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May 27, 2016

The Honorable Michael Scheafer
President, Board of Directors
Costa Mesa Sanitary District
628 West 19th Street
Costa Mesa, CA 92627

Dear President Scheafer:

Thank you for your letter, dated May 23, 2016, supporting the opportunity to collaboratively perform a study of the optimal government structure for serving customers of the Costa Mesa Sanitary District (CMSD) and Mesa Water District (Mesa Water®). We greatly appreciate CMSD's willingness to engage in this joint effort.

Mesa Water® recognizes that, in order to ensure transparency, this item will be discussed at your District's headquarters on June 14, 2016 during a regularly scheduled and open to the public Study Session. At your request, we will postpone agendizing this item at our June 9, 2016 Board Meeting. Instead, we will hold an open Special Board Meeting on June 16, 2016 at 3:30 p.m., with an action item agendized to award the study to a consultant.

Additionally, Mesa Water® accepts and sees value in your suggestion to form a joint committee. Our Executive Committee will be available to meet with you. This format allows more public openness and transparency than a typical ad hoc committee as we are subject to the agenda posting requirements. Mesa Water® would like to request that the first meeting take place prior to CMSD's June 14, 2016 Study Session. We believe that two directors from each of our respective agencies, working collaboratively, can comprehensively address the concerns brought up in your May 23 letter regarding the specifics that such a joint study could necessitate.

Mesa Water® wishes to address a few of those specifics prior to the first joint committee meeting by attaching to this letter a scope of work for the study and also a list of qualified consulting firms we invited to submit a proposal. We recognize, as your District does, very similar and rigorous guidelines in regards to budget timelines, procurement processes, and contract requirements and, as CMSD does, Mesa Water® takes all necessary steps in order to strictly abide by our Board's directives and policies.

As always, we look forward to your response in regards to this letter and to the attached scope of work. We will quickly accommodate the scheduling of a joint meeting and we thank you for your willingness to engage in the process of best serving the public.

Sincerely,


Shawn Dewane
Mesa Water Board President


Paul E. Shoenberger, P.E.
Mesa Water General Manager

c: CMSD Board of Directors
Mesa Water Board of Directors
Scott C. Carroll, CMSD General Manager

Appendix C Scope of Work

Optimal Governance Structure Study

Task 1- Agencies Overview: Consultant will review and summarize the current context of CMSD and Mesa Water® including governance, services provided, service area, staff organization and finances. This information will be summarized in a report. Information sources for this effort will include material from each agency's website, organization charts, budget and CAFR documents, job descriptions and other pertinent documents or studies made available.

Task 2 – Combined Agency Organization Evaluation: Consultant will estimate a potential organization structure for combining the two agencies. Consultant will review the detail in the budget documents, organization charts, job descriptions, reports or other documents available to identify potential efficiencies that may result from a combining of services. The potential economies of scale, opportunities for efficiencies, and potential cost-savings from combining governance and departmental/operational functions will be evaluated and included in the report. Evaluate the hard assets (i.e., owned equipment, fleet, etc.) and facilities needs of the combined agency to see if any excess equipment or real estate is identified.

Task 3 – Combined Agency Outsourcing Evaluation: Consultant will review services of the combined agency and identify services that are currently performed in-house by either agency which are commonly contracted out by other similar agencies. Also, include a review of any previously contracted services that have recently been brought in-house. This would include the Costa Mesa Sanitary District Sewer Main Maintenance Cleaning and Lift Station Maintenance Services.

Task 4 – Combined Agency Financial Evaluation: Based upon the current Budgets, CAFRs, and other pertinent documents or studies made available, consultant will analyze the financial fundamentals of the separate and combined agencies. A baseline of current revenues and expenses, debt and debt ratios, and reserves will be determined. Determine the same financial parameters for the combined agency. Determine the reserves and/or revenue needed for the combined agency to be AAA-rated. Mesa Water® has set a financial goal of being AAA-rated as defined by a 600 days cash-on-hand target. Determine the existing reserves or revenue levels that are above or below the target amount. If excess reserves, revenue or real estate is identified, develop financial scenarios to bring the levels to target, including rate reductions or rebates. Provide any other financial summary or potential cost-saving ideas uncovered.

Task 5 - Document Evaluation and Results: Consultant will prepare a report from the findings in Task 1 through Task 4. A summary of potential benefits will be provided. Explain the consultant's analysis approach, methods, and results using graphs and charts where necessary.