



ACTION ITEM

May 10, 2017

**TO: Administration & Finance Committee
(Directors Thomas, Barbre, Finnegan)**

FROM: Robert Hunter, General Manager

SUBJECT: THIRD DRAFT OF MWDOC'S BUDGET FOR 2017-18

STAFF RECOMMENDATION

Staff recommends the A&F Committee, Board of Directors, Member Agencies and the public review, discuss and provide input and comments on the THIRD DRAFT of MWDOC's budget for Fiscal Year 2017-18 and that the A&F Committee approve the THIRD DRAFT budget for consideration by the Board of Directors with any necessary modifications. The budget sent to the Board of Directors will be titled the FINAL DRAFT BUDGET. The form of findings of the THIRD DRAFT budget include the following:

1. Adopt the budget Resolutions as proposed, with a budget total of ~~\$182,956,647,482, 909,476~~ and a consolidated general fund budget of \$9,433,985 (Revenue).
2. The total revenue amount for the baseline consolidated budget (CORE + CHOICE) represents an increase of \$519,250 or 5.82% over the current year's budget. However there is a significant shift from CHOICE to CORE budget items.
3. The budget includes a planned draw on reserves of \$137,378. This is a significant change from the \$417,578 draw on reserves in the previous version of the budget (change of \$280,200) and is in response to the comments in the April A&F Committee. Every \$0.05 change in the retail meter charge equates to an approximate \$32,500 change in the reserve.
4. For the THIRD DRAFT budget, the proposed increase in the fixed rate is \$1.15 per retail meter (10.50%) to a total retail service charge of \$12.10 per retail meter. OCWD's contribution increases \$80,894 to \$473,560 per year.
5. The treatment of the SECOND DRAFT budget additional Government Affairs staff position has not been modified and the consulting contract for the grant-related activity has been reduced from \$70,000 to \$20,000; in accordance with the directions of the A&F Committee. A review of the costs and revenues (i.e., grants)

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

for the Federal lobbying activity over the last 13.5 years indicated revenues exceeded costs (\$1.57 million versus \$1.18 million). However, grants from the competitive proposal process greatly exceeded either category at \$4.56 million.

6. The building improvements expense is estimated at \$356,400.
7. The total amount of Water Use Efficiency (WUE) outside funding for rebates and grants will decrease from a FY2016-17 budget of approximately \$4.26 million to a proposed budget of \$4.18 million. This is directly related to the decrease in grant funding from the U.S. Bureau of Reclamation and the CA Department of Water Resources. However, this is approximately a 13% increase over the FY2014-15 budget levels.
8. The total outside funding from WUE and Local Resource Project (LRP) sources will be approximately \$20.8 million in FY2017-18. This means that MWDOC will be bringing in outside revenue that is approximately 2.3 times its total consolidated operating budget.
9. OPEB has been fully funded with the target of 85%-95% of the liability in the irrevocable trust and the balance in a reserve account.
10. WEROC is entering a period of increased capital needs. The magnitude of those needs and alternative approaches to meet them will be researched and implemented during the next 14 months. Preliminary estimates of the capital needs have been made and are included in this budget. The WEROC reserve fund has been split into an Operations & Maintenance Reserve Fund and a Capital Reserve Fund. As the amount of capital and the institutional arrangements for the capital investment are unclear at this time, the first year of the capital requirement is included in the MWDOC budget.
11. 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% as been achieved. This year, the budget was developed assuming that the staff contribution would be 6%.
12. The draft budget includes an increase in the Total Full-Time Equivalent (FTE) staff of 1.85 FTEs, with the total number of full-time MWDOC and WEROC employees increasing from 31 to 33. One additional employee in the baseline budget is for an administrative assistant for database management and the second is the DC-focused Government Affairs employee.
13. A merit pool amount of 5% is included in the budget of which 4% is for merit increases and 1% is for the PERS employee offset for the increased employee contribution amount (from 5% to 6%).
14. The budget is based on the same number of holidays (11) as in previous years.
15. The THIRD DRAFT budget for FY2017-18 incorporates the 100% fixed rate structure, which was implemented from last year's rate study for the Core Budget.

The OCWD component has been updated for the ten-year rolling average calculation.

16. Significant project activities in FY2017-18 will include:

- Orange County Reliability Study continuing actions, including an update and work on the emergency connection between OCWD and South Orange County
- Communication outreach programs related to the California WaterFix (Bay Delta), MET activities and regulatory/legislative activities
- Water Use Efficiency efforts on long-term efficiency standards beyond 20% by 2020, water savings potential, cost efficient programs, water loss control and landscape design assistance
- Metropolitan activities and communication of those activities to our Member Agencies including policy issues from the Integrated Resource Plan Policy discussion, Water Supply Allocation Plan modifications, MET business and investment model, water conservation policy, the Carson IRP project, Local Resource Program (LRP) funding, Biennial Budget, and Groundwater replenishment including storage issues (e.g. Cyclic Storage)
- Governmental Affairs activities at the local, state, and federal levels focusing on both legislative and regulatory developments.
- WEROC will be initiating an 18 month exercise and training program focused on an unknown contaminate of OC water systems. The program will require over 40 hours of training for many Member Agency staff, not including planning and exercise development. The program will include staff from 4 fire agencies, law enforcement, Division of Drinking Water, OC Health Care Agency, OC Emergency Management Division, as well as other local, state and federal partners.

17. The CHOICE Activities for this year will include:

- School Programs
- Water Use Efficiency
- Water Loss Control Program

With a planned CORE Communications Campaign focused on the California WaterFix and EcoRestore, MWDOC is not planning a CHOICE Communications offering this year.

We are closing the CHOICE accounts for Doheny and Poseidon during the current fiscal year and they are not carried forward into this budget.

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.

Similar to Memberships, budget approval for conferences includes Board and Staff approval for attendance at “standard conferences”. Standard conferences are those listed on Exhibits E and F; approval includes staff travel/attendance at any out of state conferences listed 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)

CHANGES FROM THE PRIOR DRAFT TO THE CURRENT DRAFT

This is the THIRD DRAFT of the budget. The following changes have been made from the prior draft budget:

- The expense estimate for the grant opportunity review contractor was reduced from \$70,000 to \$20,000;
- Estimated expenses for the WEROC radio system replacement program were increased by \$47,210 based on revised information for the cost of installation and the number of radios for the new system;
- The Public Affairs budget was increased by \$5,000 for a sponsorship of a Girl Scout “water badge” program similar to the program for Boy Scouts;
- The Public Affairs budget was increased by \$40,000 for consulting services for an Strategic Outreach Program Consultant, as requested by the Executive Committee;
- Corrections were made to the Conference/Meeting schedule and budget to reflect updated travel costs for Director and Staff representation totaling an additional \$24,830;
- IT expenses of \$3,700 were added for malware software licenses;
- The Choice School program was updated and increased by \$47,171;
- Based on the A&F Committee comments, revenues were increased so as to reduce the budget draw on reserves from \$417,578 to \$137,378.

MAJOR YEAR-TO-YEAR CHANGES IN THE CURRENT BUDGET

The year-to-year changes in the total expenses between FY2016-17 and FY2017-18 are only 1.20% or an increase of \$113,256. However there have been major shifts in programs and financial goals that have produced an increase in budgeted revenues of 5.82% (\$519,205), an increase retail meter charge of 10.50% (\$1.15), and an increase in the ground water customer charge of \$80,894. These significant shifts can be attributed to four primary factors: (1) the shift of the CHOICE Public Affairs communication program to the CORE budget, (2) the increase in the CORE budget for Salaries & Wages and Employee Benefits, (3) a budget policy change away from drawing on reserve funds to balance the budget, and (4) the recognition of significant capital improvement requirements for WEROC.

(1) CHOICE to CORE SHIFT

The year-to-year budget for CORE expenses increases by \$475,842 even with decreases in the election expense of \$592,000 and Building expenses of \$136,600. The year-to-year budget for CHOICE expenses decreases by \$362,586. The Public Affairs CHOICE budget decreases by \$277,301 and the Public Affairs CORE budget

increases by \$150,339. This shift is aligned with the change of the program from a drought & Water Use Efficiency focused program to one focused on the California Water Fix. The California Water Fix program benefits all Member Agencies and OC ratepayers and therefore is appropriately funded as a CORE program.

(2) SALARIES & WAGES and EMPLOYEE BENEFITS

The other major increase in the CORE budget was from the addition of two new full-time employees: a database technician and the DC-focused Government Affairs position. The combined increase in Salaries & Wages and Employee Benefits is \$423,789 including a 4% merit increase.

(3) DRAW ON RESERVES

Last year's budget called for a draw on reserves of \$543,372. This year's SECOND DRAFT budget included a draw on reserves of \$417,578. Based on Director discussions in the April A&F Committee meeting the fees and revenues were adjusted in this the THIRD DRAFT budget so as to reduce the projected draw on reserves to \$137,378. This draft-to-draft change of \$280,200 equates to an increase in the retail meter charge of approximately \$0.45.

(4) WEROC CAPITAL IMPROVEMENTS

A series of facility evaluations are being conducted on the Emergency Operations Centers (EOCs) to consolidate and improve the facilities. It is anticipated that capital improvements will be required as a result of these evaluations. The THIRD DRAFT budget includes \$281,657 in capital improvements of which \$227,210 (81%) is associated with critical changes to the radio system.

DETAILED REPORT

The FY2017-18 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 to the Member Agencies, and is planned to conclude with the formal budget approval by the Board of Directors in May or June. A budget must be approved prior to the beginning of the fiscal year on July 1st. Feedback from the Member Agency staff indicates a preference for MWDOC to approve rates sooner rather than later to facilitate the incorporation of the costs into the Member Agency budgets and rates. The Metropolitan Water District of Southern California (MET) budget and rates for FY2017-18 were passed on May 18, 2016. The

general budget schedule is outlined below.

December 2016
<ul style="list-style-type: none"> • Notification to Member Agencies of start of budget process and solicitation of input
January 2017
<ul style="list-style-type: none"> • MWDOC staff begins preparation of budget hours and costs on program and line-item basis
<ul style="list-style-type: none"> • Review of five month actuals and fiscal year-end projections
<ul style="list-style-type: none"> • Review budget adjustments for current fiscal year
<ul style="list-style-type: none"> • Preparation of internal, draft conceptual budget (review changes for upcoming fiscal year)
February 2017
<ul style="list-style-type: none"> • Initial review of budget issues with A&F Committee for feedback
<ul style="list-style-type: none"> • Initial discussion of budget issues with Member Agencies for feedback
<ul style="list-style-type: none"> • Request for Member Agencies' preliminary indication of participation in CHOICE
March 2017
<ul style="list-style-type: none"> • Publish and post the FIRST DRAFT Budget in the packet for the A&F Committee
<ul style="list-style-type: none"> • Review Full Draft Budget with A&F Committee (3-8-17)
<ul style="list-style-type: none"> • Formally request comments from all Member Agencies
<ul style="list-style-type: none"> • DRAFT information completed on prior year CHOICE WUE program benefits to Member Agencies to serve as basis for charging agencies for the upcoming year for CHOICE WUE activities
<ul style="list-style-type: none"> • Member Agencies' initial confirmation of participation in CHOICE Services by March 15 the Final Agreement by the end of April and after the Elected Officials Meeting
<ul style="list-style-type: none"> • Discuss FIRST DRAFT Budget at Member Agency Managers' Meeting (3-16-17)
<ul style="list-style-type: none"> • Meet with Member Agencies as requested or scheduled
April 2017
<ul style="list-style-type: none"> • FINAL information completed on prior year CHOICE WUE benefits to Member Agencies to serve as basis of charging agencies for the upcoming year for WUE activities
<ul style="list-style-type: none"> • Discuss SECOND DRAFT Budget in A&F Committee (4-12-17)
<ul style="list-style-type: none"> • Member Agencies' submit Formal Comments about the Budget before April 15
<ul style="list-style-type: none"> • Review SECOND DRAFT Budget at Member Agency Managers' Meeting (4-20)
<ul style="list-style-type: none"> • Conduct meeting with Elected Officials from Member Agencies to discuss budget and other topics before the end of April
<ul style="list-style-type: none"> • Confirm CHOICE Participation
May 2017

• THIRD DRAFT Budget and Rates presented to A&F Committee (5-10-17)
• Member Agencies' Formal Comments presented to A&F Committee
• Discussion at Member Agency Manager's meeting (5-18-17)
• Board approval of FY2017-18 FINAL Budget and Rates

2. MWDOC Budget Principles for FY2017-18

Staff continues to utilize the following Budget Principles to develop the draft budget:

- **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 Orange County's borders and the budgeted activities must comprehensively address issues, needs, and benefits for the entire service area.
- **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**
The Proposed budget and budget process should fully comply with applicable sections of the MWDOC Administrative Code.

3. Budget Input from Member Agencies

Budget input has been received at the A&F Committee meeting and the Member Agency Manager's meeting. A limited number of presentations have been made to Member Agency Boards. In general, the response has been supportive of MWDOC's budget and budget process. A significant number of comments have been made questioning the proposed duties and value of the DC-focused Government Affairs position as well as the configuration of the grants position or contract. In general, the commenting agencies have indicated that any additional Government Affairs staffing should be done only as a CHOICE budget program. Six written comment letters have been received from Member Agencies prior to the date of the posting of this committee package (Santa Margarita Water District, Irvine Ranch Water District, Moulton Niguel Water District, Orange County Water District, Trabuco Canyon Water District and El Toro Water District).

A survey was initiated at the March Manager's meeting with the representatives from the Member Agencies regarding the Governmental Affairs position and the consultant contract to assist in Federal grants or funding. The survey indicated a lack of support from the Member Agencies for either the position or for the grant services as outlined.

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 and spin-off efforts
- Water Use Efficiency (WUE)
- Water Emergency Response
- Communications
- Governmental Affairs

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 residents and ratepayers in Orange County and to Southern California.

- MET is key in 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. Key issues will include IRP policy discussions, local and regional resource investments, water supply allocations, supply and system reliability projects and programs, Groundwater replenishment and storage, the State Water Project investments, including the California WaterFix, Colorado River Aqueduct, Water Quality, water use efficiency, and Communication activities and legislation.
- MWDOC appoints four MET Directors who sit on the MET Board and directly advocate on behalf of the district and its member agencies. These four MET Directors work with the other three Directors from Orange County (Anaheim, Fullerton, and Santa Ana) as well as MET 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 of 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, maintain an appropriate level of reserves, and preserve financial policies that minimize and level long-term costs and rates impacts, while allowing new investments to be made. Significant upcoming investments include the California WaterFix and potentially the Carson IPR project.
- 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 locally and regionally, (i.e. State Water Project and the Colorado River Aqueduct), and in incorporating future long term investments such as the California WaterFix while remaining strong financially.
- When MET becomes involved in a lawsuit, particularly such as the SDCWA lawsuit,

the results can be a zero sum game where the outcome results in winners and losers within the MET family. MWDOC will continue its involvement in the lawsuit between SDCWA and MET as it moves through the appeal process, as well as other litigation that protects the interest of Orange County and its ratepayers. The outcome of this lawsuit is critically important to Orange County and our involvement is to ensure the ratepayers of Orange County are fully represented.

- The coming year involves a number of critically important issues at MET, such as the review of MET's Integrated Resources Plan (IRP) policies and MET's role in both local supplies and imported supplies to meet total Southern California demands over the next 20 years. In particular the decision to move forward on the Carson Demonstration Project will be an active consideration. In addition, creating the opportunity to see how we can better integrate imported supplies with groundwater basin management will be an important undertaking.

Later this year the CA WaterFix permits and operating criteria could be approved clearing the way to initiate the design and construction contracts. A key action involves the project cost allocation commitments among the State and Federal contractors. Moreover, a thorough review of SWP infrastructure and repair or replacement of Oroville Dam's spillway will be brought forward. There also will be possible adoption of a Colorado River Drought Contingency Plan among the lower basin states that will seek to mitigate the decline of Lake Mead over the long run.

This coming fiscal year will involve the review and approval of MET's biennial budget for FY2018-19 & 2019-20. Included in these discussions will be discussion of MET's water conservation program, potential revisions to LRP funding protocols and how MET's assistance to its member agencies will help agencies meet the upcoming State permanent conservation regulations.

Regional Water Reliability and the OC Water Reliability Study

The improvement of water supply and system reliability is key for the ratepayers and residents 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 current year included completion and publication of the OC Water Reliability Study (Study) with excellent participation by our Member Agencies. For this coming year, the goals of the OC Water Reliability Study are:

1. To provide outreach and communication of the implications of the 2016 study.
2. Follow-up regarding potential reliability improvements within Orange County. An update of the 2016 Study is planned to incorporate new information on the forecast of supplies from the State Water Project and the Colorado River and will provide further insight into up-coming decision-making.
3. Provide regional assistance to the San Juan Watershed Project and the Doheny Project that both are critical to South Orange County.
4. Work with MET and DWR to better understand the risks and duration of import systems to determine if recommendations for emergency storage reserves are needed.

5. A new initiative is planned for 2017-18 that involves entering into electrical load aggregation contracts that will translate into a cost-savings for our agencies and will improve their emergency operations by having energy storage devices at key facilities. These actions include the possibility of securing state of the art emergency generator back-ups that meet AQMD standards. This is an extremely exciting proposition that is just now being kicked off at the start of the budget preparation.

Water Use Efficiency (WUE)

Sound water management policy requires a continuing effort to improve water use efficiency. This requirement is intensified by the upcoming proposals for permanent water use efficiency standards beyond our current 20% by 2020 framework. 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. The initial MET budget indicates funding for WUE rebates and other activities at approximately the same level as last fiscal year. However the anticipated WUE outside funding is expected to be 13% greater than in FY2014-15. The WUE group also has a continuing project on assessing and recovering distribution system water loss. Additional focus is being given to water loss control and landscape design assistance.

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 its state of readiness to assist in a time of emergency. WEROC will continue to develop resources, tools, trainings and grant funding targeted at enhancing member agency and WEROC EOC Staff preparedness and resilience. Much of this training effort will focus on the Emergency Water Quality Sample Kit (EWQSK) response protocols and ensuring multi-discipline approaches to this training effort. Additionally, staff will be identifying how to incorporate the new California Office of Emergency Services' EOC Position Credential program into the WEROC training program. The WEROC Administrative Assistant will continue to update and enhance the WEROC communication and sharing tools, including AlertOC and Safety Center. The WEROC Coordinator will spend significant time on updates to the Orange County Regional Water and Wastewater Multi-Hazard Mitigation Plan, the WEROC Emergency Response Plan and related support documents and tools to ensure the program is meeting state and national requirements for planning. The WEROC Manager will focus in on the Radio System replacement, Points of Distribution planning, continued advocacy for our member agencies, and implementation of the WEROC EOC Assessment recommendations has been included in this budget.

Communication

Communication with our Member Agencies and the public we serve is a critical component of MWDOC's core function. 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 Program. 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. Crucial issues in the coming year will be the SWRCB permanent efficiency regulations, issues surrounding Bay Delta, and regional reliability.

MWDOC will continue its partnership with the Orange County Council of the Boy Scouts to hold “Soil and Water Conservation Merit Badge” clinics. After three of five planned clinics in FY 16/17, more than 200 Scouts had earned their Soil & Water badge, and about 60 percent who responded to post-clinic surveys said they would not have sought the badge if the clinics were not offered. A similar program has been added to the budget with the Orange County Girl Scout leaders, to design and launch a patch program for the Girl Scouts in FY 17/18.

Building on the success of the high school choice program, staff has worked with the Orange County Department of Education to develop a core high school program that would be offered to high school teachers countywide. With a budget of \$64,000, the CORE High School Program would meet the requirements of mandated teaching subjects and provide teachers with lesson plans and materials to encourage their participation. The lesson plans will be tailored for science, political science and history classes, to ensure the program reaches as many students as possible. The core program would work hand-in-hand with the choice offering, and is expected to grow participation in that program as well.

Governmental 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 policy, legislative and regulatory developments and opportunities. In FY2017-18 there will be tremendous activity in the legislative session in Sacramento for water issues including the proposals in support of the Permanent Water Efficiency framework and the California WaterFix and EcoRestore. Enhanced activities have been requested on two fronts. There has been a request to increase MWDOC’s federal activities with the addition of a staff position to solely focus on federal issues and activities. There has also been a request to increase MWDOC’s program in obtaining project grant funds and financial strategy development and implementation.

5. MWDOC Key Initiatives

Besides the items previously discussed above, the key initiatives from staff for FY2017-18 that are included in the budget include:

- Continue to work closely with MET on rate/stability issues, support for the California WaterFix, completion of the IRP policy review and management of water in Southern California.
- Advance projects from the OC Water Reliability Study. The following work is anticipated:
 - A conjunctive use program between OCWD and South Orange County
 - Consideration of ocean desalination
 - Improvements to respond to emergency outages
 - On-going work with OCWD on basin issues (In Lieu delivery, cyclic storage, SARRCUP)
 - 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.
- 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 the Water Use Efficiency Programs by accelerating recycled water connections through customer incentives.
- Staff is projecting \$23,279 in Water Use Efficiency Department staff time reimbursement from state and federal grants
- Continue Rebate Programs and emphasize landscape opportunities
- Expand Water Loss Control effort to include sales meter accuracy testing
Continue to convene the Water Loss Control Work Group and evaluate the feasibility of in-house MWDOC Water Loss Control services including meter accuracy testing, leak detection, shared sounding equipment, etc. for access by member agencies.
- MWDOC will continue to use the Droplet rebate administration platform for both Turf Removal and Spray-to-Drip rebate processing including electronic signatures. These programs will be implemented in partnership with member agencies. In the coming year, emphasis will be on identifying and implementing program refinements that streamline the participation process for both water agencies and program participants.
- Started late in FY2016-17 budget cycle, Landscape Design Assistance will be fully operational in the coming year targeting residential turf removal rebate program participants. This new program is designed to break down barriers to program participation and ensure turf replacement projects are attractive examples to others. Proper maintenance of California Friendly landscapes materials will be developed and posted on our website.
- Currently on pause pending a water savings evaluation, the Water Smart Landscape Program that provides monthly irrigation performance reports for dedicated landscape meters is anticipated to restart with an overhauled implementation framework. This is not only one of MWDOC's longest standing programs but will be instrumental in helping agencies to comply with the proposed long-term water efficiency standards proposed by state agencies.
- In the coming year the Water Loss Control Technical Assistance will transition from Year II to Year III. MWDOC will continue to partner with Water Systems Optimization in providing this assistance to member agencies.
- The States' new Long Term Water Use efficiency framework will require significant research to better understand and inform stakeholders on the standard setting. As a result, research funding has been budgeted in the Core WUE program. This

research may be focused locally or through partnerships beyond Orange County such as the California Water Efficiency Partnership (previously known as the California Urban Water Conservation Council).

- Metropolitan WUE policy development will be a main focus for the department especially in helping to prepare agencies for compliance with new state mandates. Staff will also seek to maximize access to Metropolitan Water Use Efficiency program funding for regional and local program implementation. Staff will advocate for Program refinements that ensure Orange County program needs are met and continue to evolve.
- Staff will provide a leadership for the California Water Efficiency Partnership (previously known as the California Urban Water Conservation Council) as they transition the organization in FY2017-18.
- Secure MET funding; over the past several years, MWDOC has brought in about \$4 million annually for WUE funding. This year funding will be approximately at that level. Identification and procurement of funding for OC will be a greater emphasis. Our WUE staff continues to perform for the benefit of Orange County.
- The Public Affairs Department looks to amplify efforts to facilitate community awareness and involvement with issues and challenges related to the reliable delivery of potable water. The recently completed MWDOC Orange County Reliability Study deemed the California WaterFix as the single most cost effective project to ensure Orange County's long-term water reliability.
 - As such, MWDOC is preparing to launch a robust communications campaign focusing on the WaterFix and EcoRestore. Social media will be the heart of this campaign - with new graphics, videos and newsfeeds and articles. This will also coincide with the launch of the MWDOC's new website. The District's new website will feature a Member Agency Portal that will be the central hub for all supporting tools and materials.
 - The proposed education and outreach plan for the California WaterFix and EcoRestore is budgeted at \$100,000. The yearlong campaign will emphasize the need to finish the State Water Project with the twin tunnels, which are essentially a storm water capture project. The EcoRestore would also be included in the messaging and campaign, to educate leaders and the public that environmentalists agree doing nothing is not an option and the combined projects are best for the state water infrastructure and for the Delta ecosystem.
 - The campaign will primarily target decision-makers and those with influence upon the decision-makers, although local government and grass root elements are included in the plan, as well.
 - The plan has an emphasis on social media, targeting specific audiences with

pinpoint accuracy, as well as “listening” to public sentiment about the project and identify any growing concerns or opposition.

- Gaining endorsements of the projects from remaining OC water agencies and cities is part of the proposed plan, then building on that success to business and other groups. Staff also proposes print advertising in the Sacramento region, in the Sacramento Bee, which carries influence with the California Legislature.
 - Staff is aware other agencies and organizations are preparing outreach campaigns as well, and would communicate with them and coordinate when appropriate.
 - MWDOC will also be required to expend resources in responding to the recently initiated outreach program by the San Diego County Water Authority, The Authority has increased contractor funding by almost \$500,000 to outreach to elected officials in neighboring jurisdictions, including Orange County. MWDOC staff have found the materials the Authority has had prepared for this effort to be, at best, misleading.
- MWDOC’s renewed efforts on Governmental 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. At the state level, significant efforts will be made in tracking both funding opportunities for Orange County projects and relevant legislation. A large volume of legislation is already evident which will require actions to support, oppose or amend. The scope of activities will be partially dependent on the resolution of the staffing alternatives.
 - Monitor and track the State Water Resources Control Board and Department of Water Resource proposed water efficiency regulations and program funding plans/proposals.
 - Protect MWDOC and local agency interests in MET via continued participation in the SDCWA lawsuit against MET. Oral arguments for the appeal trial are scheduled for May 10, 2017 with a decision required within 90 days.
 - 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.
 - WEROC will be starting a multiple year training and exercise program that focuses on responding to an unknown contamination of our water supplies and utilizing protocols for the Emergency Water Quality Sample Kits (EWQSK). This program will involve the participation of 4 Fire Hazardous Materials Teams, law enforcement, Division of Drinking Water, cities, the County and our member agencies. A

consultant for coordination of the field and functional components of the program will be critical to developing and supporting a successful training and exercise year. Again this coming year, each of the WEROC EOC staff members will participate in about 40 hours of training to participate in the training program and help WEROC remain at a high state of readiness.

- Staff are researching and looking to implement a new WEROC Radio system in FY 2017/2018. The system being considered (through OC Sheriff's Department) is estimated to cost about \$227,000 initially and would reduce the annual radio maintenance and repeater budget by as much as \$7,000 to \$12,000.
- WEROC staff will be spending a significant amount of time implementing the recommendations of the WEROC EOC Site Study; including seismic evaluation, electrical evaluation and generator sharing at the South EOC site. Some of these assessments may result in additional recommendations, of which will be discussed with the WEROC funding group, member agencies and the Board.
- Utilizing the WEROC EOC Assessment, staff have identified capital costs for the WEROC program that are proposed to mostly occur in the next two fiscal years. Staff believes that these projects are critical to the reliability of the WEROC South EOC. Staff are proposing that the WEROC capital program be funded by MWDOC. Modifications to the MWDOC Administration Building to facilitate its use as a back-up EOC are being incorporated into MWDOC Building Improvements and will provide additional functionality of the space for trainings and meetings.
- Promoting Orange County positions in the policy formation based on the MET update of its Integrated Resources Plan. Work from the OC Water Reliability Study positioned us well to provide input into the IRP policy discussion. Topics are likely to include MET investments in supply projects like the Carson IRP project, LRP funding policy and decisions, modifications to allocation policies and procedures, and MET's groundwater policies.
- Tracking progress on the California WaterFix and education of local, state and federal officials, including key organizations.
- Review of staffing levels and succession planning issues.

6. Core/Choice Programs for 2017-18

The Choice Programs for FY2017-18 include:

- School Program-The current contracts for the school program will continue with program modifications where appropriate. The grade school program will be run in conjunction with the Discovery Science Center with the keypad program for all of the assembly programs in grades 1-6. The High School Program will be conducted in conjunction with the County's Inside the Outdoors program and continues to evolve through the curriculum development and expanded in-class activities

- Water Use Efficiency-Will continue to access MET WUE funding and grants from other sources for implementation programs for OC.
- 2015 Water Loss Control Audits-Follow-up activities will continue from the water audits including leak detection and repair.

7. MWDOC's Reserve Funds

MWDOC is currently performing a review of the Reserve Fund Policy and has retained PFM for the purpose. The results of that review are not included in the THIRD DRAFT budget and it is not anticipated that MWDOC's Board of Directors will modify the reserve policy during the development of this budget. 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 FY2017-18 the target reserve balance will be \$2,104,485. The general district reserve balance will be above but near the 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 was 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 \$1.22 million (or \$174,000 per division) is sufficient to cover seven elections. This requires that an average of \$304,000 be contributed to the election reserve annually. No election expenses will be incurred in FY2017-18.

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. It is now over 25 years since the building was refurbished and MWDOC moved to this location. Ongoing and projected building expenses are increasing as systems are repaired or replaced. We will be completing a comprehensive evaluation of the office space and implementing necessary improvements. As became exceedingly clear over this wet winter, the building roof is beyond its useful life. There are also a number of office improvements planned including office space and office furniture modifications or replacements.

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 prior

- benefits.
- The Board of Directors implemented an OPEB Reserve Policy whereby 100% of the liability is funded through a combination of placing 85%-95% of the required amount in the irrevocable trust (approximately \$1.7 million) and the balance in a reserve fund (approximately \$209,000). These amounts are adjusted with the updated actuarial study.

8. Water Rates and Charges

Historically, MWDOC's revenue funding its Core Budget had been derived from charges associated with a retail meter charge (fixed) and a water volume increment charge (variable). However, in FY 2015-16, MWDOC's Core Budget was supported only by the retail meter charge. During that fiscal year, MWDOC completed a water rate study whereby the Board adopted a methodology for a retail meter charge along with a new groundwater customer charge.

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 Sales for FY 2017-18 are \$185,673,707.

For FY 2017-18 the proposed Retail Meter Charge is \$12.10.

For FY 2017-18 the proposed Groundwater Customer Charge is \$473,560.

Attachments:

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