

SUPPLEMENTAL AGENDA

BOARD OF DIRECTORS ORANGE COUNTY SANITATION DISTRICT

**DISTRICT'S ADMINISTRATIVE OFFICES
10844 ELLIS AVENUE
FOUNTAIN VALLEY, CA 92708**

REGULAR MEETING

February 25, 2004 – 7:00 P.M.

Agenda Posting: In accordance with the requirements of California Government Code Section 54954.2, this agenda has been posted in the main lobby of the District's Administrative offices not less than 72 hours prior to the meeting date and time above. All written materials relating to each agenda item are available for public inspection in the office of the Board Secretary.

Items Not Posted: In the event any matter not listed on this agenda is proposed to be submitted to the Board for discussion and/or action, it will be done in compliance with Section 54954.2(b) as an emergency item or because there is a need to take immediate action, which need came to the attention of the Board subsequent to the posting of agenda, or as set forth on a supplemental agenda posted in the manner as above, not less than 72 hours prior to the meeting date.

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Items Continued: Items may be continued from this meeting without further notice to a Committee or Board meeting held within five (5) days of this meeting per Government Code Section 54954.2(b)(3).

Meeting Adjournment: This meeting may be adjourned to a later time and items of business from this agenda may be considered at the later meeting by Order of Adjournment and Notice in accordance with Government Code Section 54955 (posted within 24 hours).

11. (d) Receive and file report from National Water Research Institute (NWRI) on OCSD's Asset Management Strategic Plan.

STEERING COMMITTEE

AGENDA REPORT

Meeting Date 1/28/04	To Bd. of Dir. 2/25/04
Item Number 8.A.	Item Number 11.d.

Orange County Sanitation District

FROM: Bob Ooten, Director of Operations and Maintenance

SUBJECT: NWRI Blue Ribbon Panel Report on Asset Management

GENERAL MANAGER'S RECOMMENDATION

Receive and file report from National Water Research Institute (NWRI) on OCSD's Asset Management Strategic Plan.

SUMMARY

- The NWRI Executive Director Ron Linsky and Stan Oftelie, OCBC and chairman of the Blue Ribbon Panel, will present a summary of the NWRI report to the Orange County Sanitation District Board of Directors summarizing the Blue Ribbon Panel Review accomplished in the fall of 2003..
- The Asset Management Strategic Plan was adopted by the OCSD Board in December 2002. The Asset Management Executive Summary is attached.
- In April 2003, the Board of Directors instructed staff to obtain an independent review of the OCSD Asset Management Strategic Plan and directed Staff to evaluate produce a more staff-driven program. The Board also requested an unbiased third-party view of the concept and approach proposed by staff to asset management.
- At the request of Staff, in October 2003, NWRI convened a panel of experts to review the Asset Management Strategic Plan and hear presentations by staff and consultants on the concepts and content contained within the plan. The presentations lasted for a day one-half.

PROJECT/CONTRACT COST SUMMARY

N/A

BUDGET IMPACT

- This item has been budgeted. (Line item:)
- This item has been budgeted, but there are insufficient funds.
- This item has not been budgeted.

Not applicable (information item)

ADDITIONAL INFORMATION

N/A

ALTERNATIVES

N/A

CEQA FINDINGS

Not applicable

ATTACHMENTS

1. NWRI Blue Ribbon Panel Report

National Water Research Institute

Blue Ribbon Panel Report

**Asset Management Strategic Plan Review
Orange County Sanitation District**

October 6-7, 2003

**Holiday Inn
Costa Mesa, California**

Introduction

In response to a request for assistance from the Orange County Sanitation District (OCSD), the National Water Research Institute (NWRI) organized and appointed a Blue Ribbon Panel (Panel) of experts to review and evaluate the document, *Asset Management Strategic Plan and Frame Work Analysis* and to provide a report that would document the Panel's findings and recommendations regarding the implementation of an Asset Management Program by OCSD.

This document summarizes the findings and recommendations of the Panel derived from a study of the above document and from presentations by the OCSD staff and consultants during the first Panel meeting on October 6-7, 2003, in Costa Mesa, California.

The Charge to the Panel

The Blue Ribbon Review Panel was convened to assist OCSD by providing the following functions:

1. The Panel will act as a neutral third party in a review and evaluate the asset management approach as described in the document, *Asset Management Strategic Plan and Framework Analysis*. In other words, is the outlined approach the correct one for the organization?
2. From the presentations and documents provided in the first meeting, the Panel will document its findings and make recommendations on how to best assist OCSD in implementing the proposed strategic plan.
3. At a yet to be determined date, the Panel will participate in an interactive workshop with the OCSD staff, consultants, and others to finalize a methodology to implement the strategic plan.

Background

Since July 1998, OCSD has been engaged in the District Assessment and Reinvention Team (DART) process in an effort to close the competitive gap in the Operations and Maintenance Department identified in a March 1996 competitive assessment. DART prompted the initiation of several work processes and system enhancements in the operations and maintenance areas that have resulted in the achievement of significant benefits for the OCSD. The progress made by DART throughout the organization has become the foundation for the asset management initiative found in the strategic plan referenced above.

The organizing principles of OCSD, as described by OCSD General Manager Blake Anderson, serve as the fundamental architecture under which the proposed asset management program will exist. The principles include:

- Environmental stewardship as a function of regional cooperation.
- Wastewater management wherein reclamation is a process that uses wastewaters as a resource.
- Business principles incorporating the triple bottom line approach that recognizes the needs of society, environment, and finance.
- Workplace environment that integrates how the organization behaves relative to opportunities, responsibilities, and authority.

FINDINGS

OCSD, a well-regarded and professional government agency, is considering re-casting its management decision-making with an asset-centric approach as its over-arching organizing principle. As part of this approach, overall investment in the future will be keyed to lifecycle costs, rather than the initial capital costs of a project. This change in emphasis is designed to trigger a new way of looking at OCSD operations, maintenance, and capital investments.

The proposed OCSD advanced asset management program is one of the only early stage development programs of its kind in America and could be implemented by one of the largest government agencies of its kind west of the Mississippi.

Staff

The staff is very competent and enthusiastic about the asset management program proposal and is committed to working hard to deliver value to OCSD. In fact, staff management is fully engaged in leading OCSD in best asset management thinking in the U.S. – they have few peers.

A great deal of work has been done on the detailed investigation of ways to implement the asset management program, its potential value to OCSD, the organizational steps needed, the phasing of implementation, metrics, etc. There is a good sense that the staff has done its homework.

The OCSD asset management team is complimented for the work it displayed on analyzing and reducing some existing capital expenditure program (Capex) by a thorough and detailed review of 15 of the 2003-2004 projects using advanced asset management principles. Preliminary results provided confidence that significant Capex savings and lifecycle cost reductions would accrue.

It was assumed by the Panel that OCSD is not over staffed, and that it is the right size to run the current operation and maintenance and Capex. It will take significant resources to run, monitor, study, and create an asset management program.

Strategic Plan

The Panel found the asset management strategic plan to be heavily jargonized and detailed in its approach. Because of this, it lacks clarity of purpose and disenfranchises non-technical parties. There were too many “buzz words” to explain simple concepts. The plan, as presented, is thorough and rigorous, but loses credibility in the way it is reported. There is too much emphasis on processes/systems, rather than on output. This loss of credibility is unfortunate, as the overall anticipated costs and benefits might be significant.

From the strategic plan, it almost appears that the overall goal of the project is to “measure confidence” in the decision-making processes, rather than to improve performance.

The plan includes a great deal of detail in specific, small steps that need to be (or could be) taken to improve data and processes throughout the organization.

More attention should be paid to those things that are interrelated with OCSD’s asset/source needs. The forecasted financial benefits of the program are huge compared to program costs. The source of these forecasts, however, should be better described (otherwise, the forecasts do not have credibility). From discussions with the staff, it is clear that the forecasts are based on cost savings experienced in Australia and New Zealand from various levels of management-practice implementation. This is probably the best that can be done and should be taken seriously; however, without explanation, the forecasts are easily dismissed.

Program Delivery

The approach to asset management is conceptually reasonable, but will not deliver the maximum benefits unless the implementation program is disciplined and focused (i.e., levels of service, asset condition, asset criticality, and Capex reviews). It should be recognized that the implementation plan already has many checks and balances.

The program is presented as one package with no options and slightly different implementation timeframes. The package presents “form over function” in its initial presentation – it must reflect substance in its implementation. In addition, the package appears overly ambitious in its timeframe for a Year Three deliverable.

Organization

Embracing fully the asset management approach and philosophy (which is widely-used in wastewater and sewage treatment agencies in Australia and New Zealand and becoming more widely accepted in the U.S. [e.g., Seattle Public Utilities]) has found some resistance within in the OCSD organization. Some of the resistance is from "sticker shock" at cost estimates. Concern over costs is compounded by recent decisions to increase the OCSD capital expenditure budget to \$2.4 billion, which required a 15-percent increase in fees.

There appears to be a noticeable level of difference between the staff's level of understanding of the asset management program, which appears to be significant, and the level of understanding and the information required by the OCSD Board of Directors for the decision-making process.

Current asset management practices at OCSD have not developed to the level needed to ensure best value to the OCSD or to ensure service provision to its stakeholders and other customers. There is a very strong middle-management buy-in/ownership of the need to improve asset management; therefore, improvements in asset management will continue whether there is approval for implementation of the Strategic Plan or not.

The use of advanced asset management techniques seems a logical and appropriate step for OCSD. The question for moving into this program is one of scope, implementation, and whether the program is tightly focused around the level of service goals and a better understanding of existing assets. The idea behind bringing a more rigorous asset management program to OCSD seems consistent with the staff's desire to improve performance, control costs, and enhance OCSD's reputation as one of the best agencies of its kind in the world.

The asset management approach envisioned for OCSD may be unusual in water and wastewater agencies, but it is used fairly often in American private industry when large capital decisions about infrastructure must be made. Using this aggressive analysis of front-end investment, lifecycle examination, and careful monitoring of maintenance options is not uncommon in sophisticated private industry where front-end costs are exceptionally high.

The Strategic Plan

The "level of confidence" metric that is the centerpiece of determining the success of the program may not be the exact metric to maximize program outcomes as described in the plan even though the plan reflects a genuine desire by staff to bring undefined "best practices" into all OCSD operations.

The Panel found the focus on Best Available Practices (BAPs) and the target level of "confidence" to be peripheral to the main point of the plan. Implementation of BAPs is a means to an end, not an end itself.

RECOMMENDATIONS

The asset management strategic plan describes a program that has a strong potential to deliver advanced outcomes with significant benefits to the organizations; however, though the Panel recognizes the efforts by the OCSD staff to date, it nevertheless recommends the following be considered prior to implementing the program:

- The Panel recommends that key aspects of the plan could be enhanced by incorporating specific targets for implementation and completion. This will help maximize early and ongoing benefits to OCSD, especially in reducing Capex and in improving security, reliability, and performance of the assets.
- Implementation will require a clear plan to integrate asset management into the normal day-to-day workflow at OCSD. The proposed program needs to be a part of the continuous improvement process, building on the current work and expanding into all areas of the organization.

The program, therefore, needs some quick winners to garner wide support from the organization. To achieve quick winners, an approach might be for the program to aim for quick results in Capex.

- To ensure success, the program needs a “champion” to carry the torch through to final implementation and will aid in overcoming the cultural changes that will occur in the early period of implementation.
- The plan should be focused on the job to be done (e.g., know the condition of the asset and its role in providing service) and establish a maintenance policy based on that.
- The plan should articulate clearly the essential activities to be completed before the first values would be realized and should be presented as a total package with a reasonable and acceptable budget.
- The proposed approach described in the plan needs to be pared down to essential outcomes. Then, one can discuss how those outcomes will be achieved, including the possibility of phasing in the overall program outcomes over time.
- Because the Panel felt that the overall strategic plan presentation lacked a concise statement of the core concept of the proposal, it recommends that a statement be developed that would be a first principle (e.g., “We will examine each asset from the point of view of its contribution to the levels of service and manage it accordingly.”).
 - Assets should be managed to minimize the cost of owning and operating them while continuously delivering the desired levels of service.

- Integrate planning, design, construction, operations, maintenance, funding, warehousing, rehabilitation, replacement, disposal, data management, and strategic decision-making for one purpose: To provide cost-effective (and sustainable) public infrastructure.
- The program should clearly articulate priorities and benefits from the separable components, such as asset identification, criticality evaluation, and risk assessment. It should also be crafted in a manner that will generate clear work products for program component evaluation and, therefore, would provide opportunities for the use of the off-ramps, should that be the will of the Board.
- All Capex and operating and maintenance expenditures (Opex) that relate to existing assets are likely to be sub-optimal, both in a cost and asset management sense, without a full picture of asset conditions and asset criticalities (as they stand). This evidence is critical to decision making.
- The plan proposes methods and measures to consider this issue, which is fundamental to building confidence and understanding at the earliest possible time *and to achieving immediate and ongoing cost and asset performance gains*. It is recommended that initial resources focus on the task ahead, especially for critical assets.
- To ensure the program's success in a timely fashion certain aspects of OCSD's asset management program *must* be accelerated to garner early success. These include:
 - Asset condition assessment.
 - Asset criticality assessment.
 - Risk assessments and valuation of risk, at least for the initially perceived top 100 asset risks.
 - Drivers for new asset creation.
 - Whole of business view of where and how much risks it can carry.

These elements will largely assist the prioritization of Capex and will minimize risk to OCSD and deliver confidence in asset performance. Also, should Capex programs need to be truncated at any time due to, say, financial constraints, this offers a way to focus maximum value from any available Capex spending.

- Since the plan relies on the levels of service required, it is recommended that a set of guiding principles of service be created at the earliest possible time. It is important that initial levels of service be reviewed periodically based on the acquisition of better information and technology. This integration is normal and sensible. Key levels of service should be adopted early on.

Further, it is recommended that no project proceeds without a review relative to financial and asset performance gains. Further, it is certain that, as asset confidence

is built and management improvements are prioritized, the assessment of projects and programs will yield even greater benefits.

- A regional planning approach led by OCSD would be a sensible way to ensure that complementary investments between the municipalities and OCSD occur as often as possible.
- OCSD should establish an Asset Management Committee. The Asset Management Committee should be comprised of representatives from key areas of the organization, including engineering, finance, operations, maintenance, and information systems.
- OCSD management must continually commit to and demonstrate the value of the program to the district.
- The concept of an Asset Management University, although interesting, should be revisited in terms of an OCSD University, whereby asset management is but one of many activities found within a more holistic training curriculum for the district.

Asset Management Strategic Plan

Blue Ribbon Review Panel

Chair

Stan Oftelie
Orange County Business Council
Irvine, California

Members

Mick Bourke
Environmental Protection Authority
Victoria, Australia

Alan Lamont
Lawrence Livermore National Laboratory
Livermore, California

Gordon Logan
South East Water Limited
Melbourne, Australia

Jerry Thibeault
Regional Water Quality Control Board, Santa Ana Region
Riverside, California

Stephen Tucker
Los Angeles Department of Water and Power
Los Angeles, California

NWRI Staff Support

Ronald Linsky
Executive Director