

Independent Rates Oversight Committee - IROC

June 9, 2008

MINUTES

1. **Roll Call**

Chairperson Billings had Monica Musaraca call the roll at 10:00, and a quorum was declared. Attendance is reflected below:

| Member | Present | Absent | Alt. |
|---------------------------------------|---------|--------|------|
| Donald Billings, Chair | X | | |
| Larry Clemens | X | | |
| Linda Cocking <i>arrived at 10:06</i> | X | | |
| Jack Kubota | X | | |
| Barry Newman | X | | |
| Jim Peugh | X | | |
| Charles Richardson | X | | |
| Irene Stallard-Rodriguez | | X | |
| Todd Webster | | X | |
| Gail Welch | X | | |
| | | | |
| <u>Ex-Officios</u> | | | |
| Augie Caires (for Scott Tulloch) | | | X |
| Yen Tu | | X | |

2. **Non-Agenda Public Comment**

There was no non-agenda public comment.

3. **Approval of Minutes from April 14, 2008**

Chairperson Billings called for a motion to approve the minutes. Mr. Newman moved and Mr. Richardson seconded, the minutes were unanimously approved as submitted.

4. **Chair Updates**

Chairperson Billings announced the decision to go “dark” in August. Mr. Newman expressed his concerns about IROC having a lot to accomplish at this time, perhaps August was too soon to go dark. Chairperson Billings suggested it would be a good time due to Council being out. He then mentioned that Mr. Linares has distributed the latest Shames inserts, which will be discussed in the Committee Reports by Mr. Richardson. He also requested that Mr. Ruiz give some feedback on the effect of the governor’s drought declaration.

Mr. Newman asked if language can be added to future Agendas to reflect that the Committee is not bound to Action Items only marked as such. Mr. Zeleny stated that this can be done for future agendas.

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5. City Staff Updates

➤ Water Department - Alex Ruiz

- Mr. Ruiz reported that the Governor declared a drought in California, this is the time to conserve and move forward on a number of different funds and issues. The City is elevating efforts to coordinate the overall supply management (Water Supply Management Team) that has been put in place to monitor how we are doing on a conservation standpoint, and where we will be in the future. He noted there are plans for additional conservation messaging lead by the Mayor's office. He added that they expect to be looking and adopting some version of the SDCWA's model Mandatory Reuse Ordinance in the July/Aug timeframe, which the agencies can review and modify if need be. The goal is to provide more of a consistency region wide, on how the stages and levels are moving forward to supply/response planning.

Chairperson Billings asked if the Governor's draught declaration might result in additional water allocations. Mr. Ruiz stated it does not just involve conservation, it involves storage and transportation issues as well. The Governor, through State offices, can direct the allocation of the state water project, it does not really impact allocation restrictions here. There is no change for outlook with regard to water supply for this year, but we are not achieving the kinds of reductions expected. It is important for the citizens to know that with the continued consumption pattern, we may be looking at allocations next year.

- He spoke about the air valve in the sewer system that was stuck open which released about 3800 gallons of sewage into Lake Hodges, he assured all sampling and testing was performed. The lake was not closed to patron usage, although individuals were told to stay away from the spillage area, and the County posted for the notification. Lake Hodges is not used by us, it is used by the Santa Fe Irrigation Districts as part of their drinking water treatment. They did step up their treatment process.
- The fluoridation item will be taken forward in Council tomorrow. The report will be presented, which is a request formally acknowledging the offer from the First 5 Commission of San Diego County, and will be providing \$3.9M in funding to implement fluoridation at the 3 treatment plants. Once the funding is provided, we are no longer exempt from the State Law that requires fluoridation. We will move forward to engage in negotiations for the actual contract provisions.

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We have 2 years to implement. Mr. Newman asked if the City has to front the cost for the fluoridation and was this an issue that may challenge exemption or the removal from the exemption? Mr. Ruiz stated that he is not sure if this is going to be an issue with DPH, however the City would like some type of front funding mechanism, either an escrow account or a phase funding from First 5, such that we are not expending our revenues or monies in order implement the process.

➤ Metropolitan Wastewater Department – Bob Ferrier

- Mr. Ferrier stated that the air valve spill was not typical, but will be looked into to see what went wrong, and if there are any appropriate measures to take.
- He met with Finance Subcommittee Chair Richardson a couple of weeks ago to get the benefit of his experience, prior to meeting with the Fitch Rating Agency last week. The presentation was improved with the suggestions received. The few questions were answered. After Mr. Newman's comment about Tuesday's Mayoral results, Mr. Ferrier added that the Mayor came down to meet with the Fitch representatives, as well as Councilmember Peters. It was a great opportunity.
- Staff is getting the Waiver posted on the website, there are 2200 pages and will take some time to download.

Mr. Kubota raised this question regarding conservation and recycled water, "is it mandatory if recycled water service is available in the street, customers have to switch to it". He also asked what the percentage is of the utilization of the recycled water system with respect to capacity at North City, and how much is actually selling. Mr. Ruiz answered by stating there is a mandatory reuse ordinance that has been in place for a number of years. The difficulty with the ordinance is that it states that individuals must take recycled water where feasible and available. In 2004, there were about a dozen customers who were immediately approximate to a distribution recycled water pipeline who could easily adopt and take recycled water. We have been working with them to voluntarily take the recycled water, but it has not been mandated. As part of the next few months in reviewing the conservation and drought supply, we are looking at the mandatory reuse ordinance, to make the criteria clearer. He added in terms of consumption, at South Bay 100% of the flows are used and sold to Otay. At the North City Plant, we are at 6000 acre feet per year, and the capacity would be somewhere around 22.5, but we do not use all that capacity. It is not all treated to the tertiary level.

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SDCWA – Presentation of Water Rate Pass-Through Information

This item was not numbered, and was also moved to the bottom of the Agenda.

6. L.A. Hyperion Program Field Trip Update

Ernie Linares mentioned the query was finished to compile the best time for this field trip. It was decided that Friday, July 11 was the best date. He noted that there was interest in stopping at Orange County on the return trip. The trip will begin at 7:00 a.m. to assure adequate time, and return by 5:00 p.m. Mr. Kubota suggested a park and ride opportunity further up the coast to help with travel costs. Mr. Linares concurred and will have Karry Wetherby send out information. He also added that there will be a separate email sent out requesting specific content or questions to send forward to both agencies, giving them time to prep and respond appropriately.

7. Performance Audit

Mr. Linares briefed the Committee on the development progress of the assessment tool (Report Card) and requested action to agree with the adoption of the assessment tool (Report Card) to meet the Performance Audit task called for in the SD Muni Code section that established IROC. A memorandum was handed out detailing the request. He reminded the Committee that several internal meetings have taken place to come up with various options to how to accomplish the task. He stated the 4 major options that have been discussed in the Tech Committees of March, April, May and June, as well as other meetings are: Review of Strategic/Tactical Business Planning Process; Review of Capital Program Performance; Review of combined Metro Wastewater/Water Department Management Structure; and Verification of Bid-to-Goal Performance. He asked that if IROC agrees to this approach, after staff, input from IROC and HDR, we will come back in September with a complete tool.

Alex Palmatier, HDR Engineering, provided the current “Report Card” and a copy of the presentation. Referring to the Report Card, he emphasized that this is the list they started to compile, which is not to evaluate the measures, but rather the philosophy of what is put together and the format to be agreed upon. He mentioned that after several meetings, they grouped the measures into categories (performance objectives); the findings were presented to the Environmental and Technical Subcommittee, and then held an independent meeting with the Committee Chairs to refine the concepts. During the presentation, he noted that the final steps would be: adoption of the format and methodology by IROC; the evaluation of the departments to capture anything that was left out; he explained that these measures can be consolidated, generalized, or removed completely if need be; and finally, the evaluation by IROC and the development of the grading system.

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Chairperson Billings asked if current industry benchmarks can be made, which would be helpful and give a sense of how we are doing, relative to the industry. Mr. Ruiz and Mr. Palmatier concurred. Chairperson Billings asked if it makes sense to do a composite score for each of the 7 categories. Mr. Palmatier stated it would be in another round of discussions, when we get to the grading system.

Mr. Richardson added he would like to see a collection of little items that offset items that really matter. He feels that some things cannot be dismissed that need to be tracked, but cannot overwhelm things that really matter on a day to day basis. Mr. Caires asked where we are in terms of adapting the Qualserve measures. Mr. Ruiz stated there are a number of Qualserve measures that have goals within them and that we are utilizing what currently exists in the industry, he feels that the definition of the measure needs to be more refined and we are continuing to refine them.

Chairperson Billings asked if there are measures in place to make sure we do not repeat the situation with UCAN. Mr. Ruiz stated that he will take a look at the measures in that prospective and include that feedback in the next discussion process.

Rod Greek mentioned that some of the evaluations will take more time and have more costs internally. He also added that in the coming weeks, there is a large teleconference that the Qualserve folks are putting on, as well as surrounding Utilities that are participating in Qualserve and will be participating to identify those performance metrics. The City will be engaging in the teleconference.

Mr. Peugh added that the Strategic Review was also talked about in the E&T Subcommittee meetings, and would like to see it as an item on the list to move forward with. Mr. Newman asked that the IROC ensure that the JPA be fully integrated into the process as to promote efficiency. Mr. Newman moved that the concept as presented, with the comments made, of the Report Card structure and format be approved and we move forward refining it, as presented with HDR. Mr. Richardson seconded, all were in favor.

8. Strategic Planning Update

Mr. Gavares provided a draft Strategic Plan Alignment Matrix as well as a copy of his presentation. He provided an update of the MWWD's Strategic Planning Process and went through the phases of the planning process and referred to the matrix briefly explaining the goals. He then announced the next steps to occur will be: presentation to the Metro TAC Committee in mid June; a presentation to the Metro Commission in mid July; and publish FY09 Strategic Planning Document in the late July early August timeframe.

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Mr. Newman asked, in regard to the integration of the 2 departments, if there is an overview piece as to which functions are going to be integrated in regard to allocation of costs and rate cases etc, and how they will be divided. Mr. Ferrier stated that once the announcement of the consolidation took place at the beginning of the calendar year, it has been worked on. There are obvious areas that Jim Barrett thought should be worked on first such as HR, IT, Safety and Training, etc. Those efforts are ongoing and we expect a report out in the next 2-3 weeks. There is a preliminary report by Tom Crane who is working with both departments, where he laid out some rough timelines for some of the areas talked about. He can make this report available. Mr. Newman noted he would like to see some type of overview as he is unclear what current functions would be integrated, which are City functions, etc. Mr. Ferrier concurred.

Chairperson Billings asked if IPR fits in somehow. Mr. Ruiz said if this is directed toward the indirect potable reuse pilot process, then that is going to be a Water side issue. He does not feel it is something that would be rolled up in the Wastewater Strategic Plan, which is an item still in the Mayor's office in terms of how we move forward in that process. Mr. Ferrier agreed, but added that as this Plan moves forward, it will impact both departments. Not in the short term plan, but definitely in the future. Chairperson Billings asked about goals in respect to spills and main replacements. Mr. Ferrier said the spill reduction goal is incorporated in our Bid to Goal program every year, both of these goals are a constant focus.

9. Committee Updates

a. Finance

Mr. Richardson went over the May 12, 2008 meeting minutes which were attached in the packet. He noted that they discussed the FY08 planned financial reviews for each department. He said he asked for a combined listing of all existing audits or reviews of the departments, indicating the timeframes expected to have reports so they can facilitate the Subcommittee's scheduling of its reviews of the results of such. He also added in view of the fact that IROC will be going dark in August, it was decided the Subcommittee shall go dark as well.

b. Environmental & Technical

Mr. Peugh first reminded the staff that he is requesting a list of projects that are unfunded. Mr. Linares stated Sam Gray indicated he believes it would be available for the next IROC meeting. Mr. Peugh said they discussed the waiver with Alan Langworthy and it is moving ahead, there were requests for clarification, they modified 300 pages of the 2300 page document. The next step from the EPA is a tentative decision and then public hearings. The Regional Board will then weigh in. They discussed the Hyperion Plant and the Performance Audit which led to the discussion today.

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Mr. Kubota reported that a question was asked of the staff as to what was in the planning for the situation where the Waiver was not granted and was pleased to hear that the staff is doing a lot as far as looking for new technology. They seem very optimistic, but there is new technology in Europe that would enhance the ability to put secondary facilities at the Pt. Loma site. Mr. Peugh mentioned that some land could potentially be opened by the Navy. Mr. Newman added that a penny should not be spent if it does not harm the environment or the ocean.

c. Public Outreach, Education & Customer Service

Mr. Clemens reported that at the June 2, 2008 Subcommittee Meeting, they discussed the UCAN bill insert and had a couple versions reviewed by City staff. He said they talked about the tenor of the piece itself as well as the concern that the device was being used as a source of solicitation of contributions to UCAN that perhaps wouldn't be used exclusively for monitoring rates. He added because there is limited time left and there is an obligation to produce 3 in the course of the year, in addition to Prop. 218, there could be added postage and printing costs. He also mentioned the SDCWA presentation was very complete and useful.

Ms. Alejandra Gavaldon provided the latest version of the UCAN insert which was sent to UCAN last week. She stated UCAN was asked to review and provide any comments or edits by tomorrow so it can go to Council on June 23 or 24th. If there is no response, our recommended version would be presented as well as the latest version UCAN is requesting. She asked the IROC for their comments today as well. She said Mr. Shames stated that once anyone contributes money to UCAN, they automatically become a member. This was a concern, so there was language added into the bill inserts, that the City or the court will have the ability to audit ensuring the money is being used properly. In regard to the potential additional \$35K we would have to incur for the mailing, the objective to have this be cost mutual. She reminded the IROC that with the 218 Notice may be having to be more than 1 page, as a result of that, one additional page would be an additional \$35K in cost.

(Not Numbered): SDCWA – Presentation of Water Rate Pass-Through Information

Eric Sandler, SDCWA, Finance Director, provided a copy of his presentation. He gave some background of the Water Authority multi-year budget (\$1.48 bi annual) which was adopted June 07. The adopted budget highlights are the development of local supply, and operating new facilities. Due to the distressed supply situation emerging, they set CY08 rates only and provided estimates for CY09 rates. Mr. Sandler then talked about the Long-Range Financing Plan (LRFP), which was completed in Feb 08, adopted in April 08, and issued debt in May 08. He mentioned that this debt issuance created a

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credit rating upgrade, which brought SDCWA to an AA+. He described the high/low rate projections and the LRFP rate projections. He then talked about the CY09 rates and charges, which would be an overall increase of 11.9%. The full cost recovery would result in 13.7% increase. The largest driver of the increase is MWD's increased cost of untreated water. Mr. Sandler broke out the melded M&I supply rate and talked about how the changes in water supply costs stack up. He shared a graph which reflected what goes into the melded supply cost for CY08 and 09, and explained a graph showing their financial reserve position, rate stabilization fund. He ended with items that the budget and rate proposal do not cover.

Mr. Newman stated he feels this is unfair to the City of San Diego and the role of the IROC. In regard to the drought condition, it seems interpreted as a "term" condition, whereas he believes no matter what happens with the rainy seasons, California will be behind the curve farther than anyone can project. Allowing uses that are inappropriate for that kind of desert environment to allow any new construction to have lawn on it, is unacceptable. He feels it should be accepted regionally that we are in a water crisis and will continue to be.

11. Proposed Agenda Items for next IROC meeting of 7/14/08

Chairperson asked if proposed items be sent via email, due to time constraints.

12. IROC Members Comments

Mr. Newman expressed his concern about the voluntary conservation now, and in the future will turn to mandatory conservation. Will it be based upon the "then" use of water or based on use of water before the voluntary. He would like this concern addressed soon. Mr. Ruiz stated it is currently being reviewed, and he will bring back a proposal of how it will be implemented if need be.

Adjournment of IROC

At 12:10 Chairperson Billings called for a motion to adjourn, Mr. Newman moved and Mr. Kabota seconded, unanimously the meeting was adjourned.

Next Meeting: July 14, 2008, 10:00 a.m. – 12:00 noon.

Location: Metropolitan Wastewater Department, Auditorium, 9192 Topaz Way, San Diego, CA 92123 – (858)292-6300