

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

May 22, 1997

To: Board of Directors (Committee on Legislation--Information)

From: *for* General Manager

Submitted by: Ane Deister
Executive Assistant to the General Manager

Subject: Summary of the Blue Ribbon Task Force and Implementation Process

RECOMMENDATION(S)

For information only.

EXECUTIVE SUMMARY

At the May meeting of the Committee on Legislation there was a request to provide a summary of the Blue Ribbon Task Force recommendations and the responding implementation process. The Blue Ribbon Task Force issued its final report in January 1994, eight months after the process began. This report provides a summary of the task force composition, its working organization, the recommendations, staff and other outside responses to the recommendations.

From an initial list of 124 community leaders 33 men and women were asked to participate on the Blue Ribbon Task Force. Twenty-seven accepted the invitation, worked for over six months on four subcommittees, and produced a final report containing 108 recommendations. The recommendations address Metropolitan's resource management activities, external communications, rate making, business practices and human resource development issues.

Subsequent to receiving the Task Force report, the Board of Directors appointed an Ad Hoc Committee to oversee management's review, analysis and response to the recommendations. The response was presented and approved at the Executive Committee in August 1994. In April 1996 the California State Auditor conducted the Metropolitan Water District of Southern California: A Review of Evaluations and Audits Conducted by Other Entities, which provides the most recent status report to date.

DETAILED REPORT

Task Force Make Up

In April 1993 Metropolitan's Board of Directors authorized the formation of the Blue Ribbon Task Force to conduct a review of its operations in the areas of business practices and operational policies. The Member Agencies, Metropolitan Board of Directors and others submitted names comprising 124 community leaders to consider for the Task Force. Of the 124 suggestions 33 were invited to participate and 27 accepted. Those members participated in four subcommittees and include:

Nelson C. Rising, senior partner, Maguire Thomas Partners
Task Force Chair

Dr. Raymond J. Orback, Chancellor, University of California at Riverside
Chair, Integrated Resources Planning and Rate Structure Subcommittee

Beth Rogers, owner, Pacific Sod
Chair, External Relations Subcommittee

Jacques S. Yeager, President, E.L. Yeager Construction Co., Inc.
Chair, Business Practices Subcommittee

Bondie Gambrell, President, Forty Acres Real Estate Co.
Co-chair, Human Resources and Diversity Subcommittee

Patty DeDominic, President, PDQ Personnel Services, Inc.
Co-chair, Human Resources and Diversity Subcommittee

IRP/Rate Structure Subcommittee Members

Donald F. McIntyre, President, Central City Association of Los Angeles

Donald W. Reeder, Manager, Pro-Ag, Inc.

Ralph R. Pesqueira, El Indio Restaurants

Paul C. Hudson, President, Broadway Federal Savings

Warren Henry, President, Henry Avocado Packing co.

Linda LeGerrette, Priceless Events

Gary Hunt, Executive Vice President, The Irvine Company

External Relations Subcommittee Members

Billie Curry Greer, President, Greer/Dailey, Inc.

Jerry Cremins, President, State Building and Construction Trades Council

Steward Kwoh, Executive Direct, Asia-Pacific American Legal Center of Southern California

Business Practices Subcommittee Members

Roberta J. Spoon, Brodshatzer, Wallace, Spoon & Yip
Larry M. Seigel, Partner, Ernst & Young
Dennis C. Poulsen, President and CEO, Rose Hills Co.
J. Nick Baker, President, One Central Bank
John Cardis, Managing Partner, Deloitte & Touche
Ray Cardona
Gilbert T. Ray, O'Melveny & Meyers

Human Resources and Diversity Subcommittee Members

Richard M. Brown, President, California Angels
Fred Y. M. Chen, President, MAA Engineering Consultants, Inc.
Phillip J. Pace, President, PACE Development Co.
Blue Ribbon Task Force Executive Director: David Friedman, Tuttle & Taylor
Subcommittee Consultants
Lloyd Dixon, RAND, IRP and Rate Structures
Michael Hanemann, U.C. Berkeley, IRP and Rate Structures
Michael Beck, U.C. Riverside, IRP and Rate Structures
West Directions, External Relations
Arroyo Seco Associates, Inc., Business Practices
Arthur Anderson & Co., Business Practices
Ron McCoy, Business Practices
Karo Enterprises, Human Resources and Diversity
Golden State Management Services, Human Resources and Diversity

Chairman's Overview Recommendations

The Task Force chair, Nelson Rising, included a cover letter transmitting the report which highlighted areas of particular focus and concern. A copy of that letter is attached for your information. Chairman Rising's summary comments addressed the following:

Part I: Offers 27 Recommendations including:

- Addressed the IRP process and the need for Metropolitan to carefully assess all of its alternative resource, political, water management and financial options to assure customers of adequate supplies of high quality water at the lowest price possible.
- Focused attention on the current supply and demand volatility and the need to obtain expressed, long-term commitments from its member agencies to pay for capital improvements with reliable revenue sources to amortize new fixed expenses.
- Cautioned against unfairly burdening future users.

- Strongly recommended continuance of conservation technologies and programs.
- Recognized and recommended that water transfers play a major role in MWD's resources mix, while urging appropriate concern for potential adverse impacts in the regions from which water is purchased.
- Urged MWD to sponsor efforts to resolve adverse impacts of rising water rates on agriculture and other water-dependent industries
- Believes that Metropolitan cannot function simply as an engineering utility, but must evolve into, or help create, a governance institution that can fashion the regional consensus necessary to meet water needs in a cost-effective, environmentally sensitive manner.

Part II: Offers 12 Recommendations including:

- Need to improve national and statewide activities, internal Metropolitan external relations responsibility, Board advocacy and increasing outreach efforts with member agencies.
- Need to organize political support for urban water in Sacramento, Washington and Southern California region.
- Must repair strained relations with Central and Northern California agricultural interests.
- Take advantage of opportunities to fashion regional and state-wide supply initiatives with environmental groups and Northern California urban interests.
- Devote resources to resolve chronic water policy concerns including Bay/Delta and California's rights to the Colorado River.

Part III: Offered 40 Recommendations in 11 crucial business practices areas:

- Need to streamline and rationalize Metropolitan's organizational structure.
- Develop an explicit compensation policy that is performance-based.
- Modify investment policies to increase investment returns.
- Redraft and update business conduct policies.
- Developing a policy for protecting and exploiting Metropolitan's unique technology developments and procurement needs to the benefit of local industry.

Part IV: Offers 20 Recommendations:

Covers three areas to improve Metropolitan's personnel operations and ability to hire and maintain a high-quality, diverse work force.

Part V: The Report Concludes describing issues not addressed because of time and other constraints, but which need to be addressed, including:

- MWD's labor relations
- Ongoing union negotiations
- Headquarters location decision
- Board member selection and allocation among the member agencies
- Effectiveness of Board oversight of Metropolitan staff

Task Force Process and Relationship to Other Evaluation Processes

From April 1993 to the end of that year, the task force reviewed numerous reports and policies relating to Metropolitan's operations, such as its strategic plan, integrated resources planning documents, rate structure study, capital budget, investment policies and personnel and affirmative action policies. They visited and interviewed 19 member agencies and conducted group session interviews with representatives from agricultural, environmental, and building trade communities. The task force also relied on outside consultants to provide expert advice and experience.

The task force evaluation was conducted within a larger context of organizational review. These review and evaluation processes occurring in a similar time period include:

- Organizational Review of the Operations Division, report issued, Feb. 1992
- Engineering and Operations Peer Review Committee Report, issued November 1993
- Blue Ribbon Task Force Report, issued January 1994
- Organization Study of the Engineering Division, issued June 1995
- Management Letter for Fiscal Year Ended June 30, 1995, issued January 1996
- Single Audit Report for Fiscal Year Ended June 30, 1995. issued February 1996
- California State Auditor Report, A Review of Evaluations and Audits Conducted by Other Entities, issued April 1996

California State Auditor Report, April 1996

The purpose of the audit was to determine the extent to which Metropolitan implemented recommendations included in the various audits and evaluations, including the Blue Ribbon Task Force. Additionally, the audit was to identify any issues that had not been adequately addressed by Metropolitan and which may require further review.

The report compiled the recommendations from the various audits and evaluations and reported the following implementation status:

Implementation Status of Organization-wide Recommendations

| Category | Fully Impl. | Partially Impl. | Not Impl. | Total Impl. |
|----------------------|-------------|-----------------|-----------|-------------|
| Rates | 29 | 0 | 2 | 31 |
| Human Resources | 20 | 4 | 2 | 26 |
| Information Systems | 14 | 6 | 2 | 22 |
| Organization Struct. | 14 | 0 | 0 | 14 |
| Policies, Procedures | 9 | 4 | 0 | 13 |
| Value Engineering | 6 | 4 | 1 | 11 |
| External Relations | 7 | 3 | 0 | 10 |
| Project Mgmt. | 8 | 2 | 0 | 10 |
| Salary Expense | 8 | 2 | 0 | 10 |
| Training | 5 | 5 | 0 | 10 |
| Compliance | 5 | 1 | 1 | 7 |
| Accounting | 3 | 0 | 1 | 4 |
| Contracts | 4 | 0 | 0 | 4 |
| Strategic plan | 1 | 3 | 0 | 4 |
| Board related issues | 1 | 1 | 0 | 2 |
| Investments | 2 | 0 | 0 | 2 |
| Facilities | 0 | 1 | 0 | 1 |
| Total | 136 | 36 | 9 | 181 |

CONCLUSION

The Blue Ribbon Task Force Recommendations along with the other organizational and operating reviews conducted in the first half of this decade address a variety of interrelated and interactive programs, policies and practices. An independent audit by the State of California gave Metropolitan high marks for implementation of the vast majority of the recommendations in these various reports and reviews.

While there has been much progress in many of the agency's business practices there remain some challenging issues related to other programs, interactions, governance and relationships between the member agencies, the Metropolitan Board and staff. These issues requiring additional focus and attention were raised initially in Chairman Rising's cover letter to the Metropolitan Board of Directors and are summarized again here:

- MWD's labor relations and ongoing union negotiations
- Headquarters location decision
- Board member selection and allocation among the member agencies
- Effectiveness of Board oversight of Metropolitan staff.

**METROPOLITAN WATER DISTRICT
BLUE RIBBON TASK FORCE**

January 10, 1994

Mr. John Foley
Chairman
Metropolitan Water District of Southern California
Sunset Boulevard
Los Angeles, CA 90049

Dear Mr. Foley:

On behalf of the Blue Ribbon Task Force, I am pleased to transmit herewith a copy of our Final Report. It is our sincere hope that this Report will help the MWD continue its remarkable level of service for the people of Southern California during the currently challenging times in the water industry.

It has been an honor to serve in the capacity of Chair of this Blue Ribbon Task Force and to have had the pleasure of working with its members. The Task Force, which your Board appointed, includes some of the most innovative, intelligent and successful members of the greater southern California community. Task Force members work and reside in all of the subregions of your vast service area and brought to the assignment a diversity of professional backgrounds and a wide variety of differing perspectives.

These are challenging times during which most of our institutions, including yours, are undergoing enormous change. All organizations are facing the need to provide better service at lower cost. The recession and the restructuring of the worldwide economy have forced private sector firms to make enormous changes in how they organize and run their businesses which have led to greater productivity and a reduction of costs. Public organizations must follow suit or risk losing the confidence of their constituents. For this reason your decision to commission the Blue Ribbon Task Force Report is particularly timely. You and your board are to be commended for recognizing this reality and, on your own initiative, appointing a group of "outsiders" to take a fresh look at your

organization. This represents considerable self-confidence and foresight as well as a genuine interest in offering the highest possible level of service to your customers.

Our Report is divided into five parts:

Part I deals with the very complex resource planning and rate structure issues and offers 27 recommendations. The Task Force believes that MWD must carefully assess all of its alternative resource, political, water management and financial options to assure that its customers will continue to receive adequate supplies of the highest quality water at the lowest possible price. It is for this reason the Task Force was particularly impressed with Metropolitan's efforts to evaluate its water supply, construction and financial requirements with innovative Integrated Resources Planning and rate structure reform initiatives. We urge the Board to continue to take seriously the results of these efforts and to have them govern Metropolitan's engineering, construction and operational decisions in the future.

The Report focuses attention on the current supply and demand volatility and the need for obtaining express, long-term commitments from its member agencies to pay for capital improvements with reliable revenue sources to amortize new fixed expenses. The Report cautions against unfairly burdening future users, a trend all too common in California, because of the chilling effects such policies can have on future economic growth.

Part I of the Report deals with many high profile water policy issues including water transfers and conservation. The Task Force strongly recommends that MWD continue to incorporate water conservation technologies and objectives into its resource plan. We also recommend that water transfers play a major role in MWD's resource mix while urging appropriate concern for potential adverse impacts in the regions from which water is purchased. Further, we urge the MWD to sponsor efforts to resolve the adverse impact rising water rates are having on Southern California agriculture and other water-dependent industries to ensure against major job and business losses. In short, we believe that Metropolitan cannot function simply as an engineering utility, but must instead evolve into, or help create, a governance institution that can fashion the regional consensus necessary to meet water needs in a cost-effective, environmentally sensitive manner.

Part II examines Metropolitan's external relations policies, strategies and capabilities and offers 12 recommendations to improve national and statewide activities, internal Metropolitan external relations responsibility, Board advocacy and increasing outreach efforts with member agencies.

Recent decisions to cut back water available to Southern California by the California Department of Water Resources and the U.S. Environmental Protection Agency underscore the intense competition the MWD now faces. While current MWD lobbying and public relations activities win high marks for what they have attempted to achieve, the Task Force believes the MWD, and its member agencies, must make far more extensive efforts to organize political support for urban water in Sacramento, Washington D.C. and in the Southern California region itself.

The Task Force believes Metropolitan should repair currently strained relations with Central and Northern California agricultural interests that collectively utilize close to 85% of the developed water supplies in California. The Task Force also believes Metropolitan should creatively take advantage, where appropriate, of opportunities to fashion regional and state-wide supply initiatives with certain environmental groups and Northern California urban interests that would benefit Southern California water users.

These opportunities illustrate the Task Force's more general belief that building the political will and effective institutions to secure affordable water supplies for Southern California users is the MWD's most critical current challenge. To that end, Metropolitan must devote whatever resources may be necessary to bring to a beneficial resolution chronic water policy concerns--including the Sacramento and San Joaquin Bay Delta and California's rights to the Colorado River--which will adversely affect our state's future prosperity if not addressed in a responsible manner.

Part III reviews Metropolitan's performance in eleven crucial business practice areas. It offers 40 specific recommendations in these eleven areas to assist MWD in operating as efficiently as possible during a time of regional economic downturn and when substantial water rate increases may be required to pay for the capital improvement program and other projects.

Our principal concerns are the need to streamline and rationalize Metropolitan's organizational structure; developing an explicit compensation policy that is performance-based and rewards

employees that meet or exceed clear performance objectives; implementing fully the Beck Report and the Operations and Engineering Peer Review; modifying Metropolitan's investment policies to increase investment returns and potentially earn millions in additional revenues without substantially increasing risk; redrafting and updating business conduct policies; and developing a policy for protecting and exploiting Metropolitan's unique technological developments and procurement needs to the benefit of local industry.

Part IV assesses Metropolitan's human resources, affirmative action and business outreach efforts. The Report makes 20 recommendations in three areas to improve Metropolitan's personnel operations and ability to hire and maintain a high-quality, diverse work force.

Metropolitan clearly recognizes that much work remains to be done in these areas and its senior management has publicly committed to make significant advances in the near future. The Task Force strongly concurs with Metropolitan's commitment in this area. Key concerns identified in the Report include the need to substantially improve MWD's job classification, training, compensation and personnel practices, rapidly instituting major organizational and personnel changes to facilitate the existing high-level commitment to and immediate improvements in, equal employment opportunity and affirmative action programs and initiating, staffing and implementing an effective M/WBE outreach effort.

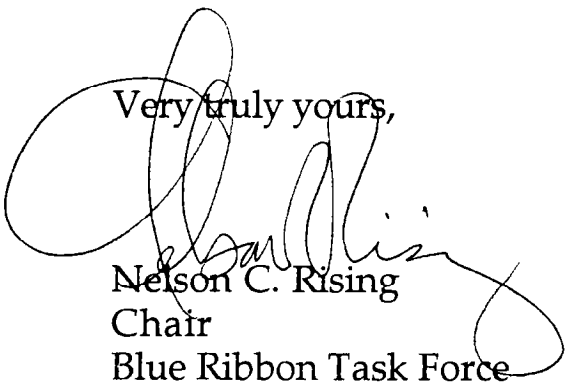
In Part V, the Report concludes with a description of the issues the Task Force expressly did not address because of time constraints, lack of expertise, particularly sensitive circumstances or because they were outside the scope of the review. These include the MWD's labor relations and ongoing union negotiations; the headquarters location decision; Board member selection and allocation among the member agencies; and the effectiveness of Board oversight of Metropolitan staff. The Task Force is acutely aware that it was unable to examine many critical matters. The limited scope of this Report should not in any way be construed to suggest that the Task Force regards such concerns as trivial, or not deserving of appropriate scrutiny by the Board, other entities, or in other forums.

The findings and recommendations in this Report are intended to signal general areas that the volunteer members of the Task Force, after months of study, believe deserve additional Board and staff

attention. We hope you will look beyond potential disagreements over comparatively minor matters or details with which some might take exception and treat the broad themes of the Report as a barometer of public concern in an era where public understanding and support is increasingly critical to Metropolitan's mission.

Metropolitan has contributed greatly to the welfare of the nearly 20 million Southern Californians for whom it provides indispensable wholesale water resources. The coming years promise to test our region and its ability to assure access to the water on which our future prosperity depends. All the members of the Task Force hope the Report will provide positive support for Metropolitan as it grapples with its unprecedented challenges.

Very truly yours,



Nelson C. Rising
Chair

Blue Ribbon Task Force