



**DISCUSSION ITEM**

March 18, 2015

**TO: Board of Directors**

**FROM: Administration & Finance Committee**  
(Directors Thomas, Osborne & Finnegan)

**Rob Hunter**  
General Manager

**SUBJECT: FIRST DRAFT of MWDOC's Budget for 2015-16**

**STAFF RECOMMENDATION**

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Staff recommends the A&F Committee, Board, Member Agencies and the public review and provide input and comments in the FIRST DRAFT of MWDOC's budget for 2015-16. The form of findings for the FIRST DRAFT budget includes the following:

1. Adopt the budget Resolution as proposed (will be attached to the May or June Action Item) with a budget total of \$257,617,512 and a consolidated general fund budget of \$8,271,565 (Revenue).
2. The total amount of Water Use Efficiency (WUE) outside funding for rebates and grants will increase from a FY2014-15 budget of approximately \$2.9 million to a proposed budget of almost \$22 million. This requires an increase in the Cash Flow Reserve to \$1.5 million.
3. The total outside funding from WUE and Local Resource Project (LRP) sources will be approximately \$37 million in FY2015-16. This means that MWDOC will be bringing in revenue that is more than 4.6 times its consolidated operating budget.
4. Fund the Reserves to the levels specified in the Administrative Code.
5. Fund the Election Reserve via an annual contribution of \$260,000 which has been determined to be the long-term annual contribution to allow full funding for election costs every two years.
6. Establish a Building Improvement Budget of \$500,000 as outlined in the discussion below and maintain the Building Reserve Fund at the target level.
7. Fund OPEB at the annual level pay amount of \$155,000. Combined with the estimates provided in our most recent actuarial evaluation, this level of annual contributions should allow satisfaction of the OPEB liabilities within the next 10 years.

8. For dealing with the Pension Liability issue, staff is recommending continuation of the practice of increasing the staff contribution towards pension payments by 1% each year until a total of 7% has been achieved. This year, the budget was developed assuming the staff contribution is 4%.
9. Complete the transition to a 100% fixed rate for retail meters with a FY2015-16 target of 100% fixed revenue for the Core Budget.
10. Increase the total number of full-time MWDOC and WEROC employees from 28 to 29.
11. Significant project activities in FY2015-16 will include:
  - Orange County Reliability Study actions
  - Value of Water communication program
  - MWDOC rate study
  - Water Use Efficiency efforts on water savings potential and a web-based rebate processing platform
  - Metropolitan activities related to allocations and the Integrated Resource Plan
  - Update of the MWDOC website and communication surveys
  - Government Affairs activities at the local, state and federal level.
12. The CHOICE Activities for this year will include:
  - School Program
  - Water Use Efficiency
  - Value of Water Communications Plan
  - Doheny Desal
  - Poseidon
  - Urban Water Management Plans
  - Water Loss Reduction Auditing
  - South Coast & Laguna Beach CWD Foundational Program Work on Doheny
  - South Coast WD Baseline Environmental Monitoring Work

A reminder to the Board that Memberships outlined in the Budget (Exhibit D) are approved by the Board with approval of the budget and therefore, each membership will NOT be brought to the Board for approval. Any NEW memberships not included in the budget will be brought to the Board for consideration.

In a similar sense to Memberships, budget approval includes Board and Staff approval for attendance at "standard conferences". Standard conferences are those included on Exhibits E and F. Any NEW conferences will be brought to the Board for consideration.

## **COMMITTEE RECOMMENDATION**

Committee recommends (To be determined at Committee Meeting)

## **DETAILED REPORT**

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The FY 2015-16 MWDOC budget is developed through a transparent and iterative process. Key topics discussed below include:

1. MWDOC Budget Process & Schedule
2. Budget Principles
3. Budget Input from Member agencies
4. MWDOC Priorities & Practices Overview
5. Key Initiatives
6. Core/Choice Programs
7. Reserves
8. Water Rates and Charges

A short discussion on each item follows:

### **1. MWDOC Budget Process & Schedule**

MWDOC's budget is developed in a process that begins in December with initial notification of Member Agencies and concludes with the formal budget approval by the Board of Directors in May. The general schedule is outlined below.

#### **December 2014**

- Notification to Member Agencies of start of budget process and solicitation of input.

#### **January 2015**

- MWDOC staff begins preparation of budget hours and costs on program and line-item basis.
- Review of five month actuals and fiscal year-end projections.
- Review budget adjustments for current fiscal year.
- Preparation of internal, draft conceptual budget (review changes for upcoming fiscal year).

#### **February 2015**

- Initial review of budget issues with A&F Committee for feedback.
- Initial discussion of budget issues with Member Agencies for feedback.
- Request for Member Agencies' preliminary indication of participation in CHOICE Services.

#### **March 2015**

- Publish and post the First Draft Budget in the packet for the Administration and Finance (A&F) Committee in early March.
- Review Full Draft Budget with A&F Committee.
- Formally request comments from all Member Agencies.

- DRAFT information completed on prior year WUE benefits to Member Agencies to serve as basis of charging agencies for the upcoming year for WUE activities.
- Member Agencies are to confirm participation in CHOICE Services by March 15. However in practice, this often doesn't occur until the end of April and after Elected Officials meeting.
- Discuss First Draft Budget at Member Agency Managers' Meeting.
- Meet with Member Agencies as requested or scheduled.

#### **April 2015**

- FINAL information completed on prior year WUE benefits to Member Agencies to serve as basis of charging agencies for the upcoming year for WUE activities.
- Member Agencies' submit Formal Comments about the Budget before April 15.
- Review Final Draft Budget and MWDOC's rates with Member Agencies.
- Discuss Final Draft Budget at Member Agency Managers' Meeting
- Discuss Final Draft Budget in A&F Committee.
- Conduct meeting with Elected Officials from Member Agencies to discuss budget and other topics before the end of April.
- Confirm CHOICE Participation.

#### **May 2015**

- Final Draft Budget and Rates presented to A&F Committee.
- Member Agencies' Formal Comments presented to A&F Committee.
- Discussion at Member Agency Manager's meeting.
- Board approval of FY2015-16 Budget and Rates.

## **2. MWDOC Budget Principles for 2015-16**

Staff continues to utilize several Budget Principles to develop the draft budget including:

- **Principle #1: Budget Investments Align with MWDOC's Priorities & Value**  
The budget should reflect the mission and goals of MWDOC and align proposed activities with the valued benefits of the Board and our stakeholders.
- **Principle #2: Activities Based on a County-wide Perspective**  
MWDOC's service area extends to the Orange County's borders and the budgeted activities must comprehensively address issues, needs and benefits for the entire county.
- **Principle #3: Efficient Program Design & Performance**  
The budgeted programs must consider complementary and cooperative designs to maximize benefits from other regional and local water resource programs to maximize value.

- **Principle #4: Full Cost Recovery**

The budget will be developed so as to support full cost recovery of all expenses via the rates and charges without the unplanned use of reserves

- **Principle #5: Compliance with Administrative Code & Settlement Agreement**

The proposed budget and budget process should fully comply with applicable sections of the code and agreement.

### **3. Budget Input From Member Agencies**

At this point in the budget process, input from Member Agencies has been limited. This will change with the release of the First Draft Budget and interactions during meetings.

### **4. Priorities & Practices Overview**

Key priorities and practices include MWDOC's major areas of concentration:

- Metropolitan as a main source of reliability
- Regional Reliability and the OC Water Reliability Study
- Water Use Efficiency (WUE)
- Water Emergency Response
- Communications
- Government Affairs
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These are discussed below.

#### **Metropolitan Water District of Southern California (MET)**

MWDOC's number one effort remains ensuring that policies, supplies, programs and projects developed and implemented by MET have significant value to the citizens and ratepayers in Orange County and to Southern California.

- MET is key to providing and underwriting SUPPLY reliability and regional SYSTEM reliability in Southern California. Many of MWDOC's initiatives are aimed at maintaining a close working relationship with MET and other MET member agencies to guide the efforts at MET in a constructive manner; in the best interest of the region and Orange County. The value of these types of relationships resulted in significant progress made in the last year in getting approval at the MET level for increased contributions towards MET's LRP Program, in working out the details of the Allocation Program and in securing water for groundwater replenishment for OCWD, providing additional funding for WUE and drought communications of about \$80 million.
- MWDOC appoints four MET directors who sit on the MET Board and directly advocate issues. These four MET directors work with the other three directors from Orange County (Anaheim, Fullerton, Santa Ana) and directors from outside of Orange

County. Our Orange County MET contingent and the overall MET Board are faced with ensuring the economic health of MET which directly impacts the economic health for Orange County, the region and the State. To this end, our directors have advocated for financial issues at MET to ensure its viability over the long run, appropriate levels of reserves, and financial policies that minimize and level long-term costs and rates impacts. Over the past year, the advocacy of our MET directors has resulted in MET significantly improving its position with respect to pension liability, OPEB liability, investments in rehabilitation and repair of facilities and in incorporating future long term investments such as the BDCP while remaining strong financially.

- MWDOC will continue its involvement in the lawsuit between SDCWA and MET, as well as other litigation. The outcome is critically important to Orange County and our involvement in the litigation is to ensure the taxpayers and ratepayers of Orange County are fully represented.
- The upcoming year will involve an update to MET's Integrated Resources Plan (IRP), the first update since 2010. The IRP is the Region's Roadmap to Reliability, combining both local supplies and imported supplies to meet total Southern California demands over the next 20 years. This time around, the IRP will likely involve a number of interesting discussions and decisions given that 8 of the last 9 years have involved supplies considerably lower than historic supplies and demand conditions hotter and drier than have typically been encountered under our 90 year historical climate conditions. Key to meeting demands over the long-run is the completion of the BDCP. However, questions loom over how reliability will be achieved in California and Southern California over the next 20 years or so until the BDCP comes on-line. Other key issues are climate variability and how this will affect our ability to store water in wet years for use in dry years and how we might collectively plan to meet demands in Southern California if the San Andreas Fault simultaneously interrupted the Colorado River Aqueduct and the State Water Project.

### **Regional Water Reliability and the OC Water Reliability Study**

The improvement of water supply and system reliability is key for the ratepayers and citizens of the County and is of primary concern in MWDOC's budget. Reliability cannot be improved by OC investments alone and it is imperative that our reach in this area is both local and regional to MET and DWR. This past year included the kick-off of the OC Water Reliability Study which will wrap up on the coming fiscal year. The goals for the OC Water Reliability Study are:

1. To understand Orange County's current and future situation with respect to WATER SUPPLY and SYSTEM RELIABILITY issues
2. Develop and provide information towards prioritization and decision-making for reliability improvements in Orange County
3. Involve/engage the large stakeholder group in the process of improving SUPPLY and SYSTEM reliability

4. To foster actions that produce quantifiable reliability improvements in Orange County that are timely and cost-effective

The OC Reliability Study is the first comprehensive look at local and regional investments that can benefit OC in many years. The examination of our SUPPLY and SYSTEM reliability must consider not only the regional system, but the upcoming investments through MET Integrated Resources Plan and must take into account the many intricacies and policies of tracking where benefits accrue for the water resources investments being made. The biggest example of this is how investments in OC will pay-off for OC under future shortage scenarios and whether the existing policies appropriately vest the benefits in the correct places.

### **Water Use Efficiency (WUE)**

Sound water management policy requires a continuing effort to improve water use efficiency. This requirement is intensified by the current drought conditions. Providing the technical expertise and the program support along with securing funds for water use efficiency efforts is a priority for MWDOC and our member agencies. Additional funding for WUE efforts emerged this past year in an amount over \$15 million and will likely increase again in this coming fiscal year to \$20 million. MWDOC must be able to capitalize on these opportunities as they arise and bring the benefits to OC.

### **Water Emergency Response**

MWDOC made significant changes towards the preparedness of the Water Emergency Response Organization of Orange County (WEROC) this past year to improve and strengthen the state of readiness to assist in a time of emergency. WEROC will pursue further changes this coming year to enhance response efforts and to seek additional funding options for improved resilience across the county.

### **Communication**

Communications to our citizens, in coordination with our member agencies, is a key part of MWDOC's efforts. Communication related to critical water resource issues, water supply and system reliability, and water resource projects and investments are all essential elements of the Communications Plan. To maximize both effectiveness and efficiency MWDOC is working with our member agencies on coordinated communication efforts. MWDOC generally provides program efforts at the regional level and above while providing necessary assistance to the retail agencies for communications with the local ratepayers. This division of responsibilities is a key area of coordination on behalf of MWDOC. Crucial issues in the coming year will be the drought, BDCP discussions, regional reliability and funding from the Water Bond.

### **Government Affairs**

Governmental Affairs continues to work at the local, state and national levels with our Member Agencies, organizations, delegations, agencies and bureaus to advance Orange County's agenda. Central to this effort are not only funding opportunities such as Prop1 but also policy legislative and regulatory developments and opportunities.

## 5. MWDOC Key Initiatives

Besides the items previously discussed above, the key initiatives from staff for 2015-16 that are included in the budget include:

- Continue to work closely with MET on rate/stability issues, support for the Bay-Delta, completion of the IRP Update and management of water in Southern California, especially since it is anticipated that we will be under Mandatory Restrictions from MET beginning in July 1 of this year. The drought and water management issues it brings will likely remain at the fore-front as a short-term priority, but we can't forget about planning for the long-term solutions such as the BDCP preferred alternative and recirculated EIR/EIS that is anticipated this coming summer.
- Continue work on the OC Water Reliability Study. The OC Water Reliability Study was initiated last year and should wrap up in the fall of 2015. It is too early to predict the exact nature of the spin-off efforts from the Study work, however, staff will seek to provide sufficient budget to accommodate whatever work efforts may arise, which could include:
  - A conjunctive use program between OCWD and South Orange County
  - Consideration of ocean desalination
  - Consideration of central valley banking and transfers
  - Support for additional recycling, Indirect Potable Reuse and Direct Potable Reuse planning
  - Improvements to respond to emergency outages
  - Work with MET and DWR on Emergency Colorado River and State Water Project Outages
  - Examination of additional investments in WUE to reduce demands
  - Sharing of supplies and resources within the County
  - On-going work with OCWD on basin issues
  - A key element is to obtain concurrence for the introduction and conveyance of local water in the East Orange County Feeder No. 2 (EOCF#2). This has never been done, but when accomplished opens up a number of options for Orange County.
  - Continue to examine opportunities for local or regional reliability via banking programs.

The key aspects of the OC Water Reliability Study are:

- 10-Year update of Countywide Water Reliability
- Improved methodology for projecting water demands
- Agreed upon definition and evaluation of SUPPLY and SYSTEM Reliability
- Comprehensive Review of ALL Water Sources
- MET Import including put and take from storage sources
- Local supplies Including groundwater

- Regional Projects
- Storage
- Water Banking
- Transfers/Contracts
- Focus on utility of information for decision-making
- Decision making remains with local utilities

The key tasks of the OC Water Reliability Study are:

- Analyze historical demands and develop updated projection of future demands & potential for future WUE impacts in OC
  - Review existing OC local supplies and project these supplies into the future
  - Estimate of supplies available from MET – This will involve modeling of supplies from the State Water Project and the Colorado River Aqueduct as well “puts” into and “takes” out of MET storage accounts; will also characterize climate variability impacts and biops impacts on supplies as well as “with” and “without” a BDCP solution (note – our time frame is out to 2035, so under almost any condition, a BDCP solution will not be in place at that time)
  - Develop a SUPPLY GAP Analysis – This is the most difficult analysis for the study, which is to estimate through the year 2035 what the reliability of our import supplies will be from MET under various scenarios. The goal of this task is to provide a reasonably analysis of what is to be expected and to understand the impacts of key drivers of reliability or the lack of reliability.
  - Develop an Emergency SYSTEM GAP Analysis – Based on prior work completed by MET, the ability of the local water systems to provide supplies for 60 days assuming there is an outage of the MWD system will be made; the key analysis will be to estimate the potential impacts to local well production facilities due to earthquake ground acceleration and to examine recovery aspects.
  - Review options for NEW local supplies & SYSTEM capabilities/supplies to resolve GAPS identified
  - Recommendations/Follow-up
- Continue with implementation of the Water Use Efficiency Master Plan including methods to firm up local funding options for local agencies. Begin integrating recycled water use into Water Use Efficiency programs by accelerating recycled water connections through customer incentives. Additional funding for water use efficiency efforts did emerge and will likely increase again this year which brings with it an opportunity to continue working to assist residents and businesses in the County with opportunities to use water more efficiently, thus saving water for future years, achieving compliance with the 20% by 2020 and attaining Integrated Resources Plan reliability goals.
    - Secure MET funding; over the past several years, MWDOC has brought in about \$3 to \$4 million per year; this year funding could reach \$15 million this year and next year could reach \$25 million. Had MWDOC not had the staffing, expertise, know-how and systems in place, a large opportunity would have been missed. Our WUE staff continues to perform for the benefit of OC.

- Secure Proposition 84 (last round) and Prop 1 via the IRWMP to allow additional WUE programs to be implemented in South OC.
  - Complete implementation and evaluation of the Spray-to-Drip Pilot Program. Seek opportunities to expand beyond the Pilot Phase.
  - Conduct a Turf Removal Rebate Program water savings evaluation to establish an OC based water savings metric
  - Engage with the SWRCB regarding Drought Regulations
  - Develop a methodology for implementation of “efficiency targets” as a way of measuring how we are doing and examining the potential for future savings from investments in WUE
  - The massive upsurge in WUE rebate funding requires the development of a new web-based rebate processing platform to contain costs, maintain timely performance and continue stringent audit controls.
- Continue to expand drought response assistance to member agencies and customers. This includes understanding the implications of the water supply situation, moving into allocations and how to manage local issues including the development of key messages, input to MET on their key messages, coordination of messages internal to the County and the Value of Water Communications.
  - The Value of Water Communications Plan is a long-term effort designed to engage, educate and inform Orange County residents and businesses of the value water service provides. The value of reliable water service includes building support for local projects, repair and replacement programs and water rate increases. In addition, one of the core elements of this plan is to improve public trust and credibility. Changing public perception and sentiment as well as instilling public trust is a long-term effort. It is not a switch that you turn on and off overnight; rather, it is a commitment that the family of Orange County Water Agencies make every day, with each customer and stakeholder interaction. These communication needs are occurring against a backdrop of aging infrastructure, regulatory changes, competition for supplies, projected water rate increases, and a need for greater transparency – and now the drought.

Last year the program, implemented as a Choice program, included:

- Definition of public attitudes and perceptions of water and water service
- Development of a communication plan and message refinement
- Working with our communications consultant, Fraser Communications, a number of creative elements were developed and made available to participating agencies/cities; these included:
  - Video: a short, two-minute video will be developed. This format can also provide shorter, 30-second versions for digital media channels as well as local Public Service Announcements.
  - Digital media/Social media: Facebook marketed via weekly “boosted” posts. As our research indicated, digital and social media channels are becoming more important to consumers. This also provides outreach to those consumers that are not directly paying their bill and do not receive information from their water provider in other formats. This also

includes social media elements agencies can incorporate with their existing media strategy and editorial calendars.

- Bill inserts: print and electronic bill inserts will be distributed via the retail water agencies' billing systems. Although digital and social media is growing in popularity, bill stuffers are still a reliable way to reach the bill-paying consumer.
- Give-away items: a selection of message-focused items are being purchased and distributed at community events. These items will be focused on innovation and provide a way to reinforce our message to the public.
- Professional services and staff support: ongoing subject matter expertise and in-house staff support will be available to implement the program and provide necessary support and resources.
- Briefing Papers; one page, visually engaging elements are being developed to support the three pillars and to easily convey information to stakeholders and influencer groups.
- Electronic Consumer Confidence Report Templates
- Newsletter articles: based on the three platforms we developed, newsletter articles are being crafted and made available to member agencies and to influencer groups.
- Presentation templates: a PowerPoint and Prezi template are being developed and distributed to participating agencies to use as part of their outreach efforts. Assistance with community outreach will be made available as resources permit.

This coming year, the Value of Water Communications will examine a similar menu of options for our agencies which will also consider message points relative to the drought and allocation situation.

- Public Affairs activities increase focus on a few critical areas. MWDOC will implement a major upgrade of our website in FY2015-16. The current website is not functional for some mobile devices and iPads. In addition, our biennial phone survey is scheduled for this year along with an experimental survey to address portions of the population which are being under-represented in the normal phone surveys.
- MWDOC's renewed efforts on Government Affairs will focus on funding and regulatory programs at the state and federal level. We are accelerating efforts with the Orange County and California delegations and select Committee Members to marshal support, funding and beneficial modifications for national programs including WIFIA and SRF. At the state level, significant efforts will be made in tracking and obtaining funding opportunities, including Prop 1, for Orange County projects.
- Protect MWDOC and local agency interests in MET via continued participation in the SDCWA lawsuit against MET.
- Participate in other water-related lawsuits, as appropriate, in support of our Member agencies and the residents of Orange County.

- Continue to seek areas of efficiency in the District's operations.
- A renewed effort for WEROC this past year will continue. It involves an enhanced training program for MWDOC staff to ensure sufficient support staff exists and is fully cross-trained to staff both a North and South Emergency Operations Centers and to search for more grant funding for resiliency improvements in the County. The investment in MWDOC staff training this past year resulted in one of the best WEROC test exercises ever, while requiring the volunteers to take-on positions they had not previously staffed. The resulting cross-training should continue to pay-off. Again this coming year, each of the MWDOC staff members will participate in about 30 to 40 hours of training to help WEROC remain at a high state of readiness. Also, in this coming year, there are potential grants in the form of fuel trailers and generator cabling to allow connections to differing types of electrical transfer switches. Both of these improvements should improve our resiliency in the County. Also, the outcome of the OC Water Reliability Study SYSTEM evaluation should result in proposals for further improvements in the County resiliency in dealing with earthquakes or other events and allow us to seek further grant funding.
- Preparing for the MET Update of its Integrated Resources Plan. Work from the OC Water Reliability Study will position us well to provide input into the process. Additional work may be required to demonstrate the need for MET to conduct work in specific areas.
- Tracking Progress on the BDCP and whether any deeper involvement from MWDOC and OC is warranted
- Completion of a study to support MWDOC's rates and charges.
- Review of staffing levels and succession planning issues.

## **6. Core/Choice Programs for 2015-16**

The Choice Programs for 2015-16 include:

- School Program – will continue grade-level appropriate educational opportunities in accordance with State Curriculum. MWDOC will be soliciting an RFP for the School Education Program to evaluate the services that have been provided by Discovery Science Center over the past 11 years with what others may have to offer.
- Water Use Efficiency – Will continue to access MET WUE funding and grants from other sources for implementation programs for OC.
- Value of Water Communications Plan - It is anticipated that this implementation phase of the communication plan will continue as a Choice Budget at a level consistent with last year.

- Doheny Desal 2008 – Work at maintaining the site, compliance with the State Parks Lease arrangement and conduct of site tours will continue. Limited funding remains from the 2008 Participation Agreement to fund the State Lease and electrical costs of the facility; furthermore, the group of five Participants needs to make a decision regarding leaving the facilities in place or pulling them out (funds in the amount of \$356,000 have been retained for the removal effort). It is uncertain at this time what other focus activities might be involved this coming year.
- Doheny Desal 2015 – This would be activities initiated in this coming year in the event two or more Participants would want to continue on with the project. MWDOC's involvement might include the formation of a JPA with MWDOC holding a position open for future potential participation by other local agencies. The exact nature of these efforts is not entirely certain for the coming year or which participants may be involved.
- Poseidon – Much work on the Poseidon Project is anticipated by Poseidon this year with their desire being to secure the final Coastal Commission Permit. It is expected that OCWD will remain involved in the discussions as will MWDOC. MWDOC will continue its efforts to secure LRP funding and to secure approval to convey the water in the EOCF#2 (these efforts are not part of the Choice Program, but are efforts undertaken by MWDOC in support of our agencies). It is uncertain the exact focus of MWDOC's Choice efforts this coming year or which participants may be involved although it is anticipated that the work group will be active in reviewing project documents and proposals.
- 2015 Urban Water Management Plans - By the start of the fiscal year, MWDOC should be seeking Member Agency Participation in a contract to prepare the 2015 Urban Water Management Plans, which must be submitted to DWR by July 1, 2016. As the budget is being prepared, MWDOC is in the process of preparing an RFP to various consulting firms to invite them to provide proposals to help 20 to 30 of our agencies in the preparation of these plans. In 2010, MWDOC developed a plan to complete 24 UWMP's simultaneously in Orange County, saving the average agency about \$40,000 in the process. A NEW UWMP requirement for this coming year is the completion of reporting for Water Loss Reduction Auditing, as prescribed by AWWA. MWDOC will also be seeking proposals from consultants to help our agencies comply with this requirement, as an additional option.
- South Coast & Laguna Beach CWD Foundational Program Work on Doheny (requires the staff time of Richard Bell) – These efforts, which began in 2014, should be completed this coming fiscal year. The work undertaken will result in a better understanding of the water quality issues for feed water for various sized project and will provide a better understanding of any mitigation that might be required for a smaller, 5 mgd facility, as well as for a 15 mgd facility. Most of MWDOC's work under this program, similar to what MWDOC is providing for the SJBA Foundational Action Program, is staff support MWDOC would provide to any of its agencies seeking MET funding. This is listed under the Choice Program because Richard Bell's time and assistance was specifically assisted for several

of the tasks involved in the study, which would have been beyond the level of input provided by MWDOC. That extra amount (about \$37,000 of Richard's time between last fiscal year and this coming fiscal year) serves as the basis for the Choice Program, paid by the two agencies.

- South Coast WD Baseline Environmental Monitoring Work – Requires the staff time of Richard Bell. As South Coast Water District has initiated work for a 5 mgd facility, they have opted to begin the baseline environmental work that would be necessary for any future facility. Again, they requested assistance from MWDOC to help in this effort by contracting for the work and providing input to South Coast in the management of this work (about \$153,000 in consulting work and about \$6,000 of Richard's time). That is why this is listed as a Choice option.

## **7. MWDOC's Reserve Funds**

The MWDOC Reserve Policy includes the following categories:

- General District
- Cash Flow
- Election Expense
- Building Expense
- OPEB Reserves

### **General District Reserves:**

The General District Reserves were set at \$1.85 million as of July 1, 2010 and increase by the inflation rate each year. In FY2015-16 the target reserve balance will be \$2,056,908. The general district reserve balance will be on target.

### **Cash Flow Reserve:**

Cash flow reserves were set at \$1.00 million in 2010 and this amount is reviewed from time to time for appropriateness, based on the District's current operational needs. Due to the tremendous increase in WUE rebates, the cash flow reserve is increased to \$1.5 million in the FY2015-16 budget.

### **Election expense:**

MWDOC's election reserve is managed to fund seven elections every four years. Based on previous election costs, we have determined that \$1.04 million (or \$148,000 per division) is sufficient to cover seven elections. This requires that \$260,000 be contributed to the election reserve annually.

**Building Expense Reserve:**

MWDOC's Building Reserves were set in 2010 to be kept at a minimum of \$350,000 and adjusted from time to time to reflect the improvement needs of the office facility.

- Staff has working with OCWD and others on estimates of the costs involved for a number of projects, which include:
  - Renovation of Joint Boardroom, including conference room C-3 and the Lobby/Entrance area
  - Renovation of restrooms outside of the Joint Boardroom
  - Renovation of transition area from Lobby to MWDOC offices
  - Renovation of one set of MWDOC Bathrooms
  - Replacement of Boiler, Chiller and Energy Management System that serves both the MWDOC and the OCWD buildings (last year MWDOC replaced the air handler in its building)
  - Upgrade of front Landscaping
  - Renovation of office roof for future years
  - Upgrade to fire alarm system
  - Slurry coat of parking lot

Overall, these costs are estimated at about \$400,000 in expenses next year.

The FY2015-16 budget includes a building expense contribution of \$258,000 to maintain the \$350,000 reserve balance.

**OPEB Reserve:**

In managing MWDOC's OPEB liability, the Board has taken the following actions:

- Employees hired after July 1, 2012 are not eligible to receive District-paid retiree and elective health and welfare benefits. This will substantially reduce future OPEB costs after dealing with the existing employees who qualified for the prior benefits.
- The Board requested that staff examine options for accelerating the payoff of the OPEB liability by increasing the annual payments. Based on the most recent actuarial as of July 1, 2014, it is recommended that the Board continue with annual contributions of \$155,000 per year to both fund the actual annual costs and include an annual contribution to the Trust fund. Based on this level of investment, the liability should be fully accommodated within the next 10 years.

**8. Water Rates and Charges**

Historically, MWDOC's revenue towards funding of its Core Budget has been derived from charges associated with a retail meter charge (fixed) and a water volume increment charge (variable). Beginning in 2015-16, MWDOC's Core Budget will be supported ONLY by the retail meter charge. This is the fifth year of transition from the two-component charge to a single component charge. It should be noted that MWDOC has budgeted to complete a review of its water rate charges to determine if any future changes should be considered beginning on or after July 1, 2016.

The total amount of revenue from water sales also includes charges to cover the cost of MET water purchases and MET's associated charges. The proposed Total Water Revenues for FY2015-16 are \$211,253,710 which is greater than the adopted FY2014-15 budget number of \$181,545,560 and the projected FY2014-15 actual of \$198,166,020.

For FY 2015-16 the proposed Retail Meter Charge is \$10.85.

**Attachments:**

Attached hereto is the detailed, draft budget for this coming year.