METROPOLITAN WATER DISTRICT
BLUE RIBBON TASK FORCE

FINAL REPORT
JANUARY
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Foreword:
The Blue Ribbon Task Force

On April 7, 1993, the Metropolitan Water District Board of Directors authorized the formation of a Blue Ribbon Task Force, comprised of private sector volunteers, to conduct a six-month review of the District's business practices and operational policies. The creation of the Task Force was motivated by concerns that Metropolitan did not enjoy sufficient public support, the perceived low general understanding of the District's role in providing wholesale water supplies to Southern California, and a desire to enlist the private sector to obtain fresh perspectives about the MWD's business practices and identify new solutions to problems that might exist.

Members of the Board, member agencies, and other interested individuals subsequently nominated 124 community leaders to serve on the Task Force. On June 14, 1993, the Executive Committee of the Board selected 33 people from the overall list of nominees to be invited to form the Task Force. Twenty-seven individuals eventually accepted invitations to undertake the effort, and, at the request of the Board, Nelson Rising, Senior Partner of Maguire Thomas Partners, agreed to serve as the Chair.

The Task Force first met on July 28, 1993. After considerable discussion, technical briefings, and additional meetings, four working subcommittees were created: (1) Integrated Resources Planning (IRP) and Rate Structures, chaired by Raymond L. Orbach, Chancellor, University of California, Riverside; (2) External Relations, chaired by Beth Rogers, Managing Partner, Pacific Earth Resources; (3) Business Practices, chaired by Jacques Yeager, Sr., President, E.L. Yeager Construction Co., Inc.; and (4) Human Resources and Diversity, co-chaired by Bondie Gambrell, President, Forty Acres Real Estate Company and Patty DeDominic, President, PDQ Personnel Services, Inc.

After the organizational structure of the Task Force was established, the Board approved a budget for the effort, an executive director was selected, and each Subcommittee secured outside

consultant assistance as necessary to complete its review. The Task Force met several times in executive, plenary and Subcommittee sessions during August-December, 1993 to develop a set of findings and a series of recommendations for the Board's consideration in each area of concern.

This Report details the results of the Task Force's examination of several substantive areas within the MWD, all of which were undergoing rapid change. Functioning as a "citizen's committee" of private-sector individuals concerned about water issues in Southern California, the Task Force evaluated Metropolitan's processes for reaching fundamental resource and policy decisions, and its general business and personnel practices.

From the outset, the Task Force Report recognized that it could not, and did not want to serve as an outside auditor or management consultant for Metropolitan. Rather than focus on complex statistical issues or intricate policy debates, the findings and recommendations presented in this Report are intended to signal general areas that the volunteer members of the Task Force, after several months of study, believe merit additional Board and MWD staff attention. It is hoped that concerned readers will look beyond potential disagreements over comparatively minor matters and treat the broad themes developed in the Report as an invaluable barometer of public concern in an era when public understanding and support is increasingly critical to Metropolitan's mission.

The Metropolitan Board of Directors demonstrated considerable initiative and confidence in requesting this first-ever comprehensive, outside assessment of the District's activities. The goal of the Report is to assist Metropolitan continue its remarkable level of service to the people of Southern California in providing reliable, affordable wholesale water supplies during the currently challenging times in the water industry.

The Metropolitan Water District
Blue Ribbon Task Force

Executive Committee Members and Subcommittee Chairs

Nelson Rising, Senior Partner, Maguire Thomas Partners
Task Force Chair

Raymond L. Orbach, Chancellor, U.C. Riverside
Chair, IRP/Rate Structures Subcommittee

Beth Rogers, Managing Partner, Pacific Earth Resources
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

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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

Stewart Kwoh, Executive Director
Asia-Pacific American Legal Center of Southern California

Business Practices Subcommittee Members

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Fred Y. M. Chen, President, MAA Engineering Consultants, Inc.

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Introduction

Metropolitan's Strategic Challenges and The Task Force Report

From its inception in 1928, the Metropolitan Water District (Metropolitan or the MWD) has established an enviable record of reliability, unsurpassed engineering quality, and public service while providing Southern Californians with the wholesale water supplies on which their livelihoods depend. As the largest water district of its kind in the world, Metropolitan's many achievements include the construction of the Colorado River Aqueduct and a key role in the continuous expansion and improvement of the California State Water Project. The MWD's importance to our region's social and economic vitality is further exemplified by its status as the anchor financial rating institution in the western United States.

Unlike more stable, earlier periods, Metropolitan's mission and operational practices are now subject to extensive reappraisal. Chief among its new challenges is intensified competition for California's scarce water resources, as burgeoning demands for agricultural, industrial, urban and environmental water–and the prolonged recent drought–generate ever-more painful allocation decisions, and as the state's Colorado River rights are reduced. These supply concerns are exacerbated by the still-unresolved problem of transporting State Water Project flows through the Sacramento and San Joaquin Delta, and increasingly stringent federal and state water quality standards. At the same time, Metropolitan faces intensified demands for social diversity, environmental sensitivity, and regional growth coordination that profoundly affect how it defines and carries out its functions.

All of these challenges make the MWD's task of providing reliable wholesale water supplies at a price its customers can afford increasingly difficult. In response, Metropolitan has initiated several measures, many of which are unprecedented since its formation in 1928:

- *Proposed major capital improvement program.* Metropolitan is poised to begin a major capital improvement program, valued at close to $6 billion. The centerpieces of the program–and nearly half its cost–are the Domenigoni Reservoir and Inland Feeder projects, designed to increase local water storage flexibility, insure against inter-mountain supply disruptions, link the East Branch of the State Water Project to the Colorado River Aqueduct to enhance water quality and delivery capabilities, and facilitate better system maintenance.

- *New key management and Board personnel.* Metropolitan has recently hired a new General Manager and General Counsel, and is continuing its search for a Personnel Director. Half of the MWD's Division Managers are new to their positions within the last year. In December, a new Chair and officers were elected to head the MWD Board of Directors, which has itself experienced more than a 70% membership turnover in the last three years.

- *Novel water transfer legislation and transactions.* The MWD was instrumental in securing legislation permitting water transfers from the federal Central Valley Project, and it continues to press for similar measures regarding State Water Project supplies. Metropolitan is completing the first-ever contract to purchase water from a Central Valley Project contractor under the authority of the Central Valley Project Improvement Act.

- *Outreach to member agencies.* Under the direction of the new General Manager, Metropolitan has taken steps to involve member agencies more fully in its decision making, including a novel "American Assembly" which, for the first time ever, brought MWD, Board, and member agency staff together to discuss major strategic issues.

- *Commitment to diversity.* In recent hearings and other public communications, Metropolitan has made

particularly strong commitments to diversify its staff and ambitious affirmative action and minority/women owned business enterprise contracting objectives.

- *Outside reviews.* Over the past several months, the Metropolitan Board and management staff have initiated two unprecedented reviews of the MWD's operations by public, independent entities, the Operations and Engineering Peer Review, and the Blue Ribbon Task Force.

- *Completion of the first-ever MWD senior management retreat to stimulate staff and interagency coordination.*

- *Completion by the Board and Senior Management in 1993 of the first-ever Metropolitan Strategic Plan.*

- *Initiation of a novel integrated resources planning effort, including the involvement of member agency managers, to define Metropolitan's future operational objectives.*

- *Development and partial Board approval of innovative rate structure revisions designed to rationalize Metropolitan's revenue stream with respect to its fixed and variable costs.*

In general, the Task Force was impressed with the MWD's professionalism and dedication to the people of Southern California and the State. The fact that the Board of Directors initiated this review of the MWD's activities reflects considerable foresight and self-confidence. In most areas of concern, Metropolitan has already begun positive responses or is planning corrective measures. The Task Force applauds the MWD's achievements and its efforts to identify and solve its problem areas.

The purposes of this Report are to:

(1) underscore the necessity for Metropolitan to maintain–and, in some cases, substantially enhance–its ongoing responses to new and difficult challenges;

(2) discuss current and potential problems with certain Metropolitan strategies and provide positive corrective suggestions; and

(3) identify additional areas of concern that Metropolitan has yet to explicitly consider, and provide recommendations for addressing them.

This Report is comprised of five parts: Part I, Integrated Resources Planning and Rate Structures; Part II, External Relations; Part III, Business Practices; Part IV, Human Resources and Diversity; and Part V, Issues Not Addressed in this Report.

The first two parts examine many of the long-range planning and governance issues confronting Metropolitan. Their major theme is that in the current and reasonably foreseeable future, the MWD cannot function simply as a utility providing engineering solutions to Southern California's water supply, distribution, and quality challenges. Metropolitan must instead continue its ongoing evolution into a regional, if not state-wide governance organization to generate creative solutions to existing and future water issues, and then help build the alliances and consensus necessary to realize outcomes that best serve the public interest.

Parts III and IV assess Metropolitan's progress in improving its most important management, personnel and operational functions. The Task Force found that Metropolitan has made substantial improvements, but that much work remains to be done in several specific areas.

Part V briefly considers several matters that the Task Force considers of importance for Metropolitan's future success, but which were not explicitly addressed in this Report.

Part I:
Integrated Resources Planning and Rate Structure Proposals

After several years of limited system improvements and comparatively stable water rates, Metropolitan is once again planning several major construction projects, activities which will almost certainly require substantial rate increases or other revenue enhancements. The MWD has instituted two innovative procedures to identify its capital investment goals and the best means for achieving them: Integrated Resources Planning (IRP) and rate structure proposals. The Task Force believes that supporting and expanding the scope of Metropolitan's current IRP and rate structure initiatives are critically important if the organization is to meet its objectives and continue to serve the public interest.

Four aspects of Metropolitan's IRP and rate structure activities were examined–(1) the integration of both efforts with MWD's overall decision making process, (2) IRP planning techniques, (3) rate structure proposal issues, and (4) regional and statewide water policy governance concerns.

1. The IRP/Rate Structure Process and MWD Decision Making.

A. Findings

Current demand and supply volatility makes defining MWD's optimal water resource mix much more complex than in the past. Each combination of potential resources generates a different set of supply, water quality, project cost, and member agency burden-sharing risks. The MWD's IRP process began with the Board establishing specific reliability and supply objectives. Then, with such goals in mind, the IRP sought to find the most appropriate mix of water sources–including imported water, local groundwater supplies, conservation and best management practice techniques, reclamation, desalination, and water transfers from the State Water

and Central Valley Projects–and system improvements that could realize its objectives.

MWD's rate structure proposals address concerns that as MWD embarks on the capital improvement program or other ambitious construction efforts, it will incur vastly increased fixed costs arising from the expense of bond financing to pay for capital expenditures. These debt service charges would be added to the MWD's already substantial fixed obligations arising from its State Water Project commitments–Metropolitan's contract with the State requires it to pay a greater amount per acre foot than originally anticipated without enforceable delivery guarantees–and recurring maintenance and administration charges. Metropolitan's additional cost burdens were projected in 1991 to increase the wholesale price of water from approximately $200 to close to $700 per acre foot, a level that could seriously undermine demand for Metropolitan water. In addition, the drought increased member agency awareness of other, non-MWD sources of supply, such as reclamation, conservation and water markets.

Since raising *ad valorem* property taxes is not currently being considered, MWD would increasingly be forced to cover its fixed costs with variable revenue sources, largely through increased water sales income. At the same time, increased water rates would likely decrease member agency demand for MWD water, which in turn would reduce income–and possibly the need for some capital programs. Metropolitan's proposed new rate structures attempt to increase member agency fixed payments to cover fixed MWD expenses independent of the volume of water the agencies purchase, but, as discussed in Part I.3 below, do not yet sufficiently resolve this crucial issue and fail to recognize the dampening effect higher prices will likely have on water demand.

The IRP and rate structure proposals were initially conceived as comparatively simply engineering and financial exercises. IRP would set the system-wide plumbing, storage, local project development and other "hardware" parameters required to meet certain reliability or quality goals. A new rate structure would establish the best way to pay for the resulting improvements.

In practice, both have become much more sophisticated, politically sensitive efforts and are intimately intertwined. Most participants now recognize that there is a range of possible solutions that ultimately depend on the degree to which interagency consensus-building, and influence at the state and federal level, can be achieved. The implications of this evolution are discussed in Part I.4, and Part II, below.

At present, the relationship between the IRP and actual MWD engineering and project decision making is ambiguous, partially due to the problem of coordinating ongoing, Board-approved construction projects with the IRP process. Prior to IRP completion, in accordance with approved plans, the MWD has spent at least $200 million in improvements at the Domenigoni Reservoir project site, begun blasting apart a mountain for the required dam landfill, and released press statements heralding the imminent construction of an 800,000 acre foot storage facility–the largest possible configuration. Since the scale, timing and desirability of such projects as the Domenigoni Reservoir are now subject to IRP review–which may conclude that certain currently planned initiatives are too costly or that better alternatives for meeting operational objectives exist–there is a latent tension between the IRP and existing capital improvement priorities that the MWD has previously developed.

The IRP and rate structure efforts are also not yet fully integrated, although the Strategic Plan commits the MWD to linking both efforts. The same MWD staff and member agency representatives are involved in both the IRP and rate structure initiatives, but each is proceeding somewhat independently from the other. The Board recently approved a new rate structure for 1995-96, for example, that will generate fixed revenues to amortize capital improvement program debt expenses before the extent and scope of these projects–and their cost–has been determined by the IRP process.

As a result, IRP participants are in effect being asked to define future operational and resource objectives without at the same time directly considering the costs or revenue stream implications of the choices they will make. Discussions over possible rate structure revisions amount to setting prices for water, construction and other

MWD services before the quality and volume of such "products" has been defined through the IRP. Further, the impact of new rate structures on MWD investment and member agency water purchase and investment decisions has been overlooked.

In the past, major policy decisions have been undertaken by the MWD with largely informal member agency coordination. Although both the IRP and rate structure efforts directly involve member agencies in setting functional objectives, performance standards and the development of background materials such as the Strategic Resources Assessment–and to some extent, other outside participants–the precise role of non-MWD participation in IRP and rate structure discussions often seems limited to commenting on Metropolitan-generated objectives rather than considering *de novo* functional objectives and performance standards.

B. Recommendations.

- *The IRP process should actually govern MWD engineering, investment and operational decisions.* To effectively establish MWD's future priorities, the IRP should unambiguously be the central planning process for the organization, not an "exercise" subject to revision, or rejection, as Metropolitan staff sees fit. Major investment projects, including the Inland Feeder and Domenigoni Reservoir, should not be undertaken independently from the IRP. Unless the IRP participants clearly understand that their choices will have real consequences for MWD and the region's water policy, they will have no incentive to carefully appraise their options, revise the IRP process as necessary, and develop a strategy that can reliably guide Metropolitan's future decision making.

- *The IRP and rate structure proposals should be formally, and functionally, integrated.* Metropolitan must explicitly link IRP system choices to the cost and risk commitments member agencies must make when considering various rate structure proposals. This requirement goes beyond simply designating the same personnel for both activities,

2. The Integrated Resources Planning (IRP) process.

A. Findings.

The IRP process is a pioneering step in regional and California water policy planning. There are several issues the MWD should consider as the effort evolves.

The extent to which Metropolitan can obtain comprehensive agreements from appropriate water agencies about such matters as groundwater management will likely affect the scope of construction projects and other investments it must make to meet its operational goals. At present, agency coordination is not adequately modelled in the IRP. The possibility, for example, that major Southern California reservoir projects might be scaled back if the agencies that control surplus groundwater storage reserves coordinate their activities is not explicitly incorporated into any IRP planning scenario.

The IRP also generally assumes a static political environment affecting possible MWD water supplies and other operational concerns. Politically-sensitive decisions, such as access to the Colorado, new environmental or other water set-asides, quality standards, or modifying MWD's (currently heavy) State Water Project financial burdens can have a substantial effect on Metropolitan's potential resource mix and water supply reliability. Mounting major political efforts to influence outcomes relating to such crucial issues is not, however, considered an integral strategic option in the IRP.

Several water supply sources, such as Central Valley Project and other water transfers, are treated as residual factors in the IRP, and not part of the primary resource mix. The IRP estimates total "conventional" supplies from anticipated demand. Any shortfall is assumed to be filled by water transfers or other non-traditional sources. This treatment may understate the potential size and scope of new resources and focus attention on a more limited range of options for future water supply management.

The IRP estimates of total water demand are based on a static model that is used to project per capita water use and then combined with population growth and land use forecasts provided by outside agencies. The model is based on past behavior and may not describe the true range of future options. Further, the IRP analyses that are derived from the water demand models do not adequately consider the potential effects of cost increases, lifestyle changes, enhanced conservation technologies, and other factors on regional water use. The MWD itself has an influence on future Southern California population expansion and development patterns (such as lot sizes and landscaping practices) because of its pricing and supply capabilities. These fundamental relationships are not addressed in the IRP.

Several operational and other requirements are not explicitly factored into the costs associated with various MWD resource mixes. Although tightening federal and state standards have required substantial filtration and R&D expenditures by MWD, and affect the way that water can be used for groundwater replenishment and residential use, water quality expenses are not presently considered in achieving the IRP resource mix.

The IRP also assumes that "Best Management Practices" and local resource investments such as reclamation, will be limited in scope and not require substantial expenditures to achieve. Implementing Best Management Practices standards and building local water recycling or other capabilities requires MWD and agency expenditures that should explicitly be considered as part of the overall costs needed to realize a desired water supply.

The IRP was originally designed primarily as a one-time effort to set construction and service priorities for several years in the future. Current plans envision follow-on sessions but these have yet to be clearly defined in scope and time. The emphasis on the current planning process and lack of a fixed follow-on effort may encourage investments that might be better deferred, modified, or even scrapped as future demand, supply or other circumstances deviate from the plan's initial assumptions. A more flexible approach would be to treat current resource mix and reliability goals as approximations of future requirements, and distinguish priority

from less imperative projects useful more for insurance than to meet current problems. Planned outlays and operational goals would then be reassessed at regular intervals to re-establish priority and staggered investments for the following period until the next plan review is conducted.

Metropolitan's IRP process begins by establishing reliability and service standards, and then attempts to develop the least costly, most effective resource mix that will meet its goals. Another approach would be to start with the amount member agencies are willing to pay for system-wide improvements over a period of time, and derive from that figure the maximum reliability and performance capabilities MWD can afford to make. At present, these two methods will likely generate widely divergent results because the IRP does not adequately reexamine the reliability and other baseline assumptions affecting resource mix debates. If the IRP results are valid, each method should reasonably approximate the results of the other.

As different resource, reliability and operational goals are considered, IRP participants are not presented with fully articulated alternative models. The current practice is to make marginal changes in an assumed base resource mix in response to new cost, technological, political or other concerns. This practice may limit the participants' understanding about the implications of different options, and artificially constrain the range of choices they take into account.

B. Recommendations.

- *Explicitly model the relationship between resource choices and various cooperative regional water management agreements.* As part of the IRP, MWD should explicitly model a range of inter-agency water use and storage agreements, including groundwater management, from a "no agreement" baseline to much more cooperative arrangements, to illustrate the relationship between member and other appropriate agency collaboration and MWD operational goals, resource mix options, and costs. The coordination of member, non-member and

sub-agency water policies and programs will affect regional water resource costs and reliability, and Metropolitan's functional scope and responsibility.

- *Incorporate political factors into the IRP.* The IRP should expressly consider whether committing resources to obtain more favorable legal results–securing federal guarantees for maximum Colorado River Aqueduct utilization, for example, or working in Sacramento to reduce State Water Project financial obligations or strengthen the Project's delivery guarantees–makes sense as part of Metropolitan's long term strategies.

- *Water transfer supply resources should be actively incorporated into the potential resource mix.* The IRP should explicitly consider the costs and benefits associated with securing major water transfers rather than treat such supplies as residual or secondary resources. The environmental and economic impacts to the regions from which water rights are purchased should be part of the planning process.

- *Water demand variations should be less static.* The IRP should develop a range of demand levels considering the potential effects of such factors as future price increases, coordinated regional growth management strategies, new development charges, and enhanced delivery and conservation technologies on regional water use. In particular, Metropolitan's own impacts on baseline population, development patterns, and water use levels should be explicitly considered.

- *Water quality should be factored in as an explicit cost.* The IRP should explicitly consider options and costs associated with achieving water quality standards compliance, and the system-wide implications for delivering or procuring filtered and unfiltered water with the willingness of member agencies to pay for such options. In addition, the MWD should evaluate the benefits and costs associated with expanded parallel

distribution systems to provide untreated or grey water supplies for uses that do not require filtered, treated water.

- *Costs associated with Best Management Practices and local projects should be clearly established and evaluated.* The IRP should flexibly assess the costs and benefits of achieving Best Management Practices and local project subsidies, and broaden the extent to which these components of the IRP might vary as part of the regional resource mix.

- *Continuously stagger and reassess investment needs.* The IRP should consider staggering investments over a period of time to evaluate whether the predicted requirements in fact materialize. At regular intervals, the timing and scope of planned investments should be reassessed and modified as circumstances warrant.

- *Derive IRP results starting from a willingness to pay perspective as well as from reliability and supply goals to assess whether current planning efforts adequately "loop back" and force the reappraisal of initial reliability and other operational assumptions.* Member agencies, and other water users, may have a desire to improve reliability and performance capabilities beyond their willingness or ability to pay for such improvements. In the event of substantial divergences in various water users' willingness to pay for MWD capacities, Metropolitan may wish to consider more flexibly pricing wholesale water supplies to reflect the levels of reliability and cost burdens that each user desires and is willing to bear. Effective planning can only occur after the maximum level of current and future investment member agencies will bear has been determined.

- *Educate IRP participants by modelling alternative future scenarios more clearly rather than make marginal modifications to the baseline scenario.*

- *As part of the IRP process, the MWD should consider developing coordination agreements with member and other relevant agencies that have extensive groundwater basins that could be used by the MWD to increase storage.* Incentive programs should be established wherever useful and feasible to compensate member and other groundwater agencies for storing MWD water for future use by Metropolitan.

- *The MWD must continue to develop planning and pricing policy relationships with its member agencies.* Involvement by the member agencies in MWD planning should not be limited to mere representation through the MWD Board membership, but through explicit communication channels with member agency personnel. Where appropriate–in groundwater management, for example–non-member water agencies should also be part of the planning process.

- *The MWD should assure that the IRP process actively considers overall "public benefits."* The IRP planning process could limit growth and stifle economic development instead of enhancing these goals unless linked to a basic sense of which outcomes best generate overall public benefits and welfare. Defining such standards, and integrating them into the IRP process should therefore be an integral part of the MWD's planning agenda.

3. The Rate Structure Proposals

A. *Findings*

An effective rate structure should generate sufficiently stable revenues to cover fixed costs, and stimulate careful consideration of the costs and benefits associated with capital projects, alternative water supplies, and consumption. Metropolitan's proposals recognize and address these issues, but several potential problems remain.

The proposed rate structures primarily create two new obligations on member agencies, a Readiness to Serve Charge and a New Demand Charge. The Readiness to Serve Charge is intended to provide stable revenue to cover the fixed costs associated with the capital improvement projects to meet existing users' untreated water quality and reliability needs. The New Demand Charge would shift the costs of increased system capacity to the users that generate the new demands on MWD.

As the concept has evolved, each member agency will eventually pay a Readiness to Serve Charge based on its average MWD water purchases over the previous four years. The amount of revenue anticipated from current Readiness to Serve Charge proposals appears to be much less than the anticipated fixed costs associated with a fully implemented capital improvement program.

Worse, as year-to-year water use changes for each agency, some will bear more of the Readiness to Serve Charge burden, and others less, depending on each agency's desire and ability to utilize alternatives to MWD supplies. To reduce the range of Readiness to Serve Charge burden shifting, MWD's proposals would limit the reduction any one agency could achieve to 50% of its 1989-93 consumption levels. This limitation still permits dramatic variations from initial Readiness to Serve Charge commitments. Some member agencies–especially those with a number of water supply alternatives–may not adequately weigh the costs and benefits of proposed projects at the outset.

The New Demand Charge also does not yet require up-front agency commitments. Under current proposals, MWD could still initiate projects on its own, and only when demand actually increases above a baseline amount would the agencies that require and benefit from the new capacity actually have to pay for such improvements. The timing, scope and extent of New Demand Charge investments and payments are not synchronized, forcing Metropolitan to unilaterally forecast future demand and initiate projects, rather than secure up-front commitments from agencies that want additional system capacity improvements. This strategy commits current resources without guaranteeing the future revenues to pay for new investments.

An additional problem with the New Demand Charge is that the definition of current versus "new" capacity expenditures could severely harm future development and economic vitality if not carefully assessed. Current users–which control the Board–will have incentives to define new and future capacity investments in ways that may shift the costs of system improvements that actually benefit both current and future consumers exclusively onto future users. Such a result could negatively affect Southern California's economic development options.

MWD's proposals will also modify its basic water sales rates. As an increasing amount of revenue is obtained from fixed commitments like the Readiness to Serve and New Demand Charges, the variable unit price of wholesale water sales will fall (although the total cost of water to the end user will increase significantly when fixed charges are factored into the price). This may cause variable water rates to deviate substantially from real marginal costs, even though member agencies are likely to derive their retail or secondary wholesale prices from a combination of the fixed and variable water charges they pay.

The recent rate structure revisions also create a new peaking charge to recover the operational and capital costs associated with customer demand spikes during periods of low water supplies. The present level of the peaking charge–$6 million–is not yet adequate to cover the actual costs of customer peaking, but rather reflects the member agencies' desire for a period of phased-in implementation of the new expense.

MWD has not proposed revisions to its drought allocation policy, the Incremental Interruption and Conservation Plan. At present, in drought emergencies, member agencies are given an allotment based on their 1989-90 share of total MWD consumption, and charged a higher amount for purchases above their allocated levels. If member agencies in fact do cut back consumption below the base allocation, as was the case in the early 1990s, MWD may not generate enough revenue to cover its fixed and drought-related costs, necessitating future, substantial rate increases. Should this

occur, public support for conservation and trust in Metropolitan may fall.

The new rate structures also do not address the severe problems many water-dependent industries are experiencing as Metropolitan water rates climb. Agriculture in the MWD service area, for example, which consumes about 5% of Metropolitan's overall water deliveries, is being severely hurt by escalating water costs and the risk of service interruptions. Throughout the region, but especially in areas like San Diego, where the delivery of untreated MWD water supplies is limited, growers frequently must pay the highest MWD treated water rates. Yet–together with other uses such as direct and in lieu replenishment and sea water barrier programs–they receive the lowest delivery priority during shortages.

Already high, dramatically escalating water costs and uncertain supplies are causing many long-term, productive groves and farms to be retired, and are also adversely affecting other horticultural activities, such as nurseries, that generate substantial urban revenues and employment. Despite the economic and social consequences of the Southern California agricultural retrenchment, there is no systematic analysis, let alone creative mitigation of water pricing and service concerns.

Currently, MWD pays a fixed fee of $154 per acre foot for approved member agency reclamation projects, and a varying amount up to $250 per acre foot for groundwater recovery efforts. The real value of such local projects to Metropolitan in fact varies substantially with water availability. The rate structure proposals do not effectively approximate Metropolitan's real marginal and avoided local project costs over time. As resource options change, this deficiency does not encourage the optimal integration of water resources.

In December, 1993, the Board approved several new categories of rate charges that will be gradually imposed in later years. The Board deferred the imposition of Readiness to Serve or New Demand Charges in 1993-94 and voted instead to extend the increase in parcel taxes that had been imposed in 1993-94 for 1994-

95. This "standby charge" will raise approximately $50 million to cover estimated capital improvement program expenses associated with meeting certain continuing–as opposed to future–service requirements (even though the IRP process has yet to define the MWD's capital investment priorities). Water rates will also rise by about 6.5%.

For 1995-96, the Board agreed to abolish the parcel tax standby charge in favor of a Readiness to Serve Charge that will generate approximately $66 million per year, an amount the MWD believes to be equal to the anticipated debt service generated by capital improvement program costs attributable to maintaining existing untreated water system capacity. These estimates, however, have been made prior to the clarification of actual MWD capital improvement program objectives in the ongoing IRP process. A New Demand Charge is also slated to be imposed in 1996-97, well after many capital improvements affecting increased capacity will likely have been initiated. The Board also requested from the MWD staff several studies of demand charge and seasonal storage options, the impacts on Metropolitan of agency water use variation, and local project sensitivity to rate changes.

Securing member agency commitments to pay for new categories of fixed charges as specified in the revised rate structures is a considerable achievement for the Board and MWD staff. The current challenge is to closely coordinate the further definition of the precise burden, form, and method of payment of the new charges with the IRP process in an interactive manner (see Part I.1 and Part I.2, above) so that costs and system improvements are simultaneously determined.

It is not sufficient for the IRP to simply generate system specifications, and then to use these results to mechanically determine the amount in each new category of charges that the member agencies will have to pay. The goal of the IRP and rate structure efforts is to assure reliable water supplies at a price that Southern California businesses and consumers can afford. This can only be achieved by continually weighing system improvement objectives against specific cost burdens at the wholesale and retail levels, an objective that will require close, and continuous linkage

between both the IRP and rate structure efforts. A failure to adequately cover capital improvement program fixed debt burdens, or ambiguity in the method of funding such obligations, can also adversely impair the MWD's financial base.

B. Recommendations.

- *The MWD's new rate structures should ensure adequate coverage of the fixed commitments for projects that generate additional fixed costs for Metropolitan.* To force MWD's member agencies and other water consumers to price, rationally appraise, and commit to new construction, rate structures like the Readiness to Serve and New Demand Charges should be sufficient to cover the full fixed expense of new projects without substantial modifications based on water use or other variable factors. Implementing this policy may require MWD to allocate rights in its water supplies to member agencies based on their fixed payment commitments.

- *If a comprehensive Readiness to Serve and New Development pricing scheme is implemented, secondary markets should be established by the MWD to allow the transfer of member agency excess water entitlements to other users that may need additional water supplies.* A secondary market for the water entitlements created by a Readiness to Serve and New Demand Charge system would provide member agencies with a mechanism to reduce their fixed commitments to the MWD by selling the water entitlements for which they have no need. Conversely, MWD customers that may require additional supplies could obtain them through such secondary market purchases, avoid paying new development charges, and reduce pressure on the MWD for additional system expansion.

- *If current proposals cannot adequately address the MWD's revenue and pricing challenges, then alternative rate structure revisions should be explored, such as using higher variable water rates to increase the rate*

stabilization fund and cover fixed costs, or creatively utilizing ad valorem *or other fixed revenue enhancements.* As at least a short-term alternative in the event effective Readiness to Serve and New Demand Charges cannot be established, the MWD should consider modifying its current water prices to build a reserve for its fixed cost coverage. While rates may slightly rise if sales fall, in general this strategy would more accurately cause water prices to reflect the marginal cost to MWD, inclusive of capital investments, and therefore encourage more efficient water allocation. An additional alternative may be to utilize *ad valorem* parcel or other fixed revenue sources more flexibly, including comparatively novel arrangements in which certain agencies may elect to pay property taxes, Readiness to Serve Charges, New Demand Charges or higher variable water rates according to their individual preferences and requirements.

- *The peaking charge should recover the actual economic costs generated by peaking behavior and not be set by political considerations.*

- *MWD rate structure proposals should revise and improve the emergency allocation programs and local project pricing schemes to reflect MWD's real marginal and avoided costs and revenue requirements.*

- *Comprehensive rate structure revisions should not be further delayed, and pressing MWD revenue needs should be addressed as soon as possible.*

- *In coordination with member agencies and other appropriate water entities, the MWD should explore and implement measures to mitigate the adverse effects of rising water rates on agricultural and other water-dependent industries that do not require the same reliability and water quality as other urban users.* The MWD should sponsor efforts to resolve the adverse impact rising water rates and low reliability are having

on Southern California agriculture and other water-dependent industries to ensure against major job and business losses. Possible solutions include: (1) permitting agriculture to purchase surplus water, when available, at below the MWD's marginal but above its variable cost; (2) the creation of two-tiered rates for certain industrial or agricultural users; or (3) the provision of a "value-added" water rate credit for industrial users that generate jobs and revenues for the community at large.

- *Metropolitan should explicitly seek the optimal integration of water resources through its rate structures since water pricing, in the absence of comprehensive interagency water coordination agreements, is likely to be the most effective tool for some time for selecting among imported water, reclamation, desalting, and other supply options.*

4. Governance.

A. Findings.

Both the IRP and rate structure revision efforts clearly demonstrate the importance of governance issues to MWD's mission. In the past, Metropolitan could plausibly generate system needs internally and adjust rates as required to pay for the improvements. In the current environment, inter-agency coordination is critical to establish the most efficient resource base responsive to the public need, and then secure the funding commitments to pay for necessary investments.

MWD system costs, reliability and supply standards will likely vary considerably with the extent to which member agencies, and other significant water management entities, agree to coordinate regional water management. Comparatively inexpensive options are possible in the event groundwater storage, conservation and emergency use strategies can be regionally integrated. Increased cooperation between MWD and regional water agencies is critical to avoid costly projects, or forcing MWD to construct massive storage and delivery facilities to mitigate potential peaking problems and local supply interruptions.

Governance skills also will determine if MWD can actually pay for its future projects. With bond and property tax revenues limited, and in an era of high business and consumer rate sensitivity, MWD can no longer afford to build major facilities and hope that member agencies will buy enough water to pay for them over several years. The wide variation in member agency local water supply and project options means that each agency will differently value MWD water and facility investments, a fact that can frustrate needed revenue agreements.

The Task Force was troubled to learn, for example, that some of the member agencies most strongly supporting big-ticket projects like the Domenigoni reservoir also had the most aggressive plans to reduce their future MWD water purchases and develop independent supplies. In effect, such agencies appear to want MWD to develop costly backup capacity–or insurance–for their local supply strategies, while seeking to shift the costs for these benefits on to Metropolitan and other agencies and consumers.

Even if a resource and financing strategic consensus could be built among Metropolitan's member and other relevant agencies, the problem of actually realizing the plan's objectives at the consumer level would remain. MWD can attempt to set prices and build facilities to achieve certain levels of consumption or conservation, but its actions will have little effect unless its own agencies, and the consumers that the member agencies themselves serve, price their products and make investments in a consistent fashion. Secondary wholesale and retail charges can double the cost of water to final consumers from MWD price levels. Depending on how these charges are structured at the retail level, Metropolitan's intended price and service incentives may be severely distorted.

As a result, regional governance concerns are at the heart of Metropolitan's planning, pricing, and strategic implementation activities.

Governance is also fundamental to MWD's mission in the larger sense of affecting the political decisions at the state and federal level that will shape Metropolitan's fundamental resource,

financial and utilization options. Southern California faces substantial water supply and distribution challenges that will likely not be seriously discussed, let alone resolved, if not comprehensively reviewed on a regional, statewide, or federal basis. In the contemporary environment, Metropolitan should actively sponsor the regional, statewide and even national discussions necessary to shape its own future and serve the greater public interest.

Similarly, the third-party impacts of many water resource choices and pricing policies are usually not factored into procurement decisions. Water transfers or capacity acquisition charges might benefit certain consumers, but could also harm others, such as the economies of communities from which water transfers take place, or newly developing areas that must bear comparatively high new development water costs. While special interests may effectively advocate their own concerns, the broader public interest may be overlooked.

The Task Force believes that the full range of costs, benefits and social concerns latent in complex water policy issues is not being adequately assessed at either the regional, state, or the federal level. One of Metropolitan's fundamental responsibilities should be to use its considerable influence to help fill this leadership void.

B. Recommendations.

- *Metropolitan should explicitly commit itself to becoming, or building, a regional governance institution facilitating member, groundwater management and retail agency consensus about water policy goals and cooperative management. Management, staff and external relations strategies should be immediately implemented consistent with that objective.*

- *To facilitate regional coordination, Metropolitan should initiate discussions among its member agencies concerning the institutional enhancements that might be required for it to function as a regional governance entity, or to identify other institutional innovations that can accomplish this goal.*

- *The MWD should directly, or help sponsor mechanisms to address*
  the concerns of water users and other parties suffering particularly adverse harm from water policy decisions, such as agriculture and water transfer communities.

- *In the mid- to long-term, the MWD should seek to improve the method and quality of water policy debates at the regional, state and federal level to enhance the public's interest (see Part II, below).*

Part II: External Relations

As discussed in Part I, above, the Task Force believes that MWD must become, or help develop a regional water policy governance institution that can effectively, proactively interact with member agencies, and key local, state and federal officials. Recent events underscore this conviction.

On December 9, 1993, the state Department of Water Resources (DWR), for the first time in the history of the State Water Project, slashed the MWD's delivery request from just over 2 million acre feet to approximately 1.4 million acre feet per year. State Water Project water entitlements had been based on the percentage of total costs contractors like Metropolitan paid in support of the State Water Project, as specified in the basic service contract. Ignoring years of precedent, however, the DWR unilaterally announced that it would cut back all contractor delivery requests to reflect the actual, historical provision of water during the period 1980-92 rather than continue to honor requests based on State Water Project payment burdens and contract entitlements.

If allowed to stand, the DWR's decision will reallocate 43% of the State Water Project's available water to largely agricultural, San Joaquin Valley contractors that pay just 32% of the Project's cost. Northern and Southern California urban contractors–including Metropolitan–will receive just 57% of the State Water Project's supplies despite paying for 67% of the system's cost. To protest this result, the MWD Board voted to delay its most recent $50 million payment for State Water Project operations.

On December 15, 1993, the United States Environmental Protection Agency (EPA), in conjunction with several other federal agencies, proposed strict new standards for Sacramento Bay Delta water quality, and additional listings of Delta fish under the Endangered Species Act. The standards represented the first time the federal government attempted to minutely regulate fresh water use and flows through the critical Delta region, a decisions which would profoundly affect supplies available for both the State Water and Central Valley Projects. If the EPA proposals become law, California urban and agricultural users will lose an estimated

500,000 to 1.1 million acre feet of fresh water per year to Bay Delta environmental applications.

Each of these cases illustrates that Southern California faces intense, ongoing competition from extremely well-organized, focused water advocates, particularly agriculture and environmentalists. To ensure that urban water is supplied at a reasonable cost and with acceptable reliability, users in the MWD service area must be able to clearly define their priorities, set finite objectives, and then mobilize political resources to best realize their goals with the same passion and effectiveness as other water interests. The Task Force interviewed over 40 political leaders, member agency representatives, environmental and agricultural advocates, Board members, and other urban water institutional staff to evaluate the extent to which current MWD external relations practices and capabilities meet such challenges.

A. Findings.

Metropolitan has long maintained a variety of formal and informal contacts with member agencies, key legislators, representatives of other water policy interest groups, other state water leaders, and the Federal government. It has published several newsletters and magazines that have now been consolidated into a new publication, *Aqueduct 2000*. Since 1982, over 5 million elementary school students have participated in MWD-sponsored educational programs. MWD government relations staff work closely with chief Metropolitan in-house and contract legislative personnel to lobby and maintain contact with officials in Sacramento and Washington D.C. A series of divisional liaison meetings are maintained between MWD staff and agency representatives, supplemented with frequent public field surveys of Metropolitan facilities.

The MWD maintains a four-person staff in Sacramento to facilitate its government relations activities. In Washington, Metropolitan is represented by a contract lobbyist that also represents other interests.

In general, Metropolitan external relations staff and activities are viewed positively by political and water policy leaders. The key individuals involved are accessible and held in high personal and professional esteem. Information Metropolitan disseminates to support the positions it advocates is seen as accurate, trustworthy and technically excellent.

There are concerns that lines of communication within Metropolitan are fragmented and unclear. Many interviewees expressed the conviction that dealing with the organization required personal relationships with staff members. This is seen as limiting effective external relations because as personnel changes occur, communication opportunities are disrupted. Key issues may not be adequately addressed absent strong ties to advocates within the MWD, and the resulting power that appears to accrue to particular staff members may also contribute to perceptions that the MWD has unfocused, shifting policies.

There is also a lack of communication and clear lines of authority within Metropolitan concerning staff responsibility for specific policy issues. External relations matters are functionally separated from other operational activities, although in practice both are intimately related. Until recently, key personnel from one part of Metropolitan did not regularly speak or coordinate with others about crucial policy issues. In July, 1993, an Executive Council of top MWD managers was created by the new General Manager and meets approximately every two weeks, or as otherwise required, to discuss political and other management issues.

Several commentators expressed concerns about the changing nature of the Board's relations with legislators and other key decision makers. In the past, Board members are perceived to have been comparatively unified in their positions, and willing to devote considerable efforts to build and maintain close ties with Sacramento, Washington and other water policy leaders. At present, there is a view that the Board is less cohesive, and that many members do not have the ability to advocate on behalf of MWD in crucial political arenas. Some think that the Board is inaccessible and unrepresentative of the population it currently serves, and therefore not as influential as in the past.

The Board has begun to address some of these concerns. In early 1992, it created a Special Committee on Legislation which meets approximately once a month to discuss, among other matters, major policy concerns confronting the MWD. Some Board members believe the committee should more aggressively define mid- to long-term political objectives for Metropolitan, and then organize Board support strategies to influence external decision makers.

Metropolitan's policy role is viewed as increasingly defensive and reactive, not as a proactive coalition and consensus-building agent. In part this is due to modern trends in which elected officials do not look to major agencies for legislative initiatives, but are rather more skeptical about agency performance. At one time, the MWD was extremely powerful, but the rise of new water policy interest groups has diluted its impact, often to the point where it cannot count on support from state and federal officials representing its member constituencies.

The MWD is not seen as an effective coalition-builder, often ignoring opportunities to build new alliances, and sometimes alienating old allies. Agricultural leaders are particularly bitter about Metropolitan's support for the Central Valley Project Improvement Act and associated cooperation with environmentalists, which they feel was poorly handled and needlessly antagonistic towards their constituents. Metropolitan also does not adequately solicit grass-roots and member agency support for its interests. Water policy public hearings and legislative lobbying at both the state and federal levels are dominated by agriculture and environmental groups, with urban water interests a poor third in terms of the volume of participants and the intensity of their presentations. Metropolitan does not appear to adequately lead in the definition of strategies for resolving key issues such as the Sacramento Bay Delta, the Colorado River Aqueduct, and State Water Project, nor does it take full advantage of its latent strengths to marshal support for the positions that it does advocate.

Given a perceived water policy "void," especially with respect to urban water use, Metropolitan's reactive posture does not help its member agencies, nor its customers more generally, develop clear,

consistent goals about water issues. Allocation, pricing or other crucial problems are generally addressed in an *ad hoc* manner as they arise, with little effort to anticipate or shape the result before major decisions–such as the DWR recalculations of State Water Project delivery requests, or proposed federal Delta standards–are tentatively announced.

In general, but especially among member agencies, the MWD is often said to be "arrogant" and not to care what others may think about its actions. Yet, there is widespread respect for the fact that Metropolitan's decisions affect millions of people and involve billions of dollars. Surprisingly, some of the organization's harshest critics would like to see Metropolitan become much more active in supporting and sponsoring regional and statewide policy debates provided that it solicited, and respected, a wide range of diverse opinions in the process.

B. Recommendations.

(1) National and statewide recommendations:

- *Schedule and maintain a constant series of outreach efforts aimed at MWD and urban water use constituents, including the relevant state and local chambers of commerce, business groups, and other urban water agencies. Current efforts, such as the California Urban Water Agencies and Western Urban Water Coalition programs, should be supported and expanded.*

- *Rebuild strained ties with key water interests, especially agriculture, to enhance future alliance and political options.* MWD's long-term interests are not well-served by its continuing rift with agricultural leaders, given agriculture's enormous political strength in water policy debates, and its consumption of over 80% of the state's developed water resources. While Metropolitan should not retreat from the new opportunities created by its current relationships with certain environmental groups, its top management should clearly signal a desire to

repair relations with agricultural leaders, and implement measures to accomplish that task as soon as possible.

- *Add an additional high-level, high-profile staff person in Sacramento to strengthen Metropolitan's presence among, and influence with, key water policy decision makers, and explore whether a similar staff increase should be made in Washington as well.*

(2) Internal Metropolitan recommendations:

- *Clearly delineate the specific external relations responsibilities of top staff and foster regular communications between MWD functional groups to ensure that political objectives and internal roles are coordinated at the highest levels of Metropolitan.*

- *Create and distribute a directory identifying Metropolitan staff with responsibility for specific, substantive issue areas to establish multiple, unambiguous points of contact for external relations purposes.*

(3) Board and policy-level recommendations:

- *The Board should identify and define as precisely as possible Metropolitan's short-, mid-, and long-term political and policy objectives to guide the MWD's external relations activities.*

- *Board members should explicitly seek to develop relationships with key legislative and other water policy decision makers to support MWD's political objectives, and the Board should provide appropriate training and travel support as required to realize this goal. Board members should play an active role in developing and maintaining a support group of stakeholders in urban water to be deployed as required to support crucial MWD and urban water policy objectives.*

- *Information about contacting the Board and how individual members are appointed from each district should be publicized to increase the visibility and accessibility of the Board.*

- *The Board should consider mounting a public relations campaign to improve the overall image of Metropolitan and increase public awareness of the MWD's importance and role in providing water supplies in an economically and environmentally sensitive manner.*

(4). Agency level recommendations:

- *MWD should maintain and expand its ongoing outreach efforts to member agencies to help allay concerns that the organization is inbred, aloof, or disinterested in other groups' opinions.*

- *A networking program should be regularly maintained between member agencies and Metropolitan to establish the most effective means for mobilizing and sustaining support for urban water concerns.* A crucial issue for Metropolitan and its member agencies is to determine how best to allocate political roles such as developing support groups for water policy issues or approaching key decision makers in Sacramento and Washington. The MWD should sponsor a networking campaign to develop consensus about the external relations functions it can best carry out itself, and those for which member agencies should assume primary responsibility.

- *Publish a quarterly newsletter that includes a legislative column.*

Part III: Business Practices

Metropolitan must operate as efficiently as possible, especially during a time of regional economic turmoil and when substantial water rate increases may be required to pay for the capital improvement program and other projects. The Task Force evaluated Metropolitan's performance in eleven business practice areas: (1) operational staffing and organization; (2) engineering management; (3) use of outside consultants; (4) information services; (5) compensation and benefits; (6) protection of assets; (7) investment policy; (8) financial planning; (9) business conduct policies; (10) business development; and (11) facility and space usage.

1. Operational Staffing and Organization.

A. Findings.

Metropolitan's Operations Division, comprised of 15 branches and 983 permanent staff members, was comprehensively reviewed in 1992 by R.W. Beck & Associates (the Beck Report) and partially reviewed in late 1993 by an Engineering Peer Review Committee appointed by the Board (the Peer Review). Both studies noted the many strengths and successes of the Division–observations that the Task Force shares–and offered substantial suggestions for additional improvements. Although a recent Board letter from senior MWD staff suggested to the contrary, many of the Beck Report's 68 detailed recommendations for reorganizing and improving the MWD's Operations Division are in fact being implemented by Metropolitan staff.

Metropolitan's primary organizational and staffing problems stem from the lack of clear criteria for setting personnel levels with respect to specific functions. In general, staff levels are not established by assessing the volume of tasks and work requirements for particular jobs, and then determining a baseline level of individual productivity–a derived "full time equivalent" (FTE) or similar measure–for calculating total employee requirements. Instead, staff levels are usually made simply by referencing the prior

year's appropriation and FTE level to set the next year's standard, plus or minus any marginal adjustments.

Although there are notable exceptions, such as the ongoing attempt to review certain of Metropolitan's maintenance management activities with reference to objective performance standards, there is little or no systematic examination of prior year appropriations to assess if the staffing complement and cost for particular functions was appropriate. From year to year, staff levels and appropriations take on a life of their own. The Beck Report noted in its review of Metropolitan's staffing levels that "it is impossible to determine sufficiency of staffing through traditional means because of the lack of formal procedures, defined service levels, and other factors which are normally used to estimate the resources to perform tasks."

These difficulties are magnified by the extensive use of "temporary" employees, personnel that are not regular MWD payroll workers but which often stay within the organization for years without being subject to discrete closed-end contracts. The use of such non-standard employees appears to have increased, in part because of a tacit, but as-yet unwritten Board policy that the number of regular MWD employees should not grow. As demands on the organization have increased, Metropolitan has formally complied with this policy in part by hiring "temporary" workers from outside agencies or maintaining district temporary pools.

The ambiguous status of many MWD "temporary" employees has several adverse consequences, most of which are recognized by top management. The most serious problem is the lack of budgetary and staff integrity since "temporaries" are not part of the basic staffing appropriations granted by the Board. As more and more "temporary" worker are hired, neither the Board nor many operating divisions often have a clear idea of precisely how many people, at what cost, are required to perform particular tasks or functions. In addition, as the Peer Review noted, operational and project management–and morale–may decline due to the status differentials between similarly-situated regular and temporary employees. Finally, MWD could face claims for vested job and/or

benefit rights on the part of "temporary" personnel who believe that their positions had, over time, assumed more permanence.

MWD has not systematically examined the possibility for contracting-out some of its operational functions, such as machine and fabrication shops, routine maintenance, and automating its remote desert pumping plant facilities along the Colorado River Aqueduct. The Peer Review suggested that such opportunities should be explored, although it generally supported the MWD staff's view that the comparatively unique, variable tasks and equipment involved limited the potential value of contracting-out many functions.

B. Recommendations.

- *Establish task and productivity benchmarks to derive staffing requirements.* In coordination with rationalizing Metropolitan's job classification system (see Part III.5 and Part IV.1, below), MWD should conduct a thorough review of the specific tasks and productivity levels for each of its functions.

- *Systematically justify, and regularly review, staff appropriation requests.* Objective task and performance standards should be used to determine staffing needs and to authorize appropriations. Planned and actual productivity, functional demands and staff utilization should be constantly reevaluated to define as precisely as possible the minimum effective staff complement required to meet MWD needs.

- *Establish an explicit Board policy for permanent and "temporary" employee staff increases.* The Board should clarify the currently unstated "no regular staff increase" policy, and establish guidelines for using temporary employees. Temporary and other non-standard employees should be hired pursuant to contracts specific in terms of duration and purpose so that all parties understand the scope of work involved and the date by which the work will terminate. If Metropolitan

adequately justifies a need for long-term, permanent staff to meet legitimate functional objectives that cannot be cost-effectively met through other means, it should be authorized to make such hires and not be constrained by arbitrary staffing limitations.

- *Systematically explore opportunities for cost-effective outside contracting for operational requirements.* MWD should consider to what extent it can contract efficiently for certain of its functions, including those that are now extensively met with temporary or other non-standard employees.

- *Continue to implement the Beck Report and Peer Review recommendations.* The Beck Report contained several recommendations for improving Metropolitan's Operations Division which the MWD should continue to implement as rapidly as possible. An explicit commitment in this regard will also help counteract perceptions that the MWD has been very slow to make necessary improvements, including: (1) the realignment and streamlining of the Operations Division; (2) developing a 3-5 year operational plan setting forth the Division's overall goals and priorities; and (3) computerizing all functions, especially in field offices.

- *Continue, and expand, the maintenance management activities review.* The current review of MWD's maintenance management activities should be fully supported and completed as soon as possible. Similar examinations of the precise work requirements, productivity standards and derivation of staff and cost needs should be performed for each of Metropolitan's other major operational functions.

- *In addition to ongoing Board audits, and occasional outside or management consultant reviews, the MWD should consider implementing regular efficiency audits on at least an annual basis to assure that optimal organizational and managerial efficiency is maintained.*

2. Engineering Management.

A. Findings.

The MWD Engineering Division employs 435 permanent staff members in 13 branches and was comprehensively examined in late 1993 by the Peer Review, which offered several suggestions for improvement. The Peer Review report was presented to the Task Force in a written and oral presentation in November, 1993. The Task Force concurs with the Peer Review's many positive assessments of the Engineering Division, and believes that its recommendations should be carefully evaluated and implemented by the MWD.

Unlike the Operations Division, Metropolitan's engineering functions have not yet received a thorough organizational review. Metropolitan will soon solicit bids for a review of the Engineering Division similar in scope to the Beck Report analysis of the Operations Division. A cursory examination of the MWD's engineering functions suggests that there may be functional and staff overlaps or duplication in certain areas.

Responsibility for individual MWD construction projects is diffused throughout the Engineering Division. Each construction project is managed by project manager designated by the Division Manager (Chief Engineer) from the appropriate branch. The project management team is responsible for working with consultants, generating specifications, costs, and bid and appropriation requests from the Board, recommending project vendors, and monitoring project costs and completion deadlines. The Engineering Division has developed its own project management information system software.

Despite receiving several comments concerning perceived construction project waste and cost overruns, the Task Force found that larger MWD project management and cost controls appear excellent. Cost overruns, supplemental appropriation requests and change orders were surprisingly low and well within industry standards for most major construction activities. In marked

contrast, smaller scale contract and professional service agreements were less effectively managed (see Part III.3, below). Unlike many MWD operational activities, engineering project teams are able to reference standard productivity measures for design and construction tasks, and can generate reasonable estimates of project costs and staffing given particular design requirements. The results are used to justify formal appropriation requests from the Board and to assess the quality of construction bids received on particular projects.

MWD engineering and project plans are not presently subject to centralized, consistent quality control review, although a Quality Control branch has recently been established within the Engineering Division to improve that function. In June, 1993, initial steps to standardize drawings, specifications and design manuals were completed and the results are being tested for full implementation in 1994-95. Many engineering functions are automated on CAD/CAE machines, and the use of CAD drawings is expected to rise from 80% to 90% of all drawings made by the Division.

The Peer Review found that the MWD's technical engineering training was excellent. In contrast, there is no systematic effort to train engineering personnel in project management, supervisory and managerial tasks, although many are required to assume such responsibilities. Engineering staff are also not regularly trained in managing outside consultant relations despite the Division's heavy reliance on such support. Construction field inspection skills–a crucial engineering function that will grow in importance as the capital improvement program is implemented–are also not systematically fostered with formal, standardized training programs.

Engineering staff is expected to increase by just 15 regular employees over the next decade, even though the capital improvement program will generate an estimated 469 additional "full time equivalents" at the peak of the program. Most of these positions are now planned to be filled with temporary hires. The use of temporary workers on such a scale for long periods of employment may have several adverse consequences (see Part III.1,

above). The Peer Review recommended that a larger number of engineering positions be permanent to avoid such problems.

Metropolitan's project designs are conservative. Engineering designs are not presently reviewed by a "value engineering" team to assess whether particular specifications and functional capabilities which may appear to exceed industry standards justify their cost.

B. Recommendations.

- *Thoroughly review the Engineering Division's organizational structure.* A complete organizational review of the Engineering Division–now in the planning stage–is overdue and should be conducted to streamline and rationalize operations wherever possible.

- *Increase the scope and function of the Quality Control branch.* The Quality Control branch should be adequately staffed, develop standardized protocols for all of MWD's engineering activities, and uniformly coordinate project reviews.

- *Additional temporary employees associated with the capital improvement and other programs should be hired subject to detailed, precise contracts with definite duration terms.* The Task Force disagrees with the Peer Review recommendations to increase regular rather than temporary staff to deal with short- to mid-term increaseed work loads, and recommends instead that additional personnel should be hired subject to detailed, limited-duration contracts. At the very least, MWD should develop a consistent policy for dealing with the massive influx of temporary employees currently planned to meet capital improvement program requirements.

- *Develop and implement consultant management, supervisory, project management, and field inspection training programs for engineering personnel.*

- *Develop and implement a value engineering program and standards to review project plans and assure that the most cost-effective designs are employed in MWD projects.*

- *Carefully review and implement where warranted the Peer Review Engineering Division recommendations.*

3. Use of outside consultants.

A. Findings.

The MWD employs outside consultants when it (1) lacks specific technical skills, or (2) lacks sufficient staff to accomplish a priority project. Due to informal limits on permanent staff hires, the use of consultants to build up temporary capacity within Metropolitan may increase, generating many of the same problems associated with semi-permanent "temporary" hires (see Part III.1, above).

As with engineering projects overall, the management, evaluation and cost controls associated with larger-scale consultant agreements appears quite good. Overruns are minimal, and work expectations and monitoring are generally sufficient.

Smaller-scale professional service agreements–feasibility studies or maintenance and construction contracts, for example–are much less efficiently managed, in part because the definition of tasks for such work can often be more difficult and speculative. Many smaller-scale contracts are subject to extensive supplemental appropriation requests, indefinite times for completion and monitoring, with little systematic explanation or justification for the added expenses and time.

In engineering–the area within MWD that most extensively uses outside consultants–project leaders work with and monitor consultant deliverables and compliance. Prior to awarding a contract, in many cases junior engineering staff develop the initial proposal, and their work is reviewed at several, more senior management levels. The actual negotiation and awarding of a

contract can frequently take months to complete. Bid and vendor selection activities are monitored by the MWD Contracts Administrator. Contracts Administration staff appears currently adequate to meet present oversight requirements, but may be overtaxed as the capital improvement program is implemented.

MWD does not presently have standardized "request for proposal" or "request for bid" solicitation and submission formats and consultant contract language. The same service providers and vendors may therefore submit widely divergent materials, and have to analyze and negotiate different contract clauses, even in closely-related projects. Certain MWD consultants also reported that the precise definition of project requirements, and the reasons for vendor selection are not always clear, factors which they felt impeded an effective bidding process. The MWD has recently improved its contract and selection criteria and practices to enhance the ability of proposers, consultants, vendors and contractors to understand more precisely the definition of project requirements, and MWD selection decisions.

Metropolitan is generally not perceived as an accommodating consulting or business client. Many vendors report that they routinely have to wait from 60-90 days for payment after delivery of their services or products, a time frame that especially discourages smaller firms from participating in MWD procurements (see Part IV.3).

B. Recommendations.

- *Substantially improve smaller scale professional service and vendor contracts administration and monitoring.* Metropolitan should adopt policies and standards to improve the definition, bidding, selection, tracking, and cost controls associated with smaller scale professional service and vendor contracts. To increase competition for such contracts, a pool of pre-qualified firms, including M/WBE and DBE companies, should be maintained for mandatory bid solicitations (see Part IV.1 and Part IV.3, below).

- *Streamline consultant contract set-up process, particularly in the Engineering Division.* Present consultant contract processes should be rationalized and the many levels of review consolidated.

- *Establish baseline Contract Administration staffing requirements and estimate additional needs in light of the capital improvement program and other possible functional expansions.*

- *Standardize legal contract texts and request for proposal formats.*

- *Review the de-facto permanent staff hiring freeze and use of temporary employees and consultants to establish justifiable baseline permanent staff requirements (see Part III.1 above).*

- *Improve the speed and efficiency of vendor and service provider payments for completed services or delivered goods in conjunction with the Information Services upgrade (see Part III.4, below) and other productivity enhancement efforts.*

4. Information services.

A. Findings.

Metropolitan recognizes the need to substantially upgrade and automate many of its Information Services functions, and has dedicated $23 million to computerize or rationalize such core business activities as financial accounting, materials management, human resources and payroll, and health, safety and environmental activities.

In general, the Information Services upgrade needs-assessment and implementation plan appears well-conceived. If successfully achieved, the upgrade will meet its primary objectives to increase productivity, stimulate task re-engineering throughout the MWD, provide more timely, useful management information, and

support capital improvement program requirements. Information Services system software, hardware and planned database technology were selected after a comprehensive review and are consistent with current standard practices at comparable organizations.

In most cases, the end users of the Information Services upgrade were consulted during the business requirements and software selection process. Groups that did not initially participate, such as MWD's equal employment opportunity staff (see Part IV.2, below) are now planned to be integrated into the system design process. Customer interaction and buy-in are necessary if the Information Services upgrade is to succeed. A series of process change management teams and related entities have been established to help re-engineer MWD functions in conjunction with the Information Services upgrade, and cope with workplace resistance or other problems as they may arise. In some instances, MWD management staff appear to be using the Information Services upgrade as a one-time opportunity to induce much-needed task rationalization, rather than continuously re-engineering Metropolitan functions on their own.

Information Services staff, partially in response to Task Force working session comments, recently reaffirmed its commitment to functional re-engineering of MWD activities in conjunction with the upgrade program. Part of this effort was to establish a "Productivity Council" comprised of operational managers affected by the upgrade to improve task definition and workflow as part of the Information Services implementation.

Based on current industry best practices and comparisons with other, similar agencies, both the implementation plan and its associated costs appear reasonable and are fully supported. A substantial amount of the Phase I $23 million budget will be allocated to consultants, but this is justified by the need to restructure many in-house functions to take advantage of the new Information Services system, and to support the unix-based operating system and proprietary Oracle database software. Metropolitan's internal auditor also reviewed the Information Services system expenditure

plan and concurred that the planned outlays were well-documented and supported.

Metropolitan elected not to commission a custom software package, but instead is adapting off-the-shelf products to its needs. Specialized screens, application extensions and subsequent vendor upgrades will be utilized to meet specific requirements as they are identified.

B. Recommendations.

- *Continue to reiterate the need for re-engineering of tasks both to improve overall productivity and to accomplish the Information Services upgrade.* The continued identification and improvement of operational functions is critical for Information Services system upgrade success. Nevertheless, Metropolitan management should not use the Information Services upgrade as a one-time functional improvement opportunity, but rather should independently, and continuously re-engineer business functions. The MWD should consider merging the Productivity Council into an omnibus steering committee comprised of representatives from each of Metropolitan's major operational units to implement continuous functional improvements and also resolve design issues and other problems that may arise in Phase I of the Information Services upgrade.

- *Continue to recognize and manage potential resistance to Information Services system change.* In many cases, Information Services system improvements may substantially modify, or even eliminate, particular functions or tasks. MWD should make every effort to assure that as the Information Services upgrade comes on line, its utility is not diminished by staff resistance. Regular status reports or newsletters to all employees about the Information Services upgrade may be useful to publicize the effort, increase interest in training and task re-engineering, and build user acceptance.

- *Continue to solicit customer buy-in for upgrade program.* The Information Services system should be implemented as a customer service. The development and application of software and hardware systems must be accomplished with direct, hands-on involvement of the end users throughout the organization.

5. Compensation and benefits.

A. Findings.

The Task Force found that just 38 of MWD's 2077 employees–largely top management personnel–are not represented by union or other bargaining units. As a result, collective bargaining agreements, and not performance reviews, largely drive wage increases. Approximately 57% of Metropolitan's employees are at the top level of the organization's nine-step wage scale, and receive salary increases primarily for cost of living (COLA) or other non-performance based adjustments.

To avoid possible conflicts of interest that might result from employees represented by bargaining units simultaneously representing MWD in wage negotiations, Metropolitan brought in a team of outside negotiators in 1993 to deal with COLA and other compensation issues. The Task force believes that this initiative was a constructive response, and the negotiators were able to limit four employee groups to approximately 4.3% COLA raises, slightly less than in 1992, while one group–AFSCME employees–received no increases. The General Manager, Assistant General Managers and certain assistants to such staff also received no COLA increases. Even "zero increase" employees secured improved life insurance, tuition reimbursement, overtime and standby pay, and shift differential benefits.

On average, MWD COLA increases have been high– about 4-5% in 1988-91, with a peak of 7% in 1992 for AFSCME-represented employees–in comparison with other public and private entities, many of which have recently cut compensation and benefits in response to adverse public financial conditions. Salary surveys conducted by MWD indicate that the base salaries paid for

comparable positions at MWD are above market and above the levels paid for comparable positions in other agencies (public and private).

Metropolitan's high compensation and benefits are often justified as necessary to attract the highest quality water industry professionals. The MWD Board has not explicitly endorsed such a policy. Under the relevant administrative procedures, the Board is provided with a survey of comparable agency wages and a list of salary levels, and annually approves a schedule of MWD salary and benefit levels.

MWD staff recognizes that there are serious deficiencies with the annual salary surveys and Board oversight procedures. Metropolitan has approximately 313 separate job classifications, and close to 50% of its staff are in extremely specialized categories of from 1-3 employees. Many job descriptions are obsolete and date from the 1970s. Productivity comparisons with other agencies for identical or reasonably similar jobs are difficult to achieve. The agencies that are designated by Metropolitan to develop comparable compensation and performance standards are, in some cases, inappropriate, or in others apparently selected to reflect favorably on the MWD.

Many of the employees now at the maximum compensation level in their job categories receive either no or perfunctionary annual performance reviews. Most are not assessed on the basis of specific accomplishments, goals or performance targets against an established performance benchmark. Merit or other performance-based raises are often made without reference to a uniformly applied, objective set of performance or productivity measures, although current policy permits salary increases for employees that are noted as "needing improvement" and whose performance actually improves. Metropolitan's overall employee evaluation policies and practices, including forms and performance evaluation procedures, have not been reviewed and updated for over 15 years.

B. Recommendations.

- *Board compensation policy.* The Board should approve a compensation and benefits policy for Metropolitan. The policy should explicitly define the agencies against which MWD wages and benefits are to be compared, and state whether, and to what extent, Metropolitan salaries are to exceed comparable levels to improve staff recruitment or for other operational reasons.

- *Redefine and reduce job classifications.* Specialized, unique job classes should be eliminated wherever possible in favor of broad work descriptions that are comparable with outside entities. Base wage and benefit levels should be established for each classification in accordance with Board policy, and adjusted as necessary with reference to objective performance and productivity standards derived from external comparisons.

- *Modernize employee and management evaluation system.* Metropolitan needs to tie its compensation and benefit package to specific, performance-based measures of productivity at all levels of the organization. To accomplish this goal, it needs to restructure its employee evaluation process, set benchmark or specific targets for performance applicable to generic employee classifications and to management personnel, and make compensation and benefit adjustments based on the extent to which individual employees meet or exceed baseline goals.

- *Link compensation policies with staff and organizational reviews.* The MWD should coordinate its compensation and benefits policies with its organizational reviews (see Part III.1, above), job classification improvements (see Part III.5, above) and the development of a performance-based management system (see Part IV.1, below). Rather than impose artificial staff or wage limits, which may encourage the use of costly temporary workers,

consultants or the substitution of COLA for meritorious compensation adjustments, Metropolitan should seek to accomplish its tasks at the lowest overall total expense. This may mean increasing the number of permanent employees, or paying especially productive workers more than they currently receive, depending on the precise work classification and performance standards the MWD develops through its workplace improvement and rationalization efforts.

- *The functions of the Board's Organization and Personnel Committee should be substantially enlarged to include enhanced, integrated oversight and policy planning for MWD compensation, organizational reform, and human resource improvements.*

6. Protection of Assets.

A. Findings.

Metropolitan's data backup and disaster recovery plans for restoring computer information and applications are generally well developed. There are clearly identified off-site data storage and system operator procedures dealing with electronic medium recovery from system failures.

The data recovery plan has recently been completed and is currently being tested. The MWD has begun to establish data and application restoration priorities, but at present it has not adequately defined a set of immediate, short-term priorities–as opposed to mid-term operational goals–in the event of a major system interruption.

Over the last five years, the value of the inventory items stored in MWD's ten warehouses has risen 30%, and many individual items are held for over one year. In addition, Metropolitan currently lists over 10,700 general business equipment assets–desks, computers and the like–valued at over $46 million, a 50% increase since 1988. The unit number of such items has also increased over 38% from 1988-93.

Metropolitan's ability to track and locate equipment assets is currently inadequate, especially when items are moved from one location to another, because tracking capacity does not exist. As a result, when locational adjustments are made, or when items are transferred from department to department in response to changing work loads, MWD has no systematic way of maintaining current records of the items involved. The Information System upgrade will address many of these concerns.

General asset audits are lengthy, averaging about 21 weeks in 1991, an improvement over the 41 week time frame in 1988. In 1991, over $800,000 worth of general equipment was written off because the items could not be located. In 1988, $567,000 worth of equipment items was not accounted for.

Metropolitan's records management system was developed in 1983 and has not been updated since. In practice, the filing, storage, and retrieval of many key contract, Board, policy or operational documents is decentralized and is not subject to uniform, organizational-wide standards. The diversity of records management practices may adversely affect MWD accountability and responsiveness.

B. Recommendations.

- *Continue testing the disaster recovery plan, and develop a priority schedule ranking the immediate data and applications that should sequentially come on line according to 12 hour phases after a major service interruption.*

- *Centralize and consolidate the equipment inventory and warehouse system to cut down on capital expenses attributable to excess inventory and warehouse capacity.*

- *Improve the fixed asset tracking system in conjunction with the Information Services upgrade to permit computerized scanning and record-keeping for each asset item regardless of location within MWD.*

- *Centralize and automate the MWD's record keeping and retrieval functions.*

7. Investment policy.

A. Findings.

Metropolitan manages an approximately $1.1 billion investment portfolio, largely derived from bond funds. The MWD's investment policies are conservative and passive, seeking primarily to realize income from extremely safe, but low-yield instruments to fund its cash requirements. While Metropolitan's average cost of funds is about 5.6%, its current average return on its investments is just 4.0%, a negative spread of nearly 2%. In contrast, other water agencies have been able to earn positive spreads of from 2-8% utilizing comparatively safe investment vehicles. A positive spread of from 2-5% on an investment of $500 million would generate about $10-25 million per year in additional revenue for the MWD.

Metropolitan has taken steps to improve its investment yields, such as commissioning an outside review of its practices, utilizing treasury bond management software and other investment tools, and slightly diversifying its portfolio by placing about $200 million in the Local Agency Investment Fund (LAIF). Metropolitan's LAIF investments earn about 4.4%, slightly above its average portfolio yield.

Metropolitan's potential investment earnings are primarily limited by restrictive investment policies as compared with state law pertaining to investments by similar public entities. California's state investment code permits public entities to invest in five-year securities, and buy A-grade or better medium-term corporate debt, asset-backed securities, collateralized mortgage obligations or similar instruments, futures and options. In contrast, the relevant portions of Metropolitan's Administrative Code and the Board's investment policy prohibit investments in more than two-year securities and the purchase of any of the instruments listed above. (Certain of the MWD's bond proceeds are further restricted by the terms of their issuance from use in all but short-term investments.)

B. Recommendations.

- *Revise the Administrative Code and investment policy.* To improve earnings without significantly increasing risk, the MWD should amend the applicable portions of its Administrative Code and its investment policy to provide for the same investment options permitted under the State Code.

- *Actively manage the portfolio.* The MWD should develop and then pursue an active investment strategy aimed at maximizing its investment returns within applicable guidelines. Professional portfolio managers should be maintained as necessary or required. Metropolitan should also seek to utilize its tax-exempt status more fully to generate additional financial advantages, especially with respect to capital projects involving private joint venture partners The portfolio management strategy should be integrated into the overall improvement of the MWD's financial planning capabilities (See Part III.8, below) so that investment revenues can be systematically factored into the organization's overall fiscal strategy.

- *Establish a special investment policy committee of the Board to review MWD investment strategies on a monthly basis.*

8. Financial planning.

A. Findings.

MWD's Financial Division is responsible for posting, recording, and reconciling the organization's daily transactions, preparing and administering the budget, and investing available resources. Budgets for each operational unit are developed on an annual basis for each unit's work estimates, most of which are largely derived from prior year allocations (see Part III.1, above). Unit managers are permitted to transfer funds from one function to

another as long as the overall expenditures do not exceed the annual unit appropriation.

Budget planning occurs on an annual basis, although many MWD programs are multi-year in duration. No organic budget document currently exists that identifies overall Board objectives, the total resources allocated to achieving those objectives, and the changes that result in the current financial plan when regulatory, capital expansion, Board policy or other major modifications are experienced by Metropolitan. The annual operating budget is difficult to read, and resembles more of an accounting document itemizing the flow of funds–complete with financial schedules–than a comprehensive plan to guide MWD investments and revenues.

Metropolitan is developing a multi-year budget in accordance with its Strategic Plan that will link expenditures with specific Plan objectives. This budget document is scheduled for implementation in 1994-95.

In practice, many of the expense items primarily affected by the MWD's financial plans have grown considerably. In 1988-93, Metropolitan's Operations and Maintenance budgets rose by 75%, and now comprise approximately 26% of the organization's total expenditures. In the last two years, the actual operating budget has been approximately 12% less than the appropriated amounts.

The Task Force was informed that MWD does not make the standard, monthly interim financial reports and operating statements typical of most enterprises, especially those as large as Metropolitan. The MWD's current financial reporting software is old and inflexible, delaying project budget accounting. This results, in many cases, in project staff developing "homegrown" accounting systems that may not reconcile with Metropolitan's general ledger. Board members do receive general monthly summaries of costs, expenses, distributions and the like attributable to major categories of MWD operations. Balance sheet information is distributed to Division Managers on a monthly basis in the Monthly Financial Report, along with certain additional cost data. The lack of adequate, standardized reports inhibits the MWD's financial management capabilities.

B. Recommendation.

- *Develop and implement a multi-year MWD budget system.* Metropolitan should develop a comprehensive financial planning capability built around a multi-year budget. The budget should clearly identify the MWD's goals, and the various resources allocated to realize each objective over time. Major Board or other system changes should be easily integrated into the budget to clearly illustrate resource reallocation, cost, and program timing effects. Each annual unit operating allocation should be accounted for in the organization's overall planned multi-year budget.

- *Implement standard interim operating statement and financial reporting protocols as soon as possible in conjunction with the Information Systems upgrade and with other functional improvements as required.*

9. Business conduct policies.

A. Findings.

Metropolitan's basic business conduct policies were initially drafted in the late 1970s and have not been substantially revised since that time. Guidelines regarding such sensitive issues as nepotism, relations between staff and professional service contractors, the personal use of Metropolitan mail, telephones and other facilities, and travel and other perquisites applicable to Board members, are occasionally articulated and revised in response to circumstances, but a comprehensive conduct code does not exist.

An updated, comprehensive business conduct policy or code is necessary to guide the behavior of MWD employees and other representatives in areas that could, for the most innocent reasons, adversely reflect on the organization. Due in part to on-the-job marriages and staffing needs at remote Colorado River Aqueduct pumping sites, for example, a large number of the MWD staff are related by blood or marriage. There is extensive use of MWD mail

facilities by staff for purely personal business, and many smaller-scale Metropolitan consulting contracts are let to individuals or organizations that have long personal relationships with key MWD staff.

B. Recommendation.

- *Redraft, update business conduct policies.* The Board should adopt a new set of business conduct policies defining fundamental organizational ethical and behavioral standards. Particular attention should be paid to defining guidelines regarding nepotism, individual use of Metropolitan resources, and conflict of interest rules pertaining to MWD's professional service contracting.

10. Business development.

A. Findings.

Metropolitan spends substantial sums on advanced equipment and technology development. In 1989-93, MWD engineering staff estimates that of the $397 million spent on construction projects, over $53 million was paid for equipment, electrical accessories, instrumentation and controls. Although precise figures are not available, Metropolitan will spend over $4 million developing innovative vertical tower desalination technology and $36.5 million on unique oxidation (water purification) systems. In recent years, the MWD spent close to $1 million on a variety of novel valve, filtration and injection technologies.

Like many public entities, Metropolitan has no policy regarding regional exploitation of the technology it develops, nor does it attempt to use its procurement contracts–which are almost exclusively paid for with Southern California funds–to stimulate local technology development and industries. In R&D, Metropolitan's practice has been to develop novel applications and technologies if commercial vendors are unable to meet its requirements, and then publicize the results of its research as widely as possible to forestall private patents.

Procurements for specific kinds of equipment or technologies are bundled together in package contracts that are let on the basis of cost with respect to requirement specifications. While much of the bulk items, such as concrete and piping (at least $200 million since 1989) and services MWD purchases are supplied from local or domestic sources, a large amount of the advanced chemical, electrical and mechanical equipment Metropolitan buys is imported.

Intensified regional economic competition has led many public agencies to try and leverage their procurement and R&D expenditures to assist the local and domestic economy. The federal government and a number of states now attempt to co-develop equipment or applications with domestic and regional firms to foster advanced, high-value added manufacturing and service capabilities.

Procurement contracts can also be structured to promote economic development by stimulating long-term commitments from the highest quality global vendors to source from, or transfer technology to, domestic and local companies to the extent economically feasible. One innovative strategy has been to grant contract competition bonus points to potential vendors that offer to transfer technology to, or procure components from, regional producers, or which invest in local production facilities. These efforts are often coupled with business outreach programs in which specific procurement opportunities in select classes of goods or services are widely publicized, and regional producers that are interested in, or capable of meeting procurement needs are identified by the contracting agency. Directories, workshops and other means are then employed in an effort to integrate regional companies that can, or are willing to develop, top-quality products and services with prime contractors world-wide.

B. *Recommendations.*

- *Adopt an R&D development policy.* The MWD should adopt a more aggressive policy concerning the use of technology, equipment, or other know-how that it develops with its own funds. Possible strategies might include the licensing or sale of Metropolitan's

proprietary knowledge and hardware to third parties subject to a procurement fee or commission, or providing such technology to regional producers within the MWD's service area subject to explicit agreements to develop marketable, locally manufactured products or services for the global water industry.

- *Consider local business development procurement strategies.* Although sophisticated efforts to use public procurement dollars as a regional economic stimulus are still in their infancy, the MWD should consider ways that it can leverage its contracts to generate regional industrial benefits. This is especially desirable because Metropolitan does not receive substantial federal or state funds that might limit its regional development efforts. The objective would be for the MWD to develop a contracting and business outreach program that could help stimulate regional business participation in the global water systems industry.

11. Facility and Space Usage.

A. Findings.

At the time the Task Force was formed in July, 1993, Metropolitan had announced that it would decide on a new headquarters site by August of that year. Given the imminence of the headquarters decision–which was subsequently delayed–the Task Force elected not to address this issue.

Even though, like most large organizations, facilities costs are a small part of its overall operating budget, Metropolitan has an obligation to reduce such expenses to the extent consistent with overall operating and staff efficiency. The MWD's primary facilities management concern should be to obtain the required space in the proper locations to optimize productivity. As with setting efficient, systematically justified permanent staff levels and wages (see Part III.1 and Part III.5, above) optimal facilities expenses could increase if such expenditures can generate even more substantial operational, efficiency and financial benefits.

Metropolitan's facility and space requirements assessment must be tied to ongoing and recommended reviews of its staffing complements and organizational structure (see Part III.1, Part III.2, and Part III.5, above, and Part IV.1, below). Performance and productivity standards for many operational activities, such as maintenance, are being benchmarked for the first time, a process that could dramatically modify historic staff levels in different locations and functional departments throughout the organization. Should Peer Review and other recommendations for automating or contracting-out certain functions be adopted, space and facilities needs at some locations may be eliminated entirely.

Metropolitan has not systematically reviewed its overall space requirements in at least 10 years, but it is now moving to do so. Field operational needs are being addressed in the Weymouth Masterplan effort. Headquarters design decisions are being reevaluated to incorporate possible re-engineering and other efficiency improvements. The General Manager has undertaken a comprehensive reassessment of floorspace requirements for planning purposes.

B. Recommendation.

- *Integrate a comprehensive facilities and space usage review into ongoing and recommended efforts to rationalize staff and functional requirements.* As the MWD completes its benchmarking of tasks and functions, and adjusts its historical staffing complements and internal activities, a comprehensive facilities and space management plan should be developed. Key elements of the plan would include: (1) the siting and size of inventory warehouses and other storage facilities; (2) the dispersion and distribution of staff; (3) the location of retained, internal operations–such as machine shops or automotive maintenance–that are not contracted-out; (4) privacy and safety requirements; (5) conference and group meeting requirements; (6) technical and equipment space support needs; (7) communications linkages; and (8) service provision requirements and response time.

Part IV: Human Resources and Diversity

Metropolitan's personnel operations, and its ability to hire and sustain a high-quality, diverse workforce, is critical if it is to meet pressing water supply and social challenges. The Task Force reviewed the MWD's (1) general human resource management practices, (2) internal affirmative action and diversity efforts, and (3) current and proposed programs for enhancing contract diversity.

1. Human Resources.

A. Findings.

Metropolitan recognizes that its human resource practices need improvement. The Personnel Director recently was removed and a search is currently being conducted for a replacement. Metropolitan's Strategic Plan articulates a number of human resource practice improvements, some of which have begun to be implemented in the Operations Division.

Metropolitan is committed to building a performance-based management system, in which employment decisions, compensation, promotions, and functional task assignments will be closely linked to objective achievements. This system is not currently in place (see Part III.1 and Part III.5, above). The Task Force strongly endorses Metropolitan's ongoing efforts to rationalize and improve its human resource management.

At present, the Personnel Director reports to an Assistant General Manager, and not directly to the General Manager of the MWD. In most private sector and many public entities that are seeking to make substantial improvements in human resource and related functions, such as equal employment opportunities, the personnel director–at least temporarily–reports directly to the head of the organization.

The MWD appears to be in overall compliance with formal legal labor requirements, including: (1) S.B. 198 injury and illness prevention mandates; (2) AQMD Regulation XV rideshare policies

(for which it has won several awards); (3) federal and state family and military leave laws; (4) affirmative action/equal employment opportunity mandates; and (5) I-9 immigration documentation, except for long-term or certain temporary employees. A possible problem may exist with respect to the federal Americans with Disabilities Act (ADA) because MWD job descriptions (see Part III.5, above) predate the ADA, and some have not been revised as the Act requires.

The personnel department has not been perceived by MWD employees as supportive or innovative in providing career development resources and administrative support. As in many larger institutions, the department has functioned more as a gatekeeper, policing rather than enhancing employee performance. The 1:46 ratio of personnel staff to total MWD employees compares unfavorably with the 1:100 ratios found in comparable institutions. This staffing level has been justified in the past on the grounds that the division's operations are "paper intense."

An automated payroll and personnel records system does not yet exist, although there are plans to implement one (see Part III.4, above). Records and reports tracking the source of new employees, training program content and participation, turnover, and the costs associated with hiring and staff development are sparse and often insufficiently documented. Relatively routine analyses, such as the ethnic composition of recent discharges or costs associated with certain benefits or job classifications, often have to be specially prepared, and then repeatedly revised before they are reasonably accurate.

Recruitment is not systematically coordinated. Current total staff turnover is running at an extremely low 6-7% per annum, a rate that reduces opportunities to replenish the existing workforce through development and promotion from within or with new, more diverse personnel from outside the organization (see Part IV.2, below). No systematic effort is made to analyze departures by department, division, ethnicity and cause. The MWD does not have a standardized, written testing and interview process for new applicants, which can result in different evaluation procedures for people applying for the same or closely-related jobs.

Job posting is generally good, but time-consuming with preference given to internal applicants–except where MWD employee associations agree that external applicants may be given equal or greater preference. The actual job requisition language, however, often supplements standard, and sometimes outmoded MWD classifications (see Part III.5, above) with additional "special requirements" for certain skills, experience and training, in effect creating unique employment categories that can severely limit the potential applicant base. There is no established circuit of schools or institutions with which MWD regularly maintains recruitment contacts.

The specialization of MWD job classifications and the preference for internal promotion tends to reduce competition for available positions. In 1992, a total of 728 in-house applicants competed for 102 jobs, but five positions drew 28% of the total applicants. For 63 positions, an average of just two in-house applicants applied. In contrast, when Metropolitan opened its recruitment to outside sources, an average of 146 applications were received for each position.

Until recently, new employees were not provided with regular feedback, and departing employees were not regularly interviewed to determine the reasons for separation. Metropolitan management has now mandated a three-month performance review during the six-month probationary period applicable to new hires.

The MWD is formulating and implementing a general training plan as part of its Human Resource Development Operating Plan process. Specific training proposals, however, are still frequently initiated and defined by department managers or by the employees themselves, and are not coordinated by training development personnel. No formal supervisory, management or skill development training programs are mandatory for senior management. New hires are not subject to drug testing, and employees involved in sensitive, potentially hazardous jobs, such as heavy machinery operators or hazardous material handlers, are not subject to ongoing safety or drug-use examinations. There is also no formal succession planning to train and groom personnel for key

future responsibilities through systematic training and recruitment programs.

B. Recommendations.

- *Continue to implement a performance-based management system.* Metropolitan should continue to develop a full-fledged, system-wide performance-based management system. Fundamental elements of such a system include: (1) revising, simplifying, and modernizing current MWD job classifications; (2) establishing standardized performance measures for each job class and quantifiable goals for each department and key management personnel; (3) conducting regular reviews of employee performance against such goals; and (4) linking pay and promotion decisions to objective performance results.

- *Develop and implement a succession plan.* The achievement of Metropolitan's strategic goals should be supported with a mid- to long-range succession plan that would systematically identify employees that meet or exceed performance goals, interview such stellar performers with respect to their own long-term interests in specific management positions, and then implement a plan for training and evaluating the employees' development of the skills necessary to assume their desired future responsibilities.

- *Automate and improve personnel data and report generation.* Metropolitan's information systems program (see Part III.4, above) will automate many currently paper-intensive payroll and personnel functions. At the same time, the system should be constructed so that basic recruitment, interview, performance review, training, discharge, affirmative action, and demographic data can be easily entered and retrieved for planning purposes.

- *Develop and implement a recruitment plan.* Metropolitan should standardize its recruitment testing and interview

process so that each applicant for a particular job class is evaluated under substantially similar criteria. In addition, a core recruitment pool of colleges, water agencies and other appropriate institutions should be created and included in job requisition notices and other recruitment activities to increase the number and quality of applicants. To increase diversity, skills and applicant quality, as many positions as possible should be open to in-house and outside applicants.

- *Continue to improve new hire support and review.*

- *Consider drug testing and supplemental safety training for hazardous and sensitive duty personnel.*

- *Monitor and track compliance with formal legal requirements, including, ADA job description and immigration law compliance.*

2. Affirmative Action and Diversity.

A. Findings.

Metropolitan has publicly committed to substantially improve staff diversity and related personnel functions. The Task Force unequivocally supports these goals, and fully concurs that the MWD must make rapid, tangible progress in the areas of affirmative action and equal employment opportunity.

At present, Metropolitan has, or is about to put in place, much of the formal elements of an internal diversity program. To date, however, affirmative action/equal employment opportunity plans and principles have have not been seen as a high priority by many senior managers. There exists no centralized, high-profile mechanism for ensuring that Metropolitan actively implement its diversity efforts. The current affirmative action/equal employment opportunity officer reports to an Assistant General Manager, not directly to the General Manager. Personnel in charge of the MWD's business outreach and MBE/WBE programs (see Part IV.3, below)

report to a division head at least two levels of management removed from the General Manager.

Much of the organization's affirmative action/equal employment opportunity leadership and initiative has been provided by an informal employee organization, the Equal Employment Opportunity Council, comprised mainly of the heads of MWD employee ethnic and women's business groups. In response to concerns about employment feedback, promotional policies and minority retention, for example, the Council proposed a volunteer mentoring program for MWD employees. Such proactive efforts are widely appreciated by rank-and-file Metropolitan employees, but not clearly embraced or supported by senior department and division staff.

Routine tracking of affirmative action/equal employment opportunity pay, promotion, separation, training and other data is limited or non-existent. Many departments track such information using their own criteria and methods with no centralized, consistent organizational-wide analysis. A random sample of information supplied to the Task Force, for instance, showed that in 21 job classifications ethnic minorities were paid approximately 6.3-19% less than Caucasian employees, while in 14 others, ethnic and female employees were paid substantially more than their Caucasian male counterparts. Current MWD reports, including forms EEO-1 and EEO-4, semi-annual Board presentations, and applicant tracking are not sufficient to manage an effective affirmative action/equal employment opportunity program. Initially, the planned Information Systems upgrade (see Part III.4, above) did not incorporate affirmative action/equal employment opportunity requirements, an omission that is presently being rectified.

Affirmative action/equal employment opportunity recruitment and training efforts are sporadic and not systematically planned. In certain cases, ethnic minorities have been hired more on the basis of personal or Board contacts than qualifications, a process that can undermine affirmative action/equal employment opportunity objectives. Affirmative action/equal employment opportunity training programs occur in an *ad hoc* manner and are evaluated with respect to different statistics and other measures. MWD's low

turnover rate and internal promotion tradition further limit opportunities for realizing affirmative action/equal employment opportunity objectives. Diversity goals are not linked to a formal succession plan (see Part III.5, above) and are not specific as to timing and precise implementation methods.

Grievance procedures within Metropolitan appear to function well. Since 1988, there have been only 39 affirmative action/equal employment opportunity complaints (75% of which were filed by African-Americans, which are 8% of Metropolitan's current workforce), a comparatively low figure. Statutory and MWD internal time limits for resolving affirmative action/equal employment opportunity conflicts appear to have been met. Employee organizations also serve to informally resolve conflicts.

Current MWD affirmative action/equal employment opportunity objectives are based on demographics derived from 1980 census data. An outside consultant has been retained to develop more accurate goals based on 1990 census statistics.

B. Recommendations.

- *Dramatically accelerate MWD's structural and strategic commitment to affirmative action/equal employment opportunity objectives.* To succeed in its diversity efforts, Metropolitan should substantially strengthen its affirmative action/equal employment opportunity functions and unambiguously support such programs at the highest levels. Senior management should explicitly "buy-in" to affirmative action/equal employment opportunity objectives, adopt the program's values on an organizational basis, and the internal resources should exist to track, proactively fashion and then sustain such efforts. One possible organizational innovation would be to create a new Diversity Division, staffed by a senior, respected expert recruited from outside Metropolitan, that would combine MWD's internal and external affirmative action/equal employment opportunity efforts and report directly to the General Manager.

- *Continue to improve affirmative action/equal employment opportunity tracking and reporting functions.* Concurrent with the MWD's information systems upgrade, affirmative action/equal employment opportunity data and analysis capabilities should be substantially improved. Essential information for monitoring and enforcing Metropolitan's diversity goals include: (1) gender and ethnic wage and benefit differentials by job classification and tenure; (2) applicant and new entrant tracking by job classification, subsequent promotion and/or termination; (3) aggregate and functional area demographic profiles of the MWD; and (4) training schedules and accomplishments. Current departmental tracking should be standardized and subject to analysis and feedback by affirmative action/equal employment opportunity staff.

- *Develop and implement an affirmative action/equal employment opportunity succession and recruitment plan.* Metropolitan should develop a series of short-, mid- and long-range diversity and succession plans setting forth specific hiring and recruitment objectives. To increase the pool of qualified ethnic and female candidates, MWD should expand its affirmative action/equal employment opportunity recruiting on a national basis. Information about qualified candidates should be developed and maintained on an ongoing basis in minority and female applicant pools, and supplied to recruitment personnel for direct solicitation as staffing needs arise.

- *Proactively consider and implement innovative affirmative action/equal employment opportunity programs.* MWD management should respond to, and proactively develop, innovative affirmative action/equal employment opportunity efforts such as proposals for a mentoring system, expanded internship opportunities, and more effective outreach programs to universities, colleges and other sources of trained ethnic and female employees.

- *Coordinate affirmative action/equal employment opportunity improvements with other operational enhancements.* MWD's efforts to improve such functions as its job classification scheme, staff complement analysis, temporary employee policies, data enhancements and regional business development strategies all will affect its ability to achieve affirmative action/equal employment opportunity goals. Part of the restructuring of Metropolitan's diversity programs should therefore involve dedicating staff to evaluate, and modify as necessary, ongoing changes throughout the organization with respect to affirmative action/equal employment opportunity objectives.

- *Continue to revise affirmative action/equal employment opportunity goals in light of 1990 and other appropriate demographic information and develop divisional-level affirmative action/equal employment opportunity goals.*

3. Minority/Women-Owned Business (M/WBE) Outreach Programs and Contracting Affirmative Action

A. Findings.

MWD's Administrative Code was amended in September, 1992 to authorize M/WBE business outreach programs. A functioning program has not yet been developed, although such efforts have now been endorsed by top management. The Task Force strongly supports MWD's commitment to improve its business outreach and contract affirmative action practices.

There are several areas of concern with Metropolitan's current and contemplated efforts. In general, the business outreach and contract affirmative action program reports to a department head and does not have a high enough profile in Metropolitan's organizational hierarchy. The program is actually lower in the chain of command than MWD's affirmative action/equal employment opportunity operations, although the $6 billion capital improvement

program budget will likely create far more opportunities to improve MWD's diversity in the short- to mid-term.

The business outreach program is inadequately integrated with MWD's disparate contract activities and also is insufficiently staffed to interact as necessary with other departments. Currently the program consists of just two employees and an outside consultant. Personnel in charge of business outreach and contract affirmative action do not regularly receive, and some divisions have been reluctant to provide, information about impending contracts with enough lead time to mount an effective M/WBE solicitation effort. Lack of interdepartmental coordination also precludes the insertion of standard M/WBE language in procurement solicitations.

At present, there is no systematic plan for identifying, certifying, and tracking M/WBE firms. Several MWD divisions use different industrial coding schemes to classify vendors, including M/WBE firms, a practice that inhibits solicitation and tracking activities. MWD's draft M/WBE certification guidelines are based on federal disadvantaged business enterprise (DBE) standards, which are principally concerned with encouraging small businesses rather than focusing specifically on M/WBE firms. The Information System upgrade (see Part III.4, above) initially did not consider business outreach and contract affirmative action needs, but is now planning for such requirements.

Metropolitan has proposed 12% MBE and 3% WBE contract participation goals, but these numbers have not been justified with historical utilization or other appropriate data. In FY 1992-93, MBE participation in MWD contracts was 6%, and WBE firms received 7% of the total $179 million awarded.

The MWD has not yet considered the potential legal challenges its race and gender based programs may face under the Supreme Court's decision in *Richmond v. J.A. Croson & Co.*, 488 U.S. 469 (1989). *Croson* invalidates race and gender public contract preferences or percentage mandates absent strong evidence of a significant historical disparity between the number of qualified, willing minority and female firms able to work on particular projects, and actual contracting results. Even if a racial- or gender-

based disparity can be illustrated or inferred from the data, contract preferences must be narrowly tailored to remedy only the specific harm involved. M/WBE programs have been enjoined under *Croson* in Colorado, San Diego and Minneapolis, among other cities and states, even when they contained, as Metropolitan proposes, "good faith" waivers for firms that otherwise do not meet the utilization targets. MWD is contemplating a *Croson*-style disparity study to justify the race- and gender-based business outreach programs it may adopt. Such studies typically are very expensive and, unless properly structured, may be subject to legal challenge.

Race- and gender-neutral measures applicable to disadvantaged businesses in general–such as technical assistance, financial aid, contract simplifications and waiver of bonding or other requirements–are subject to much less intense legal scrutiny. Such efforts can assist smaller and M/WBE firms enter the contracting process, but often do not by themselves solve M/WBE underutilization concerns.

Certain MWD contract management practices may adversely affect the development of business outreach programs. Procurement is fragmented among several divisions and subject to project- and department-specific solicitation, legal, competition and selection processes and criteria (see Part III.2 and Part III.3, above). There is no formal grievance or appeal process for contract decisions. Unsuccessful bidders rarely, if ever receive post-competition feedback that might improve their ability to secure work in the future.

MWD has just initiated attempts to partition larger projects into smaller contracts for supplies and services–contracts that are especially attractive to M/WBE firms. The smaller scale procurements that currently exist are not specifically solicited from pools of qualified M/WBE firms. The need for technical and business assistance support measures–programs that typically reduce the primary barriers to more extensive M/WBE participation such as contract bid, company management and accounting problems are also not currently addressed.

MWD's contract affirmative action enabling policy is sound, but the standards used to actually implement the program are outmoded and have been little revised since 1976. The current policy statement, for example, makes reference to specific administrative agencies that no longer exist, and states ethnic and gender goals in an archaic, legally questionable fashion. There are presently no procedures for assuring contractors' compliance with Metropolitan affirmative action goals. Contractor employment utilization reports are either not submitted by MWD vendors, or subject to little or no analysis if they are provided. The MWD also has no ability to monitor its obligation to ensure that contractors pay prevailing wages as required under its Administrative Code.

B. Recommendations.

- *Enhance the significance and scope of MWD's business outreach and contract affirmative action program.* As discussed in the affirmative action/equal employment opportunity recommendations summary in Part IV.2, above, Metropolitan should greatly enhance the scope and importance of its business outreach and affirmative action efforts. One possibility is to create a new Diversity Division, staffed by a high-profile manager, that would combine all diversity functions and report directly to the General Manager. Regardless of the institutional form, top MWD managers and the Board should "buy-in" to business outreach and affirmative action goals, and personnel in charge of such programs should have the influence and ability to ensure that necessary operational adjustments be made throughout the organization.

- *Supplement the business outreach program staff.* Current staff complements should be increased by at least two professional-level employees and one clerical/administrative slot. Future needs should be reevaluated as the program takes shape.

- *Assess the legal authority for explicit race- and gender-based contract preferences.* To avoid increasingly likely legal

challenges to race- and gender-based contract preferences, Metropolitan should carefully analyze whether it can justify such efforts under Croson and other applicable legal standards, including: (1) its express legal authority to develop race- and gender-based programs; (2) whether there exists adequate evidence of systematic racial or gender discrimination adversely affecting willing and able minority and female owned business that generates marked disparities in MWD contract awards; and (3) whether its race- and gender-based goals, including the 12/3% M/WBE standards, are adequately justified and narrowly tailored to redress the specific consequences of historical discrimination. MWD should also assess whether the potential legal benefits of a *Croson* disparity study would justify the costs.

- *Immediately enhance and improve race- and gender-neutral business outreach efforts.* Irrespective of whether MWD can, or opts to, develop race- and gender-based contract preference programs, the organization should immediately enhance the generic business outreach functions applicable to all disadvantaged business entities, including M/WBE firms. Many such efforts are essential components of successful race- and gender-based programs, including: (1) capital assistance, in the form of loan guarantees or other fiscal support that facilitate DBE participation in MWD projects; (2) assistance with meeting bonding requirements, such as a bond guarantee program; and (3) technical assistance in project management, bid preparation, accounting, change orders, marketing, certification and other relevant contracting functions.

- *Modify contract procedures to encourage M/WBE participation.* The business outreach program staff should have the authority to develop and insert standardized, appropriate M/WBE and DBE business volume utilization guidelines into all MWD contracts. Contract administrators should be required to notify the program sufficiently in advance of impending

solicitations to permit outreach participation. To the extent feasible, contract administration should be simplified, standardized, and efforts made to create smaller scale procurements more appropriate for M/WBE firms. A current pool of M/W/DBE companies should be maintained so that small and large contract bids can be solicited on a consistent basis from such firms.

- *Continue to improve vendor tracking and certification capabilities.* Consistent with the information services upgrade, Metropolitan's certification database should be substantially improved. Essential data includes the particular expertise, experience, licenses, bonding, ethnicity/gender and size of each firm, and records of the precise nature and contract amount of any work awarded by the MWD. A centralized, uniform coding system should be maintained for the vendor database. Draft certification standards should be revised to eliminate any possible conflict between M/WBE goals and the DBE objectives used in federal certifications.

- *Strengthen contract affirmative action compliance.* Consistent with its policies, MWD should actively procure and analyze appropriate employment utilization reports from its vendors. Deficiencies in either affirmative action objectives or prevailing wage requirements should be enforced by the appropriate means. Metropolitan's contract affirmative action requirements should be thoroughly reviewed in light of current best practices, with obsolete or legally questionable references modified or deleted as necessary.

Part V:
Issues Not Addressed in the Report

The Task Force attempted to be as comprehensive as possible in its review of the MWD. Given Metropolitan's size, and the complexity of water policy in California, a number of crucial issues could not be addressed. The Task Force also elected not to examine matters that it felt were outside its function as a "citizen's committee," more properly reviewed by other entities, or potentially disruptive of sensitive, ongoing activities.

This Report is not a detailed external audit of the MWD, nor did the Task Force function as a management consultant for Metropolitan and seek to minutely examine and then refine specific MWD policies or practices. Although each of the Subcommittees secured outside consultant support to assist with their efforts, the Report focuses on the process and inclusiveness of MWD decision making, and the effectiveness of general strategies, rather than the specific choices that Metropolitan has made or intends to implement.

The fact that certain issues are not explicitly analyzed in this Report, however, should not be construed as a judgment that they are not critical concerns for the MWD, or that further efforts should not be made to address them. The Task Force encountered several issues that were outside its purview, but were nevertheless important for the future of the MWD. Although these matters could not be systematically explored in this Report, the Task Force believes that they are significant enough to merit additional attention, including:

- *High level of equipment losses.* Although a complete audit was not attempted, members of the Task Force were disturbed by the high level of Metropolitan's office equipment losses, which totalled over $1.36 million in 1988-91 alone, and occasional allegations of potentially improper employee conduct. Since 1991, Metropolitan has evaluated and instituted an improved inventory tracking system. The results of this improvement will not be quantifiable until the 1993 audit is complete. These

matters may warrant an independent investigation by a competent entity, but such a review was outside the scope of the Task Force's activities.

- *Labor relations.* As discussed in Part III.5, above, the near-universal representation of Metropolitan staff by some form of collective bargaining unit means that labor relations will substantially affect the organization's flexibility, efficiency and costs. The Task Force decided to not address MWD labor relations, however, because Metropolitan is now engaged in negotiations with its unions.

- *Headquarters location.* At the time the Task Force was created in July, Metropolitan was slated to select a headquarters site by August, 1993. Given the imminence and complexity of the issue, the Task Force elected not to comment on this sensitive decision, even though the selection of a headquarters location has important implications for the MWD's operational, organizational and financial activities.

- *Board member selection.* There is ongoing concern about whether the Board selection process adequately generates representative, diverse leadership typical of the communities that make up the MWD's member agencies. The Task Force believes that this important matter is better addressed in other forums, including the state legislature.

- *Board membership allocation.* Many Task Force members were concerned about potential inequities that may arise as patterns of actual MWD water use increasingly diverge from the *ad valorem* criteria that currently governs the allocation and number of Board seats among member agencies. If less-dependent MWD water users control the Board under present allocation methods, for example, Metropolitan might be forced to initiate capital improvements for which other agencies more heavily dependent on MWD water–but which have less

representation on the Board–will eventually be forced to pay. Should novel Readiness to Serve Charge, New Demand Charge or other fixed revenue schemes be eventually put into place, the issue of membership allocation may become important for effective MWD governance should the pattern of actual water use increasingly diverge from member agency Board representation.

- *Board oversight capabilities and functions.* The general impression of the Task Force is that the Board's oversight functions may be less comprehensive than in previous periods. Despite a heavy meeting schedule, and numerous specialized committees and subcommittees, the Board often seems to be presented with limited options and choices for final approval largely defined and developed by MWD staff, rather than conduct an independent inquiry of the relevant matters. In addition to the specific areas identified in this Report where Board action is necessary to improve MWD operations–such as defining a specific compensation and hiring policy or playing a more active role in developing political support for urban water–it may be that more fundamental Board oversight issues also warrant comprehensive analysis.

- *Agency consolidation.* Many Task Force members were concerned that the current structure of member agencies should be examined to improve MWD's activities and the efficient delivery of water to end users. Some agencies might profitably be merged or consolidated, a matter that should receive future consideration.