



Midpeninsula Regional  
Open Space District

R-17-12  
Meeting 17-02  
January 24, 2017

## AGENDA ITEM 1

### AGENDA ITEM

Annual Review of the Strategic Plan Goals and Objectives to Guide the Focus for Fiscal Year 2017-18

### GENERAL MANAGER'S RECOMMENDATION

Adopt the proposed changes to the Strategic Plan to best position the District to meet new challenges and opportunities as the District executes its mission in the coming fiscal year

### SUMMARY

Each year, the Board of Directors (Board) reviews and comments on the results of an Environmental Scan to determine any adjustments needed to the Strategic Plan goals and objectives to best position the Midpeninsula Regional Open Space District (District) to respond to future challenges and/or opportunities. The findings of the Environmental Scan and the corresponding proposed changes to the Strategic Plan are discussed in detail as part of this report.

### BACKGROUND

In 2011, the District developed and the Board adopted a comprehensive Strategic Plan (R-11-96) to provide a high-level framework for guiding the District's implementation of its mission. Each year, the District recommends and the Board approves adjustments to the Strategic Plan to ensure that the strategic goals and objectives appropriately respond to changes in the surrounding environment, which are captured in an annual Environmental Scan. The updated Strategic Plan is then used to provide high-level direction for developing the upcoming fiscal year Budget and Action Plan. As such, the annual Strategic Plan review is intended to provide the Board with an early opportunity to set the District's overall course for the coming year at a broad policy level. Subsequently, on February 23, the Board will discuss and confirm the District-wide priorities for the next fiscal year to guide the Budget and Action Plan development ahead of the presentations to the Action Plan and Budget Committee, which begin in April.

Information provided in this report and staff presentations during the meeting will summarize the District's progress on its Strategic Plan goals and objectives over the last year and present the results of the environmental scan including the recommendation from the General Manager on potential adjustments to the Strategic Plan for Fiscal Year (FY)2017-18.

## DISCUSSION

### Environmental Scan Findings

As a reminder, the annual Strategic Plan Review includes an annual Environmental Scan that analyzes and evaluates the significant internal and external conditions, data, and factors that affect the organization. The Environmental Scan provides a framework of high-level factors affecting the District's work to understand whether any strategic adjustments are needed to better position the District to respond to future challenges and/or opportunities.

At the retreat, staff will discuss information from the Environmental Scan Findings provided in Attachment 1, which includes the following main themes:

- Although the District remains in a strong financial position, the unsteady political environment warrants ongoing monitoring to ensure the District's long-term stability.
- As a result of the terming out of a key, supportive, local elected officials, the District will need to establish new relationships with recently elected officials and focus on developing a strong local, open space champion for our region.
- The growing housing shortage and difficult traffic conditions warrant creative solutions and new partnerships to mitigate local and regional impacts, reduce carbon emissions, and proactively support the District's and region's environmental sustainability and land management goals.
- With the volume and complexity of capital project work increasing significantly, it is very important to remain focused on existing priorities and the implementation of critical improvements in the following high-impact business processes:
  - Project Delivery
  - 3-year Capital Improvement Plan
  - Procurement and contracting
  - Project tracking
- The addition of new staff, recent promotions, and continued managed growth in staffing emphasizes the importance of continued training, professional development, mentoring, and other career, skills, and technology development amongst the staff to ensure that the internal skills sets are meeting District needs, account for ongoing succession planning, and provide an incentive for staff retention.

The Environmental Scan reveals the impact the economy may have on the District's projects in the coming year. Overall, the robust local economy and higher assessed values result in higher property tax revenues and added income from cash investments, creating strong economic growth for the District. However, the strong economy has further escalated costs, resulting in higher bids that are above project estimates and intensified livability stressors related to housing costs and longer commutes for District employees. Currently, the District is able to afford the cost escalations, and therefore retain its strong emphasis on project delivery, including improving its business processes to support and expedite projects and services. The economy will need continued monitoring to ensure large cost items, such as major land purchases and new office facilities, remain fiscally sustainable and that bond issuances are structured to keep the property Measure AA tax rate at or below \$3.18 per \$100k of assessed valuation as promised to the voters. Moreover, the District now has the capacity to effectively monitor the uncertain political environment and track legislation to protect District interests, and establish effective working relationships with the new members of the local delegation who will be instrumental in championing open space goals and funding.

**Adjustments to the Strategic Plan**

Proposed adjustments to the Strategic Plan goals and objectives are provided in detail in Attachment 2. Adjustments to the Strategic Plan will help set the framework for the Board's discussion on District-wide priorities scheduled for February 23 and guide the overall development of the FY2017-18 Budget and Action Plan.

The District continues to undergo significant planned organizational changes to efficiently deliver projects and streamline core business processes, including the capital improvement and project management programs. Additionally, the District is taking on an increasingly outward focus by engaging and strengthening partnership opportunities throughout Bay Area to communicate the District's regional conservation vision to support and sustain the Bay Area's life support system. As the Environmental Scan has shown, the District will need to continue to monitor the state and national economy and political environments to ensure projects and programs continue their long-term financial sustainability. These dynamics are important to consider as the District plans its budget and action plan for FY2017-18.

**FISCAL IMPACT**

Acceptance of the Environmental Scan and adoption of the proposed changes to the Strategic Plan has no direct fiscal impact, but will drive, together with the Board's confirmation of District priorities on February 23, the development of the FY2017-18 Budget and Action Plan.

**BOARD COMMITTEE REVIEW**

This item was brought directly to the full Board given full Board interest and importance.

**PUBLIC NOTICE**

Public notice was provided as required by the Brown Act.

**CEQA COMPLIANCE**

This item is not a project subject to the California Environmental Quality Act.

**NEXT STEPS**

On February 23, 2017, the Board will confirm the District-wide priorities for the upcoming fiscal year. The outcomes of the January 24 and February 23 Board Retreats will guide the development of the FY2017-18 Budget and Action Plan, including the 3-Year Capital Improvement Plan.

**Attachments**

1. Environmental Scan for Fiscal Year 2017-18
2. Proposed Revisions to the Strategic Plan Goals and Objectives for Fiscal Year 2017-18

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# Environmental Scan for Fiscal Year 2017-18

**Introduction:** The Environmental Scan analyzes and evaluates the internal and external conditions, data, and factors affecting the organization to strategically position the District to best respond to future challenges and opportunities. The Environmental Scan considers current and anticipated changes to the economy, political environment and local leadership, regulatory requirements, demographics, organization and workflow, and technology trends as perceived by each department and major work unit. Below are the detailed findings followed by a Summary of Findings for the Board as they consider the proposed adjustments to the FY2017-18 Strategic Plan Goals and Objectives.

Overall, the robust local economy and higher assessed values result in higher property tax revenues and added income from cash investments, creating strong economic growth for the District. At the same time, the strong economy has further escalated costs, resulting in higher bids that are above project estimates and the exacerbation of livability stressors related to housing and commutes. Fortunately, the District is able to afford the escalation in costs, and therefore retain its strong emphasis on project delivery, including improving its business processes to support and expedite projects and services. Close evaluation of upcoming large-scale projects will ensure that these large cost items (major land purchases, new office) remain fiscally sustainable and that bond issuances are structured to keep the property Measure AA tax rate at or below \$3.18 per \$100k of assessed valuation as promised to the voters. Moreover, the District now has the capacity to effectively monitor the uncertain political environment and track legislation to protect District interests, as well as to establish close relationships with the new members of the local delegation who will be instrumental in championing open space goals and funding.

## **Detailed Findings:**

### **1. Economy**

- a. Escalation of Costs
  - i. Construction costs are expected to increase by 20% over 5 years.
  - ii. Contractors are less available and willing to do business with the District, given the surrounding high construction demand and other outside projects with greater profit margins and fewer administrative and legal requirements.
  - iii. The reduced competitiveness to attract bids is affecting the District's ability to negotiate on labor, material, equipment, and rentals costs.
  - iv. Booming economy continues to increase land values.
  - v. Commercial office lease rates have risen substantially over the last several years and have only leveled slightly in the last 3 to 6 months. For example, between 2012 and 2016, Class B/C leased office space in our area has increased 159%.

- b. Housing
  - i. The housing shortage is increasing pressure to repair, restore, and retain existing structures, even in situations where demolition makes most sense.
  - ii. Pressure is increasing to add new housing to support agricultural, operational and land management activities, particularly on the coast.
  - iii. Housing shortage and costs are causing more staff to commute from farther away, and has affected the ability to hire top candidates in some instances.
- c. Traffic
  - i. Increased traffic on the roads is affecting the commute time for employees, visitors, and hired consultants/contractors, creating an added stress, time loss, and cost.
  - ii. Conditions are warranting a creative look at transit options, incentives, potential subsidies, expanded remote access, enhanced mobile tools, and the consideration of satellite administrative office space.
- d. Labor Force
  - i. Labor costs for contract and temporary positions are increasing.
  - ii. While the District continues to assemble strong hiring pools with competitive candidates, market competition, the high cost of living, and difficult commutes are a growing challenge and are increasingly resulting in new employees commanding salaries near the top of their salary range, or in some cases, causing turnover among current employees. Creative employee retention strategies are increasingly important, particularly those that focus on mitigating commute stress and commuter costs, as well as enhancing professional development and work schedule flexibility.
- e. Assessed Values (AV)/Property Tax Revenues
  - i. The financial impact of the downsides mentioned above, should they continue, would be offset by higher AV growth and property tax revenue, as well as higher income from cash investments, and possibly, higher donations to partner agencies like Peninsula Open Space Trust. Similarly, when an inevitable Silicon Valley downturn comes, lower tax revenue growth would be partially offset by a reversal in the above trends.
  - ii. Approximately 20% of the single-family parcels within the District currently have an AV of less than \$200,000 due to Prop 13 protection. These undervalued parcels provide a future untapped reserve of tax revenue for the District.
  - iii. 2016 was a very weak year for IPOs and prognosticators expect a much stronger IPO market in 2017. If true, this would be bullish for District AV growth.
- f. Interest Rates and Bond Stability
  - i. Advisors and politicians close to President Trump have advocated for tax-related proposals that could negatively affect the real estate and municipal bond markets. These include eliminating the tax-exempt status of municipal bonds and the tax deductibility of mortgage interest and/or property taxes, and increasing the standard income tax deduction. If actually adopted, any of these would likely

suppress AV growth and/or raise the interest rate paid on future GO bonds. The use of tax credits in the proposed \$1 trillion federal infrastructure plan will directly compete with tax-exempt municipal bonds and may further increase interest rates.

- ii. There is an increased likelihood of additional Federal Reserve actions in 2017 to raise short term interest rates to mitigate inflationary pressure resulting from tax cuts and massive infrastructure spending. This would generate higher earnings on our cash reserves.
- iii. A rise in interest rates paid on new GO bond issuances is not likely to push the tax rate near the \$3.18 cap during the next 10 years, so while negative, such an increase would not be constraining over the next 5-10 years.

## **2. Political Environment and Local Leadership**

- a. Federal -The president's cabinet choices are creating political instability that will require ongoing monitoring and a coalition-based response if changes to federal policies are pursued that would negatively impact the District's mission. E.g. Scott Pruitt will be running the Federal EPA and there is concern he may push to dismantle many EPA programs (Climate Change, Clean Water and Air, Open Space)
- b. State
  - i. Potential new legislation regarding Design Build may provide time and cost benefits for implementing select types of projects.
  - ii. Will need to monitor the legalization of marijuana (Prop 64) to understand the potential impacts to District lands and public safety operations. This change in the economics should reduce pressure on illegal marijuana cultivation on District lands unless taxes on the sale of this new commodity become excessive.
  - iii. CalPERS reduced its projected earnings percentage (Discount rate) from 7.5% to 7.0%. While this will increase our Opex, the major impact will be on local cities and counties, which have much higher Opex/Revenue ratios. As a result, cities, counties, and the state will likely rely more on the District to fund key open space projects of mutual interest. On the other hand, the increase in pension expense will slow local government hiring and promotions, lessening the competition for young workers and making it easier to hire experienced employees from these agencies.
- c. Local
  - i. Relationships with newly elected officials need to be developed at all levels
    - 1. Marc Berman, Assembly District 24 (Rich Gordon's replacement)
    - 2. Ro Khanna, District 17 Congressman (Mike Honda's Replacement)
    - 3. Kamala Harris, US Senator (Barbara Boxer's Replacement)
    - 4. State Senators will term out in 2020 and other Assembly members in 2024
  - ii. Added capacity to track legislation and strengthen relationship with the local delegation also allows the District to revisit its legislative advocacy strategy.

- iii. Significant turnover of senior management at Peninsula Open Space Trust (POST) also warrants the development of new working relationships between District and POST staff.
- iv. Regional partnerships are becoming more critical to leverage resources, effectively address common open space goals, and remain competitive for grant funds.
  - 1. San Mateo County will update their Parks & Recreation Resources Element of the General Plan – an opportunity to add new goals and objectives of mutual interest.
  - 2. The Santa Clara County Parks Charter Fund renewal emphasizes capital projects, and may add pressure to restart previously deferred partnership projects (e.g. Upper Stevens Creek Trail Connection).
  - 3. San Francisco Bay Restoration Authority may provide new funding and partnership opportunities for bayfront projects.

### **3. *Regulatory Requirements***

- a. California SB1029 will require all local agencies (including Midpen) to provide mandatory reports to the California Debt and Investment Advisory Commission when issuing bonds after Jan 1, 2017.
- b. The California Department of Fish and Wildlife now requires permit consultation for all new bridges, which increases the workload, extends project schedules, and adds costs.

### **4. *Organization and Workflow***

- a. Refinements to the Project Delivery Process will further streamline the workflow and ensure clarity of roles, responsibilities, and hand-off points.
- b. Completion and opening of new public access facilities (Mount Umunhum, La Honda, Bear Creek Redwoods) is a top priority; as these preserves near completion, significant staff time will be shifted to the grand openings.
- c. Space constraints in the Administrative Office limit further staff growth, so it is a strategic necessity to complete the design of a new building by end of the new fiscal year. The addition of a few new work stations may provide some temporary flexibility.
- d. Refinements to project scoping, schedules, budgets, and resource loading continue.
- e. The Comprehensive 3-Year Capital Improvement Plan and three-year project budgeting is underway.
- f. New and upcoming tools such as MS Project and Sharepoint will facilitate project tracking and reporting.
- g. New administrative and process tools will streamline our procurement, bidding, contracting, and grant administration.

### **5. *Demographics***

- a. Latinos and Asians are leading the regional population growth and 69% of the Bay Area's youth are people of color.

- b. Census data shows that between 2000 and 2010, the District gained more residents age 15 and younger, and 65 and older, when compared to the state, possibly increasing the demands for programs and facilities that best serve children and seniors. Note: the Visitor Survey will provide demographic data of our visitors and will identify how best to expand and enhance our visitor programs to serve a broader constituency.
- c. A growing number of employees are nearing retirement age, providing promotional opportunities and highlighting the importance of succession planning.

## **6. Technology Trends**

- a. Several Information Systems and Technology (IST) projects are complete, with more underway (e.g. Cloud Server, asset management, SharePoint will provide centralized data management to better support agency-wide communication, project management, and decision-making).
- b. Replacement and upgrading of aging IT infrastructure will match new bandwidth requirements and support remote access technology, especially in the field.
- c. IT training is being expanded and has proved to be critical as we transition into new software and systems.

## **Summary of Findings:**

- Although the District remains in a strong financial position, the unsteady political environment warrants ongoing monitoring to ensure the District's long-term stability.
- As a result of the terming out of a key, supportive, local elected officials, the District will need to establish new relationships with recently elected officials and focus on developing a strong local, open space champion for our region.
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## **FY2016-17-18 Strategic Plan Goals and Objectives**

### **Goal 1 – Promote, establish and implement a common conservation vision with partners**

Objective 1 – Build and strengthen diverse partnerships to

~~Objective 2 – Implement an integrated approach to conservation on the Peninsula, South Bay and San Mateo Coast~~

Objective ~~3-2~~ – Implement and communicate progress on the District’s Vision Plan

Objective 3 – Build and strengthen relationships with state legislators to advocate conservation goals

### **Goal 2 – Connect people to open space and a regional conservation vision**

~~Objective 1 – Convene the Bond Oversight Committee~~

Objective 2 – ~~Develop~~ Refine and implement a comprehensive public outreach strategy ~~utilizing the entire District organization~~, including the engagement of diverse communities and enhanced public education programs

Objective 3 – Communicate the “why” behind a regional conservation vision to help guide future decisions and to clarify and strengthen the District’s regional role with the public and partners

### **Goal 3 – Strengthen organizational capacity to fulfill the mission**

Objective 1 – Provide the necessary resources, tools, and infrastructure, including ~~change management~~ technology upgrades and capacity building to meet ~~Measure AA~~ project commitments

~~Objective 2 – Pursue additional discretionary revenue opportunities to augment operating and bond revenues~~

Objective ~~3-2~~ – Continuously improve recent process and business model changes ~~Continue implementing additional phases of the new business model, as informed by the results of the Financial and Operational Sustainability Model Study,~~ to effectively and efficiently deliver Vision Plan projects and the District’s ongoing functions

Objective ~~4-3~~ – Strive to reflect the changing community we serve in the District’s visitors, staff and volunteers

### **Goal 4 – Position the District for long-term financial sustainability**

Objective 1 – Continue to engage constituents via retail networks for bond sales and via the work of the Bond Oversight Committee

Objective 2 – Pursue additional discretionary ~~revenue~~ funding opportunities and partnerships to augment operating, capital and bond funding sources ~~revenues~~

Objective 3 – Ensure large capital ~~and land~~ expenses and land acquisitions are evaluated within the long-term financial model and ~~are~~ remain financially sustainable