



● **Board of Directors**

July 14, 2009 Board Meeting

6E

Subject

Approve General Manager's Business Plan for fiscal year 2009/10

Description

Every year, the General Manager submits a Business Plan for Metropolitan to the Board of Directors for approval based on the Board's approved budget. The following is the Executive Summary of the FY 2009/10 General Manager's Business Plan and provides the key strategies and objectives to be implemented over the next fiscal year. Under Metropolitan's approved budget for FY 2009/10, the implementation of these strategies and objectives are intended to ensure meeting Metropolitan's mission to provide its service area with adequate and reliable supplies of high-quality water to meet present and future needs in an environmentally and economically responsible way.

As the Board is well aware, the coming year presents a considerable challenge for Metropolitan and the water industry in California. Two external forces will present significant difficulties for Metropolitan and Southern California and will, to a large extent, shape the specific actions Metropolitan will be taking. These two formidable externalities are: (1) California's fiscal and budgetary crisis as precipitated by the worldwide recession and (2) the ecosystem collapse in the Bay-Delta that has dramatically impacted the reliability of the State Water Project (SWP). These two drivers will be reflected in almost every decision made at Metropolitan over the coming year. For instance, staff will have to be extremely vigilant in managing costs and the budget to mitigate necessary rate hikes mindful of the economic difficulties facing the member agencies. It will also be necessary for Metropolitan and the member agencies to be creative in partnering to develop regional financing solutions for essential water projects and programs when funding from the state and federal governments is doubtful at best. Advancing regional water supplies on an accelerated timeframe will be driven by the need to backstop SWP supply. Finally, maintaining progress on the Board's approved plan of action for the Delta is essential for Metropolitan's future.

For FY 2009/10, key areas of focus include the following six strategic priorities, as identified below:

- *Water Supply Reliability*
- *Bay-Delta Solutions*
- *Financial Strength and Capabilities*
- *Strategic Power and Carbon Reduction Planning*
- *High Performance Workplace*
- *Communications*

Metropolitan will also continue to work on core business activities, which include managing water supply, maintaining system reliability, achieving milestones on capital investment plan projects, maintaining water quality, legislative and community relations, human resources excellence, real property management, business processes, and financial management. The detailed Business Plan containing specific actions is available through the Board Executive Secretary's office or the Directors' Web site.

Strategic Priorities

Water Supply Reliability

In the face of challenging hydrologic, regulatory, and environmental conditions that adversely affect water supply, Metropolitan continues to develop and implement proactive plans to provide a high degree of water supply reliability for its service area. This will primarily be achieved by identification and implementation of short-term actions to augment water supply and demand management through the Five-Year Supply Plan process. It will also require development of long-term objectives, resource targets, and implementation strategies and programs to manage emerging trends and challenges, including climate change and tightening water quality regulations, through the completion of the Integrated Water Resources Plan (IRP) Update. Major deliverables under this Strategic Priority for FY 2009/10 include developing contracts and implementation approaches for Five-Year Supply Plan resources, and creating an adaptable long-term resources investment and implementation strategy by completing the IRP Update.

Bay-Delta Solutions

Given the continued restrictions on SWP deliveries, Metropolitan will continue to aggressively push Bay-Delta processes and pursue near- and long-term Bay-Delta solutions in FY 2009/10 to ensure a greater degree of reliability for Metropolitan's SWP supplies. Metropolitan is committed to working within a framework of actions that include near- and long-term Delta measures, with the ultimate goal of building a sustainable Delta and reducing conflicts between water supply conveyance and the environment. Near-term Delta measures must be compatible with the long-term Delta solution, improve water supply reliability, facilitate protection of fish species and ecosystem recovery, and improve water quality. To address near-term needs this fiscal year, staff will work with project partners to finalize environmental documentation and prioritize implementation of the Two-Gates Fish Protection Demonstration Project. Staff will also work with the Department of Water Resources and others to expedite high priority Delta levee improvements and complete emergency response preparations. Metropolitan will pursue continued progress toward development of a comprehensive long-term Delta solution by working with others to complete the public draft Bay-Delta Conservation Plan Environmental Impact Report/Environmental Impact Statement in FY 2010/11.

Financial Strength and Capabilities

Metropolitan's credit strength and ability to finance critical infrastructure and supply investments are based on strong cash-flow, sufficient reserves and recovering the cost of service through Metropolitan's revenue stream. In FY 2009/10, staff will work with the Board and member agencies to review the existing cost of service methodology, develop rates and charges that recover the full cost of service without relying on reserves, and identify potential fixed revenue sources that could provide greater rate stability. Metropolitan will implement financing strategies to fund the FY 2009/10 Capital Investment Plan, along with the supply investments contemplated in the 2009 IRP Update. Staff will also evaluate market opportunities to refinance and restructure existing debt and issue new debt in order to maintain low overall annual debt service costs. Finally, staff will work with the Board on establishing the appropriate policies for developing new partnerships and new sources of funding to complete critical infrastructure in a near bankrupt California.

Strategic Power and Carbon Reduction Planning

Metropolitan will develop a Strategic Power Plan (SPP) for energy management and carbon reduction in Metropolitan's distribution and Colorado River Aqueduct systems. This action is consistent with the Board's strategic priorities as outlined in the April 2007 Board Retreat, which called for a reduction in Metropolitan's carbon footprint and mitigation against risks associated with future carbon-related fees and regulations. This fiscal year, staff will propose SPP Policy goals for the Board's consideration. In addition, with board approval, staff will pursue agreements to achieve 100 percent renewable hydroelectric power use at the Diemer plant; complete final design for a one-megawatt (MW) solar energy facility to meet on-peak energy use at the Weymouth treatment plant; initiate preliminary design for an additional 10 MW of solar facilities at Metropolitan's treatment plants; and seek partnerships with the Metropolitan Transportation Authority, Los Angeles Department of Water and Power and others to install solar facilities at Metropolitan Headquarters and elsewhere.

High Performance Workplace

Metropolitan is continuing to implement its comprehensive approach to ensure hiring, retaining and developing people who contribute to their fullest potential in a high performance workplace that emphasizes engagement and alignment to organizational business goals, and employees who are empowered to make a difference and continually enhance their skills and capabilities to achieve high standards of performance. This year, the focus will be on setting and communicating expected competencies, behaviors and processes that improve workforce engagement and performance. Key deliverables include the following:

- Publishing a comprehensive Strategic Human Resources (HR) Plan to improve workforce management and ensure excellent human resources practices;
- Communicating findings and improvement actions based upon the Voices 2009 High Performance Workplace Survey;
- Conducting an annual Management Forum with all managers to set expectations and provide new tools to drive managerial excellence and consistent practices in managing human resources;
- Completing a proactive Workforce Plan and implementing succession pipelines to ensure critical positions are staffed; and
- Conducting HR customer assessments to determine effectiveness of shift to proactive, flexible, responsive and credible HR customer service that increases value to the organization.

Communications

Through multiple communication efforts and avenues, Metropolitan will ensure consistent, clear communications internally and externally about Metropolitan's operations, policies and programs. These efforts will include support of Board members' communication and relationships with elected officials and various stakeholders; working with member agencies in coordination and delivery of common water policy messages; continued implementation of public education, outreach and advertising; and management of public information programs. Key deliverables will be passage of Metropolitan-supported legislative efforts; an effective advertising campaign raising public awareness of water issues; continued and expanded support for Metropolitan efforts by the labor and business communities; and heightened awareness of water issues and solutions in key stakeholders and the general public.

Core Business Objectives***Water Supply***

Metropolitan must overcome significant challenges in order to continue providing a reliable water supply for Southern California in the near term. These include large swings in available water supply and demand, variable weather conditions, increased competition for low-cost water supplies, and continued restrictions on SWP deliveries. With these challenges, Metropolitan will continue to aggressively manage and execute water supply management strategies and programs to acquire water supply and demand management resources to meet development targets specified by the IRP. Staff will also develop annual implementation plans and recommendations for the use of water supply programs under the Water Surplus and Drought Management Plan to address resource and operational objectives. Major deliverables under this core business objective include the completion of contracts and/or agreements for new water supply, effective implementation of the Water Supply Allocation Plan, and technically sound recommendations for the use of regional water management programs and storage.

System Reliability

Metropolitan will continue to ensure the reliability of our regional water grid and its ability to deliver and treat supplies from multiple water sources. This will include the scheduling and delivery of about 800,000 acre-feet of State Water Project supply, 1.1 million acre-feet of Colorado River water, and 150,000 acre-feet from Central Valley water banking and exchange programs in calendar year 2009. Deliveries in calendar year 2010 will be optimized to account for a wide range of potential supplies that will be developed. Equipment maintenance will be performed to ensure reliable and effective water supply, treatment, and hydropower operations. Emergency management will continue to be improved through functional and full-scale exercises, training, and the completion of the preliminary design of the upgrade to the two-way radio system and the selection of a contractor

to install the upgrade. Metropolitan will also continue to reduce and manage risks posed to the environment from operations and will ensure a safe work environment for all employees. At this time, a total of 20 facility shutdowns are scheduled for routine inspection and maintenance. Most notably, two shutdowns of the Colorado River Aqueduct will be performed, as water supply conditions permit, to perform corrective maintenance, conduct inspections of tunnels and siphons, and address minor hydraulic restrictions identified during the 8-pump-flow test conducted in April 2009. Another significant outage is the replacement of the finished water reservoir cover at the Skinner treatment plant, which is scheduled to take place from December 2009 to March 2010. Some maintenance will be deferred to accommodate financial stresses but not at the expense of any significant increase in overall system risk.

Capital Investment Plan

Annual expenditures on the Capital Investment Plan (CIP) are consistently one of the largest components of Metropolitan's budget. For FY 2009/10, the capital budget is \$412 million, or 20 percent of the total planned expenditures for the fiscal year. As a part of the CIP process, all new and existing projects are evaluated against an objective set of criteria to ensure existing and future capital investments are aligned with Metropolitan's goals of Reliability and Water Quality. In this process, it was determined that almost \$240 million in capital programs could be deferred over a two-year period in response to the challenging financial conditions.

Although there are over 300 projects with expenditures budgeted for FY 2009/10, over half of the \$412 million fiscal year budget is attributed to the Inland Feeder, Skinner and Diemer oxidation retrofit, Diemer improvements, and Perris Valley Pipeline programs. With construction of the Arrowhead Tunnels, Skinner Oxidation Retrofit Program (ORP), and the Perris Valley Pipeline all scheduled to be completed during FY 2009/10, staff will continue to manage the construction of the Diemer ORP facilities, and seek board authorization to proceed with the repackaging of the design for the ORP at Weymouth and the environmental documentation and preliminary design for the remaining portions of San Diego Pipeline No. 6.

The largest capital expenditure category is in the area of infrastructure reliability. Over \$160 million of expenditures are planned for projects such as the electrical and power system upgrades at the Weymouth and Diemer water treatment plants, the north access road at the Diemer plant, the chemical tank farm at Weymouth and solids thickeners currently under construction at the Weymouth and Jensen plants, respectively, the inlet conduit relocation at Weymouth, and ongoing rehabilitation and replacement work on the aging Colorado River Aqueduct.

Water Quality

Metropolitan will continue to optimize water treatment processes and integrate new treatment processes into daily operations to ensure delivery of water that meets or exceeds all water quality regulations and objectives. Most notably, start-up operations of Ozone as the primary disinfectant at the Skinner water treatment plant will be completed and the additional Ozone contactors at the Mills water treatment plant will also be integrated into daily operations. In addition, programs to protect source water quality will be rigorously followed. Completion of these efforts will involve expansion of source water monitoring, clean-up and protection of source waters, pursuing funding opportunities to support alternative treatment technology projects as well as quagga mussel control. This year, the focus will be on leading stakeholders to agreement on the long-term treatment solution that will be applied to the Chromium 6 plume at Topock; protecting the continuation of perchlorate clean-up in Las Vegas wash; identification and development of further quagga mussel management techniques and application of current effective practices; research to identify treatment operations most suitable to achieving water quality objectives and minimizing the formation of Nitrosodimenthylamine; and finalizing research on 33 measurable pharmaceuticals to discern their occurrence in source and treated waters.

Legislative and Community Relations

At the Board's direction, Metropolitan will continue to develop federal and state legislative strategies consistent with board-adopted policy principles. This will include continued implementation of the board-adopted legislative strategy for 2009 and development and implementation of a legislative strategy for 2010. Metropolitan will also continue to build relationships with federal, state and local elected officials as well as business and community leaders. Deliverables in this area will include passage of critical legislation on water conservation and Bay-Delta governance; continued progress on stakeholder and legislative acceptance of a Bay-Delta solution;

effective advertising and public outreach on water solutions and conservation; and heightened awareness from the public of water issues and their solutions.

Human Resources Excellence

Metropolitan's HR practices will address new business challenges as well as the differing needs and expectations of various stakeholders. These stakeholders include the Board, increasingly diverse new employees, current employees, and a growing pool of retirees. To support these groups in a flexible, responsive and cost-effective manner, extensive redesign of the HR organization and processes will include the following:

- Identifying optimal staffing levels within HR and throughout Metropolitan;
- Redesigning HR processes, practices and policies to enhance consistency, flexibility and cost-effectiveness;
- Accelerating recruitments and expanding web-based staffing capabilities;
- Revamping the Performance Management System and compensation practices to be consistent with the standards of a high performance workplace;
- Enhancing Employee Relations support to respond quickly as well as reducing grievances and legal actions;
- Expanding management development, career development, succession pipelines and online training opportunities to improve workforce skills, competencies and productivity;
- Expanding online learning courses and implementing mentoring and internship programs;
- Deploying the new ***MyLearning*** Enterprise Learning Management system and optimizing HR technologies to enhance administrative support with fewer staff; and
- Launching Manager Self-Service and eRecruitment tools.

These improvements will be communicated through feedback from HR customers on their satisfaction with HR services and support, a new HR Portal, frequent and appropriate communications, and improved HR metrics.

Real Property Management

Through transparent and clear planned actions, Metropolitan will build a model for sustainable facility management, property management and real property development. Metropolitan will pursue several key initiatives this year. First, staff will place an emphasis on the planning and entitling of several high value properties — most notably properties near and around Diamond Valley Lake (DVL). Anticipated outcomes include selection of a long-term marina operator, a RV park developer, and new partners for the DVL Visitor Center. Second, staff will assess and plan for more sustainable and revenue generating endeavors, such as solar power generation utilizing right-of-ways and other large tracts of land deemed appropriate for such use. Staff intends to present assessments and recommendations for board consideration, which will be based on best practices of state and federal leasing management. Third, through coalescing of stakeholder and employee involvement, staff will finalize a strategic real property plan that encompasses the tenets of sustainable management. Updated and refined real estate policies will be presented to the Board for review and discussion.

Business Processes

Increasing organizational effectiveness is essential for Metropolitan to successfully weather today's difficult economic environment, meet significant cost containment requirements and continue to provide the highest level of value. To meet the challenges, Metropolitan will continue to analyze how it does business, identify best industry practices, and streamline key business processes such as those related to alternative project delivery and cost estimating. For example, to improve the cost efficiency of the supply chain process, Metropolitan's auto parts inventory will be outsourced in this coming year.

An important element of streamlining will be to strategically leverage technology investments. To that end, Metropolitan will complete a major update of its Information Technology Strategic Plan, the roadmap guiding investment and deployment of information technology, in light of changing business requirements, the need for prudent financial management, and the advent of new technologies. Staff will continue to assess new communications and collaboration technologies that enhance productivity and streamline business processes such as advances in the areas of mobile computing, communication, collaboration and electronic content management. Metropolitan will also initiate implementation of a new CAD Management System that will provide a scalable,

central repository for all “in process” engineering design documents during the production life cycle and provide efficient global search, access and retrieval of data and enhanced collaboration ability between Metropolitan staff and consultants.

During the FY 2009/10, Metropolitan will continue to maintain an effective Business Outreach Program for regional, small businesses and veterans to ensure broad participation, competitive costs, and promotion of Southern California business and economic development. This will be achieved, in part, by meeting or exceeding the Board’s goal of 18 percent of contracting dollars with certified small businesses. Focus will also be placed on increasing awareness of sustainable business development initiatives especially with the launch of the first small business summit on water and climate change; maximizing the full potential of the online “Netconnect” system to reduce outdated processes and cut costs; and continuing to enhance vendor training and offering coaching and mentoring to regional businesses.

The organization will also continue to incorporate sustainability into its day-to-day business processes occurring at all levels from the use of green products, the Rideshare Program, and continuation of the Paperwise Program, to employee education on sustainability practices through such vehicles as the annual Spring Green Fair and the regularly published sustainability newsletter.

Financial Management

Metropolitan will continue to record and report financial activity in a timely and transparent manner to the Board and member agencies. Cost management will remain a key objective in light of ongoing pressures on water rates and financial reserves. Increased focus will be brought to budget tracking and reporting, leveraging the new Integrated Budget Management System technology, in order to effectively manage expenditures, promote informed fiscal policy decisions, and better integrate performance measurement. Staff will work with rating agencies and investors to communicate Metropolitan’s financial needs and strengths to ensure cost-effective access to capital markets. To that end, Metropolitan will conduct regular workshops with the Long Range Finance Plan Work Group to develop a 2011 rate recommendation that recovers Metropolitan’s full cost of service. Staff will also continue to maintain internal financial controls and report on the effectiveness of these measures along with any external audit findings to help ensure the highest level of financial integrity.

Business Plan Status Milestones

January 2010 – Completion of Semiannual General Manager’s Business Plan Status Report to the Board

July 2010 – Completion of Year-End General Manager’s Business Plan Status Report to the Board

Policy

Metropolitan Water District Administrative Code Section 6416: Annual Report to Executive Committee

California Environmental Quality Act (CEQA)

CEQA determination for Options #1 and #2:

The proposed action is not defined as a project under CEQA because it involves continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, where it can be seen with certainty that there is no possibility that the proposed action in question may have a significant effect on the environment, the proposed action is not subject to CEQA (Section 15061(b)(3) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action is not subject to CEQA pursuant to Sections 15378(b)(2) and 15061(b)(3) of the State CEQA Guidelines.

Board Options

Option #1

Adopt the CEQA determination and approve the General Manager’s Business Plan for FY 2009/10.

Option #2

Adopt the CEQA determination and redirect the General Manager's Business Plan to accomplish alternative policy goals.

Staff Recommendation

Option #1



Jeffrey Knightlinger
General Manager

7/1/2009
Date

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