



Municipal Service Review & Sphere of Influence Study

Municipal Water District
of Orange County





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ACRONYMS

AF	Acre foot
AF/Yr	Acre feet per year
AMP	Allen-McColloch Pipeline
BPP	Basin Pumping Percentage
CDR	Center for Demographic Research
CFS	Cubic feet per second
CIP	Capital Improvement Plan (or Program)
CSUF	California State University, Fullerton
DWR	California Department of Water Resources
FAP	Flow Augmentation Project
GPD	Gallons per day
LAFCO	Local Agency Formation Commission
Metropolitan	Metropolitan Water District of Southern California
MG	Million gallons
MGD	Million gallons per day
MOU	Memorandum of Understanding
MSR	Municipal Service Review
MWDOC	Municipal Water District of Orange County
NA	Not Applicable
NP	Not Provided
OCCOG	Orange County Council of Governments
OCP-2004	Orange County Projections – 2004
OCWD	Orange County Water District
SCAG	Southern California Association of Governments
WEROC	Water Emergency Response Organization of Orange County
WFC	MWDOC Water Facilities Corporation



Section 1:

EXECUTIVE SUMMARY





EXECUTIVE SUMMARY

To be provided



Section 2:

AGENCY PROFILE





AGENCY PROFILE

Introduction

The Municipal Water District of Orange County (MWDOC) is an independent special district formed in 1951 under the Municipal Water District Act of 1911 to function as a wholesale provider of imported water to retail water agencies within Orange County. MWDOC's mission statement is as follows:

To provide reliable, high quality supplies from the Metropolitan Water District of Southern California and other sources to meet present and future needs, at an equitable and economical cost for all Orange County, and to promote water use efficiency.

As a member agency of the Metropolitan Water District of Southern California (Metropolitan), MWDOC is entitled to purchase a share of that agency's contractual allotment for deliveries from the State Water Project and the Colorado River Aqueduct. MWDOC is the second or third largest Metropolitan member agency in terms of water purchases, depending on the purchases of the City of Los Angeles. At 16.92%, MWDOC's voting share at Metropolitan is also third largest, and is based on assessed valuation. 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. Although MWDOC participates in planning efforts with retail agencies, cities, groundwater management agencies, sanitation agencies and the County of Orange, and serves as a trustee in some financial agreements, MWDOC itself does not own or operate any water system infrastructure.

MWDOC's service area encompasses approximately 600 square miles. The Cities of Anaheim, Fullerton and Santa Ana are excluded because they are direct Metropolitan member agencies. In addition, areas along the eastern edge of the county that have not annexed to Metropolitan or MWDOC and thus are not eligible to receive imported water are also excluded (primarily the Cleveland National Forest). The following are the MWDOC member agencies:



Cities:

- Brea
- Buena Park
- Fountain Valley
- Garden Grove
- Huntington Beach
- La Habra
- La Palma
- Newport Beach
- Orange
- San Clemente
- San Juan Capistrano
- Tustin
- Westminster
- Seal Beach

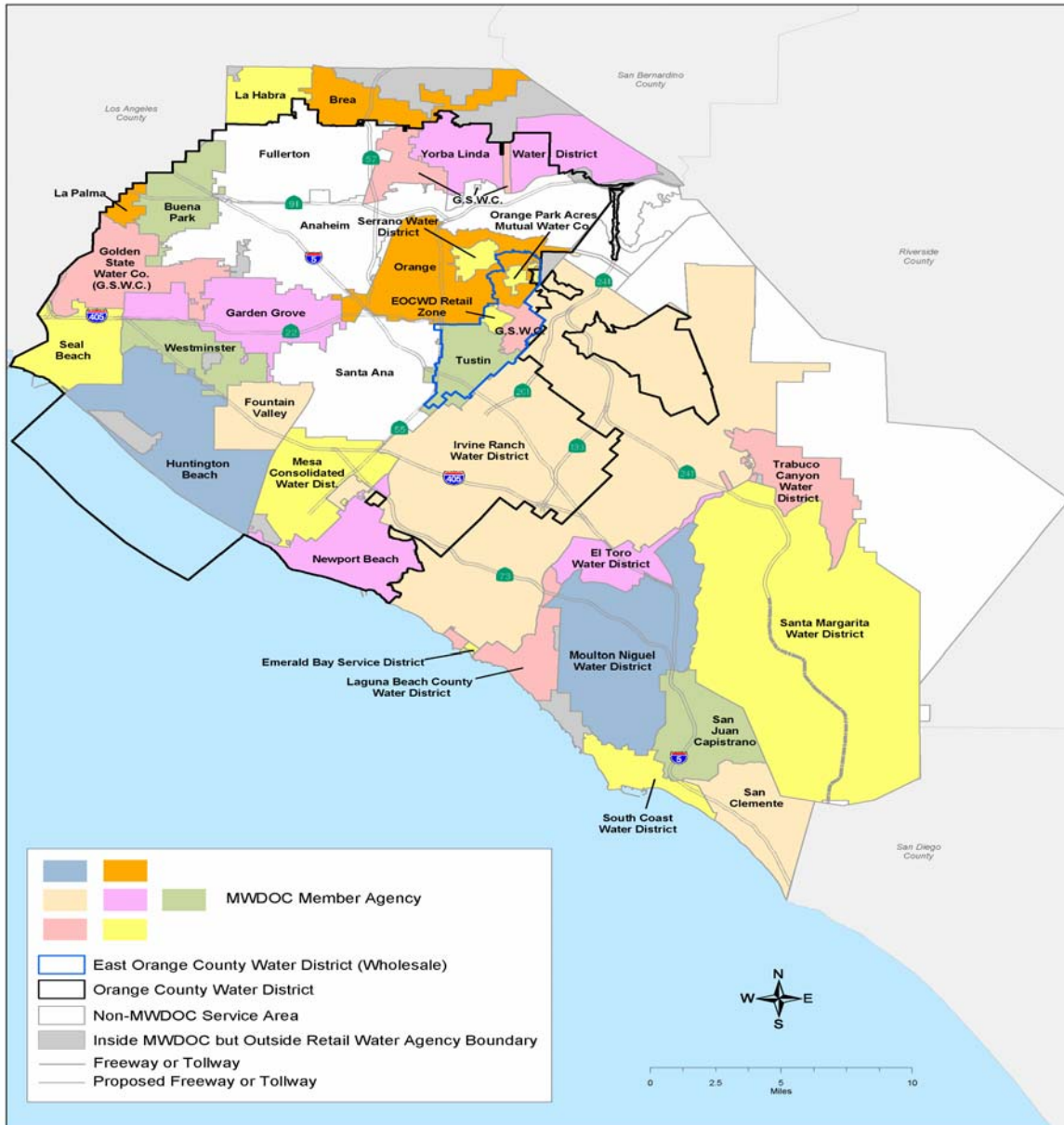
Water Agencies / Private Water Companies:

- East Orange County Water District
- El Toro Water District
- Emerald Bay Community Svcs. Dist.
- Irvine Ranch Water District
- Laguna Beach County Water District
- Mesa Consolidated Water District
- Moulton Niguel Water District
- Orange County Water District
- Santa Margarita Water District
- Serrano Water District
- South Coast Water District
- Trabuco Canyon Water District
- Yorba Linda Water District
- Golden State Water Company
- Orange Park Acres Mutual Water Company

A map of MWDOC's service area (see *Figure 2.1*), a District profile, and a schematic depicting the water supply system in Orange County can be found on subsequent pages.



Figure 2.1 MWDOC Service Area



MWDOC Service Area and Member Agencies

Center for Demographic Research, CSUF
 Portions of this map are copyrighted, and reproduced with permission granted, by THOMAS BROS. MAPS
 Print Date: July 31, 2006



Municipal Water District of Orange County							
Agency Information				Service Area Information			
Address:	10500 Ellis Avenue Fountain Valley, CA 92708			Service Area:	600 sq miles		
Contact:	Kevin Hunt, General Manager			2005 Population:	2,240,000		
Phone:	(714) 963-3058 (714) 964-9389 fax			Projected Population:			
Website:	www.mwdoc.com			2010	2,410,000		
				2015	2,480,000		
				2020	2,540,000		
				2025	2,590,000		
				2030	2,640,000		
Financial Information (FY 2006-2007 budget) (in millions)							
Revenues:	\$138.8	Expenses:	\$138.6	Capital Improvement Budget:	\$0.15	Reserves at Year End:	\$5.0
Service Summary							
<i>Water Demand and Supply within MWDOC Service Area: *</i>							
	Year 2005 (AFY)	Year 2030 (AFY)	Change				
Demand:							
Municipal + Industrial	504,997	611,757	21%				
Agriculture	16,781	4,801	(71%)				
Sea Barriers	14,000	36,000	157%				
Groundwater Replenishment	311,080	372,479	20%				
Total Water Demand	846,858	1,025,037	21%				
Direct Use	521,778	616,558	18%				
Indirect Use	325,080	408,479	26%				
Sources –Direct Consumption							
Imported –Metropolitan	245,232	246,981	1%				
Groundwater	234,019	296,434	27%				
Surface Water	10,908	10,525	(4%)				
Recycled Water	31,619	62,618	98%				
Total Supply – Direct Use	521,778	616,558	18%				
Sources –Indirect Consumption							
Imported – Metropolitan	63,181	50,700	(20%)				
Purchased from Others	4,000	4,000	--				
Recycled	4,000	72,000	1,700%				
Santa Ana River	217,116	235,913	9%				
Incidental Recharge	99,389	41,826	(58%)				
To/From Basin Storage	(62,606)	4,041	106%				
Total Supply – Indirect	325,080	408,479	26%				
Total Imported Water - Metropolitan	308,413	297,681	(4%)				

Source: MWDOC 2005 Urban Water Management Plan, Adopted FY 2006-07 Budget



Section 3:

Stakeholder Working Group





A. LAFCO's Stakeholder Process

In August of 2006, LAFCO staff began the Municipal Service Review (MSR) process by attending meetings at MWDOC, so as to explain the service review process. LAFCO staff also contacted each member agency in MWDOC and offered a confidential meeting with LAFCO's facilitator, Sharon Browning.

Ten (10) agencies initially met with the facilitator and a summary of the findings/issues is included as *Appendix A* to this MSR. (Six additional agencies provided input after the results of the confidential interviews were published). To summarize briefly, the LAFCO facilitator noted that for those agencies being interviewed:

- ▶ There was a high level of agreement that MWDOC's function of importing water is critical, that the MWDOC staff is skilled and generally facilitates excellent meetings and that MWDOC does an excellent job of serving smaller agencies that do not have the resources of larger agencies. There was also an appreciation that MWDOC brings together water districts that have divergent interests.
- ▶ There was a high level of agreement that issues related to MWDOC's governance structure, role and budget process must be resolved in a timely manner without impacting representation at Metropolitan.
- ▶ There was a lack of consensus on MWDOC's mission. There was agreement that MWDOC's core function/purpose is purchasing imported water for Orange County. However, the core function was described as having expanded into areas that some member agencies do not need or want.
- ▶ Concern was expressed about to whom the Board should be accountable – the public that elects them or the member agencies that fund MWDOC's activities.
- ▶ There was a lack of consensus on the role of member agencies in the budgeting process. The agencies interviewed noted that the MWDOC budget has doubled over the last ten years. Costs for some projects and services were seen as excessive. There was a lack of agreement regarding reserves and reserve policy.
- ▶ There was a lack of consensus on the equity of MWDOC's fee schedule. It was noted that MWDOC represents a diverse group of agencies and some member agencies believe that a "one size fits all" fee structure is not equitable.



After LAFCO staff presented the summary of issues at one of MWDOC stakeholder meetings, several agencies asked for an additional opportunity to provide input to LAFCO. LAFCO staff gave the agencies three options: (1) speak directly with the facilitator; (2) speak with to LAFCO staff; or (3) write a letter to LAFCO. Six (6) agencies called LAFCO staff and all expressed support for MWDOC and its activities. Two of the six agencies noted concerns over the increases in the budget, but felt that the MWDOC staff was addressing that concern.

B. MWDOC's Stakeholder Process

MWDOC staff also acted as facilitator for a series of eight meetings with the member agencies from June to December, 2006. This included three meetings that involved both the General Managers and elected officials and five meetings with the General Managers of twenty-four of the member agencies. The meeting notes from each of the MWDOC Stakeholder meetings are included in *Appendix B*. The key issues identified during the MWDOC process include:

- MWDOC's mission and services
- Equity in the rate structure, and how services are funded
- Identifying MWDOC's constituents
- Process for input into MWDOC's activities
- Collaboration with member agencies prior to initiating projects
- Coordination of lobbyists/efforts among MWDOC and member agencies
- Budget process
- Reserve levels and alternative methods

A brief summary of the eight MWDOC Stakeholder meetings and subsequent MWDOC Board action to address the issues is presented in the following:



Summary of MWDOC Stakeholder Meetings with Member Agencies			
Mtg	Date	Type	Summary of Discussions
1	6-8-06	Ad Hoc MWDOC (Elected Officials & Managers)	The discussion addressed MWDOC's costs or activities that were not fully supported by member agencies, MWDOC's budget and water rate increases, reserves and use of reserves. MWDOC's pending rate increase was discussed and member agencies recommended that MWDOC not adopt the proposed \$0.50 increase on retail meters but use existing reserves for any budget shortfall. The member agency request was subsequently approved at the June 21 MWDOC Board meeting; MWDOC's rates for 2006-07 remained equal to 2005-06 rates.
2	8-3-06	Ad Hoc MWDOC with Elected & Managers	Member agencies developed a list of issues, which included MWDOC's mission, core vs. non-core activities, who are MWDOC's constituents, process for input into MWDOC's activities, need for more collaboration with the member agencies before initiating projects, coordination of lobbying efforts, budget process and reserve levels.
3	9-28-06	Member Agency Managers	The group reviewed MWDOC's mission and a detailed list of services, which were grouped into eight categories. Questions were raised on some studies and projects and how they get initiated and how costs are shared among member agencies. Questions were raised on the use and coordination of lobbyists. A ninth service, research, was not supported. A menu approach, where agencies can pay for only the services they want, was not supported by a majority of member agencies. The group requested input into the cost of each of the services.
4	10-18-06	Member Agency Managers	Joyce Crosthwaite (LAFCO) distributed and discussed the LAFCO MSR "Summary of Findings & Issues". There was some confusion about the interview process and Joyce agreed that any other agencies wishing to participate in a confidential interview could call her or her facilitator,



Summary of MWDOC Stakeholder Meetings with Member Agencies			
Mtg	Date	Type	Summary of Discussions
			<p>Sharon Browning. The discussion centered on the “Cost of Service” breakdown MWDOC had prepared which estimated the costs of each of the eight major services.</p> <p>Kevin Hunt (MWDOC) proposed ways MWDOC could address the agencies’ concerns, including five year budget certainty, budget process, project initiation process, federal lobbying, rate equity and Board/Member Agency relations.</p>
5	10-30-06	Member Agency Managers	<p>Don Chadd (Trabuco CWD), representing five agencies in South Orange County, presented a proposal to adopt a base year budget and thereafter to limit the MWDOC budget increases to no more than the Consumer Price Index (CPI). Increases for staff and for ancillary services (as defined during the annual budget process) would be funded from reserves without increases rates to cover decreases in reserves.</p> <p>A budget ratification process was also proposed with approval by a majority vote and/or by a weighted vote by the % of revenue contributed to MWDOC. Studies were to be funded by agreement with the agencies or out of MWDOC’s reserves. An “opt out” process was also proposed. A meeting forum was requested for improved interaction between the member agencies, the MWDOC Board and the Metropolitan Directors. These issues were discussed and refined through discussions and carried over to the next meeting.</p> <p>Other items discussed at the meeting included core vs. non-core services and the process for project initiation.</p>
6	11-13-06	Member Agency Managers	<p>The main discussion centered on the proposed policy to limit budget increases over the next five years to a base budget and CPI increases and whether the budget would be formally ratified by member agencies or if the process of approval would be advisory. It was agreed that the</p>



Summary of MWDOC Stakeholder Meetings with Member Agencies			
Mtg	Date	Type	Summary of Discussions
			opinions of member agencies on the budget would be reported both on a weighted revenue basis and a count by agency. No consensus was reached as to whether approval for MWDOC's budget would be formal or advisory. Kevin Hunt (MWDOC) agreed to discuss both concepts at the upcoming Ad Hoc meeting but noted he would only recommend the advisory process.
7	11-20-06	Ad Hoc MWDOC with Elected & Managers	Proposed policy and procedural changes in response to member agency concerns were discussed. Kevin Hunt (MWDOC) agreed that he would not propose a budget to the MWDOC Board that was outside of the base budget and CPI cap unless he had a majority of member agency support.
8	12-18-06	Member Agency Managers	The purpose of the meeting was to review rate equity issues and discuss whether to proceed with further study of MWDOC rate alternatives, such as a "per agency" charge or other options. The group reached the conclusion that, for now, there was no interest in studying the rate equity issue further.

Upon the completion of the stakeholder process, the MWDOC Board unanimously approved a set of policy and procedural changes at its December 20th, 2006 meeting. The Board also adopted a policy statement that noted its desire to work cooperatively with member agencies to serve the public. A copy of the December 20th Board letter is included in *Appendix B*.

Each of the issues explored in the MWDOC Stakeholder process and the Board's subsequent action to address the issue is reviewed in subsequent sections of this report.



Section 4:

GROWTH & PROJECTED POPULATION





GROWTH & POPULATION

A. Regional Summary

MWDOC's service area is generally characterized by established communities with a few areas of significant growth. The last major developments in MWDOC's service area will be in East Orange, the two former military bases in Tustin and Irvine and Rancho Mission Viejo in the southern portion of the county. Most of the growth is expected to occur within the current decade, with an average annual growth rate of 1.9% from 2005 to 2010, tapering off to 0.4% by 2030.

The modest population growth projected over the next twenty-five years will primarily be a result of natural increase or births; once the developments noted above are complete, future increases in the number of housing units will be primarily due to infill and redevelopment. While the majority of residential land use is single-family, within the more urbanized areas there is a noticeable trend for redevelopment that incorporates mixed use and multi-family housing. Depending on the previous land uses, this may result in increased local water demand. However, landscapes are generally smaller and building standards have changed in that they require improved indoor water use efficiency. Therefore, while growth within the MWDOC boundaries will result in increased water demand and a greater need to develop and maximize the use of local resources, imported water demands are not expected to increase at historic rates.

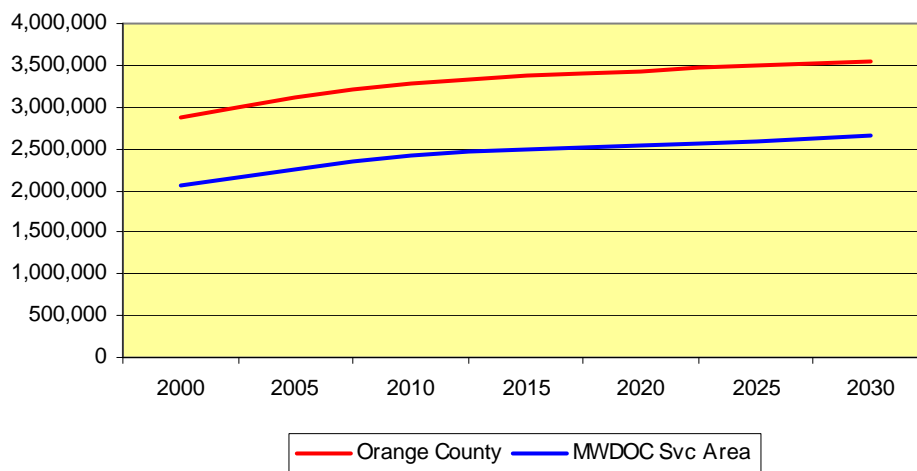
B. Existing & Projected Population

The population projections used in this analysis are based on data from the Southern California Association of Governments (SCAG) used for the *2004 Regional Transportation Plan*, the Center for Demographic Research (CDR) at California State University, Fullerton (CSUF) and the California Department of Finance.



The cities with the highest projected increases in population are Irvine, Anaheim, Huntington Beach, Santa Ana and Orange. The cities with the largest anticipated increase in number of housing units are Irvine (15,723), Anaheim (6,269), Huntington Beach (5,082), and Newport Beach (5,023).¹ These two growth projections do not directly correlate due to differences in the estimated number of persons per household; for example, Santa Ana and Orange have much higher rates (4.691 and 3.109, respectively) than Newport Beach (2.184).² The following *Figure 4.1, Estimated Population Growth* shows the estimated population growth rates within the MWDOC service area and countywide.

Figure 4.1: Estimated Population Growth



The Orange County Projections 2004 (OCP-2004) were adopted in 2004 by the Orange County Council of Governments (OCCOG) and the County Board of Supervisors. *Table 4.1, OCP-2004 Projections for Orange County* presents the projections for population, housing and employment within the MWDOC service area and countywide.

¹ The growth projections for certain cities are anticipated to change as the projections were prepared prior to recent major annexations and related development approvals for Irvine and Orange.

² California Department of Finance, Demographic Research Unit. City/County Population and Housing Estimates, 1/1/2006



		2005	2010	2015	2020	2025	2030	Overall Increase
Population	MWDOC Svc Area	2,263,086	2,425,797	2,490,751	2,544,328	2,595,432	2,649,162	386,076
	Countywide	3,094,461	3,291,628	3,402,964	3,485,179	3,537,559	3,552,742	458,281
Households	MWDOC Svc Area	761,485	810,821	822,270	838,008	853,757	870,120	108,635
	Countywide	978,423	1,034,027	1,043,473	1,063,976	1,081,421	1,098,474	120,051
Employment	MWDOC Svc Area	1,161,013	1,312,227	1,355,704	1,395,048	1,428,522	1,458,887	297,874
	Countywide	1,554,271	1,749,985	1,816,387	1,858,579	1,896,752	1,921,800	367,529

Source: OCP-2004, SCAG

Table 4.2, *Existing and Projected Population by Jurisdiction*, presents growth data for the incorporated cities within the study area. The most significant projected increase is in the City of Irvine, with the addition of 60,000 residents by 2030. The five year period with the highest growth rate for the cities was from 2000 to 2005.

City	2000	2005	2010	2015	2020	2025	2030	Overall Increase
Aliso Viejo	42,081	49,020	55,965	56,864	57,450	57,965	58,240	16,159
Brea	35,566	39,397	42,281	43,948	45,215	46,408	46,947	11,381
Buena Park	78,934	83,031	85,855	88,134	89,960	91,697	92,481	13,547
Costa Mesa	109,402	113,874	117,492	121,166	124,070	126,802	129,098	19,696
Cypress	46,521	48,992	50,284	51,462	52,421	53,327	53,752	7,231
Dana Point	35,325	37,352	38,482	39,191	39,745	40,255	40,437	5,112
Fountain Valley	55,321	59,250	61,758	63,257	64,458	65,586	66,107	10,786
Garden Grove	166,339	173,417	178,457	182,276	185,122	187,732	189,445	23,106
Huntington Beach	190,786	204,297	212,893	216,565	219,601	222,457	223,992	33,206
Irvine	143,965	169,600	192,186	195,740	198,689	201,491	203,965	60,000
La Habra	59,407	63,350	65,773	66,717	67,482	68,210	68,576	9,169
La Palma	15,504	16,248	16,600	16,874	17,086	17,286	17,368	1,864
Laguna Beach	23,874	25,028	25,582	25,977	26,279	26,564	26,675	2,801
Laguna Hills	32,275	33,516	34,150	34,734	35,200	35,637	35,833	3,558



Table 4.2: Existing and Projected Population by Jurisdiction

City	2000	2005	2010	2015	2020	2025	2030	Overall Increase
Laguna Niguel	62,277	67,134	70,376	71,372	72,133	72,834	73,067	10,790
Laguna Woods	17,842	18,534	18,782	19,046	19,261	19,470	19,590	1,748
Lake Forest	76,512	79,077	80,604	81,401	82,044	82,645	82,943	6,431
Los Alamitos	11,608	12,224	12,545	12,743	12,912	13,079	13,190	1,582
Mission Viejo	93,689	98,042	100,945	102,323	103,381	104,360	104,706	11,017
Newport Beach	76,170	83,585	89,527	91,147	92,365	93,488	94,167	17,997
Orange	129,637	139,859	146,899	149,208	151,032	152,760	153,522	23,885
Placentia	46,801	50,182	52,352	53,267	54,030	54,753	55,164	8,363
Rancho Santa Margarita	47,511	50,263	51,808	52,556	53,182	53,793	54,175	6,664
San Clemente	50,252	57,966	64,760	66,131	67,175	68,151	68,454	18,202
San Juan Capistrano	34,049	36,900	38,877	39,373	39,750	40,105	40,233	6,184
Seal Beach	24,309	25,628	26,335	26,709	27,015	27,311	27,471	3,162
Stanton	37,819	40,295	41,805	45,104	47,738	50,252	51,077	13,258
Tustin	68,032	76,164	82,470	84,774	86,580	88,270	88,788	20,756
Villa Park	6,036	6,359	6,530	6,646	6,746	6,839	6,892	856
Westminster	88,648	92,549	94,226	95,956	97,341	98,661	99,291	10,643
Yorba Linda	59,604	66,286	71,463	73,280	74,753	76,153	76,811	17,207
Unincorporated	103,401	145,667	197,735	216,810	234,112	251,091	286,705	183,304
Total	2,069,497	2,263,086	2,425,797	2,490,751	2,544,328	2,595,432	2,649,162	579,665
Avg Annual Growth Rate		1.87%	1.44%	0.54%	0.43%	0.40%	0.41%	

Source: SCAG 2004 projections

C. Summary

On a regional basis, water supply in California, especially in Southern California, should be considered a limited resource due to cutbacks from the Colorado River, drought, environmental issues, climate changes and the fragility of the Bay-Delta system infrastructure, which supports the State Water Project.



Growth and redevelopment within the MWDOC service area will also impact water demand over the next twenty-five years. Agencies in central and northern Orange County will continue to rely on less expensive groundwater for a significant portion of their water supply with less of a need for imported water. Much of the growth in these areas is expected to occur from infill and redevelopment. Other agencies, primarily those in South County - where more new development as well as substantial infill is occurring - are developing recycled and other local supplies to the extent possible but will continue to rely on imported water for the balance necessary to meet demand.

The projected growth within Orange County has been considered in the 2005 Urban Water Management Plan prepared by MWDOC and other water agencies in the area, as well as water supply assessments that are prepared for individual projects. The anticipated growth is used as a basis to determine if the water supply is adequate, reliable and affordable.



Section 5:

INFRASTRUCTURE NEEDS & DEFICIENCIES





INFRASTRUCTURE NEEDS & DEFICIENCIES

A. Overview

Water resources within Orange County include both local and imported supplies. Local supplies include: (1) groundwater (2) recycled water and (3) surface water. Each source is described in the following sections. In addition, some member agencies have developed their own supplies to ensure that current and future demand is met.

Although MWDOC does not own or operate any water system infrastructure and does not have jurisdiction over local supplies, it does offer several programs that are designed to improve the reliability of the regional system. The current MWDOC services include:

1) Metropolitan Advocacy

MWDOC has four directors seated on the 37 member Metropolitan Board. Policy issues include: system reliability, integrated resource planning, return on \$130 million annual investment in Metropolitan, rate design and budget, growth charges, drought planning, transfer/wheeling policy, conservation programs, Bay Delta issues, Colorado River issues, and the local resource incentive program.

2) Water Operations and Administration

MWDOC staff provides billing, coordination of discounted water programs, operations and maintenance shutdowns, water quality issues and requests for assistance including annual operating plans, water use projections for Metropolitan and coordination of Metropolitan/OCWD/MWDOC storage programs and agreements.

3) Water Use Efficiency

MWDOC operates a countywide water use efficiency program. This program provides a regional rebate format for consumers to receive incentives for installing water saving



devices such as ultra low flow or high efficiency toilets, high efficiency clothes washers, and “smart” irrigation controllers. MWDOC secures funding for rebates and program implementation from various sources. MWDOC administers, advertises and promotes the programs. MWDOC also participates in efforts to develop consensus through the California Urban Water Conservation Council and through participation in workgroups such as the AB 2717 Landscape Water Use Efficiency task force. MWDOC also operates a monthly Water Use Efficiency Coordinator Workgroup meeting with its member agencies.

4) Emergency Preparedness

MWDOC operates the Water Emergency Response of Orange County (WEROC), which functions with one full-time MWDOC staff and a combination of local water agency and local technical/consultant volunteer staff. In an emergency, one of two water emergency operations centers in central/north or south Orange County are activated to gather damage information, assistance needs and coordinate responses to service disruptions. WEROC’s activities include training and emergency exercises, participation in the Orange County Emergency Management Organization (OCEMO), preparation of an Orange County Regional Water/Wastewater Multi-Hazard Mitigation Plan, development of GIS based emergency base maps, participation in Metropolitan’s emergency management coordination group (MARS), and providing federally mandated training for the National Incident Management System and Standardized Emergency Management System. Preparation, shared tools and well rehearsed coordination among water and wastewater agencies in the County can result in better performance in emergencies.

5) Reliability Studies and Project Development

MWDOC conducts initiates or participates in a number regional water system and water supply reliability studies.

6) Water Awareness/Public Information

MWDOC’s water awareness and public information programs promote public and intergovernmental awareness of water issues, and build support for water reliability investments as well as water use efficiency. MWDOC’s activities in this area include, a monthly Public Affairs Workgroup for its member agencies, preparation of state mandated Annual Water Quality Reports for 22 member agencies, development of communications tools and messages, input into Metropolitan regional advertising campaigns, periodic *Currents* newsletters, quarterly Water Policy Forum Dinners, MWDOC website updates and coordination of Metropolitan facility inspection tours.



7) School Program

MWDOC implements a water educational program for children in grades K-5 through a partnership with the Discovery Science Center, although its original school program had been operated by MWDOC for over 30 years. The partnership with DSC has allowed the program to continue with the added benefit that DSC's marketing and administration capacity can be applied to allow more students to be reached. In 2005, the program reached 76,000 students. The Cities of Anaheim, Fullerton and Santa Ana contract with MWDOC so that this program is provided in their areas as well.

8) Legislative Advocacy

MWDOC provides a number of legislative advocacy functions, which include the use of a state lobbyist, a federal lobbyist and MWDOC staff who work on legislative issues. Legislative advocacy activities include a Member Agency Legislative Coordination Workgroup, participation in Metropolitan's Legislative Workgroup and with the Association of California Water Agencies (ACWA), an annual Orange County water issues briefing in Washington DC (cooperative effort with MWDOC, OCWD, IRWD, SMWD, County of Orange, and others) and staff support for WACO (legislative reports, meeting coordination).

B. Water Sources

Local Supplies

Groundwater

Local supplies are important and are used to meet approximately 53% of direct-use water demand within the MWDOC service area. These local supplies are becoming increasingly important and valuable not just in Orange County but throughout the Southern California region.

In the mid 1990's, Metropolitan prepared its first Integrated Resources Plan for its service area. The IRP was adopted in 1995 and updated in 2004. A key element of the Plan was to rely on not just imported water supplies and agricultural to urban water transfers but also to diversify the supply portfolio to include additional investments in conservation, water recycling, groundwater cleanup, conjunctive water storage programs with local groundwater basins and seawater desalination. The success of the IRP over the next 25 years depends on local agencies developing these supplies.



Metropolitan has also adopted a policy requiring that imported water be considered a secondary source and therefore encourages its member agencies to develop local resources. To help implement this policy, Metropolitan offers a financial incentive up to \$195 per acre foot for new water conservation devices, and up to \$250 per acre foot for the development of local resources (recycled water, groundwater cleanup and seawater desalination) that will directly offset demand for imported water.

There are three sources of local water supply in Orange County: groundwater, surface water, and recycled water. Groundwater comprises almost half (45%) of direct-use local water supplies, with the overwhelming majority coming from the Orange County Groundwater Basin that underlies the northern and central portions of the county. The Orange County Water District (OCWD) manages the Orange County Groundwater Basin. Major groundwater recharge sources for this basin include the Santa Ana River, imported water, and in the near future, wastewater treated with advanced technologies through the Groundwater Replenishment System. Other local groundwater sources include the San Juan Basin in South County and the La Habra Basin in the north.

Although MWDOC has no jurisdiction over local supplies, including groundwater, it does have an important role in groundwater programs. For example, in 2003 the Orange County Water District (OCWD), MWDOC and Metropolitan entered into a 25-year agreement for the Orange County Basin Groundwater Conjunctive Use Program. Under the program, Metropolitan, in cooperation with MWDOC and the OCWD, will store as much as 66,000 AF of imported water in Orange County's groundwater basin during wet periods. During dry years, droughts or emergencies, up to 22,000 AF/yr can be withdrawn for use. OCWD's benefits under this program included capital funding for eight new production wells, partial funding of the seawater intrusion barrier injection well system, and funding of the Diemer Bypass project, which provides the ability to receive lower salinity imported water for groundwater replenishment (total value approximately \$30 million plus ongoing water quality benefits).

Surface Water

Surface water, another local source, is limited in Orange County and comprises only 2% of direct-use local water supplies. Most of the supply is captured from Santiago Creek and stored in the Santiago Reservoir (Irvine Lake). Some is reclaimed from local streams and urban runoff within the Santa Margarita Water District service area.

Recycled Water



Recycled water is becoming an increasingly essential locally developed source of supply. In 2005, recycled water met an estimated 6% of direct-use demand; this will increase to 10% by 2030. For indirect use, it met 1% of demand in 2005 and will increase to 18% by 2030. A new source of recycled water under development is the Groundwater Replenishment System project, a joint effort of OCWD and the Orange County Sanitation District. This new source will be used for groundwater recharge and for seawater intrusion barrier purposes in the Orange County Groundwater Basin. MWDOC worked with OCWD to gain Metropolitan funding assistance for this project. However, most of the agencies currently developing recycled water are in South County, where imported water is the biggest source of supply.

Imported Water

Imported water is the other major source of water in Orange County; 47% of the direct use water in MWDOC's service area is imported. Approximately 87% of water delivered to Orange County is treated at the Diemer Filtration Plant in Yorba Linda, which is owned and operated by Metropolitan. In addition, a significant amount of imported water is used to supplement the groundwater basin and is sold as non firm "replenishment" water at discounted rates to OCWD. This water is used "indirectly" once it is pumped from the groundwater basin using local wells.

To determine how much water Orange County will need, MWDOC provides Metropolitan with an annual projection, which Metropolitan uses to forecast water sales and prepare annual operations plans (including the timing of major facility shutdowns to make repairs, reservoir operating plans, etc). In order to prepare an accurate projection, MWDOC asks member agencies to annually update their five-year forecast of expected water demand.

MWDOC entered into a 10 year purchase agreement with Metropolitan, which began in 2003. Under the terms of this agreement, MWDOC committed to purchase water equal to 60% of its historic maximum annual purchase, times 10 years. This water can be purchased at any time over the 10 year period. In return for this purchase commitment, MWDOC can buy up to 222,924 acre feet of firm water annually from Metropolitan at the Tier 1 supply rate. Purchases above this annual calendar year limit are made at the higher Tier 2 rate (currently about 20% higher). As shown in Table 5.1, *Projection of Metropolitan Water Supplies*, MWDOC's relatively stable demand on Metropolitan in normal weather should be near or below the Tier 1 limit.

Demands can fluctuate depending on weather and local supply conditions and MWDOC could experience demands in dry years that exceed these amounts and



require purchases of Tier 2 water. In these years, the balance of water needed for the current year is acquired at the higher Tier 2 rate and MWDOC draws from the restricted Tier 2 Contingency Fund to purchase the additional water.

The Tier 2 Contingency Fund was established in 2003 with an initial balance of \$0 and a plan to build reserves over a two to three year period. The initial targeted minimum fund balance was \$2 million, based on 25,000 acre feet at a rate of \$81/AF. The Tier 2 to Tier 1 rate differential increased to \$96 per acre foot in 2005 and the fund minimum would therefore need to be \$2.5 million to cover the same 25,000 acre feet amount today. Today the Tier 2 Contingency Fund balance is over \$5.52 million. The size of the reserves accumulated by MWDOC to buy Tier 2 water is an issue with some member agencies. MWDOC's five-year water demand projections, as shown in the FY 2006-2007 budget, are expected to remain relatively stable or to slightly decrease through 2012.

MWDOC reviews the fund balance with the member agency managers and Board each spring as part of the rate setting process. A range of weather and demand forecast scenarios are projected for the next 18 months and the rates and ending Tier 2 Fund balances are evaluated. If the fund balance exceeds \$5 million, the MWDOC Board could again reduce the Melded Supply rate so that the fund will decrease accordingly. The annual review of the Tier 2 Contingency Fund balance with the member agency managers is scheduled for February 2007.

Type	06-07	07-08	08-09	09-10	10-11	11-12
MWDOC Import - Total	291,440	271,142	270,649	274,903	258,701	260,640
MWDOC Import - Firm	233,612	213,314	213,521	218,975	204,201	206,250
% of Firm Commitment	80%	79%	79%	80%	79%	79%

C. Member Agency Water Supplies

The water supply portfolio is different for north and south county agencies. The northern and central portions of the county overlie the Orange County Groundwater Basin and most of their supplies come from groundwater. Agencies in central and northern Orange County have no surface water and have developed little recycled supplies.



Approximately 95% of the south county's potable water supply is imported, treated at the Diemer Filtration Plant and delivered via two pipelines. Only three agencies, all in central Orange County, have surface water (IRWD, Serrano Water District and the City of Orange). The recycled water being developed in southern Orange County will become increasingly important. Additional recycling in central and southern Orange County will target landscape uses. *Table 5.2, Retail Agency Water Sources* summarizes reported water sources by agency for FY 2005.

Agency	Imported	Ground-water	Surface	Recycled/ Non-potable
Laguna Beach CWD	100%			
Emerald Bay CSD	100%			
El Toro Water District	95%			5%
San Clemente, City of	94%	5%		1%
South Coast WD	88%			12%
Santa Margarita WD	84%			16%
Moulton Niguel WD	83%			17%
Trabuco Canyon WD	75%	5%		20%
San Juan Capistrano, City of	68%	28%		4%
Yorba Linda WD	55%	45%		
Huntington Beach, City of	54%	46%		
Mesa Consolidated WD	52%	44%		4%
Brea, City of	40%	60%		
Anaheim, City of*	39%	61%		
East Orange County WD, Retail	37%	63%		
Golden State Water Company	36%	64%		
Garden Grove, City of	35%	65%		
Buena Park, City of	34%	66%		
Fullerton, City of*	34%	66%		
Seal Beach, City of	34%	66%		
Newport Beach, City of	33%	67%		
Santa Ana, City of*	33%	67%		
Westminster, City of	33%	67%		
Orange, City of	32%	66%	2%	
La Habra, City of	30%	70%		
Fountain Valley, City of	28%	66%		6%
La Palma, City of	24%	76%		



Irvine Ranch Water District	21%	41%	8%	30%
Tustin, City of	16%	84%		
Orange Park Acres Mutual WC	14%	86%		
Serrano WD	0%	53%	47%	

Source: *Orange County Water Agencies Water Rates Study (2005)*

* Not a MWDOC Member Agency

D. Water Supply Reliability

MWDOC participates in planning efforts with its member agencies, OCWD, Metropolitan, and other regional state agencies that can improve reliability of the water supply. Those efforts included:

- ❖ Participated with Metropolitan on three reliability efforts (Diemer Filtration Plant Reliability Assessment, Distribution System Reliability Assessment for Orange County and the Infrastructure Reliability and Protection Plan Project Management Plan). MWDOC also completed the *Orange County Water System Reliability Study*, which consists of separate planning documents for the north and south county areas. In addition, MWDOC participated in the *South Orange County Water Reliability Study – Phase 2 System Reliability Plan*. This study was used to identify risks to regional water treatment and distribution infrastructure.
- ❖ Worked with IRWD, Santa Margarita Water District (SMWD) and Moulton Niguel Water District (MNWD) to develop a system for conveying water from the IRWD system to South Orange County during planned shutdowns and emergency situations.
- ❖ Prepared and submitted a successful grant application to secure \$8 million from Proposition 50 for South Orange County Projects. The funds will benefit agencies and ratepayers in South Orange County through reduced costs for needed reliability improvements.
- ❖ Worked with twenty agencies in Orange County to prepare the Orange County Regional Water and Wastewater Multi-Hazard Mitigation Plan. Once approved, the plan opens the way to potential funding from FEMA for pre and post-mitigation disaster projects.



- ❖ Hired a consultant to prepare earthquake scenario ground motion maps to better understand the shaking intensity and to estimate the potential damage to water systems in Orange County from the various earthquake events.
- ❖ With the County of Orange as the lead, MWDOC participated with 24 water and wastewater agencies in the development of the *South Orange County Integrated Regional Water Management Plan*, which identifies and prioritizes nearly 100 short- and long-term projects. This plan (and the related Prop 50 Grant application) was one of the few selected to receive funding from the Department of Water Resources.
- ❖ MWDOC, along with a majority of its member agencies, is signatory to the *California Urban Water Conservation Council Memorandum of Understanding Regarding Urban Water Conservation in California* (MOU). The Water Use Efficiency Programs are regional and implemented on behalf of MWDOC's member agencies.
- ❖ MWDOC and OCWD have adopted a Memorandum of Understanding to coordinate mutual water resources planning, supply availability, and water use efficiency programs. The agencies conduct a monthly joint planning meeting with their Boards.
- ❖ As a member of the Project Advisory Committee for Metropolitan, MWDOC participated in the second phase of a regional study, which examined recycled water opportunities from a regional perspective in order to develop a long-term planning strategy that includes projects through Year 2040.
- ❖ MWDOC developed a preliminary feasibility study and submitted a successful application to Metropolitan resulting in funding for up to 28,000 acre feet under the Metropolitan Seawater Desalination Program. Currently, MWDOC is conducting a feasibility study for a potential 15 million gallon per day desalination facility at Dana Point. The first phase of hydrogeology and water quality testing has been completed for the Dana Point site. A conceptual investigation has also been initiated for a potential plant at Camp Pendleton in conjunction with the San Diego County Water Authority. Based on the results of the feasibility study, which will be published in February/March 2007, MWDOC has committed to working with the local agencies that would benefit from such a project to form a Joint Powers Authority to determine if the local agencies will participate in the project.



E. Facilities

MWDOC does not own or operate any water system infrastructure. MWDOC's agencies receive imported water supply through approximately 60 service connections to the Metropolitan system. *Figure 5.1, Orange County Water System*, shows the Metropolitan infrastructure within Orange County.

MWDOC holds capacity rights in the Santiago Aqueduct Pipeline (also known as the Baker Pipeline); these rights are leased to three retail water agencies for a 30 year period (beginning in 1977) with an indefinite number of 10-year extensions at the option of the lessees.



Figure 5.1, Orange County Water System





F. Summary

Due to topography and geology, there are differences in water sources and supplies throughout Orange County. Imported supply reliance varies from that of the Serrano Water District, which normally does not use imported water, to Laguna Beach, which uses 100% imported water. In the far northern section of Orange County, the Cities of La Habra and Brea do not overlie the Orange County Groundwater Basin, but they purchase some water from the San Gabriel Basin and the rest from MWDOC. Most agencies in the OCWD basin pump from 60% to 75% of their water from the basin and purchase the rest from MWDOC. A few of these agencies also treat impaired groundwater and pump more than the basin wide pumping percentage as a result.

South county agencies are typically a mix of special districts (El Toro Water District, Moulton Niguel Water District, South Coast Water District, Trabuco Canyon Water District, and Santa Margarita Water District) as well as cities (Laguna Beach, San Juan Capistrano and San Clemente). South County agencies tend to rely more on imported water, and many are developing more recycled water. San Juan Capistrano has developed local groundwater through their groundwater desalter project. The South Coast Water District is nearing completion of a groundwater desalter. Laguna Beach has expressed interest in diversifying its supply portfolio as well. MWDOC must balance the varying needs, goals and governmental structures of these agencies and try to forge regional unity on issues.

Since MWDOC does not own or operate any water system infrastructure, no significant issues with infrastructure needs and deficiencies were noted. However, there are some related concerns which were discussed during MWDOC's stakeholder process.

Member agencies pay for MWDOC's services and programs through imported water purchases and retail meter charges. Therefore, agencies with more retail meters and/or those purchasing more imported water pay a larger share of MWDOC's costs. During MWDOC's stakeholder process, representatives of some agencies expressed the view that they are in effect subsidizing the costs for smaller agencies and/or those that have access to less expensive groundwater. MWDOC staff indicated willingness to study rates during the MWDOC stakeholder process. A stakeholder meeting was held on December 18 to review rate equity issues and to discuss whether to proceed with further study of MWDOC rate alternatives. The group reached the conclusion that, for now, there was no interest in studying the rate equity issue further.



ISSUE: PROJECTS

MWDOC has initiated some projects without broad member agency support. As an example, MWDOC is in the process of completing a feasibility study for a potential seawater desalination plant in Dana Point. This project is opposed by several member agencies, due to their concerns over the cost and limited potential benefit. Some of the member agencies do not want to be required to share in the cost should the project proceed to a next phase. Other member agencies have expressed interest in the project and support for the concept. At the recommendation of a number of member agencies in 2005 during the FY 2006 budget process, MWDOC has committed wrap up the feasibility study using remaining grants and budgeted reserve funds and transition the project to a JPA comprised of interested member agencies. However in the current budget monies are allocated for additional studies.

MWDOC has also authorized lobbying efforts to seek funding for this project. This has not always been coordinated with some member agencies that also have lobbying efforts for other programs. This further exacerbates existing problems. With the adoption of policy changes in December 2006, MWDOC will seek funding partners and share costs on any projects and lobbying when fewer than five agencies will directly benefit. This change will limit the situations in which member agencies are required to share equally in the cost of all MWDOC activities irrespective of benefit.

As a possible solution, it was suggested that MWDOC allow agencies to opt-out, and have their costs reduced, if a service or program is already provided by that agency. One area of service duplication was the school education program. A number of options were identified to address this situation directly. As a result, the MWDOC Board on December 20th, 2006 directed the General Manager to resolve the issue.

Another area of duplication was the use of lobbyists. The MWDOC Board approved a policy requiring recovery from member agencies of a portion of only Federal lobbyists' costs if the lobbying is a significant sustained effort that benefits fewer than five agencies. Costs for State and local lobbyists, if used, were not mentioned in the MWDOC changes.



Section 6:

FINANCING OPPORTUNITIES & CONSTRAINTS





FINANCING OPPORTUNITIES & CONSTRAINTS

A. Overview

This section includes a brief review of MWDOC's current and projected budgets, including revenues and expenses, as well as an analysis of some of the issues discussed during MWDOC's stakeholder meetings. The District has adopted a \$138.6 million budget for FY 2006-2007, which includes \$122.7 million for water purchases, \$2.58 million for water use efficiency programs, and \$6.3 million for MWDOC operations.

B. Financial Review

The following *Table 6.1, MWDOC Financial History* summarizes the District's financial history for the past four years and *Table 6.2, MWDOC General Fund Financial Projections* includes projections through FY 2012. It should be noted that the MWDOC Board recently adopted a policy to limit increases in its annual General Fund budget to no more than the CPI for the next five years. The projections shown in *Table 6.2, MWDOC General Fund Financial Projections*, may be outdated as a result.

Finances	FY 03-04 Actual	FY 04-05 Actual	FY 05-06 Actual	FY 06-07 Budget
Revenue:				
Operating Revenues	146,960	116,166	126,375	127,902
Non-Operating Rev.	1,539	1,443	1,475	894
TOTAL REVENUE:	148,499	117,609	127,850	128,796
Expenses:				



Depreciation Expense	129	118	122	122
Operating Expense	143,555	117,048	126,355	128,867
Non-operating Exp.	1,208	930	635	91
TOTAL EXPENSES:	144,892	118,096	127,112	129,080
Net Assets:				
Change in Net Assets	3,607	(487)	738	(284)
Beginning Net Assets	14,210	17,817	17,330	18,068
ENDING NET ASSETS:	17,817	17,330	18,068	17,784
Capital Assets	1,670	1,591	1,557	
Restricted for Debt Service	5,304	5,248	5,117	
Restricted for Trustee Activities (Tier 2, Capacity Charges)	2,945	4,523	5,823	
Unrestricted	7,898	5,969	5,571	

Finances	FY 06-07 Budget	FY 07-08 Projection	FY 08-09 Projection	FY 09-10 Projection	FY 10-11 Projection	FY 11-02 Projection
Revenue:						
Retail Meter Fees	3,285	3,779	3,814	4,163	4,209	4,564
Water Rate Increment	1,789	1,902	1,940	2,118	2,057	2,214
Inter Fund Transfer	193	0	0	0	0	0
Interest Earnings	525	523	523	519	526	519
Misc./Reimbursement	58	58	58	58	58	58
TOTAL REVENUE:	5,849	6,262	6,335	6,858	6,850	7,355
Expenses:						
General Expenses	5,667	5,999	6,269	6,552	6,846	7,154
Capital Acquisitions	151	145	30	30	30	30
MWDOC Contribution to Desalination	290	0	0	0	0	0
Election Expense	150	150	150	150	150	150
TOTAL EXPENSES:	6,258	6,294	6,449	6,732	7,026	7,334
Reserve Balance - beginning of year	5,409	5,000	4,967	4,852	4,978	4,802



RESERVE BALANCE, END OF YEAR:	5,000	4,967	4,852	4,978	4,802	4,822
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Note: projections based on 4.5% annual inflation factor

Revenues

MWDOC's revenue is generated through water sales, incremental water charges, retail meter charges and interest on investments.

Water Sales

MWDOC purchases water from Metropolitan and then recovers the cost of these purchases from its member agencies. Since 1998, Metropolitan has twice restructured its water rates to deal with rate stability, wheeling access and cost of service allocation issues. MWDOC passes these rates through to its member agencies.

MWDOC uses a melded rate structure for water sales to its member agencies. The MWDOC rate incorporates the Tier 1 and Tier 2 charges from Metropolitan and blends them into a melded rate. Tier 2 rates are 20% higher than Tier 1 rates and 17% higher than the MWDOC melded rate. All net revenue from the Melded Supply Rate is applied to the restricted Tier 2 Contingency Fund, as described in MWDOC's Administrative Code. Through the end of Calendar Year 2006, MWDOC had accumulated approximately \$5.52 million in the Tier 2 Contingency Fund. This amount would purchase approximately 57,500 acre feet of Tier 2 water at the current rate differential. MWDOC's estimated Tier 2 exposure in successive dry years, such as 2006 and 2007, was approximately 64,800 acre feet. MWDOC staff has indicated they plan to review the Tier 2 risk analysis and Tier 2 Fund balance projections for 2007 and 2008 with the member agencies and Board this spring as part of the rate setting process. A reduction of the Melded Rate and reduction in the Tier 2 fund balance may occur as a result.

Incremental Water Charges: MWDOC charges an incremental water charge of \$6.50 per acre foot of water delivered. This charge accounts for approximately 31% of General Fund revenues.

Retail Meter Charges: MWDOC assesses an annual charge of \$5.50 on each retail water meter served by a MWDOC member agency as of January 1st of each year. The retail meter charge is billed to the member agencies on or after July 1st of each year. Agencies report their retail meter count to MWDOC annually. This charge is the primary source of revenue for operations (excluding water purchases), comprising approximately 56% of General Fund revenues.



Interest Revenue: Interest revenue is received from the cash reserves held by MWDOC. The majority of cash reserves are held in short-term securities, with a budgeted annual yield of 4.5%. For FY 2007, the budgeted interest revenue includes \$525,000 generated by General Fund reserves, \$235,000 by Water Fund reserves, and \$1,000 by Water Use Efficiency funds. Interest revenues on the restricted Capacity Charge reserve and Tier 2 Contingency Fund are held in those accounts for the benefit of the member agencies.

Other Sources of Revenue: MWDOC receives revenue from participating agencies to cover expenses for the Water Emergency Response Organization of Orange County (WEROC) as well as the School Program (Anaheim, Santa Ana and Fullerton participate). MWDOC has successfully pursued grant funding for its water use efficiency programs and has budgeted \$2.8 million in revenue from outside funding for this purpose in FY 2007. The District has also budgeted \$310,000 in outside funding for the desalination feasibility study discussed in *Section 5, Infrastructure Needs and Deficiencies*.

Expenses

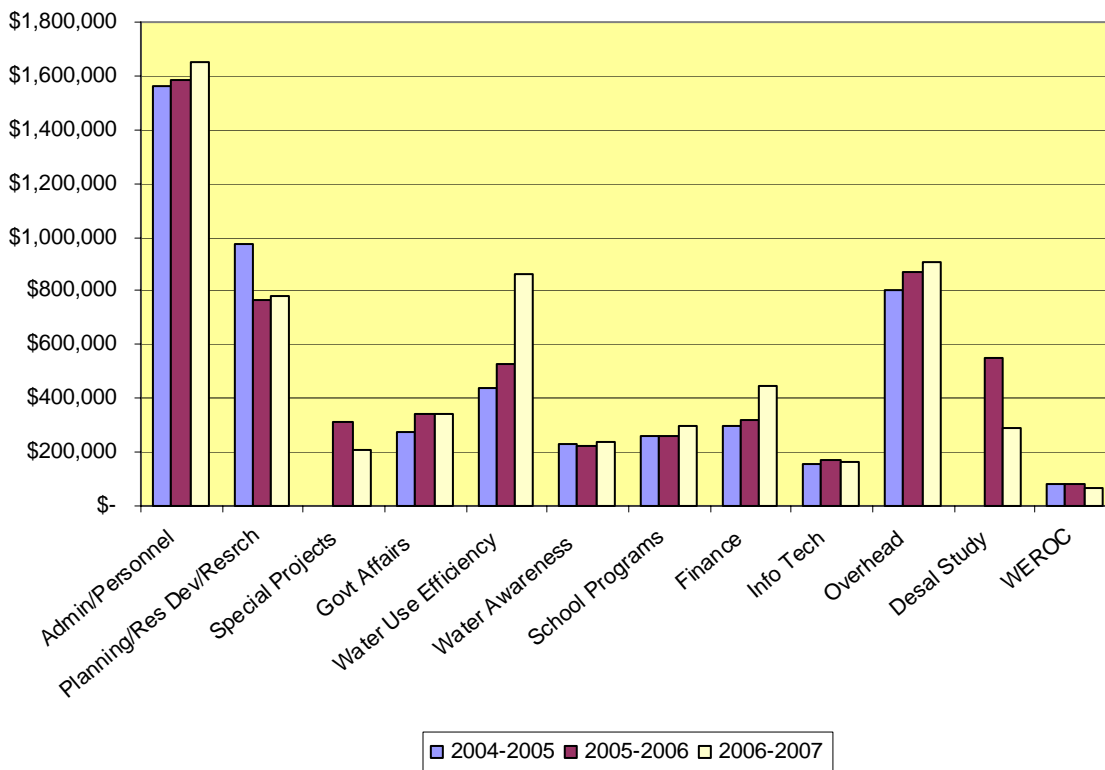
MWDOC’s General Fund is used for District operations; water sales and purchases and Metropolitan charges are accounted for in the Water Fund. *Table 6.3, MWDOC General Fund Budget by Program* outlines the General Fund budgeted expenses by program type. This is also depicted graphically in *Figure 6.1, MWDOC General Fund Budget 3 Year Comparison*.

Table 6.3: MWDOC General Fund Budget by Program						
Finances	FY 04-05 Projected Actual	%	FY 05-06 Projected Actual	%	FY 06-07 Budgeted	%
<i>Expenditures by Program:</i>						
Administrative/Personnel	1,560,635	31%	1,583,783	26%	1,650,430	26%
Planning/Resource Devel.	973,234	19%	768,061	13%	781,394	12%
Special Projects	0	0%	311,120	5%	210,212	3%
Governmental Affairs	273,557	5%	344,747	6%	340,855	5%
Water Use Efficiency	440,204	9%	528,734	9%	861,128	14%
Water Awareness	232,190	5%	223,531	4%	238,739	4%
School Programs	257,824	5%	259,959	4%	297,584	5%
Finance	300,219	6%	317,874	5%	444,382	7%



Information Technology	156,745	3%	169,679	3%	166,372	3%
Overhead	799,722	16%	871,924	14%	909,874	15%
Desalination Study	0	0%	553,900	9%	290,000	5%
WEROC	80,000	2%	81,362	1%	67,478	1%
TOTAL EXPENDITURES:	5,074,331	100%	6,014,674	100%	6,258,448	100%
% Increase – Prior Year			18.5%		4.1%	

**Figure 6.1, MWDOC General Fund Budget
3 Year Comparison**



As of August 2006, the District retired its remaining debt associated with Certificates of Participation for the Allen McColloch Pipeline issued in 1996 by the Water Facilities Corporation and a \$121,444 arbitrage liability. The District has no long-term debt and is not anticipating issuing new debt in FY 2007.



The District's capital assets include \$438,000 for furniture and fixtures and \$2.6 million in leasehold improvements. Budgeted expenditures for FY 2007 include a new financial management system, computer equipment, phone system update and office remodeling.



ISSUE: AGENCY PARTICIPATION IN BUDGET PROCESS

MWDOC typically had a draft budget that was provided to the Member agencies in March, April or May for review and comment. The Board would then adopt a final budget in June for the next fiscal year. This has been an ongoing area of concern as some member agencies believed the short review time limited input on the budget and on projects. One of the issues raised during the MWDOC stakeholder meetings was the budget process

The consensus reached during the MWDOC stakeholder meetings was that the budget process would benefit from an earlier start and a higher degree of initial consultation with the member agencies as the budget is being prepared. As a result, the MWDOC Board's December 20th, 2006 action directed the General Manager to implement improvements to the Budget Process:

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

ISSUE: GENERAL FUND EXPANSION

One of the issues raised during the MWDOC stakeholder meetings was the budget process. MWDOC's General Fund budget has increased at an average rate of 6.2% per year since FY 1997-98, while MWDOC's water rates have increased at 4.0% and retail meter charge at 6.6%. During the same time Metropolitan's rate increases have averaged 4%. Some expenditures, such as federal and state lobbyists and Board member travel expenses, have been considered excessive by some of the agencies.

As a result of the Stakeholder process, in December 2006 the MWDOC Board adopted a policy limiting the General Fund budget growth to the annual rate of inflation for the



next five years and directed the General Manager to implement the other schedule and process changes identified for the budget process.

MWDOC has not always taken actions suggested by the member agencies on proposed programs and projects. In some cases, input from the member agencies is conflicting. Some of the member agencies believe their input has been ignored and that MWDOC has adopted budgets that expand services and programs regardless of their concerns. *Figure 6.2, MWDOC General Fund Budget and Water Purchases* shows the change in MWDOC's annual budget since FY 1998-99, along with annual water purchases.

ISSUE: RESTRICTED RESERVES

MWDOC's restricted reserves include the Tier 2 Contingency Fund and funds for Metropolitan's Capacity Charges.

Tier 2 Contingency Fund

For the Tier 2 reserves, any net revenue from the melded supply rate is placed in the Tier 2 Contingency Fund reserve account. The purpose of this reserve is to have sufficient funds to purchase additional Tier 2 water during years of high demand. During MWDOC's Stakeholder process, there seemed to be general agreement that establishing a reserve fund for Tier 2 water purchases was prudent. The discussion that occurred focused on the amount of the Tier 2 Contingency Fund.

This reserve fund is intended to be enough to purchase a minimum of 25,000 acre feet of Tier 2 water. The cost estimated, at current Metropolitan rates, is about \$2.5 million. As of December 31, 2006 the balance in the Tier 2 Contingency Fund was \$5.52.

MWDOC cut its Melded Supply rate in each of the last two rate setting cycles as a means of reducing the amount of the Tier 2 reserves. Also, as noted in the policy changes adopted in December 2006, the reserves for Tier 2 purchases are more than adequate and "can likely be reduced in 2007 given the water demand conditions forecasted."³ The reductions in the Tier 2 Contingency Reserve can be accomplished either through additional cuts in MWDOC's melded rate or a refund/credit back to MWDOC's member agencies. Reducing the Tier 2 Contingency Reserves will benefit ratepayers in Orange County while still maintaining sensible reserves. It would also

³ MWDOC Action Item 8-3, December 20, 2006

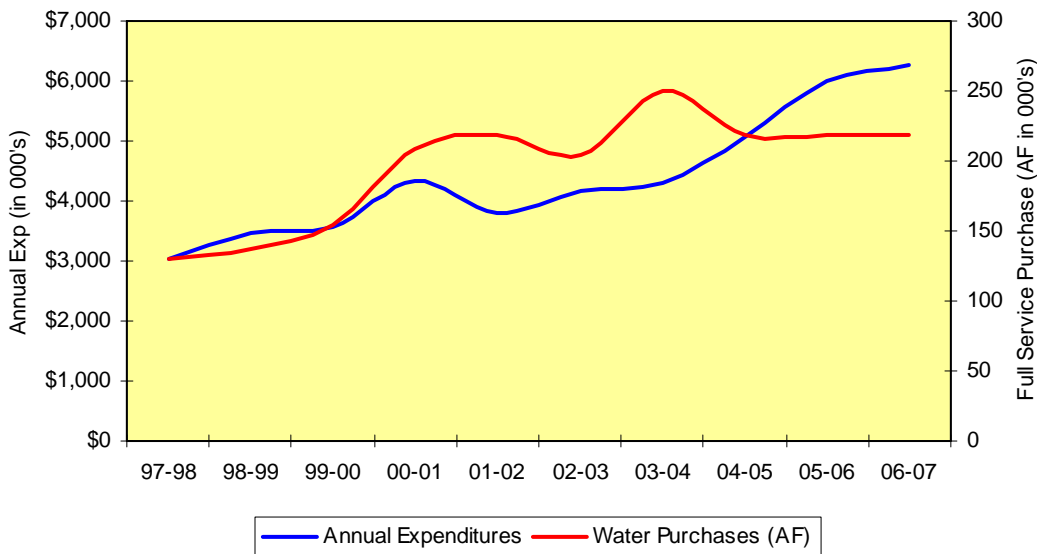


seem sensible for the MWDOC Board to adopt a clear policy for the limits of and process of reducing Tier 2 reserves.

Metropolitan Capacity Charge

Effective January 2007, MWDOC changed their method of charging member agencies the cost of Metropolitan's Capacity Charge. Previously, MWDOC had charged members a commodity rate but recently changed to a rate based on three-year peak flows. This was a planned transition to allow the member agencies to prepare record keeping and adjust operational peaking behavior. With this change, MWDOC has stated that the remaining funds in the Capacity Charge reserve, which are approximately \$500,000, could be returned or credited to the member agencies in 2007.⁴ MWDOC's Administration and Finance Committee approved this proposal on February 14 and forwarded the item to the Board for action on February 21, 2007.

Figure 6.2, MWDOC General Fund Budget and Water Purchases



MWDO

MWDOC's revenues are derived from two uniform charges, a retail meter charge and an incremental water rate on imported water. Revenues increase through higher rates and an increase in the number of meters or volume of imported water sold. Increased revenues based on growth are fundamentally important to agencies' managing

⁴ Ibid.



infrastructure. Although Orange County's interests in imported water supply and local programs become more essential with growth, there is not a direct correlation for MWDOC budget expansion. In December 2006, the MWDOC Board approved changes to the budget process as described previously. The MWDOC Board also approved the following policy changes:

- ❖ **Budget Amount:** The General Fund budget will be limited to a baseline of \$5.968 million (the current General Fund budget of \$6.258 less \$0.29 million budgeted from reserves for completion of desalination study work), from 2007-2008 through 2011-2012 with an allowance for an annual CPI adjustment if needed. Budget increases due to extraordinary circumstances or opportunities will require that the General Manager seek and obtain support from a majority of the agencies, based on both number and revenue.
- ❖ **Project Initiation:** Agencies will be asked to provide input on potential projects during the budget process. For projects exceeding \$25,000 that are not part of the budget, MWDOC's General Manager will be required to seek input from member agencies and inform the Board of the input of member agencies. Furthermore, the total budget cap may not be exceeded.
- ❖ **Project Participation:** In the past, the cost of major initiatives has been shared equally by all member agencies. Now, if a study or project is projected to cost over \$100,000 and directly benefit fewer than five agencies, MWDOC is obligated to seek funding partners. If the project is over \$100,000 and directly benefits five or more agencies, MWDOC may fund the entire cost. However, the total budget cap may not be exceeded.
- ❖ **Federal Lobbying Cost Sharing:** MWDOC must recover the costs of federal lobbying for a significant sustained effort that benefits fewer than five agencies. (No change was proposed for state lobbying expenses.)

ISSUE: RESERVE POLICY

The MWDOC Board of Directors has adopted policies establishing reserves for operations, Capacity Charges, and Tier 2 water purchases. These policies are meant to ensure that the financial integrity of the District will be maintained, the District's credit rating will not be jeopardized and the District will have adequate financial resources to carry out its approved plans and programs. Estimated reserve levels are as follows:

Operating Reserve - \$5,571 million
(approved level = \$5 to \$6 million)



Capacity Charges and Tier 2 Water Purchases - \$5,823 million
(no approved policy on reserve cap)

Given that the District has no financial responsibility for system infrastructure, operating reserve levels are high; the current reserve levels are approximately 90% of the General Fund budget. In 2006, ten member agencies wrote a letter to the Board of MWDOC in which they requested a review of MWDOC's reserve policies. In the letter they noted that some reserve categories were arbitrarily high and could be safely reduced. It was also noted that MWDOC had, in some instances, used reserves to cover operational expenses. Then in the following fiscal year the Board replenished the reserves through increased rates.

The MWDOC staff reviewed its reserve policies and presented their recommendations to member agencies. The MWDOC staff recommended 11 reserve categories that some member agencies thought could increase reserves by approximately 90%. The MWDOC Board has not adopted any revisions to its current reserve policies. This issue of reserve levels was not resolved during the MWDOC stakeholder process. The accumulated \$11.4 million in both restricted and unrestricted reserves need to be considered as well since they add to the water costs that the member agencies, and ultimately the customers, must bear. MWDOC's budget increases compound the impact of rising water supply costs. This situation is particularly important for those agencies where imported water is a major source of supply. The MWDOC Board adopted a reserve policy this year which sets a target range of \$5 to \$6 million.

C. Summary of Financing Opportunities and Constraints Issues

MWDOC's revenues are derived through water sales, retail meter charges and incremental water charges as well as miscellaneous revenue. The retail meter charges and incremental water charges fund the District's activities, with water sales revenue used solely for water purchases. MWDOC has typically raised incremental water charge rates and retail meter charges, and in some cases utilized reserve funds, in order to balance the budget. The District has implemented reserve policies for financial stability, again factoring the needed revenue into the rates. However, accumulated General Fund reserves were \$5.57 million at the end of Fiscal Year 2005-06 and are now approximately 90% of the annual budget, a level few public agencies maintain. Given



that MWDOC does not own or operate any water system infrastructure, the General Fund reserve levels are excessive.

Restricted reserves have been accumulated for Metropolitan's capacity charges and for Tier 2 water purchases. There is no cap on those reserves, although levels are reviewed with the member agency managers and Board as the Capacity Charge and Merged Supply Rate is set each year. The Capacity Charge was reduced in 2005 and 2006 to draw down Capacity Charge reserves. The Merged Supply Rate was reduced in 2005 and 2006 to moderate the potential growth in the Tier 2 Contingency Fund levels. MWDOC staff has noted that reserves for capacity charges are no longer needed and the remaining funds may be credited back to the member agencies during 2007 if the MWDOC Board approves the action. Tier 2 water purchases reserves are adequate and, if the MWDOC Board approves the action, could be reduced through a decrease in the merged supply rate, a credit to the member agencies, or a combination of the two.

In December 2006, MWDOC adopted changes to several policies pertaining to the annual budget process, limits on the General Fund, guidelines for project initiation and participation, and cost sharing for federal lobbying expenses. These policy changes were made in response to concerns raised each year during the budget process by some of the member agencies as well as the discussions during the MWDOC stakeholder process.



Section 7:

ECONOMIES OF SERVICE





ECONOMIES OF SERVICE

This section combines the required determinations of Rate Restructuring, Cost Avoidance Opportunities, Shared Facilities and Evaluation of Management Efficiencies.

A. Rate Restructuring

MWDOC reviews its rates annually, factoring in changes to Metropolitan's water rates and its budgetary needs. The rates are set through a public process with new rates effective July 1st. MWDOC's rate structure includes a Retail Meter charge and the Incremental Water charge. The Retail Meter charge is assessed on each retail meter served by a member agency. The Incremental Water Charge is assessed on each acre foot of water delivered to a member agency.

MWDOC charges a melded or blended rate for imported water that is based on Metropolitan's tiered rate structure. *Table 7.1, Imported Water Rates*, summarizes the current underlying Metropolitan rate structure and the MWDOC structure.

Rates and Charges	Metropolitan Eff 01/01/2006	MWDOC 7/1 – 12/31- 2006	Metropolitan Eff 01/01/2007	MWDOC Beginning 01/01/2007
System Access Rate	\$152	\$152	\$143	\$143
Capacity Charge*	\$6,800 /cfs	\$14	\$6,800 /cfs	NA
System Power Rate	\$81	\$81	\$90	\$90
Water Stewardship Rate	\$25	\$25	\$25	\$25
Tier 1 Supply Rate	\$73	NA	\$73	NA
Tier 2 Supply Rate	\$169	NA	\$169	NA

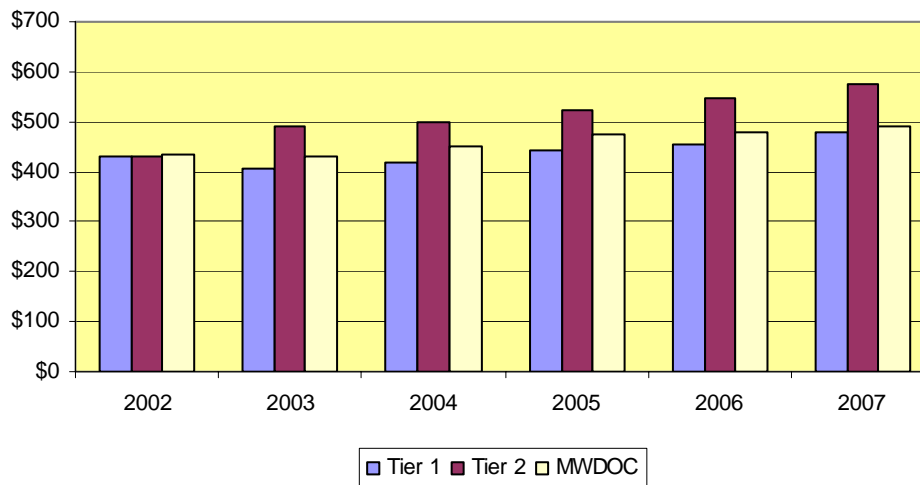


MWDOC Supply Rate	NA	\$78	NA	\$78
MWDOC Incremental Water Charge	NA	\$6.50	NA	\$6.50
Subtotal: Untreated Full Service	\$331	\$356.50	\$331	\$342.50
Treatment Surcharge	\$122	\$122	\$147	\$147
Total Treated Full Service	Tier 1: \$453 Tier 2: \$549	\$478.50	Tier 1: \$478 Tier 2: \$574	\$489.50
Long Term Seasonal Storage outside OCWD boundaries	Untreated: \$238 Treated: \$335	U: \$244.50 T: \$341.50	Untreated: \$238 Treated: \$360	U: \$244.50 T: \$366.50
Long Term Seasonal Storage inside OCWD boundaries	Untreated: \$238 Treated: \$335	U: \$238 T: \$335	Untreated: \$238 Treated: \$360	U: \$238 T: \$360

* Effective January 1, 2007 MWDOC is assessing a flat annual Capacity Charge, rather than a commodity rate.

The historic water rates for both MWDOC and Metropolitan are depicted in the following *Figure 7.1, Water Rate History*. MWDOC's rate includes the incremental water charge. As part of a planned transition when Metropolitan's rate structure changed in 2003, MWDOC collected the Capacity Charge as a commodity rate up through December 31, 2006 when it was changed to a fixed charge that was based on each agency's proportional share of system peaking (consistent with Metropolitan's method for charging MWDOC). The Metropolitan rates are for full service, treated water.

Figure 7.1: Water Rate History (per Acre Foot)





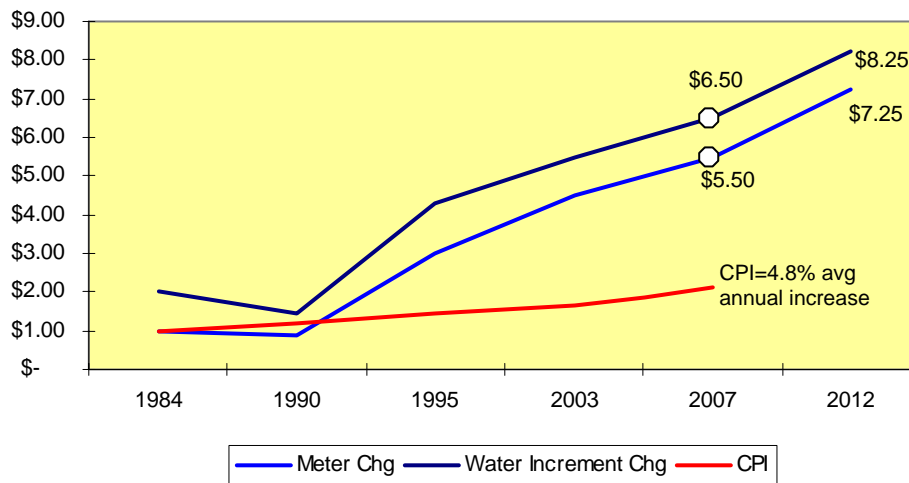
Note: Metropolitan instituted Tier 2 rates in 2003.

Under Metropolitan's 2003 rate restructuring, MWDOC made a 10 year firm purchase commitment to Metropolitan for 60% of its highest recent firm demand. In return, MWDOC has access to purchase Metropolitan water supply at the Tier 1 rate for up to 222,924 acre feet annually. Purchases above this level pay the higher Tier 2 rate. This purchase commitment enables the District to maximize the benefit of the Tier 1 rate, which is 20% lower than the Tier 2 rate.

Rate History

Up until 1967, MWDOC's general operating expenses were paid from reserves accumulated through ad valorem taxes. From 1967 until 1984, MWDOC's sole source of revenue was interest accrued on reserves. With declining interest rates and cost increases, MWDOC sought alternative revenue sources to augment the interest income. In July 1984, the District adopted the two-component water rate. *Figure 7.1, MWDOC Rates*, shows the rate history and projections through FY 2012.

Figure 7.1: MWDOC Rates

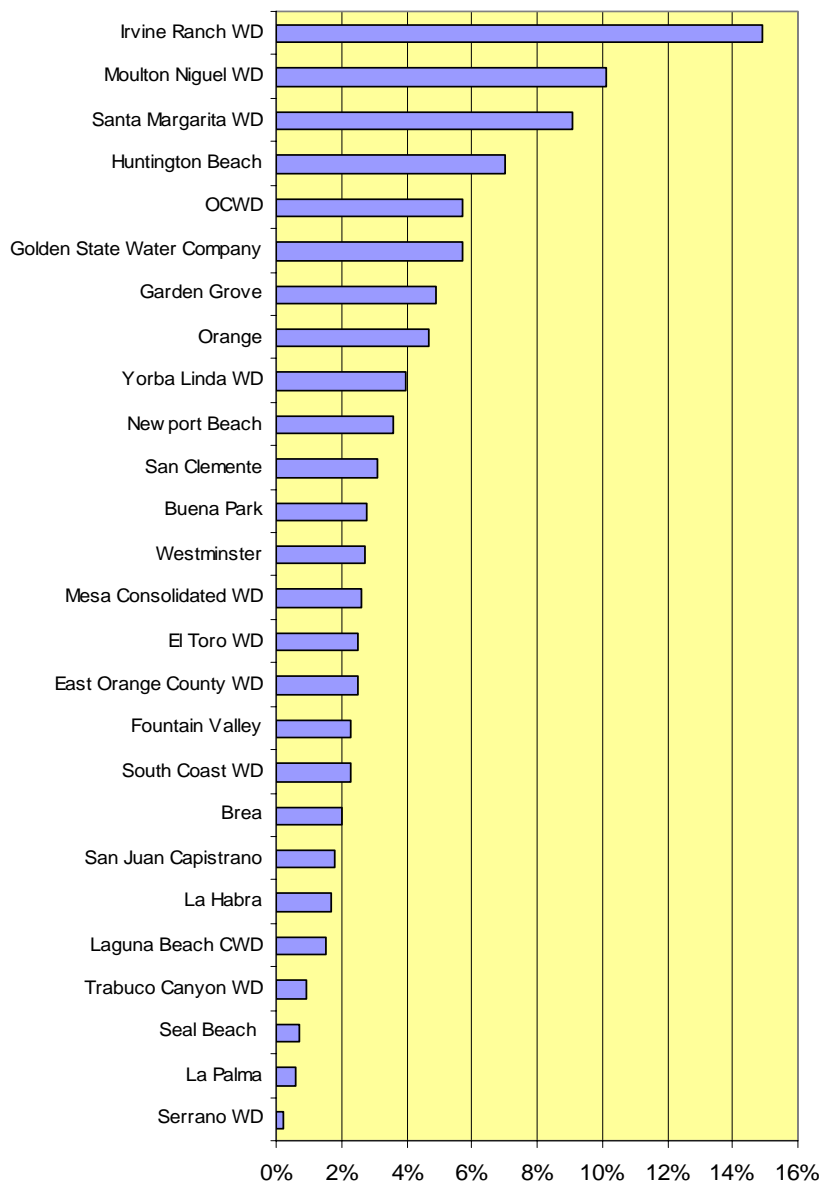


The increase in MWDOC's rates not only reflects cost increases, but also the expansion in programs and services offered. The fact that MWDOC's rates increased faster than the CPI was one of the issues raised during stakeholder meetings. MWDOC charges are based on a combination of water sales and retail connection charges. Currently, the incremental water rate collects 31% of General Fund revenues and the retail connection charge collects 56% of General Fund revenues. Therefore, the rate structure is



somewhat more heavily weighted towards the retail connection charges. Because the Incremental Water charge is a commodity rate, the extent to which an agency uses imported supply determines the level to which that agency financially supports MWDOC's activities. Since most the growth is in South County, where imported water is the primary source of supply, agencies there are funding the growth in MWDOC's services. Because the north county area typically relies on 65% to 75% groundwater, the agencies providing the largest portion of MWDOC's revenue are located in the south county, as shown in *Figure 7.2, MWDOC Revenue by Member Agency*. The south county agencies provide over 34% of MWDOC's General Fund revenue.

Figure 7.2: MWDOC Revenue, by Member Agency





ISSUE: RATE EQUITY

The Retail Meter and Incremental Water charges are the primary source of revenue for MWDOC's General Fund. Therefore as agencies add service connections and/or increase or decrease their use of imported water, their relative contribution to MWDOC's budget will change. Some member agencies, particularly those with high growth rates, contribute more relatively to MWDOC's budget.

In addition agencies with access to the Orange County Groundwater Basin, primarily agencies in north and central Orange County, contribute relatively less to MWDOC's budget than agencies without that access since they rely more on groundwater which is less expensive than imported water. Agencies outside the Orange County Groundwater Basin contribute more relatively to MWDOC's budget.

Some member agencies, particularly those in South County with high growth rates and limited access to groundwater, believe that the growth in MWDOC's services and administrative costs falls unfairly on them.

During the Stakeholder process, MWDOC agreed to work with the member agencies on the equity of the current structure or a modified structure. A stakeholder meeting was held on December 18 to review rate equity issues and discuss whether to proceed with further study of MWDOC rate alternatives such as a "per agency" charge or other options. The group reached the conclusion that, for now, there was not interest in studying the rate equity issue further. .

While there are economies of scale associated with some services being provided on a regional rather than selective basis, the value of MWDOC's services to member agencies varies, depending on each agency's staffing, service area characteristics, and service goals and objectives. Some of the MWDOC services need broad financial support to ensure their affordability; however, the concept of "beneficiary pays" should be incorporated into MWDOC's rate structure. Ultimately, the services and programs that are included in MWDOC's annual adopted budget are supported through the Retail Meter and Water Increment charges, costs which the member agencies must absorb into their budgets or pass on to their ratepayers. Growth in services and programs without some form of consensus and consent will, over time, exacerbate tensions.



B. Cost Avoidance, Shared Facilities and Management Efficiencies

MWDOC has worked closely with OCWD to develop a water balance model that is used to project the groundwater production for each producer in the basin, which is then used as a basis for projecting imported water demands. The model enables MWDOC to purchase a majority of the supply at Tier 1 rates. MWDOC also collaborates on studies and planning efforts with other Metropolitan member agencies. MWDOC has also worked with the Orange County Business Council to document the economic impacts on businesses and residential customers from outages of the water system. Other instances of shared facilities and management efficiencies can be found in *Section 5, Infrastructure Needs*.



Section 8:

GOVERNMENT STRUCTURE OPTIONS





GOVERNMENT STRUCTURE OPTIONS

A. Introduction

Since MWDOC's formation in 1951, the service area and member agency needs have changed dramatically. In the early fifties, the northern Orange County area had larger developed communities primarily served by municipal water departments while the south county was mostly undeveloped except for San Juan Capistrano, Laguna Beach, and San Clemente. The southern portion of the county was generally served by small agriculturally based water districts and other community water agencies. In general, Orange County water purveyors were minimally staffed at that time and not positioned to provide regional water programs or representation on Southern California water policy issues. Thus MWDOC was formed.

Orange County has changed dramatically over the last fifty years and water agencies, especially those in southern Orange County, have also changed to meet new service needs. While some agencies have found it beneficial to increase their range of services, others have relied on MWDOC to provide programs and services that help them ensure supply reliability and achieve service economies for their customers. There are now important differences in size, services provided, service approach, governmental structure and in-house capabilities among Orange County's water agencies.

MWDOC has also changed to meet the evolving policies of the State, Metropolitan and changing needs of its member agencies, which now focus on regional collaboration across traditional agency boundaries. However, based on stakeholder meeting 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. During the stakeholder process for this service review, key issues were identified related to the following: 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 is a Municipal Water District (MWD) under Water Code 71000 et seq, which is also known as its principal act. The principal act of a district authorizes it as a public agency and establishes the powers it may exercise. There are more than two-dozen principal acts for the different types of special districts – each with a unique combination of functions and powers. Principal acts define the services that may be provided, delineates the territory that may be served, stipulates the characteristics of the governing board, specifies the basis of voter representation and identifies the range and limits of governance in which each special district must operate.

A special district may engage only in those activities outlined in its principal act. MWDOC is a municipal water district which is, by its principal act, authorized to supply water for beneficial purposes, construct and maintain recreational facilities, provide fire protection and emergency medical services, including ambulance and paramedic service, acquire waterworks systems or water rights and acquire and operate sanitation facilities. MWDs may also provide other miscellaneous services, such as hydroelectric and electric power. Governing bodies are composed of five, seven or nine-member boards of directors elected from divisions.

The range of services that a MWD may provide is further restricted by LAFCO's responsibility to regulate latent powers – the services or functions authorized by the principal act, but not currently exercised by the district. Typically, when an agency is formed, certain services from the menu of services allowed are selected. Subsequently, if that agency wants to add additional services, it must return to LAFCO for approval.

Since MWDOC was formed in 1951, twelve years prior to the formation of LAFCO, LAFCO staff has assumed that the original formation of MWDOC authorized all the services it currently provides. But the range of services, and growth in them, was one of the issues identified during the MWDOC stakeholder process. One Stakeholder session focused almost entirely on what the "core" services of MWDOC are and what the "ancillary" services are.

Core services are those which are crucial for all member agencies, i.e. representation at Metropolitan and importing water. Ancillary services were defined as those services which may not be valued equally by all member agencies. As mentioned, these issues



have arisen, in part, due to the growth and resources of some southern Orange County agencies. With their critical dependence on imported water, some of the South County agencies have developed in-house planning programs and resources, and have initiated their own lobbying efforts; this has ultimately reduced the value for them of some services that MWDOC provides. Their belief in their limited ability to affect MWDOC decisions coupled with the extent to which they financially support MWDOC and other agencies (through rates and charges) has heightened the importance of evaluating the government structure issue for them.

While the MWDOC Stakeholder process concluded that there was a general consensus on which services are “core” and which were “ancillary,” LAFCO staff believes that there may be further room for discussion.

In considering MWDOC’s role in providing imported water and the needs of the water agencies, five government structure options have been identified:

1. Maintain the status quo
2. Maintain the status quo with periodic updates to LAFCO
3. Dissolve MWDOC and form a County Water Authority
4. Reorganize the South County agencies by detaching from MWDOC and forming a new entity; or
5. Merge MWDOC and OCWD. This could also include detachment of South County agencies to form a new entity.
6. Reorganization with East Orange Water District

B. Options

1. **Maintain the Status Quo**

This option would maintain MWDOC’s current boundary and SOI. MWDOC would continue to serve all of Orange County (except Santa Ana, Anaheim, and Fullerton). Operations would continue based on the MWDOC Board’s direction, and member agencies would continue to share in the cost of MWDOC programs and initiatives through the current MWDOC rate structure. MWDOC would proceed with implementation of its December 20, 2006 policy changes.



There would be little impact to the north county agencies since they contribute 54% of the general fund revenue, buy 47% of the imported water and have 58% of the retail meters. The south county agencies would continue to support MWDOC financially (they currently contribute approximately 46% of General Fund Revenues, buy 53% of the imported water and have 42% of the retail meters). MWDOC and the member agencies could continue to work on issues through MWDOC's meetings with member agencies.

The advantage of this alternative is that it would build on the work done by MWDOC and its member agencies over the past six months, and allow for implementation of the Board's action of December 20th, 2006, including the five year cap on the general fund budget at 2006/07 level plus CPI, revised budget process, new guidelines when MWDOC initiates new projects and new guidelines for obtaining member agency financial participation in projects and lobbying expenses.

The disadvantage to this option is that it may not resolve all of the issues. These issues have been an area of concern for several years with little progress made by MWDOC or the member agencies on their resolution. The policy changes in December 2006 were a significant effort to respond to member agency concerns; the extent to which these changes resolve the issues will need to be assessed over time. The MWDOC stakeholder processes seemed, in LAFCO's staff's opinion, to further exacerbate the strained relationships between some member agencies and MWDOC. Maintaining the status quo without continuing to address long-standing issues would not serve the long-term interests of the member agencies or the ratepayers since the issues would remain.

Two issues that appeared to be unresolved were rate equity and general fund reserve levels. While it may be appropriate for MWDOC to revisit these issues ultimately, the MWDOC Board has to make the decision and some member agencies have expressed their concern that the current MWDOC will not continue the efforts shown in the December 2006 changes. A better process for formulating, evaluating and developing input from member agencies could increase the level of "buy in".

2. Maintain the status quo with periodic updates to LAFCO

This option would maintain the status quo as outlined above in Option 1. However, LAFCO would require that MWDOC report back within specified time periods on the progress being made on resolving the key issues noted above. This would require that MWDOC adopt policies and/or implement practices that specifically respond to the issues raised during stakeholder discussions. It would also require that MWDOC



demonstrate measurable progress on integrating the December 2006 policy changes into its processes and procedures. Since LAFCO has the statutory authority to dissolve a special district, the periodic updates would be an important means of noting the progress that MWDOC makes.

Some member agencies expressed satisfaction with the outcome of the MWDOC Stakeholder process. However, some member agencies did not have confidence that changes proposed by MWDOC during the stakeholder process would result in substantive changes. One of the advantages of this option might be that MWDOC could develop and implement policies and procedures that would help to instill confidence in those member agencies.

MWDOC could investigate adopting an alternative service and cost recovery approach for certain services, including Project Committees for approval of projects, funding and Metropolitan representation. Although this might improve equitable cost sharing, it may lead to the elimination of some services that are no longer financially viable even though they are considered essential to smaller agencies.

The success of this option would be dependent upon MWDOC's ability to equitably and economically address the diverse service needs of its member agencies and the willingness of the member agencies to engage in discussions on the issues before them.

The policy changes adopted in December 2006 are an important step forward in resolving some of the issues, and would serve as one of the factors for LAFCO to use in evaluating progress under this option. However, as mentioned previously, there may be a fundamental issue with the structure of MWDOC as a municipal water district serving agencies with diverse service areas and needs. MWDOC is operating as a full service wholesale water provider, a service approach that is critical to smaller agencies but costly and less beneficial to larger agencies with in-house services. The practice of charging uniform water rates and meter charges and making services available for the benefit of the entire county may no longer be appropriate for Orange County.

3. Dissolve MWDOC and form a County Water Authority

Under this option, MWDOC would be dissolved as a Municipal Water District and reformed under the County Water Authority Act (Water Code App. 45-1 et seq.) The procedures for forming a new County Water Authority include the following steps:



1. Each agency must adopt a resolution declaring their intent to form a County Water Authority and identifying all proposed member agencies, and petition the County Board of Supervisors to hold an election in the prospective service area.
2. Upon certifying the resolutions/petitions of the prospective member agencies, the Board of Supervisors shall call an election to determine whether the Authority shall be created.
3. The election may take place in conjunction with any State, county or city election at County expense or in a special election. The Authority will be comprised of agencies wherein a majority of those who voted approved the proposal (the total number of electors in the approving agencies must be not less than 2/3 the total of the number of electors for the Authority as originally proposed.)

It is not clear what the representation would be for agencies that do not opt for a Water Authority model or that fail to gain the requisite voter majority in the election. LAFCO approval would be required for the reorganization of MWDOC's boundaries.

A Water Authority would have an appointed Board representing each public member agency and voting by single vote, weighted by financial contribution or by some combination.

The Board of Directors of the new Water Authority could evaluate the services and programs and make adjustments accordingly. The advantages to this government structure are that it provides appointed representation rather than voter elected representatives. As discussed in *Section 3.0, Stakeholder Process*, MWDOC has two types of constituents: voters and the member agencies. The general public is mostly unaware of the role MWDOC has and how they are paying for its services. In contrast, the member agencies are directly affected by MWDOC's decisions and must either pass rate increases on to the ratepayers or absorb them in their existing budgets.

Forming a County Water Authority could also include the three cities that are not MWDOC members - Fullerton, Santa Ana and Anaheim - providing for a more unified representation at Metropolitan. However, the three cities would have to agree to be part of the new organization.

One disadvantage might be that small agencies could be disenfranchised, especially if voting is simply by financial contribution. However, it should be noted that there are voting provisions in the County Water Authority Act that prevent domination by a large agency. The representation at Metropolitan would transfer to the County Water



Authority, with representatives elected by the Board. With an increase in the Board from 7 elected to as few as 28 or as many as 30 to 35 appointed members, the costs of administration and support for the agency would likely increase substantially.

The Water Authority would need to go through the process of evaluating and organizing its policies, procedures and budget and then establish an equitable rate structure for the services provided. This could include all the services as currently offered by MWDOC, i.e. bundled services, or unbundled services where member agencies could choose to opt out of services they do not need. A water rate based on unbundled services might result in rate increases for some agencies. The Authority would need to identify services that were appropriate to be “un-bundled.” On the other hand, agencies that do not need and would not use all of the Authority’s services could benefit from unbundled rates that allow for some service selection. (It should be noted that MWDOC could also go through the process of “un-bundling” services to provide a service approach more tailored to the unique needs of its diverse agencies.)

There could be more advantages and disadvantages to forming a County Water Authority than those noted in this brief overview. Water Authorities have different service and taxation powers, which may prove advantageous. Additional research and analysis would be needed to analyze the impacts of this governmental structure option.

4. Reorganize the south county agencies by detaching from MWDOC and forming a new entity

This option would include some or all of the south county agencies detaching from MWDOC and forming a new entity, which would be a Metropolitan member agency.

Per the Metropolitan Water District Act, the new entity would have to be formed under one of the following principal acts: Municipal Water District Act, Municipal Utility District Act, County Water District Act, or the County Water Authority Act.

The structure would need to ensure that it does not replicate the issues currently found with the MWDOC structure. If the entity were formed as a Municipal Water District, Municipal Utility District or County Water District, the Directors would be elected by division by the voters with specific limitations on the scope of powers and formation.

If formed as a County Water Authority the key attributes of the new entity might include:

- Appointed Board representing up to ten member agencies



- One Board member per agency plus an additional Board member for each 5% of assessed valuation.
- Voting weighted by financial contribution and conducted in accordance with the limitations of the County Water Authority Act

The Board of Directors of the new Water Authority would determine the services and programs of the new agency. Project committees could be formed for projects and programs not utilized by all member agencies with Project Committee votes weighted by financial contribution if appropriate under the County Water Authority Act.

The advantages to this government structure include the establishment of a Board which would directly represent the interests of the south county agencies who choose to join in the formation of the Authority. Secondly, it would allow for improved accountability to the agencies, equitable cost recovery and budgeting that is consistent with member agency needs. Third, it could provide an appropriate administrative and cost allocation structure for cooperative projects through the use of Project Committees or a similar structure.

The disadvantages of this option include the following: 1) it might divide Orange County representation at Metropolitan by possibly creating a fifth Metropolitan member agency for this county 2) it may inhibit further access to the Orange County Groundwater Basin by south county agencies as they would not be part of an agency that overlies the basin, and 3) it may cause the elimination of some services and programs, resulting in a negative impact on MWDOC's financial condition and service levels as well as higher costs to the north county member agencies.

There are a number of benefits and liabilities held by MWDOC due to its membership in the Metropolitan Water District, which would need to be fairly distributed between the two successor entities. These include (but are not limited to):

1. Disposition of Preferential Rights under Section 132 of the Metropolitan Water District Act (pertains to potential rights to water based on past financial contributions to Metropolitan for property taxes and certain non rate revenue.)
2. Obligations under the Water Purchase Agreement
3. Rights to purchase Tier 1 water under the Water Purchase Agreement
4. Base demand levels for determination of future growth, facility expansion or capacity expansion charges



It is unclear what the exact impact would be on the number of Orange County representatives to Metropolitan. The number of representatives is determined by a formula, which allows for at least one representative from each member agency, plus an additional representative based on assessed valuation.⁵ While it may be possible that Orange County could increase the number of representatives to Metropolitan, it is unclear at this time. This option could potentially financially impact north county agencies and their services, as well as the services MWDOC provides. Additional research would be needed to determine the exact impacts before this option moves forward.

5. Merge MWDOC and the Orange County Water District

This government structure reorganization option has not been considered in the past due to the differing missions of these agencies. MWDOC is a wholesaler of imported water, whereas OCWD is a groundwater basin management agency. OCWD's current sphere of influence extends to the County's eastern boundary, south to the cities of Irvine and Lake Forest and west to the Pacific Ocean generally encompassing the watershed boundaries.

As the Metropolitan Water District wholesale water provider for Orange County, MWDOC's sphere of influence and service area covers Orange County in its entirety but excludes the cities of Anaheim, Santa Ana and Fullerton, which are direct Metropolitan member agencies. Its SOI also excludes the eastern portions of Orange County that are outside the Metropolitan service area.

⁵ Metropolitan Water District Act, Section 52. Additional Directors: Any member public agency may designate and approve several representatives not exceeding one additional representative for each full 5 percent of the assessed valuation of property taxable for district purposes within the entire district that is within such member agency.



This option could potentially include the detachment of the south county agencies as described in Option 4. However, there would be issues with those agencies that overlie a portion of the groundwater basin. The issue of the three cities would also have to be resolved as they utilize the groundwater resources, but not the services of MWDOC. One option would be to combine the Metropolitan functions of the three cities into the new combined OCWD/MWDOC agency – either as a countywide entity or as a basin wide entity. Implementing this option would take an act of legislation because it involves changing OCWD’s principal act. As noted under Option 3 above, a countywide entity including the three Cities would represent the largest voting block at the Metropolitan Water District with 20.37%. Assuming unity in voting, this could result in increased influence at Metropolitan.

This option would be similar to other options but the scope of water resources under management would be expanded to include groundwater. Depending on the principal act of the merged organization, the Directors would be elected by the voters, or in the case of a County Water Authority, appointed by the member agencies. The current governance structure of OCWD would likely change from the hybrid of 7 elected districts and three city appointed seats to better represent the new constituency.

The advantages of this option are that it would eliminate the governmental layer between Metropolitan and the agency managing the groundwater basin. This might result in water cost savings as OCWD is currently the sixth highest revenue payer to MWDOC; however, the full financial impacts are uncertain. By agreement, MWDOC and OCWD work closely together on planning and demand projections and share administrative facilities, so major economies and efficiencies in those areas would not be anticipated. A merger, however, might reduce overhead and administrative costs.



The disadvantage is the potential for increased costs to those agencies that do not benefit from the groundwater basin. If the south county agencies were still part of the district, the costs to manage the groundwater basin and its infrastructure, including capital costs, could be imbedded in the water rates. This would result in the same issue regarding equitable cost sharing. The Orange County Groundwater Basin is a valuable storage resource; however, the groundwater producers have expressed concern over additional use that will limit the amount they can extract without paying higher rates. An initiative to use groundwater to serve the south county would require a complete restructuring of the groundwater management policies and rates. The cities of La Habra and Brea are neither in South County nor overlie the OCWD basin and thus may pose other issues of equity and representation.

A number of issues related to Metropolitan membership would need to be quantified and apportioned equitably. Most of these issues can probably be solved technically but may be politically contentious and result in uncertain financial benefits.

6. Reorganization with East Orange Water District

The East Orange County Water District (CWD) provides both wholesale and retail water services. In the LAFCO MSR, staff recommended exploring the reorganization of the District to determine if any efficiencies and economies of scale could be achieved.

The East Orange CWD conducted an organizational study in 1999 to assess the existing condition of water service within their boundary, review the relationships between water providers and identify organizational possibilities for further study. The agencies included in the study were the Cities of Orange and Tustin, the Irvine Ranch Water District, the Orange Park Acres Mutual Water Company, the Santiago County Water District, the Serrano Water District, the Southern California Water Company (a private water company) and the Carpenter Irrigation District (subsequently dissolved as an independent district by LAFCO in 1998 and its service area was included in IRWD district).

The 1999 study reviewed a number of reorganization options for the wholesale district. Each option involved dissolution of the district. The seven alternative options identified for further exploration in that study included:

- Formation of a Joint Powers Agency (JPA) to replace East Orange CWD
- Development of a Joint Powers contract among the East Orange CWD sub-agencies and subsequent dissolution of the district



- Dissolution of the East Orange CWD and division of its assets and service responsibility between the Cities of Orange and Tustin
- Dissolution of the East Orange CWD and division of its assets and service responsibility between the Cities of Orange and Tustin and the Southern California Water Company
- Reorganization of East Orange CWD and Municipal Water District of Orange County (MWDOC) with MWDOC assuming the assets and responsibility of the East Orange CWD
- Dissolution of the East Orange CWD with MWDOC serving as an interim agency until final disposition of assets is completed
- Privatization of wholesale services

No alternative was singled out for further study at that time. A phase two study of alternatives was recommended but has not been commissioned to date. In addition to the reorganization options identified in the East Orange CWD study, LAFCO identified the following options:

- Reorganization with Orange Park Acres Mutual Water Company – Although the Orange Park Acres MWC is a mutual water company and not subject to LAFCO review, it participated in the MSR process and had a representative on the stakeholder working group.
- Reorganization with the Irvine Ranch Water District – IRWD is adjacent to the East Orange CWD and has some facilities located within its territory.

C. Summary

Key issues have been raised during the stakeholder process related to the following: 1) MWDOC's role and the District's core functions 2) reserves, budgeting and rates 3) equitable cost sharing among member agencies, and 4) accountability to the member agencies as constituents. The appropriate government structure to serve the member agencies of all of Orange County in the future needs to be evaluated in greater depth.

Because of their necessary 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 growth patterns of Orange County



and the service delivery of all of the agencies is well established and unlikely to change significantly. These differences will not disappear nor will they be resolved through rhetoric and emotionally charged debates. Resolution of the issues requires additional objective research, a clear presentation of facts and rational, civil discourse.

The options that involve changing the government structure of MWDOC will require extensive study to fully analyze the potential benefits and impacts to all of the member agencies. Since LAFCO has the authority to initiate and make studies of existing governmental agencies (Government Code Section 56378), a study of the options and all the possible impacts should be completed.



Section 9:

LOCAL ACCOUNTABILITY & GOVERNANCE



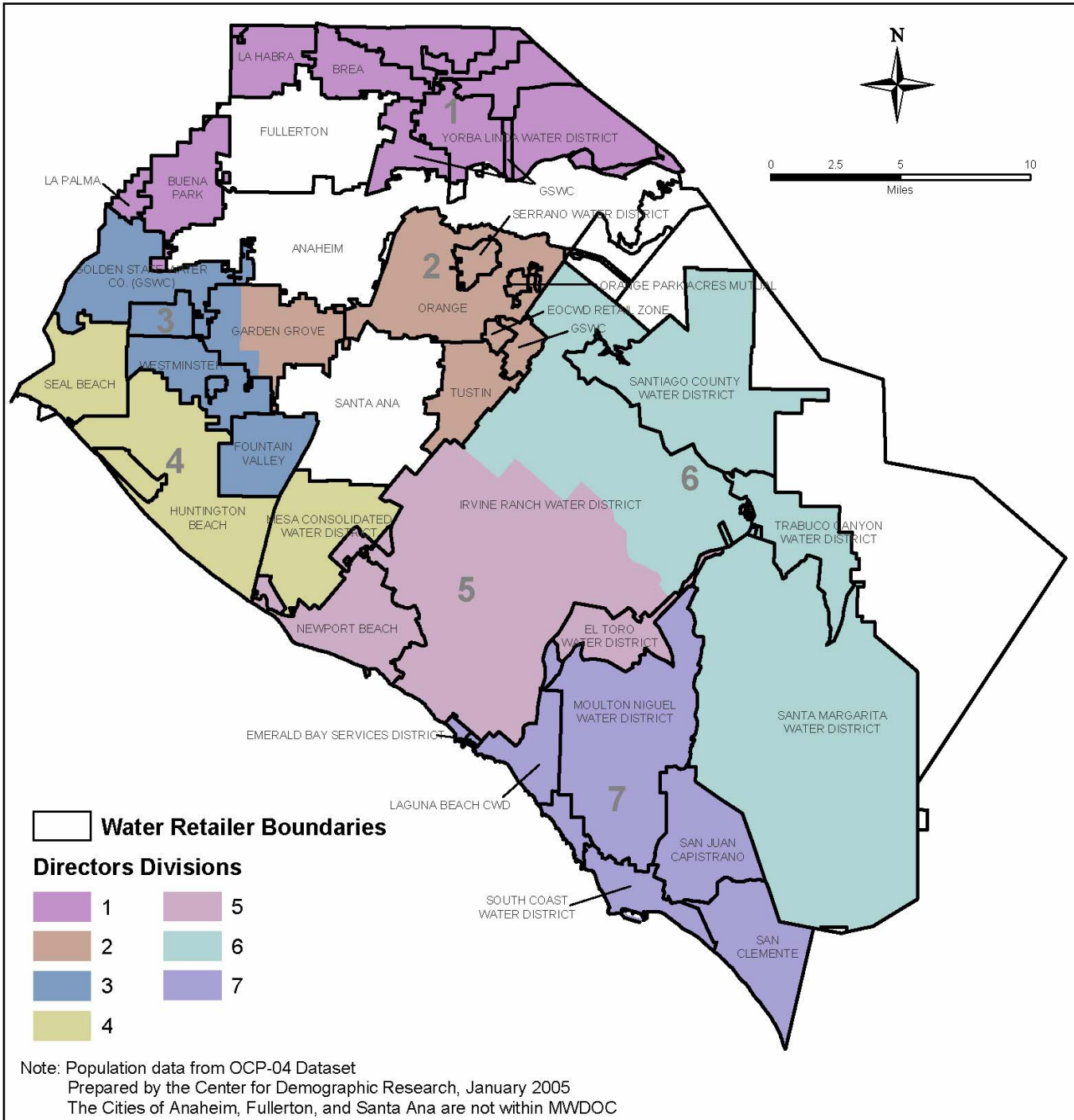


LOCAL ACCOUNTABILITY & GOVERNANCE

A. Overview

MWDOC's service area is geographically divided into seven divisions or regions, as shown below in *Figure 9.1, District Divisions*. The District is governed by a seven-member board of Directors. Directors are elected by voters within that division and must be residents of the divisions they represent. All directors serve four-year terms. In the November 2006 elections, the three Directors of MWDOC whose terms were ending ran unopposed. However, in the November 2004 elections, there were multiple candidates for each of three Directors' slots.

Figure 9.1 - MWDOC District Divisions



MWDOC NEW DIRECTORS DIVISIONS POPULATION

Div	2005 Population	2005 Pct of Mean	2010 Population	2010 Pct of Mean
1	321,303	-1%	339,874	-2%
2	331,784	+3%	349,876	+1%
3	337,385	+4%	354,332	+2%
4	338,171	+5%	356,539	+3%
5	306,753	-5%	324,059	-6%



Section

FIG. B



The following summarizes the governance and local accountability of the District:

Municipal Water District of Orange County			
Date formed:	January 11, 1951		
Statutory Authorization:	Municipal Water District Act of 1911		
Board Meetings:	Monthly on 1 st and 3 rd Wednesday, 8:30 a.m.		
Board of Directors	Title	Term Expiration	Compensation
Susan Hinman	President, Division 7	2008	\$191.45/meeting <i>(for up to ten meetings/month)</i> Benefits: health, vision, dental and pension plan
Brett Barbre	Division 1	2010	
Larry Dick	Division 2	2010	
Ed Royce, Sr.	Division 3	2008	
Joan Finnegan	Division 4	2008	
Wayne Clark	Division 5	2010	
Ergun Bakall	Division 6	2008	
Metropolitan Directors			
Larry Dick	Vice Chair	2001	\$191.45/Met meeting <i>(for up to ten meetings/month)</i>
Ergun Bakall	Director	2003	
Jack Foley (GM, Moulton Niguel WD)	Director		
Steve Anderson	Director	2007	

The District’s website (www.mwdoc.com) offers a wide range of information including meeting notices, agendas and minutes, District services, conservation and education, public documents and project information. District board meetings are held at the District’s main office and are open and accessible to the public. However, the morning meeting time limits public participation, although it is more practical for member agencies. On items of special interest to the public, MWDOC has held evening public workshops. Recent examples are the public workshops held during the scoping and review of the 2005 MWDOC Urban Water Management Plan.

ISSUE: MWDOC’s CONSTITUENTS AND ACCOUNTABILITY

One of the key issues identified in the stakeholder process is the question of MWDOC’s constituents and the Board’s accountability. Per its principal act, the MWDOC directors are elected by the voters within each region and are responsible to those voters to provide efficient, reliable service. Although MWDOC Directors are elected by the voters, MWDOC’s budget is financed by member agencies.



The voters are also served by their respective retail water agencies and, as ratepayers, have a direct connection to those agencies. Many ratepayers may be unaware of the service MWDOC provides, other than water use efficiency and education, and are equally unaware of how they are paying for MWDOC's services.

This issue is heightened by the limited influence some of the member agencies believe they have had on MWDOC's budgeting process, long-range planning efforts, and approach to rate structure equity and cost sharing.

The MWDOC Board appoints the four representatives to Metropolitan. The selection may be done directly by the Board or may include member agency input. In the most recent Metropolitan Director appointment, MWDOC sent a letter to each member agency asking it to submit names of potential candidates for consideration. A significant number of candidates were identified. All were interviewed by a selection committee, and finalists were recommended to the Board. A final selection was made by the Board. For the previous two Metropolitan appointments, the MWDOC Board appointed the Metropolitan Directors without solicitation of agency input.

As noted above, in the most recent Metropolitan Director selection process, the Board established a special committee to consider nominees for Metropolitan Director, inviting member agencies to submit their recommendations for consideration. However, this does not ensure that the member agencies recommendations will be accepted.

The MWDOC Board of Directors could consider a policy that allows for member agency input; for example, the member agencies could select two of the Directors or the MWDOC Board could propose the nominated Metropolitan Directors to the member agencies, which could then have the option to vote as a group to accept the nominees. If the member agencies did not accept a nominee, MWDOC would then nominate the next suitable candidate.

It was suggested during stakeholder meetings that each of the MWDOC Directors meet quarterly with the member agencies within their district. Five of the seven MWDOC Directors already do this as a standard practice. This helps to improve the opportunity to share ideas and information and should be added as a standard operating practice for the two remaining divisions. While this might address the issues regarding MWDOC's attention to member agency concerns and input, it is dependent on the will of the MWDOC Board to implement. The underlying issue is the degree of trust between the MWDOC Board and some member agencies. To improve accountability,



the input of the member agencies on key issues should be specifically noted during board meeting discussions and included as part of the public record.

As part of the policy changes considered by the MWDOC Board in December 2006, the following policy statement was formally adopted:

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.

MWDOC's commitment to integrating this policy into its procedures and processes will be evidenced during budget processes and planning efforts; its success and continued commitment to improved relations will be assessed by all of its member agencies.



Sphere of Influence Study:





A. Overview of Sphere of Influence (SOI) Law – Government Code § 56425

LAFCO is also charged with adopting a sphere of influence for each city and special district within the county. A sphere of influence is a planning boundary that designates the agency's probable future boundary and service area. Spheres are planning tools used by LAFCO to provide guidance for individual proposals involving jurisdictional changes. Spheres ensure the provision of efficient services while discouraging urban sprawl and the premature conversion of agricultural and open space lands. The Cortese-Knox-Hertzberg (CKH) Act requires LAFCO to develop and determine the sphere of influence of each local governmental agency within the county, and to review and update the SOI every five years. In determining the SOI, LAFCO must address the following:

1. Present and planned land uses in the area, including agricultural and open-space lands
2. Present and probable need for public facilities and services in the area
3. Present capacity of public facilities and adequacy of public service that the agency provides or is authorized to provide
4. Existence of any social or economic communities of interest in the area if LAFCO determines that they are relevant to the agency

MWDOC's SOI includes a majority of Orange County with the exceptions of the Cities of Anaheim, Fullerton and Santa Ana and open space areas located in the southeastern areas of the County. The SOI for MWDOC was last reviewed when LAFCO considered the consolidation with the Coastal Municipal Water District in 1997.



Insert Figure 10.1 MWDOC Sphere of Influence Map



B. STATEMENT OF DETERMINATIONS – MWDOC

The present and planned land uses in the area, including agricultural and open-space lands

MWDOC's service territory includes a majority of Orange County with the exceptions of the Cities of Anaheim, Fullerton and Santa Ana and open space areas located in the southeastern areas of the County. Land use throughout the county is varied and includes residential (single- and multi-family), commercial, industrial, public/semi-public, park and recreation and open space.

The present and probable need for public facilities and services in the area

As Orange County's population grows by nearly a half-million people by 2020, there will be increased demand for water including imported, recycled and groundwater. The projected growth within Orange County has been considered in the 2005 Urban Water Management Plan prepared by MWDOC and other water agencies in the area, as well as water supply assessments that are prepared for individual projects. The anticipated growth is used as a basis to determine if the water supply is adequate, reliable and affordable.

The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide

On a regional basis, water supply in California, especially in Southern California, should be considered a limited resource due to cutbacks from the Colorado River, to drought, to environmental issues, to climate changes and to the fragility of the Bay-Delta system infrastructure that supports the State Water Project. Since MWDOC does not own or operate any water system infrastructure, no significant issues with the capacity of its facilities were noted. However, there are some related concerns about services which were discussed during MWDOC's stakeholder process.

The existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency

There is a community of interest countywide for ensuring that water is available in Orange County concurrent with need.



Appendix A





Appendix B

