



OFFICE OF THE CITY MANAGER

February 25, 1999

To the Honorable City Council  
of the City of Pasadena

Mayor and Councilmembers:

**Clarification on the Agenda Report Regarding Metropolitan Water District  
of Southern California's (MWD's) Strategic Planning Process**

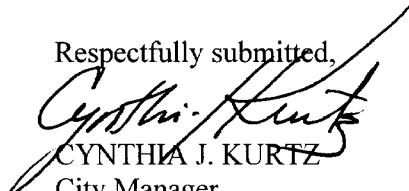
At its February 24, 1999 meeting the Deregulation Committee requested that Principle 2 in Pasadena's position in the recommendation be modified to reflect that MWD shall be the primary, but not the exclusive agent for the member agencies to develop a reliable source of water for the region and a fourth principle be added to reflect the goal of MWD being the lowest cost supplier when securing water for the region. The revised principles shall read as follows.

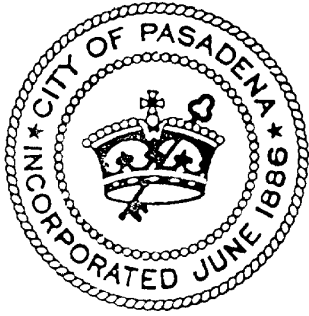
The position shall include the following principles.

1. MWD shall continue to be Southern California's regional wholesale water system operator and planner in cooperation with member agencies.
2. MWD shall be the primary, but not necessarily the exclusive agent for the member agencies to develop a high quality, reliable supply of water for the region.
3. The governance shall maintain member agencies' status as cooperative members of MWD.
4. MWD shall ensure that the supply of water is of the highest quality and at the lowest cost possible.

The Deregulation Committee considered the proposed future visions of MWD including the market influences on the water utility industry. Wholesale water agencies, other than MWD, are starting to play an increasing role in the water supply of Southern California. Therefore, it was the Deregulation Committee's recommendation that the principles be expanded to recognize these new factors and that MWD's new supplies be at the lowest cost possible. Staff concurs with the Deregulation Committee recommendation.

Respectfully submitted,

  
CYNTHIA J. KURTZ  
City Manager



# Agenda Report

**Date:** March 1, 1999

**To:** City Council  
Through Deregulation Committee

**From:** City Manager

**Subject:** Advocacy of the City of Pasadena's Position during Metropolitan Water District of Southern California's (MWD's) Strategic Planning Process

## **Recommendation**

It is recommended that during the MWD's Strategic Planning Process, the City Council:

- (i) Advocate the City of Pasadena's position with
  - (a) State Legislators
  - (b) Elected Officials of other Member Agencies; and
- (ii) Authorize Pasadena's representative to the Board of Directors of MWD to advocate the City's position with other MWD member agencies.

The position shall include the following principles.

1. MWD shall continue to be Southern California's regional wholesale water system operator and planner in cooperation with member agencies.
2. MWD shall be the agent for the member agencies to develop a high quality, reliable supply of water for the region.
3. The governance shall maintain member agencies' status as cooperative members of MWD.

## **Background**

Recent state legislation mandates that MWD reduce the number of members on its Board of Directors. Currently, there are 51 directors representing 28 member agencies with the number of directors based on tax valuation of its member agencies. The City of Pasadena, as an original founding member, currently has a representative on the board. This legislation would reduce the number of directors but each of the member agencies

would still maintain full representation. The current legislation is in line with positions the City Council has taken regarding any future governance of MWD. That position was that Pasadena should maintain its representation in any future governance structure of MWD.

Other proposed legislation would reduce the number of directors so significantly that Pasadena would not have full representation on the board. The mandated change in governance of MWD has prompted MWD to evaluate its organizational structure, vision, goals, functions, and responsibilities.

MWD is currently evaluating its organizational structure and vision through a strategic planning process. MWD has retained the services of management consultants to evaluate their current organizational structure, visions, and goals and recommend necessary changes to better meet the needs of its member agencies. The consultant has developed eleven visions (see attachments) with each outlining the goals, functions, responsibilities, and impacts under the different scenarios. Phase II of the process is envisioned to narrow the eleven visions to three or four hybrids before a final preferred vision is recommended to MWD.

Vision 1: Status quo does incorporate the principles that the City has endorsed. However, the status quo vision does not incorporate the direction that conventional wisdom believes that the water market will take. It is believed that the water market will experience more market influences because of new water quality regulations and supply issues. Therefore, greater flexibility on behalf of the member agencies will be required to maintain the lowest cost for their customers. Visions 2 and 3 also incorporate the City's principles but also includes control of supplemental resources leaning heavily towards MWD and away from member agencies. This is in violation of the local control principle the City has adopted.

Under visions 5 through 8, member agencies would become shareholders and shares will also be available to other agencies and private parties. Member agencies' voting rights could be diminished with shares being traded to outside agencies. This could dilute local control and availability of water resources.

Under Visions 9, MWD would spin off its infrastructure assets and responsibility to members. Member agencies would assume the responsibility for reliability. Vision 10 would eliminate MWD altogether and make it a private agency. Transmission facilities would be spun off to an independent system operator. These two visions go against the principle that MWD should remain the regional wholesale water operator and planner. Vision 11 would make MWD an agency of the State. The principle of local control would diminish under this vision. Visions 9 through 11 would eliminate the role of MWD as a regional, low cost, and reliable supplier to member agencies. This would be in violation of MWD remaining the regional supplier with greater member flexibility.

Of the eleven visions, staff sees Vision 4 as encompassing all of the City's principles mentioned along with features that allow for flexibility to deal with the future in the water

utility industry. Under Vision 4, MWD remains the water wholesaler for the region; continues to be the agent for securing high quality and reliable supplies of water for the region; and member agencies maintain full representation on the Board of Directors. It also allows flexibility to deal with future market influences. MWD's transmission infrastructure will be opened to other wholesalers and costs for products and services will be distinctly separated into cost centers and prices accordingly. Staff's recommendation for the final vision would entail the further development of Vision 4 with the incorporation of some beneficial aspects from some of the other visions.

As a part of MWD's planning process, Water and Power staff has provided input to MWD and their consultants. Staff will continue to work cooperatively with MWD and their consultants in the development of the visions.

It is imperative that the City of Pasadena advocates that the previously mentioned principles are incorporated into MWD's new organizational structure. The City must maintain full representation on MWD's Board of Directors in order to assure a high quality, low cost, and reliable water supply to its customers. The list of members of the Senate Select Committee on Southern California's Water Districts' Expenditures and Governance is attached.

### **Fiscal Impact**

There is no current direct fiscal impact in the advocacy of Pasadena's position. Future fiscal impacts may occur as a result of MWD's organizational restructuring. MWD's future visions and goals may affect Pasadena's costs for purchase water, which accounts for approximately 65% of the City's water supply.

Respectfully submitted,

  
Cynthia J. Kurtz  
City Manager

Prepared by:

  
Shan Kwan  
Business Unit Director  
Water and Power Department

Approved by:

  
Rufus Hightower  
General Manager  
Water and Power Department