

AGENDA

SANTA MARGARITA WATER DISTRICT

BOARD OF DIRECTORS

SPECIAL BOARD MEETING

JUNE 13, 2015

8:30 A.M.

CHIQUITA WATER RECLAMATION PLANT

28793 ORTEGA HIGHWAY, SAN JUAN CAPISTRANO, CALIFORNIA

Casual Attire is requested

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**ITEMS DISTRIBUTED TO THE BOARD LESS THAN 72 HOURS
PRIOR TO MEETING**

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1. PUBLIC FORUM

Persons wishing to address the Board of Directors on matters not listed on the Agenda may do so at this time. "Request To Be Heard" forms are available at the entrance to the Board Room. Comments are limited to three minutes, unless further time is granted by the Presiding Officer. Please submit the form to the Recording Secretary prior to the beginning of the meeting.

President, Betty H. Olson
Vice President, Charley Wilson
Finance Committee Chair, Charles T. Gibson
Engineering Committee Chair, Justin McCusker
Director, Sandra F. Jacobs
General Manager, Daniel R. Feron

Those wishing to address the Board of Directors on any item listed on the Agenda should submit a “Request To Be Heard” form to the Recording Secretary before the Presiding Officer announces that agenda item. Your name will be called to speak at that time.

2. **BOARD WORKSHOP**

2.1 Consideration and Action on 2015 Santa Margarita Water District Strategic Plan for Water Reliability. *“Never Let a Good Crises Go To Waste”*

Staff Recommendation: Workshop discussion to provide priorities of the Board, projects, and how to measure long-term progress.

2.2 Consideration and Action on Future Agendas Items.

Staff Recommendation: Approve items for inclusion on future agendas of the District.

“Never Let a Good Crisis Go To Waste”

While Winston Churchill is the first person reputed to have said “Never let a good crisis go to waste”, it has been quoted frequently because we all recognize that crises - personal or professional - create opportunities to regroup, refocus and even reinvent ourselves. It's a chance to challenge ourselves and do things we thought we couldn't do.

*When written in Chinese,
the word ‘crisis’ is
composed of two
characters. One represents
challenges and the other
represents opportunity.
J.F. Kennedy*

For the past few years the drought has been a crisis that has grown larger as each month passes without rain. Now we have the added challenge of a mandated 24% reduction in water use. If the District doesn't meet the required reduction, there could be severe financial penalties. More importantly, though, an extended drought may further limit water availability for our customers.

Even painful crises can create opportunities. They can move people and organizations forward toward long-term goals.

We've already seen a glimmer of results. The District must reduce water use by 24%. The Board has authorized significant funds, the staff has worked with thousands of customers and our customers have responded. As a result, our

water use has dropped by 21% in May—with a bit of help from the weather.

One unexpected consequence of the drought regulations is that the State upended the definition of reliability--new water supplies (desalinization, direct and indirect potable re-use etc.) are not counted toward off-setting water reduction targets.

Agencies who do not look for options are unable to take advantage of the opportunities in the current crisis. At our 2015 strategic planning session, we can look for opportunities to capitalize on in this crisis to the benefit of the District by reevaluating our priorities and how we can achieve them. We are proposing that the Board discuss the following three topics:

1. The priorities of the Board;
2. The priorities of projects; and
3. The priorities of how to measure long-term progress.

1. Given the new water world, what priorities does the Board want the District to focus on for the next year? Five Years? Ten Years?

The District has a diverse and committed Board of Directors, each with interests, ideas and priorities of how to move the District forward. A robust discussion with the Board and the District leadership will lead to affirmation of the direction, while balancing and responding to this diversity. Communicating a clear, unified direction for the District is critical as our resources such

as time, money, staff or political capital are not unlimited in these challenging times. Achieving a consensus among the Board members will provide leadership for the staff, avoid distractions on non-strategic items and will ensure that our partners see the District as a cohesive, united team.

It is requested that the Board discuss strategic priorities from their points of view and provide a unified list the District can focus on during the next year.

The following suggestions from that Harvard classic, “Getting to Yes”, might be useful during the discussion to get us to three (3), key priorities:

1. Focus on interests, not positions;
2. Invent options for mutual gain;
3. Insist on using objective criteria;
4. Separate the people from the problem.

2. Given that the definition of reliability has changed, what are the priorities for increasing and diversifying our water supply?

The District has planned for expected contingencies. We have concentrated on water reliability by participating in innovative water projects such as Cadiz, the San Juan Basin optimization, Poseidon, Cucamonga Valley Water District, the Chino Basin and recycled water expansion. We have planned for system and supply outages by building reservoirs and by investing in the Baker Treatment Plant and other regional projects. Last year we formalized our planning efforts by adopting the goals:

- 30-50% of the District’s water supply at build-out come from non-MWD sources
- 50% of our annual demand in storage
- 100% of wastewater recycled

We have been developing options for unexpected exigencies. We anticipated a reduced imported water supply due to the drought and began focusing on increasing additional water production and storage to meet the demands. However, a decision by the State—that a demand management is the most important objective, not new water sources and local control—was unexpected. Continuing to invest in new water projects requires a new perspective. Since the State has changed the definition of water reliability, at least temporarily, what is our internal response?

Ultimately a resilient system should be nimble enough to respond to more than one crisis at the same time. How would the District react if the drought worsens, an earthquake destroys critical pipelines and the District does not have the funds/reserves for repairs? To prepare for such multiple crises should the District focus on only demand management and put our resources there first?

During Australia’s “Big Dry”, the drought that lasted from the late 1990s to 2012, the residential gallons per capita per day (R-gpcd) dropped from about 105 gallons, Californians’ average, to a low of 55 gallons. The Australians achieved the reduction through education, rate hikes and developing new sources. If the District concentrated on just demand management and drove demand to 55 R-gpcd, our annual need would be approximately 10,000 AF/year.

It is unlikely that the District’s customers could or would want to live on 55 R-gpcd with no outdoor use. So the District is continuing to concentrate on developing new water supplies even if they do not count toward our mandated reduction. So how does the District prioritize resources for new water supplies?

A statistical summary for the following projects has been completed as a starting for the Board’s discussion.

The Board is being asked to select criteria to force rank the projects in order of its priority.

1. San Juan Basin Authority
2. Cadiz/Fenner Valley
3. Poseidon
4. Cucamonga Valley Water District
5. Chino Basin Water Authority
6. Recycled water expansion
7. Orange County Water District storage agreement

Potential Criteria for Ranking:

- Local Control
- Capital demands
- Operating cost
- Emergency response
- Geographic location
- Strategic partners
- Timing and resource requirements

Projects	PPP	Estimated cost per acre foot including capital	Alliances	Current Capital Investment Estimate	District AF-Supply	District AF Storage
San Juan Basin	Maybe	\$1,500 to \$1,650	SJC, MNWD SCWD other South County agencies	\$120M	5,000	5,000
Cadiz/Fenner Valley	Yes	\$1,127	MWD and MWDOC	NA	5,000	15,000
Poseidon	Yes	\$1,500 to \$2,200	OCWD MWDOC	NA	5,000	0
Cucamonga Valley Water District	No	\$1,000 to \$1,300		NA	4,000	0
Chino Basin	No	\$1,000 to \$1,300	MWDOC, IEUA, and MWD; OCWD	NA	1,250	0
Recycled Water	No	\$500 to \$1,200	SOCWA, MNWD San Clemente, IRWD	\$90M	6,720	5,000
OCWD Storage	No	\$1,000 to \$1,300	OCWD and MWDOC South County	NA	0	10,000

Public/Private Partnerships (PPP); San Juan Capistrano (SJC); Municipal Water District of Orange County (MWDOC); South Coast Water District (SCWD); Municipal Water District of Southern California (MWD); Orange County Water District (OCWD); Inland Empire Utilities Agency (IEUA); South Orange County Wastewater Authority (SOCWA).

3. What are the priorities for metrics to measure our progress?

Long-term strategies are just roadmaps for producing results. A roadmap by itself does not ensure successful arrival, other elements come into play to determine success. Costs, time, speed are all examples of metrics to define a successful trip. Developing a long-term vision without metrics (hereafter referred to as benchmarks) is like a taking a trip without knowing how you'll get there. The common quote is a "*trip starts with the first step*" but a trip to nowhere also starts with a single step. Benchmarks should be precise and measurable to show progress in reaching shared goals.

The District uses benchmarks but primarily on a staff level; the Board has discussed developing a "dashboard" for benchmarks for all departments but has not adopted a formal program. However, this may be a good time to start the process.

Background

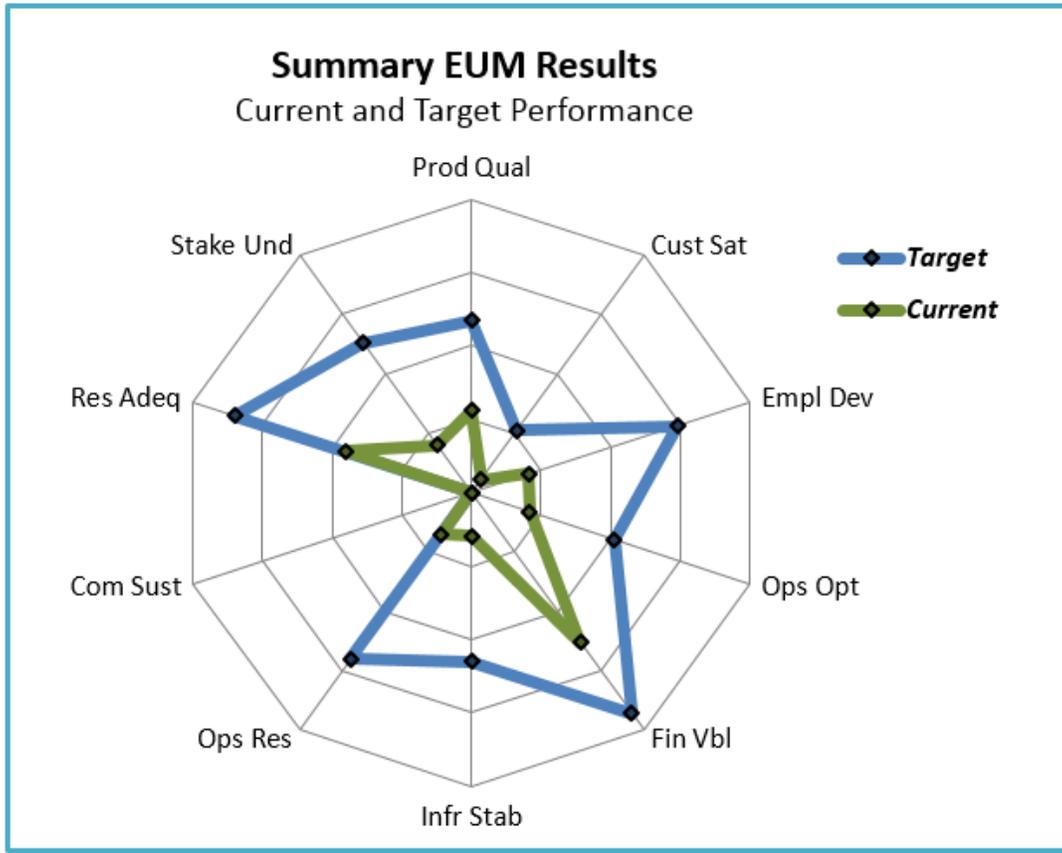
To select the best computer software to implement the District's long-term Technology Enterprise Resource Program (TERP), the staff listed the benchmarks they use every day in their work. The aim was to ensure that the software computer systems (enterprise systems) selected could produce the information needed for a robust benchmark program both now and in the future.

To both authenticate the current benchmarks used and to provide staff with other examples, the senior staff also used the Water Research Foundation's (WRF) utility benchmarking tool. The utility benchmarking tool is a free spreadsheet for water and wastewater utilities to use for the development of key benchmarks.

The WRF benchmarking tool lists the following ten major attributes of effectively managed water and wastewater agencies:

1. Product Quality
2. Customer Satisfaction
3. Employee and Leadership Development
4. Operational Optimization
5. Financial Viability
6. Infrastructure Stability
7. Operational Resilience
8. Community Sustainability
9. Water Resource Adequacy
10. Stakeholder Understanding and Support

For each attribute, there are two subsequent steps to complete the spreadsheet—selecting benchmarks for each attribute and to set specific target levels for each benchmark. The end result would be a "spider diagram" showing the attribute, the benchmarks and the progress toward reaching the target. The example below is only an example of a possible spider diagram and does not reflect the District.



Staff Response

The District senior management team used the WRF benchmarking tool and prioritized the ten attributes. The following ranking represents a summary of their responses--which were very similar due to the unity and cohesion created among the staff.

It is requested that the Board consider the following ranking and note areas of agreement and disagreement.

<u>Ten Attributes of Effective Utility Management</u>	<u>Weighting Factor</u>	
1: Product Quality	13	13%
2: Customer Satisfaction	9	9%
3: Employee and Leadership Development	8	8%
4: Operational Optimization	9	9%
5: Financial Viability	10	10%
6: Infrastructure Stability	11	11%
7: Operational Resiliency	10	10%
8: Community Sustainability	9	9%
9: Water Resource Adequacy	12	12%
10: Stakeholder Understanding and Support	9	9%
TOTAL		100%

Then the team selected applicable practice areas, or broad best practices for each attribute. As an example, for the attribute “Stakeholder Understanding and Support”, the two suggested practices for that attribute are:

- Engenders understanding and support from oversight bodies, community and watershed interests, and regulatory bodies for service levels, rate structures, operating budgets, capital improvement programs, and risk management decisions.
- Actively involves stakeholders in the decisions that will affect them.

It is requested that the Board consider the following best practices selected and note areas of agreement and disagreement.

<u>Ten Attributes of Effective Utility Management</u>	<u>Weighting Factor</u>	
1: Product Quality		
1. Comply with Regulatory and Reliability Requirements	1	25%
2. Address Customer Needs	2	50%
3. Address Public Health and Ecological Needs	1	25%
2: Customer Satisfaction		
1. Minimize Customer Complaints	1	9%
2. Achieve Target Level of Customer Service Delivery	4	36%
3. Receive Positive Customer Perceptions	1	9%
4. Efficiently Deliver Customer Service	5	45%
3: Employee and Leadership Development		
1. Recruit Appropriate Talent	1	14%
2. Retain Existing Talent	2	29%
3. Address Succession Planning Needs	1	14%
4. Strengthen Core Competencies	3	43%
4: Operational Optimization		
1. Provide for Ongoing Operational Improvements	1	50%
2. Minimize Resource Use and Losses from Day to Day Operations	1	50%
5: Financial Viability		
1. Develop Sound Financial Plan	2	50%
2. Provide Financial Integrity	1	25%
3. Achieve Budget Management Effectiveness	1	25%

6: Infrastructure Stability		
1. Develop and Implement an Asset Management Program	2	40%
2. Maintain Knowledge of Assets and Costs	2	40%
3. Incorporate Risk-Based Analysis into Decisions	1	20%
7: Operational Resiliency		
1. Incorporate Risk Assessments into Decision-making	1	33%
2. Implement Risk Mitigation	1	33%
3. Sustain Employee Resiliency	1	33%
8: Community Sustainability		
1. Utility Organization	2	29%
2. Infrastructure Project Sustainability	2	29%
3. Natural Environment	1	14%
4. Economic Strength	2	29%
5. Social Equity	0	0%
9: Water Resource Adequacy		
1. Achieve Water Supply Adequacy	1	17%
2. Optimize Reduction of Non-Revenue Water	1	17%
3. Implement Water Conservation	2	33%
4. Achieve Water Supply Reliability	2	33%
10: Stakeholder Understanding and Support		
1. Stakeholder Identification	1	13%
2. Stakeholder Engagement Plan	2	25%
3. Oversight Body Engagement Strategy	1	13%
4. Media Interaction Program	2	25%
5. Stakeholder Support Performance Measurement System	2	25%

Next Steps

Over the next 6 to 12 months, the District staff will be working within each department to select specific benchmarks and targets. Currently there are close to 200 benchmarks for all ten attributes and the goal is to end up with 10-15 benchmarks initially that the Board could track regularly. The proposed benchmarking program, when completed, will be brought back to the Board for consideration and adoption.