



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Report

Office of the General Manager

- **General Manager's Business Plan Fiscal Year 2019/20**

Summary

The attached document provides the General Manager's key strategic priorities for fiscal year 2019/20.

Purpose

Administrative Code Requirement Section 6416, Annual Report to Executive Committee

Attachment

GM Strategic Priorities for Fiscal Year 2019/20

General Manager's Business Plan for Fiscal Year 2019/20

Summary

Metropolitan will continue to face challenges in sustaining water supply reliability, investing in critical infrastructure, maintaining financial stability, and transitioning to a younger and more diverse workforce.

The General Manager's Business Plan is incorporated into the biennial budget. The seven key strategic priorities for fiscal years 2018/19 and 2019/20 were set forth in the Budget Board Letter dated April 10, 2018. The priorities are restated below with an update reflecting the completion of the Drought Contingency Plan, a single-tunnel approach in the Delta, the next phase for the Regional Recycle Water Program, and promoting innovation in the workplace.

Strategic Priority #1: Enhance Infrastructure Safety, Security and Resiliency

Metropolitan's vast network of aqueducts, pipelines, pumps and treatment facilities are the backbone of Southern California's regional water system. Metropolitan's flexible and adaptable system enables Metropolitan to move water across six counties from where it is sourced to where it is needed. Our robust treatment and delivery infrastructure allowed Metropolitan to supply Southern California almost entirely with Colorado River water in 2015 and then flip to delivering almost all Northern California water in 2017. However, this vital infrastructure is aging and heightened reinvestment in this system is essential to ensure Metropolitan can continue to deliver on its promise of reliability in the coming decades.

In the past, the bulk of Metropolitan's Capital Investment Plan was focused on large-scale projects such as Diamond Valley Lake, the Inland Feeder and the Ozone Retrofit Program with repair and replacement projects being secondary. The focus of our CIP has now shifted largely to reinvestment in our existing infrastructure. These projects will ensure the long-term reliability of Metropolitan's critical infrastructure and build seismic resilience into our facilities. In 2000, Metropolitan's annual CIP was nearly \$600 million for approximately 100 projects. Over the next budget cycle, Metropolitan will be managing nearly 400 individual capital projects for a \$200 million CIP. This requires changes in organization and management of our capital program and is reflected in our budgeting actions and staffing plans. The four critical areas of focus will be the ongoing rehabilitation of the Colorado River Aqueduct, prestressed concrete cylinder pipe replacement, system seismic hardening and physical and cyber security. Staff will be bringing numerous action items to the Board in these areas and will be discussing with the Board strategies on best management techniques for handling the shifting nature of our CIP.

Strategic Priority #2: Prepare for More Extreme Hydrology

- *Maximize Storage Opportunities:* The recent historic drought cycle sequence highlighted the enormous value of Metropolitan's regional storage investments. Over the past decade, California has had eight drought years with two wet years. To meet regional demands, Metropolitan drew on storage heavily in most years over this period but was able to take full advantage of the wetter years to restore storage reserves. But for Metropolitan's robust storage portfolio and conveyance capabilities, Southern California would have faced severe shortages this past decade. Regional storage has become increasingly critical to maintaining water supply reliability in the face of increasing water supply volatility due to climate change. Staff will work closely with the Board to assess Metropolitan's storage capabilities, current strategies and review future needs to identify whether new strategies and/or new investments are needed.
- *Promote Innovation and Efficiency in Water Use:* Water use efficiency and conservation investments were also essential to managing through the historic drought by reducing regional demands nearly 25 percent. Metropolitan is a national leader in water conservation and reached a significant milestone in 2017 by achieving more than one million acre-feet per year in annual water savings. Most of this progress was built on Metropolitan's successful rebate programs and advocacy to change codes and standards. To build on that success, Metropolitan will examine new opportunities to leverage technology and innovation to promote conservation, efficient water use and water stewardship through a comprehensive demand management program that includes investments in research, innovation and public education along with targeted incentives for the residential, commercial, industrial and institutional sectors.

Strategic Priority #3: Ensure Imported Supply Reliability

Southern California's foundational water supply remains the Colorado River and the State Water Project and their ongoing reliability is critical for the region. Important decisions on both supplies need to be made over the next two years.

The emphasis for the State Water Project will be on working with the Newsom Administration to make the necessary revisions to the process to accommodate a single-tunnel approach with minimal loss of time. Simultaneously, staff will be working with the state to extend the State Water Project Contract, complete repairs at Oroville reservoir and review the status and upkeep of all SWP facilities. Also essential will be strategic investments regarding science and restoration of the Delta ecosystem in support of the co-equal goals of water supply reliability and environmental restoration. This includes support for California EcoRestore projects, salmon and smelt resiliency plans, and development of a multiuse, long-term plan for Metropolitan's Delta Islands.

On the Colorado River, the emphasis over the next year will be on implementing the completed Drought Contingency Plan providing stability on the Colorado River while protecting Metropolitan's supplies and access to storage in Lake Mead. Additionally, staff will analyze the combined impacts of long-term hydrological conditions and various competing demands, including pending tribal water rights litigation and environmental interests, such as the Salton Sea, to ensure Metropolitan's Colorado River water supplies remain protected and reliable. Finally, Metropolitan will continue to work proactively to manage its Palo Verde lands in a way that supports long-term water supply goals and a vibrant agricultural economy in the region.

Strategic Priority #4: Maximize Local Resources

In 2019, construction of the Regional Recycled Water Advanced Purification Center demonstration facility in partnership with the Sanitation Districts of Los Angeles County was completed. While Metropolitan learns about the technical and water quality aspects of the project to optimize design of treatment processes for a full-scale facility, staff will begin work with the Board and member agencies on a review of issues associated with the Regional Recycled Water Program. This review will inform the Board and seek policy direction related to the next phase of Program activities. The issues addressed will include how project costs would be allocated, how revenues would be collected, what form water delivery would take to local agencies, cooperation and cost sharing with non-member agencies, and other policy issues.

Strategic Priority #5: Promote Environmental Stewardship and Sustainability

Metropolitan has undertaken a comprehensive program of environmental stewardship both internally and externally. In the course of accomplishing its mission and mitigating for impacts of its projects and operations, Metropolitan establishes and manages open space, and partners with other organizations to preserve and support native species and habitat. In the coming years, Metropolitan will continue to lead with programs that promote actions that support sustainable practices, reduce greenhouse gas emissions and protect natural habitat and water quality. A comprehensive risk management strategy is needed to address the uncertainty and threat associated with climate change. As understanding of climate change impacts advances, Metropolitan will develop and implement strategies to improve resiliency, reduce risk and increase sustainability for infrastructure, water systems and the ecosystems.

Strategic Priority #6: Foster Leadership and Strengthen Workforce Capabilities

More than half of Metropolitan's workforce has reached retirement age, including many members of Metropolitan's executive management team. The retirement rate at Metropolitan is now slightly more than 100 employees a year and will remain at that level through this budget cycle. This is a challenge to the District's capacity to adequately train and prepare its workforce but is also an opportunity to build a workforce geared for the challenges of the future. To retain essential agency knowledge capture and ensure smooth leadership transitions, Metropolitan will expedite internal promotions and recruitment processes, and augment employee development

training programs to ensure employees have the knowledge and technological skills to compete in today's competitive job environment. Succession planning actions will be enhanced to increase the availability of experienced and capable employees prepared to assume critical roles as they become available, building on Metropolitan's current successful apprenticeship program and management academies. While Metropolitan's workforce is becoming increasingly more diverse, Metropolitan will continue to foster an inclusive and innovative workplace, promoting a safe and discrimination-free work environment, and provide opportunities for all employees to use their diverse talents to support the District's mission.

Strategic Priority #7: Maintain Sound Business Practices and Fiscal Integrity

Metropolitan will continue its longstanding practice of operating in a productive, cost-effective, transparent and efficient manner to ensure sound financial stability. Metropolitan holds some of the nation's highest credit ratings for government agencies by maintaining strong reserves and limiting its use of debt. Long-term investments will be made through a prudent combination of long-term funding sources as well as annual rate revenues. Capital expenses will continue to be funded at a significant level on a pay as-you-go (PAYGO) basis per Board policy. Potential investments such as modernizing the State Water Project would be phased in over time and have been prudently built into Metropolitan's rate projections. After a decade of virtually no rate increases, then a few steep catch up years in 2009 and 2010, Metropolitan's overall rate increases have stabilized over the past four years to close to the rate of inflation. Thanks to prudent management of Metropolitan's capital program, reduction in debt load and management of labor costs, the proposed budget limits overall rate increases to three percent in each year while it continues funding Metropolitan's PAYGO policy, paying down Metropolitan's Pension and Other Post Employment Benefit liability, and expanding Metropolitan's conservation and demand management programs. Most importantly, due to the continued sound financial management practices of Metropolitan, the ten-year financial forecast predicts overall rate increases will remain within the three to five percent range over the next decade.