COUNCILMEMBER CARL DEMAIO

FIFTH DISTRICT

CITY OF SAN DIEGO

MEMORANDUM

DATE: January 4, 2011

TO: Councilmember David Alvarez

FROM: Councilmember Carl DeMaio

RE: 2011 Natural Resources & Culture (NR&C) Priorities

In response to your memorandum of December 16, 2010, I am submitting my 2011 priorities for the NR&C committee.

Oversight of Water Rates

Water rates in the City of San Diego continue to increase, despite the opportunities available to lower the City's Public Utilities Department (PUD) operating costs. Labor costs, specifically the cost of fringe benefits, in the PUD must be reformed before asking working families in San Diego to pay increased costs for water.

In addition to considering operating cost reform opportunities in the PUD, the NR&C committee should follow-up on the fulfillment of the promises made to ratepayers in exchange for a significant rate increase in 2007 (see attachment). NR&C should also conduct hearings on any proposals that surface related to the highly flawed "Bid-to-Goal" bonus program, which demands additional reform at the very least, if not complete elimination.

NR&C should also increase the levels of communication with City representatives on the Boards of the San Diego County Water Authority (CWA) and the Metropolitan Water District of Southern California (MWD). NR&C should stay apprised of the efforts of these representatives to reduce costs at these water wholesalers to the benefit of ratepayers.

Renewable Energy in San Diego

I believe that the City of San Diego has the opportunity to become a leader in renewable energy, not only in the operations of its own facilities, but also in the private sector

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through the solar industry, water conservation and supply and the clean tech cluster of San Diego's economy.

I believe that the NR&C committee should consider actions and strategies that the City of San Diego can pursue to achieve these goals related to renewable energy.

A focus on these two areas represents my priorities for the NR&C committee in the coming year.

cc: City Councilmembers
Andrea Tevlin, Independent Budget Analyst

Attachment: February 15, 2007 Water Rate Fact Sheet

FOR IMMEDIATE RELEASE
February 15, 2007

FACT SHEET

MAYOR SANDERS DETAILS PLAN TO SAFEGUARD WATER AND WASTEWATER RATEPAYER FUNDS

INDEPENDENT OVERSIGHT, OUTSIDE AUDITS AND SAVINGS FUND INCLUDED AS MAYOR'S FULFILLS PROMISE TO THE PUBLIC

SAFEGUARD PLAN OFFERED IN ADVANCE OF COUNCIL VOTE ON CRITICAL NEW RATES

Mayor Jerry Sanders has announced the details of his plan to install safeguards for protecting the ratepayer funds used by the City's water and wastewater systems. The safeguard proposal was delivered to the City Council in fulfillment of the Mayor's pledge to detail the new protections in advance of the Council's February 26 vote on rate increases for both systems.

The Mayor's safeguard plan includes five specific elements:

- Creation of a new **Independent Rates Oversight Committee**
- Installation of a **"Dedicated Reserve from Efficiencies and Savings"** to help offset future rate increases in both systems.
- Annual **financial audits** for both systems
- Annual **performance audits** for both systems beginning in 2008
- **Limiting future "Bid-to-goal" contracts** with City employees to one year

INDEPENDENT RATES OVERSIGHT COMMITTEE WILL ADDRESS COMMUNITY CONCERNS

Under the Mayor's plan, the City will form a new Independent Rates Oversight Committee (IROC) charged with reviewing and analyzing finances and efficiency measures in both systems.

The IROC will advise the City regarding budgets, project priorities and financial management of the Water and Metropolitan Wastewater Departments.

The new 11 member Committee will include ratepayer representatives and professional experts in the finance, accounting, legal and auditing industries. Members will be nominated by the Mayor and confirmed by the City Council. The IROC will meet every other month at a minimum and more often if deemed necessary by the chair of the Committee. It will replace the current Public Utilities Advisory Committee and will continue to conduct public meetings to gather input from ratepayers and other stakeholders interested in the City's water and wastewater systems.

The IROC will advise the City on the selection of the independent firms that will conduct annual financial and performance audits recommended by the Mayor. The IROC will also provide advice regarding the scope of the audits and about addressing any recommendation coming through the audit process.

Independent Rates Oversight Committee Membership Categories:

Each candidate for appointment to the IROC should possess substantial experience and/or be a member of the classes and professions listed below. A good faith effort will be made to maintain a diverse committee with membership including as many of the following categories and ratepayer classes at any one time.

Single Family Residential Ratepayer	Finance/Municipal Finance
Multi-Family Residential Ratepayer	Legal
Commercial/Industrial Ratepayer	Construction Management
Temporary Irrigation/Construction Ratepayer	Engineering
Auditing/Accounting	Environmental
Science	

NEW FUND WILL HOLD SAVINGS COMING FROM EFFICIENCIES AND CHANGING PRIORITIES

At the Mayor's direction, the City's Chief Financial Officer has created a "Dedicated Reserve from Efficiencies and Savings" (DRES) that will be used to protect and preserve savings found by increasing efficiencies, changing priorities or other actions related to reducing costs of the Capital Improvement Program (CIP) or operations and maintenance of either system.

The DRES will track funds that can be used for accelerating CIP project schedules, creating further efficiencies or other actions that will help to offset the need for any future rate increases in these systems. At the end of each fiscal year, any savings not required to comply with established policies or legal documents will be transferred into the DRES. At the end of four years, any funds transferred into the DRES and not used for capital improvements will be used to lower future rates necessary for the water and wastewater systems.

Under the Mayor's safeguard plan, the IROC will review cost saving measures undertaken in each department and will recommend the deposits to be made to the DRES. The IROC will

review the recommendations coming from both the financial or performance audits and will make its own recommendations regarding how to implement cost saving measures found through those efforts.

AUDITS WILL TRACK FINANCES IN BOTH SYSTEMS

At the Mayor's direction, the water and wastewater systems will be audited each year for the duration of the four year rate increase schedule. The scope of the audits will focus on the use of ratepayer funds and bond proceeds during those years. The Independent Rates Oversight Committee will advise the Mayor and Chief Financial Officer (CFO) about the complete scope of the annual audits and will assist the Mayor and CFO to select and retain an independent firm capable of performing the audits

EFFICIENCY AND BUSINESS ROUTINES WILL BE REVIEWED IN PERFORMANCE AUDITS

The Mayor is also requiring that the water and wastewater systems undergo performance audits to review and make recommendation regarding management practices leading to greater efficiencies and cost savings. The goal of the performance audits will be to identify methods to reduce costs in both systems and to create savings that can be deposited in the DRES.

The performance audits will begin following the first full year of operation under the new rate case (July 1, 2008).

The Independent Rates Oversight Committee will advise the Mayor on the selection of a qualified outside firm capable of conducting the performance audit. Findings from the audit will be presented to the IROC in a public meeting and will be used to assist the Mayor in implementing further management efficiencies during the course of the rate case.

BID-TO-GOAL PROGRAM LIMITED IN PREPARATION FOR MANAGED COMPETITION

To help create a level playing field for the implementation of the voter-approved managed competition plan for the City, Mayor Sanders is directing leaders in the waste and wastewater departments to limit any future bid-to-goal contracts to a one year term with subsequent one year renewal options. Bid-to-goal is a process that allows City employees to improve the efficiency of their job performance with the goal of meeting or exceeding the efficiency expected from private businesses performing similar work.

MAYOR'S SAFEGUARD PLAN LINKS WITH OTHER REFORMS SET TO BENEFIT CITY

The safeguard plan being implemented for water and wastewater rates is part of Mayor Sanders' overall effort to reform business practices and financial management at the City. The plan follows the Mayor's practice of creating honest and transparent systems that can be reviewed and accessed by stakeholders at every level and that focus on providing cost savings and improved service to City residents.