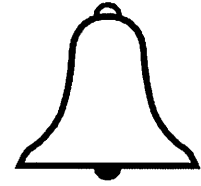


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# *Santa Margarita Water District*

March 18, 2016

Mr. Wayne Osbourne, President  
Municipal Water District of Orange County  
18700 Ward St, Fountain Valley, CA 92708

**Subject:        Comments on Metropolitan Water District of Southern California Proposed  
Biannual Budget and Water Rates for Fiscal Years 2016-18**

Dear President Osbourne:

We appreciate the opportunity to provide comments on the proposed budget by Metropolitan Water District of Southern California (MET). The Santa Margarita Water District (District) Board is grateful to MWDOC Director Jeff Thomas, Rob Hunter and Harvey de la Torre for their recent informative presentation. As discussed with them, the District has the following comments based on our perspective as a customer solely dependent on MET for domestic water supply:

1. **Treated Water Supply:** Historically the District has been 100% dependent on the Diemer Filtration Plant and only purchased full service treated water through MWDOC. To enhance our reliability, the District, along with several other agencies, is participating in the Baker Filtration Plant which will come on-line in Fiscal 2016-17. We will purchase untreated water to supply the plant as part of our baseload supply of 13 cfs. This results in a reduced demand for treated water from MET as well as an increase in our peak loading during the summer on the MET treatment plant. We understand MWD is facing the potential stranded treatment assets and we support the concept of a fair fixed charge. Since the District understands that MET is reviewing options for fixed treatment charges, our comments are:
  - a. The basis for any fixed charges needs to reflect changes over time and should not be established only on historical values.
  - b. Consider contracts for treated water that include peaking or standby charges, including provisions for emergency conditions. This will encourage member agencies to plan ahead on annual demands.
  
2. **Untreated Water Supply:** As proposed, untreated water will be increasing by 12% over the next year and will potentially continue to increase due to the State Water Contract. The State Water Contract costs are established by contract and are 80% fixed with little

variation based on water delivery. We are all aware of the recent years of reduced delivery yet full cost obligations on the contract. When State Water is available, there are substantial ancillary benefits such as lower dissolved solids when compared to Colorado River water. Currently the District receives nearly 100% of Colorado River Water which impacts our recycled water programs and encourages our customers to install softeners that further impact our recycled water program. While we recognize any rate adjustment discussions are long-term and may be beyond the current budget discussion, the District offers the following comments for consideration:

- a. Develop a fixed cost for the State Water Contract capital payment and include a greater portion in the current fixed cost components such as the Readiness-to-Serve.
  - b. The District supports utilizing the current MET property tax to help provide fixed revenue to offset the fixed costs associated with the State Water Project.
  - c. A fixed costs will better reflect the fixed charge component of the State Water Project, particularly in years when the benefits are limited.
- 3. Capital Costs:** The Pay Go funding is set at 60% and the budget reduces the proposed projects for the upcoming years. While this has helped control rates in the near-term, capital delays are not sustainable in the long-term and, as water demand continue to fall the capital expenses will have a greater percentage increase on the rates. At the local level, this has required agencies to consider the fixed and variable components of the rates. The District recognizes that MET may need to do the same and suggests the following:
- a. Consider the option of “take or pay” contracts for water supply to ensure adequate funding for capital projects in the future.
  - b. Consider the option adding a fixed component to fund ongoing capital needs through the ad valorem assessment, the Readiness-to-Serve Charge or a new vehicle.

The District appreciates the opportunity to share our thoughts as we face these important water supply and funding challenges.

Sincerely,

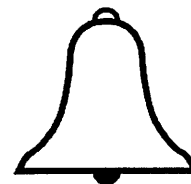
SANTA MARGARITA WATER DISTRICT



Charley Wilson  
President, Board of Directors

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GENERAL MANAGER



# Santa Margarita Water District

March 18, 2016

Mr. Wayne Osbourne, President  
Municipal Water District of Orange County  
18700 Ward St  
Fountain Valley, CA 92708

**Subject:        Comments on Municipal Water District of Orange County Proposed Budget  
                     for Fiscal Year 2016-17**

Dear President Osbourne:

We appreciate the opportunity to provide comments on the proposed Municipal Water District of Orange County (MWDOC) budget. The Santa Margarita Water District (District) offers the following comments consistent with the March 17<sup>th</sup> version of the budget:

**1. MWDOC Budget Principles for 2016-17**

In general, the District supports the principles as the foundation for development of the budget. The District appreciates MWDOC's continued implementation of the terms of Settlement Agreement as it contains mutually beneficial practices.

**2. Priorities and Practices Overview/MWDOC Key Initiatives:**

The District generally agrees with the Priorities and Practices Overview/MWDOC Key Initiatives. However, we find there is no direct linkage between the priorities, practices and initiatives and the budget nor are there many specific goals, strategies and schedules that would clearly define success. We offer the following comments which may help provide what we believe is necessary linkage:

- a. Approximately 45% of the District's budget is related to Metropolitan Water District of Southern California (MET) expenses. In addition, the overall reliability of the entire region is tied to the success of its programs and plans. The District believes that MWDOC's primary emphasis and effort should continue to be on MET representation.

We recommend that a Key Initiative be to work closely with MET on rate stability issues. However, more specificity needs to be provided. What is the goal? Is it reduced rates, flat rates, fixed rates or another option? What resources are needed to meet the goal? How will you define success?

The District recommends that, in the budget, MWDOC provide a chart with specific key strategic objectives it will advance at MET, definitions of the successful completion of each objective and identification of the resources required. These details

will ensure that member agencies understand the depth of the value added by our MET representatives.

Another issue the District believes is critical for the MET representatives to focus on is the variation in proposed rates at MET. We would like to see the following included as a key initiative in MWDOC's budget. While we recognize any rate adjustment discussions at MET are long-term and may be beyond the current budget discussion, the District offers the following comments for consideration:

- i. Develop a fixed cost for the State Water Contract capital payment and include a greater portion in the current fixed cost components such as the Readiness-to-Serve.
  - ii. The District supports utilizing the current MET property tax to help provide fixed revenue to offset the fixed costs associated with the State Water Project.
  - iii. A fixed cost will better reflect the fixed charge component of the State Water Project, particularly in years when the benefits are limited.
- b. Specify the date the OC Water Reliability Study will be completed and clearly identify the goal of the subsequent studies for specific projects with each project having defined objectives and required resources. The District believes it seems premature to "*provide sufficient budget to accommodate whatever work efforts may arise*" (page 9) without knowing the goals, objectives and needed resources for the various projects.
- c. Over the years, MWDOC's Water Use Efficiency (WUE) team has been very effective in implementing significant projects that reduce the water demand in the County and bringing in substantial outside funding. The District supports the projects list in the "Key Initiatives" section. In addition, to efficiently leverage the efforts of MWDOC and its members' agencies, the District suggests 1) soliciting the client agencies on their efforts planned for the upcoming year to ensure a coordinated program for the entire County; and, 2) disseminating the results and 3) a comprehensive review of the allocation of costs for the program.
- d. Under the leadership of MWDOC, the County is well-known in California among water and wastewater agencies for its coordinated emergency response. The District supports the Key Initiatives for the upcoming year including training and efforts for funding. We would suggest adding specific goals and dates for completion in order to improve the section.

Mr. Wayne Osbourne, President  
Municipal Water District of Orange County  
March 18, 2016  
Page 3

- e. MWDOC represents the majority of citizens in the County and overlaps with its member agencies. The coordination of the communication to the residents of Orange County is critical, particularly in the era of variable restrictions on water use and the methods being utilized by member agencies to meet their requirements. The District requests MWDOC consider the coordination of information and education efforts with retail agencies as the top priority of its communication team. Better coordination, continuation of regular meetings, and additional advance notice of MWDOC's efforts and initiatives will increase the effectiveness of all our efforts.

The District appreciates the opportunity to share our thoughts as we face these important water supply and funding challenges.

Sincerely,

SANTA MARGARITA WATER DISTRICT



Charley Wilson  
President, Board of Directors

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GENERAL MANAGER



## Santa Margarita Water District

March 18, 2016

Mr. Wayne Osbourne, President  
Municipal Water District of Orange County  
18700 Ward St  
Fountain Valley, CA 92708

**Subject:        Comments on Municipal Water District of Orange County Proposed Rate Structure for Fiscal Year 2016-17**

Dear President Osbourne:

In response to Municipal Water District of Orange County (MWDOC) request for elected officials of its member agencies to provide input to the proposed rate structure, the Santa Margarita Water District Board of Directors (District) offers the following comments:

- 1. Rate Stability:** the District supports the principle of a fixed cost for services provided by MWDOC. MWDOC services are not related to variation in water sales to its member agencies and a fixed charge appropriately reflects those services. In addition, a fixed charge establishes a firm dependable financial footing for MWDOC.
- 2. Allocation of Costs by Retail Meters:** The District continues to support MWDOC's current system of allocation to its retail member agencies on the basis of the number of meters within an agency. This reflects the proportional use of MWDOC services by the retail member agencies.
- 3. Orange County Water District:** The District understands that under the current State requirements, MWDOC is required to allocate a costs to OCWD. We support the proposed method of allocating a 1/26 share of the annual costs to OCWD while dividing the remaining 25/26 proportionally by the above stated method.

The District appreciates the opportunity to share our thoughts as we face these important water supply and funding challenges.

Sincerely,

SANTA MARGARITA WATER DISTRICT

A handwritten signature in blue ink, appearing to read 'Charley Wilson', is placed over the printed name and title.

Charley Wilson  
President, Board of Directors