

**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

August 17, 1994

Office of Board of Directors

To: Board of Directors (Executive Committee--Action)
From: Blue Ribbon Task Force Ad Hoc Committee Chairman Barker
Subject: Response to Blue Ribbon Task Force Recommendations

On April 7, 1993, the Metropolitan Water District Board of Directors authorized formation of the Blue Ribbon Task Force, made up of private sector volunteers to conduct a review of the District's business practices and operational policies. On June 1, 1993, the Board selected the Task Force membership, and Nelson Rising as Chairman.

In January 1994, the Blue Ribbon Task Force presented its findings and more than one hundred recommendations to Metropolitan's Board of Directors. The report focused recommendations in four areas: 1) Integrated Resources Planning and Rate Structure Proposals, 2) External Relations, 3) Business Practices and, 4) Human Resources. The Board assigned the report to management and created an Ad Hoc Committee to review the Task Force's recommendations and management's responses. Metropolitan management has reviewed all of the recommendations and submitted to the Board a response and action list on each one. During May, June and July the standing committees of the Board reviewed management's proposed responses and actions. The Board made a number of changes to management's responses, and action is proceeding at this time to implement the recommendations.

Attached are the Blue Ribbon Task Force recommendations, the text of management's responses to the recommendations, and the percent of implementation completed to date. Where recommendations are shown as 100% implemented means that the recommendations have been fully integrated into Metropolitan's business practices and procedures.

Recommendation

That the Board of Directors authorize the Chairman to transmit the attached letter, together with a narrative statement of the recommendations and Metropolitan's response thereto, to the Task Force with a statement of Metropolitan's deep appreciation for their time, effort and insight on improving Metropolitan's business practices.

Board of Directors

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That all recommendations shown on the narrative as not yet fully implemented be assigned to the appropriate standing committee for continuing oversight.

That the Blue Ribbon Task Force Ad Hoc Committee be dissolved.


Charles D. Barker

Att.: Report Response
Transmittal Letter

DRAFT**MWD**

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Office of Board of Directors

John V. Foley, Chairman
Charles D. Barter, Vice Chairman
James H. Blake, Vice Chairman
Harry Griffen, Vice Chairman
Patrick H. Miller, Vice Chairman
Regina Warph, Secretary

Mr. Nelson Rising
Chair, Blue Ribbon Task Force
Maguire Thomas Partners
355 S. Grand Avenue, 45th Fl.
Los Angeles, CA 90071

Dear Mr. Rising:

In January 1994, Metropolitan's Board of Directors received the Blue Ribbon Task Force's Final Report on its review and evaluation of Metropolitan's business practices and operating policies. The more than one hundred recommendations contained in the report demonstrates the intensity of the effort made by the Task Force and the value of the experience and insight that the Task Force members brought to the process.

The management team, working with the Board of Directors has reviewed each and every recommendation and has evaluated how each recommendation could be integrated into the District's activities. We have set a course and timetable for implementing the recommendations.

The attached narrative lists the Task Force's recommendations along with Metropolitan's responses. Within each response is an estimate of percentage implementation as of July 1, 1994. Where 100% implementation is shown means that the recommendation has been fully integrated into the District's on-going activities. Integration is still underway for those recommendations marked less than 100%, and these will be subject to ongoing Board review.

The Metropolitan Water District Board of Directors and management team wishes to express its deepest appreciation to you and to the members of the Blue Ribbon Task Force for your time and dedication in helping Metropolitan be a more productive, cost-effective and responsive public agency. We have benefitted greatly from your work.

We trust that you will continue your interest in Metropolitan and the achievements of our mission of providing reliable, high quality water supplies to Southern California in an economical and environmentally sound manner.

Very truly yours,

John V. Foley
Chairman, Board of Directors

NARRATIVE RESPONSE TO RECOMMENDATIONS OF THE BLUE RIBBON TASK FORCE

FOREWORD

In June, 1993, Metropolitan's Board of Directors convened a Blue Ribbon Task Force headed by Chairman Nelson Rising. After six months focused effort, the Task Force produced a report entitled Metropolitan Water District Blue Ribbon Task Force, Final Report, January 1994.

What follows below is a combined Board of Directors/Managerial response to more than one hundred recommendations transmitted in the Blue Ribbon Task Force report. The response is divided into four main parts: 1) Integrated Resource Planning and Rate Structure; 2) External Relations; 3) Business Practices and; 4) Human Resources. We intend to implement the Task Force's recommendations or the intent of the recommendations in virtually every case. The "*Percent Implemented*" is a measure of how fully the recommended practice has been incorporated into the District's procedures and practices as of July 1, 1994. 100% implementation indicates the recommendation has been integrated fully into the district's procedures and operations. Those items that show less than 100% compliance to date will continue to receive oversight by the Board of Directors.

The words "*Agree with Recommendation*" means that the recommendation is being implemented exactly as proposed. The words "*Agree with Intent of Recommendation*" means that the recommendation of the Task Force has been largely preserved, but required some modification for reasons of practicality or ease of implementation.

EXECUTIVE SUMMARY

RESPONSE TO RECOMMENDATIONS OF THE BLUE RIBBON TASK FORCE

The Metropolitan Board of Directors has received the Blue Ribbon Task Force's findings and recommendations at its January 1994 meeting and appointed an Ad Hoc Committee to oversee management's review, analysis and response to the recommendations. Metropolitan's Board and management have embraced the report and its recommendations and have taken a fresh look at the issues raised by the Task Force. The Board and management have tightened or overhauled several business and human relations practices, and have given higher priority to many other issues, particularly in the resource planning and external affairs areas. The following is a summary of the responses in the attached narrative report.

1) INTEGRATED RESOURCES PLANNING (IRP) AND RATES

Specific steps have been taken to address the Task Force's recommendations. The IRP has been assigned to an interdivisional team led by a Deputy General Manager and the Chief of Planning and Resources. The goal is to integrate Metropolitan's resource mix, capital investments, and revenue program into a single operating plan. The IRP outreach has been expanded to include retail water purveyors and groundwater managers, in addition to Metropolitan and its member agencies. Three-day Strategic Assemblies were held in October, 1993 and June, 1994, with a round of public forums prior to the June Assembly. The Assemblies have ranked the region's values, tested the reliability goal, approved a diverse resource mix, adopted business and water management principles, and approved initial resources investments. The third Strategic Assembly, in January 1995, should gain agreement on water management incentives, revenue plans consistent with the business principles, drought management plans, and a link between investment and affordability--to be incorporated into 1995-96 water rates and operations. A simplified but powerful new groundwater storage program was adopted in April 1994, and the long-time problem of agricultural rates was resolved in May 1994. The ready-to-serve charge approved in concept by the Board in December 1993 is a significant but not complete answer to the Task Force's concern about fixed-cost coverage.

2) EXTERNAL AFFAIRS

A number of steps have been taken consistent with the Task Force's recommendations. Deputy General Manager Tim Quinn is responsible for managing External Relations and creating a better coordination and staff role clarification. A plan to do so is expected to be in place and functioning by the end of the year. In this same time frame a set of policy objectives and implementation goals will be created with regional MWD/Member Agency External Relations Steering Committee Task Force to better coordinate within

the water industry. An early success of the improved focus has been a coordinated Metropolitan/Member Agency advocacy effort on the Safe Drinking Water Act, the North-South water coalition to advocate federal/state regulatory standards for the Bay/Delta and the letter to President Clinton and Governor Wilson from leading California business leaders calling on them to reach consensus on a process to operate the Bay/Delta.

3) **BUSINESS PRACTICES**

Many of the initiatives in business practices are underway including productivity benchmarking and reorganization of the Engineering & Operations Divisions. Metropolitan has improved the selection and management of outside consultants based on business case analysis. A job reclassification study is underway and will be completed in 1995 and a revised evaluation system is in place. Management is continuing to evaluate the disaster recovery plan in light of the Northridge Earthquake. The business conduct policies are being revised, and a multi-year budget system is in place. A major reengineering and automation program is underway which will modernize the District's financial, inventory, warehousing, receiving, materials management, cost accounting, accounts payable, payroll and asset management practices.

4) **HUMAN RESOURCES AND DIVERSITY**

With the arrival of the new Human Resources Division Manager, a number of programs are being reviewed and improved including the recruitment program. Pay-for-performance has been put in place for senior management and will expand to all management employees in 1995. An Office of Diversity has been created in the General Manager's Office to highlight Metropolitan's commitment to affirmative action and business outreach. Metropolitan raised its commitment to minority and women business owners by raising the goals in both areas to be consistent with those of the state of California.

INTEGRATED RESOURCES PLANNING/RATE STRUCTURE

RECOMMENDATION 1: *The IRP process should actually govern MWD engineering, investment and operational decisions.*

RESPONSE: Agree with intent of the recommendation.

One of the primary objectives established for the IRP process was to determine the timing and magnitude of Metropolitan's Capital Improvement Program that will secure the most efficient capital investment. To this end, internal coordination is being strengthened to ensure that engineering and project decision-making is consistent with the findings of the IRP process. With specific respect to the Inland Feeder and Domenigoni Reservoir projects, the IRP has indicated that increased storage and supply conveyance are critical to the region's reliability for every resource mix evaluated. Consequently, certain activities such as design and acquisition of right-of-way of certain projects such as Domenigoni Reservoir and Inland Feeder. If the IRP determines that the Inland Feeder and Domenigoni Reservoir projects should be delayed, these investments in land and design are not lost and are recoverable assets.

PERCENT IMPLEMENTED: 75%

RECOMMENDATION 2: *The IRP and rate structure proposals should be formally, and functionally, integrated.*

RESPONSE: Agree with recommendation.

The IRP and rate structure process are linked through a common member agency working group and a staff coordinating committee under the direction of one AGM. Resource mix choices and their impact on customers and member agencies are linked in the Boards selection of a resource mix and rate structure.

The IRP and rate structure efforts are interdependent and are proceeding concurrently. The first step in the overall process was to establish financing mechanisms that will enable Metropolitan to equitably and efficiently obtain the necessary revenues to support a wide range of alternative investment strategies. In turn, the Board will determine the preferred resource mix based on the IRP and set the appropriate level of revenue requirements over time. The IRP process is being carried out in four phases; the first two phases will define resource alternatives and provide guidance in determining the preferred resource mix based on reliability and affordability at the regional level. During the third phase, the Board will consider the resource alternatives and select the preferred resource mix. The last phase of the IRP process will focus on the development of implementation measures to provide the basis for distributing the financial responsibilities of the IRP between Metropolitan and its member agencies. This effort will incorporate the adopted Metropolitan financial rate structure and update implementation procedures for ongoing programs such as the Local Projects, Seasonal Storage, Groundwater Recovery, Groundwater Conjunctive Use, and Conservation Credits.

PERCENT IMPLEMENTED: 90%

RECOMMENDATION 3: *Reliability, quality and other water supply specifications can not be made independently from the willingness of MWD customers to pay for such services.*

RESPONSE: Agree with recommendation.

The IRP process recognizes the relationship between customer affordability, or "willingness to pay," and reliability, quality and other water supply specifications. The IRP process is in fact utilizing economic measurements of willingness to pay to evaluate the viability of attaining the adopted reliability goal. Resource mix choices and their impacts on customers and member agencies are linked in the Boards selection of a resource mix. It is possible that a revised reliability goal may indeed be recommended through the IRP process.

PERCENT IMPLEMENTED: 100%

RECOMMENDATION 4: *Member agency and other external participants in the IRP and rate structure process should have an unequivocal role in shaping the outcome.*

RESPONSE: Agree with recommendation.

One of the primary objectives of the IRP is to provide an open, participatory decision-making process that involves Metropolitan's member agencies, groundwater basin managers, and representatives of business, environmental, and community groups in formulating the most appropriate mix of supply resources and demand management strategies for the region. To this end, the IRP process has been closely coordinated with both member agencies and other participants. During the initial analytical phase of the IRP, 15 working sessions of the Member Agency Work Group are scheduled in order to facilitate direct member agency participation in the IRP. The groundwater basin managers of the region are also participating in the IRP to ensure that assumptions on the operation of the groundwater basins are realistic and attainable.

In order to facilitate the participation of representatives of the environmental and business communities, a program of public participation has been incorporated into the IRP process. The program will include participation from business, community, and environmental groups from both northern and southern California through a series of public forums in order to obtain their input into the process in particular a review of the criteria for selecting a resource mix and affordability. Their recommendations will feed directly into the Strategic Assembly and the Board's decision making.

PERCENT IMPLEMENTED: 100%

RECOMMENDATION 5: *Baseline reliability objectives should be revisited as alternative resource and cost scenarios are developed and not treated as fixed elements of MWD's planning process.*

RESPONSE: Agree with recommendation.

As previously mentioned, the IRP process does provide for an evaluation of the adopted reliability goal. For clarification, the IRP process begins with development of alternative resource mixes that are capable of meeting the adopted, or "baseline," reliability goal. The affordability of each resource mix is then determined based on economic measures of willingness to pay. The affordability of resource mixes that do not meet the adopted reliability goal are also determined through the IRP process. If in fact the IRP process indicates that the resource mixes that meet the adopted reliability goal are not affordable, then a revised reliability goal would be recommended.

The Blue Ribbon Task Force's recommendation also states that the effects of increased water rates on water demands is not recognized in the IRP. For clarification, it is noted that both the residential and commercial/industrial demands incorporate estimates of price elasticity. These elasticity estimates were statistically derived and applied to estimates of future increases in water rates. Metropolitan's methodology for

projecting water demands and price elasticity have been reviewed by leading resources economists from the University of California, Johns-Hopkins University, University of Colorado, and government agencies such as Department of Water Resources and USGS.

PERCENT IMPLEMENTED: 100%

RECOMMENDATION 6: **The Integrated Resources Planning (IRP) process.**

Explicitly model the relationship between resource choices and various cooperative regional water management agreements.

RESPONSE: **Clarification.**

The coordination of member, non-member and sub-agency water policies and programs could affect the viability of alternative resource mix options. To this end, the IRP process is proceeding in four phases: (1) the data gathering and analysis phase, which is based on regional goals and objectives; (2) the development and discussion phase, in which resource options and alternatives are formulated; (3) the refinement and decision-making phase; and (4) the implementation phase. The later Implementation Phase effort will include review and revision of financing and implementation procedures to encourage the development of local resources consistent with IRP recommendations.

The Blue Ribbon Task Force also recommends that the IRP evaluate a "no agreement" baseline of inter-agency water use and storage agreements that reflects existing groundwater operations. Staff has already proceeded to evaluate status quo groundwater operations in the IRP systems simulations. This status quo condition will be compared to enhanced groundwater conjunctive-use options in order to determine the value and priority of groundwater development.

PERCENT IMPLEMENTED: Implementation following IRP

RECOMMENDATION 7: *Incorporate political factors into the IRP.*

RESPONSE: **Agree with recommendation.**

All feasible resource mix alternatives will be evaluated on a consistent basis according to a set of criteria developed by Metropolitan, its member agencies and the Board of Directors at the October 1993 Strategic Assembly. The evaluation criteria include the political, institutional, regulatory, and market risks associated with the development of resource strategies. For example, the evaluation of State Water Project supplies in the IRP analyses includes an assessment of the regulatory uncertainty leading to operational restrictions in the Delta. The second phase of the IRP will develop implementation measures to minimize and overcome political risks associated with the preferred resource mix.

PERCENT IMPLEMENTED: 100%

RECOMMENDATION 8: *Water transfer supply resources should be actively incorporated into the potential resource mix.*

RESPONSE: **Agree with recommendation.**

Water transfers in the Colorado River system have already been incorporated as core supplies. Initially, Central Valley water transfers were considered in the IRP analyses only as residual or secondary supplies. However, preliminary IRP results have demonstrated that transfer supply resources, including those of the Central Valley, are an essential supply resource for all resource mixes and should be evaluated as a primary supply. Consequently, the costs and benefits of incorporating Central Valley transfers as primary supplies are now being considered in the IRP analyses.

PERCENT IMPLEMENTED: 100%

RECOMMENDATION 9: *Water demand variations should be less static.*

RESPONSE: Clarification

Metropolitan's demand projection methodology is not "static," nor is it based on historic per capita estimates multiplied by land-use and population growth. Metropolitan projects municipal and industrial water demand based on the relationship between consumption and demographic and economic factors, such as population, single- and multi-family housing, family size, income, and commercial and industrial employment. Residential water demand projections are estimated per household, and take into account lifestyle changes between single- and multi-family housing, differences in personal income, and changes in family size. Commercial and industrial water demand projections take into account employment and production trends by major industry group. Both the residential and commercial/industrial demands incorporate estimates of price elasticity to account for the effects of cost increases on water demands. Metropolitan's methodology for projecting water demands and price elasticity have been reviewed by leading resources economists from the University of California, Johns-Hopkins University, University of Colorado, and government agencies such as Department of Water Resources and USGS.

The Blue Ribbon Task Force also states that Metropolitan's water demand models do not adequately consider the effects of enhanced conservation technologies on water use. For clarification, it is noted that water conservation is incorporated into the demand projections, based on the conservation "best management practices" (BMPs) as reported in the State Water Conservation Coalition's MOU. Metropolitan's future water conservation estimates exceed that of the BMPs. As the process evolves, more conservation technologies will be incorporated into the BMPs and Metropolitan will take these measures into account.

Finally, the Blue Ribbon Task Force states that Metropolitan's own impacts on baseline population, development patterns, and water use levels have not been considered. Many factors affect the rate and location of growth in a region. Primary factors revolve around general socioeconomic conditions including employment opportunities, cost of living, and the cost of labor. Given that if these primary factors are favorable, many still other factors are necessary to accommodate this growth. These factors include adequate transportation facilities, wastewater facilities, solid waste disposal, water supply, and schools. The overall rate of growth and location of growth is principally governed by cities and counties through their general and specific planning processes that are incorporated into regional growth management plans.

Metropolitan bases its water demand projections on the regionally adopted growth management plans provided by the regional governments, the Southern California Association of Governments (SCAG) and the San Diego Association of Governments (SANDAG). These growth plans are developed based on land-use, air quality and transportation objectives, and other local inputs. Metropolitan then provides to the regional governments the impacts that these growth plans will have on regional water supply and demand through participation with the Regional Comprehensive Plan.

RECOMMENDATION 10: *Water quality should be factored in as an explicit cost.*

RESPONSE: **Agree with recommendation.**

The IRP does explicitly include costs for all water quality enhancements anticipated to be required to meet tightening drinking water quality regulations. As a result, costs for direct deliveries of treated water are anticipated to increase. There are several alternatives to reduce the costs associated with treatment and direct delivery of Metropolitan supplies. One alternative is to maximize the development of local resources which in turn reduces the overall reliance on Metropolitan supplies. A second alternative is to maximize groundwater development and conjunctive use which, although increasing demands for raw water, reduces demands for treated water supplies. Both of these scenarios are being evaluated in the IRP process.

PERCENT IMPLEMENTED: 100%

RECOMMENDATION 11: *Costs associated with Best Management Practices and local projects should be clearly established and evaluated.*

RESPONSE: **Agree with recommendation.**

Costs associated with each resource have in fact been explicitly identified through input from the member agencies and are included in the IRP analyses. These costs include the investments required to attain Best Management Practices and to implement reclaimed water projects that are developed independently by member agencies as well as those developed in cooperation with Metropolitan under the current Local Projects Program. The benefit of water supply reliability and the cost of developing various levels of conservation and reclamation have been assessed and are included in the IRP analyses, but without regard to how much of the costs would be borne by Metropolitan through subsidies. As previously discussed, the Implementation Phase of the IRP Process has been designed to provide the basis for distributing the fiscal responsibilities of the components of the IRP between Metropolitan and its member agencies in an equitable manner.

PERCENT IMPLEMENTED: 100%

RECOMMENDATION 12: *Continuously stagger and reassess investment needs.*

RESPONSE: **Agree with recommendation.**

Staff concurs with the recommendation that the IRP must be periodically reassessed to re-establish priority projects and corresponding investment needs. It is presently envisioned that the IRP will be annually reviewed in concert with updates of the System Overview Study and Capital Improvement Program and ongoing financial analyses processes. In addition, the IRP will be completely updated every two to three years to reassess whether the predicted levels of resource development are materializing and provide certainty to Metropolitan's member agencies that the regional water supply plan reflects current conditions.

PERCENT IMPLEMENTED: 100%

RECOMMENDATION 13: *Derive IRP results 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.*

RESPONSE: Agree with recommendation.

As previously described, the suitability of Metropolitan's adopted reliability goal will in fact be re-evaluated through the IRP process from a willingness to pay perspective. Should the IRP indicate that the adopted reliability and supply goals are not affordable at the customer level, then revised goals would be recommended.

The Blue Ribbon Task Force's recommendation also states that 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. The Implementation Phase of the IRP process will focus on the development of pricing and financing measures and water management policies that are necessary to gain the acceptance and commitment towards implementing the preferred resources mix.

PERCENT IMPLEMENTED: 100%

RECOMMENDATION 14: *Educate IRP participants by modeling alternative future scenarios more clearly rather than make marginal modifications to the baseline scenario.*

RESPONSE: Clarification of recommendation.

The approach of the IRP is not based on marginal modifications of a baseline resource scenario. Rather, resource mix alternatives were established independently of any baseline or status quo condition to reflect the feasible range in levels of investment for water supply development. This ranges from the maximum level of investment in imported water supply development to the maximum level of investment in local water supply development. As an example, the "maximum imported" resource mix assumes no new investment in local resource development and meets all additional demands through deliveries of imported water. Conversely, the "maximum local" resource mix assumes no further investment in the State Water Project and Colorado River systems and meets all additional demands solely from local resources. These resource mixes represent the extremes in water supply development scenarios for the region.

PERCENT IMPLEMENTED: 100%

RECOMMENDATION 15: *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.*

RESPONSE: Agree with recommendation.

The commitment of groundwater management agencies towards the implementation of groundwater conjunctive use is essential in providing reliable supplies to the region. This was a significant recommendation of the October 1993 Strategic Assembly. To this end, the groundwater basin managers are participating in the IRP process and are developing groundwater basin operating assumptions for the IRP analyses in cooperation with Metropolitan's member agency managers and Metropolitan staff. In order that these assumptions are realized, the Implementation Phase of the IRP has been designed to develop the necessary policy framework and agreements to gain the commitments of groundwater management agencies.

PERCENT IMPLEMENTED: Implementation Phase

RECOMMENDATION 16: *The MWD must continue to develop planning and pricing policy relationships with its member agencies.*

RESPONSE: Agree with recommendation.

The IRP is an open, participatory decision-making process that involves Metropolitan's member agencies, groundwater basin managers, and representatives of business, environmental, and community groups in formulating the most appropriate mix of supply resources and demand management strategies for the region. The IRP process not only involves member agencies in the selection of the preferred resource mix, but also in the development of the required implementation measures, including pricing. This participation will continue in the future as it is anticipated that the IRP will be reviewed annually in concert with updates of the System Overview Study and Capital Improvement Program. Relationships with member agencies are strengthened through monthly meetings with General Manager, working groups on specific issues and through the Strategic Assemblies.

PERCENT IMPLEMENTED: 100%

RECOMMENDATION 17: *The MWD should assure that the IRP process actively considers overall "public benefits."*

RESPONSE: Agree with recommendation.

Defining the standards for levels of growth and economic development are the primary responsibilities of the regional planning agencies. The IRP process incorporates the regional growth management plans developed by the regional planning agencies and in turn considers the overall public benefits such as water supply reliability and customer affordability. In determining customer affordability for various reliability goals, costs of shortages are incorporated into the IRP analyses. Consequently, resource mixes at either end of the reliability scale may not be affordable to the public from a willingness to pay perspective, either through unacceptably high water rates or through unacceptable consequential costs of water shortages.

PERCENT IMPLEMENTED: 100%

RECOMMENDATION 18: *The MWD's new rate structures should ensure adequate coverage of the fixed commitments for projects that generate additional fixed costs for Metropolitan.*

RESPONSE: Agree with recommendation.

The Readiness-to-Serve (RTS) Charge and the New Demand Charge are set to recover the debt service not paid from taxes necessary to meet reliability and quality needs of existing and new users. These charges are designed to generate the funds for the additional fixed costs of the Capital Improvement Program. The RTS charge will increase as those fixed obligations associated with reliability and quality increase. Those capital expenditures made by MWD to meet new demands will be funded with long-term debt that will ultimately be paid through new demand charges by those agencies placing increased demands on MWD's system. It should be noted that the current percentage split of fixed and variable costs is expected to remain relatively constant over time, even with increased debt service payments.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 19: *If a comprehensive Readiness-to-Serve and New Development (sic) 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.*

RESPONSE: Needs Evaluation

The Readiness-to-Serve and New Demand Charges recover revenue to service the debt for new facilities to meet existing and future users of water. It is not clear to what degree such facilities could be "transferred" (as opposed to "water entitlements"). The development of secondary markets and the institutional constraints associated with implementing such markets, as well as the costs and benefits of secondary markets, will require a significant amount of legal, financial and water resource analysis. As such, MWD has committed to review the use of markets with a projected completion date of early 1996.

PERCENT IMPLEMENTED: 30%

RECOMMENDATION 20: *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.*

RESPONSE: Agree with recommendation.

In December 1993, the Board unanimously approved the new rate structure with the RTS and New Demand Charge to cover fixed costs associated with capital expenditures required to meet reliability, increased demands, and quality needs. Implementation was delayed for one year to work out details with the member agencies. Increasing water rates to "pre-fund" a water rate stabilization fund increases the risk that high prices will reduce water demand and revenues, leading to the financial shortfalls noted by the Task Force. The new rate structure allows each member agency to pass on water charges in ways that meet local goals, while preserving MWD's ability to effectively manage its resources. Should the adopted structure not address MWD's revenue and pricing needs, alternative structures would be considered.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 21: *The peaking charge should recover the actual economic costs generated by peaking behavior and not be set by political considerations.*

RESPONSE: Agree with recommendation in the long term.

It is intended that the peaking charge will ultimately be set at a rate that reflects MWD's cost of peaking. The peaking charge in the initial years was set at a level to provide the member agencies a transition period. This reflects Metropolitan and the member agencies goal toward developing a solution.

PERCENT IMPLEMENTED: To be reevaluated after initial implementation of the rate structure.

RECOMMENDATION 22: *MWD rate structure proposal 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.*

RESPONSE: Agree with recommendation.

As part of the implementation steps of the new rate structure, MWD, in conjunction with the member agencies, is revising and improving the emergency allocation program while developing a Comprehensive Drought Management Program. This program is being coordinated with the review of Seasonal Storage Service. In addition, the Local Projects Program will be reviewed with a goal to ensure appropriate incentive levels are in place. Review of the programs will be completed by November 1994 following the selection of the appropriate resource mix.

PERCENT IMPLEMENTED: 30%

RECOMMENDATION 23: *Comprehensive rate structure revisions should not be further delayed, and pressing MWD revenue needs should be addressed as soon as possible.*

RESPONSE: The new rate structure was unanimously approved by the Board and implementation of the new rate structure has been delayed for one year so that implementation details can be finalized. This implementation effort includes working with member agencies to develop a public information program, completing a nexus study related to the New Demand Charge, and developing a "Comprehensive Drought Management Program". Needs RTS reference.

PERCENT IMPLEMENTED: 80%

RECOMMENDATION 24: *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 the other urban users.*

RESPONSE: Agree with recommendation.

In May 1994 the Board adopted a new water policy for agriculture that is responsible to water reliability and pricing issues.

PERCENT IMPLEMENTED: 100%

RECOMMENDATION 25: *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.*

RESPONSE: Agree with recommendation.

The IRP and rate structure are explicitly linked as the IRP moves forward. MWD recognizes that the prices it charges for service have impacts on both the demand for imported water and the economic viability of various local projects (including reclamation, groundwater treatment, conjunctive-use, etc.). MWD's new rate structure provides a method to cover fixed commitments for projects that generate additional fixed costs for MWD (see item 18 above). The New Demand Charge approximates the long-run marginal cost of water supply, and thereby provides one pricing signal for the selection of alternative water resources.

The water rate, local project incentives, and other incentives also provide water management signals. Metropolitan will also pursue interagency coordination agreements as necessary.

PERCENT IMPLEMENTED: 30%

RECOMMENDATION 26: *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.*

RESPONSE: Agree with recommendation.

Through the Strategic Assembly process Metropolitan is developing a forum to bring together the member agencies and groundwater management agencies and retail subagencies to discuss development of accurate analysis and coordinated implementation approaches. In addition, Metropolitan, the member agencies and the groundwater agencies have formed a technical working group that meets regularly to discuss issues of mutual interest. External relations staff are developing outreach strategies to support this effort.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 27: *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.*

RESPONSE: Agree with recommendation.

The issue of coordination among Metropolitan and member agencies continues through the Assembly process. Attention will be turned to implementing that mix and resolving any institutional barrier in achieving that plan following the adoption of a preferred resource mix. Currently Metropolitan is participating in a water element for the SCAG Regional Comprehensive Plan.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 28: The MWD should directly, or help sponsor mechanisms to address concerns of water users and other parties suffering particularly adverse harm from water policy decisions such as agriculture and water transfer communities.

RESPONSE: Agree with recommendation.

A new agricultural water rate was adopted in May 1994. MWD's Water Transfer Policy Statement states that water transfers will be developed in cooperation with the agricultural community to avoid unreasonable operational and financial impacts. The policy further states that strategies will be developed to appropriately address community impacts of water transfers.

To this end, MWD and the Bay Area Economic Forum cosponsored a report entitled "Water Marketing in California - Resolving Third-Party Impact Issues" (February 1993). The report presents information about the likely magnitude of third-party impacts of water marketing and suggests several strategies to mitigate the impacts. These strategies will be considered in water policy decisions.

The IRP forums include representatives of agricultural, community, environmental and business groups to raise their particular concerns about the affordability of different resource mixes.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 29: *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.*

RESPONSE: Agree with recommendation.

Metropolitan, beginning with the development of the IRP and the new rate structure is committed to improving the water policy debates. In May a series of public forums involving representatives of federal, state and local government and environmental, agricultural, community groups in both Northern and Southern California is reached. Also, an extensive external support strategy to develop a statewide water policy debate has been created between the business communities of Northern California/Bay Area Economic Forum and Southern California. A comprehensive external plan is scheduled to be finalized and implemented in the second half of 1994.

PERCENT IMPLEMENTED: 50%

EXTERNAL AFFAIRS

RECOMMENDATION 30: A. 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.

RESPONSE: Agree with recommendation.

A comprehensive external support program is being developed for each of these areas. These efforts will build on Metropolitan's already successful efforts with the California Urban Water Agencies and the Western Urban Water Coalition. An example of on-going success in this area was the recent Bay/Delta standards proposal by the urban agencies, the EPA hearing on these standards where 300 local officials and community leaders testified in support of the urban position. The conference which Metropolitan co-sponsored as a member of the Urban Water Institute and Metropolitan's public forums on the IRP and rates successfully engaged a number of Southern California water leaders from all levels on the challenges facing us. Outreach efforts are expanding for Metropolitan plans and programs such as the IRP, Rate Structure and Bay/Delta. Other opportunities are continuing to be identified by a joint Metropolitan/Member Agency External Affairs Steering Committee.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 31: *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.*

RESPONSE: Agree with recommendation.

Under the direction of the new General Manager, Metropolitan is working to repair relations with agricultural leaders by meeting with agricultural groups. Considerable efforts have been made through traditional institutions such as ACWA. Currently urban and agricultural leaders are working to develop support for a common policy on EPA's standards for the Bay/Delta. The General Manager has had a number of positive meetings with the agricultural leaders, individuals, and groups such as the California Farm Business. Growing interest in water transfer opportunities offers additional avenues for cooperation between urban and agricultural interests.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 32: *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.*

RESPONSE: **Agree with recommendation.**

Metropolitan's presence among and influence with, key water policy decisions in Sacramento and Washington should be strengthened, particularly in light of the issues effecting importing water sources at the federal and state levels. However, decisions regarding staffing adjustments will be occurring in the second half of the calendar year upon completion of the external affairs strategy. The Bay/Delta Issues Management Plan proposes an increased regulatory presence in Sacramento. Similarly the north/south urban coalition has provided additional representation in Washington.

PERCENT IMPLEMENTED: Being evaluated

RECOMMENDATION 33: **B. 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.

RESPONSE: **Agree with the recommendation.**

The General Manager is committed to clearly delineating external relations responsibilities and to improving coordination between Metropolitan's functional groups. The issue management process for key external strategies such as Bay/Delta and Safe Drinking Water Act are beginning to clarify specific accountability and to increase coordination. Deputy General Manager Tim Quinn has been assigned the responsibility for External Affairs. Any other structural changes will occur in the second half of the calendar year.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 34: *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.*

RESPONSE: **Agree with recommendation.**

Alternatives being evaluated for implementation in second half of the year.

PERCENT IMPLEMENTED: Being implemented

RECOMMENDATION 35: **C) 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.

RESPONSE: **Agree with recommendation.**

Through the Board's mission and goals, the Strategic Plan and the Assembly process, Metropolitan is identifying and adopting policy and political objectives to obtain the resources to provide an affordable, reliable

water supply. The Strategic Plan is being updated this year and three Assemblies on key policy and implementation issues are scheduled. The Board has adopted a series of legislative policy principles to define the Boards intent on key federal and state legislative issues such as Safe Drinking Water Act, Water Transfers and Growth Management. Additional work will be done as part of the External Affairs Issue Management Plan.

PERCENT IMPLEMENTED: 30%

RECOMMENDATION 36: *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.*

RESPONSE: Agree with recommendation.

Through the Legislative Committee and the Bay/Delta Ad Hoc Committee, Metropolitan Board members are actively involved in developing and maintaining a support group of stakeholders including elected officials. As issue management plans are developed for key initiatives such as Bay-Delta and the Safe Drinking Water Act, specific external affairs support programs directed at key stakeholders are developed and reviewed by the Board. The External Affairs Issue Management plan will include a strategy for continuous involvement of Board members in advocacy efforts.

PERCENT IMPLEMENTED: 30%

RECOMMENDATION 37: *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.*

RESPONSE: Agree with intent of recommendation.

Alternatives being evaluated.

PERCENT IMPLEMENTED: Being evaluated

RECOMMENDATION 38: *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.*

RESPONSE: Agree with intent of recommendation.

The combined media markets of San Diego, the Inland Empire, Orange County and Los Angeles are the most expensive markets to reach in the U.S. A number of advertising agencies have advised us over time that an annual advertising budget of at least one million dollars would be necessary. Lessor amounts are wasted as the advertising is lost in the "clutter" of all other ads. The Board would have to agree to this funding level which cannot be recommended at this time. Million dollar ad campaigns by government agencies tend to generate criticism unless tied to immediate water shortages.

PERCENT IMPLEMENTED: Being evaluated by Metropolitan/Member Agency External Affairs Steering Committee

RECOMMENDATION 39: D) 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.

RESPONSE: Agree with recommendation.

The General Manager is strongly committed to expanding member agency outreach efforts including the establishment of a customer service program. Specific details of the effort are being developed in the second half of the year. Monthly member agency meetings with the General Manager, involvement as a partner in the Strategic Assembly and creation of the Metropolitan/Member Agency External Affairs Steering Committee are examples of such efforts.

PERCENT IMPLEMENTED: 75%

RECOMMENDATION 40: *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.*

RESPONSE: Agree with recommendation.

The Metropolitan/Member Agency External Affairs Steering Committee will coordinate a joint outreach and advocacy program.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 41: *Publish a quarterly newsletter that includes a legislative column.*

RESPONSE: Agree in concept that Metropolitan needs to promote its image and issues.

The Sacramento and Washington legislative offices currently provide monthly newsletters on key items to the Board and member agencies.

PERCENT IMPLEMENTED: To be implemented

BUSINESS PRACTICES

RECOMMENDATION 42: *Establish task and productivity benchmarks to derive staffing requirements.*
In coordination with rationalizing Metropolitan's job classification system, MWD should conduct a thorough review of the specific tasks and productivity levels for each of its functions.

RESPONSE: **Agree with recommendation.**

Metropolitan has launched a job classification study of the field supervisors and MAPA employees. In addition, Metropolitan has established a Productivity Council to develop benchmark of task requirements for agency functions is linked to Information Services Strategic Plan.

PERCENT IMPLEMENTED: 20%

RECOMMENDATION 43: *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.

RESPONSE: **Agree with recommendation.**

Staffing requests receive multiple reviews. On an annual basis, staffing requests are justified and reviewed as part of the formal budget process. Staffing levels in many divisions are determined by the number of hours required to accomplish project tasks. In other divisions, the volume of transactions is often used. For additional positions to be approved, a long-term strategic need must be identified; it must be demonstrated that non-value added activities have been eliminated; and that the activities to be performed by additional personnel will result in continuous improvement. In the future as productivity benchmarks are developed and refined, these will also be used to define staffing levels.

PERCENT IMPLEMENTED: 75%

RECOMMENDATION 44: *Establish an explicit Board policy for permanent and temporary employee staff increases.*

RESPONSE: **Agree with recommendation.**

The Board's current policies on staffing include budget controls on both the permanent and temporary workforce, for both capital and O&M work. Permanent employees and District-hired temporary employees are subject to authorized personnel limits which are adopted each year as part of the budget, and may be altered from time to time by action of the Board. Agency temporaries are regulated by budget line item, and through the Board's quarterly authorization to allow the General Manager to expend budgeted funds.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 45: *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.*

RESPONSE: Agree with recommendation.

As part of the managing dollars program, Metropolitan is pursuing opportunities for cost-effective outside contracting.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 46: *Continue to implement the Beck Report and Peer Review recommendations, 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.*

RESPONSE: The Beck Report made a number of recommendations regarding the Operations Division organization, practices and philosophies, and procedures that were revisited by the Peer Review Committee. Most of the recommendations contained in the Beck Report were validated by the Peer Review Committee and a few of the recommendations were modified, or extended slightly. The following is an initial summary of responses to those recommendations as well as brief action plans where appropriate.

REC. 46 Cont'd: *That the Operations Division continue to revisit and implement recommendations in the Beck Report.*

RESPONSE: The Operations Division is continuing to work on the implementation of the Beck Report as outlined initially in a July 28, 1992 report to the Board.

REC. 46 Cont'd: *That the Operations Division develop a 3-5 year operation plan setting forth the Division's Overall goals and priorities.*

RESPONSE: In November 1993, the Chief of Operations formed a Strategic Planning Operations Team whose task was to establish a process and a framework for developing a Strategic Plan at the division level. That work was completed in February 1994. The process, upon review and approval, will be distributed to the Operations Division for implementation. The resulting Branch level efforts will then be incorporated into the Division Strategic Plan.

REC. 46 Cont'd: *That the Operations Division should computerize all functions, especially in field offices.*

RESPONSE: A decision to standardize the Operations Division on the Windows 3.1 computing environment was reached in November of 1993. Subsequently a review of all of the Operations Division business computing equipment was undertaken during January of this year to determine whether the Division had the computing hardware to support that decision. The result of the survey is that the Division will budget for approximately 110 new computers. In addition to supporting the division standard operating environment, these machines will be required to support the new computer applications associated with the Information Systems Phase One effort. These computers will be extracted from the Operations operating equipment budget and presented as a special budget item. Efforts are currently underway to develop an information model of the Operations Division which will serve as the basis for identifying information needs and establishing automated processes for satisfying those needs.

PERCENT IMPLEMENTED: Implementation underway

RECOMMENDATION 47: *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.*

RESPONSE: Agree with recommendation.

The Operations Division is working with the Information Systems Division staff to coordinate the implementation of Phase I of ISD's Strategic Plan. Maintenance Management will be given the highest priority.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 48: *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.*

RESPONSE: Evaluating recommendation.

PERCENT IMPLEMENTED: Being evaluated

RECOMMENDATION 49: *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.*

RESPONSE: Agree with recommendation.

In 1989, the Engineering Division engaged a consultant (Touche Ross) to conduct an assessment of the staffing strategies and the use of engineering consultants within the Division. Now that the consultant's recommendations are in place and the Capital Improvement Program is underway, the assessment of the Division will continue with a comprehensive analysis of the Division's organizational and management structure, reporting relationships, and work flows.

The RFP to procure consultant services was issued in late April 1994, and the consultant's final report will be delivered in December 1994.

Following receipt of the consultant's report, Engineering will prepare an Action and Implementation Plan to provide guidelines for implementing the consultant's recommendations. The Plan is scheduled for release in February 1995.

PERCENT IMPLEMENTED: 25%

RECOMMENDATION 50: *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.*

RESPONSE: Agree with recommendation.

The initial objective of the Engineering Quality Control Branch was the formalization of existing standards, technical methods, construction specifications, and standard operating procedures. The current status of this effort is as follows: of the 14 identified Engineering Management and Design Manuals, nine have been issued (64%); of the 15 identified Engineering Support Manuals, eight have been issued (53%); and all of the Facility Design Manual(s) are still in development.

While this work continues, greater emphasis will be placed toward long-term objectives: training staff in the use of the procedures; developing new methods and procedures to improve the quality of the work and facilitate performing the work; monitoring compliance to the standards; and seeking the best path toward Total Quality Management. Progress under current staffing conditions will not reach long-term objectives in less than two years.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 51: *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 increased 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.*

RESPONSE: The Engineering Division agrees with the need to standardize the temporary employee program and invoke precise contracts and definite employment terms. In this regard, the Division is proposing Limited-Term Employee Program to address the issue of providing employment contracts for temporary employees who are primarily assigned to the Capital Improvement Program. These contracts will provide for a defined term of employment, uniform benefits, and working conditions for all temporary and regular employees, adjusted to account for temporary status, as required. Discussions with division managers and Human Resources staff will occur in 1994, with a final proposal scheduled for action by management by the end of the year.

PERCENT IMPLEMENTED: To be implemented

RECOMMENDATION 52: *Develop and implement consultant management, supervisory, project management, and field inspection training programs for engineering personnel.*

RESPONSE: Agree with recommendation.

The Engineering Division concurs with the value of expanding training for its staff in the areas of consultant, staff, and project management, but not in field inspection activities. Formal training has been provided to Engineering by the Human Resources Division in many aspects of supervision, whereas the

Engineering Division has conducted its own Bottom-Line Project Management Program to provide engineers with skills in project management. The Division wishes to increase training programs for staff in areas that will contribute toward improving supervisory skills and project management techniques. This effort will enhance the implementation of three management manuals by the Quality Control Branch, that will be used as part of the Engineering Division's internal training program.

In the area of field inspection training, the Engineering Division believes that, because of the thoroughness and level of precision of District construction specifications, the need for formal training provided from outside the District is not warranted. Instead, on-the-job training provided by experienced personnel, as the need arises, is the best course of action.

PERCENT IMPLEMENTED: 10%

RECOMMENDATION 53: *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.*

RESPONSE: Agree with recommendation.

The Engineering Division strongly supports increasing and formalizing its current value engineering efforts. The Division has informally conducted value engineering analysis as part of completing preliminary engineering activities, primarily on major capital projects. Evaluations of design and construction options, with respect to initial construction and procurement and life-cycle costs, are performed on a comparative basis.

Development of an expanded Value Engineering Program for the Division is underway. The Quality Control Branch is examining similar programs already used in this and other industries, and evaluating short courses in Value Engineering. Development of the new Value Engineering Program will be implemented with the final design of the Inland Feeder scheduled to be completed in mid 1996. Traditional value engineering studies will be conducted for key components of the facilities, and a special Value Engineering Review Panel, including outside technical specialists, will convene periodically to make value engineering assessments and recommendations.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 54: *Carefully review and implement where warranted the Peer Review Engineering Division recommendations. The Peer Review Committee made a number of recommendations regarding the Engineering and Operations divisions' philosophies, practices and procedures in its report issued November 2, 1993. The following is a summary of responses to those recommendations, as well as action plans, where appropriate. A more complete report on the Peer Review recommendations and responses is contained in a January 25, 1994 report to the Board.*

That the Engineering Division organization structure be scrutinized to minimize duplication and that a strong, secondary Project Manager structure be formalized and used by the division.

RESPONSE: Agree with recommendation.

The Engineering Division has given close scrutiny to all of the recommendations provided by both the Blue Ribbon and the Peer Review Committees and is implementing those recommendations. The Division developed its own Engineering Division Commitment Program which encompasses an action plan, scope of work, personnel assignments, and due dates for every committee recommendation. Division management meets routinely on the Commitment Program to discuss each item, and reallocates resources, as required, to complete all work in a timely manner.

REC. 54 CONT'D: *That the construction phase management arrangements be reviewed in the light of the general concepts in Section 6.3 of the Touche-Ross report.*

RESPONSE: The Engineering Division instituted a Project Manager and Project Engineer approach on all projects in 1989 in response to the Touche-Ross report. An assessment of this approach will be included in the consultant's analysis of the Division's organization that will be completed in December 1994.

REC. 54 CONT'D: *That top managers be given training in implementation of project management, and mid-managers and staff be given additional reinforcement in that activity.*

RESPONSE: Engineering has developed a mainframe-based Project Management Information System (PMIS) for use in the division that is continuously refined. Comprehensive training in project management has been provided for approximately 70 management and staff personnel, and additional training will be provided as necessary.

REC. 54 CONT'D: *That management review the R. W. Beck Report periodically and continue efforts to full implement many of the recommendations.*

RESPONSE: Operations continue to review past studies and implement changes when necessary. Many of the Beck report recommendations have been implemented. The division hired Dembrowski and Associates in order to review the levels of supervisory layers within its ranks and to make recommendations for increasing the upward mobility of new employees in the Division. This study was completed and the recommendations are being implemented.

REC. 54 CONT'D: *That Metropolitan demonstrate its leadership by emphasizing a committed, proactive effort to increasing workforce diversity.*

RESPONSE: Operations began a 15-week program which targeted unemployed women and minorities. The program included training and mentoring for the individuals who were hired as temporary employees. Several have since been hired as permanent staff. The division began a work/study program which allows minority and women students to work full time for six months and go to school the following six months.

Engineering began implementing a Minority Recruitment Action Plan in October, 1993. The on-going program includes targeted advertising for job openings, minority internships and mentoring, participation in activities of the Minority Engineering Programs at three universities, a work/study program, minority scholarships in engineering, and diversity and interviewer-rater training for division employees. A budget of \$60,000 has been established for this program in 1994-95.

REC. 54 CONT'D: *That the Engineering Division review its staffing plan for the work remaining in the Capital Improvement Program with the goal of reducing the use of temporaries and optimizing the amount of in-house design consistent with consideration of maintaining staff expertise and minimizing staffing fluctuations. (The Blue Ribbon Committee disagreed with the Peer Review Committee on this recommendation.)*

RESPONSE: Since September 1989, the Engineering Division has utilized a mix of regular and temporary employees, along with consultants and part-time help and overtime to accomplish work on the ongoing expansion program. The purpose of this approach is to ensure that, at the end of the Capital Improvement Program, the District maintains a highly skilled engineering force while avoiding overstaffing and layoffs. The division reviews its use of temporary employees and consultants annually; this topic will be addressed in the organization study it is conducting.

REC. 54 CONT'D: *That the System Overview Study (or the CIP) be updated annually, and that sunk and project costs be presented for various elements of each project.*

RESPONSE: Engineering will produce a special report each year after the Capital Budget has been completed, that provides actual and committed costs (sunk costs) for each program.

REC. 54 CONT'D: *That the Engineering and Operations divisions establish value engineering programs, partially utilizing outside teams, to analyze significant projects, programs, and/or cost centers with the goal of maximizing the return on Metropolitan's investment.*

RESPONSE: Although the Engineering Division currently uses value engineering concepts, it will review the current use of value engineering by June 1994, which will lead to a more structured program. In March 1994, a special value engineering team made up of representatives from general contractors, consultants, and the District reviewed the design criteria for the Inland Feeder. The Engineering and Operations divisions are sponsoring valuable engineering training courses to enhance the expertise of their employees. Afterwards they will develop procedures to enhance use of value engineering for evaluating significant projects in both divisions.

REC. 54 CONT'D: *That a value analysis be performed to compare filtration processes and to balance costs and benefits.*

RESPONSE: Engineering, Operations and Water Quality will continue their value analysis process which includes a review of Metropolitan's design criteria for water treatment plants, including the filtration process. The divisions will reevaluate factors which led to their current uniform process design criteria to incorporate changes which have occurred since 1989, such as new and anticipated regulations and process changes at Metropolitan plants, and incorporate them into future value analyses to continue an up-to-date balance of costs and benefits.

REC. 54 CONT'D: *That Metropolitan, in consultation with an Advisory Committee from member agencies, thoroughly develop treatment alternatives and scheduling options for complying with new water quality regulations and perform a value analysis of these alternatives.*

RESPONSE: An interdivisional task force to investigate integrated treatment strategies to meet new water quality regulations. Also a Member Agency Advisory Committee will be assembled to provide input from member agencies impacted by treatment alternatives recommended for each plant by the task force.

REC. 54 CONT'D: *That a set of criteria be developed for decision making as to what fabrication should be handled by the machine shop, and what work should be procured outside.*

RESPONSE: After staff complete the value engineering course, they will assess the criteria used for evaluating each new fabrication job before the "make/buy" decision is made. Staffing in the shop will be reviewed annually to ensure that the requisite skills are maintained to respond to all anticipated emergencies without overstaffing.

REC. 54 CONT'D: *That Metropolitan should seriously consider the potential of moving to a centralized control system, and removing the live-in employees (and their families) from the pumping plants with the goal of phased conversion to unattended desert pumping plants.*

RESPONSE: An interdivision task force will be assembled to consider the ramifications of these recommendations. The task force will report to an oversight committee composed of top district staff and representatives of members agencies who will evaluate recommendations of the task force.

REC. 54 CONT'D: *That a continuous and vigorous review of the Domenigoni Reservoir Project and implementation of opportunities to reduce cost without jeopardizing ultimate completion of a safe, efficient and operable project.*

RESPONSE: A primary task of the reservoir project program management consultant is to review all design sub-contracts and invoices for contract compliance and all designs for cost effectiveness. Invoices are reviewed in detail by the consultant and questionable charges are outlined in memorandums to the Program Manager for consideration and action. Many other preemptive steps have been taken to manage, control and reduce costs on the project.

REC. 54 CONT'D: *That opportunities be found to present a more proactive environmental commitment.*

RESPONSE: Projects such as the regional environmental planning and mitigation for the Domenigoni Valley Reservoir, the Inland Feeder, Mills Plant Expansion No. 2, San Diego Pipeline No. 6, and Multi-Species Habitat Conservation Plans (MSHCP) at Lake Skinner and Lake Mathews demonstrate Metropolitan's efforts in this area. Additional opportunities will be sought.

REC. 54 CONT'D: *That management continue its efforts to reduce the secondary staffing assignments required by the first responder program.*

RESPONSE: An evaluation of the policy concerning the First Responder Program will be completed, and significant changes will be recommended resulting in a program that makes more effective use of personnel and reduces the manpower requirements for training.

REC. 54 CONT'D: *That a high priority be given to implementation of the maintenance management system and those features of the "corporate" system needed to support it.*

RESPONSE: Operations is working with the Information Systems Division staff to coordinate the implementation of Phase I of ISD's Strategic Plan. Maintenance management will be given the highest priority.

REC. 54 CONT'D: *That adequate, current computer equipment be purchased by the Operations Division and that emphasis be placed upon computer training program, and computer self-study courses.*

RESPONSE: Operations began a computer upgrade plan in 1993 that would eventually upgrade all computers to 486-class; however, because of District financial constraints, only a portion of these were

purchased. The 1995-96 division budget will allow for more upgrades. These computers will increase the size of the user-base from about 400 to 500 of the division's approximately 980 employees.

Computer training is ongoing in the division and Operations continuously develops small custom applications for special needs. A user group within Operations recommends standards and looks for opportunities to improve productivity via automation.

REC. 54 CONT'D: *That a high priority be assigned to the design and completion of a model SCADA system for the Colorado River Aqueduct, member agency meter stations, and the regional storage, treatment, and distribution system.*

RESPONSE: A SCADA system for Metropolitan has been developed by JWP Controls, Inc. In February 1994, a letter requesting authorization to procure a CRA SCADA system was approved by the Board. Test installations for a program that will provide remote reading of service connection meters will begin in the summer of 1994. Complete implementation will be realized by 1996.

REC. 54 CONT'D: *It would be unproductive to contract out large amounts of maintenance activity.*

RESPONSE: With regard to electrical and mechanical maintenance of the systems and components of the treatment and pumping plants and the distribution system, the Operations Division concurs with this conclusion. Less critical maintenance, such as custodial services, will continue to be contracted.

REC. 54 CONT'D: *That management training of all employees in the supervisory and management hierarchy be as high a priority as is technical training.*

RESPONSE: In both divisions, supervisors have attended a wide variety of management, supervision and leadership courses offered by the Personnel Division. Most employees have attended the "Seven Habits of Highly Effective People" program. For field employees, high quality training programs are made available at local work sites.

REC. 54 CONT'D: *That Metropolitan should strive to maintain its capability in assigning multiple responsibilities in a given classification.*

RESPONSE: The Operations Division utilizes multi-disciplinary skills and abilities in its workforce. This has reduced costs, led to greater efficiency and improved emergency response capabilities. Engineering cross trains its personnel and monitors job descriptions to keep them from becoming excessively specialized and restrictive. Also, Engineering has promoted and implemented programs to move key personnel from design to construction.

REC. 54 CONT'D: *That any requests for funds for more space (field offices, facilities, equipment and supplies) should be given serious consideration.*

RESPONSE: All requests for additional space are given serious consideration; however, some requests for new or expanded facilities have been deferred because of budget constraints. Engineering and Operations are making a concerted effort to better identify and resolve requests for additional space.

REC. 54 CONT'D: *That Metropolitan actively seek the input of member agencies, and consciously take it into consideration when making decisions.*

RESPONSE: Engineering and Operations participate in Member Agency Managers Meetings through presentations and discussions of projects. In Operations, a team is assigned to further develop its customer

service philosophy. Member agencies are involved in the selection and evaluation group for implementing the Maintenance Management System. Engineering meets with individual agency representatives on small projects, such as service connections, and with multiple agencies on larger projects. The Chief Engineer is the initial contact person for the interested member agency on appropriate technical issues of an engineering project.

REC. 54 CONT'D: *That a high priority be given to implementation of the maintenance management system and those features of the "corporate" system needed to support it.*

RESPONSE: Operations is working with the Information Systems Division staff to coordinate the implementation of Phase I of ISD's Strategic Plan. Maintenance management will be given the highest priority.

PERCENT IMPLEMENTED: 20%

RECOMMENDATION 55: *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.

RESPONSE: Agree with recommendation.

The Engineering Division agrees with the first part of the recommendation and has disseminated policies and procedures regarding professional service contracts. Improvement has been made in the definition, solicitation/bidding, selection, tracking and cost-control process as it relates to professional services and construction contracts. This has been accomplished through the formulation and implementation of policies and procedures that have been a part of the A-Agreement for the Consultant Services Manual (which is scheduled to be revised and updated), the Business Outreach Procedures Manual, and the development and distribution of standard language for A-Agreements and RFPs. Engineering is also developing standard language for RFPs. However, we disagree with the second part of the recommendation regarding a "pool of prequalified firms," as we do not believe that this will serve to increase competition for such contracts, especially with reference to Minority- and Women-owned businesses. Rather, requiring the use of an RFP process, coupled with requirements for advertisement, will increase the competition for such contracts. These administrative procedures have been instituted with the implementation of the Business Outreach Program.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 56: *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.*

RESPONSE: Agree with recommendation.

As a result of the implementation of the A-Agreements for Consultant Services Manual, the Engineering Division has streamlined many of the procedures for setting up professional consultant contracts. Review has been "pared down" to expedite the agreement process and still maintain consistency and review for purposes of ensuring compliance with District policies and procedures. In addition, management no longer reviews contracts prepared for other divisions.

PERCENT IMPLEMENTED: 80%

RECOMMENDATION 57: *Establish baseline Contract Administration staffing requirements and estimate additional needs in light of the capital improvement program and other possible functional expansions.*

RESPONSE: Agree with recommendation.

The Engineering Division has submitted a request for two additional positions in the Fiscal Year 1994/95 Budget for the Engineering Services Section to handle the additional administrative requirements, including those requirements of the Business Outreach Program, relating to construction and professional service contracts, especially in light of the Capital Improvement Program.

PERCENT IMPLEMENTED: 40%

RECOMMENDATION 58: *Standardize legal contract texts and request for proposal formats.*

RESPONSE: Agree with the recommendation.

The process has already commenced on the standardization of legal contract provision and request for proposal formats. In March of 1994, the following reference documents were prepared and distributed to standardize documents: 1) standard RFP language for consulting services, 2) standard A-Agreement for consulting service contracts; and 3) Business Outreach Procedures. Training for all the new standardized documents is in progress.

PERCENT IMPLEMENTED: 80%

RECOMMENDATION 59: *Review the de-facto permanent staff hiring freeze and use of temporary employees and consultants to establish justifiable baseline permanent staff requirements.*

RESPONSE: Agree with recommendation.

The permanent personnel complement has been held at 2,166 positions for approximately three years. This has resulted in not only a tighter operation, but also an expanded use of temporary employees and consultants. To address this issue, the theme of the 1994-95 budget is "managing dollars". The budget is focusing on dollars as opposed to personnel count. In some instances, costs can be reduced by converting temporary employees and consulting services to permanent positions. Priority will be given to those conversions where: (a) the division shows evidence of temporary employee and consulting reductions; (b) the division shows evidence of other measures and realignments to build efficiency; and (c) there is on-going dollar savings and long-term strategic need for the position. This effort, along with the development of benchmarks, will provide a foundation upon which baseline permanent staffing requirements can be developed.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 60: *Improve the speed and efficiency of vendor and service provider payments for completed services or delivered goods in conjunction with the Information Services upgrade and other productivity enhancement efforts.*

RESPONSE: Agree with recommendation.

Improvements will occur with the Phase I Accounts Payable Timeframe in the 2nd quarter of 1995.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 61: *Continue to reiterate the need for re-engineering of tasks both to improve overall productivity and to accomplish the Information Systems upgrade.*

RESPONSE: Agree with recommendation.

Re-engineering of core business processes is a fundamental component of the work approved in October 1993 to accomplish Phase One of the Information Systems Strategic Plan. In conjunction with the implementation of the software packages, new business practices will be defined and introduced to the organization. Fundamental changes to the chart of accounts, the financial reporting process and the procurement process will be part of the Phase One Program.

Productivity improvement is a corporate goal at the District and continues independent of any specific automation project, such as Phase One. All divisions are chartered to pursue productivity improvements and a Productivity Council has been established and chartered to address the following:

- Productivity measurement
- Training in productivity
- Establish guidelines and reporting standards for productivity projects
- Work force preparation

The Executive Council provides overall coordination and oversight to activities related to re-engineering and organizational change. Both the Phase One Steering Committee and the Productivity Council report to the Executive Council. In addition, other productivity and automation efforts, such as the Maintenance Management System project, have established steering committees which report to the Executive Council. There is a high degree of cross membership and overlap among the various groups that serves to facilitate an understanding of broad issues and impacts related to re-engineering. The result is greater coordination and understanding of interrelationships between the various efforts.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 62: *Continue to recognize and manage potential resistance to Information Services system change.*

RESPONSE: Agree with recommendation.

MWD's management and the project staff overseeing the implementation of new information systems applications recognize the importance of addressing resistance to change. Achieving the full benefit associated with the new applications will necessitate significant changes to current business functions. To address these concerns the project has incorporated the following:

- Project level steering committees composed of end users representing a broad range of divisions across the organization.
- Clear program wide goals and objectives that define the success criteria for all aspects of the program. Clear and well-focused goals along with effective benefit tracking will ensure that the maximum benefit of this investment is realized.
- Wide spread continuous communication through project status reports, presentations to management and program newsletters.
- The program staff is in the process of developing a strategy for work force transformation to address such issues as worker re-training and downsizing through attrition. The scope of this effort includes redefinition of the roles related to managing information technology and business applications.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 63: *Continue to solicit customer buy-in for the upgrade program.*

RESPONSE: Agree with recommendation.

Customer buy-in has been a constant area of focus for the upgrade program. Steering Committees at the project and program level will include representatives from all applications areas and from other parts of the organization, such as Engineering and Operations. Division managers for each of the major application areas have accepted overall responsibilities for the implementation projects. Application level projects will be managed by a project manager designated by the application area Division manager. The project will incorporate over 40,000 end user staff hours as direct contributors to defining overall requirements and revised work procedures. This represents the overwhelming majority of the internal labor hours committed to this projects.

There is strong support for the upgrade project throughout the various client organizations. The package selection process was driven by the client organizations and was based upon requirements derived from a broad user base. The selection process is representative to the high level of involvement and ownership that the user community has in the Phase One Program.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 64: *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.

RESPONSE: Agree with recommendation.

During 1994-95, staff will prepare a compensation and benefits policy for Board consideration based on comparable agency and position data.

PERCENT IMPLEMENTED: 25%

RECOMMENDATION 65: *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 wages 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.

RESPONSE: Agree with recommendation.

During the 1994-95 fiscal year, the Human Resources Division will revise the classification system with a goal of eliminating whatever possible unique job classifications in favor of Board work descriptions that are comparable with outside agencies.

PERCENT IMPLEMENTED: 25%

RECOMMENDATION 66: *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.

RESPONSE: Agree with recommendation.

The employees and management evaluation system will be revised during 1994-95 fiscal year by establishing a performance based pay system.

PERCENT IMPLEMENTED: 25%

RECOMMENDATION 67: *Link compensation policies with staff and organizational reviews.* The MWD should coordinate its compensation and benefits policies with its organizational reviews, job classification improvements, and the development of a performance-based management system. 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.

RESPONSE: Agree with recommendation.

The employees and management evaluation system will be revised during 1994-95 fiscal year by establishing a performance based pay system.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 68: *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.*

RESPONSE: Agree with recommendation.

We recommend that the Organization and Personnel Committee review its functions with a goal of enhancing its responsibilities.

PERCENT IMPLEMENTED: 0%

RECOMMENDATION 69: *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.*

RESPONSE: Agree with recommendation.

As a result of the Northridge Earthquake, Metropolitan is reevaluating its disaster recovery plan and will make adjustments as necessary.

PERCENT IMPLEMENTED: 100%

RECOMMENDATION 70: *Centralize and consolidate the equipment inventory and warehouse system to cut down on capital expenses attributable to excess inventory and warehouse capacity.*

RESPONSE: Agree with recommendation.

Metropolitan's business systems reengineering and automation is now underway. In the materials management area, the goal is to cut the cost of inventory, handling, and warehousing, and to provide better service to line units. The approach under the Phase 1 program is to install a management information system which will facilitate master purchasing contracts, decentralized budgeting and ordering by those who will use the goods, just-in-time delivery of goods to the point of use (bypassing and eliminating warehousing), bar-code assisted receipt of goods, and automated matching in accounts payable of purchase order, receiver, and invoice. Those goods which are stored will be automatically entered into inventory through the bar-code software, and relieved from inventory when logged out.

Overall, this approach will reduce to a minimum the District's warehouse space, inventory on hand, obsolete inventory, costs of hand-counting inventory, and labor used to place and pick inventory, truck hauling between facilities, and spoilage. The schedule is to complete reengineering in June 1994, with full system implementation in January 1995. Interim progress will be made steadily, with the warehouse beginning to be decommissioned in September 1994.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 71: *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.*

RESPONSE: Agree with recommendation.

As part of the Phase 1 automation program, the Oracle inventory control system will be used in conjunction with bar-code scanning to facilitate the tracking and record-keeping for District assets. The schedule is to complete reengineering in June 1994, with full system implementation in January 1995.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 72: *Centralize and automate the MWD's record keeping and retrieval function.*

RESPONSE: Agree with recommendation.

Metropolitan's business reengineering envisions a central repository for District documents, and automation of their storage and retrieval. Electronic facsimiles will be used to place the documents "on-line" and eliminate the labor and expense of manual retrieval. An RFP has been issued for consulting services to advise on the best approach. Follow-up work will be brought to the Board of Directors for consideration of funding in the 1994-5 budget cycle, starting May 1994.

PERCENT IMPLEMENTED: 60%

RECOMMENDATION 73: *Revise the Administrative Code and investment policy.*

RESPONSE: Agree with intent of recommendation.

At its meeting on February 8, 1994, the Board of Directors adopted a Statement of Investment Policy and appropriate revisions to the Administrative Code to allow the Treasurer to invest in five year securities, A rated corporate debt, asset backed securities and mortgaged backed obligations.

The investment policy has included prudent limitations on the amount of funds to be invested in any of these securities, but is generally consistent with the restrictions found in the State Code. These differences include a limit of 10% of the portfolio in asset backed securities and a 10% limit on mortgage backed obligations. Both asset backed and mortgage backed obligations are limited to 20% of excess funds by State Code. In addition, corporate debt must be rated AA or better, if the maturity is greater than two years. Finally, the investments with maturities in excess of three years are limited to 10% of the portfolio.

PERCENT IMPLEMENTED: 100%

RECOMMENDATION 74: *Actively manage the portfolio.*

RESPONSE: Agree with recommendation.

Metropolitan's recent investment return of 4.0% is comparable to other local agencies including the San Diego County Water Authority (4.0%), Los Angeles County (3.6%), and the City of Los Angeles (4.3%). The Metropolitan portfolio is managed to meet cash needs. Efforts to improve management of the portfolio have included implementing a new investment accounting system on February 1, 1994 to provide for better accounting and analytical data. In addition, a cash forecasting model is being developed to further improve opportunities to manage the investment portfolio. This model and the accompanying improvements in investment process are expected to be completed by June 1994. Metropolitan's portfolio consists of operating, construction, debt service, and reserve and trust funds.

By the nature of Metropolitan's business, much of the portfolio must be invested in relatively short-term securities in order to meet cash needs. In addition, prudent investment of public funds requires active attention to safety, liquidity, and yield (in that order). Metropolitan is taking steps to more actively position the portfolio to take advantage of its expanded investment authority and be more responsive to changes in investment opportunities. But, the portfolio will still be managed as primarily a buy and hold portfolio, with interest in investing to meet cash needs and not for speculative or trading purposes.

PERCENT IMPLEMENTED: 100%

RECOMMENDATION 75: *Establish a special investment policy committee of the Board to review MWD investment strategies on a monthly basis.*

RESPONSE: Agree with recommendation.

The Board's Finance and Insurance Committee reviews investment performance on a monthly basis. This review is a summary of the yield and investment earnings for the month and consists of a high level review of portfolio performance. In addition, investment performance is provided to the Board as part of the General Manager's monthly report and the Treasurer's monthly report. Further, investments are reviewed by the General Counsel's office and the Auditor for compliance with state code and Metropolitan's Statement of Investment Policy and Administrative Code. Finally, Metropolitan has established an Investment Committee chaired by the Director of Finance, and consisting of representatives of those Divisions that have impact on investment decisions.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 76: *Develop and implement a multi-year MWD budget system.*

RESPONSE: Agree with recommendation.

In 1993-94, a three-year estimate was included in the budget for major revenue and cost categories. The three-year forecast was expanded in the 1994-95 budget to show divisional capital and O&M costs. The master schedule for the capital improvement program provides the basis for estimating labor costs for new facilities, and the Strategic Plan is the foundation for developing out-year objectives upon which professional services and other labor requirement are being developed. In addition, a ten-year forecast of major cost categories will be provided. Multi-year forecasts' provide policy information about future District goals, objectives, and costs; and how those policies translate into projected water rates and charges.

PERCENT IMPLEMENTED: 100%

RECOMMENDATION 77: *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.*

RESPONSE: Agree with recommendation.

Will implement as part of Phase I by 2nd quarter 1995.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 78: *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.

RESPONSE: Agree with recommendation.

The General Manager concurs with the overall recommendation of Business Conduct Policies. Due to the wide range of recommendations, the General Manager has prioritized the issues. In January, a value statement was distributed district-wide. The purpose of the documents was to articulate and reinforce the core corporate value.

Staff developed a Nepotism policy which is now in place. Staff has prepared a preliminary code of ethics statement in conjunction with a standardized investigation procedure for alleged fraud and misconduct that will be finalized in 1994.

The other issues such as conflict of interest and proper use of district materials and other resources will be addressed over the next year.

PERCENT IMPLEMENTED: 30%

RECOMMENDATION 79: *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.

RESPONSE: Agree with the recommendation.

Adoption of an R&D development policy to capitalize on internally developed intellectual properties (patentable equipment, materials, methods, or processes) deserves cautious deliberation following a situation assessment by a knowledgeable consultant. The potential issues include:

- a. probable benefits of a program to support such a policy,
- b. cost and staff to set up and support the program,
- c. impacts on the creative staff members; patent releases for incumbents and new staff; work-rule changes to prove origination; provide incentives,
- d. work-flow changes to identify candidate properties early in their creation,
- e. accounting and work-flow changes to monitor costs of candidate properties and the program;
- and
- f. impacts on consultant agreements.

Consultant assessment will be initiated by October 1994.

PERCENT IMPLEMENTED: 10%

RECOMMENDATION 80: *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.

RESPONSE: Requires on-going evaluation.

Staff will identify and consult with companies with expertise in the development and implementation of this type of research and development programs. Evaluation is scheduled to be completed by the end of 1994.

PERCENT IMPLEMENTED: 20%

RECOMMENDATION 81: *Integrate a comprehensive facilities and space usage review into ongoing and recommended efforts to rationalize staff and functional requirements.*

RESPONSE: See response to recommendation 104.

PERCENT IMPLEMENTED: 75%

HUMAN RESOURCES & DIVERSITY

RECOMMENDATION 82: *Continue to implement a performance-based management compensation 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.*

RESPONSE: **Agree with recommendation.**

An interim performance-based management compensation system has been developed and was implemented in a six-month trial phase. Staff is now developing a permanent pay-for-performance system for unrepresented employees. This program will be expanded and applied district-wide over the subsequent 18 months. To support such a system: (1) the first phase of a major study to revise the District's job classifications has begun; (2) standardized performance measures for classifications and quantifiable goals for each department and key management personnel will be developed; (3) the General Manager now requires regular annual performance reviews of all employees; and (4) pay and promotion decisions will be linked to objective performance appraisals resulting from this process.

PERCENT IMPLEMENTED: 40%

RECOMMENDATION 83: *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.*

RESPONSE: **Agree with recommendation.**

To support the establishment of a succession plan, and the accomplishment of other critical MWD objectives, an employee learning center is currently in the assessment and design phase. This center will provide self-directed and supervisory-directed resources to support MWD career development initiatives, internal educational and orientation programs, and individual employee development plans identified in the performance management process. Initial installation during FY 94-95 will be at San Dimas; establishment of an annex learning center at Two Cal Plaza is expected to follow.

PERCENT IMPLEMENTED: 10%

RECOMMENDATION 84: *Automate and improve personnel data and report generation. Metropolitan's information systems program 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.*

RESPONSE: **Agree with recommendation.**

Automation and streamlining of Personnel's paper intensive functions will be addressed with Phase One. Deliverables include: (1) an Interim Salmon/Evaluation Tracking System; (2) an Interim Medical System; (3) an Interim Disciplinary Action Tracking System; and (4) the Phase One HR/Payroll Project. These systems will all be in place by February 1995.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 85: *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 at 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.

RESPONSE: Agree with recommendation.

Initial activities in the development of a more standardized recruitment testing and interview process include: (1) using available computerized hardware and software, begin development of a computerized "item bank" system for storage and retrieval of standardized written test and interview questions (April, 1994); (2) providing additional training to recruitment analysts in the areas of exam planning and job analysis, and (3) initiate meetings with Operations Division management to identify classifications where recurring examinations might be consolidated and establishing lists of qualified candidates would be feasible. To increase the number and quality of diversity applicants, a database of enhanced recruitment outreach resources is being created. Where permitted by collective bargaining agreement, jobs are posted concurrently inside and outside.

PERCENT IMPLEMENTED: 30%

RECOMMENDATION 86: *Continue to improve new hire support and review.*

RESPONSE: Agree with recommendation.

The District's new employee orientation program is being enhanced and expanded to address job-site orientation support and new organizational initiatives. In FY 94-95: current Day II Orientation program will be expanded to a full-day workshop with broader scope; a job-site orientation program to accommodate individual divisions and facilities will be developed; and support to the field sites will be provided in conducting orientation for employees on rotating shifts and schedules. A new performance review program has already been implemented to evaluate probationary employees during the third month of service, so that potential problems can be identified and remediated.

PERCENT IMPLEMENTED: 30%

RECOMMENDATION 87: *Consider drug testing and supplemental safety training for hazardous and sensitive duty personnel.*

RESPONSE: Personnel is evaluating the feasibility of implementing drug testing for employees.

PERCENT IMPLEMENTED: 10%

RECOMMENDATION 88: *Monitor and track compliance with formal legal requirements, including ADA job description and immigration law compliance.*

RESPONSE: Agree with recommendation.

Metropolitan ensures compliance with formal legal labor requirements through audits of its compliance with mandates such as those related to injury and illness prevention and affirmative action/equal employment opportunity. Internal regulations and procedures are drafted to be in compliance with such requirements. Metropolitan's Office of General Counsel routinely monitors changes in federal and state legislation and regulations. Any changes with potential impact upon Metropolitan are brought to the attention of the General

Manager as well as involved divisions. Staff attorneys routinely monitor legal developments and notify the Personnel Division of changes in legal labor requirements. Both the General Counsel and the Human Resources Division subscribe to professional services and participate in organizations with a focus on ensuring public agency compliance with such requirements.

Metropolitan is now, and in the past, has been full compliance with I-9 documentation requirements. These requirements have been in effect since November 6, 1986. All employees hired on or after this date have been required to furnish the required documentation which is used to complete the I-9 form. There is no legal requirement to obtain this information from employees hired prior to this date. Compliance is ensured by a requirement that the documentation be furnished, and form completed on, or before, an employee's start date with Metropolitan. In certain cases, Metropolitan uses the services of employees from temporary service agencies.

In this event, the agency is legally required to comply with the I-9 documentation requirements.

REC. 88 CONT'D: *The Report goes on to state that a possible problem may exist with respect to the federal American with Disabilities Act because Metropolitan job descriptions predate the Act, and some have not been revised as the Act requires.*

RESPONSE: Agree with recommendation.

The process of analyzing Metropolitan's job descriptions to ensure compliance with mandates regarding essential functions and physical requirements is underway. New job descriptions will be prepared in compliance with the Act's requirements within the year.

PERCENT IMPLEMENTED: 75%

RECOMMENDATION 89: *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.*

RESPONSE: Agree with intent of recommendation.

Partially addressed with the creation of the Office of Diversity under the leadership of the newly appointed Executive Assistant for Strategic Policy Development, the strengthening of EEO staff with the addition of an Administrative Analyst and a Sr. Administrative Analyst, and the anticipated addition of support staff. As part of its efforts to gain "buy-in" at the senior management level, EEO staff has initiated a program of inviting division directors to make presentations relative to EEO issues in their divisions to the EEO Advisory Committee. Program's values are delineated in the Strategic Plan which should facilitate acceleration of strategic commitment. Will be an on-going effort.

PERCENT IMPLEMENTED: 30%

RECOMMENDATION 90: *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.

RESPONSE: Agree with recommendation.

Staff has already started to work on this to identify reporting/auditing needs. Staff has recently upgraded its personal computing equipment to support more sophisticated tracking systems. Staff will work with the personnel/information systems divisions to complete efforts as part of Phase One of the ISSP. Staff will include specific milestones in next six month goals.

PERCENT IMPLEMENTED: 30%

RECOMMENDATION 91: *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.

RESPONSE: Agree with recommendation.

Succession plan being reviewed by the training and development section of the Human Resources Department. Specific diversity plans will be addressed as a part of revising the affirmative action plan and assessing the need for goals and timetables. Staff is presently developing an action plan for a district-wide outreach program.

PERCENT IMPLEMENTED: 30%

RECOMMENDATION 92: *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.

RESPONSE: Agree with recommendation

Efforts in this area have accelerated during the past year. Examples of proactive measures include:

Review of termination rates and the development of corrective measures for excessively high termination rates for minority probationary employees, including a mentoring program; and the development and implementation of a three-month performance evaluation procedure for probationary employees to increase the retention rate of minorities and women;

Completion of updated labor market and utilization analyses to be used in updating Metropolitan's Affirmative Action plan;

Introduction of workforce diversity training; the Operations Division has provided a one-day session for its managers and the Human Resources Division has initiated a district-wide program in this area;

Development of a district-wide Strategic Plan that incorporates Metropolitan's commitment to increased emphasis on affirmative action;

Development of a customized action-oriented program for the Engineering Division in order to increase the representation of minority and women engineers;

Development and implementation of a sexual harassment

PERCENT IMPLEMENTED: 30%

RECOMMENDATION 93: *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.

RESPONSE: Agree with recommendation.

This has been addressed with the newly created position and appointment of the Executive Assistant for Strategic Policy Development and focused briefings with the Management Executive Council.

PERCENT IMPLEMENTED: 30%

RECOMMENDATION 94: *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.*

RESPONSE: Agree with recommendation.

To be developed by the end of 1994.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 95: *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, 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.

RESPONSE: Agree with recommendation.

As of January 1994 MWD created an Office of Diversity under the leadership of the General Manager's Executive Assistant for Policy Development. The Business Outreach Program is now structurally placed within the Office of the General Manager.

PERCENT IMPLEMENTED: 30%

RECOMMENDATION 96: *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.

RESPONSE: Agree with intent of recommendation.

As of January 1994, an effort is underway by Human Resources to fill the second position within the Business Outreach office. The outside consultant's contract has been concluded and a report is pending. Staffing needs will continue to be assessed as the program develops.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 97: *Assess the legal authority for explicit race- and gender-based contract preferences.* To avoid increasingly likely legal 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.

RESPONSE: Agree with recommendation.

Legal Counsel at MWD is currently assessing the District's current goals setting procedures and the cost/benefit of a Disparity Study.

PERCENT IMPLEMENTED: 25%

RECOMMENDATION 98: *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.

RESPONSE: Agree with recommendation.

There are currently two vendor databases within MWD; one in Purchasing and one in Engineering. These databases are in the process of being combined under the auspices of the Purchasing Division. The coding utilized by the District will be the NIGP codes which are developed specifically for MWD. The current certification policy at the District is to accept the certifications of other agencies who provide certification under 49 CFR 23.53 which specifies MBE/WBE certification.

PERCENT IMPLEMENTED: 75%

RECOMMENDATION 99: *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. 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 legal benefits of a Croson disparity study would justify the costs.

RESPONSE: Agree with recommendation.

MWD's contract requirements specify that all contractors must provide proof of either an Affirmative Action Plan or an Equal Opportunity Verification. Additionally, contractor's are required to provide monthly reports on their hiring activities. MWD is currently reviewing a process whereby this information may be monitored and enforced.

PERCENT IMPLEMENTED: 75%

RECOMMENDATION 100: *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.

RESPONSE: Agree with intent of recommendation.

MWD is currently reviewing the possibility of project structuring, whereby larger projects are partitioned into smaller contracts. Additionally, MWD is planning to initiate technical assistance workshops for M/WBES to assist them in understanding the MWD contracting procedures and functions. For the Domenigoni Valley Reservoir Project, the District will be implementing an owner controlled insurance program for all bidders.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 101: *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.

RESPONSE: Agree with intent of recommendation.

The contracting procedures at the District are currently under review by the Executive Assistant to the General Manager to ensure that standardization of the contract language and proposer and timely notice procedures are implemented.

PERCENT IMPLEMENTED: 50%

ISSUES NOT ADDRESSED IN REPORT

RECOMMENDATION 102: *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.*

RESPONSE: New equipment inventory being implemented by February 1995.

PERCENT IMPLEMENTED: 50%

RECOMMENDATION 103: *Labor relations. As discussed, 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.*

RESPONSE: Metropolitan has moved to a partnership arrangement with the collective bargaining units. Management meets with the bargaining unit leaders on a quality basis, has initiated a job reclassification study and negotiated with MAPA to forego overtime for a pay-for-performance system.

RECOMMENDATION 104: *Headquarters Location.*

RESPONSE: The Board authorized staff to conduct negotiations with Catellus Development Corporation.

PERCENT IMPLEMENTED: 100%

RECOMMENDATION 105: *Board member selection. There is an 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.*

RESPONSE: This is a legislative matter and neither staff or Board are in a position to implement changes. We will continue to evaluate changing conditions and be responsive to the public.

RECOMMENDATION 106: *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.*

RESPONSE: This is a legislative matter and neither staff or Board are in a position to implement changes. We will continue to evaluate changing conditions and be responsive to the public.

RECOMMENDATION 107: *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.*

RESPONSE: Management has made a priority for the next year to improve communication process with the Board and improving Board workshops, inspection visits, develop and implement an orientation program for new Board members.

RECOMMENDATION 108: *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.*

RESPONSE: No staff recommendation.