

July 26, 1999

To: Board of Directors**From:** General Manager**Subject:** Progress of the Strategic Plan and Interim Investment Strategies**RECOMMENDATION**

For information only.

DETAILED REPORT

This Board letter serves as a progress report on the Strategic Plan and outlines interim investment strategies for resources development and infrastructure improvements.

Strategic Planning Objectives

The Board is currently engaged in the consideration of a new strategic plan. Through the Strategic Plan, the Board will establish a set of policy guidelines for conducting the business of Metropolitan. The primary objective of the Plan is to define Metropolitan's role in providing supplemental water supplies to Southern California and clarify the working relationships with and services provided to member agencies. The Plan would provide a clear policy basis for implementing the Board's governance and reorganization plans and revising Metropolitan's investment strategies and rate structure.

Progress and Closure

The Board has made significant progress in the development of the Strategic Plan. Through workshops and interviews with key stakeholders, the Board has highlighted the issues and challenges facing Metropolitan as well as the opportunities for strategic, service and economic benefits. In addition, the Board has identified three alternative strategies for Metropolitan to continue the delivery of supplemental water supplies in the future. These three strategies include Metropolitan acting as the regional provider, participant with member agencies in a contractor model, and provider of supplies through a shareholder arrangement. These strategies and their potential impacts on Metropolitan and the member agencies are now being evaluated. This evaluation will provide the technical basis for the Board to proceed with policy decisions.

It is expected that the technical and legal analyses for the Strategic Plan will conclude at the October Board meeting. In each of the next three months, the Board's discussion of the Strategic Plan will focus on specific issues. In August, the Strategic Plan Steering Committee has scheduled discussions on the cost of services for conveyance, distribution, supply, storage, and

treatment within Metropolitan's system. In September, preliminary results of the financial analyses for the three-rate structure alternatives (regional manager, contractor model, and shareholder model) will be reviewed by the Board. It is expected that the regular Board and committee agendas will be dedicated to consideration of the Strategic Plan along with only a few essential regular business matters. At the October meeting, the Board will be provided with the detailed evaluations of the rate structure alternatives. There will be three parts in the evaluation: technical, operational, and policy.

- ❑ Technical evaluations would quantify the impacts of the rate structure alternatives to Metropolitan and the member agencies through the year 2020. These impacts include financial, legal, supply allocations, water quality and access to the transportation system. To allow Board members and member agency staff to independently evaluate the financial implications of the rate structure alternatives, an interactive spreadsheet will be developed to model the basic assumptions, variables, and approaches of the strategies. The initial version of this model is scheduled for distribution in September. As discussions on the Strategic Plan proceed and additional issues require evaluation, the spreadsheet will be revised and distributed to the Board and member agencies for further use.
- ❑ Operational impacts to Metropolitan and the member agencies would be assessed under the rate structure proposals. It is expected that the characteristics of member agencies, in terms of size, growth, availability of local supplies, and financial structures, would determine their modes of operation in order to maximize benefits and minimize risks under each of the alternative strategies.
- ❑ Key policy questions will focus on the benefits and risks that are provided by the alternative strategies to Metropolitan and the member agencies. The common elements and differences of the rate proposals will also be highlighted.

These evaluations will provide the Board with the technical tools to fully discuss and respond to the key policy questions. These Board deliberations would determine Metropolitan's role and relationship with the member agencies and formulate the policy objectives and guidelines for the implementation of a revised rate structure.

Interim Investment Strategies

One of the primary issues of concern that has been identified in the strategic planning process is maintaining a balance between Metropolitan's investments in resources and infrastructure and its revenue objectives under the rate structure. This balance is key to Metropolitan's financial integrity as its ability to secure firm financing for investments varies significantly under each of the Strategic Plan and rate structure alternatives. While the Board deliberates the Strategic Plan alternatives, it is important that the General Manager continue to implement Metropolitan's capital improvement program (CIP) and resources initiatives under the Board's existing policies, with the ability to adjust these expenditures according to the outcome of the Strategic Plan. In order to ensure this flexibility, the General Manager is reviewing the level and timing of future expenditures in the CIP, CALFED program, and water management programs. Over the next three months, investments in these initiatives will be handled in the following manner.

CIP. Initiation or consideration of new CIP projects, which are not critical to maintaining current water deliveries or protecting health and safety, will be deferred. The implementation of existing

CIP projects, as currently approved by the Board, will proceed under careful review as part of the intensive effort to complete projects within budget and schedule.

CALFED Program. Under the ongoing CALFED process, the Final Programmatic Environmental Impact Report/Impact Statement is scheduled for April 2000 with a Record of Decision (ROD) in June 2000. Projects to improve water quality, supply reliability, and environmental restoration will follow the ROD. As a result, Metropolitan does not anticipate nor will it commit to significant new expenditures under the CALFED program over the next three months, except as necessary to effectively participate in the CALFED regulatory process.

Water Management Programs. Metropolitan's water management programs consist of conservation, water recycling and groundwater recovery projects under the local resource program (LRP), and groundwater conjunctive-use projects. The status of projects under these water management programs are summarized in Attachments A, B and C. Implementation of existing and Board approved agreements will proceed. Agreements for upcoming conservation, LRP and groundwater conjunctive-use projects will not be deferred. To avoid delay pending the conclusion of the Strategic Plan, these future agreements will be prepared for the Board's consideration and approval with a provision which would allow Metropolitan and/or the member agency to renegotiate the terms and conditions of the agreements under the following circumstances:

- The approved Strategic Plan alternative calls for the discontinuation of Metropolitan's participation in water management programs;
- The approved Strategic Plan specifies a rate structure that does not provide adequate firm revenues to recover the long-term fixed costs associated with agreements under the water management programs;
- Wheeling legislation, which limits the recovery of fixed costs by facility owners, is passed; and
- The appeal on the wheeling validation law suit results in an unfavorable ruling that limits Metropolitan's recovery of fixed costs associated with agreements under the water management programs.

Attachment 6H(A)

Attachment 6H(B)

Attachment 6H(C)

Attachment 6H(A)
LOCAL RESOURCES PROGRAM
14 Selected Projects

Selected Projects	Ultimate Yield (AFY)	Financial Incentive (\$/AF)	Total MWD Contribution (\$)	Agreement Term (yrs.)	Total Yield* (AF)	MWD Board Approval	Executed Agreement
Westlake Wells - Tapia WRF Intertie Project	150	130	78,000	4	600	x	x
Temescal Basin Desalting Facility	10,000	100	25,000,000	25	250,000	x	x
Dry Weather Runoff Reclamation Facility	280	150	1,050,000	25	7,000	x	x
Colored Water Treatment Facility	11,300	97-169	37,115,824	25	277,792	x	
Alamitos Barrier Reclaimed Water Project	3,024	151-209	13,636,728	25	74,088	x	
Rincon del Diablo Recycled Water Program	648	15-250	648,785	11	4,633		
Santa Margarita Non-Domestic System	2,772	79-214	6,538,416	25	65,951		
Juan Well Filter Facility	900	75	472,500	7	6,300		
Olivenhain Recycled Project - SE Quadrant	1,788	150	4,076,400	20	27,176		
Capistrano Valley Non-Domestic System	2,895	150	9,591,300	25	63,942		
Harbor Water Recycling Project	5,000	86-139	13,595,000	24	120,000		
Moulton Niguel Phase 4 Expansion	1,276	154	3,821,356	20	24,814		
Encina Water Reclamation Phase 2	2,950	100-210	7,975,685	25	62,750		
Otay Recycled Distribution Expansion	8,515	160-200	21,637,465	24	125,880		
Total	51,498		145,237,459		1,110,926		

* Total Yield is the sum of the project's annual yield over the requested term of financial assistance.

	Yield	\$
Rincon del Diablo Recycled Water Program	4,633	\$648,785
Santa Margarita Non-Domestic System	65,951	\$6,538,416
Juan Well Filter Facility	6,300	\$472,500
Olivenhain Recycled Project - SE Quadrant	27,176	\$4,076,400
Capistrano Valley Non-Domestic System	63,942	\$9,591,300
Harbor Water Recycling Project	120,000	\$13,595,000
Moulton Niguel Phase 4 Expansion	24,814	\$3,821,356
Encina Water Reclamation Phase 2	62,750	\$7,975,685
Otay Recycled Distribution Expansion	125,880	\$21,637,465
	501,446	\$68,356,907

Attachment 6H(B)

CONSERVATION CREDITS PROGRAM

RESIDENTIAL ULF TOILET PROJECTS

AGENCY	# of Units	Ultimate Yield (AFY)	Financial Incentive (\$/AF)	Total MWD Contribution (\$)	Agreement Term (Years)	Equipment Life (Years)	Total Yield (AF)*	Overall Program Approval	Executed Agreement	Pending Agreement
BURBANK, CITY OF	2,000	80	\$154	\$120,000	1	20	1,590	July 1993; #8-5		X
CALLEGUAS	5,000	199	\$154	\$300,000	1	20	3,976	July 1993; #8-5		X
CENTRAL/WEST BASIN MWD	25,000	994	\$154	\$1,500,000	1	20	19,880	July 1993; #8-5		X
CITY OF LOS ANGELES	35,000	1,392	\$154	\$2,100,000	2	20	27,831	July 1993; #8-5	X	
CITY OF PASADENA	3,000	119	\$154	\$180,000	1	20	2,386	July 1993; #8-5	X	
EASTERN MWD	2,000	80	\$154	\$120,000	1	20	1,590	July 1993; #8-5		X
FOOTHILL MWD	3,000	119	\$154	\$180,000	2	20	2,386	July 1993; #8-5	X	
INLAND EMPIRE UA	3,000	119	\$154	\$180,000	1	20	2,386	July 1993; #8-5		X
LAS VIRGENES MWD	500	20	\$154	\$30,000	1	20	398	July 1993; #8-5		X
LONG BEACH, CITY OF	5,000	199	\$154	\$300,000	1	20	3,976	July 1993; #8-5		X
MWDOC -- Distribution**	265,000	10,536	\$154	\$15,900,000	5	20	210,723	July 1993; #8-5		X
MWDOC -- Rebates**	12,000	477	\$154	\$720,000	2	20	9,542	July 1993; #8-5	X	
SAN DIEGO CWA -- Voucher	18,700	743	\$154	\$1,122,000	2	20	14,870	July 1993; #8-5	X	
SAN DIEGO CWA -- Distribution	8,000	318	\$154	\$480,000	3	20	6,361	July 1993; #8-5	X	
SAN DIEGO CWA -- Rebates	25,000	994	\$154	\$1,500,000	3	20	19,880	July 1993; #8-5	X	
SAN MARINO, CITY OF	200	8	\$154	\$12,000	1	20	159	July 1993; #8-5		X
SANTA MONICA, CITY OF	5,000	199	\$154	\$300,000	2	20	3,976	July 1993; #8-5		X
THREE VALLEYS	6,000	239	\$154	\$360,000	1	20	4,771	July 1993; #8-5		X
USGVMWD	4,000	159	\$154	\$240,000	1	20	3,181	July 1993; #8-5	X	
WESTERN MWD	1,500	60	\$154	\$90,000	1	20	1,193	July 1993; #8-5		X
Totals	428,900	17,053		\$25,734,000			341,054			

*The sum of the *Ultimate Yield* times the *Equipment Life*

**Coastal, Fullerton, Anaheim, and Santa Ana are participating under MWDOC's Agreements

CONSERVATION CREDITS PROGRAM

RESIDENTIAL SURVEY PROGRAM

AGENCY	# of Units	Ultimate Yield (AFY)	Financial Incentive (\$/AF)	Total MWD Contribution (\$)	Agreement Term (Years)	Equipment Life (Years)	Total Yield (AF)*	Overall Program Approval	Executed Agreement	Pending Agreement
EASTERN MWD	300	10	\$154	\$7,500	1	3	30	Mar.1996; #7-4	X	
SAN DIEGO CWA	13,000	600	\$154	\$370,000	2	3	1,800	Mar.1996; #7-4	X	
MWDOC	3,269	109	\$154	\$90,000	1	3	327	Mar.1996; #7-4	X	
Totals	16,569	719		\$467,500			2,157			

RESIDENTIAL HIGH-EFFICIENCY CLOTHES WASHER PROGRAM

AGENCY	# of Units	Ultimate Yield (AFY)	Financial Incentive (\$/AF)	Total MWD Contribution (\$)	Agreement Term (Years)	Equipment Life (Years)	Total Yield (AF)*	Overall Program Approval	Executed Agreement	Pending Agreement
LOS ANGELES, CITY OF	5,500	104	\$154	\$225,000	1	14	1,232	Aug.1997; #7-7	X	
SOUTHERN CAL EDISON	14,857	237	\$154	\$525,000	0.5	14	3,318	Jan.1999;#8-8	X	
SAN DIEGO GAS & ELECTRIC	8,000	128	\$154	\$280,000	0.5	14	1,792	Jan.1999;#8-8		X
Totals	28,357	469		\$1,030,000			6,342			

RESIDENTIAL SHOWERHEAD RETROFIT PROGRAM

AGENCY	# of Units	Ultimate Yield (AFY)	Financial Incentive (\$/AF)	Total MWD Contribution (\$)	Agreement Term (Years)	Equipment Life (Years)	Total Yield (AF)*	Overall Program Approval	Executed Agreement	Pending Agreement
ANAHEIM, CITY OF	1,650	10	\$154	\$10,000	3	7	71	Mar.1996; #7-4	X	
Totals	1,650	10		\$10,000			71			

*The sum of the *Ultimate Yield* times the *Equipment Life*

CONSERVATION CREDITS PROGRAM

CII RETROFIT PROGRAM

AGENCY	# of Units	Ultimate Yield (AFY)	Financial Incentive (\$/AF)	Total MWD Contribution (\$)	Agreement Term (Years)	Equipment Life (Years)	Total Yield (AF)*	Overall Program Approval	Executed Agreement	Pending Agreement
Anaheim, City of	7,000	239	\$154	\$420,000	4	20	4,780	August "97" 7-7	X	
Burbank, City of	2,000	68	\$154	\$120,000	2	20	1,360	August "97" 7-7	X	
Central/West Basin MWD	5,000	170	\$154	\$300,000	2	20	3,400	August "97" 7-7	X	
Foothill MWD	2,000	68	\$154	\$120,000	1.5	20	1,360	August "97" 7-7	X	
Long Beach, City of	2,716	93	\$154	\$163,000	2	20	1,860	August "97" 7-7	X	
Los Angeles, City of	15,000	512	\$154	\$900,000	2	20	10,420	August "97" 7-7		X
MWDOC***	6,262	213	\$154	\$375,775	2.5	20	4,260	August "97" 7-7	X	
Pasadena, City of	2,000	68	\$154	\$120,000	2	20	1,360	August "97" 7-7		X
San Diego County Water Authority	10,486	358	\$154	\$629,200	4	20	7,160	August "97" 7-7	X	
Santa Ana, City of	1,016	34	\$154	\$61,000	2	20	680	August "97" 7-7	X	
Santa Monica, City of	1,166	57	\$154	\$100,000	2	20	1,140	August "97" 7-7		X
Three Valleys MWD	1,166	57	\$154	\$100,000	1	20	1,140	August "97" 7-7	X	
Torrance, City of	1,000	34	\$154	\$60,000	2	20	680	August "97" 7-7		X
Upper San Gabriel Valley	3,333	114	\$154	\$200,000	2	20	2,280	August "97" 7-7	X	
Western MWD of Riverside	6,000	205	\$154	\$360,000	1	20	4,100	August "97" 7-7	X	
Totals		2,290		\$4,028,975			45,980			

*The sum of the *Ultimate Yield* times the *Equipment Life*

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CONSERVATION CREDITS PROGRAM

LANDSCAPE CONSERVATION PROGRAM

AGENCY	# of Units	Ultimate Yield (AFY)	Financial Incentive (\$/AF)	Total MWD Contribution (\$)	Agreement Term (Years)	Equipment Life (Years)	Total Yield (AF)*	Overall Program Approval	Executed Agreement	Pending Agreement
Eastern MWD - Moisture Sensors	N/A	20	\$154	\$15,000	5	5	100	Sep.'98 # 7-13		X
Glendale - Central Control System	7	49	\$154	\$45,300	3	10	49	June'96 # 7-5	X	
Las Virgenes MWD - Weather Station	2	N/A		\$6,173	1	N/A		Sep.'98 # 7-13	X	
Las Virgenes MWD - Study	N/A	N/A		\$21,238	1	N/A		Sep.'98 # 7-13	X	
MWDOC - Central Control System	78	89	\$154	\$254,000	3	10	267	June'96 # 7-5	X	
MWDOC - Pilot, Certification Program	N/A	N/A		\$89,500	1	N/A		Sep.'98 # 7-13	X	
MWDOC - Central Control System	1	156	\$154	\$137,500	4	10	625	June'96 # 7-5	X	
MWDOC - Central Control System	14	36	\$154	\$28,028	5	10	182	Sep.'98 # 7-13	X	
MWDOC - Central Control System	24	90	\$154	\$55,325	5	10	361	June'96 # 7-5	X	
MWDOC - Moisture Sensors	66	61	\$154	\$27,995	3	5	183	Sep.'98 # 7-13	X	
MWDOC - Central Control System	N/A	180	\$154	\$138,600	5	10	900	Sep.'98 # 7-13		X
SDCWA - Audits	200	832	\$154	\$200,000	2	4	1664	June'96 # 7-5	X	
SDCWA - Central Control System	54	233	\$154	\$106,191	6	10	1167	June'96 # 7-5	X	X - Amendmt
SDCWA - Central Control System	N/A	57	\$154	\$45,000	5	10	285	Sep.'98 # 7-13		X
Santa Ana - Central Control System	2	10	\$154	\$16,451	3	10	20	Feb.'93 # 8-3	X	
3 Valleys MWD - Moisture Sensors	50	77	\$154	\$23,756	3	5	154	June'96 # 7-5	X	
3 Valleys MWD - Education	N/A	N/A		\$8,750	1	N/A		Sep.'98 # 7-13		X
West Basin MWD - Moisture Sensors	13	19	\$154	\$5,881	2	5	38	June'96 # 7-5	X	
Western MWD - Pilot Irrigation Sys.	N/A	N/A		\$19,104	1.5	N/A		Sep.'98 # 7-13	X	
Western MWD - Education	N/A	N/A		\$44,500	0.5	N/A		Sep.'98 # 7-13		X
Totals		1909		\$1,288,291			5995			

*The sum of the *Ultimate Yield* times the *Equipment Life*

Attachment 6H(C)

GROUNDWATER CONJUNCTIVE USE STORAGE

Projects	Storage (AF)	Dry Year Supply (AFY)	Capital Contribution (\$)	Executed Agreement
North Las Posas	210,000	70,000	31,000,000*	yes
Raymond Basin	75,000	25,000	-----in final stages of negotiations-----	
Chino Basin	-----In various stages of initial discussions/interest-----			
San Fernando	(no commitment of any kind at this point)			
Central/West Basin				
Orange County Basin				

*Depending on additional feasibility studies, MWD capital contribution could be another \$16 million, bringing the total to \$47 million.