CITY OF SAN DIEGO
MEMORANDUM

DATE: May 8, 2006

TO: Councilmember Donna Frye

FROM: Jay M. Goldstone, Chief Financial Officer

SUBJECT: Information on the Water and Wastewater departments

Please see the responses to your inquiry on the Water and Metropolitan Wastewater departments.

QUESTION: What is the $500,000 increase for renewal of the City's permit to operate and discharge at the Pt Loma treatment facility for specifically? Does it cost that much to renew our waiver? Have we made a decision to renew?

ANSWER: The $500,000 increase for renewal of the Point Loma modified permit is a one-time increase to ensure that sufficient funds are available to complete a comprehensive and responsive application under the provisions of Section 301(h) of the Clean Water Act and the Ocean Pollution Reduction Act of 1994.

The present modified permit expires in June, 2008, and the law requires this renewal application to be filed by December, 2007. Work on the application would begin in FY07 with the renewal document completed by early FY08. No additional funds would be budgeted in FY08 and the $500,000 would be deleted from the FY08 request as a reduction. Any required funds from the original $500,000 in FY07 would be encumbered and held over to FY08 if needed.

The actual tasks required to support the renewal application include facility planning updates, analysis of past discharge compliance and a demonstration of the potential for future compliance of the discharge with applicable state and federal water quality standards and all permit conditions, evaluation of industrial and non-industrial source control programs, evaluation of beneficial uses in the discharge area and extensive oceanographic analysis of the interface of the discharge on the ocean environment.

At this time, there has not yet been a policy decision regarding the renewal of the Point Loma modified permit. This is expected by early FY07. The one-time addition of $500,000 ensures sufficient resources to address any potential scenario regarding renewal.

QUESTION: Why is there a $425,000 reduction in water reuse study?

ANSWER: The total FY07 reduction for the water reuse study is actually $725,953 ($300,427 NPE and $425,526 PE). This was originally a one-time budget expense for FY05 and carried over to FY06 for completion purposes. This study is to be completed during FY06 and was removed from the FY07 budget as a one-time expenditure as indicated in Financial Management budget guidelines. The Water Reuse Study findings and recommendations will be presented to council in the near future.

QUESTION: Why are MWWD budget highlights under both the "General Fund Budget changes" and "Enterprise Fund"?

ANSWER: The Stormwater Division of MWWD is funded by the General Fund, and is therefore indexed separately.

QUESTION: Why did MWWD refinance loans but Water didn't...AND water instead has almost $5 million increase to bond debt payment?

ANSWER: MWWD restructured the Bank of America private financing in order to delay the principal payments that were coming due. It had originally been anticipated that MWWD would have refinanced the private financing with public financing before any principal payments were due. This did not happen, therefore the restructure was needed to move the principal payments out to a later date. It is anticipated that the BofA loan will be refinanced in FY07 with another private financing until we can get into the public market. MWWD has not refinanced any public bonds. In 2003, MWWD started the process of refinancing some of the previous public bond issuances but this refinance was stopped and has not gone forward.

The debt service for water is increasing in FY07 because the debt service on the 2002 Revenue bonds was structured so that there were only interest payments until FY 06. FY07 is the first year that includes principal payments on the 2002 Bonds. The first principal payment will be $4,580,000.

The Water Department does not have a loan to refinance. In 2002, the Water Department issued 30 year Water Revenue Bonds.

QUESTION: Why does Water Dept have a $500,000 "Reduction to SLA's for CIP programs", while MWWD has an $769,000 "Increase for SLA services"

ANSWER: The Water Department has over 30 Service Level Agreements with other City Departments/Divisions. Every year, staff reviews every Service Level Agreement (SLA) and determines level of support needed for the upcoming year. Since the Capital Improvement Program funding levels

have declined during the past few years, it was determined that the SLAs with Engineering & Capital Projects, Transportation, Traffic Control, Office of the City Manager/EOCP and Engineering and Capital Projects, Water and Sewer Design could be reduced by $500,000 or approximately nine percent from FY 06 amounts.

The Storm Water Pollution Prevention Division was reorganized to report under MWWD in FY05. This division requires services from MWWD Divisions to accomplish their goals. Since Storm Water is funded with General Fund monies and MWWD funds cannot support non-related functions, an agreement to pay for the services needed in FY07 has been included in the FY07 budget. The increase of $769,000 includes $619,000 of estimated services for lab analysis and monitoring work from the Environmental Monitoring and Technical Services Division within MWWD, and $150,000 in estimated miscellaneous support from the Services and Contracts Division within MWWD for payroll and contracting services and the Information and Organizational Support Division within MWWD for re-engineering and IT support. These amounts are estimated, Storm Water will only pay for actual services received.

cc: Mayor Jerry Sanders
Ronne Froman, Chief Operating Officer
Mary Lewis, Financial Management Director
Andrea Tevlin, Independent Budget Analyst