

AGENDA

SANTA MARGARITA WATER DISTRICT

BOARD OF DIRECTORS - SPECIAL BOARD MEETING

FEBRUARY 4, 2017 8:00 A.M.

BOARD ROOM, DISTRICT OFFICE

26111 ANTONIO PARKWAY, RANCHO SANTA MARGARITA, CALIFORNIA 92688

Casual Attire is requested

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ITEMS DISTRIBUTED TO THE BOARD LESS THAN 24 HOURS PRIOR TO MEETING

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1. PLEDGE OF ALLEGIANCE

2. PUBLIC FORUM

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. Comments are limited to three minutes, unless further time is granted by the Presiding Officer.

3. BOARD WORKSHOP

3.1 Update on SMWD Fiscal 2016-17 Strategic Plan.

Recommendation: Through collaboration, update the SMWD Board Strategic Plan.

President, Charles T. Gibson
Vice President, Justin McCusker
Engineering and Operations Committee Chair, Saundra F. Jacobs
Water Quality and Innovation Committee Chair, Betty H. Olson
Finance and Administration Committee Chair, Charley Wilson
General Manager, Daniel R. Ferons

Santa Margarita Water District



MEMORANDUM

TO: Board of Directors

DATE: February 4, 2017

FROM: Daniel Ferons

SUBJECT: Update on SMWD Fiscal 2016-17 Strategic Plan

SUMMARY

Issue: For the last several years, the District has held Board Strategic Plan Workshops to provide direction and focus to the District. This year, we incorporated an annual business plan within the Strategic Plan to highlight progress in achieving the Board adopted goals as well as core objectives. The latter objectives identify those day to day activities needed to maintain efficient day to day operations of the District. The Strategic Plan is the District's roadmap to achieving its goals in a cost effective and transparent manner. However just as we have become used to rerouting by our GPS driving directions when conditions ahead change, we need to periodically check in on the goals and subsequent plans. The session will be opened by President Gibson and will start with a brief presentation on the status of the adopted strategic goals and core objectives, a discussion on changed conditions, and ideally a robust discussion resulting in identification of the updated goals and directions for the next two to five years.

We are seeking Board direction for the following at the conclusion of the meeting to establish priorities for the District:

1. Are the current Strategic Plan objectives still valid, if not what is the consensus direction?
2. Are the projects, priorities, and timelines needed to achieve the Strategic Plan objectives still valid, if not what is the consensus direction?
3. What direction should the financial plan take in regards to rates and charges to support the Strategic Plan? What are the most effective options to fund capital projects supporting the strategic objectives?

Recommendation: Through collaboration, update the SMWD Board Strategic Plan.

Fiscal Impact: The Strategic Plan establishes the capital needs, forecasts purchases and expenses, and is used to evaluate the adequacy of rates.

Previous Related Action: The Board agenda for February 1, 2017 includes the Fiscal Year 2017 reforecast; the current Strategic and Business Plan was adopted in May 2016 with the District's annual budget. The District held a Strategic Planning session in January 2016.

DISCUSSION

A strategic plan points to specific results the District wants to achieve and establishes a course of action for achieving them. The plan helps the various work groups, Finance, Engineering, Operations to align themselves with common goals. Arguably, the leading cause of government inaction is not having a strategic plan in place that is being well implemented. If an agency has little idea where it is headed, it will wander aimlessly with priorities changing constantly and employees confused about the purpose of their jobs.

Building a strategic plan is not difficult. It takes thought and feedback from the Board and others, the District should be routinely garnering feedback from both inside and outside the District. We have found that developing our strategic plan can be rewarding for all involved and helps develop stronger communications between members of the planning team.

Once adopted, commitment is crucial to making the plan work instead of putting it on a shelf to gather dust. The District needs a well-developed strategic plan looking out two to five years in order to effectively establish expectations for all stakeholders, including customers and employees. We use the Strategic Plan to focus efforts, staffing and financial resources. On an annual basis, it is important to consider any conditions necessitating a reconsideration in course.

Background

The District provided the following documents:

- Capital Improvement Program Update.
 - Highlights various projects that are underway at the District and the funding sources.
 - Finance Committee requested additional years be included in the CIP update and that will be sent under separate cover.
- Fiscal Year 2017 Budget Reforecast Update.
 - Updates the revenue and cost projections for the fiscal year.
 - Highlights the increased revenue of \$3.5 million over budgeted projection.
- Fiscal Year 2017 Business Plan Update.
 - Will be sent out under separate cover.
 - Highlights the progress on core business goals and projects by the various work groups.

The various documents were intended to provide an overview for the Board on the current progress of the District and the current financial outlook.

Status of Strategic Plan Objectives

In January 2016, the Board reiterated the strategic direction of the District by re-adopting the following strategic plan objectives:

1. The District will have 10,000-14,000 Acre-Feet of MWD alternative water supply by 2030.

2. The District will have six months of storage by 2030.
3. The District will recycle 100% of its wastewater by 2019.

The Board determined that local supplies are and will become increasingly important to ensure a reliable and cost-effective supply for our customers.

In May 2016, as part of the fiscal budget adoption, the Board included specific actions to move steadily toward reaching the Strategic Objectives 1-3 above. The following is the mid-year progress report:

- 1. Alternative Supply:** Complete Phase 1 of the San Juan Basin Watershed Project (this project would provide up to 2,000 acre ft. of alternative supply).
 - a. Begin Programmatic Environmental Impact Report (EIR)
 - i. ESA was selected to prepare the documentation, BB&K is providing California Environmental Quality Act (CEQA) counsel oversight
 - ii. Notice of Preparation of the draft EIR was issued in December
 - iii. Scoping meeting, partner meeting and Nongovernmental Organizations (NGOs) meetings have been held
 - b. Negotiate water rights agreement
 - i. San Juan Basin Authority received updated water rights and existing agreements to develop the background documentation
 - ii. Discussed water rights with State and Regional Water Quality Boards (S/RWQCB)
 - c. Design
 - i. AECOM was selected to prepare design, Wildermuth Environmental is providing hydrogeology studies
 - ii. Preliminary design is underway to provide details for EIR
 - iii. Coordinating with County of Orange Flood Control to determine sites of rubber dams
 - iv. Data collection on the geography in the area is underway
 - v. Initial meetings with National Marine Fisheries and California Department of Fish and Wildlife regarding steelhead trout passage
 - d. On schedule for draft EIR and preliminary design completion by June 30, 2017
- 2. Six Months of Storage:** Implement pilot project for delivery of water from Cucamonga Valley Water District.
 - a. Develop a conceptual plan
 - i. Dudek was selected to prepare a preliminary flow path
 - b. Prepare CEQA documentation
 - i. Waiting on preliminary flow path to determine level of CEQA
 - c. Begin negotiations
 - i. Meeting with CVWD, IEUA, EMWD, OCWD and MWDOC
 - d. On schedule for completion of agreement for pilot by June 30, 2017

3. **Recycle 100% of Wastewater:** Construct Trampas Reservoir which would hold 5,000 ac-ft.
 - a. Complete financing package
 - i. SWRCB has approved loan and grant package, waiting on final agreement documents
 - b. Complete participation agreements
 - i. Working with MNWD, San Juan Capistrano, and San Clemente on term sheets for participation
 - ii. Finalizing the land acquisition will allow for next steps
 - c. Award Construction
 - i. Division of Safety of Dams is reviewing final plans
 - ii. Processing permits with the Regional Board and Fish and Wildlife
 - iii. Selected construction manager
 - iv. Developed shortlist of eligible contractors
 - d. Completion date of March 30, 2017 for award is now estimated to be July pending the permit completion. Construction will start in 2017.

The District is on track to meet its goals for the Fiscal Year in support of the Strategic Plan.

Changed Conditions: Over the years we have discussed changed conditions primarily in regard to construction projects; contractors occasionally encounter a situation where the conditions encountered are not what was assumed at the bid such as harder rock, unidentified utilities or material problems which can greatly affect production and costs. More recently, with regard to our water use efficiency program, the mandatory cutbacks required significant investment that was unanticipated.

In the context of Strategic Planning, changed conditions is referring to items beyond our control that may require evaluation of the current goals and assess if a course correction is warranted. The following are potential changed conditions that the Board may consider:

Supply Reliability: Three-years ago, we defined supply reliability as meeting 100% of the customer demands and planned to have alternative supplies to supplement MWD in times of drought. Then Governor Brown issued a mandate to reduce consumption by 25% regardless of supplies, thereby potentially stranding reliability assets. Currently, draft emergency regulations are focused on establishing budgets with State mandated demand calculations, again potentially limiting the value of reliability assets. Conservation practices such as code changes, turf replacement, and rebate programs have substantially lowered demand projections, with a lower GPCD than past projections.

Financial Stability: The District has reduced its water sales by approximately 20% over projections when the rate structure was developed. Fixed costs are being covered by the rates, but the reduced water sales have limited the contribution to reserves for construction of capital replacement and reliability projects. The net effect is the District is reducing the level of reserve funding each year.

Water Costs: MWD has forecast an increase of four percent per year and the State is considering implementing a use tax on water. This, along with inflationary pressure on other costs is resulting in the District projecting the need for four percent increase annually for 25 years to stay even, before the capital project contributions. In addition, the Orange County Reliability Study has shown that local supplies may have high initial capital costs but over the life of the projects the water costs are expected to be less than or equivalent of MWD supplies which may result in upward pressure on rates in the near term.

Political: The change in administration at the Federal level is potentially impacting regulations, infrastructure and funding opportunities. For example, the Cadiz water supply and Poseidon Huntington desalination projects are listed as priority infrastructure projects in the Trump administration. At the State level, the SWRCB and the legislature may be developing rules and regulations that impact the District's water supply projects. At the local level, the District is actively involved in negotiations with neighboring cities, districts and various county departments.

South Orange County:

- The City of San Juan Capistrano is interested in divesting itself of water and wastewater facilities and operations.
- MNWD has expressed its focus is on water use efficiency and not on local water resource projects.
- SCWD is focused primarily on the Doheny Desalination Plant and has also indicated it is interested in 20% of the San Juan Watershed Project.
- SJBA is recruiting an independent Administrator and has an ad hoc committee reviewing the potential to change the membership.

Climate: After five dry years, the region is seeing at least an average year of rainfall and the State is seeing overall above average rain and snow. The trend for the last fifteen years has been a wet year followed by several dry, and prudent planning would argue that we should plan for less rain than previously planned for, increasing the need for supplemental water.

Indirect and Direct Potable Reuse: The District implemented the Lake Mission Viejo Advanced Treated Water project with no opposition; San Diego is proceeding with a reservoir storage of recycled water prior to a water treatment plant in a major change for the previous opposition and MWD is contemplating a major IPR project at the Los Angeles County Carson Sanitation Plant. Draft guidelines for DPR rules and regulations are being promulgated in the State making the reality of projects potentially much sooner than previously thought. The District is developing a DPR/IPR pilot project.

Regulatory Relationships: The District has made great strides establishing relationships with both the SWRCB Board and the San Diego Regional Water Quality Control Board at the Board level with Director Olson and at the staff level.

Energy: Energy management alternatives along with battery storage are providing options to reduce the District's dependence on peak power. This may prove to be advantageous in reducing the energy bills of various District facilities.

Questions for the Board

The strategic planning session is a Board driven discussion with District and consultant team providing background, analyses, and information as requested. As mentioned in the beginning of the report, we are seeking answers for the following at the conclusion of the meeting to establish priorities for the District:

1. Are the current Strategic Plan objectives still valid, if not what is the consensus direction?
2. Are the projects and priorities and timelines needed to achieve 1 above are still valid, if not what is the consensus direction?
3. What direction should the financial plan take in regards to rates and charges to support the Strategic Plan? What are the most effective options to fund capital projects supporting the strategic objectives?

Proposed outline for the meeting is for President Gibson to open the meeting and start with an introductory presentation on the projects, cost projections and funding alternatives while breakfast is served. Then a round table discussion addressing the three questions lead by the Directors. We have invited Brian Thomas and Roy Wolfe to attend and provide input as requested by the Board along with the senior staff of the District. We anticipated the meeting to last until 12 noon.