Municipal Water District Of Orange County

(MWDOC)

REQUEST FOR PROPOSALS (RFP)

TO PROVIDE

RATE STUDY SERVICES

(RFP No. FIN1020-001)

Proposals Due by 5:00PM,

October 26, 2020

Website: www.MWDOC.com

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SECTION 1 – NOTICE TO PROPOSERS

1. Due to the COVID-19 pandemic, proposals for RFP No. FIN1020-001 – Rate Study Services, as described herein, will be received only via email. No hard copy submissions are required or desired. The email must be received by the Municipal Water District of Orange County (MWDOC) at the designated email address by **5:00 p.m. (Pacific) on October 26, 2020**.

2. Proposals must be emailed to:

   tdubuque@mwdoc.com

3. The subject line of the email must read:

   PROPOSAL - RFP NO. FIN1020-001 – [Insert Proposer's Name].

4. It is the Proposer's sole responsibility to ensure that their proposal, inclusive of any or all addenda, is received at the proper email address by the deadline. Any proposal received after the deadline will be disqualified and not considered.

5. The proposal shall be in PDF format, with search capability, to ensure readability and compatibility. All submitted material will be retained by MWDOC and considered public information. Be advised that all information contained in proposals submitted in response to this solicitation may be subject to the California Public Records Act (Government Code Section 6250 et seq.).

4 **Any questions as to the meaning of the scope of work, proposal requirements or selection process must be submitted in writing and shall be directed to:**

   Hilary Chumpitazi c/o Tina Dubuque @
   tdubuque@mwdoc.com

5 To be given consideration, **questions must be received by 5:00 p.m. on October 12, 2020.** All questions asked by Proposers and answers provided in response will be posted to MWDOC's website at:

   http://www.mwdoc.com/business/rfp

6 Under no circumstances may the Proposer contact any other staff member or Board Member of MWDOC or its member agencies to discuss this RFP or clarify any requirements herein. Failure to comply with this requirement may be grounds for immediate disqualification.

7 Please note that brevity is valued over marketing and clarity over creative writing. Supplemental corporate literature may be included as an appendix to the proposal but may or may not be considered in the evaluation. Such material may exceed the document size limitations for email. Strict adherence to page limitations, if any, included in this RFP is essential.

SECTION 2 – INTRODUCTION AND OVERVIEW

1. PURPOSE OF THE REQUEST FOR PROPOSALS

The Municipal Water District of Orange County (MWDOC) is seeking proposals from qualified firms (Proposers, Contractors) for services to develop and review potential water service rate structures and options for MWDOC; work with MWDOC staff, Board of Directors and Member Agencies in discussing and evaluating those options and recommend a preferred rate structure for implementation.

The purpose of this Request for Proposals (RFP) is to solicit proposals from qualified firms/consultants with a proven track record in the development of water rate structures in California, which will provide the District with rate model options as well as a recommended rate plan. While satisfying future revenue requirements and meeting State law requirements, the proposed rate structures must balance revenue stability, resiliency, water use variability, conservation and equity to Member Agencies.

This RFP describes the district, the required scope of services, the contractor selection process, and the minimum information requirements for the submitted proposal. Failure to submit information in accordance with the RFP requirements and procedures may be cause for disqualification. There is no expressed or implied obligation for the District to reimburse responding firms for any expenses incurred in preparing proposals in response to this request. MWDOC reserves the right to request proposal clarifications or corrections from any firm.

2. DISTRICT OVERVIEW

MWDOC is a wholesale, imported water supplier and resource planning agency as well as a Member Agency of the Metropolitan Water District of Southern California (MET). Formed in 1951 pursuant to the Municipal Water District Law of 1911 (Water Code Section 71000 et seq.) for the expressed purpose of importing MET water to Orange County outside the jurisdiction of the service area of the original three Orange County MET Member Agencies (Anaheim, Fullerton and Santa Ana). Beyond the provision of water, our efforts focus on sound planning and appropriate investments in water reliability, water supply development, water use efficiency, public information, legislative advocacy, water education, and emergency preparedness.

Local water supplies meet approximately 58% of MWDOC service area water demand of approximately 430, 000-acre feet per year, primarily through groundwater use in the northern half of the county. To meet the remaining demand, MWDOC purchases imported water (from Northern California and the Colorado River) through MET. MWDOC delivers this water to its 28 member agencies (local water agencies and city water departments), which provide retail water services to the public or manage groundwater resources. Only 26 of the 28 member agencies are directly billed by

MWDOC. MWDOC serves over 2.3 million Orange County residents. MWDOC is governed by an elected, seven-member Board of Directors and has four appointed MET directors. From among its members, the Board appoints a president, vice president and such other positions, as it deems necessary. District operations are managed by an appointed General Manager.

Committee and Board of Director meetings.

There are normally six MWDOC Committee and Board of Director meetings per month:

Planning & Operations Committee – 1st Monday of the Month
MWDOC Board Workshop w/ Met Directors – 1st Wednesday of the Month
Administration and Finance Committee – 2nd Wednesday of the Month
Public Affairs & Legislative Committee – 3rd Monday of the Month
Board of Directors Meeting – 3rd Wednesday of the Month
Executive Committee – Day after Board of Directors Meeting

List of MWDOC Member Agencies

City Water Departments (14)
City of Brea
City of Buena Park
City of Fountain Valley
City of Garden Grove
City of Huntington Beach
City of La Habra
City of La Palma
City of Newport Beach
City of Orange
City of San Clemente
City of San Juan Capistrano
City of Seal Beach
City of Tustin
City of Westminster

Retail Water Districts (12)
East Orange County Water District
El Toro Water District
Emerald Bay Service District
Irvine Ranch Water District
Laguna Beach County Water District
Mesa Water District
Moulton Niguel Water District
Santa Margarita Water District

Serrano Water District
South Coast Water District
Trabuco Canyon Water District
Yorba Linda Water District

Retail Corporate Utility (1)
Golden State Water Company

Wholesale Groundwater Agency (1)
Orange County Water District

Additional information about MWDOC is available at www.mwdoc.com.

3. BACKGROUND

MWDOC's operating revenue stream was originally based on property taxes combined with a direct pass through of water sale charges from MET to member agencies. In FY1968-1969, the property tax basis was discontinued. The operating rate structure evolved into a combination of variable and fixed rate components. The variable revenue component was an incremental rate added to the cost of the MET water with revenues variable upon purchased volume. The fixed revenue component was based on a retail meter charge based on the number of retail meters in each member agency. There were no adjustment factors for the size of the meter, multi-family units, or commercial/industrial use. The variable and fixed rates were adjusted during the annual budget process to provide revenue sufficiency for the projected expenditures. MWDOC has the ability to issue debt but currently has no debt.

In FY2010-2011, revenue categories and amounts included:

Water Sales	$149,444,428
Retail Meter Charge	$ 3,493,539
Water Increment Charge	$ 1,628,768
Interest Revenue	$ 135,000
Miscellaneous Revenue	$ 3,000
School Contracts	$ 98,895
Operating Sub-Total	$ 5,359,202

The School Contract funding was from the three other Orange County MET agencies for their participation in MWDOC's school education program. Approximately 65.2% of the Operating Sub-Total revenue was derived from the fixed, retail meter charge and 30.4% from the incremental rate based on water sales volume.

There was also a substantial amount of outside funding in the form of grants, customer rebate funds and emergency response funding that either directly passed through to customers or funded professional service contracts for specific projects.

In 2010, MWDOC entered into a settlement agreement with most of its 28 member agencies. Among other items, the settlement agreement established two procedures relative to rates and budgets. First, the percentage of revenues from the fixed retail meter charge was scheduled to increase by units of 5% each year until 100% of the revenues from Member Agencies were fixed. This was achieved for FY2015-2016. The variable, incremental rate was eliminated and the cost of the MET water was passed through to the Member Agencies without any incremental increase. The second item was the implementation of a Core/Choice budget structure. Conceptually, services that provide benefits to all or most member agencies are included in the Core budget and are funded with the fixed retail meter charge. Other services that benefit only select member agencies are available through a subscription basis to those member agencies who choose to participate (Choice budget items). The settlement agreement expired at the end of FY2015-16.

A comparative summary of the FY2015-2016 budget revenue categories includes:

Water Sales		$172,494,402
Operating Budget		
Retail Meter Charge	$	6,687,322
Water Increment Charge	$	0
Interest Revenue	$	117,675
Miscellaneous Revenue	$	3,000
Choice Revenue	$	1,615,957
Operating Sub-Total	$	8,423,954

In addition, total outside funding for the Water Use Efficiency Program was budgeted at approximately $22.8 million with over $18.5 million originating from MET rebate programs and another $3.5 million from member agency contributions.

Included in the Water Sales number are two fixed MET charges: (1) the capacity charge and (2) the Readiness-to-Serve charge. Both these fixed charges are calculated and assessed to our Member Agencies annually according to usage (flow-cfs and recent acre-feet purchases). The method by which assesses MWDOC for these charges is different than the method by which MWDOC assesses its Member Agencies. **As part of the rate study, the evaluation of MWDOC's method and approach in assessing these two MET pass-through charges will be evaluated.** A change in the allocation procedure would not impact MWDOC's revenue but could affect the apportionment of these charges amongst our Member Agencies.

The migration to a 100% fixed rate structure for MWDOC's operating revenue produced some significant benefits to MWDOC and particularly during the drought-

induced mandatory, statewide 25% water use reductions. With no variable, volumetric rate component MWDOC's revenue stream was not disrupted. In addition, MWDOC essentially receives all the fixed revenue in the first two months of the fiscal year. Choice revenue is billed throughout the year as programs are fully defined and work is initiated.

However, there were also some anomalies associated with the rate structure. For example, one of MWDOC's largest volumetric customers (OCWD) is a wholesaler without retail meters. Therefore, when the rate structure migrated to 100% fixed based on retail meters, OCWD was contributing zero to MWDOC's operating revenues. Conversely, one retail member agency had not bought water from MWDOC for a number of years and yet was paying their full allocation based on their retail meter count. As these rates were essentially contract rates under the settlement agreement, there were no legal issues raised. However, with the settlement agreement scheduled to expire in June 2016, the rate structure could have become more problematic. Therefore, MWDOC contracted a rate study in 2015, which was implemented for FY2016-17 and continues in use today (study report included as Attachment C)

This project will assess the 2016 rate structure, develop and discuss alternatives and recommend a rate structure to be utilized for the next five years.

Current Rate Structure

The rate structure Scenario 1A developed in the 2015 rate study, adopted by the MWDOC Board of Directors, and first implemented in FY2016-17 is currently in use. Rates are updated annually as part of the budget process. The total Core operating revenue requirement is developed through a multiple-month, iterative, public budget process. The allocation of the costs is based on a two-step process:

1. Costs are allocated to OCWD based on two calculations.
    a. OCWD's 10-year historical average water purchase as a percent of total MWDOC water sales is applied to two MWDOC Cost Centers dealing with MET and Engineering services.
    b. OCWD's allocation of the remaining Core operating budget (minus the emergency response costs for WEROC that OCWD funds separately) is 1/26 of the remaining costs. This is based on an equal share of the 26 paying Member Agencies.
    c. OCWD's allocation is the sum of (a) and (b) and is referred to as the Groundwater Customer Charge.
2. Costs are allocated to the remaining 25 retail Member Agencies based on the number of retail water meters in their utility.

This rate structure was one of several considered in the rate study, was the consensus selection of the Member Agencies and was approved by the MWDOC Board of Directors.

Comparable budget data for the FY2020-2021 budget revenue categories are:

Water Sales	$213,228,586
Operating Budget	
Retail Meter Charge	$ 7,837,792
Groundwater Customer Charge	$ 595,323
Water Increment Charge	$ 0
Interest Revenue	$ 458,000
Miscellaneous Revenue	$ 3,000
Choice Revenue	$ 1,574,100
Operating Sub-Total	$ 10,468,216

The fixed per meter rate was $12.20 per retail meter.

There have been only two issues raised concerning the rate structure since its implementation.

1. OCWD has raised concerns with the Groundwater Charge when there has been a significant year-to-year increase. These increases are caused by two factors. OCWD's 10-year average water purchase percentage of total MWDOC water sales can vary significantly. This is caused by the large size of some of their annual purchases and the fact that there have been some years when they have bought no water. The simple math of a zero water year rolling off and a 65,000 AF year coming on can cause a significant change in the allocation. The second factor can be changes in the size of the MWDOC Core budget. Some OCWD Directors have questioned the linkage of the 10-year use component and the level or costs of service. While this is not a perfect metric, it is a reasonable one and the one that came out of the consensus process in which OCWD participated. One alternative in the rate study was treating OCWD as an "average agency" and simply allocating 1/26 of the total operating budget to them. The Member Agencies, including OCWD, agreed that OCWD utilizes more than average MWDOC staff time in the MET and Engineering cost centers, as they are the only wholesale groundwater agency. No concerns have been raised when the Groundwater Charge has decreased under the rate structure.
2. One, now former, MWDOC Director questioned whether the meter-based rate is legal. His argument was that MWDOC is charging different Member Agencies different rates for the same water. His support for this position was the agency-specific data range produced by dividing the total operating cost amount allocated to each Member agency by the number of acre-feet purchased by that agency. The underlying assumption associated with this approach is that the value of MWDOC's operations are directly correlated with the volume of water produced. This assumption was discussed with the Member Agencies during the rate study, evaluated and rejected. As a rule, there is not a significant change in MWDOC's operating expense if a retail agency doubles or halves

their annual water purchase. The expenses are largely related to the availability and support of water service itself and not the volume of water sold. In the current rate structure, retail Member Agencies have two separate charges from MWDOC: (1) a monthly variable bill for actual volume of water they use and (2) an annual fixed bill for services (operations) performed by MWDOC. The first is based on the volume of water and the second is based on the number of retail meters.

It is possible that these, or other, issues may be raised during the rate study.

The project will require a number of meetings with MWDOC staff, MWDOC Member Agencies (as a group), and the MWDOC Board of Directors. The number of meetings will largely be determined by the number of rate structure alternatives and the relative difference of those structures from the status quo.

The guiding principles of the rate study remain legal compliance, fairness/equity, and revenue stability.

4. PROJECT TIMELINE

The following table identifies and estimates the dates/timeframe for receipt, evaluation, award, and implementation of this work. Please note these key dates when preparing your response to this RFP.

Description	**Date**
Release of RFP to Vendors	October 2, 2020
Deadline for Written Questions Regarding RFP	October 12, 2020
Proposal Due Date	October 26, 2020
Proposals Review Complete	October 30, 2020
Vendor Interviews (Tentative, if needed)	November 2-10, 2020
Vendor Selection (Board approval)	November 18, 2020
Contract Execution	November 2020

MWDOC intends to implement the results of this rate study for the FY2021-2022 budget process. The first draft of that budget is produced in February 2021 with board approval of the final budget and rates anticipated in April 2021.

SECTION 3 – SCOPE OF WORK

1. **RATE STUDY SERVICES**

MWDOC seeks a financial consulting firm to develop and evaluate alternative rate structures, present and discuss the alternative rate structures with the MWDOC staff, Board and Member Agencies, and recommend a preferred rate structure. The scope of work for such services includes the following:

1. TASK 1 – Research existing MWDOC rate structure, rate history and supporting data.
    a. MWDOC staff meetings
    b. Data request and review

2. TASK 2 – Develop and evaluate alternative rate structures that balance revenue sufficiency, stability and resiliency with member agency equity. All combinations of fixed and variable rates as well as different business models can be considered. However, the use of property taxes will be difficult (i.e., nearly impossible) to implement.
    a. Develop alternative rate structures
    b. Initial, supporting evaluation of alternatives
    c. Internal meetings with MWDOC staff
    d. Possible short listing of alternatives

3. TASK 3 – Communication of alternatives to MWDOC Board of Directors and MWDOC Member Agencies. NOTE: These discussions may be robust and thorough.
    a. MWDOC Administration & Finance Committee Meetings
    b. MWDOC Member Agency Manager Meetings
    c. Project Meetings with Member Agencies

4. TASK 4 – Develop and document final proposed rate structure after discussions with MWDOC staff and Board of Director input.
    a. MWDOC Staff meeting(s)
    b. MWDOC Committee meeting
    c. Prepare final recommendation and report
    d. MWDOC Board of Directors Meeting

5. TASK 5 – Project Management & Meetings

6. TASK 6 – Reports Preparation

All work must comply with all applicable federal, state and local legal requirements.

SECTION 4 – PROPOSAL REQUIREMENTS

1. PROPOSAL ELEMENTS

The emphasis of the proposal should be on responding to the requirements set forth herein. Proposers must demonstrate their capabilities, background, expertise, and experience in order for the District to effectively evaluate the proposals. The proposal should be concise, well organized, and demonstrate the Contractor's understanding of the project.

The Proposal should be organized as follows. Please use the section headings and sub-headings listed in bold, below.

1. **Proposal Contents** – Proposals shall contain the following specific information and adhere to the noted page limitations:

   a. **Cover Letter (2 pages)**

   The cover letter shall provide a summary of the services to be provided, cite any exceptions to the standard contract, list the project manager/key staffer and explain the primary reason why the proponent would be the best choice for the contract. The cover letter must also identify any conflicts with MWDOC or MET Member Agencies. The cover letter must be signed by an authorized officer or employee of the firm who has authority to negotiate and contractually bind the organization. The title of the authorized officer or employee, their name, address, e-mail, and phone number must be included. The District intends to correspond only with respondent's authorized officer or employee for all correspondence regarding this RFP. Submitting accurate and updated contact information is the responsibility of the respondent. Obligations committed by such signatures shall be binding.

   b. **Corporate Background Information (1 page)**

      i. Legal name, address, and telephone numbers of the principal office (national headquarters), project office and local office (if applicable). If services will be provided from additional locations, provide this information for these offices.
      ii. Year established.
      iii. Type of organization (partnership, corporation, etc.).
      iv. Name, title, address, e-mail and telephone number of the person to whom correspondence shall be directed.
      v. Description of the scope of services usually provided.
      vi. Description of any relevant pending litigation or litigation against the firm, or any of its proposed sub-consultants that was filed or settled in the past five years.

      vii. Description of any rate studies performed in Orange County in the

last 3 years.

c. **Firm's Qualifications and Experience (3 pages)**

Describe the firm's qualifications for performing similar, relevant, or related services. Identify the team's experience in:

i. Developing and evaluating water utility rate structures.
ii. Developing innovative approaches and problem solving.
iii. Specific knowledge of California requirements as may pertain to MWDOC's rates.
iv. Facilitating meetings with boards and other agencies to explain alternate rate structures and develop a consensus.
v. Completing projects within established schedules and budgets.

d. **Project Team (Resumes) (3 pages)**

Indicate the Project Team by name and title, including the individual(s) who would be assigned overall responsibility for performing the services and serve as the main point of contact. Provide a project team organizational chart indicating the primary role and responsibility of each team member. The proposal should clearly associate specific staff to work tasks, estimate the percentage time they will be available to the project and their qualifications. Submit short experience statements for each identified individual, including prime personnel, and their key qualification and experience which makes them suited for their proposed assignment on the project. Full resumes can be included as an appendix to the proposal. Every effort should be made to ensure that staff resources identified in the proposal would be available for the project in the event an agreement is awarded to your firm.

e. **Subcontractors, Partnering & Joint Ventures (1 page)**

List and describe any subcontractors who will be used on the project. All subcontractors are subject to the approval of MWDOC. If a partnership or Joint Venture is being proposed, then detail the organizational and ownership structure and identify the responsible principals along with their proposed project roles.

f. **Work Plan/Technical Approach/Project Management (4 pages)**

Submit a work plan for each task for carrying out the scope of services described in this RFP, including strategy, tools, techniques, critical path items, and decision points which reflects an understanding of the District's requirements. Assumptions, desired outcomes and deliverables must be included as part of your firm's approach to each major task area.

g. **Schedule (1 page)**

Describe the task and overall project schedule; highlighting any critical path items and essential input or staff requirements from MWDOC.

h. **Client References (2 pages)**

A list of three former clients and representative services undertaken in the last two years, demonstrating experience relevant to this RFP. Provide each reference's contact person's name, title, address, phone number and email address. In addition, provide information on the cost of services, dates of engagement, description of services, and member(s) of the proposed team for this RFP, including any sub-consultants that performed the services.

i. **Budget/Cost/Pricing Information (2 pages)**

One of the areas on which you will be evaluated is your cost for performing the scope of services, including without limitation, cost for consulting services plus an estimated lump sum for travel and other direct expenses. The proposed price and cost basis for the price shall be stated as a not to exceed project total. The contract will be a standard time and materials provisions with a not to exceed limit. Provide a breakout of hours and cost by personnel and task with individual billing rates.

j. **Acceptance of District Standard Agreement for Consultant Services, Insurance Requirements and Conflict of Interest Requirements (1 page)**

Please note that the successful firm will be expected to execute the District's Standard Agreement for Consultant Services, to provide evidence of the required insurance and demonstrate that it has no Conflicts of Interest (see Attachment B). A completed Federal Tax Form W9 form will also be required. These do not need to be attached to your firm's proposal at this time. However, the proposal shall include a statement that you have reviewed the District's Standard Consultant Agreement and the General Insurance Requirements; and, if selected, will execute said agreement; your firm and any sub-consultants will fulfill the insurance requirements; and, your firm will provide the required insurance documents as well as the additional insured endorsements as specified. Any exceptions or amendments to MWDOC's Standard Consultant Agreement must be identified in the proposal.

k. **Supplemental Material**

Supplemental information, including marketing material, can be included as an appendix. However, such supplemental material may or may not be reviewed at the discretion of the evaluation committee members.

2. <u>SUBMITTAL REQUIREMENTS</u>

1. Due to the COVID-19 pandemic, proposals for RFP No. FIN1020-001 – Rate Study Services, as described herein, will be received only via email. No hard copy submissions are required or desired.

2. The proposal shall be signed by an individual authorized to execute legal documents on behalf of the contractor.
3. Any changes or addenda to a submitted proposal must be received by the submittal deadline.

3. TERMS AND CONDITIONS

1. MWDOC and local water agencies may make such investigations as it deems necessary to determine the ability of the Proposer to provide the goods and/or service as specified, and the Proposer shall furnish to MWDOC, upon request, all such information and data for this purpose. MWDOC may discuss or negotiate with one or more firms prior to award.

2. MWDOC reserves the right to reject any or all proposals, either separately or as a whole, and accept any proposal presented which it deems best suited to the interest of MWDOC and its member agencies, and is not bound to accept the lowest price.

3. The cost for developing the proposal is the sole responsibility of the Proposer. All proposals submitted become the property of MWDOC.

4. Be advised that all information contained in proposals submitted in response to this solicitation may be subject to the California Public Records Act (Government Code Section 6250 et seq.).

SECTION 5 – SELECTION PROCESS

1. PROPOSAL REVIEW PROCESS

2. An evaluation committee will review and evaluate the proposals received in response to this RFP.
3. If deemed necessary by the evaluation committee, interviews with short-listed Contractors will be conducted from November 2, 2020 through November 10, 2020.
4. The evaluation committee will recommend one or more firms to fulfill the requirements of this RFP to the General Manager. Proposing firms should note that the lowest bid would not necessarily be the deciding factor in MWDOC's selection.
5. Upon approval by the Board of Directors, MWDOC will enter into negotiations with the selected Contractor and execute an agreement.
6. MWDOC reserves the right to retain all proposals submitted and use any idea in a proposal regardless of whether that proposal is selected. MWDOC reserves the right to reject any and all proposals.

2. SELECTION CRITERIA

The criteria for vendor selection shall be based on, but not limited to, the following:

1. Completeness of proposal
2. Understanding and approach to the work
3. Quality of the task description to undertake the scope of work
4. Qualifications and experience of firm and project manager in similar projects
5. Professional qualifications of the team
6. Firm resources and capabilities
7. Quality of the previous work performed including input from references
8. Demonstrated ability to manage and conduct the work within the proposed budget and schedule
9. Understanding of the District, functions and mission
10. Compliance with standard district terms and conditions and insurance requirements
11. Cost of services

ATTACHMENT A – MWDOC SERVICE AREA MAP

MWDOC Service Area and Member Agencies

Figure 1-1

Center for Demographic Research, CSUF 2011
Portions of this map are copyrighted, and reproduced with permission granted, by THOMAS BROS. MAPS.

ATTACHMENT B – MWDOC STANDARD AGREEMENT FOR CONSULTANT SERVICES & ETHICS POLICY

STANDARD AGREEMENT FOR CONSULTANT SERVICES

This **AGREEMENT** for consulting services dated _____, which includes all exhibits and attachments hereto, "**AGREEMENT**" is made on the last day executed below by and between **MUNICIPAL WATER DISTRICT OF ORANGE COUNTY**, hereinafter referred to as "**DISTRICT**," and, _____ hereinafter referred to as "**CONSULTANT"** for _____ hereinafter referred to as **"SERVICES."**[1] **DISTRICT** and **CONSULTANT** are also referred to collectively herein as the **"PARTIES"** and individually as **"PARTY"**. The **PARTIES** agree as follows:

I PURPOSE AND SCOPE OF WORK

A. **Consulting Work**

DISTRICT hereby contracts with **CONSULTANT** to provide general or special **SERVICES** as more specifically set forth in **Exhibit "B"** attached hereto and incorporated herein. Tasks other than those specifically described therein shall not be performed without prior written approval of **DISTRICT's** General Manager.

B. **Independent Contractor**

CONSULTANT is retained as an independent contractor for the sole purpose of rendering professional and/or special **SERVICES** described herein and is not an agent or employee of **DISTRICT**. **CONSULTANT** shall be solely responsible for the payment of all federal, state and local income tax, social security tax, Workers' Compensation insurance, state disability insurance, and any other taxes or insurance **CONSULTANT,** as an independent contractor, is responsible for paying under federal, state or local law. **CONSULTANT** is thus not eligible to receive workers' compensation, medical, indemnity or retirement benefits, including but not limited to enrollment in CalPERS. Unless, expressly provided herein, **CONSULTANT** is not eligible to receive overtime, vacation or sick pay. **CONSULTANT** shall not represent or otherwise hold out itself or any of its directors, officers, partners, employees, or agents to be an agent or employee of **DISTRICT**. **CONSULTANT** shall have the sole and absolute discretion in determining the methods, details and means of performing the **SERVICES** required by **DISTRICT**. **CONSULTANT** shall furnish, at his/her own expense, all labor, materials, equipment and transportation necessary for the successful completion of the **SERVICES** to be performed under this **AGREEMENT. DISTRICT** shall not have any right to direct the methods, details and means of the **SERVICES;** however,

[1] Pursuant to Section 8002 of the District's Administrative Code, the District's "Ethics Policy" set forth at sections 7100-7111 of the Administrative Code is attached hereto as Exhibit "A" and incorporated herein by this reference.

CONSULTANT must receive prior written approval from **DISTRICT** before using any sub-consultants for **SERVICES** under this **AGREEMENT**.

CONSULTANT represents and warrants that in the process of hiring **CONSULTANT's** employees who participate in the performance of **SERVICES**, **CONSULTANT** conducts such lawful screening of those employees (including, but not limited to, background checks and Megan's Law reviews) as are appropriate and standard for employees who provide **SERVICES** of the type contemplated by this Agreement.

C. **Changes in Scope of Work**

If **DISTRICT** requires changes in the tasks or scope of work shown in **Exhibit "B"** or additional work not specified therein, **DISTRICT** shall prepare a written change order. If **CONSULTANT** believes work or materials are required outside the tasks or scope of work described in **Exhibit "B,"** it shall submit a written request for a change order to the **DISTRICT**. A change order must be approved and signed by the **PARTIES** before **CONSULTANT** performs any work outside the scope of work shown in **Exhibit "B."** **DISTRICT** shall have no responsibility to compensate **CONSULTANT** for such work without an approved and signed change order. Change orders shall specify the change in the budgeted amount for **SERVICES.**

II TERM

This **AGREEMENT** shall commence upon the date of its execution and shall extend thereafter for the period specified in **Exhibit "B"** or, if no time is specified, until terminated on thirty (30) days notice as provided herein.

III BUDGET, FEES, COSTS, BILLING, PAYMENT AND RECORDS

A. **Budgeted Amount for Services**

CONSULTANT is expected to complete all **SERVICES** within the Budgeted Amount set forth on **Exhibit "B."** The total compensation for the **SERVICES** to be performed under this **AGREEMENT** shall not exceed the Budgeted Amount unless modified as provided herein. Upon expending and invoicing the **DISTRICT 80%** of the Budgeted Amount, **CONSULTANT** shall prepare and provide to **DISTRICT** a "cost to complete" estimate for the remaining **SERVICES**. The **PARTIES** shall work together to complete the project within the agreed-upon Budgeted Amount, but the obligation to complete the **SERVICES** within the Budgeted Amount lies with the **CONSULTANT**.

B. **Fees**

Fees shall be billed per the terms and conditions and at the rates set forth on **Exhibit "B"** for the term of the **AGREEMENT.** Should the term of the **AGREEMENT** extend beyond the period for which the rates are effective, the rates specified in **Exhibit "B"** shall continue to apply unless and until modified by consent of the **PARTIES**.

C. **Notification Clause**

Formal notices, demands and communications to be given hereunder by either **PARTY** shall be made in writing and may be effected by personal delivery or by registered or certified mail, postage prepaid, return receipt requested and shall be deemed communicated as of the date of mailing. If the name or address of the person to whom notices, demands or communication shall be given changes, written notice of such change shall be given, in accordance with this section, within five(5) working days.

Notices shall be made as follows:

Municipal Water District of Orange County	Consulting Firm
Robert J. Hunter	Consultant
General Manager	Title
18700 Ward Street, P.O.Box 20895	Address
Fountain Valley, CA 92708	Telephone

D. **Billing and Payment**

CONSULTANT's fees shall be billed by the 25th day of the month and paid by **DISTRICT** on or before the 15th of the following month. Invoices shall reference the Purchase Order number from the **DISTRICT**.

DISTRICT shall review and approve all invoices prior to payment. **CONSULTANT** agrees to submit additional supporting documentation to support the invoice if requested by **DISTRICT**. If **DISTRICT** does not approve an invoice, **DISTRICT** shall send a notice to **CONSULTANT** setting forth the reason(s) the invoice was not approved. **CONSULTANT** may re-invoice **DISTRICT** to cure the defects identified in the **DISTRICT** notice. The revised invoice will be treated as a new submittal. If **DISTRICT** contests all or any portion of an invoice, **DISTRICT** and **CONSULTANT** shall use their best efforts to resolve the contested portion of the invoice.

E. **Billing Records**

CONSULTANT shall keep records of all **SERVICES** and costs billed pursuant to this **AGREEMENT** for at least a period of seven (7) years and shall make them available for review and audit if requested by **DISTRICT**.

IV DOCUMENTS

All **MATERIALS** as defined in Paragraph XI below, related to **SERVICES** performed under this **AGREEMENT** shall be furnished to **DISTRICT** upon completion or termination of this **AGREEMENT**, or upon request by **DISTRICT**, and are the property of **DISTRICT**.

V TERMINATION

Each **PARTY** may terminate this **AGREEMENT** at any time upon thirty (30) days written notice to the other **PARTY**, except as provided otherwise in **Exhibit "B."** In the event of termination: (1) all work product prepared by or in custody of **CONSULTANT** shall be promptly delivered to **DISTRICT**; (2) **DISTRICT** shall pay **CONSULTANT** all payments due under this **AGREEMENT** at the effective date of termination; (3) **CONSULTANT** shall promptly submit a final invoice to the **DISTRICT**, which shall include any and all non-cancelable obligations owed by **CONSULTANT** at the time of termination, (4) neither **PARTY** waives any claim of any nature whatsoever against the other for any breach of this **AGREEMENT**; (5) **DISTRICT** may withhold 125 percent of the estimated value of any disputed amount pending resolution of the dispute, consistent with the provisions of section III D above, and; (6) **DISTRICT** and **CONSULTANT** agree to exert their best efforts to expeditiously resolve any dispute between the **PARTIES**.

VI INSURANCE REQUIREMENTS

CONSULTANT shall obtain prior to commencing work and maintain in force and effect throughout the term of this **AGREEMENT**, all insurance set forth below.

A. Workers' Compensation Insurance

By his/her signature hereunder, **CONSULTANT** certifies that he/she is aware of the provisions of Section 3700 of the California Labor Code, which requires every employer to be insured against liability for workers' compensation or to undertake self-insurance in accordance with the provisions of that code, and that **CONSULTANT** will comply with such provisions before commencing the performance of the **SERVICES** under this **AGREEMENT**.

CONSULTANT and sub-consultant will keep workers' compensation insurance for their employees in effect during all work covered by this **AGREEMENT** in accordance with applicable law. An ACORD certificate of insurance or other certificate of insurance satisfactory to **DISTRICT**, evidencing such coverage must be provided (1) by **CONSULTANT** and (2) by sub-consultant's upon request by **DISTRICT**.

B. Professional Liability Insurance

CONSULTANT shall file with **DISTRICT**, before beginning professional **SERVICES**, an ACORD certificate of insurance, or any other certificate of insurance satisfactory to **DISTRICT**, evidencing professional liability coverage of not less than

$1,000,000 per claim and $1,000,000 aggregate, requiring 30 days notice of cancellation (10 days for non-payment of premium) to **DISTRICT**.

Such coverage shall be placed with a carrier with an A.M. Best rating of no less than A: VII, or equivalent. The retroactive date (if any) of such insurance coverage shall be no later than the effective date of this **AGREEMENT**. In the event that the **CONSULTANT** employs sub-consultants as part of the **SERVICES** covered by this **AGREEMENT**, **CONSULTANT** shall be responsible for requiring and confirming that each sub-consultant meets the minimum insurance requirements specified herein.

C. **Other Insurance**

CONSULTANT will file with **DISTRICT**, before beginning professional **SERVICES**, ACORD certificates of insurance, or other certificates of insurance satisfactory to **DISTRICT**, evidencing general liability coverage of not less than $1,000,000 per occurrence for bodily injury, personal injury and property damage; automobile liability (owned, scheduled, non-owned or hired) of at least $1,000,000 for bodily injury and property damage each accident limit; workers' compensation (statutory limits) and employer's liability ($1,000,000) (if applicable); requiring 30 days (10 days for non payment of premium) notice of cancellation to **DISTRICT**. For the coverage required under this paragraph, the insurer(s) shall waive all rights of subrogation against **DISTRICT**, and its directors, officers, agents, employees, attorneys, consultants or volunteers. **CONSULTANT's** insurance coverage shall be primary insurance as respects **DISTRICT**, its directors, officers, agents, employees, attorneys, consultants and volunteers for all liability arising out of the activities performed by or on behalf of the **CONSULTANT**. Any insurance pool coverage, or self-insurance maintained by **DISTRICT**, and its directors, officers, agents, employees, attorneys, consultants or volunteers shall be excess of the **CONSULTANT's** insurance and shall not contribute to it.

The general liability coverage shall give **DISTRICT**, its directors, officers, agents, employees, attorneys, consultants and authorized volunteers additional insured status using ISO endorsement CG2010, CG2033, or equivalent. Coverage shall be placed with a carrier with an A.M. Best rating of no less than A: VII, or equivalents. In the event that the **CONSULTANT** employs sub-consultant as part of the work covered by the **AGREEMENT**, it shall be the **CONSULTANT's** responsibility to require and confirm that each sub-consultant meets the minimum insurance requirements specified herein.

D. **Expiration of Coverage**

If any of the required coverages expire during the term of the **AGREEMENT**, **CONSULTANT** shall deliver the renewal certificate(s) including the general liability additional insured endorsement to **DISTRICT** at least ten (10) days prior to the expiration date.

VII INDEMNIFICATION

To the fullest extent permitted by applicable law, **CONSULTANT** shall indemnify, defend and hold harmless **DISTRICT**, its officers, Directors and employees and authorized volunteers, and each of them from and against:

a. When the law establishes a professional standard of care for the **CONSULTANT's** services, all claims and demands of all persons that arise out of, pertain to, or relate to the **CONSULTANT's** negligence, recklessness or willful misconduct in the performance (or actual or alleged non-performance) of the work under this agreement. **CONSULTANT** shall defend itself against any and all liabilities, claims, losses, damages, and costs arising out of or alleged to arise out of **CONSULTANT's** performance or non-performance of the **SERVICES** hereunder, and shall not tender such claims to **DISTRICT** nor its directors, officers, employees, or authorized volunteers, for defense or indemnity.

b. Any and all actions, proceedings, damages, costs, expenses, penalties or liabilities, in law or equity, of every kind or nature whatsoever, arising out of, resulting from, or on account of the violation of any governmental law or regulation, compliance with which is the responsibility of **CONSULTANT**.

c. Any and all losses, expenses, damages (including damages to the work itself), attorney's fees incurred by counsel of the **DISTRICT's** choice and other costs, including all costs of defense, which any of them may incur with respect to the failure, neglect, or refusal of **CONSULTANT** to faithfully perform the work and all of the **CONSULTANT's** obligations under the agreement. Such costs, expenses, and damages shall include all costs, including attorneys' fees, incurred by counsel of the **DISTRICT's** choice, incurred by the indemnified parties in any lawsuit to which they are a party.

CONSULTANT shall immediately defend, at **CONSULTANT's** own cost, expense and risk, any and all such aforesaid suits, actions, or other legal proceedings of every kind that may be brought or instituted against **DISTRICT** or its directors, officers, employees, or authorized volunteers with legal counsel reasonably acceptable to **DISTRICT**, and shall not tender such claims to **DISTRICT** nor its directors, officers, employees, or authorized volunteers.

CONSULTANT shall immediately pay and satisfy any judgment, award or decree that may be rendered against **DISTRICT** or its directors, officers, employees, or authorized volunteers, in any and all such suits, actions, or other legal proceedings.

CONSULTANT shall immediately reimburse **DISTRICT** or its directors, officers, employees, or authorized volunteers, for any and all legal expenses and costs incurred by each of them in connection therewith or in enforcing indemnity herein provided.

CONSULTANT's obligation to indemnify shall survive the termination or completion of this agreement for the full period of time allowed by law and shall not be restricted to

insurance proceeds, if any, received by **DISTRICT**, or its directors, officers, employees, or authorized volunteers.

VIII FINANCIAL DISCLOSURE AND CONFLICTS OF INTEREST

Although **CONSULTANT** is retained as an independent contractor, **CONSULTANT** may still be required, under the California Political Reform Act and **DISTRICT's** Administrative Code, to file annual disclosure reports. **CONSULTANT** agrees to file such financial disclosure reports upon request by **DISTRICT**. Further, **CONSULTANT** shall file the annual summary of gifts required by Section 7105 of the **DISTRICT's** Ethics Policy, attached hereto as **Exhibit "A."**

Failure to file financial disclosure reports upon request and failure to file the required gift summary are grounds for termination of this **AGREEMENT.** Any action by **CONSULTANT** that is inconsistent with **DISTRICT's** Ethic's Policy current at the time of the action is grounds for termination of this **AGREEMENT**. The Ethics Policy as of the date of this **AGREEMENT** is attached hereto as **Exhibit "A."**

IX PERMITS AND LICENSES

CONSULTANT shall procure and maintain all permits, licenses and other government-required certification necessary for the performance of its **SERVICES**, all at the sole cost of **CONSULTANT**. None of the items referenced in this section shall be reimbursable to **CONSULTANT** under the **AGREEMENT**. **CONSULTANT** shall comply with any and all applicable local, state, and federal regulations and statutes including Cal/OSHA requirements.

X LABOR AND MATERIALS

CONSULTANT shall furnish, at its own expense, all labor, materials, equipment, tools, transportation and other items or services necessary for the successful completion of the **SERVICES** to be performed under this **AGREEMENT**. **CONSULTANT** shall give its full attention and supervision to the fulfillment of the provisions of this **AGREEMENT** by its employees and sub-consultant and shall be responsible for the timely performance of the **SERVICES** required by this **AGREEMENT**. All compensation for **CONSULTANT's SERVICES** under this **AGREEMENT** shall be pursuant to **Exhibit "B"** to the **AGREEMENT**.

Only those **SERVICES,** materials, administrative, overhead and travel expenses specifically listed in **Exhibit "B"** will be charged and paid. No other costs will be paid. **CONSULTANT** agrees not to invoice **DISTRICT** for any administrative expenses, overhead or travel time in connection with the **SERVICES, unless agreed upon and listed in Exhibit "B"**.

XI CONFIDENTIALITY AND RESTRICTIONS ON DISCLOSURE

A. Confidential Nature of Materials

CONSULTANT understands that all documents, records, reports, data, or other materials (collectively **"MATERIALS"**) provided by **DISTRICT** to **CONSULTANT** pursuant to the **AGREEMENT**, including but not limited to draft reports, final report(s) and all data, information, documents, graphic displays and other items that are not proprietary to **CONSULTANT** and that are utilized or produced by **CONSULTANT** pursuant to the **AGREEMENT** are to be considered confidential for all purposes.

B. No Disclosure of Confidential Materials

CONSULTANT shall be responsible for protecting the confidentiality and maintaining the security of **DISTRICT MATERIALS** and records in its possession. All **MATERIALS** shall be deemed confidential and shall remain the property of **DISTRICT**. **CONSULTANT** understands the sensitive nature of the above and agrees that neither its officers, partners, employees, agents or sub-consultants will release, disseminate, or otherwise publish said reports or other such data, information, documents, graphic displays, or other materials except as provided herein or as authorized, in writing, by **DISTRICT's** representative. **CONSULTANT** agrees not to make use of such **MATERIALS** for any purpose not related to the performance of the **SERVICES** under the **AGREEMENT**. **CONSULTANT** shall not make written or oral disclosures thereof, other than as necessary for its performance of the **SERVICES** hereunder, without the prior written approval of **DISTRICT**. Disclosure of confidential **MATERIALS** shall not be made to any individual, agency, or organization except as provided for in the **AGREEMENT** or as provided for by law.

C. Protections to Ensure Control Over Materials

All confidential **MATERIALS** saved or stored by **CONSULTANT** in an electronic form shall be protected by adequate security measures to ensure that such confidential **MATERIALS** are safe from theft, loss, destruction, erasure, alteration, and any unauthorized viewing, duplication, or use. Such security measures shall include, but not be limited to, the use of current virus protection software, firewalls, data backup, passwords, and internet controls.

The provisions of this section survive the termination or completion of the **AGREEMENT**.

XII OWNERSHIP OF DOCUMENTS AND DISPLAYS

All original written or recorded data, documents, graphic displays, reports or other **MATERIALS** which contain information relating to **CONSULTANT's** performance hereunder and which are originated and prepared for **DISTRICT** pursuant to the **AGREEMENT** are instruments of service and shall become the property of **DISTRICT** upon completion or termination of the Project. **CONSULTANT** hereby assigns all of its right, title

and interest therein to **DISTRICT**, including but not limited to any copyright interest. In addition, **DISTRICT** reserves the right to use, duplicate and disclose in whole, or in part, in any manner and for any purpose whatsoever all such data, documents, graphic displays, reports or other **MATERIALS** delivered to **DISTRICT** pursuant to this **AGREEMENT** and to authorize others to do so.

To the extent that **CONSULTANT** utilizes any of its property (including, without limitation, any hardware or software of **CONSULTANT** or any proprietary or confidential information of **CONSULTANT** or any trade secrets of **CONSULTANT**) in performing **SERVICES** hereunder, such property shall remain the property of **CONSULTANT**, and **DISTRICT** shall acquire no right or interest in such property.

CONSULTANT hereby assigns to **DISTRICT** or **DISTRICT's** designee, for no additional consideration, all **CONSULTANT**'s intellectual property rights, including, but not limited to, copyrights, in all deliverables and other works prepared by the **CONSULTANT** under this agreement. **CONSULTANT** shall, and shall cause its employees and agents to, promptly sign and deliver any documents and take any actions that **DISTRICT** or **DISTRICT**'s designee reasonably requests to establish and perfect the rights assigned to **DISTRICT** or its designee under this provision.

XIII EQUAL OPPORTUNITY

DISTRICT is committed to a policy of equal opportunity for all and to providing a work environment that is free of unlawful discrimination and harassment. In keeping with this commitment, **DISTRICT** maintains a policy prohibiting unlawful discrimination and harassment in any form based on race, religious creed, color, national origin, ancestry, physical or mental disability, medical condition, pregnancy or childbirth, marital status, gender, sex, sexual orientation, veteran status or age by officials, employees and non-employees (vendors, contractors, etc.).

This policy applies to all employees, consultants and contractors of the **DISTRICT**. Appropriate corrective action will be taken against all offenders, up to and including immediate discharge or termination of this **AGREEMENT**. During, and in conjunction with, the performance of this **AGREEMENT**, **CONSULTANT** shall not discriminate against any employee or applicant for employment because of race, color, religion, sex, age, marital status or national origin.

XIV INTEGRATION OF ALL OTHER AGREEMENTS

This **AGREEMENT**, including any Exhibits and Addenda, contains the entire understanding of the **PARTIES**, and there are no further or other agreements or understandings, written or oral, in effect between the **PARTIES** hereto relating to the subject matter hereof. Any prior understanding or agreement of the **PARTIES** shall not be binding unless expressly set forth herein and, except to the extent expressly provided for herein, no changes of this **AGREEMENT** may be made without the written consent of both **PARTIES**.

XV ATTORNEYS' FEES

In any action at law or in equity to enforce any of the provisions or rights under this **AGREEMENT**, the prevailing **PARTY** shall be entitled to recover from the unsuccessful **PARTY** all costs, expenses and reasonable attorney's fees incurred therein by the prevailing **PARTY** (including, without limitations, such costs, expense and fees on any appeals), and if such prevailing **PARTY** shall recover judgment in any such action or proceeding, such costs, expenses, including those of expert witnesses and attorneys' fees, shall be included as part of this judgment.

XVI JURISDICTION AND VENUE SELECTION

In all matters concerning the validity, interpretation, performance, or effect of this **AGREEMENT**, the laws of the State of California shall govern and be applicable. The **PARTIES** hereby agree and consent to the exclusive jurisdiction of the courts of the State of California and that venue of any action brought hereunder shall be in Orange County, California.

IN WITNESS WHEREOF, the **PARTIES** have hereunto affixed their names as of the day and year thereinafter, which shall be and is the effective date of this **AGREEMENT**.

APPROVED BY:	**CONSULTANT ACCEPTANCE:**
_____	_____
Date _____	Date _____

Robert Hunter, General Manager
Municipal Water District of Orange County
18700 Ward Street, P.O.Box 20895
Fountain Valley, CA 92708
(714) 963-3058

Name:
Address:
Phone:
Tax I.D. #

Internal Use Only:

Program No. _____

Line Item: _____

Funding Year: _____

Contract Amt.: _____

Purchase Order # _____

EXHIBIT "A"
MWDOC ADMINISTRATIVE CODE

ETHICS POLICY	§7100-§7110

§7100 PURPOSE

The policy of MWDOC is to maintain the highest standards of ethics from its Board members, officers and employees (all shall be referred to as employees for the purposes of this section). The proper operation of MWDOC requires decisions and policy to be made in the proper manner, that public office not be used for personal gain, and that all individuals associated with MWDOC remain impartial and responsible toward the public. Accordingly, all employees are expected to abide by the highest ethical standards and integrity when dealing on behalf of MWDOC with fellow Board members or employees, vendors, contractors, customers, and other members of the public.

§7101 RESPONSIBILITIES OF BOARD MEMBERS

Board members are obliged to uphold the Constitution of the United States and the Constitution of the State of California and shall comply with all applicable laws regulating Board member conduct, including conflicts of interest and financial disclosure laws. No Board member or officer shall grant any special consideration, treatment, or advantage to any person or group beyond that which is available to every other person or group in the same circumstances.

§7102 PROPER USE OF MWDOC PROPERTY AND RESOURCES

Except as specifically authorized, no employee shall use or remove or permit the use or removal of MWDOC property, including MWDOC vehicles, equipment, telephones, office supplies, and materials for personal convenience or profit. No employee shall require another MWDOC employee to perform services for the personal convenience or profit of another employee. Each employee must protect and properly use any MWDOC asset within his/her control, including information recorded on paper or in electronic form. Employees shall safeguard MWDOC property, equipment, monies, and assets against unauthorized use or removal, as well as from loss due to criminal act or breach of trust.

Employees are responsible for maintaining written records, including expense reports, in sufficient detail to reflect accurately and completely all transactions and expenditures made on MWDOC's behalf. Creating a document with misleading for false information is prohibited.

Motion - 1/17/96;

§7103 CONFLICT OF INTEREST

All MWDOC Directors, officers, and employees at every level shall comply with the requirements of Section 1090 of the California Government Code which prohibits such persons from being financially interested in any contract made by them in their official capacity, or by any body or board of which they are members, or from being a purchaser at any sale or a vendor at any purchase made by them in their official capacity.

All Directors and employees designated under MWDOC's Conflict of Interest Code ("designated employees") and employees required to report under Chapter 7, Article 2 of the Political Reform Act (Government Code Section 7300 et seq.) shall promptly and fully comply with all requirements thereof.

MWDOC employees who are not designated employees under MWDOC's Conflict of Interest Code shall refrain from participating in, making a recommendation, or otherwise attempting to influence MWDOC's selection of a contractor, consultant, product, or source of supply if the non-designated employee, or an immediate family member, has a direct or indirect financial interest in the outcome of the selection process. No employee shall use his/her position with MWDOC in any manner for the purpose of obtaining personal favors, advantages or benefits for him/herself or an immediate family member from a person or entity doing business or seeking to do business with MWDOC. Such favors, advantages, or benefits would include, but are not limited to: 1) offers of employment; 2) free or discounted goods or services; or 3) gifts.

§7104 GIFTS

No employee shall accept, directly or indirectly, any compensation, reward or gift from any source except from MWDOC, for any action related to the conduct of MWDOC business, except as set forth below:

1. Acceptance of food and refreshments of nominal value on infrequent occasions in the ordinary course of a breakfast, luncheon or dinner meeting or other meeting or on an inspection tour where the arrangements are consistent with the transaction of official business.*

2. Acceptance of transportation, lodging, meals or refreshments, in connection with attendance at widely attended gatherings sponsored by industrial, technical or professional organizations; or in connection with attendance at public ceremonies or similar activities financed by nongovernmental sources where the employee's participation on behalf of MWDOC is the result of an invitation addressed to him or her in his/her official capacity, and the transportation, lodging, meals or refreshment accepted is related to, and is in keeping with, his/her official participation.*

3. Acceptance of unsolicited advertising or promotional materials such as pens, pencils, note pads, calendars, or other items of nominal value.*

4. Acceptance of plaques and commemorative mementoes, of nominal value, or of value only to the recipient, such as service pins, recognition awards, retirement mementoes.

5. Acceptance of incidental transportation from a private organization, provided it is furnished in connection with an employee's official duties and is of the type customarily provided by the private organization.

* Nothing herein shall be deemed to relieve any Director or designated employee from reporting the value of such meals, transportation, lodging or gifts and abstaining from participation in any decision of MWDOC which could foreseeably have a material financial effect on the donor when the value of such gifts reaches the limits set forth in MWDOC's Conflict of Interest Code and the Political Reform Act.

In no event shall any employee accept gifts from any single source, the cumulative value of which exceeds the applicable gift limit under California law.

A gift or gratuity, the receipt of which is prohibited under this section, shall be returned to the donor. If return is not possible, the gift or gratuity shall be turned over to a public or charitable institution without being claimed as a charitable deduction and a report of such action, and the reasons why return was not feasible shall be made on MWDOC records. When possible, the donor also shall be informed of this action.

Motion - 1/17/96;

§7105 PERSONS OR COMPANIES REPORTING GIFTS

All persons and companies doing business with MWDOC, with the exception of public agencies, shall submit a summary, by January 31 of each calendar year, of all gifts claimed for internal vendor audits (including meals) made to, or on behalf of, employees or Directors of MWDOC, or their immediate family members, that have occurred in the normal course of business during the previous calendar year. Failure to provide this information to MWDOC may result in the termination of MWDOC business with that person or company.

Motion - 7/21/93; Motion - 8/18/93;

§7106 USE OF CONFIDENTIAL INFORMATION

Confidential information (i.e., information which is exempt from disclosure under the California Public Records Act) shall not be released to unauthorized persons unless the disclosure is approved by the Board, President of the Board, or General Manager. Employees are prohibited from using any confidential information for personal advantage or profit.

§7107 POLITICAL ACTIVITIES

During the course and scope of their employment employees are prohibited from engaging in campaign activities associated with MWDOC Director elections, MWDOC Director appointments, the appointment of MET Directors, or from attempting to influence changes to MWDOC Division boundaries, except where such activities are expressly required in the

course of official duties. Employees are otherwise free to personally, endorse, advocate, contribute to, or otherwise support any political party, candidate, or cause they may choose; however, employees are prohibited from soliciting political funds or contributions at MWDOC facilities or during the course and scope of their duties for MWDOC. In any personal political activity an employee may be involved in, it shall be made clear that the employee is acting personally and not for MWDOC. These provisions are intended to protect employees against political assessments, coerced political activities, and to prevent political activities on the part of employees from interfering with MWDOC operations. Nothing in this section shall be interpreted or applied in a manner to unlawfully curtail the constitutional right to political activity of MWDOC employees.

Motion – 6/17/15

§7108 IMPROPER ACTIVITIES

Employees shall not interfere with the proper performance of the official duties of others, but are strongly encouraged to fulfill their own moral obligations to the public, MWDOC, and its member agencies by disclosing, to the extent not expressly prohibited by law, improper activities within their knowledge. No employee shall directly or indirectly use or attempt to use the authority or influence of his/her position for the purpose of intimidating, threatening, coercing, commanding, or influencing any person with the intent of interfering with that person's duty to disclose improper activity.

§7109 VIOLATION OF POLICY – STAFF AND STAFF OFFICERS

If an employee is reported to have violated MWDOC's Ethics Policy, the matter shall be referred to any of the following: (1) the General Manager; (2) Human Resources; (3) the Board of Directors; or (4) any member of the management staff, for investigation and consideration of any appropriate action warranted which may include employment action such as demotion, reduction in salary, or termination.

If a Board appointed officer (Secretary, Treasurer or General Manager) is reported to have violated MWDOC's Ethics Policy, the matter shall be referred to the Executive Committee for investigation and consideration of any appropriate action. The Executive Committee may make a determination and present the issue to the full Board.

Motion - 1/17/96; 6/17/15

§7110 VIOLATION OF POLICY -- DIRECTORS

A perceived violation of this policy by a Director should be referred to the President of the Board or the full Board of Directors for investigation, and consideration of any appropriate action warranted. A violation of this policy may be addressed by the use of such remedies as are available by law to MWDOC, including, but not limited to: (a) adoption of a resolution expressing disapproval of the conduct of the Director who has violated this policy, (b) injunctive relief, or (c) referral of the violation to MWDOC Legal Counsel and/or the Grand Jury.

§7111 PERIODIC REVIEW OF ETHICS, CONFLICT OF INTEREST AND ADMINISTRATIVE GUIDELINES

Pursuant to the terms of Government Code Sections 53234 through 53235.2, each Director shall receive at least two hours of training in general ethics principles every two years. Pursuant to Government Code Section 53235(c), the curricula for ethics training must be approved by the Fair Political Practices Commission (FPPC) and the Attorney General. It is the general desire of the MWDOC Board to meet and review and/or receive a presentation that addresses principles relating to reporting guidelines on compensation, conflict of interest issues, and standards for rules of conduct during the first quarter of the year immediately following an election (every two years).

Each Director shall retain the certificate of completion from any ethics course in which he/she participates and shall provide a copy of such report to MWDOC. Such records shall be retained for five years from the date they are received.

M-12/21/05

Please note If using Consultant's proposal as Exhibit "B" please attach the proposal or or complete the standard Exhibit "B" Form below, BOTH Parties must verify that all sections of this form are FULLY ADDRESSED and the appropriate Exhibit is attached and labeled accordingly.

EXHIBIT "B"

SCOPE OF WORK, TERMS OF AGREEMENT

AND TERMS AND CONDITIONS FOR BILLING

Company: **Name:** **Address:** **Phone:** **Tax I.D**. #

1. Term – Commencement (Insert Date) _____Termination (Insert Date) _____

2. Fees/Rates to be billed - $_____

3. Budgeted Amount – Compensation is to be on a "time and material" basis, not to exceed $_____. **CONSULTANT's** fees shall be billed by the 25th day of the month and paid by **DISTRICT** on or before the 15th of the following month. Invoices shall reference the Purchase Order number from the **DISTRICT**

   Upon invoicing **DISTRICT** 80% of the contract amount, **CONSULTANT** shall prepare and provide to **DISTRICT** a "cost to complete" estimate for the remaining work.

4. Scope of Work/Services – (Insert **SPECIFIC** description – do not list "refer to Exhibit ") _____

5. Consultant Representative: _____

ATTACHMENT C – 2016 RATE STUDY REPORT - Raftelis Financial Consultants, Inc.)

MUNICIPAL WATER DISTRICT OF ORANGE COUNTY

FY 2017 Wholesale Water Rate Study

Final Report / May 11, 2016

MUNICIPAL WATER DISTRICT OF ORANGE COUNTY

RAFTELIS
FINANCIAL CONSULTANTS, INC.

RAFTELIS
FINANCIAL CONSULTANTS, INC.

445 S. Figueroa Street
Suite #2270
Los Angeles, CA 90071

Phone 213.262.9300
Fax 213.262.9303

www.raftelis.com

May 11, 2016

Ms. Hilary Chumpitazi
Accounting Manager/Treasurer
Municipal Water District of Orange County
18700 Ward Street
Fountain Valley, CA 92708

Subject: Wholesale Water Rate Study Report

Dear Ms. Chumpitazi,

Raftelis Financial Consultants, Inc. (RFC) is pleased to present this report on the Wholesale Water Rate Study (Study) to the Municipal Water District of Orange County (District). We are confident that the results based on this analysis will result in rates that impose wholesale water service fees in an amount that is no more than necessary to cover the reasonable costs of the District in providing wholesale water services, and that the manner in which those costs are allocated to its member agencies bear a fair or reasonable relationship to the member agencies' burdens on, or benefits received from, the wholesale water services provided.

The Study involved a review of MWDOC's Core services and solicited input from stakeholder member agencies on several occasions. We feel that the input provided by your staff, Board, and member agencies were an integral part of making this a successful Study.

It was a pleasure working with you and we wish to express our thanks to you, Mr. Robert Hunter, Mr. Harvey De La Torre, Mr. Karl Seckel and participating MWDOC staff members for the support and cooperation extended throughout the Study. If you have any questions, please call me at (213) 262-9304.

Sincerely,
RAFTELIS FINANCIAL CONSULTANTS, INC.

Sanjay Gaur
Vice President

Steve Gagnon
Senior Consultant

Akbar Alikhan
Consultant

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1. STUDY BACKGROUND AND PURPOSE

1.1 AGENCY BACKGROUND

The Municipal Water District of Orange County (MWDOC or District) is a wholesale, imported water supplier that delivers approximately 240,000 acre feet (AF) of water per year to its 28 member agencies/retailers, with a population of 2.3 million. MWDOC sells imported water from the Metropolitan Water District of Southern California (MET) to its 28 member agencies. Aside from selling imported water to its member agencies, MWDOC is also responsible for sound planning and appropriate investments in water reliability, water supply development and water use efficiency, public information, legislative advocacy, water education, and emergency preparedness.

1.2 MWDOC'S HISTORICAL RATE STRUCTURE

Historically, MWDOC's wholesale water rate structure has been comprised of a fixed charge component and a variable charge component. The variable charge component was structured as an incremental rate added to the MET water rate for each acre foot of water purchased by each member agency. The fixed charge component was charged on per retail meter served by each retailer basis, without accounting for the size of the meter or customer class served. One retail member agency, Orange County Water District (OCWD), however, was charged the incremental rate times the eight-year average of imported water purchased by OCWD. MWDOC's annual budgeting process prompted adjustments to the fixed and variable rates to meet revenue goals.

Prior to 2011, some of MWDOC's member agencies voiced concerns regarding MWDOC's budget, services, and rate structure. Some of the member agencies raised the issue of whether MWDOC's rate structure was equitable and if a member agency can opt out of services provided by MWDOC since it may already provide those services to its customers. These concerns led to the creation of the 2011 Settlement Agreement[1] between MWDOC and its member agencies.

The Settlement Agreement resulted in two major changes. First, MWDOC would phase out the variable charge component of its rate structure and transition to a 100% fixed charge structure, beginning in fiscal year (FY) 2011-12. The transition would be phased in by increasing the percentage of revenue generated from fixed charges each year, until MWDOC achieved 100% fixed revenue. In FY 2010-11, MWDOC received 65% of its revenue through fixed charges, and increased the fixed percentage share each year thereafter to reach 100% fixed revenue by FY 2015-16. The second major change was separating MWDOC's budget into "Core" and "Choice" services, to allow member agencies to only pay for programs they elected to participate in.

[1] The agreement is formally referred to as "Agreement between MWDOC and its Member Agencies on Budget, Activities, Charges, and Other Issues. Amended 12-14-10," adopted June 2011.

Because the Settlement Agreement expires at the end of FY 2015-16 (June 30, 2016) and the parties do not intend to extend it, MWDOC has determined to conduct a review and an update of its rates and charges. In addition, MWDOC wishes to explore whether there are other rate structure alternatives that may better address the anomalies associated with the current rate structure. For example, one of MWDOC's largest volumetric customers, OCWD, is a wholesale water agency that serves retail water agencies and therefore does not have any retail water meters. As a consequence, although OCWD receives the benefit of direct services to OCWD, OCWD does not pay the fixed charge component of MWDOC's current rates and, therefore, does not contribute to MWDOC's operating revenues. Conversely, one of MWDOC's other member agencies relies on MWDOC as a secondary source of water supply and has not recently purchased water from MWDOC. However, since this particular member agency has retail meters, it pays for each meter despite not purchasing any imported water.

To review these issues and explore different rate structure options and alternative methodologies to properly distribute costs among MWDOC's member agencies, Raftelis Financial Consultants, Inc. (RFC) has been retained to review and develop rate structure alternatives, calculate the resulting rates from each alternative, and present the alternatives to MWDOC and its member agencies for adoption and implementation for FY 2016-2017.

1.3 CORE AND CHOICE SERVICES

As part of the 2011 Settlement Agreement, MWDOC began separating its budget between "Choice" and "Core" services. Core services are District functions that benefit all member agencies and are funded by the current fixed charge based on the number of retail meters within an agency's service area. Choice services are optional services offered by MWDOC that member agencies may elect to receive on a contractual basis. A summary of MWDOC's core and choice services are shown in Table 1-1 below.

Table 1-1: Core and Choice Services

Core Services	Choice Services
Accounting and General Administration, including Budget	Water Use Efficiency Program
MET Representation	Public Outreach/Comm. Program – Value of Water
Governmental Affairs	Specific Programs (e.g., school programs, Desal)
Public Affairs	
Water Supply Planning	
Water Emergency Response Organization of O.C. (WEROC)	

MWDOC's FY 2015-16 Core services and Choice services budget is shown in Table 1-2.[2] RFC reviewed the Core and Choice services and concludes that these services follow industry standard cost of service principles since Core services benefit all member agencies equally, and the costs of the Core services are borne by all member agencies. Choice services benefit only those member agencies that choose to receive

[2] It is important to note that this budget (FY 2015-16) was used for discussion purposes for developing alternatives to the rate structure. Any changes adopted would be first applied to the FY 2015-16-17 Budget.

and pay for Choice services. For example, Water Supply Planning and MET advocacy services benefits all of the member agencies, while the School program benefits the member agencies' service area schools and which subscribed.

Table 1-2: District FY 2015-16 Budget

Cost Center		FY 2015-16	% of Total
	Core Services		
11	Administrative – Board	$1,131,747	17.8%
12	Administrative – General	$471,461	7.4%
13	Personnel / Staff Development	$304,655	4.8%
19	Overhead	$779,267	12.3%
21	Planning & Resource Development	$743,370	11.7%
22	Research Participation	$39,740	0.6%
23	Met Issues and Special Projects	$751,674	11.8%
31	Governmental Affairs	$418,009	6.6%
35	Policy Development	$145,864	2.3%
32	Public Affairs	$629,110	9.9%
41	Finance	$563,041	8.9%
45	Information Technology	$223,827	3.5%
25	MWDOC's Contribution to WEROC	$141,807	2.2%
	MWDOC Building Improvements less Misc. Income	$343,087	
	Core Total	**$6,686,660**	**100%**
	Choice Services		
62	Water Use Efficiency Program	$899,925	55.7%
63	School Programs	$295,049	18.3%
67	Value of Water	$177,645	11.0%
64	Foundational Action - Doheny Desal	$136,983	8.5%
65	Poseidon Desal	$45,162	2.8%
69	2008 Fund - Doheny Desal	$31,194	1.9%
68	2014 Fund - Doheny Desal	$30,000	1.9%
	Choice Total	**$1,615,957**	**100%**
	Core Total	$6,343,573	
	Choice Total	$1,615,957	
	District Total	**$7,959,530**	

The Study scope is limited to evaluating rate structures *to allocate only the Core services costs* to each member agency. The charges for Choice services are set through individual contracts and are not part of this Study.

1.4 METROPOLITAN WATER DISTRICT (MET) RATES & CHARGES

MWDOC's charges its member agencies the following MET Rates and Charges:

- **MET volumetric rate**: a simple pass-through of costs per AF from MET to the member agency, via MWDOC for the delivery of imported water.
- **MET fixed charges:** consist of the Readiness-To-Serve (RTS) Charge and Capacity Charge, which are also passed through to member agencies through a similar methodology as MET RTS, which takes into account each member agency's historical usage. The RTS Charge methodology accounts for an agency's 4-year average of imported purchases to recover the cost of MET's standby services. The Capacity Charge takes in account an agency's peak daily flow of water for the last three years to recover MET's costs of providing system capacity.

2. LEGAL BACKGROUND

On November 2, 2010 California voters approved Proposition 26, a ballot initiative that established new limitations on the State's and local governments' power to impose fees and charges. Proposition 26 amended Article XIII A of the California Constitution, which govern the imposition of taxes by the State, and Article XIII C of the California Constitution, which governs the imposition of taxes by local governments, by providing a definition of the term "tax." For local governments, this definition defines "tax" to mean any levy, charge, or exaction of any kind imposed by a local government, except for seven specifically identified exceptions. As a consequence, fees and charges that do not fall within one of the seven exceptions are redefined as taxes and subject to voter approval.

With respect to the fees and charges that are the subject of this Study, the following exception under Proposition 26 applies:

> *(e) As used in this article, "tax" means any levy, charge, or exaction of any kind imposed by a local government,* ***except*** *the following:*
>
> > *(2) A charge imposed for a specific government service or product provided directly to the pay[e]r that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.*

The agency imposing the fee or charge bears the burden of proving that the amount of the fee or charge "is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity." The rates for the Core services developed as part of this Study are designed to meet this burden and to recover MWDOC"s costs associated with providing the services discussed in Section 1.3.

The rates for the fees and charges for the Choice services are not the subject of this Study because they not "imposed" by MWDOC but are agreed to by the member agencies via separate agreements entered into between MWDOC and those member agencies that elect to participate in and receive the Core services.

3. STUDY PROCESS

3.1 STAKEHOLDER PARTICIPATION

One of MWDOC's primary directives for the Study was ensuring that stakeholders had an opportunity to participate in the development of the new rate structure. RFC solicited input from member agency managers, the Administrative and Finance Committee (A&F Committee), and MWDOC staff at each step of the process. A list of the stakeholder meetings held is shown in Table 3-1 below.

The four phases of this Study are outlined in Figure 3-1 below. In the first phase, RFC reviewed each Core service to gain an understanding of the type and nature of the services provided. RFC then defined, explained, and assigned a weight to each guiding principle (such as fairness and equity, revenue stability, etc.) and solicited feedback from member agency managers and MWDOC staff. Next, member agency managers, elected officials, and MWDOC staff ranked alternative rate structure components according to the weighted guiding principles. Of all the rate structure components presented, the best candidates were selected for inclusion in the rate model for WMDOC's rates for the Core services (Rate Model). After completion of the Rate Model, the resulting rates were shown to MWDOC and member agency managers. Finally, the optimal rate structure was recommended to MWDOC Board for adoption.

Figure 3-1: Phases of Rate Study

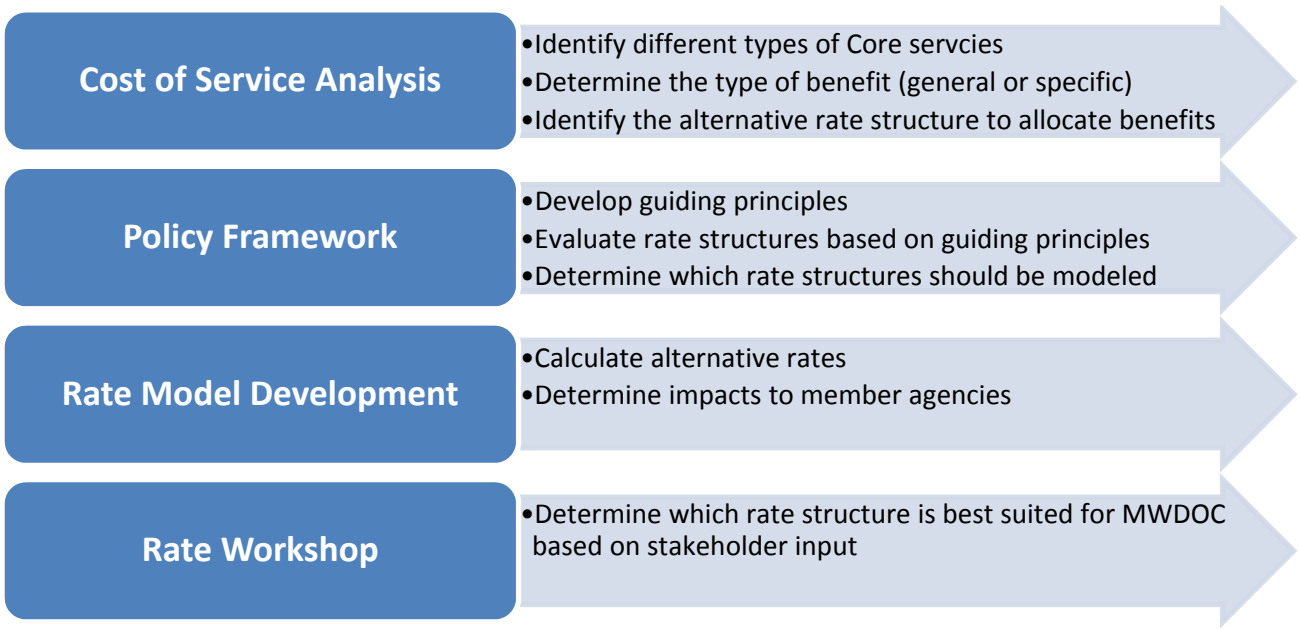

Table 3-1: Stakeholder Meetings during Study

Meeting	Date	Phase of Study
Project Kick-off Meeting	January 6, 2016	Cost of Service
Administrative & Finance Committee January Meeting	January 13, 2016	Cost of Service/Policy Framework
Member Agency Managers Meeting	February 4, 2016	Policy Framework
Administrative & Finance Committee February Meeting	February 10, 2016	Policy Framework
Administrative & Finance Committee March Meeting	March 8, 2016	Rate Workshop
Member Agency Managers Meeting	March 17, 2016	Rate Workshop
Administrative & Finance Committee April Meeting	April 13, 2016	Rate Workshop
Administrative & Finance Committee May Meeting	May 11, 2016	Presentation of Rates/Report
Board Meeting	May 18, 2016	Presentation of Rates/Report

3.2 GUIDING PRINCIPLES

To evaluate potential rate structures, RFC developed, with input from MWDOC and member agency managers, several guiding principles. To place higher importance on certain guiding principles, weights were assigned to them as shown in Table 3-2. Once defined and weighted, stakeholders were then asked to rate how well a particular rate structure satisfied each guiding principle. The guiding principles are defined as follows:

- **Legal Compliance** – Complies with Proposition 26 in its request that charges for specific services do not exceed the reasonable costs to confer such benefits. (Legal compliance was assumed a basic requirement).
- **Fairness/Equity** – Best aligns costs of services with the benefit received by each agency. (fairness/equity assumed a basic requirement).
- **Revenue stability** – Produces stable revenues for MWDOC and minimizes revenue volatility.
- **Administrative Complexity** - Can be implemented with existing MWDOC staff, available information and infrastructure.
- **Communication** – Easily understood by member agencies and the public at large.

Table 3-2: Weights for Guiding Principles

Guiding Principle	Weight
Legal Compliance	35%
Fairness/Equity	35%
Revenue stability	15%
Administrative Complexity	5%
Communication (Ease of Understanding)	10%

3.3 RATE STRUCTURE DEFINITIONS

A total of six rate structure components were presented to MWDOC and member agencies for evaluation with respect to the guiding principles presented above. The rate structure components evaluated included the following:

1. Number of Meters (current rate structure)
2. Number of hydraulically equivalent meters
3. Historical water use by member agency
4. Population in service area
5. Fixed charge for each member agency
6. Number of turnout meters

The rate implications for each component are discussed in the following sub-sections.

3.3.1 *Number of Meters*

MWDOC currently allocates costs based on the number of retail meters served by each member agency. There is no adjustment made to account for larger meters. In other words, a standard 5/8" household meter is treated no differently than a 4-inch industrial meter (e.g., single family homes versus multi-family developments on master meters). The assumption is made that the distribution of sizes of meters in each retail agency is about the same and therefore, the additional administrative burden of differential treatment would not be of benefit.[3] [4] Allocating costs in proportion to the number of meters results in a cost distribution that is more proportional to water use than if allocated equally to member agencies (Section 3.3.5). Similarly it results in a cost distribution that is less proportional to (potential) water use than if allocated by the number of hydraulically equivalent meters (3.3.2) or historical water use (3.3.3).

3.3.2 *Number of Hydraulically Equivalent Meters*

This rate structure allocates costs based on the number of hydraulically equivalent retail meters and therefore makes adjustments for different size meters. Unlike the current rate structure, an adjustment would be made to account for the hydraulic capacity of different meter sizes. For example, based on American Water Works Association (AWWA) capacity factors, a 4-inch meter is equivalent to twenty-one 5/8" meters. Allocating costs in proportion to the number of hydraulically equivalent meters recognizes that much of the work that MWDOC does relates to ensuring standby capacity is available. It results in a cost distribution that is more proportional to water use than the number of meters (Section 3.3.2) and less proportional to water use compared to historical water use (Section 3.3.3). This methodology maintains the fixed revenue structure.[5]

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[3] As currently structured, however, MWDOC would not recover all of its costs of providing the services because OCWD does not have retail meters.

[4] OCWD's average historical water use over the last 10 years is 10.8% of MWDOC's annual water sales.

[5] This rate structure, however, results in MWDOC also not recovering its full costs of service from OCWD.

3.3.3 *Historical Use by Member Agency*

Under this rate structure, costs are allocated based on each member agency's historical average of imported water[6], using a specified number of trailing years (e.g. previous 3, 5, or 10 years). The analysis presented in this report uses a 10-year historical average to account for long term fluctuations in historical imported water use. Allocating costs based on historical imported water use assumes the imported water use is proportional to MWDOC's costs and corresponding service benefits. However, MWDOC's costs are not directly related to the amount of historic imported water delivered. Rather, the service provided, and therefore costs incurred, by MWDOC is more directly related to the availability and reliability of providing imported water to its member agencies.

3.3.4 *Population in Service Area*

This rate structure allocates costs based on the population within each member agency's service area. The advantage of this rate structure is that it is easily explained and understood (i.e., benefits flow to the population). Drawbacks to this methodology include scenarios where costs are allocated to high population member agencies even if they have low per capita water use; agencies with low population and perhaps higher per capita water use would be assigned a lower portion of costs. Another drawback of this rate structure is that it may be complicated to assign costs to OCWD, whose service area encompasses the service area of many of MWDOC's other member agencies.

3.3.5 *Fixed Charge for every Member Agency*

Under this methodology, costs are equally split among all member agencies, regardless of size. Each member agency is responsible for exactly 1/26 of MWDOC's costs for Core services. MWDOC has 28 member agencies, two of these agencies fall under parent agencies[7], which yields the denominator of 26. The methodology treats every agency the same in terms of the benefits they receive (and therefore their cost allocation) from MWDOC's services. It is best suited for services that are not correlated to agency size or water use.

3.3.6 *Number and Size of Turnout Meters*

This rate structure allocates costs based on the number and size of turnout meters serving each member agency. Turnout meters are the meters that measure the amount of wholesale water delivered by MET. Similar to alternative #2, this rate structure takes into account the number of turnout meters and their size. While this methodology would allocate costs to OCWD, it may disproportionately place costs on some member agencies whose turnout meters were oversized (based on assumptions made long ago) in anticipation of greater development that has not materialized or may over-burden agencies that have several turnouts to provide operational flexibility.

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[6] Historical imported water refers only to the water purchased from MWDOC by the member agency, and not the member agency's total water use. Member agencies may have more than one source of water.

[7] The City of Tustin is included in its parent agency – East Orange County Water District. Emerald Bay is included in its parent agency – Laguna Beach County Water District.

4. RATE STRUCTURE SELECTION

4.1 RATE STRUCTURE SURVEY RESULTS

MWDOC and RFC solicited member agency input through a short online survey. Member agencies ranked how well each rate structure component satisfied each guiding principle. In addition to the ratings from the member agencies, MWDOC staff and RFC provided ratings as well. The participating member agencies are shown below in Figure 4-1.

Table 4-1: Member Agencies Participating in Rate Structure Survey

1	Brea, City of	**13**	Moulton Niguel Water District
2	Buena Park, City of	**14**	Newport Beach, City of
3	East Orange County Water District	**15**	Orange, City of
4	El Toro Water District	**16**	Orange County Water District
5	Fountain Valley, City of	**17**	San Clemente, City of
6	Garden Grove, City of	**18**	Santa Margarita Water District
7	Golden State Water Company	**19**	Seal Beach, City of
8	Huntington Beach, City of	**20**	Serrano Water District
9	Irvine Ranch Water District	**21**	South Coast Water District
10	La Palma, City of	**22**	Trabuco Canyon Water District
11	Laguna Beach County Water District	**23**	Westminster, City of
12	Mesa Water District	**24**	Yorba Linda Water District

Participants were asked to use a rating scale of 1 (does not satisfy guiding principle) to 4 (fully satisfies guiding principle). The average score from all participants was then multiplied by the weights found in Table 3-2 to determine a total score. RFC developed the weights with input from MWDOC staff. These weights were presented to the A&F Committee and Member Agency managers for review and provide feedback. Member agency managers agreed that the first two guiding principles (legality and equity/fairness) should be weighted the highest (35%).

Table 4-2 shows an example of how the rating was determined for the current rate structure. The weights for each guiding principle are repeated on Line 1. The weights are then multiplied by the average of the ratings found on Line 2. The resulting values on Line 3 are then added across to derive the total score.

Table 4-2: Ratings Example – Current Rate Structure

	Legal Compliance	Fairness/Equity	Revenue stability	Administrative Complexity	Communication	**Total**
1	35%	35%	15%	5%	10%	
2	3.17	3.00	3.54	3.63	3.42	
3	1.11	1.05	0.53	0.18	0.34	**3.21**

The same process is repeated for all rate structure alternatives. The full results for each rate structure alternative are presented in Table 4-3 below.

Table 4-3: Member Agency Ratings of Rate Structure Components

Rate Structure Alternative	Legal Compliance	Fairness/ Equity	Revenue stability	Administrative Complexity	Communication	**Total**
Weight	35%	35%	15%	5%	10%	
Number of Meters	3.2	3.0	3.5	3.6	3.4	**3.2**
Number of hydraulically equivalent meters	3.3	3.3	3.6	2.9	3.0	**3.3**
Historical water use by member agency	3.0	2.8	2.6	2.9	2.7	**2.8**
Population in Service Area	2.2	1.8	3.1	3.0	2.1	**2.2**
Fixed charge for each member agency	2.5	2.1	2.9	2.7	2.6	**2.4**
Number of turnout meters	1.5	1.3	3.0	3.3	2.3	**1.8**

As stated above, MWDOC staff and RFC also rated each rate structure alternative. The summary results from the member agencies, MWDOC staff, and RFC ratings are presented in Table 4-4.

Table 4-4: Summary of Ratings for Rate Structure Components

	Rate Structure Alternative	Member Agencies	MWDOC staff	RFC
1	**Number of Meters**	3.2	3.3	3.0
2	**Number of hydraulically equivalent meters**	3.3	3.4	3.9
3	**Historical water use by member agency**	2.8	3.2	3.9
4	**Population in Service Area**	2.2	3.8	2.5
5	**Fixed charge for each member agency**	2.4	2.1	2.0
6	**Number of turnout meters**	1.8	2.1	2.2

Based on the results presented in Table 4-4, the lowest scoring rate structure alternatives were eliminated from consideration – Fixed Charge for each Member Agency and Number of Turnout Meters[8].

4.2 ORANGE COUNTY WATER DISTRICT (OCWD)

OCWD purchases imported water from MWDOC and blends this water with advance treated recycled water from OCWD's Groundwater Replenishment System (GWRS) and Santa Ana River water to replenish the Orange County Groundwater Basin. Prior to the transition to a fully fixed charge, MWDOC charged OCWD the MWDOC incremental rate times OCWD's 8-year historical average of imported water

[8] This discussion concerns how costs are allocated to all member agencies (Step 2, as discussed in Section 4.3) and the elimination of the two lowest scoring rate structure alternatives. However, the Fixed Charge methodology was still considered for Step 1 (allocation to OCWD, as discussed in the following sub-section).

purchases. However, once the incremental rate was phased out in FY 2015-16, OCWD was no longer charged.

One of the main goals of this rate study is to ensure legal, fair and equitable rates. RFC and MWDOC staff consulted with legal counsel regarding the legality of not charging OCWD. Legal counsel advised that there is a cost associated with providing services to OCWD and a commensurate fee needs be assessed. If a fee is not assessed, then the cost of providing services to OCWD is unfairly borne by other member agencies.

On average, over the past 10 years, OCWD has accounted for nearly 11% of District's water sales and is the fourth largest water user among all member agencies. MWDOC incurs costs to provide Core services to OCWD, much like its other member agencies. MWDOC works with MET to coordinate and administer recharge groundwater, groundwater programs (e.g., a conjunctive use program (CUP)), and advocacy on behalf of OCWD[9]. The costs for these services are particularly reflected in Planning and Resource Development (Cost Center 21) and MET Issues and Special Projects (Cost Center 23) line items shown in Table 1-2. Note that OCWD is not charged, via the rate structure, for the Water Emergency Response Organization of Orange County (WEROC) program since OCWD is a funding partner of WEROC.

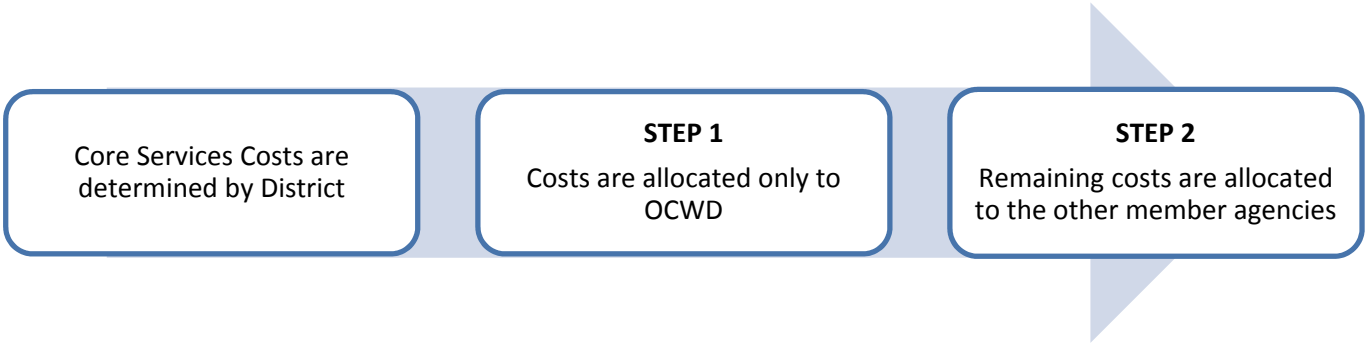
In light of legal counsel advice, the rate structure must allocate to OCWD its share of the costs of the Core services provided. The below sections discuss how costs are first allocated to OCWD and then to the remaining retail water agencies.

4.3 TWO-STEP COST ALLOCATION

RFC allocated costs to OCWD and the remaining retail agencies using a two-step process. Many of the rate structures discussed in Section 3.3 are not amenable to OCWD since OCWD does not have retail meters. Also, using population would allocate a disproportionally greater share of costs of service to OCWD. Therefore the remaining alternatives for OCWD include allocating costs by historical water use and allocating costs equally to all member agencies (1/26). MWDOC's costs are allocated in two steps, as shown in Figure 4-1.

[9] A list of MWDOC services is shown in Appendix A

Figure 4-1: Two Step Allocation of District's Core Services Costs



4.4 RATE ALTERNATIVES

4.4.1 *Step 1: Allocation of Costs to OCWD*

In light of the legal issues discussed in Section 2, and with input from stakeholders, RFC developed two alternatives to allocate costs to OCWD which are termed 1A and 1B. Note that under both scenarios, OCWD is not charged via the rate structure for MWDOC's WEROC costs.

Alternative 1A: 10-year historical use method for Cost Centers 21 and 23 of Table 4-5, plus the equal distribution (OCWD assigned 1/26 of costs) for the other Cost Centers, not including WEROC.

Alternative 1B: OCWD is allocated an equal proportional share (1/26) of all cost centers except WEROC (Cost Center 25 of Table 4-5).

4.4.2 *Step 2: Allocation of Remaining Costs to Retail Member Agencies*

After allocating costs to OCWD, the next step is to allocate the remaining costs to the retail agencies using one of the below methodologies:

1) Number of meters;
2) Number of hydraulically equivalent meters;
3) Historical imported water use; and
4) Population.

RFC presented the rate results of the above two-step allocation to the Administrative and Finance Committee and member agency managers. Their feedback is discussed below.

4.5 STAKEHOLDER INPUT

RFC presented the above rate alternatives to the Administrative and Finance Committee on March 9th and to the member agencies on March 17th.

The feedback and results from both these meetings is summarized as follows:

1) The historical use alternative was eliminated because many member agencies felt that MWDOC's costs were not necessarily tied to water use – therefore, water use should not be used as a proxy for allocating costs at the retail agency level. Additionally, some agencies who use local groundwater in addition to imported MWDOC water may have large usage swings in years when groundwater yields were low/high. However, this concern can be alleviated by using the 10-year imported water use average. Historical water use is used to allocate costs to OCWD (in Alternative 1A) since the only two viable alternatives to allocated costs to OCWD include historical water use and equal cost allocation (1/26) since OCWD does not have meters.

2) Allocating costs by population was eliminated. Using service area population to allocate costs dramatically increases costs for densely populated member agencies even though these agencies likely have low per-capita water use compared to more sparsely populated agencies.

3) Allocating costs by the number of hydraulically equivalent meters was eliminated since this methodology accounts for the potential water use from larger meters. As mentioned in item 1 above, meeting participants felt MWDOC's services, and therefore costs, are not necessarily tied to water use. This alternative was eliminated since it allocates costs in proportion to potential water use as judged by meter size. RFC believes that MWDOC works for all agencies, regardless of size or water use, .and therefore MWDOC's costs are arguably unrelated to agency water use. However, one could argue that the high (imported) water use agencies benefit more from MWDOC's services which include working to ensure water availability from MET.

During the March 17th meeting, several member agencies proposed Alternative 1B, expressing that historical water use to allocate costs to OCWD may not be appropriate, but that treating OCWD as an "average" agency (e.g., 1/26 share) may be more appropriate. The feedback from stakeholders narrowed the rate alternatives down to two – Alternatives 1A and 1B (summarized in Table 4-5).

Table 4-5: Summary Allocation Methodology for Scenarios 1A/1B

Cost Center		1A - OCWD	1B - OCWD	Allocation to Other Agencies for both Alternatives
11	Administrative - Board	Fixed Charge	Fixed Charge	Number of Agency Meters
12	Administrative - General	Fixed Charge	Fixed Charge	Number of Agency Meters
13	Personnel / Staff Development	Fixed Charge	Fixed Charge	Number of Agency Meters
19	Overhead	Fixed Charge	Fixed Charge	Number of Agency Meters
21	Planning & Resource Development	10 Year Historical Use	Fixed Charge	Number of Agency Meters
22	Research Participation	Fixed Charge	Fixed Charge	Number of Agency Meters
23	Met Issues and Special Projects	10 Year Historical Use	Fixed Charge	Number of Agency Meters
31	Governmental Affairs	Fixed Charge	Fixed Charge	Number of Agency Meters
35	Policy Development	Fixed Charge	Fixed Charge	Number of Agency Meters
32	Public Affairs	Fixed Charge	Fixed Charge	Number of Agency Meters
41	Finance	Fixed Charge	Fixed Charge	Number of Agency Meters
45	Information Technology	Fixed Charge	Fixed Charge	Number of Agency Meters
25	MWDOC's Contribution to WEROC	Not allocated to OCWD	Not allocated to OCWD	Number of Agency Meters
	MWDOC Building Improvements	Fixed Charge	Fixed Charge	Number of Agency Meters

The resulting cost allocations under both scenarios are discussed in the following Section.

5. DERIVATION OF CHARGES

5.1 CURRENT CHARGES

FY 2015-16 is MWDOC's final year in its transition to a 100% fixed charge based on the number of retail meters served. As stated in previous sections, OCWD does not have retail meters and is not charged for MWDOC services under the current methodology. Table 5-1 summarizes how MWDOC currently allocates its $6.69M budget to member agencies for FY 2015-16. The number of meters for each agency with respect to the total number of retail meters District-wide is used to determine a percentage; the percentage is then multiplied by MWDOC's total Core services budget to get each member agency's allocation.

Table 5-1: Summary of Charges for FY 2015-16

Member Agency	Number of Meters (A)	% of Total (B)	Allocation (C) = B × $6.68M
Brea, City of	12,466	2.00%	$133,791
Buena Park, City of	18,730	3.04%	$203,025
East Orange County Water District	20,833	3.38%	$226,038
El Toro Water District	9,648	1.60%	$106,699
Fountain Valley, City of	16,711	2.72%	$182,085
Garden Grove, City of	33,602	5.48%	$366,263
Golden State Water Company	41,156	6.65%	$444,459
Huntington Beach, City of	53,085	8.60%	$575,007
Irvine Ranch Water District	101,807	16.16%	$1,080,693
La Habra, City of	13,800	2.21%	$147,951
La Palma, City of	4,347	0.70%	$47,024
Laguna Beach County Water District	8,648	1.40%	$93,787
Mesa Water	23,464	3.80%	$253,890
Moulton Niguel Water District	52,707	8.54%	$570,916
Newport Beach, City of	26,095	4.23%	$282,610
Orange, City of	33,053	5.36%	$358,527
Orange County Water District	0	0.00%	$0
San Clemente, City of	17,372	2.80%	$187,271
San Juan Capistrano, City of	11,541	1.84%	$122,876
Santa Margarita Water District	52,113	8.41%	$562,497
Seal Beach, City of	5,377	0.87%	$58,406
Serrano Water District	2,263	0.37%	$24,510
South Coast Water District	12,063	1.95%	$130,677
Trabuco Canyon Water District	3,962	0.64%	$42,868
Westminster, City of	20,181	3.26%	$218,237
Yorba Linda Water District	24,704	3.99%	$266,552
Total	619,728	100.0%	$6,686,659

5.2 SCENARIO 1A

Scenario 1A (Step 1) from Section 4.4 utilizes 10 years of historical water usage data to determine OCWD's percentage allocation of Cost Centers 21 and 23. Based on historical water usage data provided by MWDOC, OCWD's historical imported water use is approximately 10.8% of MWDOC sales over the past 10 years, as shown in Table 5-2 below. Therefore 10.8% of cost centers 21 and 23 is allocated to OCWD.

Table 5-2: OCWD Historical Water Purchase and MWDOC Total Sales

Fiscal Year	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	Total
OCWD Total Purchases	7,237	42,173	-	-	185	16,772	61,645	24,364	50,707	58,633	261,714
MWDOC Total Sales	291,568	327,474	224,054	235,056	196,273	204,158	256,315	212,999	240,529	225,508	2,413,933
OCWD (%)	2.5%	12.9%	0.0%	0.0%	0.1%	8.2%	24.1%	11.4%	21.1%	26.0%	**10.84%**

For the remaining Cost Centers (all but Cost Centers 21 and 23), 1/26th of each Cost Center is allocated to OCWD. Using OCWD's 10-year historical percentage from Table 5-2 to allocate Cost Centers 21 and 23, and distributing 1/26th of the remaining Cost Centers yields the total cost allocation for OCWD found in Table 5-3. The difference between the total budget amount for each cost center and the costs allocated to OCWD is then allocated to all other member agencies based on the Step 2 methodology.

Table 5-3: Scenario 1A – Allocation to OCWD

Cost Center	Budget Item	FY 2015-16 Budget (A)	% Allocation (B)	OCWD Costs (C)= A × B	Balance (D) = A - C
11	Administrative - Board	$743,370	3.8%	$80,595	$662,775
12	Administrative - General	$751,674	3.8%	$81,495	$670,179
13	Personnel / Staff Development	$418,009	3.8%	$16,077	$401,931
19	Overhead	$629,110	3.8%	$24,197	$604,914
21	Planning & Resource Development	$1,131,747	10.8%	$43,529	$1,088,219
22	Research Participation	$471,461	3.8%	$18,133	$453,328
23	Met Issues and Special Projects	$304,655	10.8%	$11,718	$292,938
31	Governmental Affairs	$779,267	3.8%	$29,972	$749,295
35	Policy Development	$39,740	3.8%	$1,528	$38,212
32	Public Affairs	$145,864	3.8%	$5,610	$140,254
41	Finance	$563,041	3.8%	$21,655	$541,385
45	Information Technology	$223,827	3.8%	$8,609	$215,219
	MWDOC Building Improvements	$343,087	3.8%	$13,196	$329,891
25	MWDOC's Contribution to WEROC	$141,807	0%[10]	$0	$141,807
	Total	$6,686,660		$356,313	**$6,330,346**

[10] As discussed in previous sections, OCWD is not charged for any of MWDOC's WEROC costs.

Under Scenario 1A, the remaining balance of $6.33M is allocated to all other member agencies. The remaining balance is shown in Column D of Table 5-3. Step 2 distributes this balance in proportion to the number of retail meters. Therefore, the same allocation percentage shown in Column B of Table 5-1 are used to determine each agency's allocation. The resulting allocations are determined by multiplying the allocation factor, shown in Column A[11], by the balance of $6.33M, as shown in Table 5-4.

Table 5-4: Scenario 1A – Allocations to Member Agencies

Member Agency	% Allocation (A)	Allocation B = A × $6.33M	Current Charges From Table 5-1 (C)	Change ($) (D)	Change (%) (E)
Brea, City of	2.00%	$126,662	$133,791	-$7,129	-5.3%
Buena Park, City of	3.04%	$192,207	$203,025	-$10,819	-5.3%
East Orange County Water District	3.38%	$213,993	$226,038	-$12,045	-5.3%
El Toro Water District	1.60%	$101,013	$106,699	-$5,686	-5.3%
Fountain Valley, City of	2.72%	$172,382	$182,085	-$9,703	-5.3%
Garden Grove, City of	5.48%	$346,746	$366,263	-$19,517	-5.3%
Golden State Water Company	6.65%	$420,775	$444,459	-$23,684	-5.3%
Huntington Beach, City of	8.60%	$544,366	$575,007	-$30,640	-5.3%
Irvine Ranch Water District	16.16%	$1,023,105	$1,080,693	-$57,587	-5.3%
La Habra, City of	2.21%	$140,067	$147,951	-$7,884	-5.3%
La Palma, City of	0.70%	$44,518	$47,024	-$2,506	-5.3%
Laguna Beach County Water District	1.40%	$88,790	$93,787	-$4,998	-5.3%
Mesa Water	3.80%	$240,361	$253,890	-$13,529	-5.3%
Moulton Niguel Water District	8.54%	$540,494	$570,916	-$30,423	-5.3%
Newport Beach, City of	4.23%	$267,550	$282,610	-$15,059	-5.3%
Orange, City of	5.36%	$339,422	$358,527	-$19,105	-5.3%
Orange County Water District	From Step 1	$356,313	$0	$356,313	∞
San Clemente, City of	2.80%	$177,292	$187,271	-$9,979	-5.3%
San Juan Capistrano, City of	1.84%	$116,329	$122,876	-$6,548	-5.3%
Santa Margarita Water District	8.41%	$532,523	$562,497	-$29,974	-5.3%
Seal Beach, City of	0.87%	$55,293	$58,406	-$3,112	-5.3%
Serrano Water District	0.37%	$23,204	$24,510	-$1,306	-5.3%
South Coast Water District	1.95%	$123,714	$130,677	-$6,963	-5.3%
Trabuco Canyon Water District	0.64%	$40,584	$42,868	-$2,284	-5.3%
Westminster, City of	3.26%	$206,608	$218,237	-$11,629	-5.3%
Yorba Linda Water District	3.99%	$252,348	$266,552	-$14,204	-5.3%
Total	100%	$6,686,660	$6,686,659	$0	

5.3 SCENARIO 1B

Scenario 1B from Section 4.4 allocates all cost centers for OCWD by dividing all of them by 26, the number of member agencies. Similar to Scenario 1A, costs are first allocated to OCWD based on the Step 1 methodology (3.8% for all Cost Centers). The difference between the total budget amount for each cost center and the costs allocated to OCWD is then allocated to all other member agencies based on the Step 2 methodology. The results are shown in Table 5-5.

[11] Restated from column B, Table 5-1

Table 5-5: Scenario 1B – Allocation to OCWD

Cost Center	Budget Item	FY 2015-16 Budget (A)	% Allocation (B)	OCWD Costs C = A × B	Balance D = A - C
11	Administrative - Board	$743,370	3.8%	$28,591	$714,778
12	Administrative - General	$751,674	3.8%	$28,911	$722,764
13	Personnel / Staff Development	$418,009	3.8%	$16,077	$401,931
19	Overhead	$629,110	3.8%	$24,197	$604,914
21	Planning & Resource Development	$1,131,747	3.8%	$43,529	$1,088,219
22	Research Participation	$471,461	3.8%	$18,133	$453,328
23	Met Issues and Special Projects	$304,655	3.8%	$11,718	$292,938
31	Governmental Affairs	$779,267	3.8%	$29,972	$749,295
35	Policy Development	$39,740	3.8%	$1,528	$38,212
32	Public Affairs	$145,864	3.8%	$5,610	$140,254
41	Finance	$563,041	3.8%	$21,655	$541,385
45	Information Technology	$223,827	3.8%	$8,609	$215,219
	MWDOC Building Improvements	$343,087	3.8%	$13,196	$329,891
25	MWDOC's Contribution to WEROC	$141,807	0%[12]	$0	$141,807
	Total	$6,686,660		$251,725	**$6,434,935**

Under Scenario 1B, the remaining balance to be allocated to all other member agencies is $6.43M, as shown in Column D of Table 5-5. Since OCWD is assuming less of MWDOC's costs compared to Scenario 1A, the other member agencies are charged more. The same allocation factors from Column B, Table 5-1 are multiplied by $6.434M to determine the allocation to the rest of the member agencies, as shown in Table 5-6.

[12] As discussed in previous sections, OCWD is not charged for any of MWDOC's WEROC costs.

Table 5-6: Scenario 1B – Allocations to Member Agencies

Member Agency	% Allocation (A)	Allocation (B) = A × $6.43M	Current Charges From Table 5-1 ©	Change ($) (D)	Change (%) (E)
Brea, City of	2.00%	$128,755	$133,791	-$5,037	-3.8%
Buena Park, City of	3.04%	$195,382	$203,025	-$7,643	-3.8%
East Orange County Water District	3.38%	$217,529	$226,038	-$8,509	-3.8%
El Toro Water District	1.60%	$102,682	$106,699	-$4,017	-3.8%
Fountain Valley, City of	2.72%	$175,230	$182,085	-$6,855	-3.8%
Garden Grove, City of	5.48%	$352,475	$366,263	-$13,788	-3.8%
Golden State Water Company	6.65%	$427,727	$444,459	-$16,732	-3.8%
Huntington Beach, City of	8.60%	$553,360	$575,007	-$21,647	-3.8%
Irvine Ranch Water District	16.16%	$1,040,009	$1,080,693	-$40,684	-3.8%
La Habra, City of	2.21%	$142,381	$147,951	-$5,570	-3.8%
La Palma, City of	0.70%	$45,254	$47,024	-$1,770	-3.8%
Laguna Beach County Water District	1.40%	$90,257	$93,787	-$3,531	-3.8%
Mesa Water District	3.80%	$244,332	$253,890	-$9,558	-3.8%
Moulton Niguel Water District	8.54%	$549,424	$570,916	-$21,493	-3.8%
Newport Beach, City of	4.23%	$271,971	$282,610	-$10,639	-3.8%
Orange, City of	5.36%	$345,030	$358,527	-$13,497	-3.8%
Orange County Water District	From Step 1	$251,725	$0	$251,725	∞
San Clemente, City of	2.80%	$180,221	$187,271	-$7,050	-3.8%
San Juan Capistrano, City of	1.84%	$118,250	$122,876	-$4,626	-3.8%
Santa Margarita Water District	8.41%	$541,321	$562,497	-$21,176	-3.8%
Seal Beach, City of	0.87%	$56,207	$58,406	-$2,199	-3.8%
Serrano Water District	0.37%	$23,587	$24,510	-$923	-3.8%
South Coast Water District	1.95%	$125,758	$130,677	-$4,919	-3.8%
Trabuco Canyon Water District	0.64%	$41,255	$42,868	-$1,614	-3.8%
Westminster, City of	3.26%	$210,021	$218,237	-$8,216	-3.8%
Yorba Linda Water District	3.99%	$256,517	$266,552	-$10,035	-3.8%
Total	100%	$6,686,660	$6,686,659	$0	

6. CONCLUSIONS AND RECOMMENDATIONS

RFC and MWDOC solicited stakeholder feedback during each stage of this study. Specifically RFC solicited feedback pertaining to:

1) Guiding principle development;
2) How each rate structure attained each guiding principle; and
3) Rate structure selection.

RFC and MWDOC also sought legal counsel regarding whether or not OCWD should be charged. Legal counsel advised that, since there is a cost associated with serving/working on behalf of OCWD, it should be charged for the services provided to it. This study first allocates costs to OCWD in Step 1 and then allocates remaining costs to the remaining retail agencies in Step 2.

RFC presented a total of five rate structures (discussed in Section 4) to stakeholders throughout this Study. Three of the rate structure alternatives were eliminated, as discussed in Section 4.5, which leaves two scenarios to choose from – Alternatives 1A and 1B. The MWDOC Board has actively participated in this process through a series of presentations and discussions at the A&F Committee meetings. The MWDOC Board of Directors must now select one rate structure for adoption in May 2016. That rate structure will be utilized to allocate the budget costs beginning in FY 2016-17. While RFC believes both scenarios are defensible, comply with Proposition 26, and have broad support from MWDOC and its member agencies, RFC views Alternative 1A as slightly more equitable since it properly accounts more closely for the cost of services provided to OCWD in Step 1 compared to Alternative 1B.

RFC bases its recommendation on research and discussions with MWDOC staff regarding the amount of staff effort spent working on issues that pertain to OCWD. Alternative 1B treats all agencies equally and it would be appropriate if MWDOC staff spent the same amount of time and effort lobbying for/working for each member agency equally. However, RFC finds that MWDOC staff spends more time[13] (on average) working on OCWD planning, resource development, and MET issues (Cost Centers 21 and 23) than would be implied by equally (1/26) distributing these costs to all member agencies. Therefore, Alternative 1A more accurately reflects the rate setting principles of cost causation – meaning that if a customer or group of customers causes a cost, they should pay those costs, or stated differently, Alternative 1A reasonable and fairly allocates to each of the member agencies the costs of providing MWDOC's services in relationship to each member agency's burdens on, or benefits received from, the services provided by MWDOC.

[13] More time is defined as more than (1/26) 3.8% of their time.

7. APPENDIX A

Table A - MWDOC Breakdown of Services/Activities/Costs

Core Services	Choice Services	Overhead Costs

Board Compensation & Benefit
Retiree Costs
Legal Costs
Board Elections
Accounting and General Admin
MET Representation
• MET Director Support
• MET policy analysis, programs and special projects
• MET operations, water rates and accounting
Staff time for MWDOC's Water Use Efficiency Programs Manager
Governmental Affairs
• In-house staff for legislative info
• WACO, ISDOC and other support
• Federal lobbyist for countywide funding
• State lobbyist for countywide legislative, grant funding and policy access
• Local lobbyist for Board of Supervisors
Public Affairs
• Coordination with MET, other regional and local retailers
• Basic communications functions-media outreach and inquiries, water information and messaging, MWDOC website
• MWDOC newsletter (e-currents)
• Countywide surveys as appropriate
• Countywide water awareness in coordination with retail agencies
Research – support for Center for Demographic Research
Water Supply Planning
• Coordination among agencies
• Water use tracking and projections
• Water supply analysis
• Regulatory compliance issues
• Water trends analysis
• Countywide studies
Water Emergency Response Organization of Orange County (WEROC) – MWDOC contribution
	Water Use Efficiency
	• Residential clothes washers
	• Sprinkler nozzles
	• SmarTimers
	• CII Plumbing Fixtures
	• Synthetic Turf
	• Hotel Program
	• Industrial Program
	• Landscape Certification Program
	Includes marketing materials for WUE activities, staff time, overhead and grant funds (MET and other)
	Governmental Relations
	• Any project or program legislative or grant support on choice activities – Townsend Public Affairs
	Specific Programs
	• School program
	• South Orange Coastal Ocean Desal Project
	  ○ Federal lobbying for SOCODP – Barker
	  ○ Federal lobbying for SOCODP – Townsend
	• Support for Poseidon Desal Project
	• Other Project specific studies
	• Non-countywide issue studies
		Salary charged to overhead function (vacation, sick leave and holidays)
		Personnel development
		Legal costs charged to overhead function
		Employee benefits
		Personnel/staff development
		Information technology
		Conference employee
		Travel & Accommodations employee
		Automotive/Mileage/Toll
		Office maintenance
		Rents & Leases
		Office supplies
		Insurance expenses
		Utilities – telephone
		Miscellaneous expenses
		Professional fees for overhead activities
		Software support
		Computers/software