarding project initiation remains in effect and that the benefitting retailers will pay for large planning and resource development projects.

### Cost of Service and Reserves

The foundation for the cost of service analysis is the 10-year budget developed for MWDOC Subscription CWA. The MWDOC Subscription CWA budget contains two components, an essential services budget and a subscription services budget.

The analysis for MWDOC Subscription CWA includes the budget changes described for MWDOC CWA (election costs, reduced Board compensation, and reduced reserves) and also analyzes the financial impacts of a subscription program.

Essential and subscription services are identified by budget category in Table 11. The service categories are identical to those used in the MWDOC Fiscal Year 2008-09 budget. Overhead categories including Administration & Personnel, Finance & IT and General Overhead have been proportionally allocated to the essential and subscription budgets. Based on the budget and staffing assumptions included in *Attachment C*, essential services comprise 45% of the budget and are therefore assigned 45% of the overhead. Subscription services comprise 55% of the budget and are assigned 55% of the overhead.

**Table 11: Essential and Subscription Services**

Service	Description
Wholesale Water Purchases	Essential
Administration & Personnel	Proportionally Allocated to Essential (45%) and Subscription (55%)
Planning & Resource Development	Essential
Met Issues & Special Projects	Essential
Government Affairs	Subscription
Water Use Efficiency	Subscription
Water Awareness	Subscription
School Programs	Subscription
Finance & IT	Proportionally Allocated to Essential (45%) and Subscription (55%)
Overhead	Proportionally Allocated to Essential (45%) and Subscription (55%)
WEROC	Essential

Tables 12a and 12b provide budget summaries for MWDOC Subscription CWA essential services and MWDOC Subscription CWA subscription services respectively, presenting the budget estimates for the current Fiscal Year and for Fiscal Years 2009-10, 2014-15 and 2019-20. Figure 7 graphically illustrates the relationship of the various budget programs to one another.

**Table 12a: Projected Essential Services Budget – Option 2b MWDOC Subscription CWA<sup>17</sup>**

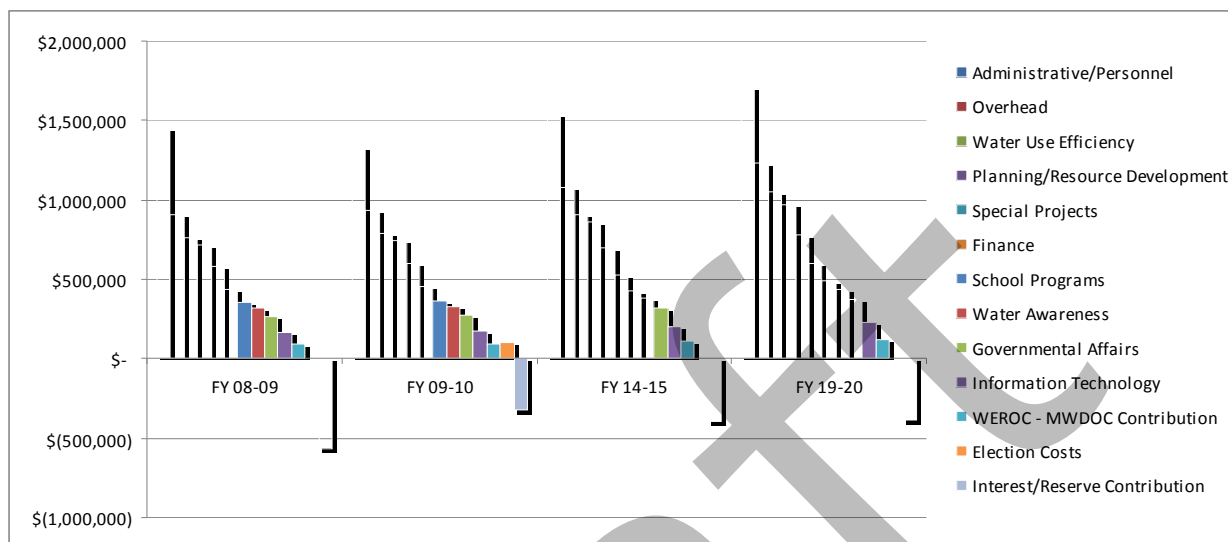
Services & Costs	FY 08-09	FY 09-10	FY 14 15	FY 19 20
	\$	\$	\$	\$
<b>General Fund Budget</b>				
<b>Overhead Allocation %</b>	45%	45.00%	45%	44%
Administrative/Personnel	\$650,938	\$ 597,464	\$ 692,625	\$ 762,232
Planning/Resource Development	\$720,514	\$ 742,129	\$ 860,331	\$ 968,311
Special Projects	\$582,211	\$ 599,677	\$ 695,190	\$ 782,443
Finance	\$198,044	\$ 203,985	\$ 236,475	\$ 268,047
Information Technology	\$75,195	\$ 77,451	\$ 89,787	\$ 101,774
Overhead	\$407,006	\$ 419,216	\$ 485,987	\$ 546,982
Desalination Study	\$0	\$ -	\$ -	\$ -
WEROC - MWDOC Contribution	\$91,228	\$ 93,965	\$ 108,931	\$ 122,603
Election Costs		\$ 100,000		
Contribution from Reserves	\$ -	\$ (144,900)	\$ (175,920)	\$ (172,011)
<b>Subtotal Core General Fund</b>	<b>\$2,725,136</b>	<b>\$ 2,688,989</b>	<b>\$ 2,993,406</b>	<b>\$ 3,380,382</b>
<b>Budgeted Reserves</b>	<b>\$2,281,050</b>	<b>\$2,132,550</b>	<b>\$1,252,951</b>	<b>\$537,064</b>

**Table 12b: Projected Subscription Services Budget – Option 2b MWDOC Subscription CWA**

Services & Costs	FY 08-09	FY 09-10	FY 14 15	FY 19 20
	\$	\$	\$	\$
<b>General Fund Budget</b>				
<b>Overhead Allocation Factor</b>	55%	55.00%	55%	55%
Administrative/Personnel	\$795,590	\$ 730,234	\$ 846,542	\$ 952,790
Governmental Affairs	\$266,939	\$ 274,947	\$ 318,739	\$ 369,506
Water Use Efficiency	\$762,275	\$ 785,143	\$ 910,196	\$ 1,055,167
Water Awareness	\$317,852	\$ 327,388	\$ 379,532	\$ 439,982
School Programs	\$355,527	\$ 366,193	\$ 424,518	\$ 492,133
Finance	\$242,054	\$249,316	\$289,025	\$335,059
Information Technology	\$91,905	\$94,662	\$109,739	\$127,218
Overhead	\$497,452	\$512,375	\$593,984	\$688,590
Desalination Study	\$0	\$ -	\$ -	\$ -
Interest/Reserve Contribution	\$ (567,099)	\$ (177,100)	\$ (215,013)	\$ (215,013)
Election Costs				
<b>Subtotal Subscription General Fund</b>	<b>\$ 2,762,495</b>	<b>\$ 3,163,158</b>	<b>\$ 3,657,262</b>	<b>\$ 4,245,431</b>
<b>Budgeted Reserves</b>	<b>\$2,787,950</b>	<b>\$2,606,450</b>	<b>\$1,531,384</b>	<b>\$671,330</b>

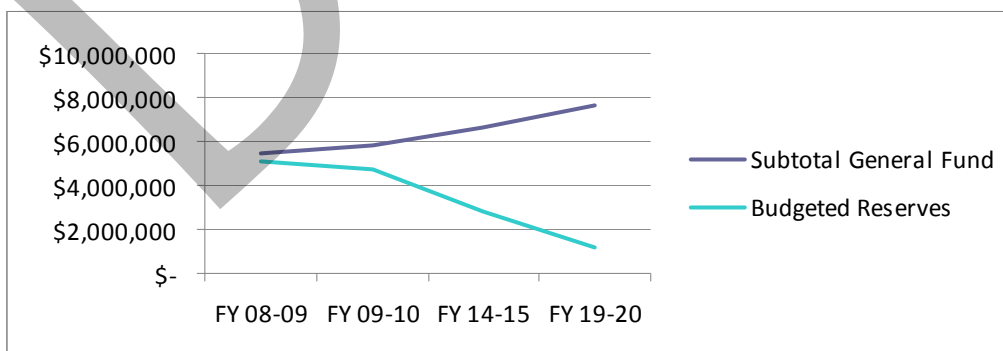
<sup>17</sup> The “Subtotal General Fund” row may differ slightly from the sum of individual line items due to rounding within the model.

**Figure 7: Program Budget Relationships – Option 2b MWDOC Subscription CWA**



The MWDOC Subscription CWA maintains an operational reserve. However this reserve is reduced to 15% of the general fund budget over the 10-year projection period. In contrast to Baseline MWDOC, which has a projected \$8,494,534 operational reserve balance in Fiscal Year 2019-20, MWDOC Subscription CWA has a projected \$1,208,400 operational reserve balance in Fiscal Year 2019-20. Figure 8 graphically represents the relationship between the MWDOC Subscription CWA general fund budget and its' operating reserve.

**Figure 8: General Fund and Operational Reserve Trends – Option 2b MWDOC Subscription CWA**



While not included in the general fund budget, because it is a restricted fund, the MWDOC Subscription CWA does maintain a Water Purchase Reserve Fund, which is funded from its Melded Water Rate Surcharge, in order to purchase Tier 2 water when necessary. This is identical to MWDOC Baseline.

### Revenue Recovery and Cost Impacts to Rate Payers

The MWDOC Subscription CWA continues to use three rate-recovery tools: a Melded Water Rate Surcharge, a Water Increment Charge and a Retail Meter Charge.

The Melded Water Rate Surcharge is identical to that used in MWDOC Baseline. The general fund revenue recovery strategy for this option, however, uses revenues from the Water Increment and Retail Meter Charges differently.

The Water Increment Charge for each retail agency is modeled to cover each agency's share of the essential services, including administration and overhead. The rationale is that essential services are related to the importation of water and each retail agency should pay for essential services based on water consumption.

The Retail Meter Charge for each retail agency is modeled to cover the agency's share of subscription services. Under this option, agencies that do not participate in the subscription services are not assessed a Retail Meter Charge. The rationale is that subscription services provided through MWDOC will benefit the ratepayers within those retail agencies subscribing to the services, thus each customer receiving the service pays for the service through Retail Meter Charges.

*Attachment G* presents the complete, 10-year model results for MWDOC Subscription CWA. Table 13 compares the projected revenue contributions for the MWDOC Subscription CWA to the MWDOC Baseline for Fiscal Years 2009-10, 2014-15 and 2019-20. Each retail agency's MWDOC Subscription CWA revenue contribution was divided by the number of retail meters within its' service area in order to develop a cost per rate payer to compare against the MWDOC Baseline "Annual Cost to Rate Payer" shown on Table 7 in Section 6.3 and again on Table 13. The resultant increase or decrease from the MWDOC Baseline rate is then shown on Table 13 in the column "Annual Cost to Ratepayer."

The MWDOC Subscription CWA shifts almost \$1,200,000 in costs from "non-subscribers" (the Six Agencies) to "subscribers" (all other MWDOC retail agencies). While this is a large revenue shift in terms of the overall general fund budget (approximately 21%), it is largely attenuated by the large number of rate payers within the subscription service area. As illustrated in Table 13, the impact to rate payers, at the end of the 10-year cost projection period, is modest. Rate payers in the non-subscription area experience a modest decrease in costs (less than \$9.00 per year or about \$0.75 per month in the most extreme case) while rate payers in the subscription area experience a modest increase in cost (typically less than \$2.00 annually or under \$0.20 per month).

This modest cost shift is not regarded as a fiscal fatal flaw, and Option 2b - MWDOC Subscription CWA is therefore considered a feasible alternative.

**Table 13: Revenue Contribution Comparison – MWDOC Subscription CWA to MWDOC Baseline**

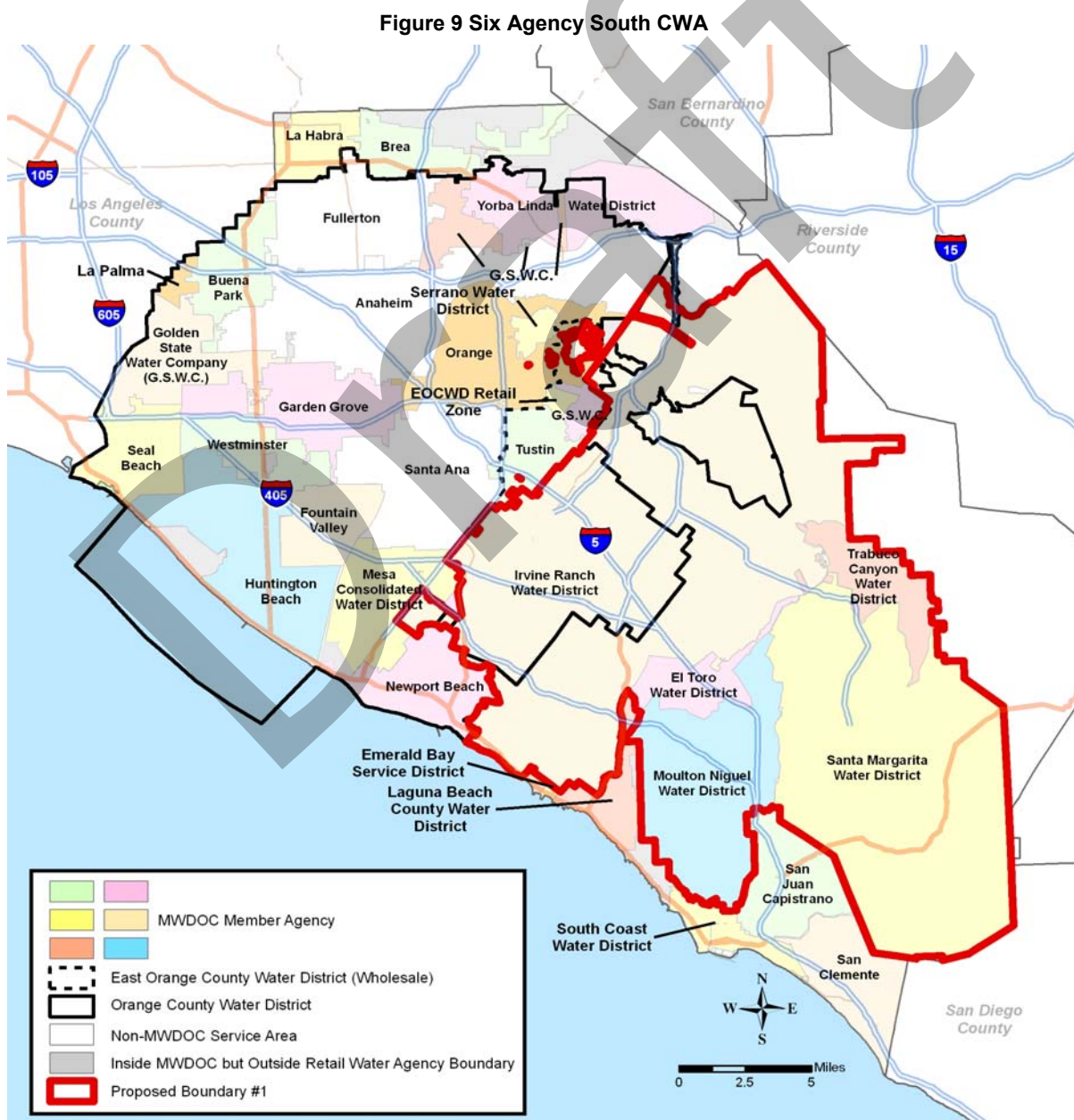
	FY 09 10			FY 14 15			FY 19 20		
	Baseline	Cafeteria	Annual Impact to Rate Payer	Baseline	Cafeteria	Annual Impact to Rate Payer	Baseline	Cafeteria	Annual Impact to Rate Payer
El Toro WD									
Totals	\$ 393,330	\$ 386,456	\$ (0.67)	\$ 496,477	\$ 447,395	\$ (4.66)	\$ 602,535	\$ 531,353	\$ (6.60)
Irvine Ranch WD									
Totals	\$ 1,710,731	\$ 1,167,848	\$ (4.71)	\$ 2,296,867	\$ 1,504,769	\$ (6.82)	\$ 2,967,110	\$ 1,958,400	\$ (8.22)
Moulton Niguel WD									
Totals	\$ 1,489,931	\$ 1,235,435	\$ (3.61)	\$ 1,864,079	\$ 1,421,451	\$ (6.29)	\$ 2,237,790	\$ 1,686,318	\$ (7.83)
Santa Margarita WD									
Totals	\$ 1,289,705	\$ 1,089,177	\$ (3.44)	\$ 1,711,798	\$ 1,314,426	\$ (6.25)	\$ 2,203,872	\$ 1,668,955	\$ (7.81)
South Coast Water District									
Totals	\$ 295,630	\$ 253,638	\$ (3.28)	\$ 348,737	\$ 268,204	\$ (6.24)	\$ 393,593	\$ 290,759	\$ (7.91)
Trabuco Canyon WD									
Totals	\$ 165,988	\$ 159,839	\$ (1.28)	\$ 218,219	\$ 193,311	\$ (4.95)	\$ 272,755	\$ 237,356	\$ (6.78)
Laguna Beach CWD									
Totals	\$ 132,092	\$ 160,882	\$ 3.35	\$ 166,841	\$ 183,131	\$ 1.88	\$ 200,161	\$ 211,372	\$ 1.29
San Clemente									
Totals	\$ 412,578	\$ 497,131	\$ 4.43	\$ 522,900	\$ 571,217	\$ 2.48	\$ 624,412	\$ 658,600	\$ 1.73
San Juan Capistrano									
Totals	\$ 216,684	\$ 262,137	\$ 3.94	\$ 272,063	\$ 297,751	\$ 2.20	\$ 325,734	\$ 343,724	\$ 1.53
Brea									
Totals	\$ 258,060	\$ 311,405	\$ 4.23	\$ 343,054	\$ 374,863	\$ 2.43	\$ 430,671	\$ 454,232	\$ 1.75
Buena Park									
Totals	\$ 262,695	\$ 322,271	\$ 2.92	\$ 385,191	\$ 423,143	\$ 1.81	\$ 514,150	\$ 542,843	\$ 1.34
East Orange County WD*									
Totals	\$ 95,838	\$ 113,229	\$ 14.52	\$ 123,255	\$ 133,431	\$ 8.45	\$ 148,902	\$ 156,680	\$ 6.43
Fountain Valley									
Totals	\$ 189,608	\$ 234,549	\$ 2.56	\$ 263,589	\$ 290,852	\$ 1.52	\$ 320,829	\$ 339,261	\$ 1.01
Garden Grove									
Totals	\$ 370,229	\$ 458,465	\$ 2.53	\$ 534,111	\$ 589,100	\$ 1.54	\$ 657,414	\$ 695,049	\$ 1.04
Golden State Water Company									
Totals	\$ 560,801	\$ 695,190	\$ 2.49	\$ 886,361	\$ 980,958	\$ 1.38	\$ 1,237,382	\$ 1,310,229	\$ 0.84
Huntington Beach									
Totals	\$ 587,584	\$ 726,956	\$ 2.56	\$ 813,748	\$ 897,906	\$ 1.52	\$ 987,143	\$ 1,043,844	\$ 1.01
La Habra									
Totals	\$ 148,547	\$ 183,378	\$ 2.64	\$ 196,013	\$ 216,297	\$ 1.52	\$ 238,494	\$ 252,188	\$ 1.01
La Palma									
Totals	\$ 46,253	\$ 57,313	\$ 2.50	\$ 63,863	\$ 70,518	\$ 1.48	\$ 77,663	\$ 82,137	\$ 0.99
Mesa Consolidated									
Totals	\$ 167,517	\$ 213,160	\$ 1.90	\$ 251,193	\$ 279,824	\$ 1.17	\$ 302,312	\$ 320,498	\$ 0.73
Newport Beach									
Totals	\$ 336,301	\$ 416,483	\$ 2.52	\$ 481,730	\$ 531,388	\$ 1.53	\$ 582,418	\$ 615,831	\$ 1.02
OCWD									
Totals	\$ 120,000	\$ 140,734		\$ 148,700	\$ 160,457		\$ 178,536	\$ 187,708	
Orange									
Totals	\$ 453,861	\$ 557,608	\$ 2.85	\$ 650,905	\$ 715,612	\$ 1.75	\$ 790,822	\$ 835,442	\$ 1.19
Seal Beach									
Totals	\$ 67,255	\$ 82,687	\$ 2.81	\$ 94,998	\$ 104,499	\$ 1.71	\$ 116,951	\$ 123,559	\$ 1.17
Serrano WD									
Totals	\$ 14,310	\$ 18,385	\$ 1.77	\$ 17,924	\$ 20,167	\$ 0.97	\$ 20,779	\$ 22,093	\$ 0.57
Westminster									
Totals	\$ 231,903	\$ 286,285	\$ 2.64	\$ 322,729	\$ 355,749	\$ 1.57	\$ 394,269	\$ 416,792	\$ 1.06
Yorba Linda WD									
Totals	\$ 489,990	\$ 591,638	\$ 4.16	\$ 656,456	\$ 717,371	\$ 2.42	\$ 808,139	\$ 852,513	\$ 1.65

\* Wholesale function results in overstatement of impacts to rate payers.



## 6.6 Option 3a – Six Agency South CWA

This option is one of two options that models detachment of some South County agencies and formation of a new South County CWA formed under Water Code Appendix 45. Under Option 3a - Six Agency South CWA - El Toro, Irvine Ranch, Moulton Niguel, Santa Margarita, South Coast and Trabuco Canyon Water Districts are detached. MWDOC continues as an MWD representing 22 retail agencies. The boundaries are illustrated in Figure 9.



### Essential Services

The Six Agency South CWA will provide only “essential” services. These were identified during the MWDOC MSR process and are identical to the essential services defined for the MWDOC Subscription CWA and discussed in Section 6.5. The essential services are:

- Wholesale Water Importation
- Planning and Resource Development
- Metropolitan Issues and Special Projects
- A “fair share” of Emergency Preparedness (WEROC).

The remaining MWDOC will continue to provide its full range of services to its member agencies.

### Cost of Service and Operational Reserves

The foundation for the cost of service analysis is the budgets developed for the Six Agency South CWA and the remaining MWDOC. The budgets are based on the staffing and transitional assumptions outlined *Attachment C*. Both budgets assume that operational reserves are reduced to 15% of the general fund budget over the 10-year projection period. In addition, the Six Agency South CWA budget includes the cost for the formation election and transitional costs and reflects reduced Board compensation because it is assumed that the member agencies will provide compensation to their appointed Board members. Board compensation for the remaining MWDOC is the same as for MWDOC Baseline.

Tables 14a and 14b provide budget summaries for Six Agency South CWA and remaining MWDOC, presenting budget estimates for Fiscal Years 2009-10, 2014-15 and 2019-20. Figures 10a and 10b graphically illustrate the relationship of the various budget programs to one another.

**Table 14a: Projected General Fund Budgets – Option 3a Six Agency South CWA<sup>18</sup>**

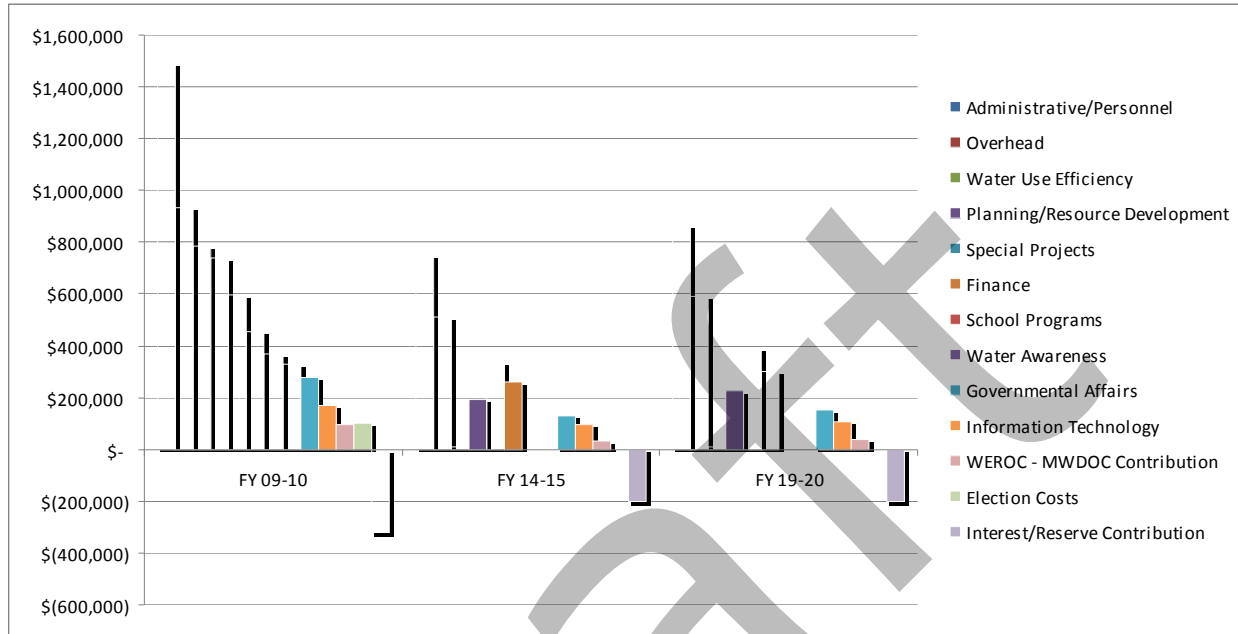
	<b>FY 09 10</b>	<b>FY 14 15</b>	<b>FY 19 20</b>
Administrative/Personnel	\$ 1,489,924	\$ 748,086	\$ 867,237
Planning/Resource Development	\$ 742,129	\$ 192,942	\$ 223,673
Special Projects	\$ 599,677	\$ 337,472	\$ 391,222
Governmental Affairs	\$ 274,947	\$ 131,840	\$ 152,839
Water Use Efficiency	\$ 785,143	\$ 7,957	\$ 9,224
Water Awareness	\$ 327,388	\$ -	\$ -
School Programs	\$ 366,193	\$ -	\$ -
Finance	\$ 453,301	\$ 258,287	\$ 299,426
Information Technology	\$ 172,113	\$ 93,075	\$ 107,900
Overhead	\$ 931,592	\$ 509,666	\$ 590,842
WEROC - MWDOC Contribution	\$ 93,965	\$ 35,217	\$ 40,827
Election Costs	\$ 100,000	\$ -	\$ -
Interest/Reserve Contribution	\$ (322,000)	\$ (200,000)	\$ (199,000)
<b>Subtotal General Fund</b>	<b>\$ 6,014,372</b>	<b>\$ 2,114,543</b>	<b>\$ 2,484,189</b>
<b>Reserve Balance</b>	<b>\$ 4,739,000</b>	<b>\$ 1,213,225</b>	<b>\$ 388,225</b>

**Table 14b: Projected General Fund Budgets – Option 3a Remaining MWDOC**

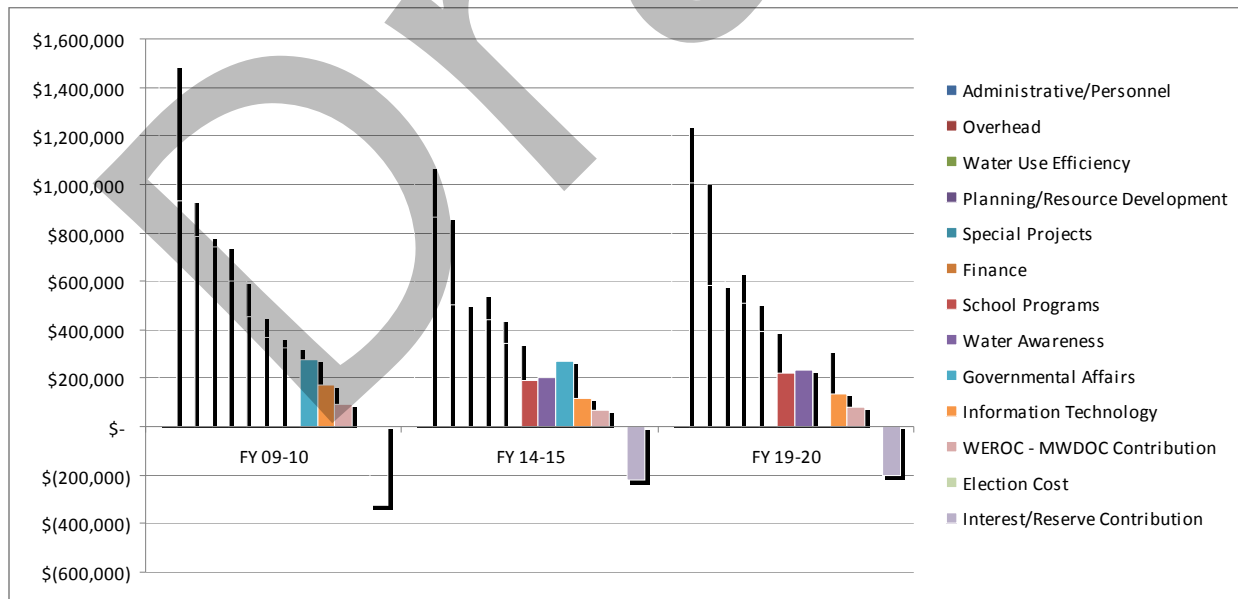
	<b>FY 09 10</b>	<b>FY 14 15</b>	<b>FY 19 20</b>
Administrative/Personnel	\$ 1,489,924	\$ 1,072,566	\$ 1,243,398
Planning/Resource Development	\$ 742,129	\$ 548,645	\$ 636,029
Special Projects	\$ 599,677	\$ 438,833	\$ 508,728
Governmental Affairs	\$ 274,947	\$ 268,959	\$ 311,797
Water Use Efficiency	\$ 785,143	\$ 503,275	\$ 583,433
Water Awareness	\$ 327,388	\$ 203,424	\$ 235,825
School Programs	\$ 366,193	\$ 189,136	\$ 219,260
Finance	\$ 453,301	\$ 341,035	\$ 395,353
Information Technology	\$ 172,113	\$ 117,098	\$ 135,748
Overhead	\$ 931,592	\$ 865,279	\$ 1,003,096
WEROC - MWDOC Contribution	\$ 93,965	\$ 70,541	\$ 81,776
Election Cost	\$ -	\$ -	\$ -
Interest/Reserve Contribution	\$ (322,000)	\$ (223,000)	\$ (200,000)
<b>Subtotal General Fund</b>	<b>\$ 5,914,372</b>	<b>\$ 4,395,791</b>	<b>\$ 5,154,444</b>
<b>Reserve Balance</b>	<b>\$ 4,739,000</b>	<b>\$ 1,608,775</b>	<b>\$ 743,085</b>

<sup>18</sup> The “Subtotal General Fund” row may differ slightly from the sum of individual line items due to rounding within the model.

**Figure 10a: Program Budget Relationships – Option 3a Six Agency South CWA**



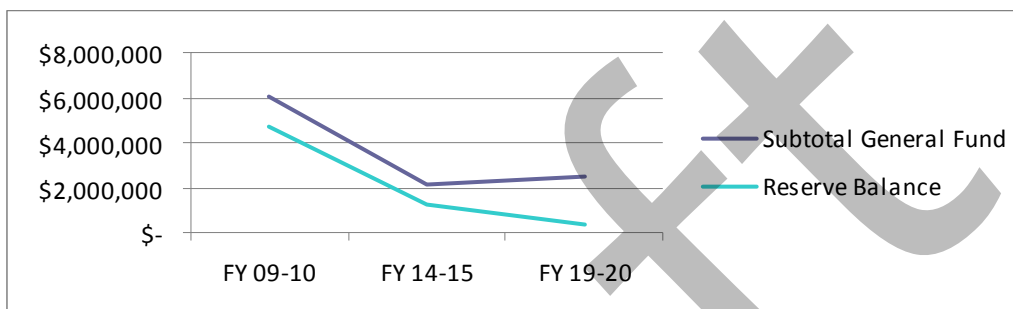
**Figure 10b: Program Budget Relationships – Remaining MWDOC**



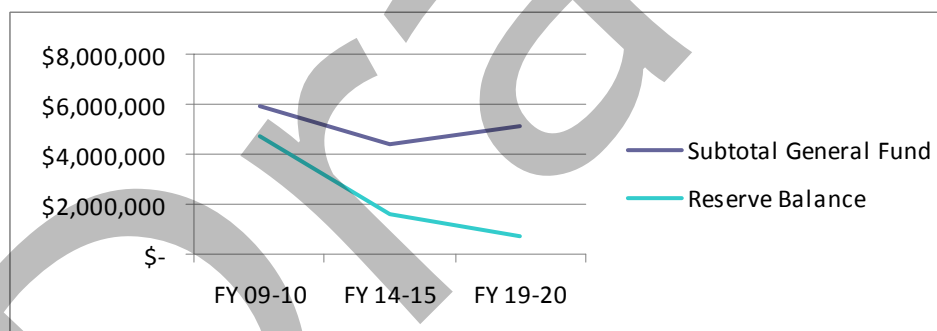
Both the Six Agency South CWA and the remaining MWDOC retain an operational reserve. The analysis assumes that at the time of detachment, of MWDOC's existing operational reserve, 42.5% is allocated to the Six Agency South CWA and 57.5% to remaining MWDOC, based on the historical 5-year (Fiscal Years 2004-08) average

percentage revenue paid to MWDOC from the reorganized agencies. These percentages are also used to allocate the MWDOC Water Purchase Reserve Fund. Figures 11a and 11b graphically represent the relationship between the general fund budget and the operating reserve for both the Six Agency South CWA and remaining MWDOC.

**Figure 11a: General Fund and Operational Reserve Trends – Option 3a Six Agency CWA**



**Figure 11b: General Fund and Operational Reserve Trends – Remaining MWDOC**



### Revenue Recovery and Cost Impacts to Rate Payers

The Six Agency CWA and remaining MWDOC are modeled using the following revenue recovery tools:

- A two tier rate system for water sales (a Melded Water Rate Surcharge is not modeled);
- For the Six Agency CWA, a Water Increment Charge is used to recover general fund costs because its general fund costs are associated almost exclusively with providing water supply;
- For remaining MWDOC, a Water Increment Charge is used to recover approximately 30% of its general fund costs and a Retail Meter Charge is used to

recover approximately 70% of its general fund costs, consistent with the cost recovery pattern identified from MWDOC's 2004-08 historical budget data.

*Removing the Melded Water Rate Surcharge*

Option 3a illustrates the effects of removing the Melded Water Rate Surcharge, which currently "smoothes" the costs of Tier 2 water purchases. This option analyzes the potential impact to rate payers should both the Six Agency South CWA and remaining MWDOC chose not to meld water rates, but rather utilize the more common two-tier assessment for water sales, requiring those individual agencies needing Tier 2 water to purchase that increment at the higher Metropolitan Tier 2 rate.

Table 15 illustrates each retail agency's Tier 1 allocation with respect to its projected demand and demonstrates that the remaining MWDOC does have the capacity to continue to pool allocations throughout its new service area. Table 15 also demonstrates that the Six Agency South CWA has a significant Tier 2 demand driven initially by Santa Margarita and Moulton Niguel Water Districts. However over the planning period, the majority of all South County agencies exceed their Tier 1 allocations. The Table illustrates that the Six Agency South CWA's demand exceeds its Tier 1 allocation in Fiscal Year 2009-10 by over 19,000 AF, which grows to over 33,000 AF in Fiscal Year 2019-20. Conversely, the remaining MWDOC organization experiences a reverse situation: the initial Tier 1 allocation exceeds overall demand for water by more than 34,000 AF, but this is reduced to just under 13,500 AF by Fiscal Year 2019-20.

**Table 15: Tier 1 Allocations and Projected UWMP Demands (all in acre-feet)<sup>19</sup>**

Agency	Tier 1 Allocation	FY 2009-2010		FY 2014-2015		FY 2019-2020	
		Demand	Difference	Demand	Difference	Demand	Difference
El Toro	11,411	10,894	-517	11,153	-258	11,323	-88
Irvine Ranch	34,083	33,193	-890	37,512	3,429	41,733	7,650
Moulton Niguel	28,571	35,114	6,543	35,435	6,864	35,935	7,364
Santa Margarita	17,541	30,957	13,416	32,767	15,226	35,565	18,024
South Coast	8,300	7,209	-1,091	6,686	-1,614	6,196	-2,104
Trabuco Canyon	2,861	4,543	1,682	4,819	1,958	5,058	2,197
<b>Six Agency South CWA</b>	<b>102,767</b>	<b>121,910</b>	<b>19,143</b>	<b>128,372</b>	<b>25,605</b>	<b>135,810</b>	<b>33,043</b>
Laguna Beach	4,377	2,628	-1,749	2,678	-1,699	2,728	-1,649
San Clemente	8,674	9,806	1,132	9,992	1,318	9,994	1,320
San Juan Capistrano	6,111	4,839	-1,272	4,878	-1,233	4,919	-1,192
Brea	8,826	5,997	-2,829	6,491	-2,335	6,390	-2,436
Buena Park	7,358	4,536	-2,822	5,982	-1,376	7,203	-155
EOCWD	5,279	2,947	-2,332	3,064	-2,215	3,092	-2,187
Fountain Valley	2,451	2,697	246	3,339	888	3,497	1,046
Garden Grove	8,327	5,122	-3,205	6,914	-1,413	7,420	-907
Golden State	12,761	7,540	-5,221	9,522	-3,239	10,159	-2,602
Huntington Beach	10,962	8,327	-2,635	10,312	-650	10,781	-181
La Habra	2,928	2,225	-703	2,477	-451	2,613	-315
La Palma	657	629	-28	780	123	824	167
Mesa Consolidated	6,493	616	-5,877	1,634	-4,859	1,747	-4,746
Newport Beach	18,924	4,643	-14,281	6,200	-12,724	6,436	-12,488
Orange	4,695	7,594	2,899	9,773	5,078	10,157	5,462

<sup>19</sup> Tier 1 Metropolitan Allocation Method using 1989-90 data. Subtotals may differ slightly from the sum of individual allocations due to rounding.



Agency	Tier 1 Allocation	FY 2009-2010		FY 2014-2015		FY 2019-2020	
		Demand	Difference	Demand	Difference	Demand	Difference
Seal Beach	1,085	1,108	23	1,393	308	1,485	400
Serrano	449	-	-449	-	-449	-	-449
Westminster	1,145	3,472	2,327	4,298	3,153	4,540	3,395
Yorba Linda	8,652	11,280	2,628	12,394	3,742	12,694	4,042
<b>Remaining MWDOC</b>	<b>120,154</b>	<b>86,006</b>	<b>-34,448</b>	<b>102,121</b>	<b>-18,033</b>	<b>106,679</b>	<b>-13,475</b>

### Impact to Rate Payers

The budgets and revenue recovery strategies for the Six Agency South CWA and the remaining MWDOC have been modeled for a ten year period in order to develop a cost allocation for each retail agency. The model accounts for any Tier 2 water purchases made by each retail agency.

*Attachment H* presents the complete, annual 10-year model results for the Six Agency South CWA. Table 16 compares the projected revenue contributions for the Six Agency South CWA to the MWDOC Baseline for Fiscal Years 2009-10, 2014-15 and 2019-20. Because this option does not use a Melded Water Rate Surcharge, the revenue contributions include the Water Increment Charges, Retail Meter Charges and any Tier 2 charges that the retail agencies incur. Each retail agency's Six Agency CWA revenue contribution was divided by the number of retail meters within its' service area in order to develop a cost per rate payer to compare against the MWDOC Baseline "Annual Cost to Rate Payer" shown on Table 7 in Section 6.3 and again on Table 16. The resulting increase or decrease from the MWDOC Baseline rate is then shown on Table 16 in the column "Annual Cost to Ratepayer."

This analysis indicates that some cost reallocation occurs as a result of detachment and formation of a new agency. These reallocations occur primarily as the result of removing the Melded Water Rate Surcharge and causing each agency to pay for Tier 2 water costs based on actual use. However the impacts are not large when carried down to the individual rate payer. In the most severe cases, rate payer impacts are under \$5.00 per month and many rate payers experience a cost savings. Based on the results of this analysis, Option 3a – Six Agency South CWA is considered fiscally feasible.



**Table 16: Revenue Contribution Comparison – Six Agency South CWA to MWDOC Baseline**

	FY 09-10			FY 14-15			FY 19-20		
	Baseline	Six Agency CWA	Annual Impact to Rate Payer	Baseline	Six Agency CWA	Annual Impact to Rate Payer	Baseline	Six Agency CWA	Annual Impact to Rate Payer
Six Agency CWA									
El Toro WD									
Totals	\$ 393,330	\$ 393,330	\$ -	\$ 496,477	\$ 183,712	\$ (29.67)	\$ 602,535	\$ 207,116	\$ (36.65)
Irvine Ranch WD*									
Totals	\$ 1,710,731	\$ 1,710,731	\$ -	\$ 2,296,867	\$ 1,222,253	\$ (9.25)	\$ 2,967,110	\$ 2,402,233	\$ (4.60)
Moulton Niguel WD									
Totals	\$ 1,489,931	\$ 1,489,931	\$ -	\$ 1,864,079	\$ 1,793,454	\$ (1.00)	\$ 2,237,790	\$ 2,234,908	\$ (0.04)
Santa Margarita WD									
Totals	\$ 1,289,705	\$ 1,289,705	\$ -	\$ 1,711,798	\$ 3,223,296	\$ 23.78	\$ 2,203,872	\$ 4,511,843	\$ 33.71
South Coast Water District									
Totals	\$ 295,630	\$ 295,630	\$ -	\$ 348,737	\$ 110,132	\$ (18.50)	\$ 393,593	\$ 113,335	\$ (21.56)
Trabuco Canyon WD									
Totals	\$ 165,988	\$ 165,988	\$ -	\$ 218,219	\$ 424,473	\$ 41.00	\$ 272,755	\$ 563,185	\$ 55.64
Remaining MWDOC									
Laguna Beach CWD									
Totals	\$ 132,092	\$ 132,092	\$ -	\$ 166,841	\$ 96,973	\$ (8.06)	\$ 200,161	\$ 108,771	\$ (10.49)
San Clemente									
Totals	\$ 412,578	\$ 412,578	\$ -	\$ 522,900	\$ 510,929	\$ (0.61)	\$ 624,412	\$ 582,884	\$ (2.10)
San Juan Capistrano									
Totals	\$ 216,684	\$ 216,684	\$ -	\$ 272,063	\$ 146,497	\$ (10.75)	\$ 325,734	\$ 164,335	\$ (13.69)
Brea									
Totals	\$ 258,060	\$ 258,060	\$ -	\$ 343,054	\$ 176,981	\$ (12.68)	\$ 430,671	\$ 206,010	\$ (16.67)
Buena Park									
Totals	\$ 262,695	\$ 262,695	\$ -	\$ 385,191	\$ 228,455	\$ (7.48)	\$ 514,150	\$ 274,227	\$ (11.21)
East Orange County WD*									
Totals	\$ 95,838	\$ 97,953	\$ 1.77	\$ 123,255	\$ 48,596	\$ (62.01)	\$ 148,902	\$ 52,833	\$ (79.40)
Fountain Valley									
Totals	\$ 189,608	\$ 189,608	\$ -	\$ 263,589	\$ 330,019	\$ 3.70	\$ 320,829	\$ 421,569	\$ 5.51
Garden Grove									
Totals	\$ 370,229	\$ 370,229	\$ -	\$ 534,111	\$ 348,211	\$ (5.21)	\$ 657,414	\$ 397,946	\$ (7.16)
Golden State Water Company									
Totals	\$ 560,801	\$ 560,801	\$ -	\$ 886,361	\$ 622,289	\$ (3.85)	\$ 1,237,382	\$ 849,620	\$ (4.45)
Huntington Beach									
Totals	\$ 587,584	\$ 587,584	\$ -	\$ 813,748	\$ 535,568	\$ (5.02)	\$ 987,143	\$ 607,066	\$ (6.76)
La Habra									
Totals	\$ 148,547	\$ 148,547	\$ -	\$ 196,013	\$ 129,163	\$ (5.00)	\$ 238,494	\$ 146,447	\$ (6.80)
La Palma									
Totals	\$ 46,253	\$ 46,253	\$ -	\$ 63,863	\$ 64,377	\$ 0.11	\$ 77,663	\$ 84,177	\$ 1.43
Mesa Consolidated									
Totals	\$ 167,517	\$ 167,517	\$ -	\$ 251,193	\$ 200,588	\$ (2.06)	\$ 302,312	\$ 227,000	\$ (3.02)
Newport Beach									
Totals	\$ 336,301	\$ 336,301	\$ -	\$ 481,730	\$ 314,879	\$ (5.16)	\$ 582,418	\$ 356,184	\$ (6.90)
OCWD									
Totals	\$ 120,000	\$ 120,000		\$ 148,700	\$ 49,707		\$ 178,536	\$ 55,614	
Orange									
Totals	\$ 453,861	\$ 453,861	\$ -	\$ 650,905	\$ 1,282,156	\$ 17.05	\$ 790,822	\$ 1,616,290	\$ 22.02
Seal Beach									
Totals	\$ 67,255	\$ 84,675	\$ 3.18	\$ 94,998	\$ 112,501	\$ 3.15	\$ 116,951	\$ 152,124	\$ 6.25
Serrano WD									
Totals	\$ 14,310	\$ 17,309	\$ 1.30	\$ 17,924	\$ 16,968	\$ (0.41)	\$ 20,779	\$ 18,776	\$ (0.87)
Westminster									
Totals	\$ 231,903	\$ 291,118	\$ 2.87	\$ 322,729	\$ 763,373	\$ 21.00	\$ 394,269	\$ 963,594	\$ 26.75
Yorba Linda WD									
Totals	\$ 489,990	\$ 603,360	\$ 4.64	\$ 656,456	\$ 998,800	\$ 13.59	\$ 808,139	\$ 1,260,682	\$ 16.87

## 6.7 Option 3b – Nine Agency South CWA

This option is second of two options that model detachment of some South County agencies and formation of a new CWA under Water Code Appendix 45. Under Option 3b – Nine Agency South CWA - the Six Agencies together with the Laguna Beach County Water District and the cities of San Clemente and San Juan Capistrano are detached. MWDOC continues as an MWD representing 19 retail agencies. The boundaries are illustrated in Figure 12. This option provides for contiguous boundaries.

Figure 12 Nine Agency South CWA



## Essential Services

As was the case with Option 3a, the Nine Agency South CWA will provide only “essential” services as defined through the MWDOC MSR process. The remaining MWDOC will continue to provide its full range of services to its member agencies.

## Cost of Service and Operational Reserves

The foundation for the cost of service analysis is the budgets developed for the Nine Agency South CWA and the remaining MWDOC. The budgets are based on the staffing and transitional assumptions outlined *Attachment C*. Both budgets assume that operational reserves are reduced to 15% of the general fund budget over the 10-year projection period. In addition, the Nine Agency South CWA budget includes the cost for the formation election and transitional costs and reflects reduced for Board compensation.

Tables 17a and 17b provide budget summaries for Nine Agency South CWA and remaining MWDOC respectively, presenting the budget estimates for the current Fiscal Year and Fiscal Years 2009-10, 2014-15 and 2019-20. Figures 13a and 13b graphically illustrate the relationship of the various budget programs to one another.

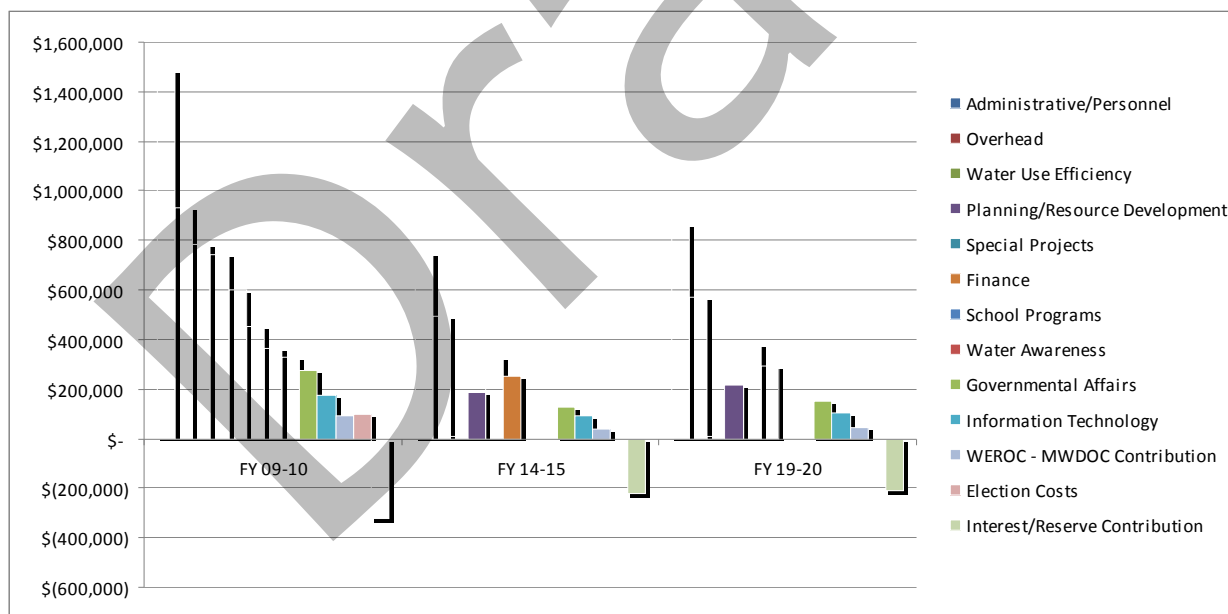
**Table 17a: Projected General Fund Budgets – Option 3b Nine Agency South CWA**

	FY 09 10	FY 14 15	FY 19 20
Administrative/Personnel	\$ 1,489,924	\$ 748,086	\$ 867,237
Planning/Resource Development	\$ 742,129	\$ 187,322	\$ 217,158
Special Projects	\$ 599,677	\$ 327,642	\$ 379,827
Governmental Affairs	\$ 274,947	\$ 128,000	\$ 148,387
Water Use Efficiency	\$ 785,143	\$ 7,725	\$ 8,955
Water Awareness	\$ 327,388	\$ -	\$ -
School Programs	\$ 366,193	\$ -	\$ -
Finance	\$ 453,301	\$ 250,764	\$ 290,705
Information Technology	\$ 172,113	\$ 90,365	\$ 104,757
Overhead	\$ 931,592	\$ 494,821	\$ 573,633
WEROC - MWDOC Contribution	\$ 93,965	\$ 40,717	\$ 47,202
Election Costs	\$ 100,000		\$ -
Interest/Reserve Contribution	\$ (322,000)	-\$220,000	\$ (210,000)
<b>Subtotal General Fund</b>	<b>\$ 6,014,372</b>	<b>\$ 2,055,443</b>	<b>\$ 2,427,862</b>
<b>Reserve Balance</b>	<b>\$ 4,739,000</b>	<b>\$1,235,341</b>	<b>\$ 368,741</b>

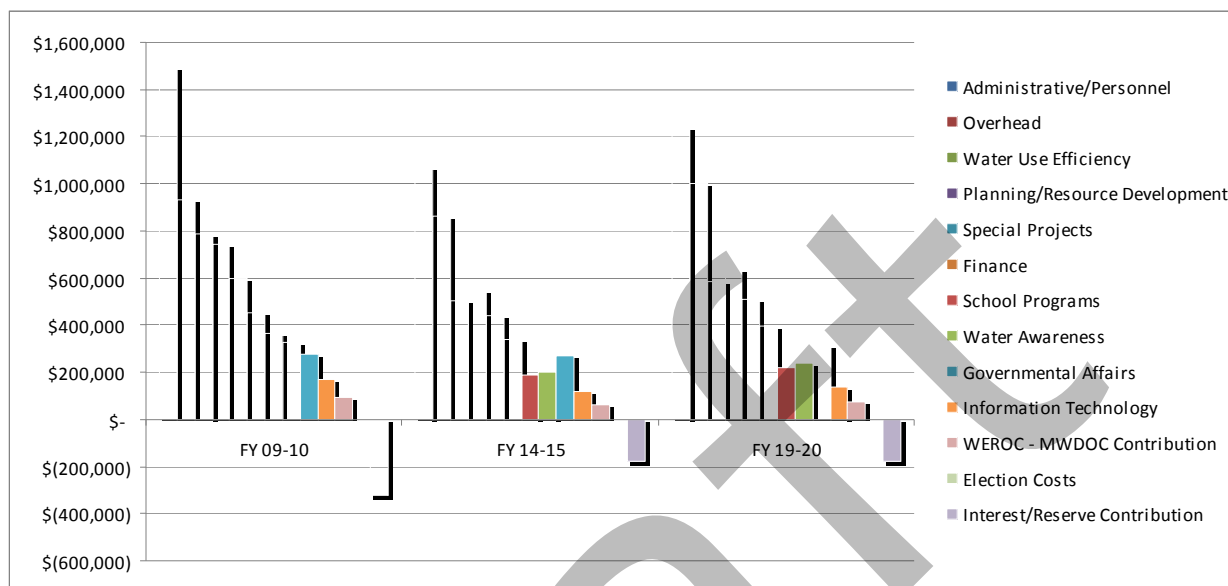
**Table 17b: Projected General Fund Budgets – Option 3b Remaining MWDOC**

	FY 09 10	FY 14 15	FY 19 20
Administrative/Personnel	\$ 1,489,924	\$ 1,072,566	\$ 1,243,398
Planning/Resource Development	\$ 742,129	\$ 548,645	\$ 636,029
Special Projects	\$ 599,677	\$ 438,833	\$ 508,728
Governmental Affairs	\$ 274,947	\$ 268,959	\$ 311,797
Water Use Efficiency	\$ 785,143	\$ 503,275	\$ 583,433
Water Awareness	\$ 327,388	\$ 203,424	\$ 235,825
School Programs	\$ 366,193	\$ 189,136	\$ 219,260
Finance	\$ 453,301	\$ 341,035	\$ 395,353
Information Technology	\$ 172,113	\$ 117,098	\$ 135,748
Overhead	\$ 931,592	\$ 865,279	\$ 1,003,096
WEROC - MWDOC Contribution	\$ 93,965	\$ 65,041	\$ 75,401
Election Costs	\$ -	\$ -	\$ -
Interest/Reserve Contribution	\$ (322,000)	\$ (180,000)	\$ (180,000)
<b>Subtotal General Fund</b>	<b>\$ 5,914,372</b>	<b>\$ 4,433,291</b>	<b>\$ 5,168,069</b>
<b>Reserve Fund Balance</b>	<b>\$ 4,739,000</b>	<b>\$ 1,501,659</b>	<b>\$ 776,259</b>

**Figure 13a: Program Budget Relationships – Option 3b Nine Agency South CWA**

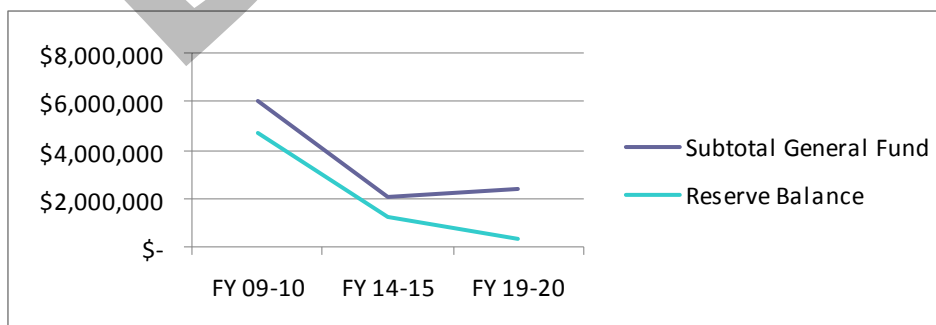


**Figure 13b: Program Budget Relationships – Remaining MWD OC**

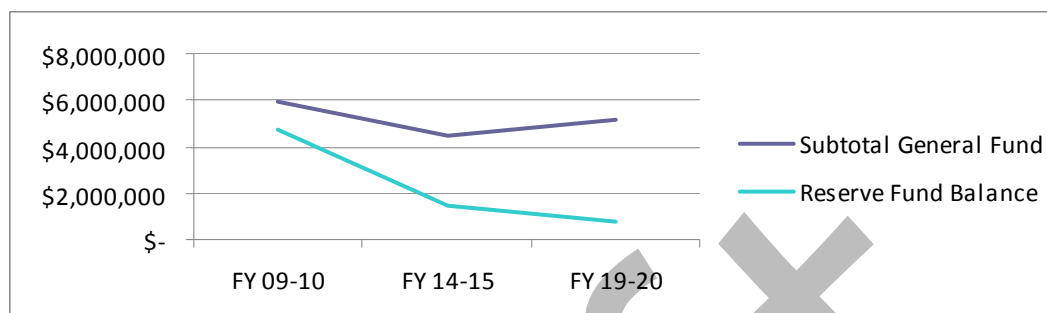


Both the Nine Agency South CWA and remaining MWD OC maintain an operational reserve. The analysis assumes that at the time of detachment, of MWD OC's existing operational reserve, 49.3% is allocated to the Nine Agency South CWA and 50.7% to the remaining MWD OC based on the historical 5-year (Fiscal Years 2004-08) average percentages of revenue paid to MWD OC from the reorganized agencies. These percentages are also used to allocate the MWD OC Water Purchase Reserve Funds. As noted above, the operational reserves are reduced to 15% of the general fund budget over the 10-year projection period. Figures 14a and 14b graphically represent the relationship between the general fund budget and the operating reserve for both the Nine Agency South CWA and remaining MWD OC.

**Figure 14a: General Fund and Operational Reserve Trends – Option 3b Six Agency CWA**



**Figure 14b: General Fund and Operational Reserve Trends – Remaining MWDOC**



### Revenue Recovery and Cost Impacts to Rate Payers

The Nine Agency CWA and remaining MWDOC are modeled using the following recovery tools:

- A two tier rate system for water sales (a Melded Water Rate Surcharge is not modeled);
- For the Nine Agency CWA, a Water Increment Charge to recover general fund costs because its general fund costs are associated almost exclusively with providing water supply.
- For remaining MWDOC, a Water Increment Charge to recover approximately 30% of its general fund costs and a Retail Meter Charge to recover approximately 70% of its general fund costs, consistent with the cost recovery pattern identified from MWDOC's 2004-08 historical budget data.

### Removing the Melded Water Rate Surcharge

Like Option 3a, this option illustrates the effects of removing the Melded Water Rate Surcharge, which currently “smoothes” the costs of Tier 2 water purchases. This option analyzes the potential impact to rate payers should both the Nine Agency South CWA and remaining MWDOC chose not to meld water rates, but rather utilize the more common two-tier assessment for water sales, requiring those individual agencies needing Tier 2 water to purchase that increment at the higher Metropolitan Tier 2 rate.

Table 18 uses the data from Table 15 and provides a brief summary of both the Nine Agency South CWA and remaining MWDOC's Tier 1 allocation with respect to their projected demand. Again, the analysis demonstrates that remaining MWDOC does have the capacity to continue to pool allocations throughout its new service area. Like the Six Agency South CWA, the Nine Agency South has a significant Tier 2 demand.



The Nine Agency CWA's demand initially exceeds its Tier 1 allocation by over 17,000 AF, growing to over 31,000 AF in Fiscal Year 2019-20. Conversely, the remaining MWDOC organization experiences a reverse situation: the initial Tier 1 allocation exceeds overall demand for water by 32,000 AF, but this is reduced to just less than 12,000 AF by 2019-20.

**Table 18: Tier 1 Allocations and Projected UWMP Demands (all in acre-feet)**

Agency	Tier 1 Allocation	FY 2009-2010		FY 2014-2015		FY 2019-2020	
		Demand	Difference	Demand	Difference	Demand	Difference
<b>Nine Agency South CWA</b>	<b>121,929</b>	<b>139,183</b>	<b>17,254</b>	<b>145,920</b>	<b>23,991</b>	<b>153,451</b>	<b>31,511</b>
<b>Remaining MWDOC</b>	<b>100,992</b>	<b>68,733</b>	<b>-32,259</b>	<b>83,573</b>	<b>-17,419</b>	<b>89,038</b>	<b>-11,954</b>

#### Impacts to Ratepayers

The budgets and revenue recovery strategies for the Nine Agency South CWA and the remaining MWDOC have been modeled for a ten year period in order to develop a cost allocation for each retail agency. The model accounts for any Tier 2 water purchases made by each retail agency.

Attachment I presents the complete, annual 10-year model results for the Nine Agency South CWA. Table 19 compares the projected revenue contributions for the Nine Agency South CWA to the MWDOC Baseline for Fiscal Years 2009-10, 2014-15 and 2019-20. Because this option does not use a Melded Water Rate Surcharge, the revenue contributions include the Water Increment Charges, Retail Meter Charges and any Tier 2 charges that the retail agencies incur. Each retail agency's Nine Agency CWA revenue contribution was divided by the number of retail meters within its' service area in order to develop a cost per rate payer to compare against the MWDOC Baseline "Annual Cost to Rate Payer" shown on Table 7 in Section 6.3 and again on Table 19. The resultant increase or decrease from the MWDOC Baseline rate is then shown on Table 19 in the column "Annual Cost to Ratepayer."

This analysis indicates that some cost reallocation occurs as a result of detachment and formation of a new agency. These reallocations occur primarily as the result removing the Melded Water Rate Surcharge and causing each agency to pay for Tier 2 water costs based on actual use. However the impacts are not large when carried down to the individual rate payer. In the most severe cases, rate payer impacts are under \$5.00 per month and many ratepayers experience a cost savings. Based on the results of this analysis, Option 3b – Nine Agency South CWA is considered fiscally feasible.

**Table 19: Revenue Contribution Comparison – Nine Agency South CWA to MWDOC Baseline**

	FY 09-10			FY 14-15			FY 19-20		
	Baseline	Nine Agency CWA	Annual Impact to Rate Payer	Baseline	Nine Agency CWA	Annual Impact to Rate Payer	Baseline	Nine Agency CWA	Annual Impact to Rate Payer
Nine Agency CWA									
El Toro WD									
Totals	\$ 393,330	\$ 393,330	\$ -	\$ 496,477	\$ 157,102	\$ (32.20)	\$ 602,535	\$ 179,150	\$ (39.24)
Irvine Ranch WD*									
Totals	\$ 1,710,731	\$ 1,710,731	\$ -	\$ 2,296,867	\$ 1,132,753	\$ (10.02)	\$ 2,967,110	\$ 2,299,156	\$ (5.45)
Moulton Niguel WD									
Totals	\$ 1,489,931	\$ 1,489,931	\$ -	\$ 1,864,079	\$ 1,708,910	\$ (2.20)	\$ 2,237,790	\$ 2,146,152	\$ (1.30)
Santa Margarita WD									
Totals	\$ 1,289,705	\$ 1,289,705	\$ -	\$ 1,711,798	\$ 3,145,117	\$ 22.55	\$ 2,203,872	\$ 4,424,000	\$ 32.42
South Coast Water District									
Totals	\$ 295,630	\$ 295,630	\$ -	\$ 348,737	\$ 94,180	\$ (19.73)	\$ 393,593	\$ 98,032	\$ (22.74)
Trabuco Canyon WD									
Totals	\$ 165,988	\$ 165,988	\$ -	\$ 218,219	\$ 412,975	\$ 38.71	\$ 272,755	\$ 550,692	\$ 53.24
Laguna Beach CWD									
Totals	\$ 132,092	\$ 132,092	\$ -	\$ 166,841	\$ 37,723	\$ (14.90)	\$ 200,161	\$ 43,162	\$ (18.03)
San Clemente									
Totals	\$ 412,578	\$ 412,578	\$ -	\$ 522,900	\$ 373,044	\$ (7.68)	\$ 624,412	\$ 440,907	\$ (9.26)
San Juan Capistrano									
Totals	\$ 216,684	\$ 216,684	\$ -	\$ 272,063	\$ 68,712	\$ (17.41)	\$ 325,734	\$ 77,827	\$ (21.02)
Remaining MWDOC									
Brea									
Totals	\$ 258,060	\$ 258,060	\$ -	\$ 343,054	\$ 204,829	\$ (10.55)	\$ 430,671	\$ 235,759	\$ (14.46)
Buena Park									
Totals	\$ 262,695	\$ 262,695	\$ -	\$ 385,191	\$ 261,612	\$ (5.89)	\$ 514,150	\$ 311,330	\$ (9.48)
East Orange County WD*									
Totals	\$ 95,838	\$ 95,838	\$ -	\$ 123,255	\$ 55,874	\$ (55.96)	\$ 148,902	\$ 62,085	\$ (71.75)
Fountain Valley									
Totals	\$ 189,608	\$ 189,608	\$ -	\$ 263,589	\$ 353,799	\$ 5.02	\$ 320,829	\$ 446,203	\$ 6.85
Garden Grove									
Totals	\$ 370,229	\$ 370,229	\$ -	\$ 534,111	\$ 396,182	\$ (3.87)	\$ 657,414	\$ 448,046	\$ (5.78)
Golden State Water Company									
Totals	\$ 560,801	\$ 560,801	\$ -	\$ 886,361	\$ 704,719	\$ (2.65)	\$ 1,237,382	\$ 949,570	\$ (3.31)
Huntington Beach									
Totals	\$ 587,584	\$ 587,584	\$ -	\$ 813,748	\$ 608,975	\$ (3.69)	\$ 987,143	\$ 682,829	\$ (5.42)
La Habra									
Totals	\$ 148,547	\$ 148,547	\$ -	\$ 196,013	\$ 146,855	\$ (3.67)	\$ 238,494	\$ 164,739	\$ (5.45)
La Palma									
Totals	\$ 46,253	\$ 46,253	\$ -	\$ 63,863	\$ 70,180	\$ 1.41	\$ 77,663	\$ 90,173	\$ 2.75
Mesa Consolidated									
Totals	\$ 167,517	\$ 167,517	\$ -	\$ 251,193	\$ 225,487	\$ (1.05)	\$ 302,312	\$ 252,511	\$ (2.00)
Newport Beach									
Totals	\$ 336,301	\$ 336,301	\$ -	\$ 481,730	\$ 358,197	\$ (3.82)	\$ 582,418	\$ 400,773	\$ (5.54)
OCWD									
Totals	\$ 120,000	\$ 120,000		\$ 148,700	\$ 60,063		\$ 178,536	\$ 66,273	
Orange									
Totals	\$ 453,861	\$ 453,861	\$ -	\$ 650,905	\$ 1,345,190	\$ 18.75	\$ 790,822	\$ 1,674,729	\$ 23.58
Seal Beach									
Totals	\$ 67,255	\$ 67,255	\$ -	\$ 94,998	\$ 120,797	\$ 4.64	\$ 116,951	\$ 160,792	\$ 7.79
Serrano WD									
Totals	\$ 14,310	\$ 14,310	\$ -	\$ 17,924	\$ 18,913	\$ 0.43	\$ 20,779	\$ 20,708	\$ (0.03)
Westminster									
Totals	\$ 231,903	\$ 231,903	\$ -	\$ 322,729	\$ 792,185	\$ 22.37	\$ 394,269	\$ 993,507	\$ 28.15
Totals	\$ 489,990	\$ 489,990	\$ -	\$ 656,456	\$ 1,052,127	\$ 15.70	\$ 808,139	\$ 1,316,964	\$ 18.96



## 6.8 Comparative Effects of a 20% Reduction in Water Demand

In response to a number of conditions including drought, climate change and ecosystem disruption in the Sacramento-San Joaquin Delta, the Governor has called for a twenty percent reduction in per capita demand by the year 2020. The Department of Water Resources is currently working to implement this initiative, commonly known as 20 x 2020. For the purposes of this study, the 20 x 2020 initiative would have the most fiscal impact on Options 3a and 3b because reduced demands would reduce Tier 2 water purchases. Under Options 1 and 2a and 2b, MWDOC's portfolio management strategy and Melded Water Rate Surcharge work to mitigate the impacts of Tier 2 water purchases. Under Options 3a and 3b, when each agency is purchasing water according to its own demands, the impacts of Tier 2 purchases affect some agencies more than others.

Table 20, below, illustrates these effects of demand reductions and illustrates that with demand reductions, some agencies eliminate their need for Tier 2 purchases.

**Table 20: Tier 1 Allocations and Projected 20 x 2020 Reduced Demands (all in acre-feet)**

Agency	Tier 1 Allocation	FY 2009-2010		FY 2014-2015		FY 2019-2020	
		Demand	Difference	Demand	Difference	Demand	Difference
El Toro	11,411	10,894	-517	10,038	-1,373	9,058	-2,353
Irvine Ranch	34,083	33,193	-890	33,761	-322	33,386	-697
Moulton Niguel	28,571	35,114	6,543	31,892	3,321	28,748	177
Santa Margarita	17,541	30,957	13,416	29,490	11,949	28,452	10,911
South Coast	8,300	7,209	-1,091	6,017	-2,283	4,957	-3,343
Trabuco Canyon	2,861	4,543	1,682	4,337	1,476	4,046	1,185
<b>Subtotal Six Agencies</b>	<b>102,767</b>	<b>121,910</b>	<b>19,143</b>	<b>115,535</b>	<b>12,768</b>	<b>108,647</b>	<b>5,880</b>
Laguna Beach	4,377	2,628	-1,749	2,410	-1967	2,182	-2,195
San Clemente	8,674	9,806	1,132	8,993	319	7,995	-679
San Juan Capistrano	6,111	4,839	-1,272	4,390	-1,721	3,935	-2,176
<b>Subtotal Nine Agencies</b>	<b>121,929</b>	<b>139,183</b>	<b>17,254</b>	<b>131,328</b>	<b>9,399</b>	<b>122,759</b>	<b>830</b>
Brea	8,826	5,997	-2,829	5,842	-2,984	5,112	-3,714
Buena Park	7,358	4,536	-2,822	5,384	-1,974	5,762	-1,596
EOCWD	5,279	2,947	-2,332	2,758	-2,521	2,474	-2,805
Fountain Valley	2,451	2,697	246	3,005	554	2,798	347
Garden Grove	8,327	5,122	-3,205	6,223	-2,104	5,936	-2,391
Golden State	12,761	7,540	-5,221	8,570	-4,191	8,127	-4,634
Huntington Beach	10,962	8,327	-2,635	9,281	-1,681	8,625	-2,337
La Habra	2,928	2,225	-703	2,224	-704	2,090	-838
La Palma	657	629	-28	702	45	659	2
Mesa Consolidated	6,493	616	-5,877	1,471	-5,022	1,398	-5,095
Newport Beach	18,924	4,643	-14,281	5,580	-13,344	5,149	-13,775
Orange	4,695	7,594	2,899	8,796	4,101	8,126	3,431
Seal Beach	1,085	1,108	23	1,254	169	1,188	103

Agency	Tier 1 Allocation	FY 2009-2010		FY 2014-2015		FY 2019-2020	
		Demand	Difference	Demand	Difference	Demand	Difference
Serrano	449	-	-449	-	-449	-	-449
Westminster	1,145	3,472	2,327	3,868	2,723	3,632	2,487
Yorba Linda	8,652	11,280	2,628	11,155	2,503	10,155	1,503
<b>Subtotal Remaining MWDOC</b>	<b>100,992</b>	<b>68,733</b>	<b>-34,448</b>	<b>76,113</b>	<b>-24,879</b>	<b>71,231</b>	<b>-29,764</b>

The 20 x 2020 Initiative has the potential to substantially lower the South County CWA's Tier 2 water cost exposure, under both boundary options, which reduces the cost impacts to rate payers. This analysis suggests that additional investigation of cost-effective conservation strategies has the potential to benefit rate payers.

## 6.9 Conclusions

While modeling and analysis of each alternative result in a diverse spread of costs, and each retail agency is affected differently, the changes are typically modest when brought down to the rate payer level. Taking into account the high level of this study and the significant current uncertainties around the future cost of water, the analyses demonstrate that it is fiscally feasible to implement each of the alternatives studied. Specifically:

- The assumption to reduce operating reserves to 15% of the general fund budget is the single largest contributor to the fiscal differences between MWDOC Baseline, MWDOC CWA and MWDOC Subscription CWA;
- MWDOC Subscription CWA, while shifting approximately \$1,200,000 in costs among the retail agencies, does not have significant impact on rate payers;
- While the Six Agency South CWA and the Nine Agency South CWA options remove the "rate smoothing" affects of the Melded Water Rate Surcharge and cause higher rate payer impacts in some cases, even these impacts are not significant.
- The analysis also indicates that under both South County CWA boundary options, remaining MWDOC has a significant opportunity for rate smoothing and little risk of incurring Tier 2 water purchase costs. Both the Six Agency South County CWA and the Nine Agency South County CWA would also have some

opportunity to smooth rates, although collectively the agency would need to plan on paying some Tier 2 water costs on an annual basis.

## 7. Next Steps

Table 21, below, provides a previously revised timeline for completion of the MWDOC Governance Study. Additional time has been inserted to ensure stakeholders have adequate time for review and comment (*see Attachment J in the Appendix for a complete timeline of the Governance Study Process*).

**Table 21: Revised Timeline for Completion of the Governance Study**

Date	Activity
<b>February 18, 2009</b>	<b>Stakeholder Meeting: <u>Draft Technical Reports 1 and 2 – Potential Governance Structure Options and Preliminary Financial Analysis</u></b>
March 4, 2009	Stakeholder Comments on <u>Draft Technical Reports 1 and 2</u> due to LAFCO staff
<b>May 12, 2009</b>	<b>Stakeholder Meeting: <u>Draft Technical Reports 1, 2 and 3 - Potential Governance Structure Options, Preliminary Financial Analysis and Viable Options Analysis</u></b>
May 20, 2009	Stakeholder Comments on <u>Draft Technical Reports 1,2 and 3</u> due to LAFCO staff
July 15, 2009	Draft <u>Governance Study</u> distributed for Stakeholder/Public review
July 29, 2009	Stakeholder and Public Comments due on Draft <u>Governance Study</u>
September 9, 2009	LAFCO Commission Public Hearing

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## APPENDIX

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## Attachment A - Overview of MWDOC

## Overview of MWDOC

This attachment provides a short summary of MWDOC's history and its relationship to other key Southern California water agencies.

In 1928, recognizing that the availability of water from groundwater sources was limited, several Southern California water purveyors formed Metropolitan with the objective to build an aqueduct to the Colorado River to deliver additional water to Southern California. Twenty years later, in 1948, several Orange County coastal communities from Newport Beach south to the San Diego County line formed the Coastal Municipal Water District (Coastal), under the Municipal Water District Law of 1911 (Water Code Section 71000 et. seq.) to purchase and import water from Metropolitan. MWDOC was subsequently formed in 1951 under the same authority and for a similar purpose – to purchase and import water from Metropolitan to communities in northern Orange County. Fifty years later in 2001, Coastal and MWDOC consolidated into a single agency that now sells wholesale water to retail agencies serving residents and businesses throughout Orange County. MWDOC currently represents twenty eight (28) agencies at Metropolitan which are presented in the Table A-1 on the following page.

As the LAFCO MSR notes, “MWDOC's primary focus is on importing water, representing its member agencies at Metropolitan, and facilitating a regional approach to water reliability and water use efficiency.” Today, as the wholesale provider for most of Orange County (its boundaries exclude the cities of Anaheim, Fullerton and Santa Ana which each have direct representation at Metropolitan), MWDOC has 4 of the 37 members of Metropolitan's Board of Directors, and is entitled to purchase a share of Metropolitan's contractual allotment for water deliveries from both the Colorado River Aqueduct and the California State Water Project. MWDOC does not own water treatment or delivery facilities or any other major infrastructure. Instead, MWDOC contracts for water from Metropolitan, which is delivered to MWDOC's retail agencies from Metropolitan facilities through approximately 60 system connections.

In addition to the sale of wholesale water and providing representation at Metropolitan, MWDOC's other current services include water use efficiency programs, emergency preparedness programs, reliability studies, project development, water awareness/public information programs, school programs and legislative advocacy. As part of its December 2006 Policy changes MWDOC has committed to:

- A project initiation policy when project costs are expected to exceed \$25,000;
- A project participation policy when project costs are expected to exceed \$100,000 and fewer than five retail agencies benefit; and

- A federal advocacy cost-sharing policy when fewer than five retail agencies benefit.

Attachment B, in the following section, provides the MWDOC staff analysis and the formal Policy Statement adopted in December 2006.

**Table A-1: Agencies Represented by MWDOC**

California Cities		
Brea	La Habra	San Juan Capistrano
Buena Park	La Palma	Seal Beach
Fountain Valley	Newport Beach	Tustin
Garden Grove	Orange	Westminster
Huntington Beach	San Clemente	
California Water Districts (Water Code Section 34000 et. seq.)		
El Toro Water District	Santa Margarita Water District	
Irvine Ranch Water District	Serrano Water District	
Moulton Niguel Water District		
County Water Districts (Water Code Section 30000 et. seq.)		
East Orange County Water District	Trabuco Canyon Water District	
Laguna Beach County Water District	Yorba Linda Water District	
South Coast Water District		
Community Services Districts (Government Code Section 61000 et. seq.)		
Emerald Bay Community Services District		
Agencies Authorized by Special Legislation		
Mesa Consolidated Water District		
Orange County Water District		
Private Water Companies		
Golden State Water Company		



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## Attachment B - MWDOC 12-20-06 Staff Report and Policy Statement



Item No. 8-3

**ACTION ITEM**

December 20, 2006

**TO:** Board of Directors

**FROM:** Administration & Finance Committee  
(Directors Finnegan, Bakail, Dick)

Kevin Hunt  
General Manager

**SUBJECT: PROPOSED CHANGES TO IMPROVE  
MEMBER AGENCY RELATIONS**

**STAFF RECOMMENDATION**

Staff recommends the Board of Directors adopt the policies herein.

**COMMITTEE RECOMMENDATION**

Committee recommendations are reflected in this document.

**DETAILED REPORT**

The MWDOC Board has been together now for six years and has molded the consolidated MWDOC and Coastal districts into a unified agency serving 2.3 million people and 29 water agencies. The District has a clear mission, defined goals each year, a detailed budget, and systems in place to communicate and work closely with our member agencies.

A key benefit coming from the consolidation and articulated in MWDOC's 2001 Strategic Plan is to work *regionally* to address water issues. Examples of this regional approach in recent years include the many water use efficiency programs pursued by MWDOC in cooperation with our agencies and the three Metropolitan cities; the WEROC emergency preparedness program which includes thirty-four agencies; work on watershed and reliability planning including many water retailers and the County of Orange; engagement with OCBC on the Value of Water Reliability study; work to secure an "Emergency Services Program" agreement between the groundwater basin and South County area; and success in developing a number of conjunctive use storage agreements between OCWD, MWDOC and Metropolitan. As these efforts have come to fruition, our success in bringing in outside funding that benefits our agencies has also grown.

Over the last six years, the District's budget and rates have increased greater than the rate of inflation. Additionally, the activities of the District have not been fully understood or

Budgeted (Y/N):	Budgeted amount:
Action item amount:	Line item:
Fiscal Impact (explain if unbudgeted):	

embraced by some member agencies. Tensions between MWDOC and the agencies to which it serves water and represents at Metropolitan have developed over ocean desalination activities, water resource study activities, legislative and public outreach activities, and reserve levels. Concerns have been raised over whether the rate structure is equitable for larger agencies, and whether agencies should be able to opt out of a portion of the budget if they believe they already provide the service.

The tension between MWDOC and some of its member agencies were demonstrated every year by a letter or "white paper" written annually at budget time by several water retailers. Issues and rate proposals were generally agreed to between the Board and member agencies by the time of final adoption of the budget each June. This year, in reviewing the "white paper", MWDOC committed to a series of meetings with representatives of our agencies. Since this year was also our LAFCO Municipal Services Review (MSR), we invited LAFCO representatives to attend.

We have had three "Ad Hoc" Member Agency Relations Committee meetings with elected and appointed representatives of our water agencies. In addition, at the request of the Ad Hoc Committee, we have held four meetings with the managers of the agencies, with another scheduled on December 18. The results of these meetings and discussions with the Board of MWDOC are represented in this report and its recommendations.

#### Budget Process

In order to allow more time for agency input and to meet potential Bighorn water rate setting decision requirements, we propose to start our budget process earlier. We propose to:

1. Identify new initiatives in December and request input.
2. Request information on member agency needs in December.
3. Have a conceptual draft budget for Board and agency input in January.
4. Have a revised draft budget in March.
5. Solicit formal comment letters from agencies in April.
6. Present formal budget together with comments to Board in May.

#### Budget Amount

We propose the Board instruct the General Manager to limit our General Fund Budget from 2007/2008 to 2011/2012 to our current General Fund Budget of \$6.258 million less the \$290,000 contribution to desalination activities, plus annual inflation at the March to March LA/OC CPI. Our base General Fund Budget is, therefore, \$5.968 million. Our rates would reflect a balanced budget and reserves would be able to even out fluctuations in water sales.

In the event extraordinary circumstances or opportunities require a budget above this cap, the General Manager is instructed to obtain support from both a numerical majority of the agencies and a majority of the agencies based upon revenue, prior to taking the budget to the Board.

Project Initiation Policy

In order to facilitate member agency input and participation in engineering and planning projects (studies, investigations, etc.), we propose the Board direct the staff to:

1. Identify projects during the budget process to the extent possible and present member agency comments as part of the Budget review process.
2. Solicit input from member agencies on needed projects or assistance.
3. For projects identified during the year and not part of the budget:
  - A) If within General Manager's authority of \$25 K or less, proceed as normal
  - B) If over \$25 K, General Manager to inform the Board and seek input from member agency managers prior to requesting committee and board approval.
4. All projects must fit within the overall budget commitment level.

Project Participation Policy

Historically, MWDOC does not own facilities. The planning and feasibility studies we do can, however, be expensive. Ocean desalination studies are such an example. In order to create an equitable expenditure of funds while still accomplishing our mission, we propose the Board establish the following guidelines for project participation:

- If the study or project is projected to cost over \$100 K and directly benefit fewer than five agencies, MWDOC is obligated to seek partners.
- If the project or study cost is over \$100 K, and directly benefits 5 or more agencies, MWDOC can fund the entire cost, but partners are welcome.
- All projects must fit within the overall budget commitment level.

Federal Lobbying Cost-Sharing Policy

Discussions regarding our need for Federal and State lobbyists led to a better understanding of the need for and benefits of their services. The availability of funds from Proposition 50 and newly passed Proposition 84, the variety of water legislation each year and the complexity of the local political environment provide ample justification for our State and local lobbyist. However, concern was expressed that our Federal lobbyist's key efforts may be on a project that benefits few agencies. Consequently, we propose the Board require staff to recover a portion of our Federal lobbyist costs if it is:

- A significant sustained effort that benefits fewer than five agencies

Cost sharing will be developed from a minimum of \$500/month, possibly up to the entire amount of the Federal lobbying contract.

Core or Ancillary Services

Considerable information was provided on our categories of service and whether they were "core" or ancillary. We have resolved some of the concerns with the proposed guidelines

for Project Initiation, Project Participation and Federal Funding. One recurring issue is IRWD's school program in its service area in Grades 1—5, which eliminates the need for a MWDOC school program in that area. We recommend the Board authorize staff to negotiate with IRWD for resolution of this issue.

#### Governance and Board/Agency Relationship

MWDOC has always had a form of governance tension as a publicly elected wholesale agency. All publicly elected wholesale agencies have similar tensions in that the electorate votes for the directors (of both the wholesale and retailer), but the majority of the agencies' activities and funding come from their water purveying agencies. Some address this with a governance approach of appointed as opposed to elected directors, while others successfully solve the issues politically, through dialogue and through a collaborative process. A starting point is recognition of the mutual responsibility of both parties to serve the public and work with each other.

MWDOC/Coastal consolidation years ago provided an opportunity to better serve the people of 2/3 of Orange County. It is imperative now that efforts be made by the MWDOC Board and the elected officials of our member agencies to work together to ensure Orange County's water reliability. We, therefore, propose the Board adopt the policy statement (attached) reflecting its joint responsibility to both the public and its water agencies, and to work through and with the water agencies on all water-related issues.

#### Reserve Levels

The Board adopted a reserve policy this year. That policy sets a target range of \$5 to \$6 million. Several agencies believe our reserves are too high, while many others are comfortable with the current level. Given the budgeting and project initiating constraints we are proposing, we do not recommend any changes in the reserve levels currently, but do recommend that they be reviewed periodically.

Other reserves are held to balance and stabilize Metropolitan rate components Implemented in 2003—the Tier 2 supply rate and the Capacity (peaking) Charge. These funds are held in trust in restricted accounts and levels can be adjusted as conditions warrant. With the implementation of the new MWDOC capacity charge allocation method, we can return or credit capacity charge reserve funds in 2007. The Tier 2 contingency fund account can likely be reduced in 2007 given the water demand conditions forecasted. Neither of these accounts has been used to fund or generate District activities.

#### Financial Equity Issues

We are still discussing financial equity issues with the member agencies and do not expect to be completed with this discussion and study (if needed) until mid to late February. We will keep the Board informed.

#### Conclusion

The proposed policies herein provide a basis for an improved relationship and better partnerships with our water agencies. The success of it depends upon goodwill and trust of both parties.

**Attachment A**  
**MWDOC Proposed Policy Statement**

MWDOC works through its Member Agencies to provide reliable and high quality water for the benefit of Orange County residents in its service area. The Board maintains a responsibility to both the Member Agencies and the people as their customers and constituents. Orange County's public can best be served by a cooperative and collaborative partnership between MWDOC and its Member Agencies. MWDOC pledges to work in such a manner.



## Memorandum

**DATE:** May 8, 2006  
**TO:** MWDOC Board of Directors  
**FROM:** Kevin Hunt  
**SUBJECT:** Input Regarding Municipal Water District of Orange County's (MWDOC) Scope of Activities, Policies, Priorities and Budget for 2006-07 and Beyond

In advance of both the budget process for 2006-07 and the Municipal Service Review (MSR) process by LAFCO, Karl and I have had a number of meetings and discussions with our member agencies regarding the scope of activities (services), policies and priorities for MWDOC involvement in future activities. I would like to bring a number of the issues to your attention for discussion and input as we continue developing our budget for 2006-07. My recommendations and conclusions, heading into the budget process, are included where appropriate.

The issues brought to light in these discussions include the following:

1. MWDOC Role and Services
  - a. Service Philosophy
  - b. Urban Water Management Plan
  - c. MWDOC's Desalination Efforts
  - d. Priorities for Supply and System Reliability Enhancement
  - e. Conversion of Projects from Planning to Implementation
2. MWDOC's Representation with State and Federal Legislative Advocates
3. Budget Process for 2006-07
4. Budget Process Beyond 2006-07

### MWDOC's Service Philosophy

In most cases, MWDOC does a good job serving the needs of its member agencies and the staff are very "service oriented" towards our "client agencies". This was recently noted by several agencies in a recent MWDOC Manager's meeting when discussing the services provided by MWDOC. MWDOC's interface and representation with MET, regional planning and facilitation of reliability improvements, and coordination of conservation, emergency preparedness and education programs are all excellent examples.

However, concern was expressed by some on the philosophical issue of MWDOC autonomy, governance and the lack of alignment with some of the member agencies needs. Some agencies understand that the MWDOC board members are directly elected by the public and,

therefore, have independent decision-making responsibility and authority. Others express the view that MWDOC's revenue is derived from the member agencies and hence decisions should be made that are consistent and in agreement with the member agencies needs. In a perfect world, these two points of view would be one and the same and MWDOC strives for this balance. MWDOC is tasked with balancing and serving the needs of 30 retail agencies. Still, the view exists that MWDOC's activities and actions are not in alignment with the desires from the member agencies. This is especially true, not only on the Dana Point Ocean Desalination Project, but on other activities as well. The agencies desire that the discussions include both governance and accountability issues to resolve questions of how services are decided upon and how they are funded.

Another issue has been expressed when considering MWDOC's role and services and that is the concept of "core" activities in which all member agencies participate versus "beneficiary pay" activities which are spin-off activities to be handled among groups of agencies. The catalyst for this belief was the Dana Point Ocean Desalination Project where many felt that it should have been set up under a JPA sooner, but other questionable activities are also of concern to the member agencies. This issue embodies several questions:

- What are the core activities (services) that generally benefit all member agencies and what is the appropriate cost-recovery mechanism for these activities (water rates & charges to all agencies)?
- When do planning and facilitation activities convert from core to project specific activities and what is the appropriate cost-recovery mechanism for these activities (allocation of project costs among beneficiaries)?
- What is the role and purpose of MWDOC's outreach, communication and lobbying contracts? If they align with the member agencies, should they be included in the general charges? If they align with beneficiary pays activities, should they be supported as part of the cost of these activities? And finally, if they do not align with the member agency activities, should be dropped altogether?

Conclusion: MWDOC will conduct an independently facilitated and comprehensive Municipal Service Review (MSR) through the Local Agency Formation Commission (LAFCO) process. This process will provide a good opportunity for stakeholder input to review and comment on MWDOC's services and for consideration of the questions posed above. This process is already scheduled to begin in July 2006 and provides an opportunity to seek input regarding MWDOC's role and services in discussions with the member agencies and to examine how the services are paid for by the member agencies. The MSR recommendations are only advisory in nature, but should help to gain better alignment with our agencies. We are encouraging all of our Member Agencies to actively participate and are hopeful of an open, productive process.



#### **MWDOC's Urban Water Management Plan**

A discussion was held on the scope and nature of MWDOC's Urban Water Management Plan prepared for 2005, the legal requirements for such and the extensive level of coordination conducted by MWDOC with its member agencies. Disagreement exists on interpretation of the legal requirements for the scope and level of detail MWDOC included in its UWMP, and in the legal powers MWDOC asserted in initial drafts of the UWMP to allocate supplies during water shortages. However, there was agreement to fully coordinate again prior to the next update in 2010 with particular attention to be paid to resolving legal issues and defining an appropriate scope prior to initiating the preparation process.

#### **MWDOC's Desalination Efforts**

Over the past two years, a substantial portion of MWDOC's staffing and resources have been dedicated to the development of the Dana Point Ocean Desalination Project. MWDOC forecasts that by the end of 2006-07, almost \$2.8 million will have been expended on "project development" work, including \$887,000 of MWDOC funds.

This subject has been central to a number of discussions with the Member Agencies. Comments provided by the member agencies include:

- The basic comment provided at the March MWDOC Member Agency Manager's Meeting indicated that a number of agencies thought MWDOC had gone too far in pursuing the Dana Point Ocean Desalination Project without forming a Project Committee to take over the feasibility work started by MWDOC. The feeling was that in this instance, MWDOC had gone beyond its role and mission, at least using general fund dollars.
- MET's Water Surplus and Drought Management Plan allocates water based on need with only a small benefit given for investments in local resources. One of MWDOC's roles should be to resolve this policy penalty for investments in local resources.
- The project's system reliability benefits accrue to a limited number of MWDOC's South County agencies and therefore should be financially supported by those agencies.
- Other system reliability options exist such as reservoirs, interconnections, groundwater basin conjunctive use, use of the untreated system (Baker Pipeline) and the Central Pool Augmentation Project (CPAP). The appearance to some is that MWDOC is working towards implementation of the ocean desalination facility regardless of the other options and agency input.
- The financing arrangement for the project has been left vague by MWDOC. The general recommendation from the agencies is that the local agencies that benefit from the project should be financing the development of the project.
- There are other costs associated with ocean desalination including memberships, travel, public outreach and the use of legislative advocates that are not always captured as part of the process.

**Conclusion:** Feasibility work on the project will be completed in sufficient detail and provided to the local agencies by the end of December 2006 to allow them to consider a "go/no-go" decision and the concomitant commitment to funding and implementing the project. Because the feasibility work is in mid-stream, the MWDOC agencies noted that it

does not appear to be appropriate to curtail work efforts between now and December 2006. However, the Member Agencies have suggested MWDOC commit to the following:

- Begin now to seek letters of interest from those agencies potentially willing to financially participate and take ownership of the project.
- Prepare a financial plan that realistically projects the likely amount of Federal, State and other outside funding, calculates the resulting cost of water, and quantifies the expected level of reliability enhancement.
- Initiate the process of forming a JPA, or an equivalent contractual mechanism, that includes agencies that have expressed interest in the project. The JPA could be structured to become effective immediately upon completion of the feasibility work, if the member agency participants elect to go forward with the project. However, if the agencies review the financial and feasibility data, weigh reliability alternatives, and subsequently determine that they do not want to proceed ahead with the project, the JPA or equivalent contractual mechanism would not be implemented.
- Work with the future potential project participants to identify what portion of MWDOC's project development costs would be reimbursable by the JPA or equivalent mechanism.
- Curtail expenditures on implementation and operation considerations such as design/build procurement methods or similar items. These decisions appropriately rest with the agencies potentially implementing the project. *[Comment: It should be noted that I have requested ARI, Inc. to put these activities on hold until such time as a JPA is formed and becomes willing to take them over.]*

The entire list of bullets above is in accordance with MWDOC's planned schedule and budget activities.

- As part of these recommendations, it was requested by some of the agencies that MWDOC should clarify that it will not independently pursue the ocean desalination project using general funds or water rate increases imposed on all of MWDOC's agencies. This is a policy issue for the Board. Historically, MWDOC has not done this nor do we recommend it now.

I would like to clarify that even given formation of a JPA MWDOC will continue to have a role to play in ocean desalination projects. MWDOC would provide staff and policy support to the JPA in a manner similar to our support of other projects, if requested by members of the JPA. Other activities would include completion of the Camp Pendleton Feasibility Study, coordination work with MET and its member agencies relative to the ocean desalination supplies within the IRP and helping MET's role in ocean desalination to evolve from one of simply providing subsidies and coordination to a more proactive role of taking over and building projects. MWDOC staff time would also be spent on general activities not specific to the Dana Point Project such as regulatory issues with once-through-cooling, assisting on technical issues such as energy recovery and seeking funding towards ocean desalination projects that benefit the MWDOC service area. These activities would generally be supported through staff time out of the general fund budget.

#### **Priorities for Supply and System Reliability Enhancement**

As previously noted, MWDOC has done a good job in planning and facilitating Orange County system and supply reliability improvements. However, given the questions regarding the scope of the ocean desalination project and the level of effort being spent by MWDOC, it is important for MWDOC to work with all its member agencies to develop a consensus on reliability efforts for the upcoming year.

Some suggestions from the agencies were as follows.

- MWDOC should prioritize facilitation of the member agencies' implementation of the South County emergency storage reservoirs, the Emergency Water Service Program, and interconnection improvements.
- MWDOC should continue to analyze and develop parameters for an acceptable second phase of the Emergency Water Service Program between the groundwater basin agencies and South County agencies, and should support planning other feasibility work on in-county reliability enhancement projects that are less costly and provide potentially greater benefits than a desalination plant. Examples include an inland well field, expanded treatment and utilization of the Baker Pipeline, as well as others. Many of these reliability projects can optimize the use of existing infrastructure and have other financial benefits such as avoiding MET peaking charges, and reducing exposure to MET treatment surcharge increases.
- Equally important is for MWDOC to maintain its vigilance with MET on implementing the Second Lower Feeder extension to the East Orange County Feeder #2, and ultimately the Allen-McColloch Pipeline; and most importantly in supporting the CPAP. These projects should be given a higher priority than the feasibility work on ocean desalination. (My personal observation is that these projects have always had a higher or equal priority to ocean desalination, however, in recent times more outside funding and publicity has been put forth on ocean desalination.)

We concur with the agency suggestions and will include these activities, and others, in the budget.

#### **Conversion of Projects from Planning to Implementation**

During the discussion on the Dana Point Ocean Desalination Project, the member agencies indicated that MWDOC had gone too far in funding the feasibility studies for a project that only benefits a small portion of the County. The question discussed was how to properly transition from feasibility work to a JPA? Should there be a dollar amount that triggers the conversion? Should there be a time limit? Should it just be considered on a case-by-case basis? After discussion, it was generally agreed that a hard and fast rule would likely be difficult to develop at this time. Most of the agencies were comfortable with the range in costs per study included in Table 2, although some agencies questioned whether MWDOC should be conducting some of the listed studies or if they would be more appropriately conducted by the benefiting agencies. What was suggested was preparation of a clearer budget document to flag when a potential study may ultimately become a JPA Beneficiaries Pay Project. This visibility and improved communications will provide time for member agency input. This issue will also be a key issue to be addressed in the MSR process.

#### MWDOC's Representation with State and Federal Legislators

Over the past several years, MWDOC has systematically increased its Board, staff and lobbyist activities at the State and Federal level. MWDOC's efforts have been successful in increasing its visibility in the region, but have raised concerns with both the magnitude of the effort, and the message being delivered to State and Federal officials, particularly regarding the region's priorities for external grant funding and MWDOC's role. The coordination of legislative advocates on State priorities has included periodic meetings with agencies who have legislative advocates to facilitate two-way communication. In this manner, all of the interests of MWDOC get supported.

On the Federal priorities, 2006 represented the first year that the legislative process was opened up to IRWD, SMWD and others with an interest in Federal activities and funding. During the year, MWDOC held a Federal Funding Workshop to expose our agencies to opportunities and to explore whether a more proactive effort could gain greater outside funding. MWDOC anticipates continuation of these activities in closer support of our agencies needs. The agencies specifically requested investigation of a joint contract with OCWD for the State advocacy contract.

Conclusion: MWDOC will coordinate its advocacy of State and Federal legislation and funding requests with its member agencies to ensure there is a clear two-way understanding of the member agencies' priorities and role. In addition, staff will revisit the issue of State Lobbying support with the Board, when the current contract expires in December of 2006.

#### Budget Process for 2006-07

Staff has begun preparation of the budget process for 2006-07 and will take the above recommendations into account as the budget is compiled. Critical issues from the member agencies' perspective are the process for identifying "core" versus "beneficiaries pay" portions of the budget and the ultimate water rate that is set. Several of the water agencies have requested a review of our method of charging for our services due to the historical increases in MWDOC's annual budget over the last 5 years, combined with the magnitude of charges being imposed (budget increased from \$4.1M in 2000-01 to \$5.4M in 2005-06, an increase of 32%).

The ocean desalination activities work to be included in the 2006-07 budget is the following:

- Completion of the feasibility work as required under the BUREC, EPA and DWR Grants. The main emphasis of the work is the groundwater modeling to estimate the quantity and quality of water to be delivered to a treatment plant and documentation of the subsurface feasibility work.
- Financial and Technical Feasibility Study -- This document will pull together all of the information gathered over the past several years and provide a detailed estimate of the cost of the project, including a subsurface intake system, pre-treatment (if required) and use of the SOCWA outfall system for brine disposal. Energy costs will be estimated and a sensitivity analysis will be completed. Key for the study will be a detailed schedule and list of steps and costs for proceeding with the project in the event the local agencies decide that formation of a JPA to move forward is warranted. This will provide direction and a cost estimate for the subsequent steps.
- The above costs are estimated as follows:

Table 1 Ocean Desalination Study Efforts in 2006-07	
Camp Pendleton Study with SDCWA (MWDOC Portion)	\$43,000
Dana Point HDD/Slant Well Drilling Technology Report to BUREC, DWR and EPA	\$70,000
Subsurface Feasibility Assessment and Groundwater Modeling due to BUREC and DWR	\$212,000
Doheny Park Light Replacement (condition of permit)	\$50,000
Technical and Financial Feasibility Study for Dana Point	\$225,000
Subtotal	\$600,000
Estimated Remaining Grant Reimbursement	\$310,000
MWDOC Supported Funding	\$290,000

Listed below are potential study topics, justification and a general level of budget that may be required. The MWDOC budget will include up to \$200,000 for these efforts:

1. Inland Wellfield/Phase 2 of Emergency Water Service Program - This work envisions work with OCWD to site a wellfield to be used for basin operations that could also be used by South Orange County for emergency situations. Work will occur with DHS and MET to gain acceptance of the proposal. Cost sharing scenarios will be developed via a draft Agreement. Specific work on a potential site will take place with OCWD and DHS. This may involve pump-in via the IRWD System, from the YLWD wellfield near Mira Loma and the EOCF#2 or participation in another wellfield site.
2. Water Treatment Plant Study - This could involve up to four locations, either the Baker Plant site, a site near Irvine Lake, a site along the Santiago Lateral or expansion of the Trabuco Canyon site. The purpose of the study is to examine options for developing a new treated source of water into South Orange County. Use of Irvine Lake may be considered. Discussions may be held with Serrano Water District on exchanging local water rights and reservoir capacity for a connection to the Allen McColloch Pipeline.
3. West County Water Recycling - Phase 2 of the study would be initiated if the Phase 1 irrigation conversion area investigation is successful. The purpose of the study is to utilize up to 10,000 AF of recycled water from Long Beach to help Long Beach share in the cost of facilities needed to serve some of their irrigation demands.
4. San Juan Basin Authority Water Salvage Study - Based on the findings of the subsurface intake system at San Juan Creek, there appears to be more opportunity for salvage of brackish water than once thought. Collaborative work between the SJBA and MWDOC would occur to determine the amount of additional brackish water that might be available and outline what would be needed to expand existing local projects to take advantage of the water.

5. La Habra Basin – The La Habra Basin is not well understood. However, it may be an underutilized source of local groundwater in the 1,000 AF to 4,000 AF range. The Cities of La Habra, Brea and Fullerton are interested in evaluating additional use of water from the basin. MWDOC's role would be to search for funding options for study money to be matched with local funding from the three cities to conduct a reconnaissance survey of the groundwater potential in the area.
6. Energy for Local Projects – This work is envisioned as a scoping study to determine what would be required to access power resources available to MET and the MET Member Agencies and whether there exist any opportunities to utilize power resources more efficiently and/or develop new ones that can be shared. The overarching concern is that another energy crisis will develop within the state and adversely affect water and the cost of local projects (such as GWRS, recycling or desalination). Advance planning by a large group may be able to influence the future outcome and opportunities.
7. Feather River or Other Water Transfers – Additional work is expected in working on the Feather River Water Transfer or in working with IRWD or SMWD on other transfer options. Feather River Water and Power has both water and energy resources for sale. Preliminary work has been completed on getting the water moved through the Delta. Additional work is required before considering a Water Transfer Agreement.
8. CALFED Monitoring – Many changes are taking place within CALFED. MWDOC has increased its presence somewhat to maintain "inside" knowledge regarding the opportunities, costs, risks and constraints. For 2006, work is expected to occur on a Delta Visioning Plan.
9. Desalination Regulatory Issues – Many regulatory issues surround ocean and brackish desalination. MWDOC is expected to continue its coordination and planning role with the five MET ocean desalination agencies. Participating in this arena will help gain a better understanding of the issues regarding success of MET's IRP and will also help to focus MET's policy on ocean desalination.
10. Central Pool Integrated Area Study Follow-up – These study efforts are underway at this time and may extend into next year. It may be advantageous for MWDOC to utilize outside study assistance to help analyze and follow-up on policy issues as they evolve from MET.
11. Value on Tap – The next session of this effort is just beginning. A key element is the coordination and communication required between retail, wholesale and MET regarding talking points, roles, missions and investments required in the water industry. The current phase of work is included in this year's budget. Additional work may spin-off into next year.

The initial reaction from some of the member agencies was that a number of the studies listed could be "beneficiary pays" studies.

Table 2 Potential General Fund Study Efforts in 2006-07	
	Potential Range of Consultant Costs
Inland Wellfield/Phase 2 of Emergency Water Service Program	\$25k to \$75k
Water Treatment Plant Study	\$25k to \$50k
West County Recycling – Phase 2	\$25k to \$50k
SJBA Water Salvage Study	\$10k to \$25k
La Habra Basin Study	\$0k to \$5k
Energy for Local Projects	\$0k to \$15k
Feather River or other Water Transfers	\$0k to \$20k
CALFED	\$10k to \$25k
Desalination Regulatory Issues	\$10k to \$25k
Central Pool Integrated Area Studies	\$0k to \$15k
Value on Tap	\$0k to \$8k
Total <sup>(1)</sup>	\$105k to \$313k
(1) Not all of these will be initiated; the budget total is \$200,000	

#### **Budget Process for Beyond 2006-07**

The member agencies have requested a meeting format to allow members of their Boards to have direct input and discussions with an Ad Hoc Committee of the MWDOC Board on the issues discussed above. Other issues discussed include reviewing the method MWDOC uses to charge its member agencies (combination of a per AF charge and an annual per retail meter charge) and whether any changes to MWDOC's cost recovery method, including having certain programs, services or projects paid for by "beneficiary agencies" to maintain equity. This meeting will be set for early June. Each of our member agencies will be invited to send elected officials to the meeting, if they desire.

#### **Attachments:**

Attached is an issues paper prepared and presented by nine of MWDOC's agencies for input prior to the budget process. The staff responses to the points raised in the issues paper are included herein.



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## Attachment C – Assumptions as Modified by Stakeholders



Municipal Water District of Orange County  
Governance Study  
List of Assumptions for the Fiscal Analysis  
As Modified for Stakeholder Input

In order to develop a fiscal analysis for each of the government structure alternatives to be included in the next phase of study, some assumptions must be made with respect to Agency Profiles, Services and Budgets. Winzler & Kelly's team is proposing the following assumptions for stakeholder review and comment.

**Assumptions for the Status Quo with December 2006 Policy Changes**

**MWDOC Profile**

- MWDOC will remain a Municipal Water District with directors elected by district.
- Future water demands will be consistent with MWDOC's 2005 Urban Water Management Plan (UWMP) with the exception of the OCWD's water demand which was estimated based on MWDOC's 8-year average and estimate of replenishment deliveries.<sup>1</sup>
- The number of retail meter connections within each agencies' service area is brought forward from MWDOC's Rate Survey Tables for Fiscal Years 2004-05 through 2006-07.
- Projected growth rates for MWDOC's retail agencies will be brought forward from the MWDOC Municipal Services Review (MSR) report and/or the retail agencies' UWMP, as updated by the agency, as necessary to confirm growth rates within each retail agencies' service area<sup>2</sup>.

**Services Provided by MWDOC**

- Services provided by MWDOC will be unchanged and will reflect the policy commitments made by the MWDOC Board in December 2006.

**MWDOC's Budget and Cost Recovery**

- The budgets will be developed based on MWDOC's FY 2008/2009 staffing as outlined in Attachment A, including part-time and consultant support staff costs.
- Since there are significant uncertainties around the imported water supply, the cost of purchased water is assumed to be 25% higher than the current Metropolitan WD rates for FY 09/10. MWDOC's Melded Water Rate Surcharge is also assumed to be 25% higher in FY 09/10. The cost of water will increase by 5% per year after that.<sup>3</sup>
- Removed as an assumption. An analysis of the effects of demand reduction is included in the Technical Report. For the purpose of the 10-year cost projections included in Winzler & Kelly's scope of work, an inflation factor of 3% per year will be used.
- MWDOC will continue to use a Melded Water Rate Surcharge.
- MWDOC will continue to charge a Water Increment Charge (per AF) and a Retail Meter Charge (per meter) to cover its general fund costs. These charges will be escalated in accordance with MWDOC's 2008-09 Fiscal Master Plan projections through Fiscal Year 2013-14 (because it is the last available data) and will be escalated at 3% per year after that.

<sup>1</sup> Email from Karl Seckel to Harry Ehrlich and Gary Arant dated February 10, 2009

<sup>2</sup> UWMPs were obtained for El Toro, Irvine Ranch, Moulton Niguel, Santa Margarita, South Coast and Trabuco Canyon Water Districts

<sup>3</sup> Metropolitan Water District of Southern California, January 13 2009 Board Meeting Item 8-1

## **Assumptions for MWDOC reorganized as a County Water Authority (CWA) (Two Service Model Options)**

### **CWA Profile**

- The CWA Board composition will be developed using the representation formula outlined in County Water Authority law.
- Future water demands will be consistent with MWDOC's 2005 Urban Water Management Plan (UWMP) with the exception of the OCWD's water demand which was estimated based on MWDOC's 8-year average and estimate of replenishment deliveries.<sup>4</sup>
- The number of retail meter connections within each agencies' service area is brought forward from MWDOC's Rate Survey Tables for Fiscal Years 2004-05 through 2006-07.
- Projected growth rates for CWA's retail agencies will be brought forward from the MWDOC Municipal Services Review (MSR) report and/or the agencies' UWMP, as updated by the agency, as necessary to confirm growth rates within each retail agencies' service area.

### **Services Provided by the CWA**

#### **Two Service Options Will Be Developed**

- Option 1: Current MWDOC Service Model with December 2006 Policy Commitments
- Option 2: "Subscription Plan"
  - Essential Services provided by the CWA include:
    - Wholesale Water Importation
    - Planning and Resource Development<sup>5</sup>
    - Metropolitan Issues and Special Projects
    - Emergency Preparedness (WEROC).
  - Remaining services will continue to be provided and will be "subscribed" to by all retailers except the Six Agencies, because during the MSR process the Six Agencies indicated that they had alternative means for providing these services.

### **CWA Budget and Cost Recovery**

- The budgets will be developed based on MWDOC's FY 2008/2009 staffing as outlined in Attachment A, including part-time and consultant support staff costs.
- Each retailer represented on the CWA will pay the costs associated with its Board members attending CWA meetings. Board member costs for attending Metropolitan meetings and the Board conference and travel budget will be consistent with the current MWDOC budget.
- Since there are significant uncertainties around the imported water supply, the cost of purchased water is assumed to be 25% higher than the current Metropolitan WD rates for FY 09/10. The CWA's Merged Water Rate Surcharge is also assumed to be 25% higher in FY 09/10. The cost of water will increase by 5% per year after that.
- Removed as an assumption. An analysis of the effects of demand reduction is included in the Technical Report. Operating reserves will be budgeted at 15% of regular general fund operating revenues based on the recommendations of the Government Finance Officers Association.

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<sup>4</sup> Email from Karl Seckel to Harry Ehrlich and Gary Arant dated February 10, 2009

<sup>5</sup> The analysis assumes that MWDOC's Policy regarding project initiation remains in effect and that the benefitting retailers will pay for large planning and resource development projects.

- For the purpose of the 10-year cost projections included in Winzler & Kelly's scope of work, an inflation factor of 3% per year will be used.
- The formation election will occur in Fiscal Year 2009-10 and will cost \$100,000.
- The CWA will continue to charge a Melded Water Rate Surcharge.
- The CWA will continue to charge a Water Increment Charge (per AF) and a Retail Meter Charge (per meter) to cover its general fund costs.

### **Assumptions for New South County Agency (2 Boundary Options)**

#### **New South County Agency Profile**

- Two options will be developed
  - A New South County Agency including El Toro, Irvine Ranch, Moulton Niguel, Santa Margarita, South Coast and Trabuco Canyon Water Districts.
  - A New South County Agency including the six agencies together with the cities of San Clemente and San Juan Capistrano and Laguna Beach County Water District in order to provide contiguous boundaries.
- Future water demands will be consistent with MWDOC's 2005 Urban Water Management Plan (UWMP) with the exception of the OCWD's water demand which was estimated based on MWDOC's 8-year average and estimate of replenishment deliveries.<sup>6</sup>
- The number of retail meter connections within each agencies' service area is brought forward from MWDOC's Rate Survey Tables for Fiscal Years 2004-05 through 2006-07.
- Under both options, projected growth rates for New South County Agency's retail agencies will be brought forward from the MWDOC Municipal Services Review (MSR) report and/or the agencies' UWMP, as updated by the agency, as necessary to confirm growth rates within each retail agencies' service area.

#### **Services Provided by the New South County Agency (both boundary options)**

- Essential services provided by the New South County Agency will include :
  - Wholesale Water Importation
  - Planning and Resource Development<sup>7</sup>
  - Metropolitan Issues and Special Projects
  - Emergency Preparedness (WEROC).
- The New South County Agency will not own any infrastructure. The retail agencies will continue to utilize imported water infrastructure under Metropolitan WD rules and regulations and any existing ownership/access agreements.
- Emergency Preparedness Services will continue to be provided by MWDOC throughout Orange County. The New South County Agency will fund its share of these costs under a cost-sharing agreement based on population served.<sup>8</sup>

#### **Budgets for New South County Agency (both boundary options)**

- For the purpose of establishing an Administrative and Overhead Budget, Winzler & Kelly will assume a staffing and overhead budget as outlined in Attachment A.
- The New South County Agency will pay for WEROC services.

<sup>6</sup> Email from Karl Seckel to Harry Ehrlich and Gary Arant dated February 10, 2009

<sup>7</sup> The analysis assumes that MWDOC's Policy regarding project initiation remains in effect and that the benefitting retails will pay for large planning and resource development projects.

<sup>8</sup> Population served is the current WEROC cost-sharing formula (email from Karl Seckle to Harry Ehrlich and Gary Arant dated February 10, 2009.)

- The New South County Agency will purchase water at Metropolitan WD's Tier 1 rates consistent with the Metropolitan Tier 1 Allocation Method using 1989-90 data.
- Winzler & Kelly will use the retail agencies' UWMPs to determine the local supply resources (groundwater/recycled water) that will supplement their existing Tier 1 allocations.
- Water demands above the current Tier 1 allocations + local supply resources will be purchased at Metropolitan WD's Tier 2 rates.
- Because of the significant uncertainties around the imported water supply, the cost of purchased water is assumed to be 25% higher than the current Metropolitan WD rates for FY 09/10 and 5% per year after that.
- Removed as an assumption. An analysis of the effects of demand reduction is included in the Technical Report. The New South County Agency will charge a Water Increment Charge to cover its general fund costs.
- Operating reserves will be budgeted at 15% of regular general fund operating revenues based on the recommendations of the Government Finance Officers Association.
- MWDOC's existing reserves will be allocated between the New South County Agency and the remaining MWDOC based on the 5-year percent average (2004-2008) of the revenue provided to MWDOC from the reorganized agencies.
- For the purpose of the 10-year cost projections included in Winzler & Kelly's scope of work, an inflation factor of 3% per year will be used.
- The pre-formation costs for the new agency will be born by the reorganized retail agencies from their reserves and will not be accounted for in the financial analysis.
- The election will occur in Fiscal Year 2009-10 and will cost \$100,000.
- A transition staffing scenario will be budgeted over three years as outlined below beginning in FY 09/10 (formation election occurs in June 2010):

#### **First Full Year of Operation**

After the formation elections, for the first fiscal year of existence, the New South County Agency will:

- Seat and organize the Board of Directors; select MWD representatives;
- Initially utilize outside legal counsel and governmental consultants to process the various legal filings, seek membership to MWD and develop basic operating rules and regulations; and
- Rely on the resources of one or several of the participating agencies for staff and housing. Transitioning MWDOC staff might also be considered to meet staffing requirements of the new entity.

#### **Second Full Year of Operation**

With the completion of the first full year, it is assumed that the New South County Agency would:

- Begin to function in the central roles of MWD representation and overall water operations/administration;
- Through interaction with and input from the member agencies, determine which of the optional or subscription services, i.e., lobbying, conservation services, public education, would be provided by the new entity;
- Start securing its own staff. With expanding activities and functions as it may no longer be practical or desirable to continue utilizing consultants and member agency staff resources; and

- Begin negotiations to lease a permanent facility to house its staff and Board of Directors.

### **Third Full Year**

During the third full year of existence and operation, the new entity would:

- Secure its full compliment of staff (as outlined in Attachment A) as well as an outside legal consultant, in order to implement all functions desired by the members; and
- Secure a permanent facility by lease to house the staff and Board functions.
- 

### **Assumptions for the smaller MWDOC (both boundary options)**

#### **Smaller MWDOC Profile**

- MWDOC will continue as an MWD representing either 19 or 22 retail agencies.
- Under both options, future water demands will be consistent with MWDOC's 2005 Urban Water Management Plan (UWMP) with the exception of the OCWD's water demand which was estimated based on MWDOC's 8-year average and estimate of replenishment deliveries.<sup>9</sup>
- Under both options, the number of retail meter connections within each agencies' service area is brought forward from MWDOC's Rate Survey Tables for Fiscal Years 2004-05 through 2006-07.
- Under both options, projected growth rates for the smaller MWDOC's retail agencies will be brought forward from the MWDOC Municipal Services Review (MSR) report and/or the agencies' UWMP, as updated by the agency, as necessary to confirm growth rates within each retail agencies' service area

#### **Services Provided by the smaller MWDOC**

- Services provided by the smaller MWDOC will be unchanged and will reflect the policy commitments made by the MWDOC Board in 2006.
- Emergency Preparedness Services will continue to be provided by MWDOC throughout Orange County. MWDOC will continue to carry its, reduced, WEROC contribution in its budget.

#### **Budget for the Agency**

- For the purpose of establishing an initial Administrative and Overhead Budget, Winzler & Kelly will assume a staffing and overhead budget as outlined in Attachment A.
- Water purchase costs will be reduced to account for the amount of water purchased by the New South County Agency.
- The smaller MWDOC will purchase water at Metropolitan WD's Tier 1 rates consistent with existing MWDOC allocations.
- Winzler & Kelly will use the retail agencies' UWMPs to determine the local supply resources (groundwater/recycled water) that will supplement their existing Tier 1 allocations.
- Water demands above the current Tier 1 allocations + local supply resources will be purchased at Metropolitan WD's Tier 2 rates.
- Since there are significant uncertainties around the imported water supply, the cost of purchased water is assumed to be 25% higher than the current Metropolitan WD rates for FY 09/10.

<sup>9</sup> Email from Karl Seckel to Harry Ehrlich and Gary Arant dated February 10, 2009

- . Removed as an assumption. An analysis of the effects of demand reduction is included in the Technical Report.
- MWDOC's existing reserves will be allocated to the smaller MWDOC based on the 5-year percent average (2004-2008) of the revenue provided to MWDOC from the remaining retail agencies.
- For the purpose of the 10-year cost projections included in Winzler & Kelly's scope of work, an inflation factor of 3% per year will be used.
- MWDOC will continue to charge a Water Increment Charge and a Retail Meter Charge to cover its general fund costs.

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## Attachment A – Agency Staffing Assumptions

MWDOC Baseline Staffing Analysis (Based on Exhibit I of the FY 2008/09 Budget)

Budget Category	Admin/Board	Planning & Coordination	Met Issues & Special Projects	Water Use Efficiency	Government/ Public Affairs	Finance/IT	WEROC	Overhead	Totals
<b>Staff Department</b>									
General Manager	0.60		0.25					0.15	1.00
Executive Secretary	0.22	0.51	0.13					0.14	1.00
Engineering	0.24	3.20	0.47				0.02	0.56	4.49
WEROC Staff							1.75		1.75
Administrative Services	4.13		1.11		0.01			0.49	5.74
Met & Special Projects	0.20		1.39	0.10	0.16			0.27	2.12
Finance/IT	0.13		0.04	0.17		4.53		0.67	5.54
Public Affairs	0.16		1.00	0.52	2.35			0.45	4.48
School Program					0.82				0.82
Water Use Efficiency	0.10		0.03	4.82				0.52	5.47
<b>Totals</b>	<b>5.78</b>	<b>3.71</b>	<b>4.42</b>	<b>5.61</b>	<b>3.34</b>	<b>4.53</b>	<b>1.77</b>	<b>3.25</b>	<b>32.41</b>

Reorganized South County Agency (Assume School Program & Water Use Efficiency Program Provided by Retailers)

Budget Category	Admin/Board	Planning & Coordination	Met Issues & Special Projects	Water Use Efficiency	Government/ Public Affairs	Finance/IT	WEROC	Overhead	Totals
<b>Staff Department</b>									
General Manager	0.60		0.25					0.15	1.00
Engineering	0.13	1.10	0.47					0.30	2.00
WEROC Staff									0.00
Administrative Services	2.00		0.55					0.45	3.00
Met & Special Projects	0.13		0.72					0.15	1.00
Finance/IT	0.13		0.04			2.38		0.45	3.00
Public Affairs	0.13		0.22		0.50			0.15	1.00
School Program									0.00
Water Use Efficiency									0.00
<b>Totals</b>	<b>3.12</b>	<b>1.10</b>	<b>2.25</b>	<b>0.00</b>	<b>0.50</b>	<b>2.38</b>	<b>0.00</b>	<b>1.65</b>	<b>11.00</b>

Remaining MWDOC

Budget Category	Admin/Board	Planning & Coordination	Met Issues & Special Projects	Water Use Efficiency	Government/ Public Affairs	Finance/IT	WEROC	Overhead	Totals
<b>Staff Department</b>									
General Manager	0.60		0.25					0.15	1.00
Executive Secretary	0.22	0.51	0.13					0.14	1.00
Engineering	0.13	2.00	0.40				0.02	0.45	3.00
WEROC Staff							1.75		1.75
Administrative Services	1.79		0.75		0.01			0.45	3.00
Met & Special Projects	0.20		1.39	0.10	0.16			0.27	2.12
Finance/IT	0.13		0.04	0.17		3.00		0.45	3.79
Public Affairs	0.13			0.42	2.00			0.45	3.00
School Program					0.82				0.82
Water Use Efficiency	0.10			2.50				0.40	3.00
<b>Totals</b>	<b>3.30</b>	<b>2.51</b>	<b>2.96</b>	<b>3.19</b>	<b>2.99</b>	<b>3.00</b>	<b>1.77</b>	<b>2.76</b>	<b>22.48</b>

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## Attachment D – Water Demand and Retail Meter Projections



	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z	AA	AB	AC	AD	AE	AF	AG	AH	AI	AJ		
1	Exhibit A from MWDOC Rates																																					
2	FY 04-05		FY 05-06		FY 06-07		FY 07-08		FY 08-09		FY 09-10		FY 10-11		FY 11-12		FY 12-13		FY 13-14		FY 14-15		FY 15-16		FY 16-17		FY 17-18		FY 18-19		FY 19-20		Change 06/07 to 19/20					
3	% of Total		% of Total		% of Total		% of Total		% of Total		% of Total		% of Total		% of Total		% of Total		% of Total		% of Total		% of Total		% of Total		% of Total		% of Total		% of Total		Total		Percentage			
4																																						
5	El Toro WD																																					
6	Water Purchased (AF)		10,317		4.66%		10,488		4.81%		11,539		4.58%		11,354		4.76%		11,169		4.96%		10,984		5.18%		11,018		5.09%		11,052		5.00%		11,085		4.92%	
7	Retail Meter Charges (EA)		10,043		1.71%		10,043		1.74%		10,025		1.66%		10,114		1.62%		10,203		1.58%		10,292		1.54%		10,342		1.53%		10,392		1.53%		10,441		1.52%	
8	Irvine Ranch WD																																					
9	Water Purchased (AF)		21,352		9.65%		22,737		10.42%		37,572		14.92%		36,112		15.14%		34,653		15.38%		33,193		15.66%		34,057		15.73%		34,921		15.80%		35,784		15.87%	
10	Retail Meter Charges (EA)		90,915		15.46%		93,474		16.15%		96,495		15.98%		102,768		16.43%		109,040		16.85%		115,313		17.24%		115,488		17.13%		115,664		17.01%		115,839		16.90%	
11	Moulton Niguel WD																																					
12	Water Purchased (AF)		32,230		14.56%		33,438		15.33%		36,679		14.57%		36,157		15.16%		35,636		15.82%		35,114		16.56%		35,178		16.25%		35,242		15.95%		35,307		15.66%	
13	Retail Meter Charges (EA)		53,255		9.06%		53,343		9.22%		53,533		8.86%		59,157		9.46%		64,781		10.01%		70,405		10.53%		70,405		10.44%		70,405		10.36%		70,405		10.27%	
14	Santa Margarita WD																																					
15	Water Purchased (AF)		30,268		13.67%		32,881		15.07%		34,758		13.80%		33,491		14.04%		32,224		14.30%		30,957		14.60%		31,319		14.47%		31,681		14.34%		32,043		14.21%	
16	Retail Meter Charges (EA)		51,247		8.72%		52,231		9.02%		52,868		8.75%		54,654		8.74%		56,439		8.72%		58,225		8.70%		59,294		8.79%		60,362		8.88%		61,431		8.96%	
17	South Coast Water District																																					
18	Water Purchased (AF)		7,333		3.31%		7,005		3.21%		7,819		3.11%		7,616		3.19%		7,412		3.29%		7,209		3.40%		7,104		3.28%		7,000		3.17%		6,895		3.06%	
19	Retail Meter Charges (EA)		12,357		2.10%		12,238		2.11%		12,389		2.05%		12,526		2.00%		12,663		1.96%		12,800		1.91%		12,820		1.90%		12,840		1.89%		12,880		1.88%	
20	Trabuco Canyon WD																																					
21	Water Purchased (AF)		1,908		0.86%		2,265		1.04%		3,273		1.30%		3,696		1.55%		4,120		1.83%		4,543		2.14%		4,598		2.12%		4,653		2.11%		4,709		2.09%	
22	Retail Meter Charges (EA)		3,990		0.68%		3,990		0.69%		3,990		0.66%		4,257		0.70%		4,523		0.72%		4,790		0.72%		4,838		0.72%		4,886		0.72%		4,935		0.72%	
23	Laguna Beach CWD																																					
24	Water Purchased (AF)		4,490		2.03%		4,473		2.05%		4,517		1.79%		3,887		1.63%		3,258		1.45%		2,628		1.24%		2,638		1.22%		2,648		1.20%		2,658		1.18%	
25	Retail Meter Charges (EA)		8,469		1.44%		8,530		1.47%		7,979		1.32%		8,182		1.31%		8,386		1.30%		8,589		1.28%		8,610		1.28%		8,632		1.27%		8,643		1.26%	

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## Attachment E - MWDOC Baseline 10-year Financial Model Summary

MWDOC Baseline Analysis		Current Budget		Forecast Based on Assumptions																										
		FY 08-09		FY 09-10		FY 10-11		FY 11-12		FY 12-13		FY 13-14		FY 14-15		FY 15-16		FY 16-17		FY 17-18		FY 18-19		FY 19-20						
		\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%					
Services & Costs																														
General Fund Budget																														
Administrative/Personnel	\$	1,446,528	23.89%	\$	1,489,924	23.89%	\$	1,534,622	23.89%	\$	1,580,660	23.89%	\$	1,626,080	23.89%	\$	1,672,230	23.89%	\$	1,719,047	23.89%	\$	1,887,391	23.89%	\$	2,002,333	23.89%			
Planning/Resource Development	\$	720,514	11.90%	\$	742,129	11.90%	\$	764,393	11.90%	\$	787,325	11.90%	\$	810,945	11.90%	\$	835,273	11.90%	\$	860,331	11.90%	\$	940,107	11.90%	\$	997,360	11.90%			
Special Projects	\$	582,211	9.62%	\$	599,677	9.62%	\$	617,668	9.62%	\$	636,198	9.62%	\$	655,284	9.62%	\$	674,942	9.62%	\$	695,190	9.62%	\$	759,653	9.62%	\$	805,916	9.62%			
Governmental Affairs	\$	266,939	4.41%	\$	274,947	4.41%	\$	283,196	4.41%	\$	291,691	4.41%	\$	300,442	4.41%	\$	309,455	4.41%	\$	318,739	4.41%	\$	338,150	4.41%	\$	358,744	4.41%			
Water Use Efficiency	\$	762,275	12.59%	\$	785,143	12.59%	\$	808,698	12.59%	\$	832,958	12.59%	\$	857,947	12.59%	\$	883,686	12.59%	\$	910,196	12.59%	\$	937,502	12.59%	\$	994,596	12.59%			
Water Awareness	\$	317,852	5.25%	\$	327,388	5.25%	\$	337,209	5.25%	\$	347,325	5.25%	\$	357,745	5.25%	\$	368,478	5.25%	\$	379,532	5.25%	\$	402,645	5.25%	\$	414,725	5.25%			
School Programs	\$	355,527	5.87%	\$	366,193	5.87%	\$	377,179	5.87%	\$	388,494	5.87%	\$	400,149	5.87%	\$	412,153	5.87%	\$	424,518	5.87%	\$	447,253	5.87%	\$	463,882	5.87%			
Finance	\$	440,098	7.27%	\$	453,301	7.27%	\$	466,900	7.27%	\$	480,907	7.27%	\$	495,334	7.27%	\$	510,194	7.27%	\$	525,500	7.27%	\$	551,265	7.27%	\$	574,228	7.27%			
Information Technology	\$	167,100	2.76%	\$	172,113	2.76%	\$	177,276	2.76%	\$	182,595	2.76%	\$	188,073	2.76%	\$	193,715	2.76%	\$	199,526	2.76%	\$	205,512	2.76%	\$	211,677	2.76%			
Overhead	\$	904,458	14.94%	\$	931,592	14.94%	\$	959,539	14.94%	\$	988,326	14.94%	\$	1,017,975	14.94%	\$	1,048,515	14.94%	\$	1,079,970	14.94%	\$	1,112,369	14.94%	\$	1,145,740	14.94%			
Desalination Study	\$	-	0.00%	\$	-	0.00%	\$	-	0.00%	\$	-	0.00%	\$	-	0.00%	\$	-	0.00%	\$	-	0.00%	\$	-	0.00%	\$	-	0.00%			
WEROC - MWDOC Contribution	\$	91,228	1.51%	\$	93,965	1.51%	\$	96,784	1.51%	\$	99,687	1.51%	\$	102,678	1.51%	\$	105,758	1.51%	\$	108,931	1.51%	\$	112,199	1.51%	\$	115,565	1.51%			
Subtotal General Fund	\$	6,054,730	100.00%	\$	6,236,372	100.00%	\$	6,423,463	100.00%	\$	6,616,167	100.00%	\$	6,814,652	100.00%	\$	7,019,092	100.00%	\$	7,229,664	100.00%	\$	7,446,554	100.00%	\$	7,669,951	100.00%			
Budgeted Reserves	\$	5,069,000		\$	4,739,000		\$	4,737,000		\$	4,737,000		\$	4,737,000		\$	4,738,000		\$	5,227,013		\$	5,812,481		\$	6,501,111				
Revenue Recovery																														
New South County Agency																														
El Toro WD																														
Increment Charge (AF)	\$	72,599	1.20%	\$	82,380	1.32%	\$	88,803	1.38%	\$	94,823	1.43%	\$	100,212	1.47%	\$	106,077	1.51%	\$	109,592	1.52%	\$	113,223	1.52%	\$	116,975	1.53%			
Retail Meter Charges (EA)	\$	56,117	0.93%	\$	63,810	1.02%	\$	68,670	1.07%	\$	71,702	1.08%	\$	75,178	1.10%	\$	79,104	1.13%	\$	81,864	1.13%	\$	84,718	1.14%	\$	87,670	1.14%			
Irvine Ranch WD																														
Increment Charge (AF)	\$	225,242	3.72%	\$	248,948	3.99%	\$	274,498	4.27%	\$	299,619	4.53%	\$	323,491	4.75%	\$	349,624	4.98%	\$	368,600	5.10%	\$	388,203	5.21%	\$	408,649	5.33%			
Retail Meter Charges (EA)	\$	599,722	9.91%	\$	714,941	11.46%	\$	766,843	11.94%	\$	798,080	12.06%	\$	834,042	12.24%	\$	874,750	12.46%	\$	902,355	12.48%	\$	939,789	12.62%	\$	978,657	12.76%			
Moulton Niguel WD																														
Increment Charge (AF)	\$	231,632	3.83%	\$	263,355	4.22%	\$	283,536	4.41%	\$	302,380	4.57%	\$	319,172	4.68%	\$	337,437	4.81%	\$	348,191	4.82%	\$	359,649	4.83%	\$	371,481	4.84%			
Retail Meter Charges (EA)	\$	356,296	5.88%	\$	436,511	7.00%	\$	467,489	7.24%	\$	485,795	7.34%	\$	506,916	7.44%	\$	530,854	7.56%	\$	546,779	7.56%	\$	563,183	7.56%	\$	580,078	7.56%			
Santa Margarita WD																														
Increment Charge (AF)	\$	209,456	3.46%	\$	232,178	3.72%	\$	252,431	3.93%	\$	271,823	4.11%	\$	289,669	4.25%	\$	309,144	4.40%	\$	321,975	4.45%	\$	337,298	4.53%	\$	353,251	4.61%			
Retail Meter Charges (EA)	\$	310,416	5.13%	\$	360,995	5.79%	\$	393,710	6.13%	\$	416,499	6.30%	\$	442,302	6.49%	\$	471,245	6.71%	\$	493,682	6.83%	\$	516,338	6.93%	\$	539,909	7.04%			
South Coast Water District																														
Increment Charge (AF)	\$	48,180	0.80%	\$	54,068	0.87%	\$	57,261	0.89%	\$	60,058	0.91%	\$	62,333	0.91%	\$	64,782	0.92%	\$	65,698	0.91%	\$	66,677	0.90%	\$	67,656	0.88%			
Retail Meter Charges (EA)	\$	69,647	1.15%	\$	79,360	1.27%	\$	85,125	1.34%	\$	88,596	1.34%	\$	92,592	1.36%	\$	97,115	1.38%	\$	100,184	1.39%	\$	103,349	1.39%	\$	106,615	1.39%			
Trabuco Canyon WD																														
Increment Charge (AF)	\$	26,778	0.44%	\$	34,073	0.55%	\$	37,061	0.58%	\$	39,926	0.60%	\$	42,566	0.62%	\$	45,447	0.65%	\$	47,352	0.65%	\$	49,257	0.68%	\$	51,233	0.67%			
Retail Meter Charges (EA)	\$	24,878	0.41%	\$	29,698	0.48%	\$	32,126	0.50%	\$	33,716	0.51%	\$	35,529	0.52%	\$	37,570	0.54%	\$	39,072	0.54%	\$	40,546	0.54%	\$	42,074	0.55%			
Laguna Beach CWD																														
Increment Charge (AF)	\$	21,175	0.35%	\$	19,710	0.32%	\$	21,262	0.33%	\$	22,720	0.34%	\$	24,028	0.35%	\$	25,453	0.36%	\$	26,315	0.36%	\$	27,205	0.37%	\$	28,126	0.37%			
Retail Meter Charges (EA)	\$	46,121	0.76%	\$	53,252	0.85%	\$	57,170	0.89%	\$	59,561	0.90%	\$	62,230	0.91%	\$	65,244	0.93%	\$	67,286	0.93%	\$	69,393	0.93%	\$	71,565	0.93%			
San Clemente																														
Increment Charge (AF)	\$	66,473	1.10%	\$	73,545	1.18%	\$	79,336	1.24%	\$	84,774	1.28%	\$	89,655	1.32%	\$	94,969	1.35%	\$	98,183	1.36%	\$	101,133	1.36%	\$	104,171	1.36%			
Retail Meter Charges (EA)	\$	101,757	1.68%	\$	118,398	1.90%	\$	127,337	1.96%	\$	132,881	2.01%	\$	139,241	2.04%	\$	146,426	2.09%	\$	151,446	2.09%	\$	156,482	2.10%	\$	161,684	2.11%			
San Juan Capistrano																														
Increment Charge (AF)	\$	33,755	0.56%	\$	36,293	0.58%	\$	39,065	0.61%	\$	41,652	0.63%	\$	43,956	0.65%	\$	46,462	0.66%	\$	47,932	0.66%	\$	49,453	0.66%	\$	51,022	0.67%			
Retail Meter Charges (EA)	\$	62,308	1.03%	\$	71,514	1.15%	\$	76,795	1.20%	\$	80,658	1.23%	\$	83,685	1.25%	\$	87,058	1.28%	\$	89,723	1.29%	\$	92,623	1.29%	\$	95,515	1.29%			
Total	\$	2,562,550	42.32%	\$	2,873,026	47.67%	\$	3,208,509	49.95%	\$	3,364,599	51.16%	\$	3,566,796	52.34%	\$	3,769,560	53.70%	\$	3,907,229	54.04%	\$	4,069,520	54.52%	\$	4,217,432	54.98%	\$	4,360,221	55.19%
Increment Only	\$	935,289	15.45%	\$	1,044,548	16.75%	\$	1,133,255	17.64%	\$	1,217,775	18.41%	\$	1,295,081	19.00%	\$	1,379,394	19.65%	\$	1,433,839	19.83%	\$	1,482,099	20.04%	\$	1,552,563	20.24%	\$	1,615,313	20.45%
Retail Meter Only	\$	1,627,261	26.88%	\$	1,928,479	30.92%	\$	2,075,254	32.31%	\$	2,166,825	32.75%	\$	2,271,714	33.34%	\$	2,390,166	34.05%	\$	2,473,390	34.21%	\$	2,567,422	34.48%	\$	2,664,869	34.74%	\$	2,744,908	34.75%
Remaining MWDOC																														
Brea																														
Increment Charge (AF)	\$	38,387	0.63%	\$	44,978	0.72%	\$	49,132	0.76%	\$	49,928	0.75%	\$	50,725	0.74%	\$	51,521	0.73%	\$	52,318	0.72%	\$	53,115	0.71%	\$	53,912	0.70%			
Retail Meter Charges (EA)	\$	67,750	1.12%	\$	78,150	1.25%	\$	84,356	1.31%	\$	85,016	1.28%	\$	85,676	1.26%	\$	86,336	1.23%	\$	87,000	1.21%	\$	87,664	1.19%	\$	88,328	1.17%			
Buena Park																														
Increment Charge (AF)	\$	32,608	0.54%	\$	34,020	0.55%	\$	35,432	0.56%	\$	36,844	0.57%	\$	38,256	0.58%	\$	39,668	0.59%	\$	41,080	0.60%	\$	42,492	0.61%	\$	43,904	0.62%			
Retail Meter Charges (EA)	\$	111,088	1.83%	\$	126,615	2.03%	\$	13																						



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## Attachment F – MWDOC CWA 10-year Financial Model Summary



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Attachment G – MWDOC Subscription  
CWA 10-year Financial Model Summary



Data reflects the "Projected Actuals" from MWDOC's Budget for the following Fiscal Year		Current Budget		Forecast Based on Assumptions																												
	FY 04-05	FY 05-06	FY 06-07	FY 07-08	FY 08-09	FY 09-10	FY 10-11	FY 11-12	FY 12-13	FY 13-14	FY 14-15	FY 15-16	FY 16-17	FY 17-18	FY 18-19	FY 19-20																
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%																
Services & Costs																																
General Fund Budget																																
Administrative/Personnel	\$1,560,635	33.63%	\$1,583,783	34.42%	\$1,669,367	33.67%	\$1,675,018	33.56%	\$1,446,528	26.31%	\$1,327,699	22.69%	\$1,367,530	23.32%	\$1,408,556	23.07%	\$1,450,812	23.23%	\$1,494,337	23.18%	\$1,539,167	23.14%	\$1,586,342	23.10%	\$1,632,902	23.06%	\$1,616,573	22.60%	\$1,665,070	22.52%	\$1,715,022	22.49%
Planning/Resource Development	\$973,234	20.80%	\$768,061	16.69%	\$734,840	15.00%	\$724,512	14.52%	\$720,216	13.13%	\$742,129	12.68%	\$764,393	13.03%	\$787,325	13.01%	\$810,945	12.88%	\$835,273	12.96%	\$860,331	12.94%	\$886,141	12.91%	\$912,726	12.89%	\$937,286	12.87%	\$962,131	12.79%	\$988,311	12.70%
Special Projects	\$0	0.00%	\$31,120	0.68%	\$26,766	0.56%	\$25,621	0.51%	\$52,211	1.01%	\$59,677	1.05%	\$61,768	1.03%	\$65,284	1.04%	\$67,942	1.07%	\$69,190	1.04%	\$70,636	1.04%	\$71,606	1.04%	\$72,527	1.04%	\$73,527	1.04%	\$74,527	1.04%	\$75,527	1.04%
Governmental Affairs	\$273,557	5.85%	\$344,747	7.49%	\$316,586	6.33%	\$287,967	5.77%	\$266,339	4.86%	\$274,947	4.70%	\$283,196	4.83%	\$291,691	4.82%	\$300,442	4.81%	\$309,455	4.80%	\$318,799	4.79%	\$328,301	4.78%	\$338,150	4.78%	\$348,255	4.78%	\$358,484	4.85%	\$369,506	4.85%
Water Use Efficiency	\$440,204	9.64%	\$26,734	0.58%	\$385,889	8.18%	\$379,792	7.60%	\$72,275	1.38%	\$75,143	1.34%	\$80,688	1.37%	\$82,958	1.37%	\$85,747	1.37%	\$88,686	1.37%	\$91,196	1.36%	\$93,502	1.36%	\$95,627	1.36%	\$97,561	1.36%	\$99,134	1.36%	\$100,434	1.36%
Water Awareness	\$232,190	4.97%	\$23,874	0.52%	\$20,573	0.44%	\$31,273	0.62%	\$31,782	0.59%	\$32,388	0.59%	\$32,709	0.58%	\$34,325	0.57%	\$35,745	0.57%	\$36,478	0.57%	\$37,532	0.57%	\$39,018	0.57%	\$40,924	0.57%	\$43,265	0.57%	\$45,786	0.57%	\$48,427	0.57%
School Programs	\$257,624	5.62%	\$269,891	5.85%	\$282,811	5.70%	\$312,961	6.27%	\$355,327	6.48%	\$366,163	6.48%	\$377,179	6.43%	\$388,499	6.41%	\$412,153	6.38%	\$424,518	6.38%	\$437,563	6.38%	\$450,371	6.38%	\$463,882	6.40%	\$477,789	6.40%	\$492,131	6.40%	\$506,948	6.40%
Finance	\$300,219	6.43%	\$21,374	0.46%	\$436,916	8.81%	\$535,926	10.74%	\$440,098	8.02%	\$453,301	7.75%	\$466,900	7.96%	\$480,907	7.94%	\$495,344	7.93%	\$510,194	7.92%	\$525,500	7.91%	\$541,265	7.89%	\$557,503	7.87%	\$564,886	7.85%	\$585,540	7.92%	\$603,107	7.91%
Information Technology	\$156,745	3.35%	\$169,879	3.69%	\$163,915	3.31%	\$170,921	3.42%	\$167,100	3.05%	\$172,113	2.94%	\$172,236	3.02%	\$182,595	3.02%	\$188,073	3.01%	\$193,715	3.01%	\$199,520	3.00%	\$205,139	2.99%	\$211,677	2.99%	\$218,647	3.02%	\$222,934	3.01%	\$228,592	3.00%
Overhead	\$799,772	17.12%	\$71,924	1.56%	\$68,504	1.37%	\$69,280	1.36%	\$90,458	1.65%	\$93,592	1.59%	\$95,939	1.62%	\$98,326	1.63%	\$1,017,975	16.30%	\$1,048,515	16.27%	\$1,079,970	16.24%	\$1,112,369	16.21%	\$1,145,740	16.19%	\$1,164,645	16.28%	\$1,199,584	16.23%	\$1,235,572	16.20%
Destination Study	\$0	0.00%	\$53,920	1.16%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%
WEROC - MWDOC Contribution	\$80,000	1.71%	\$81,362	1.72%	\$76,478	1.38%	\$85,815	1.72%	\$91,228	1.66%	\$93,865	1.61%	\$96,784	1.65%	\$99,687	1.65%	\$102,678	1.64%	\$105,758	1.64%	\$108,931	1.64%	\$112,199	1.64%	\$115,565	1.63%	\$118,955	1.62%	\$122,363	1.61%	\$125,793	1.61%
Election Costs	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%
Interest/Revenue Contributor	(\$401,968)		(\$1,413,214)		(\$1,989,878)		(\$1,989,878)		(\$990,633)		(\$67,099)		(\$322,000)		(\$390,933)		(\$445,843)		(\$500,933)		(\$560,933)		(\$628,116)		(\$698,334)		(\$770,498)		(\$844,734)		(\$918,024)	
Subtotal - General Fund	\$4,672,362	108.60%	\$4,491,460	130.71%	\$4,155,757	124.00%	\$4,490,889	119.63%	\$5,069,000		\$4,329,000		\$4,883,429	1	\$5,395,134	1	\$5,850,161	1	\$6,345,129	1	\$6,850,161	1	\$7,381,216	1	\$7,942,332	1	\$8,522,332	1	\$9,118,332	1	\$9,728,332	105.00%
Budgeted Reserve																																
Revenue Recovery																																
New South County Agency																																
E) Toro WD																																
Inc. Charge (AF)	\$101,999	2.58%	\$116,256	2.53%	\$92,949	1.87%	\$89,855	1.80%	\$135,117	2.46%	\$139,316	2.38%	\$134,348	2.29%	\$136,242	2.25%	\$138,211	2.21%	\$140,254	2.18%	\$142,373	2.14%	\$145,784	2.12%	\$149,285	2.11%	\$147,483	2.06%	\$151,507	2.05%	\$154,946	2.03%
Retail Meter Charges (EA)	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%
Irvine Ranch WD																																
Inc. Charge (AF)	\$211,097	4.52%	\$252,031	5.48%	\$202,650	6.10%	\$285,792	5.73%	\$419,211	7.64%	\$421,005	7.19%	\$415,280	7.08%	\$430,496	7.11%	\$446,154	7.14%	\$462,269	7.17%	\$478,857	7.20%	\$499,842	7.28%	\$521,524	7.37%	\$524,735	7.33%	\$546,822	7.40%	\$571,081	7.49%
Retail Meter Charges (EA)	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%
Moulton Niguel WD																																
Inc. Charge (AF)	\$318,643	6.82%	\$370,648	8.05%	\$295,457	5.98%	\$286,148	5.73%	\$431,103	7.86%	\$445,370	7.61%	\$428,954	7.31%	\$434,463	7.18%	\$440,197	7.05%	\$446,157	6.92%	\$452,343	6.80%	\$463,077	6.75%	\$474,090	6.70%	\$488,263	6.55%	\$480,954	6.51%	\$491,740	6.45%
Retail Meter Charges (EA)	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%
Santa Margarita WD																																
Inc. Charge (AF)	\$299,246	6.40%	\$364,374	7.82%	\$279,983	5.65%	\$265,047	5.31%	\$389,830	7.10%	\$392,645	6.71%	\$381,896	6.51%	\$390,558	6.45%	\$399,507	6.40%	\$408,747	6.34%	\$418,285	6.29%	\$428,006	6.33%	\$437,924	6.30%	\$450,824	6.37%	\$451,369	6.31%	\$468,579	6.34%
Retail Meter Charges (EA)	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%
South Coast Water District																																
Inc. Charge (AF)	\$72,498	1.55%	\$77,648	1.68%	\$62,984	1.27%	\$60,270	1.21%	\$89,671	1.63%	\$91,436	1.56%	\$86,629	1.48%	\$86,292	1.43%	\$85,968	1.38%	\$85,655	1.33%	\$85,350	1.28%	\$85,852	1.25%	\$86,343	1.22%	\$83,759	1.17%	\$84,784	1.15%	\$84,787	1.11%
Retail Meter Charges (EA)	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%
Trabuco Canyon WD																																
Inc. Charge (AF)	\$18,864	0.40%	\$25,107	0.55%	\$26,365	0.53%	\$29,253	0.59%	\$48,938	0.91%	\$57,621	0.98%	\$56,069	0.96%	\$57,366	0.95%	\$58,706	0.94%	\$60,809	0.93%	\$61,517	0.92%	\$63,422	0.92%	\$65,384	0.92%	\$65,026	0.91%	\$67,153	0.91%	\$69,214	0.91%
Retail Meter Charges (EA)	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%
Laguna Beach CWD																																
Inc. Charge (AF)	\$44,391	0.95%	\$49,582	1.08%	\$36,385	0.73%	\$30,764	0.62%	\$39,410	0.72%	\$33,332	0.57%	\$32,167	0.55%	\$32,644	0.54%	\$33,140	0.53%	\$33,653	0.52%	\$34,186	0.51%	\$35,029	0.51%	\$35,894	0.51%	\$36,455	0.50%	\$36,473	0.49%	\$37,330	0.49%
Retail Meter Charges (EA)	\$57,460	1.23%	\$66,054	1.44%	\$68,575	1.38%	\$66,458	1.33%	\$94,742	1.08%	\$68,420	1.17%	\$69,235	1.15%	\$70,899	1.17%	\$72,498	1.16%	\$74,087	1.15%	\$75,705	1.14%	\$77,346	1.13%	\$78,998	1.12%	\$80,232	1.12%	\$82,064	1.11%	\$83,555	1.09%
San Clemente																																
Inc. Charge (AF)	\$93,892	2.01%	\$118,515	2.57%	\$88,155	1.80%	\$84,263	1.69%	\$123,717	2.25%	\$124,375	2.13%	\$120,025	2.05%	\$121,804	2.01%	\$123,651	1.98%	\$125,567	1.95%	\$127,552	1.92%	\$130,217	1.90%	\$132,845	1.88%	\$130,948	1.83%	\$134,202	1.82%	\$136,759	1.79%
Retail Meter Charges (EA)	\$110,496	2.36%	\$132,356	2.88%	\$148,778	3.00%	\$145,436	2.91%	\$131,213	2.39%	\$152,121	2.60%	\$154,210	2.63%	\$158,176	2.61%	\$162,579	2.60%	\$166,273	2.58%	\$170,395	2.56%	\$174,417	2.54%	\$178,476	2.52%	\$181,035	2.53%	\$185,398	2.51%	\$189,612	2.49%
San Juan Capistrano																																
Inc. Charge (AF)	\$60,179	1.29%	\$31,436	0.68%	\$47,534	0.98%	\$43,899	0.89%	\$62,822	1.14%	\$61,376	1.05%	\$59,101	1.01%	\$58,947	0.99%	\$60,624	0.97%	\$61,431	0.95%	\$62,270	0.94%	\$63,875	0.93%	\$65,115	0.92%	\$64,242					



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## Attachment H – Six Agency South CWA 10-year Financial Model Summary



Agency CWA Remaining MWDOC	Forecast Based on Assumptions																				
	FY 09-10		FY 10-11		FY 11-12		FY 12-13		FY 13-14		FY 14-15		FY 15-16		FY 16-17		FY 17-18		FY 18-19		FY 19-20
Services & Costs	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	
General Fund Budget																					
Administrative/Personnel	\$ 1,489,924	25.19%	\$952,961	24.56%	\$981,550	24.52%	\$1,010,997	24.48%	\$1,041,327	24.44%	\$ 1,072,566	24.40%	\$1,104,743	24.36%	\$1,137,886	24.33%	\$1,172,022	24.33%	\$1,207,183	24.21%	\$ 1,243,398
Planning/Resource Development	\$ 742,129	12.55%	\$487,464	12.56%	\$502,088	12.54%	\$517,150	12.52%	\$532,665	12.50%	\$ 548,645	12.48%	\$565,104	12.46%	\$582,057	12.44%	\$599,519	12.44%	\$617,504	12.39%	\$ 636,029
Special Projects	\$ 599,677	10.14%	\$389,898	10.05%	\$401,595	10.03%	\$413,642	10.01%	\$426,052	10.00%	\$ 438,833	9.98%	\$451,998	9.97%	\$465,558	9.95%	\$479,525	9.95%	\$493,911	9.91%	\$ 508,728
Governmental Affairs	\$ 274,947	4.65%	\$238,966	6.16%	\$246,135	6.15%	\$253,519	6.14%	\$261,125	6.13%	\$ 268,959	6.12%	\$277,027	6.11%	\$285,338	6.10%	\$293,898	6.10%	\$302,715	6.07%	\$ 311,797
Water Use Efficiency	\$ 785,143	13.28%	\$447,153	11.52%	\$460,568	11.50%	\$474,385	11.48%	\$488,616	11.47%	\$ 503,275	11.45%	\$518,373	11.43%	\$533,924	11.42%	\$549,942	11.42%	\$566,440	11.36%	\$ 583,433
Water Awareness	\$ 327,388	5.54%	\$180,740	4.66%	\$186,162	4.65%	\$191,747	4.64%	\$197,499	4.63%	\$ 203,424	4.63%	\$209,527	4.62%	\$215,813	4.61%	\$222,287	4.61%	\$228,956	4.59%	\$ 235,825
School Programs	\$ 366,193	6.19%	\$168,045	4.33%	\$173,086	4.32%	\$178,279	4.32%	\$183,627	4.31%	\$ 189,136	4.30%	\$194,810	4.30%	\$200,654	4.29%	\$206,674	4.29%	\$212,874	4.27%	\$ 219,260
Finance	\$ 453,301	7.66%	\$303,005	7.81%	\$312,095	7.79%	\$321,458	7.78%	\$331,102	7.77%	\$ 341,035	7.76%	\$351,266	7.75%	\$361,804	7.74%	\$372,658	7.74%	\$383,838	7.70%	\$ 395,353
Information Technology	\$ 172,113	2.91%	\$104,040	2.68%	\$107,161	2.68%	\$110,376	2.67%	\$113,687	2.67%	\$ 117,098	2.66%	\$120,611	2.66%	\$124,229	2.66%	\$127,956	2.66%	\$131,794	2.64%	\$ 135,748
Overhead	\$ 931,592	15.75%	\$768,789	19.81%	\$791,853	19.78%	\$815,609	19.75%	\$840,077	19.71%	\$ 865,279	19.68%	\$891,238	19.66%	\$917,975	19.63%	\$945,514	19.63%	\$973,879	19.53%	\$ 1,003,096
Desalination Study	\$ -	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$ -	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$ -
WEROC - MWDOC Contribution	\$ 93,965	1.59%	\$62,675	1.62%	\$64,555	1.61%	\$66,491	1.61%	\$68,486	1.61%	\$ 70,541	1.60%	\$72,657	1.60%	\$74,837	1.60%	\$77,082	1.60%	\$79,394	1.59%	\$ 81,776
Election Cost	\$ -	-									\$ -	-					\$0	-			\$ -
Interest/Reserve Contribution	\$ (322,000)	-	\$-223,000	-	\$-223,000	-	\$-223,000	-	\$-223,000	-	\$ (223,000)	-	\$ (223,000)	-	\$ (223,000)	-	\$ (229,690)	-	\$ (213,000)	-	\$ (200,000)
Subtotal General Fund	\$ 5,914,372	105.44%	\$ 3,880,736	105.75%	\$ 4,003,848	105.57%	\$ 4,130,653	105.40%	\$ 4,261,263	105.23%	\$ 4,395,791	105.07%	\$ 4,534,354	104.92%	\$ 4,677,075	104.77%	\$ 4,817,387	104.77%	\$ 4,985,489	104.27%	\$ 5,154,444
Reserve Balance	\$ 4,739,000	-	\$2,500,775	-	\$2,277,775	-	\$2,054,775	-	\$1,831,775	-	\$ 1,608,775	-	\$1,385,775	-	\$1,162,775	-	\$ 1,156,085	-	\$ 943,085	-	\$ 743,085
Allocation to Increment			\$ 1,164,221	30.00%	\$ 1,201,154	30.00%	\$ 1,239,196	30.00%	\$ 1,278,379	30.00%	\$ 1,318,737	30.00%	\$ 1,360,306	30.00%	\$ 1,403,122	30.00%	\$ 1,445,216	30.00%	\$ 1,495,647	30.00%	\$ 1,546,333
Allocation to Retail Meter			\$ 2,716,515	70.00%	\$ 2,802,693	70.00%	\$ 2,891,457	70.00%	\$ 2,982,884	70.00%	\$ 3,077,053	70.00%	\$ 3,174,048	70.00%	\$ 3,273,952	70.00%	\$ 3,372,171	70.00%	\$ 3,489,843	70.00%	\$ 3,608,111
Revenue Recovery																					
Remaining MWDOC																					
Laguna Beach CWD																					
Increment Charge (AF)	\$ 19,710	0.32%	\$ 32,598	2.80%	\$ 32,977	2.75%	\$ 33,045	2.67%	\$ 33,147	2.59%	\$ 33,279	2.52%	\$ 34,128	2.51%	\$ 35,000	2.49%	\$ 35,846	2.48%	\$ 36,930	2.47%	\$ 37,929
Retail Meter Charges (EA)	\$ 53,252	0.85%	\$ 57,047	2.10%	\$ 59,696	2.13%	\$ 61,020	2.11%	\$ 62,349	2.09%	\$ 63,695	2.07%	\$ 65,060	2.05%	\$ 66,435	2.03%	\$ 67,929	2.01%	\$ 69,588	1.99%	\$ 70,842
San Clemente																					
Increment Charge (AF)	\$ 73,545	1.18%	\$ 122,942	10.56%	\$ 123,044	10.24%	\$ 123,299	9.95%	\$ 123,676	9.67%	\$ 124,168	9.42%	\$ 126,868	9.33%	\$ 129,633	9.24%	\$ 132,280	9.15%	\$ 135,885	9.09%	\$ 138,952
Retail Meter Charges (EA)	\$ 118,398	1.90%	\$ 130,393	4.80%	\$ 133,182	4.75%	\$ 136,534	4.72%	\$ 139,928	4.69%	\$ 143,362	4.66%	\$ 146,712	4.62%	\$ 150,092	4.58%	\$ 153,274	4.55%	\$ 157,212	4.50%	\$ 161,148
San Juan Capistrano																					
Increment Charge (AF)	\$ 36,293	0.58%	\$ 60,539	5.20%	\$ 60,456	5.03%	\$ 60,451	4.88%	\$ 60,506	4.73%	\$ 60,618	4.60%	\$ 62,037	4.56%	\$ 63,493	4.53%	\$ 64,896	4.49%	\$ 66,752	4.46%	\$ 68,391
Retail Meter Charges (EA)	\$ 71,514	1.15%	\$ 78,779	2.90%	\$ 80,176	2.86%	\$ 82,058	2.84%	\$ 83,960	2.81%	\$ 85,880	2.79%	\$ 87,778	2.77%	\$ 89,689	2.74%	\$ 91,591	2.72%	\$ 93,852	2.69%	\$ 95,944
Brea																					
Increment Charge (AF)	\$ 44,978	0.72%	\$ 76,140	6.54%	\$ 77,144	6.42%	\$ 78,242	6.31%	\$ 79,415	6.21%	\$ 80,662	6.12%	\$ 83,527	6.14%	\$ 86,483	6.16%	\$ 89,408	6.19%	\$ 92,797	6.20%	\$ 96,351
Retail Meter Charges (EA)	\$ 78,150	1.25%	\$ 86,928	3.20%	\$ 88,545	3.16%	\$ 91,095	3.15%	\$ 93,688	3.14%	\$ 96,319	3.13%	\$ 98,826	3.11%	\$ 101,364	3.10%	\$ 103,513	3.07%	\$ 106,390	3.05%	\$ 109,659
Buena Park																					
Increment Charge (AF)	\$ 34,020	0.55%	\$ 60,307	5.18%	\$ 63,692	5.30%	\$ 67,180	5.42%	\$ 70,726	5.53%	\$ 74,337	5.64%	\$ 79,051	5.81%	\$ 83,938	5.98%	\$ 88,881	6.15%	\$ 93,957	6.28%	\$ 100,147
Retail Meter Charges (EA)	\$ 126,615	2.03%	\$ 138,542	5.10%	\$ 142,729	5.09%	\$ 146,475	5.07%	\$ 150,272	5.04%	\$ 154,119	5.01%	\$ 157,875	4.97%	\$ 161,670	4.94%	\$ 165,097	4.90%	\$ 169,471	4.86%	\$ 174,080
East Orange County WD																					
Increment Charge (AF)	\$ 22,103	0.35%	\$ 37,139	3.19%	\$ 37,283	3.10%	\$ 37,511	3.03%	\$ 37,776	2.95%	\$ 38,076	2.89%	\$ 38,973	2.87%	\$ 39,893	2.84%	\$ 40,781	2.82%	\$ 41,952	2.80%	\$ 42,990
Retail Meter Charges (EA)	\$ 7,428	0.12%	\$ 8,150	0.30%	\$ 8,302	0.30%	\$ 8,483	0.29%	\$ 8,667	0.29%	\$ 8,851	0.29%	\$ 9,039	0.28%	\$ 9,227	0.28%	\$ 9,423	0.28%	\$ 9,648	0.28%	\$ 9,844
Fountain Valley																					
Increment Charge (AF)	\$ 20,228	0.32%	\$ 35,276	3.03%	\$ 36,785	3.06%	\$ 38,319	3.09%	\$ 39,888	3.12%	\$ 41,493	3.15%	\$ 42,795	3.15%	\$ 44,135	3.15%	\$ 45,453	3.15%	\$ 47,034	3.14%	\$ 48,621
Retail Meter Charges (EA)	\$ 108,698	1.74%	\$ 119,527	4.40%	\$ 122,422	4.37%	\$ 125,579	4.34%	\$ 128,778	4.32%	\$ 132,017	4.29%	\$ 135,188	4.26%	\$ 138,390	4.23%	\$ 141,325	4.19%	\$ 145,029	4.16%	\$ 148,863
Garden Grove																					
Increment Charge (AF)	\$ 38,415	0.62%	\$ 68,456	5.88%	\$ 72,713	6.05%	\$ 77,046	6.22%	\$ 81,445	6.37%	\$ 85,918	6.52%	\$ 89,068	6.55%	\$ 92,318	6.58%	\$ 95,540	6.61%	\$ 99,241	6.64%	\$ 103,164
Retail Meter Charges (EA)	\$ 216,569	3.47%	\$ 236,337	8.70%	\$ 243,634	8.69%	\$ 249,778	8.64%	\$ 255,998	8.58%	\$ 262,292	8.52%	\$ 268,412	8.46%	\$ 274,586	8.39%	\$ 280,408	8.32%	\$ 287,605	8.24%	

6 Agency CWA																						
Forecast Based on Assumptions																						
	FY 09-10		FY 10-11		FY 11-12		FY 12-13		FY 13-14		FY 14-15		FY 15-16		FY 16-17		FY 17-18		FY 18-19		FY 19-20	
Services & Costs	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
General Fund Budget																						
Administrative/Personnel	\$ 1,489,924	24.77%	\$ 723,511	66.12%	\$ 574,025	41.48%	\$ 705,143	35.58%	\$ 726,297	35.48%	\$ 748,086	35.38%	\$ 770,529	35.28%	\$ 793,644	35.19%	\$ 817,454	35.19%	\$ 841,977	35.30%	\$ 867,237	34.91%
Planning/Resource Development	\$ 742,129	12.34%	\$ 0	0.00%	\$ 98,623	7.13%	\$ 181,866	9.18%	\$ 187,322	9.15%	\$ 192,942	9.12%	\$ 198,730	9.10%	\$ 204,692	9.08%	\$ 210,833	9.08%	\$ 217,158	9.11%	\$ 223,673	9.00%
Special Projects	\$ 599,677	9.97%	\$ 135,674	12.40%	\$ 209,616	15.15%	\$ 318,099	16.05%	\$ 327,642	16.00%	\$ 337,472	15.96%	\$ 347,596	15.92%	\$ 358,024	15.87%	\$ 368,764	15.87%	\$ 379,827	15.93%	\$ 391,222	15.75%
Governmental Affairs	\$ 274,947	4.57%	\$ 100,000	9.14%	\$ 71,589	5.17%	\$ 124,272	6.27%	\$ 128,000	6.25%	\$ 131,840	6.23%	\$ 135,795	6.22%	\$ 139,869	6.20%	\$ 144,065	6.20%	\$ 148,387	6.22%	\$ 152,839	6.15%
Water Use Efficiency	\$ 785,143	13.05%	\$ 7,500	0.69%	\$ 7,500	0.54%	\$ 7,500	0.38%	\$ 7,725	0.38%	\$ 7,957	0.38%	\$ 8,195	0.38%	\$ 8,441	0.37%	\$ 8,695	0.37%	\$ 8,955	0.38%	\$ 9,224	0.37%
Water Awareness	\$ 327,388	5.44%	\$ 0	0.00%	\$ 0	0.00%	\$ 0	0.00%	\$ -	0.00%	\$ -	0.00%	\$ 0	0.00%	\$ 0	0.00%	\$ 0	0.00%	\$ 0	0.00%	\$ -	0.00%
School Programs	\$ 366,193	6.09%	\$ 0	0.00%	\$ 0	0.00%	\$ 0	0.00%	\$ -	0.00%	\$ -	0.00%	\$ 0	0.00%	\$ 0	0.00%	\$ 0	0.00%	\$ 0	0.00%	\$ -	0.00%
Finance	\$ 453,301	7.54%	\$ 125,062	11.43%	\$ 221,578	16.01%	\$ 243,461	12.29%	\$ 250,764	12.25%	\$ 258,287	12.21%	\$ 266,036	12.18%	\$ 274,017	12.15%	\$ 282,238	12.15%	\$ 290,705	12.19%	\$ 299,426	12.05%
Information Technology	\$ 172,113	2.86%	\$ 35,720	3.26%	\$ 73,584	5.32%	\$ 87,733	4.43%	\$ 90,365	4.41%	\$ 93,075	4.40%	\$ 95,868	4.39%	\$ 98,744	4.38%	\$ 101,706	4.38%	\$ 104,757	4.39%	\$ 107,900	4.34%
Overhead	\$ 931,592	15.49%	\$ 135,490	12.38%	\$ 295,243	21.33%	\$ 480,409	24.24%	\$ 494,821	24.17%	\$ 509,666	24.10%	\$ 524,956	24.04%	\$ 540,704	23.97%	\$ 556,925	23.97%	\$ 573,633	24.05%	\$ 590,842	23.78%
Desalination Study	\$ -	0.00%	\$ 0	0.00%	\$ 0	0.00%	\$ 0	0.00%	\$ -	0.00%	\$ -	0.00%	\$ 0	0.00%	\$ 0	0.00%	\$ 0	0.00%	\$ 0	0.00%	\$ -	0.00%
WEROC - MWD OC Contribution	\$ 93,965	1.56%	\$ 31,290	2.86%	\$ 32,229	2.33%	\$ 33,196	1.68%	\$ 34,192	1.67%	\$ 35,217	1.67%	\$ 36,274	1.66%	\$ 37,362	1.66%	\$ 38,483	1.66%	\$ 39,638	1.66%	\$ 40,827	1.64%
Election Costs	\$ 100,000										\$ -						\$ 0				\$ -	
Interest/Reserve Contribution	\$ (322,000)		\$ -200,000		\$ -200,000		\$ -200,000		\$ -200,000		\$ (200,000)		\$ (200,000)		\$ (200,000)		\$ (206,000)		\$ (220,000)		\$ (199,000)	
Subtotal General Fund	\$ 6,014,372	103.69%	\$ 1,094,247	118.28%	\$ 1,383,987	114.45%	\$ 1,981,678	110.09%	\$ 2,047,129	109.77%	\$ 2,114,543		\$ 2,183,979		\$ 2,255,498		\$ 2,323,163		\$ 2,385,038		\$ 2,484,189	108.01%
Reserve Balance	\$ 4,739,000		\$ 2,013,225		\$ 1,813,225		\$ 1,613,225		\$ 1,413,225		\$ 1,213,225		\$ 1,013,225		\$ 813,225		\$ 807,225		\$ 587,225		\$ 388,225	
Revenue Recovery																						
New Agency 2																						
El Toro WD																						
Water Purchased (AF)	\$ 82,380	1.32%	\$ 97,800	8.94%	\$ 122,805	8.87%	\$ 174,592	8.81%	\$ 179,094	8.75%	\$ 183,712	8.69%	\$ 188,143	8.61%	\$ 192,687	8.54%	\$ 196,840	8.47%	\$ 200,772	8.42%	\$ 207,116	8.34%
Retail Meter Charges (EA)	\$ 63,810	1.09%	\$ -	3.79%	\$ -	3.78%	\$ -	3.78%	\$ -	3.78%	\$ -	3.78%	\$ -	3.77%	\$ -	3.75%	\$ -	3.75%	\$ -	3.74%	\$ -	3.71%
Irvine Ranch WD*																						
Water Purchased (AF)	\$ 248,948	2.74%	\$ 302,306	27.63%	\$ 388,038	28.04%	\$ 563,594	28.44%	\$ 590,283	28.83%	\$ 617,897	29.22%	\$ 645,075	29.54%	\$ 673,150	29.84%	\$ 700,345	30.15%	\$ 724,632	30.38%	\$ 763,365	30.73%
Retail Meter Charges (EA)	\$ 714,941	9.85%	\$ -	42.27%	\$ -	42.13%	\$ -	41.98%	\$ -	41.84%	\$ -	41.70%	\$ -	41.81%	\$ -	41.91%	\$ -	41.91%	\$ -	42.00%	\$ -	42.22%
Moulton Niguel WD																						
Water Purchased (AF)	\$ 263,355	4.13%	\$ 312,260	28.54%	\$ 391,614	28.30%	\$ 556,069	28.06%	\$ 569,708	27.83%	\$ 583,685	27.60%	\$ 597,628	27.36%	\$ 611,925	27.13%	\$ 624,974	26.90%	\$ 637,345	26.72%	\$ 657,310	26.46%
Retail Meter Charges (EA)	\$ 436,511	5.77%	\$ -	25.77%	\$ -	25.64%	\$ -	25.52%	\$ -	25.39%	\$ -	25.27%	\$ -	25.05%	\$ -	24.84%	\$ -	24.84%	\$ -	24.68%	\$ -	24.23%
Santa Margarita WD																						
Water Purchased (AF)	\$ 232,178	3.88%	\$ 278,004	25.41%	\$ 352,039	25.44%	\$ 504,668	25.47%	\$ 521,939	25.50%	\$ 539,738	25.53%	\$ 560,487	25.66%	\$ 581,895	25.80%	\$ 602,427	25.93%	\$ 620,946	26.04%	\$ 650,543	26.19%
Retail Meter Charges (EA)	\$ 360,995	5.55%	\$ -	21.70%	\$ -	21.99%	\$ -	22.26%	\$ -	22.54%	\$ -	22.81%	\$ -	22.97%	\$ -	23.12%	\$ -	23.12%	\$ -	23.24%	\$ -	23.57%
South Coast Water District																						
Water Purchased (AF)	\$ 54,068	0.94%	\$ 63,062	5.76%	\$ 77,782	5.62%	\$ 108,597	5.48%	\$ 109,374	5.34%	\$ 110,132	5.21%	\$ 110,797	5.07%	\$ 111,446	4.94%	\$ 111,790	4.81%	\$ 112,354	4.71%	\$ 113,335	4.56%
Retail Meter Charges (EA)	\$ 79,360	1.34%	\$ -	4.69%	\$ -	4.68%	\$ -	4.66%	\$ -	4.65%	\$ -	4.63%	\$ -	4.60%	\$ -	4.57%	\$ -	4.57%	\$ -	4.54%	\$ -	4.47%
Trabuco Canyon WD																						
Water Purchased (AF)	\$ 34,073	0.24%	\$ 40,816	3.73%	\$ 51,709	3.74%	\$ 74,159	3.74%	\$ 76,729	3.75%	\$ 79,379	3.75%	\$ 81,850	3.75%	\$ 84,394	3.74%	\$ 86,788	3.74%	\$ 88,989	3.73%	\$ 92,519	3.72%
Retail Meter Charges (EA)	\$ 29,698	0.43%	\$ -	1.77%	\$ -	1.78%	\$ -	1.79%	\$ -	1.80%	\$ -	1.81%	\$ -	1.80%	\$ -	1.80%	\$ -	1.80%	\$ -	1.80%	\$ -	1.80%
Total	\$ 2,600,315	43.24%	\$ 1,094,247	100.00%	\$ 1,383,987	100.00%	\$ 1,981,678	100.00%	\$ 2,047,129	100.00%	\$ 2,114,543	100.00%	\$ 2,183,979	100.00%	\$ 2,255,498	100.00%	\$ 2,323,163	100.00%	\$ 2,385,038	100.00%	\$ 2,484,189	100.00%
Increment Only	\$ 915,000	15.21%	\$ 1,094,247	100.00%	\$ 1,383,987	100.00%	\$ 1,981,678	100.00%	\$ 2,047,129	100.00%	\$ 2,114,543	100.00%	\$ 2,183,979	100.00%	\$ 2,255,498	100.00%	\$ 2,323,163	100.00%	\$ 2,385,038	100.00%	\$ 2,484,189	100.00%
Retail Meter Only	\$ 1,685,315	28.02%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%



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# Attachment I – Nine Agency South CWA 10-year Financial Model Summary

Agency CWA Remaining MWDOC																					
Forecast Based on Assumptions																					
	FY 09-10		FY 10-11		FY 11-12		FY 12-13		FY 13-14		FY 14-15		FY 15-16		FY 16-17		FY 17-18		FY 18-19		FY 19-20
Services & Costs	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$
General Fund Budget																					
Administrative/Personnel	\$ 1,489,924	25.19%	\$952,961	24.32%	\$981,550	24.28%	\$1,010,997	24.25%	\$1,041,327	24.22%	\$ 1,072,566	24.19%	\$1,104,743	24.16%	\$1,137,886	24.14%	\$1,172,022	24.14%	\$1,207,183	24.08%	\$ 1,243,398
Planning/Resource Development	\$ 742,129	12.55%	\$487,464	12.44%	\$502,088	12.42%	\$517,150	12.41%	\$532,665	12.39%	\$ 548,645	12.38%	\$565,104	12.36%	\$582,057	12.35%	\$599,519	12.35%	\$617,504	12.32%	\$ 636,029
Special Projects	\$ 599,677	10.14%	\$389,898	9.95%	\$401,595	9.94%	\$413,642	9.92%	\$426,052	9.91%	\$ 438,833	9.90%	\$451,998	9.89%	\$465,558	9.88%	\$479,525	9.88%	\$493,911	9.85%	\$ 508,728
Governmental Affairs	\$ 274,947	4.65%	\$238,966	6.10%	\$246,135	6.09%	\$253,519	6.08%	\$261,125	6.07%	\$ 268,959	6.07%	\$277,027	6.06%	\$285,338	6.05%	\$293,898	6.05%	\$302,715	6.04%	\$ 311,797
Water Use Efficiency	\$ 785,143	13.28%	\$447,153	11.41%	\$460,568	11.40%	\$474,385	11.38%	\$488,616	11.37%	\$ 503,275	11.35%	\$518,373	11.34%	\$533,924	11.33%	\$549,942	11.33%	\$566,440	11.30%	\$ 583,433
Water Awareness	\$ 327,388	5.54%	\$180,740	4.61%	\$186,162	4.61%	\$191,747	4.60%	\$197,499	4.59%	\$ 203,424	4.59%	\$209,527	4.58%	\$215,813	4.58%	\$222,287	4.58%	\$228,956	4.57%	\$ 235,825
School Programs	\$ 366,193	6.19%	\$168,045	4.29%	\$173,086	4.28%	\$178,279	4.28%	\$183,627	4.27%	\$ 189,136	4.27%	\$194,810	4.26%	\$200,654	4.26%	\$206,674	4.26%	\$212,874	4.25%	\$ 219,260
Finance	\$ 453,301	7.66%	\$303,005	7.73%	\$312,095	7.72%	\$321,458	7.71%	\$331,102	7.70%	\$ 341,035	7.69%	\$351,266	7.68%	\$361,804	7.67%	\$372,658	7.67%	\$383,838	7.66%	\$ 395,353
Information Technology	\$ 172,113	2.91%	\$104,040	2.65%	\$107,161	2.65%	\$110,376	2.65%	\$113,687	2.64%	\$ 117,098	2.64%	\$120,611	2.64%	\$124,229	2.64%	\$127,956	2.64%	\$131,794	2.63%	\$ 135,748
Overhead	\$ 931,592	15.75%	\$768,789	19.62%	\$791,853	19.59%	\$815,609	19.57%	\$840,077	19.54%	\$ 865,279	19.52%	\$891,238	19.49%	\$917,975	19.47%	\$945,514	19.47%	\$973,879	19.43%	\$ 1,003,096
Desalination Study	\$ -	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$ -	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$ -
WEROC - MWDOC Contribution	\$ 93,965	1.59%	\$57,788	1.47%	\$59,522	1.47%	\$61,308	1.47%	\$63,147	1.47%	\$ 65,041	1.47%	\$66,993	1.47%	\$69,002	1.46%	\$71,072	1.46%	\$73,205	1.46%	\$ 75,401
Election Costs	\$ -										\$ -						\$0				\$ -
Interest/Reserve Contribution	\$ (322,000)		-\$180,000		-\$180,000		-\$180,000		-\$180,000		\$ (180,000)		\$ (180,000)		\$ (180,000)		\$ (185,400)		\$ (180,000)		\$ (180,000)
Subtotal General Fund	\$ 5,914,372	105.44%	\$ 3,918,849	104.59%	\$ 4,041,815	104.45%	\$ 4,168,469	104.32%	\$ 4,298,923	104.19%	\$ 4,433,291	\$ 1	\$ 4,571,690	\$ 1	\$ 4,714,241	\$ 1	\$ 4,855,668	\$ 1	\$ 5,012,300	\$ 1	\$ 5,168,069
Reserve Fund Balance	\$ 4,739,000		\$2,221,659		\$2,041,659		\$1,861,659		\$1,681,659		\$ 1,501,659		\$ 1,321,659		\$ 1,141,659		\$ 1,136,259		\$ 956,259		\$ 776,259
Allocation to Increment																					
Allocation to Retail Meter			\$ 1,175,655	30.00%	\$ 1,212,544	30.00%	\$ 1,250,541	30.00%	\$ 1,289,677	30.00%	\$ 1,329,987	30.00%	\$ 1,371,507	30.00%	\$ 1,414,272	30.00%	\$ 1,456,700	30.00%	\$ 1,503,690	30.00%	\$ 1,550,421
			\$ 2,743,195	70.00%	\$ 2,829,270	70.00%	\$ 2,917,929	70.00%	\$ 3,009,246	70.00%	\$ 3,103,304	70.00%	\$ 3,200,183	70.00%	\$ 3,299,968	70.00%	\$ 3,398,967	70.00%	\$ 3,508,610	70.00%	\$ 3,617,648
Revenue Recovery																					
Remaining MWDOC																					
Brea																					
Increment Charge (AF)	\$ 44,978	0.72%	\$ 94,420	8.03%	\$ 94,996	7.83%	\$ 95,701	7.65%	\$ 96,527	7.48%	\$ 97,467	7.33%	\$ 100,731	7.34%	\$ 104,095	7.36%	\$ 107,442	7.38%	\$ 111,090	7.39%	\$ 114,818
Retail Meter Charges (EA)	\$ 78,150	1.25%	\$ 96,335	3.51%	\$ 99,033	3.50%	\$ 101,771	3.49%	\$ 104,548	3.47%	\$ 107,362	3.46%	\$ 110,023	3.44%	\$ 112,711	3.42%	\$ 115,003	3.38%	\$ 117,784	3.36%	\$ 120,941
Buena Park																					
Increment Charge (AF)	\$ 34,020	0.55%	\$ 74,739	6.36%	\$ 78,431	6.47%	\$ 82,170	6.57%	\$ 85,965	6.67%	\$ 89,824	6.75%	\$ 95,332	6.95%	\$ 101,031	7.14%	\$ 106,809	7.33%	\$ 112,479	7.48%	\$ 119,341
Retail Meter Charges (EA)	\$ 126,615	2.03%	\$ 155,678	5.68%	\$ 159,635	5.64%	\$ 163,640	5.61%	\$ 167,692	5.57%	\$ 171,788	5.54%	\$ 175,762	5.49%	\$ 179,768	5.45%	\$ 183,423	5.40%	\$ 187,621	5.35%	\$ 191,989
East Orange County WD																					
Increment Charge (AF)	\$ 22,103	0.35%	\$ 46,009	3.91%	\$ 45,911	3.79%	\$ 45,881	3.67%	\$ 45,915	3.56%	\$ 46,008	3.46%	\$ 47,000	3.43%	\$ 48,017	3.40%	\$ 49,006	3.36%	\$ 50,222	3.34%	\$ 51,229
Retail Meter Charges (EA)	\$ 7,428	0.12%	\$ 9,093	0.33%	\$ 9,285	0.33%	\$ 9,478	0.32%	\$ 9,671	0.32%	\$ 9,866	0.32%	\$ 10,063	0.31%	\$ 10,260	0.31%	\$ 10,469	0.31%	\$ 10,682	0.30%	\$ 10,856
Fountain Valley																					
Increment Charge (AF)	\$ 20,228	0.32%	\$ 43,764	3.72%	\$ 45,297	3.74%	\$ 46,870	3.75%	\$ 48,482	3.76%	\$ 50,137	3.77%	\$ 51,609	3.76%	\$ 53,123	3.76%	\$ 54,621	3.75%	\$ 56,306	3.74%	\$ 57,939
Retail Meter Charges (EA)	\$ 108,698	1.74%	\$ 133,589	4.87%	\$ 136,923	4.84%	\$ 140,296	4.81%	\$ 143,707	4.78%	\$ 147,152	4.74%	\$ 150,505	4.70%	\$ 153,883	4.66%	\$ 157,012	4.62%	\$ 160,561	4.58%	\$ 164,178
Garden Grove																					
Increment Charge (AF)	\$ 38,415	0.62%	\$ 84,888	7.22%	\$ 89,540	7.38%	\$ 94,238	7.54%	\$ 98,994	7.68%	\$ 103,819	7.81%	\$ 107,413	7.83%	\$ 111,118	7.86%	\$ 114,810	7.88%	\$ 118,804	7.90%	\$ 122,936
Retail Meter Charges (EA)	\$ 216,569	3.47%	\$ 266,009	9.70%	\$ 272,493	9.63%	\$ 279,049	9.56%	\$ 285,674	9.49%	\$ 292,363	9.42%	\$ 298,823	9.34%	\$ 305,326	9.25%	\$ 311,533	9.17%	\$ 318,407	9.08%	\$ 325,110
Golden State Water Company																					
Increment Charge (AF)	\$ 56,550	0.91%	\$ 122,929	10.46%	\$ 127,786	10.54%	\$ 132,741	10.61%	\$ 137,803	10.69%	\$ 142,980	10.75%	\$ 147,746	10.77%	\$ 152,659	10.79%	\$ 157,546	10.82%	\$ 162,877	10.83%	\$ 168,317
Retail Meter Charges (EA)	\$ 334,601	5.37%	\$ 429,287	15.65%	\$ 459,341	16.24%	\$ 491,357	16.84%	\$ 525,450	17.46%	\$ 561,739	18.10%	\$ 600,410	18.76%	\$ 641,538	19.44%	\$ 686,657	20.20%	\$ 734,373	20.93%	\$ 781,253
Huntington Beach																					
Increment Charge (AF)	\$ 62,453	1.00%	\$ 135,129	11.49%	\$ 139,873	11.54%	\$ 144,736	11.57%	\$ 149,724	11.61%	\$ 154,842	11.64%	\$ 159,328	11.62%	\$ 163,945	11.59%	\$ 168,509	11.57%	\$ 173,659	11.55%	\$ 178,622
Retail Meter Charges (EA)	\$ 337,774	5.42%	\$ 414,540	15.11%	\$ 424,296	15.00%	\$ 434,151	14.88%	\$ 444,099	14.76%	\$ 454,133	14.63%	\$ 464,020	14.50%	\$ 473,968	14.36%	\$ 483,604	14.23%	\$ 494,150	14.08%	\$ 504,207
La Habra																					
Increment Charge (AF)	\$ 16,688	0.27%	\$ 35,244	3.00%	\$ 35,667	2.94%	\$ 36,134	2.89%	\$ 36,643	2.84%	\$ 37,194	2.80%	\$ 38,343	2.80%	\$ 39,526	2.79%	\$ 40,700	2.79%	\$ 42,003	2.79%	\$ 43,293
Retail Meter Charges (EA)	\$ 81,797	1.31%	\$ 100,329	3.66%	\$ 102,631	3.63%	\$ 104,955	3.60%	\$ 107,299	3.57%	\$ 109,662	3.53%	\$ 111,992	3.50%	\$ 114,335	3.46%	\$ 116,659	3.43%	\$ 119,155	3.40%	\$ 121,447
La Palma																					
Increment Charge (AF)	\$ 4,718	0.08%	\$ 10,211	0.87%	\$ 10,572	0.87%	\$ 10,943	0.88%	\$ 11,323	0.88%	\$ 11,712	0.88%	\$ 12,078	0.88%	\$ 12,454	0.88%	\$ 12,827	0.88%	\$ 13,241	0.88%	\$ 13,652
Retail Meter Charges (EA)	\$ 27,383	0.44%	\$ 33,602	1.22%	\$ 34,387	1.22%	\$ 35,181	1.21%	\$ 35,982	1.20%	\$ 36,790	1.19%	\$ 37,572	1.17%	\$ 38,358	1.16%	\$ 39,138	1.15%	\$ 39,975	1.14%	\$ 40,744
Mesa Consolidated																					
Increment Charge (AF)	\$ 4,620	0.07%	\$ 12,695	1.08%	\$ 15,691	1.29%	\$ 18,655	1.49%	\$ 21,600	1.67%	\$ 24,536	1.84%	\$ 25,365	1.85%	\$ 26,220	1.85%	\$ 27,071	1.86%	\$ 27,996	1.86%	\$ 28,945
Retail Meter Charges (EA)	\$ 149,037	2.39%	\$ 183,008	6.67%	\$ 187,420	6.62%	\$ 191,883	6.58%	\$ 196,395	6.53%	\$ 200,952	6.48%	\$ 205,571	6.42%	\$ 210,230	6.37%	\$ 214,335	6.31%	\$ 219,570	6.26%	\$ 223,566
Newport Beach																					
Increment Charge (AF)	\$ 34,823	0.56%	\$ 76,740	6.53%	\$ 80,752	6.66%	\$ 84,810	6.78%	\$ 88,922	6.89%	\$ 93,097	7.00%	\$ 95,654	6.97%	\$ 98,283	6.95%	\$ 100,876	6.92%	\$ 103,842	6.91%	\$ 106,633
Retail Meter Charges (EA)	\$ 197,011	3.16%	\$ 241,827	8.82%	\$ 247,559	8.75%	\$ 253,352	8.68%	\$ 259,200	8.61%	\$ 265,100	8.54%	\$ 270,836	8.46%	\$ 276,606	8.38%	\$ 282,230	8.30%	\$ 288,354	8.22%	\$ 294,140
OCWD																					
Increment Charge (AF)	\$ 30,000	0.48%	\$ 61,957	5.27%	\$ 61,341	5.06%	\$ 60,826	4.86%	\$ 60,403	4.68%	\$ 60,063	4.52%	\$ 61,246	4.47%	\$ 62,458	4.42%	\$ 63,628	4.37%	\$ 65,111	4.33%	\$ 66,273
Retail Meter Charges (EA)	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -
Orange																					
Increment Charge (AF)	\$ 56,955	0.91%	\$ 124,376	10.58%	\$ 129,822	10.71%	\$ 135,360	10.82%	\$ 140,998	10.93%	\$ 146,749	11.03%	\$ 150,815	11.00%	\$ 154,998	10.96%	\$ 159,124	10.92%	\$ 163,833	10.90%	\$ 168,283
Retail Meter Charges (EA)	\$ 226,041	3.62%	\$ 277,329	10.11%	\$ 283,769	10.03%	\$ 290,273	9.95%	\$ 296,836	9.86%	\$ 303,452	9.78%	\$ 309,948	9.69%	\$ 316,479	9.59%	\$ 322,914	9.50%	\$ 329,862	9.40%	\$ 336,315
Seal Beach																					
Increment Charge (AF)	\$ 8,310	0.13%	\$ 18,045	1.53%	\$ 18,740	1.55%	\$ 19,449	1.56%	\$ 20,175	1.56%	\$ 20,917	1.57%	\$ 21,611	1.58%	\$ 22,325	1.58%	\$ 23,037	1.58%	\$ 23,813	1.58%	\$ 24,604
Retail Meter Charges (EA)	\$ 34,015	0.55%	\$ 41,720	1.52%	\$ 42,676	1.51%	\$ 43,641	1.50%	\$ 44,615	1.48%	\$ 45,596	1.47%	\$ 46,565	1.46%	\$ 47,539	1.44%	\$ 48,505	1.43%	\$ 49,543	1.41%	\$ 50,495
Serrano WD																					
Increment Charge (AF)	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -
Retail Meter Charges (EA)	\$ 14,310	0.23%	\$ 17,501	0.64%	\$ 17,852	0.63%	\$ 18,204	0.6.													

9 Agency CWA																						
Forecast Based on Assumptions																						
	FY 09-10		FY 10-11		FY 11-12		FY 12-13		FY 13-14		FY 14-15		FY 15-16		FY 16-17		FY 17-18		FY 18-19		FY 19-20	
Services & Costs	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%			\$	%	\$	%	\$	%
General Fund Budget																						
Administrative/Personnel	\$ 1,489,924	24.77%	\$723,511	67.05%	\$574,025	41.93%	\$705,143	35.85%	\$ 726,297	36.51%	\$ 748,086	36.40%	\$ 770,529	36.28%	\$793,644	36.17%	\$817,454	36.17%	\$841,977	35.81%	\$ 867,237	35.72%
Planning/Resource Development	\$ 742,129	12.34%	\$0	0.00%	\$98,623	7.20%	\$181,866	9.25%	\$181,866	9.14%	\$ 187,322	9.11%	\$ 192,942	9.09%	\$198,730	9.06%	\$204,692	9.06%	\$210,833	8.97%	\$ 217,158	8.94%
Special Projects	\$ 599,677	9.97%	\$135,674	12.57%	\$209,616	15.31%	\$318,099	16.17%	\$318,099	15.99%	\$ 327,642	15.94%	\$ 337,472	15.89%	\$347,596	15.84%	\$358,024	15.84%	\$368,764	15.69%	\$ 379,827	15.64%
Governmental Affairs	\$ 274,947	4.57%	\$100,000	9.27%	\$71,589	5.23%	\$124,272	6.32%	\$124,272	6.25%	\$ 128,000	6.23%	\$ 131,840	6.21%	\$135,795	6.19%	\$139,869	6.19%	\$144,065	6.13%	\$ 148,387	6.11%
Water Use Efficiency	\$ 785,143	13.05%	\$7,500	0.70%	\$7,500	0.55%	\$7,500	0.38%	\$7,500	0.38%	\$ 7,725	0.38%	\$ 7,957	0.37%	\$8,195	0.37%	\$8,441	0.37%	\$8,695	0.37%	\$ 8,955	0.37%
Water Awareness	\$ 327,388	5.44%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$ -	0.00%	\$ -	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$ -	0.00%
School Programs	\$ 366,193	6.09%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$ -	0.00%	\$ -	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$ -	0.00%
Finance	\$ 453,301	7.54%	\$125,062	11.59%	\$221,578	16.19%	\$243,461	12.38%	\$243,461	12.24%	\$ 250,764	12.20%	\$ 258,287	12.16%	\$266,036	12.13%	\$274,017	12.13%	\$282,238	12.00%	\$ 290,705	11.97%
Information Technology	\$ 172,113	2.86%	\$35,720	3.31%	\$73,584	5.37%	\$87,733	4.46%	\$87,733	4.41%	\$ 90,365	4.40%	\$ 93,075	4.38%	\$95,868	4.37%	\$98,744	4.37%	\$101,706	4.33%	\$ 104,757	4.31%
Overhead	\$ 931,592	15.49%	\$135,490	12.56%	\$295,243	21.57%	\$480,409	24.43%	\$480,409	24.15%	\$ 494,821	24.07%	\$ 509,666	24.00%	\$524,956	23.93%	\$540,704	23.93%	\$556,925	23.69%	\$ 573,633	23.63%
Desalination Study	\$ -	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$ -	0.00%	\$ -	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$ -	0.00%
WEROC - MWDOC Contribution	\$ 93,965	1.56%	\$36,176	3.35%	\$37,262	2.72%	\$38,380	1.95%	\$39,531	1.99%	\$ 40,717	1.98%	\$ 41,938	1.97%	\$43,197	1.97%	\$44,492	1.97%	\$45,827	1.95%	\$ 47,202	1.94%
Election Costs	\$ 100,000												\$ -				\$0				\$ -	
Interest/Reserve Contribution	\$ (322,000)		-\$220,000		-\$220,000		-\$220,000		-\$220,000		-\$220,000		\$ (220,000)		-\$220,000		-\$226,600		-\$210,000		\$ (210,000)	
Subtotal General Fund	\$ 6,014,372	103.69%	\$ 1,079,134	120.39%	\$ 1,369,020	116.07%	\$ 1,966,862	111.19%	\$ 1,989,168	111.06%	\$ 2,055,443	110.70%	\$ 2,123,706	110.36%	\$ 2,194,017	110.03%	\$ 2,259,838	110.03%	\$ 2,351,031	108.93%	\$ 2,427,862	108.65%
Reserve Balance	\$ 4,739,000		\$2,115,341		\$1,895,341		\$1,675,341		\$1,455,341		\$1,235,341		\$ 1,015,341		\$795,341		\$788,741		\$578,741		\$ 368,741	
Revenue Recovery																						
New Agency 2																						
El Toro WD																						
Water Purchased (AF)	\$ 67,061	1.32%	\$ 84,562	7.84%	\$ 106,600	7.79%	\$ 152,194	7.74%	\$ 152,970	7.69%	\$ 157,102	7.64%	\$ 161,151	7.59%	\$ 165,304	7.53%	\$ 169,069	7.48%	\$ 174,915	7.44%	\$ 179,150	7.38%
Retail Meter Charges (EA)	\$ 55,237	1.09%	\$ -	3.31%	\$ -	3.31%	\$ -	3.31%	\$ -	3.31%	\$ -	3.31%	\$ -	3.30%	\$ -	3.29%	\$ -	3.29%	\$ -	3.28%	\$ -	3.26%
Irvine Ranch WD*																						
Water Purchased (AF)	\$ 138,788	2.74%	\$ 261,388	24.22%	\$ 336,831	24.60%	\$ 491,291	24.98%	\$ 504,178	25.35%	\$ 528,398	25.71%	\$ 552,529	26.02%	\$ 577,486	26.32%	\$ 601,536	26.62%	\$ 631,309	26.85%	\$ 660,289	27.20%
Retail Meter Charges (EA)	\$ 500,033	9.85%	\$ -	36.95%	\$ -	36.83%	\$ -	36.71%	\$ -	36.60%	\$ -	36.48%	\$ -	36.60%	\$ -	36.72%	\$ -	36.72%	\$ -	36.82%	\$ -	37.07%
Moulton Niguel WD																						
Water Purchased (AF)	\$ 209,495	4.13%	\$ 269,995	25.02%	\$ 339,935	24.83%	\$ 484,731	24.64%	\$ 486,605	24.46%	\$ 499,141	24.28%	\$ 511,889	24.10%	\$ 524,962	23.93%	\$ 536,799	23.75%	\$ 555,264	23.62%	\$ 568,554	23.42%
Retail Meter Charges (EA)	\$ 292,903	5.77%	\$ -	22.53%	\$ -	22.42%	\$ -	22.31%	\$ -	22.21%	\$ -	22.11%	\$ -	21.94%	\$ -	21.77%	\$ -	21.77%	\$ -	21.63%	\$ -	21.28%
Santa Margarita WD																						
Water Purchased (AF)	\$ 196,742	3.88%	\$ 240,376	22.27%	\$ 305,583	22.32%	\$ 439,925	22.37%	\$ 445,803	22.41%	\$ 461,559	22.46%	\$ 480,077	22.61%	\$ 499,199	22.75%	\$ 517,433	22.90%	\$ 540,977	23.01%	\$ 562,700	23.18%
Retail Meter Charges (EA)	\$ 281,859	5.55%	\$ -	18.97%	\$ -	19.22%	\$ -	19.47%	\$ -	19.72%	\$ -	19.96%	\$ -	20.11%	\$ -	20.26%	\$ -	20.26%	\$ -	20.38%	\$ -	20.69%
South Coast Water District																						
Water Purchased (AF)	\$ 47,665	0.94%	\$ 54,527	5.05%	\$ 67,517	4.93%	\$ 94,666	4.81%	\$ 93,420	4.70%	\$ 94,180	4.58%	\$ 94,902	4.47%	\$ 95,608	4.36%	\$ 96,018	4.25%	\$ 97,884	4.16%	\$ 98,032	4.04%
Retail Meter Charges (EA)	\$ 67,964	1.34%	\$ -	4.10%	\$ -	4.09%	\$ -	4.08%	\$ -	4.06%	\$ -	4.05%	\$ -	4.03%	\$ -	4.00%	\$ -	4.00%	\$ -	3.98%	\$ -	3.93%
Trabuco Canyon WD																						
Water Purchased (AF)	\$ 12,402	0.24%	\$ 35,292	3.27%	\$ 44,885	3.28%	\$ 64,645	3.29%	\$ 65,537	3.29%	\$ 67,881	3.30%	\$ 70,107	3.30%	\$ 72,400	3.30%	\$ 74,543	3.30%	\$ 77,528	3.30%	\$ 80,026	3.30%
Retail Meter Charges (EA)	\$ 21,978	0.43%	\$ -	1.55%	\$ -	1.56%	\$ -	1.56%	\$ -	1.57%	\$ -	1.58%	\$ -	1.58%	\$ -	1.58%	\$ -	1.58%	\$ -	1.58%	\$ -	1.58%
Laguna Beach CWD																						
Increment Charge (AF)	\$ 19,710	0.32%	\$ 20,247	1.88%	\$ 25,542	1.87%	\$ 36,492	1.86%	\$ 36,704	1.85%	\$ 37,723	1.84%	\$ 38,721	1.82%	\$ 39,746	1.81%	\$ 40,679	1.80%	\$ 42,108	1.79%	\$ 43,162	1.78%
Retail Meter Charges (EA)	\$ 53,252	0.85%	\$ -	2.75%	\$ -	2.75%	\$ -	2.74%	\$ -	2.73%	\$ -	2.72%	\$ -	2.70%	\$ -	2.69%	\$ -	2.69%	\$ -	2.68%	\$ -	2.63%
San Clemente																						
Increment Charge (AF)	\$ 73,545	1.18%	\$ 75,547	7.00%	\$ 95,303	6.96%	\$ 136,161	6.92%	\$ 136,951	6.88%	\$ 140,748	6.85%	\$ 143,943	6.78%	\$ 147,210	6.71%	\$ 150,114	6.64%	\$ 154,936	6.59%	\$ 158,122	6.51%
Retail Meter Charges (EA)	\$ 118,398	1.90%	\$ -	6.14%	\$ -	6.13%	\$ -	6.13%	\$ -	6.13%	\$ -	6.12%	\$ -	6.09%	\$ -	6.07%	\$ -	6.07%	\$ -	6.05%	\$ -	5.99%
San Juan Capistrano																						
Increment Charge (AF)	\$ 36,293	0.58%	\$ 37,200	3.45%	\$ 46,826	3.42%	\$ 66,757	3.39%	\$ 67,001	3.37%	\$ 68,712	3.34%	\$ 70,387	3.31%	\$ 72,102	3.29%	\$ 73,645	3.26%	\$ 76,110	3.24%	\$ 77,827	3.21%
Retail Meter Charges (EA)	\$ 71,514	1.15%	\$ -	3.70%	\$ -	3.69%	\$ -	3.68%	\$ -	3.68%	\$ -	3.67%	\$ -	3.65%	\$ -	3.63%	\$ -	3.63%	\$ -	3.61%	\$ -	3.56%

Draft

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## Attachment J - Complete Governance Study Timeline

## MWDOC GOVERNANCE STUDY TIMELINE

June – December 2006	MWDOC facilitated stakeholder meetings
June 2007	LAFCO facilitated stakeholder meetings
February 2007	LAFCO facilitated stakeholder meetings
April 2007	Request for additional stakeholder meetings
June – September 2007	Additional LAFCO-facilitated stakeholder meetings
November 2007	Commission directed staff to prepare RFP for selection of Firm to conduct governance study
January 2008	Draft RFP continued for additional review and comment
April 2008	Firms interviewed by MWDOC, City of Huntington Beach, LAFCO and Rancho Santa Margarita Water District
May 2008	Commission directed LAFCO staff to negotiate with firms
June 23, 2008	Commission approved Contract with Winzler & Kelly to Conduct Study
<b>SEPTEMBER 9, 2008</b>	<b>STAKEHOLDER MEETING: LAUNCH OF STUDY</b>
October 15, 2008	Draft “Fatal Flaw” Review of Governance Options Distributed to LAFCO Staff
<b>OCTOBER 22, 2008</b>	<b>STAKEHOLDER MEETING: DRAFT GOVERNANCE OPTIONS SECTION DISTRIBUTED FOR REVIEW AND COMMENT</b>
October 29, 2008	Stakeholder Comments on Draft Governance Options Section Due



December 1, 2008

Final Technical Memorandum on Governance  
Options due to LAFCO

January 7, 2009	Draft Outline for <i>Technical Report 2 - Baseline Analysis of MWDOC Current Service Model &amp; Financial Analysis of Alternatives</i> together with “Key Assumptions” distributed to Stakeholders
January 21, 2009	Stakeholder Comments on Draft Outline for Technical Report 2 and “Key Assumptions” due to LAFCO staff
<b>FEBRUARY 11, 2008</b>	<b>STAKEHOLDER MEETING: RELEASE OF DRAFT TECHNICAL REPORT 2 - BASELINE ANALYSIS OF MWDOC CURRENT SERVICE MODEL AND FINANCIAL ANALYSIS OF ALTERNATIVES</b>
March 4, 2009	Stakeholder Comments on Draft Technical Report 2 due to LAFCO staff
<b>May 12, 2009</b>	<b>STAKEHOLDER MEETING: RELEASE OF DRAFT TECHNICAL REPORT 3 - ALTERNATIVE ANALYSIS, FINDINGS AND IMPLEMENTATION PLAN</b>
May 20, 2009	Stakeholder Comments on Draft Technical Report 3 due to LAFCO staff
July 15, 2009	Draft Governance Study released for Stakeholder/Public review
July 29, 2009	Stakeholder/Public Comments due to LAFCO staff
August 12, 2009	Final Governance Study delivered to LAFCO staff
<b>SEPTEMBER 9, 2009</b>	<b>LAFCO COMMISSION PUBLIC HEARING</b>



# Orange County Local Agency Formation Commission



## Municipal Water District of Orange County First Draft Governance Study

May 6, 2009

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### Appendix

Attachment A - Overview of MWDOC

Attachment B - MWDOC 12-20-06 Staff Report and Policy Statement

Attachment C - Assumptions as Modified by Stakeholders

Attachment D - Water Demand and Retail Meter Projections

Attachment E - MWDOC Baseline 10-year Financial Model Summary

Attachment F - MWCOC CWA 10-year Financial Model Summary

Attachment G - MWDOC Subscription CWA 10-year Financial Model Summary

Attachment H -Six Agency South CWA 10-year Financial Model Summary

Attachment I - Nine Agency South CWA 10-year Financial Model Summary

Attachment J - Richards/Watson/Gershon Memorandum

Attachment K - Complete Governance Study Timeline

## 1. Background of Governance Alternatives Study

In November of 2007, the Orange County Local Agency Formation Commission (LAFCO) reviewed the Municipal Services Review (MSR) for the Municipal Water District of Orange County (MWDOC) and, consistent with the California Environmental Quality Act and the Cortese-Knox-Hertzberg Local Government Reorganization Act (Government Code Section 56000 et.seq., the “Local Government Reorganization Act”), received and filed the MSR report. *(A brief history of the formation of MWDOC, its current responsibilities and a listing of its 28 member agencies is included as Attachment A in the Appendix to this report.)*

The MWDOC MSR was developed through a stakeholder driven process. The stakeholder process raised a number of issues, summarized in the MSR:

*“Based on all the stakeholder meetings and discussions, it is clear that there are fundamental differences between MWDOC and some of the member agencies with regards to appropriate service levels, approach and policies. Key issues discussed were related to: (1) MWDOC’s role and its core functions, (2) reserves, budgeting and rates, (3) equitable cost sharing among member agencies, and (4) accountability to the member agencies as constituents. Each of these issues points to a fundamental question: Is the government structure of MWDOC, as a Municipal Water District, the appropriate government structure to serve Orange County?”*

MWDOC has implemented changes to its policies and budget process as a result of participation in the joint MWDOC/LAFCO stakeholder program (see Appendix Attachment B, MWDOC 12-20-06 Staff Report and Policy Statement). However, as the November 2007 LAFCO staff MSR transmittal letter to LAFCO Commissioners notes, “...despite the extensive nature of the stakeholder process and best intentions of everyone involved, the issues have not been resolved to the satisfaction of everyone.” In response to a request from some MWDOC member agencies, the LAFCO Commissioners directed the preparation of a Governance Study to further examine the government structures identified in the MSR.

## 2. Purpose & Steps in Completion of the Governance Study

The purpose of the Governance Study is to comply with LAFCO Commission direction and to analyze governance structure options for MWDOC by:

- Identifying options which may have the potential to resolve issues raised in the MWDOC MSR
- Identifying which governance structure options are legally and practically feasible

- Determining the fiscal impacts that could result from each option
- Determining any impacts on representation at Metropolitan that could result from each option
- Summarizing actions and steps necessary to implement any viable option.

It is not the purpose of the Governance Study to recommend a preferred reorganization of MWDOC. Instead, the study is designed to provide information, data and analysis to better understand the possibilities and impacts associated with each of these governance structure options.

The Governance Study will be developed through the completion of six key steps identified below. Steps two through four will each result in a draft analysis or technical report that will be subject to review and comment from the stakeholders, which consist of MWDOC and its 28 member retail agencies. Steps five and six include the completion of draft and final versions of the comprehensive Governance Study.

Steps	Status
1. Review of Assumptions, Data and Relevant Documents. Participate in 1 <sup>st</sup> Stakeholder Meeting.	Data review ongoing. 1 <sup>st</sup> Stakeholder Meeting completed.
2. Identify Potential Governance Structure Alternatives and complete legal analysis of options. Participate in 2 <sup>nd</sup> Stakeholder Meeting.	This Technical Report was presented at the 2nd Stakeholder Meeting and finalized to incorporate comments received, as appropriate, in December 2008.
3. Develop Preliminary Financial Analysis.	This Technical Report was presented at the 3 <sup>rd</sup> Stakeholder Meeting and finalized to incorporate comments received, as appropriate, in May 2009.
4. Develop Implementation Analysis.	This Technical Report was presented at the 4 <sup>th</sup> Stakeholder Meeting.
5. Develop Draft Governance Study.	To be completed.
6. Develop Final Governance Study.	To be completed.

Three draft reports (Steps 2 through 4) are intended to be completed to form the basis of the Governance Study:

- The first technical report provided an initial screening of feasible governance structure options. This first reported concluded that there were three potentially feasible governance options: the Status Quo, dissolve MWDOC to form a County Water Authority and detach the South County agencies and form a new County Water Authority (two boundary options);
- The second technical report included the first report, discussed MWDOC's current service model and provided a financial analysis for each feasible

governance option including transitional and long-term administrative and operating costs; and

- This third technical report includes the first and second reports and discusses the process for implementing each viable option under current law, including, but not limited to legal barriers and an analysis of any changes to the current voting rights and representation at Metropolitan.

### 3. Alternative Governance Structure Options

LAFCO's November 2007 Municipal Service Review for MWD OC identified 5 potential governance structure options (items 1 through 5 below) for further review. Two additional options (items 6 and 7) were subsequently added by LAFCO staff for evaluation as part of this study.

1. Maintain the status quo with policy changes agreed upon by the MWD OC Board in December 2006 (See Appendix, *Attachment B*).
2. Dissolve MWD OC and form a new entity authorized to provide representation at the Metropolitan Water District of Southern California (Metropolitan).
3. Reorganize the South County<sup>1</sup> agencies by detaching from MWD OC and forming a new entity authorized to provide representation at Metropolitan.
4. Merge MWD OC and the Orange County Water District (OCWD) which could include an option to detach the South County agencies to form a new entity.
5. Reorganize MWD OC with the East Orange County Water District (OCWD).
6. Dissolve MWD OC and form a Joint Powers Authority.
7. Maintain the status quo but restructure the existing MWD OC governance board representation.

During the initial stakeholder meeting held on October 22, 2008, each of the potential governance options were discussed and evaluated. Option 5 ("Reorganizing MWD OC with the East Orange County Water District"), was eliminated by the stakeholders from

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<sup>1</sup> The South County agencies include El Toro, Irvine Ranch, Moulton Niguel, Santa Margarita, South Coast and Trabuco Canyon Water Districts

further consideration. The consultant was directed to include only the remaining six options in the Governance Study.

## 4. Fatal Flaw Criteria

For the purposes of this analysis, each of the six governance structure options were measured against four primary criteria listed below. Failure to meet any of these criteria is considered to be a fatal flaw.

- The ability to provide representation at Metropolitan
- The ability to provide a similar range of services
- The ability to be implemented without special legislation
- The potential to solve issues outlined within the MWDOC MSR

Each of these criteria is discussed below.

### 4a Representation at Metropolitan

The primary purpose of MWDOC is to import water from Metropolitan into Orange County. This is a core function. Because of this criterion, the range of governance structures is limited to the six types of agencies outlined as eligible members in the Metropolitan Water District Act.<sup>2</sup> These are:

- Cities
- Municipal Water Districts
- Municipal Utility Districts
- Public Utility Districts
- County Water Districts
- County Water Authorities

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<sup>2</sup> Chapter 2, Metropolitan Water District Act, Statutes 1969, Chap 2, as amended

Representation at Metropolitan is also determined by Metropolitan's principal act. Each member agency is entitled to one member on Metropolitan's board plus an additional member for each full 5 percent of assessed valuation of property taxable for Metropolitan's purposes within the member agency's boundaries.<sup>3</sup>

One governance structure option identified for further review was dissolving MWDOC and forming a Joint Powers Authority (JPA), however this type of agency is not eligible for membership at Metropolitan. Therefore this option is considered fatally flawed and will not be carried forward for further analysis.

#### **4b Provision of a Similar Range of Services**

MWDOC provides a range of services in accordance with its principal act and any governance structure option must be able to provide a similar range of services. Table 1 summarizes the authorized services for each of the six governance structures authorized to provide representation at Metropolitan. A more detailed discussion of each governance structure follows the table.

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<sup>3</sup> Metropolitan Water District Act, Section 52.



**Table 1: Range of Services by Governance Structure**

Service	California City	Municipal Water District	Current MWDOC	Municipal Utility District	Public Utility District	County Water District	County Water Authority
Development of Water Supplies	X	X		X	X	X	X
Sale of Water	X	X	X	X	X	X	X
Standby Charges for Water*	X	X	X	X	X	X	X
Recycled Water	X	X		X	X		X
Recreation	X	X			X	X	
Electrical Power Generation	X	X		X	X	X	X
Light/Heat	X			X	X		
Transportation	X			X	X		
Communication	X			X	X		
Sewage Disposal/Sewers	X	X		X	X	X	
Storm Water Disposal	X	X					
Fire Protection	X	X			X	X	
Water Replenishment Assessment		X					X
Sanitation	X	X		X	X	X	

*\*Specifically authorized for a Municipal Water District. Presumed to be available to the other governance structures under general law (The Uniform Standby Charge Procedures Act, Government Code Section 54984 et. seq.).*

## Cities

California cities are authorized to provide services as described in Government Code Title 4, beginning with Section 34000. A city's authority to provide water supply is outlined in Government Code Title 4, Division 3, Chapter 10 beginning with Article 5. California cities also have broad authority to provide police, fire, sewer and park and recreation services as well as to run municipal utilities (gas and electricity). Cities are governed by an elected City Council generally consisting of 5 or 7 members.

## Municipal Water Districts

Municipal Water Districts (MWDs) can provide a broad range of water supply services, including levying water standby charges and water replenishment assessments. MWDs are also empowered to provide sewer and sanitation services, storm water disposal

services, fire protection services, recreation services and electrical power services. Currently MWDOC's functions are limited to water supply services.

MWDs are generally governed by a 5 member board elected from divisions, although LAFCO has the authority to expand the board to 7, 9 or 11 members as a result of reorganization or consolidation. This expanded board is to include members of the boards of the districts being reorganized or consolidated. <sup>4</sup> The Water Code makes provisions for returning the Board to a directly elected board once the terms of members appointed during the reorganization/consolidation expire.

### Municipal Utility Districts

Municipal Utility Districts (MUDs) can provide a wide range of public services including light, water, power, heat, transportation, telephone or communication services, and the collection, treatment, or disposition of garbage, sewage, or refuse matter. MUDs are governed by a 5-member board, elected from specific geographic areas known as wards.

### Public Utility Districts

Public Utility Districts (PUDs) can provide a wide range of public services including light, water, power, heat, transportation, telephone or communication service, and garbage, sewage, or refuse matter. PUDs may also provide fire, street lighting and recreation services. PUDs are governed by an elected board consisting of at least 3 members. The Board is composed of 3 or 4 directors elected at large and a member from each territorial unit with a population of 5,000 or more. The Board of Supervisors is charged with naming and designating the territorial units. <sup>5</sup>

### County Water Districts

County Water Districts (CWDs) generally have the same range of authority as MWDs. A CWD has express powers to protect water rights, similar to those outlined for a MWD. <sup>6</sup>

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<sup>4</sup> Water Code Section 71250.1

<sup>5</sup> Public Utilities Code Section 15960

<sup>6</sup> Water Code Section 31000 et. seq.

CWDs are generally governed by a 5 member elected board, although, similar to a MWD, LAFCO has the authority to expand the board to 7, 9 or 11 members as a result of reorganization or consolidation.<sup>7</sup> There are also similar provisions for returning the Board to a smaller size as terms expire. Additionally there is at least one case, the Pleasant Valley Water District in Ventura County, where non-resident property owners are eligible to run for the board of directors.<sup>8</sup>

A primary difference between a CWD structure and a MWD is that the CWD Board is elected “at large”, while the MWD Board is elected from districts with similar populations.

### County Water Authorities

County Water Authorities (CWAs) have a more limited range of services; their authority is limited primarily to water supply functions. Because MWDOC does not currently utilize its authority for any type of service except water service, this distinction is not considered a fatal flaw. Agencies represented by MWDOC would not experience a reduction in service under the CWA governance structure. CWAs are governed by Water Code Appendix 45 (the CWA Act). Under that code section, the agency is governed by an appointed board of directors, with at least one director appointed from each member agency.

### Summary

All governance structures authorized to provide representation at Metropolitan are able to provide the same general range of services as MWDOC currently provides, although there are differences in the manner in which the various boards of directors are selected. While some structures, such as the CWA, are limited to water activities, this is not considered a fatal flaw because MWDOC does not currently provide services beyond those associated with the imported water supply.

## **4c Ability to be Implemented without Special Legislation**

Governance structure options that require special legislation are considered infeasible because successfully securing special legislation is not guaranteed and not within the control of LAFCO or the stakeholders. However, based on input from the stakeholders,

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<sup>7</sup> Water Code Section 30500.1

<sup>8</sup> Water Code Section 30511

alternatives that require changes to existing law to implement will be summarized and “parked” as part of this report. Those alternatives which were “parked” include:

- Modifying the Municipal Water District Act of 1911 to provide for changes in governance board representation.
- Expanding the definition of public agency in the Municipal Utility District Act to include the full range of agencies represented by MWDOC.
- Expanding the permitted service area of a Public Utility District to include incorporated areas.
- Modifying OCWD’s principal act to allow merger with MWDOC.
- Modifying the Municipal Water District Act of 1911 and County Water District Law to clearly allow for consolidation of these two types of agencies.
- Expanding the definition of a “public agency” in Metropolitan’s principal act to include Joint Powers Authorities.

#### **4d Solving Issues Outlined within the MWDOC MSR**

The issues that were identified in the MWDOC MSR reflect the divergent interests among some MWDOC member agencies. Because of their comparative dependency on imported water, the South County agencies have a different service approach than the agencies in the northern and central portions of the County that have groundwater resources. The divisions result from different land use patterns, development, water demand, sources of water, governmental structure, geography and location. The key issues identified in the MWDOC MSR include:

- Disagreement among some of the agencies about MWDOC’s mission and what services it should provide;
- Differences in the need and level of services among member agencies;
- Disagreement among some member agencies about to whom MWDOC reports and is accountable – the public or member agencies;
- Limited input by member agencies on MWDOC budget adoption;
- Disagreement on the amount of unrestricted budget reserves for MWDOC.

Governance structure options that cannot address and resolve each of these issues are considered fatally flawed and will not be studied further as part of the Governance Study.

## 5. Identification of Preliminarily Feasible Governance Structure Options

Tables 2 and 3, below, summarize the results of the preliminary review of alternative governance structures. Table 2 includes those options that would retain a county-wide entity. Table 3 identifies four additional sub-options should the South County agencies detach from MWDOC and form a new entity.

Both tables identify those options that are either: (1) preliminarily feasible and warrant further analysis (in bold italic), or (2) fatally flawed and eliminated from further consideration as part of this Governance Study (in plain-face type).

Based on this analysis, there are three preliminarily feasible governance structure options that will be considered in the Financial Analysis. These include:

- Option 1- MWDOC Baseline: This option consists of the Status Quo with MWDOC's December 2006 Policy Changes. Other options will be compared with MWDOC Baseline.
- Option 2 – Dissolve MWDOC and Form a CWA
  - a. MWDOC CWA: This option reorganizes MWDOC's governance model to conform to the requirements of the CWA Act but does not change MWDOC's service delivery model.
  - b. MWDOC Subscription CWA: This option not only reorganizes MWDOC's governance model but also allows the retail agencies to elect to subscribe to some of MWDOC's services.
- Option 3 – Reorganize South County Agencies to Form a CWA
  - a. Six Agency South CWA: This option reorganizes the El Toro, Irvine Ranch, Moulton Niguel, Santa Margarita, South Coast and Trabuco Canyon Water Districts (defined above as the Six Agencies) as a CWA and results in a smaller MWDOC representing 22 retail agencies.
  - b. Nine Agency South CWA: This option reorganizes the Six Agencies together with the Laguna Beach Water District and the cities of San Clemente and San Juan Capistrano as a CWA and results in a smaller MWDOC representing 19 retail agencies.

**Table 2: County-wide Governance Option Status**

<b>Governance Option</b>	<b>Status</b>	<b>Comments</b>
<b><i>Option 1 MWDOC Baseline: Status Quo with MWDOC's December 2006 Policy Changes</i></b>	<b><i>Feasible</i></b>	<b><i>MWDOC could review policy changes and revise as deemed necessary</i></b>
Dissolve MWDOC and form a Joint Powers Authority	Fatal Flaw	Joint Powers Authorities are not authorized to provide representation at Metropolitan
Restructure MWDOC governance board representation	Fatal Flaw	Needs special legislation. MWD law limits boards to 5 members elected from districts (with exceptions for consolidations and reorganizations). <i>Water Code Section 71250 to 71256.</i>
Dissolve MWDOC and form a Municipal Utility District	Fatal Flaw	Needs special legislation. MUDs cannot represent the full range of agencies represented by MWDOC. <i>Public Utilities Code Section 11504.</i>
Dissolve MWDOC and form a Public Utility District	Fatal Flaw	The PUD Act states that only unincorporated territory can be included. PUDs cannot represent the full range of MWDOC membership. <i>Public Utilities Code Section 15533.</i>
Dissolve MWDOC and form a County Water District	Removed from consideration following additional legal analysis	Broadly written principal act provides for full range of services. Board elected at large. Could include the 3 cities that are not members of MWDOC. <i>Water Code Sections 30064, 30065 30500.1 and 30203.</i>  Stakeholders agreed to eliminate this option after subsequent legal analysis. Legal review found that CWD Boards can be elected at large, thus addressing one issue with current MWDOC structure. However CWD structure does not address other issues.
<b><i>Option 2a and 2b MWDOC CWA and MWDOC Subscription CWA: Dissolve MWDOC and form a County Water Authority</i></b>	<b><i>Feasible</i></b>	<b><i>Broadly written principal act provides for full range of services. Needs additional legal analysis regarding inclusion of the private water company. Provides for an appointed board designated by the member agencies.</i></b>  <b><i>Could be initiated by resolution of member agencies or voters. Could also include the 3 cities. Water Code Appendix 45, Sections 45-2 and 45-4.</i></b>

**Table 3: Governance Option Status Assuming Agencies Detach from MWDOC**

Governance Option	Status	Comments
Reorganize South County agencies to form a Municipal Water District	Removed from consideration by LAFCO staff	<p>Broadly written principal act provides for full range of services. Generally provides for an elected board comprised of resident, registered voters. <i>Water Code Section 71060 and 71061.</i></p> <p>Removed from consideration by LAFCO staff. Forming a second MWD for south county agencies has potential to replicate identified issues with current MWDOC structure.</p>
Reorganize South County agencies to form a County Water District	Removed from consideration following additional legal analysis	<p>Broadly written principal act provides for full range of services.</p> <p>Very similar to MWD structure and removed from further consideration based on legal input.</p>
<b><i>Option 3a and 3b Six Agency South CWA and Nine Agency South CWA: Reorganize South County agencies to form a County Water Authority</i></b>	<b><i>Feasible</i></b>	<p><b><i>Broadly written principal act provides for full range of services. Provides for an appointed board designated by the member agencies. Can be initiated by Resolution of member agency boards or petition from voters.</i></b></p> <p><b><i>Financial Analysis/Viable Alternative Comparison may include sub-alternatives to explore logical boundaries.</i></b></p>
Dissolve South County agencies and allow for City representation at Metropolitan	Fatal flaw	<p>Some of the six South County agencies serve unincorporated area. This alternative could potentially leave territory without representation.</p>

## 6. Financial Analysis of Governance Structure Options

The financial analysis reviews the following governance structure options identified in Section 5 as preliminarily feasible:

- Option 1- MWDOC Baseline
- Option 2 – Dissolve MWDOC and Form a CWA
  - a. MWDOC CWA
  - b. MWDOC Subscription CWA
- Option 3 – Reorganize South County Agencies to Form a CWA
  - a. Six Agency South CWA
  - b. Nine Agency South CWA

Each of the preliminarily feasible governance structure options provides for a different governing board composition and the potential for different budgeting and cost allocation priorities. The financial analysis models projected budget estimates associated with each governance structure option in order to compare possible effects on the cost of operations, the cost to retail agencies currently represented by MWDOC, and the cost to rate payers.

This financial analysis is a high-level screening analysis intended to provide information, facilitate comparisons between options, and determine if any “fatal flaws” exist in terms of impacts to rate payers. This analysis is not an optimization analysis nor is it a detailed rate study. It is intended to provide information that can be used by either the LAFCO Commission or the stakeholders.

### 6a Assumptions as Modified by Stakeholder Input

In order to develop the financial analysis, assumptions were made about water demands, projected growth rates, the cost of water, inflation and the costs of transitioning to a new governance structure. These assumptions were circulated to the stakeholders and modified based upon comments received. The full list of assumptions as modified by stakeholder input is included as *Attachment C*.



## 6b Financial Model

A spreadsheet-based financial model was developed in order to analyze and compare the fiscal impacts of the governance structure options. The model takes into account costs, reserve accounts and revenue recovery strategies. The model predicts cost impacts at both the retail agency level and the rate payer level for each option.

### Input Data for the Model

There are three sets of basic input data to the model. These are:

- Budgets;
- Water consumption;
- Retail meter count.

### Budget Data

MWDOC's budgets from Fiscal Year 2004-05 through Fiscal Year 2008-09 were used in the model. The Fiscal Year 2008-09 budget is used as the base budget from which 10-year cost projections were developed.

The 10-year cost projections for MWDOC Baseline, MWDOC CWA and MWDOC Cafeteria CWA are based directly on MWDOC's Fiscal Year 2008-09 budget and escalated in accordance with the assumptions included in Appendix, *Attachment C*.

The 10-year cost projections for the Six Agency South CWA, the Nine Agency South CWA and remaining MWDOC are based on the staffing projections outlined in *Attachment C* and the budgeted costs for staff and consultants in MWDOC's Fiscal Year 2008-09 budget.

Historical MWDOC budget data (Fiscal Years 2004-05 through 2008-09) was used to analyze trends in budgeted costs, reserve balances and revenue contributions made by each retail agency.

### Water Consumption and Retail Meter Data

MWDOC's charges for water use and for retail meters, therefore both water consumption and retail meter data for each of MWDOC's retail agencies are also used in the model.

*Attachment D* shows the water consumption and retail meter data that was used in the model. With the exception of the Laguna Beach CWD, the water consumption

projections in *Attachment D* directly reflect the water use projections in MWDOC's Urban Water Management Plan (UWMP). Laguna Beach CWD has indicated that the timing for a planned groundwater project has become uncertain and has requested that 2,025 acre-feet per year (AFY) be added to the demand projections brought forward from MWDOC's UWMP. Projections for retail water meters are taken from individual retail agency UWMPs where available. When this information was not available, water meter projections were modeled using the growth projections in the MWDOC MSR Report.

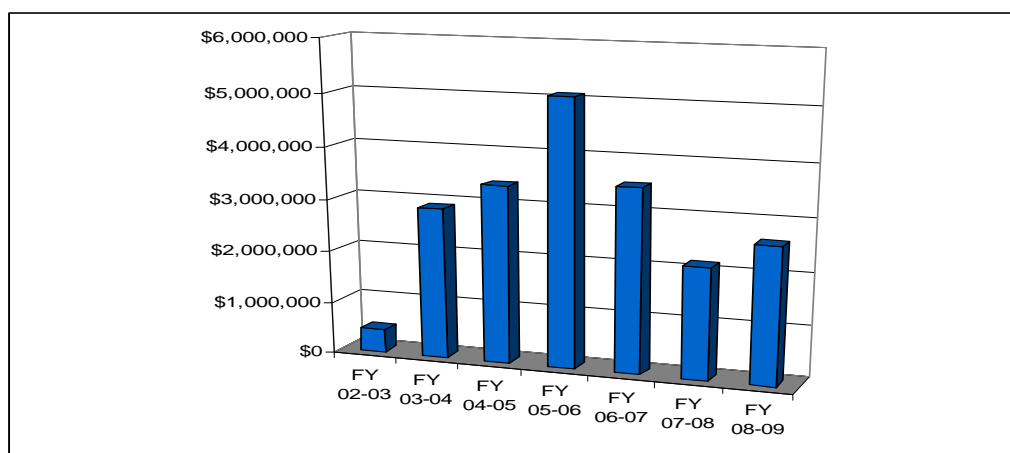
### MWDOC Charges

MWDOC's three cost recovery tools - (1) a Melded Water Rate including a Melded Water Rate Surcharge, (2) a Water Increment Charge, and (3) a Retail Meter Charge were also incorporated into the model.

### Melded Water Rate Surcharge

MWDOC uses its Melded Water Rate to fund water purchases and a restricted Water Purchase Reserve Fund. This reserve account is funded from its Melded Water Rate Surcharge. Its current balance is approximately \$2,620,000<sup>9</sup>. Between 2003 and 2008 the fund balance has ranged from under \$450,000 to over \$5,000,000. Figure 1 illustrates the Water Purchase Reserve Fund balance over time.

**Figure 1: Water Purchase Reserve Fund Balance**



<sup>9</sup> Recap of the Tier 2 Contingency and Capacity Charge Funds from January 2003 to December 2008 (source MWDOC)

Metropolitan currently charges its member agencies, including MWDOC, a Tier 1 water rate and a Tier 2 water rate. The Tier 1 water is less expensive and reflects agreements between Metropolitan and its members on the long-term volume of water purchased. Metropolitan's more expensive Tier 2 water rate applies when the volume of water purchased by a member exceeds the agreed upon Tier 1 amounts.

Each MWDOC retail agency could have been assigned a specific Tier 1 allocation. However, rather than assess its retail agencies separate charges for Tier 1 and Tier 2 purchases, MWDOC has used a single "melded" wholesale rate to cover potential Tier 2 costs should they be incurred, so that all agencies pay the same charge per acre-foot (AF). This melded wholesale rate consists of Metropolitan's charges – which include but are not limited to its Tier 1 water rate - and an \$18.00/AF surcharge (Melded Water Rate Surcharge). MWDOC invests this \$18.00 surcharge in the restricted Water Purchase Reserve Fund and uses the fund to purchase Tier 2 water when necessary. This strategy allows MWDOC to capitalize on the combined Tier 1 water allocation of its retail agencies, minimizing Tier 2 water purchases, and therefore reducing the overall cost paid for imported water in Orange County.

Consistent with the assumptions in *Attachment C*, the 10-year financial analysis for MWDOC Baseline, MWDOC CWA and MWDOC Cafeteria CWA all incorporate the Melded Water Rate Surcharge. The 10-year financial analysis for the Six Agency South CWA, the Nine Agency South CWA and remaining MWDOC removes the Melded Water Rate Surcharge and instead applies Tier 1 and Tier 2 water rates based on each retail agency's use.

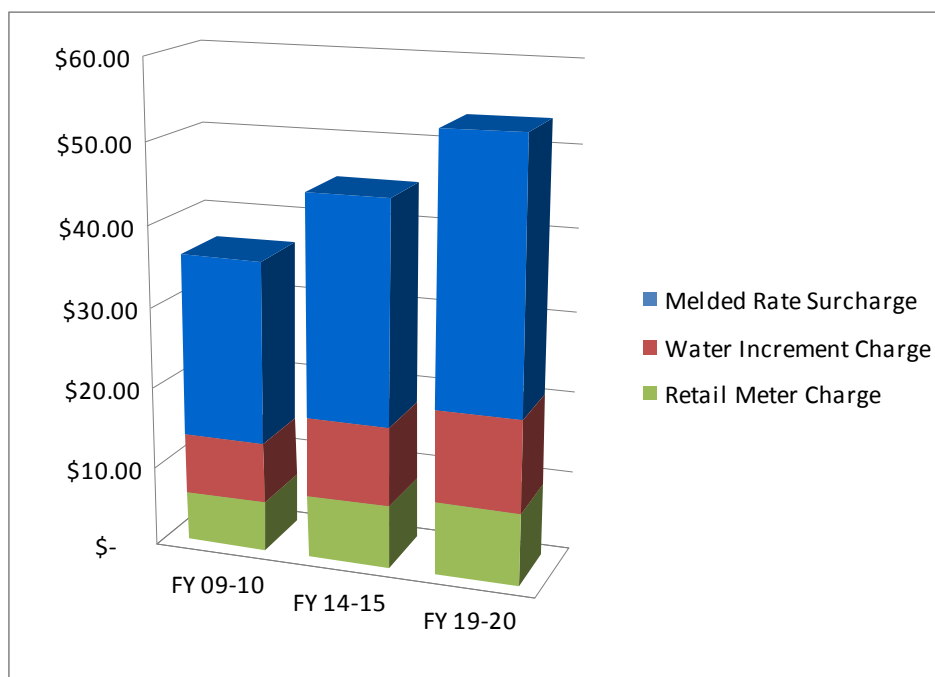
#### Water Increment and Retail Meter Charges

MWDOC's Water Increment and Retail Meter Charges fund its general fund and provide its operating reserve. The Water Increment Charge, which is currently \$6.50, is applied to each AF of water purchased by a retail agency. The Retail Meter Charge, which is currently \$5.50, is applied annually to each meter in the retail agency's service area. MWDOC's revenue history indicates that approximately seventy percent (70%) of general fund expenditures are recovered through Retail Meter Charges and thirty percent (30%) are recovered from Water Increment Charges.

MWDOC Baseline assumes that MWDOC continues to collect Water Increment and Retail Meter Charges from each retail agency to cover its general fund costs, including operational reserves. Consistent with the assumptions in *Attachment C*, future estimates for the Water Increment and Retail Meter Charges were brought forward from MWDOC's Fiscal Master Plan through Fiscal Year 2013-14 (the end of the Fiscal Master Plan projections). After Fiscal Year 2013-14, the Water Increment and Retail Meter Charges are estimated to result in operational reserves of approximately \$5,000,000 per

year consistent with the commitments included in MWDOC's 12-20-06 Staff Report and Policy Statement. Figure 2 illustrates the rate and charge trends for MWDOC Baseline.

**Figure 2: Rate and Charge Trends – Option 1 MWDOC Baseline**



For MWDOC Baseline, the model calculates how much each retail agency's Water Increment Charge and Retail Meter Charge contributes, on a percentage basis, to MWDOC's general fund. This calculation is illustrated in Table 4 using El Toro Water District's Fiscal Year 2009-10 data as an example.

**Table 4: Example Revenue Contribution Calculation**

Agency	Revenue Contribution	Revenue Contribution Percentage
El Toro Water District		
Increment Charge (AF)	\$ 77,305	1.32%
Retail Meter Charges (EA)	\$ 59,879	1.02%

The retail agency revenue contribution percentages calculated for MWDOC Baseline are used to allocate MWDOC CWA's projected general fund costs. For example, returning

to Table 4, 1.32% of the MWDOC CWA's Fiscal Year 2009-10 costs are recovered through El Toro Water District's projected Water Increment Charges, and 1.02% are recovered through that District's Retail Meter Charges.

For the MWDOC Subscription CWA, a Water Increment Charge is modeled that recovers the cost of "essential" services, including a reserve, from each retail agency based on their projected water consumption. A Retail Meter Charge is modeled that recovers the cost of "subscription" services, including a reserve allowance. (See Section 6e for a definition and discussion of essential and subscription services as they pertain to the MWDOC Subscription CWA option).

For the Six Agency South CWA and the Nine Agency South CWA, a Water Increment Charge is modeled that recovers projected general fund costs from the retail agencies in the new South CWA based on their water consumption. For the remaining MWDOC, a Retail Meter Charge is modeled that recovers 70% of the projected general fund costs, and a Water Increment Charge is modeled that recovers the remaining 30% of the general fund costs, consistent with MWDOC's revenue history.

## **6c Option 1 – MWDOC Baseline**

This first governance option is the baseline against which other options will be compared.

### Essential Services

Table 5 outlines the services provided by MWDOC Baseline. For this option, all services provided are considered essential services. The service descriptions generally follow the program categories and program numbers used in MWDOC's Fiscal Year 2008-2009 budget.

**Table 5: MWDOC Baseline Services <sup>10</sup>**

Program & Number	Description
Wholesale Water Purchases	MWDOC is the wholesale water importer for Orange County. It does not operate infrastructure or have jurisdiction over local supplies. MWDOC performs planning and coordination activities that serve to improve the overall reliability of the regional water portfolio while minimizing costs. MWDOC balances Orange County's Tier 1 allocations from Metropolitan to minimize Tier 2 purchases and costs.
Administration & Personnel (1010, 1020, 1050)	This service category includes a portion of the General Manager's and Assistant General Managers' salaries together with Board compensation, Metropolitan director compensation, travel and legal costs and employee training.
Planning & Resource Development (2010, 2050)	MWDOC coordinates with OCWD to estimate water demands and supplies, minimize Tier 2 water purchases and undertake long-term planning efforts (such as UWMP preparation, planning of reliability projects and assistance to agencies seeking grants from Metropolitan or other sources). MWDOC also uses this budget category to account for engineering consulting services.
Met Issues & Special Projects (Met Representation) (2500)	MWDOC has four members on the Metropolitan Board of Directors to represent Orange County at Metropolitan. MWDOC staff provides support to the Metropolitan representatives. This currently includes just over 2 Full Time Equivalent staff in order to assure Orange County is fully represented at Metropolitan negotiations and policy decisions.
Government Affairs (3010)	MWDOC provides state and federal legislative advocacy, legislative tracking, outreach, briefings, and water policy dinners.
Water Use Efficiency (3040)	MWDOC provides a water use efficiency program including California Urban Water Conservation Council (CUWCC) dues, landscape efficiency programs, installation verification programs, and weather station maintenance. The program satisfies most CUWCC Best Management Practices and MWDOC's retailers <b>can use</b> the wholesale program to demonstrate their BMP compliance. BMP compliance is required to secure state grant funding.
Water Awareness (3510)	MWDOC works to increase overall water awareness. This includes the "OC Water Hero" program together with various merchandise and the regional consumer confidence report required by California Department of Public Health. The program helps satisfy CUWCC BMPs and MWDOC's retailers <b>can use</b> the wholesale program to demonstrate their BMP compliance.
School Programs (3520)	MWDOC provides two school programs which include a curriculum program (Water Quality 101), and an assembly program (aimed reaching 88,000 students). This service category accounts for the MWDOC staff, Discovery Science Center costs and supply and printing costs. The program satisfies a CUWCC BMP and MWDOC's retailers <b>can use</b> the wholesale program to demonstrate their BMP compliance. Anaheim, Fullerton and Santa Ana contract for service from this program and a student count basis.
Finance & IT (4010, 4050)	This service category includes MWDOC's information technology and finance staff.

<sup>10</sup> Summarized from Exhibit B Expenditures by Program General Fund, MWDOC Annual Budget for Fiscal Year 2008-2009 (June 18, 2008)

Program & Number	Description
Overhead (6500)	This service category includes District administration, rent, site maintenance, equipment, records management and health care benefits for retirees and vacation, sick leave and holiday costs for employees.
WEROC (9600)	The Water Emergency Response Organization of Orange County (WEROC) coordinates and supports emergency response on behalf of all Orange County water and wastewater agencies. WEROC supports planning and preparedness activities and maintains two Emergency Operations Centers (EOCs) in a state of readiness. MWDOC shares costs on this program with other beneficiaries based on population served.

### Cost of Service and Reserves

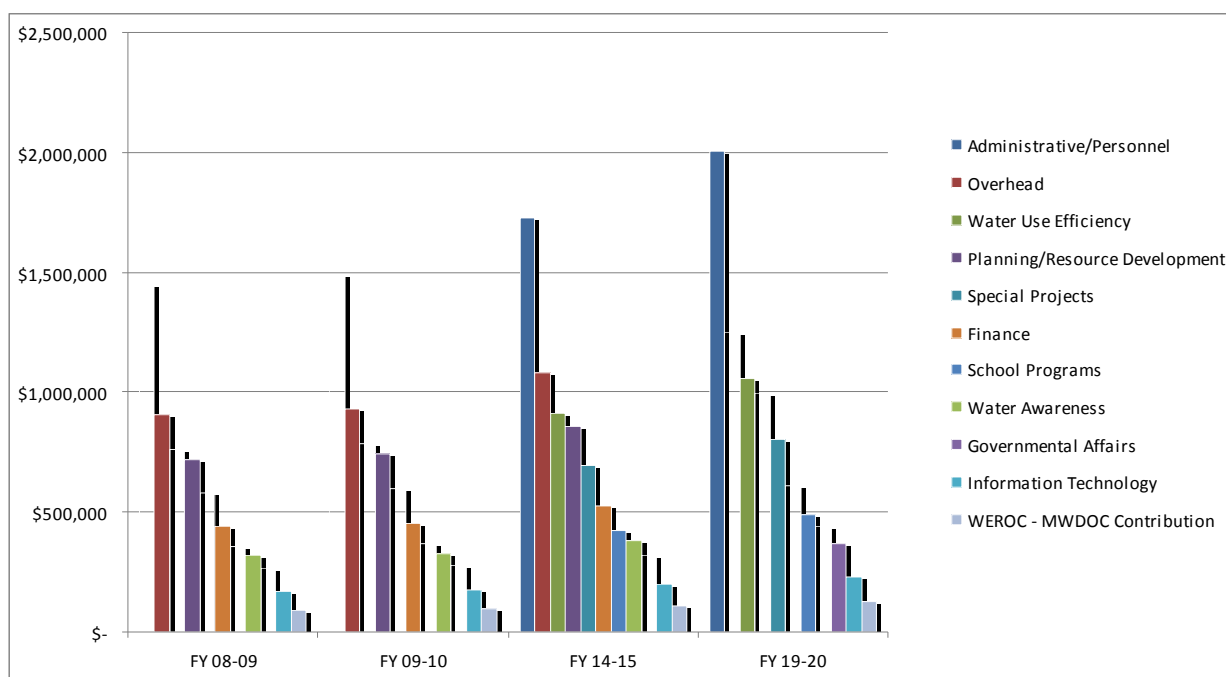
The foundation for the cost of service analysis is the 10-year budget developed for MWDOC Baseline (*Attachment E*). Table 6 provides a summary of the MWDOC Baseline budget by presenting estimates for the current Fiscal Year and for Fiscal Years 2009-10, 2014-15 and 2019-20. Figure 3 graphically illustrates the relationship of the various budget programs to one another.

**Table 6: Projected General Fund Budgets – Option 1 MWDOC Baseline<sup>11</sup>**

	FY 08 09	FY 09 10	FY 14 15	FY 19 20
Administrative/Personnel	\$ 1,446,528	\$ 1,489,924	\$ 1,727,230	\$ 2,002,333
Planning/Resource Development	\$ 720,514	\$ 742,129	\$ 860,331	\$ 997,360
Special Projects	\$ 582,211	\$ 599,677	\$ 695,190	\$ 805,916
Governmental Affairs	\$ 266,939	\$ 274,947	\$ 318,739	\$ 369,506
Water Use Efficiency	\$ 762,275	\$ 785,143	\$ 910,196	\$ 1,055,167
Water Awareness	\$ 317,852	\$ 327,388	\$ 379,532	\$ 439,982
School Programs	\$ 355,527	\$ 366,193	\$ 424,518	\$ 492,133
Finance	\$ 440,098	\$ 453,301	\$ 525,500	\$ 609,199
Information Technology	\$ 167,100	\$ 172,113	\$ 199,526	\$ 231,305
Overhead	\$ 904,458	\$ 931,592	\$ 1,079,970	\$ 1,251,981
WEROC - MWDOC Contribution	\$ 91,228	\$ 93,965	\$ 108,931	\$ 126,281
<b>Subtotal General Fund</b>	<b>\$ 6,054,730</b>	<b>\$ 6,236,372</b>	<b>\$ 7,229,664</b>	<b>\$ 8,381,162</b>
<b>Budgeted Reserves</b>	<b>\$ 5,069,000</b>	<b>\$ 4,739,000</b>	<b>\$ 5,002,197</b>	<b>\$ 5,023,890</b>

<sup>11</sup> The “Subtotal General Fund” row may differ slightly from the sum of individual line items due to rounding within the model.

**Figure 3: Program Budget Relationships – Option 1 MWDOC Baseline**

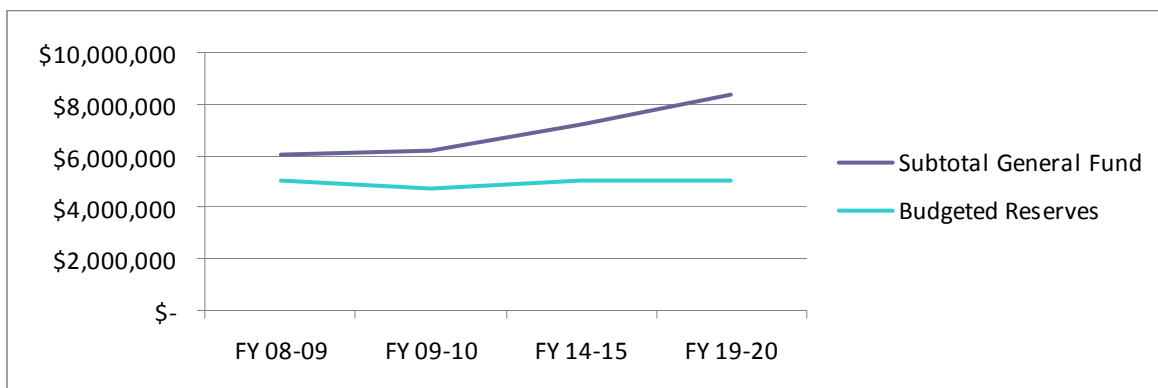


The MWDOC Baseline budget contains an operational reserve which can be used to cover unanticipated costs, such as variations in operating costs and/or revenues. MWDOC Baseline's budgeted operating reserve for Fiscal Year 2008-09 is \$5,069,000.<sup>12</sup> Within the staff report that covered its December 2006 Policy Resolution, MWDOC included a stated goal for holding the balance in its operational reserves to an amount between \$5,000,000 and \$6,000,000. As illustrated in Table 6, the fiscal model includes a cost recovery structure that results in operational reserves of approximately \$5,000,000. This is graphically depicted on Figure 4.

<sup>12</sup> Exhibit C, 2008-2009 Fiscal Master Plan Projections, MWDOC Annual Budget for Fiscal Year 2008-2009 (June 18, 2008)



**Figure 4: General Fund and Operational Reserve Trends – Option 1 MWDOC Baseline**



As is discussed in Section 6b, MWDOC maintains a second reserve account, the Water Purchase Reserve Fund. These reserve funds are not included in the 10-year budget because these revenues are not used for general fund purposes; use of the Water Purchase Reserve Fund is restricted to the purchase of Tier 2 water from Metropolitan.

#### Revenue Recovery and Cost Impact to Rate Payers

The cost recovery strategies described in Section 6b for MWDOC Baseline were used in the 10-year budget projections in order to estimate potential impacts to each retail agency's rate payers. The model accounts for the Melded Water Rate Surcharge, the Water Increment Charge and the Retail Meter Charge to determine each retail agency's share of costs. Each retail agency's cost share was then divided by the number of retail meters in the service area in order to develop a cost per ratepayer. Table 7 illustrates the results of this modeling for Fiscal Years 2009-10, 2014-15 and 2019-20.

The model results reveal several key findings:

- Historically, MWDOC's general fund budget has averaged between 4.5% and 5.5% of its total budget; the majority of MWDOC's costs, and the costs passed on to ratepayers through the retail agencies, are associated with the purchase of wholesale water.
- The model results also indicate that over the past several years MWDOC's Water Increment Charge and Retail Meter Charge have not fully funded the general fund budget. MWDOC has relied on a combination of interest earnings and drawing on reserve funds to supplement the Water Increment Charge and Retail Meter Charge.
- MWDOC's Fiscal Master Plan projects increases to the Water Increment Charge and Retail Meter Charge beginning in Fiscal Year 2009-10. When these rate

increases are taken into account the model predicts that MWDOC will begin to recover more of its general fund costs and make contributions to its general fund reserves, beginning in FY 2012-13.

- The impact of MWDOC's overhead on individual ratepayers varies throughout MWDOC's service area. This is due to the fact that some retailers have alternative water supply sources (groundwater, recycled water etc.) and some use imported water to meet a majority of their demands. The impact of MWDOC's overhead costs varies from \$8.00 to over \$50.00 per ratepayer annually (\$0.66 to over \$4.00 monthly).

*Attachment E*, in the Appendix, presents the complete, annual 10-year model results for MWDOC Baseline.

Table 7: Cost to Rate Payer – Baseline MWDOC

	FY 09-10		FY 14-15		FY 19-20	
	Baseline	Annual Cost to Payer	Baseline	Annual Cost to Payer	Baseline	Annual Cost to Payer
<b>El Toro WD</b>						
Totals	\$ 393,330	\$ 38.22	\$ 490,901	\$ 46.57	\$ 577,377	\$ 53.51
<b>Irvine Ranch WD*</b>						
Totals	\$ 1,710,731	\$ 14.84	\$ 2,259,849	\$ 19.45	\$ 2,791,350	\$ 22.76
<b>Moulton Niguel WD</b>						
Totals	\$ 1,489,931	\$ 21.16	\$ 1,838,012	\$ 26.11	\$ 2,121,728	\$ 30.14
<b>Santa Margarita WD</b>						
Totals	\$ 1,289,705	\$ 22.15	\$ 1,688,041	\$ 26.55	\$ 2,090,215	\$ 30.53
<b>South Coast Water District</b>						
Totals	\$ 295,630	\$ 23.10	\$ 343,905	\$ 26.66	\$ 372,720	\$ 28.67
<b>Trabuco Canyon WD</b>						
Totals	\$ 165,988	\$ 34.65	\$ 215,701	\$ 42.87	\$ 261,116	\$ 50.02
<b>Laguna Beach CWD</b>						
Totals	\$ 192,842	\$ 22.45	\$ 238,815	\$ 27.56	\$ 275,799	\$ 31.67
<b>San Clemente</b>						
Totals	\$ 412,578	\$ 21.60	\$ 515,629	\$ 26.44	\$ 591,905	\$ 29.88
<b>San Juan Capistrano</b>						
Totals	\$ 216,684	\$ 18.79	\$ 268,024	\$ 22.94	\$ 307,687	\$ 26.09
<b>Brea</b>						
Totals	\$ 258,060	\$ 20.47	\$ 338,233	\$ 25.82	\$ 408,387	\$ 30.30
<b>Buena Park</b>						
Totals	\$ 262,695	\$ 12.86	\$ 378,737	\$ 18.07	\$ 483,588	\$ 22.60
<b>East Orange County WD*</b>						
Totals	\$ 95,838	\$ 80.00	\$ 122,106	\$ 101.42	\$ 143,772	\$ 118.82
<b>Fountain Valley</b>						
Totals	\$ 189,608	\$ 10.81	\$ 258,572	\$ 14.40	\$ 298,069	\$ 16.29
<b>Garden Grove</b>						
Totals	\$ 370,229	\$ 10.60	\$ 524,062	\$ 14.69	\$ 611,716	\$ 16.88
<b>Golden State Water Company</b>						
Totals	\$ 560,801	\$ 10.39	\$ 868,130	\$ 12.66	\$ 1,137,289	\$ 13.06
<b>Huntington Beach</b>						
Totals	\$ 587,584	\$ 10.79	\$ 798,261	\$ 14.40	\$ 917,191	\$ 16.32
<b>La Habra</b>						
Totals	\$ 148,547	\$ 11.26	\$ 192,277	\$ 14.37	\$ 221,624	\$ 16.37
<b>La Palma</b>						
Totals	\$ 46,253	\$ 10.47	\$ 62,625	\$ 13.95	\$ 72,070	\$ 15.87
<b>Mesa Consolidated</b>						
Totals	\$ 167,517	\$ 6.97	\$ 245,178	\$ 10.00	\$ 275,139	\$ 11.04
<b>Newport Beach</b>						
Totals	\$ 336,301	\$ 10.58	\$ 472,638	\$ 14.61	\$ 541,424	\$ 16.52
<b>OCWD</b>						
Totals	\$ 120,000		\$ 147,556		\$ 173,467	
<b>Orange</b>						
Totals	\$ 453,861	\$ 12.45	\$ 639,731	\$ 17.28	\$ 740,404	\$ 19.75
<b>Seal Beach</b>						
Totals	\$ 67,255	\$ 12.26	\$ 93,340	\$ 16.78	\$ 109,432	\$ 19.44
<b>Serrano WD</b>						
Totals	\$ 14,310	\$ 6.20	\$ 17,402	\$ 7.54	\$ 18,467	\$ 8.00
<b>Westminster</b>						
Totals	\$ 231,903	\$ 11.26	\$ 316,753	\$ 15.10	\$ 367,195	\$ 17.25
<b>Yorba Linda WD</b>						
Totals	\$ 489,990	\$ 20.04	\$ 647,209	\$ 25.68	\$ 765,177	\$ 28.52

\* EOCWD's total water purchases include water it wholesales to su-member agencies. EOCWD's retail meter count includes only its retail service area. Therefore the annual cost to rate payer over states cost because it includes the wholesale purchase

### Comparison to Other Metropolitan Member Agencies

In order to understand MWDOC's practices, it is helpful to compare them to other Metropolitan member agencies. Table 8 below, provides a brief comparison of governance structures and wholesale water programs for Metropolitan member agencies. MWDOC is one of 12 special districts that are members of Metropolitan (the remaining Metropolitan member agencies are full-service cities with a very different service model). Most other special districts that are Metropolitan members own and operate varying types and levels of infrastructure. There is one other agency (Upper San Gabriel Valley MWD) which, like MWDOC, does not own or operate infrastructure. While most other special districts that are Metropolitan members charge a Tier 1 and Tier 2 water rate, San Diego County Water Authority and Eastern MWD use a Melded Water Rate<sup>13</sup>.

**Table 8: Metropolitan Water District Member Agency Comparison**

Agency	Governance Structure	Services	Facilities	Wholesale Water Rates (includes Metropolitan Charges)	
				2008	2009
MWDOC	MWD representing: 28 agencies 2,300,000 people	Wholesale Water Supply	None	\$522	\$597
Calleguas MWD	MWD representing: 21 agencies 592,000 people	Wholesale Water Supply; Hydroelectric Power Generation	Reservoirs, pipelines and pump stations	T1 \$657 T2 \$755	T1 \$769 T1 \$885
Central Basin MWD	MWD representing: 41 agencies 2,000,000 people	Wholesale Water Supply; Recycled Water Distribution	Water Quality Protection Project; recycled water system	T1 \$564 T2 \$662	T1 \$635 T1 \$751
Eastern MWD	MWD representing: 9 agencies 660,000 people	Wholesale & Retail Water Supply; Wastewater Collection & Treatment; Recycled Water Distribution	4 Wastewater Treatment Plants; 2 Water Treatment Plants, potable water distribution system, sewer collection system, storage tanks and pumping stations	\$702	\$786

<sup>13</sup>SDCWA charges a melded rate to all retailers. In cases where SCDWA exceeds its Tier 1 allocation, it collects Tier 2 charges from the agencies that caused it to exceed its allocation.

Agency	Governance Structure	Services	Facilities	Wholesale Water Rates (includes Metropolitan Charges)	
				2008	2009
Foothill MWD	MWD representing: 7 agencies 88,000 people	Wholesale Water Supply	Pipelines, storage tanks and pump stations.	T1 \$700 to \$794 T2 \$798 to \$892	T1 \$848 to \$903 T2 \$964 to \$1046
Inland Empire Utilities Agency	MWD representing: 7 agencies 800,000 people	Wholesale Water Supply (untreated); Wastewater Treatment; Recycled Water Distribution; Power Generation	Water recycling facilities; biosolids treatment facilities; Chino Desalter	T1 \$361 T2 \$459	T1 \$422 T2 \$538
Las Virgenes MWD	MWD representing: 0 agencies 65,000 people	Water Supply; Wastewater Collection & Treatment; Recycled Water Distribution; Power Generation	Reservoir; water treatment plant; water recycling plant; recycled water distribution system	Not Applicable. Agency provides retail water service	
San Diego County Water Authority	CWA representing: 25 agencies 3,070,000 people	Wholesale Water Supply, Power Supply	Pipelines, pump stations hydroelectric plant	\$614	\$695
Three Valleys MWD	MWD representing: 11 agencies 600,000 people	Wholesale Water Supply; Hydroelectric Power Generation	Water & Hydroelectric Facilities, storage tanks, distribution pipeline	T1 \$528 T2 \$626	T1 \$600 T2 \$716
Upper San Gabriel Valley MWD	MWD representing: 8 agencies 900,000 people	Wholesale Water Supply	None	T1 \$549 T2 \$650	Not Yet Available
West Basin MWD	MWD representing: 12 agencies 900,000 people	Wholesale Water Supply; Recycled Water Treatment and Distribution	Groundwater wells, desalination facilities, recycled water treatment and distribution system	T1 \$611 T2 \$709	T1 \$689 T2 \$805
Western MWD	MWD representing: 8 agencies 853,000 people	Wholesale & Retail Water Supply; Wastewater Collection & Treatment	Groundwater wells, potable water pipeline and storage tanks; Wastewater collection, treatment and disposal system	T1 \$508 T2 \$606	T1 \$579 T2 \$695

## 6d Option 2a – MWDOC CWA

This is one of two options that includes dissolving MWDOC and replacing it with a CWA formed under Water Code Appendix 45.

### Essential Services

MWDOC CWA includes the same essential services described for Option 1 – MWDOC Baseline.

### Cost of Service and Reserves

The foundation for the cost of service analysis is the 10-year budget developed for MWDOC CWA. This budget is very similar to the budget for MWDOC Baseline, except it reduces operational reserves to 15% of the general fund budget over the 10-year projection period and takes into account the different structure of the Board directors and the impacts that could have on administrative and personnel costs.

MWDOC currently supports seven elected directors at an estimated cost of \$813,139.<sup>14</sup> Under a CWA model, directors would not be elected but rather would be appointed from the member agencies, which will result in a larger board of directors. However because each director has some administrative and financial support from the agency he or she represents, the cost of supporting an individual director may be less.

In order to estimate the costs for board support for the MWDOC CWA option, budget data from the San Diego County Water Authority (SDCWA) was consulted. Based on SDCWA's 2008-09 Fiscal Year budget, the estimated cost of supporting a director is \$18,000 annually. MWDOC's current budget would allow for the support of up to 45 directors using SDCWA's cost data ( $\$813,139 / \$18,000 = 45$ ).

CWA member agencies are entitled to at least one board member, meaning that the MWDOC CWA will have at least 28 board members. In addition, a member agency may designate one additional representative for each full five-percent of assessed value it has within the CWA's territory.<sup>15</sup> A preliminary review of assessed value data, which is discussed in more detail in Section 7, suggests that a MWDOC CWA would have at least 36 board members. A Board of this size could be supported within

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<sup>14</sup> Annual Budget for Fiscal Year 2008-2009, Adopted June 18, 2008, Exhibit B.

<sup>15</sup> CWA Act, Section 45-6 (b), (c) and (d)

MWDOC's current budget allowance. Therefore, for the purposes of this preliminary evaluation, it is assumed that the general fund budgets for MWDOC Baseline and MWDOC CWA will be the same except for the reduced reserve levels.

Finally, the initial formation of a CWA will require an election, however the CWA Act specifically states that the "cost thereof shall be a proper charge against the county."<sup>16</sup> For the MWDOC CWA option, this election would need to include all territory within MWDOC's current service area. The Orange County Registrar of Voters has provided estimates of \$3,000,000 to \$3,600,000 for a formation election consolidated with a general election and \$5,600,000 to \$6,000,000 for a special election. Additional analysis is needed to determine if these costs are truly a "proper charge against the county" or if they would need to be funded as part of the reorganization. Because of this, these costs are currently not included in the budget used for the fiscal model.

Table 9 provides a summary of the MWDOC CWA budget by presenting estimates for the current Fiscal Year and for Fiscal Years 2009-10, 2014-15 and 2019-20. Figure 5 graphically illustrates the relationship of the various budget programs to one another.

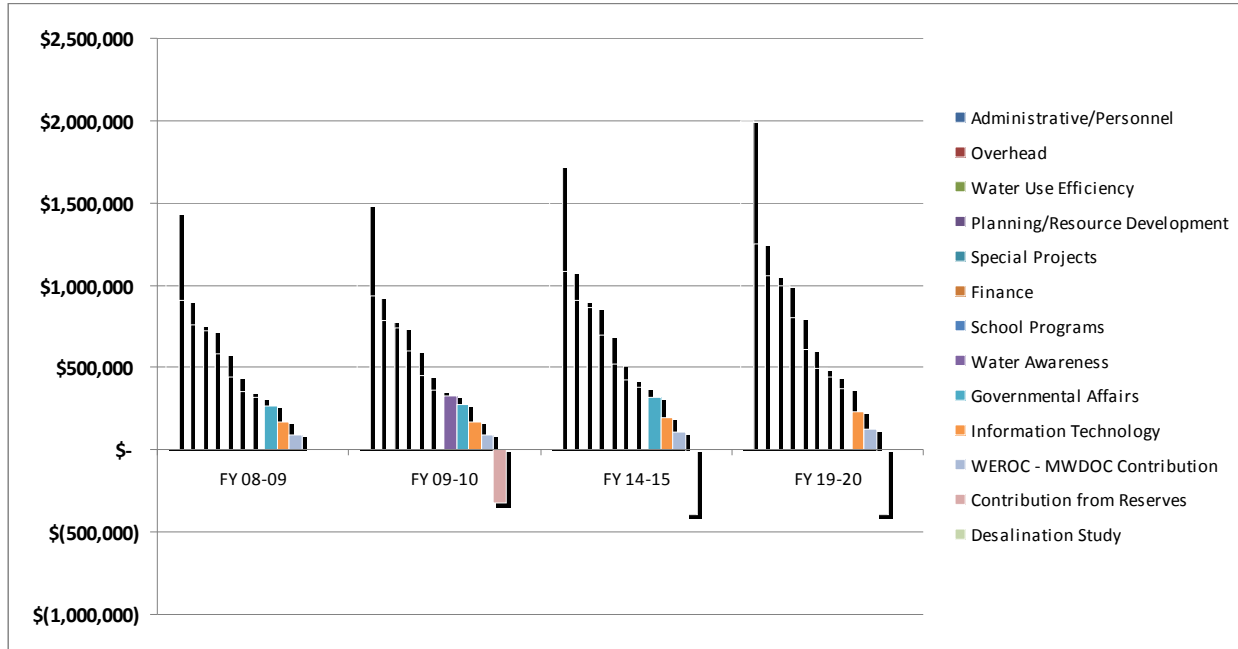
**Table 9: Projected General Fund Budgets – Option 2a MWDOC CWA<sup>17</sup>**

	FY 08-09	FY 09-10	FY 14 15	FY 19 20
Administrative/Personnel	\$ 1,446,528	\$ 1,489,924	\$ 1,727,230	\$ 2,002,333
Planning/Resource Development	\$ 720,514	\$ 742,129	\$ 860,331	\$ 997,360
Special Projects	\$ 582,211	\$ 599,677	\$ 695,190	\$ 805,916
Governmental Affairs	\$ 266,939	\$ 274,947	\$ 318,739	\$ 369,506
Water Use Efficiency	\$ 762,275	\$ 785,143	\$ 910,196	\$ 1,055,167
Water Awareness	\$ 317,852	\$ 327,388	\$ 379,532	\$ 439,982
School Programs	\$ 355,527	\$ 366,193	\$ 424,518	\$ 492,133
Finance	\$ 440,098	\$ 453,301	\$ 525,500	\$ 609,199
Information Technology	\$ 167,100	\$ 172,113	\$ 199,526	\$ 231,305
Overhead	\$ 904,458	\$ 931,592	\$ 1,079,970	\$ 1,251,981
Desalination Study	\$ -	\$ -	\$ -	\$ -
WEROC - MWDOC Contribution	\$ 91,228	\$ 93,965	\$ 108,931	\$ 126,281
Contribution from Reserves	\$ -	\$ (322,000)	\$ (390,933)	\$ (390,933)
<b>Subtotal General Fund</b>	<b>\$ 6,054,730</b>	<b>\$ 5,914,372</b>	<b>\$ 6,838,731</b>	<b>\$ 7,990,229</b>
<b>Budgeted Reserves</b>	<b>\$ 5,069,000</b>	<b>\$ 4,739,000</b>	<b>\$ 2,784,335</b>	<b>\$ 1,220,600</b>

<sup>16</sup> Section 45-4, CWA Act.

<sup>17</sup> The "Subtotal General Fund" row may differ slightly from the sum of individual line items due to rounding within the model.

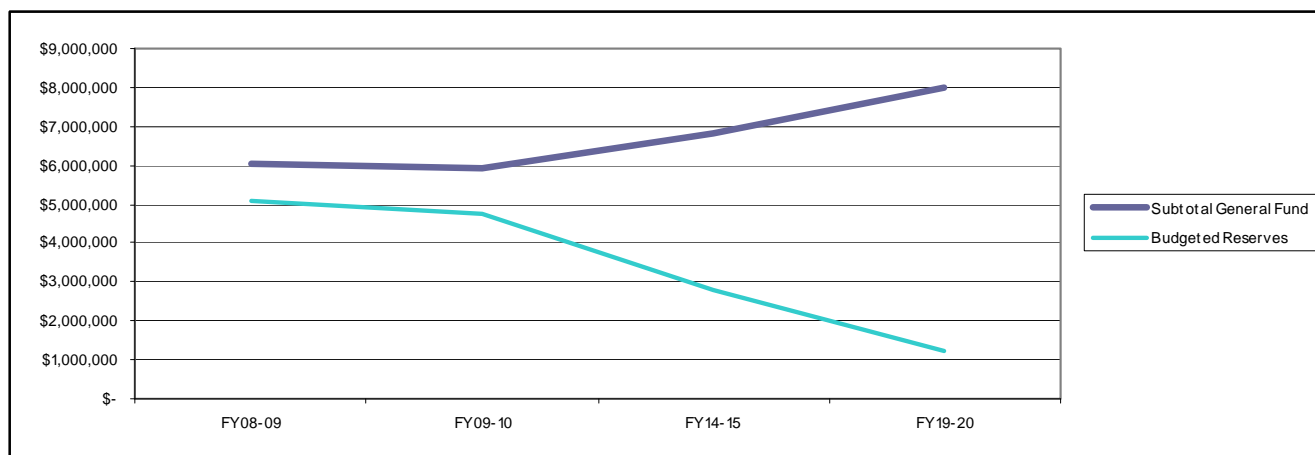
**Figure 5: Program Budget Relationships – Option 2a MWDOC CWA**



The MWDOC CWA budget maintains an operational reserve. However this reserve is reduced to 15% of the general fund budget over the 10-year projection period. In contrast to Baseline MWDOC, which has a projected operational reserve balance of approximately \$5,000,000 in Fiscal Year 2019-20, MWDOC CWA has a projected \$1,220,600 operational reserve balance in Fiscal Year 2019-20. Figure 6 graphically represents the relationship between the MWDOC CWA general fund budget and its' operating reserve.



**Figure 6: General Fund and Operational Reserve Trends – Option 2a MWDOC CWA**



While not included in the general fund budget, because it is a restricted fund, the MWDOC CWA does maintain a Water Purchase Reserve Fund, which is funded from its Melded Water Rate Surcharge, in order to purchase Tier 2 water when necessary. This is identical to MWDOC Baseline.

#### Revenue Recovery and Cost Impacts to Rate Payers

The MWDOC CWA continues to use three rate-recovery tools: a Melded Water Rate Surcharge, a Water Increment Charge and a Retail Meter Charge.

The amount of the Melded Water Rate Surcharge is identical to that used for MWDOC Baseline.

As in the MWDOC Baseline model, Water Increment Charges and Retail Meter Charges are used to recover general fund costs. The model projects that each retail agency will pay a slightly lower combination of Water Increment and Retail Meter Charges because the operational reserve requirement is reduced to 15%.

*Attachment F* presents the complete, 10-year model results for MWDOC CWA. Table 10 compares the projected cost to each retail agency of the combined Melded Water Rate Surcharge, Water Increment and Retail Meter Charges (revenue contribution) for the MWDOC CWA to the MWDOC Baseline for Fiscal Years 2009-10, 2014-15 and 2019-20. Each retail agency's MWDOC CWA revenue contribution was divided by the number of retail meters within its' service area in order to develop a cost per rate payer to compare against the MWDOC Baseline "Annual Cost to Rate Payer" shown on Table 7 in Section 6.3 and again in Table 10. The resultant increase or decrease from the MWDOC Baseline rate is then shown on Table 10 in the column "Annual Cost to Ratepayer."

Fiscally, MWDOC CWA is very similar to the MWDOC Baseline; both have very similar budget assumptions and identical revenue recovery strategies. Small cost savings accrue to ratepayers over time because of reduced operational reserve levels. MWDOC CWA is therefore considered a fiscally feasible option.

**Table 10: Revenue Contribution Comparison – MWD OC CWA to MWD OC Baseline**

	FY 09-10			FY 14-15			FY 19-20		
	Baseline	Base CWA	Annual Impact to Rate Payer	Baseline	Base CWA	Annual Impact to Rate Payer	Baseline	Base CWA	Annual Impact to Rate Payer
El Toro WD									
Totals	\$ 393,330	\$ 385,782	\$ (0.73)	\$ 490,901	\$ 480,850	\$ (0.95)	\$ 577,377	\$ 568,003	\$ (0.87)
Irvine Ranch WD*									
Totals	\$ 1,710,731	\$ 1,660,963	\$ (0.43)	\$ 2,259,849	\$ 2,193,125	\$ (0.57)	\$ 2,791,350	\$ 2,725,860	\$ (0.53)
Moulton Niguel WD									
Totals	\$ 1,489,931	\$ 1,453,795	\$ (0.51)	\$ 1,838,012	\$ 1,791,027	\$ (0.67)	\$ 2,121,728	\$ 2,078,481	\$ (0.61)
Santa Margarita WD									
Totals	\$ 1,289,705	\$ 1,259,078	\$ (0.53)	\$ 1,688,041	\$ 1,645,220	\$ (0.67)	\$ 2,090,215	\$ 2,047,865	\$ (0.62)
South Coast Water District									
Totals	\$ 295,630	\$ 288,741	\$ (0.54)	\$ 343,905	\$ 335,197	\$ (0.68)	\$ 372,720	\$ 364,942	\$ (0.60)
Trabuco Canyon WD									
Totals	\$ 165,988	\$ 162,695	\$ (0.69)	\$ 215,701	\$ 211,164	\$ (0.90)	\$ 261,116	\$ 256,780	\$ (0.83)
Laguna Beach CWD									
Totals	\$ 192,842	\$ 188,290	\$ (0.53)	\$ 238,815	\$ 232,856	\$ (0.69)	\$ 275,799	\$ 270,304	\$ (0.63)
San Clemente									
Totals	\$ 412,578	\$ 402,667	\$ (0.52)	\$ 515,629	\$ 502,524	\$ (0.67)	\$ 591,905	\$ 579,792	\$ (0.61)
San Juan Capistrano									
Totals	\$ 216,684	\$ 211,118	\$ (0.48)	\$ 268,024	\$ 260,745	\$ (0.62)	\$ 307,687	\$ 300,963	\$ (0.57)
Brea									
Totals	\$ 258,060	\$ 251,702	\$ (0.50)	\$ 338,233	\$ 329,543	\$ (0.66)	\$ 408,387	\$ 400,084	\$ (0.62)
Buena Park									
Totals	\$ 262,695	\$ 254,401	\$ (0.41)	\$ 378,737	\$ 367,103	\$ (0.55)	\$ 483,588	\$ 472,200	\$ (0.53)
East Orange County WD*									
Totals	\$ 95,838	\$ 94,313	\$ (1.27)	\$ 122,106	\$ 120,034	\$ (1.72)	\$ 143,772	\$ 141,860	\$ (1.58)
Fountain Valley									
Totals	\$ 189,608	\$ 182,951	\$ (0.38)	\$ 258,572	\$ 249,528	\$ (0.50)	\$ 298,069	\$ 289,588	\$ (0.46)
Garden Grove									
Totals	\$ 370,229	\$ 357,064	\$ (0.38)	\$ 524,062	\$ 505,949	\$ (0.51)	\$ 611,716	\$ 594,688	\$ (0.47)
Golden State Water Company									
Totals	\$ 560,801	\$ 540,605	\$ (0.37)	\$ 868,130	\$ 835,269	\$ (0.48)	\$ 1,137,289	\$ 1,099,993	\$ (0.43)
Huntington Beach									
Totals	\$ 587,584	\$ 566,920	\$ (0.38)	\$ 798,261	\$ 770,346	\$ (0.50)	\$ 917,191	\$ 891,127	\$ (0.46)
La Habra									
Totals	\$ 148,547	\$ 143,462	\$ (0.39)	\$ 192,277	\$ 185,543	\$ (0.50)	\$ 221,624	\$ 215,338	\$ (0.46)
La Palma									
Totals	\$ 46,253	\$ 44,596	\$ (0.38)	\$ 62,625	\$ 60,392	\$ (0.50)	\$ 72,070	\$ 69,986	\$ (0.46)
Mesa Consolidated									
Totals	\$ 167,517	\$ 159,583	\$ (0.33)	\$ 245,178	\$ 234,337	\$ (0.44)	\$ 275,139	\$ 265,014	\$ (0.41)
Newport Beach									
Totals	\$ 336,301	\$ 324,331	\$ (0.38)	\$ 472,638	\$ 456,249	\$ (0.51)	\$ 541,424	\$ 526,149	\$ (0.47)
OCWD									
Totals	\$ 120,000	\$ 118,451		\$ 147,556	\$ 145,492		\$ 173,467	\$ 171,578	
Orange									
Totals	\$ 453,861	\$ 439,249	\$ (0.40)	\$ 639,731	\$ 619,591	\$ (0.54)	\$ 740,404	\$ 721,617	\$ (0.50)
Seal Beach									
Totals	\$ 67,255	\$ 65,070	\$ (0.40)	\$ 93,340	\$ 90,353	\$ (0.54)	\$ 109,432	\$ 106,630	\$ (0.50)
Serrano WD									
Totals	\$ 14,310	\$ 18,904	\$ 1.99	\$ 17,402	\$ 16,461	\$ (0.41)	\$ 18,467	\$ 17,606	\$ (0.37)
Westminster									
Totals	\$ 231,903	\$ 223,963	\$ (0.39)	\$ 316,753	\$ 305,981	\$ (0.51)	\$ 367,195	\$ 357,108	\$ (0.47)
Yorba Linda WD									
Totals	\$ 489,990	\$ 477,795	\$ (0.50)	\$ 647,209	\$ 630,541	\$ (0.66)	\$ 765,177	\$ 749,169	\$ (0.60)

\* Impact to rate payers overstated because of wholesale purchases

## 6e Option 2b – MWDOC Subscription CWA

This is the second of two options that assumes that MWDOC will be dissolved and replaced by a CWA formed in accordance with the CWA Act.

### Essential Services

During the development of the MWDOC MSR Report, LAFCO's stakeholder process included an effort to define services provided by MWDOC as "core" (essential) and "non-core" (subscription).<sup>18</sup> Option 2b – MWDOC Subscription CWA builds on this effort and analyzes the impact of allowing retail agencies to have a choice about whether or not to subscribe to certain services provided by MWDOC.

Based on the information provided in the MWDOC MSR Report and information provided by the various retail agencies, the following services are considered essential and the model assumes all retail agencies will participate in funding them:

- Wholesale Water Importation
- Planning and Resource Development<sup>19</sup>
- Metropolitan Issues and Special Projects
- Water Use Efficiency
- School Program
- Emergency Preparedness (WEROC).

MWDOC will continue to provide the following services as subscription services.

- Government Affairs
- Water Awareness.

During the MSR process, the Six Agencies indicated that they had alternative means for providing these services. The model therefore assumes that the subscription services will be subscribed to by all retailers except the Six Agencies.

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<sup>18</sup> Section 3 Stakeholder Working Group, *Municipal Services Review & Sphere of Influence Study for Municipal Water District of Orange County* (June 2007).

<sup>19</sup> The analysis assumes that MWDOC's Policy regarding project initiation remains in effect and that the benefitting retailers will pay for large planning and resource development projects.

## Cost of Service and Reserves

The foundation for the cost of service analysis is the 10-year budget developed for MWDOC Subscription CWA. The MWDOC Subscription CWA budget contains two components, an essential services budget and a subscription services budget.

Essential and subscription services are identified by budget category in Table 11. The service categories are identical to those used in the MWDOC Fiscal Year 2008-09 budget. Overhead categories including Administration & Personnel, Finance & IT and General Overhead have been proportionally allocated to the essential and subscription budgets. Based on the budget and staffing assumptions included in *Attachment C*, essential services comprise 81% of the budget and are therefore assigned 81% of the overhead. Subscription services comprise 19% of the budget and are assigned 19% of the overhead.

**Table 11: Essential and Subscription Services**

Service	Description
Wholesale Water Purchases	Essential
Administration & Personnel	Proportionally Allocated to Essential (81%) and Subscription (19%)
Planning & Resource Development	Essential
Met Issues & Special Projects	Essential
Government Affairs	Subscription
Water Use Efficiency	Essential
Water Awareness	Subscription
School Programs	Essential
Finance & IT	Proportionally Allocated to Essential (81%) and Subscription (19%)
Overhead	Proportionally Allocated to Essential (81%) and Subscription (19%)
WEROC	Essential

The analysis for MWDOC Subscription CWA includes the reduced reserve levels and board support costs described in Section 6d above and also analyzes the financial impacts of a subscription program. As described for Option 2a-MWDOC CWA, Option 2b will require a formation election but it is not clear whether or not that cost would be assigned to the new CWA.

Tables 12a and 12b provide budget summaries for the essential and subscription services respectively, presenting the budget estimates for the current Fiscal Year and for Fiscal Years 2009-10, 2014-15 and 2019-20. Figure 7 graphically illustrates the relationship of the various budget programs to one another.

**Table 12a: Projected Essential Services Budget – Option 2b MWDOC Subscription CWA<sup>20</sup>**

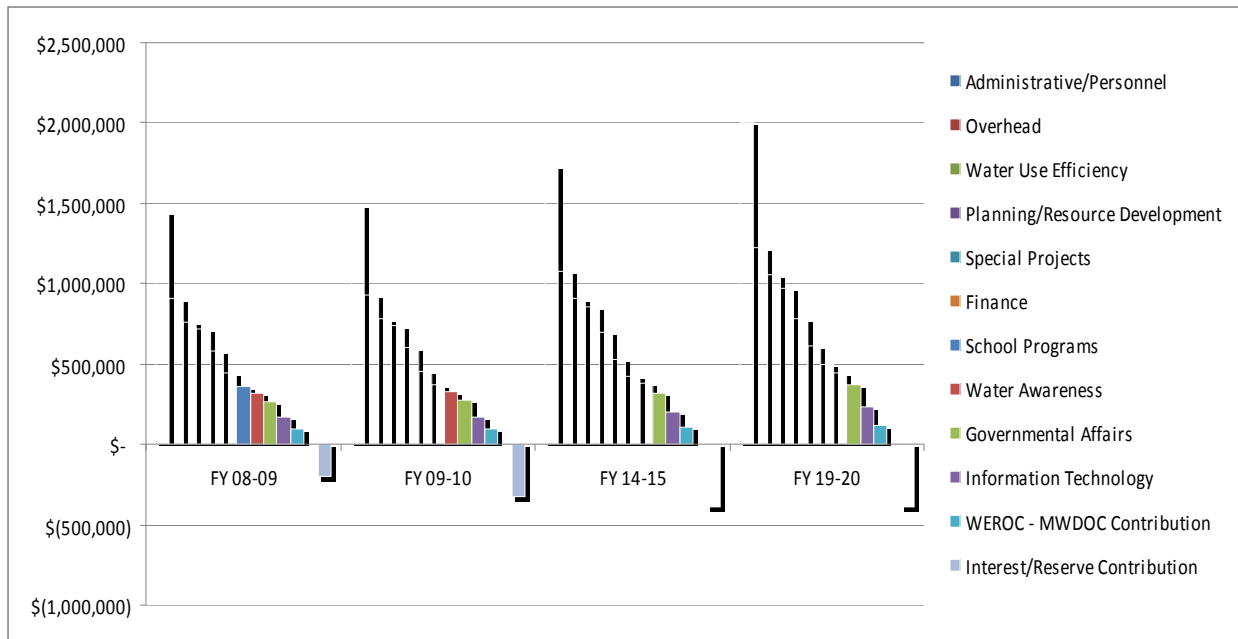
Services & Costs	FY 08 09	FY 09 10	FY 13-14	FY 14-15	FY 19 20
	\$	\$	\$	\$	\$
<b>General Fund Budget</b>					
<b>Overhead Allocation %</b>	81%	81%	81%	81%	81%
Administrative/Personnel	\$1,173,347	\$ 1,208,548	\$ 1,360,231	\$ 1,401,038	\$ 1,624,187
Planning/Resource Development	\$720,514	\$ 742,129	\$835,273	\$ 860,331	\$ 968,311
Special Projects	\$582,211	\$ 599,677	\$674,942	\$ 695,190	\$ 782,443
Water Use Efficiency	\$762,275	\$ 785,143	\$883,686	\$ 910,196	\$ 1,055,167
School Programs	\$355,527	\$ 366,193	\$412,153	\$ 424,518	\$ 492,133
Finance	\$356,984	\$ 367,694	\$413,843	\$ 426,258	\$ 494,150
Information Technology	\$135,543	\$ 139,609	\$157,131	\$ 161,845	\$ 187,623
Overhead	\$733,649	\$ 755,658	\$850,500	\$ 876,015	\$ 985,962
Desalination Study	\$0	\$ -	\$0	\$ -	\$ -
WEROC - MWDOC Contribution	\$91,228	\$ 93,965	\$105,758	\$ 108,931	\$ 122,603
Contribution from Reserves	\$ -	\$ (261,189)	\$ (317,104)	\$ (317,104)	\$ (317,104)
<b>Subtotal Core General Fund</b>	<b>\$4,911,278</b>	<b>\$ 4,797,427</b>	<b>\$5,376,413</b>	<b>\$ 5,547,219</b>	<b>\$ 6,395,474</b>
<b>Budgeted Reserves</b>	<b>\$4,111,706</b>	<b>\$3,844,027</b>	<b>\$2,575,610</b>	<b>\$2,258,506</b>	<b>\$990,086</b>

**Table 12b: Projected Subscription Services Budget – Option 2b MWDOC Subscription CWA**

Services & Costs	FY 08-09	FY 09 10	FY 14-15	FY 19-20
	\$	\$	\$	\$
<b>General Fund Budget</b>				
<b>Overhead Allocation Factor</b>	19%	19%	19%	19%
Administrative/Personnel	\$274,840	\$ 283,086	\$ 328,174	\$ 380,443
Governmental Affairs	\$266,939	\$ 274,947	\$ 318,739	\$ 369,506
Water Awareness	\$317,852	\$ 327,388	\$ 379,532	\$ 439,982
Finance	\$83,619	\$86,127	\$99,845	\$115,748
Information Technology	\$31,749	\$32,701	\$37,910	\$43,948
Overhead	\$171,847	\$177,002	\$205,194	\$237,876
Desalination Study	\$0	\$ -	\$ -	\$ -
Interest/Reserve Contribution	\$ (194,240)	\$ (61,180)	\$ (74,277)	\$ (74,277)
<b>Subtotal Subscription General Fund</b>	<b>\$ 952,606</b>	<b>\$ 1,120,071</b>	<b>\$ 1,295,117</b>	<b>\$ 1,513,226</b>
<b>Budgeted Reserves</b>	<b>\$963,110</b>	<b>\$900,410</b>	<b>\$529,024</b>	<b>\$231,914</b>

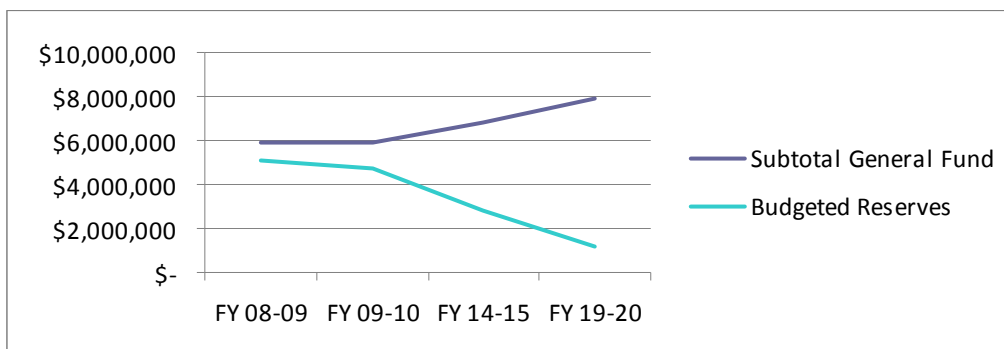
<sup>20</sup> The “Subtotal General Fund” row may differ slightly from the sum of individual line items due to rounding within the model.

**Figure 7: Program Budget Relationships – Option 2b MWDOC Subscription CWA**



The MWDOC Subscription CWA maintains an operational reserve. However this reserve is reduced to 15% of the general fund budget over the 10-year projection period. In contrast to Baseline MWDOC, which has a projected operational reserve balance of approximately \$5,000,000 in Fiscal Year 2019-20, MWDOC Subscription CWA has a projected \$1,222,000 operational reserve balance in Fiscal Year 2019-20. Figure 8 graphically represents the relationship between the MWDOC Subscription CWA general fund budget and its operating reserve.

**Figure 8: General Fund and Operational Reserve Trends – Option 2b MWDOC Subscription CWA**



While not included in the general fund budget, because it is a restricted fund, the MWDOC Subscription CWA does maintain a Water Purchase Reserve Fund, which is

funded from its Melded Water Rate Surcharge, in order to purchase Tier 2 water when necessary. This is identical to MWDOC Baseline.

#### Revenue Recovery and Cost Impacts to Rate Payers

The MWDOC Subscription CWA continues to use three rate-recovery tools: a Melded Water Rate Surcharge, a Water Increment Charge and a Retail Meter Charge.

The Melded Water Rate Surcharge is identical to that used in MWDOC Baseline. The general fund revenue recovery strategy for this option, however, uses revenues from the Water Increment and Retail Meter Charges differently.

The Water Increment Charge for each retail agency is modeled to cover each agency's share of the essential services, including administration and overhead. The rationale is that essential services are related to the importation of water and each retail agency should pay for essential services based on water consumption.

The Retail Meter Charge for each retail agency is modeled to cover the agency's share of subscription services. Under this option, agencies that do not participate in the subscription services are not assessed a Retail Meter Charge. The rationale is that subscription services provided through MWDOC will benefit the ratepayers within those retail agencies subscribing to the services, thus each customer receiving the service pays for the service through Retail Meter Charges.

*Attachment G* presents the complete, 10-year model results for MWDOC Subscription CWA. Table 13 compares the projected revenue contributions for the MWDOC Subscription CWA to the MWDOC Baseline for Fiscal Years 2009-10, 2014-15 and 2019-20. Each retail agency's MWDOC Subscription CWA revenue contribution was divided by the number of retail meters within its' service area in order to develop a cost per rate payer to compare against the MWDOC Baseline "Annual Cost to Rate Payer" shown on Table 7 in Section 6c and again on Table 13. The resultant increase or decrease from the MWDOC Baseline rate is then shown on Table 13 in the column "Annual Cost to Ratepayer."

The MWDOC Subscription CWA shifts almost \$1,000,000 in costs from "non-subscribers" (the Six Agencies) to "subscribers" (all other MWDOC retail agencies). While this is a large revenue shift in terms of the overall general fund budget) it is attenuated by the large number of rate payers within the subscription service area. As illustrated in Table 13, the impact to rate payers, at the end of the 10-year cost projection period, is modest. Rate payers in the non-subscription area experience a modest decrease in costs (less than \$5.00 per year or about \$0.35 per month in the most extreme case) while rate payers in the subscription area experience a modest increase in cost



(less than \$2.00 annually or under \$0.15 per month). This modest cost shift is not regarded as a fiscal fatal flaw, and Option 2b - MWDOC Subscription CWA is therefore considered a feasible alternative.

**Table 13: Revenue Contribution Comparison – MWDOC Subscription CWA to MWDOC Baseline**

	FY 09 10			FY 14 15			FY 19-20		
	Baseline	Cafeteria	Annual Impact to Rate Payer	Baseline	Cafeteria	Annual Impact to Rate Payer	Baseline	Cafeteria	Annual Impact to Rate Payer
<b>El Toro WD</b>									
Totals	\$ 393,330	\$ 364,280	\$ (2.82)	\$ 490,901	\$ 440,470	\$ (4.78)	\$ 577,377	\$ 532,567	\$ (4.15)
<b>Irvine Ranch WD</b>									
Totals	\$ 1,710,731	\$ 1,540,945	\$ (1.47)	\$ 2,259,849	\$ 1,944,125	\$ (2.72)	\$ 2,791,350	\$ 2,445,942	\$ (2.82)
<b>Moulton Niguel WD</b>									
Totals	\$ 1,489,931	\$ 1,334,743	\$ (2.20)	\$ 1,838,012	\$ 1,598,914	\$ (3.40)	\$ 2,121,728	\$ 1,920,691	\$ (2.86)
<b>Santa Margarita WD</b>									
Totals	\$ 1,289,705	\$ 1,207,782	\$ (1.41)	\$ 1,688,041	\$ 1,487,294	\$ (3.16)	\$ 2,090,215	\$ 1,863,828	\$ (3.31)
<b>South Coast Water District</b>									
Totals	\$ 295,630	\$ 261,956	\$ (2.63)	\$ 343,905	\$ 298,199	\$ (3.54)	\$ 372,720	\$ 338,954	\$ (2.60)
<b>Trabuco Canyon WD</b>									
Totals	\$ 165,988	\$ 155,627	\$ (2.16)	\$ 215,701	\$ 193,551	\$ (4.40)	\$ 261,116	\$ 239,342	\$ (4.17)
<b>Laguna Beach CWD</b>									
Totals	\$ 192,842	\$ 198,067	\$ 0.61	\$ 238,815	\$ 235,385	\$ (0.40)	\$ 275,799	\$ 279,894	\$ 0.47
<b>San Clemente</b>									
Totals	\$ 412,578	\$ 426,678	\$ 0.74	\$ 515,629	\$ 509,571	\$ (0.31)	\$ 591,905	\$ 602,681	\$ 0.54
<b>San Juan Capistrano</b>									
Totals	\$ 216,684	\$ 225,923	\$ 0.80	\$ 268,024	\$ 267,271	\$ (0.06)	\$ 307,687	\$ 316,419	\$ 0.74
<b>Brea</b>									
Totals	\$ 258,060	\$ 272,770	\$ 1.17	\$ 338,233	\$ 336,330	\$ (0.15)	\$ 408,387	\$ 412,716	\$ 0.32
<b>Buena Park</b>									
Totals	\$ 262,695	\$ 297,962	\$ 1.73	\$ 378,737	\$ 388,381	\$ 0.46	\$ 483,588	\$ 496,821	\$ 0.62
<b>East Orange County WD*</b>									
Totals	\$ 95,838	\$ 93,726	\$ (1.76)	\$ 122,106	\$ 115,319	\$ (5.64)	\$ 143,772	\$ 138,962	\$ (3.97)
<b>Fountain Valley</b>									
Totals	\$ 189,608	\$ 215,770	\$ 1.49	\$ 258,572	\$ 269,028	\$ 0.58	\$ 298,069	\$ 319,504	\$ 1.17
<b>Garden Grove</b>									
Totals	\$ 370,229	\$ 425,553	\$ 1.58	\$ 524,062	\$ 544,365	\$ 0.57	\$ 611,716	\$ 652,614	\$ 1.13
<b>Golden State Water Company</b>									
Totals	\$ 560,801	\$ 735,974	\$ 3.25	\$ 868,130	\$ 951,345	\$ 1.21	\$ 1,137,289	\$ 1,186,834	\$ 0.57
<b>Huntington Beach</b>									
Totals	\$ 587,584	\$ 666,514	\$ 1.45	\$ 798,261	\$ 829,858	\$ 0.57	\$ 917,191	\$ 984,030	\$ 1.19
<b>La Habra</b>									
Totals	\$ 148,547	\$ 165,784	\$ 1.31	\$ 192,277	\$ 199,930	\$ 0.57	\$ 221,624	\$ 237,705	\$ 1.19
<b>La Palma</b>									
Totals	\$ 46,253	\$ 52,641	\$ 1.45	\$ 62,625	\$ 65,322	\$ 0.60	\$ 72,070	\$ 77,587	\$ 1.21
<b>Mesa Consolidated</b>									
Totals	\$ 167,517	\$ 208,265	\$ 1.70	\$ 245,178	\$ 266,955	\$ 0.89	\$ 275,139	\$ 311,862	\$ 1.47
<b>Newport Beach</b>									
Totals	\$ 336,301	\$ 385,046	\$ 1.53	\$ 472,638	\$ 490,456	\$ 0.55	\$ 541,424	\$ 580,356	\$ 1.19
<b>OCWD</b>									
Totals	\$ 120,000	\$ 113,868		\$ 147,556	\$ 136,994		\$ 173,467	\$ 164,790	
<b>Orange</b>									
Totals	\$ 453,861	\$ 508,436	\$ 1.50	\$ 639,731	\$ 653,284	\$ 0.37	\$ 740,404	\$ 778,460	\$ 1.02
<b>Seal Beach</b>									
Totals	\$ 67,255	\$ 75,299	\$ 1.47	\$ 93,340	\$ 95,661	\$ 0.42	\$ 109,432	\$ 115,084	\$ 1.00
<b>Serrano WD</b>									
Totals	\$ 14,310	\$ 17,395	\$ 1.34	\$ 17,402	\$ 19,728	\$ 1.01	\$ 18,467	\$ 22,385	\$ 1.70
<b>Westminster</b>									
Totals	\$ 231,903	\$ 261,987	\$ 1.46	\$ 316,753	\$ 327,873	\$ 0.53	\$ 367,195	\$ 391,181	\$ 1.13
<b>Yorba Linda WD</b>									
Totals	\$ 489,990	\$ 519,361	\$ 1.20	\$ 647,209	\$ 644,258	\$ (0.12)	\$ 765,177	\$ 775,605	\$ 0.39

## 6f Option 3a – Six Agency South CWA

This option is one of two options that models detachment of some South County agencies and formation of a new South County CWA formed under Water Code Appendix 45. Under Option 3a - Six Agency South CWA - El Toro, Irvine Ranch, Moulton Niguel, Santa Margarita, South Coast and Trabuco Canyon Water Districts are detached. MWDOC continues as an MWD representing 22 retail agencies. The boundaries are illustrated in Figure 9.

**Figure 9 Six Agency South CWA**



### Essential Services

The Six Agency South CWA will provide only “essential” services. These were identified during the MWDOC MSR process and are identical to the essential services defined for the MWDOC Subscription CWA and discussed in Section 6e. The essential services are:

- Wholesale Water Importation
- Planning and Resource Development<sup>21</sup>
- Metropolitan Issues and Special Projects
- Water Use Efficiency
- School Program
- A “fair share” of Emergency Preparedness (WEROC).

The remaining MWDOC will continue to provide its full range of services to its member agencies.

### Cost of Service and Operational Reserves

The budgets developed for the Six Agency South CWA and the remaining MWDOC form the foundation for the cost of service analysis. The budgets are based on the staffing and transitional assumptions outlined *Attachment C*. Both budgets assume that operational reserves are reduced to 15% of the general fund budget over the 10-year projection period. In addition, the Six Agency South CWA reflects the costs of \$18,000 per director for up to 28 directors (based on the SDCWA costs discussed above and the analysis found in Section 7c). Board compensation for the remaining MWDOC is the same as for MWDOC Baseline.

Finally, the initial formation of a CWA will require an election, however the CWA Act specifically states that the “cost thereof shall be a proper charge against the county.”<sup>22</sup> For the Six Agency South CWA option, this election would need to include all territory within the six agencies’ current service area. The Orange County Registrar of Voters has provided estimates of \$1,000,000 to \$1,200,000 for a formation election consolidated with a general election and \$1,900,000 to \$2,000,000 for a special election. Additional analysis is needed to determine if these costs are truly a “proper charge against the

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<sup>21</sup> The analysis assumes that MWDOC’s Policy regarding project initiation remains in effect and that the benefitting retailers will pay for large planning and resource development projects.

<sup>22</sup> Section 45-4, CWA Act.

county”. Because of this, these costs are currently not included in the budget used for the fiscal model.

Tables 14a and 14b provide budget summaries for Six Agency South CWA and remaining MWDOC, presenting budget estimates for Fiscal Years 2009-10, 2014-15 and 2019-20. Figures 10a and 10b graphically illustrate the relationship of the various budget programs to one another.

**Table 14a: Projected General Fund Budgets – Option 3a Six Agency South CWA<sup>23</sup>**

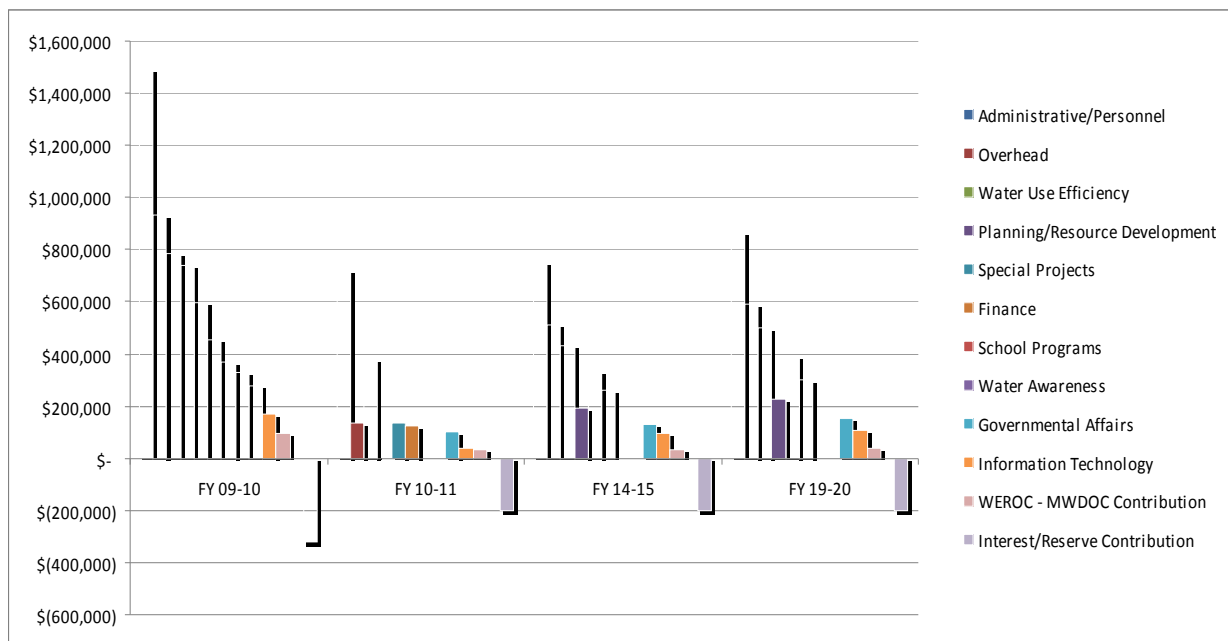
	FY 09-10	FY 10-11	FY 14-15	FY 19-20
Administrative/Personnel	\$ 1,489,924	\$723,511	\$ 748,086	\$ 867,237
Planning/Resource Development	\$ 742,129	\$0	\$ 192,942	\$ 223,673
Special Projects	\$ 599,677	\$135,674	\$ 337,472	\$ 391,222
Governmental Affairs	\$ 274,947	\$100,000	\$ 131,840	\$ 152,839
Water Use Efficiency	\$ 785,143	\$382,287	\$ 429,783	\$ 498,236
Water Awareness	\$ 327,388	\$0	\$ -	\$ -
School Programs	\$ 366,193	\$0	\$ -	\$ -
Finance	\$ 453,301	\$125,062	\$ 258,287	\$ 299,426
Information Technology	\$ 172,113	\$35,720	\$ 93,075	\$ 107,900
Overhead	\$ 931,592	\$135,490	\$ 509,666	\$ 590,842
WEROC - MWDOC Contribution	\$ 93,965	\$31,290	\$ 35,217	\$ 40,827
Interest/Reserve Contribution	\$ (322,000)	-\$200,000	\$ (200,000)	\$ (199,000)
<b>Subtotal General Fund</b>	<b>\$ 5,914,372</b>	<b>\$ 1,469,035</b>	<b>\$ 2,536,369</b>	<b>\$ 2,973,201</b>
<b>Reserve Balance</b>	<b>\$ 4,739,000</b>	<b>\$2,013,225</b>	<b>\$ 1,213,225</b>	<b>\$ 388,225</b>

**Table 14b: Projected General Fund Budgets – Option 3a Remaining MWDOC**

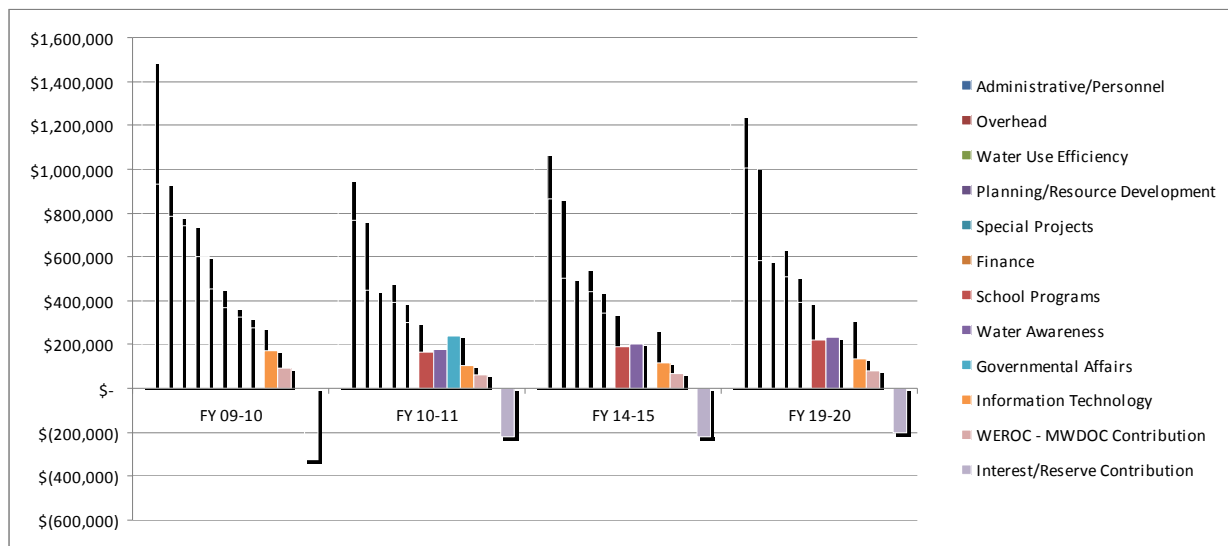
	FY 09-10	FY 10-11	FY 14-15	FY 19-20
Administrative/Personnel	\$ 1,489,924	\$952,961	\$ 1,072,566	\$ 1,243,398
Planning/Resource Development	\$ 742,129	\$487,464	\$ 548,645	\$ 636,029
Special Projects	\$ 599,677	\$389,898	\$ 438,833	\$ 508,728
Governmental Affairs	\$ 274,947	\$238,966	\$ 268,959	\$ 311,797
Water Use Efficiency	\$ 785,143	\$447,153	\$ 503,275	\$ 583,433
Water Awareness	\$ 327,388	\$180,740	\$ 203,424	\$ 235,825
School Programs	\$ 366,193	\$168,045	\$ 189,136	\$ 219,260
Finance	\$ 453,301	\$303,005	\$ 341,035	\$ 395,353
Information Technology	\$ 172,113	\$104,040	\$ 117,098	\$ 135,748
Overhead	\$ 931,592	\$768,789	\$ 865,279	\$ 1,003,096
WEROC - MWDOC Contribution	\$ 93,965	\$62,675	\$ 70,541	\$ 81,776
Interest/Reserve Contribution	\$ (322,000)	-\$223,000	\$ (223,000)	\$ (200,000)
<b>Subtotal General Fund</b>	<b>\$ 5,914,372</b>	<b>\$ 3,880,736</b>	<b>\$ 4,395,791</b>	<b>\$ 5,154,444</b>
<b>Reserve Balance</b>	<b>\$ 4,739,000</b>	<b>\$2,500,775</b>	<b>\$ 1,608,775</b>	<b>\$ 743,085</b>

<sup>23</sup> The “Subtotal General Fund” row may differ slightly from the sum of individual line items due to rounding within the model.

**Figure 10a: Program Budget Relationships – Option 3a Six Agency South CWA**



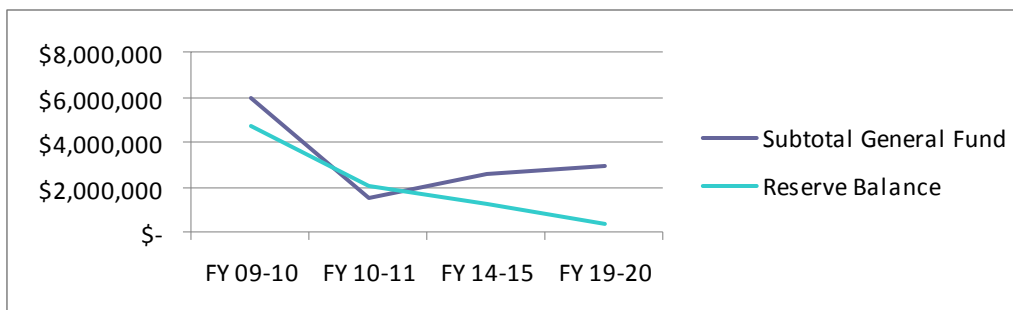
**Figure 10b: Program Budget Relationships – Remaining MWDOC**



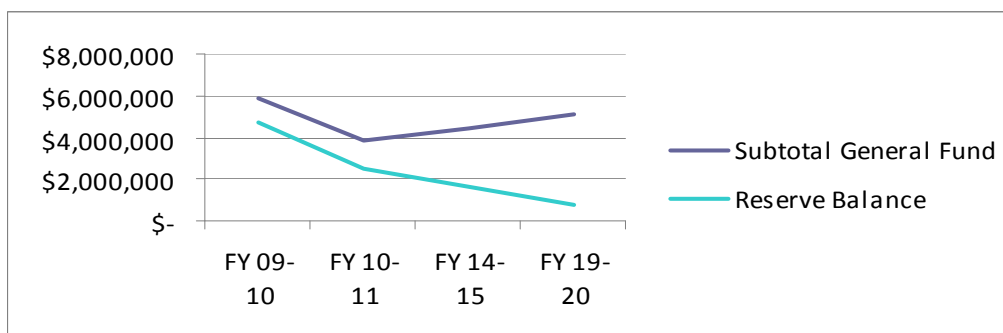
Both the Six Agency South CWA and the remaining MWDOC retain an operational reserve. The analysis assumes that at the time of detachment, of MWDOC's existing operational reserve, 42.5% is allocated to the Six Agency South CWA and 57.5% to remaining MWDOC, based on the historical 5-year (Fiscal Years 2004-08) average percentage revenue paid to MWDOC from the reorganized agencies. These percentages are also used to allocate the MWDOC Water Purchase Reserve Fund. Figures 11a and

11b graphically represent the relationship between the general fund budget and the operating reserve for both the Six Agency South CWA and remaining MWDOC.

**Figure 11a: General Fund and Operational Reserve Trends – Option 3a Six Agency CWA**



**Figure 11b: General Fund and Operational Reserve Trends – Remaining MWDOC**



### Revenue Recovery and Cost Impacts to Rate Payers

The Six Agency CWA and remaining MWDOC are modeled using the following revenue recovery tools:

- A two tier rate system for water sales (a Melded Water Rate Surcharge is not modeled);
- For the Six Agency South CWA, a Water Increment Charge is used to recover general fund costs because its general fund costs are associated almost exclusively with providing water supply;
- For remaining MWDOC, a Water Increment Charge is used to recover approximately 30% of its general fund costs and a Retail Meter Charge is used to recover approximately 70% of its general fund costs, consistent with the cost recovery pattern identified from MWDOC's 2004-08 historical budget data.

### Removing the Melded Water Rate Surcharge

Option 3a illustrates the effects of removing the Melded Water Rate Surcharge, which currently “smoothes” the costs of Tier 2 water purchases. This option analyzes the potential impact to rate payers should both the Six Agency South CWA and remaining MWDOC chose not to meld water rates, but rather utilize the more common two-tier assessment for water sales, requiring those individual agencies needing Tier 2 water to purchase that increment at the higher Metropolitan Tier 2 rate.

Table 15 illustrates each retail agency’s Tier 1 allocation with respect to its projected demand and demonstrates that the remaining MWDOC does have the capacity to continue to pool allocations throughout its new service area. Table 15 also demonstrates that the Six Agency South CWA has a significant Tier 2 demand driven initially by Santa Margarita and Moulton Niguel Water Districts. However over the planning period, the majority of all South County agencies exceed their Tier 1 allocations. The Table illustrates that the Six Agency South CWA’s demand exceeds its Tier 1 allocation in Fiscal Year 2009-10 by over 19,000 AF, which grows to over 33,000 AF in Fiscal Year 2019-20. Conversely, the remaining MWDOC organization experiences a reverse situation: the initial Tier 1 allocation exceeds overall demand for water by more than 32,000 AF, but this is reduced to just under 11,500 AF by Fiscal Year 2019-20.

**Table 15: Tier 1 Allocations and Projected UWMP Demands (all in acre-feet)<sup>24</sup>**

Agency	Tier 1 Allocation	FY 2009-2010		FY 2014-2015		FY 2019-2020	
		Demand	Difference	Demand	Difference	Demand	Difference
El Toro	11,411	10,894	-517	11,153	-258	11,323	-88
Irvine Ranch	34,083	33,193	-890	37,512	3,429	41,733	7,650
Moulton Niguel	28,571	35,114	6,543	35,435	6,864	35,935	7,364
Santa Margarita	17,541	30,957	13,416	32,767	15,226	35,565	18,024
South Coast	8,300	7,209	-1,091	6,686	-1,614	6,196	-2,104
Trabuco Canyon	2,861	4,543	1,682	4,819	1,958	5,058	2,197
<b>Six Agency South CWA</b>	<b>102,767</b>	<b>121,910</b>	<b>19,143</b>	<b>128,372</b>	<b>25,605</b>	<b>135,810</b>	<b>33,043</b>
Laguna Beach	4,377	4,653	276	4,703	326	4,753	376
San Clemente	8,674	9,806	1,132	9,992	1,318	9,994	1,320
San Juan Capistrano	6,111	4,839	-1,272	4,878	-1,233	4,919	-1,192
Brea	8,826	5,997	-2,829	6,491	-2,335	6,390	-2,436
Buena Park	7,358	4,536	-2,822	5,982	-1,376	7,203	-155
EOCWD	5279	2,947	-2,332	3,064	-2,215	3,092	-2,187
Fountain Valley	2,451	2,697	246	3,339	888	3,497	1,046
Garden Grove	8,327	5,122	-3,205	6,914	-1413	7,420	-907
Golden State	12,761	7,540	-5,221	9,522	-3,239	10,159	-2,602
Huntington Beach	10,962	8,327	-2,635	10,312	-650	10,781	-181
La Habra	2,928	2,225	-703	2,477	-451	2,613	-315
La Palma	657	629	-28	780	123	824	167
Mesa Consolidated	6,493	616	-5,877	1,634	-4,859	1,747	-4,746
Newport Beach	18,924	4,643	-14,281	6,200	-12,724	6,436	-12,488
Orange	4,695	7,594	2,899	9,773	5,078	10,157	5,462

<sup>24</sup> Tier 1 Metropolitan Allocation Method using 1989-90 data. Subtotals may differ slightly from the sum of individual allocations due to rounding.



Agency	Tier 1 Allocation	FY 2009-2010		FY 2014-2015		FY 2019-2020	
		Demand	Difference	Demand	Difference	Demand	Difference
Seal Beach	1,085	1,108	23	1,393	308	1,485	400
Serrano	449	-	-449	-	-449	-	-449
Westminster	1,145	3,472	2,327	4,298	3,153	4,540	3,395
Yorba Linda	8,652	11,280	2,628	12,394	3,742	12,694	4,042
<b>Remaining MWDOC</b>	<b>120,154</b>	<b>88,031</b>	<b>-32,423</b>	<b>104,146</b>	<b>-16,008</b>	<b>108,704</b>	<b>-11,450</b>

### Impact to Rate Payers

The budgets and revenue recovery strategies for the Six Agency South CWA and the remaining MWDOC have been modeled for a ten year period in order to develop a cost allocation for each retail agency. The model accounts for any Tier 2 water purchases made by each retail agency.

*Attachment H* presents the complete, annual 10-year model results for the Six Agency South CWA. Table 16 compares the projected revenue contributions for the Six Agency South CWA to the MWDOC Baseline for Fiscal Years 2009-10, 2014-15 and 2019-20. Because this option does not use a Melded Water Rate Surcharge, the revenue contributions include the Water Increment Charges, Retail Meter Charges and any Tier 2 charges that the retail agencies incur. Each retail agency's Six Agency CWA revenue contribution was divided by the number of retail meters within its' service area in order to develop a cost per rate payer to compare against the MWDOC Baseline "Annual Cost to Rate Payer" shown on Table 7 in Section 6c and again on Table 16. The resulting increase or decrease from the MWDOC Baseline rate is then shown on Table 16 in the column "Annual Cost to Ratepayer."

This analysis indicates that some cost reallocation occurs as a result of detachment and formation of a new agency. These reallocations occur primarily as the result of removing the Melded Water Rate Surcharge and causing each agency to pay for Tier 2 water costs based on actual use. However the impacts are not large when carried down to the individual rate payer. In the most severe cases, rate payer impacts are under \$5.00 per month and many rate payers experience a cost savings. Based on the results of this analysis, Option 3a – Six Agency South CWA is considered fiscally feasible, although particularly for the Six Agency South CWA, the analysis highlights important policy issues related to Tier 2 water costs. While not specifically modeled, the analysis demonstrates that remaining MWDOC could continue its practice of utilizing a Melded Water Rate and would likely experience reduced need for Tier 2 water purchases.

Table 16: Revenue Contribution Comparison – Six Agency South CWA to MWDOC Baseline

	FY 09-10			FY 14-15			FY 19-20		
	Baseline	Six Agency CWA	Annual Impact to Rate Payer	Baseline	Six Agency CWA	Annual Impact to Rate Payer	Baseline	Six Agency CWA	Annual Impact to Rate Payer
Six Agency CWA									
El Toro WD									
Totals	\$ 393,330	\$ 393,330	\$ -	\$ 490,901	\$ 220,361	\$ (25.67)	\$ 577,377	\$ 247,887	\$ (30.54)
Irvine Ranch WD*									
Totals	\$ 1,710,731	\$ 1,710,731	\$ -	\$ 2,259,849	\$ 1,345,516	\$ (7.87)	\$ 2,791,350	\$ 2,552,501	\$ (1.95)
Moulton Niguel WD									
Totals	\$ 1,489,931	\$ 1,489,931	\$ -	\$ 1,838,012	\$ 1,909,892	\$ 1.02	\$ 2,121,728	\$ 2,364,299	\$ 3.45
Santa Margarita WD									
Totals	\$ 1,289,705	\$ 1,289,705	\$ -	\$ 1,688,041	\$ 3,330,967	\$ 25.85	\$ 2,090,215	\$ 4,639,902	\$ 37.24
South Coast Water District									
Totals	\$ 295,630	\$ 295,630	\$ -	\$ 343,905	\$ 132,102	\$ (16.42)	\$ 372,720	\$ 135,645	\$ (18.24)
Trabuco Canyon WD									
Totals	\$ 165,988	\$ 165,988	\$ -	\$ 215,701	\$ 440,308	\$ 44.64	\$ 261,116	\$ 581,397	\$ 61.36
Remaining MWDOC Laguna Beach CWD									
Totals	\$ 192,842	\$ 192,842	\$ -	\$ 238,815	\$ 178,500	\$ (6.96)	\$ 275,799	\$ 216,294	\$ (6.83)
San Clemente									
Totals	\$ 412,578	\$ 412,578	\$ -	\$ 515,629	\$ 508,604	\$ (0.36)	\$ 591,905	\$ 580,400	\$ (0.58)
San Juan Capistrano									
Totals	\$ 216,684	\$ 216,684	\$ -	\$ 268,024	\$ 145,362	\$ (10.50)	\$ 307,687	\$ 163,112	\$ (12.26)
Brea									
Totals	\$ 258,060	\$ 258,060	\$ -	\$ 338,233	\$ 175,471	\$ (12.42)	\$ 408,387	\$ 204,287	\$ (15.14)
Buena Park									
Totals	\$ 262,695	\$ 262,695	\$ -	\$ 378,737	\$ 227,063	\$ (7.24)	\$ 483,588	\$ 272,436	\$ (9.87)
East Orange County WD*									
Totals	\$ 95,838	\$ 91,789	\$ (3.38)	\$ 122,106	\$ 41,088	\$ (67.29)	\$ 143,772	\$ 52,065	\$ (75.79)
Fountain Valley									
Totals	\$ 189,608	\$ 189,608	\$ -	\$ 258,572	\$ 329,242	\$ 3.94	\$ 298,069	\$ 420,700	\$ 6.70
Garden Grove									
Totals	\$ 370,229	\$ 370,229	\$ -	\$ 524,062	\$ 346,602	\$ (4.97)	\$ 611,716	\$ 396,101	\$ (5.95)
Golden State Water Company									
Totals	\$ 560,801	\$ 560,801	\$ -	\$ 868,130	\$ 620,074	\$ (3.62)	\$ 1,137,289	\$ 847,094	\$ (3.33)
Huntington Beach									
Totals	\$ 587,584	\$ 587,584	\$ -	\$ 798,261	\$ 533,169	\$ (4.78)	\$ 917,191	\$ 604,385	\$ (5.57)
La Habra									
Totals	\$ 148,547	\$ 148,547	\$ -	\$ 192,277	\$ 128,587	\$ (4.76)	\$ 221,624	\$ 145,798	\$ (5.60)
La Palma									
Totals	\$ 46,253	\$ 46,253	\$ -	\$ 62,625	\$ 64,196	\$ 0.35	\$ 72,070	\$ 83,972	\$ 2.62
Mesa Consolidated									
Totals	\$ 167,517	\$ 167,517	\$ -	\$ 245,178	\$ 200,208	\$ (1.83)	\$ 275,139	\$ 226,566	\$ (1.95)
Newport Beach									
Totals	\$ 336,301	\$ 336,301	\$ -	\$ 472,638	\$ 313,436	\$ (4.92)	\$ 541,424	\$ 354,584	\$ (5.70)
OCWD									
Totals	\$ 120,000	\$ 120,000		\$ 147,556	\$ 48,776		\$ 173,467	\$ 54,620	
Orange									
Totals	\$ 453,861	\$ 453,861	\$ -	\$ 639,731	\$ 1,279,881	\$ 17.29	\$ 740,404	\$ 1,613,765	\$ 23.30
Seal Beach									
Totals	\$ 67,255	\$ 84,343	\$ 3.11	\$ 93,340	\$ 112,177	\$ 3.39	\$ 109,432	\$ 151,755	\$ 7.52
Serrano WD									
Totals	\$ 14,310	\$ 17,309	\$ 1.30	\$ 17,402	\$ 16,968	\$ (0.19)	\$ 18,467	\$ 18,776	\$ 0.13
Westminster									
Totals	\$ 231,903	\$ 290,094	\$ 2.82	\$ 316,753	\$ 762,373	\$ 21.24	\$ 367,195	\$ 962,465	\$ 27.97
Yorba Linda WD									
Totals	\$ 489,990	\$ 600,427	\$ 4.52	\$ 647,209	\$ 995,916	\$ 13.84	\$ 765,177	\$ 1,257,526	\$ 18.35

## 6g Option 3b – Nine Agency South CWA

This option is second of two options that model detachment of some South County agencies and formation of a new CWA under the CWA Act. Under Option 3b – Nine Agency South CWA - the Six Agencies together with the Laguna Beach County Water District and the cities of San Clemente and San Juan Capistrano are detached. MWDOC continues as an MWD representing 19 retail agencies. The boundaries are illustrated in Figure 12. This option provides for contiguous boundaries.

**Figure 12 Nine Agency South CWA**



### Essential Services

As was the case with Option 3a, the Nine Agency South CWA will provide only “essential” services as defined through the MWDOC MSR process. The remaining MWDOC will continue to provide its full range of services to its member agencies.

### Cost of Service and Operational Reserves

The budgets developed for the Nine Agency South CWA and the remaining MWDOC form the foundation for the cost of service analysis. The budgets are based on the staffing and transitional assumptions outlined *Attachment C*. Both budgets assume that operational reserves are reduced to 15% of the general fund budget over the 10-year projection period. In addition, the Six Agency South CWA reflects the costs of \$18,000 per director for up to 28 directors (based on the SDCWA costs discussed above and the analysis found in Section 7c). Board compensation for the remaining MWDOC is the same as for MWDOC Baseline.

Finally, the initial formation of a CWA will require an election, however the CWA Act specifically states that the “cost thereof shall be a proper charge against the county.”<sup>25</sup> For the Six Agency South CWA option, this election would need to include all territory within the six agencies’ current service area. The Orange County Registrar of Voters has provided estimates of \$1,000,000 to \$1,200,000 for a formation election consolidated with a general election and \$1,900,000 to \$2,000,000 for a special election. Additional analysis is needed to determine if these costs are truly a “proper charge against the county”. Because of this, these costs are currently not included in the budget used for the fiscal model.

Tables 17a and 17b provide budget summaries for Nine Agency South CWA and remaining MWDOC respectively, presenting the budget estimates for the current Fiscal Year and Fiscal Years 2009-10, 2014-15 and 2019-20. Figures 13a and 13b graphically illustrate the relationship of the various budget programs to one another.

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<sup>25</sup> Section 45-4, CWA Act.

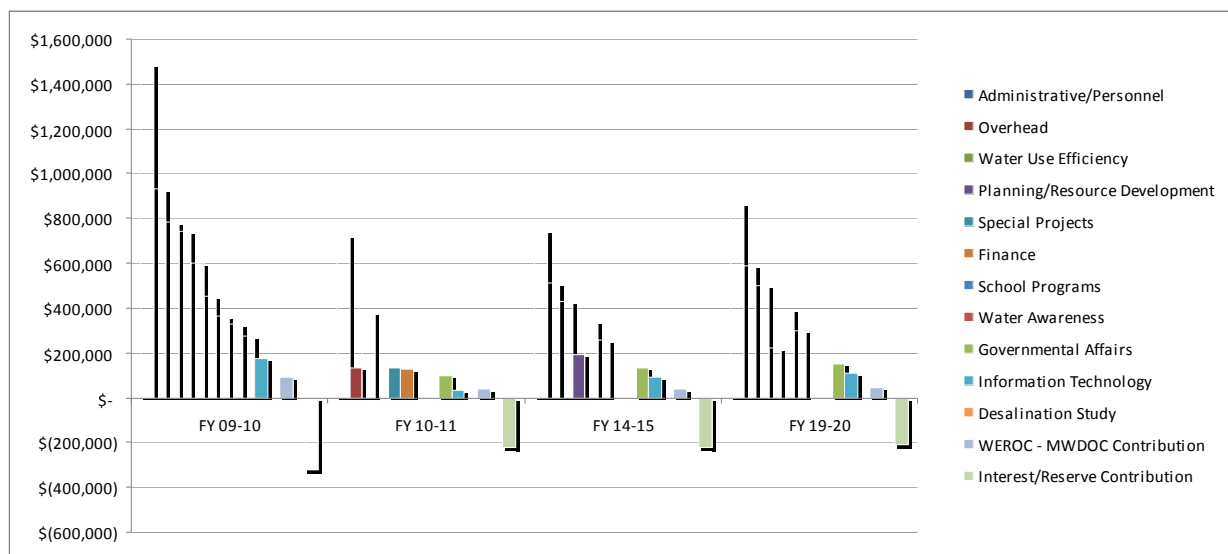
**Table 17a: Projected General Fund Budgets – Option 3b Nine Agency South CWA**

	<b>FY 09 10</b>	<b>FY 10-11</b>	<b>FY 14-15</b>	<b>FY 19-20</b>
Administrative/Personnel	\$ 1,489,924	\$723,511	\$ 748,086	\$ 867,237
Planning/Resource Development	\$ 742,129	\$0	\$ 192,942	\$ 223,673
Special Projects	\$ 599,677	\$135,674	\$ 337,472	\$ 391,222
Governmental Affairs	\$ 274,947	\$100,000	\$ 131,840	\$ 152,839
Water Use Efficiency	\$ 785,143	\$382,287	\$ 429,783	\$ 498,236
Water Awareness	\$ 327,388	\$0	\$ -	\$ -
School Programs	\$ 366,193	\$0	\$ -	\$ -
Finance	\$ 453,301	\$125,062	\$ 258,287	\$ 299,426
Information Technology	\$ 172,113	\$35,720	\$ 93,075	\$ 107,900
Overhead	\$ 931,592	\$135,490	\$ 509,666	\$ 590,842
Desalination Study	\$ -	\$0	\$ -	\$ -
WEROC - MWDOC Contribution	\$ 93,965	\$36,176	\$ 40,717	\$ 47,202
Interest/Reserve Contribution	\$ (322,000)	-\$220,000	-\$220,000	\$ (210,000)
<b>Subtotal General Fund</b>	<b>\$ 5,914,372</b>	<b>\$ 1,453,921</b>	<b>\$ 2,521,868</b>	<b>\$ 2,968,577</b>
<b>Reserve Balance</b>	<b>\$ 4,739,000</b>	<b>\$2,115,341</b>	<b>\$1,235,341</b>	<b>\$ 368,741</b>

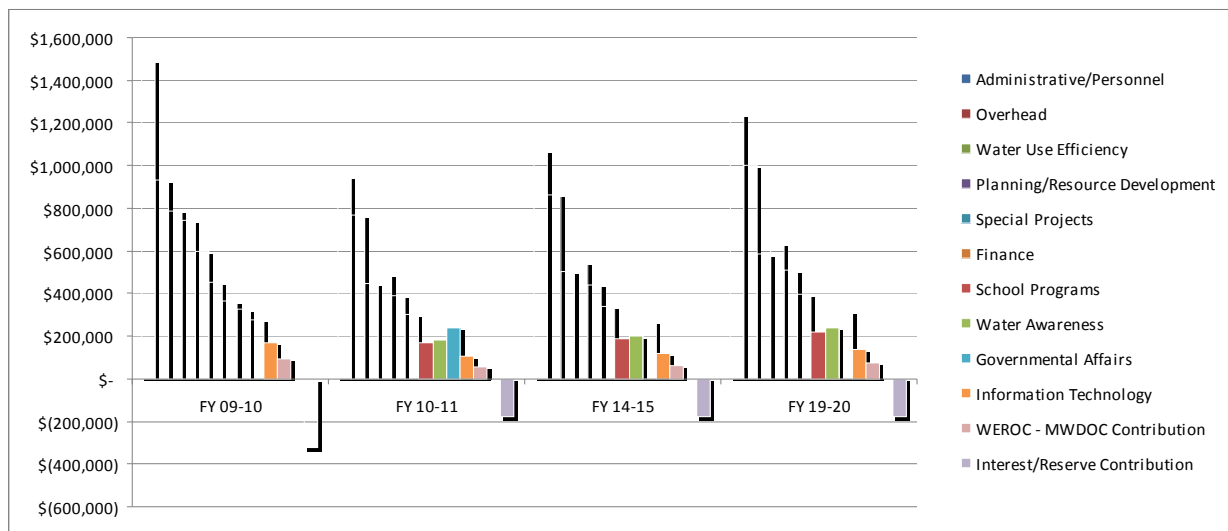
**Table 17b: Projected General Fund Budgets – Option 3b Remaining MWDOC**

	<b>FY 09 10</b>	<b>FY 10-11</b>	<b>FY 14-15</b>	<b>FY 19-20</b>
Administrative/Personnel	\$ 1,489,924	\$952,961	\$ 1,072,566	\$ 1,243,398
Planning/Resource Development	\$ 742,129	\$487,464	\$ 548,645	\$ 636,029
Special Projects	\$ 599,677	\$389,898	\$ 438,833	\$ 508,728
Governmental Affairs	\$ 274,947	\$238,966	\$ 268,959	\$ 311,797
Water Use Efficiency	\$ 785,143	\$447,153	\$ 503,275	\$ 583,433
Water Awareness	\$ 327,388	\$180,740	\$ 203,424	\$ 235,825
School Programs	\$ 366,193	\$168,045	\$ 189,136	\$ 219,260
Finance	\$ 453,301	\$303,005	\$ 341,035	\$ 395,353
Information Technology	\$ 172,113	\$104,040	\$ 117,098	\$ 135,748
Overhead	\$ 931,592	\$768,789	\$ 865,279	\$ 1,003,096
WEROC - MWDOC Contribution	\$ 93,965	\$57,788	\$ 65,041	\$ 75,401
Interest/Reserve Contribution	\$ (322,000)	-\$180,000	\$ (180,000)	\$ (180,000)
<b>Subtotal General Fund</b>	<b>\$ 5,914,372</b>	<b>\$ 3,918,849</b>	<b>\$ 4,433,291</b>	<b>\$ 5,168,069</b>
<b>Reserve Fund Balance</b>	<b>\$ 4,739,000</b>	<b>\$2,221,659</b>	<b>\$ 1,501,659</b>	<b>\$ 776,259</b>

**Figure 13a: Program Budget Relationships – Option 3b Nine Agency South CWA**



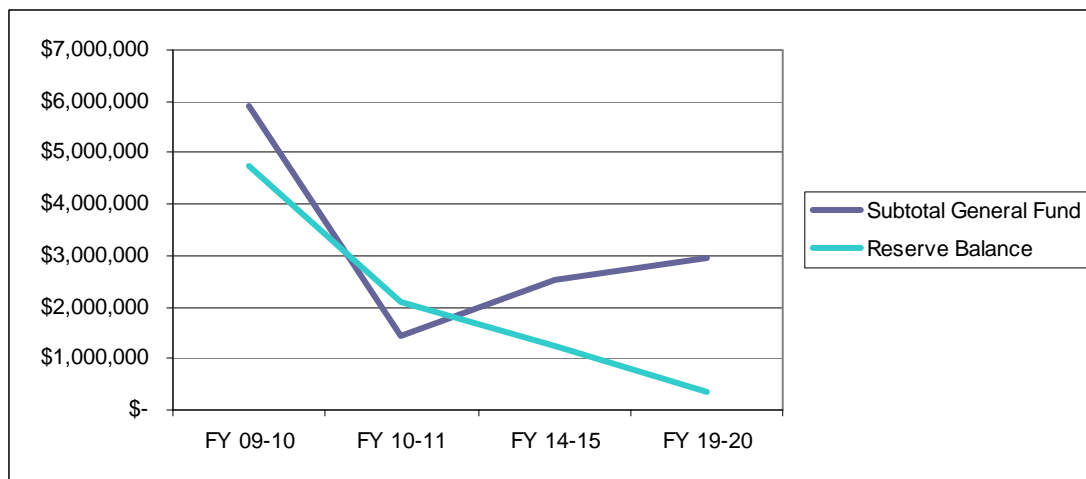
**Figure 13b: Program Budget Relationships – Remaining MWD OC**



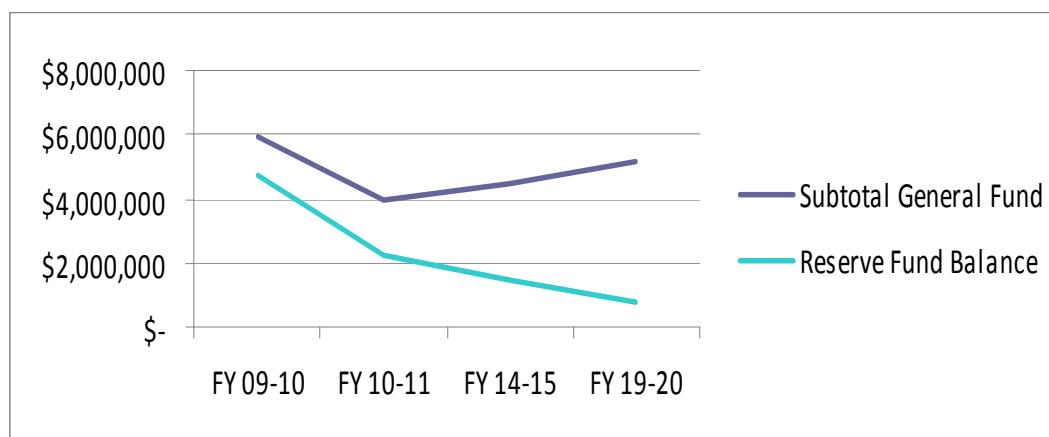
Both the Nine Agency South CWA and remaining MWD OC maintain an operational reserve. The analysis assumes that at the time of detachment, of MWD OC's existing operational reserve, 49.3% is allocated to the Nine Agency South CWA and 50.7% to the remaining MWD OC based on the historical 5-year (Fiscal Years 2004-08) average percentages of revenue paid to MWD OC from the reorganized agencies. These percentages are also used to allocate the MWD OC Water Purchase Reserve Funds. As noted above, the operational reserves are reduced to 15% of the general fund budget over the 10-year projection period. Figures 14a and 14b graphically represent the

relationship between the general fund budget and the operating reserve for both the Nine Agency South CWA and remaining MWDOC.

**Figure 14a: General Fund and Operational Reserve Trends – Option 3b Six Agency CWA**



**Figure 14b: General Fund and Operational Reserve Trends – Remaining MWDOC**



### Revenue Recovery and Cost Impacts to Rate Payers

The Nine Agency CWA and remaining MWDOC are modeled using the following recovery tools:

- A two tier rate system for water sales (a Melded Water Rate Surcharge is not modeled);

- For the Nine Agency CWA, a Water Increment Charge to recover general fund costs because its general fund costs are associated almost exclusively with providing water supply.
- For remaining MWDOC, a Water Increment Charge to recover approximately 30% of its general fund costs and a Retail Meter Charge to recover approximately 70% of its general fund costs, consistent with the cost recovery pattern identified from MWDOC's 2004-08 historical budget data.

### Removing the Melded Water Rate Surcharge

Like Option 3a, this option illustrates the effects of removing the Melded Water Rate Surcharge, which currently “smoothes” the costs of Tier 2 water purchases. This option analyzes the potential impact to rate payers should both the Nine Agency South CWA and remaining MWDOC chose not to meld water rates, but rather utilize the more common two-tier assessment for water sales, requiring those individual agencies needing Tier 2 water to purchase that increment at the higher Metropolitan Tier 2 rate.

Table 18 uses the data from Table 15 and provides a brief summary of both the Nine Agency South CWA and remaining MWDOC's Tier 1 allocation with respect to their projected demand. Again, the analysis demonstrates that remaining MWDOC does have the capacity to continue to pool allocations throughout its new service area. Like the Six Agency South CWA, the Nine Agency South CWA has a significant Tier 2 demand. The Nine Agency CWA's demand initially exceeds its Tier 1 allocation by over 19,000 AF, growing to over 33,000 AF in Fiscal Year 2019-20. Conversely, the remaining MWDOC organization experiences a reverse situation: the initial Tier 1 allocation exceeds overall demand for water by 32,000 AF, but this is reduced to just less than 12,000 AF by 2019-20.

**Table 18: Tier 1 Allocations and Projected UWMP Demands (all in acre-feet)**

Agency	Tier 1 Allocation	FY 2009-2010		FY 2014-2015		FY 2019-2020	
		Demand	Difference	Demand	Difference	Demand	Difference
<b>Nine Agency South CWA</b>	<b>121,929</b>	<b>141,208</b>	<b>19,279</b>	<b>147,351</b>	<b>26,016</b>	<b>155,476</b>	<b>33,536</b>
<b>Remaining MWDOC</b>	<b>100,992</b>	<b>68,733</b>	<b>-32,259</b>	<b>83,573</b>	<b>-17,419</b>	<b>89,038</b>	<b>-11,954</b>



### Impacts to Ratepayers

The budgets and revenue recovery strategies for the Nine Agency South CWA and the remaining MWDOC have been modeled for a ten year period in order to develop a cost allocation for each retail agency. The model accounts for any Tier 2 water purchases made by each retail agency.

*Attachment I* presents the complete, annual 10-year model results for the Nine Agency South CWA. Table 19 compares the projected revenue contributions for the Nine Agency South CWA to the MWDOC Baseline for Fiscal Years 2009-10, 2014-15 and 2019-20. Because this option does not use a Melded Water Rate Surcharge, the revenue contributions include the Water Increment Charges, Retail Meter Charges and any Tier 2 charges that the retail agencies incur. Each retail agency's Nine Agency CWA revenue contribution was divided by the number of retail meters within its' service area in order to develop a cost per rate payer to compare against the MWDOC Baseline "Annual Cost to Rate Payer" shown on Table 7 in Section 6.3 and again on Table 19. The resultant increase or decrease from the MWDOC Baseline rate is then shown on Table 19 in the column "Annual Cost to Ratepayer."

This analysis indicates that some cost reallocation occurs as a result of detachment and formation of a new agency. These reallocations occur primarily as the result removing the Melded Water Rate Surcharge and causing each agency to pay for Tier 2 water costs based on actual use. However the impacts are not large when carried down to the individual rate payer. In the most severe cases, rate payer impacts are under \$5.00 per month and many ratepayers experience a cost savings. Based on the results of this analysis, Option 3b - Nine Agency South CWA is considered fiscally feasible, although particularly for the Nine Agency South CWA, the analysis highlights important policy issues related to Tier 2 water costs. While not specifically modeled, the analysis demonstrates that remaining MWDOC could continue its practice of utilizing a Melded Water Rate and would likely experience reduced need for Tier 2 water purchases.

Table 19: Revenue Contribution Comparison – Nine Agency South CWA to MWDOC Baseline

	FY 09-10			FY 14-15			FY 19-20		
	Baseline	Nine Agency CWA	Annual Impact to Rate Payer	Baseline	Nine Agency CWA	Annual Impact to Rate Payer	Baseline	Nine Agency CWA	Annual Impact to Rate Payer
Nine Agency CWA									
El Toro WD									
Totals	\$ 393,330	\$ 393,330	\$ -	\$ 490,901	\$ 185,825	\$ (28.94)	\$ 577,377	\$ 211,393	\$ (33.92)
Irvine Ranch WD*									
Totals	\$ 1,710,731	\$ 1,710,731	\$ -	\$ 2,259,849	\$ 1,229,361	\$ (8.87)	\$ 2,791,350	\$ 2,417,994	\$ (3.04)
Moulton Niguel WD									
Totals	\$ 1,489,931	\$ 1,489,931	\$ -	\$ 1,838,012	\$ 1,800,169	\$ (0.54)	\$ 2,121,728	\$ 2,248,479	\$ 1.80
Santa Margarita WD									
Totals	\$ 1,289,705	\$ 1,289,705	\$ -	\$ 1,688,041	\$ 3,229,505	\$ 24.25	\$ 2,090,215	\$ 4,525,275	\$ 35.56
South Coast Water District									
Totals	\$ 295,630	\$ 295,630	\$ -	\$ 343,905	\$ 111,399	\$ (18.02)	\$ 372,720	\$ 115,675	\$ (19.77)
Trabuco Canyon WD									
Totals	\$ 165,988	\$ 165,988	\$ -	\$ 215,701	\$ 425,386	\$ 41.68	\$ 261,116	\$ 565,095	\$ 58.23
Laguna Beach CWD									
Totals	\$ 192,842	\$ 192,842	\$ -	\$ 238,815	\$ 135,816	\$ (11.89)	\$ 275,799	\$ 169,286	\$ (12.23)
San Clemente									
Totals	\$ 412,578	\$ 412,578	\$ -	\$ 515,629	\$ 398,777	\$ (5.99)	\$ 591,905	\$ 469,366	\$ (6.19)
San Juan Capistrano									
Totals	\$ 216,684	\$ 216,684	\$ -	\$ 268,024	\$ 81,275	\$ (15.99)	\$ 307,687	\$ 91,834	\$ (18.30)
Remaining MWDOC									
Brea									
Totals	\$ 258,060	\$ 258,060	\$ -	\$ 338,233	\$ 204,829	\$ (10.18)	\$ 408,387	\$ 235,759	\$ (12.81)
Buena Park									
Totals	\$ 262,695	\$ 262,695	\$ -	\$ 378,737	\$ 261,612	\$ (5.59)	\$ 483,588	\$ 311,330	\$ (8.05)
East Orange County WD*									
Totals	\$ 95,838	\$ 95,838	\$ -	\$ 122,106	\$ 55,874	\$ (55.01)	\$ 143,772	\$ 62,085	\$ (67.51)
Fountain Valley									
Totals	\$ 189,608	\$ 189,608	\$ -	\$ 258,572	\$ 353,799	\$ 5.30	\$ 298,069	\$ 446,203	\$ 8.10
Garden Grove									
Totals	\$ 370,229	\$ 370,229	\$ -	\$ 524,062	\$ 396,182	\$ (3.58)	\$ 611,716	\$ 448,046	\$ (4.52)
Golden State Water Company									
Totals	\$ 560,801	\$ 560,801	\$ -	\$ 868,130	\$ 704,719	\$ (2.38)	\$ 1,137,289	\$ 949,570	\$ (2.16)
Huntington Beach									
Totals	\$ 587,584	\$ 587,584	\$ -	\$ 798,261	\$ 608,975	\$ (3.42)	\$ 917,191	\$ 682,829	\$ (4.17)
La Habra									
Totals	\$ 148,547	\$ 148,547	\$ -	\$ 192,277	\$ 146,855	\$ (3.39)	\$ 221,624	\$ 164,739	\$ (4.20)
La Palma									
Totals	\$ 46,253	\$ 46,253	\$ -	\$ 62,625	\$ 70,180	\$ 1.68	\$ 72,070	\$ 90,173	\$ 3.99
Mesa Consolidated									
Totals	\$ 167,517	\$ 167,517	\$ -	\$ 245,178	\$ 225,487	\$ (0.80)	\$ 275,139	\$ 252,511	\$ (0.91)
Newport Beach									
Totals	\$ 336,301	\$ 336,301	\$ -	\$ 472,638	\$ 358,197	\$ (3.54)	\$ 541,424	\$ 400,773	\$ (4.29)
OCWD									
Totals	\$ 120,000	\$ 120,000		\$ 147,556	\$ 60,063		\$ 173,467	\$ 66,273	
Orange									
Totals	\$ 453,861	\$ 453,861	\$ -	\$ 639,731	\$ 1,345,190	\$ 19.05	\$ 740,404	\$ 1,674,729	\$ 24.93
Seal Beach									
Totals	\$ 67,255	\$ 67,255	\$ -	\$ 93,340	\$ 120,797	\$ 4.93	\$ 109,432	\$ 160,792	\$ 9.13
Serrano WD									
Totals	\$ 14,310	\$ 14,310	\$ -	\$ 17,402	\$ 18,913	\$ 0.65	\$ 18,467	\$ 20,708	\$ 0.97
Westminster									
Totals	\$ 231,903	\$ 231,903	\$ -	\$ 316,753	\$ 792,185	\$ 22.66	\$ 367,195	\$ 993,507	\$ 29.43
Totals	\$ 489,990	\$ 489,990	\$ -	\$ 647,209	\$ 1,052,127	\$ 16.07	\$ 765,177	\$ 1,316,964	\$ 20.57

## 6h Comparative Effects of a 20% Reduction in Water Demand

In response to a number of conditions including drought, climate change and ecosystem disruption in the Sacramento-San Joaquin Delta, the Governor has called for a twenty percent reduction in per capita demand by the year 2020. The Department of Water Resources is currently working to implement this initiative, commonly known as 20 x 2020. For the purposes of this study, the 20 x 2020 initiative would have the most fiscal impact on Options 3a and 3b because reduced demands would reduce Tier 2 water purchases. Under Options 1 and 2a and 2b, MWD OC's portfolio management strategy and Merged Water Rate Surcharge work to mitigate the impacts of Tier 2 water purchases. Under Options 3a and 3b, when each agency is purchasing water according to its own demands, the impacts of Tier 2 purchases affect some agencies more than others.

Table 20, below, illustrates these effects of demand reductions and illustrates that with demand reductions, some agencies eliminate their need for Tier 2 purchases.

**Table 20: Tier 1 Allocations and Projected 20 x 2020 Reduced Demands (all in acre-feet)**

Agency	Tier 1 Allocation	FY 2009-2010		FY 2014-2015		FY 2019-2020	
		Demand	Difference	Demand	Difference	Demand	Difference
El Toro	11,411	10,894	-517	10,038	-1,373	9,058	-2,353
Irvine Ranch	34,083	33,193	-890	33,761	-322	33,386	-697
Moulton Niguel	28,571	35,114	6,543	31,892	3,321	28,748	177
Santa Margarita	17,541	30,957	13,416	29,490	11,949	28,452	10,911
South Coast	8,300	7,209	-1,091	6,017	-2,283	4,957	-3,343
Trabuco Canyon	2,861	4,543	1,682	4,337	1,476	4,046	1,185
<b>Subtotal Six Agencies</b>	<b>102,767</b>	<b>121,910</b>	<b>19,143</b>	<b>115,535</b>	<b>12,768</b>	<b>108,647</b>	<b>5,880</b>
Laguna Beach	4,377	3,722	-655	3,762	-615	3,802	-575
San Clemente	8,674	9,806	1,132	8,993	319	7,995	-679
San Juan Capistrano	6,111	4,839	-1,272	4,390	-1,721	3,935	-2,176
<b>Subtotal Nine Agencies</b>	<b>121,929</b>	<b>140,277</b>	<b>18,348</b>	<b>132,680</b>	<b>10,751</b>	<b>124,379</b>	<b>2,450</b>
Brea	8,826	5,997	-2,829	5,842	-2,984	5,112	-3,714
Buena Park	7,358	4,536	-2,822	5,384	-1,974	5,762	-1,596
EOCWD	5,279	2,947	-2,332	2,758	-2,521	2,474	-2,805
Fountain Valley	2,451	2,697	246	3,005	554	2,798	347
Garden Grove	8,327	5,122	-3,205	6,223	-2,104	5,936	-2,391
Golden State	12,761	7,540	-5,221	8,570	-4,191	8,127	-4,634
Huntington Beach	10,962	8,327	-2,635	9,281	-1,681	8,625	-2,337
La Habra	2,928	2,225	-703	2,224	-704	2,090	-838
La Palma	657	629	-28	702	45	659	2
Mesa Consolidated	6,493	616	-5,877	1,471	-5,022	1,398	-5,095
Newport Beach	18,924	4,643	-14,281	5,580	-13,344	5,149	-13,775
Orange	4,695	7,594	2,899	8,796	4,101	8,126	3,431
Seal Beach	1,085	1,108	23	1,254	169	1,188	103

Agency	Tier 1 Allocation	FY 2009-2010		FY 2014-2015		FY 2019-2020	
		Demand	Difference	Demand	Difference	Demand	Difference
Serrano	449	-	-449	-	-449	-	-449
Westminster	1,145	3,472	2,327	3,868	2,723	3,632	2,487
Yorba Linda	8,652	11,280	2,628	11,155	2,503	10,155	1,503
<b>Subtotal Remaining MWDOC</b>	<b>100,992</b>	<b>68,733</b>	<b>-32,259</b>	<b>76,113</b>	<b>-24,879</b>	<b>71,231</b>	<b>-29,761</b>

The 20 x 2020 Initiative has the potential to substantially lower the South County CWA's Tier 2 water cost exposure, under both boundary options, which reduces the cost impacts to rate payers. This analysis suggests that additional investigation of cost-effective conservation strategies has the potential to benefit rate payers.

## 6i Conclusions

While modeling and analysis of each alternative result in a diverse spread of costs, and each retail agency is affected differently, the changes are typically modest when brought down to the rate payer level. Taking into account the high level of this study and the significant current uncertainties around the future cost of water, the analyses demonstrate that it is fiscally feasible to implement each of the alternatives studied.

Specifically:

- The assumption to reduce operating reserves to 15% of the general fund budget is the single largest contributor to the fiscal differences between MWDOC Baseline, MWDOC CWA and MWDOC Subscription CWA;
- MWDOC Subscription CWA, while shifting approximately \$1,000,000 in costs among the retail agencies, does not have a significant impact at the ratepayer level;
- While the Six Agency South CWA and the Nine Agency South CWA options remove the "rate smoothing" affects of the Melded Water Rate Surcharge and cause higher rate payer impacts in some cases, even these impacts are not significant.
- The analysis also indicates that under both South County CWA boundary options, remaining MWDOC has a significant opportunity for rate smoothing and little risk of incurring Tier 2 water purchase costs. Both the Six Agency South County CWA and the Nine Agency South County CWA would also have some opportunity to smooth rates, although collectively the agency would need to plan on paying some Tier 2 water costs on an annual basis.

## 7. Implementation Analysis

In Sections 5 and 6, governance structure options were screened for institutional and fiscal flaws resulting in the following preliminarily feasible options:

- Option 1- MWDOC Baseline
- Option 2 – Dissolve MWDOC and Form a CWA
  - a. MWDOC CWA
  - b. MWDOC Subscription CWA
- Option 3 – Reorganize South County Agencies to Form a CWA
  - a. Six Agency South CWA
  - b. Nine Agency South CWA

This Section, Implementation Analysis, examines the organizational changes and procedural steps required to implement the governance structure options, discusses potential legal barriers or conflicts that exist, reviews board composition and evaluates the potential changes and impacts relating to representation on the Metropolitan Water District of Southern California’s Board of Directors.

Because the scope of this study is limited to a high-level review, this evaluation does not include a detailed analysis of the LAFCO process and potential terms and conditions nor does it provide detailed descriptions of agreements or contracts that may be required to implement viable options.

### 7a Option 1 - MWDOC Baseline

Option 1 – MWDOC Baseline is clearly a viable option because it is the status quo. No organizational changes are required to maintain Option 1 and no legal barriers or conflicts impede MWDOC from continuing to provide both services and water to its retail members or from representing the retail agencies at Metropolitan. Under Option 1 MWDOC’s board composition would not change, and the agency would still be governed by a 7-member board elected by registered voters living within the service area, and by district.

### Representation at Metropolitan

Representation by MWDOC at Metropolitan would also remain unchanged with the MWDOC Baseline option. Chapter 1 of the Metropolitan Act describes the composition of its Board of Directors, their terms and their voting rights<sup>26</sup> which are discussed here briefly.

Metropolitan board members are appointed by Metropolitan's member agencies and each agency is entitled to at least one board member. Member agencies may designate one additional representative for each full five-percent of assessed value it has within the Metropolitan's territory. Metropolitan board members serve an indefinite term at the pleasure of the appointing member agency, unless the appointing member agency has adopted an ordinance, in which case terms are limited to four years. No member agency can appoint a majority of its board of directors or city council to the Metropolitan board.

Votes on Metropolitan's board of directors are also determined by assessed value within the member agency. Each member agency is entitled to one vote for each \$10,000,000 of assessed value (or fractional part thereof) included within Metropolitan's boundaries. Each member is entitled to at least one vote and no one member's votes may exceed the number of all other members combined. Metropolitan board actions are subject to majority approval, based on total votes cast, unless it is expressly provided otherwise, for a specific issue.

Table 21 presents the current Metropolitan vote and director entitlement for Fiscal Year 2008-09. MWDOC has 4 directors and is entitled to 34,917 of 210,366 Metropolitan votes, or just over 16% of the total.

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<sup>26</sup> Met Act, Sections 50 -57

**Table 21: Metropolitan Voting and Representation Option 1 MWDOC Baseline**

Member Agency	Assessed Value	Percent of Total	Weighted Vote Entitlement	Director Entitlement
Baseline MWDOC	\$349,171,973,512	16.60%	34,917	4
Anaheim	\$34,660,804,694	1.65%	3,466	1
Beverly Hills	\$20,326,301,709	0.97%	2,033	1
Burbank	\$18,026,610,549	0.86%	1,803	1
Calleguas MWD	\$81,604,719,952	3.88%	8,160	1
Central Basin MWD	\$111,846,045,927	5.32%	11,185	2
Compton	\$3,617,061,385	0.17%	362	1
Eastern MWD	\$67,312,191,660	3.20%	6,731	1
Foothill MWD	\$12,718,869,026	0.60%	1,272	1
Fullerton	\$14,574,678,928	0.69%	1,457	1
Glendale	\$22,260,528,064	1.06%	2,226	1
Inland Empire Utilities Agency	\$84,399,728,595	4.01%	8,440	1
Las Virgenes MWD	\$19,822,720,539	0.94%	1,982	1
Long Beach	\$39,837,385,972	1.89%	3,984	1
Los Angeles	\$404,546,752,425	19.23%	40,455	4
Pasadena	\$20,373,176,783	0.97%	2,037	1
San Diego County Water Authority	\$382,125,246,098	18.16%	38,213	4
San Fernando	\$1,500,049,817	0.07%	150	1
San Marino	\$3,989,867,965	0.19%	399	1
Santa Ana	\$21,693,351,229	1.03%	2,169	1
Santa Monica	\$23,320,420,462	1.11%	2,332	1
Three Valleys MWD	\$50,308,678,071	2.39%	5,031	1
Torrance	\$21,864,654,798	1.04%	2,186	1
Upper San Gabriel Valley MWD	\$72,569,363,823	3.45%	7,257	1
West Basin MWD	\$136,627,653,976	6.49%	13,663	2
Western MWD	\$84,557,495,886	4.02%	8,456	1
<b>Totals</b>	<b>\$2,103,656,331,845</b>	<b>100.00%</b>	<b>210,366</b>	<b>37</b>



## 7b Options 2a and 2b - MWDOC CWA

Options 2a and 2b would maintain the service area boundary of MWDOC, but reorganize the agency as a CWA governed under the CWA Act. The distinction between Option 2a and Option 2b rests with internal operational differences, not governance structure. Thus, the formation process, board composition, representation at Metropolitan and any fundamental legal issues are identical under either option.

Implementing Option 2 would require processing a reorganization through LAFCO, which would include dissolution of MWDOC as a Municipal Water District and formation of a new CWA consistent with the rules and regulations of the CWA Act.

Although its board composition would change, because the boundaries of the newly-formed CWA would be identical to the existing MWDOC boundaries, representation on Metropolitan would not differ from Option 1.

### CWA Board Composition

Board members of the reorganized agency would no longer be elected by voters living within the service area, but would instead be appointed by the participating member agencies pursuant to the CWA Act. Section 46-6 of the CWA Act describes the composition of a CWA's Board of Directors, their terms and their voting rights.

CWA board members are appointed by the member agencies and each agency is entitled to at least one board member. Member agencies may designate one additional representative for each full five-percent of assessed value it has within the CWA's territory, except that no single member agency may have more board members than the sum of all the remaining agencies' members. If a city is a member of a CWA, it may only appoint one council member to the CWA board. Water districts may not appoint a majority of their board of directors to the CWA board. Board members serve six-year terms, except for the first board where half the members are appointed to three year terms.<sup>27</sup>

While CWA board size is determined by assessed value, CWA board voting rights are determined by financial contribution to the CWA budget (except for the San Diego County Water Authority that has specific voting rights incorporated in the CWA Act). Each agency is entitled to cast one vote for each \$5,000,000 (or fractional part thereof) that it pays to the CWA. When a member agency has more than one member on the

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<sup>27</sup> CWA Act, Section 45-6 (b), (c) and (d)

CWA Board it must determine, by ordinance, whether its directors must cast their votes as a unit or if each director is entitled to a proportional share of the agency's vote. CWA actions are typically subject to majority approval unless one member agency controls more than 38 percent of the total votes. In this case, CWA actions are subject to a 55 percent approval.<sup>28</sup>

### Legal Barriers and Conflicts

Research completed for this government structure option indicates that implementation of Option 2 may be infeasible. Attachment J, a memo from the law firm of Richards/Watson/Gershon regarding "Constraints on Ability of a County Water Authority to Supply Water to a Regulated Public Utility" concludes that "without new legislation, a County Water Authority could not supply water to Golden State Water Company except to areas located outside of the territory of all the member agencies of the Authority and only on an interruptible basis."

Golden State is not a public agency, but is a PUC-regulated investor-owned public utility. The Richards/Watson/Gershon memo notes that MWDOC currently supplies water to Golden State pursuant to Water Code section 71611, which provides that MWDOC may sell water without preference to various entities within the district, including "cities, other public corporations and agencies..." The CWA Act, however, limits the definition of a CWA "member agency" to public agencies<sup>29</sup>, and prohibits a CWA from supplying water to a regulated public utility except on an interruptible basis when there is water available that is surplus to the needs of the public entity member agencies, and only to service areas outside the territorial boundaries of those member agencies.

Golden State Water Company currently receives a firm water supply from MWDOC, and implementation of the MWDOC CWA option would result in the loss of this assured, consistent water supply to Golden State. Alternatives could be examined to remedy this issue, including adoption of new legislation amending the CWA Act, the formation of a Joint Powers Authority similar to the Sweetwater Authority in San Diego County and/or through other contractual arrangements. LAFCO, however, cannot predict if such legislation will be introduced or require contractual relationships between or among districts. In addition, given the importance of this issue, without the cooperation of all parties, legal challenges could pose additional impediments to

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<sup>28</sup> CWA Act, Section 45-6 (e) and (f)

<sup>29</sup> CWA Act, Section 45-2

successful execution. Thus, implementation of Option 2 is not considered viable without special legislation and, for the purposes of this report, is considered fatally flawed.

### **7c Options 3a and 3b - Six and Nine Agency South CWA**

Options 3a and 3b involve detaching territory from MWDOC and forming a new, smaller CWA. Implementation of either of these options will require processing a reorganization through LAFCO, involving detachment of territory from MWDOC and formation of a new CWA encompassing the detaching area.

#### Board Composition

The composition of the CWA Board appointments to a South County CWA will be made pursuant to the CWA Act regulations described in Section 7b – Option 2. The following provides estimates of Board representation and voting rights that may be anticipated for both the Six Agency South CWA and the Nine Agency South CWA.

#### Six Agency South CWA

Table 22 presents the calculations for the number of directors and percentage of vote expected to be controlled by the water agencies assumed to become member agencies in the Six Agency South CWA.

Because representation on a CWA Board is a function of assessed value within each member agencies' service area, preliminary estimates of the representation for the Six Agency South CWA have been calculated based on Fiscal Year 2008-09 assessed values (secured from the Parcel Quest service). Because Orange County assigns tax rate area codes to cities but not to water districts, some assumptions were made about water district boundaries in order to estimate assessed value within their territory. Future action on this option would require the development of assessed values certified by Orange County.

While the number of directors is based on assessed value, actual voting rights are a function of the financial contribution each member agency makes to the CWA. For the purposes of this initial analysis, voting rights have been estimated based on the percentage of water purchased by each agency, because water purchases will constitute the vast majority of the financial contribution made to the new CWA by its member agencies. Preliminary estimates of the percentage of votes allocated to each agency are based the estimated Fiscal Year 2009-10 water demands outlined in Table 15.

**Table 22: Option 2a Six Agency South CWA Directors and Voting Rights**

Agency	Assessed Value	% of Assessed Value	Nearest 5% of Assessed Value	Number of Directors	FY 2009-10 Water Demand	Percent of Total Vote
El Toro	\$5,931,472,257	4.42%	0.88%	1	10,894	8.94%
Irvine Ranch	\$69,585,155,276	51.81%	10.36%	11	33,193	27.23%
Moulton Niguel	\$25,600,825,524	19.06%	3.81%	4	35,114	28.80%
Santa Margarita	\$23,274,158,781	17.33%	3.47%	4	30,957	25.39%
South Coast	\$8,052,519,280	6.00%	1.20%	2	7,209	5.91%
Trabuco Canyon	\$1,865,262,850	1.39%	0.28%	1	4,543	3.73%
<b>Total</b>	<b>\$134,309,393,968</b>	<b>100.00%</b>		<b>23</b>	<b>121,910</b>	<b>100.00%</b>
El Toro estimates include Laguna Woods, Aliso Viejo north of 73, Laguna Hills west of Wilkes and Mission Viejo west of the railroad.						
Irvine Ranch estimates include Irvine, Costa Mesa, Foothill, Modjeska, Newport Coast, Portola Hills, Silverado and portions of Tustin and Newport Beach (small portions of Orange and Santa Ana that are within the IRWD service are not included in the calculation)						
Moulton Niguel estimates include Aliso Viejo south of 73, Laguna Niguel, Laguna Hills east of Wilkes and Mission Viejo west of Marguerite Parkway						
Santa Margarita estimates include Mission Viejo east of Marguerite and Trabuco Parkways, Rancho Santa Margarita, Coto de Caza and Ladera Ranch						
South Coast estimates include Dana Point and Capistrano Beach						
Trabuco Canyon estimates include Trabuco Canyon and Dove Canyon						

Table 22 demonstrates results from the CWA rules governing board composition and voting rights. For example, in the analysis of the Six Agency South CWA board, the Irvine Ranch Water District holds 47.8% (11 of 23) of the board seats, surpassing the next-largest district by 7 seats; nonetheless, Irvine has only 27.7% of the voting rights. Moulton Niguel, which is provided only 4 director seats, holds the largest share (28.8%) of voting rights.

### Nine Agency South CWA

Preliminary estimates of the representation and voting rights for the Nine Agency South CWA have also been calculated based on Fiscal Year 2008-09 assessed values and estimates of water demand. Again, some assumptions on district boundaries were made in order to estimate assessed value. Table 23 presents the calculations for number of directors and percent of vote controlled together with any assumptions, beyond those described in Table 22, which were used to make the calculations.

**Table 23: Option 3b Nine Agency South CWA Directors and Voting Rights**

Agency	Assessed Value	% of Assessed Value	Nearest 5% of Assessed Value	Number of Directors	FY 2009-10 Water Demand	Percentage of Total Vote
El Toro	\$5,931,472,257	4.42%	0.88%	1	10,894	7.83%
Irvine Ranch	\$69,585,155,276	51.81%	10.36%	11	33,193	23.85%
Moulton Niguel	\$25,600,825,524	19.06%	3.81%	4	35,114	25.23%
Santa Margarita	\$23,274,158,781	17.33%	3.47%	4	30,957	22.24%
South Coast	\$8,052,519,280	6.00%	1.20%	2	7,209	5.18%
Trabuco Canyon	\$1,865,262,850	1.39%	0.28%	1	4,543	3.26%
Laguna Beach	\$10,789,998,642	6.63%	1.33%	2	2,628	1.89%
San Clemente	\$11,885,487,817	7.30%	1.46%	2	9,806	7.05%
San Juan Capistrano	\$5,835,432,468	3.58%	0.72%	1	4,839	3.48%
<b>Total</b>	<b>\$162,820,312,895</b>	<b>100.00%</b>		<b>28</b>	<b>139,183</b>	<b>100.00%</b>
Laguna Beach estimates include Laguna Beach and Emerald Bay CSD						

As shown on Table 23, the number of total board seats for a Nine Agency South CWA is increased by five (28 vs. 23 seats). In this analysis, the Irvine Ranch Water District holds 39.3% of total board seats (11 of 28), while its voting rights are reduced to 23.85%. Moulton Niguel retains 4 director seats and continues to claim the largest overall share (25.23%) of voting rights among the CWA members.

### Representation at Metropolitan

Table 21, in Section 7a – MWDOC Baseline - shows the current board seats and voting rights held by existing Metropolitan member agencies. Preliminary estimates of Metropolitan representation and voting rights for the Six Agency South CWA and remaining MWDOC, and for the Nine Agency South CWA and remaining MWDOC, have been calculated and presented on Tables 24 and 25. In order to perform these calculations, the estimated assessed values for the Six Agency South CWA and Nine Agency South CWA, presented in Tables 22 and 23, were subtracted from \$349,171,973,512, which is the total certified assessed value for MWDOC for Fiscal Year 2008-09 provided by Metropolitan<sup>30</sup>.

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<sup>30</sup> Board of Directors Business and Finance Committee Information Item 5H, September 9, 2008 Board Meeting

**Table 24: Metropolitan Voting and Representation - Option 3a Six Agency South CWA**

Member Agency	Assessed Value	Percent of Total	Weighted Vote Entitlement	Director Entitlement
Remaining MWDOC	\$214,862,579,544	10.21%	21,486	3
Six Agency South CWA	\$134,309,393,968	6.38%	13,431	2
Anaheim	\$34,660,804,694	1.65%	3,466	1
Beverly Hills	\$20,326,301,709	0.97%	2,033	1
Burbank	\$18,026,610,549	0.86%	1,803	1
Calleguas MWD	\$81,604,719,952	3.88%	8,160	1
Central Basin MWD	\$111,846,045,927	5.32%	11,185	2
Compton	\$3,617,061,385	0.17%	362	1
Eastern MWD	\$67,312,191,660	3.20%	6,731	1
Foothill MWD	\$12,718,869,026	0.60%	1,272	1
Fullerton	\$14,574,678,928	0.69%	1,457	1
Glendale	\$22,260,528,064	1.06%	2,226	1
Inland Empire Utilities Agency	\$84,399,728,595	4.01%	8,440	1
Las Virgenes MWD	\$19,822,720,539	0.94%	1,982	1
Long Beach	\$39,837,385,972	1.89%	3,984	1
Los Angeles	\$404,546,752,425	19.23%	40,455	4
Pasadena	\$20,373,176,783	0.97%	2,037	1
San Diego County Water Authority	\$382,125,246,098	18.16%	38,213	4
San Fernando	\$1,500,049,817	0.07%	150	1
San Marino	\$3,989,867,965	0.19%	399	1
Santa Ana	\$21,693,351,229	1.03%	2,169	1
Santa Monica	\$23,320,420,462	1.11%	2,332	1
Three Valleys MWD	\$50,308,678,071	2.39%	5,031	1
Torrance	\$21,864,654,798	1.04%	2,186	1
Upper San Gabriel Valley MWD	\$72,569,363,823	3.45%	7,257	1
West Basin MWD	\$136,627,653,976	6.49%	13,663	2
Western MWD	\$84,557,495,886	4.02%	8,456	1
<b>Totals</b>	<b>\$2,103,656,331,845</b>	<b>100.00%</b>	<b>210,366</b>	<b>38</b>

**Table 25: Metropolitan Voting and Representation - Option 3b Nine Agency South CWA**

Member Agency	Assessed Value	Percent of Total	Weighted Vote Entitlement	Director Entitlement
Remaining MWDOC	\$186,351,660,617	8.86%	18,635	2
Nine Agency South CWA	\$162,820,312,895	7.74%	16,282	2
Anaheim	\$34,660,804,694	1.65%	3,466	1
Beverly Hills	\$20,326,301,709	0.97%	2,033	1
Burbank	\$18,026,610,549	0.86%	1,803	1
Calleguas MWD	\$81,604,719,952	3.88%	8,160	1
Central Basin MWD	\$111,846,045,927	5.32%	11,185	2
Compton	\$3,617,061,385	0.17%	362	1
Eastern MWD	\$67,312,191,660	3.20%	6,731	1
Foothill MWD	\$12,718,869,026	0.60%	1,272	1
Fullerton	\$14,574,678,928	0.69%	1,457	1
Glendale	\$22,260,528,064	1.06%	2,226	1
Inland Empire Utilities Agency	\$84,399,728,595	4.01%	8,440	1
Las Virgenes MWD	\$19,822,720,539	0.94%	1,982	1
Long Beach	\$39,837,385,972	1.89%	3,984	1
Los Angeles	\$404,546,752,425	19.23%	40,455	4
Pasadena	\$20,373,176,783	0.97%	2,037	1
San Diego County Water Authority	\$382,125,246,098	18.16%	38,213	4
San Fernando	\$1,500,049,817	0.07%	150	1
San Marino	\$3,989,867,965	0.19%	399	1
Santa Ana	\$21,693,351,229	1.03%	2,169	1
Santa Monica	\$23,320,420,462	1.11%	2,332	1
Three Valleys MWD	\$50,308,678,071	2.39%	5,031	1
Torrance	\$21,864,654,798	1.04%	2,186	1
Upper San Gabriel Valley MWD	\$72,569,363,823	3.45%	7,257	1
West Basin MWD	\$136,627,653,976	6.49%	13,663	2
Western MWD	\$84,557,495,886	4.02%	8,456	1
<b>Totals</b>	<b>\$2,103,656,331,845</b>	<b>100.00%</b>	<b>210,366</b>	<b>37</b>



One notable outcome of the Metropolitan representation analysis for Options 3a and 3b is the possibility that reorganization could lead to an increase in the overall number of Orange County representatives eligible to sit on Metropolitan's Board - although the total *voting rights* for Orange County would not be affected.

Under Option 3a, remaining MWDOC retains 3 directors and 21,486 votes. The new Six Agency South CWA has 2 directors and 13,431 votes. The total number of directors from MWDOC's current service area increases by 1 (from 4 to 5) because of the fractional assessed value computations, providing Orange County with an additional Metropolitan director.

Because fractional assessed value computations do not occur under the larger Nine Agency CWA option, the number of Metropolitan director seats available to the current MWDOC service area remains unchanged. Remaining MWDOC retains 2 directors and 18,635 votes and the new Nine Agency South CWA also has 2 directors and secures 16,282 votes.

#### Process to Approve a New Metropolitan Member Agency

Metropolitan has indicated that the addition of a new member agency is a "Matter of First Impression"<sup>31</sup>, meaning that Metropolitan has not adopted procedures to describe the actions required to process the request. Metropolitan staff have also indicated that because the territory under consideration is already within Metropolitan's territory, the established annexation procedures and fees would not apply, although a processing fee would be required to cover the time Metropolitan's staff spends working on the request.

The alteration of the Metropolitan board composition that would result from dividing MWDOC into two separate agencies will likely cause a shift in the existing dynamics on the Metropolitan Board and on political affairs associated with regional water policy and the relationships among water providers in Orange County. The division of MWDOC - which currently serves and represents a majority of Orange County retail agencies - into two wholesale agencies, each independently represented on Metropolitan, will result in the division of an existing voting constituency into potentially two separate voting blocks. The physical realities of the water situation in north and south Orange County - due to the existence of a groundwater basin that lies principally in the north - have necessarily focused attention on two differing water development strategies; one more reliant on stabilizing and improving groundwater

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<sup>31</sup> Personal Communication Catherine Stites and Karen Tashiki, Metropolitan Office of General Counsel, March 19, 2009.

supplies and another focusing more attention on increasing surface supplies (more akin to Orange County's southern neighbor, San Diego County). Future water issues facing Southern California will involve questions related to where and how Metropolitan's attention and resources will be focused: on groundwater replenishment, development and increase of new surface supplies, storage and/or regional delivery capital improvement projects. The division of MWDOC could result in shifting alliances on the Metropolitan Board as these issues are addressed.

The acceptance of a newly reorganized agency as a member of Metropolitan will require an affirmative discretionary action on the part of the Metropolitan board. In order to obtain positive action from the Metropolitan Board, cooperation between and among all agencies affected by the reorganization will be necessary since it is unlikely that Metropolitan will have an interest in arbitrating differences among its member agencies. Therefore, the ability of the involved agencies to successfully negotiate, develop and complete agreements relating to the allocation of interests between MWDOC and the new CWA - including resolving issues related to water allocations and miscellaneous water supply and conservation contracts - will greatly affect the success or failure of achieving implementation of Option 3.

#### Legal Barriers and Conflicts

Based on preliminary review of the CWA Act, the Municipal Water District Act of 1911 and the Local Government Reorganization Act of 2000, there do not appear to be any legal barriers or conflicts to the formation of a South County CWA. The reorganization process associated with Option 3 and discussed in Section 7d of this report are complex. Without special legislation, the chief obstacle to the potential success or failure in implementing this option rests with the ability or inability of the involved public agencies to reach accord on agreements that will be required as conditions of reorganization such as how water allocations will be made and the manner in which the various existing contracts between MWDOC and Metropolitan will be handled.

## 7d Reorganization Proceedings

Implementation of any of Options 2a, 2b, 3a or 3b would be processed through LAFCO as a “reorganization.” Implementation of Option 2 would require dissolving MWDOC and forming a new, coterminous agency pursuant to the CWA Act. Implementation of Option 3 would require detaching territory from MWDOC and forming a new, smaller agency under the CWA Act.

Dissolution, detachment and the formation of a new district are each considered a “change of organization” as defined by the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (Government Code Section 56021), and a reorganization is defined as “two or more changes of organization initiated in a single proposal” (Government Code Section 56073). Government Code Sections 56100, 56826, and 56859 allow LAFCO to process reorganizations that provide for the formation of one or more new districts pursuant to the principal act.

### Initiation/Application

LAFCO proceedings for reorganization may be initiated by the Commission, by petition or by resolution of an affected agency. An affected agency is a public agency which contains, or whose sphere of influence contains, any territory for which a change of organization is proposed. Thus, reorganization proposing detachment from MWDOC and formation of a new district within the detaching area may be initiated by any of the public agencies within the current MWDOC service boundary. If initiated by resolution of an affected agency, the proposal must be accompanied by a Plan for Services prepared pursuant to Government Code Section 56653.

### Notice of Completion

Before a reorganization is docketed for Commission consideration, the proposal application must be deemed complete by the LAFCO Executive Officer. In the case of a reorganization involving formation of a new district which will require approval by Metropolitan for representation on the Metropolitan Board, and recognizing that LAFCO has no authority over Metropolitan and/or its ability to recognize a new (or reorganized) member, the LAFCO Executive Director will require that the Application and Plan for Services include a “pre-approval” letter from Metropolitan which would consist of written indication that Metropolitan would accept the new agency upon completion of the reorganization and an account of the conditions that Metropolitan will require in order to recognize the new CWA as a member agency. This will in turn require that all agreements between and among MWDOC, the new CWA and Metropolitan be negotiated prior to LAFCO consideration of the reorganization.

### Commission Consideration and Determination

Upon the finding by the Executive Officer that the reorganization application is complete, the Commission may chose to establish a reorganization committee to further study the application, or it may review and consider the proposal without further study. The Commission is empowered to review and approve or disapprove the reorganization “with or without amendment, wholly, partially, or conditionally...” (Government Code Section 56375). LAFCO would consider and act on both elements of the reorganization concurrently.

LAFCO may apply terms and conditions to the reorganization that (1) make the successful detachment a precondition to the formation proceedings and/or (2) prohibit a partial or piecemeal formation. The reorganization becomes effective upon

completion of all conditions required by LAFCO and consistent with the execution of the Certificate of Completion.

## **7e Summary of Options of Requiring Special Legislation to Implement**

This study has concluded that only two governance structure options, MWDOC Baseline and Reorganization of South County Agencies to Form a CWA are viable within the constraints imposed by existing law. This study has considered options that require special legislation to be infeasible because successfully securing special legislation is not guaranteed and not within the control of LAFCO or the stakeholders.

However, based on input from the stakeholders, alternatives that required changes to existing law to implement were “parked” as part of this study. Those alternatives include:

- Modifying the Municipal Water District Act of 1911 to provide for changes in governance board representation. This option would not change the fiscal or legal analysis presented in this study but could provide for a different representation on MWDOC’s board.
- Expanding the definition of public agency in the Municipal Utility District Act to include the full range of agencies represented by MWDOC. This option would not change the fiscal or legal analysis presented in this study. However, because an MUD board is elected by district, much like MWDOC’s board, it would not address the fundamental governance structure issues that prompted this study.
- Expanding the permitted service area of a Public Utility District to include incorporated areas. This option would not change the fiscal or legal analysis presented in this study. However, because a PUD board is elected by the resident registered voters, this option would not address the fundamental governance structure issues that prompted this study.

- Modifying OCWD's principal act to allow merger with MWDOC. An in-depth analysis of this option may reveal fiscal or legal benefits and issues not addressed in this study.
- Modifying the Municipal Water District Act of 1911 and County Water District Law to clearly allow for consolidation of these two types of agencies. An in-depth analysis of this option may reveal fiscal or legal benefits and issues not addressed in this study.
- Expanding the definition of a "public agency" in Metropolitan's principal act to include Joint Powers Authorities. This would not change the fiscal or legal analysis but could potentially allow for a board that is more representative of the retail agencies' concern.
- Expanding the definition of membership within the CWA Act to allow an investor-owned public utility to have full membership rights within a CWA. This would not change the fiscal or legal analysis but would allow for a board appointed by the retail agencies rather than elected by district.

## 8. Summary of Findings and Feasible Governance Structure Options

The purpose of this study is to identify and evaluate government structure options that may have the potential to resolve issues identified in the 2007 MWDOC Municipal Service Review. After fatal flaw, fiscal, legal and procedural reviews of a range government structure options, two options have been identified by this report as viable: reorganization of MWDOC into two agencies (South County CWA option) and continuation of the status quo. However, the resolution of the issues that gave rise to this study, whether through a reorganization or the existing government structure, will rely predominantly on the ability of MWDOC and all its retail service providers to cooperate on the best option for the residents of Orange County.

Implementation of the South County CWA option would result in the creation of two major wholesale providers for Orange County, one in the north and one in the south, and there will be a range of opinions regarding the productivity of this course of action. Northern retailers may view splitting MWDOC as an opportunity to reduce or even eliminate its Tier II surcharge. Southern agencies may be persuaded that division of MWDOC will provide them with more autonomy and control over budgeting. The overarching issue is the efficacy and the potential benefits to ratepayers and to Orange County as a whole.

Implementation of this option requires processing a complex reorganization through LAFCO. The agencies seeking detachment from MWDOC will have to work with MWDOC as well as with Metropolitan to address water allocations and existing MWDOC/MET contracts and agreements.

Implementation of the status quo requires no additional actions. However, without changes to the current MWDOC philosophy, budget and interaction with all member agencies, this option does not resolve the issues that have dominated discussions for more than 5 years. Dealing with recurring concerns through the existing government structure will require the full participation and cooperation of the MWDOC Board and all of the retail agencies and will require a permanent willingness to institute changes that address the issues raised.

Table 26 summarizes the Implementation Analysis, including detail on financial impact and representation.

**Table 26: Summary of Analysis**

	Option 1 MWDOC Baseline	Option 2a MWDOC CWA	Option 2b MWDOC Subscription CWA	Option 3a Six Agency South CWA	Option 3b Nine Agency South CWA
<b>Services</b>	Sale of Water  Levy Water Standby Charges	Sale of Water  Levy Water Standby Charges Develop Water Supplies* Develop Recycled Water Supplies* Generate Electrical Power*		Sale of Water  Levy Water Standby Charges Develop Water Supplies* Develop Recycled Water Supplies* Generate Electrical Power*	
<b>Fiscal Impacts</b>	<u>No Change:</u> Cost to ratepayers for MWDOC overhead varies between \$8.00 and \$53.00 annually.	<u>Minimal Change:</u> Savings of less than \$0.50 annually under Option 2a due to reduced operating reserves. Savings of less than \$3.00 annually for non-subscribers and cost increases of less than \$2.00 annually for subscribers under option 2b.		<u>New South County CWA:</u> Cost increases in some retail services areas due to removal of Merged Water Rate Surcharge and need for Tier 2 water purchases  <u>Remaining MWDOC:</u> Potential savings due to reduced need for Tier 2 water purchases	
<b>Enabling Legislation</b>	Municipal Water District Act of 1911 (Water Code Section 71000 et. seq.)	Reorganization including a dissolution of MWDOC and formation of a CWA under Cortese- Knox-Hertzberg Local Government Reorganization Act of 2000 (Government Code Section 56000 et.seq) and the CWA Act (Water Code Chapter 45)		Reorganization including a dissolution of MWDOC and formation of a CWA under Cortese- Knox-Hertzberg Local Government Reorganization Act of 2000 (Government Code Section 56000 et.seq) and the CWA Act (Water Code Chapter 45)	
<b>Formation Process</b>	None Required	<u>Initiation through Resolution of Affected Agency or Petition</u>  <u>Notice of Completion including 'pre- approval letter from Metropolitan'</u>  <u>Commission Consideration:</u> Commission may approve or disapprove, wholly or partially, with or without amendment		<u>Initiation through Resolution of Affected Agency or Petition</u>  <u>Notice of Completion including 'pre- approval letter from Metropolitan'</u>  <u>Commission Consideration:</u> Commission may approve or disapprove, wholly or partially, with or without amendment	



		Option 1 MWDOC Baseline	Option 2a MWDOC CWA	Option 2b MWDOC Subscription CWA	Option 3a Six Agency South CWA
Legal Barriers and Conflicts	None	CWA Act only provides authority to supply a regulated public utility on an interruptible basis. This is a legal barrier prevents service to Golden State Water Company.	None		
Board Representation	7 Directors Elected by District  1 Vote per Director	Not Applicable.  Option cannot be implemented	23 Appointed Directors  Vote Proportional to Financial Contribution	28 Appointed Directors  Vote Proportional to Financial Contribution	
Metropolitan Representation	4 Met Representatives and  34,917 Votes Based on Assessed Valuation	Not Applicable.  Option cannot be implemented	Remaining MWDOC  3 Met Representatives and  21,486 Votes Based on Assessed Valuation	Remaining MWDOC  2 Met Representatives and  18,635 Votes Based on Assessed Valuation	
			Six Agency South CWA  2 Met Representatives and  13,431 Votes Based on Assessed Valuation	Nine Agency South CWA  2 Met Representatives and  16,282 Votes Based on Assessed Valuation	
Conclusion	Feasible	Fatally Flawed	Feasible	Feasible	
Special Legislation	None	Clarify rights of investor owned utility within a CWA	None	None	
*Authorized under the CWA Act but beyond what MWDOC currently provides					

## 9. Next Steps

Table 27, below, provides a previously revised timeline for completion of the MWDOC Governance Study. Additional time has been inserted to ensure stakeholders have adequate time for review and comment (*see Attachment K in the Appendix for a complete timeline of the Governance Study Process*).

**Table 27: Revised Timeline for Completion of the Governance Study**

Date	Activity
May 6, 2009	Stakeholder Meeting: <u>MWDOC Governance Study – First Draft</u>
May 27, 2009	Stakeholder Comments on <u>MWDOC Governance Study – First Draft</u>
September 9, 2009	LAFCO Commission Public Hearing

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# APPENDIX

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## Attachment A – Overview of MWDOC

## Overview of MWDOC

This attachment provides a short summary of MWDOC's history and its relationship to other key Southern California water agencies.

In 1928, recognizing that the availability of water from groundwater sources was limited, several Southern California water purveyors formed Metropolitan with the objective to build an aqueduct to the Colorado River to deliver additional water to Southern California. Twenty years later, in 1948, several Orange County coastal communities from Newport Beach south to the San Diego County line formed the Coastal Municipal Water District (Coastal), under the Municipal Water District Law of 1911 (Water Code Section 71000 et. seq.) to purchase and import water from Metropolitan. MWDOC was subsequently formed in 1951 under the same authority and for a similar purpose – to purchase and import water from Metropolitan to communities in northern Orange County. Fifty years later in 2001, Coastal and MWDOC consolidated into a single agency that now sells wholesale water to retail agencies serving residents and businesses throughout Orange County. MWDOC currently represents twenty eight (28) agencies at Metropolitan which are presented in the Table A-1 on the following page.

As the LAFCO MSR notes, “MWDOC's primary focus is on importing water, representing its member agencies at Metropolitan, and facilitating a regional approach to water reliability and water use efficiency.” Today, as the wholesale provider for most of Orange County (its boundaries exclude the cities of Anaheim, Fullerton and Santa Ana which each have direct representation at Metropolitan), MWDOC has 4 of the 37 members of Metropolitan's Board of Directors, and is entitled to purchase a share of Metropolitan's contractual allotment for water deliveries from both the Colorado River Aqueduct and the California State Water Project. MWDOC does not own water treatment or delivery facilities or any other major infrastructure. Instead, MWDOC contracts for water from Metropolitan, which is delivered to MWDOC's retail agencies from Metropolitan facilities through approximately 60 system connections.

In addition to the sale of wholesale water and providing representation at Metropolitan, MWDOC's other current services include water use efficiency programs, emergency preparedness programs, reliability studies, project development, water awareness/public information programs, school programs and legislative advocacy. As part of its December 2006 Policy changes MWDOC has committed to:

- A project initiation policy when project costs are expected to exceed \$25,000;
- A project participation policy when project costs are expected to exceed \$100,000 and fewer than five retail agencies benefit; and

- A federal advocacy cost-sharing policy when fewer than five retail agencies benefit.

Attachment B, in the following section, provides the MWDOC staff analysis and the formal Policy Statement adopted in December 2006.

**Table A-1: Agencies Represented by MWDOC**

California Cities		
Brea	La Habra	San Juan Capistrano
Buena Park	La Palma	Seal Beach
Fountain Valley	Newport Beach	Tustin
Garden Grove	Orange	Westminster
Huntington Beach	San Clemente	
California Water Districts (Water Code Section 34000 et. seq.)		
El Toro Water District	Santa Margarita Water District	
Irvine Ranch Water District	Serrano Water District	
Moulton Niguel Water District		
County Water Districts (Water Code Section 30000 et. seq.)		
East Orange County Water District	Trabuco Canyon Water District	
Laguna Beach County Water District	Yorba Linda Water District	
South Coast Water District		
Community Services Districts (Government Code Section 61000 et. seq.)		
Emerald Bay Community Services District		
Agencies Authorized by Special Legislation		
Mesa Consolidated Water District		
Orange County Water District		
Private Water Companies		
Golden State Water Company		

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## Attachment B – MWDOC 12-20-06 Staff Report and Policy Statement



Item No. 8-3

**ACTION ITEM**  
December 20, 2006

**TO:** Board of Directors

**FROM:** Administration & Finance Committee  
(Directors Finnegan, Bakail, Dick)

Kevin Hunt  
General Manager

**SUBJECT: PROPOSED CHANGES TO IMPROVE  
MEMBER AGENCY RELATIONS**

**STAFF RECOMMENDATION**

Staff recommends the Board of Directors adopt the policies herein.

**COMMITTEE RECOMMENDATION**

Committee recommendations are reflected in this document.

**DETAILED REPORT**

The MWDOC Board has been together now for six years and has molded the consolidated MWDOC and Coastal districts into a unified agency serving 2.3 million people and 29 water agencies. The District has a clear mission, defined goals each year, a detailed budget, and systems in place to communicate and work closely with our member agencies.

A key benefit coming from the consolidation and articulated in MWDOC's 2001 Strategic Plan is to work *regionally* to address water issues. Examples of this regional approach in recent years include the many water use efficiency programs pursued by MWDOC in cooperation with our agencies and the three Metropolitan cities; the WEROC emergency preparedness program which includes thirty-four agencies; work on watershed and reliability planning including many water retailers and the County of Orange; engagement with OCBC on the Value of Water Reliability study; work to secure an "Emergency Services Program" agreement between the groundwater basin and South County area; and success in developing a number of conjunctive use storage agreements between OCWD, MWDOC and Metropolitan. As these efforts have come to fruition, our success in bringing in outside funding that benefits our agencies has also grown.

Over the last six years, the District's budget and rates have increased greater than the rate of inflation. Additionally, the activities of the District have not been fully understood or

Budgeted (Y/N):	Budgeted amount:
Action item amount:	Line item:
Fiscal Impact (explain if unbudgeted):	



embraced by some member agencies. Tensions between MWDOC and the agencies to which it serves water and represents at Metropolitan have developed over ocean desalination activities, water resource study activities, legislative and public outreach activities, and reserve levels. Concerns have been raised over whether the rate structure is equitable for larger agencies, and whether agencies should be able to opt out of a portion of the budget if they believe they already provide the service.

The tension between MWDOC and some of its member agencies were demonstrated every year by a letter or "white paper" written annually at budget time by several water retailers. Issues and rate proposals were generally agreed to between the Board and member agencies by the time of final adoption of the budget each June. This year, in reviewing the "white paper", MWDOC committed to a series of meetings with representatives of our agencies. Since this year was also our LAFCO Municipal Services Review (MSR), we invited LAFCO representatives to attend.

We have had three "Ad Hoc" Member Agency Relations Committee meetings with elected and appointed representatives of our water agencies. In addition, at the request of the Ad Hoc Committee, we have held four meetings with the managers of the agencies, with another scheduled on December 18. The results of these meetings and discussions with the Board of MWDOC are represented in this report and its recommendations.

#### Budget Process

In order to allow more time for agency input and to meet potential Bighorn water rate setting decision requirements, we propose to start our budget process earlier. We propose to:

1. Identify new initiatives in December and request input.
2. Request information on member agency needs in December.
3. Have a conceptual draft budget for Board and agency input in January.
4. Have a revised draft budget in March.
5. Solicit formal comment letters from agencies in April.
6. Present formal budget together with comments to Board in May.

#### Budget Amount

We propose the Board instruct the General Manager to limit our General Fund Budget from 2007/2008 to 2011/2012 to our current General Fund Budget of \$6.258 million less the \$290,000 contribution to desalination activities, plus annual inflation at the March to March LA/OC CPI. Our base General Fund Budget is, therefore, \$5.968 million. Our rates would reflect a balanced budget and reserves would be able to even out fluctuations in water sales.

In the event extraordinary circumstances or opportunities require a budget above this cap, the General Manager is instructed to obtain support from both a numerical majority of the agencies and a majority of the agencies based upon revenue, prior to taking the budget to the Board.

Project Initiation Policy

In order to facilitate member agency input and participation in engineering and planning projects (studies, investigations, etc.), we propose the Board direct the staff to:

1. Identify projects during the budget process to the extent possible and present member agency comments as part of the Budget review process.
2. Solicit input from member agencies on needed projects or assistance.
3. For projects identified during the year and not part of the budget:
  - A) If within General Manager's authority of \$25 K or less, proceed as normal
  - B) If over \$25 K, General Manager to inform the Board and seek input from member agency managers prior to requesting committee and board approval.
4. All projects must fit within the overall budget commitment level.

Project Participation Policy

Historically, MWDOC does not own facilities. The planning and feasibility studies we do can, however, be expensive. Ocean desalination studies are such an example. In order to create an equitable expenditure of funds while still accomplishing our mission, we propose the Board establish the following guidelines for project participation:

- If the study or project is projected to cost over \$100 K and directly benefit fewer than five agencies, MWDOC is obligated to seek partners.
- If the project or study cost is over \$100 K, and directly benefits 5 or more agencies, MWDOC can fund the entire cost, but partners are welcome.
- All projects must fit within the overall budget commitment level.

Federal Lobbying Cost-Sharing Policy

Discussions regarding our need for Federal and State lobbyists led to a better understanding of the need for and benefits of their services. The availability of funds from Proposition 50 and newly passed Proposition 84, the variety of water legislation each year and the complexity of the local political environment provide ample justification for our State and local lobbyist. However, concern was expressed that our Federal lobbyist's key efforts may be on a project that benefits few agencies. Consequently, we propose the Board require staff to recover a portion of our Federal lobbyist costs if it is:

- A significant sustained effort that benefits fewer than five agencies

Cost sharing will be developed from a minimum of \$500/month, possibly up to the entire amount of the Federal lobbying contract.

Core or Ancillary Services

Considerable information was provided on our categories of service and whether they were "core" or ancillary. We have resolved some of the concerns with the proposed guidelines

for Project Initiation, Project Participation and Federal Funding. One recurring issue is IRWD's school program in its service area in Grades 1—5, which eliminates the need for a MWDOC school program in that area. We recommend the Board authorize staff to negotiate with IRWD for resolution of this issue.

#### Governance and Board/Agency Relationship

MWDOC has always had a form of governance tension as a publicly elected wholesale agency. All publicly elected wholesale agencies have similar tensions in that the electorate votes for the directors (of both the wholesale and retailer), but the majority of the agencies' activities and funding come from their water purveying agencies. Some address this with a governance approach of appointed as opposed to elected directors, while others successfully solve the issues politically, through dialogue and through a collaborative process. A starting point is recognition of the mutual responsibility of both parties to serve the public and work with each other.

MWDOC/Coastal consolidation years ago provided an opportunity to better serve the people of 2/3 of Orange County. It is imperative now that efforts be made by the MWDOC Board and the elected officials of our member agencies to work together to ensure Orange County's water reliability. We, therefore, propose the Board adopt the policy statement (attached) reflecting its joint responsibility to both the public and its water agencies, and to work through and with the water agencies on all water-related issues.

#### Reserve Levels

The Board adopted a reserve policy this year. That policy sets a target range of \$5 to \$6 million. Several agencies believe our reserves are too high, while many others are comfortable with the current level. Given the budgeting and project initiating constraints we are proposing, we do not recommend any changes in the reserve levels currently, but do recommend that they be reviewed periodically.

Other reserves are held to balance and stabilize Metropolitan rate components implemented in 2003—the Tier 2 supply rate and the Capacity (peaking) Charge. These funds are held in trust in restricted accounts and levels can be adjusted as conditions warrant. With the implementation of the new MWDOC capacity charge allocation method, we can return or credit capacity charge reserve funds in 2007. The Tier 2 contingency fund account can likely be reduced in 2007 given the water demand conditions forecasted. Neither of these accounts has been used to fund or generate District activities.

#### Financial Equity Issues

We are still discussing financial equity issues with the member agencies and do not expect to be completed with this discussion and study (if needed) until mid to late February. We will keep the Board informed.

#### Conclusion

The proposed policies herein provide a basis for an improved relationship and better partnerships with our water agencies. The success of it depends upon goodwill and trust of both parties.

**Attachment A**  
**MWDOC Proposed Policy Statement**

MWDOC works through its Member Agencies to provide reliable and high quality water for the benefit of Orange County residents in its service area. The Board maintains a responsibility to both the Member Agencies and the people as their customers and constituents. Orange County's public can best be served by a cooperative and collaborative partnership between MWDOC and its Member Agencies. MWDOC pledges to work in such a manner.



## Memorandum

**DATE:** May 8, 2006  
**TO:** MWDOC Board of Directors  
**FROM:** Kevin Hunt  
**SUBJECT:** Input Regarding Municipal Water District of Orange County's (MWDOC) Scope of Activities, Policies, Priorities and Budget for 2006-07 and Beyond

In advance of both the budget process for 2006-07 and the Municipal Service Review (MSR) process by LAFCO, Karl and I have had a number of meetings and discussions with our member agencies regarding the scope of activities (services), policies and priorities for MWDOC involvement in future activities. I would like to bring a number of the issues to your attention for discussion and input as we continue developing our budget for 2006-07. My recommendations and conclusions, heading into the budget process, are included where appropriate.

The issues brought to light in these discussions include the following:

1. MWDOC Role and Services
  - a. Service Philosophy
  - b. Urban Water Management Plan
  - c. MWDOC's Desalination Efforts
  - d. Priorities for Supply and System Reliability Enhancement
  - e. Conversion of Projects from Planning to Implementation
2. MWDOC's Representation with State and Federal Legislative Advocates
3. Budget Process for 2006-07
4. Budget Process Beyond 2006-07

### MWDOC's Service Philosophy

In most cases, MWDOC does a good job serving the needs of its member agencies and the staff are very "service oriented" towards our "client agencies". This was recently noted by several agencies in a recent MWDOC Manager's meeting when discussing the services provided by MWDOC. MWDOC's interface and representation with MET, regional planning and facilitation of reliability improvements, and coordination of conservation, emergency preparedness and education programs are all excellent examples.

However, concern was expressed by some on the philosophical issue of MWDOC autonomy, governance and the lack of alignment with some of the member agencies needs. Some agencies understand that the MWDOC board members are directly elected by the public and,

therefore, have independent decision-making responsibility and authority. Others express the view that MWDOC's revenue is derived from the member agencies and hence decisions should be made that are consistent and in agreement with the member agencies needs. In a perfect world, these two points of view would be one and the same and MWDOC strives for this balance. MWDOC is tasked with balancing and serving the needs of 30 retail agencies. Still, the view exists that MWDOC's activities and actions are not in alignment with the desires from the member agencies. This is especially true, not only on the Dana Point Ocean Desalination Project, but on other activities as well. The agencies desire that the discussions include both governance and accountability issues to resolve questions of how services are decided upon and how they are funded.

Another issue has been expressed when considering MWDOC's role and services and that is the concept of "core" activities in which all member agencies participate versus "beneficiary pay" activities which are spin-off activities to be handled among groups of agencies. The catalyst for this belief was the Dana Point Ocean Desalination Project where many felt that it should have been set up under a JPA sooner, but other questionable activities are also of concern to the member agencies. This issue embodies several questions:

- What are the core activities (services) that generally benefit all member agencies and what is the appropriate cost-recovery mechanism for these activities (water rates & charges to all agencies)?
- When do planning and facilitation activities convert from core to project specific activities and what is the appropriate cost-recovery mechanism for these activities (allocation of project costs among beneficiaries)?
- What is the role and purpose of MWDOC's outreach, communication and lobbying contracts? If they align with the member agencies, should they be included in the general charges? If they align with beneficiary pays activities, should they be supported as part of the cost of these activities? And finally, if they do not align with the member agency activities, should be dropped altogether?

Conclusion: MWDOC will conduct an independently facilitated and comprehensive Municipal Service Review (MSR) through the Local Agency Formation Commission (LAFCO) process. This process will provide a good opportunity for stakeholder input to review and comment on MWDOC's services and for consideration of the questions posed above. This process is already scheduled to begin in July 2006 and provides an opportunity to seek input regarding MWDOC's role and services in discussions with the member agencies and to examine how the services are paid for by the member agencies. The MSR recommendations are only advisory in nature, but should help to gain better alignment with our agencies. We are encouraging all of our Member Agencies to actively participate and are hopeful of an open, productive process.

#### MWDOC's Urban Water Management Plan

A discussion was held on the scope and nature of MWDOC's Urban Water Management Plan prepared for 2005, the legal requirements for such and the extensive level of coordination conducted by MWDOC with its member agencies. Disagreement exists on interpretation of the legal requirements for the scope and level of detail MWDOC included in its UWMP, and in the legal powers MWDOC asserted in initial drafts of the UWMP to allocate supplies during water shortages. However, there was agreement to fully coordinate again prior to the next update in 2010 with particular attention to be paid to resolving legal issues and defining an appropriate scope prior to initiating the preparation process.

#### MWDOC's Desalination Efforts

Over the past two years, a substantial portion of MWDOC's staffing and resources have been dedicated to the development of the Dana Point Ocean Desalination Project. MWDOC forecasts that by the end of 2006-07, almost \$2.8 million will have been expended on "project development" work, including \$887,000 of MWDOC funds.

This subject has been central to a number of discussions with the Member Agencies. Comments provided by the member agencies include:

- The basic comment provided at the March MWDOC Member Agency Manager's Meeting indicated that a number of agencies thought MWDOC had gone too far in pursuing the Dana Point Ocean Desalination Project without forming a Project Committee to take over the feasibility work started by MWDOC. The feeling was that in this instance, MWDOC had gone beyond its role and mission, at least using general fund dollars.
- MET's Water Surplus and Drought Management Plan allocates water based on need with only a small benefit given for investments in local resources. One of MWDOC's roles should be to resolve this policy penalty for investments in local resources.
- The project's system reliability benefits accrue to a limited number of MWDOC's South County agencies and therefore should be financially supported by those agencies.
- Other system reliability options exist such as reservoirs, interconnections, groundwater basin conjunctive use, use of the untreated system (Baker Pipeline) and the Central Pool Augmentation Project (CPAP). The appearance to some is that MWDOC is working towards implementation of the ocean desalination facility regardless of the other options and agency input.
- The financing arrangement for the project has been left vague by MWDOC. The general recommendation from the agencies is that the local agencies that benefit from the project should be financing the development of the project.
- There are other costs associated with ocean desalination including memberships, travel, public outreach and the use of legislative advocates that are not always captured as part of the process.

Conclusion: Feasibility work on the project will be completed in sufficient detail and provided to the local agencies by the end of December 2006 to allow them to consider a "go/no-go" decision and the concomitant commitment to funding and implementing the project. Because the feasibility work is in mid-stream, the MWDOC agencies noted that it

does not appear to be appropriate to curtail work efforts between now and December 2006. However, the Member Agencies have suggested MWDOC commit to the following:

- Begin now to seek letters of interest from those agencies potentially willing to financially participate and take ownership of the project.
- Prepare a financial plan that realistically projects the likely amount of Federal, State and other outside funding, calculates the resulting cost of water, and quantifies the expected level of reliability enhancement.
- Initiate the process of forming a JPA, or an equivalent contractual mechanism, that includes agencies that have expressed interest in the project. The JPA could be structured to become effective immediately upon completion of the feasibility work, if the member agency participants elect to go forward with the project. However, if the agencies review the financial and feasibility data, weigh reliability alternatives, and subsequently determine that they do not want to proceed ahead with the project, the JPA or equivalent contractual mechanism would not be implemented.
- Work with the future potential project participants to identify what portion of MWDOC's project development costs would be reimbursable by the JPA or equivalent mechanism.
- Curtail expenditures on implementation and operation considerations such as design/build procurement methods or similar items. These decisions appropriately rest with the agencies potentially implementing the project. *[Comment: It should be noted that I have requested ARI, Inc. to put these activities on hold until such time as a JPA is formed and becomes willing to take them over.]*

The entire list of bullets above is in accordance with MWDOC's planned schedule and budget activities.

- As part of these recommendations, it was requested by some of the agencies that MWDOC should clarify that it will not independently pursue the ocean desalination project using general funds or water rate increases imposed on all of MWDOC's agencies. This is a policy issue for the Board. Historically, MWDOC has not done this nor do we recommend it now.

I would like to clarify that even given formation of a JPA MWDOC will continue to have a role to play in ocean desalination projects. MWDOC would provide staff and policy support to the JPA in a manner similar to our support of other projects, if requested by members of the JPA. Other activities would include completion of the Camp Pendleton Feasibility Study, coordination work with MET and its member agencies relative to the ocean desalination supplies within the IRP and helping MET's role in ocean desalination to evolve from one of simply providing subsidies and coordination to a more proactive role of taking over and building projects. MWDOC staff time would also be spent on general activities not specific to the Dana Point Project such as regulatory issues with once-through-cooling, assisting on technical issues such as energy recovery and seeking funding towards ocean desalination projects that benefit the MWDOC service area. These activities would generally be supported through staff time out of the general fund budget.



#### Priorities for Supply and System Reliability Enhancement

As previously noted, MWDOC has done a good job in planning and facilitating Orange County system and supply reliability improvements. However, given the questions regarding the scope of the ocean desalination project and the level of effort being spent by MWDOC, it is important for MWDOC to work with all its member agencies to develop a consensus on reliability efforts for the upcoming year.

Some suggestions from the agencies were as follows.

- MWDOC should prioritize facilitation of the member agencies' implementation of the South County emergency storage reservoirs, the Emergency Water Service Program, and interconnection improvements.
- MWDOC should continue to analyze and develop parameters for an acceptable second phase of the Emergency Water Service Program between the groundwater basin agencies and South County agencies, and should support planning other feasibility work on in-county reliability enhancement projects that are less costly and provide potentially greater benefits than a desalination plant. Examples include an inland well field, expanded treatment and utilization of the Baker Pipeline, as well as others. Many of these reliability projects can optimize the use of existing infrastructure and have other financial benefits such as avoiding MET peaking charges, and reducing exposure to MET treatment surcharge increases.
- Equally important is for MWDOC to maintain its vigilance with MET on implementing the Second Lower Feeder extension to the East Orange County Feeder #2, and ultimately the Allen-McColloch Pipeline; and most importantly in supporting the CPAP. These projects should be given a higher priority than the feasibility work on ocean desalination. (My personal observation is that these projects have always had a higher or equal priority to ocean desalination, however, in recent times more outside funding and publicity has been put forth on ocean desalination.)

We concur with the agency suggestions and will include these activities, and others, in the budget.

#### Conversion of Projects from Planning to Implementation

During the discussion on the Dana Point Ocean Desalination Project, the member agencies indicated that MWDOC had gone too far in funding the feasibility studies for a project that only benefits a small portion of the County. The question discussed was how to properly transition from feasibility work to a JPA? Should there be a dollar amount that triggers the conversion? Should there be a time limit? Should it just be considered on a case-by-case basis? After discussion, it was generally agreed that a hard and fast rule would likely be difficult to develop at this time. Most of the agencies were comfortable with the range in costs per study included in Table 2, although some agencies questioned whether MWDOC should be conducting some of the listed studies or if they would be more appropriately conducted by the benefiting agencies. What was suggested was preparation of a clearer budget document to flag when a potential study may ultimately become a JPA Beneficiaries Pay Project. This visibility and improved communications will provide time for member agency input. This issue will also be a key issue to be addressed in the MSR process.

#### MWDOC's Representation with State and Federal Legislators

Over the past several years, MWDOC has systematically increased its Board, staff and lobbyist activities at the State and Federal level. MWDOC's efforts have been successful in increasing its visibility in the region, but have raised concerns with both the magnitude of the effort, and the message being delivered to State and Federal officials, particularly regarding the region's priorities for external grant funding and MWDOC's role. The coordination of legislative advocates on State priorities has included periodic meetings with agencies who have legislative advocates to facilitate two-way communication. In this manner, all of the interests of MWDOC get supported.

On the Federal priorities, 2006 represented the first year that the legislative process was opened up to IRWD, SMWD and others with an interest in Federal activities and funding. During the year, MWDOC held a Federal Funding Workshop to expose our agencies to opportunities and to explore whether a more proactive effort could gain greater outside funding. MWDOC anticipates continuation of these activities in closer support of our agencies needs. The agencies specifically requested investigation of a joint contract with OCWD for the State advocacy contract.

Conclusion: MWDOC will coordinate its advocacy of State and Federal legislation and funding requests with its member agencies to ensure there is a clear two-way understanding of the member agencies' priorities and role. In addition, staff will revisit the issue of State Lobbying support with the Board, when the current contract expires in December of 2006.

#### Budget Process for 2006-07

Staff has begun preparation of the budget process for 2006-07 and will take the above recommendations into account as the budget is compiled. Critical issues from the member agencies' perspective are the process for identifying "core" versus "beneficiaries pay" portions of the budget and the ultimate water rate that is set. Several of the water agencies have requested a review of our method of charging for our services due to the historical increases in MWDOC's annual budget over the last 5 years, combined with the magnitude of charges being imposed (budget increased from \$4.1M in 2000-01 to \$5.4M in 2005-06, an increase of 32%).

The ocean desalination activities work to be included in the 2006-07 budget is the following:

- Completion of the feasibility work as required under the BUREC, EPA and DWR Grants. The main emphasis of the work is the groundwater modeling to estimate the quantity and quality of water to be delivered to a treatment plant and documentation of the subsurface feasibility work.
- Financial and Technical Feasibility Study -- This document will pull together all of the information gathered over the past several years and provide a detailed estimate of the cost of the project, including a subsurface intake system, pre-treatment (if required) and use of the SOCWA outfall system for brine disposal. Energy costs will be estimated and a sensitivity analysis will be completed. Key for the study will be a detailed schedule and list of steps and costs for proceeding with the project in the event the local agencies decide that formation of a JPA to move forward is warranted. This will provide direction and a cost estimate for the subsequent steps.
- The above costs are estimated as follows:

Table 1 Ocean Desalination Study Efforts in 2006-07	
Camp Pendleton Study with SDCWA (MWDOC Portion)	\$43,000
Dana Point HDD/Slant Well Drilling Technology Report to BUREC, DWR and EPA	\$70,000
Subsurface Feasibility Assessment and Groundwater Modeling due to BUREC and DWR	\$212,000
Doheny Park Light Replacement (condition of permit)	\$50,000
Technical and Financial Feasibility Study for Dana Point	\$225,000
Subtotal	\$600,000
Estimated Remaining Grant Reimbursement	\$310,000
MWDOC Supported Funding	\$290,000

Listed below are potential study topics, justification and a general level of budget that may be required. The MWDOC budget will include up to \$200,000 for these efforts:

1. Inland Wellfield/Phase 2 of Emergency Water Service Program - This work envisions work with OCWD to site a wellfield to be used for basin operations that could also be used by South Orange County for emergency situations. Work will occur with DHS and MET to gain acceptance of the proposal. Cost sharing scenarios will be developed via a draft Agreement. Specific work on a potential site will take place with OCWD and DHS. This may involve pump-in via the IRWD System, from the YLWD wellfield near Mira Loma and the EOCF#2 or participation in another wellfield site.
2. Water Treatment Plant Study - This could involve up to four locations, either the Baker Plant site, a site near Irvine Lake, a site along the Santiago Lateral or expansion of the Trabuco Canyon site. The purpose of the study is to examine options for developing a new treated source of water into South Orange County. Use of Irvine Lake may be considered. Discussions may be held with Serrano Water District on exchanging local water rights and reservoir capacity for a connection to the Allen McColloch Pipeline.
3. West County Water Recycling - Phase 2 of the study would be initiated if the Phase 1 irrigation conversion area investigation is successful. The purpose of the study is to utilize up to 10,000 AF of recycled water from Long Beach to help Long Beach share in the cost of facilities needed to serve some of their irrigation demands.
4. San Juan Basin Authority Water Salvage Study - Based on the findings of the subsurface intake system at San Juan Creek, there appears to be more opportunity for salvage of brackish water than once thought. Collaborative work between the SJBA and MWDOC would occur to determine the amount of additional brackish water that might be available and outline what would be needed to expand existing local projects to take advantage of the water.

5. La Habra Basin – The La Habra Basin is not well understood. However, it may be an underutilized source of local groundwater in the 1,000 AF to 4,000 AF range. The Cities of La Habra, Brea and Fullerton are interested in evaluating additional use of water from the basin. MWDOC's role would be to search for funding options for study money to be matched with local funding from the three cities to conduct a reconnaissance survey of the groundwater potential in the area.
6. Energy for Local Projects – This work is envisioned as a scoping study to determine what would be required to access power resources available to MET and the MET Member Agencies and whether there exist any opportunities to utilize power resources more efficiently and/or develop new ones that can be shared. The overarching concern is that another energy crisis will develop within the state and adversely affect water and the cost of local projects (such as GWRS, recycling or desalination). Advance planning by a large group may be able to influence the future outcome and opportunities.
7. Feather River or Other Water Transfers – Additional work is expected in working on the Feather River Water Transfer or in working with IRWD or SMWD on other transfer options. Feather River Water and Power has both water and energy resources for sale. Preliminary work has been completed on getting the water moved through the Delta. Additional work is required before considering a Water Transfer Agreement.
8. CALFED Monitoring – Many changes are taking place within CALFED. MWDOC has increased its presence somewhat to maintain "inside" knowledge regarding the opportunities, costs, risks and constraints. For 2006, work is expected to occur on a Delta Visioning Plan.
9. Desalination Regulatory Issues – Many regulatory issues surround ocean and brackish desalination. MWDOC is expected to continue its coordination and planning role with the five MET ocean desalination agencies. Participating in this arena will help gain a better understanding of the issues regarding success of MET's IRP and will also help to focus MET's policy on ocean desalination.
10. Central Pool Integrated Area Study Follow-up – These study efforts are underway at this time and may extend into next year. It may be advantageous for MWDOC to utilize outside study assistance to help analyze and follow-up on policy issues as they evolve from MET.
11. Value on Tap – The next session of this effort is just beginning. A key element is the coordination and communication required between retail, wholesale and MET regarding talking points, roles, missions and investments required in the water industry. The current phase of work is included in this year's budget. Additional work may spin-off into next year.

The initial reaction from some of the member agencies was that a number of the studies listed could be "beneficiary pays" studies.

Table 2 Potential General Fund Study Efforts in 2006-07	
	Potential Range of Consultant Costs
Inland Wellfield/Phase 2 of Emergency Water Service Program	\$25k to \$75k
Water Treatment Plant Study	\$25k to \$50k
West County Recycling – Phase 2	\$25k to \$50k
SJBA Water Salvage Study	\$10k to \$25k
La Habra Basin Study	\$0k to \$5k
Energy for Local Projects	\$0k to \$15k
Feather River or other Water Transfers	\$0k to \$20k
CALFED	\$10k to \$25k
Desalination Regulatory Issues	\$10k to \$25k
Central Pool Integrated Area Studies	\$0k to \$15k
Value on Tap	\$0k to \$8k
Total <sup>(1)</sup>	\$105k to \$313k
(1) Not all of these will be initiated; the budget total is \$200,000	

#### **Budget Process for Beyond 2006-07**

The member agencies have requested a meeting format to allow members of their Boards to have direct input and discussions with an Ad Hoc Committee of the MWDOC Board on the issues discussed above. Other issues discussed include reviewing the method MWDOC uses to charge its member agencies (combination of a per AF charge and an annual per retail meter charge) and whether any changes to MWDOC's cost recovery method, including having certain programs, services or projects paid for by "beneficiary agencies" to maintain equity. This meeting will be set for early June. Each of our member agencies will be invited to send elected officials to the meeting, if they desire.

#### **Attachments:**

Attached is an issues paper prepared and presented by nine of MWDOC's agencies for input prior to the budget process. The staff responses to the points raised in the issues paper are included herein.

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## Attachment C – Assumptions as Modified by Stakeholders

Municipal Water District of Orange County  
Governance Study  
List of Assumptions for the Fiscal Analysis  
As Modified for Stakeholder Input

In order to develop a fiscal analysis for each of the government structure alternatives to be included in the next phase of study, some assumptions must be made with respect to Agency Profiles, Services and Budgets. Winzler & Kelly's team is proposing the following assumptions for stakeholder review and comment.

**Assumptions for the Status Quo with December 2006 Policy Changes**

**MWDOC Profile**

- MWDOC will remain a Municipal Water District with directors elected by district.
- Future water demands will be consistent with MWDOC's 2005 Urban Water Management Plan (UWMP) with the exception of the OCWD's water demand which was estimated based on MWDOC's 8-year average and estimate of replenishment deliveries.<sup>1</sup>
- The number of retail meter connections within each agencies' service area is brought forward from MWDOC's Rate Survey Tables for Fiscal Years 2004-05 through 2006-07.
- Projected growth rates for MWDOC's retail agencies will be brought forward from the MWDOC Municipal Services Review (MSR) report and/or the retail agencies' UWMP, as updated by the agency, as necessary to confirm growth rates within each retail agencies' service area<sup>2</sup>.

**Services Provided by MWDOC**

- Services provided by MWDOC will be unchanged and will reflect the policy commitments made by the MWDOC Board in December 2006.

**MWDOC's Budget and Cost Recovery**

- The budgets will be developed based on MWDOC's FY 2008/2009 staffing as outlined in Attachment A, including part-time and consultant support staff costs.
- Since there are significant uncertainties around the imported water supply, the cost of purchased water is assumed to be 25% higher than the current Metropolitan WD rates for FY 09/10. MWDOC's Melded Water Rate Surcharge is also assumed to be 25% higher in FY 09/10. The cost of water will increase by 5% per year after that.<sup>3</sup>
- Removed as an assumption. An analysis of the effects of demand reduction is included in the Technical Report. For the purpose of the 10-year cost projections included in Winzler & Kelly's scope of work, an inflation factor of 3% per year will be used.
- MWDOC will continue to use a Melded Water Rate Surcharge.
- MWDOC will continue to charge a Water Increment Charge (per AF) and a Retail Meter Charge (per meter) to cover its general fund costs. These charges will be escalated in accordance with MWDOC's 2008-09 Fiscal Master Plan projections through Fiscal Year 2013-14 (because it is the last available data) and will be escalated at 3% per year after that.

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<sup>1</sup> Email from Karl Seckel to Harry Ehrlich and Gary Arant dated February 10, 2009

<sup>2</sup> UWMPs were obtained for El Toro, Irvine Ranch, Moulton Niguel, Santa Margarita, South Coast and Trabuco Canyon Water Districts

<sup>3</sup> Metropolitan Water District of Southern California, January 13 2009 Board Meeting Item 8-1

## **Assumptions for MWDOC reorganized as a County Water Authority (CWA) (Two Service Model Options)**

### **CWA Profile**

- The CWA Board composition will be developed using the representation formula outlined in County Water Authority law.
- Future water demands will be consistent with MWDOC's 2005 Urban Water Management Plan (UWMP) with the exception of the OCWD's water demand which was estimated based on MWDOC's 8-year average and estimate of replenishment deliveries.<sup>4</sup>
- The number of retail meter connections within each agencies' service area is brought forward from MWDOC's Rate Survey Tables for Fiscal Years 2004-05 through 2006-07.
- Projected growth rates for CWA's retail agencies will be brought forward from the MWDOC Municipal Services Review (MSR) report and/or the agencies' UWMP, as updated by the agency, as necessary to confirm growth rates within each retail agencies' service area.

### **Services Provided by the CWA**

#### **Two Service Options Will Be Developed**

- Option 1: Current MWDOC Service Model with December 2006 Policy Commitments
- Option 2: "Subscription Plan"
  - Essential Services provided by the CWA include:
    - Wholesale Water Importation
    - Planning and Resource Development<sup>5</sup>
    - Metropolitan Issues and Special Projects
    - Emergency Preparedness (WEROC).
  - Remaining services will continue to be provided and will be "subscribed" to by all retailers except the Six Agencies, because during the MSR process the Six Agencies indicated that they had alternative means for providing these services.

### **CWA Budget and Cost Recovery**

- The budgets will be developed based on MWDOC's FY 2008/2009 staffing as outlined in Attachment A, including part-time and consultant support staff costs.
- Each retailer represented on the CWA will pay the costs associated with its Board members attending CWA meetings. Board member costs for attending Metropolitan meetings and the Board conference and travel budget will be consistent with the current MWDOC budget.
- Since there are significant uncertainties around the imported water supply, the cost of purchased water is assumed to be 25% higher than the current Metropolitan WD rates for FY 09/10. The CWA's Merged Water Rate Surcharge is also assumed to be 25% higher in FY 09/10. The cost of water will increase by 5% per year after that.
- Removed as an assumption. An analysis of the effects of demand reduction is included in the Technical Report. Operating reserves will be budgeted at 15% of regular general fund operating revenues based on the recommendations of the Government Finance Officers Association.

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<sup>4</sup> Email from Karl Seckel to Harry Ehrlich and Gary Arant dated February 10, 2009

<sup>5</sup> The analysis assumes that MWDOC's Policy regarding project initiation remains in effect and that the benefitting retailers will pay for large planning and resource development projects.



- For the purpose of the 10-year cost projections included in Winzler & Kelly's scope of work, an inflation factor of 3% per year will be used.
- The formation election will occur in Fiscal Year 2009-10 and will cost \$100,000.
- The CWA will continue to charge a Melded Water Rate Surcharge.
- The CWA will continue to charge a Water Increment Charge (per AF) and a Retail Meter Charge (per meter) to cover its general fund costs.

### **Assumptions for New South County Agency (2 Boundary Options)**

#### **New South County Agency Profile**

- Two options will be developed
  - A New South County Agency including El Toro, Irvine Ranch, Moulton Niguel, Santa Margarita, South Coast and Trabuco Canyon Water Districts.
  - A New South County Agency including the six agencies together with the cities of San Clemente and San Juan Capistrano and Laguna Beach County Water District in order to provide contiguous boundaries.
- Future water demands will be consistent with MWDOC's 2005 Urban Water Management Plan (UWMP) with the exception of the OCWD's water demand which was estimated based on MWDOC's 8-year average and estimate of replenishment deliveries.<sup>6</sup>
- The number of retail meter connections within each agencies' service area is brought forward from MWDOC's Rate Survey Tables for Fiscal Years 2004-05 through 2006-07.
- Under both options, projected growth rates for New South County Agency's retail agencies will be brought forward from the MWDOC Municipal Services Review (MSR) report and/or the agencies' UWMP, as updated by the agency, as necessary to confirm growth rates within each retail agencies' service area.

#### **Services Provided by the New South County Agency (both boundary options)**

- Essential I services provided by the New South County Agency will include :
  - Wholesale Water Importation
  - Planning and Resource Development<sup>7</sup>
  - Metropolitan Issues and Special Projects
  - Emergency Preparedness (WEROC).
- The New South County Agency will not own any infrastructure. The retail agencies will continue to utilize imported water infrastructure under Metropolitan WD rules and regulations and any existing ownership/access agreements.
- Emergency Preparedness Services will continue to be provided by MWDOC throughout Orange County. The New South County Agency will fund its share of these costs under a cost-sharing agreement based on population served.<sup>8</sup>

#### **Budgets for New South County Agency (both boundary options)**

- For the purpose of establishing an Administrative and Overhead Budget, Winzler & Kelly will assume a staffing and overhead budget as outlined in Attachment A.
- The New South County Agency will pay for WEROC services.

<sup>6</sup> Email from Karl Seckel to Harry Ehrlich and Gary Arant dated February 10, 2009

<sup>7</sup> The analysis assumes that MWDOC's Policy regarding project initiation remains in effect and that the benefitting retails will pay for large planning and resource development projects.

<sup>8</sup> Population served is the current WEROC cost-sharing formula (email from Karl Seckle to Harry Ehrlich and Gary Arant dated February 10, 2009.)

- The New South County Agency will purchase water at Metropolitan WD's Tier 1 rates consistent with the Metropolitan Tier 1 Allocation Method using 1989-90 data.
- Winzler & Kelly will use the retail agencies' UWMPs to determine the local supply resources (groundwater/recycled water) that will supplement their existing Tier 1 allocations.
- Water demands above the current Tier 1 allocations + local supply resources will be purchased at Metropolitan WD's Tier 2 rates.
- Because of the significant uncertainties around the imported water supply, the cost of purchased water is assumed to be 25% higher than the current Metropolitan WD rates for FY 09/10 and 5% per year after that.
- Removed as an assumption. An analysis of the effects of demand reduction is included in the Technical Report. The New South County Agency will charge a Water Increment Charge to cover its general fund costs.
- Operating reserves will be budgeted at 15% of regular general fund operating revenues based on the recommendations of the Government Finance Officers Association.
- MWDOC's existing reserves will be allocated between the New South County Agency and the remaining MWDOC based on the 5-year percent average (2004-2008) of the revenue provided to MWDOC from the reorganized agencies.
- For the purpose of the 10-year cost projections included in Winzler & Kelly's scope of work, an inflation factor of 3% per year will be used.
- The pre-formation costs for the new agency will be born by the reorganized retail agencies from their reserves and will not be accounted for in the financial analysis.
- The election will occur in Fiscal Year 2009-10 and will cost \$100,000.
- A transition staffing scenario will be budgeted over three years as outlined below beginning in FY 09/10 (formation election occurs in June 2010):

#### **First Full Year of Operation**

After the formation elections, for the first fiscal year of existence, the New South County Agency will:

- Seat and organize the Board of Directors; select MWD representatives;
- Initially utilize outside legal counsel and governmental consultants to process the various legal fillings, seek membership to MWD and develop basic operating rules and regulations; and
- Rely on the resources of one or several of the participating agencies for staff and housing. Transitioning MWDOC staff might also be considered to meet staffing requirements of the new entity.

#### **Second Full Year of Operation**

With the completion of the first full year, it is assumed that the New South County Agency would:

- Begin to function in the central roles of MWD representation and overall water operations/administration;
- Through interaction with and input from the member agencies, determine which of the optional or subscription services, i.e., lobbying, conservation services, public education, would be provided by the new entity;
- Start securing its own staff. With expanding activities and functions as it may no longer be practical or desirable to continue utilizing consultants and member agency staff resources; and

- Begin negotiations to lease a permanent facility to house its staff and Board of Directors.

### **Third Full Year**

During the third full year of existence and operation, the new entity would:

- Secure its full compliment of staff (as outlined in Attachment A) as well as an outside legal consultant, in order to implement all functions desired by the members; and
- Secure a permanent facility by lease to house the staff and Board functions.
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### **Assumptions for the smaller MWDOC (both boundary options)**

#### **Smaller MWDOC Profile**

- MWDOC will continue as an MWD representing either 19 or 22 retail agencies.
- Under both options, future water demands will be consistent with MWDOC's 2005 Urban Water Management Plan (UWMP) with the exception of the OCWD's water demand which was estimated based on MWDOC's 8-year average and estimate of replenishment deliveries.<sup>9</sup>
- Under both options, the number of retail meter connections within each agencies' service area is brought forward from MWDOC's Rate Survey Tables for Fiscal Years 2004-05 through 2006-07.
- Under both options, projected growth rates for the smaller MWDOC's retail agencies will be brought forward from the MWDOC Municipal Services Review (MSR) report and/or the agencies' UWMP, as updated by the agency, as necessary to confirm growth rates within each retail agencies' service area

#### **Services Provided by the smaller MWDOC**

- Services provided by the smaller MWDOC will be unchanged and will reflect the policy commitments made by the MWDOC Board in 2006.
- Emergency Preparedness Services will continue to be provided by MWDOC throughout Orange County. MWDOC will continue to carry its, reduced, WEROC contribution in its budget.

#### **Budget for the Agency**

- For the purpose of establishing an initial Administrative and Overhead Budget, Winzler & Kelly will assume a staffing and overhead budget as outlined in Attachment A.
- Water purchase costs will be reduced to account for the amount of water purchased by the New South County Agency.
- The smaller MWDOC will purchase water at Metropolitan WD's Tier 1 rates consistent with existing MWDOC allocations.
- Winzler & Kelly will use the retail agencies' UWMPs to determine the local supply resources (groundwater/recycled water) that will supplement their existing Tier 1 allocations.
- Water demands above the current Tier 1 allocations + local supply resources will be purchased at Metropolitan WD's Tier 2 rates.
- Since there are significant uncertainties around the imported water supply, the cost of purchased water is assumed to be 25% higher than the current Metropolitan WD rates for FY 09/10.

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<sup>9</sup> Email from Karl Seckel to Harry Ehrlich and Gary Arant dated February 10, 2009

- . Removed as an assumption. An analysis of the effects of demand reduction is included in the Technical Report.
- MWDOC's existing reserves will be allocated to the smaller MWDOC based on the 5-year percent average (2004-2008) of the revenue provided to MWDOC from the remaining retail agencies.
- For the purpose of the 10-year cost projections included in Winzler & Kelly's scope of work, an inflation factor of 3% per year will be used.
- MWDOC will continue to charge a Water Increment Charge and a Retail Meter Charge to cover its general fund costs.

## Attachment A – Agency Staffing Assumptions

MWDOC Baseline Staffing Analysis (Based on Exhibit I of the FY 2008/09 Budget)

Budget Category	Admin/Board	Planning & Coordination	Met Issues & Special Projects	Water Use Efficiency	Government/ Public Affairs	Finance/IT	WEROC	Overhead	Totals
<b>Staff Department</b>									
General Manager	0.60		0.25					0.15	1.00
Executive Secretary	0.22	0.51	0.13					0.14	1.00
Engineering	0.24	3.20	0.47				0.02	0.56	4.49
WEROC Staff							1.75		1.75
Administrative Services	4.13		1.11		0.01			0.49	5.74
Met & Special Projects	0.20		1.39	0.10	0.16			0.27	2.12
Finance/IT	0.13		0.04	0.17		4.53		0.67	5.54
Public Affairs	0.16		1.00	0.52	2.35			0.45	4.48
School Program					0.82				0.82
Water Use Efficiency	0.10		0.03	4.82				0.52	5.47
<b>Totals</b>	<b>5.78</b>	<b>3.71</b>	<b>4.42</b>	<b>5.61</b>	<b>3.34</b>	<b>4.53</b>	<b>1.77</b>	<b>3.25</b>	<b>32.41</b>

Reorganized South County Agency (Assume School Program & Water Use Efficiency Program Provided by Retailers)

Budget Category	Admin/Board	Planning & Coordination	Met Issues & Special Projects	Water Use Efficiency	Government/ Public Affairs	Finance/IT	WEROC	Overhead	Totals
<b>Staff Department</b>									
General Manager	0.60		0.25					0.15	1.00
Engineering	0.13	1.10	0.47					0.30	2.00
WEROC Staff									0.00
Administrative Services	2.00		0.55					0.45	3.00
Met & Special Projects	0.13		0.72					0.15	1.00
Finance/IT	0.13		0.04			2.38		0.45	3.00
Public Affairs	0.13		0.22		0.50			0.15	1.00
School Program									0.00
Water Use Efficiency									0.00
<b>Totals</b>	<b>3.12</b>	<b>1.10</b>	<b>2.25</b>	<b>0.00</b>	<b>0.50</b>	<b>2.38</b>	<b>0.00</b>	<b>1.65</b>	<b>11.00</b>

Remaining MWDOC

Budget Category	Admin/Board	Planning & Coordination	Met Issues & Special Projects	Water Use Efficiency	Government/ Public Affairs	Finance/IT	WEROC	Overhead	Totals
<b>Staff Department</b>									
General Manager	0.60		0.25					0.15	1.00
Executive Secretary	0.22	0.51	0.13					0.14	1.00
Engineering	0.13	2.00	0.40				0.02	0.45	3.00
WEROC Staff							1.75		1.75
Administrative Services	1.79		0.75		0.01			0.45	3.00
Met & Special Projects	0.20		1.39	0.10	0.16			0.27	2.12
Finance/IT	0.13		0.04	0.17		3.00		0.45	3.79
Public Affairs	0.13			0.42	2.00			0.45	3.00
School Program					0.82				0.82
Water Use Efficiency	0.10			2.50				0.40	3.00
<b>Totals</b>	<b>3.30</b>	<b>2.51</b>	<b>2.96</b>	<b>3.19</b>	<b>2.99</b>	<b>3.00</b>	<b>1.77</b>	<b>2.76</b>	<b>22.48</b>

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## Attachment D – Water Demand and Retail Meter Projections

	A	B	C	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	T	U	V	W	X	Y	Z	AA	AB	AC	AD	AE	AF	AG	AH	AI	AJ	
1	Exhibit A from MWDOC Rates																																				
2	FY 04-05		FY 05-06		FY 06-07		FY 07-08		FY 08-09		FY 09-10		FY 10-11		FY 11-12		FY 12-13		FY 13-14		FY 14-15		FY 15-16		FY 16-17		FY 17-18		FY 18-19		FY 19-20		Change 06/07 to 19/20				
3	New South County Agency		% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	% of Total	Total	Percentage		
4	El Toro WD																																				
5	Water Purchased (AF)		10,317	4.66%	10,488	4.81%	11,539	4.58%	11,354	4.75%	11,169	4.93%	10,984	5.13%	11,018	5.04%	11,052	4.96%	11,085	4.87%	11,119	4.79%	11,187	4.68%	11,221	4.65%	11,255	4.61%	11,282	4.59%	11,323	4.55%	542	4.78%			
6	Retail Meter Charges (EA)		10,043	1.71%	10,043	1.74%	10,025	1.66%	10,114	1.62%	10,203	1.58%	10,292	1.54%	10,342	1.53%	10,392	1.53%	10,441	1.52%	10,491	1.52%	10,541	1.51%	10,591	1.50%	10,641	1.50%	10,641	1.49%	10,680	1.48%	10,790	1.47%			
7	Irvine Ranch WD*																																				
8	Water Purchased (AF)		21,352	9.65%	22,737	10.42%	37,572	14.92%	36,112	15.10%	34,653	15.29%	33,193	15.51%	34,057	15.58%	34,921	15.66%	35,784	15.73%	36,648	15.80%	37,512	15.86%	38,356	16.05%	39,200	16.23%	40,045	16.41%	40,720	16.55%	41,733	16.76%	14,513	34.77%	
9	Retail Meter Charges (EA)		90,915	15.46%	93,474	16.15%	96,495	15.98%	102,768	16.43%	109,040	16.85%	115,313	17.24%	115,488	17.13%	115,664	17.01%	115,839	16.90%	116,015	16.78%	116,190	16.67%	117,486	16.68%	118,781	16.70%	118,781	16.61%	119,818	16.59%	122,668	16.71%			
10	Moulton Niguel WD																																				
11	Water Purchased (AF)		32,230	14.56%	33,438	15.33%	36,679	14.57%	36,157	15.12%	35,636	15.73%	35,114	16.41%	35,178	16.10%	35,242	15.80%	35,307	15.52%	35,371	15.24%	35,435	14.98%	35,535	14.87%	35,635	14.75%	35,735	14.64%	35,815	14.56%	35,935	14.43%	1,819	5.06%	
12	Retail Meter Charges (EA)		53,255	9.06%	53,343	9.22%	53,533	8.86%	59,157	9.46%	64,781	10.01%	70,405	10.53%	70,405	10.44%	70,405	10.36%	70,405	10.27%	70,405	10.19%	70,405	10.10%	70,405	10.04%	70,405	9.90%	70,405	9.84%	70,405	9.75%	70,405	9.59%			
13	Santa Margarita WD																																				
14	Water Purchased (AF)		30,268	13.67%	32,881	15.07%	34,758	13.80%	33,491	14.00%	32,224	14.22%	30,957	14.46%	31,319	14.33%	31,681	14.21%	32,043	14.08%	32,405	13.97%	32,767	13.85%	33,327	13.94%	33,886	14.03%	34,446	14.11%	34,893	14.18%	35,565	14.28%	2,929	8.24%	
15	Retail Meter Charges (EA)		51,247	8.72%	52,231	9.02%	52,868	8.75%	54,654	8.74%	56,439	8.72%	58,225	8.70%	59,294	8.79%	60,362	8.88%	61,431	8.96%	62,499	9.04%	63,568	9.12%	64,549	9.17%	65,530	9.21%	65,530	9.16%	66,314	9.18%	68,472	9.33%			
16	South Coast Water District																																				
17	Water Purchased (AF)		7,333	3.31%	7,005	3.21%	7,819	3.11%	7,616	3.18%	7,412	3.27%	7,209	3.37%	7,104	3.25%	7,000	3.14%	6,895	3.03%	6,791	2.93%	6,686	2.83%	6,588	2.69%	6,490	2.61%	6,392	2.62%	6,314	2.57%	6,196	2.49%	-1,190	-19.20%	
18	Retail Meter Charges (EA)		12,357	2.10%	12,238	2.11%	12,389	2.05%	12,526	2.00%	12,663	1.96%	12,800	1.91%	12,820	1.90%	12,840	1.89%	12,860	1.88%	12,880	1.86%	12,900	1.85%	12,920	1.83%	12,940	1.82%	12,940	1.81%	12,956	1.79%	13,000	1.77%			
19	Trabuco Canyon WD																																				
20	Water Purchased (AF)		1,908	0.86%	2,265	1.04%	3,273	1.30%	3,696	1.55%	4,120	1.82%	4,543	2.12%	4,598	2.10%	4,653	2.09%	4,709	2.07%	4,764	2.05%	4,819	2.04%	4,867	2.04%	4,915	2.03%	4,962	2.03%	5,001	2.03%	5,058	2.03%	2,576	50.93%	
21	Retail Meter Charges (EA)		3,996	0.68%	3,990	0.69%	3,990	0.66%	4,257	0.68%	4,523	0.70%	4,790	0.72%	4,838	0.72%	4,886	0.72%	4,935	0.72%	4,983	0.72%	5,031	0.72%	5,069	0.72%	5,107	0.72%	5,107	0.71%	5,137	0.71%	5,220	0.71%			
22	Laguna Beach CWD																																				
23	Water Purchased (AF)		4,490	2.03%	4,473	2.03%	4,517	1.79%	4,562	1.91%	4,608	2.03%	4,653	2.17%	4,663	2.13%	4,673	2.10%	4,683	2.06%	4,693	2.02%	4,703	1.99%	4,713	1.97%	4,723	1.96%	4,733	1.94%	4,741	1.93%	4,753	1.91%	260	5.46%	
24	Retail Meter Charges (EA)		8,469	1.44%	8,530	1.47%	7,979	1.32%	8,182	1.31%	8,386	1.30%	8,589	1.28%	8,610	1.28%	8,632	1.27%	8,643	1.26%	8,653	1.25%	8,664	1.24%	8,675	1.23%	8,686	1.22%	8,697	1.22%	8,708	1.21%	8,708	1.19%			
25	San Clemente																																				
26	Water Purchased (AF)		9,497	4.29%	10,659	4.89%	11,068	4.40%	10,647	4.45%	10,227	4.51%	9,806	4.58%	9,843	4.50%	9,880	4.43%	9,918	4.36%	9,955	4.29%	9,992	4.22%	9,992	4.18%	9,993	4.14%	9,993	4.09%	9,994	4.06%	9,994	4.01%	-414	-4.14%	
27	Retail Meter Charges (EA)		16,286	2.77%	17,093	2.95%	17,311	2.87%	17,906	2.86%	18,501	2.86%	19,096	2.85%	19,177	2.84%	19,258	2.83%	19,339	2.82%	19,420	2.81%	19,501	2.80%	19,562	2.78%	19,624	2.76%	19,624	2.74%	19,673	2.72%	19,809	2.70%			
28	San Juan Capistrano																																				
29	Water Purchased (AF)		6,087	2.75%	2,836	1.30%	5,901	2.34%	5,547	2.32%	5,193	2.29%	4,839	2.26%	4,847	2.22%	4,855	2.18%	4,862	2.14%	4,870	2.10%	4,878	2.06%	4,886	2.04%	4,894	2.03%	4,903	2.01%	4,909	2.00%	4,919	1.98%	-22	-0.45%	
30	Retail Meter Charges (EA)		10,913	1.86%	10,948	1.89%	10,917	1.81%	11,123	1.78%	11,329	1.75%	11,535	1.72%	11,564	1.71%	11,593	1.71%	11,623	1.70%	11,652	1.69%	11,682	1.68%	11,704	1.66%	11,726	1.65%	11,726	1.64%	11,744	1.63%	11,794	1.61%			
31																																					
32																																					
33																																					
34																																					
35	Remaining MWDOC																																				
36	Brea																																				
37	Water Purchased (AF)		4,124	1.86%	4,081	1.87%	5,723	2.27%	5,814	2.43%	5,906	2.61%	5,997	2.80%	6,096	2.79%	6,195	2.78%	6,293	2.77%	6,392	2.76%	6,491	2.74%	6,579	2.75%	6,667	2.76%	6,754	2.77%	6,825	2.77%	6,930	2.78%	2,287	33.01%	
38	Retail Meter Charges (EA)		11,675	1.99%	11,745	2.03%	11,745	1.94%	12,032	1.92%	12,318	1.90%	12,605	1.88%	12,704	1.88%	12,804	1.88%	12,903	1.88%	13,002	1.88%	13,102	1.88%	13,177	1.87%	13,253	1.86%	13,253	1.85%	13,313	1.84%	13,479	1.84%			
39	Buena Park																																				
40	Water Purchased (AF)		5,640	2.55%	5,912	2.71%	5,978	2.37%	5,497	2.30%	5,436	2.12%	4,825	2.04%	5,114	2.21%	5,094	2.24%	5,404	2.37%	5,693	2.45%	5,982	2.53%	6,226	2.60%	6,470	2.68%	6,715	2.75%	6,910	2.81%	7,203	2.89%	1,360	18.88%	
41	Retail Meter Charges (EA)		19,750	3.36%	19,750	3.41%	19,750	3.27%	19,974	3.19%	20,198	3.21%	20,422	3.15%	20,530	3.04%	20,639	3.04%	20,747	3.03%	20,855	3.02%	20,964	3.01%	21,051	2.99%	21,138	2.97%	21,138	2.96%	21,207	2.94%	21,398	2.92%			
42	East Orange County WD																																				
43	Water Purchased (AF)		4,490	2.03%	2,697	1.24%	3,895	1.55%	3,579	1.50%	3,263	1.44%	2,947	1.38%	2,970	1.36%	2,994	1.34%	3,017	1.33%	3,041	1.31%	3,064	1.30%	3,070	1.28%	3,075	1.27%	3,081	1.26%	3,085	1.25%	3,092	1.24%	-602	-19.47%	
44	Retail Meter Charges (EA)		1,195	0.20%	1,196	0.21%	1,196	0.20%	1,197	0.19%	1,197	0.19%	1,198	0.18%	1,199	0.18%	1,200	0.18%	1,202	0.18%	1,203	0.17%	1,204	0.17%	1,205	0.17%	1,206	0.17%	1,206	0.17%	1,207	0.17%	1,210	0.16%			
45	Fountain Valley																																				
46	Water Purchased (AF)		3,558	1.61%	3,858	1.77%	3,674	1.46%	3,348	1.40%	3,023	1.33%	2,697	1.26%	2,825	1.29%	2,954	1.32%	3,082	1.35%																	

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## Attachment E – MWDOC Baseline 10-year Financial Model Summar



	FY 04-05		FY 05-06		FY 06-07		FY 07-08		FY 08-09		FY 09-10		FY 10-11		FY 11-12		FY 12-13		FY 13-14		FY 14-15		FY 15-16		FY 16-17		FY 17-18		FY 18-19		FY 19-20
Administrative/Personnel	\$1,560,635	30.76%	\$1,583,783	26.33%	\$1,669,367	27.15%	\$1,675,018	28.05%	\$1,446,528	23.89%	\$1,489,924	23.89%	\$1,534,622	23.89%	\$1,580,660	23.89%	\$1,628,080	23.89%	\$1,676,922	23.89%	\$1,727,230	23.89%	\$1,779,047	23.89%	\$1,832,418	23.89%	\$1,887,391	23.89%	\$1,944,013	23.89%	\$2,002,333
Planning/Resource Development	\$973,234	19.18%	\$769,061	12.77%	\$743,840	12.10%	\$724,512	12.13%	\$720,514	11.90%	\$742,129	11.90%	\$764,393	11.90%	\$787,325	11.90%	\$810,945	11.90%	\$835,273	11.90%	\$860,331	11.90%	\$886,141	11.90%	\$912,726	11.90%	\$940,107	11.90%	\$968,311	11.90%	\$997,360
Special Projects	\$0	0.00%	\$311,120	5.17%	\$206,756	3.35%	\$225,557	3.78%	\$82,211	9.62%	\$599,677	9.62%	\$617,668	9.62%	\$636,198	9.62%	\$655,284	9.62%	\$674,942	9.62%	\$695,190	9.62%	\$716,046	9.62%	\$737,527	9.62%	\$759,653	9.62%	\$782,443	9.62%	\$805,916
Governmental Affairs	\$273,557	5.39%	\$344,747	5.73%	\$316,596	5.15%	\$287,967	4.82%	\$266,939	4.41%	\$274,947	4.41%	\$283,196	4.41%	\$291,691	4.41%	\$300,442	4.41%	\$309,455	4.41%	\$318,739	4.41%	\$328,301	4.41%	\$338,150	4.41%	\$348,295	4.41%	\$358,744	4.41%	\$369,506
Water Use Efficiency	\$440,204	8.68%	\$528,734	8.79%	\$835,889	13.59%	\$796,792	13.40%	\$762,275	12.59%	\$785,143	12.59%	\$808,698	12.59%	\$832,958	12.59%	\$857,947	12.59%	\$883,686	12.59%	\$910,196	12.59%	\$937,502	12.59%	\$965,627	12.59%	\$994,596	12.59%	\$1,024,434	12.59%	\$1,055,167
Water Awareness	\$232,100	4.58%	\$223,531	3.72%	\$267,573	4.35%	\$312,773	5.24%	\$317,652	5.25%	\$327,388	5.25%	\$337,209	5.25%	\$347,325	5.25%	\$357,745	5.25%	\$368,478	5.25%	\$379,532	5.25%	\$390,918	5.25%	\$402,645	5.25%	\$414,725	5.25%	\$427,167	5.25%	\$439,982
School Programs	\$257,824	5.08%	\$259,959	4.32%	\$282,811	4.60%	\$312,961	5.24%	\$355,527	5.87%	\$366,193	5.87%	\$377,179	5.87%	\$388,494	5.87%	\$400,149	5.87%	\$412,153	5.87%	\$424,518	5.87%	\$437,253	5.87%	\$450,371	5.87%	\$463,882	5.87%	\$477,799	5.87%	\$492,133
Finance	\$300,219	5.92%	\$317,874	5.28%	\$436,916	7.11%	\$535,926	8.98%	\$440,098	7.27%	\$453,301	7.27%	\$466,900	7.27%	\$480,907	7.27%	\$495,334	7.27%	\$510,194	7.27%	\$525,500	7.27%	\$541,265	7.27%	\$557,503	7.27%	\$574,228	7.27%	\$591,455	7.27%	\$609,199
Information Technology	\$156,745	3.09%	\$169,679	2.82%	\$163,915	2.67%	\$170,921	2.86%	\$167,100	2.76%	\$172,113	2.76%	\$177,276	2.76%	\$182,595	2.76%	\$188,073	2.76%	\$193,715	2.76%	\$199,526	2.76%	\$205,512	2.76%	\$211,677	2.76%	\$218,028	2.76%	\$224,568	2.76%	\$231,305
Overhead	\$799,722	15.76%	\$871,924	14.50%	\$868,504	14.13%	\$839,280	14.06%	\$94,458	14.94%	\$931,592	14.94%	\$959,539	14.94%	\$988,326	14.94%	\$1,017,975	14.94%	\$1,048,515	14.94%	\$1,079,970	14.94%	\$1,112,369	14.94%	\$1,145,740	14.94%	\$1,180,113	14.94%	\$1,215,516	14.94%	\$1,251,981
WEROC - MWDOC Contribution	\$80,000	1.58%	\$81,362	1.35%	\$67,478	1.10%	\$85,815	1.44%	\$91,228	1.51%	\$93,965	1.51%	\$96,784	1.51%	\$99,687	1.51%	\$102,678	1.51%	\$105,758	1.51%	\$108,931	1.51%	\$112,199	1.51%	\$115,565	1.51%	\$119,032	1.51%	\$122,603	1.51%	\$126,811
Subtotal General Fund	\$5,074,330	100.00%	\$6,014,674	100.00%	\$6,148,635	100.00%	\$5,970,522	100.00%	\$6,054,730	100.00%	\$6,236,372	100.00%	\$6,423,463	100.00%	\$6,616,167	100.00%	\$6,814,652	100.00%	\$7,019,092	100.00%	\$7,229,664	100.00%	\$7,446,554	100.00%	\$7,669,951	100.00%	\$7,900,049	100.00%	\$8,137,051	100.00%	\$8,381,162
Budgeted Reserves									\$5,069,000		\$4,739,000		\$4,737,000		\$4,737,000		\$4,737,000		\$4,737,000		\$4,737,000		\$4,737,000		\$4,737,000		\$4,737,000		\$4,737,000		\$4,737,000
Revenue Recovery																															
New South County Agency																															
El Toro WD																															
Increment Charge (AF)	\$ 67,061	1.32%	\$ 68,172	1.13%	\$ 75,004	1.22%	\$ 73,801	1.24%	\$ 72,599	1.20%	\$ 82,380	1.32%	\$ 88,803	1.38%	\$ 94,823	1.43%	\$ 100,212	1.47%	\$ 106,077	1.51%	\$ 106,400	1.47%	\$ 106,724	1.43%	\$ 107,048	1.40%	\$ 109,520	1.39%	\$ 111,981	1.38%	\$ 114,633
Retail Meter Charges (EA)	\$ 55,237	1.09%	\$ 55,237	0.92%	\$ 55,138	0.90%	\$ 55,627	0.93%	\$ 56,117	0.93%	\$ 63,810	1.02%	\$ 68,670	1.07%	\$ 71,702	1.08%	\$ 75,178	1.10%	\$ 79,104	1.13%	\$ 79,479	1.10%	\$ 79,855	1.07%	\$ 80,230	1.05%	\$ 81,835	1.04%	\$ 83,784	1.03%	\$ 86,336
Irvine Ranch WD*																															
Increment Charge (AF)	\$ 138,788	2.74%	\$ 147,791	2.46%	\$ 244,218	3.97%	\$ 234,730	3.93%	\$ 225,242	3.72%	\$ 248,948	3.99%	\$ 274,498	4.27%	\$ 299,619	4.53%	\$ 323,491	4.75%	\$ 349,624	4.98%	\$ 357,864	4.95%	\$ 365,918	4.91%	\$ 373,972	4.88%	\$ 389,666	4.93%	\$ 404,163	4.97%	\$ 422,502
Retail Meter Charges (EA)	\$ 500,033	9.85%	\$ 514,107	8.55%	\$ 530,723	8.63%	\$ 565,222	9.47%	\$ 599,722	9.91%	\$ 714,941	11.46%	\$ 766,843	11.94%	\$ 798,080	12.06%	\$ 834,042	12.24%	\$ 874,750	12.46%	\$ 876,073	12.12%	\$ 885,841	11.90%	\$ 895,610	11.68%	\$ 913,522	11.56%	\$ 939,924	11.55%	\$ 981,529
Moulton Niguel WD																															
Increment Charge (AF)	\$ 209,495	4.13%	\$ 217,347	3.61%	\$ 238,414	3.88%	\$ 235,023	3.94%	\$ 231,632	3.93%	\$ 263,355	4.22%	\$ 283,536	4.41%	\$ 302,380	4.56%	\$ 319,172	4.68%	\$ 337,437	4.81%	\$ 338,050	4.68%	\$ 339,004	4.55%	\$ 339,958	4.43%	\$ 347,730	4.40%	\$ 355,479	4.37%	\$ 363,803
Retail Meter Charges (EA)	\$ 292,903	5.77%	\$ 293,387	4.88%	\$ 294,432	4.79%	\$ 325,364	5.45%	\$ 356,296	5.88%	\$ 436,511	7.00%	\$ 467,489	7.28%	\$ 485,795	7.34%	\$ 506,916	7.44%	\$ 530,854	7.56%	\$ 530,854	7.34%	\$ 530,854	7.13%	\$ 530,854	6.92%	\$ 541,471	6.85%	\$ 552,300	6.79%	\$ 563,346
Santa Margarita WD																															
Increment Charge (AF)	\$ 196,742	3.88%	\$ 213,727	3.55%	\$ 225,927	3.67%	\$ 217,692	3.65%	\$ 209,456	3.46%	\$ 232,178	3.72%	\$ 252,431	3.93%	\$ 271,823	4.11%	\$ 289,689	4.25%	\$ 309,144	4.40%	\$ 312,597	4.32%	\$ 317,936	4.27%	\$ 323,274	4.21%	\$ 335,185	4.24%	\$ 346,332	4.26%	\$ 360,057
Retail Meter Charges (EA)	\$ 281,859	5.55%	\$ 287,271	4.78%	\$ 290,774	4.73%	\$ 300,595	5.03%	\$ 310,416	5.13%	\$ 360,995	5.79%	\$ 393,710	6.13%	\$ 416,499	6.30%	\$ 442,302	6.49%	\$ 471,245	6.71%	\$ 479,303	6.63%	\$ 486,698	6.54%	\$ 494,093	6.44%	\$ 503,975	6.38%	\$ 520,210	6.39%	\$ 547,879
South Coast Water District																															
Increment Charge (AF)	\$ 47,665	0.94%	\$ 45,533	0.76%	\$ 50,824	0.83%	\$ 49,502	0.83%	\$ 48,180	0.80%	\$ 54,068	0.87%	\$ 57,261	0.89%	\$ 60,508	0.91%	\$ 62,333	0.91%	\$ 64,782	0.92%	\$ 63,784	0.88%	\$ 62,850	0.84%	\$ 61,915	0.81%	\$ 62,199	0.79%	\$ 62,665	0.77%	\$ 62,728
Retail Meter Charges (EA)	\$ 67,964	1.34%	\$ 67,309	1.12%	\$ 68,140	1.11%	\$ 68,893	1.15%	\$ 69,647	1.15%	\$ 79,360	1.27%	\$ 85,125	1.33%	\$ 88,596	1.34%	\$ 92,592	1.36%	\$ 97,115	1.38%	\$ 97,266	1.35%	\$ 97,417	1.31%	\$ 97,568	1.27%	\$ 99,519	1.26%	\$ 101,635	1.25%	\$ 104,020
Trabuco Canyon WD																															
Increment Charge (AF)	\$ 12,402	0.24%	\$ 14,723	0.24%	\$ 21,275	0.35%	\$ 24,026	0.40%	\$ 26,778	0.44%	\$ 34,073	0.55%	\$ 37,061	0.58%	\$ 39,926	0.60%	\$ 42,566	0.62%	\$ 45,447	0.65%	\$ 45,973	0.64%	\$ 46,429	0.62%	\$ 46,885	0.61%	\$ 48,288	0.61%	\$ 49,633	0.61%	\$ 51,207
Retail Meter Charges (EA)	\$ 21,978	0.43%	\$ 21,945	0.36%	\$ 21,945	0.36%	\$ 23,412	0.39%	\$ 24,878	0.41%	\$ 29,698	0.48%	\$ 32,126	0.50%	\$ 33,716	0.51%	\$ 35,529	0.52%	\$ 37,570	0.54%	\$ 37,934	0.52%	\$ 38,219	0.51%	\$ 38,504	0.50%	\$ 39,274	0.50%	\$ 40,297	0.50%	\$ 41,768
Laguna Beach CWD																															
Increment Charge (AF)	\$ 29,185	0.58%	\$ 29,075	0.48%	\$ 29,361	0.48%	\$ 29,655	0.50%	\$ 29,950	0.49%	\$ 34,898	0.58%	\$ 37,584	0.59%	\$ 40,094	0.61%	\$ 42,334	0.62%	\$ 44,771	0.64%	\$ 44,867	0.62%	\$ 44,962	0.60%	\$ 45,057	0.59%	\$ 46,056	0.58%	\$ 47,056	0.58%	\$ 48,119
Retail Meter Charges (EA)	\$ 46,580	0.92%	\$ 46,915	0.78%	\$ 43,885	0.71%	\$ 45,003	0.75%	\$ 46,121	0.76%	\$ 53,252	0.85%	\$ 57,170	0.89%	\$ 59,561	0.90%	\$ 62,230	0.91%	\$ 65,244	0.93%	\$ 65,327	0.90%	\$ 65,410	0.88%	\$ 65,492	0.85%	\$ 66,887	0.85%	\$ 68,311	0.84%	\$ 69,677
San Clemente																															
Increment Charge (AF)	\$ 61,731	1.22%	\$ 69,284	1.15%	\$ 71,942	1.17%	\$ 69,208	1.16%	\$ 66,473	1.10%	\$ 73,545	1.18%	\$ 79,336	1.24%	\$ 84,774	1.28%	\$ 89,655	1.32%	\$ 94,969	1.35%	\$ 95,324	1.32%	\$ 95,327	1.28%	\$ 95,331	1.24%	\$ 97,242	1.23%	\$ 99,190	1.22%	\$ 101,178
Retail Meter Charges (EA)	\$ 89,573	1.77%	\$ 94,012	1.56%	\$ 95,211	1.55%	\$ 98,484	1.65%	\$ 101,757	1.68%	\$ 118,398	1.90%	\$ 127,337	1.98%	\$ 132,881	2.01%	\$ 139,241	2.04%	\$ 146,426	2.09%	\$ 147,035	2.03%	\$ 147,499	1.98%	\$ 147,964	1.93%	\$ 150,923	1.91%	\$ 154,328	1.90%	\$ 158,498
San Juan Capistrano																															
Increment Charge (AF)	\$ 39,566	0.78%	\$ 18,434	0.31%	\$ 38,357	0.62%	\$ 36,056	0.60%	\$ 33,755	0.56%	\$ 36,293	0.58%	\$ 39,065	0.61%	\$ 41,652	0.63%	\$ 43,956	0.65%	\$ 46,462	0.66%	\$ 46,536	0.64%	\$ 46,614	0.63%	\$ 46,693	0.61%	\$ 47,706	0.60%	\$ 48,725	0.60%	\$ 49,8

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## Attachment F – MWDOC

	FY 04-05		FY 05-06		FY 06-07		FY 07-08		FY 08-09		FY 09-10		FY 10-11		FY 11-12		FY 12-13		FY 13-14		FY 14-15		FY 15-16		FY 16-17		FY 17-18		FY 18-19		FY 19-20	
	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
General Fund Budget																																
Administrative/Personnel	\$1,560,635	30.76%	\$1,583,783	26.33%	\$1,669,367	27.15%	\$1,675,018	28.05%	\$1,446,528	23.89%	\$1,489,924	25.19%	\$1,534,622	25.44%	\$1,580,660	25.39%	\$1,628,080	25.34%	\$1,676,922	25.30%	\$1,727,230	25.26%	\$1,779,047	25.21%	\$1,832,418	25.17%	\$1,887,391	25.17%	\$1,944,013	25.10%	\$2,002,333	
Planning/Resource Development	\$973,234	19.18%	\$768,061	12.77%	\$743,840	12.77%	\$724,512	12.13%	\$720,514	11.90%	\$742,129	12.55%	\$764,393	12.67%	\$787,325	12.65%	\$810,945	12.62%	\$835,273	12.60%	\$860,331	12.58%	\$886,141	12.56%	\$912,726	12.54%	\$940,107	12.54%	\$968,311	12.50%	\$997,360	
Special Projects	\$0	0.00%	\$311,120	5.17%	\$205,756	3.35%	\$225,557	3.78%	\$282,211	9.62%	\$599,677	10.14%	\$617,668	10.24%	\$636,198	10.22%	\$655,284	10.20%	\$674,942	10.18%	\$695,190	10.17%	\$716,046	10.15%	\$737,527	10.13%	\$759,653	10.13%	\$782,443	10.10%	\$805,916	
Governmental Affairs	\$273,557	5.39%	\$344,747	5.73%	\$316,586	5.15%	\$287,967	4.62%	\$266,939	4.41%	\$274,947	4.65%	\$283,196	4.69%	\$291,691	4.69%	\$300,442	4.68%	\$309,455	4.67%	\$318,739	4.66%	\$328,301	4.65%	\$338,150	4.65%	\$348,295	4.65%	\$358,744	4.63%	\$369,506	
Water Use Efficiency	\$440,204	8.68%	\$528,734	8.79%	\$635,889	13.59%	\$799,792	13.40%	\$762,275	12.59%	\$785,143	13.28%	\$808,698	13.41%	\$832,958	13.38%	\$857,947	13.36%	\$883,696	13.33%	\$910,196	13.31%	\$937,502	13.29%	\$965,827	13.27%	\$994,596	13.27%	\$1,024,434	13.23%	\$1,055,167	
Water Awareness	\$232,190	4.58%	\$223,531	3.72%	\$267,573	4.35%	\$312,773	5.24%	\$317,852	5.25%	\$327,388	5.54%	\$337,209	5.59%	\$347,325	5.58%	\$357,745	5.57%	\$368,478	5.56%	\$379,532	5.55%	\$390,818	5.54%	\$402,645	5.53%	\$414,725	5.53%	\$427,167	5.51%	\$439,982	
School Programs	\$257,824	5.08%	\$259,959	4.32%	\$282,811	4.60%	\$312,961	5.24%	\$355,527	5.87%	\$366,193	6.19%	\$377,179	6.25%	\$388,494	6.24%	\$400,149	6.23%	\$412,153	6.22%	\$424,518	6.21%	\$437,253	6.20%	\$450,371	6.19%	\$463,882	6.19%	\$477,799	6.17%	\$492,133	
Finance	\$300,219	5.92%	\$317,874	5.28%	\$436,916	7.11%	\$535,926	8.98%	\$440,098	7.27%	\$453,301	7.66%	\$466,900	7.74%	\$480,907	7.73%	\$495,334	7.71%	\$510,194	7.70%	\$525,500	7.68%	\$541,265	7.67%	\$557,503	7.66%	\$574,228	7.66%	\$591,455	7.64%	\$609,199	
Information Technology	\$156,745	3.09%	\$169,679	2.82%	\$163,915	2.67%	\$170,921	2.86%	\$167,100	2.76%	\$172,113	2.91%	\$177,276	2.94%	\$182,595	2.93%	\$188,073	2.93%	\$193,715	2.92%	\$199,526	2.92%	\$205,512	2.91%	\$211,677	2.91%	\$218,028	2.91%	\$224,568	2.90%	\$231,305	
Overhead	\$799,722	15.76%	\$871,924	14.50%	\$868,504	14.13%	\$839,280	14.06%	\$904,458	14.94%	\$931,592	15.75%	\$959,539	15.91%	\$988,326	15.88%	\$1,017,975	15.85%	\$1,048,515	15.82%	\$1,079,970	15.79%	\$1,112,369	15.77%	\$1,145,740	15.74%	\$1,180,113	15.74%	\$1,215,516	15.69%	\$1,251,981	
Desalination Study	\$0	0.00%	\$553,900	9.21%	\$290,000	4.72%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%
WEROC - MWDOD Contribution	\$80,000	1.58%	\$81,362	1.31%	\$67,478	1.10%	\$85,815	1.44%	\$91,228	1.51%	\$93,965	1.59%	\$96,784	1.60%	\$99,687	1.60%	\$102,678	1.60%	\$105,758	1.60%	\$108,931	1.59%	\$112,199	1.59%	\$115,565	1.59%	\$119,032	1.59%	\$122,603	1.58%	\$126,281	
Contribution from Reserves	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%
Subtotal General Fund	\$5,074,330	100.00%	\$6,014,674	100.00%	\$6,148,635	100.00%	\$5,970,522	100.00%	\$6,054,730	100.00%	\$5,914,372		\$6,032,530		\$6,225,234		\$6,423,719		\$6,628,159		\$6,838,731		\$7,055,621		\$7,279,018		\$7,497,388		\$7,746,118		\$7,990,229	
Budgeted Reserves	\$0		\$0		\$0		\$0		\$0		\$0		\$0		\$0		\$0		\$0		\$0		\$0		\$0		\$0		\$0		\$0	
Revenue Recovery																																
New South County Agency																																
EI Toro WD																																
Increment Charge (AF)	\$ 67,061	1.32%	\$ 68,172	1.13%	\$ 75,004	1.22%	\$ 73,801	1.24%	\$ 72,599	1.20%	\$ 78,127	2.13%	\$ 83,399	1.38%	\$ 89,220	1.43%	\$ 94,463	1.47%	\$ 100,169	1.51%	\$ 100,646	1.47%	\$ 101,121	1.43%	\$ 101,592	1.40%	\$ 103,938	1.39%	\$ 106,601	1.38%	\$ 109,286	
Retail Meter Charges (EA)	\$ 55,237	1.09%	\$ 55,237	0.92%	\$ 55,138	0.90%	\$ 55,627	0.93%	\$ 56,117	0.93%	\$ 60,516	0.93%	\$ 64,490	1.07%	\$ 67,485	1.06%	\$ 70,865	1.10%	\$ 74,698	1.13%	\$ 75,181	1.10%	\$ 75,662	1.07%	\$ 76,141	1.05%	\$ 77,664	1.04%	\$ 79,759	1.03%	\$ 82,309	
Irvine Ranch WD																																
Increment Charge (AF)	\$ 138,788	2.74%	\$ 147,791	2.46%	\$ 244,218	3.97%	\$ 234,730	3.93%	\$ 225,242	3.72%	\$ 236,094	3.99%	\$ 257,792	4.27%	\$ 281,915	4.53%	\$ 304,933	4.75%	\$ 330,151	4.98%	\$ 338,514	4.95%	\$ 346,708	4.91%	\$ 354,911	4.88%	\$ 369,805	4.93%	\$ 384,745	4.97%	\$ 402,794	
Retail Meter Charges (EA)	\$ 500,033	9.85%	\$ 514,107	8.55%	\$ 530,723	8.63%	\$ 565,222	9.47%	\$ 599,722	9.91%	\$ 678,026	11.46%	\$ 720,173	11.94%	\$ 750,924	12.06%	\$ 786,196	12.24%	\$ 826,030	12.46%	\$ 828,700	12.12%	\$ 839,336	11.90%	\$ 849,962	11.68%	\$ 866,961	11.56%	\$ 894,766	11.55%	\$ 935,746	
Moulton Niguel WD																																
Increment Charge (AF)	\$ 209,495	4.13%	\$ 217,347	3.61%	\$ 238,414	3.88%	\$ 235,023	3.94%	\$ 231,632	3.83%	\$ 249,757	4.22%	\$ 266,280	4.41%	\$ 284,513	4.57%	\$ 300,862	4.68%	\$ 318,644	4.81%	\$ 319,770	4.68%	\$ 321,207	4.55%	\$ 322,630	4.43%	\$ 330,007	4.40%	\$ 338,400	4.37%	\$ 346,834	
Retail Meter Charges (EA)	\$ 292,903	5.77%	\$ 293,387	4.88%	\$ 294,432	4.79%	\$ 325,364	5.45%	\$ 356,296	5.88%	\$ 413,973	7.00%	\$ 439,038	7.28%	\$ 457,090	7.34%	\$ 477,836	7.44%	\$ 501,287	7.56%	\$ 502,149	7.34%	\$ 503,985	7.13%	\$ 503,796	6.92%	\$ 513,872	6.85%	\$ 525,766	6.79%	\$ 537,069	
Santa Margarita WD																																
Increment Charge (AF)	\$ 196,742	3.88%	\$ 213,727	3.55%	\$ 225,927	3.67%	\$ 217,692	3.65%	\$ 209,456	3.46%	\$ 220,190	3.72%	\$ 237,068	3.93%	\$ 255,762	4.11%	\$ 273,051	4.25%	\$ 291,926	4.40%	\$ 295,694	4.32%	\$ 301,245	4.27%	\$ 306,797	4.21%	\$ 318,101	4.24%	\$ 329,693	4.26%	\$ 343,263	
Retail Meter Charges (EA)	\$ 281,859	5.55%	\$ 287,271	4.78%	\$ 290,774																											

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## Attachment G – MWDOC Subscription CWA 10-year Financial Model Summary

	FY 08-09		FY 09-10		FY 10-11		FY 11-12		FY 12-13		FY 13-14		FY 14-15		FY 15-16		FY 16-17		FY 17-18		FY 18-19		FY 19-20	
Administrative/Personnel	\$ 1,448,188	24.70%	\$ 1,491,633	25.21%	\$ 1,536,382	25.45%	\$ 1,582,474	25.41%	\$ 1,629,948	25.36%	\$ 1,678,846	25.32%	\$ 1,729,212	25.27%	\$ 1,781,088	25.23%	\$ 1,834,521	25.19%	\$ 1,889,556	25.46%	\$ 1,946,243	25.38%	\$ 2,004,630	
Planning/Resource Development	\$ 720,514	12.29%	\$ 742,129	12.54%	\$ 764,393	12.66%	\$ 787,325	12.64%	\$ 810,945	12.62%	\$ 835,273	12.60%	\$ 860,331	12.57%	\$ 886,141	12.55%	\$ 912,726	12.53%	\$ 912,726	12.30%	\$ 940,107	12.26%	\$ 968,311	
Special Projects	\$ 582,211	9.93%	\$ 599,677	10.13%	\$ 617,668	10.23%	\$ 636,198	10.21%	\$ 655,284	10.20%	\$ 674,942	10.18%	\$ 695,190	10.16%	\$ 716,046	10.14%	\$ 737,527	10.13%	\$ 737,527	9.94%	\$ 759,653	9.91%	\$ 782,443	
Governmental Affairs	\$ 266,939	4.55%	\$ 274,947	4.65%	\$ 283,196	4.69%	\$ 291,691	4.68%	\$ 300,442	4.67%	\$ 309,455	4.67%	\$ 318,739	4.66%	\$ 328,301	4.65%	\$ 338,150	4.64%	\$ 348,295	4.69%	\$ 358,744	4.68%	\$ 369,506	
Water Use Efficiency	\$ 762,275	13.00%	\$ 785,143	13.27%	\$ 808,698	13.40%	\$ 832,958	13.37%	\$ 857,947	13.35%	\$ 883,686	13.33%	\$ 910,196	13.30%	\$ 937,502	13.28%	\$ 965,627	13.26%	\$ 994,596	13.40%	\$ 1,024,434	13.36%	\$ 1,055,167	
Water Awareness	\$ 317,852	5.42%	\$ 327,388	5.53%	\$ 337,209	5.59%	\$ 347,325	5.58%	\$ 357,745	5.57%	\$ 368,478	5.56%	\$ 379,532	5.55%	\$ 390,918	5.54%	\$ 402,645	5.53%	\$ 414,725	5.59%	\$ 427,167	5.57%	\$ 439,982	
School Programs	\$ 355,527	6.06%	\$ 366,193	6.19%	\$ 377,179	6.25%	\$ 388,494	6.24%	\$ 400,149	6.23%	\$ 412,153	6.21%	\$ 424,518	6.20%	\$ 437,253	6.19%	\$ 450,371	6.18%	\$ 463,882	6.25%	\$ 477,799	6.23%	\$ 492,133	
Finance	\$ 440,603	7.51%	\$ 453,821	7.67%	\$ 467,436	7.74%	\$ 481,459	7.73%	\$ 495,902	7.72%	\$ 510,780	7.70%	\$ 526,103	7.69%	\$ 541,886	7.68%	\$ 558,143	7.66%	\$ 574,887	7.75%	\$ 592,134	7.72%	\$ 609,898	
Information Technology	\$ 167,292	2.85%	\$ 172,310	2.91%	\$ 177,480	2.94%	\$ 182,804	2.93%	\$ 188,288	2.93%	\$ 193,937	2.92%	\$ 199,755	2.92%	\$ 205,748	2.91%	\$ 211,920	2.91%	\$ 218,278	2.94%	\$ 224,826	2.93%	\$ 231,571	
Overhead	\$ 905,496	15.44%	\$ 932,661	15.76%	\$ 960,640	15.92%	\$ 989,460	15.89%	\$ 1,019,143	15.86%	\$ 1,049,718	15.83%	\$ 1,081,209	15.80%	\$ 1,113,646	15.78%	\$ 1,147,055	15.75%	\$ 1,183,586	15.55%	\$ 1,223,839	15.50%	\$ 1,268,699	
WEROC - MWDOC Contribution	\$ 91,228	1.56%	\$ 93,965	1.59%	\$ 96,784	1.60%	\$ 99,687	1.60%	\$ 102,678	1.60%	\$ 105,758	1.59%	\$ 108,931	1.59%	\$ 112,199	1.59%	\$ 115,565	1.59%	\$ 119,032	1.55%	\$ 122,603		\$ 126,303	
Interest/Reserve Contribution	\$ (194,240)		\$ (322,369)		\$ (391,382)		\$ (391,382)		\$ (391,382)		\$ (391,382)		\$ (391,382)		\$ (391,382)		\$ (391,382)		\$ (403,123)		\$ (391,382)		\$ (391,382)	
Subtotal General Fund	\$ 5,863,884	\$ 1	\$ 5,917,498	\$ 1	\$ 6,035,682	\$ 1	\$ 6,228,494	\$ 1	\$ 6,427,090	\$ 1	\$ 6,631,645	\$ 1	\$ 6,842,335	\$ 1	\$ 7,059,347	\$ 1	\$ 7,282,869	\$ 1	\$ 7,420,499	\$ 1	\$ 7,666,949	\$ 1	\$ 7,908,699	
Budgeted Reserves	\$ 5,074,816		\$ 4,744,437		\$ 4,353,056		\$ 3,961,674		\$ 3,570,293		\$ 3,178,911		\$ 2,787,530		\$ 2,396,148		\$ 2,004,766		\$ 1,993,025		\$ 1,601,644		\$ 1,222,000	
Revenue Recovery																								
New South County Agency																								
El Toro WD																								
Increment Charge (AF)	\$ 119,919	2.05%	\$ 117,140	1.98%	\$ 119,480	1.98%	\$ 123,296	1.98%	\$ 127,228	1.98%	\$ 131,277	1.98%	\$ 135,447	1.98%	\$ 139,743	1.98%	\$ 144,168	1.98%	\$ 146,518	1.97%	\$ 151,385	1.97%	\$ 156,159	
Retail Meter Charges (EA)	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	
Irvine Ranch WD*																								
Increment Charge (AF)	\$ 812,948	13.86%	\$ 794,103	13.42%	\$ 809,967	13.42%	\$ 835,841	13.42%	\$ 862,491	13.42%	\$ 889,940	13.42%	\$ 918,213	13.42%	\$ 947,334	13.42%	\$ 977,329	13.42%	\$ 993,265	13.39%	\$ 1,026,260	13.39%	\$ 1,058,622	
Retail Meter Charges (EA)	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	
Moulton Niguel WD																								
Increment Charge (AF)	\$ 557,604	9.51%	\$ 544,678	9.20%	\$ 555,560	9.20%	\$ 573,307	9.20%	\$ 591,586	9.20%	\$ 610,414	9.20%	\$ 629,806	9.20%	\$ 649,780	9.20%	\$ 670,354	9.20%	\$ 681,285	9.18%	\$ 703,916	9.18%	\$ 726,113	
Retail Meter Charges (EA)	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	
Santa Margarita WD																								
Increment Charge (AF)	\$ 523,383	8.93%	\$ 511,250	8.64%	\$ 521,464	8.64%	\$ 538,121	8.64%	\$ 555,279	8.64%	\$ 572,951	8.64%	\$ 591,153	8.64%	\$ 609,902	8.64%	\$ 629,212	8.64%	\$ 639,472	8.62%	\$ 660,714	8.62%	\$ 681,550	
Retail Meter Charges (EA)	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	
South Coast Water District																								
Increment Charge (AF)	\$ 102,121	1.74%	\$ 99,753	1.69%	\$ 101,746	1.69%	\$ 104,997	1.69%	\$ 108,344	1.69%	\$ 111,792	1.69%	\$ 115,344	1.69%	\$ 119,002	1.69%	\$ 122,770	1.69%	\$ 124,772	1.68%	\$ 128,917	1.68%	\$ 132,982	
Retail Meter Charges (EA)	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	
Trabuco Canyon WD																								
Increment Charge (AF)	\$ 54,677	0.93%	\$ 53,409	0.90%	\$ 54,476	0.90%	\$ 56,217	0.90%	\$ 58,009	0.90%	\$ 59,855	0.90%	\$ 61,757	0.90%	\$ 63,715	0.90%	\$ 65,733	0.90%	\$ 66,805	0.90%	\$ 69,024	0.90%	\$ 71,200	
Retail Meter Charges (EA)	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	
Laguna Beach CWD																								
Increment Charge (AF)	\$ 70,788	1.21%	\$ 69,147	1.17%	\$ 70,529	1.17%	\$ 72,782	1.17%	\$ 75,102	1.17%	\$ 77,492	1.17%	\$ 79,954	1.17%	\$ 82,490	1.17%	\$ 85,102	1.17%	\$ 86,489	1.17%	\$ 89,362	1.17%	\$ 92,180	
Retail Meter Charges (EA)	\$ 20,508	0.35%	\$ 24,227	0.41%	\$ 24,522	0.41%	\$ 25,110	0.40%	\$ 25,673	0.40%	\$ 26,237	0.40%	\$ 26,809	0.39%	\$ 27,389	0.39%	\$ 27,973	0.38%	\$ 28,602	0.39%	\$ 29,252	0.38%	\$ 29,711	
San Clemente																								
Increment Charge (AF)	\$ 155,788	2.66%	\$ 152,177	2.57%	\$ 155,217	2.57%	\$ 160,175	2.57%	\$ 165,283	2.57%	\$ 170,543	2.57%	\$ 175,961	2.57%	\$ 181,541	2.57%	\$ 187,289	2.57%	\$ 190,343	2.57%	\$ 196,666	2.57%	\$ 202,868	
Retail Meter Charges (EA)	\$ 45,247	0.77%	\$ 53,866	0.91%	\$ 54,619	0.90%	\$ 56,021	0.90%	\$ 57,443	0.89%	\$ 58,883	0.89%	\$ 60,340	0.88%	\$ 61,762	0.87%	\$ 63,197	0.87%	\$ 64,537	0.87%	\$ 66,086	0.86%	\$ 67,585	
San Juan Capistrano																								
Increment Charge (AF)	\$ 86,515	1.48%	\$ 84,509	1.43%	\$ 86,197	1.43%	\$ 88,951	1.43%	\$ 91,787	1.43%	\$ 94,708	1.43%	\$ 97,717	1.43%	\$ 100,816	1.43%	\$ 104,008	1.43%	\$ 105,704	1.42%	\$ 109,216	1.42%	\$ 112,660	
Retail Meter Charges (EA)	\$ 27,706	0.47%	\$ 32,536	0.55%	\$ 32,936	0.55%	\$ 33,725	0.54%	\$ 34,524	0.54%	\$ 35,331	0.53%	\$ 36,146	0.53%	\$ 36,952	0.52%	\$ 37,764	0.52%	\$ 38,565	0.52%	\$ 39,452	0.51%	\$ 40,238	
Total	\$ 2,577,204	43.95%	\$ 2,536,795	42.87%	\$ 2,586,713	42.86%	\$ 2,668,543	42.84%	\$ 2,752,748	42.83%	\$ 2,839,424	42.82%	\$ 2,928,648	42.80%	\$ 3,020,428	42.79%	\$ 3,114,899	42.77%	\$ 3,166,357	42.67%	\$ 3,270,249	42.65%	\$ 3,371,868	
Increment Only	\$ 2,483,743	42.36%	\$ 2,426,166	41.00%	\$ 2,474,637	41.00%	\$ 2,553,687	41.00%	\$ 2,635,108	41.00%	\$ 2,718,972	41.00%	\$ 2,805,353	41.00%	\$ 2,894,324	41.00%	\$ 2,985,965	41.00%	\$ 3,034,654	40.90%	\$ 3,135,459	40.90%	\$ 3,234,334	
Retail Meter Only	\$ 93,460	1.59%	\$ 110,629	1.87%	\$ 112,077	1.86%	\$ 114,856	1.84%	\$ 117,640	1.83%	\$ 120,452	1.82%	\$ 123,296	1.80%	\$ 126,103	1.79%	\$ 128,934	1.77%	\$ 131,704	1.77%	\$ 134,789	1.76%	\$ 137,534	
Remaining MWDOC																								
Brea																								
Increment Charge (AF)	\$ 104,710	1.79%	\$ 102,283	1.73%	\$ 104,326	1.73%	\$ 107,659	1.73%	\$ 111,091	1.73%	\$ 114,627	1.73%	\$ 118,268	1.73%	\$ 122,019	1.73%	\$ 125,883	1.73%	\$ 127,935	1.72%	\$ 132,185	1.72%	\$ 136,353	
Retail Meter Charges (EA)	\$ 30,125	0.51%	\$ 35,555	0.60%	\$ 36,183	0.60%	\$ 37,245	0.60%	\$ 38,326	0.60%	\$ 39,425	0.59%	\$ 40,540	0.59%	\$ 41,603	0.59%	\$ 42,680	0.59%	\$ 43,585	0.59%	\$ 44,722	0.58%	\$ 45,991	
Buena Park																								
Increment Charge (AF)	\$ 141,579	2.41%	\$ 138,297	2.34%	\$ 141,060	2.34%	\$ 145,566	2.34%	\$ 150,208	2.34%	\$ 154,988	2.34%	\$ 159,912	2.34%	\$ 164,983	2.34%	\$ 170,207	2.34%	\$ 172,983	2.33%	\$ 178,729	2.33%	\$ 184,365	
Retail Meter Charges (EA)	\$ 49,396	0.84%	\$ 57,604	0.97%	\$ 58,472	0.97%	\$ 60,037	0.96%	\$ 61,626	0.96%	\$ 63,236	0.95%	\$ 64,868	0.95%	\$ 66,461	0.94%	\$ 68,072	0.93%	\$ 69,515	0.94%	\$ 71,239	0.93%	\$ 73,008	
East Orange County WD																								
Increment Charge (AF)	\$ 24,610	0.42%	\$ 24,040	0.41%	\$ 24,520	0.41%	\$ 25,303	0.41%	\$ 26,110	0.41%	\$ 26,941	0.41%	\$ 27,797	0.41%	\$ 28,678	0.41%	\$ 29,586	0.41%	\$ 30,069	0.41%	\$ 31,068	0.41%	\$ 32,047	
Retail Meter Charges (EA)	\$ 2,928	0.05%	\$ 3,379	0.06%	\$ 3,415	0.06%	\$ 3,492	0.06%	\$ 3,569	0.06%	\$ 3,647	0.05%	\$ 3,726	0.05%	\$ 3,805	0.05%	\$ 3,885	0.05%	\$ 3,967	0.05%	\$ 4,056	0.05%	\$ 4,128	
Fountain Valley																								
Increment Charge (AF)	\$ 108,142	1.84%	\$ 105,635	1.79%	\$ 107,745	1.79%	\$ 111,187	1.79%	\$ 114,732	1.79%	\$ 118,383	1.79%	\$ 122,144	1.79%	\$ 126,018	1.79%	\$ 130,008	1.79%	\$ 132,128	1.78%	\$ 136,517	1.78%	\$ 140,822	
Retail Meter Charges (EA)	\$ 42,296	0.72%	\$ 49,453	0.84%	\$ 50,175	0.83%	\$ 51,495	0.83%	\$ 52,834	0.82%	\$ 54,191	0.82%	\$ 55,565	0.81%	\$ 56,911	0.81%	\$ 58,270	0.80%	\$ 59,505	0.80%	\$ 60,964	0.80%	\$ 62,432	
Garden Grove																								
Increment Charge (AF)	\$ 216,804	3.70%	\$ 211,778	3.58%	\$ 216,009	3.58%	\$ 222,909	3.58%	\$ 230,016	3.58%														

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## Attachment H – Six Agency South CWA 10-year Financial Model Summary



Services & Costs	FY 09-10			FY 10-11			FY 11-12			FY 12-13			FY 13-14			FY 14-15			FY 15-16			FY 16-17			FY 17-18			FY 18-19			FY 19-20		
	\$	%		\$	%		\$	%		\$	%		\$	%		\$	%		\$	%		\$	%		\$	%		\$	%				
General Fund Budget																																	
Administrative/Personnel	\$ 1,489,924	25.19%		\$952,961	24.56%		\$981,550	24.52%		\$1,010,997	24.48%		\$1,041,327	24.44%		\$ 1,072,566	24.40%		\$1,104,743	24.36%		\$1,137,886	24.33%		\$1,172,022	24.33%		\$1,207,183	24.21%		\$ 1,243,398	24.12%	
Planning/Resource Development	\$ 742,129	12.55%		\$487,464	12.56%		\$502,088	12.54%		\$517,150	12.52%		\$532,665	12.50%		\$ 548,645	12.48%		\$565,104	12.46%		\$582,057	12.44%		\$599,519	12.44%		\$617,504	12.39%		\$ 636,029	12.34%	
Special Projects	\$ 599,677	10.14%		\$389,898	10.05%		\$401,595	10.03%		\$413,642	10.01%		\$426,052	10.00%		\$ 438,833	9.98%		\$451,998	9.97%		\$465,558	9.95%		\$479,525	9.95%		\$493,911	9.91%		\$ 508,728	9.87%	
Governmental Affairs	\$ 274,947	4.65%		\$238,966	6.16%		\$246,135	6.15%		\$253,519	6.14%		\$261,125	6.13%		\$ 268,959	6.12%		\$277,027	6.11%		\$285,338	6.10%		\$293,898	6.10%		\$302,715	6.07%		\$ 311,797	6.05%	
Water Use Efficiency	\$ 785,143	13.28%		\$447,153	11.52%		\$460,568	11.50%		\$474,385	11.48%		\$488,616	11.47%		\$ 503,275	11.45%		\$518,373	11.43%		\$533,924	11.42%		\$549,942	11.42%		\$566,440	11.36%		\$ 583,433	11.32%	
Water Awareness	\$ 327,388	5.54%		\$180,740	4.66%		\$186,162	4.65%		\$191,747	4.64%		\$197,499	4.63%		\$ 203,424	4.63%		\$209,527	4.62%		\$215,813	4.61%		\$222,287	4.61%		\$228,956	4.59%		\$ 235,825	4.58%	
School Programs	\$ 366,193	6.19%		\$168,045	4.33%		\$173,086	4.32%		\$178,279	4.32%		\$183,627	4.31%		\$ 189,136	4.30%		\$194,810	4.30%		\$200,654	4.29%		\$206,674	4.29%		\$212,874	4.27%		\$ 219,260	4.25%	
Finance	\$ 453,301	7.66%		\$303,005	7.81%		\$312,095	7.79%		\$321,458	7.78%		\$331,102	7.77%		\$ 341,035	7.76%		\$351,266	7.75%		\$361,804	7.74%		\$372,658	7.74%		\$383,838	7.70%		\$ 395,353	7.67%	
Information Technology	\$ 172,113	2.91%		\$104,040	2.68%		\$107,161	2.68%		\$110,376	2.67%		\$113,687	2.67%		\$ 117,098	2.66%		\$120,611	2.66%		\$124,229	2.66%		\$127,956	2.66%		\$131,794	2.64%		\$ 135,748	2.63%	
Overhead	\$ 931,592	15.75%		\$768,789	19.81%		\$791,853	19.78%		\$815,609	19.75%		\$840,077	19.71%		\$ 865,279	19.68%		\$891,238	19.66%		\$917,975	19.63%		\$945,514	19.63%		\$973,879	19.53%		\$ 1,003,096	19.46%	
Desalination Study	\$ -	0.00%		\$0	0.00%		\$0	0.00%		\$0	0.00%		\$0	0.00%		\$ -	0.00%		\$0	0.00%		\$0	0.00%		\$0	0.00%		\$0	0.00%		\$ -	0.00%	
WEROC - MWD/OC Contribution	\$ 93,965	1.59%		\$62,675	1.62%		\$64,555	1.61%		\$66,491	1.61%		\$68,486	1.61%		\$ 70,541	1.60%		\$72,657	1.60%		\$74,837	1.60%		\$77,082	1.60%		\$79,394	1.59%		\$ 81,776	1.59%	
Interest/Reserve Contribution	\$ (322,000)			-\$223,000			-\$223,000			-\$223,000			-\$223,000			\$ (223,000)			\$ (223,000)			\$ (223,000)			\$ (229,690)			\$ (213,000)			\$ (200,000)		
Subtotal General Fund	\$ 5,914,372	105.44%		\$ 3,880,736			\$ 4,003,848			\$ 4,130,653	105.57%		\$ 4,261,263	105.40%		\$ 4,395,791	105.23%		\$ 4,534,354	104.92%		\$ 4,677,075	104.77%		\$ 4,817,387	104.77%		\$ 4,985,489	104.27%		\$ 5,154,444	103.88%	
Reserve Balance	\$ 4,739,000			\$2,500,775			\$2,277,775			\$2,054,775			\$1,831,775			\$ 1,608,775			\$ 1,385,775			\$ 1,162,775			\$ 1,156,085			\$ 943,085			\$ 743,085		
Revenue Recovery																																	
Allocation to Increment																																	
Allocation to Retail Meter																																	
Remaining MWD/OC																																	
Laguna Beach CWD																																	
Increment Charge (AF)	\$ 34,898	0.56%		\$ 57,047	4.90%		\$ 56,998	4.75%		\$ 57,061	4.60%		\$ 57,179	4.47%		\$ 57,349	4.35%		\$ 58,728	4.32%		\$ 60,144	4.29%		\$ 61,510	4.26%		\$ 63,300	4.23%		\$ 64,902	4.20%	
Retail Meter Charges (EA)	\$ 53,252	0.85%		\$ 57,047	2.10%		\$ 59,696	2.13%		\$ 61,020	2.11%		\$ 62,349	2.09%		\$ 63,695	2.07%		\$ 65,060	2.05%		\$ 66,435	2.03%		\$ 67,929	2.01%		\$ 69,588	1.99%		\$ 70,842	1.96%	
San Clemente																																	
Increment Charge (AF)	\$ 73,545	1.18%		\$ 120,264	10.33%		\$ 120,514	10.03%		\$ 120,844	9.75%		\$ 121,289	9.49%		\$ 121,843	9.24%		\$ 124,515	9.15%		\$ 127,251	9.07%		\$ 129,871	8.99%		\$ 133,429	8.92%		\$ 136,467	8.83%	
Retail Meter Charges (EA)	\$ 118,398	1.90%		\$ 130,393	4.80%		\$ 133,182	4.75%		\$ 136,534	4.72%		\$ 139,928	4.69%		\$ 143,362	4.66%		\$ 146,712	4.62%		\$ 150,092	4.58%		\$ 153,274	4.55%		\$ 157,212	4.50%		\$ 161,148	4.47%	
San Juan Capistrano																																	
Increment Charge (AF)	\$ 36,293	0.58%		\$ 59,259	5.09%		\$ 59,213	4.93%		\$ 59,247	4.78%		\$ 59,338	4.64%		\$ 59,483	4.51%		\$ 60,887	4.48%		\$ 62,326	4.44%		\$ 63,714	4.41%		\$ 65,545	4.38%		\$ 67,168	4.34%	
Retail Meter Charges (EA)	\$ 71,514	1.15%		\$ 78,779	2.90%		\$ 80,176	2.86%		\$ 82,058	2.84%		\$ 83,960	2.81%		\$ 85,880	2.79%		\$ 87,778	2.77%		\$ 89,689	2.74%		\$ 91,591	2.72%		\$ 93,852	2.69%		\$ 95,944	2.66%	
Brea																																	
Increment Charge (AF)	\$ 44,978	0.72%		\$ 74,510	6.40%		\$ 75,557	6.29%		\$ 76,684	6.19%		\$ 77,882	6.09%		\$ 79,152	6.00%		\$ 81,978	6.03%		\$ 84,894	6.05%		\$ 87,780	6.07%		\$ 91,120	6.09%		\$ 94,628	6.12%	
Retail Meter Charges (EA)	\$ 78,150	1.25%		\$ 86,928	3.20%		\$ 88,545	3.16%		\$ 91,095	3.15%		\$ 93,688	3.14%		\$ 96,319	3.13%		\$ 98,826	3.11%		\$ 101,364	3.10%		\$ 103,513	3.07%		\$ 106,390	3.05%		\$ 109,659	3.04%	
Buena Park																																	
Increment Charge (AF)	\$ 34,020	0.55%		\$ 59,026	5.07%		\$ 62,382	5.19%		\$ 65,842	5.31%		\$ 69,361	5.43%		\$ 72,945	5.53%		\$ 77,584	5.70%		\$ 82,395	5.87%		\$ 87,263	6.04%		\$ 92,259	6.17%		\$ 98,356	6.36%	
Retail Meter Charges (EA)	\$ 126,615	2.03%		\$ 138,542	5.10%		\$ 142,729	5.09%		\$ 146,475	5.07%		\$ 150,272	5.04%		\$ 154,119	5.01%		\$ 157,875	4.97%		\$ 161,670	4.94%		\$ 165,097	4.90%		\$ 169,471	4.86%		\$ 174,080	4.82%	
East Orange County WD																																	
Increment Charge (AF)	\$ 22,103	0.35%		\$ 36,324	3.12%		\$ 36,516	3.04%		\$ 36,764	2.97%		\$ 37,047	2.90%		\$ 37,363	2.83%		\$ 38,250	2.81%		\$ 39,160	2.79%		\$ 40,038	2.77%		\$ 41,193	2.75%		\$ 42,221	2.73%	
Retail Meter Charges (EA)	\$ 7,428	0.12%		\$ 8,150	0.30%		\$ 8,302	0.30%		\$ 8,483	0.29%		\$ 8,667	0.29%		\$ 8,851	0.29%		\$ 9,039	0.28%		\$ 9,227	0.28%		\$ 9,423	0.28%		\$ 9,648	0.28%		\$ 9,844	0.27%	
Fountain Valley																																	
Increment Charge (AF)	\$ 20,228	0.32%		\$ 34,577	2.97%		\$ 36,028	3.00%		\$ 37,556	3.03%		\$ 39,118	3.06%		\$ 40,716	3.09%		\$ 42,001	3.09%		\$ 43,324	3.09%		\$ 44,626	3.09%		\$ 46,184	3.09%		\$ 47,751	3.09%	
Retail Meter Charges (EA)	\$ 108,698	1.74%		\$ 119,527	4.40%		\$ 122,422	4.37%		\$ 125,579	4.34%		\$ 128,778	4.32%		\$ 132,017	4.29%		\$ 135,188	4.26%		\$ 138,390	4.23%		\$ 141,325	4.19%		\$ 145,029	4.16%		\$ 148,863	4.13%	
Garden Grove																																	
Increment Charge (AF)	\$ 38,415	0.62%		\$ 66,943	5.75%		\$ 71,218	5.93%		\$ 75,512	6.09%		\$ 79,873	6.25%		\$ 84,310	6.39%		\$ 87,416	6.43%		\$ 90,622	6.46%		\$ 93,800	6.49%		\$ 97,447	6.52%		\$ 101,319	6.55%	
Retail Meter Charges (EA)	\$ 216,569	3.47%		\$ 236,337	8.70%		\$ 243,634	8.69%		\$ 249,778	8.64%		\$ 255,998	8.58%		\$ 262,292	8.52%		\$ 268,412	8.46%		\$ 274,586	8.39%		\$ 280,408	8.32%		\$ 287,605	8.24%		\$ 294,782	8.17%	
Golden State Water Company																																	
Increment Charge (AF)	\$ 56,550	0.91%		\$ 96,980	8.33%		\$ 101,638	8.46%		\$ 106,364	8.58%		\$ 111,186	8.70%		\$ 116,112	8.80%		\$ 120,241	8.84%		\$ 124,500	8.87%		\$ 128,715	8.91%		\$ 133,597	8.93%		\$ 138,720	8.97%	
Retail Meter Charges (EA)	\$ 334,601	5.37%		\$ 383,029	14.10%		\$ 410,695	14.65%		\$ 439,815	15.21%		\$ 470,867	15.79%		\$ 503,962	16.36%		\$ 539,306	16.99%		\$ 576,950	17.62%		\$ 618,053	18.33%		\$ 663,330	19.01%		\$ 708,374	19.63%	
Huntington Beach																																	
Increment Charge (AF)	\$ 62,453	1.00%		\$ 106,643	9.16%		\$ 111,252	9.26%		\$ 115,975	9.36%		\$ 120,804	9.45%		\$ 125,745	9.54%		\$ 129,666	9.53%		\$ 133,704	9.53%		\$ 137,672	9.53%		\$ 142,440	9.52%		\$ 147,213	9.52%	
Retail Meter Charges (EA)	\$ 337,774	5.42%		\$ 369,446	13.60%		\$ 379,361	13.54%		\$ 388,610	13.44%		\$ 397,967	13.34%		\$ 407,424	13.24%		\$ 416,797	13.13%		\$ 426,250	13.02%		\$ 435,287	12.91%		\$ 444,347	12.79%		\$ 457,172	12.67%	
La Habra																																	
Increment Charge (AF)	\$ 16,688	0.27%		\$ 27,825	2.39%		\$ 28,368	2.36%		\$ 28,954	2.34%		\$ 29,566	2.31%		\$ 30,205	2.29%		\$ 31,205	2.29%		\$ 32,235	2.30%		\$ 33,252	2.30%		\$ 34,452	2.30%		\$ 35,680	2.31%	
Retail Meter Charges (EA)	\$ 81,797	1.31%		\$ 89,645	3.30%		\$ 91,762	3.27%		\$ 93,945	3.25%		\$ 96,153	3.22%		\$ 98,382	3.20%		\$ 100,594	3.17%		\$ 102,824	3.14%		\$ 105,004	3.11%		\$ 107,628	3.08%		\$ 110,117	3.05%	
La Palma																																	
Increment Charge (AF)	\$ 4,718	0.08%		\$ 8,033	0.69%		\$ 8,409	0.70%		\$ 8,768	0.71%		\$ 9,136	0.71%		\$ 9,511	0.72%		\$ 9,829	0.72%		\$ 10,157	0.72%		\$ 10,480	0.73%		\$ 10,861	0.73%		\$ 11,252	0.73%	
Retail Meter Charges (EA)	\$ 27,383	0.44%		\$ 29,882	1.10%		\$ 30,746	1.10%		\$ 31,491	1.09%		\$ 32,244	1.08%		\$ 33,006	1.07%		\$ 33,748	1.06%		\$ 34,496	1.05%		\$ 35,227	1.04%		\$ 36,108	1.03%		\$ 36,944	1.02%	
Mesa Consolidated																																	
Increment Charge (AF)	\$ 4,620	0.07%		\$ 10,012	0.86%		\$ 12,480	1.04%		\$ 14,948	1.21%		\$ 17,428	1.36%		\$ 19,925	1.51%		\$ 20,643	1.52%		\$ 21,383	1.52%		\$ 22,117	1.53%		\$ 22,963	1.54%		\$ 23,855	1.54%	
Retail Meter Charges (EA)	\$ 149,037	2.39%		\$ 162,991	6.00%		\$ 167,572	5.98%		\$ 171,755	5.94%		\$ 175,993	5.90%		\$ 180,283	5.																

	FY 09-10		FY 10-11		FY 11-12		FY 12-13		FY 13-14		FY 14-15		FY 15-16		FY 16-17		FY 17-18		FY 18-19		FY 19-20
Services & Costs	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$
General Fund Budget																					
Administrative/Personnel	\$ 1,489,924	25.19%	\$723,511	49.25%	\$574,025	32.43%	\$705,143	29.64%	\$ 726,297	29.56%	\$ 748,086	29.49%	\$770,529	29.43%	\$793,644	29.36%	\$817,454	29.36%	\$841,977	29.44%	\$ 867,237
Planning/Resource Development	\$ 742,129	12.55%	\$0	0.00%	\$98,623	5.57%	\$181,866	7.64%	\$ 187,322	7.63%	\$ 192,942	7.61%	\$198,730	7.59%	\$204,692	7.57%	\$210,833	7.57%	\$217,158	7.59%	\$ 223,673
Special Projects	\$ 599,677	10.14%	\$135,674	9.24%	\$209,616	11.84%	\$318,099	13.37%	\$ 327,642	13.34%	\$ 337,472	13.31%	\$347,596	13.27%	\$358,024	13.25%	\$368,764	13.25%	\$379,827	13.28%	\$ 391,222
Governmental Affairs	\$ 274,947	4.65%	\$100,000	6.81%	\$71,589	4.04%	\$124,272	5.22%	\$ 128,000	5.21%	\$ 131,840	5.20%	\$135,795	5.19%	\$139,869	5.17%	\$144,065	5.17%	\$148,387	5.19%	\$ 152,839
Water Use Efficiency	\$ 785,143	13.28%	\$382,287	26.02%	\$393,531	22.23%	\$405,112	17.03%	\$ 417,265	16.98%	\$ 429,783	16.94%	\$442,676	16.91%	\$455,957	16.87%	\$469,635	16.87%	\$483,725	16.91%	\$ 498,236
Water Awareness	\$ 327,388	5.54%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$ -	0.00%	\$ -	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$ -
School Programs	\$ 366,193	6.19%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$ -	0.00%	\$ -	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$ -
Finance	\$ 453,301	7.66%	\$125,062	8.51%	\$221,578	12.52%	\$243,461	10.23%	\$ 250,764	10.21%	\$ 258,287	10.18%	\$266,036	10.16%	\$274,017	10.14%	\$282,238	10.14%	\$290,705	10.17%	\$ 299,426
Information Technology	\$ 172,113	2.91%	\$35,720	2.43%	\$73,584	4.16%	\$87,733	3.69%	\$ 90,365	3.68%	\$ 93,075	3.67%	\$95,868	3.66%	\$98,744	3.65%	\$101,706	3.65%	\$104,757	3.66%	\$ 107,900
Overhead	\$ 931,592	15.75%	\$135,490	9.22%	\$295,243	16.68%	\$480,409	20.19%	\$ 494,821	20.14%	\$ 509,666	20.09%	\$524,956	20.05%	\$540,704	20.00%	\$556,925	20.00%	\$573,633	20.06%	\$ 590,842
Desalination Study	\$ -	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$ -	0.00%	\$ -	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$ -
WEROC - MWDOC Contribution	\$ 93,965	1.59%	\$31,290	2.13%	\$32,229	1.82%	\$33,196	1.40%	\$ 34,192	1.39%	\$ 35,217	1.39%	\$36,274	1.39%	\$37,362	1.38%	\$38,483	1.38%	\$39,638	1.39%	\$ 40,827
Interest/Reserve Contribution	\$ (322,000)		-\$200,000		-\$200,000		-\$200,000		-\$200,000		\$ (200,000)		\$ (200,000)		\$ (200,000)		\$ (206,000)		\$ (220,000)		\$ (199,000)
Subtotal General Fund	\$ 5,914,372		\$ 1,469,035		\$ 1,770,018		\$ 2,379,290		\$ 2,456,669		\$ 2,536,369	\$ 1	\$ 2,618,460	\$ 1	\$ 2,703,014	\$ 1	\$ 2,784,104	\$ 1	\$ 2,859,807	\$ 1	\$ 2,973,201
Reserve Balance	\$ 4,739,000		\$2,013,225		\$1,813,225		\$1,613,225		\$1,413,225		\$ 1,213,225		\$ 1,013,225		\$ 813,225		\$ 807,225		\$ 587,225		\$ 388,225

Revenue Recovery

New Agency 2

EI Toro WD

Water Purchased (AF)	\$ 82,380	1.32%	\$ 131,297	8.94%	\$ 157,059	8.87%	\$ 209,623	8.81%	\$ 214,923	8.75%	\$ 220,361	8.69%	\$ 225,572	8.61%	\$ 230,919	8.54%	\$ 235,895	8.47%	\$ 240,738	8.42%	\$ 247,887
Retail Meter Charges (EA)	\$ 63,810	1.09%	\$ -	3.79%	\$ -	3.78%	\$ -	3.78%	\$ -	3.78%	\$ -	3.78%	\$ -	3.77%	\$ -	3.75%	\$ -	3.75%	\$ -	3.74%	\$ -
Irvine Ranch WD*																					
Water Purchased (AF)	\$ 248,948	2.74%	\$ 405,848	27.63%	\$ 496,272	28.04%	\$ 676,675	28.44%	\$ 708,373	28.83%	\$ 741,161	29.22%	\$ 773,406	29.54%	\$ 806,711	29.84%	\$ 839,301	30.15%	\$ 868,878	30.38%	\$ 913,634
Retail Meter Charges (EA)	\$ 714,941	9.85%	\$ -	42.27%	\$ -	42.13%	\$ -	41.98%	\$ -	41.84%	\$ -	41.70%	\$ -	41.81%	\$ -	41.91%	\$ -	41.91%	\$ -	42.00%	\$ -
Moulton Niguel WD																					
Water Purchased (AF)	\$ 263,355	4.13%	\$ 419,211	28.54%	\$ 500,845	28.30%	\$ 667,640	28.06%	\$ 683,682	27.83%	\$ 700,123	27.60%	\$ 716,520	27.36%	\$ 733,338	27.13%	\$ 748,975	26.90%	\$ 764,216	26.72%	\$ 786,702
Retail Meter Charges (EA)	\$ 436,511	5.77%	\$ -	25.77%	\$ -	25.64%	\$ -	25.52%	\$ -	25.39%	\$ -	25.27%	\$ -	25.05%	\$ -	24.84%	\$ -	24.84%	\$ -	24.68%	\$ -
Santa Margarita WD																					
Water Purchased (AF)	\$ 232,178	3.88%	\$ 373,222	25.41%	\$ 450,233	25.44%	\$ 605,926	25.47%	\$ 626,356	25.50%	\$ 647,409	25.53%	\$ 671,990	25.66%	\$ 697,349	25.80%	\$ 721,955	25.93%	\$ 744,553	26.04%	\$ 778,602
Retail Meter Charges (EA)	\$ 360,995	5.55%	\$ -	21.70%	\$ -	21.99%	\$ -	22.26%	\$ -	22.54%	\$ -	22.81%	\$ -	22.97%	\$ -	23.12%	\$ -	23.12%	\$ -	23.24%	\$ -
South Coast Water District																					
Water Purchased (AF)	\$ 54,068	0.94%	\$ 84,662	5.76%	\$ 99,477	5.62%	\$ 130,387	5.48%	\$ 131,255	5.34%	\$ 132,102	5.21%	\$ 132,839	5.07%	\$ 133,559	4.94%	\$ 133,971	4.81%	\$ 134,719	4.71%	\$ 135,645
Retail Meter Charges (EA)	\$ 79,360	1.34%	\$ -	4.69%	\$ -	4.68%	\$ -	4.66%	\$ -	4.65%	\$ -	4.63%	\$ -	4.60%	\$ -	4.57%	\$ -	4.57%	\$ -	4.54%	\$ -
Trabuco Canyon WD																					
Water Purchased (AF)	\$ 34,073	0.24%	\$ 54,796	3.73%	\$ 66,132	3.74%	\$ 89,039	3.74%	\$ 92,079	3.75%	\$ 95,214	3.75%	\$ 98,133	3.75%	\$ 101,138	3.74%	\$ 104,008	3.74%	\$ 106,703	3.73%	\$ 110,732
Retail Meter Charges (EA)	\$ 29,698	0.43%	\$ -	1.77%	\$ -	1.78%	\$ -	1.79%	\$ -	1.80%	\$ -	1.81%	\$ -	1.80%	\$ -	1.80%	\$ -	1.80%	\$ -	1.80%	\$ -
Total	\$ 2,600,315	43.97%	\$ 1,469,035	100.00%	\$ 1,770,018	100.00%	\$ 2,379,290	100.00%	\$ 2,456,669	100.00%	\$ 2,536,369	100.00%	\$ 2,618,460	100.00%	\$ 2,703,014	100.00%	\$ 2,784,104	100.00%	\$ 2,859,807	100.00%	\$ 2,973,201
Increment Only	\$ 915,000	15.47%	\$ 1,469,035	100.00%	\$ 1,770,018	100.00%	\$ 2,379,290	100.00%	\$ 2,456,669	100.00%	\$ 2,536,369	100.00%	\$ 2,618,460	100.00%	\$ 2,703,014	100.00%	\$ 2,784,104	100.00%	\$ 2,859,807	100.00%	\$ 2,973,201
Retail Meter Only	\$ 1,685,315	28.50%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -
ck			\$ -		\$ -		\$ -		\$ -		\$ -		\$ -		\$ -		\$ -		\$ -		\$ -



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## Attachment I – Nine Agency South CWA 10-year Financial Model Summary

Agency CWA Remaining MWDOC	FY 09-10		FY 10-11		FY 11-12		FY 12-13		FY 13-14		FY 14-15		FY 15-16		FY 16-17		FY 17-18		FY 18-19		FY 19-20	
Services & Costs	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%
General Fund Budget																						
Administrative/Personnel	\$ 1,489,924	25.19%	\$952,961	24.32%	\$981,550	24.28%	\$1,010,997	24.25%	\$1,041,327	24.22%	\$ 1,072,566	24.19%	\$1,104,743	24.16%	\$1,137,886	24.14%	\$1,172,022	24.14%	\$1,207,183	24.08%	\$ 1,243,398	24.06%
Planning/Resource Development	\$ 742,129	12.55%	\$487,464	12.44%	\$502,088	12.42%	\$517,150	12.41%	\$532,665	12.39%	\$ 548,645	12.38%	\$565,104	12.36%	\$582,057	12.35%	\$599,519	12.35%	\$617,504	12.32%	\$ 636,029	12.31%
Special Projects	\$ 599,677	10.14%	\$389,898	9.95%	\$401,595	9.94%	\$413,642	9.92%	\$426,052	9.91%	\$ 438,833	9.90%	\$451,998	9.89%	\$465,558	9.88%	\$479,525	9.88%	\$493,911	9.85%	\$ 508,728	9.84%
Governmental Affairs	\$ 274,947	4.65%	\$238,966	6.10%	\$246,135	6.09%	\$253,519	6.08%	\$261,125	6.07%	\$ 268,959	6.07%	\$277,027	6.06%	\$285,338	6.05%	\$293,898	6.05%	\$302,715	6.04%	\$ 311,797	6.03%
Water Use Efficiency	\$ 785,143	13.28%	\$447,153	11.41%	\$460,568	11.40%	\$474,385	11.38%	\$488,616	11.37%	\$ 503,275	11.35%	\$518,373	11.34%	\$533,924	11.33%	\$549,942	11.33%	\$566,440	11.30%	\$ 583,433	11.29%
Water Awareness	\$ 327,388	5.54%	\$180,740	4.61%	\$186,162	4.61%	\$191,747	4.60%	\$197,499	4.59%	\$ 203,424	4.59%	\$209,527	4.58%	\$215,813	4.58%	\$222,287	4.58%	\$228,956	4.57%	\$ 235,825	4.56%
School Programs	\$ 366,193	6.19%	\$168,045	4.29%	\$173,086	4.28%	\$178,279	4.28%	\$183,627	4.27%	\$ 189,136	4.27%	\$194,810	4.26%	\$200,654	4.26%	\$206,674	4.26%	\$212,874	4.25%	\$ 219,260	4.24%
Finance	\$ 453,301	7.66%	\$303,005	7.73%	\$312,095	7.72%	\$321,458	7.71%	\$331,102	7.69%	\$ 341,035	7.68%	\$351,266	7.68%	\$361,804	7.67%	\$372,658	7.67%	\$383,838	7.66%	\$ 395,353	7.65%
Information Technology	\$ 172,113	2.91%	\$104,040	2.65%	\$107,161	2.65%	\$110,376	2.65%	\$113,687	2.64%	\$ 117,098	2.64%	\$120,611	2.64%	\$124,229	2.64%	\$127,956	2.64%	\$131,794	2.63%	\$ 135,748	2.63%
Overhead	\$ 931,592	15.75%	\$768,789	19.62%	\$791,853	19.59%	\$815,609	19.57%	\$840,077	19.54%	\$ 865,279	19.52%	\$891,238	19.49%	\$917,975	19.47%	\$945,514	19.47%	\$973,879	19.43%	\$ 1,003,096	19.41%
Desalination Study	\$ -	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$ -	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$ -	0.00%
WEROC - MWDOC Contribution	\$ 93,965	1.59%	\$57,788	1.47%	\$59,522	1.47%	\$61,308	1.47%	\$63,147	1.47%	\$ 65,041	1.47%	\$66,993	1.47%	\$69,002	1.46%	\$71,072	1.46%	\$73,205	1.46%	\$ 75,401	1.46%
Interest/Reserve Contribution	\$ (322,000)		\$-180,000		\$-180,000		\$-180,000		\$-180,000		\$ (180,000)		\$ (180,000)		\$ (180,000)		\$ (185,400)		\$ (180,000)		\$ (180,000)	
Subtotal General Fund	\$ 5,914,372	105.44%	\$ 3,918,849	104.59%	\$ 4,041,815	104.45%	\$ 4,168,469	104.32%	\$ 4,298,923	104.19%	\$ 4,433,291	104.19%	\$ 4,571,690	104.19%	\$ 4,714,241	104.19%	\$ 4,855,668	104.19%	\$ 5,012,300	104.19%	\$ 5,168,069	104.19%
Reserve Fund Balance	\$ 4,739,000		\$2,221,659		\$2,041,659		\$1,861,659		\$1,681,659		\$ 1,501,659		\$ 1,321,659		\$ 1,141,659		\$ 956,259		\$ 776,259		\$ 596,259	
Allocation to Increment																						
Allocation to Retail Meter	\$ 2,743,195	70.00%	\$ 2,829,270	70.00%	\$ 2,917,929	70.00%	\$ 3,009,246	70.00%	\$ 3,103,304	70.00%	\$ 3,200,183	70.00%	\$ 3,299,968	70.00%	\$ 3,398,967	70.00%	\$ 3,498,967	70.00%	\$ 3,598,610	70.00%	\$ 3,697,648	70.00%
Revenue Recovery																						
Remaining MWDOC																						
Brea																						
Increment Charge (AF)	\$ 44,978	0.72%	\$ 94,420	8.03%	\$ 94,996	7.83%	\$ 95,701	7.65%	\$ 96,527	7.48%	\$ 97,467	7.33%	\$ 100,731	7.34%	\$ 104,095	7.36%	\$ 107,442	7.38%	\$ 111,090	7.39%	\$ 114,818	7.41%
Retail Meter Charges (EA)	\$ 78,150	1.25%	\$ 96,335	3.51%	\$ 99,033	3.50%	\$ 101,771	3.49%	\$ 104,548	3.47%	\$ 107,362	3.46%	\$ 110,023	3.44%	\$ 112,711	3.42%	\$ 115,003	3.38%	\$ 117,784	3.36%	\$ 120,941	3.34%
Buena Park																						
Increment Charge (AF)	\$ 34,020	0.55%	\$ 74,739	6.36%	\$ 78,431	6.47%	\$ 82,170	6.57%	\$ 85,965	6.67%	\$ 89,824	6.75%	\$ 93,332	6.95%	\$ 101,031	7.14%	\$ 106,809	7.33%	\$ 112,479	7.48%	\$ 119,341	7.70%
Retail Meter Charges (EA)	\$ 126,615	2.03%	\$ 155,678	5.68%	\$ 159,635	5.64%	\$ 163,640	5.61%	\$ 167,692	5.57%	\$ 171,788	5.54%	\$ 175,762	5.49%	\$ 179,768	5.45%	\$ 183,423	5.40%	\$ 187,621	5.35%	\$ 191,989	5.31%
East Orange County WD																						
Increment Charge (AF)	\$ 22,103	0.35%	\$ 46,009	3.91%	\$ 45,911	3.79%	\$ 45,881	3.67%	\$ 45,915	3.56%	\$ 46,008	3.46%	\$ 47,000	3.43%	\$ 48,017	3.40%	\$ 49,006	3.36%	\$ 50,222	3.34%	\$ 51,229	3.30%
Retail Meter Charges (EA)	\$ 7,428	0.12%	\$ 9,093	0.33%	\$ 9,285	0.33%	\$ 9,478	0.32%	\$ 9,671	0.32%	\$ 9,866	0.32%	\$ 10,063	0.31%	\$ 10,260	0.31%	\$ 10,469	0.31%	\$ 10,682	0.30%	\$ 10,856	0.30%
Fountain Valley																						
Increment Charge (AF)	\$ 20,228	0.32%	\$ 43,764	3.72%	\$ 45,297	3.74%	\$ 46,870	3.75%	\$ 48,482	3.76%	\$ 50,137	3.77%	\$ 51,609	3.76%	\$ 53,123	3.76%	\$ 54,621	3.75%	\$ 56,306	3.74%	\$ 57,939	3.73%
Retail Meter Charges (EA)	\$ 108,698	1.74%	\$ 133,589	4.87%	\$ 136,923	4.84%	\$ 140,296	4.81%	\$ 143,707	4.78%	\$ 147,152	4.74%	\$ 150,505	4.70%	\$ 153,883	4.66%	\$ 157,012	4.62%	\$ 160,561	4.58%	\$ 164,178	4.54%
Garden Grove																						
Increment Charge (AF)	\$ 38,415	0.62%	\$ 84,888	7.22%	\$ 89,540	7.38%	\$ 94,238	7.54%	\$ 98,994	7.68%	\$ 103,819	7.81%	\$ 107,413	7.83%	\$ 111,118	7.86%	\$ 114,810	7.88%	\$ 118,804	7.90%	\$ 122,936	7.93%
Retail Meter Charges (EA)	\$ 216,569	3.47%	\$ 266,009	9.70%	\$ 272,493	9.63%	\$ 279,049	9.56%	\$ 285,614	9.49%	\$ 292,363	9.42%	\$ 298,823	9.34%	\$ 305,326	9.25%	\$ 311,533	9.17%	\$ 318,407	9.08%	\$ 325,110	8.99%
Golden State Water Company																						
Increment Charge (AF)	\$ 56,550	0.91%	\$ 122,929	10.46%	\$ 132,741	10.54%	\$ 142,741	10.61%	\$ 152,803	10.69%	\$ 162,980	10.75%	\$ 174,746	10.77%	\$ 186,659	10.79%	\$ 198,757	10.82%	\$ 210,877	10.83%	\$ 223,107	10.86%
Retail Meter Charges (EA)	\$ 334,601	5.37%	\$ 429,287	15.65%	\$ 459,341	16.24%	\$ 491,357	16.84%	\$ 525,450	17.46%	\$ 561,739	18.10%	\$ 600,410	18.76%	\$ 641,538	19.44%	\$ 686,657	20.20%	\$ 734,373	20.93%	\$ 781,253	21.60%
Huntington Beach																						
Increment Charge (AF)	\$ 62,453	1.00%	\$ 135,129	11.49%	\$ 139,873	11.54%	\$ 144,736	11.57%	\$ 149,724	11.61%	\$ 154,842	11.64%	\$ 159,328	11.62%	\$ 163,945	11.59%	\$ 168,509	11.57%	\$ 173,659	11.55%	\$ 178,622	11.52%
Retail Meter Charges (EA)	\$ 337,774	5.42%	\$ 414,540	15.11%	\$ 424,296	15.00%	\$ 434,151	14.88%	\$ 444,099	14.76%	\$ 454,133	14.63%	\$ 464,020	14.50%	\$ 473,968	14.36%	\$ 483,604	14.23%	\$ 494,150	14.08%	\$ 504,207	13.94%
La Habra																						
Increment Charge (AF)	\$ 16,688	0.27%	\$ 35,244	3.00%	\$ 35,667	2.94%	\$ 36,134	2.89%	\$ 36,643	2.84%	\$ 37,194	2.80%	\$ 37,784	2.80%	\$ 38,343	2.79%	\$ 38,926	2.79%	\$ 39,544	2.79%	\$ 40,203	2.79%
Retail Meter Charges (EA)	\$ 81,797	1.31%	\$ 100,329	3.66%	\$ 102,631	3.63%	\$ 104,955	3.60%	\$ 107,299	3.57%	\$ 109,662	3.53%	\$ 111,992	3.50%	\$ 114,335	3.46%	\$ 116,659	3.43%	\$ 119,155	3.40%	\$ 121,447	3.36%
La Palma																						
Increment Charge (AF)	\$ 4,718	0.08%	\$ 10,211	0.87%	\$ 10,572	0.87%	\$ 10,943	0.88%	\$ 11,323	0.88%	\$ 11,712	0.88%	\$ 12,078	0.88%	\$ 12,454	0.88%	\$ 12,827	0.88%	\$ 13,241	0.88%	\$ 13,652	0.88%
Retail Meter Charges (EA)	\$ 27,383	0.44%	\$ 33,602	1.22%	\$ 34,387	1.22%	\$ 35,181	1.21%	\$ 35,982	1.20%	\$ 36,790	1.19%	\$ 37,572	1.17%	\$ 38,358	1.16%	\$ 39,138	1.15%	\$ 39,975	1.14%	\$ 40,744	1.13%
Mesa Consolidated																						
Increment Charge (AF)	\$ 4,620	0.07%	\$ 12,695	1.08%	\$ 15,691	1.29%	\$ 18,655	1.49%	\$ 21,600	1.67%	\$ 24,536	1.84%	\$ 25,365	1.85%	\$ 26,220	1.85%	\$ 27,071	1.86%	\$ 27,996	1.86%	\$ 28,945	1.87%
Retail Meter Charges (EA)	\$ 149,037	2.39%	\$ 183,008	6.67%	\$ 187,420	6.62%	\$ 191,883	6.58%	\$ 196,395	6.53%	\$ 200,952	6.48%	\$ 205,571	6.42%	\$ 210,230	6.37%	\$ 214,335	6.31%	\$ 219,570	6.26%	\$ 223,566	6.18%
Newport Beach																						
Increment Charge (AF)	\$ 34,823	0.56%	\$ 76,740	6.53%	\$ 80,752	6.66%	\$ 84,810	6.78%	\$ 88,922	6.89%	\$ 93,097	7.00%	\$ 95,654	6.97%	\$ 98,283	6.95%	\$ 100,876	6.92%	\$ 103,842	6.91%	\$ 106,633	6.88%
Retail Meter Charges (EA)	\$ 197,011	3.16%	\$ 241,827	8.22%	\$ 247,559	8.75%	\$ 253,352	8.68%	\$ 259,200	8.61%	\$ 265,100	8.54%	\$ 270,836	8.46%	\$ 276,606	8.38%	\$ 282,230	8.30%	\$ 288,354	8.22%	\$ 294,140	8.13%
OCWD																						
Increment Charge (AF)	\$ 30,000	0.48%	\$ 61,957	5.87%	\$ 61,341	5.06%	\$ 60,826	4.86%	\$ 60,403	4.68%	\$ 60,063	4.52%	\$ 61,246	4.37%	\$ 62,458	4.24%	\$ 63,628	4.13%	\$ 65,111	4.03%	\$ 66,273	3.98%
Retail Meter Charges (EA)	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%
Orange																						
Increment Charge (AF)	\$ 56,955	0.91%	\$ 124,376	10.58%	\$ 129,822	10.71%	\$ 135,360	10.82%	\$ 140,998	10.93%	\$ 146,749	11.03%	\$ 150,815	11.00%	\$ 154,998	10.96%	\$ 159,124	10.92%	\$ 163,833	10.90%	\$ 168,283	10.85%
Retail Meter Charges (EA)	\$ 226,041	3.62%	\$ 277,329	10.11%	\$ 283,769	10.03%	\$ 290,273	9.95%	\$ 296,836	9.86%	\$ 303,452	9.78%	\$ 309,948	9.69%	\$ 316,479	9.59%	\$ 322,914	9.50%	\$ 329,862	9.40%	\$ 336,315	9.30%
Seal Beach																						
Increment Charge (AF)	\$ 8,310	0.13%	\$ 18,045	1.53%	\$ 18,740	1.55%	\$ 19,449	1.56%	\$ 20,175	1.58%	\$ 20,917	1.57%	\$ 21,651	1.58%	\$ 22,325	1.58%	\$ 23,037	1.58%	\$ 23,813	1.58%	\$ 24,604	1.59%
Retail Meter Charges (EA)	\$ 34,015	0.55%	\$ 41,720	1.52%	\$ 42,676	1.51%	\$ 43,641	1.50%	\$ 44,615	1.48%	\$ 45,596	1.47%	\$ 46,581	1.46%	\$ 47,539	1.44%	\$ 48,505	1.43%	\$ 49,543	1.41%	\$ 50,495	1.40%
Serrano WD																						
Increment Charge (AF)	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%
Retail Meter Charges (EA)	\$ 14,310	0.23%	\$ 17,501	0.64%	\$ 17,852	0.63%	\$ 18,204	0.62%	\$ 18,558	0.62%	\$ 18,913	0.61%	\$ 19,271	0.60%	\$ 19,629	0.59%	\$ 20,028	0.58%	\$ 20,419	0.58%	\$ 20,708	0.57%
Westminster																						
Increment Charge (AF)	\$ 26,040	0.42%	\$ 56,338	4.79%	\$ 58,311	4.81%	\$ 60,333	4.82%	\$ 62,408	4.84%	\$ 64,538	4.85%	\$ 66,550	4.85%	\$ 68,622	4.85%	\$ 70,678	4.85%	\$ 72,956	4.85%	\$ 75,220	4.85%
Retail Meter Charges (EA)	\$ 127,743	2.05%	\$ 156,810	5.72%	\$ 160,535	5.67%	\$ 164,300	5.63%	\$ 168,101	5.59%	\$ 171,936	5.54%	\$ 175,694	5.49%	\$ 179,475							

	FY 09-10		FY 10-11		FY 11-12		FY 12-13		FY 13-14		FY 14-15		FY 15-16		FY 16-17		FY 17-18		FY 18-19		FY 19-20
Services & Costs	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$	%	\$
<b>General Fund Budget</b>																					
Administrative/Personnel	\$ 1,489,924	25.19%	\$723,511	49.76%	\$574,025	32.71%	\$705,143	29.82%	\$ 726,297	29.74%	\$ 748,086	29.66%	\$ 770,529	29.59%	\$793,644	29.52%	\$817,454	29.52%	\$841,977	29.28%	\$ 867,237
Planning/Resource Development	\$ 742,129	12.55%	\$0	0.00%	\$98,623	5.62%	\$181,866	7.69%	\$ 187,322	7.67%	\$ 192,942	7.65%	\$ 198,730	7.63%	\$204,692	7.61%	\$210,833	7.61%	\$217,158	7.55%	\$ 223,673
Special Projects	\$ 599,677	10.14%	\$135,674	9.33%	\$209,616	11.94%	\$318,099	13.45%	\$ 327,642	13.42%	\$ 337,472	13.38%	\$ 347,596	13.35%	\$358,024	13.32%	\$368,764	13.32%	\$379,827	13.21%	\$ 391,222
Governmental Affairs	\$ 274,947	4.65%	\$100,000	6.88%	\$71,589	4.08%	\$124,272	5.26%	\$ 128,000	5.24%	\$ 131,840	5.23%	\$ 135,795	5.21%	\$139,869	5.20%	\$144,065	5.20%	\$148,387	5.16%	\$ 152,839
Water Use Efficiency	\$ 785,143	13.28%	\$382,287	26.29%	\$393,531	22.42%	\$405,112	17.13%	\$ 417,265	17.09%	\$ 429,783	17.04%	\$ 442,676	17.00%	\$455,957	16.96%	\$469,635	16.96%	\$483,725	16.82%	\$ 498,236
Water Awareness	\$ 327,388	5.54%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$ -
School Programs	\$ 366,193	6.19%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$ -
Finance	\$ 453,301	7.66%	\$125,062	8.60%	\$221,578	12.63%	\$243,461	10.30%	\$ 250,764	10.27%	\$ 258,287	10.24%	\$ 266,036	10.22%	\$274,017	10.19%	\$282,238	10.19%	\$290,705	10.11%	\$ 299,426
Information Technology	\$ 172,113	2.91%	\$35,720	2.46%	\$73,584	4.19%	\$87,733	3.71%	\$ 90,365	3.70%	\$ 93,075	3.69%	\$ 95,868	3.68%	\$98,744	3.67%	\$101,706	3.67%	\$104,757	3.64%	\$ 107,900
Overhead	\$ 931,592	15.75%	\$135,490	9.32%	\$295,243	16.82%	\$480,409	20.32%	\$ 494,821	20.26%	\$ 509,666	20.21%	\$ 524,956	20.16%	\$540,704	20.11%	\$556,925	20.11%	\$573,633	19.95%	\$ 590,842
Desalination Study	\$ -	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$0	0.00%	\$0	0.00%	\$0	0.00%	\$ -
WEROC - MWDOC Contribution	\$ 93,965	1.59%	\$36,176	2.49%	\$37,262	2.12%	\$38,380	1.62%	\$ 39,531	1.62%	\$ 40,717	1.61%	\$ 41,938	1.61%	\$43,197	1.61%	\$44,492	1.61%	\$45,827	1.59%	\$ 47,202
Interest/Reserve Contribution	\$ (322,000)		-\$220,000		-\$220,000		-\$220,000		-\$220,000		-\$220,000		\$(220,000)		-\$220,000		-\$226,600		-\$210,000		\$ (210,000)
Subtotal General Fund	\$ 5,914,372	105.44%	\$ 1,453,921	115.13%	\$ 1,755,051	112.54%	\$ 2,364,474	109.30%	\$ 2,442,008	109.01%	\$ 2,521,868	108.72%	\$ 2,604,124	108.45%	\$ 2,688,848	108.18%	\$ 2,769,513	108.18%	\$ 2,875,997	107.30%	\$ 2,968,577
Reserve Balance	\$ 4,739,000		\$2,115,341		\$1,895,341		\$1,675,341		\$1,455,341		\$1,235,341		\$ 1,015,341		\$795,341		\$788,741		\$578,741		\$ 368,741
<b>Revenue Recovery</b>																					
<b>New Agency 2</b>																					
<b>El Toro WD</b>																					
Water Purchased (AF)	\$ 67,061	1.32%	\$ 112,314	7.72%	\$ 134,736	7.68%	\$ 180,410	7.63%	\$ 185,200	7.58%	\$ 190,114	7.54%	\$ 194,929	7.49%	\$ 199,868	7.43%	\$ 204,448	7.38%	\$ 211,153	7.34%	\$ 216,195
Retail Meter Charges (EA)	\$ 55,237	1.09%	\$ -	3.31%	\$ -	3.31%	\$ -	3.31%	\$ -	3.31%	\$ -	3.31%	\$ -	3.30%	\$ -	3.29%	\$ -	3.29%	\$ -	3.28%	\$ -
<b>Irvine Ranch WD*</b>																					
Water Purchased (AF)	\$ 138,788	2.74%	\$ 347,170	23.88%	\$ 425,735	24.26%	\$ 582,377	24.63%	\$ 610,407	25.00%	\$ 639,429	25.36%	\$ 668,341	25.66%	\$ 698,236	25.97%	\$ 727,413	26.27%	\$ 762,098	26.50%	\$ 796,828
Retail Meter Charges (EA)	\$ 500,033	9.85%	\$ -	36.95%	\$ -	36.83%	\$ -	36.71%	\$ -	36.60%	\$ -	36.48%	\$ -	36.60%	\$ -	36.72%	\$ -	36.72%	\$ -	36.82%	\$ -
<b>Moulton Niguel WD</b>																					
Water Purchased (AF)	\$ 209,495	4.13%	\$ 358,601	24.66%	\$ 429,658	24.48%	\$ 574,601	24.30%	\$ 589,131	24.12%	\$ 604,024	23.95%	\$ 619,182	23.78%	\$ 634,729	23.61%	\$ 649,129	23.44%	\$ 670,299	23.31%	\$ 686,124
Retail Meter Charges (EA)	\$ 292,903	5.77%	\$ -	22.53%	\$ -	22.42%	\$ -	22.31%	\$ -	22.21%	\$ -	22.11%	\$ -	21.94%	\$ -	21.77%	\$ -	21.77%	\$ -	21.63%	\$ -
<b>Santa Margarita WD</b>																					
Water Purchased (AF)	\$ 196,742	3.88%	\$ 319,261	21.96%	\$ 386,239	22.01%	\$ 521,487	22.06%	\$ 539,733	22.10%	\$ 558,546	22.15%	\$ 580,702	22.30%	\$ 603,580	22.45%	\$ 625,711	22.59%	\$ 653,052	22.71%	\$ 679,059
Retail Meter Charges (EA)	\$ 281,859	5.55%	\$ -	18.97%	\$ -	19.22%	\$ -	19.47%	\$ -	19.72%	\$ -	19.96%	\$ -	20.11%	\$ -	20.26%	\$ -	20.26%	\$ -	20.38%	\$ -
<b>South Coast Water District</b>																					
Water Purchased (AF)	\$ 47,665	0.94%	\$ 72,421	4.98%	\$ 85,338	4.86%	\$ 112,217	4.75%	\$ 113,103	4.63%	\$ 113,969	4.52%	\$ 114,793	4.41%	\$ 115,600	4.30%	\$ 116,111	4.19%	\$ 118,163	4.11%	\$ 118,303
Retail Meter Charges (EA)	\$ 67,964	1.34%	\$ -	4.10%	\$ -	4.09%	\$ -	4.08%	\$ -	4.06%	\$ -	4.05%	\$ -	4.03%	\$ -	4.00%	\$ -	4.00%	\$ -	3.98%	\$ -
<b>Trabuco Canyon WD</b>																					
Water Purchased (AF)	\$ 12,402	0.24%	\$ 46,873	3.22%	\$ 56,732	3.23%	\$ 76,631	3.24%	\$ 79,345	3.25%	\$ 82,145	3.26%	\$ 84,802	3.26%	\$ 87,539	3.26%	\$ 90,142	3.25%	\$ 93,590	3.25%	\$ 96,575
Retail Meter Charges (EA)	\$ 21,978	0.43%	\$ -	1.55%	\$ -	1.56%	\$ -	1.56%	\$ -	1.57%	\$ -	1.58%	\$ -	1.58%	\$ -	1.58%	\$ -	1.58%	\$ -	1.58%	\$ -
<b>Laguna Beach CWD</b>																					
Increment Charge (AF)	\$ 34,898	0.56%	\$ 47,534	3.27%	\$ 56,971	3.25%	\$ 76,214	3.22%	\$ 78,166	3.20%	\$ 80,167	3.18%	\$ 82,122	3.15%	\$ 84,126	3.13%	\$ 85,975	3.10%	\$ 88,731	3.09%	\$ 90,751
Retail Meter Charges (EA)	\$ 53,252	0.85%	\$ -	2.75%	\$ -	2.75%	\$ -	2.74%	\$ -	2.73%	\$ -	2.72%	\$ -	2.70%	\$ -	2.69%	\$ -	2.69%	\$ -	2.68%	\$ -
<b>San Clemente</b>																					
Increment Charge (AF)	\$ 73,545	1.18%	\$ 100,340	6.90%	\$ 120,457	6.86%	\$ 161,405	6.83%	\$ 165,806	6.79%	\$ 170,323	6.75%	\$ 174,113	6.69%	\$ 177,991	6.62%	\$ 181,527	6.55%	\$ 187,035	6.50%	\$ 190,820
Retail Meter Charges (EA)	\$ 118,398	1.90%	\$ -	6.14%	\$ -	6.13%	\$ -	6.13%	\$ -	6.13%	\$ -	6.12%	\$ -	6.09%	\$ -	6.07%	\$ -	6.07%	\$ -	6.05%	\$ -
<b>San Juan Capistrano</b>																					
Increment Charge (AF)	\$ 36,293	0.58%	\$ 49,407	3.40%	\$ 59,185	3.37%	\$ 79,134	3.35%	\$ 81,117	3.32%	\$ 83,150	3.30%	\$ 85,140	3.27%	\$ 87,179	3.24%	\$ 89,056	3.22%	\$ 91,878	3.19%	\$ 93,921
Retail Meter Charges (EA)	\$ 71,514	1.15%	\$ -	3.70%	\$ -	3.69%	\$ -	3.68%	\$ -	3.68%	\$ -	3.67%	\$ -	3.65%	\$ -	3.63%	\$ -	3.63%	\$ -	3.61%	\$ -
Total	\$ 2,280,022	38.55%	\$ 1,453,921	100.00%	\$ 1,755,051	100.00%	\$ 2,364,474	100.00%	\$ 2,442,008	100.00%	\$ 2,521,868	100.00%	\$ 2,604,124	100.00%	\$ 2,688,848	100.00%	\$ 2,769,513	100.00%	\$ 2,875,997	100.00%	\$ 2,968,577
Increment Only	\$ 816,887	13.81%	\$ 1,453,921	100.00%	\$ 1,755,051	100.00%	\$ 2,364,474	100.00%	\$ 2,442,008	100.00%	\$ 2,521,868	100.00%	\$ 2,604,124	100.00%	\$ 2,688,848	100.00%	\$ 2,769,513	100.00%	\$ 2,875,997	100.00%	\$ 2,968,577
Retail Meter Only	\$ 1,463,135	24.74%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -	0.00%	\$ -

ck \$ - \$ - \$ - \$ -

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## Attachment J – Richards/Watson/Gershon Memorandum

**CONFIDENTIAL**

RICHARD RICHARDS  
(1916–1988)

GLENN R. WATSON  
(RETIRED)

HARRY L. GERSHON  
(1922–2007)

STEVEN L. DORSEY  
WILLIAM L. STRAUSS  
MITCHELL E. ABBOTT  
GREGORY W. STEPANICH  
ROCHELLE BROWNE  
QUINN M. BARROW  
CAROL W. LYNCH  
GREGORY M. KUNERT  
THOMAS M. JIMBO  
ROBERT C. CECCON  
STEVEN H. KAUFMANN  
KEVIN G. ENNIS  
ROBIN D. HARRIS  
MICHAEL ESTRADA  
LAURENCE S. WIENER  
STEVEN R. ORR  
B. TILDEN KIM  
SASKIA T. ASAMURA  
KAYSER O. SUME  
PETER M. THORSON  
JAMES L. MARKMAN  
CRAIG A. STEELE  
T. PETER PIERCE  
TERENCE R. BOGA  
LISA BOND  
JANET E. COLESON  
ROXANNE M. DIAZ  
JIM G. GRAYSON  
ROY A. CLARKE  
WILLIAM P. CURLEY III  
MICHAEL F. YOSHIBA  
REGINA N. DANNER  
PAULA GUTIERREZ BAEZA  
TERESA HO-URANO  
BRUCE W. GALLOWAY  
DIANA K. CHUANG  
PATRICK K. BOBKO  
BILLY D. DUNSMORE  
AMY GREYSON  
DEBORAH R. HAKMAN  
D. CRAIG FOX  
SUSAN E. RUSNAK  
DAVID M. SNOW  
LOLLY A. ENRIQUEZ  
KIRSTEN R. BOWMAN  
G. INDER KHALSA  
GINETTA L. GIOVINCO  
TRISHA ORTIZ  
CANDICE K. LEE  
DAVID G. ALDERSON  
MELISSA M. CROSTHWAITE  
MARICELA E. MARROQUIN  
GENA M. STINNETT  
JENNIFER PETRUSIS  
STEVEN L. FLOWER  
CHRISTOPHER J. DIAZ  
MATTHEW E. COHEN  
DEBBIE Y. CHO  
GEOFFREY WARD  
ERIN L. POWERS  
TOUSSAINT S. BAILEY  
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LOS ANGELES OFFICE  
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March 6, 2009

Laurie Madigan  
Madigan Consulting, Inc.  
877 Island Avenue, #508  
San Diego, California 92101

Mary Grace Pawson  
Senior Project Manager  
Winzler & Kelly  
495 Tesconi Circle  
Santa Rosa, California 95401

Re: Constraints on Ability of a County Water Authority to Supply Water to a  
Regulated Public Utility

Dear Laurie and Mary Grace:

We have completed our research concerning the apparent lack of authority of a County Water Authority to supply water to a regulated public utility. Of course, such a utility, Golden State Water Company, now is the recipient of MDOC water. Our research concludes that Golden State Water Company would lose the reliable water supply now provided by MWDOC should MWDOC be replaced by a County Water Authority within Golden State's service area. This result would run contrary to the original drafts of Technical Report No. 1 which contained a requirement that any reorganization not disturb the accessibility to imported water of any present recipient of MWDOC water (see Sept. 29, 2008 draft, p. 4). The final distributed draft did not include that requirement.

Golden State Water Company and MWDOC both criticized the County Water Authority alternative because such an entity could not include a regulated utility as a member agency and, thus, Golden State Water Company (and its rate payers) arguably would be disenfranchised by such a change in organization. Those comments did not squarely focus on the product of our research discussed below, the fact that the County Water Authority governing legislation does not allow an Authority to supply water to a regulated public utility except on an interruptible basis when there is water surplus to the needs of the public entity member agencies and

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Laurie Madigan  
Mary Grace Pawson  
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only to service areas located outside the territorial boundaries of all of the member agencies.

MWDOC presently supplies MWD water to Golden State Water Company pursuant to Water Code section 71611 which provides that MWDOC "...may sell water under its control, without preference, to cities, other public corporations and agencies, and persons, within the district for use within the district...." The authority provided to a County Water Authority stated in Water Code App. section 45-5 (11) is more constrained, providing in pertinent part that an authority may "...sell, and deliver water for beneficial uses and purposes by a public agency, the corporate area of which is included in the authority, to areas outside the boundaries of the authority; provided, that the supplying of that water shall, in every case, be subject to the paramount right of the authority to discontinue those activities, in whole or in part, by resolution adopted by the board of directors. The board of directors, as far as practicable, shall provide each of its member agencies with adequate supplies of water to meet their expanding and increasing needs...." Golden State Water Company only would be able to access Authority water to serve outside the area of all of the Authority's member agencies and then only on an interruptible basis. Water demands within the member agencies could completely rule out Authority water as a supply to Golden State Water Company. This outcome seems to have been recognized in an October 29, 2008 memo to Ms. Crosthwaite from Paul Jones of Irvine Ranch Water District and five other south county entity representatives. On page 5 of that memo in par. 4 and in footnote 2 it is recognized that legislation would be needed to allow Golden State Water Company to participate in the activities of a County Water Authority.

We did note that prior to a 1989 amendment to Water Code App. section 45-5 (11), the language of that subsection indirectly seemed to provide authority for a County Water Authority to supply water to a regulated public utility. That language was contained in provisions dealing with priorities to Authority water during shortages and read as follows: "...provided, each public agency, the area of which shall be a part of any authority incorporated hereunder, shall have a preferential right to purchase from the authority for distribution by such public agency, or any public utility therein empowered by said public agency for the purpose, for domestic, municipal and other beneficial uses within such public agency, a portion of the water served by the authority...." This language was followed by a formula by which preferential rights to water were calculated based on monies previously paid to the

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authority. Due to the fact that this previous statutory language appeared to enable deliveries of authority water to public utilities, we retrieved the legislative history of the bill which removed the language during 1989. That bill was A.B. 622 which passed with virtually no opposition. One of its goals was to delete the "money previously paid" monetary formula for determining preferential rights to water during times of shortage and replace that formula with an allocation for the greatest public interest and benefit as determined at the discretion of the board of the Authority. This is reflected in the current language of Water Code App. section 45-5 (11). The reference to a public utility within a member agency being "empowered" to receive authority water for beneficial uses disappeared when the preferential rights formula was deleted and it disappeared without explanation in any historical legislative materials supplied to us by the Legislative Intent Service. Nor is there any explanatory case law.

In summary, we have concluded that without new legislation, a County Water Authority could not supply water to Golden State Water Company except to areas located outside of the territory of all the member agencies of the Authority and only on an interruptible basis.

Please call at your convenience with any questions.

Very truly yours,

RICHARDS, WATSON & GERSHON

BY:   
James L. Markman

cc: B. Tilden Kim  
Erin Powers

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## Attachment K – Complete Governance Study Timeline



## **MWDOC GOVERNANCE STUDY TIMELINE**

June – December 2006	MWDOC facilitated stakeholder meetings
June 2007	LAFCO facilitated stakeholder meetings
February 2007	LAFCO facilitated stakeholder meetings
April 2007	Request for additional stakeholder meetings
June – September 2007	Additional LAFCO-facilitated stakeholder meetings
November 2007	Commission directed staff to prepare RFP for selection of Firm to conduct governance study
January 2008	Draft RFP continued for additional review and comment
April 2008	Firms interviewed by MWDOC, City of Huntington Beach, LAFCO and Rancho Santa Margarita Water District
May 2008	Commission directed LAFCO staff to negotiate with firms
June 23, 2008	Commission approved Contract with Winzler & Kelly to Conduct Study
<b>SEPTEMBER 9, 2008</b>	<b>STAKEHOLDER MEETING: LAUNCH OF STUDY</b>
October 15, 2008	Draft “Fatal Flaw” Review of Governance Options Distributed to LAFCO Staff
<b>OCTOBER 22, 2008</b>	<b>STAKEHOLDER MEETING: DRAFT GOVERNANCE OPTIONS SECTION DISTRIBUTED FOR REVIEW AND COMMENT</b>
October 29, 2008	Stakeholder Comments on Draft Governance Options Section Due

December 1, 2008	Final Technical Memorandum on Governance Options due to LAFCO
January 7, 2009	Draft Outline for <i>Technical Report 2 - Baseline Analysis of MWDOC Current Service Model &amp; Financial Analysis of Alternatives</i> together with “Key Assumptions” distributed to Stakeholders
January 21, 2009	Stakeholder Comments on Draft Outline for Technical Report 2 and “Key Assumptions” due to LAFCO staff
<b>FEBRUARY 11, 2008</b>	<b>STAKEHOLDER MEETING: RELEASE OF DRAFT TECHNICAL REPORT 2 – BASELINE ANALYSIS OF MWDOC CURRENT SERVICE MODEL AND FINANCIAL ANALYSIS OF ALTERNATIVES</b>
March 4, 2009	Stakeholder Comments on Draft Technical Report 2 due to LAFCO staff
<b>May 6, 2009</b>	<b>STAKEHOLDER MEETING: RELEASE OF DRAFT TECHNICAL REPORT 3 – ALTERNATIVE ANALYSIS, FINDINGS AND IMPLEMENTATION PLAN</b>
May 27, 2009	Stakeholder Comments on Draft Technical Report 3 due to LAFCO staff
<b>SEPTEMBER 9, 2009</b>	<b>LAFCO COMMISSION PUBLIC HEARING</b>

Orange County  
Local Agency Formation Commission



Draft Governance Study  
For  
Municipal Water District of Orange County

July 15, 2009

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## Executive Summary

In November 2007, the Orange County Local Agency Formation Commission (LAFCO) received and filed a Municipal Services Review (MSR) for the Municipal Water District of Orange County (MWDOC). Following the filing of the MSR, some of MWDOC's member agencies requested that LAFCO prepare a study examining alternative governance structure options for MWDOC, including any fiscal and legal impacts. This report constitutes the Governance Study.

The study was jointly funded by the agencies requesting the study and by MWDOC. LAFCO also contributed staff resources and funding for additional consultants to ensure the quality of the study. Since the process was stakeholder driven, both MWDOC and its member agencies provided input and comments at each stage of the study process.

The study was designed to provide enough data for the agencies involved to use in making future decisions about the various governance structure options. It does not include recommendations. Any changes in the governance structure of MWDOC will require a separate application to LAFCO.

Eleven governance structure options were initially analyzed by the LAFCO team and the stakeholders. The following table summarizes the results for the 11 governance structure options.

Governance Option	Status	Comments
<b><i>MWDOC Baseline</i></b>	<b><i>Feasible</i></b>	<b><i>MWDOC could review policy changes and revise as deemed necessary</i></b>
Dissolve MWDOC and form a Joint Powers Authority	Fatal Flaw	Joint Powers Authorities are not authorized to provide representation at Metropolitan
Restructure MWDOC governance board representation	Fatal Flaw	Needs special legislation. MWD law limits boards to 5 members elected from districts (with exceptions for consolidations and reorganizations). <i>Water Code Section 71250 to 71256.</i>
Dissolve MWDOC and form a Municipal Utility District	Fatal Flaw	Needs special legislation. MUDs cannot represent the full range of agencies represented by MWDOC. <i>Public Utilities Code Section 11504.</i>
Dissolve MWDOC and form a Public Utility District	Fatal Flaw	The PUD Act states that only unincorporated territory can be included. PUDs cannot represent the full range of MWDOC membership. <i>Public Utilities Code Section 15533.</i>
Dissolve MWDOC and form a County Water District	Removed from consideration following additional legal analysis	Stakeholders agreed to eliminate this option after subsequent legal analysis. Legal review found that CWD Boards can be elected at large, thus addressing one issue with current MWDOC structure. However CWD structure does not address

		other issues.
Dissolve MWDOC and form a County Water Authority	<b>Initially Feasible; determined to be fatally flawed during subsequent analysis</b>	CWA Act only provides authority to supply a regulated public utility on an interruptible basis. This is a legal barrier & prevents service to Golden State Water Company.
Reorganize South County agencies to form a Municipal Water District	Removed from consideration by LAFCO staff	Removed from consideration by LAFCO staff. Forming a second MWD for south county agencies has potential to replicate identified issues with current MWDOC structure.
Reorganize South County agencies to form a County Water District	Removed from consideration following additional legal analysis	Very similar to MWD structure and removed from further consideration based on legal input.
<b><i>Reorganize South County agencies to form a County Water Authority</i></b>	<b><i>Feasible</i></b>	<b><i>Provides for an appointed board designated by the member agencies. Two sub-options possible.</i></b>
Dissolve South County agencies and allow for City representation at Metropolitan	Fatal flaw	Some of the six South County agencies serve unincorporated area. This alternative could potentially leave territory without representation.

- Of the initial 11 governance structure options, three were identified for further study. A fiscal analysis of the three options determined that all were potentially fiscally feasible. Finally, a legal and implementation analysis of the governance alternatives determined that one option was fatally flawed, leaving two viable structure options:
  - Status Quo: Under this option, no organizational changes would be required. MWDOC would continue to be governed by a seven-member board elected by the registered voters living within each of the seven director districts.
  - South County Water Authority (South CWA): This option consists of detaching south Orange County water retailers from MWDOC and forming a new County Water Authority (CWA). Two sub-options were reviewed and both would require LAFCO approval:
    - Six Agency South CWA: This option would include the El Toro, Irvine Ranch, Moulton Niguel, Santa Margarita, South Coast and Trabuco Canyon Water Districts forming a CWA. The new CWA would have an appointed board consisting of 23 members.
    - Nine Agency South CWA: This option reorganizes the six agencies together with the Laguna Beach Water District and the cities of San Clemente and San Juan Capistrano as a CWA. The new CWA would have an appointed board consisting of 28 members.

The fiscal analysis indicated that there are no significant fiscal barriers to implementing either South CWA governance structure option. Financial impacts to rate payers were projected to be relatively modest with costs increasing by about \$4 per month per rate payer, at a maximum. The remaining ratepayers of the member agencies of MWDOC could experience a savings ranging from \$1 to \$3.00 per year. However, it must be noted that if an election is required to form a South CWA, the election costs would be approximately one to one and half million dollars (\$1,000,000-\$1,500,000). These costs were not included in the model.

The primary purpose of MWDOC or any alternative agency is to import water from the Metropolitan Water District of Southern California (Metropolitan) and is accomplished by providing representation on Metropolitan's Board of Directors. The table below illustrates the potential changes that would result from implementing each of the options. The changes in representation at Metropolitan were characterized by the study stakeholders as either a dilution of Orange County's voting block or an opportunity to shift alliances among Metropolitan Board members and boost Orange County's voting strength.

**Table ES-2: Metropolitan Representation and Voting Rights**

Governance Option	Weighted Vote Entitlement	Director Entitlement
<b>Status Quo MWDOC</b>	<b>34,917</b>	<b>4</b>
<b>Six Agency South CWA</b>		
New CWA	13,431	2
Remaining MWDOC	21,486	3
<b>Nine Agency South CWA</b>		
New CWA	16,282	2
Remaining MWDOC	18,635	2



## Conclusions

Both the Status Quo MWDOC and South CWA options provide viable government structures with the legal and operational capability to address the concerns raised by the 2007 MWDOC MSR. However, neither option can achieve this goal without genuine cooperation between and among MWDOC and all of its affiliated agencies and governing bodies.

Formation of a new South CWA requires processing a complex reorganization through LAFCO and acceptance of a new member agency by Metropolitan, which is a discretionary action by the Metropolitan Board. Neither of these actions is likely to be successful without the cooperative efforts between MWDOC and its member agencies, the re-organizing water retail agencies, and Metropolitan. Similarly, successful implementation of the status quo option to address the concerns raised in the 2007 MWDOC MSR will require making sustained changes at MWDOC that reflect the full participation of, and general agreement among, the MWDOC Board and all its member agencies.

## 1. Background of the Governance Study

In November of 2007, Orange County LAFCO reviewed the MSR for MWDOC and, consistent with the California Environmental Quality Act and the Cortese-Knox-Hertzberg Local Government Reorganization Act (Government Code Section 56000 et.seq., the “Local Government Reorganization Act”), received and filed the MSR report<sup>1</sup>.

The MWDOC MSR was developed through a stakeholder driven process. The stakeholder process raised a number of issues, summarized in the MSR:

*“Based on all the stakeholder meetings and discussions, it is clear that there are fundamental differences between MWDOC and some of the member agencies with regards to appropriate service levels, approach and policies. Key issues discussed were related to: (1) MWDOC’s role and its core functions, (2) reserves, budgeting and rates, (3) equitable cost sharing among member agencies, and (4) accountability to the member agencies as constituents. Each of these issues points to a fundamental question: Is the government structure of MWDOC, as a Municipal Water District, the appropriate government structure to serve Orange County?”*

MWDOC has implemented several changes to its policies and budget process as a result of participation in the joint MWDOC/LAFCO stakeholder program (see Appendix Attachment B, MWDOC 12-20-06 Staff Report and Policy Statement). However, as the November 2007 LAFCO staff MSR transmittal letter to LAFCO Commissioners notes, “...despite the extensive nature of the stakeholder process and best intentions of everyone involved, the issues have not been resolved to the satisfaction of everyone.” In response to a request from some MWDOC member agencies, the LAFCO Commissioners directed the preparation of a Governance Study to further examine the government structures identified in the MSR.

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<sup>1</sup> A brief history of the formation of MWDOC, its current responsibilities and a listing of its 28 member agencies is included as Attachment A in the Appendix to this report.

## 2. Purpose & Steps in Completion of the Governance Study

The purpose of the Governance Study is to comply with LAFCO Commission direction and to analyze governance structure options for MWDOC by:

- Identifying options which may have the potential to resolve issues raised in the MWDOC MSR
- Identifying which options are legally and practically feasible
- Determining the fiscal impacts that could result from each option
- Determining any impacts on representation at Metropolitan that could result from each option
- Summarizing actions and steps necessary to implement any viable option.

It is not the purpose of the Governance Study to recommend a preferred reorganization model or option of MWDOC. Instead, the study is designed to provide information, data and analysis to better understand the possibilities and impacts associated with each of these governance structure options.

The Governance Study was developed through the completion of the six steps identified below.

Steps	Status
1. Review of Assumptions, Data and Relevant Documents. Participate in 1 <sup>st</sup> Stakeholder Meeting.	Complete.
2. Identify Potential Governance Structure Alternatives and complete legal analysis of options. Participate in 2 <sup>nd</sup> Stakeholder Meeting.	This Technical Report was presented at the 2nd Stakeholder Meeting and finalized to incorporate comments received, as appropriate, in December 2008.
3. Develop Preliminary Financial Analysis.	This Technical Report was presented at the 3 <sup>rd</sup> Stakeholder Meeting and finalized to incorporate comments received, as appropriate, in May 2009.
4. Develop Implementation Analysis.	This Technical Report was presented at the 4 <sup>th</sup> Stakeholder Meeting in May 2009.
5. Develop Draft Governance Study Report.	Complete in July 2009.
6. Develop Final Governance Study for OC LAFCO Consideration.	To be completed in September 2009.

Steps two through four each resulted in a draft technical report that was reviewed by MWDOC and the 28 retail agencies it serves (the stakeholders). The three technical reports, summarized below, formed the basis of the Governance Study.

- The first technical report provided an initial screening of feasible governance structure options. This first report concluded that there were three potentially feasible governance options: the Status Quo, dissolve MWDOC to form a County Water Authority and detach the South County agencies to form a new, smaller County Water Authority (two boundary options);
- The second technical report included the first report, discussed MWDOC's current service model and provided a financial analysis for each feasible governance option including transitional and long-term administrative and operating costs; and
- The third technical report included the first and second reports and discussed the process for implementing each viable option under current law, including, but not limited to legal barriers and an analysis of any changes to the current voting rights and representation at Metropolitan.

### 3. Alternative Governance Structure Options

LAFCO's November 2007 MSR for MWDOC identified 5 potential governance structure options (items 1 through 5 below) for further review. Two additional options (items 6 and 7) were subsequently added by LAFCO staff for evaluation as part of this study.

1. Maintain the status quo with policy changes agreed upon by the MWDOC Board in December 2006 (See Appendix, *Attachment B*).
2. Dissolve MWDOC and form a new entity authorized to provide representation at the Metropolitan.
3. Reorganize the South County<sup>2</sup> agencies by detaching from MWDOC and forming a new entity authorized to provide representation at Metropolitan.
4. Merge MWDOC and the Orange County Water District (OCWD) which could include an option to detach the South County agencies to form a new entity.
5. Reorganize MWDOC with the East Orange County Water District (EOCWD).
6. Dissolve MWDOC and form a Joint Powers Authority.
7. Maintain the status quo but restructure the existing MWDOC governance board representation.

During the initial stakeholder meeting held on October 22, 2008, each of the potential governance options were discussed and evaluated. Option 5 ("Reorganize MWDOC with the East Orange County Water District"), was eliminated by the stakeholders from further consideration. The consultant was directed to include only the remaining six options in the Governance Study process.

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<sup>2</sup> The South County agencies include El Toro, Irvine Ranch, Moulton Niguel, Santa Margarita, South Coast and Trabuco Canyon Water Districts

## 4. Fatal Flaw Screening

Each of the remaining six governance structure options were measured against four primary criteria listed below. Failure to meet any of these criteria was considered to be a fatal flaw.

- The ability to provide representation at Metropolitan
- The ability to provide a similar range of services
- The ability to be implemented without special legislation
- The potential to solve issues outlined within the MWDOC MSR

Each of these criteria is discussed below.

### 4a Representation at Metropolitan

The primary purpose of MWDOC is to import water from Metropolitan into Orange County. Because of this, the range of governance structures to be considered is limited to the six types of agencies outlined as eligible members in the Metropolitan Water District Act.<sup>3</sup> These are:

- Cities
- Municipal Water Districts
- Municipal Utility Districts
- Public Utility Districts
- County Water Districts
- County Water Authorities

One governance structure option identified for further review, dissolving MWDOC and forming a Joint Powers Authority (JPA), involves a type of agency that is not eligible for membership at Metropolitan. Therefore this option is considered fatally flawed and was not carried forward for further analysis.

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<sup>3</sup> Chapter 2, Metropolitan Water District Act, Statutes 1969, Chap 2, as amended

## 4b Provision of a Similar Range of Services

MWDOC provides a range of services in accordance with its principal act and any governance structure option must be able to provide a similar range of services. Table 1 summarizes the authorized services for each of the six governance structures authorized to provide representation at Metropolitan. A more detailed discussion of each governance structure follows the table.

**Table 1: Range of Services by Governance Structure**

Service	California City	Municipal Water District	Current MWDOC	Municipal Utility District	Public Utility District	County Water District	County Water Authority
Development of Water Supplies	X	X		X	X	X	X
Sale of Water	X	X	X	X	X	X	X
Standby Charges for Water*	X	X	X	X	X	X	X
Recycled Water	X	X		X	X		X
Recreation	X	X			X	X	
Electrical Power Generation	X	X		X	X	X	X
Light/Heat	X			X	X		
Transportation	X			X	X		
Communication	X			X	X		
Sewage Disposal/Sewers	X	X		X	X	X	
Storm Water Disposal	X	X					
Fire Protection	X	X			X	X	
Water Replenishment Assessment		X					X
Sanitation	X	X		X	X	X	

*\*Specifically authorized for a Municipal Water District. Presumed to be available to the other governance structures under general law (The Uniform Standby Charge Procedures Act, Government Code Section 54984 et. seq.).*

### Cities

California cities are authorized to provide services as described in Government Code Title 4, beginning with Section 34000. A city's authority to provide water supply is outlined in Government Code Title 4, Division 3, Chapter 10 beginning with Article 5. California cities also have broad authority to provide police, fire, sewer and park and

recreation services as well as to run municipal utilities (gas and electricity). Cities are governed by an elected City Council generally consisting of 5 or 7 members.

#### Municipal Water Districts

Municipal Water Districts (MWDs) can provide a broad range of water supply services, including levying water standby charges and water replenishment assessments. MWDs are also empowered to provide sewer and sanitation services, storm water disposal services, fire protection services, recreation services and electrical power services. Currently MWDs' functions are limited to water supply services.

MWDs are generally governed by a 5 member board elected from divisions, although LAFCO has the authority to expand the board to 7, 9 or 11 members as a result of reorganization or consolidation. This expanded board is to include members of the boards of the districts being reorganized or consolidated. <sup>4</sup> The Water Code makes provisions for returning the Board to a directly elected board once the terms of members appointed during the reorganization/consolidation expire.

#### Municipal Utility Districts

Municipal Utility Districts (MUDs) can provide a wide range of public services including light, water, power, heat, transportation, telephone or communication services, and the collection, treatment, or disposition of garbage, sewage, or refuse matter. MUDs are governed by a 5-member board, elected from specific geographic areas known as wards.

#### Public Utility Districts

Public Utility Districts (PUDs) can provide a wide range of public services including light, water, power, heat, transportation, telephone or communication service, and garbage, sewage, or refuse matter. PUDs may also provide fire, street lighting and recreation services. PUDs are governed by an elected board consisting of at least 3 members. The Board is composed of 3 or 4 directors elected at large and a member from each territorial unit with a population of 5,000 or more. The Board of Supervisors is charged with naming and designating the territorial units. <sup>5</sup>

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<sup>4</sup> Water Code Section 71250.1

<sup>5</sup> Public Utilities Code Section 15960



### County Water Districts

County Water Districts (CWDs) generally have the same range of authority as MWDs. A CWD has express powers to protect water rights, similar to those outlined for a MWD.<sup>6</sup> CWDs are generally governed by a 5 member elected board, although, similar to a MWD, LAFCO has the authority to expand the board to 7, 9 or 11 members as a result of reorganization or consolidation.<sup>7</sup> There are also similar provisions for returning the Board to a smaller size as terms expire. Additionally there is at least one case, the Pleasant Valley Water District in Ventura County, where non-resident property owners are eligible to run for the board of directors.<sup>8</sup>

A primary difference between a CWD structure and a MWD is that the CWD Board is elected “at large,” while the MWD Board is elected from districts with similar populations.

### County Water Authorities

County Water Authorities (CWAs) have a more limited range of services; their authority is limited primarily to water supply functions. Because MWDOC does not currently utilize its authority for any type of service except water service, this distinction is not considered a fatal flaw. Agencies represented by MWDOC would not experience a reduction in service under the CWA governance structure. CWAs are governed by Water Code Appendix 45 (the CWA Act). Under that code section, the agency is governed by an appointed board of directors, with at least one director appointed from each member agency.

### Summary

All governance structures authorized to provide representation at Metropolitan are able to provide the same general range of services as MWDOC currently provides, although there are differences in the manner in which the various boards of directors are selected. While some structures, such as the CWA, are limited to water activities, this is not considered a fatal flaw because MWDOC does not currently provide services beyond those associated with the imported water supply.

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<sup>6</sup> Water Code Section 31000 et. seq.

<sup>7</sup> Water Code Section 30500.1

<sup>8</sup> Water Code Section 30511

#### **4c Ability to be Implemented without Special Legislation**

Governance structure options that require special legislation are considered infeasible because successfully securing special legislation is not guaranteed and not within the control of LAFCO or the stakeholders. Based on input from the stakeholders, alternatives that require changes to existing law to implement have been summarized for reference. Alternatives requiring special legislation include:

- Modifying the Municipal Water District Act of 1911 to provide for changes in governance board representation.
- Expanding the definition of public agency in the Municipal Utility District Act to include the full range of agencies represented by MWDOC.
- Expanding the permitted service area of a Public Utility District to include incorporated areas.
- Modifying OCWD's principal act to allow merger with MWDOC.
- Modifying the Municipal Water District Act of 1911 and County Water District Law to clearly allow for consolidation of these two types of agencies.
- Expanding the definition of a "public agency" in Metropolitan's principal act to include Joint Powers Authorities.

#### **4d Solving Issues Outlined within the MWDOC MSR**

The issues that were identified in the MWDOC MSR reflect the divergent interests among some of MWDOC retail customers. The divisions result from different land use patterns, development, water demand, sources of water, governmental structure, geography and location. The key issues identified in the MWDOC MSR include:

- Disagreement about MWDOC's mission and what services it should provide and at what cost;
- Differences in the need and level of services among member agencies;
- Disagreement about to whom MWDOC reports and is accountable – the public or member agencies;
- Limited input by member agencies on MWDOC budget adoption;
- Disagreement on the amount of unrestricted budget reserves for MWDOC.

Governance structure options that cannot address and resolve each or most of these issues are considered fatally flawed and were not studied further as part of the Governance Study.

## 4e Summary

Tables 2 and 3 summarize the results of the preliminary review of alternative governance structures. Table 2 includes those options that would retain a county-wide entity. Table 3 identifies four additional sub-options should the South County agencies detach from MWDOC and form a new entity.

Both tables identify those options that are either: (1) preliminarily feasible and warrant further analysis (in bold italic), or (2) fatally flawed and eliminated from further consideration as part of this Governance Study (in plain-face type).

**Table 2: County-wide Governance Option Status**

Governance Option	Status	Comments
<b><i>Option 1 MWDOC Baseline: Status Quo with MWDOC's December 2006 Policy Changes</i></b>	<b><i>Feasible</i></b>	<b><i>MWDOC could review policy changes and revise as deemed necessary</i></b>
Dissolve MWDOC and form a Joint Powers Authority	Fatal Flaw	Joint Powers Authorities are not authorized to provide representation at Metropolitan
Restructure MWDOC governance board representation	Fatal Flaw	Needs special legislation. MWD law limits boards to 5 members elected from districts (with exceptions for consolidations and reorganizations). <i>Water Code Section 71250 to 71256.</i>
Dissolve MWDOC and form a Municipal Utility District	Fatal Flaw	Needs special legislation. MUDs cannot represent the full range of agencies represented by MWDOC. <i>Public Utilities Code Section 11504.</i>
Dissolve MWDOC and form a Public Utility District	Fatal Flaw	The PUD Act states that only unincorporated territory can be included. PUDs cannot represent the full range of MWDOC membership. <i>Public Utilities Code Section 15533.</i>
Dissolve MWDOC and form a County Water District	Removed from consideration following additional legal analysis	Broadly written principal act provides for full range of services. Board elected at large. Could include the 3 cities that are not members of MWDOC. <i>Water Code Sections 30064, 30065 30500.1 and 30203.</i>  Stakeholders agreed to eliminate this option after subsequent legal analysis. Legal review found that CWD Boards can be elected at large, thus addressing one issue with current MWDOC structure. However CWD structure does not address other issues.
<b><i>Option 2a and 2b MWDOC CWA and MWDOC Subscription CWA: Dissolve MWDOC and form a County Water Authority</i></b>	<b><i>Feasible</i></b>	<b><i>Broadly written principal act provides for full range of services. Needs additional legal analysis regarding inclusion of the private water company. Provides for an appointed board designated by the member agencies. Could be initiated by resolution of member agencies or voters. Could also include the 3 cities. Water Code Appendix 45, Sections 45-2 and 45-4.</i></b>

**Table 3: Governance Option Status Assuming Agencies Detach from MWDOC**

Governance Option	Status	Comments
Reorganize South County agencies to form a Municipal Water District	Removed from consideration by LAFCO staff	Broadly written principal act provides for full range of services. Generally provides for an elected board comprised of resident, registered voters. <i>Water Code Section 71060 and 71061.</i>  Removed from consideration by LAFCO staff. Forming a second MWD for south county agencies has potential to replicate identified issues with current MWDOC structure.
Reorganize South County agencies to form a County Water District	Removed from consideration following additional legal analysis	Broadly written principal act provides for full range of services.  Very similar to MWD structure and removed from further consideration based on legal input.
<b>Option 3a and 3b Six Agency South CWA and Nine Agency South CWA: Reorganize South County agencies to form a County Water Authority</b>	<b>Feasible</b>	<b><i>Broadly written principal act provides for full range of services. Provides for an appointed board designated by the member agencies. Can be initiated by Resolution of member agency boards or petition from voters.</i></b>  <b><i>Financial Analysis/Viable Alternative Comparison may include sub-alternatives to explore logical boundaries.</i></b>
Dissolve South County agencies and allow for City representation at Metropolitan	Fatal flaw	Some of the six South County agencies serve unincorporated area. This alternative could potentially leave territory without representation.

Based on this analysis, there are three preliminarily feasible governance structure options that were considered in the Financial Analysis. These include:

- Option 1- MWDOC Baseline: This option consists of the Status Quo with MWDOC’s December 2006 Policy Changes. Other options will be compared with MWDOC Baseline.
- Option 2 – Dissolve MWDOC and Form a CWA
  - a. MWDOC CWA: This option reorganizes MWDOC’s governance model to conform to the requirements of the CWA Act but does not change MWDOC’s service delivery model.
  - b. MWDOC Subscription CWA: This option not only reorganizes MWDOC’s governance model but also allows the retail agencies to elect to subscribe to some of MWDOC’s services.

- Option 3 – Reorganize South County Agencies to Form a CWA; either six or nine agency sub-options
  - a. Six Agency South CWA: This option reorganizes the El Toro, Irvine Ranch, Moulton Niguel, Santa Margarita, South Coast and Trabuco Canyon Water Districts (defined above as the Six Agencies) as a CWA and results in a smaller MWDOC representing 22 retail agencies.
  - b. Nine Agency South CWA: This option reorganizes the Six Agencies together with the Laguna Beach Water District and the cities of San Clemente and San Juan Capistrano as a CWA and results in a smaller MWDOC representing 19 retail agencies.

## 5. Financial Analysis of Governance Structure Options

The financial analysis reviews the following potentially feasible governance structure options:

- Option 1- MWDOC Baseline
- Option 2 – Dissolve MWDOC and Form a CWA
  - a. MWDOC CWA
  - b. MWDOC Subscription CWA
- Option 3 – Reorganize South County Agencies to Form a CWA
  - a. Six Agency South CWA
  - b. Nine Agency South CWA

Each of these options provides for a different governing board composition and the potential for different budgeting and cost allocation priorities. The financial analysis models budget estimates associated with each governance structure option in order to compare possible impacts to rate payers.

This financial analysis is a high-level screening analysis intended to provide information, facilitate comparisons between options, and determine if any “fatal flaws” exist in terms of impacts to rate payers. This analysis is not an optimization analysis nor is it a detailed rate study. It is intended to provide information that can be used by either the LAFCO Commission or the stakeholders for future consideration.

### 5a Assumptions as Modified by Stakeholder Input

In order to develop the financial analysis, assumptions were made about water demands, projected growth rates, the cost of water, inflation and the costs of transitioning to a new governance structure. These assumptions were circulated to the stakeholders and modified based upon comments received. The full list of assumptions as modified by stakeholder input is included as *Attachment C*.

### 5b Financial Model

A spreadsheet-based financial model was developed in order to analyze and compare the fiscal impacts of the governance structure options. The model takes into account costs, reserve accounts and revenue recovery strategies. The model predicts cost impacts at both the retail agency level and the rate payer level for each option.

### Input Data for the Model

There are three sets of basic input data to the model. These are:

- Budgets;
- Water consumption;
- Retail meter count.

### Budget Data

MWDOC's budgets from Fiscal Year 2004-05 through Fiscal Year 2008-09 were used in the model. The Fiscal Year 2008-09 budget is used as the base budget from which 10-year cost projections were developed.

The 10-year cost projections for MWDOC Baseline, MWDOC CWA and MWDOC Cafeteria CWA are based directly on MWDOC's Fiscal Year 2008-09 budget and escalated in accordance with the assumptions included in Appendix, *Attachment C*.

The 10-year cost projections for the Six Agency South CWA, the Nine Agency South CWA and remaining MWDOC are based on the staffing projections outlined in *Attachment C* and the budgeted costs for staff and consultants in MWDOC's Fiscal Year 2008-09 budget.

Historical MWDOC budget data (Fiscal Years 2004-05 through 2008-09) was used to analyze trends in budgeted costs, reserve balances and revenue contributions made by each retail agency.

### Water Consumption and Retail Meter Data

MWDOC's charges for water use and for retail meters, therefore both water consumption and retail meter data for each of MWDOC's retail agencies are used in the model.

*Attachment D* is the water consumption and retail meter data used in the model. With the exception of the Laguna Beach CWD, the water consumption projections in *Attachment D* reflect the water use projections in MWDOC's Urban Water Management Plan (UWMP). Laguna Beach CWD has indicated that the timing for its planned groundwater project has become uncertain and has requested that 2,025 acre-feet per year (AFY) be added to the demand projections brought forward from MWDOC's UWMP. Projections for retail water meters were taken from individual retail agency UWMPs where available. When this information was not available, water meter projections were estimated using the growth projections in the MWDOC MSR and other input from the agencies.

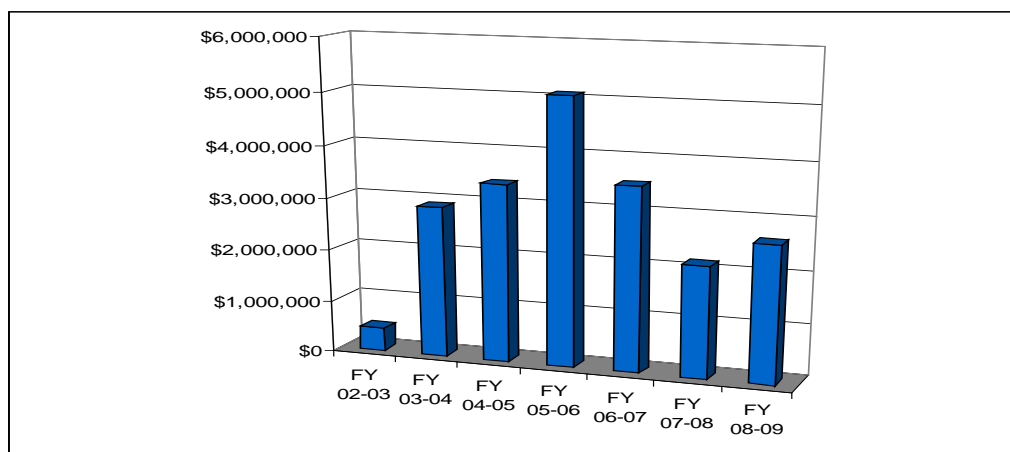
## MWDOC Charges

MWDOC's three cost recovery tools - (1) a Melded Water Rate including a Melded Water Rate Surcharge, (2) a Water Increment Charge, and (3) a Retail Meter Charge were also incorporated into the model.

### Melded Water Rate Surcharge

MWDOC uses its Melded Water Rate to fund water purchases and a restricted Water Purchase Reserve Fund. This reserve account is funded from its Melded Water Rate Surcharge. Its current balance is approximately \$2,620,000<sup>9</sup>. Between 2003 and 2008 the fund balance has ranged from under \$450,000 to over \$5,000,000. Figure 1 illustrates the Water Purchase Reserve Fund balance over time.

**Figure 1: Water Purchase Reserve Fund Balance**



Metropolitan currently charges its member agencies, including MWDOC, a Tier 1 water rate and a Tier 2 water rate. The Tier 1 water is less expensive and reflects agreements between Metropolitan and its members on the long-term volume of water purchased. Metropolitan's more expensive Tier 2 water rate applies when the volume of water purchased by a member exceeds the agreed upon Tier 1 amounts.

Each MWDOC retail agency could have been assigned a specific Tier 1 allocation. However, rather than assess its retail agencies separate charges for Tier 1 and Tier 2 purchases, MWDOC has used a single "melded" wholesale rate to cover potential Tier 2 costs should they be incurred, so that all agencies pay the same charge per acre-foot (AF). This melded wholesale rate consists of Metropolitan's charges – which include

<sup>9</sup> Recap of the Tier 2 Contingency and Capacity Charge Funds from January 2003 to December 2008 (source MWDOC)



but are not limited to its Tier 1 water rate - and an \$18.00/AF surcharge (Melded Water Rate Surcharge). MWDOC invests this \$18.00 surcharge in the restricted Water Purchase Reserve Fund and uses the fund to purchase Tier 2 water when necessary. This strategy allows MWDOC to capitalize on the combined Tier 1 water allocation of its retail agencies, minimizing Tier 2 water purchases, and therefore reducing the overall cost paid for imported water in Orange County.

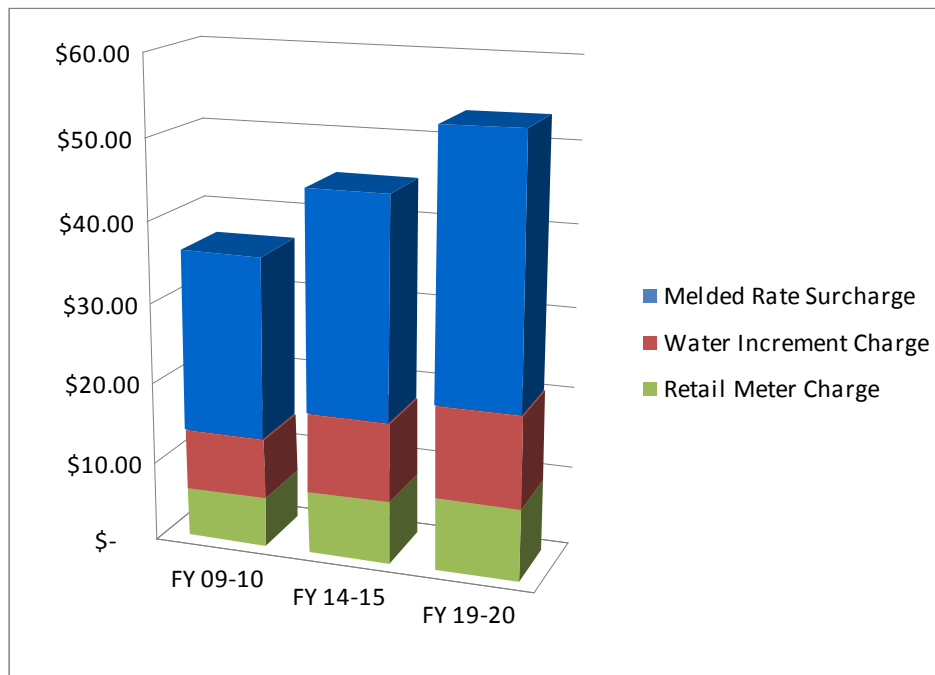
Consistent with the assumptions in *Attachment C*, the 10-year financial analysis for MWDOC Baseline, MWDOC CWA and MWDOC Cafeteria CWA all incorporate the Melded Water Rate Surcharge. The 10-year financial analysis for the Six Agency South CWA, the Nine Agency South CWA and remaining MWDOC removes the Melded Water Rate Surcharge and instead applies Tier 1 and Tier 2 water rates based on each retail agency's projected use.

#### Water Increment and Retail Meter Charges

MWDOC's Water Increment and Retail Meter Charges fund its general fund and provide its operating reserve. The Water Increment Charge, which is currently \$6.50, is applied to each AF of water purchased by a retail agency. The Retail Meter Charge, which is currently \$5.50, is applied annually to each meter in the retail agency's service area. MWDOC's revenue history indicates that approximately seventy percent (70%) of general fund expenditures are recovered through Retail Meter Charges and thirty percent (30%) are recovered from Water Increment Charges.

MWDOC Baseline assumes that MWDOC continues to collect Water Increment and Retail Meter Charges from each retail agency to cover its general fund costs, including operational reserves. Consistent with the assumptions in *Attachment C*, future estimates for the Water Increment and Retail Meter Charges were brought forward from MWDOC's Fiscal Master Plan through Fiscal Year 2013-14 (the end of the Fiscal Master Plan projections). After Fiscal Year 2013-14, the Water Increment and Retail Meter Charges are estimated to result in operational reserves of approximately \$5,000,000 per year consistent with the commitments included in MWDOC's 12-20-06 Staff Report and Policy Statement. Figure 2 illustrates the rate and charge trends for MWDOC Baseline.

**Figure 2: Rate and Charge Trends – Option 1 MWDOC Baseline**



For MWDOC Baseline, the model calculates how much each retail agency's Water Increment Charge and Retail Meter Charge contributes, on a percentage basis, to MWDOC's general fund. This calculation is illustrated in Table 4 using El Toro Water District's Fiscal Year 2009-10 data as an example.

**Table 4: Example Revenue Contribution Calculation**

Agency	Revenue Contribution	Revenue Contribution Percentage
El Toro Water District		
Increment Charge (AF)	\$ 77,305	1.32%
Retail Meter Charges (EA)	\$ 59,879	1.02%

The retail agency revenue contribution percentages calculated for MWDOC Baseline are used to allocate MWDOC CWA's projected general fund costs. For example, returning to Table 4, 1.32% of the MWDOC CWA's Fiscal Year 2009-10 costs are recovered

through El Toro Water District’s projected Water Increment Charges, and 1.02% are recovered through that District’s Retail Meter Charges.

For the MWDOC Subscription CWA, a Water Increment Charge is modeled that recovers the cost of “essential” services, including a reserve, from each retail agency based on their projected water consumption. A Retail Meter Charge is modeled that recovers the cost of “subscription” services, including a reserve allowance. (See Section 5e for a definition and discussion of essential and subscription services as they pertain to the MWDOC Subscription CWA option).

For the Six Agency South CWA and the Nine Agency South CWA, a Water Increment Charge is modeled that recovers projected general fund costs from the retail agencies in the new South CWA based on their water consumption. For the remaining MWDOC, a Retail Meter Charge is modeled that recovers 70% of the projected general fund costs, and a Water Increment Charge is modeled that recovers the remaining 30% of the general fund costs, consistent with MWDOC’s recent revenue history.

## 5c Option 1 – MWDOC Baseline

This first governance option is the baseline against which other options will be compared.

### Essential Services

Table 5 outlines the services provided by MWDOC Baseline. For this option, all services provided are considered essential services. The service descriptions generally follow the program categories and program numbers used in MWDOC’s Fiscal Year 2008-2009 budget.

**Table 5: MWDOC Baseline Services <sup>10</sup>**

Program & Number	Description
Wholesale Water Purchases	MWDOC is the wholesale water importer for Orange County. It does not operate infrastructure or have jurisdiction over local supplies. MWDOC performs planning and coordination activities that serve to improve the overall reliability of the regional water portfolio while minimizing costs. MWDOC balances Orange County's Tier 1 allocations from Metropolitan to minimize Tier 2 purchases and costs.
Administration & Personnel (1010, 1020, 1050)	This service category includes a portion of the General Manager's and Assistant General Managers' salaries together with Board compensation, Metropolitan director compensation, travel and legal costs and employee training.
Planning & Resource Development (2010, 2050)	MWDOC coordinates with OCWD to estimate water demands and supplies, minimize Tier 2 water purchases and undertake long-term planning efforts (such as UWMP preparation, planning of reliability projects and assistance to agencies seeking grants from Metropolitan or other sources). MWDOC also uses this budget category to account for engineering consulting services.
Met Issues & Special Projects (Met Representation) (2500)	MWDOC has four members on the Metropolitan Board of Directors to represent Orange County at Metropolitan. MWDOC staff provides support to the Metropolitan representatives. This currently includes just over 2 Full Time Equivalent staff in order to assure Orange County is fully represented at Metropolitan negotiations and policy decisions.
Government Affairs (3010)	MWDOC provides state and federal legislative advocacy, legislative tracking, outreach, briefings, and water policy dinners.
Water Use Efficiency (3040)	MWDOC provides a water use efficiency program including California Urban Water Conservation Council (CUWCC) dues, landscape efficiency programs, installation verification programs, and weather station maintenance. The program satisfies most CUWCC Best Management Practices and MWDOC's retailers <b>can use</b> the wholesale program to demonstrate their BMP compliance. BMP compliance is required to secure state grant funding.
Water Awareness (3510)	MWDOC works to increase overall water awareness. This includes the "OC Water Hero" program together with various merchandise and the regional consumer confidence report required by California Department of Public Health. The program helps satisfy CUWCC BMPs and MWDOC's retailers <b>can use</b> the wholesale program to demonstrate their BMP compliance.
School Programs (3520)	MWDOC provides two school programs which include a curriculum program (Water Quality 101), and an assembly program (aimed reaching 88,000 students). This service category accounts for the MWDOC staff, Discovery Science Center costs and supply and printing costs. The program satisfies a CUWCC BMP and MWDOC's retailers <b>can use</b> the wholesale program to demonstrate their BMP compliance. Anaheim, Fullerton and Santa Ana contract for service from this program and a student count basis.
Finance & IT (4010, 4050)	This service category includes MWDOC's information technology and finance staff.

<sup>10</sup> Summarized from Exhibit B Expenditures by Program General Fund, MWDOC Annual Budget for Fiscal Year 2008-2009 (June 18, 2008)

Program & Number	Description
Overhead (6500)	This service category includes District administration, rent, site maintenance, equipment, records management and health care benefits for retirees and vacation, sick leave and holiday costs for employees.
WEROC (9600)	The Water Emergency Response Organization of Orange County (WEROC) coordinates and supports emergency response on behalf of all Orange County water and wastewater agencies. WEROC supports planning and preparedness activities and maintains two Emergency Operations Centers (EOCs) in a state of readiness. MWDOC shares costs on this program with other beneficiaries based on population served.

### Cost of Service and Reserves

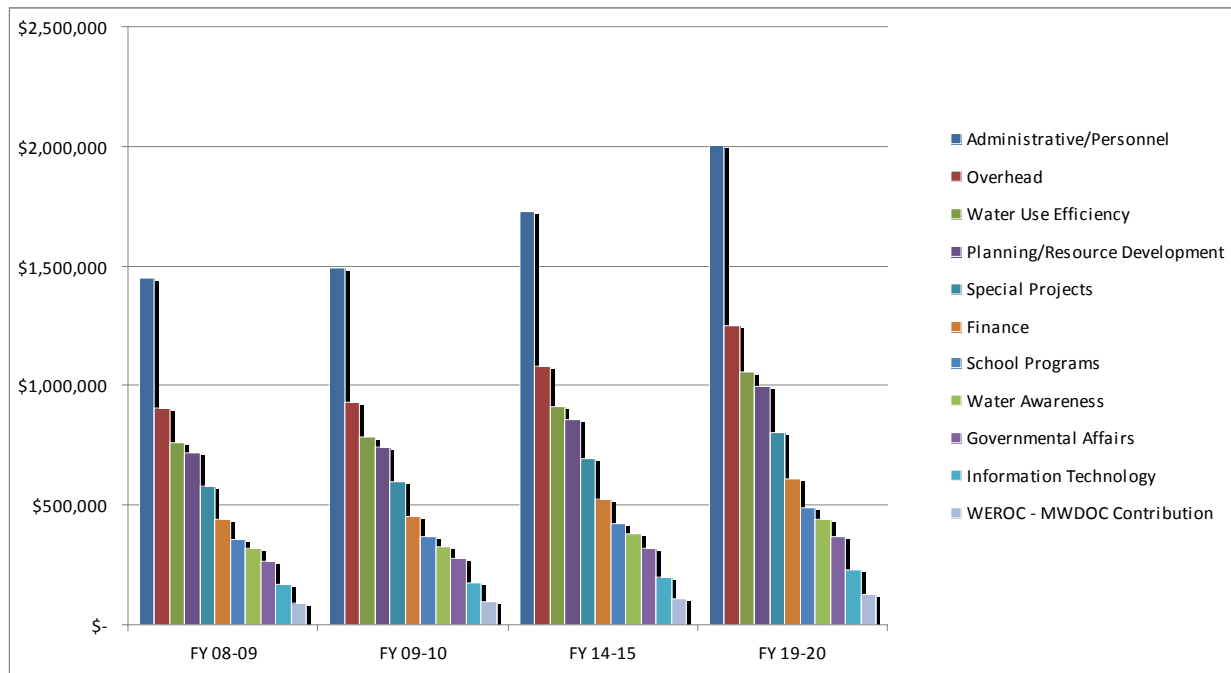
The foundation for the cost of service analysis is the 10-year budget developed for MWDOC Baseline (*Attachment E*). Table 6 provides a summary of the MWDOC Baseline budget by presenting estimates for the current Fiscal Year and for Fiscal Years 2009-10, 2014-15 and 2019-20. Figure 3 graphically illustrates the relationship of the various budget programs to one another.

**Table 6: Projected General Fund Budgets – Option 1 MWDOC Baseline<sup>11</sup>**

	FY 08-09	FY 09-10	FY 14-15	FY 19-20
Administrative/Personnel	\$ 1,446,528	\$ 1,489,924	\$ 1,727,230	\$ 2,002,333
Planning/Resource Development	\$ 720,514	\$ 742,129	\$ 860,331	\$ 997,360
Special Projects	\$ 582,211	\$ 599,677	\$ 695,190	\$ 805,916
Governmental Affairs	\$ 266,939	\$ 274,947	\$ 318,739	\$ 369,506
Water Use Efficiency	\$ 762,275	\$ 785,143	\$ 910,196	\$ 1,055,167
Water Awareness	\$ 317,852	\$ 327,388	\$ 379,532	\$ 439,982
School Programs	\$ 355,527	\$ 366,193	\$ 424,518	\$ 492,133
Finance	\$ 440,098	\$ 453,301	\$ 525,500	\$ 609,199
Information Technology	\$ 167,100	\$ 172,113	\$ 199,526	\$ 231,305
Overhead	\$ 904,458	\$ 931,592	\$ 1,079,970	\$ 1,251,981
WEROC - MWDOC Contribution	\$ 91,228	\$ 93,965	\$ 108,931	\$ 126,281
<b>Subtotal General Fund</b>	<b>\$ 6,054,730</b>	<b>\$ 6,236,372</b>	<b>\$ 7,229,664</b>	<b>\$ 8,381,162</b>
<b>Budgeted Reserves</b>	<b>\$ 5,069,000</b>	<b>\$ 4,739,000</b>	<b>\$ 5,002,197</b>	<b>\$ 5,023,890</b>

<sup>11</sup> The “Subtotal General Fund” row may differ slightly from the sum of individual line items due to rounding within the model.

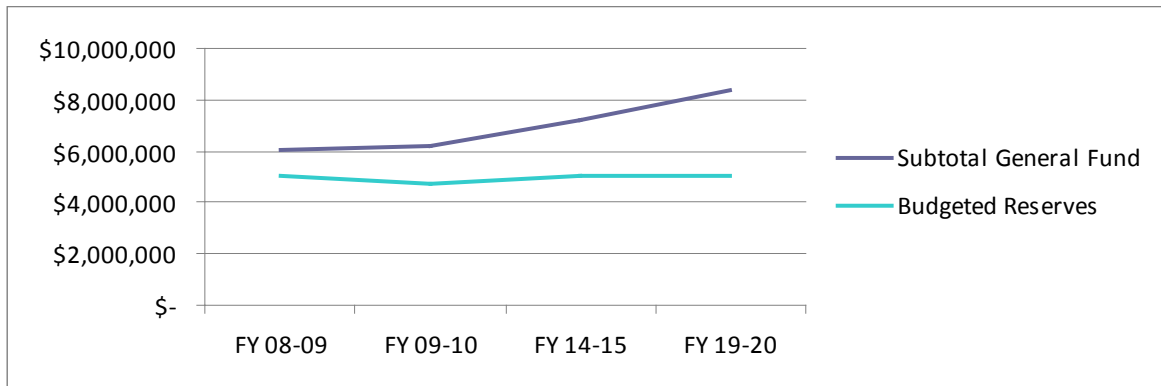
**Figure 3: Program Budget Relationships – Option 1 MWDOC Baseline**



The MWDOC Baseline budget contains an operational reserve which can be used to cover unanticipated costs, such as variations in operating costs and/or revenues. MWDOC Baseline’s budgeted operating reserve for Fiscal Year 2008-09 is \$5,069,000.<sup>12</sup> Within the staff report that covered its December 2006 Policy Resolution, MWDOC included a stated goal for holding the balance in its operational reserves to an amount between \$5,000,000 and \$6,000,000. As illustrated in Table 6, the fiscal model includes a cost recovery structure that results in operational reserves of approximately \$5,000,000. This is graphically depicted on Figure 4.

<sup>12</sup> Exhibit C, 2008-2009 Fiscal Master Plan Projections, MWDOC Annual Budget for Fiscal Year 2008-2009 (June 18, 2008)

**Figure 4: General Fund and Operational Reserve Trends – Option 1 MWDOC Baseline**



As is discussed in Section 5b, MWDOC maintains a second reserve account, the Water Purchase Reserve Fund. These reserve funds are not included in the 10-year budget because these revenues are not used for general fund purposes; use of the Water Purchase Reserve Fund is restricted to the purchase of Tier 2 water from Metropolitan.

#### Revenue Recovery and Cost Impact to Rate Payers

The cost recovery strategies described in Section 5b for MWDOC Baseline were used in the 10-year budget projections in order to estimate potential impacts to each retail agency's rate payers. The model accounts for the Melded Water Rate Surcharge, the Water Increment Charge and the Retail Meter Charge to determine each retail agency's share of costs. Each retail agency's cost share was then divided by the number of retail meters in the service area in order to develop an estimated cost per ratepayer for comparative purposes. Table 7 illustrates the results of this modeling for Fiscal Years 2009-10, 2014-15 and 2019-20.

The model results reveal several key findings:

- Historically, MWDOC's general fund budget has averaged between 4.5% and 5.5% of its total budget; the majority of MWDOC's costs, and the costs passed on to ratepayers through the retail agencies, are associated with the purchase of wholesale water.
- The model results also indicate that over the past several years MWDOC's Water Increment Charge and Retail Meter Charge have not fully funded the general fund budget. MWDOC has relied on a combination of interest earnings and drawing on reserve funds to supplement the Water Increment Charge and Retail Meter Charge.
- MWDOC's Fiscal Master Plan projects increases to the Water Increment Charge and Retail Meter Charge beginning in Fiscal Year 2009-10. When these

rate increases are taken into account the model predicts that MWDOC will begin to recover more of its general fund costs and make contributions to its general fund reserves, beginning in FY 2012-13.

- The impact of MWDOC's overhead on individual ratepayers varies throughout MWDOC's service area. This is due to the fact that some retailers have alternative water supply sources (groundwater, recycled water etc.) while others use imported water to meet a majority of their demands. The impact of MWDOC's overhead costs varies from \$8.00 to over \$50.00 per ratepayer annually (\$0.66 to over \$4.00 monthly).

*Attachment E*, in the Appendix, presents the complete, annual 10-year model results for MWDOC Baseline.



**Table 7: Cost to Rate Payer – Baseline MWDOC**

	FY 09-10		FY 14-15		FY 19-20	
	Baseline	Annual Cost to Payer	Baseline	Annual Cost to Payer	Baseline	Annual Cost to Payer
<b>El Toro WD</b>						
Totals	\$ 393,330	\$ 38.22	\$ 490,901	\$ 46.57	\$ 577,377	\$ 53.51
<b>Irvine Ranch WD*</b>						
Totals	\$ 1,710,731	\$ 14.84	\$ 2,259,849	\$ 19.45	\$ 2,791,350	\$ 22.76
<b>Moulton Niguel WD</b>						
Totals	\$ 1,489,931	\$ 21.16	\$ 1,838,012	\$ 26.11	\$ 2,121,728	\$ 30.14
<b>Santa Margarita WD</b>						
Totals	\$ 1,289,705	\$ 22.15	\$ 1,688,041	\$ 26.55	\$ 2,090,215	\$ 30.53
<b>South Coast Water District</b>						
Totals	\$ 295,630	\$ 23.10	\$ 343,905	\$ 26.66	\$ 372,720	\$ 28.67
<b>Trabuco Canyon WD</b>						
Totals	\$ 165,988	\$ 34.65	\$ 215,701	\$ 42.87	\$ 261,116	\$ 50.02
<b>Laguna Beach CWD</b>						
Totals	\$ 192,842	\$ 22.45	\$ 238,815	\$ 27.56	\$ 275,799	\$ 31.67
<b>San Clemente</b>						
Totals	\$ 412,578	\$ 21.60	\$ 515,629	\$ 26.44	\$ 591,905	\$ 29.88
<b>San Juan Capistrano</b>						
Totals	\$ 216,684	\$ 18.79	\$ 268,024	\$ 22.94	\$ 307,687	\$ 26.09
<b>Brea</b>						
Totals	\$ 258,060	\$ 20.47	\$ 338,233	\$ 25.82	\$ 408,387	\$ 30.30
<b>Buena Park</b>						
Totals	\$ 262,695	\$ 12.86	\$ 378,737	\$ 18.07	\$ 483,588	\$ 22.60
<b>East Orange County WD*</b>						
Totals	\$ 95,838	\$ 80.00	\$ 122,106	\$ 101.42	\$ 143,772	\$ 118.82
<b>Fountain Valley</b>						
Totals	\$ 189,608	\$ 10.81	\$ 258,572	\$ 14.40	\$ 298,069	\$ 16.29
<b>Garden Grove</b>						
Totals	\$ 370,229	\$ 10.60	\$ 524,062	\$ 14.69	\$ 611,716	\$ 16.88
<b>Golden State Water Company</b>						
Totals	\$ 560,801	\$ 10.39	\$ 868,130	\$ 12.66	\$ 1,137,289	\$ 13.06
<b>Huntington Beach</b>						
Totals	\$ 587,584	\$ 10.79	\$ 798,261	\$ 14.40	\$ 917,191	\$ 16.32
<b>La Habra</b>						
Totals	\$ 148,547	\$ 11.26	\$ 192,277	\$ 14.37	\$ 221,624	\$ 16.37
<b>La Palma</b>						
Totals	\$ 46,253	\$ 10.47	\$ 62,625	\$ 13.95	\$ 72,070	\$ 15.87
<b>Mesa Consolidated</b>						
Totals	\$ 167,517	\$ 6.97	\$ 245,178	\$ 10.00	\$ 275,139	\$ 11.04
<b>Newport Beach</b>						
Totals	\$ 336,301	\$ 10.58	\$ 472,638	\$ 14.61	\$ 541,424	\$ 16.52
<b>OCWD</b>						
Totals	\$ 120,000		\$ 147,556		\$ 173,467	
<b>Orange</b>						
Totals	\$ 453,861	\$ 12.45	\$ 639,731	\$ 17.28	\$ 740,404	\$ 19.75
<b>Seal Beach</b>						
Totals	\$ 67,255	\$ 12.26	\$ 93,340	\$ 16.78	\$ 109,432	\$ 19.44
<b>Serrano WD</b>						
Totals	\$ 14,310	\$ 6.20	\$ 17,402	\$ 7.54	\$ 18,467	\$ 8.00
<b>Westminster</b>						
Totals	\$ 231,903	\$ 11.26	\$ 316,753	\$ 15.10	\$ 367,195	\$ 17.25
<b>Yorba Linda WD</b>						
Totals	\$ 489,990	\$ 20.04	\$ 647,209	\$ 25.68	\$ 765,177	\$ 28.52

\* EOCWD's total water purchases include water it wholesales to su-member agencies. EOCWD's retail meter count includes only its retail service area. Therefore the annual cost to rate payer over states cost because it includes the wholesale purchase

### Comparison to Other Metropolitan Member Agencies

In order to understand MWDOC's practices, it is helpful to compare them to other Metropolitan member agencies. Table 8 below, provides a brief comparison of governance structures and wholesale water programs for Metropolitan member agencies. MWDOC is one of 12 special districts that are members of Metropolitan (the remaining Metropolitan member agencies are full-service cities with a very different service model). Most other special districts that are Metropolitan members own and operate varying types and levels of infrastructure. There is one other agency (Upper San Gabriel Valley MWD) which, like MWDOC, does not own or operate infrastructure. While most other special districts that are Metropolitan members charge a Tier 1 and Tier 2 water rate, San Diego County Water Authority and Eastern MWD use a Melded Water Rate<sup>13</sup>.

**Table 8: Metropolitan Water District Member Agency Comparison**

Agency	Governance Structure	Services	Facilities	Wholesale Water Rates (includes Metropolitan Charges)	
				2008	2009
MWDOC	MWD representing: 28 agencies 2,300,000 people	Wholesale Water Supply	None	\$522	\$597
Calleguas MWD	MWD representing: 21 agencies 592,000 people	Wholesale Water Supply; Hydroelectric Power Generation	Reservoirs, pipelines and pump stations	T1 \$657 T2 \$755	T1 \$769 T2 \$885
Central Basin MWD	MWD representing: 41 agencies 2,000,000 people	Wholesale Water Supply; Recycled Water Distribution	Water Quality Protection Project; recycled water system	T1 \$564 T2 \$662	T1 \$635 T2 \$751
Eastern MWD	MWD representing: 9 agencies 660,000 people	Wholesale & Retail Water Supply; Wastewater Collection & Treatment; Recycled Water Distribution	4 Wastewater Treatment Plants; 2 Water Treatment Plants, potable water distribution system, sewer collection system, storage tanks and pumping stations	\$702	\$786

<sup>13</sup>SDCWA charges a melded rate to all retailers. In cases where SCDWA exceeds its Tier 1 allocation, it collects Tier 2 charges from the agencies that caused it to exceed its allocation.

Agency	Governance Structure	Services	Facilities	Wholesale Water Rates (includes Metropolitan Charges)	
				2008	2009
Foothill MWD	MWD representing: 7 agencies 88,000 people	Wholesale Water Supply	Pipelines, storage tanks and pump stations.	T1 \$700 to \$794 T2 \$798 to \$892	T1 \$848 to \$903 T2 \$964 to \$1046
Inland Empire Utilities Agency	MWD representing: 7 agencies 800,000 people	Wholesale Water Supply (untreated); Wastewater Treatment; Recycled Water Distribution; Power Generation	Water recycling facilities; biosolids treatment facilities; Chino Desalter	T1 \$361 T2 \$459	T1 \$422 T2 \$538
Las Virgenes MWD	MWD representing: 0 agencies 65,000 people	Water Supply; Wastewater Collection & Treatment; Recycled Water Distribution; Power Generation	Reservoir; water treatment plant; water recycling plant; recycled water distribution system	Not Applicable. Agency provides retail water service	
San Diego County Water Authority	CWA representing: 25 agencies 3,070,000 people	Wholesale Water Supply, Power Supply	Pipelines, pump stations hydroelectric plant	\$614	\$695
Three Valleys MWD	MWD representing: 11 agencies 600,000 people	Wholesale Water Supply; Hydroelectric Power Generation	Water & Hydroelectric Facilities, storage tanks, distribution pipeline	T1 \$528 T2 \$626	T1 \$600 T2 \$716
Upper San Gabriel Valley MWD	MWD representing: 8 agencies 900,000 people	Wholesale Water Supply	None	T1 \$549 T2 \$650	Not Yet Available
West Basin MWD	MWD representing: 12 agencies 900,000 people	Wholesale Water Supply; Recycled Water Treatment and Distribution	Groundwater wells, desalination facilities, recycled water treatment and distribution system	T1 \$611 T2 \$709	T1 \$689 T2 \$805
Western MWD	MWD representing: 8 agencies 853,000 people	Wholesale & Retail Water Supply; Wastewater Collection & Treatment	Groundwater wells, potable water pipeline and storage tanks; Wastewater collection, treatment and disposal system	T1 \$508 T2 \$606	T1 \$579 T2 \$695

## 5d Option 2a – MWDOC CWA

This is one of two options that includes dissolving MWDOC and replacing it with a CWA formed under Water Code Appendix 45.

### Essential Services

MWDOC CWA includes the same essential services described for Option 1 – MWDOC Baseline.

### Cost of Service and Reserves

The foundation for the cost of service analysis is the 10-year budget developed for MWDOC CWA. This budget is very similar to the budget for MWDOC Baseline, except it reduces operational reserves to 15% of the general fund budget over the 10-year projection period and takes into account the different structure of the Board directors and the impacts that could have on administrative and personnel costs.

MWDOC currently supports seven elected directors at an estimated cost of \$813,139.<sup>14</sup> Under a CWA model, directors would not be elected but rather would be appointed from the member agencies, which will result in a larger board of directors. However because each director has some administrative and financial support from the agency he or she represents, the cost of supporting an individual director may be less. In order to estimate the costs for board support for the MWDOC CWA option, budget data from the San Diego County Water Authority (SDCWA) was consulted. Based on SDCWA's 2008-09 Fiscal Year budget, the estimated cost of supporting a director is \$18,000 annually. MWDOC's current budget would allow for the support of up to 45 directors at SDCWA's rate (i.e.  $\$813,139 / \$18,000 = 45$ ).

CWA member agencies are entitled to at least one board member, meaning that the MWDOC CWA will have at least 28 board members. In addition, a member agency may designate one additional representative for each full five-percent of assessed value it has within the CWA's territory.<sup>15</sup> A preliminary review of assessed value data, which is discussed in more detail in Section 6, suggests that a MWDOC CWA would have at least 36 board members. A Board of this size could be supported within MWDOC's current budget allowance. Therefore, for the purposes of this preliminary

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<sup>14</sup> Annual Budget for Fiscal Year 2008-2009, Adopted June 18, 2008, Exhibit B.

<sup>15</sup> CWA Act, Section 45-6 (b), (c) and (d)

evaluation, it is assumed that the projected general fund budgets for MWDOC Baseline and MWDOC CWA will be the same except for the reduced reserve levels.

Finally, the initial formation of a CWA could require an election, however the CWA Act specifically states that the “cost thereof shall be a proper charge against the county.”<sup>16</sup> For the MWDOC CWA option, this election, if required, would include all territory within MWDOC’s current service area. The Orange County Registrar of Voters has provided estimates of \$3,000,000 to \$3,600,000 for a CWA formation election consolidated with a general election and \$5,600,000 to \$6,000,000 for a special election. Additional analysis is needed to determine detailed election requirements and if the election costs are truly a “proper charge against the county” or if they would need to be funded as part of the reorganization. Because of this, these costs are currently not included in the budget used for the fiscal model.

Table 9 provides a summary of the MWDOC CWA budget by presenting estimates for the current Fiscal Year and for Fiscal Years 2009-10, 2014-15 and 2019-20. Figure 5 graphically illustrates the relationship of the various budget programs to one another.

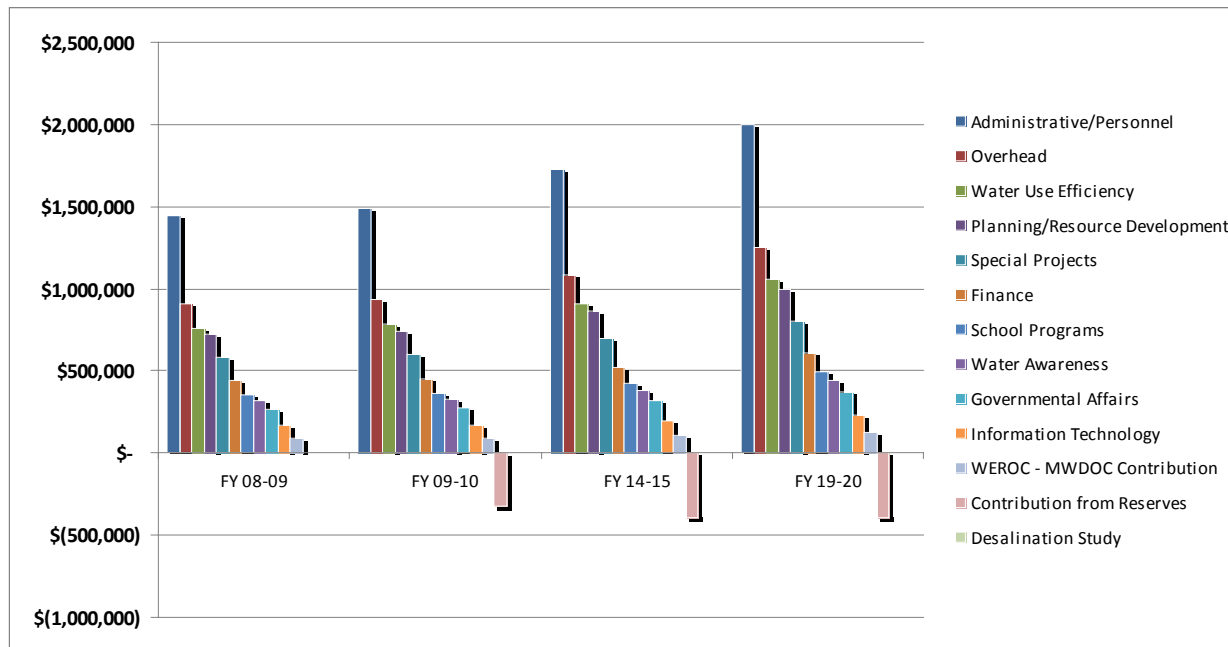
**Table 9: Projected General Fund Budgets – Option 2a MWDOC CWA<sup>17</sup>**

	<b>FY 08-09</b>	<b>FY 09-10</b>	<b>FY 14-15</b>	<b>FY 19-20</b>
Administrative/Personnel	\$ 1,446,528	\$ 1,489,924	\$ 1,727,230	\$ 2,002,333
Planning/Resource Development	\$ 720,514	\$ 742,129	\$ 860,331	\$ 997,360
Special Projects	\$ 582,211	\$ 599,677	\$ 695,190	\$ 805,916
Governmental Affairs	\$ 266,939	\$ 274,947	\$ 318,739	\$ 369,506
Water Use Efficiency	\$ 762,275	\$ 785,143	\$ 910,196	\$ 1,055,167
Water Awareness	\$ 317,852	\$ 327,388	\$ 379,532	\$ 439,982
School Programs	\$ 355,527	\$ 366,193	\$ 424,518	\$ 492,133
Finance	\$ 440,098	\$ 453,301	\$ 525,500	\$ 609,199
Information Technology	\$ 167,100	\$ 172,113	\$ 199,526	\$ 231,305
Overhead	\$ 904,458	\$ 931,592	\$ 1,079,970	\$ 1,251,981
Desalination Study	\$ -	\$ -	\$ -	\$ -
WEROC - MWDOC Contribution	\$ 91,228	\$ 93,965	\$ 108,931	\$ 126,281
Contribution from Reserves	\$ -	\$ (322,000)	\$ (390,933)	\$ (390,933)
<b>Subtotal General Fund</b>	<b>\$ 6,054,730</b>	<b>\$ 5,914,372</b>	<b>\$ 6,838,731</b>	<b>\$ 7,990,229</b>
<b>Budgeted Reserves</b>	<b>\$ 5,069,000</b>	<b>\$ 4,739,000</b>	<b>\$ 2,784,335</b>	<b>\$ 1,220,600</b>

<sup>16</sup> Section 45-4, CWA Act.

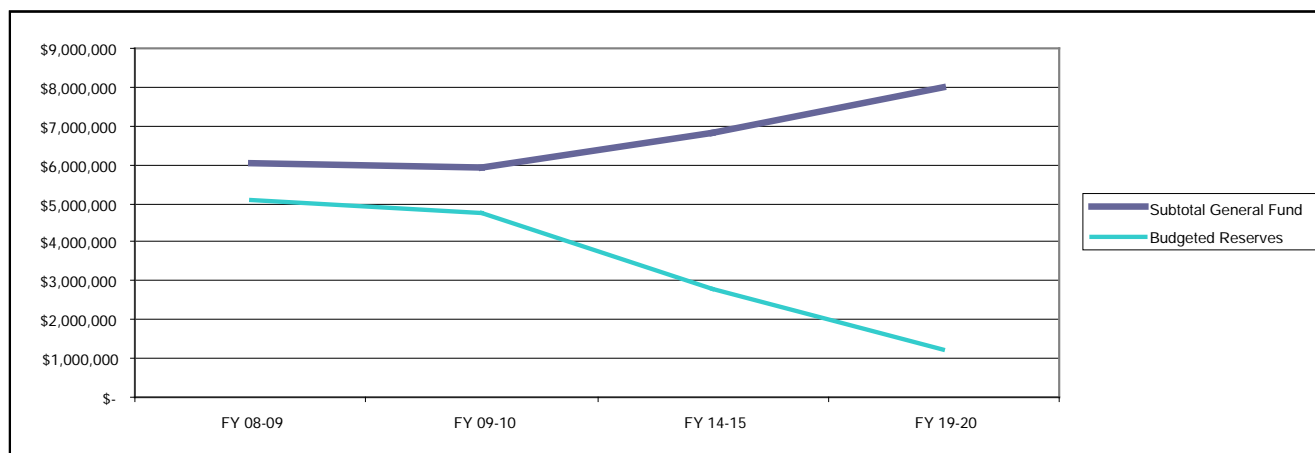
<sup>17</sup> The “Subtotal General Fund” row may differ slightly from the sum of individual line items due to rounding within the model.

**Figure 5: Program Budget Relationships – Option 2a MWDOC CWA**



The MWDOC CWA budget maintains an operational reserve. However this reserve is reduced to 15% of the general fund budget over the 10-year projection period. In contrast to Baseline MWDOC, which has a projected operational reserve balance of approximately \$5,000,000 in Fiscal Year 2019-20, MWDOC CWA has a projected \$1,220,600 operational reserve balance in Fiscal Year 2019-20. Figure 6 graphically represents the relationship between the MWDOC CWA general fund budget and its' operating reserve.

**Figure 6: General Fund and Operational Reserve Trends – Option 2a MWDOC CWA**



While not included in the general fund budget, because it is a restricted fund, the MWDOC CWA does maintain a Water Purchase Reserve Fund, which is funded from its Melded Water Rate Surcharge, in order to purchase Tier 2 water when necessary. This is identical to MWDOC Baseline.

#### Revenue Recovery and Cost Impacts to Rate Payers

The MWDOC CWA continues to use three rate-recovery tools: a Melded Water Rate Surcharge, a Water Increment Charge and a Retail Meter Charge.

The amount of the Melded Water Rate Surcharge is identical to that used for MWDOC Baseline.

As in the MWDOC Baseline model, Water Increment Charges and Retail Meter Charges are used to recover general fund costs. The model projects that each retail agency will pay a slightly lower combination of Water Increment and Retail Meter Charges because the operational reserve requirement is reduced to 15%.

*Attachment F* presents the complete, 10-year model results for MWDOC CWA. Table 10 compares the projected cost to each retail agency of the combined Melded Water Rate Surcharge, Water Increment and Retail Meter Charges (revenue contribution) for the MWDOC CWA to the MWDOC Baseline for Fiscal Years 2009-10, 2014-15 and 2019-20. Each retail agency's MWDOC CWA revenue contribution was divided by the number of retail meters within its' service area in order to develop a cost per rate payer to compare against the MWDOC Baseline "Annual Cost to Rate Payer" shown on Table 7 in Section 5c and again in Table 10. The resultant increase or decrease from the MWDOC Baseline rate is then shown on Table 10 in the column "Annual Cost to Ratepayer."

Fiscally, MWDOC CWA is very similar to the MWDOC Baseline; both have very similar budget assumptions and identical revenue recovery strategies. Small cost savings accrue to ratepayers over time because of reduced operational reserve levels. MWDOC CWA is therefore considered a fiscally feasible option.



**Table 10: Revenue Contribution Comparison – MWDOC CWA to MWDOC Baseline**

	FY 09-10			FY 14-15			FY 19-20		
	Baseline	Base CWA	Annual Impact to Rate Payer	Baseline	Base CWA	Annual Impact to Rate Payer	Baseline	Base CWA	Annual Impact to Rate Payer
El Toro WD									
Totals	\$ 393,330	\$ 385,782	\$ (0.73)	\$ 490,901	\$ 480,850	\$ (0.95)	\$ 577,377	\$ 568,003	\$ (0.87)
Irvine Ranch WD*									
Totals	\$ 1,710,731	\$ 1,660,963	\$ (0.43)	\$ 2,259,849	\$ 2,193,125	\$ (0.57)	\$ 2,791,350	\$ 2,725,860	\$ (0.53)
Moulton Niguel WD									
Totals	\$ 1,489,931	\$ 1,453,795	\$ (0.51)	\$ 1,838,012	\$ 1,791,027	\$ (0.67)	\$ 2,121,728	\$ 2,078,481	\$ (0.61)
Santa Margarita WD									
Totals	\$ 1,289,705	\$ 1,259,078	\$ (0.53)	\$ 1,688,041	\$ 1,645,220	\$ (0.67)	\$ 2,090,215	\$ 2,047,865	\$ (0.62)
South Coast Water District									
Totals	\$ 295,630	\$ 288,741	\$ (0.54)	\$ 343,905	\$ 335,197	\$ (0.68)	\$ 372,720	\$ 364,942	\$ (0.60)
Trabuco Canyon WD									
Totals	\$ 165,988	\$ 162,695	\$ (0.69)	\$ 215,701	\$ 211,164	\$ (0.90)	\$ 261,116	\$ 256,780	\$ (0.83)
Laguna Beach CWD									
Totals	\$ 192,842	\$ 188,290	\$ (0.53)	\$ 238,815	\$ 232,856	\$ (0.69)	\$ 275,799	\$ 270,304	\$ (0.63)
San Clemente									
Totals	\$ 412,578	\$ 402,667	\$ (0.52)	\$ 515,629	\$ 502,524	\$ (0.67)	\$ 591,905	\$ 579,792	\$ (0.61)
San Juan Capistrano									
Totals	\$ 216,684	\$ 211,118	\$ (0.48)	\$ 268,024	\$ 260,745	\$ (0.62)	\$ 307,687	\$ 300,963	\$ (0.57)
Brea									
Totals	\$ 258,060	\$ 251,702	\$ (0.50)	\$ 338,233	\$ 329,543	\$ (0.66)	\$ 408,387	\$ 400,084	\$ (0.62)
Buena Park									
Totals	\$ 262,695	\$ 254,401	\$ (0.41)	\$ 378,737	\$ 367,103	\$ (0.55)	\$ 483,588	\$ 472,200	\$ (0.53)
East Orange County WD*									
Totals	\$ 95,838	\$ 94,313	\$ (1.27)	\$ 122,106	\$ 120,034	\$ (1.72)	\$ 143,772	\$ 141,860	\$ (1.58)
Fountain Valley									
Totals	\$ 189,608	\$ 182,951	\$ (0.38)	\$ 258,572	\$ 249,528	\$ (0.50)	\$ 298,069	\$ 289,588	\$ (0.46)
Garden Grove									
Totals	\$ 370,229	\$ 357,064	\$ (0.38)	\$ 524,062	\$ 505,949	\$ (0.51)	\$ 611,716	\$ 594,688	\$ (0.47)
Golden State Water Company									
Totals	\$ 560,801	\$ 540,605	\$ (0.37)	\$ 868,130	\$ 835,269	\$ (0.48)	\$ 1,137,289	\$ 1,099,993	\$ (0.43)
Huntington Beach									
Totals	\$ 587,584	\$ 566,920	\$ (0.38)	\$ 798,261	\$ 770,346	\$ (0.50)	\$ 917,191	\$ 891,127	\$ (0.46)
La Habra									
Totals	\$ 148,547	\$ 143,462	\$ (0.39)	\$ 192,277	\$ 185,543	\$ (0.50)	\$ 221,624	\$ 215,338	\$ (0.46)
La Palma									
Totals	\$ 46,253	\$ 44,596	\$ (0.38)	\$ 62,625	\$ 60,392	\$ (0.50)	\$ 72,070	\$ 69,986	\$ (0.46)
Mesa Consolidated									
Totals	\$ 167,517	\$ 159,583	\$ (0.33)	\$ 245,178	\$ 234,337	\$ (0.44)	\$ 275,139	\$ 265,014	\$ (0.41)
Newport Beach									
Totals	\$ 336,301	\$ 324,331	\$ (0.38)	\$ 472,638	\$ 456,249	\$ (0.51)	\$ 541,424	\$ 526,149	\$ (0.47)
OCWD									
Totals	\$ 120,000	\$ 118,451		\$ 147,556	\$ 145,492		\$ 173,467	\$ 171,578	
Orange									
Totals	\$ 453,861	\$ 439,249	\$ (0.40)	\$ 639,731	\$ 619,591	\$ (0.54)	\$ 740,404	\$ 721,617	\$ (0.50)
Seal Beach									
Totals	\$ 67,255	\$ 65,070	\$ (0.40)	\$ 93,340	\$ 90,353	\$ (0.54)	\$ 109,432	\$ 106,630	\$ (0.50)
Serrano WD									
Totals	\$ 14,310	\$ 18,904	\$ 1.99	\$ 17,402	\$ 16,461	\$ (0.41)	\$ 18,467	\$ 17,606	\$ (0.37)
Westminster									
Totals	\$ 231,903	\$ 223,963	\$ (0.39)	\$ 316,753	\$ 305,981	\$ (0.51)	\$ 367,195	\$ 357,108	\$ (0.47)
Yorba Linda WD									
Totals	\$ 489,990	\$ 477,795	\$ (0.50)	\$ 647,209	\$ 630,541	\$ (0.66)	\$ 765,177	\$ 749,169	\$ (0.60)

\* Impact to rate payers overstated because of wholesale purchases

## 5e Option 2b – MWDOC Subscription CWA

This is the second of two options that assumes that MWDOC will be dissolved and replaced by a CWA formed in accordance with the CWA Act.

### Essential Services

During the development of the MWDOC MSR, LAFCO's stakeholder process included an effort to define services provided by MWDOC as "core" (essential) and "non-core" (subscription).<sup>18</sup> Option 2b – MWDOC Subscription CWA builds on this effort and analyzes the impact of allowing retail agencies to have a choice about whether or not to subscribe to certain services provided by MWDOC.

Based on the information provided in the MWDOC MSR and information provided by the various retail agencies, the following services are considered essential and the model assumes all retail agencies will participate in funding them:

- Wholesale Water Importation
- Planning and Resource Development<sup>19</sup>
- Metropolitan Issues and Special Projects
- Water Use Efficiency
- School Program
- Emergency Preparedness (WEROC).

MWDOC will continue to provide the following services as subscription services.

- Government Affairs
- Water Awareness.

During the MSR process, the Six Agencies indicated that they had alternative means for providing these services. The model therefore assumes that the subscription services will be subscribed to by all retailers except the Six Agencies.

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<sup>18</sup> Section 3 Stakeholder Working Group, *Municipal Services Review & Sphere of Influence Study for Municipal Water District of Orange County* (June 2007).

<sup>19</sup> The analysis assumes that MWDOC's Policy regarding project initiation remains in effect and that the benefitting retailers will pay for large planning and resource development projects.

### Cost of Service and Reserves

The foundation for the cost of service analysis is the 10-year budget developed for MWDOC Subscription CWA. The MWDOC Subscription CWA budget contains two components, an essential services budget and a subscription services budget.

Essential and subscription services are identified by budget category in Table 11. The service categories are identical to those used in the MWDOC Fiscal Year 2008-09 budget. Overhead categories including Administration & Personnel, Finance & IT and General Overhead have been proportionally allocated to the essential and subscription budgets. Based on the budget and staffing assumptions included in *Attachment C*, essential services comprise 81% of the budget and are therefore assigned 81% of the overhead. Subscription services comprise 19% of the budget and are assigned 19% of the overhead.

**Table 11: Essential and Subscription Services**

Service	Description
Wholesale Water Purchases	Essential
Administration & Personnel	Proportionally Allocated to Essential (81%) and Subscription (19%)
Planning & Resource Development	Essential
Met Issues & Special Projects	Essential
Government Affairs	Subscription
Water Use Efficiency	Essential
Water Awareness	Subscription
School Programs	Essential
Finance & IT	Proportionally Allocated to Essential (81%) and Subscription (19%)
Overhead	Proportionally Allocated to Essential (81%) and Subscription (19%)
WEROC	Essential

The analysis for MWDOC Subscription CWA includes the reduced reserve levels and board support costs described in Section 5d above and also analyzes the financial impacts of a subscription program. As described for Option 2a-MWDOC CWA, Option 2b may require a formation election but it is not clear whether or not that cost would be assigned to the new CWA.

Tables 12a and 12b provide budget summaries for the essential and subscription services respectively, presenting the budget estimates for the current Fiscal Year and for Fiscal Years 2009-10, 2014-15 and 2019-20. Figure 7 graphically illustrates the relationship of the various budget programs to one another.

**Table 12a: Projected Essential Services Budget – Option 2b MWDOC Subscription CWA<sup>20</sup>**

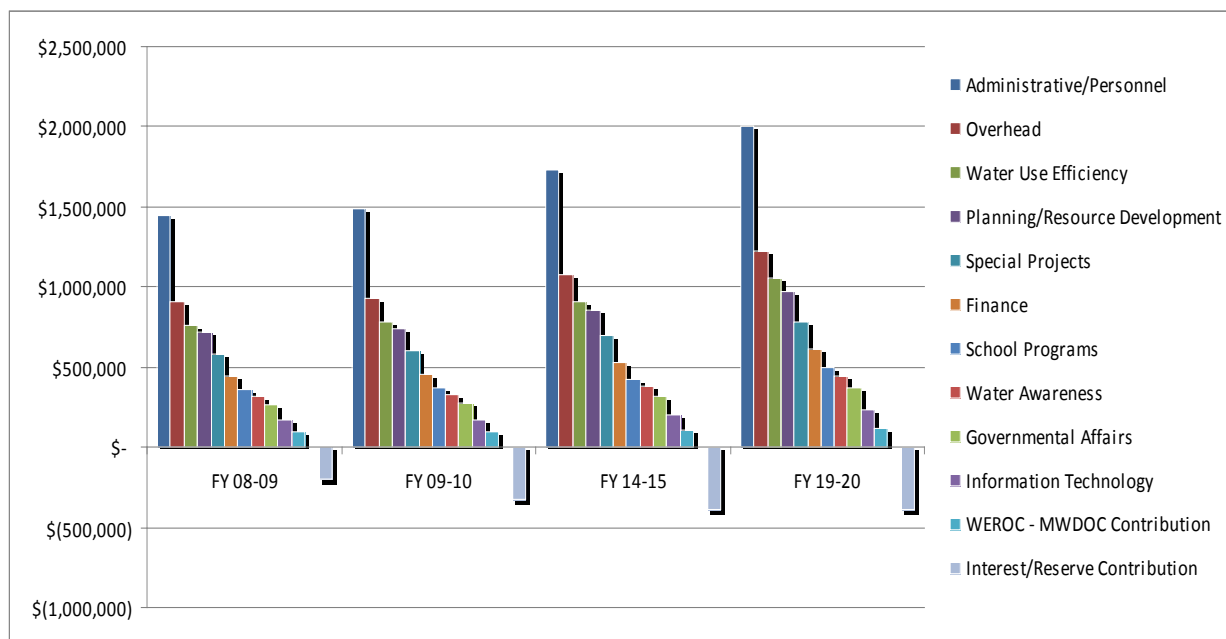
	FY 08-09	FY 09-10	FY 13-14	FY 14-15	FY 19-20
Services & Costs	\$	\$	\$	\$	\$
<b>General Fund Budget</b>					
<b>Overhead Allocation %</b>	81%	81%	81%	81%	81%
Administrative/Personnel	\$1,173,347	\$ 1,208,548	\$ 1,360,231	\$ 1,401,038	\$ 1,624,187
Planning/Resource Development	\$720,514	\$ 742,129	\$835,273	\$ 860,331	\$ 968,311
Special Projects	\$582,211	\$ 599,677	\$674,942	\$ 695,190	\$ 782,443
Water Use Efficiency	\$762,275	\$ 785,143	\$883,686	\$ 910,196	\$ 1,055,167
School Programs	\$355,527	\$ 366,193	\$412,153	\$ 424,518	\$ 492,133
Finance	\$356,984	\$ 367,694	\$413,843	\$ 426,258	\$ 494,150
Information Technology	\$135,543	\$ 139,609	\$157,131	\$ 161,845	\$ 187,623
Overhead	\$733,649	\$ 755,658	\$850,500	\$ 876,015	\$ 985,962
Desalination Study	\$0	\$ -	\$0	\$ -	\$ -
WEROC - MWDOC Contribution	\$91,228	\$ 93,965	\$105,758	\$ 108,931	\$ 122,603
Contribution from Reserves	\$ -	\$ (261,189)	\$ (317,104)	\$ (317,104)	\$ (317,104)
<b>Subtotal Core General Fund</b>	<b>\$4,911,278</b>	<b>\$ 4,797,427</b>	<b>\$5,376,413</b>	<b>\$ 5,547,219</b>	<b>\$ 6,395,474</b>
<b>Budgeted Reserves</b>	<b>\$4,111,706</b>	<b>\$3,844,027</b>	<b>\$2,575,610</b>	<b>\$2,258,506</b>	<b>\$990,086</b>

**Table 12b: Projected Subscription Services Budget – Option 2b MWDOC Subscription CWA**

	FY 08-09	FY 09-10	FY 14-15	FY 19-20
Services & Costs	\$	\$	\$	\$
<b>General Fund Budget</b>				
<b>Overhead Allocation Factor</b>	19%	19%	19%	19%
Administrative/Personnel	\$274,840	\$ 283,086	\$ 328,174	\$ 380,443
Governmental Affairs	\$266,939	\$ 274,947	\$ 318,739	\$ 369,506
Water Awareness	\$317,852	\$ 327,388	\$ 379,532	\$ 439,982
Finance	\$83,619	\$86,127	\$99,845	\$115,748
Information Technology	\$31,749	\$32,701	\$37,910	\$43,948
Overhead	\$171,847	\$177,002	\$205,194	\$237,876
Desalination Study	\$0	\$ -	\$ -	\$ -
Interest/Reserve Contribution	\$ (194,240)	\$ (61,180)	\$ (74,277)	\$ (74,277)
<b>Subtotal Subscription General Fund</b>	<b>\$ 952,606</b>	<b>\$ 1,120,071</b>	<b>\$ 1,295,117</b>	<b>\$ 1,513,226</b>
<b>Budgeted Reserves</b>	<b>\$963,110</b>	<b>\$900,410</b>	<b>\$529,024</b>	<b>\$231,914</b>

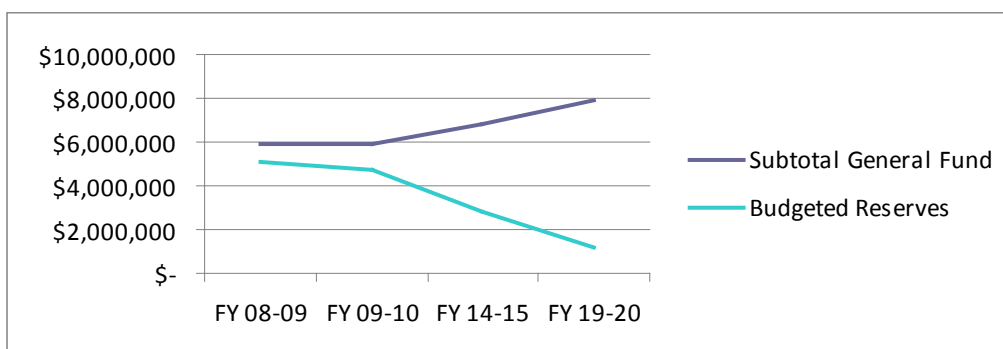
<sup>20</sup> The “Subtotal General Fund” row may differ slightly from the sum of individual line items due to rounding within the model.

**Figure 7: Program Budget Relationships – Option 2b MWDOC Subscription CWA**



The MWDOC Subscription CWA maintains an operational reserve. However this reserve is reduced to 15% of the general fund budget over the 10-year projection period. In contrast to Baseline MWDOC, which has a projected operational reserve balance of approximately \$5,000,000 in Fiscal Year 2019-20, MWDOC Subscription CWA has a projected operational reserve balance of \$1,222,000 in Fiscal Year 2019-20. Figure 8 graphically represents the relationship between the MWDOC Subscription CWA general fund budget and its operating reserve.

**Figure 8: General Fund and Operational Reserve Trends – Option 2b MWDOC Subscription CWA**



While not included in the general fund budget, because it is a restricted fund, the MWDOC Subscription CWA does maintain a Water Purchase Reserve Fund, which is funded from its Melded Water Rate Surcharge, in order to purchase Tier 2 water when necessary. This is identical to MWDOC Baseline.

### Revenue Recovery and Cost Impacts to Rate Payers

The MWDOC Subscription CWA continues to use three rate-recovery tools: a Melded Water Rate Surcharge, a Water Increment Charge and a Retail Meter Charge.

The Melded Water Rate Surcharge is identical to that used in MWDOC Baseline. The general fund revenue recovery strategy for this option, however, uses revenues from the Water Increment and Retail Meter Charges differently.

The Water Increment Charge for each retail agency is modeled to cover each agency's share of the essential services, including administration and overhead. The rationale is that essential services are related to the importation of water and each retail agency should pay for essential services based on water consumption.

The Retail Meter Charge for each retail agency is modeled to cover the agency's share of subscription services. Under this option, agencies that do not participate in the subscription services are not assessed a Retail Meter Charge. The rationale is that subscription services provided through MWDOC will benefit the ratepayers within those retail agencies subscribing to the services, thus each customer receiving the service pays for the service through Retail Meter Charges.

*Attachment G* presents the complete, 10-year model results for MWDOC Subscription CWA. Table 13 compares the projected revenue contributions for the MWDOC Subscription CWA to the MWDOC Baseline for Fiscal Years 2009-10, 2014-15 and 2019-20. Each retail agency's MWDOC Subscription CWA revenue contribution was divided by the number of retail meters within its service area in order to develop a cost per rate payer to compare against the MWDOC Baseline "Annual Cost to Rate Payer" shown on Table 7 in Section 5c and again on Table 13. The resultant increase or decrease from the MWDOC Baseline rate is then shown on Table 13 in the column "Annual Cost to Ratepayer."

The MWDOC Subscription CWA shifts almost \$1,000,000 in costs from "non-subscribers" (the Six Agencies) to "subscribers" (all other MWDOC retail agencies). While this is a large revenue shift in terms of the overall general fund budget, it is attenuated by the large number of rate payers within the subscription service area. As illustrated in Table 13, the impact to rate payers, at the end of the 10-year cost projection period, is modest. Rate payers in the non-subscription area experience a modest decrease in costs (less than \$5.00 per year or about \$0.35 per month in the most extreme case) while rate payers in the subscription area experience a modest increase in cost (less than \$2.00 annually or under \$0.15 per month). This modest cost shift is not regarded as a fiscal fatal flaw, and Option 2b - MWDOC Subscription CWA is therefore considered a feasible alternative.

**Table 13: Revenue Contribution Comparison – MWDOC Subscription CWA to MWDOC Baseline**

	FY 09-10			FY 14-15			FY 19-20		
	Baseline	Cafeteria	Annual Impact to Rate Payer	Baseline	Cafeteria	Annual Impact to Rate Payer	Baseline	Cafeteria	Annual Impact to Rate Payer
El Toro WD									
Totals	\$ 393,330	\$ 364,280	\$ (2.82)	\$ 490,901	\$ 440,470	\$ (4.78)	\$ 577,377	\$ 532,567	\$ (4.15)
Irvine Ranch WD									
Totals	\$ 1,710,731	\$ 1,540,945	\$ (1.47)	\$ 2,259,849	\$ 1,944,125	\$ (2.72)	\$ 2,791,350	\$ 2,445,942	\$ (2.82)
Moulton Niguel WD									
Totals	\$ 1,489,931	\$ 1,334,743	\$ (2.20)	\$ 1,838,012	\$ 1,598,914	\$ (3.40)	\$ 2,121,728	\$ 1,920,691	\$ (2.86)
Santa Margarita WD									
Totals	\$ 1,289,705	\$ 1,207,782	\$ (1.41)	\$ 1,688,041	\$ 1,487,294	\$ (3.16)	\$ 2,090,215	\$ 1,863,828	\$ (3.31)
South Coast Water District									
Totals	\$ 295,630	\$ 261,956	\$ (2.63)	\$ 343,905	\$ 298,199	\$ (3.54)	\$ 372,720	\$ 338,954	\$ (2.60)
Trabuco Canyon WD									
Totals	\$ 165,988	\$ 155,627	\$ (2.16)	\$ 215,701	\$ 193,551	\$ (4.40)	\$ 261,116	\$ 239,342	\$ (4.17)
Laguna Beach CWD									
Totals	\$ 192,842	\$ 198,067	\$ 0.61	\$ 238,815	\$ 235,385	\$ (0.40)	\$ 275,799	\$ 279,894	\$ 0.47
San Clemente									
Totals	\$ 412,578	\$ 426,678	\$ 0.74	\$ 515,629	\$ 509,571	\$ (0.31)	\$ 591,905	\$ 602,681	\$ 0.54
San Juan Capistrano									
Totals	\$ 216,684	\$ 225,923	\$ 0.80	\$ 268,024	\$ 267,271	\$ (0.06)	\$ 307,687	\$ 316,419	\$ 0.74
Brea									
Totals	\$ 258,060	\$ 272,770	\$ 1.17	\$ 338,233	\$ 336,330	\$ (0.15)	\$ 408,387	\$ 412,716	\$ 0.32
Buena Park									
Totals	\$ 262,695	\$ 297,962	\$ 1.73	\$ 378,737	\$ 388,381	\$ 0.46	\$ 483,588	\$ 496,821	\$ 0.62
East Orange County WD*									
Totals	\$ 95,838	\$ 93,726	\$ (1.76)	\$ 122,106	\$ 115,319	\$ (5.64)	\$ 143,772	\$ 138,962	\$ (3.97)
Fountain Valley									
Totals	\$ 189,608	\$ 215,770	\$ 1.49	\$ 258,572	\$ 269,028	\$ 0.58	\$ 298,069	\$ 319,504	\$ 1.17
Garden Grove									
Totals	\$ 370,229	\$ 425,553	\$ 1.58	\$ 524,062	\$ 544,365	\$ 0.57	\$ 611,716	\$ 652,614	\$ 1.13
Golden State Water Company									
Totals	\$ 560,801	\$ 735,974	\$ 3.25	\$ 868,130	\$ 951,345	\$ 1.21	\$ 1,137,289	\$ 1,186,834	\$ 0.57
Huntington Beach									
Totals	\$ 587,584	\$ 666,514	\$ 1.45	\$ 798,261	\$ 829,858	\$ 0.57	\$ 917,191	\$ 984,030	\$ 1.19
La Habra									
Totals	\$ 148,547	\$ 165,784	\$ 1.31	\$ 192,277	\$ 199,930	\$ 0.57	\$ 221,624	\$ 237,705	\$ 1.19
La Palma									
Totals	\$ 46,253	\$ 52,641	\$ 1.45	\$ 62,625	\$ 65,322	\$ 0.60	\$ 72,070	\$ 77,587	\$ 1.21
Mesa Consolidated									
Totals	\$ 167,517	\$ 208,265	\$ 1.70	\$ 245,178	\$ 266,955	\$ 0.89	\$ 275,139	\$ 311,862	\$ 1.47
Newport Beach									
Totals	\$ 336,301	\$ 385,046	\$ 1.53	\$ 472,638	\$ 490,456	\$ 0.55	\$ 541,424	\$ 580,356	\$ 1.19
OCWD									
Totals	\$ 120,000	\$ 113,868		\$ 147,556	\$ 136,994		\$ 173,467	\$ 164,790	
Orange									
Totals	\$ 453,861	\$ 508,436	\$ 1.50	\$ 639,731	\$ 653,284	\$ 0.37	\$ 740,404	\$ 778,460	\$ 1.02
Seal Beach									
Totals	\$ 67,255	\$ 75,299	\$ 1.47	\$ 93,340	\$ 95,661	\$ 0.42	\$ 109,432	\$ 115,084	\$ 1.00
Serrano WD									
Totals	\$ 14,310	\$ 17,395	\$ 1.34	\$ 17,402	\$ 19,728	\$ 1.01	\$ 18,467	\$ 22,385	\$ 1.70
Westminster									
Totals	\$ 231,903	\$ 261,987	\$ 1.46	\$ 316,753	\$ 327,873	\$ 0.53	\$ 367,195	\$ 391,181	\$ 1.13
Yorba Linda WD									
Totals	\$ 489,990	\$ 519,361	\$ 1.20	\$ 647,209	\$ 644,258	\$ (0.12)	\$ 765,177	\$ 775,605	\$ 0.39

## 5f Option 3a – Six Agency South CWA

This option is one of two options that models detachment of some south county agencies and formation of a new South CWA formed under Water Code Appendix 45. Under Option 3a - Six Agency South CWA - El Toro, Irvine Ranch, Moulton Niguel, Santa Margarita, South Coast and Trabuco Canyon Water Districts are detached.

MWDOC continues as an MWD representing 22 retail agencies. The boundaries are illustrated in Figure 9.

**Figure 9 Six Agency South CWA**



## Essential Services

The Six Agency South CWA will provide only “essential” services to the six member agencies. These were identified during the MWDOC MSR process and are identical to



the essential services defined for the MWDOC Subscription CWA and discussed in Section 5e. The essential services are:

- Wholesale Water Importation
- Planning and Resource Development<sup>21</sup>
- Metropolitan Issues and Special Projects
- Water Use Efficiency
- School Program
- A “fair share” of Emergency Preparedness (WEROC).

The six agencies could consider providing the non-subscribed services to their ratepayers on an agency by agency basis. The remaining MWDOC will continue to provide its full range of services to its member agencies.

#### Cost of Service and Operational Reserves

The budgets developed for the Six Agency South CWA and the remaining MWDOC form the foundation for the cost of service analysis. The budgets are based on the staffing and transitional assumptions outlined *Attachment C*. Both budgets assume that operational reserves are reduced to 15% of the general fund budget over the 10-year projection period. In addition, the Six Agency South CWA reflects the costs of \$18,000 per director for up to 28 directors (based on the SDCWA costs discussed above and the analysis found in Section 6c). Board compensation for the remaining MWDOC is the same as for MWDOC Baseline.

Finally, the initial formation of a CWA may require an election, however the CWA Act specifically states that the “cost thereof shall be a proper charge against the county.”<sup>22</sup> If required, this election would need to include all territory within the six agencies’ current service area. The Orange County Registrar of Voters has provided estimates of \$1,000,000 to \$1,200,000 for a formation election consolidated with a general election and \$1,900,000 to \$2,000,000 for a special election. Additional analysis is needed to determine if these costs are truly a “proper charge against the county”. Because of this, these costs are currently not included in the budget used for the fiscal model.

Tables 14a and 14b provide budget summaries for Six Agency South CWA and remaining MWDOC, presenting budget estimates for Fiscal Years 2009-10, 2014-15 and

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<sup>21</sup> The analysis assumes that MWDOC’s Policy regarding project initiation remains in effect and that the benefitting retailers will pay for large planning and resource development projects.

<sup>22</sup> Section 45-4, CWA Act.

2019-20. Figures 10a and 10b graphically illustrate the relationship of the various budget programs to one another.

**Table 14a: Projected General Fund Budgets – Option 3a Six Agency South CWA<sup>23</sup>**

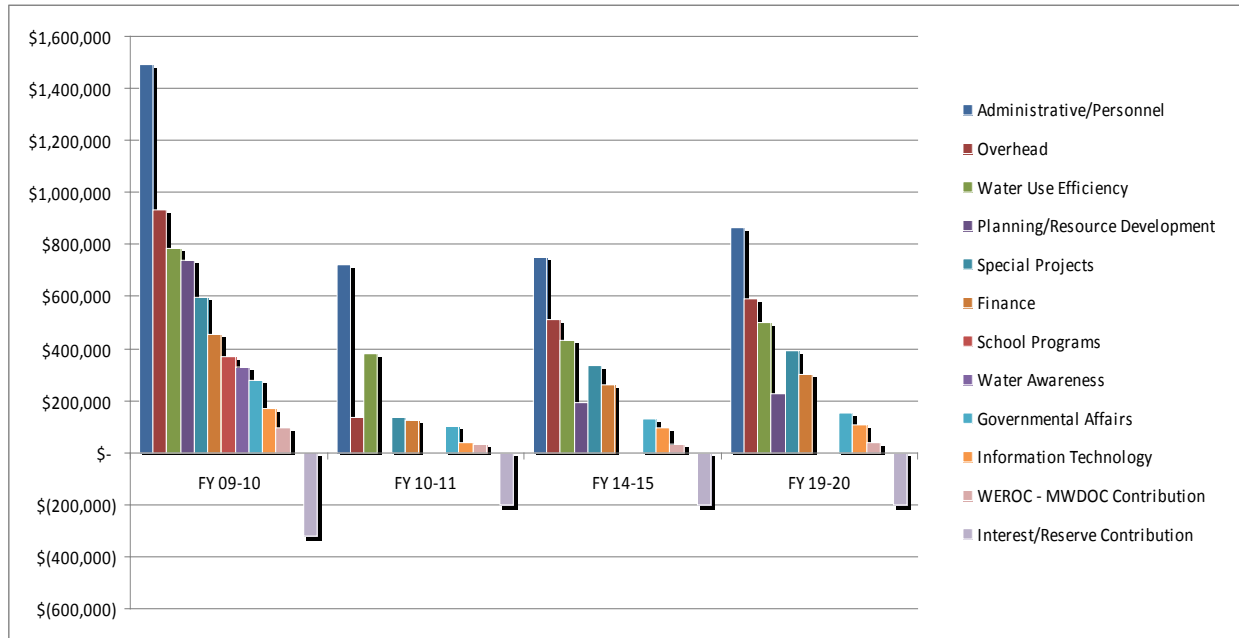
	FY 09-10	FY 10-11	FY 14-15	FY 19-20
Administrative/Personnel	\$ 1,489,924	\$723,511	\$ 748,086	\$ 867,237
Planning/Resource Development	\$ 742,129	\$0	\$ 192,942	\$ 223,673
Special Projects	\$ 599,677	\$135,674	\$ 337,472	\$ 391,222
Governmental Affairs	\$ 274,947	\$100,000	\$ 131,840	\$ 152,839
Water Use Efficiency	\$ 785,143	\$382,287	\$ 429,783	\$ 498,236
Water Awareness	\$ 327,388	\$0	\$ -	\$ -
School Programs	\$ 366,193	\$0	\$ -	\$ -
Finance	\$ 453,301	\$125,062	\$ 258,287	\$ 299,426
Information Technology	\$ 172,113	\$35,720	\$ 93,075	\$ 107,900
Overhead	\$ 931,592	\$135,490	\$ 509,666	\$ 590,842
WEROC - MWDOC Contribution	\$ 93,965	\$31,290	\$ 35,217	\$ 40,827
Interest/Reserve Contribution	\$ (322,000)	-\$200,000	\$ (200,000)	\$ (199,000)
<b>Subtotal General Fund</b>	<b>\$ 5,914,372</b>	<b>\$ 1,469,035</b>	<b>\$ 2,536,369</b>	<b>\$ 2,973,201</b>
<b>Reserve Balance</b>	<b>\$ 4,739,000</b>	<b>\$2,013,225</b>	<b>\$ 1,213,225</b>	<b>\$ 388,225</b>

**Table 14b: Projected General Fund Budgets – Option 3a Remaining MWDOC**

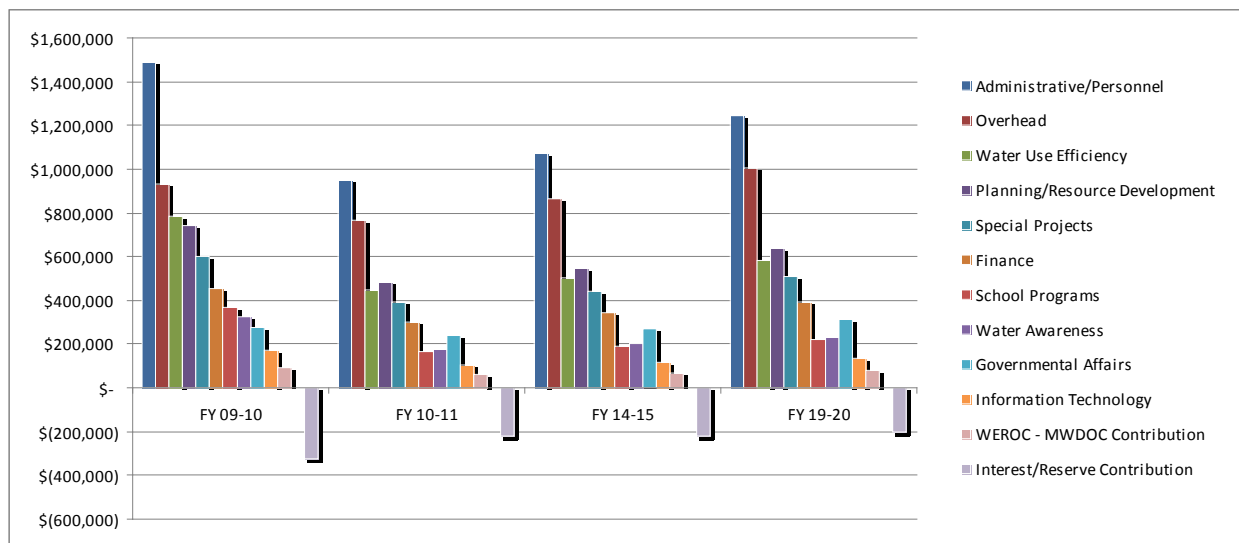
	FY 09-10	FY 10-11	FY 14-15	FY 19-20
Administrative/Personnel	\$ 1,489,924	\$952,961	\$ 1,072,566	\$ 1,243,398
Planning/Resource Development	\$ 742,129	\$487,464	\$ 548,645	\$ 636,029
Special Projects	\$ 599,677	\$389,898	\$ 438,833	\$ 508,728
Governmental Affairs	\$ 274,947	\$238,966	\$ 268,959	\$ 311,797
Water Use Efficiency	\$ 785,143	\$447,153	\$ 503,275	\$ 583,433
Water Awareness	\$ 327,388	\$180,740	\$ 203,424	\$ 235,825
School Programs	\$ 366,193	\$168,045	\$ 189,136	\$ 219,260
Finance	\$ 453,301	\$303,005	\$ 341,035	\$ 395,353
Information Technology	\$ 172,113	\$104,040	\$ 117,098	\$ 135,748
Overhead	\$ 931,592	\$768,789	\$ 865,279	\$ 1,003,096
WEROC - MWDOC Contribution	\$ 93,965	\$62,675	\$ 70,541	\$ 81,776
Interest/Reserve Contribution	\$ (322,000)	-\$223,000	\$ (223,000)	\$ (200,000)
<b>Subtotal General Fund</b>	<b>\$ 5,914,372</b>	<b>\$ 3,880,736</b>	<b>\$ 4,395,791</b>	<b>\$ 5,154,444</b>
<b>Reserve Balance</b>	<b>\$ 4,739,000</b>	<b>\$2,500,775</b>	<b>\$ 1,608,775</b>	<b>\$ 743,085</b>

<sup>23</sup> The “Subtotal General Fund” row may differ slightly from the sum of individual line items due to rounding within the model.

**Figure 10a: Program Budget Relationships – Option 3a Six Agency South CWA**



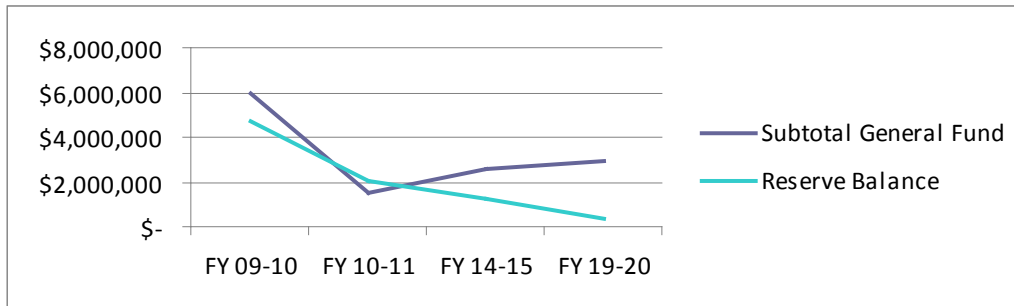
**Figure 10b: Program Budget Relationships – Remaining MWD OC**



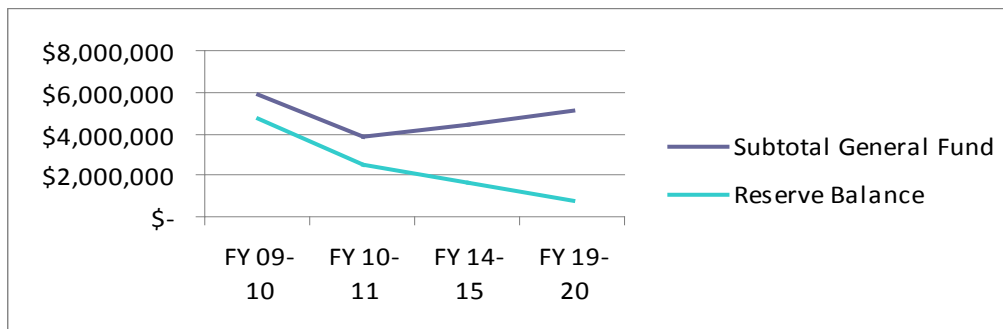
Both the Six Agency South CWA and the remaining MWD OC retain an operational reserve. The analysis assumes that at the time of detachment, of MWD OC's existing operational reserve, 42.5% is allocated to the Six Agency South CWA and 57.5% to remaining MWD OC, based on the historical 5-year (Fiscal Years 2004-08) average percentage of revenue paid to MWD OC from the reorganized agencies. These percentages could also be used to allocate the MWD OC Water Purchase Reserve Fund.

Figures 11a and 11b graphically represent the relationship between the general fund budget and the operating reserve for both the Six Agency South CWA and remaining MWDOC.

**Figure 11a: General Fund and Operational Reserve Trends – Option 3a Six Agency CWA**



**Figure 11b: General Fund and Operational Reserve Trends – Remaining MWDOC**



### Revenue Recovery and Cost Impacts to Rate Payers

The Six Agency CWA and remaining MWDOC are modeled using the following revenue recovery tools:

- A two tier rate system for water sales (a Melded Water Rate Surcharge is not modeled);
- For the Six Agency South CWA, a Water Increment Charge is used to recover general fund costs because its general fund costs are associated almost exclusively with providing water supply;
- For remaining MWDOC, a Water Increment Charge is used to recover approximately 30% of its general fund costs and a Retail Meter Charge is used to recover approximately 70% of its general fund costs, consistent with the cost recovery pattern identified from MWDOC's 2004-08 historical budget data.

*Removing the Melded Water Rate Surcharge*

Option 3a illustrates the effects of removing the Melded Water Rate Surcharge, which currently “smoothes” the costs of Tier 2 water purchases. This option analyzes the potential impact to rate payers should both the Six Agency South CWA and remaining MWDOC chose not to meld water rates, but rather utilize the more common two-tier assessment for water sales, requiring those individual agencies needing Tier 2 water to purchase that increment at the higher Metropolitan Tier 2 rate.

Table 15 illustrates each retail agency’s Tier 1 allocation with respect to its projected demand and demonstrates that the remaining MWDOC does have the capacity to continue to pool allocations throughout its new service area. Table 15 also demonstrates that the Six Agency South CWA has a significant Tier 2 demand driven initially by Santa Margarita and Moulton Niguel Water Districts. However over the planning period, the majority of the South County agencies exceed their Tier 1 allocations. The table illustrates that the Six Agency South CWA’s demand exceeds its Tier 1 allocation in Fiscal Year 2009-10 by over 19,000 AF, which grows to over 33,000 AF in Fiscal Year 2019-20. The remaining MWDOC organization experiences adequate Tier 1 allocations: the initial Tier 1 allocation exceeds overall demand for water by more than 32,000 AF, and is reduced to just less than 11,500 AF by Fiscal Year 2019-20.

**Table 15: Tier 1 Allocations and Projected UWMP Demands (all in acre-feet)<sup>24</sup>**

Agency	Tier 1 Allocation	FY 2009 2010		FY 2014 2015		FY 2019 2020	
		Demand	Difference	Demand	Difference	Demand	Difference
El Toro	11,411	10,894	-517	11,153	-258	11,323	-88
Irvine Ranch	34,083	33,193	-890	37,512	3,429	41,733	7,650
Moulton Niguel	28,571	35,114	6,543	35,435	6,864	35,935	7,364
Santa Margarita	17,541	30,957	13,416	32,767	15,226	35,565	18,024
South Coast	8,300	7,209	-1,091	6,686	-1,614	6,196	-2,104
Trabuco Canyon	2,861	4,543	1,682	4,819	1,958	5,058	2,197
<b>Six Agency South CWA</b>	<b>102,767</b>	<b>121,910</b>	<b>19,143</b>	<b>128,372</b>	<b>25,605</b>	<b>135,810</b>	<b>33,043</b>
Laguna Beach	4,377	4,653	276	4,703	326	4,753	376
San Clemente	8,674	9,806	1,132	9,992	1,318	9,994	1,320
San Juan Capistrano	6,111	4,839	-1,272	4,878	-1,233	4,919	-1,192
Brea	8,826	5,997	-2,829	6,491	-2,335	6,390	-2,436
Buena Park	7,358	4,536	-2,822	5,982	-1,376	7,203	-155
EOCWD	5279	2,947	-2,332	3,064	-2,215	3,092	-2,187
Fountain Valley	2,451	2,697	246	3,339	888	3,497	1,046
Garden Grove	8,327	5,122	-3,205	6,914	-1413	7,420	-907
Golden State	12,761	7,540	-5,221	9,522	-3,239	10,159	-2,602
Huntington Beach	10,962	8,327	-2,635	10,312	-650	10,781	-181
La Habra	2,928	2,225	-703	2,477	-451	2,613	-315
La Palma	657	629	-28	780	123	824	167
Mesa Consolidated	6,493	616	-5,877	1,634	-4,859	1,747	-4,746
Newport Beach	18,924	4,643	-14,281	6,200	-12,724	6,436	-12,488
Orange	4,695	7,594	2,899	9,773	5,078	10,157	5,462

<sup>24</sup> Tier 1 Metropolitan Allocation Method using 1989-90 data. Subtotals may differ slightly from the sum of individual allocations due to rounding.

Agency	Tier 1 Allocation	FY 2009 2010		FY 2014 2015		FY 2019 2020	
		Demand	Difference	Demand	Difference	Demand	Difference
Seal Beach	1,085	1,108	23	1,393	308	1,485	400
Serrano	449	-	-449	-	-449	-	-449
Westminster	1,145	3,472	2,327	4,298	3,153	4,540	3,395
Yorba Linda	8,652	11,280	2,628	12,394	3,742	12,694	4,042
<b>Remaining MWDOC</b>	<b>120,154</b>	<b>88,031</b>	<b>-32,423</b>	<b>104,146</b>	<b>-16,008</b>	<b>108,704</b>	<b>-11,450</b>

### Impact to Rate Payers

The budgets and revenue recovery strategies for the Six Agency South CWA and the remaining MWDOC have been modeled for a ten year period in order to develop a projected cost allocation for each retail agency. The model accounts for any Tier 2 water purchases made by each retail agency.

*Attachment H* presents the complete, annual 10-year model results for the Six Agency South CWA. Table 16 compares the projected revenue contributions for the Six Agency South CWA to the MWDOC Baseline for Fiscal Years 2009-10, 2014-15 and 2019-20. Because this option does not use a Melded Water Rate Surcharge, the revenue contributions include the Water Increment Charges, Retail Meter Charges and any Tier 2 charges that the retail agencies incur. Each retail agency's revenue contribution was divided by the number of retail meters within its' service area in order to develop a cost per rate payer to compare against the MWDOC Baseline "Annual Cost to Rate Payer" shown on Table 7 in Section 5c and again on Table 16. The resulting increase or decrease from the MWDOC Baseline rate is then shown on Table 16 in the column "Annual Cost to Ratepayer."

This analysis indicates that some cost reallocation occurs as a result of detachment and formation of a new agency. These reallocations occur primarily as the result of removing the Melded Water Rate Surcharge and causing each agency to pay for Tier 2 water costs based on actual use. However the impacts are not deemed to be large when carried down to the individual rate payer. In the most severe cases, rate payer impacts are under \$5.00 per month and many rate payers experience a cost savings. Based on the results of this analysis, Option 3a – Six Agency South CWA is considered fiscally feasible, although particularly for the Six Agency South CWA, the analysis highlights important policy issues related to Tier 2 water costs. While not specifically modeled, the analysis demonstrates that remaining MWDOC could continue its practice of utilizing a Melded Water Rate and would likely experience reduced need for Tier 2 water purchases.

**Table 16: Revenue Contribution Comparison – Six Agency South CWA to MWD OC Baseline**

	FY 09-10			FY 14-15			FY 19-20		
	Baseline	Six Agency CWA	Annual Impact to Rate Payer	Baseline	Six Agency CWA	Annual Impact to Rate Payer	Baseline	Six Agency CWA	Annual Impact to Rate Payer
Six Agency CWA									
El Toro WD									
Totals	\$ 393,330	\$ 393,330	\$ -	\$ 490,901	\$ 220,361	\$ (25.67)	\$ 577,377	\$ 247,887	\$ (30.54)
Irvine Ranch WD*									
Totals	\$ 1,710,731	\$ 1,710,731	\$ -	\$ 2,259,849	\$ 1,345,516	\$ (7.87)	\$ 2,791,350	\$ 2,552,501	\$ (1.95)
Moulton Niguel WD									
Totals	\$ 1,489,931	\$ 1,489,931	\$ -	\$ 1,838,012	\$ 1,909,892	\$ 1.02	\$ 2,121,728	\$ 2,364,299	\$ 3.45
Santa Margarita WD									
Totals	\$ 1,289,705	\$ 1,289,705	\$ -	\$ 1,688,041	\$ 3,330,967	\$ 25.85	\$ 2,090,215	\$ 4,639,902	\$ 37.24
South Coast Water District									
Totals	\$ 295,630	\$ 295,630	\$ -	\$ 343,905	\$ 132,102	\$ (16.42)	\$ 372,720	\$ 135,645	\$ (18.24)
Trabuco Canyon WD									
Totals	\$ 165,988	\$ 165,988	\$ -	\$ 215,701	\$ 440,308	\$ 44.64	\$ 261,116	\$ 581,397	\$ 61.36
Remaining MWD OC Laguna Beach CWD									
Totals	\$ 192,842	\$ 192,842	\$ -	\$ 238,815	\$ 178,500	\$ (6.96)	\$ 275,799	\$ 216,294	\$ (6.83)
San Clemente									
Totals	\$ 412,578	\$ 412,578	\$ -	\$ 515,629	\$ 508,604	\$ (0.36)	\$ 591,905	\$ 580,400	\$ (0.58)
San Juan Capistrano									
Totals	\$ 216,684	\$ 216,684	\$ -	\$ 268,024	\$ 145,362	\$ (10.50)	\$ 307,687	\$ 163,112	\$ (12.26)
Brea									
Totals	\$ 258,060	\$ 258,060	\$ -	\$ 338,233	\$ 175,471	\$ (12.42)	\$ 408,387	\$ 204,287	\$ (15.14)
Buena Park									
Totals	\$ 262,695	\$ 262,695	\$ -	\$ 378,737	\$ 227,063	\$ (7.24)	\$ 483,588	\$ 272,436	\$ (9.87)
East Orange County WD*									
Totals	\$ 95,838	\$ 91,789	\$ (3.38)	\$ 122,106	\$ 41,088	\$ (67.29)	\$ 143,772	\$ 52,065	\$ (75.79)
Fountain Valley									
Totals	\$ 189,608	\$ 189,608	\$ -	\$ 258,572	\$ 329,242	\$ 3.94	\$ 298,069	\$ 420,700	\$ 6.70
Garden Grove									
Totals	\$ 370,229	\$ 370,229	\$ -	\$ 524,062	\$ 346,602	\$ (4.97)	\$ 611,716	\$ 396,101	\$ (5.95)
Golden State Water Company									
Totals	\$ 560,801	\$ 560,801	\$ -	\$ 868,130	\$ 620,074	\$ (3.62)	\$ 1,137,289	\$ 847,094	\$ (3.33)
Huntington Beach									
Totals	\$ 587,584	\$ 587,584	\$ -	\$ 798,261	\$ 533,169	\$ (4.78)	\$ 917,191	\$ 604,385	\$ (5.57)
La Habra									
Totals	\$ 148,547	\$ 148,547	\$ -	\$ 192,277	\$ 128,587	\$ (4.76)	\$ 221,624	\$ 145,798	\$ (5.60)
La Palma									
Totals	\$ 46,253	\$ 46,253	\$ -	\$ 62,625	\$ 64,196	\$ 0.35	\$ 72,070	\$ 83,972	\$ 2.62
Mesa Consolidated									
Totals	\$ 167,517	\$ 167,517	\$ -	\$ 245,178	\$ 200,208	\$ (1.83)	\$ 275,139	\$ 226,566	\$ (1.95)
Newport Beach									
Totals	\$ 336,301	\$ 336,301	\$ -	\$ 472,638	\$ 313,436	\$ (4.92)	\$ 541,424	\$ 354,584	\$ (5.70)
OCWD									
Totals	\$ 120,000	\$ 120,000		\$ 147,556	\$ 48,776		\$ 173,467	\$ 54,620	
Orange									
Totals	\$ 453,861	\$ 453,861	\$ -	\$ 639,731	\$ 1,279,881	\$ 17.29	\$ 740,404	\$ 1,613,765	\$ 23.30
Seal Beach									
Totals	\$ 67,255	\$ 84,343	\$ 3.11	\$ 93,340	\$ 112,177	\$ 3.39	\$ 109,432	\$ 151,755	\$ 7.52
Serrano WD									
Totals	\$ 14,310	\$ 17,309	\$ 1.30	\$ 17,402	\$ 16,968	\$ (0.19)	\$ 18,467	\$ 18,776	\$ 0.13
Westminster									
Totals	\$ 231,903	\$ 290,094	\$ 2.82	\$ 316,753	\$ 762,373	\$ 21.24	\$ 367,195	\$ 962,465	\$ 27.97
Yorba Linda WD									
Totals	\$ 489,990	\$ 600,427	\$ 4.52	\$ 647,209	\$ 995,916	\$ 13.84	\$ 765,177	\$ 1,257,526	\$ 18.35



## 5g Option 3b – Nine Agency South CWA

This option is second of two options that model detachment of some South County agencies and formation of a new CWA under the CWA Act. Under Option 3b – Nine Agency South CWA - the Six Agencies together with the Laguna Beach County Water District and the cities of San Clemente and San Juan Capistrano are detached. MWDOC continues as an MWD representing 19 retail agencies. The boundaries are illustrated in Figure 12. This option provides for contiguous boundaries.

**Figure 12 Nine Agency South CWA**



### Essential Services

As was the case with Option 3a, the Nine Agency South CWA will provide only “essential” services as defined through the MWDOC MSR process. The remaining MWDOC will continue to provide its full range of services to its member agencies.

### Cost of Service and Operational Reserves

The budgets developed for the Nine Agency South CWA and the remaining MWDOC form the foundation for the cost of service analysis. The budgets are based on the staffing and transitional assumptions outlined *Attachment C*. Both budgets assume that operational reserves are reduced to 15% of the general fund budget over the 10-year projection period. In addition, the Nine Agency South CWA reflects the costs of \$18,000 per director for up to 28 directors (based on the SDCWA costs discussed above and the analysis found in Section 6c). Board compensation for the remaining MWDOC is the same as for MWDOC Baseline.

Finally, the initial formation of a CWA may require an election, however the CWA Act specifically states that the “cost thereof shall be a proper charge against the county.”<sup>25</sup> For the Nine Agency South CWA option, this election would need to include all territory within the nine agencies’ current service area. The Orange County Registrar of Voters has provided estimates of \$1,000,000 to \$1,200,000 for a formation election consolidated with a general election and \$1,900,000 to \$2,000,000 for a special election. Additional analysis is needed to determine if these costs are truly a “proper charge against the county”. Because of this, these costs are currently not included in the budget used for the fiscal model.

Tables 17a and 17b provide budget summaries for Nine Agency South CWA and remaining MWDOC respectively, presenting the budget estimates for the current Fiscal Year and Fiscal Years 2009-10, 2014-15 and 2019-20. Figures 13a and 13b graphically illustrate the relationship of the various budget programs to one another.

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<sup>25</sup> Section 45-4, CWA Act.

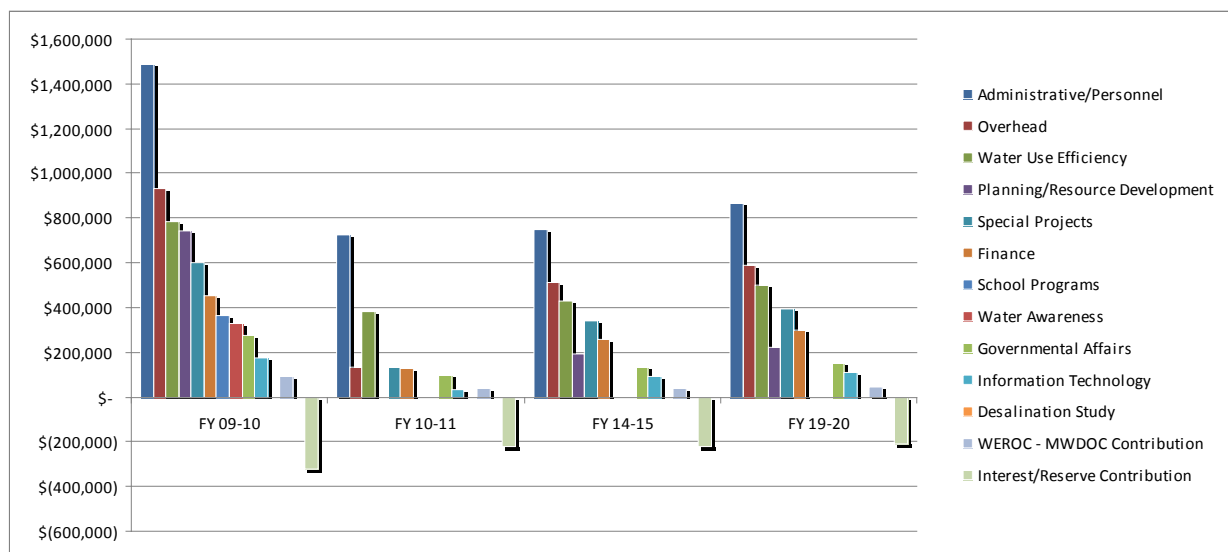
**Table 17a: Projected General Fund Budgets – Option 3b Nine Agency South CWA**

	FY 09-10	FY 10-11	FY 14-15	FY 19-20
Administrative/Personnel	\$ 1,489,924	\$723,511	\$ 748,086	\$ 867,237
Planning/Resource Development	\$ 742,129	\$0	\$ 192,942	\$ 223,673
Special Projects	\$ 599,677	\$135,674	\$ 337,472	\$ 391,222
Governmental Affairs	\$ 274,947	\$100,000	\$ 131,840	\$ 152,839
Water Use Efficiency	\$ 785,143	\$382,287	\$ 429,783	\$ 498,236
Water Awareness	\$ 327,388	\$0	\$ -	\$ -
School Programs	\$ 366,193	\$0	\$ -	\$ -
Finance	\$ 453,301	\$125,062	\$ 258,287	\$ 299,426
Information Technology	\$ 172,113	\$35,720	\$ 93,075	\$ 107,900
Overhead	\$ 931,592	\$135,490	\$ 509,666	\$ 590,842
Desalination Study	\$ -	\$0	\$ -	\$ -
WEROC - MWDOC Contribution	\$ 93,965	\$36,176	\$ 40,717	\$ 47,202
Interest/Reserve Contribution	\$ (322,000)	-\$220,000	-\$220,000	\$ (210,000)
<b>Subtotal General Fund</b>	<b>\$ 5,914,372</b>	<b>\$ 1,453,921</b>	<b>\$ 2,521,868</b>	<b>\$ 2,968,577</b>
<b>Reserve Balance</b>	<b>\$ 4,739,000</b>	<b>\$2,115,341</b>	<b>\$1,235,341</b>	<b>\$ 368,741</b>

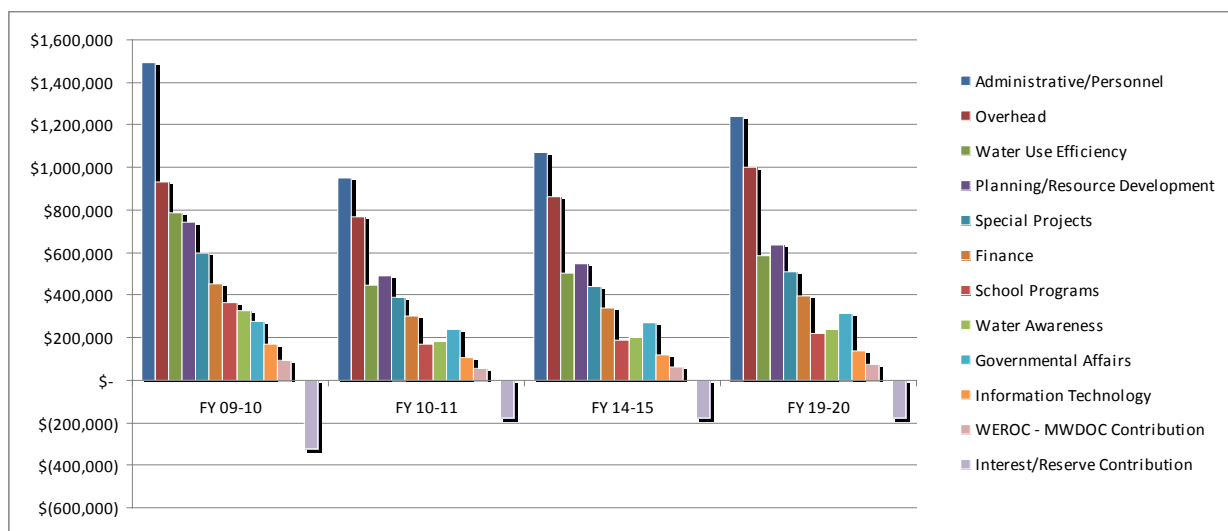
**Table 17b: Projected General Fund Budgets – Option 3b Remaining MWDOC**

	FY 09-10	FY 10-11	FY 14-15	FY 19-20
Administrative/Personnel	\$ 1,489,924	\$952,961	\$ 1,072,566	\$ 1,243,398
Planning/Resource Development	\$ 742,129	\$487,464	\$ 548,645	\$ 636,029
Special Projects	\$ 599,677	\$389,898	\$ 438,833	\$ 508,728
Governmental Affairs	\$ 274,947	\$238,966	\$ 268,959	\$ 311,797
Water Use Efficiency	\$ 785,143	\$447,153	\$ 503,275	\$ 583,433
Water Awareness	\$ 327,388	\$180,740	\$ 203,424	\$ 235,825
School Programs	\$ 366,193	\$168,045	\$ 189,136	\$ 219,260
Finance	\$ 453,301	\$303,005	\$ 341,035	\$ 395,353
Information Technology	\$ 172,113	\$104,040	\$ 117,098	\$ 135,748
Overhead	\$ 931,592	\$768,789	\$ 865,279	\$ 1,003,096
WEROC - MWDOC Contribution	\$ 93,965	\$57,788	\$ 65,041	\$ 75,401
Interest/Reserve Contribution	\$ (322,000)	-\$180,000	\$ (180,000)	\$ (180,000)
<b>Subtotal General Fund</b>	<b>\$ 5,914,372</b>	<b>\$ 3,918,849</b>	<b>\$ 4,433,291</b>	<b>\$ 5,168,069</b>
<b>Reserve Fund Balance</b>	<b>\$ 4,739,000</b>	<b>\$2,221,659</b>	<b>\$ 1,501,659</b>	<b>\$ 776,259</b>

**Figure 13a: Program Budget Relationships – Option 3b Nine Agency South CWA**

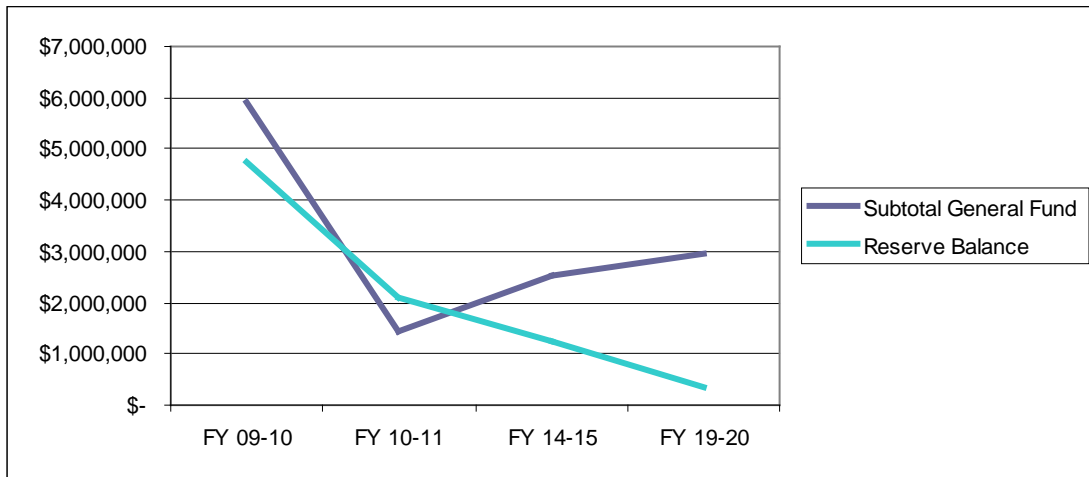


**Figure 13b: Program Budget Relationships – Remaining MWDOC**

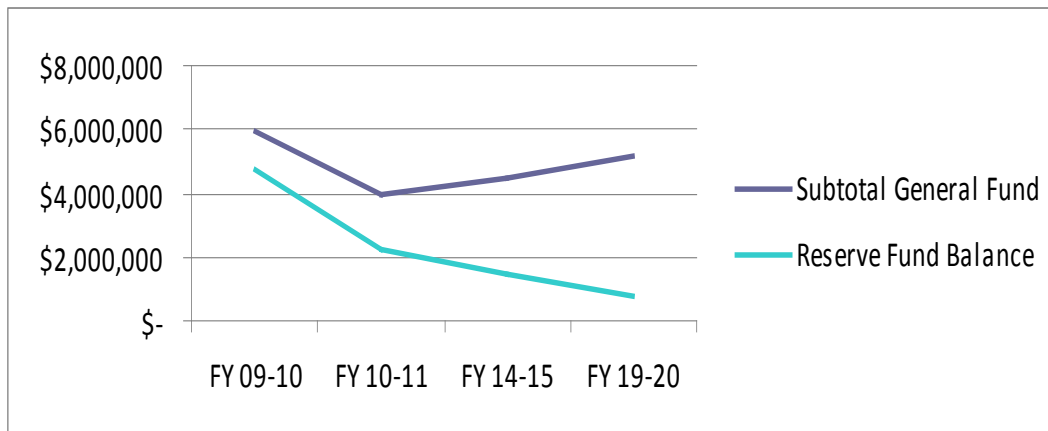


Both the Nine Agency South CWA and remaining MWDOC maintain an operational reserve. The analysis assumes that at the time of detachment, of MWDOC's existing operational reserve, 49.3% is allocated to the Nine Agency South CWA and 50.7% to the remaining MWDOC based on the historical 5-year (Fiscal Years 2004-08) average percentages of revenue paid to MWDOC from the reorganized agencies. These percentages could also be used to allocate the MWDOC Water Purchase Reserve Funds. As noted above, the operational reserves are reduced to 15% of the general fund budget over the 10-year projection period. Figures 14a and 14b graphically represent the relationship between the general fund budget and the operating reserve for both the Nine Agency South CWA and remaining MWDOC.

**Figure 14a: General Fund and Operational Reserve Trends – Option 3b Six Agency CWA**



**Figure 14b: General Fund and Operational Reserve Trends – Remaining MWDOC**



### Revenue Recovery and Cost Impacts to Rate Payers

The Nine Agency CWA and remaining MWDOC are modeled using the following recovery tools:

- A two tier rate system for water sales (a Melded Water Rate Surcharge is not modeled);
- For the Nine Agency CWA, a Water Increment Charge to recover general fund costs because its general fund costs are associated almost exclusively with providing water supply;
- For remaining MWDOC, a Water Increment Charge to recover approximately 30% of its general fund costs and a Retail Meter Charge to recover

approximately 70% of its general fund costs, consistent with the cost recovery pattern identified from MWDOC’s 2004-08 historical budget data.

*Removing the Melded Water Rate Surcharge*

Like Option 3a, this option illustrates the effects of removing the Melded Water Rate Surcharge, which currently “smoothes” the costs of Tier 2 water purchases. This option analyzes the potential impact to rate payers should both the Nine Agency South CWA and remaining MWDOC chose not to meld water rates, but rather utilize the more common two-tier assessment for water sales, requiring those individual agencies needing Tier 2 water to purchase that increment at the higher Metropolitan Tier 2 rate.

Table 18 uses the data from Table 15 and provides a brief summary of both the Nine Agency South CWA and remaining MWDOC’s Tier 1 allocation with respect to their projected demand. Again, the analysis demonstrates that remaining MWDOC does have the capacity to continue to pool allocations throughout its new service area. Like the Six Agency South CWA, the Nine Agency South CWA has a significant Tier 2 demand. The Nine Agency CWA’s demand initially exceeds its Tier 1 allocation by over 19,000 AF, growing to over 33,000 AF in Fiscal Year 2019-20. The remaining MWDOC organization has adequate Tier 1 allocation: the initial Tier 1 allocation exceeds overall demand for water by 32,000 AF; this is reduced to just less than 12,000 AF by 2019-20.

**Table 18: Tier 1 Allocations and Projected UWMP Demands (all in acre-feet)**

Agency	Tier 1 Allocation	FY 2009 2010		FY 2014 2015		FY 2019 2020	
		Demand	Difference	Demand	Difference	Demand	Difference
<b>Nine Agency South CWA</b>	<b>121,929</b>	<b>141,208</b>	<b>19,279</b>	<b>147,351</b>	<b>26,016</b>	<b>155,476</b>	<b>33,536</b>
<b>Remaining MWDOC</b>	<b>100,992</b>	<b>68,733</b>	<b>-32,259</b>	<b>83,573</b>	<b>-17,419</b>	<b>89,038</b>	<b>-11,954</b>

*Impacts to Ratepayers*

The budgets and revenue recovery strategies for the Nine Agency South CWA and the remaining MWDOC have been modeled for a ten year period in order to develop a cost allocation for each retail agency. The model accounts for any Tier 2 water purchases made by each retail agency.

*Attachment I* presents the complete, annual 10-year model results for the Nine Agency South CWA. Table 19 compares the projected revenue contributions for the Nine Agency South CWA to the MWDOC Baseline for Fiscal Years 2009-10, 2014-15 and 2019-20. Because this option does not use a Melded Water Rate Surcharge, the revenue contributions include the Water Increment Charges, Retail Meter Charges and any Tier

2 charges that the retail agencies incur. Each retail agency's revenue contribution was divided by the number of retail meters within its service area in order to develop a cost per rate payer to compare against the MWDOC Baseline "Annual Cost to Rate Payer" shown on Table 7 in Section 5c and again on Table 19. The resultant increase or decrease from the MWDOC Baseline rate is then shown on Table 19 in the column "Annual Cost to Ratepayer."

This analysis indicates that some cost reallocation occurs as a result of detachment and formation of a new agency. These reallocations occur primarily as the result of removing the Melded Water Rate Surcharge and causing each agency to pay for any Tier 2 water costs based on actual use. However the impacts are not large when carried down to the individual rate payer. In the most severe cases, rate payer impacts are under \$5.00 per month and many ratepayers experience a cost savings. Based on the results of this analysis, Option 3b – Nine Agency South CWA is considered fiscally feasible, although particularly for the Nine Agency South CWA, the analysis highlights important policy issues related to Tier 2 water costs. While not specifically modeled, the analysis demonstrates that remaining MWDOC could continue its practice of utilizing a Melded Water Rate and would likely experience reduced need for Tier 2 water purchases.

**Table 19: Revenue Contribution Comparison – Nine Agency South CWA to MWD OC Baseline**

	FY 09-10			FY 14-15			FY 19-20		
	Baseline	Nine Agency CWA	Annual Impact to Rate Payer	Baseline	Nine Agency CWA	Annual Impact to Rate Payer	Baseline	Nine Agency CWA	Annual Impact to Rate Payer
Nine Agency CWA									
El Toro WD									
Totals	\$ 393,330	\$ 393,330	\$ -	\$ 490,901	\$ 185,825	\$ (28.94)	\$ 577,377	\$ 211,393	\$ (33.92)
Irvine Ranch WD*									
Totals	\$ 1,710,731	\$ 1,710,731	\$ -	\$ 2,259,849	\$ 1,229,361	\$ (8.87)	\$ 2,791,350	\$ 2,417,994	\$ (3.04)
Moulton Niguel WD									
Totals	\$ 1,489,931	\$ 1,489,931	\$ -	\$ 1,838,012	\$ 1,800,169	\$ (0.54)	\$ 2,121,728	\$ 2,248,479	\$ 1.80
Santa Margarita WD									
Totals	\$ 1,289,705	\$ 1,289,705	\$ -	\$ 1,688,041	\$ 3,229,505	\$ 24.25	\$ 2,090,215	\$ 4,525,275	\$ 35.56
South Coast Water District									
Totals	\$ 295,630	\$ 295,630	\$ -	\$ 343,905	\$ 111,399	\$ (18.02)	\$ 372,720	\$ 115,675	\$ (19.77)
Trabuco Canyon WD									
Totals	\$ 165,988	\$ 165,988	\$ -	\$ 215,701	\$ 425,386	\$ 41.68	\$ 261,116	\$ 565,095	\$ 58.23
Laguna Beach CWD									
Totals	\$ 192,842	\$ 192,842	\$ -	\$ 238,815	\$ 135,816	\$ (11.89)	\$ 275,799	\$ 169,286	\$ (12.23)
San Clemente									
Totals	\$ 412,578	\$ 412,578	\$ -	\$ 515,629	\$ 398,777	\$ (5.99)	\$ 591,905	\$ 469,366	\$ (6.19)
San Juan Capistrano									
Totals	\$ 216,684	\$ 216,684	\$ -	\$ 268,024	\$ 81,275	\$ (15.99)	\$ 307,687	\$ 91,834	\$ (18.30)
Remaining MWD OC									
Brea									
Totals	\$ 258,060	\$ 258,060	\$ -	\$ 338,233	\$ 204,829	\$ (10.18)	\$ 408,387	\$ 235,759	\$ (12.81)
Buena Park									
Totals	\$ 262,695	\$ 262,695	\$ -	\$ 378,737	\$ 261,612	\$ (5.59)	\$ 483,588	\$ 311,330	\$ (8.05)
East Orange County WD*									
Totals	\$ 95,838	\$ 95,838	\$ -	\$ 122,106	\$ 55,874	\$ (55.01)	\$ 143,772	\$ 62,085	\$ (67.51)
Fountain Valley									
Totals	\$ 189,608	\$ 189,608	\$ -	\$ 258,572	\$ 353,799	\$ 5.30	\$ 298,069	\$ 446,203	\$ 8.10
Garden Grove									
Totals	\$ 370,229	\$ 370,229	\$ -	\$ 524,062	\$ 396,182	\$ (3.58)	\$ 611,716	\$ 448,046	\$ (4.52)
Golden State Water Company									
Totals	\$ 560,801	\$ 560,801	\$ -	\$ 868,130	\$ 704,719	\$ (2.38)	\$ 1,137,289	\$ 949,570	\$ (2.16)
Huntington Beach									
Totals	\$ 587,584	\$ 587,584	\$ -	\$ 798,261	\$ 608,975	\$ (3.42)	\$ 917,191	\$ 682,829	\$ (4.17)
La Habra									
Totals	\$ 148,547	\$ 148,547	\$ -	\$ 192,277	\$ 146,855	\$ (3.39)	\$ 221,624	\$ 164,739	\$ (4.20)
La Palma									
Totals	\$ 46,253	\$ 46,253	\$ -	\$ 62,625	\$ 70,180	\$ 1.68	\$ 72,070	\$ 90,173	\$ 3.99
Mesa Consolidated									
Totals	\$ 167,517	\$ 167,517	\$ -	\$ 245,178	\$ 225,487	\$ (0.80)	\$ 275,139	\$ 252,511	\$ (0.91)
Newport Beach									
Totals	\$ 336,301	\$ 336,301	\$ -	\$ 472,638	\$ 358,197	\$ (3.54)	\$ 541,424	\$ 400,773	\$ (4.29)
OCWD									
Totals	\$ 120,000	\$ 120,000		\$ 147,556	\$ 60,063		\$ 173,467	\$ 66,273	
Orange									
Totals	\$ 453,861	\$ 453,861	\$ -	\$ 639,731	\$ 1,345,190	\$ 19.05	\$ 740,404	\$ 1,674,729	\$ 24.93
Seal Beach									
Totals	\$ 67,255	\$ 67,255	\$ -	\$ 93,340	\$ 120,797	\$ 4.93	\$ 109,432	\$ 160,792	\$ 9.13
Serrano WD									
Totals	\$ 14,310	\$ 14,310	\$ -	\$ 17,402	\$ 18,913	\$ 0.65	\$ 18,467	\$ 20,708	\$ 0.97
Westminster									
Totals	\$ 231,903	\$ 231,903	\$ -	\$ 316,753	\$ 792,185	\$ 22.66	\$ 367,195	\$ 993,507	\$ 29.43
Totals	\$ 489,990	\$ 489,990	\$ -	\$ 647,209	\$ 1,052,127	\$ 16.07	\$ 765,177	\$ 1,316,964	\$ 20.57



## 5h Comparative Effects of a 20% Reduction in Water Demand

In response to a number of conditions including drought, climate change and ecosystem disruption in the Sacramento-San Joaquin Delta, the Governor has called for a twenty percent reduction in per capita demand by the year 2020. The Department of Water Resources is currently working to implement this initiative, commonly known as 20 x 2020. For the purposes of this study, the 20 x 2020 initiative would have the most fiscal impact on Options 3a and 3b because reduced demands would reduce Tier 2 water purchases. Under Options 1 and 2a and 2b, MWDOC's portfolio management strategy and Melded Water Rate Surcharge work to mitigate the impacts of Tier 2 water purchases. Under Options 3a and 3b, when each agency is purchasing water according to its own demands, the impacts of Tier 2 purchases affect some agencies more than others.

Table 20, below, illustrates these effects of demand reductions and illustrates that with demand reductions, some agencies eliminate their need for Tier 2 purchases.

**Table 20: Tier 1 Allocations and Projected 20 x 2020 Reduced Demands (all in acre-feet)**

Agency	Tier 1 Allocation	FY 2009 2010		FY 2014 2015		FY 2019 2020	
		Demand	Difference	Demand	Difference	Demand	Difference
El Toro	11,411	10,894	-517	10,038	-1,373	9,058	-2,353
Irvine Ranch	34,083	33,193	-890	33,761	-322	33,386	-697
Moulton Niguel	28,571	35,114	6,543	31,892	3,321	28,748	177
Santa Margarita	17,541	30,957	13,416	29,490	11,949	28,452	10,911
South Coast	8,300	7,209	-1,091	6,017	-2,283	4,957	-3,343
Trabuco Canyon	2,861	4,543	1,682	4,337	1,476	4,046	1,185
<b>Subtotal Six Agencies</b>	<b>102,767</b>	<b>121,910</b>	<b>19,143</b>	<b>115,535</b>	<b>12,768</b>	<b>108,647</b>	<b>5,880</b>
Laguna Beach	4,377	3,722	-655	3,762	-615	3,802	-575
San Clemente	8,674	9,806	1,132	8,993	319	7,995	-679
San Juan Capistrano	6,111	4,839	-1,272	4,390	-1,721	3,935	-2,176
<b>Subtotal Nine Agencies</b>	<b>121,929</b>	<b>140,277</b>	<b>18,348</b>	<b>132,680</b>	<b>10,751</b>	<b>124,379</b>	<b>2,450</b>
Brea	8,826	5,997	-2,829	5,842	-2,984	5,112	-3,714
Buena Park	7,358	4,536	-2,822	5,384	-1,974	5,762	-1,596
EOCWD	5,279	2,947	-2,332	2,758	-2,521	2,474	-2,805
Fountain Valley	2,451	2,697	246	3,005	554	2,798	347
Garden Grove	8,327	5,122	-3,205	6,223	-2,104	5,936	-2,391
Golden State	12,761	7,540	-5,221	8,570	-4,191	8,127	-4,634
Huntington Beach	10,962	8,327	-2,635	9,281	-1,681	8,625	-2,337
La Habra	2,928	2,225	-703	2,224	-704	2,090	-838
La Palma	657	629	-28	702	45	659	2
Mesa Consolidated	6,493	616	-5,877	1,471	-5,022	1,398	-5,095
Newport Beach	18,924	4,643	-14,281	5,580	-13,344	5,149	-13,775
Orange	4,695	7,594	2,899	8,796	4,101	8,126	3,431
Seal Beach	1,085	1,108	23	1,254	169	1,188	103

Agency	Tier 1 Allocation	FY 2009 2010		FY 2014 2015		FY 2019 2020	
		Demand	Difference	Demand	Difference	Demand	Difference
Serrano	449	-	-449	-	-449	-	-449
Westminster	1,145	3,472	2,327	3,868	2,723	3,632	2,487
Yorba Linda	8,652	11,280	2,628	11,155	2,503	10,155	1,503
<b>Subtotal Remaining MWDOC</b>	<b>100,992</b>	<b>68,733</b>	<b>-32,259</b>	<b>76,113</b>	<b>-24,879</b>	<b>71,231</b>	<b>-29,761</b>

The 20 x 2020 Initiative has the potential to substantially lower the South CWA’s Tier 2 water cost exposure, under both boundary options, which reduces the water purchase related cost impacts to rate payers. This analysis suggests that additional investigation of cost-effective conservation strategies has the potential to benefit rate payers.

## 5i Conclusions

While each alternative results in a diverse spread of costs, and each retail agency is affected differently, the changes are typically modest when brought down to the rate payer level. Taking into account the high level of this study and the significant current uncertainties around the future cost of water, the analyses demonstrate that it is fiscally feasible to implement each of the alternatives studied. Specifically:

- The assumption to reduce operating reserves to 15% of the general fund budget is the single largest contributor to the fiscal differences between MWDOC Baseline, MWDOC CWA and MWDOC Subscription CWA;
- MWDOC Subscription CWA, while shifting approximately \$1,000,000 in costs among the retail agencies, does not have a significant impact at the typical ratepayer level;
- The Six and Nine Agency South CWA options remove the “rate smoothing” affects of the Melded Water Rate Surcharge and cause higher rate payer impacts in some cases. However, these impacts are not large.
- The analysis indicates that under both South CWA boundary options, remaining MWDOC has a significant opportunity for rate smoothing and little risk of incurring Tier 2 water purchase costs. Both the Six and Nine Agency South CWA options would also have some opportunity to smooth rates, although collectively the agency would need to plan on paying some Tier 2 water costs on an annual basis.

## 6. Implementation Analysis

This section, Implementation Analysis, examines the organizational changes and procedural steps required to implement the governance structure options. The section discusses legal barriers or conflicts revealed by additional study, reviews of board composition, and evaluates the potential changes and impacts relating to representation on the Metropolitan's Board of Directors.

Because the scope of this study is limited to a high-level review, this evaluation does not include a detailed analysis of potential conditions that LAFCO could impose on the proposed changes of organization, nor does it provide detailed descriptions of agreements or contracts that may be required to implement viable options.

### 6a Option 1 - MWDOC Baseline

Option 1 – MWDOC Baseline is clearly a viable option because it is the status quo. No organizational changes are required to maintain Option 1 and no legal barriers or conflicts impede MWDOC from providing water to its retail members or from representing the retail agencies at Metropolitan. Under Option 1 MWDOC's board composition would not change, and the agency would continue to be governed by a 7-member board elected by registered voters living within the service area, and by district.

#### Representation at Metropolitan

Representation by MWDOC on Metropolitan would also remain unchanged with the MWDOC Baseline option. Chapter 1 of the Metropolitan Act describes the composition of its Board of Directors, their terms and their voting rights<sup>26</sup> which are discussed here briefly.

Metropolitan board members are appointed by Metropolitan's member agencies and each agency is entitled to at least one board member. Member agencies may designate one additional representative for each full five-percent of assessed value it has within the Metropolitan's territory. Metropolitan board members serve an indefinite term at the pleasure of the appointing member agency, unless the appointing member agency has adopted an ordinance, in which case terms are limited to four years. No member agency can appoint a majority of its board of directors or city council to the Metropolitan board.

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<sup>26</sup> Met Act, Sections 50 -57

Votes on Metropolitan's board of directors are also determined by assessed value within the member agency. Each member agency is entitled to one vote for each \$10,000,000 of assessed value (or fractional part thereof) included within Metropolitan's boundaries. Each member is entitled to at least one vote and no one member's votes may exceed the number of all other members combined. Metropolitan board actions are subject to majority approval, based on total votes cast, unless it is expressly provided otherwise, for a specific issue.

Table 21 presents the current Metropolitan vote and director entitlement for Fiscal Year 2008-09. MWDOC has 4 directors and is entitled to 34,917 of 210,366 Metropolitan votes, or just over 16% of the total.

**Table 21: Metropolitan Voting and Representation Option 1 MWDOC Baseline**

Member Agency	Assessed Value	Percent of Total	Weighted Vote Entitlement	Director Entitlement
Baseline MWDOC	\$349,171,973,512	16.60%	34,917	4
Anaheim	\$34,660,804,694	1.65%	3,466	1
Beverly Hills	\$20,326,301,709	0.97%	2,033	1
Burbank	\$18,026,610,549	0.86%	1,803	1
Calleguas MWD	\$81,604,719,952	3.88%	8,160	1
Central Basin MWD	\$111,846,045,927	5.32%	11,185	2
Compton	\$3,617,061,385	0.17%	362	1
Eastern MWD	\$67,312,191,660	3.20%	6,731	1
Foothill MWD	\$12,718,869,026	0.60%	1,272	1
Fullerton	\$14,574,678,928	0.69%	1,457	1
Glendale	\$22,260,528,064	1.06%	2,226	1
Inland Empire Utilities Agency	\$84,399,728,595	4.01%	8,440	1
Las Virgenes MWD	\$19,822,720,539	0.94%	1,982	1
Long Beach	\$39,837,385,972	1.89%	3,984	1
Los Angeles	\$404,546,752,425	19.23%	40,455	4
Pasadena	\$20,373,176,783	0.97%	2,037	1
San Diego County Water Authority	\$382,125,246,098	18.16%	38,213	4
San Fernando	\$1,500,049,817	0.07%	150	1
San Marino	\$3,989,867,965	0.19%	399	1
Santa Ana	\$21,693,351,229	1.03%	2,169	1
Santa Monica	\$23,320,420,462	1.11%	2,332	1
Three Valleys MWD	\$50,308,678,071	2.39%	5,031	1
Torrance	\$21,864,654,798	1.04%	2,186	1
Upper San Gabriel Valley MWD	\$72,569,363,823	3.45%	7,257	1
West Basin MWD	\$136,627,653,976	6.49%	13,663	2
Western MWD	\$84,557,495,886	4.02%	8,456	1
<b>Totals</b>	<b>\$2,103,656,331,845</b>	<b>100.00%</b>	<b>210,366</b>	<b>37</b>

## 6b Options 2a and 2b - MWDOC CWA

Options 2a and 2b would maintain the service area boundary of MWDOC, but reorganize the agency as a CWA governed under the CWA Act. The distinction between Option 2a and Option 2b rests with internal operational differences, not governance structure. Thus, the formation process, board composition and representation at Metropolitan are identical under either option.

Implementing Option 2 would require processing a reorganization through LAFCO, which would include dissolution of MWDOC as a Municipal Water District and formation of a new CWA consistent with the rules and regulations of the CWA Act. The reorganization process is detailed in Section 7d of this report.

Although its board composition would change, because the boundaries of the newly-formed CWA would be identical to the existing MWDOC boundaries, representation on Metropolitan would not differ from Option 1.

### CWA Board Composition

Board members of the reorganized agency would no longer be elected by voters living within the service area, but would instead be appointed by the participating member agencies pursuant to the CWA Act. Section 46-6 of the CWA Act describes the composition of a CWA's Board of Directors, their terms and their voting rights.

CWA board members are appointed by the member agencies and each agency is entitled to at least one board member. Member agencies may designate one additional representative for each full five-percent of assessed value it has within the CWA's territory, except that no single member agency may have more board members than the sum of all the remaining agencies' members. If a city is a member of a CWA, it may only appoint one council member to the CWA board. Water districts may not appoint a majority of their board of directors to the CWA board. Board members serve six-year terms, except for the first board where half the members are appointed to three year terms.<sup>27</sup>

While CWA board size is determined by assessed value, CWA board voting rights are determined by financial contribution to the CWA budget (except for the San Diego County Water Authority that has specific voting rights incorporated in the CWA Act). Each agency is entitled to cast one vote for each \$5,000,000 (or fractional part thereof) that it pays to the CWA. When a member agency has more than one member on the

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<sup>27</sup> CWA Act, Section 45-6 (b), (c) and (d)

CWA Board it must determine, by ordinance, whether its directors must cast their votes as a unit or if each director is entitled to a proportional share of the agency's vote. CWA actions are typically subject to majority approval unless one member agency controls more than 38 percent of the total votes. In this case, CWA actions are subject to a 55 percent approval.<sup>28</sup>

### Legal Barriers and Conflicts

Research completed for this government structure option indicates that implementation of Option 2 may be infeasible. Attachment J, a memo from the law firm of Richards/Watson/Gershon regarding "Constraints on Ability of a County Water Authority to Supply Water to a Regulated Public Utility" concludes that "without new legislation, a County Water Authority could not supply water to Golden State Water Company except to areas located outside of the territory of all the member agencies of the Authority and only on an interruptible basis."

Golden State is not a public agency, but is a PUC-regulated investor-owned public utility. The Richards/Watson/Gershon memo notes that MWDOC currently supplies water to Golden State pursuant to Water Code section 71611, which provides that MWDOC may sell water without preference to various entities within the district, including "cities, other public corporations and agencies..." The CWA Act, however, limits the definition of a CWA "member agency" to public agencies<sup>29</sup>, and prohibits a CWA from supplying water to a regulated public utility except on an interruptible basis when there is water available that is surplus to the needs of the public entity member agencies, and only to service areas outside the territorial boundaries of those member agencies.

Golden State Water Company currently receives a firm water supply from MWDOC, and implementation of the MWDOC CWA option would result in the loss of this assured, consistent water supply to Golden State. Alternatives could be examined to remedy this issue, including adoption of new legislation amending the CWA Act, the formation of a Joint Powers Authority similar to the Sweetwater Authority in San Diego County and/or through other contractual arrangements. LAFCO, however, cannot predict if such legislation will be introduced or require contractual relationships between or among districts. In addition, given the import of this issue, without the cooperation of all parties, legal challenges could pose additional impediments to successful execution. Thus, implementation of Option 2 is not considered viable

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<sup>28</sup> CWA Act, Section 45-6 (e) and (f)

<sup>29</sup> CWA Act, Section 45-2



without special legislation and, for the purposes of this report, is considered fatally flawed.

## **6c Options 3a and 3b - Six and Nine Agency South CWA**

Options 3a and 3b involve detaching territory from MWDOC and forming a new, smaller CWA. Implementation of either of these options will require processing a reorganization through LAFCO, involving detachment of territory from MWDOC and formation of a new CWA encompassing the detaching area.

### Board Composition

The composition of the CWA Board appointments to a South CWA will be made pursuant to the CWA Act regulations described in Section 7b – Option 2. The following provides estimates of Board representation and voting rights that may be anticipated for both the Six Agency South CWA and the Nine Agency South CWA.

### Six Agency South CWA

Table 22 presents the calculations for the number of directors and percentage of vote expected to be controlled by the water agencies assumed to become member agencies in the Six Agency South CWA.

Because representation on a CWA Board is a function of assessed value within each member agencies' service area, preliminary estimates of the representation for the Six Agency South CWA have been calculated based on Fiscal Year 2008-09 assessed values (secured from the Parcel Quest service). Because Orange County assigns tax rate area codes to cities but not to water districts, some assumptions were made about water district boundaries in order to estimate assessed value within their territory. Future action on this option would require the development of assessed values certified by Orange County.

While the number of directors is based on assessed value, actual voting rights are a function of the financial contribution each member agency makes to the CWA. For the purposes of this initial analysis, voting rights have been estimated based on the percentage of water purchased by each agency, because water purchases will constitute the vast majority of the financial contribution made to the new CWA by its member agencies. Preliminary estimates of the percentage of votes allocated to each agency are based the estimated Fiscal Year 2009-10 water demands outlined in Table 15.

**Table 22: Option 3a Six Agency South CWA Directors and Voting Rights**

Agency	Assessed Value	% of Assessed Value	Nearest 5% of Assessed Value	Number of Directors	FY 2009 10 Water Demand	Percent of Total Vote
El Toro	\$5,931,472,257	4.42%	0.88%	1	10,894	8.94%
Irvine Ranch	\$69,585,155,276	51.81%	10.36%	11	33,193	27.23%
Moulton Niguel	\$25,600,825,524	19.06%	3.81%	4	35,114	28.80%
Santa Margarita	\$23,274,158,781	17.33%	3.47%	4	30,957	25.39%
South Coast	\$8,052,519,280	6.00%	1.20%	2	7,209	5.91%
Trabuco Canyon	\$1,865,262,850	1.39%	0.28%	1	4,543	3.73%
<b>Total</b>	<b>\$134,309,393,968</b>	<b>100.00%</b>		<b>23</b>	<b>121,910</b>	<b>100.00%</b>
El Toro estimates include Laguna Woods, Aliso Viejo north of 73, Laguna Hills west of Wilkes and Mission Viejo west of the railroad.						
Irvine Ranch estimates include Irvine, Costa Mesa, Foothill, Modjeska, Newport Coast, Portola Hills, Silverado and portions of Tustin and Newport Beach (small portions of Orange and Santa Ana that are within the IRWD service are not included in the calculation)						
Moulton Niguel estimates include Aliso Viejo south of 73, Laguna Niguel, Laguna Hills east of Wilkes and Mission Viejo west of Marguerite Parkway						
Santa Margarita estimates include Mission Viejo east of Marguerite and Trabuco Parkways, Rancho Santa Margarita, Coto de Caza and Ladera Ranch						
South Coast estimates include Dana Point and Capistrano Beach						
Trabuco Canyon estimates include Trabuco Canyon and Dove Canyon						

Table 22 demonstrates results from the CWA rules governing board composition and voting rights. For example, in the analysis of the Six Agency South CWA board, the Irvine Ranch Water District holds 47.8% (11 of 23) of the board seats, surpassing the next-largest district by 7 seats; nonetheless, Irvine has only 27.7% of the voting rights. Moulton Niguel, which is provided only 4 director seats, holds the largest share (28.8%) of voting rights.

Nine Agency South CWA

Preliminary estimates of the representation and voting rights for the Nine Agency South CWA have also been calculated based on Fiscal Year 2008-09 assessed values and estimates of water demand. Again, some assumptions on district boundaries were made in order to estimate assessed value. Table 23 presents the calculations for number of directors and percent of vote controlled together with any assumptions, beyond those described in Table 22, which were used to make the calculations.

**Table 23: Option 3b Nine Agency South CWA Directors and Voting Rights**

Agency	Assessed Value	% of Assessed Value	Nearest 5% of Assessed Value	Number of Directors	FY 2009 10 Water Demand	Percentage of Total Vote
El Toro	\$5,931,472,257	4.42%	0.88%	1	10,894	7.83%
Irvine Ranch	\$69,585,155,276	51.81%	10.36%	11	33,193	23.85%
Moulton Niguel	\$25,600,825,524	19.06%	3.81%	4	35,114	25.23%
Santa Margarita	\$23,274,158,781	17.33%	3.47%	4	30,957	22.24%
South Coast	\$8,052,519,280	6.00%	1.20%	2	7,209	5.18%
Trabuco Canyon	\$1,865,262,850	1.39%	0.28%	1	4,543	3.26%
Laguna Beach	\$10,789,998,642	6.63%	1.33%	2	2,628	1.89%
San Clemente	\$11,885,487,817	7.30%	1.46%	2	9,806	7.05%
San Juan Capistrano	\$5,835,432,468	3.58%	0.72%	1	4,839	3.48%
<b>Total</b>	<b>\$162,820,312,895</b>	<b>100.00%</b>		<b>28</b>	<b>139,183</b>	<b>100.00%</b>
Laguna Beach estimates include Laguna Beach and Emerald Bay CSD						

As shown on Table 23, the number of total board seats for a Nine Agency South CWA is increased by five (28 vs. 23 seats). In this analysis, the Irvine Ranch Water District holds 39.3% of total board seats (11 of 28), while its voting rights are reduced to 23.85%. Moulton Niguel retains 4 director seats and continues to claim the largest overall share (25.23%) of voting rights among the CWA members.

### Representation at Metropolitan

Table 21, in Section 6a – MWDOC Baseline - shows the current board seats and voting rights held by existing Metropolitan member agencies. Preliminary estimates of Metropolitan representation and voting rights for the Six Agency South CWA and remaining MWDOC, and for the Nine Agency South CWA and remaining MWDOC, have been calculated and presented on Tables 24 and 25. In order to perform these calculations, the estimated assessed values for the Six Agency South CWA and Nine Agency South CWA, presented in Tables 22 and 23, were subtracted from \$349,171,973,512, which is the total certified assessed value for MWDOC for Fiscal Year 2008-09 provided by Metropolitan<sup>30</sup>.

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<sup>30</sup> Board of Directors Business and Finance Committee Information Item 5H, September 9, 2008 Board Meeting

**Table 24: Metropolitan Voting and Representation - Option 3a Six Agency South CWA**

Member Agency	Assessed Value	Percent of Total	Weighted Vote Entitlement	Director Entitlement
Remaining MWDOC	\$214,862,579,544	10.21%	21,486	3
Six Agency South CWA	\$134,309,393,968	6.38%	13,431	2
Anaheim	\$34,660,804,694	1.65%	3,466	1
Beverly Hills	\$20,326,301,709	0.97%	2,033	1
Burbank	\$18,026,610,549	0.86%	1,803	1
Calleguas MWD	\$81,604,719,952	3.88%	8,160	1
Central Basin MWD	\$111,846,045,927	5.32%	11,185	2
Compton	\$3,617,061,385	0.17%	362	1
Eastern MWD	\$67,312,191,660	3.20%	6,731	1
Foothill MWD	\$12,718,869,026	0.60%	1,272	1
Fullerton	\$14,574,678,928	0.69%	1,457	1
Glendale	\$22,260,528,064	1.06%	2,226	1
Inland Empire Utilities Agency	\$84,399,728,595	4.01%	8,440	1
Las Virgenes MWD	\$19,822,720,539	0.94%	1,982	1
Long Beach	\$39,837,385,972	1.89%	3,984	1
Los Angeles	\$404,546,752,425	19.23%	40,455	4
Pasadena	\$20,373,176,783	0.97%	2,037	1
San Diego County Water Authority	\$382,125,246,098	18.16%	38,213	4
San Fernando	\$1,500,049,817	0.07%	150	1
San Marino	\$3,989,867,965	0.19%	399	1
Santa Ana	\$21,693,351,229	1.03%	2,169	1
Santa Monica	\$23,320,420,462	1.11%	2,332	1
Three Valleys MWD	\$50,308,678,071	2.39%	5,031	1
Torrance	\$21,864,654,798	1.04%	2,186	1
Upper San Gabriel Valley MWD	\$72,569,363,823	3.45%	7,257	1
West Basin MWD	\$136,627,653,976	6.49%	13,663	2
Western MWD	\$84,557,495,886	4.02%	8,456	1
<b>Totals</b>	<b>\$2,103,656,331,845</b>	<b>100.00%</b>	<b>210,366</b>	<b>38</b>

**Table 25: Metropolitan Voting and Representation - Option 3b Nine Agency South CWA**

Member Agency	Assessed Value	Percent of Total	Weighted Vote Entitlement	Director Entitlement
Remaining MWDOC	\$186,351,660,617	8.86%	18,635	2
Nine Agency South CWA	\$162,820,312,895	7.74%	16,282	2
Anaheim	\$34,660,804,694	1.65%	3,466	1
Beverly Hills	\$20,326,301,709	0.97%	2,033	1
Burbank	\$18,026,610,549	0.86%	1,803	1
Calleguas MWD	\$81,604,719,952	3.88%	8,160	1
Central Basin MWD	\$111,846,045,927	5.32%	11,185	2
Compton	\$3,617,061,385	0.17%	362	1
Eastern MWD	\$67,312,191,660	3.20%	6,731	1
Foothill MWD	\$12,718,869,026	0.60%	1,272	1
Fullerton	\$14,574,678,928	0.69%	1,457	1
Glendale	\$22,260,528,064	1.06%	2,226	1
Inland Empire Utilities Agency	\$84,399,728,595	4.01%	8,440	1
Las Virgenes MWD	\$19,822,720,539	0.94%	1,982	1
Long Beach	\$39,837,385,972	1.89%	3,984	1
Los Angeles	\$404,546,752,425	19.23%	40,455	4
Pasadena	\$20,373,176,783	0.97%	2,037	1
San Diego County Water Authority	\$382,125,246,098	18.16%	38,213	4
San Fernando	\$1,500,049,817	0.07%	150	1
San Marino	\$3,989,867,965	0.19%	399	1
Santa Ana	\$21,693,351,229	1.03%	2,169	1
Santa Monica	\$23,320,420,462	1.11%	2,332	1
Three Valleys MWD	\$50,308,678,071	2.39%	5,031	1
Torrance	\$21,864,654,798	1.04%	2,186	1
Upper San Gabriel Valley MWD	\$72,569,363,823	3.45%	7,257	1
West Basin MWD	\$136,627,653,976	6.49%	13,663	2
Western MWD	\$84,557,495,886	4.02%	8,456	1
<b>Totals</b>	<b>\$2,103,656,331,845</b>	<b>100.00%</b>	<b>210,366</b>	<b>37</b>

One notable outcome of the Metropolitan representation analysis for Options 3a and 3b is the possibility that reorganization could lead to an increase in the overall number of Orange County representatives eligible to sit on Metropolitan's Board - although the total *voting rights* for Orange County would not be affected.

Under Option 3a, remaining MWDOC retains 3 directors and 21,486 votes. The new Six Agency South CWA has 2 directors and 13,431 votes. The total number of directors from MWDOC's current service area increases by 1 (from 4 to 5) because of the fractional assessed value computations, providing Orange County with an additional Metropolitan director.

Because fractional assessed value computations do not occur under the larger Nine Agency CWA option, the number of Metropolitan director seats available to the current MWDOC service area remains unchanged. Remaining MWDOC retains 2 directors and 18,635 votes and the new Nine Agency South CWA also has 2 directors and secures 16,282 votes.

#### Process to Approve a New Metropolitan Member Agency

Metropolitan has indicated that the addition of a new member agency is a "Matter of First Impression"<sup>31</sup>, meaning that Metropolitan has not adopted procedures to describe the actions required to process the request. Metropolitan staff have also indicated that because the territory under consideration is already within Metropolitan's territory, the established annexation procedures and fees would not apply, although a processing fee would be required to cover the time Metropolitan's staff spends working on the request.

The alteration of the Metropolitan board composition that would result from dividing MWDOC into two separate agencies will likely cause a shift in the existing dynamics on the Metropolitan Board and on political affairs associated with regional water policy and the relationships among water providers in Orange County. The division of MWDOC - which currently serves and represents a majority of Orange County retail agencies - into two wholesale agencies, each independently represented on Metropolitan, will result in the division of an existing voting constituency into potentially two separate voting blocks. The physical realities of the water situation in north and south Orange County - due to the existence of a groundwater basin that lies principally in the north - have necessarily focused attention on two differing water development strategies; one more reliant on stabilizing and improving groundwater supplies and another focusing more attention on increasing surface supplies (more akin

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<sup>31</sup> Personal Communication Catherine Stites and Karen Tashiki, Metropolitan Office of General Counsel, March 19, 2009.

to Orange County's southern neighbor, San Diego County). Future water issues facing Southern California will involve questions related to where and how Metropolitan's attention and resources will be focused: on groundwater replenishment, development and increase of new surface supplies, storage and/or regional delivery capital improvement projects. The division of MWDOC could result in shifting alliances on the Metropolitan Board as these issues are addressed.

The acceptance of a newly reorganized agency as a member of Metropolitan will require an affirmative discretionary action on the part of the Metropolitan board. In order to obtain positive action from the Metropolitan Board, cooperation between and among all agencies affected by the reorganization will be necessary since it is unlikely that Metropolitan will have an interest in arbitrating differences among its member agencies. Therefore, the ability of the involved agencies to successfully negotiate, develop and complete agreements relating to the allocation of interests between MWDOC and the new CWA - including resolving issues related to water allocations and miscellaneous water supply and conservation contracts - will greatly affect the success or failure of achieving implementation of Option 3.

#### Legal Barriers and Conflicts

Based on preliminary review of the CWA Act, the Municipal Water District Act of 1911 and the Local Government Reorganization Act of 2000, there do not appear to be any legal barriers or conflicts to the formation of a South CWA. The reorganization process associated with Option 3 and discussed in Section 6d of this report are complex. Without special legislation, the chief obstacle to the potential success or failure in implementing this option rests with the ability or inability of the involved public agencies to reach accord on agreements that will be required as conditions of reorganization, such as how water allocations will be made and the manner in which the various existing contracts between MWDOC and Metropolitan will be handled.

#### **6d Reorganization Proceedings**

Implementation of any of Options 2a, 2b, 3a or 3b would be processed through LAFCO as a "reorganization". Implementation of Option 2 would require dissolving MWDOC and forming a new, coterminous agency pursuant to the CWA Act. Implementation of Option 3 would require detaching territory from MWDOC and forming a new, smaller agency under the CWA Act.

Dissolution, detachment and the formation of a new district are each considered a "change of organization" as defined by the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (Government Code Section 56021), and a reorganization is defined as "two or more changes of organization initiated in a single proposal" (Government Code Section 56073). Government Code Sections 56100, 56826, and 56859



allow LAFCO to process reorganizations that provide for the formation of one or more new districts pursuant to the principal act.

#### Initiation/Application

LAFCO proceedings for reorganization may be initiated by the Commission, by petition or by resolution of an affected agency. An affected agency is a public agency which contains, or whose sphere of influence contains, any territory for which a change of organization is proposed. Thus, reorganization proposing detachment from MWDOC and formation of a new district within the detaching area may be initiated by any of the public agencies within the current MWDOC service boundary. If initiated by resolution of an affected agency, the proposal must be accompanied by a Plan for Services prepared pursuant to Government Code Section 56653.

#### Notice of Completion

Before a reorganization is docketed for Commission consideration, the proposal application must be deemed complete by the LAFCO Executive Officer. In the case of a reorganization involving formation of a new district which will require approval by Metropolitan for representation on the Metropolitan Board, and recognizing that LAFCO has no authority over Metropolitan and/or its ability to recognize a new (or reorganized) member, the LAFCO Executive Director will require that the Application and Plan for Services include a “pre-approval” letter from Metropolitan which would consist of written confirmation that Metropolitan will accept the new agency upon completion of the reorganization and an account of the conditions that Metropolitan will require in order to recognize the new CWA as a member agency. This will in turn require that all agreements between and among MWDOC, the new CWA and Metropolitan be negotiated prior to LAFCO consideration of the reorganization.

#### Commission Consideration and Determination

Upon the finding by the Executive Officer that the reorganization application is complete, the Executive Officer issues a Certificate of Filing document that is distributed to all designated agencies for information prior to a Public Hearing. The Commission may choose to establish a reorganization committee to further study the application, or it may review and consider the proposal without further study. The Commission is empowered to review and approve or disapprove the reorganization “with or without amendment, wholly, partially, or conditionally...” (Government Code Section 56375). LAFCO would consider and act on both elements of the reorganization concurrently.

LAFCO may apply terms and conditions to the reorganization that (1) make the successful detachment a precondition to the formation proceedings and/or (2) prohibit

a partial or piecemeal formation. The reorganization becomes effective upon completion of all conditions required by LAFCO and consistent with the execution of the Certificate of Completion.

## **6e Summary of Options of Requiring Special Legislation to Implement**

This study has concluded that only two governance structure options, MWDOC Baseline and Reorganization of South County Agencies to Form a CWA are viable within the constraints imposed by existing law. This study has considered options that require special legislation to be infeasible because successfully securing special legislation is not guaranteed and not within the control of LAFCO or the stakeholders.

However, based on input from the stakeholders, alternatives that require changes to existing law to implement were “parked” as part of this study. Those alternatives which were “parked” include:

- Modifying the Municipal Water District Act of 1911 to provide for changes in governance board representation. This option would not change the fiscal or legal analysis presented in this study but could provide for a different representation on MWDOC’s board.
- Expanding the definition of public agency in the Municipal Utility District Act to include the full range of agencies represented by MWDOC. This option would not change the fiscal or legal analysis presented in this study. However, because an MUD board is elected by district, much like MWDOC’s board, it would not address the fundamental governance structure issues that prompted this study.
- Expanding the permitted service area of a Public Utility District to include incorporated areas. This option would not change the fiscal or legal analysis presented in this study. However, because a PUD board is elected by the resident registered voters, this option would not address the fundamental governance structure issues that prompted this study.
- Modifying OCWD’s principal act to allow merger with MWDOC. An in-depth analysis of this option may reveal fiscal or legal issues not addressed in this study. However, this option would not address the fundamental governance structure issues that prompted this study.
- Modifying the Municipal Water District Act of 1911 and County Water District Law to clearly allow for consolidation of these two types of agencies. An in-depth analysis of this option may reveal fiscal or legal issues not addressed in this study. However, this option would not address the fundamental governance structure issues that prompted this study.

- Expanding the definition of a “public agency” in Metropolitan’s principal act to include Joint Powers Authorities. This would not change the fiscal or legal analysis but could potentially allow for a board that is more representative of the retail agencies’ concern.
- Expanding the definition of membership within the CWA Act to allow an investor-owned public utility to have full membership rights within a CWA. This would not change the fiscal or legal analysis but would allow for a board appointed by the retail agencies rather than elected by district.

## 7. Summary of Findings and Feasible Governance Structure Options

The purpose of this study is to identify and evaluate government structure options that may have the potential to resolve issues identified in the 2007 MWDOC Municipal Service Review. After fatal flaw, fiscal, legal and procedural reviews of a range of government structure options, two options have been identified by this report as viable: reorganization of MWDOC into two agencies (South CWA option) and continuation of the status quo. However, the resolution of the issues that gave rise to this study, whether through a reorganization or the existing government structure, will rely predominantly on the ability of MWDOC and its various retail service providers to cooperate on the best option for the residents of Orange County.

Implementation of the South CWA option would result in the creation of two major wholesale providers for Orange County, one in the north and one in the south, and there will be a range of opinions regarding the productivity of this course of action. Northern retailers may view splitting MWDOC as an opportunity to reduce or even eliminate its Tier II surcharge. Southern agencies may be persuaded that division of MWDOC will provide them with more autonomy and control over budgeting. The overarching issue is the efficacy and the potential benefits to ratepayers and to Orange County as a whole.

Implementation of this option requires processing a complex reorganization through LAFCO. The agencies seeking detachment from MWDOC will have to work with MWDOC as well as with Metropolitan to address water allocations and existing MWDOC/Metropolitan contracts and agreements.

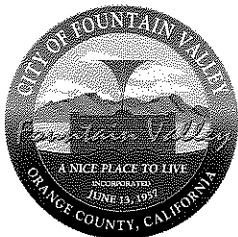
Implementation of the status quo requires no additional actions. However, without changes to the current MWDOC philosophy, budget and interaction with all member agencies, this option does not resolve the issues that have dominated discussions for more than 5 years. Dealing with recurring concerns through the existing government structure will require the full participation and cooperation of the MWDOC Board and all of the retail agencies and will require a permanent willingness to institute changes that address the issues raised.

Table 26 summarizes the Implementation Analysis, including detail on financial impact and representation.

**Table 26: Summary of Analysis**

	Option 1 MWDOC Baseline	Option 2a MWDOC CWA	Option 2b MWDOC Subscription CWA	Option 3a Six Agency South CWA	Option 3b Nine Agency South CWA
<b>Services</b>	Sale of Water  Levy Water Standby Charges	Sale of Water  Levy Water Standby Charges Develop Water Supplies* Develop Recycled Water Supplies* Generate Electrical Power*		Sale of Water  Levy Water Standby Charges Develop Water Supplies* Develop Recycled Water Supplies* Generate Electrical Power*	
<b>Fiscal Impacts</b>	<u>No Change:</u> Cost to ratepayers for MWDOC overhead varies between \$8.00 and \$53.00 annually.	<u>Minimal Change:</u> Savings of less than \$0.50 annually under Option 2a due to reduced operating reserves. Savings of less than \$3.00 annually for non-subscribers and cost increases of less than \$2.00 annually for subscribers under option 2b.		<u>New South CWA:</u> Cost increases in some retail services areas due to removal of Melded Water Rate Surcharge and need for Tier 2 water purchases  <u>Remaining MWDOC:</u> Potential savings due to reduced need for Tier 2 water purchases	
<b>Enabling Legislation</b>	Municipal Water District Act of 1911 (Water Code Section 71000 et. seq.)	Reorganization including a dissolution of MWDOC and formation of a CWA under Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (Government Code Section 56000 et.seq) and the CWA Act (Water Code Chapter 45)		Reorganization including a dissolution of MWDOC and formation of a CWA under Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (Government Code Section 56000 et.seq) and the CWA Act (Water Code Chapter 45)	
<b>Formation Process</b>	None Required	<u>Initiation through Resolution of Affected Agency or Petition</u>  <u>Notice of Filing including ‘pre-approval letter from Metropolitan’</u>  <u>Commission Consideration:</u> Commission may approve or disapprove, wholly or partially, with or without amendment		<u>Initiation through Resolution of Affected Agency or Petition</u>  <u>Notice of Filing including ‘pre-approval letter from Metropolitan’</u>  <u>Commission Consideration:</u> Commission may approve or disapprove, wholly or partially, with or without amendment	
<b>Legal Barriers and Conflicts</b>	None	CWA Act only provides authority to supply a regulated public utility on an interruptible basis. This is a legal barrier prevents service to Golden State Water Company.		None	
<b>Board Representation</b>	7 Directors Elected by District  1 Vote per Director	Not Applicable.  Option cannot be implemented		23 Appointed Directors  Vote Proportional to Financial Contribution	28 Appointed Directors  Vote Proportional to Financial Contribution

	Option 1 MWDOC Baseline	Option 2a MWDOC CWA	Option 2b MWDOC Subscription CWA	Option 3a Six Agency South CWA
<b>Metropolitan Representation</b>	4 Met Representatives and 34,917 Votes Based on Assessed Valuation	Not Applicable. Option cannot be implemented	<b>Remaining MWDOC</b>  3 Met Representatives and 21,486 Votes Based on Assessed Valuation	<b>Remaining MWDOC</b>  2 Met Representatives and 18,635 Votes Based on Assessed Valuation
			<b>Six Agency South CWA</b>  2 Met Representatives and 13,431 Votes Based on Assessed Valuation	<b>Nine Agency South CWA</b>  2 Met Representatives and 16,282 Votes Based on Assessed Valuation
<b>Conclusion</b>	<b>Feasible</b>	<b>Fatally Flawed</b>	<b>Feasible</b>	<b>Feasible</b>
<b>Special Legislation</b>	None	Clarify rights of investor owned utility within a CWA	None	None
<i>*Authorized under the CWA Act but beyond what MWDOC currently provides</i>				



## CITY OF FOUNTAIN VALLEY

10200 SLATER AVENUE • FOUNTAIN VALLEY, CA 92708-4736 • (714) 593-4400, FAX: (714) 593-4498

January 21, 2009

Ms. Joyce Crosthwaite, Executive Officer  
Local Agency Formation Commission of Orange County  
12 Civic Center Plaza, Room 235  
Santa Ana, CA 92701

SUBJECT: List of Assumptions for the Fiscal Analysis for Stakeholder Review and  
Comment, January 7, 2009

Dear Ms. Crosthwaite:

Fountain Valley appreciates the opportunity to review and comment on the referenced List of Assumptions for the Fiscal Analysis for the Stakeholder Review and Comment for LAFCO's Governance Study of the Municipal Water District of Orange County (MWDOC).

1. MWD Rate Assumptions: The consultant has indicated that MWD rates will be 20% higher than current rates and then assumed a 5% increase per year thereafter. MWD has more current rate projections, and the proposed MWD rates should be utilized in the study.
2. "Cafeteria Plan" Assumptions: How will an annual cost of service comparison for each member agency be developed? Since each member agency differs in size, customer makeup, etc., the cost will vary from agency to agency. How do you develop an annual cost of service without knowing who will opt-in versus those that will opt-out for certain programs?
3. Formation of a New South County Agency: The current assumption is that a New South County Agency would consist of nine agencies instead of the six agencies that requested the Governance Study. Have the Cities of San Clemente and San Juan Capistrano and the Laguna Beach County Water District requested to be part of a New South County Agency?
4. Formation of a New South County Agency: In 2001, MWDOC consolidated with Coastal MWD. The formation of a New South County Agency appears to be a step backwards. The assumption that it will take three years to fully staff the New South County Agency is not realistic. Using this assumption does not provide the actual costs of a New South County Agency. What impact would a New South County Agency have at MWD?
5. Attachment "A": The Agency Staffing Assumptions do not accurately reflect the actual cost for the various Governance options.

Again, the City of Fountain Valley appreciates the opportunity to review and comment on this very important study that could have significant impacts to all of Orange County.

Sincerely,

Robert T. Kellison  
Field Services Manager

c: City Manager; Director of Public Works

ROP 000457



January 21, 2009

Ms. Joyce Crosthwaite, Executive Officer  
Orange County Local Agency Formation Commission  
12 Civic Center Plaza, Room 235  
Santa Ana, CA 92701

Re: MWDOC Governance Study – Comments on Draft List of Assumptions

Dear Ms. Crosthwaite,

Golden State Water Company (GSWC) has reviewed the Draft List of Assumptions and offers the following comments regarding the governance study documents distributed thus far.

The “Final Version” of the First Technical Memorandum did not incorporate or respond to the comments GSWC provided to LAFCO in a letter dated October 29, 2008. GSWC respectfully requests that the document be revised accordingly.

The county water authority alternative is still listed as preliminarily feasible in the final version of the First Technical Memorandum and in the Draft List of Assumptions for the fiscal analysis, subject to additional legal analysis. The water code provides that “public agencies” may form and be represented on a county water authority. As a regulated utility operating under the jurisdiction of the California Public Utilities Commission, GSWC cannot and would not allow negative impacts to the rights and interests of GSWC’s ratepayers; therefore GSWC requests that LAFCO eliminate a county water authority from further consideration and fiscal analysis.

GSWC reviewed the water demand, water rates, budget and staffing assumptions and determined that many of the assumptions are inconsistent with information or policies used by the 28 client agencies for planning. Using the current draft assumptions list, some alternatives either would reduce the number and types of services provided or increase the costs of these services. The consultant should obtain and use the most relevant water industry information and planning practices to avoid inaccurate cost estimates for each alternative and conclusions that would not serve the public’s interests.

Golden State Water Company remains very concerned about the significant resources expended by 28 agencies participating in the study of MWDOC’s governance structure over the past few years. The water industry is facing unprecedented challenging water issues. These agencies need to work cooperatively and expeditiously to focus attention and resources on the public’s rights to sufficient and safe water supply.

Sincerely,

*Patrick Scanlon*

Patrick Scanlon  
Vice President, Operations

cc: Kevin Hunt, MWDOC



**From:** [Johnson, Howard](#)  
**To:** [Serrano, Joe](#);  
**cc:** [Hopkins, Travis](#);  
**Subject:** RE: MWDOC Financial Assumptions  
**Date:** Thursday, January 15, 2009 11:11:44 AM

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Good morning Joe, I hope you are having a good 2009. The City of Huntington Beach thanks LAFCO of the opportunity to comment on the financial assumptions for the MWDOC Governance Study and offer the following:

It is unclear how the consultant will develop an annual cost comparison for any agency if a "Cafeteria Plan" is offered. This task would require assumptions for annual budgets for the wholesale agency (MWDOC, CWA or Reorg. So. Co. Agency) and annual budgets for member agencies without advance knowledge of who is in or who is out. Many of the programs offered by MWDOC are performed by staffs that have other duties, if one portion of a program is diminished or eliminated by lack of participation what would happen to the employee(s)? How will the consultant put a monetary value/cost to a member agency that would be required to fully fund a program on its own if the program was eliminated as a result of the "Cafeteria Plan", in other words, what would it cost the City of Huntington Beach to fund a school program and water use efficiency program to the caliber that is provided by MWDOC? What are the mechanics of a Cafeteria Plan and is there such a plan in existence at any large wholesale agency?

We understand the approach for Agency Staffing Assumptions listed in Attachment (A) but feel this is not sufficient to show the potential cost ramifications of varied scenarios. It is our hope if Attachment (A) is used that there will be a clear and concise report that shows the financial differences between status quo and the "Remaining MWDOC".

Thanks again and see you on February 18<sup>th</sup>.

Howard Johnson  
Utilities Manager  
City of Huntington Beach  
[johnsonh@surfcity-hb.org](mailto:johnsonh@surfcity-hb.org)  
714-536-5503

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**From:** Serrano, Joe [mailto:[jserrano@oclafco.org](mailto:jserrano@oclafco.org)]  
**Sent:** Wednesday, January 07, 2009 4:47 PM

## MEMORANDUM

TO: Joyce Crosthwaite – LAFCO

FROM: Paul Jones (IRWD), Bob Hill (ETWD), Don Chadd (TCWD), John Schatz (SMWD), Bob Gumerman (MNWD)

DATE: January 21, 2009

SUBJECT: Comments on Draft MWDOC Governance Study List of “Assumptions” for the Fiscal Analysis

The purpose of this Memorandum is to transmit comments regarding Draft Assumptions for the Fiscal Analysis as prepared by Winzler and Kelly (W&K), dated January 7, 2009. Our collective comments either seek clarification of assumptions or suggest that additional analysis be considered. The omission of comments regarding an assumption indicates concurrence. General comments are included at the end of this memorandum.

A consistent theme throughout the analysis should be to identify and evaluate the “differences/efficiencies” between the alternatives as opposed to the commonalities.

### 1. **Assumptions for the Status Quo with December 2006 Policy Changes**

- a. **MWDOC Profile Assumptions:** Reflects Status Quo
- b. **Services Provided by MWDOC:** Reflects Status Quo
- c. **MWDOC’s Budget:**

#### **Water rate projections**

- 1. ***In all scenarios***, utilize Met’s most current water rate projections; which includes a probable 21% increase for January 2010, and substantial increases in the years immediately following.
- 2. ***In all scenarios***, define MWDOC’s melded “blended” rate.

### 2. **Assumptions for MWDOC reorganized as a County Water Authority (CWA)**

- a. **CWA Profile:** Consultant should identify representation appointment alternatives and fiscal impact of same.

**b. Services provided by the CWA:**

1. Option 1: Reflects Status Quo
2. Option 2: Reflects Cafeteria Plan

***Cafeteria Plan Core Services:***

***“Water Operations and Administration”*** should be more specifically defined. Better definition of these services is needed to determine if these services, as broadly described, are necessary.

***Cafeteria Plan Remaining Services:***

Depending upon the level of “subscription” opportunities exist to reduce staffing and/or to reallocate costs amongst remaining subscribers. Reductions to staff below that identified in Attachment A should be a consideration.

**c. CWA Budget:**

1. *Both Options* - Staffing levels and services provided for fiscal years 2006/07 and 2007/08 should be evaluated concurrent with fiscal year 2008/09.
2. *Both Options* - Attachment A assumes staffing at the existing level. However, a reorganized agency could result in efficiencies that equate to staff reductions and/or opportunities to outsource infrequent functions.
3. *Both Options* - MWDOC and OCWD share the same building and are administered and operated in much the same manner, with numerous identical functions (accounting, finance, public affairs, human resources, information technology and legal support, etc.). For both options, opportunities should be evaluated for using a common staff to provide these functions while maintaining separate governmental entities.
4. With regards to “Reserves” consultant should define what constitutes the “General Fund” and describe what the “Operating” Reserves would be used for. Specifically, for calculating reserve levels, water purchases should be excluded from the “regular general fund operating revenues”

if a 15% factor is being applied to determine reserve requirements.

3. **Assumptions for New South County Agency (2 Boundary Options)**

a. **Agency Profile:**

1. Option 1: Six Agency CWA
2. Option 2: Six Agency plus San Clemente, San Juan and Laguna Beach. ***This option should include a sub-alternative that includes the City of Newport Beach, which is partially served by IRWD and was originally a member of the Coastal Municipal Water District.***

b. **Services provided by the New South County Agency (both boundary options as proposed “and/or modified”:**

1. ***“Water Operations and Administration”*** scope of service and staff level needs to be further defined.

c. **Budgets for New South County Agency (both boundary options):**

1. With regards to staffing, Attachment A assumes staffing at the existing level. However, a reorganized south County Agency with similar interests could result in efficiencies that equate to staff reductions and/or opportunities to outsource infrequent functions.
2. The formula assumed in the analysis for allocating MWDOC’s Tier I water from Met to the south County agencies needs to be more clearly defined.
3. It is unclear why budgeting for the establishment of an additional Tier 2 contingency fund is necessary. Specifically, in establishing a new south County agency all reserves held by MWDOC, including the Tier 2 contingency fund, should be allocated to the new agency on a proportionate basis relative to the amounts contributed by the member agencies.
4. With regards to “Reserves” consultant should define what constitutes the “General Fund” and describe what the “Operating” Reserves would be used for. Specifically, for calculating reserve levels, water purchases should be excluded from the “regular general fund operating revenues”

if a 15% factor is being applied to determine reserve requirements.

**General Comments:**

1. In the previous scoping meeting with LAFCO regarding the alternatives, it was recommended that a modified version of the Status Quo Option be analyzed that would assume MWDOC's existing governance structure, with the following modifications:
  - a. Implementation of additional efficiencies through using common staff with OCWD to provide, at the minimum: accounting, finance, public affairs, human resources, information technology and legal support.
  - b. Implementation of a "Cafeteria Plan," as described in the Water Authority option.
2. The assumptions and phasing plan for the new South County Agency should be modified to reflect what is envisioned to be an entity that is staffed and operated with resource levels more akin to a Joint Powers Authority. Specifically, the analysis of the new entity should include:
  - a. Reduced staffing levels from those shown on Attachment A, including: one versus two Engineer positions, two versus three Administrative positions, two versus three Finance positions, and no Public Affairs positions (with assumed part time consultant assistance).
  - b. Continue to contract with member agencies for additional financial, administrative and other support functions, and housing (office space) on an on-going basis; thereby further reducing overhead costs.



## CITY OF FOUNTAIN VALLEY

10200 SLATER AVENUE • FOUNTAIN VALLEY, CA 92708-4736 • (714) 593-4400 FAX: (714) 593-4498

04 March 2009

Ms. Joyce Crosthwaite, Executive Officer  
Local Agency Formation Commission of Orange County  
12 Civic Center Plaza, Room 235  
Santa Ana, CA 92701

SUBJECT: Draft Potential Governance Structure Options and Preliminary Financial Analysis, February 18, 2009

Dear Ms Crosthwaite,

Fountain Valley appreciates the opportunity to review and comment on the referenced Draft Potential Governance Structure Options and Preliminary Financial Analysis for LAFCO's Governance Study of the Municipal Water District of Orange County (MWDOC).

1. It appears that reserves are compared differently. MWDOC baseline reserves appear to be increasing while in the other alternatives reserves are decreasing. This does not provide an equitable comparison with regards to the true operating costs for each of the alternatives and MWDOC baseline. The study should show an accurate operating cost for each alternative.
2. In the County Water Authority alternative election costs are shown as \$100,000. Based on recent elections in Fountain Valley this cost does not appear to be accurate.
3. The alternative for a 28 member board did not indicate a cost increase. It only seems logical that transitioning from a 7 member board to a 28 member board would involve an increase in operating costs. The operating cost for a 28 member board should be readily accessible from the Orange County Sanitation District (OCSD) since they currently have a 28 member board.

Again the City of Fountain Valley appreciates the opportunity to review and comment on this very important study that could have significant impacts to all of Orange County.

Robert T. Kellison  
Field Services Manager

Cc City Manager  
Director of Public Works/City Engineer

**From:** [Crosthwaite, Joyce](#)  
**To:** [Serrano, Joe](#); [Aldrich, Bob](#); ["heprs@cox.net"](#); ["GArant@vcmwd.org"](#); ["MaryGracePawson@w-and-k.com"](#); ["lauriemadigan@mac.com"](#);  
**Subject:** Fw: Comments from Lee Pearl  
**Date:** Friday, March 06, 2009 1:33:45 PM

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A late one  
Joyce Crosthwaite  
Executive Officer  
Orange County LAFCO

----- Original Message -----

From: Lee Pearl <leep@mesawater.org>  
To: Crosthwaite, Joyce  
Cc: Legbandt, Benjamin  
Sent: Fri Mar 06 13:30:25 2009  
Subject: Comments from Lee Pearl

Thank you for the opportunity to comment on the Potential Governance Structure Options Preliminary Financial Analysis.

The MWDOC Governance Study is of extreme importance to the water customers of Orange County. There may be a fatal flaw in the consultant's determination of the feasibility of option 3a and 3b. Unless the Metropolitan Water District allows the alternative, it is infeasible and a fatal flaw that should not move forward in the evaluation. The decision to expend funds on fiscal analysis of an alternative that may have fatal flaws will also have an impact on the cost of this study. It is our opinion that the consultant needs to evaluate and received an opinion by the Metropolitan Water District prior to completing this phase of the study to insure it can be implemented upon the approval of the LAFCO Board. This should not wait for the next step in the study. Failure to do this creates false expectations and erroneous information.

At the meeting in Santa Ana, the Mesa staff has provided verbal comments on the MWDOC reserve assumptions. New reserve assumptions need to be developed because of their impact on the study.

Some additional reserve comments are, it appears that the analysis is skewed by the use of reserves to reduce the annual costs for operation. In order to get a

true comparison of the value of forming a CWA or splitting off a smaller agency the baseline should have similar use of built up reserves to pay down operating costs. This use of reserves also masks the increase in cost to the agency that splits off due to the increase in Tier II water costs.

The study needs to include a detailed analysis of the cost of water to each agency under each alternative. This could be a very significant factor in the decision of the LAFCO Board. Even though this is a governance study, if LAFCO selects an alternative without this consideration it could have a very detrimental impact on some of the customers of Orange County. In addition, the impact of the new agency paying increased amounts for Tier II water is masked by the other factors, like reserves. What would the impact be on the new agency if water is allocated by MET and the new agency has a few retail agencies that have to pay two and four times the base rate in penalties for a significant amount of water?

Table 12a & b allocates costs of MWDOC into core and subscription, it is unclear why the totals for all years do not match the totals in Table 9 without explanation for the differences (FY19-20). It is also unclear why the total of the reserve balances would be different from Table 9 in FY19-20.

Table 14a & b split the six agencies from MWDOC so it is unclear why the two agencies would be of equal size in FY9-10.

Table 17a & b split the nine agencies from MWDOC so, again it is unclear as to why the two agencies would be of equal size in FY9-10.

Finally, it appears that the costs for two separate agencies (in both models) assume a reduction in staff from MWDOC and a smaller staff for the new agency. This may not be a good assumption.

Thank you very much.



Lee Pearl

General Manager

## MEMORANDUM

To: Joyce Crosthwaite, Orange County LAFCO Executive Director

From: Renae Hinchey, Laguna Beach County Water District

Date: March 4, 2009

Subject: Comments on MWDOC Governance Study Draft Technical Report 2,  
Preliminary Financial Analysis

Thank you for the opportunity to comment on the Draft Technical Report 2, Preliminary Financial Analysis. Below are my comments regarding the analysis:

1. Water Consumption per retail agency

The projected supply demand for Laguna Beach County Water District (LBCWD) assumes that Laguna Beach will have the ability to take groundwater beginning in 2009-2010 through 2020, as indicated in Table 15. Although this project was included in the Municipal Water District of Orange County's 2005 Urban Water Management Plan, the project, which would yield 2,025 acre-feet of groundwater, has not come to fruition. Table 15 provides the correct allocation of Tier 1 water for LBCWD, but shows the demand for the Tier 1 Allocation decreasing from 4,377 to 2,628 in FY 2009-2010 due to a groundwater project that will not be completed within this timeframe and remains uncertain at this time. The projected demands for LBCWD should be increased by 2,025 acre-feet for all fiscal years in the model, affecting the difference column.

This will have a slight effect on the overall projected demands and the differences in Tables 15 and 20, and somewhat increases the Tier 2 rate impacts in the Nine Agency South CWA option.

2. Operating Reserve Balance

For consistency, it may be helpful to use the same rationale for reserve balances when looking at all of the options (MWDOC Baseline increasing at 3 percent annually, while other options cap the operating reserve balance at 15 percent). Using the 15 percent cap to establish the general operating reserve fund for the MWDOC Baseline Option would be helpful.

3. MWDOC CWA

The MWDOC CWA could be a feasible option, although the costs to implement a 28-member Board were not included. It seems both the option of MWDOC as a CWA or a CWA with Subscription Services, would involve more personnel, administrative, and travel costs for MWDOC. In addition, the costs for Board compensation do not seem to appear in the analysis. All of these costs should be included to determine the impact to rate payers. Also, the CWA with Subscription Services assumes that all of the 6 South County agencies would not use any of the MWDOC services. It is probable that some of the 6 agencies may want to continue with a number of the services, assuming that the MWDOC subscription cost could be less than providing these services themselves.

4. Six or Nine Agency South CWA

The summary comparison shows that either the 6 or 9 agency South CWA is fiscally feasible, although the true transitional costs and financial optimization would require further study. Other thoughts are more political in nature, such as Metropolitan Water District's interest in forming another Metropolitan member agency and how a South CWA would determine its representation on the Metropolitan Board.

I appreciate the hard work, time, and effort invested in this study. Thank you again for the opportunity to comment on Draft Report 2.



March 4, 2009

Ms. Joyce Crosthwaite, Executive Officer  
Orange County Local Agency Formation Commission  
12 Civic Center Plaza, Room 235  
Santa Ana, CA 92701

Re: MWDOC Governance Study – Comments on First and Second Technical Reports

Dear Ms. Crosthwaite,

Golden State Water Company (GSWC) reviewed the draft compiled reports distributed on February 18, 2009 and offers this letter in response. Our prior letters to you dated March 17, 2007, October 29, 2008, and January 19, 2009 are incorporated by reference herein.

First, GSWC emphatically states again, as in prior correspondence and meetings, that we are greatly concerned about the time, costs, and use of resources for the study when water agencies should be working together in addressing the water supply crisis and planning for the future. Despite our belief that the current study process lacks the foundation for establishing a need to restructure water services in Orange County, GSWC offers the following comments on the first and second technical reports.

The most obvious and compelling issue for GSWC is the continued study of County Water Authority (CWA) options despite many reasons that would eliminate consideration of any CWA option involving GSWC, a water utility regulated by the California Public Utilities Commission. GSWC does not fit the definition of “public agency” contained in Section 45-2 of the CWA Act, and as such GSWC could not be part of a CWA governance structure. For this reason alone, as GSWC has pointed out at every opportunity, we are astonished that the CWA option still remains under consideration.

GSWC will vigorously exercise its legal rights to protect the rights and interests of its ratepayers in the event the CWA option is pursued. GSWC will object to and defend against any proposed governance model or new government agency in which the more than 130,000 people Golden State Water Company represents in Orange County would be disenfranchised. This needless expense for the legal challenges and activities related to an attempt at implementing a CWA could be avoided by eliminating the CWA option.

Thus far, the draft report has not addressed the questions associated with representation at Metropolitan under the CWA options. We had previously requested clarification about the feasibility of Metropolitan accepting a split of its member agencies, the expected representation at Metropolitan under each of the studied options, and whether it is intended that the cities

Ms. Joyce Crosthwaite  
March 4, 2009  
Page 2

currently with independent representation at Metropolitan would be required to be part of the new regional government agency.

Another issue pertaining to the fiscal analyses concerns the consultant's projections of the various options' costs and the comparisons among them. For example, the basis and logic for the switch from melded to tiered rates, at the ten year point for some of the options, are neither explained nor justified. Also, the consultant applied use of reserves in some cases and not in others. Both of these inconsistencies have likely distorted the results thereby potentially leading some water agencies to reach incorrect conclusions. We recommend that the consultant revise its analyses by controlling and applying these variables consistently to better represent an equitable comparison among the options.

In reviewing the consultant's conclusions in Section 6.9, we noted (in the order presented in the report):

- Reduction to 15% Reserve – Consistent use and application of reserve funds in the analysis would likely reduce the importance of this factor and we recommend that the consultant revise accordingly. Also, it may be useful to further analyze and determine a reserve level that, if applied consistently among the options, would eliminate its effects on analytical results altogether. Using this additional analysis, under the MWDOC Status Quo option, MWDOC's Board of Directors could decide to set a different reserve level policy thereby addressing this issue identified in the MSR.
- Cost shift of MWDOC Subscription CWA – It appears that the costs for some agencies which currently are or will provide comparable services to themselves and others have not been incorporated into the analysis thereby distorting the comparative results. Cost to ratepayers for each option should include these costs in the underlying analyses.
- Effects of Rate Smoothing – These effects are some of the regional benefits of MWDOC Status Quo albeit represented by the consultant as not significant to the analysis results or conclusions.
- South County CWA Options – Same as above. No other comment.

GSWC strongly recommends that the CWA option be eliminated from further consideration and the governance study be concluded. MWDOC can then concentrate its efforts to achieve water supply reliability and effective representation for the water agencies in Orange County without further diversion of resources to the governance study.

Sincerely,

*Patrick Scanlon /LAR*

Patrick Scanlon  
Vice President, Operations

cc: Kevin Hunt, MWDOC

**From:** [Rebensdorf, David](#)  
**To:** [Serrano, Joe](#);  
**cc:** [Scarborough, George](#); [Cameron, William](#); [Howard, Andrew](#);  
**Subject:** MWDOC Governance Study Comments to Technical Draft 2 dated February 18, 2009  
**Date:** Thursday, March 05, 2009 2:54:52 PM

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Joe,

The City of San Clemente reviewed the Municipal Water District of Orange County Governance Study Draft Technical Report 1 and 2 dated February 18, 2009, please accept the following comments:

1. Option 1a – MWDOC's baseline reserve increases from \$4.7 to \$8.5 million over the study period, although Attachment B discusses maintaining a reserve level between \$5-6 million, why does the study show an inflated reserve? Reduction of the reserve levels in the other options lowers the overall cost and does not provide a good comparison of options. At some point reserve levels will be depleted and the true cost comparison is not shown. Suggest removal of reserve analysis to each option.
2. What are the associated costs for the 6 and 9 agency options to implement the loss of MWDOC programs such as: Water Use Efficiency, School Programs and Water Awareness. What are the costs for the 9 agencies including San Clemente to continue providing similar services? The City does not budget separately for these services, they are important to the City and probably the other agencies, the report does not provide fiscal impact to the agencies. Please include a matrix that shows the services MWDOC performs and the cost for each agency to continue this service on an individual or group basis.
3. Options 3A and B - Would like additional backup documentation to support reduction in San Clemente's rates given Tier 2 increases and reduction in MWDOC's members. Provide a chart with additional Tier 2 rates and additional costs or reductions for each agency. Are melded rates recommended for option 3A?
4. Provide backup showing staffing modifications for each option, either reduction or increase with associated costs.

David Rebensdorf  
Assistant City Engineer

City of San Clemente  
910 Calle Negocio, Suite 100  
San Clemente, CA 92673  
Phone (949) 361-6130

Fax (949) 361-8316  
E-mail [rebensdorfd@san-clemente.org](mailto:rebensdorfd@san-clemente.org)

**From:** [Johnson, Howard](#)  
**To:** [Serrano, Joe;](#)  
**Subject:** Draft Technical Report 1 and 2 Potential Governance Structure Options  
**Date:** Wednesday, March 04, 2009 4:36:47 PM

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Good afternoon Joe:

I would like to again thank you for giving us the opportunity to comment on the subject mentioned study. We have reviewed draft comments that MWDOC will be providing and in an effort not to be redundant we will not repeat our shared viewpoints in this e-mail. We do have two comments that were not within the MWDOC document that we would like noted for further discussion or clarification.

- We feel the assumption that the Water Increment Charge is to cover each agencies share of essential services and Retail Meter Charge is to cover subscription services is flawed. We feel that the Retail Meter Charge should be assessed whether a drop of water is taken or a service utilized. Retailed Meter Charges are fixed charges that support fixed expenses such as administration, labor, office ... .. If an assumption needs to be made within the model the assumptions should be reversed.
- The methodology used within the model to simply divide the cost savings by the number of metered services is also flawed. The study/model has no understanding of how an individual agency might choose to pass along cost. For instance, if an agency allotted this increased cost to its fixed meter fee, which are typically charged by capacity of the meter, any savings shown per rate payer would be drastically overstated for a single-family home with a 3/4" meter and drastically understated for an industrial customer with an 8" meter. It clouds the issue; why divide the supposed savings by rate payers rather than simply show the cost?

Sincerely,

Howard Johnson  
Utilities Manager  
City of Huntington Beach, Ca 92648  
[johnsonh@surfcity-hb.org](mailto:johnsonh@surfcity-hb.org)  
714-536-5503



## MEMORANDUM

TO: Joyce Crosthwaite – Orange County LAFCO Executive Officer

FROM: Bob Hill (ETWD), Don Chadd (TCWD), Paul Jones (IRWD),  
John Schatz (SMWD), Bob Gumerman (MNWD), Mike Dunbar (SCWD)

DATE: March 3, 2009

SUBJECT: Comments on Draft Technical Report 2, Preliminary Financial Analysis

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We appreciate the opportunity to comment on the Draft Technical Report 2, Preliminary Financial Analysis (Draft Report 2). As a general comment we concur with the finding in the Conclusions section of Draft Report 2 that, “Taking into account the high level of this study and the significant uncertainties around the future cost of water, the analyses demonstrate that it is fiscally feasible to implement each of the alternatives studied”.

However, in addition to the analyses that were completed in Draft Report 2, we believe the options presented can be more accurately compared and the document can be further enhanced by additional modeling. This effort, which can be completed with relative ease given the base work already completed, would provide the stakeholders the ability to more clearly distinguish between the financial affect of the governance options. We believe this can be accomplished by augmenting the financial modeling for the MWDOC Baseline Option such that consistent assumptions are used for the application of rates and charges, the use of reserves, and the application of subscription services.

Currently, Draft Report 2 addresses those issues in the following manner:

1. Water Purchases

Draft Report 2 utilizes the Melded Water Rate Surcharge (melded rate) approach in the MWDOC Baseline Option, the MWDOC County Water Authority (CWA) Option, and the MWDOC Subscription CWA Option for all water purchases. This approach combines the demands for all of MWDOC’s member agencies and if MWDOC as a whole is required to purchase Tier 2 water from MWD, the financial impact is spread proportionally among the agencies based upon overall water purchases. This is consistent with MWDOC’s current policy and practice. Conversely, in both the South County CWA Options, Draft Report 2 utilizes the Tier 1 and Tier 2 (tiered rate) approach for water purchases. Under this approach, the Tier 1 and Tier 2 water purchases are disaggregated and passed through to individual retail agencies.

2. Operating Reserve Balance

In the MWDOC Baseline Option, Draft Report 2 assumes that operating reserve balances increase with inflation (at 3% annually) after FY 2013-14 and that “large

reserve surpluses begin to accumulate” (see page 21). Conversely, in the MWDOC CWA and Subscription CWA options, Draft Report 2 assumes reserve balances are capped at 15% of the general fund budget. The implementation of the 15% cap reduces the operating reserve balance from approximately \$8.5 million in the MWDOC Baseline option to approximately \$1.2 million in the other two options (at FY 2019-2020).

### 3. Subscription Services

Draft Report 2 assumes there is no separation between essential services and subscription services in the MWDOC Baseline Option or in the MWDOC CWA Option. However, the MWDOC Subscription CWA Option establishes a separation between essential and subscription services, allows the six south county agencies to become “non-subscribers,” and shifts approximately \$1.2 million to “subscribers” (the remaining MWDOC agencies). Draft Report 2 states this revenue shift is “largely attenuated by the large number of ratepayers within the subscription service area” and that ratepayers in the subscription area “experience a modest increase in cost (typically less than \$2.00 annually or \$.020 per month” (page 35).

Because, as previously noted, the melded rate approach is a MWDOC Board policy that can be changed or modified any time, we request that for comparison purposes the MWDOC Baseline Option be modeled with a tiered rate approach. From our perspective, it is plausible to assume that if one group of MWDOC agencies experience growth that requires MWDOC purchase substantial amounts of Tier 2 water, that the remaining MWDOC member agencies not experiencing growth would object to subsidizing the Tier 2 purchases. This objection could precipitate a policy change by MWDOC from a melded to a tiered rate system. It should also be noted that the majority of MWD’s wholesale member agencies pass-through the MWD tiered rate system to their retailers to avoid cross-subsidization. Considering these factors, we believe the additional modeling requested would allow the affect of the water purchase methods under all the governance options and water purchase policy scenarios to be more accurately compared.

Like the melded rate approach, the funding level for general operating reserves is a policy established by the MWDOC Board that can be modified. To provide a more direct comparison, we believe it would be beneficial to run the MWDOC Baseline Option utilizing the 15% cap to establish a general operating reserve fund balance. This approach would be identical to the general operating reserve fund balance approach utilized in the MWDOC CWA and the MWDOC Subscription CWA options.

MWDOC, under its existing governance structure may also choose in the future to implement some degree of a subscription service model. Once again, this is a policy decision that can be altered by Board at any time. To provide a more direct comparison of alternatives, we also believe it would be instructive to apply the separation between

essential and subscription service as identified in the MWDOC Subscription CWA of Draft Report 2 to the MWDOC Baseline Option.

In summary, we request the consultant model an option, which we propose be identified as the Modified MWDOC Baseline Option, that:

- Utilizes a Tier 1 and Tier 2 approach for all water purchases within the Study horizon;
- Utilizes the same 15% cap assumption employed in the MWDOC CWA and the MWDOC Subscription CWA to establish a general operating reserve fund balance;
- Utilizes the assumptions established in the MWDOC Subscription CWA regarding the definition and allocation of subscription services;
- Is incorporated into a table that compares the impact to ratepayers of this option and all other options at FY 2019-2020.

This Modified MWDOC Baseline Option will provide the stakeholders with a sense of how the proposed changes impact the way MWDOC currently operates, but within the existing MWDOC governance structure. It will also allow the stakeholders to better quantify and compare the financial impact of the governance options absent parameters that can be altered through policy changes.

As a closing comment, we believe that Draft Report 2, because of its high level focus, underestimates the financial optimization that would occur under both the South County CWA options. In our comments on the alternatives presented in Draft Report 1, we suggested that staffing be reduced in the South County CWA options. These comments were not accepted by LAFCO for incorporation into the study. In Draft Report 2, MWDOC's current scope of services, level of expenditures and staffing are divided between remaining MWDOC and the South County CWA (both the six and nine agency options). The managers of the South County agencies, as a group, believe that the costs for a South County CWA could be reduced by eliminating overlapping programs and services, and making remaining programs more efficient. We also believe further cost savings may be realized by streamlining administration, and outsourcing/combining some of the operations of a South County CWA with member retail agencies. We believe that such an optimization effort could further reduce the costs for a separate south County agency projected in Draft Report 2.

Again, we appreciate the opportunity to comment of Draft Report 2 and look forward to the completion on the Modified MWDOC Baseline Option as described above.

## MEMORANDUM

TO: Joyce Crosthwaite – Orange County LAFCO

FROM: Paul Jones (IRWD), Bob Hill (ETWD), Don Chadd (TCWD)  
John Schatz (SMWD), Bob Gumerman (MNWD), Mike Dunbar (SCWD)

DATE: May 25, 2009

SUBJECT: Comments on May 6, 2009 Municipal Water District of Orange County  
First Draft Governance Study

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We appreciate the opportunity to provide staff comments from our agencies' on the First Draft Governance Study and would like to acknowledge the significant effort put forth by the LAFCO staff and consultants to bring the study to this point. Given that this effort was a direct outcome of the LAFCO Municipal Service Review of MWDOC completed and submitted to the LAFCO Commission in November 2007, the overall process of evaluating MWDOC's governance and services has been on-going for the better part of three years. This work has required substantial time, effort and coordination by LAFCO staff. The undersigned appreciate LAFCO's and each participating agency's involvement and commitment to complete this study and to achieve a successful outcome.

Whereas Draft Technical Reports 1 and 2 determined the governance alternatives that were institutionally and financially feasible, the First Draft Governance Study:

- Furthers the process by determining which of the institutionally and financially feasible alternatives "have the potential to resolve issues raised in the MWDOC MSR";
- Determines which of the remaining governance alternatives "are legally and practically feasible" and "what fiscal impacts could result from each option";
- Determines "any impacts on representation at Metropolitan that could result from each option"; and
- Summarizes the actions and steps necessary to implement any viable option.

The Study's findings in regard to the above objectives are clear:

- Only two of the potential governance alternatives originally identified remain viable: MWDOC status quo or the formation of either a six or nine member County Water Authority in the south County;

- The MWDOC status quo option does not directly address nor, without additional structural changes made by MWDOC, resolve the issues identified in the MWDOC MSR;
- The financial impacts to remaining MWDOC and to the south County CWA are not significant when brought down to the individual ratepayer level. The south County agencies have completed a supplemental budget analysis of a CWA that suggests service costs could be reduced in a range of \$750,000 to \$1.2 million per year over current MWDOC costs and allocations<sup>1</sup>;
- A nine member south County CWA would have no impact on the combined MWDOC and south County CWA representation at Metropolitan; and
- A six member south County CWA would increase the combined MWDOC and south County CWA representation at Metropolitan by one board member.

In short, the study supports the conclusion that there are no institutional or financial obstacles that prevent the formation of a south County CWA. The results of the study also suggests, but does not directly conclude, that there are no meaningful arguments against the formation of a south County CWA other than it would remove the subsidy of north County agencies by the south County agencies, a consequence that results directly from MWDOC's cost allocation methodology. The facts of the matter are readily apparent: the nine agencies that would potentially make up one of the south County CWA alternatives currently account for 32% of MWDOC's member agencies and 28% of MWDOC's service area population, yet provide almost 50% of MWDOC's annual revenue.

The argument that MWDOC should function as the unified regional water voice for Orange County (although this is currently not the case with Fullerton, Santa Ana, Anaheim being excluded from the MWDOC service area) is fundamentally undermined by the significant differences that have developed between north and south County over the years. Since MWDOC's representation for its remaining service area would not be proportionately reduced upon the formation of a nine member south County CWA (and would be increased by one in a six member CWA), there can be no argument that, as a whole, Orange County's representation at Metropolitan is diminished. We would suggest that representation may actually be far better aligned with local interests through the formation of a south County CWA, and request that the study reflect this conclusion.

We have also concluded from the study that the notion discussed by some study participants that formation of a south County CWA unnecessarily adds another layer of government is also false. In this case, a south County CWA will provide better local governance and better regional representation at Metropolitan, it's board members will be

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<sup>1</sup> While this level of detail was beyond the scope of the Study, it is important to note that the south County agencies can produce significantly lower operating costs than is currently the case with MWDOC.

appointed by the already elected officials of its member agencies, and it stands to not only lower costs to its customers but to allocate costs far more fairly and equitably than is currently the case. In addition, a separate south County Metropolitan agency is not unprecedented and was the case for many years with Coastal Municipal Water District. The impetus for consolidating the two agencies was the promise of economy-of-scale savings that have not occurred. As such, the reformation of a south County wholesale agency into a CWA is consistent with providing a service model that fits the needs of south County, and is an example of how a new type of service district may be appropriate, justifiable, and in the best interest of a growing service area that already includes nearly one million rate payers. We believe the study should reflect this conclusion, as well.

Finally, we believe that a conclusion needs to be added to the study that barring a significant change to the status quo, the CWA options appear to provide the opportunity to better and more directly manage the interests of the south County, to meaningfully lower and fairly allocate costs, and to provide direct representation to a densely populated area that will continue to see significant growth in the years ahead.

We look forward to the responses and views of the other study participants, and will continue discussions amongst ourselves and our agencies regarding the study and potential future courses of action.

Thank you again for the opportunity to comment on the study.

**From:** [Rebensdorf, David](#)  
**To:** [Serrano, Joe](#);  
**cc:** [Scarborough, George](#); [Cameron, William](#);  
[Howard, Andrew](#);  
**Subject:** MWDOC Governance Study Comments - San Clemente  
**Date:** Thursday, May 28, 2009 11:38:37 AM

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Joe,

Here are the City of San Clemente's comments in regards to the May 6, 2009 Orange County Local Agency Formation Commission Municipal Water District of Orange County First Draft Governance Study.

1. MWDOC's reserve level in the baseline remains relatively unchanged, whereas in each option 2a-3b the reserve levels are reduced to 15% over the 10 year period being analyzed. This causes a lower need for revenue over the 10 year period for each option and does not reflect an equal comparison to the MWDOC baseline. After the reserves are depleted to 15% in each option, the budget for options 2a-3b will increase and there is no cost comparison to the MWDOC baseline once this happens after 10 years.
2. Option 3a – Six Agency CWA (Page 41) - Tables 14 A & B reflect the budgets which are fairly similar in comparison to their percentage differences, except for Governmental Affairs, Overhead and WEROC. Why are the budgets significantly different, is there a reduction in service level?
3. Options 3a & b remove MWDOC's melded rate, would it be possible to include an analysis with melded rates for each option to remain consistent with MWDOC's current rate structure?
4. Option 3b – Nine Agency CWA (page 49) – San Clemente does not currently have the resources to provide additional services beyond the essential services. Additional budget should be factored in for San Clemente. 2<sup>nd</sup> paragraph, 2<sup>nd</sup> to last sentence discusses cost for board of directors for a Six Agency CWA, not a nine. Additional costs should be factored in for additional board members.
5. Option 3b – Nine Agency CWA (page 50) – Tables 17 A & B reflect budgets which are fairly similar in comparison to their percentage differences, except for Planning/Resource Development, Government Affairs and Overhead. Why are the budgets significantly different, is there a reduction in service level?
6. Options 3a & 3b – Six and Nine Agency CWA – Budgets associated with the Six and Nine Agency CWA's in tables 14 A & B and 17 A & B are

identical except for WEROC –MWDOC Contribution and Interest/Reserve Contribution. Shouldn't there be an increase or decrease in budget from adding and removing 3 agencies in the other budgeted line items?

7. The inflationary rates for future year budgets between line items in table 6, tables 14 A & B and 17 A & B are different for the same categories. Why is there differences in the percentage increases in the tables?

David Rebensdorf  
Assistant City Engineer

City of San Clemente  
910 Calle Negocio, Suite 100  
San Clemente, CA 92673  
Phone (949) 361-6130  
Fax (949) 361-8316  
E-mail rebensdorfd@san-clemente.org



**From:** [Crosthwaite, Joyce](#)  
**To:** ["Mary Grace Pawson"; Laurie Madigan; Serrano, Joe; Aldrich, Bob; Ehrlich, Harry; Gary Arant;](#)  
**Subject:** FW: Draft final report  
**Date:** Tuesday, May 26, 2009 12:50:58 PM

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Joe will scan and send you a copy of MWDOC's comments today.

---

**From:** Johnson, Howard [mailto:hjohnson@surfcity-hb.org]  
**Sent:** Tuesday, May 26, 2009 12:47 PM  
**To:** Crosthwaite, Joyce  
**Subject:** Draft final report

Hi Joyce, hope you had a good Memorial Day weekend.

We have had the opportunity to review the report that was circulated May 6, 2009, and offer the following:

- We feel the staffing requirement for the two agency scenario is unrealistic; additional staffing costs should be added.
- On the six-agency approach we would like to see the cost breakdown for directors' compensation, insurance, travel, IT support and equipment, meetings... ..
- Include school education costs for six-agency scenario.
- Tier 2 rates add significant cost to rate payers but is considered "not large" when in fact it can add nearly 30% to some individuals utility bill within the next 10 years.

Thanks again for all your help!

Howard Johnson  
Utilities Manager  
City of Huntington Beach

SOUTH COAST



WATER DISTRICT

August 10, 2009

Ms. Joyce Crosthwaite  
Executive Officer  
Orange County Local Agency Commission  
12 Civic Center Plaza, Room 235  
Santa Ana, CA 92701

RE: MWDOC Governance Study – Final Stakeholder Discussion of August 10, 2009

Dear Ms. Crosthwaite

The South Coast Water District has been pleased to be a part of the continuing discussion and study surrounding the Governance of MWDOC. To date, the District has provided representatives to various LAFCO and stakeholder meetings, reviewed the Draft Technical Reports (No. 1, 2 and 3), reviewed the resulting Final Governance Study, and undertaken discussions with its own Board regarding the numerous issues presented. On July 7, 2009, the South Coast Water District Board met to consider the Governance Study and the recently circulated "White Paper" requesting support for an application to LAFCO to form a South Agency County Water Authority.

At the July 7, 2009 meeting, a clear Board majority of opinion did not exist for either of the extremes: (i) a vote supporting the change to a County Water Authority (CWA) structure at this time, or (ii) a vote against forming a CWA (rejecting the "Whitepaper" in favor of the existing MWDOC structure). Rather, the South Coast Water District Board was unanimously of the opinion that additional information, discussion and negotiation of the issues facing retail agencies within the existing MWDOC structure should take place. Additionally, many questions regarding the benefits and burdens of a possible County Water Authority are, in the opinion of the South Coast Water District Board, unanswered.

The South Coast Water District Board Members recognize the clear importance of neighboring water agencies to South Coast's retail supply reliability, transmission and distribution systems. South Coast Water District partners on many storage, pipeline and supply agreements with adjacent South County water agencies. Additionally, its neighbors, such as Irvine Ranch Water District have shared water in times of supply curtailment, as well as provided input and assistance with new projects such as the South Coast Water District Groundwater Recovery Facility. South Coast Water District shares reservoirs, interconnections and supply systems with Moulton Niguel Water

District and views its friendship and support as key to the optimal operations of boundary areas between systems.

The MWDOC Board and Staff are viewed positively by the South Coast Water District. The South Coast Water District Board also recognizes the many benefits of MWDOC with the District participating directly in service aspects of MWDOC (apart from MWDOC's core functions of wholesale water accounting and MET representation).

South Coast Water District supports and is funding MWDOC efforts to study the feasibility of an Ocean Desalination Project. Many of the MWDOC developed educational and outreach programs for Water Conservation and Education are accessed and used for the benefit of South Coast Water District customers. The joint County emergency planning efforts conducted by WEROC are valuable to South Coast Water District customers, among other MWDOC supported programs.

The South Coast Water District Board Members expressed a strong preference for continuing understanding, discussion and negotiation of some of the traditional areas of concerns among member agencies. Some of these concerns were discussed as long ago as December 2006, when MWDOC issued the staff report on the MWDOC/LAFCO stakeholder program, Changes to Improve Member Relations (Appendix B of the Draft Governance Study). Areas of unaddressed member agencies concerns (as detailed in Appendix B) should be revisited and reopened for additional dialogue. All parties should join that effort with renewed commitment to understanding, cooperation and a negotiated solution.

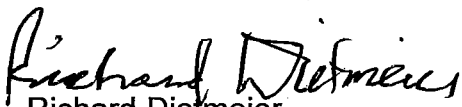
Specific areas for discussion important to South Coast Water District Board Members include: (i) greater input to policies introduced or adopted at MET, (ii) improved approach to verification of MWDOC service needs for member agencies, (iii) improved approach to MWDOC driven cost increases, (iv) streamlining and consistency of messages across member agencies in areas such as conservation and water allocation based rates, (v) concern that any governance changes should result in substantial cost savings, (vi) clear understanding of the methodology of applying Tier 2 rates if a CWA is formed (given that South County growth may place a CWA in a Tier 2 purchase position for a portion of its water), (vii) additional definition of a CWA, from voting structure, to control, administration, cost and core versus ancillary services, and of key importance (viii) support of CWA member agencies for continuing work on ocean desalination options.

South Coast Water District remains interested in a menu driven service structure, but questions whether a CWA structure can legally offer true member control for participant driven projects because, like MWDOC, a CWA will have the same constraints in delegating spending authority, acquiring project financing, and exercising control over projects that are common to all agencies with the exception of a true JPA (where control/liability and indemnity can be accepted by subgroups of the whole).


As noted, the South Coast Water District urges continuing work and a cooperative dialogue toward resolution of the issues surrounding wholesale water deliver to the South County areas.

Very truly yours,

SOUTH COAST WATER DISTRICT

A handwritten signature in cursive script, appearing to read "Richard Dietmeier".

Richard Dietmeier  
President of the Board

A handwritten signature in cursive script, appearing to read "Michael P. Dunbar".

Michael P. Dunbar  
General Manger

MPD:jb



February 10, 2008

**CHAIR**  
**JOHN WITHERS**  
Director  
Irvine Ranch Water District

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Representative of  
General Public

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Councilmember  
City of Fountain Valley

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Supervisor  
3<sup>rd</sup> District

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City of Lake Forest

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Supervisor  
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Director  
Costa Mesa  
Sanitary District

**ALTERNATE**  
**PAT BATES**  
Supervisor  
5<sup>th</sup> District

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Councilmember  
City of Buena Park

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Representative of  
General Public

**ALTERNATE**  
**CHARLEY WILSON**  
Director  
Santa Margarita  
Water District

**JOYCE CROSTHWAITE**  
Executive Officer

Mr. Robert T. Kellison, Field Services Manager  
City of Fountain Valley  
10200 Slater Avenue  
Fountain Valley, CA. 92708

**SUBJECT: Response to Comments (1/21/2009) on Governance  
Study Fiscal Assumptions**

Dear Mr. Kellison:

Thank you for your agency's comments on the draft fiscal assumptions formulated by our consultant for the MWDOC Governance Study. The responses, below, address your agency's comments in the order presented in your January 21, 2009 letter.

***Comment 1:** The consultant has indicated that MWD rates will be 20% higher than current rates and then assumed a 5% increase per year thereafter. MWD has more current rate projections, and the proposed MWD rates should be utilized in the study.*

**Response:** The technical report will clearly delineate its basis for rate assumptions which are: (1) Metropolitan's January 13, 2009 Board information packet, and (2) MWDOC's financial master plan. If additional rate information is available, please provide the data and it will be incorporated into the study.

***Comment 2: "Cafeteria Plan" Assumptions:** How will an annual cost of service comparison for each member agency be developed? Since each member agency differs in size, customer makeup, etc., the cost will vary from agency to agency. How do you develop an annual cost of service without knowing who will opt-in versus those that will opt-out for certain programs?*

**Response:** The draft fiscal assumptions used are high-level because the governance study is intended to be a high level, fatal flaw analysis. It is not a detailed audit or a rate study. While, potentially, there are an endless number of assumptions that may be valid for the purposes of conducting such an analysis, staff must ultimately settle on a *reasonable* set of cost assumptions if the study is to go forward and be completed. Sources for the estimates will be clearly documented.

*Comment 3: Formation of a New South County Agency: The current assumption is that a new South County Agency would consist of nine agencies instead of the six agencies that requested the Governance Study. Have the Cities of San Clemente and San Juan Capistrano and the Laguna Beach County Water District requested to be part of a new South County Agency?*

**Response:** This option was added by LAFCO staff to address LAFCO's mandated role to analyze logical boundaries and issues of contiguity.

*Comment 4: Formation of a New South County Agency: In 2001, MWDOC consolidated with Coastal MWD. The formation of a new South County Agency appears to be a step backwards. The assumption that it will take three years to fully staff the New South County Agency is not realistic. Using this assumption does not provide the actual costs of a New South County Agency. What impact would a new South County Agency have at MWD?*

**Response:** Although staffing transitions can be accomplished in a number of ways, the staffing assumptions proposed have been determined to be reasonable by the consultant team based independent review and analysis. Again, the scope of the study does not allow for an infinite combination of assumptions. The purpose of the analysis is to understand, using *reasonable* assumptions, if any of the proposed organization changes will result in fiscal impacts so severe that the alternative is fatally flawed. The information in the fiscal analysis is not intended to be a staffing optimization analysis.

*Comment 5: Attachment A: The agency staffing assumptions do not accurately reflect the actual cost for the various Governance options.*

**Response:** See response to Comment 4.

Again, thank you for your comments. We look forward to your participation in our next Stakeholder Meeting scheduled for February 18, 2009. At that meeting the 2<sup>nd</sup> Technical Report (Fiscal Analysis) will be presented and distributed for review and comment. In the interim, if you have any questions regarding this letter, please contact me directly by email ([jcrosthwaite@oclafo.org](mailto:jcrosthwaite@oclafo.org)) or by phone at (714) 834-2556.

Sincerely,

A handwritten signature in black ink that reads "Joyce Crosthwaite". The signature is written in a cursive, flowing style.

Joyce Crosthwaite  
Executive Officer



February 10, 2008

**CHAIR**  
**JOHN WITHERS**  
Director  
Irvine Ranch Water District

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Director  
Santa Margarita  
Water District

**JOYCE CROSTHWAITE**  
Executive Officer

Mr. Patrick Scanlon  
Vice President of Operations  
Golden State Water Company  
1920 West Corporate Way  
Anaheim, CA. 92801

**SUBJECT: RE: List of Assumptions for the Fiscal Analysis for  
Stakeholder Review and Comment, January 21, 2009**

Dear Mr. Scanlon:

Thank you for your agency's comments on the draft fiscal assumptions formulated by our consultant for the MWDOC Governance Study. The responses, below, address your agency's comments (in summary form below) in the order presented in your January 21, 2009 letter.

***Comment:** The final version of the First Technical Memorandum did not incorporate or respond to comments GSWC provided to LAFCO in a letter dated October 29, 2008.*

**Response:** Appropriate comments from your October 29, 2008 letter were incorporated into the First Technical Memorandum.

***Comment:** The County Water Authority alternative continues to be listed as preliminarily feasible in the final version of the First Technical Report.*

**Response:** The feasibility of a County Water Authority will be fully analyzed in the third Technical Report of the Governance Study.

***Comment:** Water demand, water rates, budget and staffing assumptions are inconsistent with information or policies used by 28 client agencies for planning. The consultant should use more relevant water industry information to avoid inaccurate cost estimates for each alternative.*



**Response:** While, potentially, there are an endless number of assumptions that may be valid for the purposes of conducting such an analysis, staff must ultimately settle on a *reasonable* set of assumptions if the study is to go forward and be completed. Using a myriad of assumptions or variations is beyond both the scope of this project and the funding available to complete the study. If you have access to more relevant water industry information, please provide the data and it will be evaluated by the consultant team for potential incorporation into the study.

Again, thank you for your comments. We look forward to your participation in our next Stakeholder Meeting scheduled for February 18, 2009. At that meeting the 2<sup>nd</sup> Technical Report (Fiscal Analysis) will be presented and distributed for review and comment. In the interim, if you have any questions regarding this letter, please contact me directly by email ([jcrosthwaite@oclafco.org](mailto:jcrosthwaite@oclafco.org)) or by phone at (714) 834-2556.

Sincerely,

A handwritten signature in black ink that reads "Joyce Crosthwaite". The signature is written in a cursive, flowing style.

Joyce Crosthwaite  
Executive Officer



February 10, 2008

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Director  
Santa Margarita  
Water District

**JOYCE CROSTHWAITE**  
Executive Officer

Mr. Howard Johnson  
Utilities Manager  
City of Huntington Beach  
2000 Main Street  
Huntington Beach, CA 92648

**Subject: Response to MWDOC Comments (1/15/2009) on Governance Study Fiscal Assumptions**

Dear Mr. Johnson:

Thank you for your agency's comments on the draft fiscal assumptions formulated by our consultant for the MWDOC Governance Study. The responses, below, address your agency's comments (presented in summary form) in the order presented in your January 15, 2009 letter.

***Comment:** Concerns were expressed regarding how the consultant will be able to accurately develop cost comparisons among agencies if a "Cafeteria Plan" of MWDOC services is offered to member agencies.*

**Response:** While, potentially, there are an endless number of assumptions that may be valid for the purposes of conducting such an analysis, staff must ultimately settle on a *reasonable* set of assumptions if the study is to go forward and be completed. Using a myriad of assumptions or variations is beyond both the scope of this project and the funding available to complete the study. The assumptions used in developing cost comparisons among agencies will be fully documented in the Fiscal Analysis report.

***Comment:** The agency staffing assumptions listed in Attachment A are not sufficient to show the financial differences between the status quo and the "remaining MWDOC".*

**Response:** Although staffing transitions can be accomplished in a number of ways, the staffing assumptions proposed have been determined to be *reasonable* by the consultant team based on independent review and analysis. The scope of the study does not allow for an infinite

combination of assumptions. The assumptions for the fiscal analysis are high-level assumptions because the report is intended to be a high-level, fatal-flaw analysis, not a detailed audit or rate study. The purpose of the analysis is to understand, using *reasonable* assumptions, if any of the proposed organization changes will result in fiscal impacts so severe that the alternative is fatally flawed.

Again, thank you for your comments. We look forward to your participation in our next Stakeholder Meeting scheduled for February 18, 2009. At that meeting the 2<sup>nd</sup> Technical Report (Fiscal Analysis) will be presented and distributed for review and comment. In the interim, if you have any questions regarding this letter, please contact me directly by email ([jcrosthwaite@oclafco.org](mailto:jcrosthwaite@oclafco.org)) or by phone at (714) 834-2556.

Sincerely,

A handwritten signature in black ink that reads "Joyce Crosthwaite". The signature is written in a cursive, flowing style.

Joyce Crosthwaite  
Executive Officer



February 10, 2009

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Director  
Santa Margarita  
Water District

**JOYCE CROSTHWAITE**  
Executive Officer

To: Robert Hill (El Toro WD)  
Paul Jones (IRWD)  
Bob Gumerman (MNWD)  
Don Chadd (TCWD)  
John Schatz (SMWD)

FROM: Joyce Crosthwaite 

**Subject: Response to Comments (1/21/2009) on MWDOC Governance Study  
Fiscal Assumptions**

Thank you for your agencies' comments on the draft fiscal assumptions formulated by our consultant for the MWDOC Governance Study. The responses, below, address your agency's comments in the order presented in your January 21, 2009 letter.

*Comment 1: Assumptions for the Status Quo with December 2006 Policy Changes (1.c.1 and 1.c.2)*

**Response:** The technical report will clearly delineate its basis for rate assumptions which are: (1) Metropolitan's January 13, 2009 Board information packet, and (2) MWDOC's financial master plan. In addition, the final report will define MWDOC's melded "blended" rate.

*Comment 2: Assumptions for MWDOC reorganized as a County Water Authority.*

**Response: (2.a)** The second section of the report will clearly articulate assumptions for board compensation for the CWA (i.e. member agencies support board members at meeting and new agency supports board members attendance at Met/conference etc). The third section will describe representation formulas.

**Response: (2.b.1)** A definition of "Water Operations and Administration" as used in this study will be included in the final report.

**Response: (2.b.2)** The staffing assumptions proposed have been determined to be reasonable by LAFCO and the consultant team based independent review. The analysis and the scope of the study does not allow for an infinite combination of assumptions. The purpose of the analysis is to understand, using *reasonable* assumptions, if any of the proposed organization changes will result in fiscal impacts so severe that the alternative is fatally flawed. The information in the fiscal analysis is not intended to be a staffing optimization analysis.

**Response: (2.c.1)** See Response 2.b.2

**Response: (2.c.2)** See Response 2.b.2

**Response: (2.c.3)** While there potentially are an endless number of assumptions that may be used for the fiscal analysis, staff must ultimately settle on a *reasonable* set of assumptions if the study is to go forward and be completed. Proposing different assumptions, governance option or variations is beyond both the scope of this project and the funding available to complete the study. The governance option of reorganizing MWDOC and OCWD was eliminated by the stakeholder group and will not be included in the study.

**Response: (2.c.3)** The final fiscal analysis will define what constitutes the "General Fund" and will describe the uses of "Operating" reserves.

*Comment 3: Assumptions for MWDOC reorganized as a County Water Authority (2 Boundary Option)*

**Response: (3.a.1)** The original scope of the study, as agreed to in the first stakeholder meeting, included detaching the six agencies only. A second boundary option was included by LAFCO staff because of contiguous boundary issues. The addition of Newport Beach was not discussed in the MSR report or the stakeholder process and will not be included as a governance option.

**Response: (3.b.1)** See Response 2.b.2

**Response: (3.c.1)** See Response 2.b.2

**Response: (3.c.2)** The second section of the report will use the assumption that WEROC will continue to be provided by MWDOC and that all agencies will participate in cost-sharing arrangements for that service.

**Response: (3.c.3)** The second section of the report will include an explanation of Tier 1 allocations and anticipated Tier 2 purchases and a source for this information will be clearly cited. A Tier 2 contingency fund is not proposed but the fiscal analysis assumes

each agency needing to make Tier 2 purchases will directly bear the costs of those purchases.

**Response: (3.c.4)** See Response (3.c.3)

**Response: (3.c.5)** See Response 2.c.3

*Comment 4: General Comments.*

**Response 1.a:** See comments 2.b.2 and 2.c.3

**Response 1.b:** See comments 2.c.3

**Response 2.a:** See comments 2.b.2 and 2.c.3

**Response 2.a:** See comments 2.b.2 and 2.c.3

Thank you for your comments. We look forward to your participation in our next Stakeholder Meeting scheduled for **February 18, 2009**. At that meeting the 2<sup>nd</sup> Technical Report (Fiscal Analysis) will be presented and distributed for review and comment. In the interim, if you have any questions regarding this letter, please contact me directly by email ([jcrosthwaite@oclaico.org](mailto:jcrosthwaite@oclaico.org)) or by phone at (714) 834-2556.



February 10, 2009

CHAIR  
**JOHN WITHERS**  
Director  
Irvine Ranch Water District

VICE CHAIR  
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Representative of  
General Public

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**CHARLEY WILSON**  
Director  
Santa Margarita  
Water District

**JOYCE CROTHWAITE**  
Executive Officer

Kevin Hunt, General Manager  
Municipal Water District of Orange County  
18700 Ward Street  
Fountain Valley, CA 92708

**Subject: Response to MWDOC Comments (1/21/2009) on Governance Study  
Fiscal Assumptions**

Dear Mr. Hunt:

Thank you for your agency's comments on the draft fiscal assumptions formulated by our consultant for the MWDOC Governance Study. The responses, below, address your agency's comments in the order presented in your January 21, 2009 letter.

***Comment 1: The consultant has not contacted MWDOC's staff in reaching the assumptions for the fiscal analysis.***

**Response:** To maintain consultant objectivity and reduce charges of favoritism in preparing the study, LAFCO staff has been designated as the official conduit for all communication with the consultants. The stakeholder meetings have been designated as the forum for all parties to interact with both LAFCO staff and consultants. This process was established in the initial stakeholder meeting and will continue until the study is complete.

***Comment 2: The assumptions fail to recognize that MWDOC is willing to consider policy changes beyond those specifically committed to in December 2006.***

**Response:** The primary purpose of the study is to provide accurate information that will be useful to all stakeholders. It is not the purpose of the study to suggest or anticipate operational policy changes of MWDOC. That is the role of the MWDOC Board.

***Comment 3: The fiscal analysis must provide necessary background as to why the study came about and the problems the study is intended to solve.***

**Response:** The first technical report included a background section which addressed these issues. When the Governance Study is complete, the first, second and third technical reports will be combined into a single, seamless report.

**Comment 4:** *The baseline analysis of MWDOC's current service model should be completed before the Fiscal Analysis Assumptions are finalized.*

**Response:** The analysis of MWDOC's current service level ("baseline") has been completed as the initial step in the preparation of the fiscal study. The baseline will be used in the fiscal study to compare the alternative government structure options selected for further evaluation during the initial phase of the study and identified in the first Technical Report. The second Technical Report, which includes the baseline analysis, will be released for stakeholder review and comment at the February 18, 2009 stakeholder meeting.

**Comment 5:** *The list of assumptions must be expanded to identify the full range of assumptions needed for a realistic fiscal analysis.*

**Response:** The draft fiscal assumptions are high-level because the governance study is intended to be a high level, fatal flaw analysis. It is not a detailed audit or a rate study. While, potentially, there are an endless number of assumptions that may be valid for the purposes of conducting such an analysis, staff must ultimately settle on a *reasonable* set of assumptions if the study is to go forward and be completed. Using a myriad of assumptions or variations is beyond both the scope of this project and the funding available to complete the study.

**Comment 6:** *Projected growth rates should be based on the most recent information.*

**Response:** LAFCO staff would welcome any updated data made available by MWDOC to include in the study.

**Comment 7:** *The assumption on the 20 x 2020 initiative should be dropped entirely from all three options.*

**Response:** The fiscal study will incorporate two alternative analyses: one with the 2020 analysis and one without.

**Comment 8:** *The assumption that the cost of purchased water will be 20% higher than Metropolitan rates and will increase by 5% per year thereafter should be supported by facts.*

**Response:** The technical report will clearly delineate its basis for rate assumptions which are: (1) Metropolitan's January 13, 2009 Board information packet, and (2) MWDOC's financial master plan. If additional rate information is available, please provide the data and it will be incorporated into the study.



**Comment 9:** *A County Water Authority should not be considered a preliminarily feasible alternative.*

**Response:** The legal feasibility of a County Water Authority will be fully analyzed in the third Technical Report of the Governance Study.

**Comment 10:** *If the County Water Authority remains, the fiscal analysis should include assumptions regarding the process for forming a CWA and transitioning MWDOC into a CWA.*

**Response:** An estimate for formation costs will be included in the final report.

**Comment 11:** *The 15% reserve assumption is inappropriate for an agency such as MWDOC and should include more detail.*

**Response:** LAFCO staff and our consultants agreed that the 15% reserve assumption is reasonable, is based on recommendations by the Government Finance Officers' Association and will be used for analysis purposes in the study.

**Comment 12 :** *The assumption for formation of a new South County Agency fails to assess Metropolitan and OCLAFCO policies.*

**Response:** The governance option for formation of a new South County agency is consistent with OCLAFCO policies. A discussion of relevant Metropolitan membership policies and legal requirements will be included in the third Technical Report.

**Comment 13 :** *The assumption for formation of new South County agency adds a six agency and a nine agency option to the mix.*

**Response:** These options were added by LAFCO staff to address LAFCO's mandated role to analyze logical boundaries and issues of contiguity.

**Comment 14:** *The assumption regarding MWDOC continuing to provide WEROC services to the new South County Agency fails to include projected costs.*

**Response:** The financial analysis includes the assumption that all agencies will pay their fair share of WEROC services.

**Comment 15:** *The analysis must account for the pre-formation costs that will be borne by the reorganized retail agencies and Board member compensation.*

**Response:** The financial analysis will include a review of election costs for the CWA alternative. For the new South County Agency, the study will assume that pre-formation costs are paid for by the proponents. For the study, election cost estimates will be obtained by the consultant team from the Registrar of Voters.

*Comment 16 : The assumption regarding Tier 1 purchases must be more detailed.*

**Response:** The financial analysis will include detailed information regarding Tier 1 allocations and anticipated Tier 2 assumptions. Sources for the estimates will be clearly documented.

*Comment 17: The assumption to use the 5-year percent average (2004-2008) must have more background information.*

**Response:** The financial analysis will include detailed information regarding the reserve allocation projections.

*Comment 18: Using a transition staffing assumption skews the analysis for the first three years.*

**Response:** Although staffing transitions can be accomplished in a number of ways, the staffing assumptions proposed have been determined to be reasonable by the consultant team based independent review and analysis. Again, the scope of the study does not allow for an infinite combination of assumptions. The purpose of the analysis is to understand, using *reasonable* assumptions, if any of the proposed organization changes will result in fiscal impacts so severe that the alternative is fatally flawed. The information in the fiscal analysis is not intended to be a staffing optimization analysis.

*Comment 19: The assumption that two separate agencies can be staffed by the same number of people currently employed by one agency is incorrect.*

**Response:** See response directly above. The fiscal analysis will provide additional detail of the staffing plan, including specific roles for the projected FTE's.

*Comment 20: The assumption that the new South County agency would not secure a permanent facility until its third full year skews the analysis.*

**Response:** While the fiscal analysis will continue to assume that a permanent location is not secured until the third full year of operation, the study has incorporated appropriate rental costs for shared space beginning at the first year of formation.

**Comment 21:** *The assumption that the new South County Agency will not provide a School Program and Water Use Efficiency Program goes against Best Management Practices.*

**Response:** The study assumes that if a new South County Agency is formed, the remaining MWDOC members will continue to operate school programs and water use efficiency programs as a smaller, regional entity. The study assumes that South County agencies will not provide these programs as a regional body but, instead, will offer them separately by individual member agencies.

**Comment 22:** *Attachment A's details regarding the staffing plans should provide more detail and quantify the differences in staffing level.*

**Response:** See Response to Comment 18.

Again, thank you for your comments. We look forward to your participation in our next Stakeholder Meeting scheduled for February 18, 2009. At that meeting the 2<sup>nd</sup> Technical Report (Fiscal Analysis) will be presented and distributed for review and comment. In the interim, if you have any questions regarding this letter, please contact me directly by email ([jcrosthwaite@oclafo.org](mailto:jcrosthwaite@oclafo.org)) or by phone at (714) 834-2556.

Sincerely,

Joyce Crosthwaite  
Executive Officer



March 16, 2009

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**SUSAN WILSON**  
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Director  
Santa Margarita  
Water District

**JOYCE CROTHWAITE**  
Executive Officer

David Rebensdorf, Assistant City Engineer  
City of San Clemente  
910 Calle Negocio, Suite 100  
San Clemente, CA 92673

**RE: Response to Comments (3/5/2009) on MWDOC Governance Study  
Preliminary Fiscal Analysis**

Dear Mr. Rebensdorf:

Thank you for your agency's comments on the draft preliminary fiscal analysis prepared by our consultant for the MWDOC Governance Study. The responses, below, address your agency's comments (in summary form) in the order presented in your March 5, 2009 memo.

**Comment 1:** *The study shows MWDOC's baseline reserve increasing from \$4.7 to \$8.5 million over the study period, although Attachment B discusses maintaining a reserve level between \$5 to \$6 million.*

**Response:** The model assumptions will be revised to: (1) assume a \$5 million cap for MWDOC baseline reserves; and, (2) assume a 15 percent cap for all other government options.

**Comment 2:** *Under the 6 and 9 agency option, what would be the costs for those agencies to provide programs to replace MWDOC's water use efficiency, water awareness and other school programs?*

**Response:** LAFCO staff is requesting additional cost and program information from south county agencies and the model will be adjusted.

**Comment 3:** *Under Options 3A and B, would like additional back-up documentation to support rate reductions given Tier 2 increases and reduction in MWDOC agencies.*

**Response:** On February 25, 2009, LAFCO distributed expanded versions of Tables 7, 10, 13, 16 and 19 that illustrate the comparative differences between all three revenue recovery methods (Tier II surcharge, Water Increment Charge and

Retail Meter Charge) for each retail agency under each option. These tables illustrate the individual assumptions about costs of water which is recovered in the Tier II surcharge versus assumptions about reserves and subscription services which are covered by the Water Increment and Retail Meter Charges. The tables allow each retail agency to analyze how the various assumptions may offset each other.

*Comment 4: Provide backup showing staffing modifications for each option, either reduction or increase with associated costs.*

The Study is not intended to be an optimization study.

Thank you once again for all your comments. We look forward to your participation in our next Stakeholder Meeting scheduled for May 6, 2009 at 10:30AM. At that meeting, the 3<sup>rd</sup> Technical Report (Legal Analysis) will be presented and distributed for review and comment. In the interim, if you have any questions regarding this letter, please contact me directly by e-mail ([jcrosthwaite@oclafco.org](mailto:jcrosthwaite@oclafco.org)) or by phone at (714) 834-2556.

Sincerely,

A handwritten signature in black ink, appearing to read "Joyce Crosthwaite", followed by a large, stylized flourish.

Joyce Crosthwaite  
Executive Officer



March 16, 2009

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Director  
Santa Margarita  
Water District

**JOYCE CROSTHWAITE**  
Executive Officer

Renaë Hinchey, General Manager  
Laguna Beach County Water District  
306 Third Street, P.O. Box 987  
Laguna Beach, CA

**RE: Response to Comments (3/4/2009) on MWDOC Governance Study  
Preliminary Fiscal Analysis**

Dear Ms. Hinchey:

Thank you for your agency's comments on the draft preliminary fiscal analysis prepared by our consultant for the MWDOC Governance Study. The responses, below, address your agency's comments (in summary form) in the order presented in your March 4, 2009 memo.

**Comment 1:** *The projected supply demand for the Laguna Beach County Water District assumes a proposed groundwater project is completed beginning in 2009-2010. The project, which would yield 2,025 acre-feet of groundwater, will not be completed by that date.*

**Response:** The model assumptions will be revised to exclude this project, and all affected tables in the report will be adjusted accordingly.

**Comment 2:** *For consistency, it would be helpful to use the same assumptions for projecting MWDOC reserve balances for all governance options.*

**Response:** The model assumptions will be revised to: (1) assume a \$5 million cap for MWDOC baseline reserves; and, (2) assume a 15 percent reserve cap for all other governance options.

**Comment 3:** *The MWDOC CWA option, while potentially feasible, may not have fully included the costs to implement a 28-member Board. Additionally, the CWA assumes that all of the six South County agencies would not use any of the MWDOC subscription services. This assumption may not be realistic.*

**Response:** LAFCO staff and our consultant will undertake additional research to further refine administration support costs for a 28-member CWA Board. In addition, LAFCO will request specific information from the six South County

agencies regarding their potential use of subscription services. The model will be revised accordingly.

*Comment 4: The summary comparison shows that either a six or nine agency South County CWA is fiscally feasible, although the true transitional costs and financial optimization would require further study. Other issues will include Metropolitan Water District's interest in forming another Metropolitan member agency and how a South County CWA would determine its representation at Metropolitan.*

**Response:** Comment noted.

Thank you once again for all your comments. We look forward to your participation in our next Stakeholder Meeting scheduled for May 6, 2009 at 10:30AM. At that meeting, the 3<sup>rd</sup> Technical Report (Legal Analysis) will be presented and distributed for review and comment. In the interim, if you have any questions regarding this letter, please contact me directly by e-mail ([jcrosthwaite@oclafco.org](mailto:jcrosthwaite@oclafco.org)) or by phone at (714) 834-2556.

Sincerely,

A handwritten signature in black ink, appearing to read "Joyce Crosthwaite", written in a cursive style.

Joyce Crosthwaite  
Executive Officer



March 16, 2009

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Director  
Santa Margarita  
Water District

**JOYCE CROSTHWAITE**  
Executive Officer

Kevin Hunt, General Manager  
Municipal Water District of Orange County  
18700 Ward Street  
Fountain Valley, CA 92708

**Subject: Response to MWDOC Comments (3/4/2009) on Draft Fiscal Analysis for Governance Study**

Dear Mr. Hunt:

Thank you for your agency's comments on the draft preliminary fiscal analysis prepared by our consultant for the MWDOC Governance Study. The responses, below, address your agency's findings and comments in the order presented in your March 3, 2009 letter.

***Finding 1: The analysis overstates costs and rates for MWDOC Baseline options while understating costs for all the remaining options.***

**Response:** The financial analysis is at a high-level because the governance study is intended to be a high level, fatal flaw analysis. It is not a detailed optimization study, audit or rate study. As such the financial analysis does employ assumptions. While potentially, there are an endless number of assumptions that may be valid for the purposes of conducting such an analysis, staff must ultimately settle on a *reasonable* set of assumptions if the study is to go forward and be completed. While the assumptions used in preparing the analysis were reviewed by the stakeholders, the consultant will be making modifications to the modeled based on the specific comments received. These adjustments are discussed as responses to the specific comments.

***Finding 2: For the Baseline option, the analysis shows excessive amounts of future reserves and assumes that general fund-related rates would increase faster than costs.***

**Response:** We agree that in the draft model, general fund-related rates increased faster than projected costs. The model has been adjusted to refine those rates and to reflect MWDOC's stated policy of maintaining its reserve balance at a limit of \$5 million.



**Finding 3:** *For all other options, (1) the analysis establishes an unrealistically low limit on general fund reserves; (2) uses up the prudent amount MWDOC has built to date to subsidize future costs; (3) fails to take into account the reasonable costs of providing so-called non-essential, subscriptions services; (4) understates costs related to elections; and (5) ignores the costs of Board compensation and support.*

**Response:** (1) The assumption for future reserves is based on the recommendations for a 15% reserve published by the Government Finance Officers' Association and is based, in part, on the fact that MWDOC does not own or operate infrastructure and facilities. (2) see response 1 to Finding #3; (3) the study, with the input from stakeholders, built the fiscal model based on a *reasonable* set of assumptions. However staff is verifying costs of some subscriptions services to ensure that the model is accurate; (4) Agreed.

The Registrar of Voters provided a more accurate estimate of costs for preliminary planning purposes for both a Countywide and a South County stand alone election and a consolidated election in 2009. From their email "Actual costs will be applied in compliance with OMB A-87 and will include labor and overhead, supplies, services, and other expenditures incurred during the election. Invoices and spreadsheets outlining actual costs may be examined following receipt of all invoices related to the election upon request. The calculation of estimates for both stand alone and consolidated elections is based upon a projection of total jurisdictional participation and an average cost per voter. The total jurisdictional participation is calculated by taking the current number of registered voters and projecting a 10% increase per year in voter registration. The average cost per projection formula is based upon experience over past elections of this type."

The following costs for an election if the protest thresholds are met will be included in the report but NOT in the fiscal model. Staff will determine in the next phase of the study if the formation of a CWA will require a formation election. If so, then the model will be adjusted accordingly.

- South County Stand Alone Election - \$1,900,000 - \$2,000,000.
- South County Consolidated Election - \$1,000,000 - \$1,200,000
- Countywide Stand Alone Election - \$5,600,000 - \$6,000,000
- Countywide Consolidated Election - \$3,000,000 - \$3,600,000

(5) Board compensation costs will be adjusted in the fiscal model.

**Finding 4:** *If the analysis made reasonable assumptions regarding the matters described above, it would show that none of the four alternatives to the Baseline would efficiently extend the government services currently provided by MWDOC. Throughout the report we describe corrections that are needed to make the comparison of costs among the options balanced and reasonable. Our analysis shows that making some of the key needed changes would show that all the options to the Baseline would increase costs to ratepayers. The added costs in FY 19-20 range from \$468,387 to \$3,386,381. These results are presented in MWDOC Response Table B on the last page of this response and are explained in Appendix 2.*

**Response:** Comment noted. The assumptions used in the fiscal model were reviewed and commented on by MWDOC staff. We will address each specific correction in the following sections.

**Comment 1:** *Inconsistent Treatment of Operational Reserves and of Incremental and Meter Rates.*

- ***Eliminate existing reserves from the analysis.*** Comment noted. However, reserves are an integral part of the budget and one of the issues repeatedly addressed in the MSR stakeholder process and report.
- ***Limit Baseline general fund reserves to \$5 million...in accordance with MWDOC's stated policy.*** Agreed; the model will be changed.
- ***...use a reserve distribution method that reflects the proportion of reserves contributed by each MWDOC member agency.*** The model does apportion reserves based on the average contribution of each member agency for the past five fiscal years.
- ***...assume for Baseline that MWDOC will raise rates only enough to equal general fund budget requirements.*** Agreed; the model will be changed.

**Comment 2:** *Missing Figures in Tables Showing Comparison of Revenue Contributions of Rate Payers.*

- ***On all five tables (7, 10, 13, 16 and 19) in the analysis, show totals for costs to be recovered from ratepayers. Also show subtotals for the amounts of costs to be recovered for south county agencies on one hand and for the remaining MWDOC on the other.*** Agreed, the subtotals will be provided as requested in the final report.
- ***...break out the two elements of costs.*** The information requested can be found in the appendices/spreadsheets to the report.
- ***...show the annual costs to ratepayers as well as the "annual impact to rate payer".*** The information requested can be found in the appendices/spreadsheets to the report.

***Comment 3: Inconsistent treatment of Costs for Subscription Services.***

- ***...assume that MWDOC will reduce the size of its programs if it is no longer serving the south county agencies...*** Agreed; LAFCO staff is requesting additional information from the south county agencies and the model will be adjusted.
- ***For the 6 and 9 agency south county options, assume that the agencies will incur costs reflecting their historic use percentages of MWDOC's annual costs...*** Agreed; LAFCO staff is requesting additional information from the south county agencies and the model will be adjusted.

***Comment 4: Understated Election Costs***

- ***...obtain estimated costs for a countywide CWA and for a 6 and 9 agency CWAs from the Registrar of Voters...*** Agreed. See Response to Find #3.

***Comment 5: Incomplete Board Compensation Costs...*** Agreed. The fiscal model will be changed. However please indicate if the figures provided in your response include Director's travel expenses, conferences or any other related expenses.

***Comment 6: Incomplete Board Support Costs...*** Agreed. The fiscal model will be changed.

***Comment 7: Impact of Some of the Needed Corrections...*** As noted in previous responses, modifications will be made to the model and the results will be re-published in the final technical report.

***Comment 8: Unlikely Lowering of Total General Fund Costs by Splitting Agency.*** The general fund costs associated with the two agencies are driven by two factors: assumptions about staffing and assumptions about reserves. As noted in previous responses, the assumptions about reserves will be modified based on comments received. The assumptions about staffing have been reviewed by the stakeholders and LAFCO has received only general comments about staffing levels. LAFCO is willing to consider specific comments on the level of staffing provided for either new agency and adjust the model if necessary based on those specific comments.

***Attachment C Comment 1 Possible Anomaly in the Model:***

Based on the comment, the consultant reviewed the spreadsheet that is the basis of both Attachment F and Table 10 and discovered a locked formula in FY 19-20 calculations. This anomaly is unique to this one set of calculations and will be corrected in the final Technical Report.

Thank you once again for all your comments. We look forward to your participation in our next Stakeholder Meeting scheduled for May 6, 2009 at 10:30AM. At that meeting, the 3<sup>rd</sup> Technical Report (Legal Analysis) will be presented and distributed for review and comment. In the interim, if you have any questions regarding this letter, please contact me directly by e-mail ([jcrosthwaite@oclafco.org](mailto:jcrosthwaite@oclafco.org)) or by phone at (714) 834-2556.

Sincerely,

A handwritten signature in black ink that reads "Bob Aldrin, for". The signature is written in a cursive, flowing style.

Joyce Crosthwaite  
Executive Officer



March 16, 2009

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Water District

**JOYCE CROSTHWAITE**  
Executive Officer

Patrick Scanlon, Vice President  
Golden State Water Company  
1920 West Corporate Way  
Anaheim, CA 92701

**RE: Response to Comments (3/4/2009) on Draft Fiscal Analysis for Governance Study**

Dear Mr. Scanlon:

Thank you for your agency's comments on the draft preliminary fiscal analysis prepared by our consultant for the MWDOC Governance Study. The responses below address GSWC's comments in the order presented in your March 4, 2009 letter.

***Comment 1:**...concerned about the time, costs and uses of resources for the study when water agencies should be working together in addressing the water supply crisis...*

**Response:** The Orange County LAFCO Commission directed staff to complete the study. To further that direction, MWDOC and other MWDOC members agreed to fund the study. LAFCO has structured the study to be as efficient as possible for all the stakeholders.

We also believe that the professionalism of all the OC water agencies will ensure that the water supply crisis will continue to be addressed in a cooperative manner for the benefit of all OC residents.

***Comment 2:** ...we are astonished that the CWA option still remains under consideration..*

**Response:** As was explained in previous letters to GSWC, the study is proceeding in an efficient and cost-effective manner. Since the legal analysis of the governance options will be one of the more expensive parts of the study, the legal analysis will be the last section of the report. We appreciate the detailed reference to Section 45-2 of the CWA Act and will forward that to the consultants.

***Comment 3:*** *GSWC will vigorously exercise its legal rights to protect the rights and interests of its ratepayers in the event the CWA option is pursued...the needless expense for legal challenges and activities...could be avoided...*

***Response:*** Agreed. See Comment #2.

***Comment 4:*** *Thus far, the draft report has not addressed the questions associated with representation at Metropolitan*

***Response:*** See Comment #2.

***Comment 5:*** *Reduction to 15% Reserve*

***Response:*** The model has been adjusted to reflect MWDOC's stated policy of maintaining its reserve balance at a limit of \$5 million. However, reserves are an integral part of the budget and one of the issues repeatedly addressed in the MSR stakeholder process and report. Therefore, the assumption for future reserves, which is based on the recommendations for a 15% reserve published by the Government Finance Officers' Association and is based, in part, on the fact that MWDOC does not own or operate infrastructure and facilities, will be used in the remainder of the governance options.

***Comment 6:*** *Cost Shift of MWDOC Subscription CWA.*

***Response:*** LAFCO staff is requesting additional information from the south county agencies and the model will be adjusted.

***Comment 7:*** *Effects of Rate Smoothing*

***Response:*** Comment Noted

***Comment 8:*** *South County CWA Options*

***Response:*** Agreed

*Response to GSWC Letter*  
*March 4, 2009*

Thank you once again for all your comments. We look forward to your participation in our next Stakeholder Meeting scheduled for May 6, 2009 at 10:30AM. At that meeting, the 3<sup>rd</sup> Technical Report (Legal Analysis) will be presented and distributed for review and comment. In the interim, if you have any questions regarding this letter, please contact me directly by e-mail ([jcrosthwaite@oclafco.org](mailto:jcrosthwaite@oclafco.org)) or by phone at (714) 834-2556.

Sincerely,

A handwritten signature in black ink, appearing to read "Joyce Crosthwaite". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Joyce Crosthwaite  
Executive Officer



March 16, 2009

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**CHARLEY WILSON**  
Director  
Santa Margarita  
Water District

**JOYCE CROSTHWAITE**  
Executive Officer

Howard Johnson, Utilities Manager  
City of Huntington Beach  
2000 Main Street  
Huntington Beach, CA 92648

**RE: Response to MWDOC Comments (03/04/09) on Governance Study  
Financial Analysis**

Dear Mr. Johnson:

Thank you for your agency's comments on the draft preliminary fiscal analysis prepared by our consultant for the MWDOC Governance Study. The responses, below, address your agency's comments (presented in summary form) in the order presented in your March 04, 2009 e-mail.

***Comment 1: Concerned that both services for Water Increment Charges and Retail Meter Charges are flawed.***

**Response:** We agree that in the draft model general fund-related rates increased faster than projected costs. The model has been adjusted to refine those rates and to reflect MWDOC's stated policy of maintaining its reserve balance at a limit of \$5 million.

***Comment 2: The methodology used within the study's model to divide the cost savings by the number of metered services is flawed.***

**Response:** The assumptions used by the financial model were reviewed by the stakeholders and the data developed was determined to be a reasonable conclusion based on the review and analysis.

Thank you once again for all your comments. We look forward to your participation in our next Stakeholder Meeting scheduled for May 6, 2009 at 10:30AM. At that meeting, the 3<sup>rd</sup> Technical Report (Legal Analysis) will be presented and distributed for review and comment. In the interim, if you have any questions regarding this letter, please contact me directly by e-mail ([jcrosthwaite@oclafco.org](mailto:jcrosthwaite@oclafco.org)) or by phone at (714) 834-2556.



Sincerely,

*Bob Aldrich, Jr.*

Joyce Crosthwaite  
Executive Officer



March 16, 2009

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**JOYCE CROTHWAITE**  
Executive Officer

Robert T. Kellison, Field Services Manager  
City of Fountain Valley  
10200 Slater Avenue  
Fountain Valley, CA 92708

**RE: Response to MWDOC Comments (03/04/09) on Governance Study  
Financial Analysis**

Dear Mr. Kellison:

Thank you for your agency's comments on the draft preliminary fiscal analysis prepared by our consultant for the MWDOC Governance Study. The responses, below, address your agency's comments (presented in summary form) in the order presented in your March 04, 2009 letter.

***Comment 1: The comparison of reserves is not accurate. MWDOC baseline reserves are not adequately compared with alternatives reserves.***

**Response:** The model has been adjusted to reflect MWDOC's stated policy of maintaining its reserve balance at a limit of \$5 million. However, the assumption for future reserves is based on the recommendations for a 15% reserve published by the Government Finance Officers' Association and is based, in part, on the fact that MWDOC currently does not own or operate infrastructure and facilities and a MWDOC/CWA is also not expected to own or operate infrastructure and facilities.

***Comment 2: Cost for County Water Authority alternative election does not appear to be accurate.***

**Response:** Agreed. The Registrar of Voters provided a more accurate estimate of costs for preliminary planning purposes for both a Countywide and a South County stand alone election and a consolidated election in 2009. From their email "Actual costs will be applied in compliance with OMB A-87 and will include labor and overhead, supplies, services, and other expenditures incurred during the election. Invoices and spreadsheets outlining actual costs may be examined following receipt of all invoices related to the election upon request. The calculation of estimates for both stand alone and consolidated elections is based upon a projection of total jurisdictional participation and an average cost per voter. The total jurisdictional participation is calculated by taking the current

number of registered voters and projecting a 10% increase per year in voter registration.

The average cost per projection formulae is based upon experience over past elections of this type." The following costs for an election if the protest thresholds are met will be included in the report but NOT in the fiscal model. Staff will determine in the next phase of the study if the formation of a CWA will require a formation election. If so, then the model will be adjusted accordingly.

- South County Stand Alone Election - \$1,900,000 - \$2,000,000.
- South County Consolidated Election - \$1,000,000 - \$1,200,000
- Countywide Stand Alone Election - \$5,600,000 - \$6,000,000
- Countywide Consolidated Election - \$3,000,000 - \$3,600,000

*Comment 3: Concerned whether an increase in board members results in an increase in operating costs. Model's assumption does not illustrate this increase in expense.*

**Response:** Agreed. The fiscal model will be changed

Thank you once again for all your comments. We look forward to your participation in our next Stakeholder Meeting scheduled for May 6, 2009 at 10:30AM. At that meeting, the 3<sup>rd</sup> Technical Report (Legal Analysis) will be presented and distributed for review and comment. In the interim, if you have any questions regarding this letter, please contact me directly by e-mail ([jcrosthwaite@oclafco.org](mailto:jcrosthwaite@oclafco.org)) or by phone at (714) 834-2556.

Sincerely,

A handwritten signature in cursive script, appearing to read "Bob Aldrich".

Joyce Crosthwaite  
Executive Officer



March 16, 2009

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Director  
Santa Margarita  
Water District

**JOYCE CROSTHWAITE**  
Executive Officer

Lee Pearl, General Manager  
Mesa Consolidated Water District  
1965 Placentia Avenue  
Costa Mesa, CA 92627

**RE: Response to Comments (3/6/2009) on MWDOC Governance Study  
Preliminary Fiscal Analysis**

Dear Mr. Pearl:

Thank you for your agency's comments on the draft preliminary fiscal analysis prepared by our consultant for the MWDOC Governance Study. The responses, below, address your agency's comments (in summary form) in the order presented in your March 4, 2009 memo.

***Comment 1: The feasibility of Option 3 (reorganization of South County agencies to form a CWA) may be fatally flawed unless it is permitted by the Metropolitan Water District.***

**Response:** The third technical report, the final chapter of the MWDOC Governance Study, will focus on the process for implementing each viable option under current law, including but not limited to, legal barriers and an analysis of any changes to current voting rights and representation at Metropolitan. An initial draft of the third technical report will be available for stakeholder review on May 6, 2009.

***Comment 2: New reserve assumptions need to be developed.***

**Response:** The model assumptions will be revised to: (1) assume a \$5 million cap for MWDOC baseline reserves; and, (2) assume a 15 percent reserve cap for all other government options.

***Comment 3: The study needs to include a detailed analysis of the cost of water to each agency under each alternative. What would be the impact on the new South County agency if water is allocated by MET and the new agency has a few retail agencies that have to pay two to four times the base rate in penalties for a significant amount of water?***

**Response:** On February 25, 2009, LAFCO distributed expanded versions of Tables 7, 10, 13, 16 and 19 that illustrate the comparative differences between all three revenue recovery methods (Tier II surcharge, Water Increment Charge and Retail Meter Charge) for each retail agency under each option. These tables illustrate the individual assumptions about costs of water which is recovered in the Tier II surcharge versus assumptions about reserves and subscription services which are covered by the Water Increment and Retail Meter Charges. The tables allow each retail agency to analyze how the various assumptions may offset each other.

**Comment 4:** *Table 12a & b allocates cost of MWDOC services into “core” and “subscription”. Why don’t the totals for all years match the totals in Table 9? The total of the reserve balances is different from Table 9 in FY 19-10?*

**Response:** The model used assumptions, reviewed by the stakeholders, regarding “subscription” services currently provided by some south county agencies as well as the level and use of reserves. Additional information has been requested from those agencies to verify those assumptions regarding subscriptions services. See Comment #2 regarding changes in the model relating to reserves.

**Comment 5:** *Table 14a & b split the six South County agencies from MWDOC. Why are the two agencies of equal size in FY 09-10? Table 17a & b split the nine agencies from MWDOC. Why are the two agencies of equal size in FY 09-10?*

**Response:** The fiscal model actually makes the split between MWDOC and the new south county agency in FY 2010-11. FY 2009-10, which is illustrated in Tables 14a, 14b, and 17a, represents a baseline condition. In order to increase the clarity of the presentation, FY 2010-11 will be added to the tables in the final Technical Report.

**Comment 6:** *The costs for two separate agencies assume a reduction in staff from MWDOC and a smaller staff for the new agency. Why?*

**Response:** The assumptions about staffing have been reviewed by the stakeholders and LAFCO has received only general comments about staffing levels. LAFCO is willing to consider specific comments on the level of staffing provided for either new agency and adjust the model if necessary based on those specific comments.

Thank you once again for all your comments. We look forward to your participation in our next Stakeholder Meeting scheduled for May 6, 2009 at 10:30AM. At that meeting, the 3<sup>rd</sup> Technical Report (Legal Analysis) will be presented and distributed for review and comment. In the interim, if you have any questions regarding this letter, please contact me directly by e-mail ([jcrosthwaite@oclafco.org](mailto:jcrosthwaite@oclafco.org)) or by phone at (714) 834-2556.

Sincerely,

A handwritten signature in black ink, appearing to read "Joyce Crosthwaite", followed by a stylized flourish.

Joyce Crosthwaite  
Executive Officer



March 16, 2009

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John Schatz, General Manager, Santa Margarita Water District  
Bob Gumerman, General Manager, Moulton Niguel Water District  
Mike Dunbar, General Manager, South Coast Water District

**RE: Response to Comments (3/4/2009) on MWDOC Governance Study  
Preliminary Fiscal Analysis**

Gentlemen:

Thank you for your consolidated comments on the draft preliminary fiscal analysis prepared by our consultant for the MWDOC Governance Study. Your comments are addressed below:

***Comment 1:** We request that for comparison purposes the MWDOC Baseline Option be modeled using a tiered rate approach.*

**Response:** The consultant will run a tiered rate model for review by the consultant team.

***Comment 2:** For comparison purposes, run the MWDOC baseline option using a 15% cap to establish a general operating reserve balance.*

**Response:** The consultant will run a revised model alternative which includes a 15% general operating reserve cap for MWDOC.

***Comment 3:** Utilize the assumptions established in the MWDOC Subscription CWA regarding the definition and allocation of subscription services.*

**Response:** LAFCO will request specific information from the six South County agencies regarding their potential use of subscription services. The model will be revised if appropriate.

**Comment 4:** *Because of its high level focus, the fiscal analysis underestimates the financial optimization that would occur under both the South County CWA options.*

**Response:** Comment noted. However, the MWDOC Governance Study is not an optimization study.

Thank you once again for all your comments. We look forward to your participation in our next Stakeholder Meeting scheduled for May 6, 2009 at 10:30AM. At that meeting, the 3<sup>rd</sup> Technical Report (Legal Analysis) will be presented and distributed for review and comment. In the interim, if you have any questions regarding this letter, please contact me directly by e-mail ([jcrosthwaite@oclafco.org](mailto:jcrosthwaite@oclafco.org)) or by phone at (714) 834-2556.

Sincerely,

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Joyce Crosthwaite  
Executive Officer





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**CHARLEY WILSON**  
Director  
Santa Margarita  
Water District

**JOYCE CROSTHWAITE**  
Executive Officer

**DATE** June 9, 2009

**TO:** Kevin Hunt, General Manager  
Municipal Water District of Orange County  
18700 Ward Street  
Fountain Valley, CA 92708

**FROM:** Joyce Crosthwaite  
Executive Officer

**SUBJECT: Response to MWDOC Comments (5/27/2009) on First Draft Governance Study**

Thank you for your agency's comments on the first draft of the MWDOC Governance Study. The responses, below, address your agency's comments in the order presented in your May 27, 2009 letter.

***Comment 1:** The following letter summarizes the major issues we believe should be addressed before the study is concluded and should be considered together with the letter of May 19.*

**Response:** The letter of May 19<sup>th</sup> was sent to and received by LAFCO Commissioners. Since both letters appear to have similar comments, the May 19<sup>th</sup> letter will not be answered separately.

***Comment 2:** In an effort to understand the fiscal impacts of making needed corrections, MWDOC has, using the LAFCO model as a base calculated the estimated impact of making changes we believe would be required...*

**Response:** All the stakeholders have regularly requested changes in the underlying assumptions based on their view of the governance study. LAFCO staff has repeatedly responded that the governance study is not intended to be an optimization study or a sensitivity analysis of the impacts of various decisions that could be taken by MWDOC or by a newly formed agency. While, potentially, there are an endless number of assumptions that may be valid for the purposes of conducting such an analysis, LAFCO staff and the consultant chose reasonable assumptions which have been extensively reviewed and commented upon by all the stakeholders. Using a myriad of assumptions or variations is beyond both the scope of this project and the funding available to complete the study.

**Comment 3:** *In some cases we were unable to determine the assumptions and calculation methodologies used by the LAFCO consultant.*

**Response:** The report contains extensive documentation and explanation of assumptions, calculation methodologies and other explanations as requested in the review of previous drafts. Nevertheless, the LAFCO consultant has prepared another document in response to MWDOC's comments with explanations of the assumptions, which will be included in the final report.

**Comment 4:** *We suggest a meeting of LAFCO, its consultant and MWDOC to discuss the issues presented below. We believe this would clarify some of the unknowns and allow for a dialog that could substantially improve the accuracy and credibility of the study.*

**Response:** It was explained from the beginning of the governance study that to (1) control costs and (2) avoid the accusations of bias by LAFCO staff that dogged the previous MSR process, all dialog and clarification should take place at the stakeholder meetings in order to allow all stakeholders the opportunity to hear and respond. It is unclear how a confidential meeting with the LAFCO staff, its consultant and MWDOC without other stakeholders present can further the openness, impartiality, accuracy or credibility of the study. It is suggested that recommendations to improve the accuracy and credibility of the report take place during the stakeholder meetings.

**Comment 5:** *The study continues to show two agencies operating as efficiently as one.*

**Response:** The underlying assumption to this comment—that it is clear it would cost more to operate two agencies seems to suggest that all public and private wholesale retail water agencies in Orange County would be more efficient if they were merged. LAFCO staff believes that each agency should be evaluated on its own merits rather than judged by a "one-size fits all" standard.

In addition the assertion that the study does not take into account the need for additional resources to duplicate MWDOC's functions--including finance, human resources, facility space, board of directors' costs and information technology is false. The study explains assumptions and quantifies the referenced costs. While MWDOC may disagree with the amounts, it is inaccurate and misleading to say the costs are not included. There are multiple "business models" that can be used to operate an agency and the assumptions used in the governance are reasonable, were reviewed and were approved by all the stakeholders.

*Comment 6: Tier 2 costs are significantly overstated for some options.*

**Response:** The Governance Study explores two methods for recovering Tier 2 water costs. The first method is the melded water rate currently used by MWDOC and the second method is direct recovery of Tier 2 water costs from the retail agencies that need to purchase water at Tier 2 rates. These two methods were used in order to "bracket" the potential impacts of the assumptions about cost recovery strategies. Tables 16 and 19 illustrate the effects of the assumptions about Tier 2 cost recovery strategies and clearly illustrate that many ratepayers could experience a cost savings, while some would experience increases up to \$5.00 per month. The Governance Study discusses (on both pages 46 and 54) that the analysis demonstrates that a melded rate structure could continue to be used, however it is beyond the scope of the Study to optimize the rate structure.

While there are certainly many alternative assumptions and scenarios that could be developed for recovering Tier 2 water costs, it is beyond the scope of the Governance Study to optimize the rate structure for every possible option. The Governance Study brackets a reasonable range of assumptions about Tier 2 water costs and demonstrates that, while these assumptions highlight some important policy issues for cost recovery for a new South County Agency, these assumptions do not result in a fatal fiscal flaw for any of the options reviewed.

*Comment 7: The study brushes aside significant cost impacts related to full Tier 2 pricing.*

**Response:** The study uses the projections of water need as developed by the agencies and by MWDOC. The study does indicate that the need for Tier 2 water primarily originates in South County. With the current Tier 2 "melded rate" of MWDOC the cost of Tier 2 water purchases is spread among all agencies.

It is noted that MWDOC disagrees with the statement that the impacts to ratepayers are considered significant. However, the final decision if the rate increases are significant or "...represents (sic) a good value..." ultimately rests with the Board of Directors or City Council and rate payers of each affected agency.

*Comment 8: The study lacks focus and comprehensibility... Table 16 on page 47...should show both the countywide total costs and subtotals...*

**Response:** It appears that this comment refers to the lack of an Executive Summary which would "...summarize key findings in focused, concise and meaningful ways." As was explained at the stakeholder meeting, where MWDOC representatives were present, the Executive Summary will be written

after all comments are received. It was LAFCO staff's mistake in not revising the chart as previously requested by MWDOC. It will be corrected on the final report.

***Comment 9: The study lacks needed detail and explanation and contain faulty assumptions and calculations.***

**Response:** It is, at best, inaccurate to maintain that the study and the accompanying spreadsheet are "...almost entirely undocumented." To repeat a previous response---potentially, there are an endless number of assumptions that may be valid for the purposes of conducting such an analysis but LAFCO staff and the consultant chose reasonable assumptions which have been extensively reviewed, commented upon and agreed to by all the stakeholders. Using a myriad of assumptions or variations is beyond both the scope of this project and the funding available to complete the study. To answer specific comments:

- The model consistently assumes no interest earning on any reserves.
- The model follows MWDOC's fiscal master plan from its FY 2008-2009 budget. Rate increases to meet operational cost requirements and reserve requirements are modeled for all options. While this revenue increase is illustrated in MWDOC's fiscal master plan, the study and LAFCO's responses have consistently emphasized that the model is not intended to be an optimization analysis but rather a tool to assist in understanding potential fatal flaws.
- The reserve levels used are consistent with the assumptions for the study. The assumptions were intended to model the effects of various reserve levels on the ratepayer and "bracket" the potential impacts of the assumptions. Option 1 modeled the fiscal impacts of maintaining an approximately \$5 million reserve while Options 2 and 3 modeled the fiscal impacts of reduced reserve levels.

Option 2a MWDOC CWA provides the best illustration of the effects of assumptions about reserve levels because the budget assumptions for Option 1 Baseline MWDOC and Option 2a MWDOC CWA are identical except for the level of reserves. As indicated in Table 26: Summary of Analysis the effect of reducing the reserve levels is approximately \$0.50 per ratepayer per year. This indicates that from a fiscal standpoint, many potentially different reserve strategies could be used without resulting in adverse impacts to ratepayers.

- Staffing related costs and increases have been one of the factors that some south county agencies have complained about for the previous five years. It appears that this comment, while acknowledging that the assumption is present in the study, asks for additional substantiation. The repeated assertion that assumptions are not included in the model and then, when shown that they are included, asking for more substantiation is disingenuous and counterproductive.
- This is false. The “rationale” for the amount of Board expense was clearly stated, explained and approved by the stakeholders during the last review.
- The “...major list of assumptions...” has been revised according to previous comments. The figure regarding elections costs will be revised.

*Comment 10: The study fails to address election costs.*

**Response:** This is not accurate. An estimate for elections costs has been included and is based on estimates from the Registrar of Voters. However, Attachment C will be revised to include updated estimates from the Registrar of Voters.

*Comment 11: The impact of diffused representation at MET is understated.*

**Response:** LAFCO staff and our consultants agree that separating the representation at MET could reduce Orange County’s force and unity at MET. However, having two separate agencies representing Orange County at MET could also shift alliances among the other MET members allowing for regions, more dependent on imported water, to form voting alliances across county lines. The impact of diffused representation can be viewed in different ways.

*Comment 12: There are no criteria for fatal flaws.*

**Response:** This comment seems to be primarily aimed at the fiscal model and the underlying assumptions about which MWDOC has consistently expressed concerns. The governance study has included an extensive stakeholder process and review by all water agencies and departments in Orange County and the criteria for fatal flaws were thoroughly discussed during stakeholder meetings.

Again, thank you for your comments. If you have any questions regarding this letter, please contact me directly by email ([jcrosthwaite@oclafco.org](mailto:jcrosthwaite@oclafco.org)) or by phone at (714) 834-2556.

Sincerely,

A handwritten signature in cursive script that reads "Joyce Crosthwaite". The signature is written in dark ink and is positioned above the printed name and title.

Joyce Crosthwaite  
Executive Officer

CC: LAFCO Commission



June 9, 2009

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**TO:** Bob Hill, General Manager, El Toro Water District  
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Paul Jones, General Manager, Irvine Ranch Water District  
John Schatz, General Manager, Santa Margarita Water District  
Bob Gumerman, General Manager, Moulton Niguel Water District  
Mike Dunbar, General Manager, South Coast Water District

**RE: Response to Comments (05/06/2009) on first draft MWDOC Governance Study**

Gentlemen:

Thank you for your consolidated comments on the first draft of the MWDOC Governance Study prepared by our consultant. The responses, below, address your agencies' comments (presented in summary form) in the order presented in your May 25, 2009 memorandum.

***Comment 1:** Request for description in the study of how improved representation would occur after the formation of a south County CWA as part of a conclusion.*

**Response:** An Executive Summary will be included in the final report. However, the Governance Study was intended to present logical data to allow the Board of Directors or City Council of each agency to make their own conclusions.

***Comment 2:** Request to add a conclusion which explains how a south County CWA will not add another layer of governance, but improve local governance and regional representation at Metropolitan.*

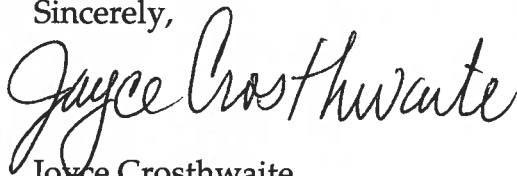
**Response:** Comment noted. See previous response.

***Comment 3:** Request for a conclusion to be added in the Governance Study which addresses the major issues described.*

**Response:** LAFCO and consultant have attempted to provide an unbiased Governance Study with logical data for review by all affected agencies and to allow the Board of Directors or City Councils of the various agencies to draw their own conclusion.

Again, thank you for your comments. We will notify you with any further information once available. In the interim, if you have any questions regarding this letter, please contact me directly by email ([jcrosthwaite@oclafco.org](mailto:jcrosthwaite@oclafco.org)) or by phone at (714) 834-2556.

Sincerely,

A handwritten signature in black ink that reads "Joyce Crosthwaite". The signature is written in a cursive, flowing style.

Joyce Crosthwaite  
Executive Officer





June 9, 2009

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Water District

**JOYCE CROSTHWAITE**  
Executive Officer

Mr. David Rebensdorf  
Assistant City Engineer  
City of San Clemente  
910 Calle Negocio, Suite 100  
San Clemente, CA 92673

**Subject: Response to MWDOC Comments (05/06/2009) on the first draft  
MWDOC Governance Study**

Dear Mr. Rebensdorf:

Thank you for your agency's comments on the first draft of the MWDOC Governance Study formulated by our consultant. The responses, below, address your agency's comments (presented in summary form) in the order presented in your May 28, 2009 e-mail.

***Comment 1:** Concerns were expressed regarding MWDOC's reserve level in the baseline is not in comparison to the other options.*

**Response:** The reserve levels used for Option 1 Baseline MWDOC, Option 2 MWDOC CWA and Option 3 South County CWA are consistent with the assumptions for the study. The assumptions were intended to allow modeling the effects of various reserve levels on the ratepayer and "bracket" the potential impacts of the assumptions. Option 1 allowed modeling the fiscal impacts of maintaining an approximately \$5 million reserve while Options 2 and 3 modeled the fiscal impacts of reduced reserve levels.

Option 2a MWDOC CWA provides the best illustration of the effects of assumptions about reserve levels because the budget assumptions for Option 1 Baseline MWDOC and Option 2a MWDOC CWA are identical except for the level of reserves. As indicated in Table 26: Summary of Analysis the effect of reducing the reserve levels is approximately \$0.50 per ratepayer per year.

While there are certainly many alternative assumptions and scenarios that could be developed around reserve levels, it is beyond the scope of the Governance Study to optimize reserve levels for every possible option. The Governance Study brackets a reasonable range of assumptions about reserves and demonstrates that these assumptions do not result in a fatal fiscal flaw for any of the options reviewed.

***Comment 2:** Concerns were expressed regarding the reduction in service levels with three projected general fund budgets, Governmental Affairs, Overhead and WEROC.*

**Response:** The budgets outlined in Tables 14A and 14B reflect the staffing assumptions included in Attachment A, Appendix C of the Governance Study. This attachment illustrates the different staffing assumptions around Government Affairs and Overhead for the new South County Agency and remaining MWDOC. This attachment illustrates the assumption that MWDOC will continue to provide the staffing for WEROC and that the new South County Agency would make a financial contribution, proportional to population, as other WEROC members currently do.

***Comment 3:** Request for melding rates to be included for each option to be consistent with MWDOC's current rate structure.*

**Response:** The melded rate analysis used for each option is consistent with the assumptions for the study. The assumptions were intended to allow modeling the effects of various assumptions about Tier 2 water costs on the ratepayer and "bracket" the potential impacts of the assumptions. Tables 16 and 19 illustrate the effects of the assumption about Tier 2 water rates and illustrate that many ratepayers could experience a cost savings, while some would experience increases up to \$5.00 per month. The Governance Study qualitatively discusses (on both pages 46 and 54) that the analysis demonstrates that a melded rate structure could continue to be used under Options 3a and 3b, however it is beyond the scope of the Study to optimize the rate structure.

While there are certainly many alternative assumptions and scenarios that could be developed around recovering Tier 2 water costs, it is beyond the scope of the Governance Study to optimize the rate structure for every possible option. The Governance Study brackets a reasonable range of assumptions about Tier 2 water costs. The Governance Study demonstrates that, while these assumptions highlight some important policy issues around cost recovery particularly for a new South County Agency, these assumptions do not result in a fatal fiscal flaw for any of the options reviewed.

**Comment 4:** *San Clemente does not have the resources to provide additional services beyond the essential services. Additional costs should be factored in for additional board members.*

**Response:** Comment noted. Costs for additional Board members were included.

**Comment 5:** *Concerns were expressed whether or not budgeting associated with the Six and Nine Agency CWA should either increase or decrease from adding and removing three agencies.*

**Response:** The budgets outlined in Tables 17A and 17B reflect the staffing assumptions included in Attachment A, Appendix C of the Governance Study. This attachment illustrates the different staffing assumptions about Government Affairs and Overhead for the new South County Agency and remaining MWDOC. The attachment also includes assumptions explaining how Planning/Resource Development in the transitional years for the new agency managed.

**Comment 6:** *Concerns were expressed about the increase or decrease in budgeting for WEROC, MWDOC Contribution and Interest/Reserve Contribution.*

**Response:** Options 3a and 3b reflect the staffing assumptions included in Attachment A, Appendix C of the Governance Study. Both attachments assume staffing levels for the new south county agency under both boundary options. The changes in WEROC contribution reflect the different population included in each option, which impacts the contribution.

The changes in reserves levels reflect the assumption that reserves stay at 15% of the budget. While there are certainly many alternative assumptions and scenarios that could be developed around staffing a new south county agency, it is beyond the scope of the Governance Study to optimize the staffing profile. The Governance Study brackets a reasonable range of assumptions about staffing. The analysis indicates that the single largest factors that impact the fiscal analysis are assumptions about reserves and Tier 2 water costs.


**Comment 7:** *Concerns were expressed regarding inflationary rates for future year budgets between line items in certain tables.*

**Response:** In accordance with assumptions for the Governance Study, a 3% inflationary factor was used for all costs except the Tier 2 water costs which were increased by 25% for Fiscal Year 2009/10 and 5% per year thereafter. The budgets presented in Table 6 reflect these assumptions. The budgets reflected in Tables 14A, 14B, 17A and 17B reflect both the assumptions described above and assumptions about transitional staffing for the new agency outlined. These transitional assumptions affect the budgets for Fiscal Year 2010-11, 2011-12, and

2012-13. Because Tables 14A, 14B, 17A and 17B include both inflationary and transitional staffing assumptions, the overall escalation factor will be different than the simple inflationary factors used for Table 6.

Again, thank you for your comments. We will notify you with any further information once available. In the interim, if you have any questions regarding this letter, please contact me directly by email ([jcrosthwaite@oclafco.org](mailto:jcrosthwaite@oclafco.org)) or by phone at (714) 834-2556.

Sincerely,

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Joyce Crosthwaite  
Executive Officer



June 9, 2009

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Councilmember  
City of Fountain Valley

**BILL CAMPBELL**  
Supervisor  
3<sup>rd</sup> District

**JOHN MOORLACH**  
Supervisor  
2<sup>nd</sup> District

**ARLENE SCHAFER**  
Director  
Costa Mesa  
Sanitary District

**JOHN WITHERS**  
Director  
Irvine Ranch Water District

ALTERNATE  
**PAT BATES**  
Supervisor  
5<sup>th</sup> District

ALTERNATE  
**PATSY MARSHALL**  
Councilmember  
City of Buena Park

ALTERNATE  
**RHONDA MCCUNE**  
Representative of  
General Public

ALTERNATE  
**CHARLEY WILSON**  
Director  
Santa Margarita  
Water District

**JOYCE CROTHWAITE**  
Executive Officer

Mr. Howard Johnson  
Utilities Manager  
City of Huntington Beach  
2000 Main Street  
Huntington Beach, CA 92648

**Subject: Response to MWDOC Comments (05/06/2009) on the first draft  
MWDOC Governance Study**

Dear Mr. Johnson:

Thank you for your agency's comments on the first draft of the MWDOC Governance Study formulated by our consultant. The responses, below, address your agency's comments (presented in summary form) in the order presented in your May 26, 2009 e-mail.

***Comment 1:** Concerns were expressed regarding the number of staff required for the two possible agency options.*

**Response:** Although staffing transitions can be accomplished in a number of ways, the staffing assumptions proposed have been determined to be *reasonable* by the consultant team based on independent review and analysis. The scope of the study does not allow for an infinite combination of assumptions. The purpose of the analysis is to understand, using *reasonable* assumptions, if any of the proposed organization changes will result in fiscal impacts so severe that the alternative is fatally flawed.

***Comment 2:** Request for a cost breakdown for directors' compensation, insurance, travel, IT support and equipment, meetings, etc.*

**Response:** The Governance Study included costs for directors based on estimate provided by the San Diego County Water Authority.

**Comment 3:** *Illustrate school education costs for the six-agency scenario in the Governance Study.*

**Response:** The study assumes school education will continue to be provided by MWDOC or by individual agencies.

**Comment 4:** *Concerns were expressed regarding the view on Tier 2 rates were insignificant, when in fact it can increase rates substantially for individuals.*

**Response:** The study uses the projections of water need as developed by the agencies and by MWDOC. The study does indicate that the need for Tier 2 water primarily originates in South County. With the current Tier 2 "melded rate" of MWDOC the cost of Tier 2 water purchases is spread among all agencies.

Again, thank you for your comments. We will notify you with any further information once available. In the interim, if you have any questions regarding this letter, please contact me directly by email ([jcrosthwaite@oclafco.org](mailto:jcrosthwaite@oclafco.org)) or by phone at (714) 834-2556.

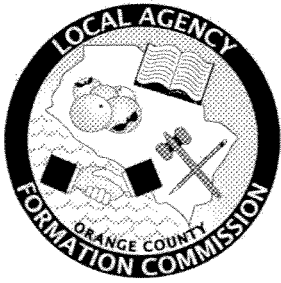
Sincerely,

A handwritten signature in cursive script that reads "Joyce Crosthwaite". The signature is written in dark ink and is positioned above the printed name and title.

Joyce Crosthwaite  
Executive Officer

# Item 9a

## Municipal Water District of Orange County Governance Study



January 9, 2008

CHAIR  
**BILL CAMPBELL**  
Supervisor  
Third District

**TO:** Local Agency Formation Commission

**FROM:** Joyce Crosthwaite, Executive Officer

VICE CHAIR  
**JOHN WITHERS**  
Director  
Irvine Ranch Water District

**SUBJECT:** Draft Scope for Study of MWDOC Governance Alternatives

**ROBERT BOUER**  
Councilmember  
City of Laguna Woods

At the November 14, 2007 meeting, the Commission directed staff to complete a draft scope of work for a special study to evaluate several potential government structure options for the Municipal Water District of Orange County (MWDOC). The special study is an outgrowth of the MWDOC Municipal Service Review which was accepted by the Commission at that same meeting.

**PETER HERZOG**  
Councilmember  
City of Lake Forest

**JOHN MOORLACH**  
Supervisor  
2<sup>nd</sup> District

Attached (*see Attachment 1*) is a draft scope for your review. To allow additional time for review and comment by interested agencies, however, staff is recommending that final consideration of the scope of work be continued to your February 13, 2008 meeting.

**ARLENE SCHAFER**  
Director  
Costa Mesa  
Sanitary District

#### RECOMMENDATION

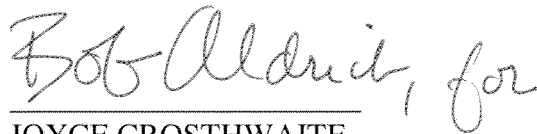
**SUSAN WILSON**  
Representative of  
General Public

1. Continue consideration of the draft scope of work for evaluation of potential government structure options for MWDOC to the February 13, 2008 meeting.

ALTERNATE  
**PAT BATES**  
Supervisor  
5<sup>th</sup> District

Respectfully submitted,

ALTERNATE  
**PATSY MARSHALL**  
Councilmember  
City of Buena Park

  
JOYCE CROSTHWAITE

ALTERNATE  
**RHONDA MCCUNE**  
Representative of  
General Public

ALTERNATE  
**CHARLEY WILSON**  
Director  
Santa Margarita  
Water District

Attachment: Draft Scope of Work for MWDOC Special Study

**JOYCE CROSTHWAITE**  
Executive Officer



## ATTACHMENT 1

### **Draft Scope for Request for Proposals Study of MWDOC Governance Alternatives**

**Project description and background:** Over the past 18 months, OC LAFCO staff has worked with the Municipal Water District of Orange County (MWDOC) and its member agencies to complete a Municipal Service Review and Sphere of Influence Review. The LAFCO study was accepted and MWDOC's SOI affirmed by the LAFCO Commission on November 14, 2007. Several potential governmental structure options were identified in the study but it was agreed that more specific analysis and review would be required.

At the November 14<sup>th</sup> meeting six MWDOC member water agencies requested LAFCO to support and when deemed appropriate, conduct a detailed special study of organization and service alternatives, and the Commission directed staff to complete a scope and schedule for such a study by the January 9<sup>th</sup> 2008 meeting. OC LAFCO staff has determined that additional consultant assistance and expertise will be required to supplement LAFCO staff to complete the special study and fully evaluate the options in a timely manner. Areas of special expertise include but are not limited to detailed legal review and analysis and financial analysis of options and potential outcomes.

#### **TASK 1: Draft Scope of Work**

**Review assumptions and data in the MSR Study, its appendices, and other documents including but not limited to varying Member Agency service level requirements, representation, financial projections of costs, rates and organizational structures to develop baseline assumptions for the analysis. At minimum, consultant should:**

- Establish a timeline for study completion.
- Establish a decision-tree process including options for stakeholder input, on-going evaluation of analysis/impacts, legislative action (if needed), a public election process (if needed) for identified alternatives.

**TASK 2: Conduct a “Baseline Analysis” of MWDOC’s Current Service Model for Comparison to other Alternatives. The Baseline Analysis shall include, but not be limited to:**

- Definition of essential services and service requirements for various types of member agencies, including a member agency service needs assessment.
- Preparation of "cost of service" analysis for current level of service, including direct and indirect costs attributable to providing each service.
- Completion of cost recovery analysis relative to the services provided that compares MWDOC’s sources of revenue from member agencies with the recipients of the various services provided.

**TASK 3: Identify Potential Governance Structure Alternatives for Providing (1) Services/Functions currently delivered by MWDOC, and (2) Varying Service/Function levels deemed appropriate and/or necessary by groups of Member Agencies based upon local capabilities and resources inclusive of identification of benefits and/or negative impacts of each option for the agencies and customers involved. Governance structure options may include:**

- Status Quo
- Dissolution of MWDOC and formation of new countywide entity in form of County Water Authority or other agency as allowed by the Metropolitan Water District of Southern California enabling legislation.
- Governance of cooperative South County water agencies through detachment from MWDOC and formation of a new entity (along with options of type agency).
- Any other viable governmental structure alternatives including but not limited to the 2007 draft seven agency agreements.

This task shall also include the development and application of a comparison methodology and criteria that can be used to comparatively analyze various Governance Structure Alternatives.

#### **TASK 4: Conduct a Legal Analysis for each of the identified alternatives**

- Provide detailed legal analysis of the process to implement each identified governmental structure option under existing law.
- Prepare a legal discussion of any legal barriers, conflicts and/or representation issues for the member agencies of both the Metropolitan Water District of Southern California and MWDOC for each alternative organization structure.
- Assist the LAFCO staff and consulting team in developing and organizing an implementation plan for the selected alternative(s) including the process for conducting any required elections or enactment of new state law.

#### **TASK 5: Prepare Financial Analysis and Findings**

- Complete a financial analysis of each identified alternative including but not limited to initial transition costs, projected administrative/operational costs, revenue requirements, and financial impacts on MWDOC and the Member Agencies for a ten-year period of time.
- Develop a methodology for the equitable allocation/distribution of assets including but not limited to infrastructure and agency reserves.
- Analyze impacts on voting rights and representation at MWD of each identified alternative.

#### **TASK 6: Timeline and Preparation of Report**

- It is anticipated that a working group including LAFCO staff and agency representatives will be established to consider progress on the study and preliminary analysis and findings with alternatives. Consultant should include time and effort for such a process to include approximately four meetings at LAFCO during the report's preparation
- A stakeholder meeting of MWDOC's member agencies will be held after completion of task as appropriate. LAFCO staff shall call, coordinate and staff all stakeholder meetings.

- Selection of a firm is anticipated to be made by April 2008 with an anticipated study start date of May 2008.
- Consultant will be responsible for preparation of: (1) a Preliminary Draft Report for internal distribution; (2) a Final Draft Report for submittal to interested agencies and the public for review and comment; and, (3) preparation of a Final Study Report for submittal to LAFCO.
- Consultant should develop a detailed study schedule and timeline as well as work effort estimate in numbers of work hours for each phase of the Study. Consultant should identify each Principal and key staff member who will work on the project, submit a brief bio of experience and qualifications for each, and a statement of commitment for each member to be on the team for the duration of the study process (expected to be 6 to 9 months). LAFCO maintains the right to request to add or remove consultant staff persons during the study process.
- Consultant should also submit a cost proposal of estimated hours and costs by task and function with a Not-to-Exceed Fee based upon the scope of work.

# Item 4a

## January 9, 2008

### Minutes



**DRAFT MINUTES**

**LAFCO REGULAR MEETING**  
**Wednesday, January 9<sup>th</sup>, 2008, 9:00 a.m.**  
**Planning Commission Hearing Room, Hall of Administration**  
**10 Civic Center Plaza**  
**Santa Ana, CA**

**1. CALL TO ORDER**

**Vice Chair Withers** called the regular meeting of the Local Agency Formation Commission (LAFCO) to order at 9:02 a.m.

**2. PLEDGE OF ALLEGIANCE**

**Commissioner Herzog** led the pledge of allegiance.

**3. ROLL CALL**

The following Commissioners and alternates were present:

- **Vice Chair Withers**
- **Commissioner Peter Herzog**
- **Commissioner John Moorlach**
- **Commissioner Arlene Schafer**
- **Commissioner Susan Wilson**
- **Alternate Commissioner Patsy Marshall**
- **Alternate Commissioner Rhonda McCune**
- **Alternate Commissioner Charley Wilson**

The following Commissioners were absent at roll call:

- **Chair Bill Campbell**
- **Commissioner Robert Bouer** (Arrived at 9:10 am)
- **Alternate Commissioner Pat Bates**

The following LAFCO staff members were present:

- **Legal Counsel Scott Smith**
- **Executive Officer Joyce Crosthwaite**
- **Assistant Executive Officer Bob Aldrich**
- **Senior Project Manager Carolyn Emery**
- **Commission Clerk Esther Garcia-Negrete**
- **Policy Analyst Benjamin Legbandt**
- **Administrative Support Marion Jasieniecki**

#### **4. APPROVAL OF MINUTES**

##### **December 19, 2007 – Regular Commission Meeting Minutes**

**Vice Chair Withers** called for any changes and approval of the December meeting minutes.

**MOTION:** Approve December 19<sup>th</sup>, 2007 meeting minutes without revision  
(John Moorlach)  
**SECOND:** Arlene Schafer  
**FOR:** Bob Bouer, Peter Herzog, John Moorlach, Arlene Schafer,  
Susan Wilson, and Vice Chair John Withers  
**AGAINST:** None  
**ABSTAIN:** None  
**MOTION PASSED**

#### **5. PUBLIC COMMENT**

**Vice Chair Withers** requested public comments on any non-agenda item. There were none.

#### **6. CONSENT CALENDAR**

None

#### **7. CONTINUED PUBLIC HEARING**

##### **7a.- Banning Ranch Sphere of Influence Amendment to the City of Costa Mesa (SOI 06-20)**

Assistant Executive Officer Bob Aldrich summarized the Banning Ranch proposal and recounted past events of the application. He stated that the proposed area includes approximately 369 acres of heavily disturbed and undeveloped territory currently within the Newport Beach sphere of influence. Assistant Executive Officer Aldrich added that the one-foot strip that surrounds Banning Ranch continues to be an impediment for Costa Mesa to ultimately annex and serve the area and therefore recommends that the Commission deny the application.

**Vice Chair Withers** asked for Commissioner comments. There were none.

**Vice Chair Withers** open the continued public hearing.

Homer Bludau, City Manager, Newport Beach, expressed the city's support for staff recommendations.

Alan Roeder, City Manager, Costa Mesa, commended LAFCO staff on its summary of the proposed application and Supervisor Moorlach and his staff for their efforts. He cited the lack of effective dialogue between the cities on this issue. He stated that the City of Costa

Mesa strongly opposes any additional changes to the Costa Mesa sphere of influence in the South Mesa and Santa Ana Country Club areas.

**Vice Chair Withers** closed the continued public hearing.

**Commissioner Schafer** expressed her frustration with the City of Newport Beach and their unwillingness to discuss the Banning Ranch area.

**MOTION:** Deny the proposed Banning Ranch Sphere of Influence Amendment to the City of Costa Mesa (SOI 06-20). (Peter Herzog)  
**SECOND:** John Moorlach  
**FOR:** Bob Bouer, Peter Herzog, John Moorlach, Arlene Schafer, Susan Wilson, and Vice Chair John Withers  
**AGAINST:** None  
**ABSTAIN:** None  
**MOTION PASSED**

## 8. CONTINUED PUBLIC HEARING

### 8a. Orange Park Acres annexation to Orange County Sanitation District (DA 07-28)

Policy Analyst Benjamin Legbandt summarized the Orange Park Acres annexation application. He briefly discussed the benefits of annexation and recommended that the Commission approve the annexation and set a 21 day protest period.

**Vice Chair Withers** opened the public hearing.

Bob Chenowith, Principal Engineer, Orange County Sanitation District (OCSD), summarized OCSD's goal to annex all unincorporated areas so that connection to the public sewer is available to property owners. He added that annexation of Orange Park Acres to Irvine Ranch Water District, which was already approved by the Commission, and annexation of the same area to OCSD are beneficial for the residents and the environment.

**Vice Chair Withers** closed the public hearing.

**MOTIONS:** Approve the proposed Orange Park Acres Annexation to Orange County Sanitation District and set a 21-day protest period. (Arlene Schafer)  
**SECOND:** Susan Wilson  
**FOR:** Bob Bouer, Peter Herzog, John Moorlach Arlene Schafer, Susan Wilson, and Vice Chair Withers  
**AGAINST:** None  
**ABSTAIN:** None  
**MOTION PASSED**



**8b .Proposed Lake Forest Drive Realignment Reorganization (RO 06-49)**

Assistant Executive Officer Bob Aldrich summarized the proposed application for the Lake Forest Drive reorganization. He added that the application involves sphere amendments to detach four acres along Lake Forest Drive from the City of Irvine and annex the same territory to Laguna Hills. . Executive Officer Aldrich recommended the Commission approve the reorganization and sphere of influence amendments.

**Vice Chair Withers** opened the public hearing. There were no public comments.

**Vice Chair Withers** closed the public hearing.

<b>MOTIONS:</b>	<b>Approve the proposed Lake Forest Drive Realignment Reorganization and Sphere of Influence Amendments. (Peter Herzog)</b>
<b>SECOND:</b>	<b>John Moorlach</b>
<b>FOR:</b>	<b>Bob Bouer, Peter Herzog, John Moorlach Arlene Schafer, Susan Wilson, and Vice Chair Withers</b>
<b>AGAINST:</b>	<b>None</b>
<b>ABSTAIN:</b>	<b>None</b>
<b>MOTION PASSED</b>	

**9. COMMISSION DISCUSSION AND ACTION**

**9a. – Municipal Water District of Orange County (MWDOC) Governance Study**

Executive Officer Joyce Crosthwaite noted that at the November 2007 meeting the Commission directed staff to develop a schedule, scope, and budget for the MWDOC governance study to present to the Commission. She commented that the Request for Proposal (RFP) was sent out to Municipal Water District of Orange County (MWDOC) and member agencies in November and MWDOC's member agencies requested additional time to review the RFP. Executive Officer Crosthwaite recommended that the Commission continue this item to the February meeting. Executive Officer Crosthwaite added that LAFCO received a letter from Susan Hinman, President of MWDOC questioning LAFCO's legal authority to study the governance options for MWDOC. She added that LAFCO's legal drafted a response letter which was signed by **Chair Campbell** explaining LAFCO's authority.

Kevin Hunt, General Manager, MWDOC, requested the Commission to consider that that the study was requested by four MWDOC member agencies but would affect all member agencies. He requested that copies of all comments be provided to the Commission.

Executive Officer Crosthwaite responded that Commissioners would be provided copies of all comments and added that the process would be as open and inclusive as possible.

**MOTIONS:**           **Motion to continue the MWDOC governance study until February 13<sup>th</sup> 2008 meeting. (Arlene Schafer)**  
**SECOND:**           **Susan Wilson**  
**FOR:**               **Bob Bouer, Peter Herzog, John Moorlach Arlene Schafer, Susan Wilson, and Vice Chair Withers**  
**AGAINST:**           **None**  
**ABSTAIN:**           **None**  
**MOTION PASSED**

**9b. – Boundary Report**

Senior Project Manager Carolyn Emery summarized the Orange/Los Angeles County boundary report. She briefly described what led up to the preparation of the report and provided an overview of potential county boundary adjustments between the two counties. Senior Project Manager Emery added that the authority to change county boundaries rest solely with the County Board of Supervisors. She added that the report is meant to be a high-level report that needs additional study. She concluded by recommending that the Commission direct staff to present the report to the Orange County Board of Supervisors.

**Commissioner McCune** commented on the area located in Buena Park's sphere of influence and added that there have been past attempts to annex this area to the city, but they have failed because residents did not want to annex. She added that the residents more closely identify with La Mirada than Buena Park

**Supervisor Moorlach** inquired that if residents preferred to be in La Mirada what prevented them from being annexed to La Mirada. Senior Project Manager Emery responded that La Mirada is unique because the entire city is within a redevelopment project area.

**Commissioner Moorlach** indicated he would be pleased to take the lead and approach Supervisor Knabe from Los Angeles County Board of Supervisors to discuss potential boundary adjustments and welcomes the concept of a working group to study these issues.

**MOTIONS:**           **Direct staff to present the Orange/Los Angeles County Boundary Report to the Orange County Board of Supervisors. (Peter Herzog)**  
**SECOND:**           **Arlene Schafer**  
**FOR:**               **Bob Bouer, Peter Herzog, John Moorlach Arlene Schafer, Susan Wilson, and Vice Chair Withers**  
**AGAINST:**           **None**  
**ABSTAIN:**           **None**  
**MOTION PASSED**

**9c. – Election of New Officers for LAFCO for 2007**

**Commissioner Herzog** nominated **Vice-Chair John Withers** as Chair.

**MOTION:** Approve nomination of John Withers as Chair of LAFCO for 2008  
(Peter Herzog)  
**SECOND:** John Moorchach  
**FOR:** Robert Bouer, Peter Herzog, John Moorchach, Arlene Schafer,  
Susan Wilson, and Vice Chair Withers  
**AGAINST:** None  
**ABSTAIN:** None  
**MOTION PASSED**

**Commissioner Arlene Schafer** nominated **Commissioner Susan Wilson** as Vice-Chair.

**MOTION:** Approve nomination of Susan Wilson as Vice-Chair of LAFCO for  
2008 (Arlene Schafer)  
**SECOND:** Peter Herzog  
**FOR:** Robert Bouer, Peter Herzog, John Moorchach, Arlene Schafer,  
Susan Wilson, and Vice Chair Withers  
**AGAINST:** None  
**ABSTAIN:** None  
**MOTION PASSED**

**Vice-Chair Withers** thanked the Commission for their support.

**10. COMMISSIONER COMMENTS**

**Commissioner Herzog** discussed a report dated January 3, 2008 which was included in Commissioners folders and opposed any effort from Southern California Association of Governments (SCAG) to require the water agencies to adopt regional blueprints.

**Vice Chair Withers** noted that this particular report was distributed at last WACO meeting.

**11. INFORMATIONAL ITEMS & ANNOUNCEMENTS**

Executive Officer Crosthwaite commented that legislation (SB-301) which aims to extend the subventions for newly incorporated cities from July 2009 to 2014 is currently being discussed in Congress. She added that CALAFCO has requested that Orange County LAFCO support the bill and if supported by the Commission she suggests that a letter of support be sent to the legislator sponsoring the bill. The Commission directed Executive Officer Crosthwaite to write a letter in support of SB-311.

**12. CLOSED SESSION**

**None**

### **13. ADJOURNMENT**

The meeting adjourned at 10:20 am.

JOHN WITHERS  
Acting Chair  
Orange County Local Agency Formation Commission

By: \_\_\_\_\_  
Esther Garcia-Negrete  
Commission Clerk

# Item 7a

## Municipal Water District of Orange County Governance Study



CHAIR  
**JOHN WITHERS**  
Director  
Irvine Ranch Water District

VICE CHAIR  
**SUSAN WILSON**  
Representative of  
General Public

**ROBERT BOUER**  
Councilmember  
City of Laguna Woods

**BILL CAMPBELL**  
Supervisor  
3<sup>rd</sup> District

**PETER HERZOG**  
Councilmember  
City of Lake Forest

**JOHN MOORLACH**  
Supervisor  
2<sup>nd</sup> District

**ARLENE SCHAFER**  
Director  
Costa Mesa  
Sanitary District

ALTERNATE  
**PAT BATES**  
Supervisor  
5<sup>th</sup> District

ALTERNATE  
**PATSY MARSHALL**  
Councilmember  
City of Buena Park

ALTERNATE  
**RHONDA MCCUNE**  
Representative of  
General Public

ALTERNATE  
**CHARLEY WILSON**  
Director  
Santa Margarita  
Water District

**JOYCE CROTHWAITE**  
Executive Officer

February 13, 2008

**TO:** Local Agency Formation Commission

**FROM:** Joyce Crosthwaite, Executive Officer

**SUBJECT:** Approval of Draft Scope for Study of Municipal Water District of Orange County (MWDOC) Governance Alternatives

Several issues arose during the municipal service review (MSR) for MWDOC and despite a lengthy stakeholder process, the agencies involved did not reach consensus on solutions to address some identified issues. Therefore at the November 14, 2007 meeting, the Commission directed staff to complete a draft scope of work for a special study to evaluate several potential government structure options for MWDOC.

Staff developed a draft Request for Proposals (RFP) which was distributed to MWDOC and six south county agencies. However this item was continued from your January 9<sup>th</sup> 2008 meeting to allow additional time for review and comment by other interested agencies. Comments from MWDOC's member agencies that were received by LAFCO are attached and have been considered in preparing the final RFP.

The Commission also directed staff to return with a schedule, an estimated cost and potential funding sources. The estimated schedule is as follow:

- |   |                   |
|---|-------------------|
| • Commission consideration of RFP             | February 13, 2008 |
| • Distribute RFP for 45 days                  | February 18, 2008 |
| • Deadline for submittals                     | April 4, 2008     |
| • Review proposals/select firms for interview | April 11, 2008    |
| • Conduct interviews/select firm              | April 25, 2008    |
| • Commission consideration of contract        | May 14, 2008      |
| • Kick off meeting for study                  | May 20, 2008      |
| • Study complete                              | September 29 2008 |
| • LAFCO staff review                          | October 13 2008   |
| • MWDOC and agencies review                   | November 10 2008  |
| • Commission consideration of final report    | February 2009     |

One of the comments received during the initial review of the draft RFP was that agencies needed adequate time for review. The schedule has been developed to address this concern is generous and will accommodate the schedules of agencies by having deadlines known at the beginning of the study. There will also be several other ways for agencies to provide input to both the Commission and staff.

The proposals received in response to the RFP will be ranked by a group of MWDOC member agencies; the interview panel will also be partially comprised of MWDOC members. Both groups will be selected by LAFCO staff after consulting with MWDOC.

It is anticipated that the study will be over \$10,000 and all contracts over that amount must be approved by the Commission. Agencies will be able to address the Commission at the time the contract is considered by the Commission.


LAFCO staff will also coordinate a kick-off meeting with the consulting firm and MWDOC member agencies. Finally MWDOC's member agencies will have approximately a month to review the draft report and approximately two months to review the final report before the Commission considers the final report at another public hearing which is expected in February of 2009.

The estimated cost of the study is unknown until responses are received. The contract with the consultant selected will include "fatal flaw" decision points. If the consultant finds insurmountable issues, LAFCO staff will have the option to modify or end the study and save staff time and money. A dedicated funding source will be identified when the cost of the study is known.

## **RECOMMENDATION**

1. Approve the attached final Request for Proposals (RFP) to conduct a study of governance options for MWDOC.
2. Direct staff to implement the process as described above.

Respectfully submitted,

  
JOYCE CROSTHWAITE  
Executive Officer

Attachments:      Draft RFP  
                         Letters

# Item 4a

## February 13, 2008

### Draft Minutes





**DRAFT MINUTES**

**LAFCO REGULAR MEETING  
Wednesday, February 13, 2008, 9:00 a.m.  
Planning Commission Hearing Room, Hall of Administration  
10 Civic Center Plaza  
Santa Ana, CA**

**1. CALL TO ORDER**

**Chair Withers** called the regular meeting of the Local Agency Formation Commission (LAFCO) to order at 9:04 a.m.

**2. PLEDGE OF ALLEGIANCE**

**Commissioner Schafer** led the pledge of allegiance.

**3. ROLL CALL**

The following Commissioners and alternates were present:

- **Chair John Withers**
- **Vice Chair Susan Wilson**
- **Commissioner Robert Bouer**
- **Commissioner Bill Campbell**
- **Commissioner Peter Herzog**
- **Commissioner John Moorlach**
- **Commissioner Arlene Schafer**
- **Alternate Commissioner Charley Wilson**

The following Commissioners were absent at roll call:

- **Alternate Commissioner Pat Bates** ( Arrived 9:07 am)
- **Alternate Commissioner Patsy Marshall**
- **Alternate Commissioner Rhonda McCune**

The following LAFCO staff members were present:

- Legal Counsel Clark Alsop
- Executive Officer Joyce Crosthwaite
- Assistant Executive Officer Bob Aldrich
- Senior Project Manager Carolyn Emery
- Commission Clerk Esther Garcia-Negrete
- Policy Analyst Benjamin Legbandt
- Student Intern Joe Serrano

#### **4. APPROVAL OF MINUTES**

##### **January 9th, 2008 – Regular Commission Meeting Minutes**

**Vice Chair Withers** called for any changes and approval of the January meeting minutes.

**Commissioner Herzog** called for a revision to the January 9<sup>th</sup> 2008 meeting minutes to reflect that SB 301 is currently being discussed in the state legislature.

**MOTION:** Approve January 9th, 2008 meeting minutes with revision noted by  
Commissioner Herzog (Arlene Schafer)  
**SECOND:** Susan Wilson  
**FOR:** Bob Bouer, Bill Campbell, Peter Herzog, John Moorlach, Arlene  
Schafer, Vice Chair Susan Wilson, and Chair John Withers  
**AGAINST:** None  
**ABSTAIN:** None  
**MOTION PASSED**

#### **5. PUBLIC COMMENT**

**Chair Withers** requested public comments on any non-agenda item. There were none.

#### **6. CONSENT CALENDAR**

None

#### **7. CONTINUED PUBLIC HEARING**

##### **7a.- Municipal Water District of Orange County (MWDOC) Governance Study**

Executive Officer Joyce Crosthwaite discussed the progress of the MWDOC study since its continuation from the November 14<sup>th</sup> meeting. She noted that the correspondence regarding the Request for Proposal (RFP) has been provided to the Commission in the staff report. She indicated that several agencies requested LAFCO to conduct a request for qualifications prior to the RFP's distribution. She noted that the study is very unique and having a request for qualifications would add unnecessary time and effort to the process. Additionally, she indicated that LAFCO will post the RFP on the CALAFCO website, the Orange LAFCO website, and will provide a copy to anyone who requests it. Executive Officer Crosthwaite summarized the selection process for a firm to conduct the governance study and noted that the contract's approval will require subsequent Commission approval.

**Chair Withers** asked for Commissioner comments or questions.

**Vice Chair Wilson** thanked LAFCO staff and all agencies who contributed comments to the draft RFP. She noted that the study proposal appears to be fair, balanced and inclusive.

**Commissioner Schafer** inquired if staff will be providing the Commission with names of the panel members who will be selecting the firm to conduct the governance study. Executive Officer Crosthwaite responded that staff will provide that information to the Commission and noted that there will be opportunities for all of MWDOC's members to participate in the study.

**Commissioner Moorlach** raised the issue of how LAFCO will secure funding for the governance study.

Executive Officer Crosthwaite responded that although some agencies have offered to contribute, LAFCO might be required to contribute as well. She stated that a clear source of funding has not been identified.

**Commissioner Moorlach** requested additional information regarding the "fatal flaw" component of the governance study. He also inquired whether LAFCO has conducted a similar study with any other municipality.

Executive Officer Crosthwaite expanded on the fatal flaw component. She noted that although there were previous LAFCO-initiated studies regarding special district consolidation, she did not recall a municipality study.

**Chair Withers** expressed preference for knowing cost sharing arrangement for the governance study early in the process.

**Commissioner Campbell** expressed concern regarding cost sharing for the governance study. He also requested clarification of the term "status quo" referenced in the RFP Scope, specifically whether MWDOC's governance will be studied prior to the new budget process and other concessions adopted in December 2006 by the MWDOC Board of Directors. Additionally, **Commissioner Campbell** noted that the report should clearly state any benefits to the ratepayers of the water agencies.

Executive Officer Crosthwaite replied that based on general conversations with the MWDOC General Manager some of the North County water agencies were interested in participating in the study but further clarification on that issued was needed. Additionally, she clarified that the term "status quo" refers to MWDOC after the budgetary adjustments adopted December 2006.

**Commissioner Herzog** stated that the RFP is very broad and clear and that the governance study is needed because significant issues still remain.

**Commissioner Moorlach** stated his desire for this study to become a model for other agencies in Orange County that need to be reevaluated.

**MOTION:** Approve the Draft Scope of Study for Municipal Water District of Orange County (MWDOC) governance study. (Peter Herzog)  
**SECOND:** Susan Wilson  
**FOR:** Bob Bouer, Peter Herzog, John Moorlach, Arlene Schafer, Vice Chair Susan Wilson, and Chair John Withers  
**AGAINST:** Bill Campbell  
**ABSTAIN:** None  
**MOTION PASSED**

## **8. PUBLIC HEARING**

### **8a. Cowan Heights Annexation to Orange County Sanitation District (DA 06-42)**

Policy Analyst Benjamin Legbandt summarized the Cowan Heights annexation application. He briefly discussed the benefits of annexation and recommended that the Commission approve the annexation and set a 21-day protest period.

**Vice Chair Withers** opened the public hearing.

Bob Chenowith, Principal Engineer, Orange County Sanitation District (OCSD), noted that annexation of Cowan Heights will be beneficial for the residents of this area and the environment.

Curtis Grieder, Resident, remarked that he does not support the annexation of Cowan Heights to OCSD and expressed his concerns regarding the annexation.

John Riley, Resident, noted he does not support the annexation and expressed his belief that the residents of Cowan Heights do not favor annexation to OCSD.

**Commissioner Campbell** noted his support for the annexation and clarified that the annexation does not require residents to connect to sewer service.

**Chair Withers** closed the public hearing.

**MOTIONS:** Approve the proposed Cowan Heights Annexation to Orange County Sanitation District and set a 21-day protest period. (Bill Campbell)  
**SECOND:** Peter Herzog  
**FOR:** Bob Bouer, Bill Campbell, Peter Herzog, John Moorlach, Arlene Schafer, Vice Chair Susan Wilson, and Chair John Withers  
**AGAINST:** None  
**ABSTAIN:** None  
**MOTION PASSED**

**8b .Laguna Laurel Reorganization to the City of Laguna Woods (RO 07-27)**

Assistant Executive Officer Bob Aldrich requested that the Commission continue the hearing on this item until the April 9, 2008 Commission meeting as requested by the City of Laguna Woods.

**MOTIONS:** Continue the Laguna Laurel Reorganization to the City of Laguna Woods until the April Commission meeting. (Arlene Schafer)  
**SECOND:** Susan Wilson  
**FOR:** Bob Bouer, Bill Campbell, Peter Herzog, John Moorlach, Arlene Schafer, Vice Chair Susan Wilson, and Chair John Withers  
**AGAINST:** None  
**ABSTAIN:** None  
**MOTION PASSED**

**9. COMMISSION DISCUSSION AND ACTION**

**9a. – Audit**

Assistant Executive Officer Bob Aldrich noted that the audit of the agency's financial statements for fiscal year 2006-2007 are completed and thanked Moreland & Associates for their professional services.

Kathryn Beseau, Partner, Moreland & Associates, briefly explained the auditing process to the Commission and noted that the Commission has received a "clean" letter regarding LAFCO's fiscal year 2006-2007 financial statements. She noted that the control letter issued to the Commission states that the Commission did not have any significant deficiencies or material weakness. She also advised the Commission of new auditing standards that will be applicable to the Commission during the next fiscal year.

**Commissioner Moorlach** inquired whether LAFCO could use other LAFCO audit reports to establish benchmarks for Orange County LAFCO. Ms. Beseau responded that this approach could provide some meaningful comparisons.

**MOTIONS:** Receive and file the 2006-2007 Fiscal Year audit. (John Moorlach)  
**SECOND:** Bill Campbell  
**FOR:** Bob Bouer, Bill Campbell, Peter Herzog, John Moorlach, Arlene Schafer, Vice Chair Susan Wilson, and Chair John Withers  
**AGAINST:** None  
**ABSTAIN:** None  
**MOTION PASSED**

**9b. – Boundary Report**

Senior Project Manager Carolyn Emery briefly updated the Commission on the Los Angeles-Orange County boundary report progress.

**Commissioner Moorlach** updated the Commission on his discussions with Los Angeles Board of Supervisor Don Knabe regarding potential county boundary adjustments.

**9c. – Proposed Rossmoor Incorporation Workshop**

Assistant Executive Officer Aldrich provided a brief update to the Commission regarding the incorporation application and informed the Commission of the upcoming March 12, 2008 community workshop which will be held in Rossmoor. He stated that the agency's website is currently being updated to include a Rossmoor page where residents can learn more about the incorporation process.

**9d. – Small Island Annexation—Proposed Incentive Program**

Executive Officer Crosthwaite presented a brief staff report. She noted the previous accomplishments of the Commission with respect to island annexations. She commented that of the 31 islands remaining, many have some barriers to annexation. Executive Officer Crosthwaite listed some potential incentives for cities to annex small islands located within their spheres. She additionally noted the importance of continued collaboration between the cities, the County and LAFCO.

**Commissioner Moorlach** inquired about the small Emerson island near Newport Beach.

Executive Officer Crosthwaite responded that the Emerson Island is residential and within the Newport Beach sphere of influence. She concluded by recommending that the Commission approve the proposed incentives for a period of one fiscal year beginning with fiscal year 2008-2009.

**Vice Chair Wilson** inquired if Executive Officer Crosthwaite would notify the cities with remaining islands of the incentives. Executive Officer Crosthwaite responded that staff will notify the cities and schedule a meeting with the City Manager and County staff to discuss the incentives.

**Commissioner Herzog** expressed his concern for refunding all or a portion of a city statutory allocation and noted that there are other non-financial incentives the Commission could provide.

Executive Officer Crosthwaite agreed but noted that refunding of all or a portion of the apportionment is important to a city manager and hopes that this might be a negotiation tool available.

**Commissioner Moorlach** inquired as to why the list does not include the communities of Rossmoor or Bolsa Chica.

Executive Officer Crosthwaite replied that there is concern that by offering these incentives it might interfere with the incorporation process but Bolsa Chica area will be added to the list.

**Chair Withers** commented that the remaining islands are likely to be special cases and that creative planning will be needed in order to annex these islands. **Chair Withers** inquired about any possible opportunities with the remaining islands.

Executive Officer Crosthwaite mentioned the islands adjacent to the cities of Santa Ana, Anaheim, and Westminster.

**Chair Withers** requested that the Commission receive an update at the April Commission meeting.

**MOTION:** Approve the proposed Island Incentives for one year to commence at the beginning of fiscal year 2008. (John Moorlach)  
**SECOND:** Susan Wilson  
**FOR:** Robert Bouer, Bill Campbell, Peter Herzog, John Moorlach, Arlene Schafer, Vice Chair Susan Wilson, and Chair John Withers  
**AGAINST:** None  
**ABSTAIN:** None  
**MOTION PASSED**

#### **10. COMMISSIONER COMMENTS**

**Commissioner Herzog** summarized discussions of SB375 at the CALAFCO meeting held on February 8<sup>th</sup>, 2008. He mentioned that the draft legislation raised significant concerns and recommended that all special districts, counties, and cities become familiar with SB375.

**Commissioner Moorlach** requested **Commissioner Herzog** send a copy to Bruce Mathias.

**Vice Chair Withers** presented **Commissioner Campbell** with a resolution acknowledging his contributions and accomplishments as LAFCO Chair over the past year.

#### **11. INFORMATIONAL ITEMS & ANNOUNCEMENTS**

None

#### **12. CLOSED SESSION**

None

### **13. ADJOURNMENT**

The meeting adjourned at 10:20 am.

**JOHN WITHERS**  
Chair  
Orange County Local Agency Formation Commission

By: \_\_\_\_\_  
Esther Garcia-Negrete  
Commission Clerk



## **Draft Scope for Request for Proposals**

### **Study of MWDOC Governance Alternatives**

**Project description and background:** Over the past 18 months, OC LAFCO staff has worked with the Municipal Water District of Orange County (MWDOC) and its member agencies to complete a Municipal Service Review (MSR) and Sphere of Influence Review. The LAFCO study was accepted and MWDOC's SOI affirmed by the LAFCO Commission on November 14, 2007. Several potential governmental structure options were identified in the study but it was agreed that more specific analysis and review would be required.

At the November 14<sup>th</sup> meeting four MWDOC member water agencies requested LAFCO to support and when deemed appropriate, conduct a detailed special study of organization and service alternatives, and the Commission directed staff to complete a scope and schedule for such a study by the January 9<sup>th</sup> 2008 meeting. OC LAFCO staff has determined that additional consultant assistance and expertise will be required to supplement LAFCO staff to complete the special study and fully evaluate the options in a timely manner. Areas of special expertise include but are not limited to water industry knowledge and experience from both regional and local perspectives, detailed legal knowledge and experience with LAFCO and analysis of financial impacts for local agencies.

The goal of the study is to evaluate the legal, financial and representational impacts associated with the governmental structure options as identified in the Orange County LAFCO MSR report.

**TASK 1: Review assumptions and data in the MSR, its appendices, letters from member agencies and other documents including but not limited to MWDOC and its member agency service levels, representation, financial projections and organizational structures to develop baseline assumptions for the analysis. At minimum, consultant should:**

- Establish a timeline for study completion.

- Establish a decision-tree process including options for stakeholder input, on-going evaluation of analysis/impacts, legislative action (if needed) and a public election process (if needed) for identified alternatives. The process for obtaining stakeholder input should be both efficient and as inclusive as possible for all of MWDOC's member agencies.

**TASK 2: Conduct a "Baseline Analysis" of MWDOC's current service model for comparison to other alternatives. The baseline analysis shall include, but not be limited to:**

- Develop a clear methodology for evaluating institutional relationships among MWDOC, member agencies and other key agencies.
- Definition of essential services and service requirements for various types of member agencies, including a member agency service needs assessment.
- Definition of what services are needed on a regional level.
- Preparation of "cost of service" analysis for current level of service, including direct and indirect costs attributable to providing each service.
- Completion of cost recovery analysis relative to the services provided that compares MWDOC's sources of revenue from member agencies with the recipients of the various services provided.
- Comparison of MWDOC's governance structure, services, facilities and rates to other similar Metropolitan Water District's member agencies.

**TASK 3: Analysis of the following potential governance structure alternatives for providing: (1) Services currently delivered by MWDOC: and (2) Varying service levels deemed appropriate and/or necessary by member agencies based upon local capabilities and resources. The analysis shall include identification of impacts of each option for the agencies and customers involved. This task shall also include the development and use of a clear methodology and criteria that can be used to comparatively analyze the various governance structure alternatives. Governance structure options include:**

- Status Quo
- Dissolution of MWDOC and formation of new countywide entity in form of County Water Authority or other agency as allowed by the Metropolitan Water District of Southern California enabling legislation.
- Governance of cooperative South County water agencies through detachment from MWDOC and formation of a new entity (along with options of type agency).
- Any other viable governmental structure alternatives including but not limited to the 2007 draft seven agency agreements.

#### **TASK 4: Conduct a legal analysis for each of the identified alternatives**

- Provide detailed legal analysis of the process to implement each identified governmental structure option under existing law.
- Prepare a legal discussion of any legal barriers, conflicts and/or representation issues for the member agencies of both the Metropolitan Water District of Southern California and MWDOC for each alternative organization structure.
- Assist the LAFCO staff and consulting team in developing and organizing an implementation plan for the selected alternative(s) including the process for conducting any required elections or enactment of new state law.
- Analyze impacts on voting rights and representation at MWD of each identified alternative.

#### **TASK 5: Prepare financial analysis and findings**

- Complete a financial analysis of each identified government structure option including but not limited to initial transition costs, projected administrative/operational costs, revenue requirements, and financial impacts on MWDOC and the Member Agencies for a ten-year period of time.
- Develop a methodology for the equitable allocation/distribution of assets including but not limited to infrastructure and agency reserves.

## **TASK 6: Preparation of report**

- It is anticipated that a working group including LAFCO staff and selected agency representatives will be established to consider progress on the study and preliminary analysis and findings with alternatives. Consultant should include time and effort for such a process to include approximately four meetings during the report's preparation
- A stakeholder meeting of MWDOC's member agencies will be held after completion of tasks as appropriate. LAFCO staff shall call, coordinate and staff all stakeholder meetings.
- Selection of a firm is anticipated to be made by April 2008 with an anticipated study start date of May 2008.
- Consultant will be responsible for preparation of: (1) a Preliminary Draft Report for internal distribution; (2) a Final Draft Report for submittal to interested agencies and the public for review and comment; and, (3) preparation of a Final Study Report for submittal to LAFCO.
- Consultant should develop a detailed study schedule and timeline as well as work effort estimate in numbers of work hours for each phase of the Study. Consultant should identify each Principal and key staff member who will work on the project, submit a brief bio of experience and qualifications for each, and a statement of commitment for each member to be on the team for the duration of the study process (expected to be 6 to 9 months). LAFCO maintains the right to request to add or remove consultant staff persons during the study process.
- Consultant should also submit a cost proposal of estimated hours and costs by task and function with a Not-to-Exceed Fee based upon the scope of work.



VIA FACSIMILE AND U.S. MAIL

January 31, 2008

Ms. Joyce Crosthwaite  
Executive Officer  
Orange County Local Agency Formation Commission  
12 Civic Center Plaza, Room 235  
Santa Ana, CA 92701

Re: Draft Scope for Study of MWDOC Governance Alternatives

Dear Ms. Crosthwaite,

We appreciate the additional time that you provided for review of the draft scope of work and respectfully offer the attached comments and suggested edits of the draft. In addition, we offer the following observations and recommendations for your consideration:

- We believe the consultant(s) should be experienced and knowledgeable in the water industry in order to recognize the important issues and assure that the analysis is thorough and insightful. (See comment #2 on page one of the draft.)
- Every effort should be made to include all interested member agencies during each step in order to increase the acceptance of the outcomes because, even with all the good efforts of LAFCO staff, the working relationships and coordination among water agencies during the MSR/SOI process were negatively impacted.
- Only four agencies continued their request for changes in MWDOC's governance structure because two of the original six agencies had separated themselves from the group request prior to the November 14<sup>th</sup> LAFCO meeting. (See comment #1 on page one of the draft.)
- We believe the consultant should compare MWDOC's governance structure, rates, and services to other similar Metropolitan Water District member agencies to assure that a broad and fair comparison is made when considering alternatives. (See suggested edits under Tasks Two and Three in the draft.)
- All 29 member agencies have received value and their constituents have benefited from the regional water industry coordination and collaborative efforts of MWDOC on behalf of the citizens in Orange County. Only four of the original six agencies are still determined to force a change in MWDOC's governance structure thereby affecting 25 other member agencies.

Ms. Joyce Crosthwaite  
January 31, 2008  
Page 2

Golden State Water Company remains very concerned about the significant resources already expended by water agencies and LAFCO during the MSR/SOI process. Now there is the prospect of an additional allocation of resources for this governance study effort at a time when water agencies in Orange County need to work together and focus attention and resources on the compelling water issues facing the region and the state.

Thank you for your consideration of these comments and suggestions.

Sincerely,

A handwritten signature in cursive script that reads "Patrick Scanlon / Lnk".

Patrick Scanlon  
Vice President of Operations

c: Kevin Hunt, MWDOC

attachment

## Draft Scope for Request for Proposals

### Study of MWDOC Governance Alternatives

**Project description and background:** Over the past 18 months, OC LAFCO staff has worked with the Municipal Water District of Orange County (MWDOC) and its member agencies to complete a Municipal Service Review and Sphere of Influence Review. The LAFCO study was accepted and MWDOC's SOI affirmed by the LAFCO Commission on November 14, 2007. Several potential governmental structure options were identified in the study but it was agreed that more specific analysis and review would be required.

At the November 14<sup>th</sup> meeting ~~six~~ four MWDOC member water agencies requested LAFCO to support and when deemed appropriate, conduct a detailed special study of organization and service alternatives, and the Commission directed staff to complete a scope and schedule for such a study by the January 9<sup>th</sup> 2008 meeting. OC LAFCO staff has determined that additional consultant assistance and expertise will be required to supplement LAFCO staff to complete the special study and fully evaluate the options in a timely manner. Areas of special expertise include but are not limited to water industry knowledge and experience from regional and local perspectives, detailed legal review and analysis and financial analysis of options and potential outcomes.

**Comment [DML1]:** There were only four because two of the six separated themselves from this request.

**Comment [DML2]:** Suggest adding another area of expertise and emphasis, i.e. "water industry knowledge and experience from regional and local perspectives." The potential impacts of the final governance decision are significant and require an experienced "eye" for the analysis.

#### TASK 1: Draft Scope of Work

**Review assumptions and data in the MSR Study, its appendices including letters from Member Agencies, and other documents including but not limited to ~~varying~~ Member Agency service level requirements, representation, financial projections of costs, rates and organizational structures to develop baseline assumptions for the analysis. At minimum, consultant should:**

**Comment [DML3]:** Suggest inserting for emphasis "including letters from Member Agencies."

- Establish a timeline for study completion.
- Establish a decision-tree process including options for stakeholder input, on-going evaluation of analysis/impacts, legislative action (if

needed), a public election process (if needed) for identified alternatives.

**TASK 2: Conduct a “Baseline Analysis” of MWDOC’s Current Service Model for Comparison to other Alternatives. The Baseline Analysis shall include, but not be limited to:**

- Definition of essential services and service requirements for various types of member agencies, including a member agency service needs assessment.
- Preparation of "cost of service" analysis for current level of service, including direct and indirect costs attributable to providing each service.
- Completion of cost recovery analysis relative to the services provided that compares MWDOC’s sources of revenue from member agencies with the recipients of the various services provided.
- Comparison of MWDOC’s governance structure, services and rates to similar Metropolitan Water District’s member agencies.

**TASK 3: Identify Potential Governance Structure Alternatives for Providing (1) Services/Functions currently delivered by MWDOC, and (2) Varying Service/Function levels deemed appropriate and/or necessary by groups of Member Agencies based upon local capabilities and resources inclusive of identification of benefits and/or negative impacts of each option for the agencies and customers involved. Governance structure options may include:**

- Status Quo
- Dissolution of MWDOC and formation of new countywide entity in form of County Water Authority or other agency as allowed by the Metropolitan Water District of Southern California enabling legislation.
- Governance of cooperative South County water agencies through detachment from MWDOC and formation of a new entity (along with options of type agency).
- Any other viable governmental structure alternatives including but not limited to the 2007 draft seven agency agreements.



- Comparison of MWDOC's governance structure with other Metropolitan Water District's member agencies.

This task shall also include the development and application of a comparison methodology and criteria that can be used to comparatively analyze various Governance Structure Alternatives.

#### **TASK 4: Conduct a Legal Analysis for each of the identified alternatives**

- Provide detailed legal analysis of the process to implement each identified governmental structure option under existing law.
- Prepare a legal discussion of any legal barriers, conflicts and/or representation issues for the member agencies of both the Metropolitan Water District of Southern California and MWDOC for each alternative organization structure.
- Assist the LAFCO staff and consulting team in developing and organizing an implementation plan for the selected alternative(s) including the process for conducting any required elections or enactment of new state law.

#### **TASK 5: Prepare Financial Analysis and Findings**

- Complete a financial analysis of status quo and each identified alternative including but not limited to initial transition costs, projected administrative/operational costs, revenue requirements, and financial impacts on MWDOC and the Member Agencies for a ten-year period of time.
- Develop a methodology for the equitable allocation/distribution of assets including but not limited to infrastructure and agency reserves.
- Analyze impacts on voting rights and representation at MWD of status quo and each identified alternative.

#### **TASK 6: Timeline and Preparation of Report**

- It is anticipated that a working group including LAFCO staff and MWDOC's member agency representatives will be established to

consider progress on the study and preliminary analysis and findings with alternatives. Consultant should include time and effort for such a process to include approximately four meetings at LAFCO during the report's preparation

- A stakeholder meeting of MWDOC's member agencies will be held after completion of each task as appropriate. LAFCO staff shall call, coordinate and staff all stakeholder meetings.
- Selection of a firm is anticipated to be made by April 2008 with an anticipated study start date of May 2008.
- Consultant will be responsible for preparation of: (1) a Preliminary Draft Report for internal distribution; (2) a Final Draft Report for submittal to interested agencies and the public for review and comment; and, (3) preparation of a Final Study Report for submittal to LAFCO.
- Consultant should develop a detailed study schedule and timeline as well as work effort estimate in numbers of work hours for each phase of the Study. Consultant should identify each Principal and key staff member who will work on the project, submit a brief bio of experience and qualifications for each, and a statement of commitment for each member to be on the team for the duration of the study process (expected to be 6 to 9 months). LAFCO maintains the right to request to add or remove consultant staff persons during the study process.
- Consultant should also submit a cost proposal of estimated hours and costs by task and function with a Not-to-Exceed Fee based upon the scope of work.

**Comment [DML4]:** Suggest that the working group be composed of all interested parties and be part of the selection process.



Public Works / Water Service Division

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## City of Tustin

235 E. Main Street  
Tustin, CA 92780  
714.573.3375  
FAX 714.838.0039

January 31, 2008

Orange County Local Agency Formation Commission  
Attention: Joyce Crosthwaite, Executive Officer  
10 Civic Center Plaza, Room 235  
Santa Ana, California 92701

**Subject: Municipal Water District of Orange County [MWDOC] Study of Governance Alternatives**

Dear Ms. Crosthwaite:

The City of Tustin Water Services (CTWS) Division is writing to you regarding the Draft Scope for Request for Proposals (RFP) for the MWDOC Study of Governance Alternatives. CTWS appreciates the Orange County Local Agency Formation Commission (OCLAFCO) allowing additional time for MWDOC retail water agency comments on OCLAFCO's proposed work program, and would offer the following observations for OCLAFCO's consideration:

- The Draft Scope for Request for Proposals (RFP) presented to the Commission at its January 9, 2008 meeting is a positive improvement from the initial version released in November, 2007.
- Suggest that prior to issuance of the RFP, a request for consultant qualifications be distributed to prospective consulting firms. All firms should: (1) provide specific examples of their professional experience in identifying and analyzing governance issues unique to water agencies; (2) briefly highlight their familiarity with the structure and function of California governmental entities including but not limited to special districts, special act agencies (created by the California State Legislature), cities, counties and others; (3) briefly summarize their understanding of key federal/state/regional/local water supply and water resource management issues currently impacting southern California and Orange County; and (4) disclose any potential conflicts of interest as part of their experience and qualifications (per MWDOC's letter of December 17, 2007 to OCLAFCO).

- In Task 3 of the draft RFP, prospective consulting firms should be required to briefly explain their approach in evaluating the scope and significance of MWDOC's institutional relationships with various key agencies (e.g., Metropolitan Water District of Southern California, Orange County Water District, MWDOC's retail member agencies, the County of Orange, etc.). This information will be important in the development and application of any comparison methodology and criteria [as stated in Task 3 of the draft RFP] which analyzes the complete range of governance structure alternatives.
- Task 6 of the draft RFP anticipates the establishment of a working group including OCLAFCO staff and MWDOC member agency representatives to review progress on the study. CTWS agrees with this approach, and would request to participate in the working group.

Thank you in advance for considering our comments. CTWS appreciates the opportunity to provide your office with comments regarding the draft work program for the MWDOC Study of Governance Alternatives. Please call me at 714.573.3381 should you have any questions.

Sincerely,



Fred J. Adjarian  
Water Services Manager

c: Tim D. Serlet, City of Tustin  
Kevin Hunt, MWDOC



# City of Huntington Beach

2000 Main Street ♦ PO Box 190 ♦ CA 92648

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Travis K. Hopkins, PE  
Director

Department of Public Works  
(714) 536-5431

January 25, 2008

Orange County Local Agency Formation Commission  
Attention: Joyce Crosthwaite, Executive Officer  
10 Civic Center Plaza,  
Santa Ana, California 92701

**Subject: Orange County Local Agency Formation Commission [OCLAFCO]  
Draft Scope of Work for MWDOC Governance Study**

Dear Ms. Crosthwaite,

I am writing on behalf of the City of Huntington Beach Public Works Utilities Division regarding the draft scope of work for studying the governance issues of the Municipal Water District of Orange County [MWDOC]. We are pleased that OCLAFCO granted us additional time for review and has addressed some of our initial concerns in the revised document.

We have no additional suggested revisions to the draft Request for Proposals (RFP). However, we do want to suggest that OCLAFCO consider issuance of a Request for Qualifications (RFQ) prior to issuance of the RFP. Any firm(s) performing this work will need not only experience in examining governance issues, but familiarity with Southern California and Orange County water supply and conveyance and the myriad of issues encompassed therein. As noted in MWDOC General Manager Kevin Hunt's letter of December 17, 2007, this process should include a thorough examination of the experience and qualifications of the firm selected to do the work, with special concern for potential conflicts of interest.

The RFP states that establishment of a working group including LAFCO staff and agency representatives is anticipated. We wholeheartedly concur with this approach and wish to be included in that group when the time comes.

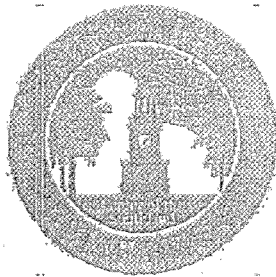
We appreciate the opportunity to provide our review. Thank you in advance for consideration of our comments.

Sincerely,

A handwritten signature in black ink, appearing to read 'Howard Johnson', with a long horizontal flourish extending to the right.

Howard Johnson  
Utilities Manager

c: Travis Hopkins, Director of Public Works  
Kevin Hunt, MWDOC



CITY OF BUENA PARK

Department of Public Works

James A. Biery, P.E.—Public Works Director

6650 Beach Boulevard, P. O. Box 5009, Buena Park CA 90622

(714) 562-3676 — (714) 562-3677/fax

FAX TRANSMISSION

DATE:

02/01/08

TO:

COMPANY/DEPT.

Orange County LAFCO

ATTENTION:

Joyce Crosthwaite

FAX NO.:

(714) 834-2643

PHONE NO.

(714) 834-2556

FROM:

NAME:

Kim Thomas

DEPT:

Public Works/Traffic Eng.

FAX NO.:

(714) 562-3677

PHONE

NO.:

(714) 562-3676

Page 1 of 1 pages (including this page)

☐ URGENT ☒ FOR YOUR REVIEW ☐ REPLY ASAP ☐ PLEASE COMMENT ☐ FYI

COMMENTS



# CITY OF BUENA PARK

Department of Public Works  
James A. Biery, Director

January 31, 2008

Orange County Local Agency Formation Commission  
Attention: Joyce Crosthwaite, Executive Officer  
10 Civic Center Plaza, Room 235  
Santa Ana, CA 92701

**Subject:** Municipal Water District of Orange County (MWDOC) Study of Governance Alternatives

Dear Ms. Crosthwaite:

The following are my comments on the Draft Scope for Request for Proposals (RFP) for the MWDOC Study of Governance Alternatives.

1. I recommend that prior to issuance of the RFP, a request for qualifications (RFQ) be distributed to the prospective consulting firms to create a short list of qualified consultants. These factors should be part of the selection process. All firms should: (1) provide specific examples of their professional experience in identifying and analyzing governance issues unique to water agencies; (2) briefly highlight their familiarity with the structure and function of California governmental entities; including, but not limited to, special districts, special act agencies (created by the California State Legislature), cities, counties, and others; (3) briefly summarize their understanding of key federal/state/regional/local water supply and water resource management issues currently impacting southern California and Orange County; and (4) disclose any potential conflicts of interest as part of their experience and qualifications (per MWDOC's letter of December 17, 2007 to OCLAFCO).
2. Task 6 of the draft RFP anticipates the establishment of a working group including OCLAFCO staff and MWDOC member agency representatives to review progress on the study. We agree with this approach, and would request to participate in the working group.

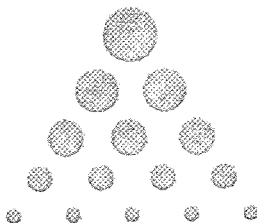
Thank you in advance for considering my comments. I appreciate the opportunity to provide your office with comments regarding the draft work program for the MWDOC Study of Governance Alternatives. Please call me at (714) 562-3672 should you have any questions.

Sincerely,

Jim Biery, P.E.  
Director of Public Works/City Engineer

C: Kevin Hunt, MWDOC  
Patsy Marshall, City of Buena Park  
Rick Warsinski, City of Buena Park



**FAX****Golden State  
Water Company**

A Subsidiary of American States Water Company

Region II  
1920 W Corporate Way  
Anaheim, CA 92801Date 2-01-08Number of pages including cover sheet 7**To:**Ms. Joyce CrosthwaiteOrange County LAFCO

Phone \_\_\_\_\_

Fax Phone (714) 834-2643

CC: \_\_\_\_\_

**From:**Patrick ScanlonPhone (714) 535-7711 ext 200Fax Phone (714) 535-8665**REMARKS:**☐ Urgent☐ For your review☐ Reply ASAP☐ Please comment

Re: Draft Scope for Study of MWDOC Governance Alternatives

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CHAIR  
**BILL CAMPBELL**  
Supervisor  
Third District

January 8, 2008

VICE CHAIR  
**JOHN WITHERS**  
Director  
Irvine Ranch Water District

Susan Hinman  
President  
Municipal Water District of Orange County  
18700 Ward Street  
Fountain Valley, CA 92708

**ROBERT BOUER**  
Councilmember  
City of Laguna Woods

**PETER HERZOG**  
Councilmember  
City of Lake Forest

Re: MWDOC Objection to Proposed LAFCO Reorganization Study

Dear President Hinman:

**JOHN MOORLACH**  
Supervisor  
2<sup>nd</sup> District

**ARLENE SCHAFER**  
Director  
Costa Mesa  
Sanitary District

**SUSAN WILSON**  
Representative of  
General Public

ALTERNATE  
**PAT BATES**  
Supervisor  
5<sup>th</sup> District

ALTERNATE  
**PATSY MARSHALL**  
Councilmember  
City of Buena Park

ALTERNATE  
**RHONDA MCCUNE**  
Representative of  
General Public

ALTERNATE  
**CHARLEY WILSON**  
Director  
Santa Margarita  
Water District

**JOYCE CROSTHWAITE**  
Executive Officer

This letter is in response to a December 17, 2007 letter over your signature sent to the Orange County Local Agency Formation Commission ("OCLAFCO"). That letter contains objections by the Municipal Water District of Orange County ("MWDOC") to a draft Request for Proposals ("RFP") prepared pursuant to OCLAFCO's direction in connection with the approval of MWDOC's municipal service review and sphere of influence approval at the OCLAFCO meeting of November 14, 2007.

Specifically, MWDOC's letter asserts that the draft RFP, because it includes a review of reorganization alternatives, is "inappropriate, unprecedented, and outside the Commission's authority". The letter also asserts that the proposed RFP circumvents OCLAFCO procedures by "commencing the reorganization process" without a reorganization proposal from the Commission or an interested agency.

OCLAFCO acknowledges MWDOC's ability to oppose issuance of the draft RFP. However, LAFCO has explicit authority to issue the RFP in furtherance of its mission under the Cortese-Knox-Hertzberg Act of 2000 (Gov't Code Secs. 56000 et seq.; the "Act") for the reasons more particularly described below.

Section 56430 of the Act lists the elements of service reviews that LAFCOs must conduct as part of their periodic update of agencies' spheres of influence. Among several other elements, service reviews must include determinations relating to "government structure options, including advantages and disadvantages of consolidation or *reorganization of service providers*." (Gov't Code Sec. 56430(a)(7).) (Emphasis added.)


Section 56425 of the Act charges LAFCOs with responsibility to conduct spheres of influence reviews for each agency within each county. The purpose of the reviews is to fulfill LAFCO's responsibility "for planning and shaping the logical and orderly development and coordination of local governmental agencies." (Gov't Code Sec. 56425.) Subsection 56430(c) requires that a service review be conducted prior to or in connection with the establishment of a sphere of influence. Subsection 56425(g) requires that OCLAFCO complete its initial sphere review for each agency within its jurisdiction by January 8, 2008 and every five years thereafter. LAFCO must also update them "as necessary". Based on its reviews, LAFCO may recommend governmental reorganizations to particular agencies (Subsection 56425(h)) or may initiate certain reorganizations itself. (Subsection 56375(a).)

Against this regulatory backdrop, LAFCO was able to complete service reviews and sphere of influence reviews for all but one agency within its jurisdiction, including MWDOC, by January 1, 2008. In connection with MWDOC's 2007 service review and sphere approval, LAFCO certainly had explicit authority under Subsection 56430(a)(7) of the Act to order a review of reorganization alternatives as proposed in the draft RFP. Logically, in order to avoid prolonging or delaying MWDOC's first service review, LAFCO also had the authority to order the study as a follow up to MWDOC's service review. Additionally, in determining how to prioritize the next set of service reviews, LAFCO has the authority to conclude that a review consistent with the proposed RFP is currently "necessary" under Subsection 56425(g).

The Act gives LAFCO additional power to undertake studies like the one scoped in the RFP. Subsection 56378 allows LAFCO to undertake studies of "existing governmental agencies" without a reorganization proposal, including as a precursor to a potential future reorganization proposal by LAFCO or an interested agency. Such studies are presumed to precede the initiation of a reorganization proposal by LAFCO, and do not require the findings cited in your letter as necessary to approve a subsequent reorganization. OCLAFCO's November 14, 2007 action should in no manner be interpreted as a commitment to reorganize MWDOC.

MWDOC and other interested persons will have the ability to give input to the OCLAFCO Commission on these issues at the time the draft RFP is presented to the Commission for approval and when the proposals generated by the RFP are returned to the Commission for consideration. At that point, the Commission will be able to award all or part of the scope included in the original draft RFP. We look forward to receiving information and input from MWDOC at every step of this process. If you have any additional questions, please feel free to call the Orange County LAFCO staff at 714-834-2611.

Sincerely,

  
Bill Campbell  
Chair, Orange County LAFCO

## Crosthwaite, Joyce

---

**From:** Leslie Gray [lgray@mnwd.com]  
**Sent:** Wednesday, December 12, 2007 5:20 PM  
**To:** BuckInv@aol.com; Larlizotte@aol.com; TonyEngli@aol.com; Doug Reinhart; Larry Dick; bpequet@cox.net; R. Dietmeier; kybu@cox.net; Susan Hinman; bhill@etwd.com; R Fiore; 2 Olson; Paul Jones; John Foley; tfmlee@msn.com; Kevin P. Hunt; kseckel@mwdoc.com; Crosthwaite, Joyce; sbrowning@sbassoc.org; ngkurtz@sbcglobal.net; Michael Dunbar; johns@smwd.com; Don Chadd; Betty Olson; Michael Safranski; Wayne Clark  
**Cc:** HSEHRL@aol.com; heprs@cox.net; Aldrich, Bob  
**Subject:** Re: Draft scope for subsequent MWDOC study

From Jack Foley, Moulton Niguel Water District:

Reference: Comments on "Draft Scope for Request for Proposals" to be submitted to OC LAFCO for the January 9, 2008 meeting

Page 1, Paragraph 2 states that "At the November 14th meeting six MWDOC member water agencies asked LAFCO to conduct a detailed special study of organization and service alternatives, and the Commission directed staff to complete a scope and schedule for such a study by the January 9th

2008 meeting. OC LAFCO staff has determined that additional consultant assistance and expertise will be required to supplement LAFCO staff to complete the special study and fully evaluate the options in a timely manner. Areas of special expertise include but are not limited to detailed legal review and analysis and financial analysis of options and potential outcomes.

Comment: Moulton Niguel Water District (MNWD) supported the report from the six agencies' negotiations, but said report did not request a special study of organization, nor did it preclude such a study.

While considering the special study on organization, it would seem appropriate that all member agencies of MWDOC be afforded the opportunity to participate since the six south county agencies are only part of the organization.

Page 2, Task 4, Second bullet states "Develop a methodology for the equitable allocation/distribution of assets including but not limited to infrastructure and agency reserves.

Comment: It would appear more appropriate to develop alternative methodologies so that more analysis would be involved in this subjective area.

Thank you for the opportunity to comment on the draft scope. We assume that after receipt of proposals, the MWDOC member agencies will have an opportunity to consider their respective costs and role in the process.

>>> "Crosthwaite, Joyce" <jcrosthwaite@oclafco.org> 11/28/2007 12:09 PM  
>>>

Attached is the draft scope as requested by the OC LAFCO Commission at their November 14th 2007 meeting. It is in draft form and all comments, corrections etc are welcomed. Please use tracking and "reply-to-all" when returning comments. Kevin Hunt and the MWDOC staff will coordinate comments from other member agencies not included in this email.

We will need comments back by December 17th in order to meet the mail-out schedule for the January 9th, 2008 LAFCO Commission meeting.  
If you do not reply, it will be assumed that you do not have any changes, corrections and/or comments.

At their January meeting, the Commission will consider the scope, schedule, possible funding sources and process and will, if they so decided, direct LAFCO staff to continue. The next step would then be to issue an RFP.

Harry Ehrlich, whom many of you know, will be working as an extension of OC LAFCO staff on this project.

Joyce Crosthwaite

Executive Officer

Orange County LAFCO

714-834-2556

714-834-2643 (fax)

[jcrosthwaite@oclafco.org](mailto:jcrosthwaite@oclafco.org) <<mailto:jcrosthwaite@oclafco.org>>



December 19, 2007

**TO:** Local Agency Formation Commission  
**FROM:** Executive Officer  
**SUBJECT:** MWDOC--Letters

CHAIR  
**BILL CAMPBELL**  
Supervisor  
Third District

VICE CHAIR  
**JOHN WITHERS**  
Director  
Irvine Ranch Water District

**ROBERT BOUER**  
Councilmember  
City of Laguna Woods

**PETER HERZOG**  
Councilmember  
City of Lake Forest

**JOHN MOORLACH**  
Supervisor  
2<sup>nd</sup> District

**ARLENE SCHAFER**  
Director  
Costa Mesa  
Sanitary District

**SUSAN WILSON**  
Representative of  
General Public

ALTERNATE  
**PAT BATES**  
Supervisor  
5<sup>th</sup> District

ALTERNATE  
**PATSY MARSHALL**  
Councilmember  
City of Buena Park

ALTERNATE  
**RHONDA MCCUNE**  
Representative of  
General Public

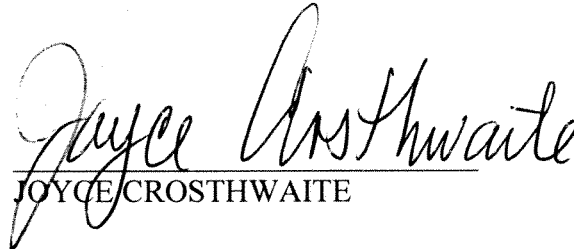
ALTERNATE  
**CHARLEY WILSON**  
Director  
Santa Margarita  
Water District

**JOYCE CROSTHWAITE**  
Executive Officer

Attached are letters LAFCO has received from different agencies requesting additional time to review and comments on the draft scope for the Municipal Water District of Orange County (MWDOC) study. The Commission directed staff to return at the January 9<sup>th</sup>, 2008 meeting with a draft scope, schedule and timeline for that study.

LAFCO staff sent the draft scope to the MWDOC staff at the end of November but, due to scheduling problems, the MWDOC staff was unable to distribute the draft scope until the second week of December.

This item has been noticed and will appear on the January 9<sup>th</sup> Commission meeting agenda.

  
**JOYCE CROSTHWAITE**

# Item 4a

## February 13, 2008

### Draft Minutes



**DRAFT MINUTES**

**LAFCO REGULAR MEETING**

**Wednesday, February 13, 2008, 9:00 a.m.**

**Planning Commission Hearing Room, Hall of Administration**

**10 Civic Center Plaza**

**Santa Ana, CA**

**1. CALL TO ORDER**

**Chair Withers** called the regular meeting of the Local Agency Formation Commission (LAFCO) to order at 9:04 a.m.

**2. PLEDGE OF ALLEGIANCE**

**Commissioner Schafer** led the pledge of allegiance.

**3. ROLL CALL**

The following Commissioners and alternates were present:

- **Chair John Withers**
- **Vice Chair Susan Wilson**
- **Commissioner Robert Bouer**
- **Commissioner Bill Campbell**
- **Commissioner Peter Herzog**
- **Commissioner John Moorlach**
- **Commissioner Arlene Schafer**
- **Alternate Commissioner Charley Wilson**

The following Commissioners were absent at roll call:

- **Alternate Commissioner Pat Bates ( Arrived 9:07 am)**
- **Alternate Commissioner Patsy Marshall**
- **Alternate Commissioner Rhonda McCune**

The following LAFCO staff members were present:

- **Legal Counsel Clark Alsop**
- **Executive Officer Joyce Crosthwaite**
- **Assistant Executive Officer Bob Aldrich**
- **Senior Project Manager Carolyn Emery**
- **Commission Clerk Esther Garcia-Negrete**
- **Policy Analyst Benjamin Legbandt**
- **Student Intern Joe Serrano**



#### **4. APPROVAL OF MINUTES**

##### **January 9th, 2008 – Regular Commission Meeting Minutes**

**Vice Chair Withers** called for any changes and approval of the January meeting minutes.

**Commissioner Herzog** called for a revision to the January 9<sup>th</sup> 2008 meeting minutes to reflect that SB 301 is currently being discussed in the state legislature.

**MOTION:** Approve January 9th, 2008 meeting minutes with revision noted by  
Commissioner Herzog (Arlene Schafer)  
**SECOND:** Susan Wilson  
**FOR:** Bob Bouer, Bill Campbell, Peter Herzog, John Moorlach, Arlene  
Schafer, Vice Chair Susan Wilson, and Chair John Withers  
**AGAINST:** None  
**ABSTAIN:** None  
**MOTION PASSED**

#### **5. PUBLIC COMMENT**

**Chair Withers** requested public comments on any non-agenda item. There were none.

#### **6. CONSENT CALENDAR**

None

#### **7. CONTINUED PUBLIC HEARING**

##### **7a.- Municipal Water District of Orange County (MWDOC) Governance Study**

Executive Officer Joyce Crosthwaite discussed the progress of the MWDOC study since its continuation from the November 14<sup>th</sup> meeting. She noted that the correspondence regarding the Request for Proposal (RFP) has been provided to the Commission in the staff report. She indicated that several agencies requested LAFCO to conduct a request for qualifications prior to the RFP's distribution. She noted that the study is very unique and having a request for qualifications would add unnecessary time and effort to the process. Additionally, she indicated that LAFCO will post the RFP on the CALAFCO website, the Orange LAFCO website, and will provide a copy to anyone who requests it. Executive Officer Crosthwaite summarized the selection process for a firm to conduct the governance study and noted that the contract's approval will require subsequent Commission approval.

**Chair Withers** asked for Commissioner comments or questions.

**Vice Chair Wilson** thanked LAFCO staff and all agencies who contributed comments to the draft RFP. She noted that the study proposal appears to be fair, balanced and inclusive.

**Commissioner Schafer** inquired if staff will be providing the Commission with names of the panel members who will be selecting the firm to conduct the governance study. Executive Officer Crosthwaite responded that staff will provide that information to the Commission and noted that there will be opportunities for all of MWDOC's members to participate in the study.

**Commissioner Moorlach** raised the issue of how LAFCO will secure funding for the governance study.

Executive Officer Crosthwaite responded that although some agencies have offered to contribute, LAFCO might be required to contribute as well. She stated that a clear source of funding has not been identified.

**Commissioner Moorlach** requested additional information regarding the "fatal flaw" component of the governance study. He also inquired whether LAFCO has conducted a similar study with any other municipality.

Executive Officer Crosthwaite expanded on the fatal flaw component. She noted that although there were previous LAFCO-initiated studies regarding special district consolidation, she did not recall a municipality study.

**Chair Withers** expressed preference for knowing cost sharing arrangement for the governance study early in the process.

**Commissioner Campbell** expressed concern regarding cost sharing for the governance study. He also requested clarification of the term "status quo" referenced in the RFP Scope, specifically whether MWDOC's governance will be studied prior to the new budget process and other concessions adopted in December 2006 by the MWDOC Board of Directors. Additionally, **Commissioner Campbell** noted that the report should clearly state any benefits to the ratepayers of the water agencies.

Executive Officer Crosthwaite replied that based on general conversations with the MWDOC General Manager some of the North County water agencies were interested in participating in the study but further clarification on that issued was needed. Additionally, she clarified that the term "status quo" refers to MWDOC after the budgetary adjustments adopted December 2006.

**Commissioner Herzog** stated that the RFP is very broad and clear and that the governance study is needed because significant issues still remain.

**Commissioner Moorlach** stated his desire for this study to become a model for other agencies in Orange County that need to be reevaluated.

**MOTION:** Approve the Draft Scope of Study for Municipal Water District of Orange County (MWDOC) governance study. (Peter Herzog)  
**SECOND:** Susan Wilson  
**FOR:** Bob Bouer, Peter Herzog, John Moorlach, Arlene Schafer, Vice Chair Susan Wilson, and Chair John Withers  
**AGAINST:** Bill Campbell  
**ABSTAIN:** None  
**MOTION PASSED**

## **8. PUBLIC HEARING**

### **8a. Cowan Heights Annexation to Orange County Sanitation District (DA 06-42)**

Policy Analyst Benjamin Legbandt summarized the Cowan Heights annexation application. He briefly discussed the benefits of annexation and recommended that the Commission approve the annexation and set a 21-day protest period.

**Vice Chair Withers** opened the public hearing.

Bob Chenowith, Principal Engineer, Orange County Sanitation District (OCSD), noted that annexation of Cowan Heights will be beneficial for the residents of this area and the environment.

Curtis Grieder, Resident, remarked that he does not support the annexation of Cowan Heights to OCSD and expressed his concerns regarding the annexation.

John Riley, Resident, noted he does not support the annexation and expressed his belief that the residents of Cowan Heights do not favor annexation to OCSD.

**Commissioner Campbell** noted his support for the annexation and clarified that the annexation does not require residents to connect to sewer service.

**Chair Withers** closed the public hearing.

**MOTIONS:** Approve the proposed Cowan Heights Annexation to Orange County Sanitation District and set a 21-day protest period. (Bill Campbell)  
**SECOND:** Peter Herzog  
**FOR:** Bob Bouer, Bill Campbell, Peter Herzog, John Moorlach, Arlene Schafer, Vice Chair Susan Wilson, and Chair John Withers  
**AGAINST:** None  
**ABSTAIN:** None  
**MOTION PASSED**

**8b .Laguna Laurel Reorganization to the City of Laguna Woods (RO 07-27)**

Assistant Executive Officer Bob Aldrich requested that the Commission continue the hearing on this item until the April 9, 2008 Commission meeting as requested by the City of Laguna Woods.

**MOTIONS:** Continue the Laguna Laurel Reorganization to the City of Laguna Woods until the April Commission meeting. (Arlene Schafer)  
**SECOND:** Susan Wilson  
**FOR:** Bob Bouer, Bill Campbell, Peter Herzog, John Moorlach, Arlene Schafer, Vice Chair Susan Wilson, and Chair John Withers  
**AGAINST:** None  
**ABSTAIN:** None  
**MOTION PASSED**

**9. COMMISSION DISCUSSION AND ACTION**

**9a. – Audit**

Assistant Executive Officer Bob Aldrich noted that the audit of the agency's financial statements for fiscal year 2006-2007 are completed and thanked Moreland & Associates for their professional services.

Kathryn Beseau, Partner, Moreland & Associates, briefly explained the auditing process to the Commission and noted that the Commission has received a "clean" letter regarding LAFCO's fiscal year 2006-2007 financial statements. She noted that the control letter issued to the Commission states that the Commission did not have any significant deficiencies or material weakness. She also advised the Commission of new auditing standards that will be applicable to the Commission during the next fiscal year.

**Commissioner Moorlach** inquired whether LAFCO could use other LAFCO audit reports to establish benchmarks for Orange County LAFCO. Ms. Beseau responded that this approach could provide some meaningful comparisons.

**MOTIONS:** Receive and file the 2006-2007 Fiscal Year audit. (John Moorlach)  
**SECOND:** Bill Campbell  
**FOR:** Bob Bouer, Bill Campbell, Peter Herzog, John Moorlach, Arlene Schafer, Vice Chair Susan Wilson, and Chair John Withers  
**AGAINST:** None  
**ABSTAIN:** None  
**MOTION PASSED**

**9b. – Boundary Report**

Senior Project Manager Carolyn Emery briefly updated the Commission on the Los Angeles-Orange County boundary report progress.

**Commissioner Moorlach** updated the Commission on his discussions with Los Angeles Board of Supervisor Don Knabe regarding potential county boundary adjustments.

**9c. – Proposed Rossmoor Incorporation Workshop**

Assistant Executive Officer Aldrich provided a brief update to the Commission regarding the incorporation application and informed the Commission of the upcoming March 12, 2008 community workshop which will be held in Rossmoor. He stated that the agency's website is currently being updated to include a Rossmoor page where residents can learn more about the incorporation process.

**9d. – Small Island Annexation—Proposed Incentive Program**

Executive Officer Crosthwaite presented a brief staff report. She noted the previous accomplishments of the Commission with respect to island annexations. She commented that of the 31 islands remaining, many have some barriers to annexation. Executive Officer Crosthwaite listed some potential incentives for cities to annex small islands located within their spheres. She additionally noted the importance of continued collaboration between the cities, the County and LAFCO.

**Commissioner Moorlach** inquired about the small Emerson island near Newport Beach.

Executive Officer Crosthwaite responded that the Emerson Island is residential and within the Newport Beach sphere of influence. She concluded by recommending that the Commission approve the proposed incentives for a period of one fiscal year beginning with fiscal year 2008-2009.

**Vice Chair Wilson** inquired if Executive Officer Crosthwaite would notify the cities with remaining islands of the incentives. Executive Officer Crosthwaite responded that staff will notify the cities and schedule a meeting with the City Manager and County staff to discuss the incentives.

**Commissioner Herzog** expressed his concern for refunding all or a portion of a city statutory allocation and noted that there are other non-financial incentives the Commission could provide.

Executive Officer Crosthwaite agreed but noted that refunding of all or a portion of the apportionment is important to a city manager and hopes that this might be a negotiation tool available.

**Commissioner Moorlach** inquired as to why the list does not include the communities of Rossmoor or Bolsa Chica.

Executive Officer Crosthwaite replied that there is concern that by offering these incentives it might interfere with the incorporation process but Bolsa Chica area will be added to the list.

**Chair Withers** commented that the remaining islands are likely to be special cases and that creative planning will be needed in order to annex these islands. **Chair Withers** inquired about any possible opportunities with the remaining islands.

Executive Officer Crosthwaite mentioned the islands adjacent to the cities of Santa Ana, Anaheim, and Westminster.

**Chair Withers** requested that the Commission receive an update at the April Commission meeting.

**MOTION:** Approve the proposed Island Incentives for one year to commence at the beginning of fiscal year 2008. (John Moorlach)  
**SECOND:** Susan Wilson  
**FOR:** Robert Bouer, Bill Campbell, Peter Herzog, John Moorlach, Arlene Schafer, Vice Chair Susan Wilson, and Chair John Withers  
**AGAINST:** None  
**ABSTAIN:** None  
**MOTION PASSED**

#### **10. COMMISSIONER COMMENTS**

**Commissioner Herzog** summarized discussions of SB375 at the CALAFCO meeting held on February 8<sup>th</sup>, 2008. He mentioned that the draft legislation raised significant concerns and recommended that all special districts, counties, and cities become familiar with SB375.

**Commissioner Moorlach** requested **Commissioner Herzog** send a copy to Bruce Mathias.

**Vice Chair Withers** presented **Commissioner Campbell** with a resolution acknowledging his contributions and accomplishments as LAFCO Chair over the past year.

#### **11. INFORMATIONAL ITEMS & ANNOUNCEMENTS**

**None**

#### **12. CLOSED SESSION**

**None**

### **13. ADJOURNMENT**

The meeting adjourned at 10:20 am.

JOHN WITHERS  
Chair  
Orange County Local Agency Formation Commission

By: \_\_\_\_\_  
Esther Garcia-Negrete  
Commission Clerk

Proposal for:

**Municipal Water District of Orange County  
Governance Study**

Submitted to:

**Orange County Local Agency Formation  
Commission**

Submitted by:

**Winzler & Kelly**  
3531 E. Miraloma Ave.  
Anaheim, CA 92806  
(714) 854-1890

Federal ID Number- 68-0274914





April 4, 2008

Ref: P114490801

Orange County Local Agency Formation Commission  
Ms. Joyce, Crosthwaite, Executive Officer  
235 Civic Center Plaza, Room 235  
Santa Ana, CA 92701

**RE: Request for Proposal- MWDOC Governance Study**

Dear Ms. Crosthwaite,

Winzler & Kelly is pleased to submit our proposal to deliver a comprehensive Governance Study of the Municipal Water District of Orange County (MWDOC) for Orange County LAFCO (OC LAFCO). You will find in our proposal that our technical capabilities and project experience encompass all of the requisite qualifications listed in your Request for Proposal. In addition, our track record, performance results, and commendations on similar projects demonstrate our ability to serve your needs effectively. We have included an original and 5 copies of our proposal along with an electronic version for your use.

Our understanding of the work to be performed includes a complete analysis of the current governance and service delivery structure of MWDOC. This analysis includes a consideration of potential alternatives to that structure, including maintaining the status quo, formation of a new countywide entity, detachment of certain South Orange County water agencies, concurrent formation of a new entity, and other potential options as appropriate. Our work effort focuses on several key areas to meet the unique needs of this project for OC LAFCO including:

- Review all assumptions/data available from the MWDOC Municipal Service Review and other relevant documents
- Conduct a baseline analysis of MWDOC's service and financial models and fee structure;
- Analyze potential governance structure alternatives for MWDOC and affected agencies ;
- Conduct a legal analysis of the implementation of government structure alternatives;
- Conduct a financial analysis and findings for all governance structure alternatives; and
- Develop key "Fatal Flaw" decision points during the analysis process.

You will find a commitment to excellence in all that we do and that the work products are thorough, dependable, and well thought-out to allow sound decisions to be made by OC LAFCO.

Winzler & Kelly will bring to this project:

- Exceptional experience and qualifications. Our Project Team has direct hands-on experience with performing all of the various aspects of the project services requested. Our diverse team of experts has performed functions within virtually every aspect of municipal government.
- A complete understanding of the services to be provided. Our team is uniquely experienced in all aspects of municipal service and infrastructure financing and management, and of the governing statutes and regulations. We excel in providing recommendations and findings that are reasonable and innovative, all based on factual research information.
- An excellent track record in providing similar public agency services. As a firm, Winzler & Kelly has successfully served numerous local, state and federal public agencies throughout California and the Pacific Rim, including



extensive experience with several LAFCOs in the state. Our firm maintains a high standard in providing flexible, innovative and creative alternatives and solutions for public agency service options.

- Our innovative approach to the project. As a service provider to public agencies, our focus is on efficiency of service without sacrificing quality. Our specialized areas of expertise are applied to each project in a manner that maximizes results and minimizes cost.
- A commitment to on-time performance of all work within budget. Our firm is noted throughout the public sector for our excellent record of cost and schedule performance.

Winzler & Kelly is a multidisciplinary firm with over 55 years of experience in providing engineering and other consulting services to governmental agencies and other specialty entities. We are proud of our long tradition of effective relationships with repeat clients as a measure of our success. Ninety percent (90%) of our clients are local government and specialty agencies. Approximately seventy-five percent (75%) of our work comes from repeat clients. Our record speaks to our clients' confidence in our ability to deliver a project from start-up through delivery.

Our firm is proud of its standing as an Equal Opportunity Employer and in ensuring its stellar record of compliance with all governmental equal employment opportunity and non-discrimination regulations and responsibilities. Winzler & Kelly also certifies that it is an independent contractor not affiliated with OC LAFCO.

Our Local Government Services includes a full range of financial, management and operational services. Examples of specialized services include Municipal Service Reviews (MSRs), organizational evaluations, fiscal modeling and analysis for municipal incorporations, consolidations and annexations.

Winzler & Kelly is uniquely conversant in:

- Municipal water and wastewater infrastructure engineering and design.
- Municipal finance.
- Municipal service delivery.
- Governance and organizational structure analysis.

As an integral part of all of our projects, Winzler & Kelly has gained keen insight into the aspect of the public process, including presentations and participation in public meetings, and appearing before various local, state and federal governing agencies.

Winzler & Kelly commits that the personnel proposed are available and will be committed to support OC LAFCO on this project as promised. Our proposal commitments remain valid for a period of 90 days and may be extended by mutual agreement. We are prepared to negotiate the final agreement and fee based upon an agreed to scope of work and services to be provided to OCLAFCO.

Winzler & Kelly is committed to providing the personalized service you expect and to deliver the results promised. We look forward to the prospect of serving OC LAFCO on this important project.

Very truly yours,  
WINZLER & KELLY

George Wentz,  
Managing Principal  
Email: [GeorgeWentz@w-and-k.com](mailto:GeorgeWentz@w-and-k.com)

# MWDOC Governance Study

For the Orange County LAFCO

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# MWDOC Governance Study

## For the Orange County LAFCO

## 2. Consultant Qualifications & Project Team

### BACKGROUND AND EXPERIENCE

Winzler & Kelly is a multidisciplinary firm with over 55 years of experience in providing consulting services to local governments and other specialty service agencies. We operate from offices throughout California, Oregon, and the Pacific Rim. Our local offices that will serve OC LAFCO are located in Anaheim and San Diego. Approximately ninety percent (90%) of our clients are local government and specialty agencies. We provide a broad range of support services including expertise in municipal government service reviews and analysis, municipal financial analysis, organizational reviews, staff augmentation, assessment district financing and engineering, planning, transportation engineering, civil design, water, wastewater, flood control, facilities, and construction management.

The Project Team personnel assigned to this project have over **135 years** of combined experience with a broad-based knowledge in local government services that is required to effectively meet the demands of this MWDOC Governance Study for OC LAFCO. You will find that we are uniquely qualified to deliver this project based on our:

- Extensive background in local government organization, policy development, infrastructure engineering, design, and construction;
- Extensive experience in water infrastructure design and engineering;
- Extensive experience in economic, demographic, and statistical analysis;
- Experience in municipal financial analysis, capital budgeting, cash flow and present value modeling, and computation of potential debt service requirements;
- Experience in Municipal Service Reviews, inclusive of water and wastewater agencies, and local government re-organizations;
- Direct experience in working with local governments to achieve consensus and resolution of issues that meet the needs of the relevant stakeholders within the community.

We have structured our proposal to provide the greatest flexibility in integrating the appropriate management and technical attributes to address potential changes in scope and methodology as this project proceeds. We commit to making sure that the right resources are provided to meet the overall demands of the project and to assure that the deliverables are met on time and in budget.

Our Project Team members have worked in various capacities and have completed numerous assignments involving the funding of municipal infrastructure, municipal service level analyses, cost studies, and fee assessment engineering. Our Project Team members also have direct experience in CIP budget development and management. Recent team experience includes participation as planning sub-consultant on Municipal Service Reviews for the Orange County and Contra Costa County Local Agency Formation Commissions. Additionally, recent fiscal consulting services by team members include preparation of Comprehensive Fiscal Analyses for four pending city incorporations in Orange, Riverside and Contra Costa counties managed by each county's Local Agency Formation Commission.

# MWDOC Governance Study

## For the Orange County LAFCO

### PROJECT TEAM

All team members are highly professional with expertise in each of the necessary disciplines required to perform the full range of services, and will be dedicated to the project for its duration. Our assigned Project Manager/Financial Analyst has extensive experience in local government finance and budgeting, as well as local government policy and organization management. Our Senior Planning Advisor has extensive local government policy, organizational management, and municipal service analysis experience. Our Engineering team has extensive broad-based experience in infrastructure planning with extensive expertise in water, sewer and flood control infrastructure. Our Legal Sub-Consultant is well versed in municipal water industry law.

Winzler & Kelly's team brings a local, highly reputable firm experienced and able to provide quality products and exceptional service to OC LAFCO. We are known for delivering our services - ***on time and on budget every time.*** Mr. Gary Thompson will be the point of contact for this project, will manage the team, and will be responsible for the team's activities, schedule and project deliverables. Figure 1 below illustrates the structure of the proposed team:

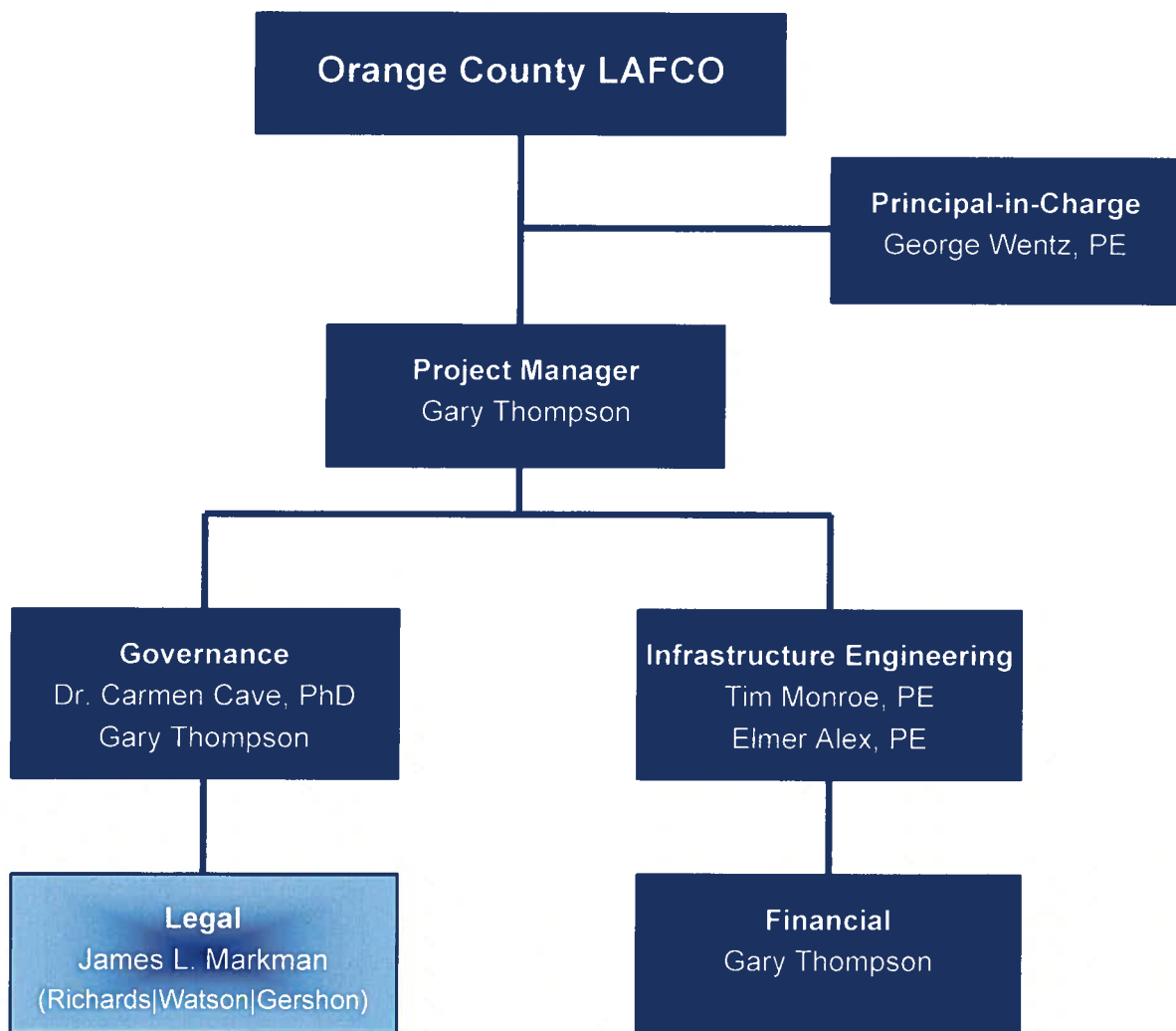


Figure 1: Organization of Team



# MWDOC Governance Study

## For the Orange County LAFCO

The Winzler & Kelly Project Team is assigned as follows:

### **Mr. George Wentz, PE, Principal in Charge**

Mr. Wentz will be assigned as Principal in Charge, responsible for oversight of the project. Mr. Wentz serves the Winzler & Kelly team as Region Managing Principal for the Southern California operations, and has over 35 years of public sector experience. He will also be involved in key project tasks as part of the team. His broad range of experience includes managerial, administrative, and technical responsibilities. He has practical experience as a City Manager, Assistant City Manager, Public Works Director, City Engineer, Building Official, Traffic Engineer and Redevelopment Agency Engineer. Mr. Wentz has worked directly with numerous public agencies in the delivery of public works, city engineering, and street maintenance services.

### **Mr. Gary Thompson, Project Manager/Financial Analyst**

Mr. Thompson will be assigned as the Project Manager and Financial Analyst, responsible for all aspects of the project including analysis and development of the Governance Study recommendations, preparation of all reports and documents, and presentations at all public hearings/meetings. Mr. Thompson will also be the primary point of contact for the OC LAFCO for all aspects of the project. Mr. Thompson provides a wealth of experience in municipal government policy development, specializes in municipal fiscal analysis, and has extensive experience in developing and analyzing comprehensive municipal service fiscal models, municipal service budgets, infrastructure, staffing, and analysis of municipal service fees.

### **Dr. Carmen Cave, PhD, Senior Planning Advisor**

Dr. Cave will be assigned as the Senior Planning Advisor, and will have responsibility for analyzing the various governance options from a service efficiency standpoint. She will assist Mr. Thompson in developing the overall findings and recommendations to be presented. Dr. Cave brings over 15 years of experience in local government land use planning, municipal service project management, and private industry executive management. Her practical experience includes municipal level planning, entitlement processing, zoning code development and updates, and Municipal Service Reviews. Her recent experience includes General Plan Updates, and planning support services for several Municipal Service Reviews, including water and wastewater agencies.

### **Mr. Tim Monroe, PE, Senior Project Engineer**

Mr. Monroe will be responsible for review of infrastructure and water delivery systems. Mr. Monroe has extensive experience as both a project manager and construction manager on San Diego area engineering and construction projects. Tim has led teams on major water, wastewater and other infrastructure projects as a project manager and as a project manager. These projects include wastewater pumping stations, major water and sewer pipeline replacement projects, water reservoirs, and San Diego's Petco Park infrastructure project.

### **Mr. Elmer Alex, PE, Senior Project Engineer**

Mr. Alex will be assigned to assist Mr. Monroe in reviewing and analyzing water delivery infrastructure. Mr. Alex has over 10 years of experience in preparing feasibility studies, project management, design, and construction for various water, sewer, and environmental projects. He also has hands-on experience with operations engineering while working in the City of San Diego's Wastewater Collection Division. Elmer has a strong ability to work with the community, stake holders, and various environmental agencies. Two projects that Elmer has previously worked on have won Project of Year Awards from the local American Public Works Association chapter.

# MWDOC Governance Study

## For the Orange County LAFCO

### **Additional Staff Support Available**

#### **Mr. Dave Lindow, PE, Senior Project Engineer**

Mr. Lindow has over 25 years of technical experience with an emphasis in the planning, design and construction management of municipal water and wastewater infrastructure. His experience includes preliminary-through final design, securing project funding, interagency coordination, permitting, resident engineering and start-up services. Many of his projects included CEQA/NEPA documentation elements. He is a member of several national, state, and local professional organizations.

#### **Ms. Margaret Witt, PE, Senior Project Engineer**

Ms. Witt has several years of extensive experience in water and wastewater development projects including both planning and design. Her experience as an environmental engineer includes conducting Environmental Phase I, II, III, and Subsurface Investigative Reports, as well as environmental report writing for water and wastewater development projects. Her project experience in both the environmental and civil engineering field has exposed her to all phases of project planning, design, and cost engineering.

***Complete resumes of all team members are included under Section 6, Additional Information.***

### **SUB-CONSULTANT LEGAL SERVICES (At OC LAFCO's Discretion)**

The law firm of Richards|Watson|Gershon (RWG) is proposed to provide all legal services required for review and development of the legal analyses necessary for each governance option studied. RWG is a full-service law firm, headquartered in Los Angeles with offices in Orange County and San Francisco. RWG has specialized in the representation of public and private sector clients for over 50 years. The depth and diversity of the firm's experience cannot be duplicated. RWG is comprised of municipal attorneys that are committed to excellence in the legal services provided and to solving problems of business and the public sector with the highest quality legal services. RWG's attorneys have specialized in representing all types of public agencies since 1954. The firm currently serves as City Attorney, Bond Counsel, General Counsel and Special Counsel to over 50 public agencies of all sizes and demographics throughout California. The firm's representation of public agencies includes airports, cities, community services districts, counties, joint powers authorities, redevelopment agencies, libraries and numerous water districts.

The proposed attorney who will oversee the legal review will be Mr. James L. Markman. Mr. Markman has extensive experience in the water industry, providing legal services to a multitude of municipal water agencies throughout the State of California. His past and current representation includes the Central and West Basin Water Replenishment District, La Habra Heights County Water District, Tehachapi-Cummings Water District, Walnut Valley Water District, Marina Coast Water District, and the Trabuco Canyon Water District. Mr. Markman also served for two years as Deputy Attorney General for the State of California, where he specialized in water rights and pollution matters.

# MWDOC Governance Study

## For the Orange County LAFCO

### 3. Project Approach

#### OVERVIEW

In November of 2007, a Municipal Service Review (MSR) and Sphere of Influence Review (SOI) Report for MWDOC was adopted by the OC LAFCO Commission. Prior to the adoption of the MSR/SOI Report, an intensive 18 month process involving stakeholder meetings, OC LAFCO mediated discussions, and development of a list of recommended administrative changes to be implemented by MWDOC was undertaken. The goal was to resolve concerns raised by several member agencies with respect to the methodology of allocation of MWDOC's cost of governance. However, the process did not resolve the concerns and issues of several member agencies.

Several potential governance restructuring options were identified in the MSR/SOI Report. As a result of the unresolved issues, and at the request of several of the member agencies, the OC LAFCO Commission directed that a Governance Study of MWDOC be conducted to review the MWDOC governmental structure and potential governance alternatives. The goal of the Governance Study is to evaluate the legal, financial and representational aspects associated with the governmental structure options identified in the MSR/SOI Report.

MWDOC is the municipal agency responsible for the wholesale distribution of water resources provided by the Metropolitan Water District (MWD) to member water agencies. MWDOC is also responsible for certain regional planning and advocacy activities associated with water distribution throughout Orange County. As such, a complete understanding of the water distribution process from MWD onward and infrastructure engineering related to future distribution needs must be incorporated into the financial analysis when reviewing each governance option. Additionally, an understanding and analysis of water rate structuring with MWD, MWDOC, and member agencies is also a critical component of this analysis.

Due to the sensitive nature of this study, it is imperative to maintain objectivity in the analysis of potential governance alternatives. Objectivity is achieved when the study includes all potential service and governance options and the work effort focuses on reporting a clear representation of the potential effects of the identified options.

Winzler & Kelly's approach to this project will ensure that the final result and report will be a thorough, fully vetted and fully analyzed work product. Our approach includes significant opportunity for interested agency, stakeholder and public review and comment prior to publication of the final report. It is important, given the magnitude of the potential outcomes that could be implemented, that this study process receives the utmost transparency.

#### APPROACH

In accordance with the specified requirements of OC LAFCO, Winzler & Kelly will prepare a Governance Study for MWDOC for consideration by all member agencies and stakeholders. The primary goal of the Study will be to identify and analyze governance options that leverage the greatest economies of scale in service provision of MWDOC, and accommodating the needs of each member agency, without placing additional burden upon existing financial and physical resources.

The Governance Study will be developed utilizing all requisite planning and engineering documents made available from OC LAFCO, MWDOC, and member agencies. Additionally, interviews and discussions with MWDOC and member agency representatives and other stakeholders will be conducted to ensure that a comprehensive analysis of issues, priorities, and potential outcomes are clearly identified. The recommendations and findings from the



# MWDOC Governance Study

## For the Orange County LAFCO

Governance Study will be based on applying the elements of existing law to each alternative with a process structure required to implement each option.

A key component of this project is having an understanding of the institutional relationships between MWDOC and other regional water agencies including MWD, the Orange County Water District, the multitude of retail water agencies, cities and special districts, the County of Orange, and the affected customers and users. As a part of this analysis, those relationships will be reviewed and analyzed for potential impacts associated with each of the governance options studied.

The proposed Work Plan organizes individual tasks in a manner such that any potential governance alternative that is determined to contain a "Fatal Flaw" will be identified as early as possible in the analysis process, and eliminated from further research and analysis by mutual consent between LAFCO and the consultant. Three (3) "fatal flaw" decision points are identified in the process. These decision points will streamline the work effort, eliminating unnecessary analysis of non-viable options as they are found to be non-viable rather than carrying all options forward.

The legal analysis is proposed in two steps. The purpose of a two-step process is to minimize the cost of a thorough legal analysis of alternatives that may be revealed as non-viable as a result of findings identified during other portions the study. Legal analysis Step One (Task 2) is the "35,000 foot" view, where a quick legal review will reveal those alternatives that should not move forward for deeper analysis due to obvious legal obstacles that would be considered too insurmountable to overcome. Step Two (Task 5) occurs after a thorough financial analysis has been conducted to provide a final review to further eliminate any non-viable alternatives due to insurmountable legal or legislative obstacles that may have been revealed during the development of the analysis and through the working group discussions.

Throughout the study, it will be necessary to communicate frequently with LAFCO staff, stakeholders, and agency representatives. This proposal includes a minimum of four (4) working group meetings with MWDOC and member agency representatives, identified at major junctions within the process. These meetings are scheduled to maximize communication of preliminary findings with the working group members and to maximize levels of trust and collaboration with member agencies during the development of the Preliminary Draft Report. Additionally, one (1) final stakeholder meeting is anticipated after release of the Final Draft Report for interested agency and public comment (Task 7).

Key study tasks include:

- Review of assumptions and data contained within the MSR/SOI Report and associated documents.
- Conducting a "Baseline Analysis" of the existing MWDOC structure and service provision model.
- Identification and analysis of governance options.
- Legal analysis of governance options.
- Financial analysis of governance options.
- Implementation analysis of governance options.

Task Details are discussed in detail in Section 4, Work Plan & Schedule.

# MWDOC Governance Study

## For the Orange County LAFCO

### **DELIVERABLES**

Three deliverable documents will be provided to OC LAFCO:

- Preliminary Draft Report for internal review.
- Final Draft Report for interested agency and public review.
- Final Study Report for OC LAFCO.

In addition to the deliverables to be submitted, Winzler & Kelly will participate and present the Final Study Report to the OC LAFCO Commission at the public hearing.

# MWDOC Governance Study

## For the Orange County LAFCO

## 4. Work Plan & Schedule

### TASK DETAILS

Winzler & Kelly has developed an initial work plan and detailed tasks necessary for the development, analysis, and presentation of the Governance Study. The work plan will be reviewed with OC LAFCO to assure that the scope of work will address all of the goals and objectives for the project.

#### **Task 1: Review of Assumptions, Data & Relevant Documents & Establish**

- Conduct **Working Group Meeting #1** to establish relationships with stakeholders and interested parties, elicit opinions for additional structural options for potential study in addition to those options already designated, and create a clear Goal Statement.
- Review assumptions and data in the MSR, its appendices, letters from member agencies and other documents. Review will include, but is not limited to:
  - Service levels.
  - Representation.
  - Financial projections.
  - Organizational structures.
- Prepare a summary of existing information.
- Establish a detailed schedule and timeline for completion of study.
- Establish a decision-tree process to include:
  - Stakeholder input.
  - Evaluation of impacts.
  - Legislative action(s).
  - Public election process.

#### **Task 2: Identification of Potential Governance Structure Alternatives**

- Identify potential governance structure alternatives for providing services including current services *and* varying services as deemed appropriate. Analysis will include impacts on agencies and customers. Structure alternatives shall include as a minimum:
  - Status Quo prior to December 2006 MWDOC Board Actions.
  - Status Quo post 2007 facilitated discussions.
  - Dissolution of MWDOC and formation of a new countywide entity.
  - Detachment of South County water agencies and formation of a new South County entity.
  - Any other viable alternative(s) such as:
    - Rate restructuring of existing MWDOC administrative cost allocations to member agencies.

# MWDOC Governance Study

## For the Orange County LAFCO

- Restructuring of existing MWDOC governance board representation.
- Conduct a **preliminary** legal analysis for each alternative. Legal analysis will include:
  - Discussion of legal barriers or conflicts that would be considered too insurmountable to overcome.
  - Preliminary recommendations for elimination of alternatives from further review.

***\* It is anticipated that this task will be a "fatal flaw" opportunity to eliminate any non-viable alternatives due to potential legal obstacles that would be considered too insurmountable to overcome.***

### Task 3: "Baseline Analysis" of MWDOC Current Service Model

- Conduct a baseline analysis of the MWDOC current service model for comparison to other alternatives. The analysis shall address the following key elements as a minimum:
  - Evaluate institutional relationships among MWDOC, member agencies, and other key agencies.
  - Define essential services and service requirements.
  - Create member agency service needs assessment.
  - Define necessary regional services.
  - Prepare Cost of Service Analysis, including direct and indirect costs of services provided.
  - Complete cost recovery analysis comparing revenue sources from member agencies with recipients of services provided.
  - Compare MWDOC to other MWD member agencies in terms of governance structure, services, facilities and rates.
  - Identify past and existing costs to ratepayers.

### Task 4: Prepare Financial Analysis and Findings

- Prepare a draft financial analysis and draft findings to include the following key elements:
  - Initial transition costs.
  - Projected administrative/operational costs.
  - Revenue requirements.
  - Financial impacts on MWDOC and member agencies over a 10-year period.
  - Impacts on ratepayers.
  - Develop a methodology for equitable allocation/distribution of assets including infrastructure and agency reserves.
  - Prepare Cost of Service Analysis, including direct and indirect costs of services provided.
  - Complete cost recovery analysis comparing revenue sources from member agencies with recipients of services provided.
  - Identify past and new costs to ratepayers.
- Conduct **Working Group Meetings #2 and #3** to discuss the financial analysis and findings for identified governance options and alternatives. Working Group Meeting #2 will occur after the preliminary analysis is complete. Working Group Meeting #3 will occur after incorporation into the analysis of all appropriate comments resulting from Working Group Meeting #2.

# MWDOC Governance Study

## For the Orange County LAFCO

- Prepare a revised financial analysis and findings based on all final comments received as a result of each working group meeting.
- ***It is anticipated that this task will be a "fatal flaw" opportunity to eliminate any non-viable alternatives due to negative financial considerations***

### Task 5: Develop Viable Alternative Comparison

- Perform a comparative analysis for each governance option and alternative.
  - Prepare a matrix of preliminary findings including:
    - Service analysis.
    - Financial Analysis.
    - Representation analysis.
    - Efficiencies.

Conduct a legal analysis for each alternative. Legal analysis shall include:

- Process to implement each viable option under **current** law.
  - Discussion of any required enacting legislation.
  - Discussion of legal barriers or conflicts.
  - Analysis of impacts on voting rights and representation at MWD.
- Develop an implementation plan and process for conducting election(s) or enacting necessary legislation.
- Conduct **Working Group Meeting #4** to present the comparison analysis, final legal review, and implementation process required for each option.

***\* It is anticipated that this task will be a "fatal flaw" opportunity to eliminate any non-viable alternatives due to any additional legal or legislative obstacles that would be considered too insurmountable to overcome.***

### Task 6: Develop Preliminary Draft Report

- Prepare and deliver the Preliminary Draft Report to OC LAFCO for internal review. One (1) electronic copy in PDF format will be provided.

### Task 7: Develop Final Draft Report

- Receive all Preliminary Draft Report internal review comments from OC LAFCO and incorporate into the Final Draft Report.
- Prepare and deliver the Final Draft Report to OC LAFCO for interested agency and public review. One (1) electronic copy in PDF file format, and one (1) hard copy of the Final Draft Report will be provided.

# MWDOC Governance Study

## For the Orange County LAFCO

- Conduct a **Final Stakeholder Meeting** to discuss the Final Draft Report as part of the interested agency and public review process.

### **Task 8: Develop Final Study Report**

- Receive all Final Draft Report review comments and incorporate as appropriate into the Final Study Report.
- Prepare and deliver a Response to Comments document addressing all comments received as a result of the public review process. (1) One electronic copy in PDF file format and 15 hard bound hardcopies of the Response to Comments document will be provided.
- Prepare and deliver the Final Study Report to OC LAFCO for presentation to the OC LAFCO Commission. One (1) electronic copy in PDF file format, and 15 hard bound hardcopies of the Final Study Report will be provided.

### **SCHEDULE**

Winzler & Kelly has outlined below a tentative schedule below based on a contract award date of mid-May 2008 as indicated in the Request for Proposal. A final detailed schedule will be developed in consultation with OC LAFCO upon selection for performance of the project.

Mid-May 08	Award contract, issue Notice to Proceed.
Late May 08	Kickoff meeting with OC LAFCO, MWDOC, member agencies, begin data collection.
Late June 08	Complete initial fatal flaw legal review on identified governance options.
Late July 08	Complete baseline analysis of MWDOC.
Late Sep 08	Complete financial analysis and fatal flaw review of identified governance options.
Mid-Oct 08	Complete analysis, findings, implementation plans, and final legal fatal flaw review.
Early Nov 08	Deliver Preliminary Draft Report to OC LAFCO for internal review.
Late Nov 08	Deliver Final Draft Report for interested agency and public review and comment.
Late Jan 09	Deliver Final Study Report to OC LAFCO.
Mid-Feb 09	OC LAFCO Commission Public Hearing.

\* Working Group and Stakeholder meetings will occur as indicated in the Work Plan Tasks, within the proposed overall schedule outlined above, and will be included in the detailed schedule developed after award of contract.

***A detailed Preliminary Schedule is included under Section 6, Additional Information.***



# MWDOC Governance Study

## For the Orange County LAFCO

### 5. Cost Proposal

Winzler & Kelly proposes to complete all aspects of the project, inclusive of reimbursable and sub-consultant expenses, for a fee **not to exceed \$96,482**. This not-to-exceed amount includes \$72,313 in labor & administrative costs plus \$24,169 in reimbursable and legal costs.

Hourly rates for the proposed project team are as follows:

Principal in Charge: \$250 per hour  
Project Manager/Financial Analyst: \$135 per hour  
Senior Planning Advisor: \$135 per hour  
Senior Project Engineer: \$145-\$220 per hour

In addition, Winzler & Kelly charges \$6 per hour to cover the cost of all ancillary administrative services such as IT, cell phone, and similar services.

Reimbursable expenses include but are not limited to all travel related expenses, vendor and sub-consultant expenses, and reprographic services for deliverable documents directly attributable to the project. All reimbursable expenses are charged on an actual cost basis, plus a 15% administrative surcharge.

*The legal sub-consultant hourly rate is \$275. Total estimated cost of legal services is \$23,725.*

Winzler & Kelly invoices at the end of each month for that month's activities. Payment is due no later than 30 days from the date of the invoice. A charge at the maximum rate of interest will be charged on past due accounts.

Winzler & Kelly will control project costs by employing best management practices in its approach to the project. The Project Manager conducts weekly monitoring of project status to budget and is responsible for ensuring that the project progression is maintained within budget. The Principal in Charge has overall oversight responsibility for the budget and monitors the project budget on a weekly basis. The Project Manager will advise OC LAFCO staff of any unanticipated delays or other circumstances that may arise beyond the control of Winzler & Kelly that may impact the project budget.

A breakdown of the estimated costs for each Task(s) is provided on the following pages.

# MWDOC Governance Study

For the Orange County LAFCO

## Cost Proposal

<u>Work Plan Task</u>	<u>Hours</u>	<u>Cost</u>
<b>TASK 1: Review of Assumptions, Data &amp; Relevant Documents &amp; Establish</b>		
Complete review of MSR assumptions, all relevant data & documents, conduct Working Group Meeting #1, develop work schedule, establish decision tree process.	29	\$4,134
Estimated Reimbursable/Sub-Consultant		50
<b>Total for Task 1</b>	<b>29</b>	<b>\$4,184</b>
<b>TASK 2: Identification of Potential Governance Structure Alternatives</b>		
Develop all Governance Options and other alternatives to be studied, conduct a preliminary legal analysis of each option/alternative, develop recommendations for elimination of any option alternative (first Fatal Flaw decision point).	15	\$2,195
Estimated Reimbursable/Sub-Consultant		7,590
<b>Total for Task 2</b>	<b>15</b>	<b>\$9,785</b>
<b>TASK 3: "Baseline Analysis" of MWDOC Current Service Model</b>		
.Develop MWDOC Baseline Analysis inclusive of essential services and member agency service needs assessment, cost of service & cost recovery analysis, agency comparative analysis and agency relationships, and ratepayer costs.	148	\$22,348
Estimated Reimbursable/Sub-Consultant		0
<b>Total for Task 3</b>	<b>148</b>	<b>\$22,348</b>
<b>TASK 4: Prepare Financial Analysis and Findings</b>		
Prepare the draft financial analysis and findings for all governance options and alternatives, including transition and operational costs, cost of service and cost recovery analysis, financial impact analysis, allocation of assets analysis, conduct Working Group Meetings # 2 & #3, develop recommendations for elimination of any option/alternative (2 <sup>nd</sup> Fatal Flaw decision point).	125	\$18,630
Estimated Reimbursable/Sub-Consultant		100
<b>Total for Task 4</b>	<b>125</b>	<b>\$18,730</b>



# MWDOC Governance Study

For the Orange County LAFCO

## **TASK 5: Develop Viable Alternative Comparison**

Develop a comparison matrix of findings for all options/alternatives including service, financial, representation and efficiencies, conduct a legal analysis to include implementation process, legislative requirements, barriers and conflicts, conduct Working Group Meeting #4, develop recommendations for elimination of any option/alternative (3<sup>rd</sup> Fatal Flaw decision point).

49 \$7,404

Estimated Reimbursable/Sub-Consultant

12,700

**Total for Task 5 49 \$20,104**

## **TASK 6: Develop Preliminary Draft Report**

Draft and deliver the Preliminary Draft Report for OC LAFCO internal review.

50 \$7,480

Estimated Reimbursable/Sub-Consultant

0

**Total for Task 6 50 \$7,480**

## **TASK 7: Develop Final Draft Report**

Develop Final Draft Report for interested agency and public review incorporating OC LAFCO comments, conduct Final Stakeholder Meeting.

21 \$3,186

Estimated Reimbursable/Sub-Consultant

1,948

**Total for Task 7 21 \$5,134**

## **TASK 8: Develop Final Study Report**

Develop Final Report and Response to Comments document, incorporating all public review comments as appropriate, support and present report and findings at the OC LAFCO Commission public hearing

46 \$6,936

Estimated Reimbursable/Sub-Consultant

1,781

**Total for Task 8 46 \$8,717**

**Grand Total 483 \$96,482**

# MWDOC Governance Study

## For the Orange County LAFCO

## 6. Additional Information

### Insurance

Winzler & Kelly is protected by several layers of insurance including: corporate Professional Liability insurance in the amount of \$5 million; Excess Liability insurance of \$10 million; and various other business insurance. The firm's basic Commercial General Liability insurance is \$1 million for each occurrence and \$2 million aggregate, Automobile Liability insurance is \$1 million combined single limit, and Worker's Compensation & Employer Liability Insurance is \$1 million for each incident.

### Resumes

Resumes of individual project team members identified in Section 2 are included on the following pages.

### Preliminary Schedule

A detailed Preliminary Schedule identified in Section 4 is included on the following pages.

### Responsibilities of OC LAFCO

- Make available all records and documentation associated with the MWDOC MSR and related activities deemed required by Winzler & Kelly.
- Assist as required in procurement of additional information from MWDOC and member agencies deemed required by Winzler & Kelly to complete the project.
- Schedule and staff all working group and stakeholder meetings to be conducted.
- Schedule and notice meetings and hearings as required by the prevailing law(s).
- Prepare all notices and all resolutions required by OC LAFCO pertaining to any Public Workshop or Public Hearing.
- Provide timely review of draft documents- normally two (2) weeks.

### Additional Services

Winzler & Kelly is prepared to accomplish any or all of the following additional services if requested by OC LAFCO, subject to submittal of a separate cost proposal and contract amendment.

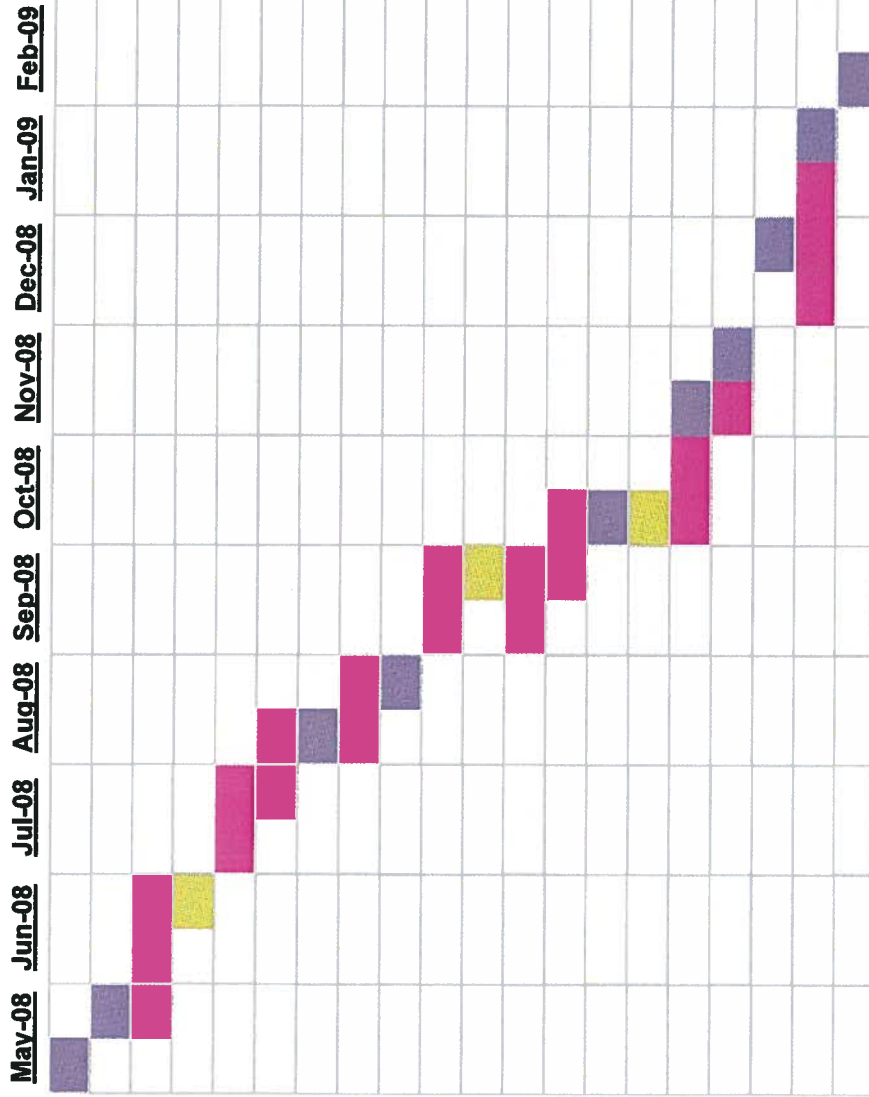
- Winzler & Kelly will participate in additional working group meeting(s) with the stakeholders over and above the four working group meetings and final stakeholder meeting identified in the Work Plan Tasks in Section 4.
- Winzler & Kelly will attend a pre-hearing "workshop" with the OC LAFCO Commission and staff to present the report and findings, and address any items of interest or concern prior to the OC LAFCO Public Hearing.

# MWDOC Governance Study

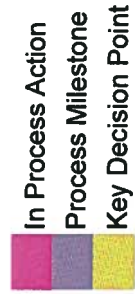
April 2, 2008

## Task Item

- Contract Award, Notice to Proceed
- 1st Working Group Meeting
- Data Collection & Initial Legal Review
- 1st Fatal Flaw Review of Options (Legal)
- MWDOC Baseline Analysis
- Preliminary Financial Analysis of Options
- 2nd Working Group Meeting
- Revised Preliminary Financial Analysis
- 3rd Working Group Meeting
- Final Financial Analysis
- 2nd Fatal Flaw Review of Options (Financial)
- Alternative Comparison
- Implementation Plan, Legislative/Legal Analysis
- 4th Working Group Meeting
- 3rd Fatal Flaw Review of Options (Legislative/Legal)
- Preliminary Draft Report
- Final Draft Report
- Final Stakeholder Meeting
- Final Study Report & Response to Comments
- OC LAFCO Commission Hearing



Key:



## **George A. Wentz**

### **Managing Principal**

#### **Position**

Principal-in-Charge

#### **Education**

Bachelor of Science, Civil  
Engineering - 1971

Master of Public Administration  
- 2005

#### **Professional Registration**

California  
Colorado  
Michigan  
Licensed Contractor – Class A

#### **Memberships**

International City Managers  
Association

American Public Works  
Association

American Society of  
Professional Engineers

#### **Recognition**

Named as one of top 50 public  
works trendsetters in 2004

ICMA paper "E-government  
solutions for the Public Sector"

Author of various white papers

#### **Experience**

Mr. Wentz recently joined the Winzler & Kelly team as Regional Managing Principal for the Southern California and Southwest operations. He has over 35 years of public sector experience. His broad range of knowledge includes managerial, administrative and technical responsibilities. He has direct experience as a City Manager, Assistant City Manager, Public Works Director, Public Works Director, City Engineer, Building Official, Traffic Engineer and Redevelopment Agency Engineer. Mr. Wentz worked directly with numerous public agencies in the organization and delivery of full municipal services.

#### **Relevant work experience includes:**

- Led the first consultant team to assist the City of Rancho Santa Margarita in their incorporation. Serve as first Assistant City Manager and establish all operations for the City, assist the City Manager, oversee transition of County services.
- Over 20 years of directly related municipal experience.
- Served as the **Assistant City Manager and Interim City Manager** in the City of Rancho Santa Margarita during approximately a 5 year period.
- Supervised and direct a team of department heads including planning, building and safety, program management and capital improvement programs (CIP), public works and city engineering, development review, construction and public works inspection management, finance and accounting, building/safety, code compliance, parks and recreation, personnel services, police and fire services
- Led economic development efforts and work with commercial and residential developers to bring meaningful development to the community and facilitate the vision of the City Council
- Worked with City Councils to develop short and long range strategic plans.
- Experienced in coordinating and stimulating new and expanded commercial growth for cities including big boxes, restaurants, automobile dealerships, hotels and other businesses to stimulate local employment and increase revenues.
- Prepared and managed annual work programs and budgets at the local government level.
- Developed and administered long range/multi-year Capital Improvement Programs (CIP)
- Developed and implemented performance management practices to encourage individuals and improve operations
- Worked with various communities and regional agencies including Riverside County, County of Orange, WRCOG, OCTA, CALTRANS, RCFC, RCTD, CVAG, FHWA, FEMA and Army Corp of Engineers.

**George A. Wentz**  
**Managing Principal**

- Conducted Management Audits and organizational and fee studies.
- Negotiated contracts with solid waste companies, cable providers, utility providers, developers and similar agencies
- Maintained excellent working relationships and interact regularly with City Managers, City Councils, Commissions, Committees, Community Organizations, Regional Agencies and staff.
- Brought meaningful economic development to the City of Rancho Santa Margarita in line with the community goals and the vision of the City Council. **New businesses included auto dealers, big boxes, restaurants and fast food chains.**
- Worked directly with leadership to improve city services, performance and public relations.
- Involved and participated with the chamber of commerce, community groups and Homeowners Associations.
- Prepared and administer annual operating budgets and multi-year capital improvement programs.
- Led technology improvements to improve operations and to better serve the public.
- Managed a \$25M plus budget and a staff of approximately 200.
- Served as Public Works Director/City Engineer for the City of Rancho Palos Verdes for approximately 7 years.
- Served as Redevelopment Agency Engineer and administered Building and Safety services for the City of Rancho Palos Verdes.
- Worked with the Army Corp of Engineers in Portuguese Bend Landslide abatement efforts.
- Interacted with the California Coastal Commission on various projects.
- Served as the Director or Public Works for the City of Diamond Bar for a six year period.
- Developed maintenance management systems for public works operations including streets, utilities and vehicles at the local government level.
- Served as key liaison to the Denver Regional Council of Governments.
- Served as senior consultant to the New Mexico Department of Highways
- Served as senior operations manager for the Michigan Department of Transportation.

## **Gary Thompson**

### **Municipal Financial Analyst**

#### ***Responsibility***

Project Manager

***Education***  
Bachelor of Arts,  
Business Administration,  
California State University,  
Long Beach

#### ***Governmental Agency Affiliations***

City Councilman, City of  
Rancho Santa Margarita

Trustee, Orange County Vector  
Control District

Director, Transportation  
Corridor System (Orange  
County)

Director, Orange County  
Library Advisory Board

#### ***Experience***

Mr. Thompson recently joined the Winzler & Kelly team as a Municipal Financial Analyst bringing over 15 years of local government experience, and unique experience in understanding the methodologies and legal boundaries associated with formation and implementation of municipal agency management and financing. He is a recognized leader in developing and analyzing comprehensive pre-incorporation and pre-annexation fiscal models, municipal service budgets, infrastructure and staffing, municipal service and sphere of influence reviews, municipal government re-organization transition services, and in the performance of municipal service fee analyses.

Mr. Thompson's expertise includes extensive knowledge of the Cortese-Knox-Hertzberg Local Government Re-Organization Act of 2000, broad familiarity with the functions and responsibilities of county LAFCO's, specialized experience in governmental organization and municipal service, and general experience in development fee regulations including the Mitigation Fee Act and Mello-Roos Community Facilities District formation.

Mr. Thompson also has over 30 years of financial, personnel, and facilities management experience with the Dept of the Navy in the field of naval ship repair, overseeing military and civilian industrial workforces and facilities, and managing significant naval ship repair and facilities budgets.

#### ***Relevant projects completed and in process include:***

- Development of Initial Feasibility Analyses for the proposed city incorporations of Rancho Santa Margarita, Hacienda Heights, and rural Western San Mateo County.
- Development of Comprehensive Fiscal Analyses for the proposed city incorporations of Wildomar, Menifee Valley, Alamo and Rossmoor.
- Fiscal consulting and revenue sharing negotiation services for the proposed city incorporations of Rancho Santa Margarita, Aliso Viejo, Hacienda Heights, San Martin and Oakhurst.
- Development of policy level transition planning and municipal service transfer for the City of Rancho Santa Margarita, and policy and procedures manual for new city incorporations for the County of Riverside.
- Establishing policy and evaluation for the entire array of city governmental functions including staffing, budgeting and management.
- Develop, implement and administer short and long range operational and facility capital improvement budgeting and scheduling, and production management.
- Worked with various communities and regional agencies including the Counties of Orange, Madera, Contra Costa, San Mateo and Riverside, and the Orange, Riverside, Contra Costa, and Madera County LAFCO's.





**Carmen Cave**  
**Senior Planning Advisor**

***Responsibility***

Senior Planning Advisor

***Education***

A.B. English & Psychology,  
Stanford University

Ph.D. Educational  
Psychology, Stanford  
University

***Governmental Agency***

***Affiliations***

City Councilwoman,  
City of Aliso Viejo

Director, Transportation  
Corridor Agencies

Director, Transportation  
Corridor System

***Awards***

Distinguished Leader  
Award, California  
Association of Leadership  
Programs, 2002

**Experience**

Dr. Cave has over 15 years of experience in local government land use planning, municipal service project management, and private industry executive management. Her experience includes municipal level specific planning; entitlement and permit processing; general plan, housing element and zoning code development and updates; and Municipal Service Reviews. Dr. Cave's expertise includes extensive knowledge of the Cortese-Knox-Hertzberg Local Government Re-Organization Act of 2000, broad familiarity with the functions and responsibilities of county LAFCO's, and specialized experience in governmental organization and municipal service delivery. Dr. Cave's experience also includes professional executive management services to non-profit organizations, and she holds a Lifetime Instructor Credential for the California Community Colleges system in Office Services and Related Technologies.

**Relevant experience includes:**

- Performed sub-consultant planning support services for Municipal Service Reviews for Orange and Contra Costa LAFCOs. Projects include MSR's for South Orange County II, City of Tustin, and Northwest Orange County for Orange LAFCO, and Wastewater (All County), West County, and Central County for Contra Costa LAFCO.
- Performed planning services for General Plan and Housing Element updates for the cities of Newport Beach, Perris, Ontario, Laguna Woods (original General Plan), and the County of San Bernardino.
- Provided full range of municipal planning services as a contract staff planner for City of Irvine.
- Established policy and evaluation for the entire array of city governmental functions including staffing, budgeting and management.
- Provided executive management services for a non-profit organization.





**Tim Monroe, PE**  
**Senior Project Engineer**

***Proposed Responsibility***  
Senior Project Engineer

***Experience***

Tim Monroe has extensive experience as both a project manager and construction manager on San Diego area engineering and construction projects. Tim has led teams on major infrastructure projects as a project manager and as a construction manager. These projects include the new downtown ballpark infrastructure project (Petco Park), wastewater pumping stations, major water and sewer pipeline replacement projects and water reservoirs. The high quality and technical expertise that Mr. Monroe brings to a project team is shown in his proven track record of award winning projects completed in San Diego. With over 16 years experience working in San Diego, Tim has developed contacts and relationships with virtually every design and construction coordination contact point in San Diego such as San Diego Gas & Electric, PacBell, Traffic Engineering, Development Services, Water & Sewer Operations Divisions, CCDC, CalTrans, and SDCWA.

***Education***  
Civil Engineering  
San Diego State  
University

***Professional  
Registration***  
CA/Civil/C 59584

***Memberships***  
ASCE, DBIA

- **Ballpark Infrastructure Project (Petco Park), City of San Diego, CA.** Construction manager for redevelopment of 26 blocks of downtown San Diego. Work included demolition, hazardous materials remediation, wet utilities, streets, sidewalk, traffic signals, street lights, landscape, and parking facilities.
- **City of San Diego Water & Sewer Group Jobs, City of San Diego, CA.** Project manager and project engineer on several of Group Job projects which included over 200,000 feet of water and sewer mains in all areas of the city.
- **La Jolla Shores Pipeline Phase II, City of San Diego, CA.** Project manager and Project Engineer for this 30" diameter water pipeline with seismically controlled valves.
- **Bayview Pump Plant, City of San Diego, CA.** Project manager for this water pump plant.
- **Bayview Reservoir Rehabilitation, City of San Diego, CA.** Project manager for this 10 million gallon reservoir rehabilitation.
- **Soledad Reservoir Projects, CA.** Project manager for the rehabilitation of Soledad reservoir. Project manager and designer for the Soledad/Country Club Reservoir crosstie which included seismic control valves, altitude valves, inlet piping and a 600 foot pipeline tunnel.
- **USIU/Miramar Trunk Sewer, City of San Diego, CA.** Project engineer for the Interstate 15 sewer tunnel crossing.
- **Sewer Pump Station 4 Replacement, City of San Diego, CA.** Project manager for this 3 MGD pump station replacement.
- **Sewer Pump Station 24 Replacement, City of San Diego, CA.** Project manager for this 4 MGD underground pump station with dual force mains.
- **Sewer Pump Station 30A Tunnel Alternative, City of San Diego, CA.** Project manager for this pump station abandonment which required 6000 feet of tunneling and two freeway crossings.
- **University Heights Reservoir Rehabilitation, City of San Diego, CA.** Project manager for this 12 MG reservoir rehabilitation.
- **Lake Murray Trunk Sewer, City of San Diego, CA.** Project manager on Phase I and tunnel engineer on phase II of this trunk sewer.
- **La Jolla – Pacific Beach Trunk Sewer - Chelsea St., City of San Diego, CA.** Project manager for this urban trunk sewer relocation.
- **Repair Various Warehouse Windows, Barstow, CA.** Project manager for the design





**Tim Monroe, PE**  
**Senior Project Engineer**

to repair warehouse 401 through 406 windows, Yermo Annex. Services will include removing all existing wood trims and windows at Yermo Warehouses 401, 402, 403, 404, 405, and 406 and upgrades including; installing new trim systems, prime and paint all wood trim, install new energy efficient window systems, replace fascia metal, install additional fastener at remaining fascia metal, ventilation study, structural analysis, hazardous materials sampling for asbestos content, and XRF survey of the windows for lead based paint.

- **Repair Various MOUT Training Facility, San Nicolas Island, CA.** Project manager for the design of a Large-Scale Military Operations in Urban Terrain training facility at the Marine Air Ground Task Force Training Command. The Large-Scale MOUT facility is composed of five major functional components: Primary Town, Indirect Live Fire Facility, Residential Village, Port/Industrial Complex, and Airfield Complex. All of these components except the Indirect Live Fire Facility are non-live fire environments.
- **P-964 Camp Wilson, Twentynine Palms, CA.** Project manager for the design/build RFP for a seven mile force main which connects to the mainside pump station. Work includes upgrades to the existing pump station, fiber optic control and monitoring system, and the abandonment of a package sewer treatment plant.
- **High Pressure Fire Main Study, North Island, CA.** Project manager for the fire suppressant distribution system master plan at North Island, Coronado. Work includes evaluation of existing pumping systems. Evaluation includes assessment of pipe material, study break history, maintenance issues, operation issues, pump station design requirements and location, and mapping of existing distribution system.
- **San Quentin State Prison, San Rafael, CA.** Project manager for a new 1,000 bed Condemned Inmate Complex adjacent to the existing San Quentin State Prison. The complex will be located on approximately 20 to 25 acres at Dairy Hill. Grading of the site will require the movement of approximately 180,000 cubic yards of soil. This new facility will include two housing units and is anticipated to house the condemned inmates for the near future. An additional third housing unit may be required at a later date to accommodate additional inmates. The work will include a correctional treatment center, security fencing and perimeter road, possible modifications to the west and east gates, two 180 unit housing facilities, operations/administration building, facility services for health, legal, and library, demolition and hazmat, and upgrade of existing on-site wet and dry utilities.
- **South Campus Demolition – Phase 3, Port of San Diego, CA.** Project manager for Phase III of demolition for a 44 acre industrial site that is part of the overall 420 acre \$1.6 billion joint Port of San Diego and the City of Chula Vista's Bay Front Master Plan. Work included demolition design including maximizing recycleables, concrete crushing and utility location and mapping.
- **Former AFS Industries Building Demolition, Chula Vista, CA.** Project manager for the demolition of the former AFS Industries site. Work includes utility isolation and disconnection for wet and dry utilities, assessing structure condition and developing a demolition plan, building dismantling 146,000 square feet of industrial buildings, and reuse/recycling of site generated construction waste materials.
- **Bayside Demolition – Parcel H-3 Pre-Design, Chula Vista, CA.** Project manager to provide professional engineering services for the Pre-Design Study for the demolition of Parcel H-3. Work includes demolition of four acres of public streets, construction of new public streets, demolition of 17 acres of off-street pavement, dismantling 11,000



**Tim Monroe, PE**  
**Senior Project Engineer**

sf of recreational buildings, disconnecting and removing above ground and below ground utilities, and construction of new above and below ground utilities.

- **Richard J. Donovan Correctional Facility, San Diego, CA. Project manager** for 20 new Small Management Yards (SMY's) at the existing RJ Donovan facility. The work included design of the SMY's, new wet and dry utilities, demolition, as well as special consideration for future site upgrades. Additional design incorporated safety and security regulations in coordination with the State Fire Marshal and the CDCR. When completed each of the SMY's will provide an exercise area for two inmates at a time.
- **Mule Creek State Prison, Ione, CA Project manager** for 20 new SMY's at the existing Mule Creek facility. The work included design of the SMY's, new wet and dry utilities, retaining wall extension, as well as special consideration for future site upgrades. Additional design incorporated safety and security regulations in coordination with the State Fire Marshal and the CDCR. When completed each of the SMY's will provide an exercise area for two inmates at a time.
- **Wasco State Prison, Wasco, CA. Project manager** for 20 new SMY's at the existing Wasco facility. The work included design of the SMY's, new wet and dry utilities, as well as special consideration for future site upgrades. Additional design also incorporated safety and security regulations in coordination with the State Fire Marshal and the CDCR. When completed each of the SMY's will provide an exercise area for two inmates at a time.
- **California State Prison Solano, Vacaville, CA. Project manager** for 20 new SMY's at the existing Solano facility. The work included design of the SMY's, new wet and dry utilities, as well as special consideration for future site upgrades. Additional design also incorporated safety and security regulations in coordination with the State Fire Marshal and the CDCR. When completed each of the SMY's will provide an exercise area for two inmates at a time.

**Elmer Alex, PE**  
**Senior Staff Engineer**

***Proposed Responsibility***  
Senior Staff Engineer

***Education***

B.S. Environmental  
Engineering  
Cal Poly State University –  
San Luis Obispo

***Professional Registration***  
CA/Civil/C 67098

***Memberships***

ASCE  
WateReUse Association –  
San Diego Chapter

**Experience**

Elmer has over 10 years experience in the preparation of feasibility studies, project management, design, and construction for various water, sewer, and environmental projects. He also has hands-on experience in operations engineering while working in the City of San Diego's Wastewater Collection Division. Elmer has a strong ability to work the community, stake holders, and various environmental agencies to help streamline the design and permitting process on projects. Two projects that Elmer has previously worked on have won Project of Year Awards from the local APWA chapter.

**Relevant projects include:**

- **Silverwood Lake State Park, Black Oak Area Water Main Replacement, San Bernardino, CA.** Managed and designed the replacement of approximately 4,000 LF of 4-inch steel pipe with PVC pipe including the isolation valves, pressure reducing valves, tracer wire boxes, fire hydrants, and water services.
- **Silverwood Lake State Park, Sawpit Road Main Replacement, San Bernardino, CA.** Managed and designed the replacement of approximately 8,000 LF of 8-inch PVC potable water main.
- **Crystal Cove State Park, Washrack Rehabilitation, Newport Beach, CA.** Managed the design for the installation of a new sand/oil water separated, storm water controls, and canopy to the existing washrack.
- **Warehouse Window Replacement, MCLB Barstow, CA.** Managed the design for the replacement of approximately 84,000 SF of windows with new windows, louvers, and architectural panels. Project was at Warehouse 401 through 406 at the Yermo Annex. Services will include removing all existing wood trims and windows at Yermo Warehouses 401, 402, 403, 404, 405, and 406 and upgrades.
- **El Capitan State Park, 220,000 Gallon Steel Water Tank.** Managed the design for the replacement of an old redwood water storage tank with a new bolted steel water tank. Services included the replacement of valves, recoating of adjacent raw tank, and yard piping.
- **Leo Carrillo State Park Septic System Replacement, Malibu, CA.** Managed the design for the replacement of existing septic system.
- **Gaviota State Park Water and Sewer System Assessment, Gaviota, CA.** Manage the study of the water and sewer system at Gaviota State Park. Assessment includes SCADA feasibility, potable storage tank requirements, pipeline evaluation, and utility location.
- **Cuyamaca Rancho State Park Equestrian Facility, Descanso, CA.** Manage the design of a proposed Equestrian Campground Facility for CA State Parks from Pre-Design to 50%. Design included hydrologic and water quality study for the proposed development.
- **Mt. San Jacinto College Channel Analysis, Perris, CA.** Managed, reviewed, and analyzed the proposed storm water discharge quantities of adjacent development into the channel owned by the college.
- **NASNI High Pressure Fire Main Study, San Diego, CA.** Manage the study of the NASNI's High Pressure Fire Main system. Study includes AC pipe leak detection and thickness testing, flow testing, static pressure testing, as-built research, and pipeline locations.



**Elmer Alex, PE**  
**Senior Staff Engineer**

- **Boardwalk Area Storm Drain Improvements, San Marcos, CA.** Managed and prepared the civil design for the construction of approximately 3,000 LF of horizontal reinforced concrete elliptical storm drain pipe. Design included a hydrology study in accordance with the County of San Diego Hydrology Manual.
- **980-3 15 MG Reservoir, Otay Water District, Chula Vista, CA.** Managed and prepared the civil design for this new 15 MG Pre-Stressed Concrete Reservoir. Design included site development, 70,000 cubic yards of cut and fill, and yard piping.
- **20-inch Lane Ave, Pipeline Conversion, Otay Water District, Chula Vista, CA.** Prepared feasibility study on the conversion of 5,000 linear feet of potable water main to a recycled water main.
- **Catalina Trunk Sewer Phase II, City of San Diego, CA.** Project engineer during the construction and rehabilitation of over 5,000 linear feet of sewer main. Re-designed lateral rehabilitation during construction in an effort to save approximately \$250,000 in construction and environmental remediation costs. Project was awarded the *San Diego and Imperial County APWA 2002 Project of the Year Award*.
- **Abandonment Study of Russell Square & Hidden Mtn. Sewer Lift Stations, Otay Water District, El Cajon, CA.** Prepared feasibility study and cost analysis on possible abandonment alternatives for each sewer lift station.
- **1485-1 Pump Station Replacement, Otay Water District, Jamul, CA.** Prepared rehabilitation/replacement feasibility study. Managed and performed the civil design for this 1,500 gallon per minute potable water pump station.
- **Calavo Sewer Lift Station, Otay Water District, El Cajon, CA.** Prepared rehabilitation/replacement feasibility study. Managed and prepared the civil design for this 450 gallon per minute package sewer lift station.
- **R/O Building Demolition (Design/Build), Otay Water District, Rancho San Diego, CA.** Project manager responsible for the preparation of specifications, preliminary plans, and cost estimate for the design/build of a new 3,000 square foot office building.
- **City of San Diego, Wastewater Collection Division, San Diego, CA.** Project manager for various emergency sewer repair/replacement projects, interim erosion control projects, Buried Manhole Location project, and the Manhole Lid Upgrades project. Reviewed CCTV inspection of sewer mains and developed recommendations for future capital improvement projects. Reviewed, analyzed, and solved sewer pipeline operational and maintenance problems.
- **Sewer Pump Station 19 Replacement, City of San Diego, CA.** Project engineer for the consultant design of this 265 gpm, coastal sewer pump station. Pump station featured coastal stairway access, view deck, and other public amenities. Project required extensive meetings and input from the public, community planning associations, and the California Coastal Commission. Project was awarded the *San Diego and Imperial County APWA 2006 Project of the Year Award*.
- **Sewer Pump Station 18 Rehabilitation, City of San Diego, CA.** Project engineer for the consultant design of this 300 gpm, coastal sewer pump station. Pump station featured coastal stairway access and architectural improvements. Project required extensive meetings and input from the public, community planning associations, and the California Coastal Commission.
- **Fairmount Avenue Trunk Sewer – Accelerated, San Diego, CA.** Project engineer on the re-direction of approximately 1,500 linear feet of sewer main from a sensitive





**Elmer Alex, PE**  
**Senior Staff Engineer**

canyon habitat to the right-of-way. Project design completed in less than one year.

- **North Harbor Drive Accelerated Sewer Main Rehabilitation, San Diego, CA.** Project engineer on the in-situ rehabilitation of approximately 1,000 linear feet of sewer main within Port of San Diego boundaries. Project design completed in less than one year.
- **City of San Diego Water & Sewer Group Jobs, City of San Diego.** Resident engineer on several Group Jobs projects which included over 50,000 linear feet of water sewer mains in various areas of the city.
- **Ft Irwin Heavy Vehicle Washrack Recycling System Rehabilitation (Design/Build), Ft. Irwin, CA.** Project engineer on the design/build rehabilitation of several heavy vehicle washrack wastewater recycling systems. Designed solids removal systems, settling tanks, ozone contact chambers, and storage tank. Provided cost control and sub-contractor management during construction. Also prepared and developed O&M manual for each recycling system.
- **Naval Training Center - Steam Tunnel Clean up, San Diego, CA.** Project manager and project engineer on the sludge clean-up in the steam tunnels underneath Naval Training Center – San Diego. Responsibilities included profiling of waste and locating a legal disposal site.
- **Auto Hobby Shop, Wastewater Pre-treatment (Design/Build), MCRD, San Diego, CA.** Managed, designed, and construction managed this project that provided solutions to minimize the oil and solids being discharged to the sanitary sewer system.
- **Escondido Gas Station underground tank storage (UST) replacement project, Escondido, CA.** Project engineer on the removal and replacement of three underground steel storage tanks at a gas station in Escondido, CA. Responsibilities included profiling the spoils, locating a legal disposal site, scheduling heavy equipment, and obtaining permits.

**Proposed Responsibility**  
Senior Project Engineer**Education**

M.S./1981/Mechanical/  
University of California,  
Berkeley  
B.A./1979/Physics/  
University of California,  
Santa Cruz

**Professional Registration**  
Mechanical/CA/#M23037,  
FL**Memberships**

AWWA  
WEF  
ACWA  
CASA

**Publications**

Lindow, D.J., Tucker, M.  
and Smelser, R.,  
"Renewal of Recycled  
Water in Southern Santa  
Clara County", presented  
at the WaterReuse  
Association of  
California, Symposium  
XII (October 1997)

Lindow, D.J. and  
Rosenblum, E., "From  
the Endangered Species  
Act to the Customer's  
Front Yard: South Bay  
Recycling's Innovative  
Assistance Plan",  
presented at the  
WaterReuse Association  
of California Symposium  
XII (October 1997)

**Experience**

Mr. Lindow has over 25 years of technical experience with an emphasis in the planning, design and construction management of municipal infrastructure. Experience includes preliminary design through final design, securing project funding, interagency coordination, permitting, resident engineering and start-up services. Many of his projects included CEQA/NEPA documentation elements. He is a member of several national, state and local professional organizations. Mr. Lindow's experience and capabilities are illustrated by the project work discussed below.

Recent experience includes:

- **Luther Pass Pump Station Evaluation, South Tahoe Public Utility District.** Mr. Lindow is the Project Manager for evaluation of each pump station component including the site, structures, and mechanical/electrical/instrumentation systems. The 40-year old pump station is critical to the District's 26-mile wastewater disposal system. At the heart of the pump station are four multiple stage horizontal split-case centrifugal pumps with a total connected horsepower of 3,400 hp. It's probably the most important pump station in the Lake Tahoe Basin, moving 8 mgd of effluent completely out of the watershed with discharge pressures approaching 600 psi.
- **Final and Secondary Effluent Pump Stations, South Tahoe Public Utility District.** Mr. Lindow is the Project Manager for the detailed design and CEQA documentation of the new 8 mgd final effluent pump station, electrical building and 350 kw emergency generator located at the District's WWTP, which is 6-miles upstream of the Luther Pass Pump Station. This project also includes a new 8 mgd secondary effluent pump station which is a low-head facility that lifts the wastewater from the secondary clarifiers and feeds the mixed-media pressure filters prior to final conveyance out of the watershed.
- **California Department of Corrections and Rehabilitation, Environmental Planning Services, California – Statewide.** Mr. Lindow is the Project Director for this large statewide on-call services contract. The contract involves the full range of environmental planning services for new prison construction and expansion of existing adult and juvenile correctional facilities with the State system. This work is primarily comprised of CEQA analysis and document preparation – including environmental impact reports (EIRs) and mitigated negative declarations (MNDs) – and a variety of resource permit applications, as needed. Current projects include CEQA compliance for the State's Emergency Bed program and mental health facility program expansion at the Salinas Valley State Prison (EIR), Pelican Bay State Prison (MND), and Centinela State Prison (MND).
- **Environmental Site Assessments, El Dorado Irrigation District, Placerville, CA.** As Contract Manager, Mr. Lindow is responsible for the budget, schedule and quality control of deliverables for the Phase I & Phase II environmental assessments needed for active District infrastructure projects.
- **California State University, Sacramento Bikeway Project.** As Project Manager, Mr. Lindow is responsible for the engineering and construction management of the new bikeway system that includes both on-street and off-street facilities spread across the 282 acre campus. The existing 3.2 miles of bikeway system will roughly be doubled at project completion. The focus of the new infrastructure is to complete the perimeter bikeways around campus and provide some cross-campus connections between the Guy West Bridge and Hornet Crossing. Mr. Lindow assisted with Caltrans funding issues and Caltrans approval of both the construction documents and cost estimates.

***Publications (Continued)***

Lindow, D.J., and Newby J., "Value Engineering and Marketing Redirect the South Bay Water Recycling Program", presented at the EWPCA/WEF Beneficial Reuse of Water and Biosolids Conference (April 1997)

Lindow, D.J., "Developing a Recycled Water Customer Cost - Benefit Analysis", presented at the WaterReuse Association of California Customer Service Workshop (October 1996)

Lindow, D.J., and Newby J., "Getting the Job Done: A Resource Partnership on the South Bay Water Recycling Program", presented at the AWWA/WEF Water Reuse 96 Conference (February 1996)

Lindow, D.J., and Rice, G.A., "Hydraulically Driven Reciprocating Piston Pumps for Sludge Cake Transport", presented at the 59th California WPCA Conference (April 1987)

- **City of Santa Rosa, CA.** Mr. Lindow was the Principle-in-Charge and technical reviewer for several sewer replacement design/construction projects for the City.
- **State Library and Courts Building Historical Renovation, Sacramento, CA.** As Project Manager, Mr. Lindow is responsible for the engineering and construction management for the civil improvements, utility tie-ins and survey portion of the \$34 million renovation of the State Library and Courts Building, a historical structure, located adjacent to the State Capitol.
- **University of California, Davis South Entry District Utilities Project.** As Project Manager, Mr. Lindow is responsible for the engineering and construction management of this \$12.9 million roadways and utilities expansion to support campus development of a new hotel and conference center adjacent to the new Mondavi Center. The project consists of an extension of the campus 12 KV power supply and underground pipelines for chilled water supply/return mains, steam, condensate, natural gas, utility water, potable water, sanitary sewers, and storm drains. A new sewer lift station and emergency generator are included. An extension of Old Davis Road with the associated street lighting and landscaping are also included.
- **South County Regional Wastewater Authority, Gilroy, CA.** Over a period of seven years as Principle-in-Charge, Mr. Lindow was responsible for all technical and CEQA/NEPA work at the 7.5 mgd wastewater treatment plant and percolation ponds. The Authority was provided with permitting and regulatory assistance for the Central Coast Regional Water Quality Control Board, which includes the permit application for tertiary discharge, or stream flow augmentation of the Pajaro River. Other work included an annual Operations Plan and Hydrologic Balance, an Effluent Total Dissolved Solids (TDS) Investigation, a Groundwater Nitrate Investigation, and other operations-related studies. Design and construction of 85 acres of new percolation ponds was also completed under Mr. Lindow's technical direction. In addition, general assistance was provided to the Gilroy Food Processor Wastewater Facility, a local tomato-processing cannery.
- **Pajaro Valley Water Management Agency Harkins Slough Project, Watsonville, CA.** As Project Manager, Mr. Lindow was responsible for the engineering and construction of this component of the Agency's Local Water Supply Project. This multi-phase project was a \$36 million connected development of three identified local supply sources which includes local water supplies from College Lake, Harkins Slough, and the Pajaro River at Murphy Crossing with pipelines connecting the three to an irrigation distribution system near the coast. The Harkins Slough project includes pumping and filtration facilities at the edge of Harkins Slough, 5 miles of pipeline (from 36-inch to 6-inch diameter), a 13-acre groundwater recharge basin, a 2,000 gpm supplemental well, plus monitoring and recovery wells around the recharge area.

**Margaret Witt, PE**  
**Senior Project Engineer**

***Proposed Responsibility***  
Senior Project Engineer

***Education***  
2000/B.S./Agricultural  
Engineering, University  
of Georgia

***Professional Registration***  
CA/Civil/C 70412

**Experience**

Ms. Witt has experience in water and wastewater development projects including both planning and design. Her previous experience as an environmental engineer included conducting Environmental Phase I, II, III, and Subsurface Investigative Reports. This background has assisted in environmental report writing for the water and wastewater development projects including the current Sewer and Water Group Jobs contract. Her project experience in both the environmental and civil engineering field has exposed her to all phases of project planning and design.

**Relevant projects include:**

- **San Quentin State Prison, San Rafael, CA.** Project engineer for a new 1,000 bed Condemned Inmate Complex adjacent to the existing San Quentin State Prison. The complex will be located on approximately 20 to 25 acres at Dairy Hill. Grading of the site will require the movement of approximately 180,000 cubic yards of soil. This new facility will include two housing units and is anticipated to house the condemned inmates for the near future. An additional third housing unit may be required at a later date to accommodate additional inmates. The work will include a correctional treatment center, security fencing and perimeter road, possible modifications to the west and east gates, two 180 unit housing facilities, operations/administration building, facility services for health, legal, and library, demolition and hazmat, and upgrade of existing on-site wet and dry utilities. *Winzler & Kelly*
- **CDCR, A/E Services – Statewide.** Ms. Witt is the Civil Engineer for this statewide on-call services contract. Projects include a new boiler for the California Correctional Institution (Tehachapi), several civil and reproofing designs at the Stockton CYA and new Small Management Yards at four separate facilities, i.e., R.J. Donovan Correctional Facility (San Diego), Mule Creek State Prison (Ione), CSP Solano (Vacaville) and Wasco State Prison. *Winzler & Kelly*
- **Twentynine Palms Wastewater Master Plan, SWDIV, CA.** This project examined the possibility of separate or joint-use wastewater treatment facilities for the City of Twentynine Palms, California and the Marine Corps Air Ground Combat Center at Twentynine Palms. Preliminary design of a City collection system, assessments of current and future conditions and capabilities of treatment methods at both locations, cost analysis of all options, and acceptance by all parties determined that the facilities maintain separate systems. *Winzler & Kelly*
- **Parking Apron Repairs and Improvement, Camp Pendleton, CA.** Staff engineer assisting with the design and repairs including resurface and repairing of cracks, joint spalling and scaling on the existing parking apron and taxiway. Improvements included widening of the existing taxiway PAPA, between taxiways ALPHA and DELTA by replacing the asphalt with portland cement. *Winzler & Kelly*
- **Combat Aircraft Loading Apron (CALA) MCAS, Yuma, AZ.** Staff engineer assisting with the field investigations and reviewing information provided by the United States Marine Corps in regards to concrete cracking during construction of Taxiway “R” on the Combat Aircraft Loading Apron. *Winzler & Kelly*
- **Otay II Pipeline - Alta View Replacement, San Diego, CA.** Project engineer for the demolition of an existing pump station and replacement of that pump station with a new higher capacity facility delivering up to 7,500 gpm of potable water. The new station has an improved control and SCADA system. Approximately 1000 linear feet of 12-inch distribution pipeline will be constructed and approximately 800 feet of 48-inch pipeline will be placed to realign a segment of the transmission line. *Winzler & Kelly*



# Item 8a

## Proposed contract for MWDOC Governance Alternatives Study



**CHAIR**  
**JOHN WITHERS**  
Director  
Irvine Ranch Water District

**VICE CHAIR**  
**SUSAN WILSON**  
Representative of  
General Public

**ROBERT BOUER**  
Councilmember  
City of Laguna Woods

**BILL CAMPBELL**  
Supervisor  
3<sup>rd</sup> District

**PETER HERZOG**  
Councilmember  
City of Lake Forest

**JOHN MOORLACH**  
Supervisor  
2<sup>nd</sup> District

**ARLENE SCHAFFER**  
Director  
Costa Mesa  
Sanitary District

**ALTERNATE**  
**PAT BATES**  
Supervisor  
5<sup>th</sup> District

**ALTERNATE**  
**PATSY MARSHALL**  
Councilmember  
City of Buena Park

**ALTERNATE**  
**RHONDA MCCUNE**  
Representative of  
General Public

**ALTERNATE**  
**CHARLEY WILSON**  
Director  
Santa Margarita  
Water District

**JOYCE CROSTHWAITE**  
Executive Officer

May 14, 2008

**TO:** Local Agency Formation Commission

**FROM:** Executive Officer

**SUBJECT:** Proposed Award of Consultant Contract for Study of the  
Municipal Water District of Orange County (MWDOC)  
Governance Alternatives

At your meeting of February 13, 2008, the Commission authorized the Executive Officer to distribute a Request for Proposals (RFP) for selection of a consultant to study governance options for MWDOC. Staff posted the RFP on both the Orange County LAFCO and CALFCO websites and distributed the RFP to a list of approximately 25 consultants.

LAFCO staff and our project management consultant also made phone calls to potential consultants and responded to all inquiries during the six weeks that the RFP was open. At the close of the proposal period, April 4, 2008, two formal proposals (Winzler and Kelly and The Davis Company) and one letter of interest were received. These responses were distributed to MWDOC and all its member agencies for review and comment. Comments from 11 agencies were received and considered in the evaluation process.

Summarizing the written evaluations and verbal comments, the main concern from MWDOC member agencies was that the RFP should have been more widely distributed and that more than two firms should be interviewed. Several apparently qualified consultants did contact staff during the RFP submittal period but chose to not submit a proposal. Reasons for not responding included that the firm was very busy, that the study process was complex, that their firm might have conflicts of interest and/or that they did not want to do work that could impact their present or future clients.

Because both firms responding were deemed qualified and to adhere to the schedule approved by this Commission, LAFCO staff decided to continue with the interviews. The two consultants that submitted formal proposals were interviewed on April 22, 2008 by a panel consisting of Kevin Hunt (MWDOC), Howard Johnson (City of Huntington Beach), John Schatz (Santa Margarita WD), Harry Ehrlich (LAFCO consultant) and Joyce Crosthwaite (Executive Officer).

Prior to the interviews, LAFCO staff received a letter (Attachment A) from MWDOC on April 21, 2008 objecting to the firm of Winzler and Kelly because of "...the potential for bias and the appearance of bias..." The concern raised by MWDOC was that two of the Winzler and Kelly team members were city council members in the Cities of Rancho Santa Margarita and Aliso Viejo.

The MWDOC letter recommended that LAFCO re-advertise the RFP. Based on comments received during the original six weeks of distributing the RFP, both LAFCO staff and its consultant have a low level of confidence that re-advertising the RFP would result in more qualified proposals. Additionally re-advertising would add approximately three (3) more months to the RFP and study process.

As a result of the interviews, the five-member panel decided that both firms were generally qualified to prepare the study. The Winzler and Kelly team had strong skills in legal, financial and governmental structure analysis. The Davis Company had strong financial analysis skills. The interview panel split on their recommendations with three members rating the Winzler and Kelly team higher and two members rating The Davis Company higher.

LAFCO staff believes that the Winzler and Kelly firm would be the best qualified to conduct the study. However the MWDOC municipal services review (MSR), sphere of influence (SOI) and now the governance study has been marked by mistrust, personal attacks and allegations of bias. To LAFCO staff it seems that selecting Winzler and Kelly would further exacerbate the tensions and mistrust among the MWDOC members. However the purpose of the governance study is to provide the best possible data to agencies so that each agency can make a fully informed decision regarding existing or possible alternative governance structures.

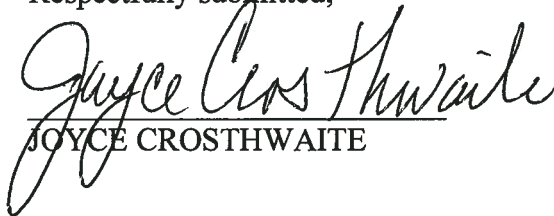
Therefore LAFCO staff is recommending splitting the contract and using Winzler and Kelly for both governmental structure options and legal analysis and The Davis Company for its financial analysis. LAFCO staff and its consultant, Harry Ehrlich, will manage the study including the stakeholder process. The two city council members from South Orange County on the Winzler and Kelly team would not participated in the study.

The Commission also directed staff to return with a source of funding for the study. The six South Orange County agencies (El Toro Water District, Irvine Ranch Water District, Moulton Niguel Water District, Santa Margarita Water District, South Coast Water District and the Trabuco Canyon Water District) have sent LAFCO a letter (Attachment B) agreeing to fund the study.

## RECOMMENDATIONS

1. As a result of the evaluation process, it is recommended that the Commission authorize the Executive Officer to negotiate with the firms of Winzler and Kelly and The Davis Company to complete the legal analysis and financial analysis, respectively, and to return to the Commission at the July 9, 2008 meeting for final approval of the contracts.
2. It is also recommended that the Commission accept the offer of the six agencies in South County to deposit the funds for the study prior to the Executive Officer signing the consultant services contracts.

Respectfully submitted,



JOYCE CROSTHWAITE

Attachment A –April 22, 2008 letter from MWDOC

Attachment B - Letter from Water Agencies Agreeing to Fund Study



April 22, 2008

*Street Address:*  
18700 Ward Street  
Fountain Valley, California 92708

*Mailing Address:*  
P.O. Box 20895  
Fountain Valley, CA 92728-0895

(714) 963-3058  
Fax: (714) 964-9389  
www.mwdoc.com

Wayne A. Clark  
*President*

Joan C. Finnegan  
*Vice President*

Ergun Bakall  
*Director*

Brett R. Barbre  
*Director*

Larry D. Dick  
*Director*

Susan Hinman  
*Director*

Ed Royce, Sr.  
*Director*

Kevin P. Hunt, P.E.  
*General Manager*

#### MEMBER AGENCIES

City of Brea  
City of Buena Park  
East Orange County Water District  
El Toro Water District  
Emerald Bay Service District  
City of Fountain Valley  
City of Garden Grove  
Golden State Water Co.  
City of Huntington Beach  
Irvine Ranch Water District  
Laguna Beach County Water District  
City of La Habra  
City of La Palma  
Mesa Consolidated Water District  
Moulton Niguel Water District  
City of Newport Beach  
City of Orange  
Orange County Water District  
Orange Park Acres Mutual Water Co.  
City of San Clemente  
City of San Juan Capistrano  
Santa Margarita Water District  
City of Seal Beach  
Serrano Water District  
South Coast Water District  
Trabuco Canyon Water District  
City of Tustin  
City of Westminster  
Yorba Linda Water District

Joyce Crosthwaite  
LAFCO Executive Director  
Orange County Local Agency Formation Commission  
12 Civic Center, Room 235  
Santa Ana, CA 92701

Dear Ms. Crosthwaite:

Subject: LAFCO RFP for MWDOC Governance Study

Recently, OCLAFCO issued a request for proposals for qualified consultants to prepare a "Governance Study" for OCLAFCO concerning the Municipal Water District of Orange County. Our understanding is that OCLAFCO advertised the RFP exclusively in the State LAFCO newsletter. In response to the RFP, OCLAFCO received proposals from two consultants and a letter from a third consultant declining the RFP based a lack of expertise in water-related issues but indicating an interest in otherwise assisting OCLAFCO if needed. We appreciate this opportunity to provide input on the RFP responses received by OCLAFCO, and we ask for your careful consideration of the following important issues. These issues involve potential bias and the appearance of bias which our special LAFCO legal counsel, Nancy C. Miller of the Sacramento firm of Miller, Owen & Trost advises us are inappropriate and should disqualify the consultant.

OCLAFCO received proposals from the Davis Group and from Winzler & Kelly. After reviewing the proposal from Winzler & Kelly, we are concerned by the fact that several members of the consultant team proposed by Winzler & Kelly hold positions that would establish a bias, or the appearance of a bias, if Winzler & Kelly is selected to perform the Governance Study. Winzler & Kelly's proposed Project Manager and Governance expert, Mr. Gary Thompson, is currently serving as a council member of the City of Rancho Santa Margarita. In addition, Mr. Thompson is a member of the Santa Margarita Water District Citizen Advisory Council, a consumer advisory group sponsored by the Santa Margarita Water District's Board of Directors. Mr. Thompson clearly has strong ties to the Santa Margarita Water District, which was a key proponent of the Governance Study. We are concerned that these strong ties will inevitably prevent Mr. Thompson from serving as a truly unbiased, disinterested Project Manager for the Governance Study, even though he may proceed with the best intentions and the highest degree of professionalism. And even if he is able to reconcile his many connections to the Rancho Santa Margarita Water District with duties as Project Manager under the contract he seeks with OCLAFCO, there would be no way to avoid the appearance of bias and conflicting interests.

Ms. Joyce Crosthwaite  
Page 2  
April 22, 2008

Similarly, Winzler & Kelly proposes to use Dr. Carmen Cave as its Senior Planning Advisor for the Governance Study. Dr. Cave currently serves as a City Council member for the City of Aliso Viejo. As you know, much of Aliso Viejo is served by the Moulton Niguel Water District, which neighbors the Santa Margarita Water District in south Orange County. Again, our concern is that Dr. Cave will have interests as a City Council member that may prevent her from being neutral in the performance of the Governance Study. Again it is not just the possibility of bias, but the certainty of the appearance of bias, that concerns us. The resume for proposed project manager for this study, George Wentz, indicates he worked for the City of Rancho Santa Margarita as Assistant City Manager for five years. This again is indicative of very strong ties in this area of the county. We have the utmost respect for each of these individuals, but we are concerned about the potential conflicts that will undermine the Governance Study if Winzler & Kelly is selected.

Furthermore, Winzler & Kelly's proposal states that their proposed legal consultant for the Governance Study, Jim Markman of Richards, Watson & Gershon, also serves as counsel to Trabuco Canyon Water District – another proponent of the Governance Study. While Mr. Markman has a sound reputation, this once again raises the question of whether the study would be performed in an unbiased and objective manner, and once again we must conclude that irrespective of whether there is actual bias on the part of Mr. Markman, the appearance of bias is inevitable.

We are informed by our special legal counsel Nancy C. Miller that the law prohibits local government officials from engaging in activities that are incompatible with their duties as local officials. As city council members, both Dr. Cave and Mr. Thompson are expected to represent their respective city's interests. If Winzler & Kelly is selected to perform the Governance Study, however, both Dr. Cave and Mr. Thompson would be required by OCLAFCO to consider what is best for the entire region, not just their cities. We will be forwarding attorney Miller's legal analysis on these issues for your consideration in the near future.

In light of these potential conflicts and the potential for bias and the appearance of bias within the team proposed by Winzler & Kelly, we request that Winzler & Kelly not be selected to perform the Governance Study. This would leave only a single proposal by the Davis Group for consideration by OCLAFCO.

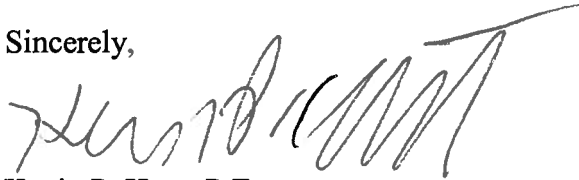
Ms. Joyce Crosthwaite

Page 3

April 22, 2008

Given the significance of this effort to the many agencies and residents served by MWDOC in Orange County, the limited advertisement of the original RFP, and the relatively few responses received, we respectfully request that OCLAFCO re-advertise the RFP more widely and obtain other proposals from qualified consultants for review prior to proceeding with the consultant selection effort. OCLAFCO should take care not to include consultants with significant ties to governmental interests within the County, as the Governance Study touches on matters of representation and financial equity that will inevitably give rise to questions of bias if parties serving local Orange County interests are proposed as technical experts for OCLAFCO.

Sincerely,

A handwritten signature in black ink, appearing to read "Kevin P. Hunt", with a long horizontal line extending from the end of the signature.

Kevin P. Hunt, P.E.  
General Manager

April 29, 2008



**Joyce Crosthwaite**  
**Executive Officer**  
**Orange County Local Agency Formation Commission**  
**12 Civic Center Plaza, Room 235**  
**Santa Ana, Ca. 92701**



**VIA E-MAIL**

**RE: SOUTH COUNTY GOVERNANCE AND  
SERVICE ALTERNATIVES STUDY**

Dear Joyce,



Subject to the following conditions, the undersigned South County special district water agencies agree with the approach of using both Winzler & Kelly and The Davis Company to perform specified parts of the above-captioned study. We understand LAFCO staff and Harry Ehrlich will then assemble the respective work products from the consultant teams for purposes of drawing conclusions and making appropriate recommendations.



South County's support for this approach is conditional upon:

1. The workplan and components of the study, to include areas of responsibility as between the two consulting teams and LAFCO, being detailed and made available for review and comment by MWDOC and the South County agencies prior to finalization.
2. The budget for the study not exceeding \$100,000.
3. The Boards of Directors of the South County agencies approving the expenditure for their respective shares of the study cost.



The South County agencies appreciate the opportunity to offer comments concerning the study protocol and process in the interest of accommodating the points raised in MWDOC's April 24th letter to you. We are hopeful this will resolve those points. In the event new issues are raised by MWDOC or others in connection with the dual-team approach, we strongly urge LAFCO to abandon the dual-team approach and exercise its full discretion in selecting one of the two consultants that responded for purposes of performing all of the work consistent with the original intent and approach.

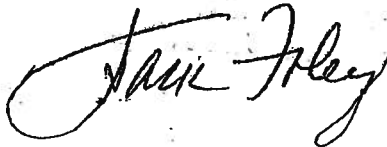




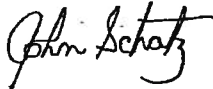
Joyce Crosthwaite  
Executive Officer  
April 29, 2008  
Page Two

If you have questions or desire clarification regarding South County's position in this regard, please contact the undersigned. We look forward to seeing the workplan and components of the study when it is available and will promptly respond with any comments or suggestions.

Sincerely,



Jack Foley, General Manager  
Moulton Niguel Water District



John Schatz, General Manager/Counsel  
Santa Margarita Water District



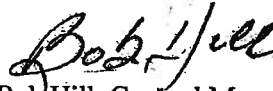
Mike Dunbar, General Manager  
South Coast Water District



Don Chadd, General Manager  
Trabuco Canyon Water District



Paul Jones, General Manager  
Irvine Ranch Water District



Bob Hill, General Manager  
El Toro Water District

# Item 4a

## Approval of

### May 14, 2008

### Minutes



**DRAFT MINUTES**

**LAFCO REGULAR MEETING**  
**Wednesday, May 14<sup>th</sup>, 2008, 9:00 a.m.**  
**Planning Commission Hearing Room, Hall of Administration**  
**10 Civic Center Plaza**  
**Santa Ana, CA**

**1. CALL TO ORDER**

**Vice Chair Withers** called the regular meeting of the Local Agency Formation Commission (LAFCO) to order at 9:02 a.m.

**2. PLEDGE OF ALLEGIANCE**

**Commissioner Charley Wilson** led the pledge of allegiance.

**3. ROLL CALL**

The following Commissioners and alternates were present:

- **Chair Withers**
- **Vice Chair Susan Wilson**
- **Commissioner Robert Bouer**
- **Commissioner Bill Campbell**
- **Commissioner John Moorlach**
- **Commissioner Arlene Schafer**
- **Alternate Commissioner Pat Bates**
- **Alternate Commissioner Rhonda McCune**
- **Alternate Commissioner Charley Wilson**

The following Commissioners were absent at roll call:

- **Commissioner Peter Herzog**
- **Alternate Commissioner Patsy Marshall**
- 

The following LAFCO staff members were present:

- **Legal Counsel Scott Smith**
- **Executive Officer Joyce Crosthwaite**
- **Assistant Executive Officer Bob Aldrich**
- **Senior Project Manager Carolyn Emery**
- **Commission Clerk Esther Garcia-Negrete**
- **Policy Analyst Benjamin Legbandt**
- **Student Intern Joe Serrano**

#### **4. APPROVAL OF MINUTES**

##### **April 9, 2008 – Regular Commission Meeting Minutes**

**Chair Withers** called for any changes and approval of the April meeting minutes. There were none.

**MOTION:** Approve April 9, 2008 meeting minutes without revision  
(Arlene Schafer)  
**SECOND:** John Moorlach  
**FOR:** Bob Bouer, Bill Campbell, John Moorlach, Arlene Schafer,  
Vice Chair Susan Wilson, and Chair John Withers  
**AGAINST:** None  
**ABSTAIN:** None  
**MOTION PASSED**

#### **5. PUBLIC COMMENT**

**Chair Withers** requested public comments on any non-agenda item. There were none.

Executive Officer Joyce Crosthwaite introduced Frank Wen, Program Manager from Southern California Association of Governments (SCAG). She noted that representatives from the southern California LAFCOs recently met with SCAG staff to discuss mutual issues of interest and to look for opportunities to build closer working relationships.

Frank Wen, Program Manager of Forecasting & Policy Analysis, SCAG, highlighted the importance of the meeting with the various LAFCOs and noted the importance of collaboration between the agencies.

#### **6. CONSENT CALENDAR**

##### **6a. - Quarterly Legislative Report**

**MOTION:** Receive and file the May 2008 Quarterly Legislative Report.  
(Bill Campbell)  
**SECOND:** Susan Wilson  
**FOR:** Bob Bouer, Bill Campbell, John Moorlach, Arlene Schafer,  
Vice Chair Susan Wilson, and Chair John Withers  
**AGAINST:** None  
**ABSTAIN:** None  
**MOTION PASSED**

## **7. PUBLIC HEARING**

### **7a. - Orange County Water District (OCWD) Sphere of Influence Review and Update (SOI 06-07)**

Executive Officer Joyce Crosthwaite summarized the issues regarding the proposed sphere of influence update for the Orange County Water District. She noted that sphere adjustments have been made to more closely align with the County's natural watersheds. She noted that John Kennedy from OCWD was available for questions.

**Chair Withers** asked for Commissioner comments.

**Commissioner Campbell** requested clarification as to why the district's boundaries extend into the ocean. Executive Officer Crosthwaite responded that the district's territory extends into the Pacific Ocean and that the sphere was proposed to be coterminous.

**Chair Withers** opened the public hearing.

John Kennedy, Assistant General Manager, Orange County Water District, in further responding to Commissioner Campbell's question, indicated that the district may locate future facilities along the coast.

**Chair Withers** closed the public hearing.

<b>MOTION:</b>	<b>Approve the proposed Orange County Water District Sphere of Influence Review and Update (SOI 06-20). (Bill Campbell)</b>
<b>SECOND:</b>	<b>Arlene Schafer</b>
<b>FOR:</b>	<b>Bob Bouer, Bill Campbell, John Moorlach, Arlene Schafer, Vice Chair Susan Wilson, and Chair John Withers</b>
<b>AGAINST:</b>	<b>None</b>
<b>ABSTAIN:</b>	<b>None</b>
<b>MOTION PASSED</b>	

### **7b. - Adoption of Final LAFCO Budget for Fiscal Year 2008-2009**

Senior Project Manager Carolyn Emery summarized the LAFCO operating budget for fiscal year 2008-2009. She noted that staff distributed the proposed budget to the funding agencies and did receive positive comments from agencies expressing appreciation and support for the reduction of the funding allocations. She recommended that the Commission adopt the final budget for fiscal year 2008-2009.

**Commissioner Schafer** observed that the budget was a positive outcome for everyone involved.

**MOTION:** Adopt the Final LAFCO operating budget for Fiscal Year 2008-2009. (Arlene Schafer)  
**SECOND:** Bill Campbell  
**FOR:** Bob Bouer, Bill Campbell, John Moorlach, Arlene Schafer, Vice Chair Susan Wilson, and Chair John Withers  
**AGAINST:** None  
**ABSTAIN:** None  
**MOTION PASSED**

## **8. COMMISSION DISCUSSION AND ACTION**

### **8a. Proposed Municipal Water District of Orange County (MWDOC) Governance Alternatives Study**

Executive Officer Crosthwaite reviewed the process that led to the proposed MWDOC governance alternatives study. She summarized the request for proposal process undertaken to select a consulting firm to perform the study and reported the results of the selection process.

**Chair Withers** asked for Commissioner comments.

**Commissioner Moorlach** inquired about the process following the Executive Officer's contract negotiations. Executive Officer Crosthwaite replied that the contracts will come back before the Commission for final review and approval at the June meeting. She noted that all contracts over \$10,000 require Commission approval.

**Commissioner McCune** expressed appreciation for Executive Officer Crosthwaite's efforts but inquired about the efficiency and effectiveness of dividing the contract between two firms. Executive Officer Crosthwaite replied that by dividing the contract it should eliminate the perception of bias, but she noted that the Winzler & Kelly firm has more direct Orange County experience.

**Vice Chair Wilson** inquired about the size of the Winzler and Kelly organization. Executive Officer Crosthwaite commented that the firm has various offices throughout southern California.

Executive Officer Crosthwaite reminded the Commission that the letters previously emailed to them were also available in their folders.

**Chair Withers** opened the public hearing.

Bob Hill, General Manager, El Toro Water District (ETWD), expressed the support of the ETWD Board of Directors for going forward with the study and noted that their concerns focus on whether the current MWDOC governance model adequately and fairly represents the interest of multiple agencies

Kevin Hunt, General Manager, Municipal Water District of Orange County (MWDOC), expressed concerns with the governance alternatives study. He noted the MWDOC Board of Directors' efforts to change the way it does business by making the District's budget more transparent and soliciting more input from the member agencies. Mr. Hunt also stated that MWDOC has agreed to share part of the lobbying costs when lobbying efforts benefit fewer than five agencies. He requested that the Commission not proceed with the study and allow MWDOC staff to continue to work with its member agencies to resolve any outstanding issues.

**Commissioner Moorlach** asked Mr. Hunt whether MWDOC was willing to participate in the funding of the study. Mr. Hunt replied that the district is willing to contribute but was never asked to participate in the study's funding.

**Commissioner Campbell** asked Mr. Hunt whether he was speaking on behalf of his Board of Directors or his personal position. Mr. Hunt replied he was speaking on behalf of his Board of Directors.

Howard Johnson, Utility Manager, City of Huntington Beach related his experiences as a member of the interview panel evaluating the consulting firms to prepare the MWDOC governance study. He stated that he found the panel to be very fair and that the interview questions were challenging and direct. He further noted that it was disappointing to have only two consulting firms apply. He expressed his concern for future water supply issues and believed that water supply should be the focus for water agencies. He requested the Commission postpone the study until after MWDOC's next municipal services review.

Betty H. Olson, Board Member, Santa Margarita Water District, expressed her support for the governance alternatives study. She noted that some of the concerns that merit the study, including the rates not being representative of all the member agencies and the large amount of MWDOC financial reserves.

Michael Payne, General Manager, Yorba Linda Water District, thanked the Commission for allowing them to participate in the stakeholder process but expressed his desire for the Commission to postpone the governance study until after the next MWDOC municipal service review process.

Lee Pearl, General Manager, Mesa Consolidated Water District, noted that it is a controversial study but believes that the Commission should ensure the process is objective. He additionally noted that he didn't believe the South County water agencies should shoulder the total cost and that MWDOC should contribute to the funding of the study. Additionally,

he noted that he previously requested that a request for qualifications be sent prior to the request for proposal and he would once again urge the Commission to consider undertaking this effort.

Mike Safranski, Director, Trabuco Canyon Water District (TCWD), stated that TCWD supports the study moving forward. He concluded by stating that it is very important that their constituents know that they are providing services in the most cost effective manner.

John Schatz, General Manager, Santa Margarita Water District, stated he was a member of the interview panel for selection of a consultant to conduct the study. He added that he supports the study which he noted would be credible and unbiased. He added that he was surprised to receive the letter solicited by MWDOC from the South Orange County legislative delegation.

**Vice Chair Wilson** noted her concern that MWDOC was never approached regarding funding of the governance alternatives study and requested some elaboration on this matter. Executive Officer Crosthwaite noted that on at least two separate occasions before the Commission she extended the offer for MWDOC to participate. She added that to date she had not received any interest in cost sharing from MWDOC.

Fred Adjarian, Water Services Manager, City of Tustin, expressed his concerns regarding the study. He added that he believes funding of the study by only six south county agencies creates an issue of objectivity and believes that it would be better if MWDOC and/or the individual agencies fund the study. He concluded by stating that if MWDOC will not fund the study, the City of Tustin is willing to pay their pro rata share to fund it.

Paul Jones, General Manager, Irvine Ranch Water District (IRWD), expressed IRWD's support for the governance study and was confused by the funding issues raised today. He noted that initially there was concern that the other member agencies might be burdened by the cost of the study, therefore the six South County agencies decided that they would fund the study. He additionally noted that the agencies were only a funding mechanism and the work would be done independently by LAFCO staff and its consultant.

**Chair Withers** closed the public hearing.

Executive Officer Crosthwaite read a statement from **Commissioner Herzog** who could not be in attendance. He noted that the study does not have anything to do with support or lack of support of MWDOC. He believes that it is part of the MSR process and that staff is diligently following up with some of the unresolved issues. In addition, he noted that as the Chair of CALAFCO it is the mission of LAFCOs across the state to not focus on politics but to conduct an independent technical analysis of the issues.

**Commissioner Schafer** noted that she recently returned from Sacramento from a special districts meeting and spoke to many legislators who signed the letter dated April 24, 2008.



She noted that no mention was made at that time regarding the MWDOC study or letter prepared.

**Commissioner Campbell** expressed his opposition to the MWDOC governance alternatives study. He also noted that individual agencies withdrawing from MWDOC is not a viable option because the significance of MWDOC as a member of the Metropolitan Water District of Southern California. He commended LAFCO staff for doing a good job in a difficult situation but concluded by re-emphasizing his opposition to the study.

**Commissioner Moorlach** inquired whether MWDOC or any other water districts have conducted any internal analysis of their governance structure within the last five years.

Executive Officer Crosthwaite responded that she is not aware of any formal studies that the agency might have done but acknowledged that there were changes in MWDOC following the MSR process.

**Chair Withers** mentioned that IRWD has done some extensive performance metrics in all areas.

**Commissioner Charley Wilson** concurred with **Commissioner Herzog's** opinion and added that the proposed study is an independent assessment that will yield information helpful in to both member agencies and rate payers.

**Commissioner McCune** stated she would like to go on the record as supporting the governance alternatives study. However, she added that she would have preferred the selection of one firm rather than splitting the contract between two firms.

**Commissioner Bouer** noted that conducting a study of this sort is a function of LAFCO. He added that it is LAFCO's responsibility to look at these issues and to evaluate if they are appropriate. He stated support for the study.

**Commissioner Bates** commented that as a representative of most South County cities in which these agencies serve, she supports moving forward with the governance alternatives study. She noted it is important to focus on the cost of water as a shortage of supply will mean an increase in ratepayers' cost. She concluded by stating that until we study alternatives, it is not possible to provide a comprehensive answer to constituents.

**Commissioner Moorlach** inquired about the cost benefit of this study and whether it will include a history of MWDOCs operations, or if it is simply a snapshot analysis.

Executive Officer Crosthwaite responded that the scope of the study is to list the governance structure options and do both a legal and financial analysis of each alternative. She noted that it is too soon to know if there will be a cost savings for the agencies. She highlighted that LAFCO will provide an independent, impartial, and technically accurate analysis.

**Vice Chair Wilson** observed that the situation is becoming polarized but added appreciation for MWDOC services. She noted support for moving the study forward.

**MOTIONS:** Authorize the Executive Officer to negotiate with the firms to complete MWDOC governance study. Accept the offer of the six South Orange County agencies to fund the governance study, with the amendment to reopen invitation to MWDOC to fund the governance study in whole or in part (Susan Wilson)

**SECOND:** Arlene Schafer

**FOR:** Bob Bouer, John Moorlach Arlene Schafer, Vice Chair Susan Wilson, and Chair John Withers

**AGAINST:** Bill Campbell

**ABSTAIN:** None

**MOTION PASSED**

#### **8b .LAFCO Consultant Contracts**

Senior Project Manager Emery summarized the current and proposed LAFCO consultant contracts. She noted that staff is recommending the Commission to ratify and approve contracts with CBIZ, Sharon Browning & Associates, and Lance, Soll, & Lunghard LLP.

**Commissioner McCune** requested clarification regarding the contract with Sharon Browning & Associates. Senior Project Manager Emery clarified that Ms. Browning has facilitated the MWDOC stakeholder process, some municipal service reviews, and strategic planning sessions.

**Commissioner Campbell** inquired if the accounting and auditing line item in the LAFCO fiscal year 2008-2009 budget approved by the Commission includes the monthly accounting fees and the proposed contract for Lance, Soll & Lunghard. Senior Project Manager Emery replied that it the budget does account for both of those services.

**Commissioner Moorlach** requested references for the auditing firm selected as well as more detail on the RFP process. Assistant Executive Officer Aldrich reviewed the RFP process used in selecting the auditing firm and commented that Lance, Soll & Lunghard received the highest evaluation scores from representatives of Orange, Riverside, San Diego and San Bernardino LAFCOs.

Richard, Kikuchi, Partner, Lance, Soll & Lunghard, provided some background information on his firm and summarized some current and past public sector clients.

**MOTION:** Ratify contract for Sharon Browning & Associates for professional services; approve contract with Lance, Soll, & Lunghard LLP for annual auditing services.  
(John Moorlach)  
**SECOND:** Arlene Schafer  
**FOR:** Bob Bouer, Bill Campbell, John Moorlach Arlene Schafer, Vice Chair Susan Wilson, and Chair John Withers  
**AGAINST:** None  
**ABSTAIN:** None  
**MOTION PASSED**

**MOTION:** Ratify contract for CBIZ for bookkeeping and accounting services.  
(John Moorlach)  
**SECOND:** Arlene Schafer  
**FOR:** Bob Bouer, Bill Campbell, Arlene Schafer, Vice Chair Susan Wilson, and Chair John Withers  
**AGAINST:** None  
**ABSTAIN:** John Moorlach  
**MOTION PASSED**

**MOTION:** Receive and file update on consultant contracts not exceeding \$10,000.00.  
(John Moorlach)  
**SECOND:** Arlene Schafer  
**FOR:** Bob Bouer, Bill Campbell, John Moorlach, Arlene Schafer, Vice Chair Susan Wilson, and Chair John Withers  
**AGAINST:** None  
**ABSTAIN:** None  
**MOTION PASSED**

## **9. COMMISSIONER COMMENTS**

**Commissioner Moorlach** updated the Commission on the progress of the ballot measure language for Rossmoor.

## **10. INFORMATIONAL ITEMS & ANNOUNCEMENTS**

### **10a.Independent Special Districts of Orange County (ISDOC) Selection Committee/League of Cities Selection Committee Update**

Executive Officer Crosthwaite informed the commission of the ISDOC meeting that will be held on May 29<sup>th</sup>, 2008. She noted that **Commissioner Schafer's** seat was up for reelection

and added that nominations for the seat will close on Monday May 19, 2008. Executive Officer Crosthwaite also updated the Commission regarding the League of Cities Selection Committee meeting held on May 8<sup>th</sup>, 2008. She reported that **Commissioner Marshall** was re-elected in alternate seat and Cheryl Brothers will be joining the Commission in July in the regular City member seat. She noted that **Commissioner Bouer** will be leaving LAFCO following the June 23<sup>rd</sup> meeting and that staff appreciates his service and wish him well. She added that a farewell ceremony will be held following the next regular meeting.

#### **11. CLOSED SESSION**

**None**

#### **12. ADJOURNMENT**

The meeting adjourned at 10:15 am.

JOHN WITHERS  
Chair  
Orange County Local Agency Formation Commission

By: \_\_\_\_\_  
Esther Garcia-Negrete  
Commission Clerk

# Item 8a

## Consultant Contract for MWDOC Governance Alternatives Study



June 23, 2008

**TO:** Local Agency Formation Commission**FROM:** Executive Officer**SUBJECT:** Proposed Award of Consultant Contract for Study of the Municipal Water District of Orange County (MWDOC) Governance Alternatives

**CHAIR**  
**JOHN WITHERS**  
Director  
Irvine Ranch Water District

**VICE CHAIR**  
**SUSAN WILSON**  
Representative of  
General Public

**ROBERT BOUER**  
Councilmember  
City of Laguna Woods

**BILL CAMPBELL**  
Supervisor  
3<sup>rd</sup> District

**PETER HERZOG**  
Councilmember  
City of Lake Forest

**JOHN MOORLACH**  
Supervisor  
2<sup>nd</sup> District

**ARLENE SCHAFER**  
Director  
Costa Mesa  
Sanitary District

**ALTERNATE**  
**PAT BATES**  
Supervisor  
5<sup>th</sup> District

**ALTERNATE**  
**PATSY MARSHALL**  
Councilmember  
City of Buena Park

**ALTERNATE**  
**RHONDA MCCUNE**  
Representative of  
General Public

**ALTERNATE**  
**CHARLEY WILSON**  
Director  
Santa Margarita  
Water District

**JOYCE CROTHWAITE**  
Executive Officer

At your meeting of May 14<sup>th</sup>, 2008, the Commission authorized the Executive Officer to negotiate with the firms of Winzler and Kelly and The Davis Company to complete the legal analysis and financial analysis, respectively, to study governance options for MWDOC. Both firms responded to the original Request for Proposals (RFP) issued by LAFCO. The project was divided between the two firms because some agencies objected to two team members from the firm of Winzler and Kelly. The agencies raised concerns over the appearance of bias since those two team members were on the city councils of two South Orange County cities.

LAFCO staff received revised proposals from the two firms and the total cost for splitting the study between the two firms was increased by almost \$40,000 over the initial cost. This was due primarily to duplicate costs and the need for both firms to become familiar with the extensive written record from LAFCO's MSR process. Splitting the study between the two firms is not the most cost-effective way to complete the study.

LAFCO staff still believes that the Winzler and Kelly firm would be the best qualified to conduct the study. The purpose of the governance study is to provide the best possible data to agencies so that each agency can make a fully informed decision regarding existing or possible alternative governance structures. Your staff believes the firm of Winzler and Kelly can fulfill that purpose at a lower cost than using two firms.

To address the concern about the appearance of bias, Winzler and Kelly have agreed that their team members who presently sit on South Orange County city councils would not participate in the study.

Staff believes this addresses the concerns raised, is the most cost-effective approach to complete the study while ensuring that the data is accurate and fair. Therefore, LAFCO staff is recommending hiring Winzler and Kelly for preparation of the entire study. LAFCO staff and its consultant, Harry Ehrlich, will manage the study, including the stakeholder process.

### Funding Issues

Funding for the study was also a concern for the Commission and staff. Six South Orange County agencies (El Toro Water District, Irvine Ranch Water District, Moulton Niguel Water District, Santa Margarita Water District, South Coast Water District and the Trabuco Canyon Water District) had previously expressed their willingness to fund the study. However at the May 14th Commission meeting, several agencies expressed concerns about the source of funding. The Commission directed staff to formally request participation in funding the MWDOC study from MWDOC and its member agencies.

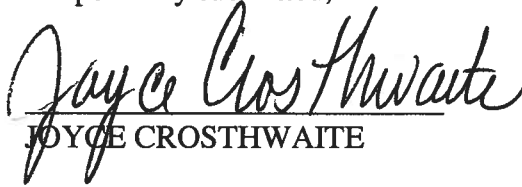
LAFCO staff sent an email to all the member agencies of MWDOC requesting participation in costs sharing for the study. Of the 29 MWDOC member agencies and MWDOC itself, 14 agreed to participate in the funding. LAFCO staff calculated the cost of using Winzler and Kelly and divided that cost in three possible ways—equally among all participating agencies, according to population and according to the number of water connections as shown in the following chart:

	Equally	Connections	Population
1. City of Buena Park	\$ 6,890.00	\$ 4,654.68	\$ 5,253.43
2. Moulton Niguel WD	\$ 6,890.00	\$ 12,616.66	\$ 10,571.73
3. City of Orange	\$ 6,890.00	\$ 8,180.69	\$ 8,780.21
4. City of Garden Grove	\$ 6,890.00	\$ 7,999.92	\$ 10,895.54
5. City of Westminster	\$ 6,890.00	\$ 4,769.46	\$ 5,917.36
6. Laguna Beach CWD	\$ 6,890.00	\$ 1,880.49	\$ 1,401.77
7. Santa Margarita WD	\$ 6,890.00	\$ 12,459.93	\$ 10,194.66
8. City of Huntington Beach	\$ 6,890.00	\$ 12,321.35	\$ 12,549.24
9. Trabuco Canyon WD	\$ 6,890.00	\$ 940.36	\$ 913.38
10. IRWD	\$ 6,890.00	\$ 22,741.94	\$ 20,958.81
11. South Coast WD	\$ 6,890.00	\$ 2,919.84	\$ 2,650.61
12. El Toro WD	\$ 6,890.00	\$ 2,362.69	\$ 3,236.80
13. Serrano WD	\$ 6,890.00	\$ 543.95	\$ 439.64
14. City of Tustin	\$ 6,890.00	\$ 3,328.04	\$ 3,956.80

## RECOMMENDATIONS

1. It is recommended that the Commission approve the attached contract for a not-to-exceed amount of \$97,720 with the firm of Winzler and Kelly to complete the study of governance options for MWDOC and to request that the agencies who have agreed to participate in funding the study be assessed the cost of the study based on the number of connections.

Respectfully submitted,

  
JOYCE CROSTHWAITE

Attachment: *Contract with Winzler and Kelly*



## LONG FORM

### AGREEMENT FOR SERVICES BETWEEN ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION AND WINZLER & KELLY

This agreement is made and entered into as of June 23, 2008 by and between ORANGE COUNTY LOCAL AGENCY FORMATION COMMISSION ("LAFCO"), organized and operating pursuant to the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, Government Code section 56000 et seq., and WINZLER & KELLY ("Consultant").

### RECITALS

A. LAFCO is a public agency of the State of California and is in need of professional services for the following project: Study of Governance Options for the Municipal Water District of Orange County (the "Project").

B. Consultant is duly licensed and qualified by virtue of experience, training, education and expertise to provide such services.

C. The parties desire by this Agreement to establish the terms for LAFCO to retain Consultant to provide the services described herein.

### AGREEMENT

NOW, THEREFORE, IT IS AGREED AS FOLLOWS:

1. Scope of Services.

Consultant shall provide LAFCO with the services described in Exhibit A attached hereto.

2. Compensation/Schedule of Charges.

a. Subject to paragraph 2(b) below, LAFCO shall pay for such services in accordance with the charges set forth and described in Exhibit A attached hereto.

b. In no event shall the total amount paid for services rendered by Consultant pursuant to Exhibit A exceed the sum of \$97,720. Periodic payments shall be made within 30 days of receipt of a statement for services rendered. Payments to Consultant for work performed will be made on a monthly billing basis.

c. LAFCO shall reimburse costs advanced by Consultant on LAFCO's behalf, as well as other expenses, in addition to the amount billed for fees. These currently include, but are not limited to, automobile mileage and actual expenses away from Consultant's offices on LAFCO business, extraordinary photocopy charges and any costs of producing or reproducing photographs,

documents and other things necessary for the preparation or presentation of LAFCO business. All costs will be itemized on LAFCO's monthly statement. LAFCO shall not pay fees for travel to or from LAFCO's offices in the ordinary course of business or reimburse mileage to Consultant.

3. Additional Work.

If changes in the work seem merited by Consultant or LAFCO, and informal consultations with the other party indicate that a change is warranted, the change in work shall be processed by LAFCO in the following manner: a letter outlining the changes shall be forwarded to LAFCO by Consultant with a statement of estimated changes in fees or time schedule. An amendment to the Agreement shall be prepared by LAFCO and executed by both parties before performance of such services or LAFCO will not be required to pay for the changes in the scope of work. Such amendment shall not render ineffective or invalidate unaffected portions of this Agreement.

4. Maintenance of Records.

Books, documents, papers, accounting records, and other evidence pertaining to costs incurred shall be maintained by Consultant and made available at all reasonable times during the contract period and for four (4) years from the date of final payment under the contract for inspection by LAFCO.

5. Term and Time of Performance.

The term of this Agreement shall be for one (1) year. Consultant shall perform its services hereunder in a prompt and timely manner, in accordance with the schedules contained in Exhibit A and shall commence performance upon receipt of the written Notice to Proceed from LAFCO. The Notice to Proceed shall set forth the date of commencement of work.

6. Delays in Performance.

Neither LAFCO nor Consultant shall be considered in default of this agreement for delays in performance caused by circumstances beyond the reasonable control of the non-performing party. For purposes of this agreement, such circumstances include but are not limited to, abnormal weather conditions; floods; earthquakes; fire; epidemics; war; riots and other civil disturbances; strikes, lockouts, work slowdowns, and other labor disturbances; sabotage or judicial restraint.

Should such circumstances occur, the non-performing party shall, within a reasonable time of being prevented from performing, give written notice to the other party describing the circumstances preventing continued performance and the efforts being made to resume performance of this agreement.

7. Compliance with Law.

a. Consultant shall comply with all applicable laws, ordinances, codes and regulations of the federal, state and local government.

b. Consultant shall assist LAFCO in obtaining and maintaining all permits required of Consultant by Federal, State and local regulatory agencies.

8. Standard of Care.

Consultant's services will be performed in accordance with generally accepted professional practices and principles and in a manner consistent with the level of care and skill ordinarily exercised by members of the profession currently practicing under similar conditions.

9. Assignment and Subconsultant.

Consultant shall not assign or transfer this agreement or any rights under or interest in this agreement without the written consent of LAFCO, which may be withheld for any reason. [Nothing contained herein shall prevent Consultant from employing independent associates, and subconsultants as Consultant may deem appropriate to assist in the performance of services hereunder.]

10. Independent Contractor.

Consultant is retained as an independent contractor and is not an employee of LAFCO. No employee or agent of Consultant shall become an employee of LAFCO. The work to be performed shall be in accordance with the work described in Exhibit A, subject to such directions and amendments from LAFCO as herein provided.

11. Integration.

This agreement represents the entire understanding of LAFCO and Consultant as to those matters contained herein, and supersedes and cancels any prior oral or written understanding, promises or representations with respect to those matters covered hereunder. This agreement may not be modified or altered except in writing signed by both parties hereto. This is an integrated agreement.

12. Insurance.

a. Commercial General Liability

(1) The Consultant shall take out and maintain, during the performance of all work under this agreement, in amounts not less than specified herein, Commercial General Liability Insurance, in a form and with insurance companies acceptable to LAFCO.

(2) Coverage for Commercial General Liability insurance shall be at least as broad as the following:

(a) Insurance Services Office Commercial General Liability coverage (Occurrence Form CG 0001)

(3) Commercial General Liability Insurance must include coverage for the following:

- (a) Bodily Injury and Property Damage
- (b) Personal Injury/Advertising Injury
- (c) Premises/Operations Liability
- (d) Products/Completed Operations Liability
- (e) Aggregate Limits that Apply per Project
- (f) Explosion, Collapse and Underground (UCX) exclusion deleted
- (g) Contractual Liability with respect to this Contract
- (h) Broad Form Property Damage
- (i) Independent Consultants Coverage

(4) All such policies shall name Orange County Local Agency Formation Commission, the Commission and each member of the Commission, its officers, employees, agents and LAFCO designated volunteers as Additional Insureds under the policy.

(5) The general liability program may utilize either deductibles or provide coverage excess of a self-insured retention, subject to written approval by LAFCO.

b. Automobile Liability

(1) At all times during the performance of the work under this agreement the Consultant shall maintain Automobile Liability Insurance for bodily injury and property damage including coverage for owned, non-owned and hired vehicles, in a form and with insurance companies acceptable to LAFCO.

(2) Coverage for automobile liability insurance shall be at least as broad as Insurance Services Office Form Number CA 0001 (ed. 6/92) covering automobile liability, Code 1 (any auto).

(3) The automobile liability program may utilize deductibles, but not a self-insured retention, subject to written approval by LAFCO.

(4) All such policies shall name LAFCO, the Commission and each member of the Commission, its officers, employees, agents and designated volunteers as Additional Insureds under the policies.

c. Workers' Compensation/Employer's Liability

(1) At all times during the performance of the work under this agreement and for twenty four (24) months following the date of Project completion and acceptance by LAFCO, the Consultant shall maintain workers' compensation insurance in compliance with applicable statutory requirements and employer's liability coverage in amounts indicated herein.

(2) Such insurance shall include an insurer's Waiver of Subrogation in favor of LAFCO and will be in a form and with insurance companies acceptable to LAFCO

(3) If insurance is maintained, the workers' compensation and employer's liability program may utilize either deductibles or provide coverage in excess of a self-insured retention, subject to written approval by LAFCO.

(4) Before beginning work, the Consultant shall furnish to LAFCO satisfactory proof that Consultant has taken out for the period covered by the work under this agreement, full compensation insurance for all persons employed directly by Consultant to carry out the work contemplated under this agreement, all in accordance with the "Workers' Compensation and Insurance Act," Division IV of the Labor Code of the State of California and any acts amendatory thereof. Consultant shall require all subconsultants to obtain and maintain, for the period covered by the work under this agreement, worker's compensation insurance of the same type and limits as specified in this Section.

d. Professional Liability (Errors and Omissions).

At all times during the performance of the work under this agreement the Consultant shall maintain professional liability insurance, in a form and with insurance companies acceptable to LAFCO and in an amount indicated herein.

e. Minimum Policy Limits Required

(1) The following insurance limits are required for the Contract:

	<u>Combined Single Limit</u>
Commercial General Liability	\$1,000,000 per occurrence/ \$2,000,000 aggregate for bodily injury, personal injury and property damage
Automobile Liability	\$1,000,000 per occurrence for bodily injury and property damage
Employer's Liability	\$1,000,000 per occurrence
Professional Liability (errors and omissions)	\$1,000,000 per claim and aggregate

f. Evidence Required

Prior to execution of the agreement, the Consultant shall file with LAFCO evidence of insurance from an insurer or insurers certifying to the coverage of all insurance required herein. Such evidence shall include original copies of the ISO CG 2010 (or insurer's equivalent) signed by the insurer's representative and Certificate of Insurance (Acord Form 25-S or equivalent). All evidence of insurance shall be signed by a properly authorized officer, agent or qualified representative of the insurer and shall certify the names of the insured, any additional primary insureds, where appropriate, the type and amount of the insurance, the location and operations to which the insurance applies, and the expiration date of such insurance.

g. Policy Provisions Required

(1) All policies shall contain a provision for 30 days advance written notice by the insurer(s) to LAFCO of any cancellation. Statements that the carrier "will endeavor" and "that failure to mail such notice shall impose no obligation and liability upon the company, its agents or representatives," will not be acceptable on certificates.

(2) All policies shall contain a provision stating that the Consultant's policies are primary insurance and that the insurance of LAFCO or any Additional Insured shall not be called upon to contribute to any loss.

h. Additional Insurance Provisions

(1) The foregoing requirements as to the types and limits of insurance coverage to be maintained by Consultant, and any approval of said insurance by LAFCO, is not intended to and shall not in any manner limit or qualify the liabilities and obligations otherwise assumed by the Consultant pursuant to this agreement, including but not limited to, the provisions concerning indemnification.

(2) If at any time during the life of the agreement, the Consultant fails to maintain in full force any insurance required by the agreement documents LAFCO may terminate the agreement.

(3) The Consultant shall include all subconsultants as insureds under its policies or shall furnish separate certificates and endorsements for each subconsultant. All coverages for subconsultants shall be subject to all of the requirements stated herein.

(4) LAFCO may require the Consultant to provide complete copies of all insurance policies in effect for the duration of the Project.

(5) Neither LAFCO nor the Commission, nor any member of the Commission, nor any of the directors, officers, employees, agents or volunteers shall be personally responsible for any liability arising under or by virtue of this agreement.

13. Indemnification.

Consultant agrees to protect, save, defend and hold harmless LAFCO and its Commission and each member of the Commission, officers, agents and employees from any and all claims, liabilities, expenses or damages of any nature, including attorneys' fees, for injury or death of any person, or damage to property, or interference with use of property, arising out of or in any way connected with the negligent acts, errors or omissions or willful misconduct by Consultant, Consultant's agents, officers, employees, subconsultants, or independent consultants hired by Consultant under this agreement. The only exception to Consultant's responsibility to protect, save, defend and hold harmless LAFCO, is due to the sole negligence, willful misconduct or active negligence of LAFCO. This hold harmless agreement shall apply to all liability regardless of whether any insurance policies are applicable. The policy limits do not act as a limitation upon the amount of indemnification, etc. to be provided by Consultant.

14. Laws, Venue, and Attorneys' Fees.

This agreement shall be interpreted in accordance with the laws of the State of California. If any action is brought to interpret or enforce any term of this agreement, the action shall be brought in a state or federal court situated in the County of San Diego, State of California. In the event of any such litigation between the parties, the prevailing party shall be entitled to recover all reasonable costs incurred, including reasonable attorney's fees, as determined by the court.

15. Termination or Abandonment.

a. LAFCO has the right to terminate or abandon any portion or all of the work under this agreement by giving ten (10) calendar days written notice to Consultant. In such event, LAFCO shall be immediately given title and possession to all original field notes, drawings and specifications, written reports and other documents produced or developed for that portion of the work completed and/or being abandoned. LAFCO shall pay Consultant the reasonable value of services rendered for any portion of the work completed prior to termination. If said termination occurs prior to completion of any task for the Project for which a payment request has not been received, the charge for services performed during such task shall be the reasonable value of such services, based on an amount mutually agreed to by LAFCO and Consultant of the portion of such task completed but not paid prior to said termination. LAFCO shall not be liable for any costs other than the charges or portions thereof which are specified herein. Consultant shall not be entitled to payment for unperformed services, and shall not be entitled to damages or compensation for termination of work.

b. Consultant may terminate its obligation to provide further services under this agreement upon thirty (30) calendar days' written notice to LAFCO only in the event of substantial failure by LAFCO to perform in accordance with the terms of this agreement through no fault of Consultant.

16 Organization.

Consultant shall assign **George Wentz** as Project Manager. The Project Manager shall not be removed from the Project or reassigned without the prior written consent of LAFCO.

17. Notice.

Any notice or instrument required to be given or delivered by this agreement may be given or delivered by depositing the same in any United States Post Office, certified mail, return receipt requested, postage prepaid, addressed to:

LAFCO:  
12 Civic Center Plaza  
Room 235  
Santa Ana, CA 92701  
Attn: Executive Officer

Consultant:  
Winzler & Kelly  
3531 E. Miraloma Ave  
Anaheim, CA 92806

and shall be effective upon receipt thereof.

18. Third Party Rights.

Nothing in this agreement shall be construed to give any rights or benefits to anyone other than LAFCO and the Consultant.



19. Severability.

The unenforceability, invalidity or illegality of any provision(s) of this agreement shall not render the other provisions unenforceable, invalid or illegal.

IN WITNESS WHEREOF, the parties have executed this agreement as of the date first written above.

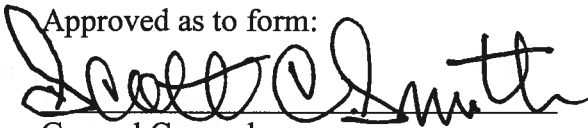
Local Agency Formation Commission

\_\_\_\_\_  
Consultant

By: \_\_\_\_\_  
Joyce Crosthwaite, Executive Officer

By: \_\_\_\_\_

Approved as to form:

A handwritten signature in black ink, appearing to read "Dale Smith", is written over a horizontal line.

General Counsel  
Orange County Local Agency  
Formation Commission

## EXHIBIT A

# Work Plan and Schedule

## TASK DETAILS

Winzler & Kelly has developed an initial work plan and detailed tasks necessary for the development, analysis, and presentation of the Governance Study. The work plan will be reviewed with OC LAFCO to assure that the scope of work will address all of the goals and objectives for the project.

### **Task 1: Review of Assumptions, Data & Relevant Documents & Establish**

- Participate in an initial **Working Group Meeting** to establish relationships with stakeholders and interested parties, elicit opinions for additional structural options for potential study in addition to those options already designated, and create a clear Goal Statement.
- Review assumptions and data in the MSR, its appendices, letters from member agencies and other documents. Review will include, but is not limited to:
  - Service levels.
  - Representation.
  - Financial projections.
  - Organizational structures.
- Prepare a summary of existing information.
- Establish a detailed schedule and timeline for completion of study.
- Establish a decision-tree process to include:
  - Stakeholder input.
  - Evaluation of impacts.
  - Legislative action(s).
  - Public election process.

### **Task 2: Identification of Potential Governance Structure Alternatives**

- Identify potential governance structure alternatives for providing services including current services *and* varying services as deemed appropriate. Analysis will include impacts on agencies and customers. Structure alternatives shall include as a minimum:
  - Status Quo prior to December 2006 MWDOC Board Actions.
  - Status Quo post 2007 facilitated discussions.
  - Dissolution of MWDOC and formation of a new countywide entity.
  - Detachment of South County water agencies and formation of a new South County entity.

- Any other viable alternative(s) such as:
  - Rate restructuring of existing MWDOC administrative cost allocations to member agencies.
  - Restructuring of existing MWDOC governance board representation.
- Conduct a **preliminary** legal analysis for each alternative. Legal analysis will include:
  - Discussion of legal barriers or conflicts that would be considered too insurmountable to overcome.
  - Preliminary recommendations for elimination of alternatives from further review.

***\* It is anticipated that this task will be a "fatal flaw" opportunity to eliminate any non-viable alternatives due to potential legal obstacles that would be considered too insurmountable to overcome.***

### **Task 3: "Baseline Analysis" of MWDOC Current Service Model**

- Conduct a baseline analysis of the MWDOC current service model for comparison to other alternatives. The analysis shall address the following key elements as a minimum:
  - Evaluate institutional relationships among MWDOC, member agencies, and other key agencies.
  - Define essential services and service requirements.
  - Create member agency service needs assessment.
  - Define necessary regional services.
  - Prepare Cost of Service Analysis, including direct and indirect costs of services provided.
  - Complete cost recovery analysis comparing revenue sources from member agencies with recipients of services provided.
  - Compare MWDOC to other MWD member agencies in terms of governance structure, services, facilities and rates.
  - Identify past and existing costs to ratepayers.

### **Task 4: Prepare Financial Analysis and Findings**

- Prepare a draft financial analysis and draft findings to include the following key elements:
  - Initial transition costs.
  - Projected administrative/operational costs.
  - Revenue requirements.
  - Financial impacts on MWDOC and member agencies over a 10-year period.
  - Impacts on ratepayers.
  - Develop a methodology for equitable allocation/distribution of assets including infrastructure and agency reserves.
  - Prepare Cost of Service Analysis, including direct and indirect costs of services provided.

- Complete cost recovery analysis comparing revenue sources from member agencies with recipients of services provided.
  - Identify past and new costs to ratepayers.
- Prepare a revised financial analysis and findings based on all final comments received as a result of the working group meeting.
- ***It is anticipated that this task will be a "fatal flaw" opportunity to eliminate any non-viable alternatives due to negative financial considerations***

#### **Task 5: Develop Viable Alternative Comparison**

- Perform a comparative analysis for each governance option and alternative.
  - Prepare a matrix of preliminary findings including:
    - Service analysis.
    - Financial Analysis.
    - Representation analysis.
    - Efficiencies.

Conduct a legal analysis for each alternative. Legal analysis shall include:

- Process to implement each viable option under **current** law.
  - Discussion of any required enacting legislation.
  - Discussion of legal barriers or conflicts.
  - Analysis of impacts on voting rights and representation at MWD.
- Develop an implementation plan and process for conducting election(s) or enacting necessary legislation.
- Participate in a final **Working Group Meeting** to present the comparison analysis, final legal review, and implementation process required for each option.

***\* It is anticipated that this task will be a "fatal flaw" opportunity to eliminate any non-viable alternatives due to any additional legal or legislative obstacles that would be considered too insurmountable to overcome.***

#### **Task 6: Develop Preliminary Draft Report**

- Prepare and deliver the Preliminary Draft Report to OC LAFCO for internal review. One (1) electronic copy in PDF format will be provided.

#### **Task 7: Develop Final Draft Report**

- Receive all Preliminary Draft Report internal review comments from OC LAFCO and incorporate into the Final Draft Report.

- Prepare and deliver the Final Draft Report to OC LAFCO for interested agency and public review. One (1) electronic copy in PDF file format and one (1) hard copy of the Final Draft Report will be provided.
- Conduct a **Final Stakeholder Meeting** to discuss the Final Draft Report as part of the interested agency and public review process.

#### **Task 8: Develop Final Study Report**

- Receive all Final Draft Report review comments and incorporate as appropriate into the Final Study Report.
- Prepare and deliver a Response to Comments document addressing all comments received as a result of the public review process. (1) One electronic copy in PDF file format and 15 hard bound hardcopies of the Response to Comments document will be provided.
- Prepare and deliver the Final Study Report to OC LAFCO for presentation to the OC LAFCO Commission. One (1) electronic copy in PDF file format and 15 hard bound hardcopies of the Final Study Report will be provided.

#### **SCHEDULE**

Winzler & Kelly has outlined below a tentative schedule below based on a contract award date of mid-May 2008 as indicated in the Request for Proposal. A final detailed schedule will be developed in consultation with OC LAFCO upon selection for performance of the project.

Mid-July 08	Award contract, issue Notice to Proceed.
Late July 08	Kickoff meeting with OC LAFCO, MWDOC, member agencies, begin data collection.
Early Sept 08	Complete initial fatal flaw legal review on identified governance options.
Late Oct 08	Complete baseline analysis of MWDOC.
Early Dec 08	Complete financial analysis and fatal flaw review of identified governance options.
Late-Dec 08	Complete analysis, findings, implementation plans, and final legal fatal flaw review.
Late Jan 09	Deliver Preliminary Draft Report to OC LAFCO for internal review.
Early Feb 09	Deliver Final Draft Report for interested agency and public review and comment.
Mid Mar 09	Deliver Final Study Report to OC LAFCO.
Mid-Apr 09	OC LAFCO Commission Public Hearing.

Note: Working Group and Stakeholder meetings will occur as appropriate to meet the work schedule developed in conjunction with OC LAFCO outlined above, and will be included in the detailed schedule developed after award of contract.

## Cost Proposal and Staff Assignments

Winzler & Kelly proposes to complete the all aspects of the project, inclusive of reimbursable and sub-consultant expenses, for a fee **not to exceed \$97,720**. This not-to-exceed amount includes \$73,380 in labor & administrative costs plus \$24,340 in reimbursable and legal costs.

Hourly rates for the proposed project team are as follows:

Name	Title	Rate
George Wentz	Principal in Charge	\$250 per hour
Mary Grace Pawson	Senior Manager	\$150 per hour
Laurie Madigan	Senior Advisor (Contract staff)	\$150 per hour
Charles Yancil	Planner/Financial Analyst	\$135 per hour
Tim Monroe	Technical Advisor	\$175 per hour
Roy Stephenson	Senior Technical Advisor (Contract staff)	\$200 per hour

In addition, Winzler & Kelly charges \$6 per hour to cover the cost of all ancillary administrative services such as IT, cell phone, and similar services.

Reimbursable expenses include, but are not limited to all travel related expenses, vendor and sub-consultant expenses such as market analysis data collection, and reproduction reprographic services for deliverable documents directly attributable to the project. All reimbursable expenses are charged on an actual cost basis, plus a 15% administrative surcharge.

*The legal sub-consultant hourly rate is \$275. Total estimated cost of legal services is \$23,725.*

Winzler & Kelly invoices at the end of each month for that month's activities. Payment is due no later than 30 days from the date of the invoice. A charge at the maximum rate of interest will be charged on past due accounts.

Winzler & Kelly will control project costs by employing best management practices in its approach to the project. The Principal in Charge conducts weekly monitoring of project status to budget and is responsible for ensuring that the project progression is maintained within budget. The Principal in Charge also has overall oversight responsibility for the budget and monitors the project budget on a weekly basis. The Principal in Charge will advise OC LAFCO staff of any unanticipated delays or other circumstances that may arise beyond the control of Winzler & Kelly that may impact the project budget.

A breakdown of the estimated work hours and costs for each task is provided on the following pages. Any contract staff that may be used on the project are included in the estimated work hours and cost shown. Actual distribution of time spent and reimbursable costs may vary between the tasks but the total cost expenditure will not exceed the agreed to contract limit.

## Cost Proposal

<u>Work Plan Task</u>	<u>Hours</u>	<u>Cost</u>
<b>TASK 1: Review of Assumptions, Data &amp; Relevant Documents &amp; Establish</b>		
Complete review of MSR assumptions, all relevant data & documents, participate in an initial Working Group Meeting, develop work schedule and establish decision tree process.	22	\$4,122
Estimated Reimbursable/Legal		50
<b>Total for Task 1</b>	<b>22</b>	<b>\$4,172</b>
<b>TASK 2: Identification of Potential Governance Structure Alternatives</b>		
Develop Governance Options and other alternatives to be studied, conduct a preliminary legal analysis of each option/alternative, and develop recommendations for elimination of any option alternative (first Fatal Flaw decision point).	16	\$3,066
Estimated Reimbursable/Legal		7,590
<b>Total for Task 2</b>	<b>16</b>	<b>\$10,656</b>
<b>TASK 3: "Baseline Analysis" of MWDOC Current Service Model</b>		
Conduct MWDOC Baseline Analysis inclusive of essential services and member agency service needs assessment, cost of service & cost recovery analysis, agency comparative analysis and agency relationships, and ratepayer costs.	156	\$27,196
Estimated Reimbursable/Legal		0
<b>Total for Task 3</b>	<b>156</b>	<b>\$27,196</b>
<b>TASK 4: Prepare Financial Analysis and Findings</b>		
Prepare the draft financial analysis and findings for governance options and alternatives, including transition and operational costs, cost of service and cost recovery analysis, financial impact analysis, allocation of assets analysis, and develop recommendations for elimination of any option/alternative (2 <sup>nd</sup> Fatal Flaw decision point).	100	\$16,130
Estimated Reimbursable/Legal		250
<b>Total for Task 4</b>	<b>100</b>	<b>\$16,380</b>



**TASK 5: Develop Viable Alternative Comparison**

Develop a comparison matrix of findings for all options/alternatives including service, financial, representation and efficiencies, conduct a legal analysis to include implementation process, legislative requirements, barriers and conflicts, participate in Working Group Meeting, develop recommendations for elimination of any option/alternative (3<sup>rd</sup> Fatal Flaw decision point).

44 \$7,494

Estimated Reimbursable/Legal

12,850

**Total for Task 5** **44** **\$20,344**

**TASK 6: Develop Preliminary Draft Report**

Draft and deliver the Preliminary Draft Report for OC LAFCO internal review.

32 \$5,102

Estimated Reimbursable/Legal

0

**Total for Task 6** **32** **\$5,102**

**TASK 7: Develop Final Draft Report**

Develop Final Draft Report for interested agency and public review incorporating OC LAFCO comments, lead Final Stakeholder Meeting.

14 \$3,972

Estimated Reimbursable/Legal

1,850

**Total for Task 7** **14** **\$5,822**

**TASK 8: Develop Final Study Report**

Develop Final Report and Response to Comments document, incorporating public review comments as appropriate, support and present report and findings at the OC LAFCO Commission public hearing

38 \$6,348

Estimated Reimbursable/Legal

1,700

**Total for Task 8** **38** **\$8,048**

**Grand Total** **422** **\$97,720**



## **FINAL MINUTES**

### **LAFCO REGULAR MEETING**

**Monday, June 23, 2008, 8:00 a.m.**

**Planning Commission Hearing Room, Hall of Administration  
10 Civic Center Plaza  
Santa Ana, CA**

#### **1. CALL TO ORDER**

**Chair Withers** called the regular meeting of the Local Agency Formation Commission (LAFCO) to order at 8:01 a.m.

#### **2. PLEDGE OF ALLEGIANCE**

**Commissioner Bob Bouer** led the pledge of allegiance.

#### **3. ROLL CALL**

The following Commissioners and alternates were present:

- **Chair John Withers**
- **Vice Chair Susan Wilson**
- **Commissioner Robert Bouer**
- **Commissioner Bill Campbell**
- **Commissioner Peter Herzog**
- **Commissioner John Moorlach**
- **Commissioner Arlene Schafer**
- **Alternate Commissioner Pat Bates**
- **Alternate Commissioner Rhonda McCune**
- **Alternate Commissioner Charley Wilson**

The following Commissioners were absent at roll call:

- **Alternate Commissioner Patsy Marshall**

The following LAFCO staff members were present:

- **Legal Counsel Scott Smith (arrived at 8:31 am)**
- **Executive Officer Joyce Crosthwaite**
- **Assistant Executive Officer Bob Aldrich**
- **Senior Project Manager Carolyn Emery**
- **Commission Clerk Esther Garcia-Negrete**
- **Policy Analyst Benjamin Legbandt**

- Student Intern Joe Serrano

#### **4. APPROVAL OF MINUTES**

##### **May 14, 2008 – Regular Commission Meeting Minutes**

**Chair Withers** called for any changes and approval of the May 14, 2008 meeting minutes. There were none.

**MOTION:** Approve May 14, 2008 meeting minutes without revision  
(Susan Wilson)  
**SECOND:** Arlene Schafer  
**FOR:** Bob Bouer, Bill Campbell, Peter Herzog, John Moorlach,  
Arlene Schafer, Vice Chair Susan Wilson, and Chair John  
Withers  
**AGAINST:** None  
**ABSTAIN:** None  
**MOTION PASSED**

##### **May 22, 2008 – Regular Commission Meeting Minutes**

**Chair Withers** called for any changes and approval of the May 22, 2008 meeting minutes. There were none.

**MOTION:** Approve May 22, 2008 meeting minutes without revision  
(Arlene Schafer)  
**SECOND:** John Moorlach  
**FOR:** Bob Bouer, Bill Campbell, Peter Herzog, John Moorlach,  
Arlene Schafer, Vice Chair Susan Wilson, and Chair John  
Withers  
**AGAINST:** None  
**ABSTAIN:** None  
**MOTION PASSED**

#### **5. PUBLIC COMMENT**

**Chair Withers** requested public comments on any non-agenda item. There were none.

#### **6. CONSENT CALENDAR**

None

## 7. PUBLIC HEARING

Prior to consideration of public hearing items, **Chair Withers** noted that this was **Commissioner Bouer's** last meeting as a LAFCO Commissioner. He highlighted **Commissioner Bouer's** accomplishments, both as a Commissioner and personally, and thanked him on behalf of the Commission for his many contributions.

**Commissioner Bouer** expressed his sentiments regarding his years of service as a LAFCO Commissioner and thanked his fellow Commissioners

### 7a. – Rossmoor Incorporation (IN 07-02) Requests for Reconsideration

Executive Officer Joyce Crosthwaite noted that no requests for reconsideration were filed regarding the Commission's approval of the proposed Rossmoor Incorporation (IN 07-02).

**Commissioner Moorlach** informed the Commission that on June 24<sup>th</sup> the Orange County Board of Supervisors would be discussing the Rossmoor incorporation and the Board is expected to place the incorporation measure on the November 2008 ballot. He also noted that his office was exploring the possibility of adding a measure to the November ballot to impose a user utility tax on unincorporated County islands.

**Commissioner Herzog** noted he did not support the Rossmoor incorporation, and expressed concerns regarding raising taxes in unincorporated islands. He suggested that an alternative to taxing residents may be to conduct a comprehensive analysis of the remaining unincorporated county islands and develop a global strategy that looks at long-term options for these areas.

Executive Officer Crosthwaite responded that an in-depth discussion on unincorporated islands is planned for the August 13<sup>th</sup>, 2008 strategic planning session.

**Commissioner McCune** expressed her objections to the proposed Rossmoor Incorporation and concurred with Commissioner Herzog's comments.

## 8. COMMISSION DISCUSSION AND ACTION

### 8a. – Municipal Water District of Orange County (MWDOC) Governance Alternatives Study Contract

Executive Officer Crosthwaite summarized the events that led to the governance study and stated that the study is being done because of remaining unresolved issues. She summarized the proposed consultant contract and added that efforts to divide the contract between two firms resulted in an increase of \$40K to complete the study. Executive Officer Crosthwaite indicated that staff is now recommending that a single firm, Winzler and Kelly, be selected to

complete the study. She stated that several South County agencies have offered to fund the study. She recommended that the Commission approve staff's recommendations.

**Chair Withers** asked for Commissioner comments or questions of staff.

**Vice Chair Wilson** requested clarification of MWDOC's interest in funding the study and the impact that may have on other participants' contributions. Executive Officer Crosthwaite stated that should MWDOC decide to participate in funding of the study, staff will reallocate the remaining contributions required accordingly.

**Commissioner Campbell** stated that he previously was not supportive of the governance alternatives study but might reconsider based on public testimony.

**Commissioner Moorlach** recommended including a proviso that prohibits the two staff persons from the consulting firm from contributing to the governance alternatives study if the study proceeds.

**Chair Withers** opened the floor for discussion.

Kevin Hunt, General Manager, MWDOC, thanked staff for moving the issue forward. Additionally, he commended Commissioners Campbell and Moorlach for their comments. Mr. Hunt noted MWDOC's commitment to fund 50 percent of the study and expressed his sentiments regarding staff recommendations.

Diana Leech, Consultant, Colden State Water Company, requested the Commission be mindful that MWDOC has 29 member agencies whose limited resources may be otherwise occupied.

Jack Foley, General Manager, Moulton Niguel Water District (MNWD), stated his extensive local and regional experience and expressed his opposition to moving the governance alternatives study forward. He suggested LAFCO require the agencies to revisit the consensus document previously presented to ensure all issues are resolved.

John Schatz, General Manager, Santa Margarita Water District, ceded his time.

**Chair Withers** asked for Commissioner comments.

**Commissioner Moorlach** requested elaboration on the consensus agreement produced as a result of the facilitated meetings. Executive Officer Crosthwaite responded that extensive facilitation was provided and it resulted in a consensus agreement. However, it required ratification by all the Boards of Directors and not all the boards ratified the agreement. She concluded by stating that too much time had transpired to revisit the agreement at this time.

**MOTIONS:** Approve contract with Winzler and Kelly with the revision to include a proviso excluding the two staff members identified from participating, and accept MWDOC's offer to fund half of the governance alternatives study. (Bill Campbell)

**SECOND:** John Moorlach

**FOR:** Bob Bouer, Bill Campbell, Peter Herzog, John Moorlach, Arlene Schafer, Vice Chair Susan Wilson, and Chair John Withers

**AGAINST:** None

**ABSTAIN:** None

**MOTION PASSED**

## **9. COMMISSIONER COMMENTS**

**Vice Chair Wilson** noted that attendance to the Strategic Planning Session has declined and encouraged all Commissioners to attend and participate in this year's session.

Executive Officer Crosthwaite noted the Strategic Planning session would be held on August 13, 2008 at IRWD's multi-purpose room at 9 a.m. She additionally indicated that an ethic training seminar will be held following the Strategic Planning Session to satisfy the mandated AB1234 requirements.

## **10. INFORMATIONAL ITEMS & ANNOUNCEMENTS**

Executive Officer Crosthwaite reminded the Commission of the upcoming annual CALAFCO conference which will be held at the Universal Studios Sheraton in Universal City. She also noted that that staff is currently coordinating an Audit 101 session for the conference.

**Commissioner Moorlach** thanked staff for their work on the Orange County/Los Angeles County Boundary report.

**Vice Chair Wilson** requested an update on the Orange County/Los Angeles County Boundary report.

Senior Project Manager Emery provided a status summary of the boundary report and indicated that the revised report will be presented to the Orange County Board of Supervisors on July 22<sup>nd</sup>. She highlighted revisions and additions to the report and added that staff would be seeking approval from the Board of Supervisors regarding further exploration of potential adjustments. She noted that an additional update would be presented to the Commission at the Strategic Planning Session.

## **11. CLOSED SESSION**

None

## **12. ADJOURNMENT**

The meeting adjourned at 11:50 am.

JOHN WITHERS, Chair  
Orange County Local Agency Formation Commission

By:   
\_\_\_\_\_  
Esther Garcia-Negrete  
Commission Clerk

# **MWDOC Governance Study Kick-Off Meeting**

**September 9th, 2008**

**9:30-11:30 am.**

OC Public Works Building  
300 North Flower, Room B-10  
Santa Ana, CA 92703

(The building is located on the southwest corner of Flower and Santa Ana Blvd in Santa Ana.  
The room is in the basement of the building.)

## **AGENDA**

- I. **Welcome & Introductions** Joyce Crosthwaite
- II. **Description of Study Process** George Wentz & Joyce Crosthwaite
  - Study process
  - Data request methods and procedures
  - Opportunities for input
- III. **Governance Options** (from LAFCO MSR) Joyce Crosthwaite
  - MWDOC--Status Quo
  - Reorganize MWDOC and form a new entity
  - Reorganize South County agencies
  - Reorganize MWDOC, OCWD and other agencies
  - Reorganize MWDOC and East Orange County Water District
  - Others?
- IV. **End Result of Study** Joyce Crosthwaite
- IV. **Comments and Questions**
- VI. **Adjournment**



**September 9, 2008**  
**MWDOC Governance Study**  
**Kick-off Meeting**

**1. Purpose and Use of the Study**

- a. Local Agency Formation Commission (LAFCO) approved looking at the governance options for MWDOC including the financial and legal ramifications
- b. This is a LAFCO study and LAFCO will be directing the work to answer the Commission's questions
  - i. The study will build in Chapter 8 of the Municipal Service Review which generally listed governance options but did not provide detail
  - ii. The study is NOT another service report
  - iii. The study is NOT a rate study
  - iv. The study will include some "high level" financial analysis about each option. The analysis will focus on how the various governance options might influence cost (i.e. larger boards could equate to more overhead costs). The study will not explain how costs would be translated into rates.
  - v. The study will include the 'short term' costs of reorganization together with an analysis of long term financial impacts.
- c. The study will include a legal "fatal flaw" analysis on all options so that time is not devoted to discussion options that will not work
- d. The study could be used as part of an application for re-organization however, the study does not in any way bypass the application process. Applications for re-organization are likely to require additional information beyond that covered in the study.

**2. Communication Protocol**

- a. Communication will go from LAFCO staff to the MWDOC member agencies.
- b. All data requests will come from LAFCO staff, the consultants will not be making multiple data requests of member agencies
- c. Each member agency should designate a "point of contact" for LAFCO staff and information and data requests will go to that point of contact.

**3. Schedule**

- a. Stakeholder Meetings are currently scheduled for:
  - i. October 22, 2008
  - ii. December 3, 2008
  - iii. February 11, 2009
- b. Draft deliverables will be presented at the Stakeholder Meetings
- c. Comments are due one week after the meetings

- d. LAFCO staff is scheduled to take this study to the Commission on March 11, 2009.

#### **4. Governance Options**

- a. Study will focus on the following options outlined in the MSR
  - i. MWDOC status quo (with recent board policy changes)
  - ii. “Enhanced” status quo
  - iii. Reorganization of MWDOC
  - iv. Reorganization of South County agencies as a new entity
  - v. Reorganize MWDOC and OCWD
    - 1. Commission requested this option
    - 2. Acknowledged to be politically challenging
    - 3. Has been studies before
  - vi. Reorganize MWDOC and East Orange Water District
    - 1. Commission requested this option
    - 2. Probably an “outlier” in terms of real recommendations
  - vii. Special Legislation Option: describe how this could improve the status quo
- b. The study will consider the status quo as the baseline and there is NO presumption that the status quo is inefficient or does not work.
- c. The “reorganization options” will include looking at a Joint Powers Authority (JPA) and options to capture the three cities who are direct MET member agencies
- d. The study will describe what each alternative organization structure can do and the flexibility to provide services
- e. Should be coordination with MET during the fatal flaw review process
- f. Study needs to recognize the strength of working “collectively” and the institutional basis of MWDOC.

#### **5. Next Meeting – October 22, 2008**

# SIGN IN PLEASE

NAME	AGENCY	PHONE #
Howard Johnson	CITY OF H.B.	714-536-5503
Sonny Tran	CITY OF Orange	714-288-2475
MARK LEWIS	CITY OF F.V.	714-593-4434
BOB KELLISON	CITY OF F.V.	714-593-4601
MATT COLLINGS	MOULTON NIGUEL W.D.	949-425-3552
DIANA LEACH	GOLDEN STATE W.C.	714-329-1448
RON KRAUSE	CITY OF BREA	714-990-7642
Lo Tam	ORANGE COUNTY W.D.	714-378-3368
Walton Greco	MWDOC	714-593-5034
CARLO NAFARRETE	CITY OF L.H.	562-905-9792
Betty Burnett	So. Coast Water	949-499-4555
Bob Hill	ETW.D.	832-7050
Scott Miller	CITY OF WESTMINSTER	714-895-2876
John Schatz	SMWD	949-459-6602
Paul Cook	RLWD	(949) 453-5570
Denae Hinchey	LBCAD	(949) 464-3106
Fred Adjanian	CITY OF TUSTIN	714.573.3381
Kenn Hunt	MWNA	714 593-5026
Ken Vecchiarelli	YLWD	(714) 701-3102

Agenda  
Kick-off Meeting  
Municipal Water District of Orange County  
Study of Governance Alternatives  
*October 22, 2008*  
*10:00 – 12:00*  
*300 North Flower Street Room B 10*

- |  |  |
|--|--|
| 1. Introductions   | All                                      |
| 2. Review and Changes to the Agenda                            | All                                      |
| 3. Overview of Governance Structure<br>Alternatives Memorandum | LAFCO/Winzler & Kelly/James Markman Esq. |
| 4. Questions and Comments                                      | All                                      |
| 5. Schedule and Next Steps                                     | All                                      |
| 6. Update on Information Requests                              | Winzler & Kelly                          |
| 7. Set Next Meeting  | All                                      |

Data Request  
Municipal Water District of Orange County  
Study of Governance Alternatives  
*Date –Time – Location*

1. Detailed list of MWDOC services and activities
2. MWDOC Organization Chart
3. MWDOC Budgets for past five fiscal years
4. MWDOC Wholesale Rate Schedules
5. Any additional information that may affect MWDOC's future rates (i.e. is MWD anticipating significant cost increases because of drought, Delta conditions, pending legislation etc)
6. Member Agency Water Enterprise Budgets for past five fiscal years
7. Member Agency Retail Water Rate Schedules
8. Detailed list of Member Agency water utility services and activities
9. Organization Chart for Member Agency Water Utilities

Meeting Minutes  
2<sup>nd</sup> Stakeholder Meeting  
Municipal Water District of Orange County  
Study of Governance Alternatives  
*October 22, 2008*

1. Overview of Governance Structure Alternatives Memorandum
  - a. The Technical Memorandum discussing governance structures and copies of the Power Point presentation summarizing the findings were distributed to all stakeholders.
  - b. Mary Grace Pawson with Winzler & Kelly presented the 1<sup>st</sup> Technical Memorandum which provided a fatal flaw screening of potential governance structure alternatives.
  - c. The Memorandum includes 7 “potentially feasible” alternatives. These are:
    - i. Status Quo
    - ii. Dissolve MWDOC and form a County Water District
    - iii. Dissolve MWDOC and form a County Water Authority
    - iv. Reorganize the six South County agencies to form a second Municipal Water District. This alternative would retain a smaller version of MWDOC
    - v. Reorganize the six South County agencies to form a new County Water District. This alternative would retain a smaller version of MWDOC
    - vi. Reorganize the six South County agencies to form a new County Water Authority. This alternative would retain a smaller version of MWDOC
    - vii. Reorganize MWDOC with East Orange County Water District.
  - d. Potentially feasible alternatives will be carried into the fiscal analysis which is the next step in the project.
  - e. The Technical Memorandum and Power Point presentation will be posted on Orange County LAFCO’s website so they can be accessed by the stakeholders.
2. Comments and Decisions from the Group
  - a. Joyce Crosthwaite, Orange County LAFCO, led and facilitated discussion by the stakeholder group.
  - b. The stakeholder group requested that consideration of Alternative 7 – Reorganize MWDOC with East Orange County Water District, be deferred. There are currently ongoing discussions with EOCWD and the retailers it serves. Analysis of this concept is premature.
  - c. The stakeholder group concurred that consideration of Alternative 2 – Dissolve MWDOC and form a County Water District is very similar to the status quo. This alternative will be dropped from further consideration, pending a final legal review by James Markman. The legal review will confirm that there are not significant differences in the governance structure between a Municipal Water District and a County Water District.
  - d. The group asked if a special act agency would be considered. Mary Grace Pawson explained that the initial fatal flaw analysis only considered agencies authorized to provide representation to Metropolitan Water District under Met’s principal act. This screening criteria was adopted because successfully executing changes to Met’s principal act is beyond the control of Orange County LAFCO and the stakeholders. However, the first Technical Memorandum does include a brief discussion of alternative concepts that would require special legislation. Mary Grace Pawson also indicated that as the final alternatives are developed, the consultants will continue to “keep track” of areas where special legislation may prove helpful.
  - e. Written comments are due to LAFCO by October 29, 2008

3. Next Meeting Date

- a.* The next meeting date has been tentatively set for December 3, 2008, however this may create a conflict for agencies attending the ACWA conference
- b.* Orange County LAFCO will work to reschedule the meeting to avoid this conflict.





# MWD OG Study Stakeholder Mtg

## 10/22/08

NAME

ORG

DIANA LEACH

FOR-6SWC

MARK LOUIS

Fountain Valley

BOB KELLISON

" "

BOB GUMERMAN

MOULTON NIGUEL RD

Jim Thompson

Richards, Watson & Graham

Rep KRAUSE

BREA

Howard Johnson

HB

Warren Greco

MWD OG

Bob BAETNER

ORANGE

PAUL JONES

IRWD

John Kennedy

OCWD

FRED ADRIAN

TUSTIN

Richard Fiore

MNWD

Ken Vecchiarelli

YLWD

Marilyn Thoms

County of Orange

Bob Hill

ETWD

Don Chadd

Tobacco (unlabeled)

NAME

ORG

Harvey Enelich

OC LAFCO

George Wentz

W&K

Meeting Minutes  
Third Stakeholder Meeting  
Municipal Water District of Orange County  
Study of Governance Alternatives  
*February 18, 2009*  
*10:30 – 12:00*  
*300 North Flower Street Room B 10*

1. Overview of Preliminary Financial Analysis
  - a. Joyce Crosthwaite provided the introduction and overview
  - b. Laurie Madigan outlined the alternatives brought forward from the Governance Structure Options Report and explained how these alternatives were developed as part of the financial analysis. Specifically these alternatives are:
    - i. Option 1 – MWDOC Baseline
    - ii. Option 2 – Dissolve MWDOC and form a CWA
      1. MWDOC CWA (no changes to cost structure)
      2. Subscription CWA (agencies can elect not to subscribe to some programs)
    - iii. Option 3 – Reorganize South County Agencies to form a CWA
      1. Six Agency South CWA (includes EL Toro, Irvine Ranch, Moulton Niguel, Santa Margarita, South Coast and Trabuco Canyon Water Districts)
      2. Nine Agency South CWA (includes six agencies together with Laguna Beach Water District and the cities of San Clemente and San Juan Capistrano). This option was added by LAFCO staff to provide for contiguous boundaries.
  - c. Mary Grace Pawson and Gary Arant presented an overview of the structure of the report and the major findings
    - i. Specifically stakeholders were directed to Tables 7, 10, 13, 16 and 19 for an agency-by-agency breakdown of the cost impacts of each option.
    - ii. Generally each option appears financially feasible with the biggest cost impacts related to:
      1. assumptions about reserve levels
      2. assumptions about how Tier 2 water costs are paid
2. Questions and Comments
  - a. Stakeholders questioned reserve assumptions, staffing assumptions. Consultants requested that the stakeholders provide detailed comments, with specific recommendations, on how these assumptions should be modified
  - b. Comment was offered that, under the Subscription CWA option, all agencies may not have existing programs in place to replace the regional programs which would result in a cost
3. Schedule and Next Steps
  - a. Stakeholder Comments due to LAFCO on March 4<sup>th</sup>
  - b. LAFCO and consultants will review comments and make appropriate changes to report
  - c. The most helpful types of comments will:
    - i. Provide specific additional or updated data that a stakeholder believes should replace the data in the draft report
    - ii. Describe, in detail, changes to the assumptions that stakeholders believe will result in more accurate presentation of alternatives

**AGENDA**  
**3rd Stakeholder Meeting**  
**MWDOC Governance Alternatives Study**

*February 18, 2009*  
*10:30 – 12:00*  
*300 North Flower Street Room B-10*

- |  |                                       |
|--|---------------------------------------|
| <b>1. Introductions &amp; Sign-in</b>                    | <b>All</b>                            |
| <b>2. Agenda Review</b>                                  | <b>All</b>                            |
| <b>3. Overview of Preliminary<br/>Financial Analysis</b> | <b>LAFCO/Winzler &amp; Kelly Team</b> |
| <b>4. Questions and Comments from<br/>Stakeholders</b>   | <b>All</b>                            |
| <b>5. Schedule and Next Steps</b>                        | <b>All</b>                            |
| <b>6. Set/ Confirm Next Meeting</b>                      | <b>All</b>                            |

# SIGN-IN SHEET

**MWDOC Governance Alternatives Study**  
**3<sup>rd</sup> Stakeholder Meeting, February 18, 2009**

	<u>NAME</u>	<u>ORGANIZATION</u>	<u>PHONE #</u>
1.	Lee Pearl	MesaWata	
2.	DIANA LEACH	GOLDEN STATE WC	
3.	BOB KELLISON	FOUNTAIN VALLEY	714-593-4601
4.	Harry Ehrlich	PRS - OC LAFCO	760-415-6148
5.	KEVIN HUNT	MWDOC	714-593-5026
6.	Karl Seckel	MWDOC	714 593 5024
7.	Warren Greco	MWDOC	714 593 5034
8.	Renee Hinchey	LCBUD	949 464-3106
9.	Howard Johnson	CITY OF H.B.	714- 536- 5503
10.	Fred Babin	CITY OF TUSTIN	714. 573.3381
11.	Kelly Roy	Monterey Niguel Water Dist.	949/440-4013
12.	Don Chadd	Trabuco Canyon Water Dist.	949 858-0277
13.	Bob Hill	ETWD	949 837-7050
14.	Paul Jones	IRWD	E. 214 914 53-5310
15.	Ken Vecchiarelli	YLWD	714 701-3020

	<u>NAME</u>	<u>ORGANIZATION</u>	<u>PHONE #</u>
16.	Dan Ferens	SMWD	949 459 6540
17.	MIKE DUNBAR	SLWD	949-499-4555
18.			
19.			
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# **MWDOC GOVERNANCE STUDY**

## **Meeting Minutes**

### **May 6, 2009 Stakeholder Meeting**

1. Joyce Crosthwaite, Orange County LAFCO, provided an overview of the purpose and schedule for the Governance Study. The document provided at the stakeholder meeting is the first draft of the final report and includes:
  - a. Initial Screening of Governance Options
  - b. Preliminary Financial Analysis
  - c. Initial Implementation and Legal Analysis

An Executive Summary will be provided with the final draft report after receipt of stakeholder comments

2. Mary Grace Pawson, Winzler & Kelly, provided an overview of the first draft report which includes a revised Preliminary Financial Analysis that responds to stakeholder comments and a new Implementation and Legal Analysis.
  - a. All three options –MWDOC Baseline, MWDOC CWA (two sub-options) and a new South County CWA (two sub-options) remain fiscally viable.
    - i. The changes made in response to comments include capping MWDOC's reserves at \$5 million; including CWA board costs based on the San Diego County Water Authority's budgeted costs; and adjusting the "subscription services" to more accurately reflect the practices of the retail agencies.
    - ii. The changes made in response to the comments essentially result in all options looking "more alike".
  - b. One option, MWDOC CWA, is NOT legally viable because of restrictions in the CWA Act around serving private water companies. The other options, MWDOC Baseline and South County CWA, are viable based on preliminary financial and legal review.
  - c. The preliminary analysis of board structure, voting rights and Metropolitan representation was presented for the two South County CWA sub-options.

# **MWDOC GOVERNANCE STUDY**

## **Meeting Minutes**

### **May 6, 2009 Stakeholder Meeting**

- d. Implementing either of the two South County CWA sub-options requires an application to LAFCO which LAFCO would process as a reorganization (detachment from MWDOC and formation of a new agency)
  - e. Metropolitan was also consulted as part of the study. Metropolitan has indicated that the proposal would be a matter of “first impression” requiring an affirmative discretionary action by their Board of Directors
  - f. Both Metropolitan and LAFCO will likely require negotiated agreements around water supply and other interests as part of the application before considering it complete.
3. Joyce Crosthwaite discussed the schedule:
- a. Stakeholder comments due on May 27<sup>th</sup>
  - b. Report will be revised and an Executive Summary will be added to respond to stakeholder comments
  - c. Commission is scheduled to “receive and file” the Governance Study at its September 9, 2009 meeting.
  - d. While a final stakeholder meeting is currently not part of the schedule, the stakeholder group felt it might be important to have one more meeting after the final draft of the report is produced and before the Commission hearing. LAFCO will take this under consideration

**AGENDA**  
**4<sup>th</sup> Stakeholder Meeting**  
**MWDOC Governance Alternatives Study**

*May 6, 2009*  
*10:30-12:00*  
*300 North Flower Street Room B-10*

- |   |                        |
|---|------------------------|
| 1. Introduction & Sign-in                   | All                    |
| 2. Agenda Review                            | All                    |
| 3. Update on Financial Analysis             | Consultant             |
| 4. Overview of Legal Analysis               | LAFCO/W & K Consultant |
| 5. Questions and Comments from Stakeholders | All                    |
| 6. Schedule and Next Steps                  | All                    |
| 7. Set/Confirm Next “possible” Meeting      | All                    |



# SIGN-IN SHEET

	<u>Name</u>	<u>Agency</u>	<u>Phone #</u>
1.	Howard Johnson	CITY of H.B.	714-536-5503
2.	DIANA LEACH	GSWC	714-329-1448
3.	MIKE DUNBAR	SCWD	949-499-4555
4.	DICK DIEMMEIER	"	"
5.	BOB KELLISON	CITY OF FV	714-593-4601
6.	John Kennedy	OCWD	(7) 378-3304
7.	Bob Braehner	ORANGE	714 288-2475
8.	JONES	IRWD	9/453-5310
9.	BOB GUMERMAN	MNWD	949-448-4071
10.	Bob Hill	ETWD	" 837-7050
11.	Renee Hinchey	LBCWD	949 464-3106
12.	Karl Seikel	MWDOC	
13.	Wanda Gicco	"	
14.	Joan Lyle	City of Buena Park	714/562-3687
15.	Sam Hunt	IRWD	714-645-5111

DRAFT WHITE PAPER REGARDING THE  
FORMATION OF A SOUTH ORANGE COUNTY WATER AUTHORITY

June 23, 2009

Mission Statement

*The mission of a new south Orange County Water Authority (CWA) would be to provide essential wholesale imported water service and representation to the Metropolitan Water District of Southern California (Metropolitan) for member agencies as efficiently and cost effectively as possible. The CWA will also facilitate and administer project committees to implement cooperative water infrastructure projects and program services of regional benefit for which two or more member agencies choose to share the cost.*

Executive Summary

This white paper identifies the current concerns with wholesale imported water services provided to south Orange County through the Municipal Water District of Orange County (MWDOC), and demonstrates how the formation of a south Orange County Water Authority provides a superior service model that is beneficial to the region.

There are several concerns with MWDOC's service model and governance that have caused agencies in south Orange County to explore alternatives for wholesale imported water service. In 2007, the Orange County LAFCO prepared a statutorily-required Municipal Services Review which confirmed many of these concerns, and resulted in LAFCO conducting a subsequent study to determine feasible governance alternatives for MWDOC. The concerns of the south Orange County agencies are as follows:

1. Since consolidation with Coastal Municipal Water District (Coastal) in 2001, MWDOC has expanded its service functions into a variety of ancillary programs that many of the south Orange County member agencies have not requested, do not want to pay for, and are redundant to on-going member agency programs;
2. MWDOC's operating budget has *doubled* in the last ten years with much of this increase attributable to the growth in the aforementioned ancillary programs;
3. Over approximately the same period of time, MWDOC has increased the operating reserves supporting its operation to a level that many of its member agencies believe to be unjustifiable considering MWDOC owns no water storage and delivery infrastructure or facilities, neither produces nor treats any supplies of water, and has never experienced a member agency billing default;
4. MWDOC's rates and charges are disproportionate to the services provided and the population served by its member agencies. Specifically, south County agencies, through water purchases and other payments, fund approximately 46% of MWDOC's annual operating budget, but these same agencies only comprise 28% of the population in the MWDOC service area; and

5. The MWDOC Board is elected by public vote by division (area), and as such, has no direct accountability to the member agencies that are in fact its "ratepayers" and directly fund MWDOC's operations. MWDOC sends no water bills to the public and has no direct connection with customers. This lack of accountability to the public and its member agencies has enabled MWDOC to increase its scope, programmatic expenditures, and self-directed projects with virtually no public scrutiny.

To address these issues, this paper considers an alternative wholesale imported water service model for south Orange County that would replace continued participation in MWDOC. The alternative governance model proposed and analyzed in this paper would be formation of a separate south Orange County agency under the State of California's County Water Authority (CWA) Act. The CWA offers the unique and important benefit of allowing each member agency to provide direct representation on the CWA's Board of Directors. This structure allows the member agencies, which fund the operations of the CWA, to make direct decisions on regional water policy and representation at the Metropolitan Water District of Southern California (Metropolitan), on the size and scope of the agency, on budget, and on the need and funding levels of projects and programs.

The service structure of the CWA, as proposed, would include a core service function and associated budget of which all agencies would participate, and a "cafeteria plan" component where member agencies could opt into, or out of, certain ancillary services through elective participation in various "project committees." All agencies would pay for core services and administration of the CWA, then would select the project committees on which they would choose to participate. The project committee structure provides a mechanism for each member agency to receive tailored service levels and to pay for only those ancillary services those agencies need. The project committee structure also lends itself to participation in the collaborative planning, design and construction of regional water infrastructure projects. South Orange County agencies have successfully worked under the project committee structure for many years through the South Orange County Wastewater Authority. By its nature, the project committee structure provides a high degree of efficiency, cost effectiveness and accountability, and avoids agencies subsidizing projects and programs which they do not need.

Based upon the analysis presented in this paper, the following can be concluded:

1. A new south Orange County CWA implemented under the core service and project committee model would provide substantial cost savings to member agencies and the public over continued participation in MWDOC. Under the nine-agency CWA analyzed, cost savings to ratepayers would conservatively range from \$707,000 (a 26% savings) to as much as a \$1.24 million (a 45% savings) on an annual basis.
1. The proposed south County Water Authority core service and ancillary service project committee model provides both equitable and appropriate cost allocation while improving service efficiency.

2. A new CWA would provide direct accountability and more focused representation for the south County's current and future water needs.
3. Formation of a new south CWA is institutionally and financially feasible, and there are no significant obstacles to implementation.
4. The interests of Orange County as a whole would not be diminished, but rather benefited, by the formation of a new south County CWA. The varying policy, program and future water supply needs between the north County and the south County would be better served through independent representation regionally and at Metropolitan.
5. A south CWA would not change the current number of Orange County directors on Metropolitan's Board, and would be a return to a historic number of Metropolitan member agencies that included Coastal Municipal Water District.

### Introduction

This paper evaluates the formation and operation of a CWA for south Orange County. The Orange County Local Agency Formation Commission (LAFCO) is currently conducting a study of MWDOC's governance which includes a so-called "fatal flaw" analysis of a variety of alternative governance structures for wholesale water service in the County, including a CWA. Although a CWA can be formed by any number of agencies, two alternatives for south Orange County were considered: a nine-agency County Water Authority (CWA) that includes six water districts<sup>1</sup> and three south County cities<sup>2</sup>, and a six-member CWA consisting of the water districts only. The MWDOC Governance Study has determined that both of these service models are institutionally and financially feasible and without legal barriers or conflicts to formation.

For analysis purposes, this paper focuses primarily on the nine-agency model as the preferred option for reasons addressed later in this document. However, the conclusions presented herein also support the six-agency option or other options in terms of multiple agency participation as viable constructs for wholesale imported water service through a south County CWA.

Specifically, this paper provides:

- An overview of continuing concerns and issues with MWDOC's scope of service, its allocation of costs, and its governance structure;
- A description of how a south County Water Authority would function, how it would be governed, how it would be represented at Metropolitan, and what benefits it would provide over continued participation in MWDOC; and

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<sup>1</sup> El Toro, Irvine Ranch, Moulton Niguel, Santa Margarita, South Coast, and Trabuco Canyon Water Districts.

<sup>2</sup> The cities of Laguna Beach, San Juan Capistrano, and San Clemente.

- An analysis of potential operating costs and savings attributable to a new south County CWA over MWDOC.

The present version of this paper includes an overview of the formation process (i.e., the LAFCO process) that would be required to implement a new CWA. However, the discussion is general in nature and does not address the specific steps that would be taken since there are various options as to how that might occur and the most suitable method has yet to be determined. The precise formation and implementation steps will be discussed separately when the MWDOC Governance Study undertaken by LAFCO is finalized and there is a clear understanding of what the most appropriate steps are to accomplish the formation of a new CWA, if that option is the preferred outcome of the participants.

Finally, this paper refers in a number of places to the findings and conclusions reached in the LAFCO-initiated and independently prepared MWDOC Governance Study. Valuable work was completed in that study and it was particularly helpful in identifying the number of directors and the voting rights of a south County CWA and in determining voting and representation at Metropolitan. The study also included other quantitative information that proved useful in preparing this paper and footnotes indicate when such information is cited.

#### Background and Current Concerns with MWDOC

##### 1. MWDOC Background

The Municipal Water District of Orange County was formed in 1951 under the Municipal Water District Act of 1911. Currently, it has 28 member agencies (14 cities, 12 water districts, one private water company, and one community services district), is the third largest member agency of the Metropolitan Water District of Southern California (MWD), and appoints four members to the 37-member MWD Board of Directors. MWDOC is governed by a seven-member Board of Directors publicly elected by division.

The cities of Anaheim, Fullerton, and Santa Ana were originally individual member agencies of MWD who later annexed into MWDOC. They subsequently de-annexed and regained their status as individual member agencies of MWD (a point worth bearing in mind), and are no longer MWDOC member agencies.

In 2001 the Coastal Municipal Water District, formed in 1948 to represent coastal communities from Newport Beach to the San Diego county line, was consolidated into MWDOC. Today, MWDOC is essentially an independent tier of government residing between MWD and its 28 member agencies with its own agenda, an approximately 33-member staff, and an annual operating budget of over \$6 million. Although its members are publicly elected, it is probably fair to say that MWDOC and its role are not easily recognized nor understood by the average Orange County voter. Its role is largely invisible to the voting public.

Orange County today is significantly different than in 1951 when both north and south County agencies tended to be minimally staffed and not fully capable of providing regional programs and representation. Today the north County is almost completely developed and relies primarily on groundwater to meet demands whereas the south County continues and will continue to experience significant growth and rely primarily on imported water to meet current and future demands. Both north and south County agencies are modern, technologically sophisticated, and more fully staffed. The resources and capabilities of both north and south County water providers are vastly different today than in 1951, and, equally important, the needs and requirements of the north County and south County are no longer entirely consistent.

In short, given the differences that have emerged over the almost 60 years since 1951 between north and south, MWDOC's current governance structure and scope of service may not be the optimal service model for all of Orange County today, particularly for the developing districts and cities of the south County. These differences are heightened by the fact that the south County agencies, through water purchases and other payments, fund approximately 50% of MWDOC's annual operating budget. However, the customers of these same agencies only comprise 28% of the population in the MWDOC service area.

## 2. The MWDOC Service Model

Since consolidation with Coastal in 2001, MWDOC has expanded its service functions into some areas several of its member agencies believe do not add value, have not been requested, do not want to pay for, and are redundant to on-going member agency programs.

MWDOC's core functions, or essential services, are<sup>3</sup>:

- Wholesale water importation;
- Planning and resource development;
- MWD interface, issues and special projects; and
- Emergency preparedness (WEROC).

Although these functions are described in the subject study as core or essential services, there is some dispute whether the self-determined level of MWDOC's involvement in certain areas, such as planning and resource development, is appropriate. Although some degree of planning and coordination relative to imported water from MWD is needed, MWDOC has assumed a role and has provided funding for the development of retail agencies' projects, studies and efforts in the areas of ocean desalination, groundwater treatment and water recycling. Although these projects may have merit in their own right, local resource projects are the responsibility of member agencies individually and should not be subsidized by non-participants without agreement. Participation in select local projects is an example of the expansion or "creep" of MWDOC's mission beyond the scope of an imported water wholesaler.

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<sup>3</sup> MWDOC Governance Study, page 31, section 6.5.

Over time, MWDOC has also added other ancillary or non-core services that are selectively used directly or indirectly by all or some of its member agencies, including:<sup>4</sup>

- Government affairs (such as state and federal lobbying efforts and media outreach);
- Water use efficiency;
- Water awareness; and
- School programs.

MWDOC's operating budget has doubled in the last ten years with much of this increase attributable to the growth in ancillary programs. The growth in non-essential ancillary services often provides little value to many of its member agencies and is duplicative of the programs of member agencies (e.g., lobbying efforts, conservation programs, community outreach and public affairs programs). This concern is compounded by the fact that ancillary programs are disproportionately funded by south County agencies based on their combined contribution to total MWDOC revenues. While the south County pays more for these ancillary services that often duplicate what individual south County agencies already provide, ancillary services are typically more heavily utilized by north County agencies that do not individually provide these services.

Additionally, over roughly the same period of time MWDOC has increased the operating reserves supporting its operation to a level that many of its member agencies believe to be unjustifiable. Reserves are currently around \$5 million and were projected to grow by 3% a year to over \$8 million by FY 2019-20 in the Second Technical Report<sup>5</sup>. That number was subsequently reduced to a target range of \$5 to \$6 million in the First Draft Governance Study based upon assumed implementation of MWDOC's December 2006 Policy Resolution. Future reserve limits will continue to be set at the discretion of the MWDOC Board. A number of member agencies believe a reserve level of \$5 to \$6 million is still high, and should be lowered significantly given the fact that MWDOC:

- Owns no water storage and delivery infrastructure or facilities;
- Neither produces nor treats any supplies of water;
- Has never experienced a member agency billing default; and
- Essentially has the credit worthiness of its individual member agencies through its rates and charges to provide a financial "back-stop" in case of any emergency.

Although the reserve levels have been an issue of concern for several years, MWDOC has resisted re-opening its reserve policy, which was originally established by benchmarking MWDOC against other MWD member agencies that have water supplies and infrastructure assets.

Finally, while MWDOC's budget process is touted as one that provides input from its member agencies, the reality is the outcome is frequently pre-determined against south County agencies

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<sup>4</sup> Ibid.

<sup>5</sup> MWDOC Governance Study, First Technical Report, Table 6, page 20

because these agencies are numerically fewer than their north County counterparts. This happens because there are nine agencies in south Orange County, and 18 agencies in north County. The majority of the north Orange County agencies use groundwater for 60 to 70% of their supply, and are therefore less affected by MWDOC's budget and rate decisions. Yet, these same agencies take full advantage of MWDOC's core and ancillary services, while the south County agencies on the whole do not. Compounding this is the fact that the south County agencies only comprise 28% of MWDOC's service area population, yet these agencies provide 50% of MWDOC's annual operating revenues.

MWDOC's organizational structure creates two very significant issues for the south County member agencies: the scope and equitable recovery of costs for the services provided and reserves as previously described, and the level of accountability created by MWDOC's governance structure, as described below.

Although a number of issues have emerged over the last several years relative to MWDOC's governance structure, the most troubling of these issues is the "disconnect" between how the MWDOC Board is elected and the manner in which the member agencies are represented. The MWDOC Board is elected by public vote by division (area), and as such has no direct accountability to the member agencies that are in fact its "ratepayers" and directly fund MWDOC's operations. MWDOC sends no water bills to the public and has no direct connection with customers. This lack of accountability to the public and its member agencies has enabled MWDOC to increase its scope, programmatic expenditures, and self-directed projects. Because the public is often unaware of what MWDOC does and how it functions, or should function, many member agencies believe the public is not in a position to understand the technical decisions and choices that are made by MWDOC and that it is the member agencies who should bear that responsibility as part of their elected duties.

MWDOC has turned a deaf ear to this serious issue of reform and continues to function as if it were independent from and not accountable to its member agencies. It has consistently refused to examine changes to its governance structure that would address concerns of accountability.

#### The LAFCO-initiated MWDOC Governance Study: Where We Are Now?

Most of the issues with MWDOC addressed above were communicated by member agencies as early as 2005. In anticipation of LAFCO's Municipal Services Review (MSR), MWDOC adopted policy changes that were not overly restrictive, maintained inflated expenditure levels, and continued to deny budget ratification to its member agencies. The LAFCO MSR completed in November 2007 essentially codified the issues identified by the member agencies, spoke to the difficulties in resolving them, and pointed to the need for a further extensive study.

In April 2008 LAFCO approved a draft scope for a MWDOC Governance Study and in June 2008 hired an independent consultant to conduct the study under LAFCO's direction. The Report was completed in three phases:



Draft Technical Report 1 – Potential Governance Structure Options identified 11 potential governance options and found the following five options to be institutionally feasible:

- MWDOC Baseline (status quo)
- MWDOC County Water Authority
- MWDOC County Water Authority w/subscription services
- South County Water Authority - six-agency configuration
- South County Water Authority - nine-agency configuration

Draft Technical Report 2 – Preliminary Financial Analysis examined each of the institutionally feasible options and found all five to be financially feasible.

Draft Technical Report 3 – Implementation Analysis examined whether the institutionally and financially options were could be implemented and found:

- MWDOC Baseline option remained viable;
- MWDOC CWA and CWA w/subscription services are not considered viable without special legislation and were therefore considered fatally flawed; and
- Both the six- and nine- South County CWA configurations remained viable.

Given the findings of the MWDOC Governance Study, the question facing the south County group is whether to remain in an unchanged, status quo MWDOC or form a new south County Water Authority to replace it.

#### Forming a New South Orange County Water Authority

Based upon a review of the available governance models and the desire of the south County agencies to have appropriate service levels, better financial accountability and value, and direct representation, it is proposed that a nine-agency South Orange County Water Authority (CWA) be formed consisting of the following governmental entities:

- El Toro Water District
- Irvine Ranch Water District
- Moulton Niguel Water District
- South Coast Water District
- Santa Margarita Water District
- Trabuco Canyon Water District
- City of Laguna Beach
- City of San Juan Capistrano
- City of San Clemente

A six- or fewer member agency CWA consisting of the water districts only is also a potential alternative to remaining in MWDOC; however, the nine-member configuration has a number of

advantages that, according to LAFCO policy, would make it the preferred outcome. A nine-member CWA:

- Provides a single, contiguous geographic area stretching from Irvine south to the San Diego County line. It avoids creating geographic islands, which are of concern to LAFCO;
- Would encompass an area with similar communities of interests in the broader sense, but even more so with regard to current and future water needs. Almost all of the nine agencies are heavily reliant on imported water and would be in a position to cooperatively investigate and implement alternative water supply projects; and
- Would provide improved economies of scale, particularly with respect to the CWA Core Service budget, described below, since the core management and administrative functions of a nine-member CWA would very likely remain consistent with those of a six- or fewer member CWA.

For these reasons, this paper addresses a south County CWA primarily in terms of the nine-member configuration and the proposed budget shown in Exhibit A is based on that alternative. However, a CWA with six or fewer members remains viable and would provide similar benefits to the larger CWA relative to existing service from MWDOC.

### 3. Board Governance

The County Water Authority Act (the Act) establishes how governance of a new CWA is structured. The provisions of the Act include features that are intended to limit dominance by any member agency and to promote a balanced form of governance. The proposed nine-member water authority would adhere to the current Act.

The Act provides for the governance of the Authority by a board of directors that would consist of at least one representative of each member agency. CWA Board members would not be compensated by the CWA but could be compensated by the member agency they represent. There are limitations on how many of an agency's representatives may be members of its governing body. Unless the Act otherwise provides for a super-majority vote on a particular action, a simple majority is required for passage.

In addition to its one representative, a member agency is entitled to appoint an additional Authority representative for every full 5% of assessed value of property taxable by the Authority that is within the constituent member agency. Representatives are appointed by the chief executive officer of the constituent member agency, with the consent and approval of the constituent agency's governing body.

For a member agency that has more than one representative, the agency decides whether to have its representatives cast the agency's vote as a unit (according to what the majority of those representatives decide) or allow them to each cast an equal share of the votes. Absent member designee voting is provided for, according to established procedure. No member agency shall

have more than 50% of the votes of the Authority. If the Authority's largest member (in terms of votes) has more than 38% of the voting power, a 55% vote is required for passage of any item.

While actual board size is determined by assessed value, CWA voting rights are determined by financial contribution to the CWA by its member agencies. Each member agency is entitled to one vote for each \$5 million or "major fractional part" of \$5 million of the member agency's total financial contribution to the CWA. "Total financial contribution" means CWA taxes, assessments, fees and charges (including standby, capacity, readiness to serve, connection and maintenance, annexation, and water delivery excluding treatment) that are collected within the constituent member agency. Voting power is established each January 1, based on financial contribution for the previous fiscal year.

The effect of the separate director and the voting rights criteria tends to minimize potential imbalances among the member agencies, and this is particularly true of a nine-member south County CWA. For example, while IRWD would be entitled to the largest number of board directors based upon assessed value, MNWD would have the greatest voting right based on total financial contribution to the CWA.

Based upon the criteria described above, the MWDOC Governance Study<sup>6</sup> identified a south County CWA consisting of the nine member agencies that would be configured relative to the number of directors and voting rights, as follows:

<u>Agency</u>	<u>Entitled No. Directors</u>	<u>Voting Rights</u>	<u>Proposed Number of Directors</u>
El Toro	1	7.83%	1
IRWD	11	23.85%	1
MNWD	4	25.23%	1
SMWD	4	22.24%	1
South Coast	2	5.18%	1
TCWD	1	3.26%	1
Laguna Beach	2	1.89%	1
San Clemente	2	7.05%	1
San Juan Capistrano	<u>1</u>	<u>3.48%</u>	<u>1</u>
Total =	28	100%	9*

\* Each agency would designate one Director to represent the agency and one alternate Director to attend Board meetings and vote should the Director be absent.

The CWA Act requires that each agency "appoint" the number of directors to which they are entitled. However, it would be the intent of the member agencies to enter into an interagency

<sup>6</sup> Ibid. Table 23, page 66.

agreement establishing that the CWA Board of Directors consists of one director representing each member agency and casting that agency's voting rights based on financial contribution consistent with the CWA Act. An alternate Director would also be selected by each agency to act in the absence of the agency's primary director.

#### 4. Representation at MWD

MWD has a prescriptive method in its enabling statute for determining voting entitlement. Section 55 of the MWD Act provides one vote for each \$10 million of assessed valuation. Under Section 52 of the MWD Act, assessed valuation is used to determine how many representatives a given agency has on the MWD Board. Each member agency is guaranteed one board member, and is provided one additional member for each 5% of assessed valuation it holds in the entire MWD service area.

Based upon the FY 2008/09 assessed valuations in the MWD service area (September 9, 2009 MWD Board letter), the new CWA would have the following entitlement and seated board members:

Total MWD assessed valuation:	\$2,103,656,331,854
Total assessed valuation of South County CWA:	\$ 165,960,035,973
Voting Entitlement:	1660 votes
Percentage of MWD assessed valuation:	7.89%
Number of voting members:	2

#### 5. South County CWA Service Model

The new CWA would represent a fundamentally different service model and approach than currently practiced by wholesale water agencies. The service structure of the CWA, as proposed, would include a Core Service function and associated budget of which all agencies would participate, and a "cafeteria plan" component where member agencies could opt into, or out of, certain ancillary services through elective participation in various "project committees." The project committee structure would provide a mechanism for each member agency to receive tailored service levels and to pay for only those ancillary services those agencies need. The project committee structure also would also lend itself to participation in the collaborative planning, design and construction of regional water infrastructure projects.

The Core Service function and budget would focus on services related to the administration and management of wholesale water deliveries, and Metropolitan representation, specifically:

- Billing for imported water purchases;

- Providing representation at Metropolitan;
- Administering Metropolitan programs, grants, etc.;
- Planning and resource development;
- Providing emergency preparedness planning; and
- Coordinating project committee participation by the member agencies.

To further control costs, the CWA would also seek to outsource functions such as information systems support, vehicle maintenance, billing, etc. to member agencies who have those capabilities in place and the capacity to absorb the small additional load the new CWA would bring. Those services would be on a contract basis and funded by the CWA members through the CWA Core service budget.

In regard to ancillary services, CWA would establish project committees whereby member agencies could opt into, or out of, services or projects based on need. The cost of those individual services and projects would be funded based upon utilization and the overall program or capacity allocation in a project, and would be managed by a project committee. Cafeteria options provided through the project committee structure would include programs and services such as:

- Water conservation program implementation;
- Public affairs and media relations services;
- Governmental affairs/lobbyist services; and
- School education program.

Projects administered by project committees could include water supply, emergency interconnection or any other infrastructure projects or operating arrangements deemed desirable by two or more member agencies.

On an annual basis, the member agencies participating in each project committee would determine the budget necessary for the services, programs and projects for the upcoming year, and the proportionate funding allocation to participating members based upon utilization. Project committee members voting on the budget would be comprised of the CWA Board members of the participating agencies.

The Core Service budget and project committee structure of the new CWA, along with efforts to outsource functions to retail agencies, where appropriate, would significantly reduce and more appropriately allocate operating costs. While the Draft Technical Report 3 suggests that a new CWA would have an annual operating budget of just over \$2 million (in FY 2014-15)<sup>7</sup> and 11 full-time equivalent positions<sup>8</sup> those figures assume that the new CWA would be proportionately staffed and funded based on MWDOC's current budget and staffing levels.

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<sup>7</sup> Ibid. Section 607, Table 17a, page 47

<sup>8</sup> Ibid. Attachment A.

If the new CWA were staffed and funded to meet core services only and ancillary services were provided through the project committee approach, the CWA organization should be able to function effectively with a maximum of seven full-time equivalent staff:

- General Manager;
- Water Resources Engineer/Planner;
- MWD Policy Analyst;
- Financial Manager;
- General Administrative Assistant;
- Administrative Analyst – Emergency coordinator/other duties (1/2 time);
- Public/Governmental Affairs Specialist (1/2 time); and
- Water Conservation Specialist - Metropolitan funding and program coordination.

It should be noted that for purposes of this staffing analysis, it is assumed that the positions described above would receive benefits and would be employees of the CWA. Opportunities also exist to have some of these positions contracted through private consultants or provided through shared positions with the member agencies. As such, the costs projected are conservative. Nonetheless, the estimated annual cost for a staff of this size and configuration, including benefits, would be substantially less than costs projected in Draft Technical Report 3.

The new CWA could be housed in existing building space of member agencies, or if necessary, a modestly-sized office space could be leased. CWA Board of Directors meetings could be held at one of the member agencies' existing facilities. Computer equipment, desks, chairs, and operating supplies could be purchased through the buying power of a member agency with appropriate payments and reimbursements made by the CWA. Legal counsel for the CWA should be obtained separately.

The new CWA would rely on project committees to review and approve an annual capital or program budget for ancillary services or projects that would be funded based on benefit received. The project committee would initiate and manage necessary project agreements and review and approve emergency non-budgeted projects as needed.

Funding of CWA operations would be accomplished through developing a structure of rates and charges for water purchases (melded or tiered - see *Transition Plan*, below) and an acre foot surcharge or meter charge to fund common operating costs (excluding water purchases). Reserve levels of the new CWA would be at a minimum and the entity would rely on the financial assets of its member agencies as needs arise. Reserve levels would be established by a consensus of the member agencies, but greater consideration should be given to establishing the correct amount of working capital that would be needed. Initially, reserves would be established by a proportionate allocation of MWDOC's existing reserves (Operating Reserve as well as Tier II Reserve) based upon the historic financial contributions of the nine south County agencies.

A draft pro-forma budget for the new CWA is provided in Exhibit "A." While assumptions may vary, the budget clearly shows that a new CWA focused on providing core services, combined

with a project committee structure to provide ancillary services, would provide a substantial savings to its member agencies. The amount of savings would vary based upon each individual agency's level of participation in the various project committees. For purposes of this analysis, a CWA Core service budget is established, and additional costs are estimated for project committee participation for additional water conservation staffing and support, additional public and governmental affairs staffing and outside consulting resources, and a school education program with part-time staffing utilizing the Discovery Science Center service model.

As shown on Exhibit "A", it is anticipated that there would be initial year start-up costs that would impact the overall budget. The estimated start-up costs and operating budget for year one, and the on-going operating budget for year two based upon the CWA Core Service model is summarized below. It should be noted that these are conservative budget estimates and include a 25% contingency, and actual costs will likely be lower. For comparison purposes, the nine agencies' proportionate contribution to MWDOC's annual operating budget is also provided:

	CWA Core Service Budget	MWDOC* (Nine-agency proportion)
Total Operating Budget plus start-up costs (year 1) (percent reduction)	<u>\$1,794,500</u> (35% year 1 savings)	\$2,755,000
Total Operating Budget (year 2) (percent reduction)	<u>\$1,512,000</u> (46% savings)	

\* The nine-agency proportionate contribution to MWDOC is based upon the FY 2006/07 percentage financial contribution for the nine agencies (46%) multiplied by the proposed MWDOC FY 2009/10 operating budget of \$5.988 million)

In addition, if each CWA member agency were to participate in all the ancillary services listed through each associated project committee, the total estimated added incremental cost is estimated to be \$536,000. The total CWA Core Service operating budget combined with full participation in the project committees would result in an annual cost of \$2,048,000, a savings of \$707,000, or 26% annually.

As shown above, under all service scenarios substantial annual operating budget savings for the member agencies and their customers can be realized.

#### Process for the Formation of a South Orange County Water Authority

##### 1. Formation Process Overview

The following procedure outlines the LAFCO process to detach from MWDOC and form a new County Water Authority that would include each of the applicant districts. The process is described in general terms since there are several methods by which the detachment and formation could occur and the most suitable process has yet to be determined. What follows gives a reasonably clear picture of most of the steps that would be required.

*Step 1:* Initiate a re-organization by resolution of application. State that the proposal consists of a formation; a detachment, and an annexation of the new water authority to MWD as determined to be necessary. Statutorily the detachment from an MWD member will result in an exclusion from MWD. The MWD annexation issue should be included in the proposal so that LAFCO and MWD can resolve this and determine if it is needed or if the subject territory can just be deemed to remain in MWD and shifted to the new MWD member.

*Step 2:* File LAFCO Application. The general LAFCO application requirements will govern what must be included in the application (e.g., plan for service).

*Step 3:* LAFCO notifies each interested agency and each subject agency.

*Step 4:* Tax revenue exchange process (if applicable).

- a) LAFCO notifies Assessor and Auditor of each agency service area or responsibility change;
- b) Auditor determines tax revenue and increment of each agency, and notifies each agency of the tax revenue allocation factors by the 45<sup>th</sup> day after filing;
- c) Agencies negotiate exchange – 60 days. Board of Supervisors negotiates for special districts; and
- d) If the exchange is to the formed water authority, LAFCO with the Auditor will determine the amount exchanged, by computing the 1% share as a proportion of all available revenue in excess of the cost of service, and the cost of the services transferred (formula in statute).

*Step 5:* LAFCO files certificate determining the application to be complete and sets the proposal for hearing 90 days from filing.

*Step 6:* Commission hearing.

*Step 7:* Commission issues its determination in 35 days. A 30-day period to request reconsideration begins. If a proposal includes the formation of a new agency, LAFCO is required to determine if an existing agency could provide the needed service in a more efficient and accountable manner or if the new agency could be reorganized with other related agencies.



*Step 8:* Commission initiates Conducting Authority proceedings by setting protest hearing within 35 days from its resolution making determinations.

*Step 9:* Protest hearing.

- a) Commission orders formation, detachment and (if necessary) MWD annexation; and
- b) If the formation is conducted under the Cortese-Knox Act, the Order is not subject to a confirming election, unless there is a 25% petition asking for an election. If the process is conducted under the principal act, the action would be subject to a formation election.

## 2. Transition Plan

The development of a Three Year Plan of Service is required in the LAFCO application and is critical to providing a smooth transition to the new agency. It would include, but not be limited to, the following key actions:

- a) Identify and put into place all start-up requirements of a new CWA;
- b) Transfer a pro-rata share of current MWDOC reserves (based upon historic financial contribution of the member agencies) and other equity assets allocable to new CWA;
- c) Resolve the disposition of MWDOC involvement with current south County projects (e.g., South County Ocean Desalination Project, water reliability studies).
- d) Request that MWD independently prepare and implement an allocation plan to transfer a proportionate amount of MWDOC's current Tier I and Tier II entitlement and preferential rights to the new CWA; and
- e) Convene the nine CWA member agencies to develop an implementation plan to administer MWD's rates and charges, including the determination of a melded versus tiered pricing system.

## Conclusions

There are a number of important conclusions that can be drawn based upon the analysis presented in this paper and the MWDOC Governance Study:

- 2. A new south Orange County CWA implemented under the core service and project committee model would provide substantial cost savings to member agencies and the public over continued participation in MWDOC. Under the nine-agency CWA analyzed, cost savings to ratepayers would conservatively range from \$707,000 (a 26% savings) to as much as a \$1.24 million (a 45% savings) on an annual basis.

3. The proposed south County Water Authority core service and ancillary service project committee model provides both equitable and appropriate cost allocation while improving service efficiency.
4. Formation of a new south County Water Authority is institutionally and financially feasible and there are no significant obstacles to implementation.
5. A new south CWA would provide direct accountability and more focused representation for the south County's current and future water needs.
6. The interests of Orange County as a whole would not be diminished, but rather benefited, by the formation of a new south County CWA. The varying policy, program and future water supply needs between the north County and the south County would be better served through independent representation regionally and at Metropolitan.
7. A nine agency south CWA would not change the current number of Orange County directors on Metropolitan's Board, and would be a return to a historic number of Metropolitan member agencies that included Coastal Municipal Water District.
8. The step to detach from MWDOC is not without precedent. In the 1980's the cities of Anaheim, Fullerton, and Santa Ana detached from MWDOC and regained status as individual member agencies of Metropolitan. The three cities detached from MWDOC based upon concerns with MWDOC's budget, application of rates and charges, and representation.

# EXHIBIT A

## ESTIMATED START-UP AND ANNUAL OPERATING COSTS FOR PROPOSED SOUTH COUNTY WATER AUTHORITY

Cost Center	CWA Core Service Budget	Project Committee / Cafeteria Options	Project Committee Project Costs
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### A. Estimated First Year Start-up Costs:

a. Office equipment	1	\$100,000
b. Telephone/cell phone		\$2,000
c. Computer equipment & network	2	\$22,000
d. Computer programming/software	3	\$10,000
e. Legal fees	4	\$42,000
f. Miscellaneous		\$50,000

Total Estimated Start-up Costs \$226,000

### B. Est'd Staffing (salary + benefits):

	5		
a. Executive Management		\$195,000	
b. Water Resource and Eng support		\$155,000	
c. Analyst II - Met Issues/Spc Projects		\$122,000	
d. Financial Manager - Finance/Billing		\$139,000	
e. Admin Assistant - Gen Admin Support		\$122,000	
f. Admin Analyst - Emergency Coord (1/2 pos.)		\$65,000	Lobbying Services (\$60k outside contract) \$60,000
g. Public / Govn Affairs Specialist (1/2 pos.)		\$65,000	Public Affairs Services (1/2 pos. plus \$25k outside) \$90,000
h. Water Conservation Coordinator (1 pos.)		\$113,000	Water Cons. staffing (2 pos. plus \$25k outside) \$173,000
			School Program (1/2 pos. plus Discovery Science) \$213,000
Sub-total		\$976,000	\$536,000

### C. Est'd Annual Operating Costs:

a. Utilities	\$2,500
b. Info tech support	\$6,000
c. Vehicle maintenance	\$500
d. Building lease	\$72,000
e. Legal fees	\$70,000
f. Audit expense	\$5,000
g. Printing and publications	\$1,000
h. Memberships/subscriptions	\$1,000
i. Office supplies	\$2,000
j. Insurance	\$2,400
k. Postage	\$500
l. Training	\$500
m. Conferences	\$1,000
n. Travel and accommodations (staff)	\$7,000
o. Bank fees	\$1,200
p. Other professional fees	\$12,500
q. Telephone/cell phone	\$2,500
r. Meeting and related expenses	\$36,000
s. Miscellaneous	\$10,000

Sub-total \$233,600

Total Est'd Annual Operating Costs \$1,435,600

Contingency (25%) \$358,900

Total Estimated Operating Budget (year 1)	\$1,794,500
Total Estimated Operating Budget (year 2)	\$1,512,000

Total Estimated Operating Budget with Full participation in all Project Committee Items Noted: \$2,048,000

#### Notes:

1. Includes desks, chairs, conference furniture, coffee machine, microwave, etc.
2. Desktops, laptops, software, etc.
3. Customized or packaged programming for billing, accts. payable/receivable, purchasing, etc.
4. Initial formation costs only.
5. Base salary with 1.45 benefit factor added for positions noted.



July 29, 2009

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**MEMBER AGENCIES**

City of Brea

City of Buena Park

East Orange County Water District

El Toro Water District

Emerald Bay Service District

City of Fountain Valley

City of Garden Grove

Golden State Water Co.

City of Huntington Beach

Irvine Ranch Water District

Laguna Beach County Water District

City of La Habra

City of La Palma

Mesa Consolidated Water District

Moulton Niguel Water District

City of Newport Beach

City of Orange

Orange County Water District

City of San Clemente

City of San Juan Capistrano

Santa Margarita Water District

City of Seal Beach

Serrano Water District

South Coast Water District

Trabuco Canyon Water District

City of Tustin

City of Westminster

Yorba Linda Water District

Richard S. Fiore, President  
Moulton Niguel Water District  
P.O. Bo 30203  
Laguna Niguel, CA 92607-0203

Dear President Fiore:

**Subject: Comments on White Paper on Formation  
of a South Orange County Water Authority**

In response to your Board's request at the meeting of June 30, 2009, the Municipal Water District of Orange County (MWDOC) hereby submits written comments to the "Draft White Paper Regarding the Formation of a South Orange County Water Authority" dated June 23, 2009. We believe that upon review of the information contained herein, you will come to the same conclusion that we have - splitting the wholesale water functions within the county among two agencies will not only cost south Orange County more over time, but it will cost north Orange County more over time. Splitting the county could also have further ramifications at Metropolitan Water District of Southern California (MET) where we could weaken our position as the third largest MET member agency. We have an opportunity at this time to come together and work together on making a stronger and more efficient MWDOC.

**OVERVIEW**

This letter is offered in the spirit of rebuilding confidence among MWDOC client agencies and moving forward on the basis of mutual respect, sound facts, and clear understanding. With that in mind, we offer comments on the White Paper, including:

- Corrections to some important factual errors
- Descriptions of major financial considerations that should be taken into account
- Perspectives on the South Orange County Water Authority as the appropriate model for carrying out imported water-related services, and
- An alternate projected South Orange County Water Authority operating budget that we believe is more realistic than that described in the paper.

Some of our key findings are that the White Paper:

- Does not accurately depict some aspects of MWDOC's budget and allocation of costs to client agencies.
- Underestimates the value of our non-core programs: Water Use Efficiency, School, Government Affairs, and Public Affairs and Water Awareness while mistakenly characterizing them as duplicative of client-agency programs.
- Fails to take into account the substantial, negative financial impacts on the South County that would result from higher Tier 2 and capacity charges if MWDOC were split into two agencies.
- Does not address the fact that total payments to MET from the combined MWDOC service area would be higher if there were two agencies than under the current MWDOC umbrella.
- Significantly underestimates the budget and staffing levels that would be needed to operate a South Orange County Water Authority.

## **FINDINGS**

1. **Doubling of operating budget.** The White Paper states on page 1, "MWDOC's operating budget has doubled in the last ten years." In fact, the budget has increased 47 percent, not 100 percent in that period. The combined operating budgets of MWDOC and Coastal Municipal Water District, which would later become a part of MWDOC, were \$4,068 thousand for FY 2000-01. The FY 2009-10 MWDOC operating budget is \$5,965 thousand, a 47-percent increase. Over the 10-year period, this represents an average annual increase of 4.3 percent.
2. **Revenue contribution versus water use.** The White Paper makes several references to the nine South County agencies' currently paying 50 percent of MWDOC's annual operating budget while representing only 28 percent of the MWDOC service-area population. More accurately, the nine South County agencies account for 44-percent of MWDOC's revenue contributions (based on projections used in the FY 2009-10 budget), and represent 39 percent, not 28 percent of the population. Further, the nine agencies account for:
  - 43 percent of water connections in the MWDOC service area, and
  - 46 percent of imported water use.

A 44-percent contribution to revenue appears appropriate given a 46-percent share of water purchases and 43-percent portion of connections.

**3. Anaheim, Fullerton, and Santa Ana “de-annexed” from MWDOC.** The paper states on page 2:

“The cities of Anaheim, Fullerton, and Santa Ana were originally individual members of MWD who later annexed into MWDOC. They subsequently de-annexed and regained their status as individual member agencies of MWD (a point worth bearing in mind).”

The three cities never withdrew from MWDOC. In fact, they were never members of MWDOC. These cities were original members of MET in 1928 and have maintained that status ever since. The White Paper apparently refers to the fact that after the formation of MWDOC in 1951, these three cities annexed previously unincorporated portions of MWDOC’s territory and in 1986 detached them from MWDOC to keep whole city areas together.

The White Paper’s use of the phrase “a point worth bearing in mind” implies that the three cities found fault with MWDOC and therefore withdrew from it. It is important for readers to know that this was not the case.

**4. Ancillary services.** The White Paper describes MWDOC’s Water Use Efficiency, School, Government Affairs, and Public Affairs-Water Awareness Programs as “ancillary services.” On page 6, the paper states:

The growth in non-essential, ancillary services often provides little value to many of its member agencies and is duplicative of the programs of the member agencies (e.g., lobbying efforts, conservation programs, community outreach and public affairs programs). This concern is compounded by the fact that ancillary programs are disproportionately funded by south County agencies based on their combined contribution to total MWDOC revenues. While the south County pays more for these ancillary services that often duplicate what individual south County agencies already provide, ancillary services are typically more heavily utilized by north county agencies that do not individually provide these services.”

There are three alleged problems cited: (1) lack of value of the programs, (2) duplication of client agency services, and (3) disproportionate South County payment for these services.

Value

It is understandable that some client agency representatives are not particularly familiar with these programs and, therefore, may not understand the major benefits they provide. All four of the programs provide valuable services. While this letter is not the place for extensive descriptions of the programs, a few brief examples of their benefits will illustrate their value:

- The WUE Program, the largest of the non-core programs in terms of budget, saves approximately 25 thousand acre-feet of water per year, and as additional devices

and methods are implemented, additional annual savings will accrue. Water conservation is the cheapest source of supply available, and investment in this program is a bargain. Furthermore, water conservation is a mandatory requirement for retail water agencies under AB 1420 and is classified as a Best Management Practice (BMP) as established by the California Urban Water Conservation Council. BMPs are required in order to obtain various types of grant funding. These requirements can be met effectively and efficiently through participation in MWDOC's WUE Program, which is complementary to the local agency programs and not redundant.

- The School Program, the second largest of the programs in terms of cost, reached more than 172 thousand students in the MWDOC service area during the period FY 2005-06 through 2007-08. More than 52 thousand of the students were in eight of the nine South County agencies. (Irvine Ranch Water District (IRWD) operates its own school program.) Conducted under contract with the Discovery Science Center, the MWDOC School Program gives students an understanding of regional water supply issues and the need for conservation. The cities of Anaheim, Fullerton, and Santa Ana each contract with MWDOC to extend the program to students in schools located in their cities. This, we believe, is a further validation of the program's value. The program's cost for FY 2007-08 was about \$4 per student.
- The Government Affairs Program is targeted at countywide, wholesale water matters, including state and federal issues that impact the entire MWDOC service area and that are of concern to all client agencies. MWDOC has both state and federal legislative representatives who provide assistance on many fronts, including the important one of securing grant funds. MWDOC brings in \$5-6 million per year from all MET, state, and federal grants. (Does not include the \$10 million per year in local resources funds from MET) The cost of the federal representative is now being shared with the Dana Point Desalination Group because of the time spent on securing desalination funding.
- Public Affairs and Water Awareness do much more than complement client agencies' messages to their customers. MWDOC provides important, regionally oriented forums and initiatives, providing coordinated outreach with all other agencies and OCWD; and provides input to MET messaging from an Orange County viewpoint.

#### Duplication

There is very little duplication or overlap with client agencies in these programs. In the case of the WUE Program, all MET funding for water conservation in the MWDOC area is through MWDOC. Some client agencies provide supplemental local funds or conduct activities in addition to MWDOC's, but MWDOC's activities provide the largest portion of the program. We know from feedback that the overwhelming majority of agencies, including many in the South County, welcome the opportunity to benefit from MWDOC's WUE Program.

In the case of the School Program, IRWD offers its own local program. MWDOC does not provide school services in that area. While IRWD, however, still pays a share of MWDOC's School Program costs through MWDOC's increment and meter charge, the

MWDOC Board in 2006 authorized staff to negotiate with IRWD for resolution of this issue. We stand by this offer and are willing to begin negotiations.

The Public Affairs and Water Awareness Program is not duplicative of retail-agency services. Rather than duplicating services provided at the retail level, MWDOC's program enhances the quality of messaging in the region by coordinating efforts and providing retail agencies with regionally consistent messages that the agencies can present to their customers. A good example is the "Water: Do More with Less" campaign recently undertaken in response to the need for all client agencies to reduce imported water consumption to meet mandatory targets set by MET. The Monthly Public Affairs Work Group, convened by MWDOC, developed this campaign as a cooperative, regional effort, providing the same message-basis to the entire MWDOC service area, while still allowing each retailer to tailor the message within its own service area.

#### Disproportionate South County Funding

These programs are not "disproportionately funded by South County agencies," nor are they "typically more heavily utilized by north county agencies that do not individually provide these services," as stated in the White Paper. In the cases of the WUE and School Programs, MWDOC maintains accurate records of program use by client agency. The nine South County agencies accounted for 59 percent of WUE Program use, as measured by "interventions" in the three-year period FY 2005-06 through FY 2007-08, the last full year for which data is available. (Interventions basically equal applications of water-saving services.) This high level of South County use is appropriate for several reasons, the major one being the area's greater portion of irrigated open space. A substantial part of our WUE efforts are devoted to efficiency in these common landscaped areas.

It should also be noted that the WUE Program is by far the largest of the four non-core programs. Since WUE costs are allocated along with other MWDOC general fund costs to all client agencies, the South County is enjoying a significant dollar-weighted benefit in this program.

In the case of the School Program, if the population of IRWD, in which MWDOC does not operate its school program, is subtracted, the South Orange County Water Authority accounts for 24 percent of the total MWDOC service area. At the same time, 31 percent of pupils MWDOC reached during period FY 2005-06 through 2007-08 were in that eight-agency area. Thus, these eight agencies received an appropriate level of service given their contributions to the operating budget.

In the case of the Government Affairs and Water Awareness Program, the above-mentioned "Water: Do More with Less" campaign was funded by client agencies in proportion to their support of MWDOC's general fund. At the same time, the need for higher levels of water conservation to comply with the current allocation plan occurs mostly in South County agencies. Those agencies that use a proportionately larger amount of imported water also receive a higher proportion of the campaign's benefit.



On balance, then, the South County agencies receive a fair, proportionate share of these services.

Overall, the nine South County agencies are receiving a share of benefits from the non-core programs that is generally proportionate to their financial support.

- 5. Reserve level, operating budget, and staff members.** On page 6 the White Paper states, "Reserves are currently around \$5 million and were projected to grow by 3% a year to over \$8 million in the FY 2019-20 in the Second [LAFCO] Technical Report." While literally true, this statement came from the LAFCO consultant, not MWDOC, and the consultant was not aware of MWDOC's reserve policy at the time the second technical report was prepared. LAFCO subsequently revised the \$8 million figure in its May 6 "First Draft Governance Study" to show MWDOC reserves of \$5 million throughout the study's projection period ending in FY 2019-20.

On page 4, the White Paper states that MWDOC's operating budget is over \$6 million. In fact, it is just under that level for FY 2009-10.

On page 6, the paper states MWDOC has "an approximately 33-member staff." While MWDOC has 32.74 full-time equivalents, this includes part-time employees and interns; MWDOC has only 26 full-time positions.

- 6. Limited-area projects.** The White Paper raises a concern that MWDOC provides staff and other support to projects that are less than countywide in coverage and cites as examples efforts in the areas of ocean desalination, groundwater treatment, and water recycling. The paper states, "Although these projects may have merit in their own right, local resource projects are the responsibility of member agencies individually and should not be subsidized by non-participants without agreement. Participation in select local projects is an example of the expansion or 'creep' of MWDOC's mission beyond the scope of an imported water wholesaler."

Recognizing that some projects are so local in nature that shared funding is not appropriate, MWDOC nonetheless maintains that many regional projects do in fact benefit the entire service area. Projects that create new supplies or conserve existing supplies reduce the overall demand for limited imported water and help control its price. This benefits all client agencies. Accordingly, we believe projects should be evaluated on a case-by-case basis to determine if MWDOC-wide support is appropriate. With this in mind, MWDOC adopted the following policy guidelines in December 2006:

- If a study or project is projected to cost over \$100K and directly benefit fewer than five agencies, MWDOC is obligated to seek partners.
- If the project or study cost is over \$100K and directly benefits five or more agencies, MWDOC can fund the entire cost, but partners are welcome.
- All projects must fit within the overall budget commitment level.

MWDOC works with client agencies in applying the guidelines to individual projects. In the case of the South Orange Coastal Ocean Desalination Project, a project-committee

approach involving five agencies was adopted. MWDOC now provides some staff support for this project, but all other costs are paid by the five agencies that are members of the project committee.

7. **Tier 2 Costs.** In a major omission, the White Paper does not mention the significant added cost the South County would experience as a result of water being purchased at MET's Tier 2 rate.

Avoiding Tier 2 costs is a major concern for MWDOC. Since MET introduced melded rates in 2003, MWDOC has purchased Tier 2 water in four out of six years at a total cost of \$7.5 million.

Under MET's rate structure, each MET member agency is provided a base Tier 1 allocation. For MWDOC, the current allocation is based on actual purchases in FY 1989-90. MWDOC's current allocation is 228,709 acre-feet. Due to its growth since that base year, the South County's current usage substantially exceeds the share of the allocation to MWDOC that the South County represented in FY 1989-90. North County usage of imported water has actually decreased somewhat in comparison to its representative share of the allocation. Thus, the South County's purchases are buffered somewhat by the northern area.

The table below demonstrates how the nine South County agencies would be negatively affected in terms of Tier 2 costs if they were split away from MWDOC. The table shows for the nine South County agencies and the remaining 19 MWDOC agencies their representative portions of the current Tier 1 allocation, the amount of actual purchases in calendar year 2008, and added (or lowered) exposure they would have had in that year under a two-agency scenario. The South County agencies would have purchased 14,581 acre-feet of water at the Tier 2 rate. North County agencies, meanwhile, because they would not need their full representative share of the Tier 1 allocation, would have no exposure at all to Tier 2 and would, in fact, leave an unused balance of 5,075 acre-feet.

	Tier 1 Allocation FY 1989-90	CY 2008 Firm Purchases	Tier 2 Exposure	Cost
9 South County Agencies	127,404	141,985	14,581	1.6 M
Remaining MWDOC	101,304	96,230	(5,075)	-0-
MWDOC Total	228,709	238,215	9,506	N/A

Applying MET's 2010 water rates, the South County agencies would have been exposed to \$1.6 million of Tier 2 water. That is an additional \$558 thousand more than the total amount that MWDOC would have incurred countywide over the same period.

LAFCO acknowledged this type of impact in its draft reports. Their estimate of the impact can be seen in Table 19 on page 59 of LAFCO's "Draft Governance Study for Municipal Water District of Orange County" dated July 15, 2009. It shows that for FY 2019-20, the last year of the study's projection period, total imported water costs for the nine South County agencies would be more than \$1.4 million higher than they would be under the Baseline MWDOC projection. (The Baseline MWDOC projection is LAFCO's forecast for the scenario in which the current MWDOC continues to operate with its current, full client-agency complement.) This additional expense would be borne by the South County agencies.

Finally, it should be noted the South County agencies would not be able to benefit from further investments in water development projects in north Orange County, such as the expansion of the Groundwater Replenishment System. This system, by adding groundwater to the basin, will allow agencies in the basin to take a higher percentage of their water from wells and less water from Tier 1.

8. **Capacity charges.** Another important financial impact of splitting the agencies would be an increase in capacity charges in south Orange County. MET imposes these charges based on each MET member agency's highest peak day usage of imported water over the prior three, calendar-year summer periods: May through September. Peaking on the imported water system is affected by:
- Local production capacity within the MET member agency's service area.
  - The size of the MET member agency – the larger an area is, the lower the peaking because use is spread over more customers.
  - The fact that for multi-retailer MET member agencies such as MWDOC, the sum of individual retail-agency peaks is always more than the peak of the combined multi-retailer member agency.

MWDOC examined the actual peaking for CYs 2007 and 2008 for MWDOC, the combined nine South County agencies, and the remaining 19-agency MWDOC.

The peak-day import figures for the nine-agency group and for the remaining MWDOC group occur on different days in different years. The resulting impact is an increase of \$330 thousand for the nine-agency group and a decrease of \$158 thousand for the remaining MWDOC group as shown below for FY 2009-10. The additional costs for south Orange County would have to be accounted for:

	Current MWDOC Capacity Charge		MET Capacity Charge for Separate MET Member Agencies		
	Pro-rated Peaks (cfs)	Total Charges	Individual Agency Peaks (cfs)	Total Charges	Overall Impact
9 South County Agencies	240	\$1,731,419	286	\$2,062,080	\$330,661
Remaining MWDOC	229	\$1,646,821	207	\$1,488,960	(\$157,861)
Total	469	\$3,378,240	493	\$3,551,040	\$172,800

9. **South Orange County Water Authority Operating Budget.** The White Paper estimates South County CWA core operating costs for the second year of operation (after they get up and running at full scale) at \$1,512,000. The paper adds \$302,400 for contingency and \$536,000 for non-core services for a total of \$2,048,000. The White Paper's estimate for the nine agencies' contributions to MWDOC in that year, were the agencies still part of MWDOC, is \$2,768,000. Estimated second-year costs for the nine agencies in the White Paper are assumed to be \$2,048,000. This would be 26 percent below their presumed contributions to MWDOC. (Second-year costs for the nine agencies are a sounder base for ongoing costs because the White Paper assumes that costs in the second year would be lower than in the first year due to added start-up costs in Year 1.)

MWDOC estimates that a nine-agency South Orange County Water Authority's costs would actually be much higher than the combined agencies' contributions to MWDOC. MWDOC's estimates along with the White Paper's are detailed in Attachments A and B and summarized in the table below. In the table below both the White Paper's and MWDOC's estimates of staffing and total costs for the second year of operation are shown side by side. In reviewing the table, please note that the proportional nine-agency share of MWDOC's total FY 2009-10 operating budget is \$2,609,179.

	White Paper Estimate of 2 <sup>nd</sup> Year of Operation		MWDOC Estimate of South County Water Authority Budget	
	Staffing	Total Costs	Staffing	Total Costs
Core Services	7	\$1,209,600	12.5	\$2,237,350
Non-core (Project Committee) Services	3	\$536,000	3	\$616,186
Contingency		\$302,400		\$335,603
<b>Total</b>	<b>10</b>	<b>\$2,048,000</b>	<b>14.5</b>	<b>\$3,189,138</b>
<b>Cost Difference</b>		<b>\$1,141,138</b>		

One of the major reasons we believe that a South Orange County Water Authority's costs would be so much higher than the White Paper's estimate is that the agency would need to duplicate services already provided by MWDOC in many functional areas. That is, the South County CWA would not benefit from economies of scale that accrue to a combined agency. As a result, more staff-related and services-and-supplies costs would be required for the South Orange County Water Authority to provide the same level of service as the South County agencies currently receive through MWDOC. Functions affected by this inefficiency would include engineering and planning, MET issue analysis, finance and accounting, building lease, legal services, and administrative and clerical support. It is worth noting that MWDOC's costs would also be proportionately higher under a split-agency scenario since it would also lose economy of scale and would not be able to reduce staff and expenses in proportion to the number/size of any withdrawing agencies.

The South Orange County Water Authority would, of course, have the option of eliminating some types of service and/or reducing service levels, but the proposed budget described in Exhibit A to the White Paper appears unreasonably low to provide comparable services to those provided today.

MWDOC has made its own estimates of the number of positions required to carry out the South Orange County Water Authority's business based on our experience in performing these functions and our understanding of what is required to do so. Our estimates are detailed in Attachment A. In Attachment B we present a high-level list of key duties for each CWA staff member that is shown in Attachments A and B. Where appropriate, we also increased services and supplies costs. Our approach in estimating services and supplies costs was to use MWDOC's existing costs for these items as a base and then reduce those figures in proportion to the number of projected CWA staff over existing MWDOC staff.

There is a second, important, operational cost factor omitted in the White Paper: South Orange County Water Authority Board members' and MET representatives' compensation and their costs for travel and conferences. The paper indicates that such costs would be covered by each director's client agency. Since these additional costs would be absorbed by the client agencies and their ratepayers, they should be reflected in any estimate of a South Orange County Water Authority's costs.

There is an understandable tendency to estimate lower-than-realistic expenses when thinking about a new enterprise. From the outside, responsibilities and functional requirements appear clearly defined and limited in scope. The harder reality often becomes apparent only after a year or two of operation. When that occurs, the agency is forced to increase its budget to meet its real, complex challenges. This would undoubtedly be true of a South County CWA undertaking business with a staff and budget that have been developed without fully thinking through the situation and acknowledging real-world conditions. It would be unfortunate for the nine South County agencies to break away only to discover that their actual operating costs substantially exceed their estimates.

#### **10. Cost Impacts to remaining MWDOC.**

The majority of comments in this response have directly addressed impacts to South Orange County, but the cost impacts to the remaining MWDOC area also occur. MWDOC has also estimated that the annual operating costs for the remaining MWDOC entity would be \$4.7 million a year, only about \$1.3 million less than it would cost to continue providing services for the entire, existing MWDOC service area. These estimates are detailed in Attachment C and summarized in the table below. Overall, MWDOC estimates that it would cost an additional \$2 million a year county-wide to run two separate MET member agencies. The costs to the North County are estimated at \$1.4 million above the agencies' proportional share of MWDOC's total FY 2009-10 operating budget.

	MWDOC FY 09-10 Budget	Budgets for Separate Agencies	Difference
9 South County Agencies	\$ 2,609,179	\$ 3,189,138	\$ 579,959
Remaining MWDOC	\$ 3,356,064	\$ 4,731,081	\$ 1,375,017
Total	\$ 5,965,243	\$ 7,920,220	\$ 1,954,977

#### **11. South County CWA service model.** The White Paper's vision of how South County CWA business would be done is unclear at this point. Some matters need further explanation, even at an early stage of consideration:

#### Outsourcing of core support functions

On page 12, the White Paper indicates that "the CWA would...seek to outsource functions such as information systems support, vehicle maintenance, billing, etc. to member agencies who have those capabilities in place and the capacity to absorb the small additional load the new CWA would bring. Those services would be on a contract basis and funded by the CWA members through the CWA Core service budget." Because arrangements of this type raise issues of control, accountability, and independence, it might be wise to flesh out the scenario into a somewhat better defined business plan in the near term and identify what services, what providers, and what pay-for-service guidelines will apply.

#### SOCWA Model

The White Paper compares the potential CWA's non-core services approach to the project committee model used by the South Orange County Wastewater Authority (SOCWA). There clearly would be similarities, but there is also a fundamental difference. The SOCWA model is relatively self-contained and based on client agencies' sharing the costs of functions they would otherwise have to provide individually. The imported water model is different, focusing upward and outward beyond services that would otherwise be done by the retail agencies. For example, the South Orange County Water Authority needs to be able to provide a single message, approach, and voice to MET and to state and federal agencies. This is particularly true in the case of lobbying, representation at other governmental levels, and in water conservation matters, especially water conservation funding. A cohesive approach and arrangement are needed to accomplish this. Unfortunately, using various project committees to represent the South County on imported water matters would likely result in uncoordinated efforts and a fragmented impact at MET and with state and federal agencies.

- 11. Cost impacts at MET as a result of splitting MWDOC** – Other significant matters that have not been analyzed or discussed are the potentially higher MET costs and lower MET grant funding that might occur if Orange County's MET delegation were split into two agencies. The MWDOC service area pays approximately \$140 million per year to MET, and we receive services as well as imported water back for this investment. Currently, MWDOC is the third largest voting delegation with a 16.6-percent share of MET's total. If the current MWDOC were split into two smaller agencies, the remaining MWDOC would remain third in percentage of total MET votes at 8.9 percent, and the South Orange County Water Authority would be fourth at 7.7 percent. In the circumstance of any issue in which MWDOC and the South Orange County Water Authority did not vote together, Orange County's voice would be diminished. In some cases, this could result in higher MET costs and/or lower grant awards from MET. A measure of our current effectiveness is that in 2008-09 the MWDOC service area received \$5.3 million in water use efficiency funding from MET and \$10.8 million in local resources funding from MET for a total of \$16.1 million. This is significantly higher than any other MET member agency. We believe that for this and many other reasons, the

Mr. Richard S. Fiore

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client agencies should continue working towards a cooperative approach rather than losing effectiveness and incurring higher costs as two separate agencies.

## CONCLUSION

MWDOC will continue to work with the nine agencies on estimates and functions of how a South County Water Authority would work and what its impacts to Orange County would be. However, our basic position is that dividing MWDOC and forming two separate agencies is not in the best interest of Orange County residents and businesses. The costs will not only be higher in south Orange County, but also in north Orange County. And this is without considering costs from a weakening of our influence at MET. In the near future, there will be a change in the composition of the MWDOC Board and its MET representation. This will occur due to the resignation of a director who previously represented a portion of the South County. This provides an opportunity to take a step back to see how best all water entities in the county can work together and how MWDOC can gain back confidence in any areas in which it may have been lost.

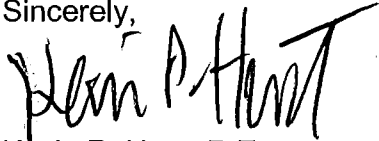
We understand that the current governance structure of MWDOC is a concern to some. The commitment made by the MWDOC Board in December 2006 was that:

"MWDOC works through its Member Agencies to provide reliable and high quality water for the benefit of Orange County residents in its service area. The Board maintains a responsibility to both the Member Agencies and the people as their customers and constituents. Orange County's public can best be served by a cooperative and collaborative partnership between MWDOC and its Member Agencies. MWDOC pledges to work in such a manner."

We believe there are ways to work with the Client Agencies to carry this out in a manner acceptable to all. The MNWD Board has stated that it would like to continue to work with MWDOC in a cooperative manner to resolve governance, budget, and other concerns. MWDOC is ready and eager to begin that process.

Thank you for your time and consideration.

Sincerely,



Kevin P. Hunt, P.E.  
General Manager

cc All nine South County Agencies  
All MWDOC client agencies  
MWDOC Board of Directors  
MWDOC MET Directors



## Attachment A

### Comparison of Estimated Budgets for Proposed South County Water Authority

Salaries, Wages, and Benefits [1]	White Paper Costs	White Paper Positions	Costs- MWDOC Estimate	Positions- MWDOC Estimate	Comments
Executive Management	\$ 134,483	1	\$ 180,000	1	Increased Salary
<i>Executive Secretary/Office Manager</i>	\$ -		\$ 80,000	1	Additional Position
Water Resource and Engineering Support	\$ 106,897	1	\$ 135,000	1	Increased Salary
<i>Principal Analyst - Water Operations and Planning</i>	\$ -		\$ 100,000	1	Additional Position
Analyst - MET Issues and Special Projects	\$ 84,138	1	\$ 135,000	1	Increased Salary
Financial Manager - Finance/Billing	\$ 95,862	1	\$ 120,000	1	Increased Salary
<i>Accountant</i>	\$ -		\$ 85,000	1	Additional Position
Administrative Assistant - General Admin. Support [2]	\$ 84,138	1	\$ 45,000	1	
Administrative Analyst - Emergency Coordination	\$ 44,828	0.5	\$ -	0	Removed Position
<i>Network Administrator (1/2 position)</i>	\$ -		\$ 40,000	0.5	Additional Position
Public/Governmental Affairs Specialist (from 1/2 to full)	\$ 44,828	0.5	\$ 90,000	1	From 1/2 to full position
<i>Administrative Assistant - Public Affairs/WUE</i>	\$ -		\$ 55,000	1	Additional Position
Water Conservation Coordinator	\$ 77,931	1	\$ 78,000	1	
Employee Benefits (45% of base salary)	\$ 302,897		\$ 514,350		
<b>Sub-total</b>	<b>\$ 976,000</b>	<b>7</b>	<b>\$ 1,657,350</b>	<b>11.5</b>	
<b>Project Committee Budget</b>					
Water Conservation staffing (2 positions)	\$ 119,310	2	\$ 135,000	2	Increased Salary
<i>Accounting - Conservation</i>	\$ -		\$ 60,000	1	Additional Position
Employee Benefits (45% of base salary)	\$ 53,690		\$ 87,750		
Lobbying Services	\$ 60,000		\$ 60,000		
Public Affairs Services	\$ 90,000	0.5	\$ 90,000	0	Removed Position
<i>Water Conservation Program Services (minus grants)</i>	\$ -		\$ 75,000		
School Program (Discovery Science Center)	\$ 213,000	0.5	\$ 108,436	0	Share of MWDOC School Program costs
<b>Sub-total</b>	<b>\$ 536,000</b>	<b>3</b>	<b>\$ 616,186</b>	<b>3</b>	
<b>Total Positions</b>		<b>10</b>		<b>14.5</b>	
<b>Annual Operating Costs</b>					
<i>Director Compensation</i>	\$ -		\$ -		Undocumented cost to member agencies
<i>MWD Representation</i>	\$ -		\$ -		Undocumented cost to member agencies
Utilities	\$ 2,500		\$ 5,000		
Information Technology support	\$ 6,000		\$ 12,000		
Vehicle maintenance	\$ 500		\$ 6,000		
Building lease	\$ 72,000		\$ 72,000		
Legal fees	\$ 70,000		\$ 95,000		
Audit expense	\$ 5,000		\$ 15,000		
Printing and publications	\$ 1,000		\$ 40,000		
Membership/subscriptions	\$ 1,000		\$ 50,000		
Office supplies	\$ 2,000		\$ 21,000		
Insurance	\$ 2,400		\$ 49,000		
Postage	\$ 500		\$ 14,000		
Training	\$ 500		\$ 14,000		
Conferences (staff)	\$ 1,000		\$ 5,000		
<i>Conferences - Directors</i>	\$ -		\$ -		Undocumented cost to member agencies
Travel and accommodations (staff)	\$ 7,000		\$ 13,000		
<i>Travel and accommodations (director)</i>	\$ -		\$ -		Undocumented cost to member agencies
Bank fees	\$ 1,200		\$ 7,000		
Other professional fees	\$ 12,500		\$ 50,000		
Telephone/cell phone	\$ 2,500		\$ 12,000		
Meeting and related expenses	\$ 36,000		\$ -		
Miscellaneous	\$ 10,000		\$ 55,000		
<i>Contributions to WEROC</i>	\$ -		\$ 45,000		50% of MWDOC's FY 08-09 Contribution
<b>Sub-total</b>	<b>\$ 233,600</b>		<b>\$ 580,000</b>		
<b>Total Estimated Base Costs</b>	<b>\$ 1,209,600</b>		<b>\$ 2,237,350</b>		
Contingency (25%) <i>From 25% to 15%</i>	\$ 302,400		\$ 335,603		Reduced percentage of contingency
Project Committee Cost	\$ 536,000		\$ 616,186		Include 15% contingency
<b>Total Estimated Budget</b>	<b>\$ 2,048,000</b>		<b>\$ 3,189,138</b>		

[1] Salaries are shown next to each position with fringe benefits shown on a separate line. In the White Paper, salaries and fringe benefits are combined.

[2] The salaries and benefits for the Administrative Analyst and Administrative Assistant positions have been switched as an Analyst is typically a higher paid position.

**Attachment B**  
**Staffing by Category for Proposed South County Water Authority**

**Executive Management**

<b>Executive Manager</b>
<ul style="list-style-type: none"><li>• Provide support for the Board of Directors in their decision-making process at the Committee and Board level.</li><li>• Develop relationships with key decision makers locally and regionally.</li><li>• Participate in MET meetings and activities.</li><li>• Maintain member agency relations.</li><li>• Direct water authority staff.</li></ul>

<b>Executive Secretary/Office Manager</b>
<ul style="list-style-type: none"><li>• Provide daily outside communication through e-mail and water authority website.</li><li>• Provide agendas and minutes for minutes of all Board meetings.</li><li>• Maintain water authority policies and procedures.</li><li>• Coordinate human resources management with HR-provider agency.</li><li>• Manage agency insurance, facility lease, utilities, worker's compensation, risk management and water authority facilities.</li></ul>

**Water Planning and Engineering**

<b>Engineer/Planner</b>
<ul style="list-style-type: none"><li>• Work with client agencies to understand trends and planning assumptions and forecast water demands.</li><li>• Facilitate a regional dialogue for making decisions related to system reliability investments, such as reclaimed water, ocean desalination, water transfers, etc.</li><li>• Work through project committees for the planning and development of regional facilities.</li><li>• Pursue outside funding for local and regional programs through MET, State and Federal sources.</li><li>• Provide member agency support for Urban Water Management Plans and Integrated Regional Water Management Programs.</li><li>• Provide mapping services for the region.</li><li>• Participate in Metropolitan Integrated Regional Planning process.</li><li>• Provide additional ongoing information and technical assistance to agencies.</li></ul>

<b>Analyst - Water Operations and Planning</b>
<ul style="list-style-type: none"><li>• Track agency water use, maintain a historical water use database, and produce monthly reports</li><li>• Provide system reliability analysis and define regional emergency supply needs.</li><li>• Create operational flexibility by defining alternate delivery routes</li><li>• Track agency demand against MET's Water Supply Allocation Plan and Tier 2 charges.</li><li>• Provide rate structure administration, including Capacity Charge, Readiness-to-Serve, and Tier 2.</li><li>• Develop approaches to lower agency costs.</li><li>• Provide connection administration and resolve metering discrepancies.</li></ul>

- Track local project development.
- Coordinate information regarding planned and emergency system shutdowns.
- Provide support for the Water Emergency Response Organization for Orange County (WEROC).

### **MET Issues and Special Projects**

#### **Analyst**

- Participation in various monthly MET meetings at the Board and staff level, as well as long term planning processes.
- Provide ongoing feedback to the Board and MET directors.
- Coordinate with client agencies through a monthly MET workshop.
- Coordinate with the North County agency, the three cities, and OCWD as well as other MET client agencies.
- Advocate for beneficial programs, rates, and charges.
- Seek funding support from MET for local projects to improve local and regional reliability.
- Work with MET on South County Pipeline issues and advocate for the Central Pool Augmentation Project.
- Develop cooperative relationships with other Metropolitan client agencies.
- Monitor developing regional issues that could impact Metropolitan's supplies.

### **Water Conservation**

#### **Water Conservation Coordinator**

- Participate in development of local, regional, statewide, and federal policies through legislation, the California Urban Water Conservation Council, the Department of Water Resources, etc.
- Provide the region with strategic planning.
- Participate through project committees in the development and implementation of new conservation programs.
- Coordinate with client agencies through monthly workgroup meetings.
- Maintain consistent messaging through regional and local programs.
- Work to ensure an equitable return on MET Water Stewardship Rate.
- Participate at MET in the development of new programs and changes to existing programs.
- Secure \$2 million or more in outside funding annually from State and Federal sources for both local and regional conservation programs.
- Monitor implementation of mandatory Best Management Practices, and statewide 20 by 2020 requirements and provide assistance to agencies to improve implementation.

#### **Water Conservation Staff – Project Manager**

- Specialize in residential, commercial and industrial programs.
- Provide day-to-day management of MET and additional regional programs.
- Coordinate between local consumers, retail agencies, the implementation vendor, and MET.
- Provide customer services to the public and to the retail agencies.
- Provide quality control for each program.

- Provide all required MET and grant related reporting.
- Maintain reporting database and track regional savings.

#### **Water Conservation Staff**

- Specialize in outdoor landscape programs.
- Provide day-to-day management of MET and additional regional programs.
- Coordinate between local consumers, retail agencies, the implementation vendor, and MET.
- Provide quality control for each program.
- Advertise and arrange California Friendly Landscape Training classes.
- Develop brochures and bill inserts.

### **Public Affairs**

#### **Public/Governmental Affairs Specialist**

- Provide strategic outreach and communication with broad audience of key policy makers, stakeholders and the media.
- Coordinate with client agencies and the North County agency through monthly workshops to develop consistent regional messaging.
- Provide emergency and crisis communication for the region.
- Respond to media inquiries on water issues in Orange County.
- Work with client agencies to develop a legislative strategy. Track the legislative process, review and adopt legislative positions.
- Coordinate with MET on legislative positions, outreach, and messaging.
- Identify additional stakeholders and coordinate legislative positions.
- Brief the local press and newly elected public officials on water supply issues.
- Participate in a wide range of community events.
- Respond to member agency information requests.
- Provide communications training and assistance to client agencies
- Provide agencies with annual water quality reports.
- Participate in ACWA and other water related associations.

#### **Administrative Assistant – Public Affairs/WUE**

- Provide administrative support for Public Affairs and Conservation staff.
- Manage regional school program through Discovery Science Center.
- Maintain water authority contacts with local, state, federal elected officials, and the media.
- Conduct a minimum of four MET Inspection Tours a year with participation from community leaders.

## **Finance/Information Technology**

### **Financial Manager - Finance/Billing**

- Prepare annual budget as well as financial reports and forecasts.
- Implement new rate structures and manage complex water billing system.
- Manage investment portfolio.
- Manage trustee funds from participants in debt service and Conservation programs
- Maintain the accounting software.
- Conduct an annual audit.

### **Accountant**

- Preparing monthly water bills.
- Maintain general ledger, including grant reconciliation.
- Perform financial reporting, including state mandated reports.
- Prepare federal and state tax reporting

### **Accounting Clerk**

- Process accounts payable, account receivable, billings and collections.
- Input and verify payroll and other related duties.
- Process miscellaneous billings of school contracts, WEROC, special projects, financing member agency obligations.
- Performs other accounting and administrative duties.

### **Network Administrator (1/2 position)**

- Develop and maintain an information technology system of computers, local area internet, e-mail, and website.
- Provide ongoing technical support to computer users.

## **Overhead**

### **Administrative Assistant**

- Provide meeting notifications, print packets, set up meeting room, provide services.
- Provide receptionist services, records management, facilities support, mailing and postage.

### Attachment C Estimated Annual Operating Budgets

Full Time Equivalents by Program [1]	MWDOC FY 2009-10 Budget	Nine Agency South County CWA	Remaining MWDOC
Administrative - General	1.45	0.67	1.45
Administrative - Board	2.57	0.67	2.07
Personnel / Staff Development	1.3	0.33	1.3
Planning & Resource Development	3.77	2.00	2.77
Met Issues and Special Projects	3.86	1.33	2.86
Governmental Affairs	1.26	0.75	1.01
Water Use Efficiency Program	6.47	3.25	4.47
Water Awareness	1.14	0.75	0.64
School Programs	0.86	0.25	0.86
Finance	3.77	3.00	3.77
Information Technology	1.09	0.50	1.09
Overhead	3.39	1.00	2.39
Contributions to WEROC	1.8	0.00	1.8
<b>Total</b>	<b>32.74</b>	<b>14.50</b>	<b>26.48</b>

Operating Expenses	MWDOC FY 2009-10 Budget	Nine Agency South County CWA	Remaining MWDOC
Salaries & Wages	\$ 2,684,771	\$ 1,338,000	\$ 2,172,097
less for Recovery from Grants	\$ (66,400)	\$ -	\$ (33,200)
Employee Benefits	\$ 874,816	\$ 602,100	\$ 707,764
Director Compensation	\$ 168,656	\$ -	\$ 120,469
MWD Representation	\$ 72,568	\$ -	\$ 36,284
Director Benefits	\$ 63,265	\$ -	\$ 45,189
Conference Expense - Directors	\$ 8,400	\$ -	\$ 6,000
Travel & Accommodations - Directors	\$ 18,780	\$ -	\$ 13,414
Audit Expense	\$ 18,500	\$ 15,000	\$ 17,500
Automotive & Toll Road Expenses	\$ 15,203	\$ 6,000	\$ 12,300
Building Lease & Maintenance Expense	\$ 133,518	\$ 79,000	\$ 133,518
Capital Acquisition	\$ 16,700	\$ -	\$ 8,350
CDR Participation	\$ 36,700	\$ -	\$ 18,350
Conference Expense - Staff	\$ 8,796	\$ 5,000	\$ 7,116
Contribution to WEROC	\$ 90,359	\$ 45,000	\$ 45,359
Depreciation Expense	\$ 35,000	\$ -	\$ 35,000
Election Expense	\$ 125,000	\$ -	\$ 89,286
Engineering Expense	\$ 150,000	\$ -	\$ 150,000
Health Insurance Coverage for Retirees	\$ 36,152	\$ -	\$ 36,152
Insurance Expense	\$ 115,200	\$ 49,000	\$ 115,000
Legal Expense - General	\$ 217,500	\$ 95,000	\$ 200,000
Membership / Sponsorship	\$ 104,626	\$ 50,000	\$ 79,523
Miscellaneous Expense	\$ 67,864	\$ 55,000	\$ 59,245
Office Supplies	\$ 54,960	\$ 21,000	\$ 44,465
Outside Printing, Subscription & Books	\$ 56,440	\$ 40,000	\$ 28,220
Postage / Mail Delivery	\$ 25,036	\$ 14,000	\$ 12,518
Rents & Leases	\$ 22,720	\$ 5,000	\$ 22,720
Software Support & Computer Maintenance	\$ 34,000	\$ 12,000	\$ 27,507
Telecommunications Expense	\$ 24,108	\$ 12,000	\$ 19,504
Temporary Help Expense	\$ 4,800	\$ -	\$ 4,800
Training Expense	\$ 10,000	\$ 14,000	\$ 8,090
Travel & Accommodations - Staff	\$ 25,680	\$ 13,000	\$ 20,776
Lobbying Services	\$ 194,000	\$ 60,000	\$ 120,000
Public Affairs Services	\$ 124,625	\$ 90,000	\$ 95,000
Water Use Efficiency Services (minus grants)	\$ 132,000	\$ 75,000	\$ 85,800
School Program (Discovery Science Center)	\$ 225,400	\$ 108,436	\$ 116,964
Other professional fees	\$ 35,500	\$ 50,000	\$ 50,000
<b>Sub-Total Operating Expenses</b>	<b>\$ 5,965,243</b>	<b>\$ 2,853,536</b>	<b>\$ 4,731,081</b>
<b>Contingency Amount [2]</b>	<b>-</b>	<b>335,603</b>	<b>-</b>
<b>Total Operating Budget</b>	<b>5,965,243</b>	<b>3,189,138</b>	<b>4,731,081</b>
Proportional Share of FY 2009-10 Operating Budget [3]	\$ 5,965,243	\$ 2,609,179	\$ 3,356,064
Additional Costs for Two Wholesale Agencies	\$ -	\$ 579,960	\$ 1,375,017

[1] Calculated as Full Time Equivalents to correspond with MWDOC's adopted FY 2009-10 operating budget

[2] Contingency of 15% applied to core program as calculated in Attachment A

[3] Calculated as the proportional share of total increment and meter charges over the total operating budget