



## **Mayer Hoffman McCann P.C.**

**An Independent CPA Firm**

2301 Dupont Drive, Suite 200  
Irvine, California 92612  
949-474-2020 ph  
949-263-5520 fx  
www.mhm-pc.com

Finance Committee  
Moulton Niguel Water District  
Laguna Niguel, California

We have audited the financial statements of Moulton Niguel Water District (the “District”) for the year ended June 30, 2013, and have issued our report thereon dated November 8, 2013. Professional standards require that we communicate to you the following information related to our audit.

### **Our Responsibility under U.S. Generally Accepted Auditing Standards And Government Auditing Standards**

Our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities. Our responsibility is to plan and perform the audit to obtain reasonable, but no absolute, assurance that the financial statements are free of material misstatement.

As part of our audit, we considered the internal control of the District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the District’s compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### ***Scope and Timing of the Audit***

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated May 1, 2013.

### ***Qualitative Aspects of Accounting Practices***

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2013. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Examples of significant judgments and estimates reflected in the District's financial reporting process include:

- Judgments concerning which capital projects represent ordinary maintenance activities necessary to keep an asset operational for its originally intended useful life versus significant improvement, replacement, and life extending projects that should be capitalized as additions to capital assets.
- Judgments involving the useful lives and depreciation methodology to use for capital assets.
- Estimates involving revenues and expenses to be accrued as of year end.

#### ***Difficulties Encountered in Performing the Audit***

We encountered no significant difficulties in performing and completing our audit.

#### ***Corrected and Uncorrected Misstatements***

Professional standards require us to accumulate all known and likely adjustments identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the District's financial statements taken as a whole. Management decided not to make the following adjustments because they were immaterial to the financial statements:

- Adjustment to record refund receivable from SOCWA for costs paid in excess of SOCWA costs incurred.
- Adjustment to amortize million of depreciation expense over the remaining life of the capital assets for a change in accounting estimate as a result of the implementation of the new accounting system.
- Adjustment to reduce accounts receivable and the related revenue in which the trial balance does not agree to the aging report.

#### ***Disagreements with Management***

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

***Management Representations***

We have requested certain representations from management that were included in a management representation letter dated November 8, 2013.

***Management Consultations with Other Independent Accountants***

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the District’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

***Other Audit Findings or Issues***

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

***Other Information in Documents Containing Audited Financial Statements***

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Finance Committee and management of the District and is not intended to be and should not be used by anyone other than these specified parties.

*Mayer Hoffman McCann P.C.*

Irvine, California  
November 8, 2013



## Mayer Hoffman McCann P.C.

An Independent CPA Firm

2301 Dupont Drive, Suite 200  
Irvine, California 92612  
949-474-2020 ph  
949-263-5520 fx  
www.mhm-pc.com

Board of Directors  
Moulton Niguel Water District  
Laguna Niguel, California

In planning and performing our audit of the financial statements of the Moulton Niguel Water District (the "District") as of and for the year ended June 30, 2013, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. The following matter conforms to this definition:

### (1) Recommendations to Enhance Purchasing Controls

During our test of cash disbursements and purchasing controls, we noted payments to two vendors had exceeded the approved contract amount. In both cases, the projects had Board approved contingencies and the excess did not exceed the contingencies; however, the individual vendor contracts did not contain these contingencies.

Recommendation

The District's Purchasing Policy was last updated in September 2008. We recommend the District review and update the current Purchasing Policy to provide guidance related to contract modifications, cumulative vendor payments, contingencies, and address other purchasing issues of concern to the Board of Directors.

Management's Response & Corrective Actions

Issue 1: This issue has since been addressed by the District in fiscal year 2013-14. The manner in which contingencies are presented to and approved by the Board of Directors was revised by the District in order to grant authorization to the General Manager to approve contingency expenditures. The revised procedure involves requesting Board authorization to allow the General Manager to execute change orders, or other similar documentation, for expenditures up to the Board approved contingency amounts, as necessary. The District will continue this procedure going forward.

Issue 2: The District recently added a Contracts & Procurement Manager position to centralize and coordinate the District's contracting and procurement needs. With the new position added to the District, it is anticipated that proposed revisions to the Purchasing Policy will be presented to the Board during FY 13-14.

The District's written responses to the matters communicated herein have not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, those charged with governance and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.

*Mayer Hoffman McCann P.C.*

Irvine, California  
November 8, 2013

Moulton Niguel Water District  
 Budget Balance Report  
 Fiscal Year: July 2013 to June 2014  
 Report Months: July 2013 to September 2013

Description	Approved Budget	Fiscal Year to Date Commitments	Budget Balance	Budget % Committed
<b>GENERAL FUND</b>				
<b><u>Operating Revenue</u></b>				
Water Sales	26,950,000	8,098,639	18,851,361	30%
Recycled Water Sales	4,547,715	1,753,962	2,793,753	39%
Sanitation Sales	16,920,000	4,728,170	12,191,830	28%
Other Operating Income	443,900	106,234	337,666	24%
<b>Subtotal Operating Revenue</b>	<b>48,861,615</b>	<b>14,687,005</b>	<b>34,174,610</b>	<b>30%</b>
<b><u>Operating Expenses</u></b>				
Salaries	8,536,016	1,828,429	6,707,587	21%
PERs Employer Contributions	879,054	196,342	682,712	22%
PERs Employee Contributions	201,699	52,108	149,591	26%
PERs Other (Side fund, 401A)	210,481	32,646	177,835	16%
Educational Courses	47,380	2,600	44,780	5%
Travels & Meetings	245,623	46,682	198,941	19%
Prehire Employment Expenses	13,000	3,625	9,375	28%
General Services	512,475	58,288	454,187	11%
Annual Audit	45,000	-	45,000	0%
Member Agencies O&M	1,140,100	783,236	356,864	69%
Dues & Memberships	84,214	11,370	72,844	14%
Election Expenses	-	-	-	0%
Consulting Services	1,085,974	382,746	703,228	35%
Equipment Rental	89,300	38,939	50,361	44%
District Fuel	346,000	83,715	262,285	24%
Insurance - District	585,246	133,137	452,109	23%
Insurance/Disability - Personnel	320,250	97,314	222,936	30%
Insurance - Benefits	2,493,531	573,362	1,920,169	23%
Legal Services - Personnel	50,000	3,245	46,755	6%
Legal Services - General	169,000	147,377	21,623	87%
District Office Supplies	563,300	129,349	433,951	23%
District Operating Supplies	244,095	182,347	61,748	75%
Repairs & Maintenance - Equipment	1,858,101	146,489	1,711,612	8%
Repairs & Maintenance - Facilities	3,314,624	1,472,392	1,842,232	44%
Safety Program & Compliance Requirements	134,985	57,406	77,579	43%
SOCWA	8,702,195	2,175,549	6,526,647	25%
Special Outside Assessments	173,500	25,688	147,812	15%
Utilities	1,839,205	599,019	1,240,186	33%
Water Purchases	26,790,439	8,067,524	18,722,915	30%
Meter / Vault Purchases	807,000	29,299	777,701	4%
<b>Subtotal Operating Expenses</b>	<b>61,481,787</b>	<b>17,360,223</b>	<b>44,121,564</b>	<b>28%</b>
<b>Net Operating Revenues / Expenses</b>	<b>(12,620,172)</b>	<b>(2,673,218)</b>	<b>(9,946,954)</b>	

Moulton Niguel Water District  
 Budget Balance Report  
 Fiscal Year: July 2013 to June 2014  
 Report Months: July 2013 to September 2013

Description	Approved Budget	Fiscal Year to Date Commitments	Budget Balance	Budget % Committed
<b>Non-Operating Revenue</b>				
Property Tax Revenue	21,327,990	699,939	20,628,051	3%
Investment Income (Loss)	1,347,155	575,121	772,034	43%
Cellular Lease Income	1,650,085	429,055	1,221,030	26%
Misc Non-Operating Income	47,750	26,610	21,140	56%
<b>Subtotal Non-Operating Revenue</b>	<b>24,372,980</b>	<b>1,730,724</b>	<b>22,642,256</b>	<b>7%</b>
<b>Net Revenues / Expenses</b>	<b>11,752,808</b>	<b>(942,494)</b>	<b>12,695,302</b>	

Moulton Niguel Water District  
 Budget Balance Report  
 Fiscal Year: July 2013 to June 2014  
 Report Months: July 2013 to September 2013

Description	Approved Budget	Fiscal Year to Date Commitments	Budget Balance	Budget % Committed
<b>WATER EFFICIENCY FUND</b>				
<b><u>Operating Revenue</u></b>				
Water Efficiency	3,750,000	1,475,242	2,274,758	39%
<b>Subtotal Operating Revenue</b>	<b>3,750,000</b>	<b>1,475,242</b>	<b>2,274,758</b>	
<b><u>Operating Expenses</u></b>				
Salaries	411,903	94,183	317,720	23%
PERs Employer Contributions	43,505	10,144	33,361	23%
PERs Employee Contributions	11,966	2,918	9,048	24%
Educational Courses	500	-	500	0%
Travels & Meetings	3,800	-	3,800	0%
Dues & Memberships	500	-	500	0%
Consulting Services	20,000	-	20,000	0%
Insurance/Disability - Personnel	4,064	1,396	2,668	34%
Insurance - Benefits	100,369	15,631	84,738	16%
District Office Supplies	76,500	250	76,250	0%
District Operating Supplies	500	-	500	0%
Repairs & Maintenance - Equipment	2,000	-	2,000	0%
Water Efficiency	1,583,000	207,739	1,375,261	13%
<b>Subtotal Operating Expenses</b>	<b>2,258,607</b>	<b>332,261</b>	<b>1,926,346</b>	<b>15%</b>
<b>Net Operating Revenues / Expenses</b>	<b>1,491,393</b>	<b>1,142,981</b>	<b>348,412</b>	
<b><u>Non-Operating Revenue</u></b>				
Investment Income	118,312	-	118,312	0%
<b>Subtotal Non-Operating Revenue</b>	<b>118,312</b>	<b>-</b>	<b>118,312</b>	
<b>Net Revenues / Expenses</b>	<b>1,609,705</b>	<b>1,142,981</b>	<b>466,725</b>	

Moulton Niguel Water District  
Budget Balance Report - Category Breakdown

Expense Category	Category Breakdown
<b><u>Operating Revenue</u></b>	
Water Sales	Potable Usage, Potable Service
Recycled Water Sales	Recycleed Usage, Recycled Service
Sanitation Sales	Sewer Usage, Sewer Service
Water Efficiency	WBBRS Penalties
Other Operating Income	Meter sales, meter sales - miscellaneous parts, Rconnect fees, Tag fees, Reconnect after hour fees, Back flow notice, Service installation charges, Site visit charge, Recycleed sur charge, Meter removal/re-set, Water conservation penalties, Fog fees, Plan check & inspection, Miscellaneous
<b><u>Operating Expenses</u></b>	
Salaries	Full time, Part time, Overtime, Comp time expense, Sick Expense, Director's Fees, Merit expense, Promotional expense, Standby
Retirement Program	PERs side fund, PERs employer contributions, PERs employee contributions, 401A employer contributions
Educational Courses	Educational courses, Certificates
Travels & Meetings	Travel costs, Seminar fees, Conference registration
Prehire Employment Expenses	Pre-employment costs, Employees Awards, Events
General Services	Billing services, Accounting services, Tax collection charges, Bad debt expense, Asset management fees, Principal, Interest, Community relations, project sponsorship, Mapping-sectional updates, Uniform services, Employee relations
Annual Audit	Financial audit
Member Agencies O&M	Pipeline O & M, Importation system O & M
Dues & Memberships	District dues & Memberships, Staff dues & memberships
Election Expenses	Registrar of voters expense
Consulting Services	Overall consulting services
Equipment Rental	Vehicle leasing, Office equipment rentals, System rentals, Overall tools & equipment
District Fuel	Unleaded fuel, Diesel fuel - vehicles, Diesel fuel - generators, natural gas & propane, vehicle oil
Insurance - District	Property insurance, Automobile & general liability, UST pollution liability, Pollution and Remediation, Employee Dishonesty, Misc. insurance
Insurance/Disability - Personnel	State unemployment insurance, Workers compensation, Medicare, FICA
Insurance - Benefits	Life & Health insurance, Dental, Vision, Disability, Flexible spending, OPEB costs, OPEB costs rate subsidy, Auto allowance
Legal Services	General services, Personnel services
District Office Supplies	General office supplies, Billing supplies, Community relations supplies, Conservation supplies, Postage - billing, Shipping & postage - general, Freight expense, Sales tax expense
District Operating Supplies	Operating supplies, Chemicals, Laboratory supplies
Repairs & Maintenance - Equipment	Office equipment, Support services equipment, Hardware/software equipment, field equipment, AutoCad/drafting equipment, Mainframe, Server/network/PCs, SCADA, Vehicle corrective maintenance, Vehicle preventative maintenance, Vehicle diagnostic equipment, Vactor vehicles, Vactor equipment maintenance

Moulton Niguel Water District  
Budget Balance Report - Category Breakdown

Expense Category	Category Breakdown
Repairs & Maintenance - Facilities	System maintenance, System repairs, trash pick-up & tipping fees, Janitorial services, Landscape maintenance, Tree maintenance, Hazardous materials removal, USA's, Contract & maintenance agreements, Pest control & algaecide, Paving, Instrumentation, Raising manholes, Permits
Safety Program & Compliance Requirements	Safety equipment & supplies, Safety shoes, Safety training, Regulatory compliance
SOCWA	General fund, PC 2 JB Latham, PC 3A Plant 3A, PC 5 San Juan, (SO) 2 RW permitting, PC 15, PC 17, PC 21, PC 24, Pretreatment program, Use audit refund
Special Outside Assessments	DOHS fees, LAFCO fees, OC property tax admin fees, Other fees
Utilities	Electric utility, Gas utility, Overall telephone utility, Mobile communication, Internet/wireless communication
Water Purchases	Domestic water (MWD, SCWD, ETWD, IRWD), MWDOC (RTS, Annual connection, Capacity charge), Recycled water - SCWD, Reclaimed water rebate
Meter / Vault Purchases	Meters & vaults
Water Efficiency	Efficiency rebates, WBBRs costs
<b><u>Non-Operating Revenue</u></b>	
Property Tax Revenue	Secured taxes, Secured taxes paid to SCWD, Supplemental taxes, Unsecured taxes, Miscellaneous taxes
Investment Income	GOB assessments, Secured I/R taxes (06, 07, 08), Supplemental I/R taxes (06, 07, 08), Unsecured I/R taxes (06, 07, 08), Miscellaneous I/R taxes (06, 07, 08),
Cellular Lease Income	Cell towers
Misc Non-Operating Income	Returned check fees, SCWD sewer facility fees, Board room rental fees, Sale of scrap, Medical FSA, Gain (loss) on sale of assets, miscellaneous non-operating income



**AMENDMENT NO. 1 TO THE AGREEMENT FOR PROFESSIONAL SERVICES  
BETWEEN MOULTON NIGUEL WATER DISTRICT AND  
PUBLIC FINANCIAL MANAGEMENT, INC.  
FOR FINANCIAL ANALYSIS AND ADVISORY SUPPORT  
FY2013-14; OM13-14.012**

This Amendment No. 1 ("Amendment No.1") is entered into and effective as of the \_\_\_\_\_ day of \_\_\_\_\_, 2013, amending the Agreement for Professional Services, dated June 1, 2013 (the "Agreement") by and between the Moulton Niguel Water District, a California Water District ("MNWD" or "District"), and Public Financial Management, Inc. (PFM) ("Consultant") (collectively, the "Parties") for financial analysis and advisory support services. Where applicable, the term "Agreement" as used in this Amendment No. 1 includes the Agreement together with Amendment No. 1.

**RECITALS**

A. On June 1, 2013, the Parties entered into the Agreement for financial analysis and advisory support services to be performed during Fiscal Year (FY) 2013-14 through June 1, 2014 for a not-to-exceed amount of \$44,000.00; and

B. The Parties desire to supplement the Agreement's scope of work to include Consultant's performance of professional services to provide interim support in the absence of the Director of Finance; and

C. The Parties have negotiated and agreed to a supplemental scope of work and related fee schedule, which is attached to and incorporated in by this reference as Exhibit "A" Scope of Services and Fee.

NOW, THEREFORE, in consideration of these recitals and the mutual covenants contained herein, MNWD and Consultant agree as follows:

1. Additional Section 2A:MNWD will pay Consultant for all work associated with those services described in Exhibit "A" on a monthly basis for a flat fee of twenty-six thousand five hundred dollars (\$26,500), in accordance with the payment terms set forth therein, not-to-exceed **two hundred forty-five thousand seven hundred dollars (\$245,700.00)** for an Agreement total of two hundred eighty-nine thousand seven hundred dollars (\$289,700.00). MNWD will pay Consultant for all travel expenses related to such services, as further described in Exhibit "A" at actual cost in accordance with the payment terms herein. Consultant will provide MNWD, on a monthly basis, copies of invoices sufficiently detailed to include summary of work performed, and related activities and costs for approval by MNWD.

2. Consultant will complete all work for this Amendment No. 1 by June 1, 2014.

3. All other provisions of the Agreement, as may have been amended from time to time, will remain in full force and effect. In the event of any conflict or inconsistency between the Agreement and previous amendments and this Amendment No. 1, the terms of this Amendment No. 1 shall control.

4. All requisite insurance policies and bonding to be maintained by the Consultant pursuant to the Agreement under Section 13 will include coverage for the work and services provided under this Amendment No. 1. Consultant's subcontractor MBMC (and any other subcontractors of the Consultant that are approved by the District in writing) is required to maintain insurance policies and fidelity bonding in accordance with all terms, conditions and requirements under Section 13 throughout the term of this Agreement. Consultant shall provide evidence of subcontractor insurance coverage and bonding, including but not limited to additional insured endorsements, as required under Section 13 prior to a subcontractor commencing work or services under the Agreement.

5. Consultant's indemnification obligations pursuant to Sections 9 and 9A shall survive the expiration or termination of this Agreement and/or the performance or completion of services provided under this Agreement.

6. All other provisions of the Agreement, as may have been amended from time to time, will remain in full force and effect. In the event of any conflict or inconsistency between the Agreement and this Amendment No. 1, the terms of this Amendment No. 1 shall control.

7. The individuals executing this Amendment No. 1 and the instruments referenced in it on behalf of Consultant each represent and warrant that they have the legal power, right and actual authority to bind Consultant to the terms and conditions of this Amendment No. 1.

[SIGNATURE PAGE FOLLOWS]

PUBLIC FINANCIAL MANAGEMENT,  
INC.

By:

\_\_\_\_\_  
(Sign here)

\_\_\_\_\_  
Name

Title

MOULTON NIGUEL WATER  
DISTRICT, a California Water District

By: Joone Lopez

---

General Manager

**EXHIBIT A**

**SCOPE OF WORK AND FEE**

**MOULTON NIGUEL WATER DISTRICT**  
**SCOPE OF WORK**  
**INTERIM DIRECTOR OF FINANCE SERVICES**  
**October 24, 2013**

The following is the Scope of Work for professional services related to performing work and tasks of the Director of Finance position through June 30, 2014. Brian Thomas of Public Financial Management (PFM) will perform and direct these services during the Agreement term, or until MNWD fills the Director of Finance position. Michael Bell of Michael Bell Management Consulting (MBMC) will assist PFM as a sub-contractor to PFM as needed to ensure continuity of services and work product. PFM commits to having resources on site at MNWD headquarters 3 days per week for the duration of the contract term, beginning the week of November 11, 2013. Services will include, but not be limited to the following:

**Operational**

Provide direction and support to Finance Department staff and resources on a daily basis to ensure that all important responsibilities and obligations of the Department are fulfilled.

Operational services include:

- Supervise and direct staff work as needed
- PFM will not conduct performance appraisals, but will provide input to MNWD management with regard to Finance Department performance, and provide staff with regular feedback regarding performance and work product
- Coordinate, chair and manage weekly Finance Department staff meetings
- Direct the preparation of Finance staff reports as needed
- Attend and participate as needed in weekly MNWD staff meetings
- Assist MNWD management with organizational structure, class and compensation decisions regarding the Finance Department
- Review and revise existing policies as needed including investment, reserves and debt coverage
- Provide information and support communications with MNWD customers and stakeholders
- Provide information for and attend monthly Finance Committee and Board of Director meetings
- Assist MNWD management with other reports and presentations as needed

**Financial Planning**

Develop and implement major financial plans, forecasts and analyses including, but not limited to:

- Assist with planning/financing/funding the Baker Water Treatment Plant (BWTP)
- Assist with planning/financing of Operations/Headquarters facilities
- Develop multi-year (10 year) financial plan

- Develop 10-year cash flow forecast
- Manage Water, Recycled Water, and Sewer rate reviews including:
  - Revenue requirement
  - Cost of service analysis
  - Rate design

### **Financial Reporting**

Prepare and/or supervise ongoing financial reports, analysis, and disclosure in accordance with District timing requirements including:

- Manage and assist with completion of the annual audit
- Manage and assist with completion of the CAFR
- Submit CAFR to GFOA for consideration for award for excellence in financial reporting
- Manage and prepare monthly and quarterly financial reports
- Manage and prepare budgets
- Communicate financial results

### **Debt/Investment Management**

- Coordinate and manage the issuance of refunding and new money debt, including providing the complete range of financial advisory services related to the issuance of debt
- Review investment portfolio on a regular basis
- Evaluate and recommend financing alternatives
- Work with trustee, bond counsel and other parties to ensure timely payment of debt

### **Budget**

- Assist executive management review budget proposals
- Coordinate the preparation and presentation of the 2014/15 budget
- Work with operating divisions to develop a comprehensive and efficient 2014/15 budget
- Participate in workshops, board and committee meetings to review and consider budget

In connection with the services and work described, or to be performed, under the Agreement, PFM agrees to maintain the confidentiality of all of MNWD's confidential information, and to ensure that subcontractor MBMC does the same.

### **Other Services as Needed**

PFM shall provide other services needed as agreed by the MNWD General Manager and Assistant General Manager, including assisting in the recruitment to fill the Director of Finance position.

### **Timeline**

Work performed under this Agreement will be for the period November 1, 2013, through June 1, 2014, unless the services are terminated earlier.

### **Fee Proposal**

PFM will perform the above scope of work under the following fee schedule.

PFM monthly cost (excluding travel expenses): \$26,500

Travel expenses will be billed at actual cost. Monthly travel expenses are estimated to be \$3,600 per month. PFM will follow District protocols regarding travel expenses (e.g., coach flights, room expenses, etc.) Reimbursement for lodging will be capped at \$200/night, including all fees (e.g., transient occupancy taxes, etc.) Receipts for all out-of-pocket travel expenses will be provided for all expense reimbursement requests.

Any additional services outside of the scope stated herein ("Additional Services"), must be authorized by the District in writing prior to the performance thereof. Consultant shall not be entitled to compensation for Additional Services performed without the prior written approval of the District. Additional Services will be paid on a time and materials according to the following hourly rate schedule (plus expenses):

Subcontractor MBMC/Michael Bell: \$225/hour  
Brian Thomas: \$325/hour  
Eric Espino: \$275/hour  
Russ Branson: \$275/hour

In addition to the above, financial advisory services associated with a debt issuance would be paid from debt proceeds, and would be performed on a flat fee basis equal to \$35,000.

**AMENDED AND RESTATED  
AGREEMENT FOR CONSTRUCTION, OPERATION AND  
MAINTENANCE OF BAKER WATER TREATMENT PLANT**

THIS AMENDED AND RESTATED AGREEMENT (“Agreement”), dated this \_\_\_\_\_ day of \_\_\_\_\_, 2013 (“Effective Date”), is made and entered into by and among EL TORO WATER DISTRICT (“ETWD”), IRVINE RANCH WATER DISTRICT (“IRWD”), MOULTON NIGUEL WATER DISTRICT (“MNWD”), SANTA MARGARITA WATER DISTRICT (“SMWD”), each of the foregoing a California Water District formed under and existing pursuant to Section 34000 *et seq.* of the California Water Code, and TRABUCO CANYON WATER DISTRICT (“TCWD”), a County Water District formed under and existing pursuant to Section 30000 *et seq.* of the California Water Code, each sometimes individually referred to as a “Party” and collectively as “Parties.” In addition, the MUNICIPAL WATER DISTRICT OF ORANGE COUNTY (“MWDOC”), a Municipal Water District formed under and existing pursuant to Section 71000 *et seq.* of the California Water Code, shall be a signatory to this Agreement but shall participate only as expressly stated herein.

**RECITALS:**

WHEREAS, the Parties, along with other agencies, are members of the Santiago Aqueduct Commission (“SAC”), a joint exercise of powers agency formed by agreement on September 11, 1961 to build, operate and manage the Santiago Aqueduct Pipeline. The Santiago Aqueduct Pipeline was modified in conjunction with the construction of the Allen McColloch Pipeline (“AMP”) and is now known as the “V.P. Baker Pipeline” or “Baker Pipeline;” and

WHEREAS, under a separate agreement amended and restated effective July 1, 2007, IRWD currently maintains and operates the Baker Pipeline under the direction and on behalf of SAC for the benefit of the owners of capacity in the Baker Pipeline; and

WHEREAS, the Parties are South Orange County water suppliers who rely significantly or totally on treated water supplied by The Metropolitan Water District of Southern California (“MWD”) through MWDOC, conveyed from MWD’s Diemer Plant through the Allen McColloch Pipeline, as a source of water to provide potable water service within their service areas. Except as expressly stated herein, MWDOC’s participation in this Agreement shall be limited to assisting the Parties and MWD in the water billing function; and

WHEREAS, the Baker Pipeline is supplied with untreated water obtained from MWD by MWDOC and conveyed through MWD’s Santiago Lateral to a connection between the Santiago Lateral and the Baker Pipeline. Under certain hydraulic conditions, the Baker Pipeline can also be supplied, or in other hydraulic conditions could, with the addition of certain improvements be supplied with untreated water from Irvine Lake, through the Irvine Lake Pipeline. The Baker Pipeline currently serves only the untreated water demands of the SAC agencies, which have decreased over time, and its capacity is underutilized; and

WHEREAS, new treatment technologies are capable of economically treating untreated water to drinking water standards; and

WHEREAS, the Parties and MWDOC, under a memorandum of understanding and amendments thereto, jointly financed a feasibility study, benchmarking and pilot testing, and have determined that construction and operation of facilities to treat water from the Baker Pipeline to a quality suitable for potable use would make cost-effective use of the underutilized Baker Pipeline and would increase water supply reliability by providing an alternative source of treated water; and

WHEREAS, the Parties and MWDOC entered into the Agreement For Construction, Operation And Maintenance of Baker Water Treatment Plant , dated December 15, 2008, and amended by Amendment No. 1 thereto, dated December 23, 2009 (the “Original Agreement”) to provide for the construction, operation and maintenance of water treatment facilities to treat untreated water supplied through the Baker Pipeline, provide for their respective participation, rights and obligations therein, and make related provisions concerning the Baker Pipeline; and

WHEREAS, Amendment No. 1 to the Original Agreement was entered into when the preliminary design of the Baker WTP was substantially completed, to provide for an increase in the rated capacity of the Baker WTP, change the Parties’ respective Capacity Rights to reflect their participation in the revised capacity and make certain other provisions related to the increase; and

WHEREAS, the Allen McColloch Pipeline will not be used for the delivery of product water as contemplated in the Original Agreement, and instead the South County Pipeline will be used for such purposes; and

WHEREAS, in addition to such product water delivery conveyance facilities, the Parties have developed and desire to set out additional details and clarification of certain provisions relating to the use and operation of the Baker WTP; and

WHEREAS, the Parties and MWDOC desire to enter into this Agreement for the purpose of amending, restating and superseding the Original Agreement in its entirety;

NOW, THEREFORE, in consideration of the promises and covenants herein contained, the Parties agree as follows:

## **AGREEMENT:**

### **Section 1. Definitions.**

1.1 “Baker Pipeline” means the facility initially known as the Santiago Aqueduct and subsequently known as the V.P. Baker Pipeline or Baker Pipeline.

1.2 “Baker WTP” means the Baker Water Treatment Plant, a facility for the treatment of untreated water to render it suitable for potable use. The Baker WTP shall include the following components: (1) the Treatment Facilities; and (2) the Product Water Facilities.

1.3 “Baker WTP Subscriber” or “Subscriber” means, at any time, any agency who is

a Party to this Agreement, as originally executed or as may be amended to add or delete Parties as provided herein.

1.4 “Capacity Right” means a Subscriber’s undivided percentage ownership interests in the actual total production capacity of the Baker WTP Treatment Facilities or in the Product Water Facilities, as applicable. The total Capacity Rights in the Baker WTP Treatment Facilities or in the Product Water Facilities, as applicable, shall be deemed to equal the sum of all Subscribers’ Capacity Rights expressed as percentages totaling 100%. The Capacity Rights equate to approximate nominal flow rates, but no change in the percentage Capacity Rights shall occur by reason of any variance between actual flow rates and the nominal flow rates, or increase or decrease in the nominal flow rates as a result of re-rating of the capacity of the Baker WTP or any component thereof, except by amendment to this Agreement. The Capacity Rights are shown in Tables A-1 and A-2 set forth in Exhibit 1 attached hereto, or any amended Tables A-1 or A-2 substituted therefor as provided herein.

1.5 “CFS” means cubic feet per second.

1.6 “Product Water Facilities” means the facilities located downstream of product water pipeline Station 15+51.92 as shown on Drawing C030 of the Construction Plans for the Baker Water Treatment Plant, Volume 3A, dated July 2013 including the product water pipeline between the two existing 16 million gallon reservoirs and the product water pump station; the product water pump station and associated ancillary facilities and equipment; the product water pipeline between the product water pump station and the SCP; the SCP valve vault and ancillary facilities and equipment; and the pipeline connection to the SCP.

1.7 “Project Committee” shall have the meaning specified in Section 6.

1.8 “Rated Capacity” means the approximate nominal rated capacity of the Baker WTP Treatment Facilities or Product Water Facilities, as applicable to the context, which is agreed to be the figure shown as the total in the column under the heading “Approximate Flow Rate (in CFS) corresponding to Capacity Right” in Table A-1 or A-2, respectively, set forth in Exhibit 1.

1.9 “SAC” means the Santiago Aqueduct Commission, a joint exercise of powers agency formed and existing pursuant the SAC Agreement.

1.10 “SAC Agreement” means the Santiago Aqueduct Commission Joint Powers Agreement, dated September 11, 1961, as amended December 20, 1974, January 13, 1978, November 1, 1978, September 1, 1981, October 22, 1986, and July 8, 1999, and as may hereafter be amended.

1.11 “SCP” means the facility jointly owned and operated by MWD and SMWD, known as the South County Pipeline.

1.12 “TCWD Pump Station” means the pump station located at the site of the Baker WTP that delivers untreated water from the Baker Pipeline to TCWD’s existing water treatment facilities.

1.13 “Treatment Facilities” means all components of the Baker WTP other than the Product Water Facilities. Treatment Facilities includes, without limitation, (1) the treatment plant; (2) the TCWD pump station; (3) the pump station for deliveries from Irvine Lake; and (4) all associated lands, leaseholds and rights-of way.

## **Section 2. Design and Construction of the Baker WTP; Capacity Rights.**

2.1 **Design; CEQA.** The Parties acknowledge and agree that the Baker WTP has been designed as set forth in the Construction Plans for the Baker Water Treatment Plant, dated July 2013, and the Construction Plans for the Baker Water Treatment Plant Raw Water Conveyance Facilities, dated August 2013. The Parties further acknowledge and agree that pursuant to the California Environmental Quality Act, an environmental impact report for the Baker WTP project was certified by IRWD on April 25, 2011, acting as lead agency

2.2 **Construction; Change Orders; Permits, Land and Right-of-Way.** Subject to funding and reimbursement as provided herein, IRWD has been and shall continue to be responsible for overseeing and implementing the planning, environmental documentation, land and right-of-way acquisition, permitting, design and construction of the Baker WTP, including the procurement and award of all contracts IRWD deems necessary for such purpose. The foregoing notwithstanding, Project Committee approval shall be required for (1) the award of any original contracts for environmental documentation, design and construction, (2) the issuance of any design change variance over \$30,000, and (3) the issuance of any construction change order over \$100,000. Upon the issuance of a construction change order in an amount that, together with the amount of previously issued change orders, exceeds \$100,000 in the aggregate as calculated since the award of the contract or since the giving of the most recent prior notification under this sentence (excluding for such purpose any individual construction change order with an amount over \$100,000), IRWD shall provide written notification of the issuance of such aggregate amount to each Party.

The Baker WTP is proposed to be constructed on property currently owned by IRWD. IRWD’s responsibilities shall not include legal entitlements necessary to introduce Baker WTP product water into the SCP or any unavailability of the SCP to deliver product water. The Parties (other than IRWD) and MWDOC shall be responsible for all such legal entitlements and all contractual and other arrangements relating to the ownership, use, operation and maintenance of the SCP including any SCP outage.

2.3 **Oversizing.** The Parties acknowledge and agree that the Baker WTP has been designed to have a nominal capacity approximately equal to the Rated Capacity through each component. It is agreed that oversizing of components shall be minimized, but some components may be oversized if deemed efficient by IRWD and approved by the Project Committee for ease of future expansion. The Parties’ Capacity Rights shall include any such oversizing, and such Parties shall be entitled to credit for their Capacity Right share of oversizing if and to the extent they are participants in any future expansion, or reimbursement therefor from the expansion participants, if and to the extent such Parties do not participate in the expansion. Such oversizing credit or reimbursement shall be calculated based on the depreciated replacement cost of the oversizing. For this purpose, (i) pumps and electrical improvements

shall be deemed to have a useful life of twenty (20) years and all other improvements shall be deemed to have a useful life of fifty (50) years, (ii) each improvement's useful life shall be measured from its initial installation or most recent replacement or refurbishment, whichever is later, and (iii) cost shall be based on the prorated amount of IRWD's documented cost of installation of the oversized component attributable to the oversizing. The determination whether to oversize any components shall be made during preliminary design of the Baker WTP. It is acknowledged that the Rated Capacity is the design capacity of the Baker WTP and is the sum of the nominal flow rates corresponding to the Capacity Rights subscribed by the Parties. Such nominal flow rates, together with the corresponding Capacity Rights, are set forth in Tables A-1 and A-2, contained in Exhibit "1" to this Agreement, which is attached hereto and incorporated herein by this reference.

**2.4 Variance From Rated Capacity.** It is acknowledged that the design or rated capacity of the Baker WTP may vary from the Rated Capacity as initially constructed or may change from time to time thereafter, due to regulatory requirements or other unforeseen circumstances, and neither IRWD nor any other Party shall have any liability therefor; provided, any Party shall be entitled to submit for consideration by the Project Committee a proposal for mitigation of such circumstances. Such change or variation shall not entitle any Party to an adjustment of its Capacity Right percentage, which shall be and remain fixed. The rights and obligations of the Parties shall be determined in accordance with their Capacity Rights, and not their corresponding approximate nominal flow rates as shown in Tables A-1 and A-2.

**2.5 Ownership and Operation; Modification.** Subject to the Capacity Rights as described herein, IRWD shall own and operate the Baker WTP. The Subscribers will own capacity, represented by their Capacity Rights, but will not otherwise have ownership interests in any Baker WTP physical facilities, lands, or rights-of-way. The Baker WTP shall not be governed by SAC or in any way subject to the SAC Agreement. IRWD shall operate the Baker WTP in an efficient and economical manner, maintaining it in good repair and working order, all in accordance with recognized sound engineering and management practices. The Parties acknowledge that, with notice to the Subscribers stating the cause and with the approval of the Project Committee, IRWD may modify the Baker WTP and allocate the cost thereof as provided in this Agreement, if such modification is determined to be necessary to satisfy regulatory requirements or for other reasons consistent with sound engineering and management practices.

**2.6 Manager/Operator Other Than IRWD.** If IRWD optionally terminates all of its Capacity Rights, then unless the remaining Parties and IRWD mutually agree upon an arrangement for IRWD to continue as a contract manager/operator, the Project Committee shall select another manager/operator for the Baker WTP, except for the Irvine Lake pump station, with respect to which IRWD shall continue to be the manager/operator. Irrespective of whether IRWD continues to serve as manager/operator of the Baker WTP, IRWD shall continue to own the Baker WTP, and upon IRWD's termination of all of its Capacity Rights, the Parties shall execute a lease for the use of the IRWD lands occupied by the Baker WTP by the remaining Parties incorporating standard commercial lease terms as applicable and as are not inconsistent with the exercise of the Capacity Rights or the provisions of this Agreement. The then-unused portion of the land use cost included within the capital cost as described in Section 3 shall be deemed to constitute the entire rental amount due under such lease, and no additional rental or land use cost shall be due to IRWD during the lease term. The term of the lease shall be the

same as the term of this Agreement.

**Section 3. Project Capital Design and Construction Costs.**

3.1 **Capital Costs; Land.** The capital costs of the design and construction of the Baker WTP shall include, but are not limited to, the costs of environmental documentation, design, permits, performance and payment bonds, legal fees, land and right-of-way acquisition, surveying, geotechnical services, construction, construction management, inspection and accounting. The capital costs shall include the cost for the use of land furnished by IRWD as a site for the Baker WTP, in the amount \$ 440,000, acknowledged by the Parties to be the product of 4 acres, which represents the footprint of the plant area, pipeline area and ancillary areas related to plant operations, and \$ 110,000 per acre, which represents the appraised value for institutional use as determined by an appraisal prepared by an MAI appraiser selected and retained by IRWD. Exhibit “2” to the Original Agreement is hereby deleted from the Agreement.

3.2 **Deposits.** Each Party shall make deposits of its share of the capital costs based on its Capacity Right percentage, upon presentation of invoice, for projected expenditure amounts for the following milestone periods and on the deposit dates indicated:

TABLE B<sup>1</sup>

Milestone Period	Date(s) of Deposits	Costs
No. 1: Execution of the Original Agreement to completion of preliminary design	One deposit, due thirty (30) days following execution	Preliminary design; environmental documentation
No. 2: From completion of preliminary design to completion of final design	Quarterly deposits, due each January 1, April 1, July 1 and October 1 for the ensuing quarter	Final design; permits; land & right-of way acquisition (other than land use cost)
No. 3: Completion of Final Design to Completion of Construction	Quarterly deposits, due each January 1, April 1, July 1 and October 1 for the ensuing quarter	Construction; land use cost; construction management and support services; permits; land & right-of way acquisition (other than land use cost)

Feasibility study, benchmarking, pilot testing and related costs were previously incurred by the Parties in shares specified under the memorandum of understanding referenced in the recitals of this Agreement. It is acknowledged and agreed that, prior to the calculation of the Milestone No. 1 preliminary design and environmental documentation cost deposits, such previously-incurred costs were reconciled and adjusted to equal the Parties’ respective Capacity

<sup>1</sup> Shading indicates milestone completed as of the Effective Date.

Right shares by means of credits and debits applied to the Parties' Milestone No. 1 deposit amounts, and further, that pursuant to Amendment No 1 to the Original Agreement, the Parties' costs incurred prior to the date of Amendment No. 1 were reconciled and adjusted in the manner provided in this Section 3.2 to reflect the changes in the Rated Capacity and the Capacity Rights effectuated by said amendment.

At the second and each subsequent deposit date, the projected expenditure deposit amount shall be adjusted by IRWD to include excess or shortfall from the preceding deposit. Within one hundred twenty (120) days following project completion or resolution of all cost-related disputes with project contractors and vendors under the project contracts, whichever occurs later, the Parties shall pay or be refunded, as the case may be, their shares of any difference between the deposit amounts and the actual costs. Any costs, invoices, reimbursements or recoveries received by IRWD after such one hundred twenty day (120) period will be allocated and billed or refunded, as applicable, to the Parties with the first year's operation and maintenance costs.

**3.3 Allocation Between Treatment Facilities and Product Water Facilities.** The allocation of construction costs among the Parties pursuant to Section 3.2 will utilize the Capacity Rights, which are different for the Treatment Facilities and the Product Water Facilities, and as a result it is necessary to allocate all Baker WTP construction costs between the Treatment Facilities and the Product Water Facilities. It is acknowledged that for such purpose use of the engineer's estimate is a more accurate method than bid items which can be affected by the competitive bidding process. For such purpose, the engineer's estimate for the Product Water Facilities, equating to 11.54% of the construction cost associated with the Construction Plans for the Baker Water Treatment Plant, dated July 2013, will be used to proportionately allocate construction costs between the Treatment Facilities and the Product Water Facilities.

#### **Section 4. Operation, Maintenance, Repair and Replacement Costs.**

**4.1 Classification of Costs as Fixed or Variable.** Operation, maintenance, repair and replacement costs shall be classified by IRWD as either fixed or variable costs. "Fixed costs" are costs that do not vary with the quantity of product water delivered from the Baker WTP. "Variable costs" are costs that vary with the quantity of product water delivered from the Baker WTP. Costs shall be classified as either "Fixed costs" or "Variable costs" in accordance with standard accounting practices for water production facilities and shall be subject to review by the Project Committee during the annual budget approval process pursuant to Section 4.2 and Section 4.3. Exhibits "3" and "4" to the Original Agreement are hereby deleted from the Agreement.

**4.2 Fixed Costs – General.** Fixed costs shall be allocated to the Parties based on their respective Treatment Facilities and Product Water Facilities Capacity Rights percentages, set forth in Tables A-1 and A-2. Table A-3, set forth in Exhibit "1," does not affect Capacity Rights, applies only to the allocation of variable costs as provided below and shall not be used to allocate fixed costs. Annually, by April 1 of each year, IRWD shall prepare a budget for fixed costs of the Baker WTP during the next budget year (July 1 – June 30) for approval by the Project Committee, and shall provide each Party with a copy of the budget. Each Party's share of the budgeted fixed costs for the budget year shall be payable by advance deposits made

quarterly in four (4) equal installments or as otherwise determined by the Project Committee, and shall be due upon presentation of invoices by IRWD. In the second and each subsequent budget year, any excess/shortfall from the preceding budget year's deposits shall be subtracted from/added to the second quarterly deposit or otherwise addressed as determined by the Project Committee. If and for so long as the Project Committee fails to approve a budget for fixed costs, the Parties' obligations under this Section shall continue to be performed as though the prior year's budget were in effect for the current budget year, and IRWD may reduce the production of the Baker WTP as necessary to operate within such budget.

4.2.1 **Fixed Costs – Treatment Facilities.** Fixed costs attributable to the Treatment Facilities shall be allocated to all of the Parties in accordance with their Table A-1 Capacity Rights in the Treatment Facilities.

4.2.2 **Fixed Costs – Product Water Facilities.** Fixed costs attributable to the Product Water Facilities shall be allocated to all of the Parties, excluding IRWD, in accordance with their Table A-2 Capacity Rights in the Product Water Facilities.

4.3 **Variable Costs – General.** Variable costs shall be allocated to the Parties as provided in subparagraphs 4.3.1, 4.3.2 and 4.3.3. Each Party's variable costs shall be due and payable upon presentation of monthly invoices by IRWD. IRWD will provide MWDOC and SMWD with the calculation of the quantities of Baker WTP product water delivered to each of the Parties for the purpose of assisting MWDOC and SMWD in determining the SCP flows to be invoiced to the Parties. IRWD shall meter the total quantity of product water delivered from the Baker WTP (upstream of all turnout points). IRWD shall also calculate the total quantity of Baker WTP product water delivered to IRWD, including the amount delivered to IRWD for ETWD in the event ETWD is not taking product water from the Product Water Facilities, by subtracting from such metered product water delivered from the Baker WTP, the flow metered at the product water pump station discharge. On a monthly basis IRWD shall determine any discrepancy between (i) the calculated amount of Baker WTP product water delivered to IRWD and (ii) IRWD's Capacity Right, or in the event ETWD is not taking product water from the Product Water Facilities, the sum of IRWD's and ETWD's Capacity Rights, and reconcile the discrepancy by adjusting the respective amounts of the flows delivered to IRWD (and if applicable, ETWD) and to the Product Water Facilities in the following month. Annually, by April 1 of each year, IRWD shall prepare a budget for variable costs of the Baker WTP during the next budget year for approval by the Project Committee, and shall provide each Party with a copy of the budget. If and for so long as the Project Committee fails to approve a budget for variable costs, the Parties' obligations under this Section shall continue to be performed as though the prior year's budget were in effect for the current budget year, and IRWD may reduce the production of the Baker WTP as necessary to operate within such budget.

Meter error or loss shall be divided among the Parties on a pro-rata basis.

4.3.1 **Variable Costs – Allocation Basis and Methodology.** The Parties acknowledge that the quantity of Baker WTP product water delivered to each Party during each monthly billing period shall be deemed equal to each Party's full Capacity Right share of the total metered quantity of

Baker WTP product water delivered from the Baker WTP for such monthly billing period, based on the following: (i) with respect to Parties other than IRWD and ETWD, product water delivered into the Product Water Facilities will be deemed to be the first water delivered from the SCP to each Party during each monthly billing period; (ii) IRWD shall, through metering, calculation and adjustments described below, take delivery of its Capacity Right share of product water directly to IRWD, upstream of the delivery of product water to the Product Water Facilities; and (iii) ETWD shall be deemed to take delivery of its Capacity Right share of product water either through IRWD's product water delivery point and by means of an interconnection between IRWD's and ETWD's systems under separate arrangements between IRWD and ETWD or, when IRWD is not able to deliver water to ETWD through such interconnection, through the Product Water Facilities. ETWD's use of the Product Water Facilities during any billing period shall be prorated based on the number of days (rounded to the nearest whole day) ETWD used the Product Water Facilities.

4.3.2 **Variable Costs – Treatment Facilities.** Variable costs attributable to the Treatment Facilities will be allocated to all of the Parties based on their Table A-1 Capacity Right shares of the total metered quantity of Baker WTP product water delivered from the Baker WTP (upstream of all turnout points) for each monthly billing period.

4.3.3 **Variable Costs – Product Water Facilities.** Variable costs attributable to the Product Water Facilities will be allocated to all of the Parties, excluding IRWD, and, in the event ETWD is not taking product water from the Product Water Facilities, excluding ETWD, based on the actual quantity of Baker WTP product water delivered to each Party for each monthly billing period. For this purpose, the Variable Costs attributable to the Product Water Facilities will be allocated to the Parties based on their Table A-2 Capacity Rights shares for the number of days, determined as provided in Section 4.3.1, when ETWD is using the Product Water Facilities, and will be allocated to the Parties based on their Table A-3 Product Water Facilities variable cost allocation shares, for the number of days, determined as provided in Section 4.3.1, when ETWD is not using the Product Water Facilities.

4.4 **Payment.** Each Party shall pay invoices presented to it by IRWD under Sections 3.2, 4.2 and 4.3 within forty-five (45) days of receipt. In the event that a Party fails to pay the charges within such forty-five-day period, the Party shall be assessed and shall pay a penalty of one and one-half percent (1.5%) of the total outstanding charges each succeeding forty-five-day period or portion thereof that the amount remains unpaid until said charges are paid in full. Funds deposited with IRWD under Sections 3.2 and 4.2 shall earn interest for the benefit of the Party depositing the same at a rate equivalent to the average prevailing rate of earnings on IRWD's invested funds.

**4.5 IRWD Labor and Equipment Costs.** All design, construction and operation costs allocated to the Parties under this Section and Section 3 shall include the cost of IRWD labor and equipment, on a time and materials basis, using the actual number of man-hours and equipment-hours required (including travel time to and from IRWD facilities), multiplied by the applicable rates for the crew members and equipment deployed. After-hours services (defined as between 4:00 pm on a working day and 6:30 am on the next following working day; “working day” to exclude Saturdays, Sundays and IRWD-designated holidays) will be charged at time and a half.

Equipment will be charged at the prevailing IRWD equipment rates which are subject to adjustment in accordance with standard IRWD practices, without the need for an amendment to this Agreement.

The labor rates are comprised of a direct component that is adjusted periodically whenever IRWD’s Board of Directors approves a salary schedule adjustment (generally, one cost of living adjustment and one competitive wage adjustment each year), and an indirect (general and administrative overhead or “G&A”) component. The G&A component includes a “benefits burden” and a “contract burden.” The G&A benefits-burden rate of 45.3% and the contract burden rate of 33.3% shall become effective on the Effective Date and remain in effect through June 30, 2018, and thereafter are subject to adjustment by IRWD by amendment to this Agreement, beginning on or after June 30, 2018 and thereafter, not more frequently than five (5) year intervals from the prior adjustment.

Such labor rate components shall be applied as follows for each crew member used:

Labor Rate = base hourly salary + (base hourly salary X (benefits burden rate + contract burden rate))

Services contracted by IRWD to others and/or materials used shall be at IRWD’s direct cost and shall not include an IRWD indirect (general and administrative overhead) component.

**4.6 Records and Accounts.** IRWD shall keep appropriate records and accounts of all costs and expenses relating to conveyance, treatment, and delivery of product water, and the planning, design, construction, replacement, operation, maintenance and repair of the Baker WTP. Said records and accounts shall be provided by IRWD to the Project Committee annually, in advance of the preparation of the annual budgets, and shall be subject to reasonable inspection by any authorized representative of any Party at its expense. Further, said accounts and records shall be audited annually by an independent certified public accounting firm appointed by IRWD pursuant to generally accepted auditing standards as part of IRWD’s annual audit process.

**4.7 Sewer Costs.** The Baker WTP’s non-reclaimable wastewater will be discharged to IRWD’s sewer collection system. For such purpose, the Baker WTP shall be considered an IRWD sewer service customer and shall pay sewer connection fees in accordance with IRWD’s applicable sewer connection fee schedule in effect on the Effective Date based on average daily flow of 75,000 gallons per day and monthly sewer charges in accordance with IRWD’s applicable sewer rate schedule in effect from time to time. The connection fees, calculated to be \$1,194,000, shall be included in the capital costs to be allocated and paid under Section 3, and the monthly sewer charges

shall be included in the variable charges to be allocated and paid under Section 4.3.2.

**4.8 TCWD Pump Station Costs.** The Parties acknowledge that the operation of the TCWD Pump Station is necessary to allow the Baker WTP to be supplied by the Baker Pipeline without impeding TCWD's continued ability to operate its existing water treatment facilities supplied by the Baker Pipeline. IRWD agrees to operate, maintain, repair and replace the TCWD Pump Station for the term of this Agreement, whenever necessary to permit operation of both the Baker WTP and TCWD's water treatment facilities. Commencing upon the startup of the Baker WTP, the costs of the TCWD Pump Station operation, maintenance, repair and replacement will be allocated among the Parties under Sections 4.1 – 4.3 in the same manner as other costs attributable to the Treatment Facilities.

**4.9 Other Costs.** The Parties acknowledge that costs, anticipated or unanticipated, may arise relating to the Baker WTP, such as those mentioned in Section 7.1, MWD requirements, and costs to resolve claims or rights asserted by third parties claiming to have been impacted by the construction or operation of the Baker WTP. Such costs, if approved by the Project Committee as contemplated in Section 7.1, will be shared in proportion to Capacity Rights set forth in Table A-1 or A-2, as applicable.

## **Section 5. Capacity Right Adjustments and Transfers.**

**5.1 Transfers Among Subscribers.** If any Subscriber determines that its Capacity Right is in excess of its needs, it may transfer, sell or lease such excess to another existing Subscriber or Subscribers, in any manner as such Subscribers shall agree among themselves.

**5.2 Subscribers' First Right of Refusal.** If any Subscriber has determined that its Capacity Right is in excess of its needs, and wishes to offer the excess for transfer, sale or lease to an agency or agencies other than the existing Subscribers, the Subscriber shall first make a written offer to transfer, sell or lease the excess to all other existing Subscribers. The existing Subscribers shall have the first right of refusal to acquire the excess based on such offer; if the exercise of such rights of refusal are in the aggregate greater than the amount of the excess offered, the exercising and offering Subscribers shall agree among themselves upon a fair method of resolving the oversubscription. In the absence of such an agreement, the oversubscription shall be allocated in proportion to each exercising Subscriber's Capacity Right percentage.

**5.3 Transfers to Other Agencies.** If there is excess offered in such manner and existing Subscribers do not exercise their rights of first refusal to acquire or lease all of the excess Capacity Rights offered, then the offering Subscriber shall be entitled to offer the unsubscribed portion, on the same terms, to non-Subscribers. The addition of the new Subscriber shall require an amendment to this Agreement.

**5.4 Substitution of Capacity Rights Tables.** In the event of any transfer, sale or lease pursuant to Section 5.1, 5.2 or 5.3, the affected Subscribers shall so notify all other Subscribers and prepare and submit to all other Subscribers a new Table A-1 and or A-2, which shall be deemed substituted for the existing Table A-1 and/or A-2 in Exhibit "1" as a ministerial matter without the need for amendment. Transfers, sales and leases as provided in Sections 5.1,

5.2 and 5.3 shall be transacted in percentage Capacity Rights, only, and not in flow-rates. The aggregate design or rated capacity of the Baker WTP shall not be modified except by amendment, including an amendment to expand the Baker WTP.

**5.5 Amendment to Delete Subscriber; Limitation on Termination.** If an existing Subscriber has disposed of all of its Capacity Rights either by negotiated transfer, sale or lease to another Subscriber and/or to a non-Subscriber as provided in Section 5.1, 5.2 or 5.3, then an amendment hereto shall be executed as a ministerial matter to delete such Subscriber as a Party to this Agreement. No other method of termination of Subscribers' interests shall be permitted, except for optional termination of a Capacity Right as provided in Section 5.9 and termination of the Agreement as provided in Section 7.

**5.6 No Cost Reduction For Excess Capacity.** A Subscriber having Capacity Rights in excess of its needs shall remain responsible for both fixed and variable costs allocable to such capacity under Section 4 and shall not be relieved of such costs unless and until the Subscriber has disposed of the Capacity Rights in accordance with Section 5.1, 5.2 or 5.3.

**5.7 Temporary Emergency Use.** The provisions of Sections 5.1 through 5.3 notwithstanding, a Subscriber may by separate agreement allow the use of all or a portion of its Capacity Right by any Party on a temporary, emergency basis. Such Subscriber may determine the value of the temporary, emergency use. The temporary, emergency use shall in no event exceed the Subscriber's Capacity Right. The agreement for temporary, emergency use shall include rental or other sufficient use rights for the Baker Pipeline, in compliance with Section 8.

**5.8 Baker Pipeline Sufficient Capacity Requirements Applicable to Transfers.** In conjunction with all transfers, sales, leases or temporary, emergency use rights under this Section 5, all Subscribers and new Subscribers shall be in compliance with Section 8.

**5.9 Optional Termination.** In addition to the rights under Sections 5.1 through 5.3, any Party has the right to optionally terminate all or a portion of its Capacity Right as provided in this Section.

**5.9.1 Determination Dates.** IRWD shall provide written notice to all Parties at the following times: (1) within five (5) days following substantial completion of the preliminary design of the Baker WTP; and (2) within five (5) days following the determination of the Project Committee, after the opening of bids for construction of the Baker WTP, that the Project Committee will not direct IRWD to reject all bids in order to permit redesign and rebidding at the same plant capacity. In each notice, IRWD shall specify the date of the substantial completion of the preliminary design or the date of such Project Committee determination regarding bid results, as applicable (each, a "Determination Date"). Within forty-five (45) days after a Determination Date, any Party may elect to terminate all or a portion of its Capacity Right, by delivery of a written notice during said forty-five (45) day period to all Parties, specifying the portion of its Capacity Right to be terminated and the portion, if any, it is retaining, each portion to be stated both as a flow rate in CFS and as a percentage of total

Capacity Rights (e.g., if 10% is held, terminating 5% and retaining 5%). It is acknowledged by the Parties that the elective termination process relative to the first and second Determination Dates has been completed, no such elections were made, and such elective termination rights have expired.

- 5.9.2 **Elective Termination.** Any Party who wishes to acquire any of the terminated Capacity Rights shall so advise the other Parties in writing within thirty (30) days following the final date for the notice required to be given by the terminating Parties under Section 5.9.1, specifying the amount the Party wishes to acquire. If the aggregate amount of terminated Capacity Rights requested in such notices from the interested Parties does not exceed the total available amount of terminated Capacity Rights, each such Party shall receive the amount it requested. If the aggregate amount of terminated Capacity Rights requested in such notices exceeds the total available amount of terminated Capacity Rights, the shortfall shall be allocated to the requesting Parties in proportion to their existing Capacity Rights preceding the Determination Date. IRWD shall prepare and submit to all Subscribers a new Table A-1 and Table A-2 reflecting the changes, which shall be deemed substituted for the existing Table A-1 and Table A-2 in Exhibit “1” as a ministerial matter without the need for amendment. To the extent of any terminated Capacity Rights that no Party wishes to acquire, with the approval of the Project Committee, the Baker WTP shall be reduced in size to delete any or all of the flow represented by the unwanted terminated Capacity Rights, except as provided in Section 5.9.5.
- 5.9.3 **Termination of Cost Obligations.** The terminating Party shall, in any event, remain obligated for the share of costs allocable to the terminated Capacity Right under Section 3 through the applicable Determination Date, but shall be relieved of its obligations with respect to the terminated Capacity Right’s share of all subsequently incurred costs, and Section 5.6 shall not apply.
- 5.9.4 **Substitution of Capacity Rights Tables.** In the event of an exercise of an optional termination(s) under this Section, IRWD shall prepare and submit to all Parties a new Table A-1 and Table A-2, which shall be deemed substituted for the existing Table A-1 and Table A-2 in Exhibit “1” as a ministerial matter without the need for amendment, deleting the terminated Capacity Right, reflecting downsizing of the Baker WTP, if any, and adjusting the remaining percentages to reflect terminated Capacity Rights transferred to acquiring Parties and/or proportional allocation to all Parties of any terminated Capacity Right not acquired, as necessary to cause the total to remain 100%.
- 5.9.5 **Termination of Agreement For Insufficient Capacity.** The foregoing notwithstanding, if optional terminations timely exercised under this

Section after any Determination Date, after giving effect to any timely acquisitions of the terminated Capacity Rights by other Parties or non-Parties pursuant to Section 5.9.2, reduce the total nominal design capacity to less than the Rated Capacity, then the Project Committee shall decide, based on the vote of the remaining Capacity Rights, whether to terminate this Agreement; provided, however, that the Parties' respective obligations to pay any costs for which IRWD has not then been reimbursed under Section 3, including any costs due under outstanding contracts, shall survive the termination.

- 5.9.6 **No Further Elections To Terminate After Redesign.** If after a bid opening the project is reduced in size to delete terminated Capacity Rights and redesigned under Section 5.9.2, then anything to the contrary herein notwithstanding, no further Determination Date(s) shall be deemed to occur under Section 5.9.1.

## **Section 6. Project Committee.**

The Project Committee shall consist of one representative selected by each Party and one representative selected by MWDOC. The MWDOC representative shall be a nonvoting member of the Project Committee. Each Party and MWDOC shall also select an alternate representative to serve in the absence of its Project Committee representative. The primary purpose of the Project Committee shall be to facilitate communication among the Parties and aid in the administration of this Agreement. IRWD shall submit to the Project Committee any proposed design of a new component of the Baker WTP, any modification of the Baker WTP, any proposed change order requiring Project Committee approval under Section 2.2, each proposed annual budget, and any other required submission subject to Project Committee review and/or approval pursuant to this Agreement. Any other Party may also submit to the Project Committee any proposed design of a new component or modification of the Baker WTP. Decisions of the Project Committee shall require a simple majority of the Capacity Rights, with each representative having a vote weighted according to the Capacity Right percentage of the Party he or she represents, but in no event shall the vote of a Party who has exercised optional termination be weighted to reflect any terminated Capacity Right. The Project Committee shall meet periodically as needed or as requested by any Party, but at least once a year, to review and approve such items submitted to the Project Committee. If a Party fails to provide a written indication to the Project Committee within sixty (60) days from the request to allow sufficient time for any necessary governing board consideration how it wishes to cast its vote, then the Party's Capacity Right-weighted vote shall be deemed to be a vote in favor of the requested approval.

## **Section 7. Term.**

7.1 **Termination Events; Extension.** This Agreement shall terminate on the earliest of the following events: (1) the date of any termination pursuant to Section 5.9.5, (2) 50 years from the date of this Agreement, (3) such time as a man-made or natural disaster destroys at least 50% of the Baker WTP, or (4) such time as regulatory changes applicable to the Baker WTP have been or will be imposed and/or implemented by regulatory agencies, with which IRWD

cannot comply, as determined by the Project Committee, or which the Project Committee determines would necessitate cost-prohibitive changes to the Baker WTP. The foregoing term is established by the Parties to coincide with the useful life of the Baker WTP. It is the intention of the Parties to negotiate in good faith an extension of the term of this Agreement, which negotiations shall commence not later than 10 years prior to anticipated termination of the Agreement under (2) above. Any such extension shall require an amendment to this Agreement approved by those parties willing to extend the term. Upon termination, the Capacity Rights shall expire, and no compensation shall be payable to any Party on account of such termination. If termination occurs under (3) above, any proceeds of insurance carried pursuant to Section 10.4 and funded as fixed costs under Section 4.1 shall be divided according to Capacity Rights.

**7.2 Assets and Demolition Costs.** Upon termination, all Baker WTP physical facilities, lands and rights-of-way shall be retained by IRWD as the owner. Costs for such termination, including demolition and decommissioning costs, shall be borne by IRWD.

## **Section 8. Baker Pipeline Capacity.**

**8.1 Minimum Baker Pipeline Capacity.** Each Party shall have secured the rights, separately from this Agreement and through a means permitted under the SAC Agreement, to capacity or additional capacity through Reaches 1U, 2U, 3U, 4U and 5U of the Baker Pipeline at least sufficient to utilize the nominal flow rate corresponding to its Capacity Right in the Treatment Facilities. The Parties acknowledge that, concurrently with this Agreement, they are entering into an agreement for transfers of Baker Pipeline capacity among the Parties, in order to satisfy the foregoing requirement for the initial Subscribers. Exhibit "5" to the Original Agreement is hereby deleted from the Agreement.

**8.2 Term of Leased Baker Pipeline Capacity.** If Baker Pipeline capacity is acquired or held by lease, the lease shall have a term at least equal to the remaining term specified in clause (1) of Section 7.1.

**8.3 Right To Obtain Product Water Limited By Baker Pipeline Capacity.** Anything in this Agreement to the contrary notwithstanding, a Subscriber's right to receive Baker WTP product water shall be deemed to be the lesser of the Subscriber's Capacity Right in the Treatment Facilities as shown in Table A-1 and its Baker Pipeline capacity, in each reach. IRWD will operate the Baker WTP to produce a flow not greater than the sum of the flow rates permitted by the preceding sentence and the Parties' variable costs shall be allocated accordingly; provided, however, fixed costs shall be allocated as provided in Section 4.2 without reduction on account of the limitation on any Party's flow rate under this Section.

**8.4 Supply From Irvine Lake.** As an alternative to MWD untreated water supplied through the Santiago Lateral, water may be supplied from Irvine Lake to the Baker WTP. IRWD may, at its sole discretion, supply Irvine Lake water to the Baker WTP. Any such water supplied shall be made available at the lesser of IRWD's prevailing sale price for agricultural water or ninety percent (90%) of Metropolitan Water District of Southern California's prevailing sale price for the applicable classification of imported untreated water. In either case, an amount to recover Irvine Lake pump station variable operation, maintenance, repair and replacement costs (as defined in Section 4.1 – 4.3) shall be added to the price. IRWD's election to supply Irvine

Lake water to the Baker WTP and the timing and quantity thereof shall not be subject to approval by any of the Parties or MWDOC. IRWD agrees to use its best efforts to make Irvine Lake water available to the project during outages of the Santiago Lateral. Nothing in this Agreement is intended to establish any rights in conflict with, or to establish any rights of any Party other than IRWD in or under, the agreements and conveyance documents relating to the ownership, operation and maintenance of Irvine Lake.

**Section 9. Interpretation.**

This Agreement shall not be construed against the Party preparing it, but shall be construed as if all of the Parties prepared it.

**Section 10. Indemnification; Insurance.**

**10.1 Indemnification By IRWD and SMWD.**

**10.1.1. Indemnification By IRWD.** IRWD shall assume the defense of, indemnify and hold harmless the other Parties and MWDOC and each of their officers, employees and agents from and against any and all actions, damages, liability or claims for death, injury, loss, damage or expense to persons or property arising from or related to, or claimed to have arisen from or be related to, IRWD's negligent acts or omissions in the design, construction, replacement, operation, maintenance, and/ or repair of the Baker WTP, except to the extent such actions, damages, claims, losses, expenses or liability have arisen from or relate to the negligent acts or omissions of an indemnified Party or MWDOC related to the Baker WTP; provided, however, IRWD assumes no liability with respect to interruptions or reductions in Baker WTP product water deliveries or the quality of the source water. The foregoing indemnification obligation shall not relieve the Parties' respective obligations to pay their shares of any and all costs of the design, construction, replacement, operation, maintenance, and/ or repair of the Baker WTP. IRWD shall require each of the contractors and consultants retained by IRWD for the provision of services or work on the Baker WTP to include all of the Parties and MWDOC and each of their officers, employees and agents as indemnified parties in the indemnification provisions of the respective contract.

**10.1.2 Indemnification By SMWD.** SMWD shall assume the defense of, indemnify and hold harmless the other Parties and MWDOC and each of their officers, employees and agents from and against any and all actions, damages, liability or claims for death, injury, loss, damage or expense to persons or property arising from or related to, or claimed to have arisen from or be related to, SMWD's negligent acts or omissions in the replacement, operation, maintenance, and/ or repair of the SCP, except to the extent such actions, damages, claims, losses, expenses or liability have arisen from or relate to the negligent acts or omissions of an indemnified Party or MWDOC related to the SCP; provided, however, SMWD assumes no liability with respect to interruptions or reductions in Baker WTP product water deliveries or the quality of the source water. The foregoing indemnification obligation shall not relieve the Parties' respective obligations to pay their shares of any and all costs of the design, construction, replacement, operation, maintenance, and/ or repair of the SCP. SMWD shall require each of the contractors and consultants retained by SMWD for the provision of services or work on the SCP to include all of the Parties and MWDOC and each of their officers, employees and agents

as indemnified parties in the indemnification provisions of the respective contract.

**10.2 Indemnification By Parties.** Each Party shall assume the defense of, indemnify and hold harmless the other Parties and each of their officers, employees and agents from and against any and all actions, damages, liability or claims for death, injury, loss, damage or expense to persons or property arising from or related to, or claimed to have arisen from or be related to, the negligent acts or omissions of the indemnifying Party in connection with the Baker WTP, except to the extent such actions, damages, claims, losses, expenses or liability have arisen from or relate to the negligent acts or omissions of the indemnified Party in connection with the Baker WTP.

**10.3 Liability To Third Parties.** Liability to third parties not determined to have arisen from any Party's negligent act or omission and not otherwise covered under insurance provided by contractors or consultants under Section 10.4 or provided for the operation of the Baker WTP under Section 10.4 and included as a fixed operations cost under Section 4.1 shall be borne by the Parties in proportion to their respective Capacity Rights.

**10.4 Insurance.** IRWD shall require its contractors and consultants for the Baker WTP to include the other Parties and MWDOC, their officers, agents and employees as additional insureds in the insurance coverages that IRWD requires the contractors and consultants for the Baker WTP to obtain and maintain. With respect to operation of the Baker WTP, IRWD shall maintain in full force and effect appropriate public liability and property damage insurance and shall add the name of the other Parties and MWDOC, their officers, agents and employees to such policies as additional insureds. A proportionate amount of IRWD's cost of insurance relative to the operation of the Baker WTP as herein provided shall be included within the fixed costs under Section 4.1. Subject to termination as described in clause (3) of Section 7.1, IRWD shall be obligated to repair property damage to the Baker WTP if, and only to the extent, it receives insurance proceeds and/or the Parties contribute funds therefor in proportion to their Capacity Rights under Section 4.2.

**Section 11. Successors and Assigns; No Third Party Beneficiaries.**

This Agreement shall be binding upon and shall inure to the benefit of each of the Parties and MWDOC, and each of their respective successors, assigns, trustees or receivers. All the covenants contained in this Agreement are for the express benefit of each and all such Parties. This Agreement is not intended to benefit any third parties.

**Section 12. Severability.**

Should any provision of this Agreement be held invalid or illegal, such invalidity or illegality shall not invalidate the whole of this Agreement, but, rather, the Agreement shall be construed as if it did not contain the invalid or illegal part, and the rights and obligations of the Parties and MWDOC shall be construed and enforced accordingly.

**Section 13. Governing Law.**

This Agreement shall be construed and enforced pursuant to the laws of the State of California. Any action or proceeding brought to enforce this Agreement, or related to this Agreement, shall be brought in Orange County, California, notwithstanding Code of Civil Procedure Section 394.

**Section 14. Dispute Resolution.**

The Parties desire to resolve as quickly and as amicably as possible any disputes as to the meaning of any portion of this Agreement, the validity of any determination or calculation, or the rights or obligations of the Parties pursuant hereto. Therefore, prior to initiation by a Party of any litigation or other proceeding in connection with this Agreement, the Parties shall meet and make good-faith efforts to resolve any such disputes on an informal basis. The Party that first raises a claim against another Part(ies) in connection with a dispute shall be responsible for providing written notice to such other Part(ies) and thereby initiating the informal dispute resolution efforts. Such informal efforts may include mediation of the dispute if agreed by the Parties involved in the dispute. Not sooner than thirty (30) days after diligent efforts to resolve a dispute have been initiated, if the Parties have been unable to resolve the dispute on such informal basis, any Party involved in the dispute may, in its discretion and after providing written notice to the other Part(ies) that the informal dispute-resolution efforts are being terminated, proceed to take any and all such action to enforce or protect its rights as permitted by law and/or this Agreement. If a Party initiates informal dispute-resolution with respect to a dispute, any statutory limitation for filing of a court action or commencement of any other proceeding shall be tolled for a period of days equal to the number of days that elapsed between delivery of the notice initiating informal dispute-resolution and the notice terminating informal dispute-resolution.

**Section 15. Amendments.**

Except as provided in this Agreement, this Agreement may be amended or supplemented only by a written agreement among the Parties and if, and only if, MWDOC's rights and obligations are affected, MWDOC.

**Section 16. Entire Agreement.**

Each Party and MWDOC represents, warrants and agree that no promise or agreement not expressed herein has been made to them, that this Agreement contains the entire agreement among them, that this Agreement supersedes any and all prior agreements or understandings among them unless otherwise provided herein, and that in executing this Agreement, each is relying solely on its own judgment and knowledge and no signatory is relying on any statement or representation made by any other signatory or its representatives concerning the subject matter, basis or effect of this Agreement other than as set forth herein.

**Section 17. Attorneys' Fees.**

If any Party to this Agreement is required to initiate or defend any action or proceeding, the prevailing party in such action or proceeding, in addition to any other relief which may be granted, whether legal or equitable, shall be entitled to reasonable attorneys' fees. Attorneys' fees shall include attorneys' fees on any appeal, and in addition a Party entitled to attorneys' fees shall be entitled to all other reasonable costs for investigating such action, taking depositions and discovery and all other necessary costs the court allows which are incurred in such litigation.

**Section 18. Headings.**

Headings used in this Agreement are for reference only and shall not affect the construction of this Agreement

**Section 19. Notices.**

All notices that may or are required to be given pursuant to this Agreement shall be deemed sufficiently given if in writing and if either served personally upon the recipient or mailed by certified or registered mail to:

If to ETWD:	El Toro Water District 24251 Los Alisos Boulevard Lake Forest, CA 92630 Attn: General Manager
If to IRWD:	Irvine Ranch Water District 15600 Sand Canyon Ave. P.O. Box 57000 Irvine, CA 92619-7000 Attn: General Manager
If to MNWD:	Moulton Niguel Water District 27500 La Paz Road P.O. Box 30203 Laguna Niguel, CA 92607-0203 Attn: General Manager
If to SMWD:	Santa Margarita Water District 26111 Antonio Parkway P.O. Box 7005 Mission Viejo, CA 92690-7005 Attn: General Manager



IN WITNESS WHEREOF, the Parties have executed this Agreement on the date first hereinabove written.

EL TORO WATER DISTRICT

By \_\_\_\_\_  
President

By \_\_\_\_\_  
Secretary

APPROVED AS TO FORM:

By \_\_\_\_\_

IRVINE RANCH WATER DISTRICT

By \_\_\_\_\_  
President

By \_\_\_\_\_  
Secretary

APPROVED AS TO FORM:

By \_\_\_\_\_

MOULTON NIGUEL WATER DISTRICT

By \_\_\_\_\_  
President

By \_\_\_\_\_  
Secretary

APPROVED AS TO FORM:

By \_\_\_\_\_

SANTA MARGARITA WATER DISTRICT

By \_\_\_\_\_  
President

By \_\_\_\_\_  
Secretary

APPROVED AS TO FORM:

By \_\_\_\_\_

TRABUCO CANYON WATER DISTRICT

By \_\_\_\_\_  
President

By \_\_\_\_\_  
Secretary

APPROVED AS TO FORM:

By \_\_\_\_\_

MUNICIPAL WATER DISTRICT OF ORANGE  
COUNTY

By \_\_\_\_\_  
President

By \_\_\_\_\_  
Secretary

APPROVED AS TO FORM:

By \_\_\_\_\_

**11/20/13 Final for Approval**

**Exhibit 1**

TABLE A-1 (Treatment Facilities)

Subscriber	Approximate Flow Rate (in CFS) corresponding to Capacity Right	Capacity Right (% of total)
ETWD	5.0	11.494 %
IRWD	10.5	24.138 %
MNWD	13.0	29.885 %
SMWD	13.0	29.885 %
TCWD	2.0	4.598 %
Totals	43.5	100.000 %

TABLE A-2 (Product Water Facilities)

Subscriber	Approximate Flow Rate (in CFS) corresponding to Capacity Right	Capacity Right (% of total)
ETWD	5.0	15.151 %
IRWD	0	0.000 %
MNWD	13.0	39.394 %
SMWD	13.0	39.394 %
TCWD	2.0	6.061 %
Totals	33.0	100.000 %

TABLE A-3 (Product Water Facilities Variable Cost Allocation, ETWD not taking product water)

Subscriber	Approximate Flow Rate (in CFS) corresponding to Capacity Right	Variable Cost Allocation
ETWD	0	0.000 %
IRWD	0	0.000 %
MNWD	13.0	46.429 %
SMWD	13.0	46.429 %
TCWD	2.0	7.142 %
Totals	28.0	100.000 %