

Independent Rates Oversight Committee – IROC

January 19, 2010

MINUTES

1. **Roll Call**

Chairperson Billings called the meeting to order at 9:04 a.m. Monica Musaraca called the roll and a quorum was declared. Attendance is reflected below:

Member	Present	Absent
Donald Billings, Chair	X	
Tony Collins	X	
Christopher Dull	X	
Andy Hollingworth	X	
Jack Kubota	X	
Jim Peugh	X	
Irene Stallard-Rodriguez	X	
Todd Webster	X	
Gail Welch <i>arrived 9:10</i>	X	
ExOfficios		
Scott Tulloch, Metro JPA		X
Augie Caires, Metro JPA Alternate	X	
Ken Williams, City 10		X
Yen Tu, City 10 Alternate	X	

2. **Non-Agenda Public Comment**

There were no non-agenda public comments.

3. **Approval of Minutes from 12/21/09**

Chairperson Billings asked for a motion to approve the Minutes of December 21, 2009 with no corrections. Committee Member Peugh moved to approve, Committee Member Webster seconded, with one abstention (Stallard-Rodriguez) all in others in favor.

4. **Chair Updates – Chairperson Billings**

- The Metropolitan Operations Complex facilities tour will immediately follow the next scheduled IROC meeting of February 16. The meeting will begin at 10:00 and the tour should immediately follow.
- IROC should have received an invitation from Marsi Steirer for a series of tours related to Water Reliability. If you have not received, please contact Ernie Linares.

5. **City Staff Updates**

Jim Barrett, Public Utilities Department Director

- Management team in place working hard and will be focusing on the budget process. The General Fund through the Mayor’s guidance and policy has been restructured. The enterprise fund is not included. There is an 18 month look to reduce the deficit in the General Fund. There will be a new software planning process for the budget, staff is excited.

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- Working through a new Strategic Business Plan with the Mayor's Office. IROC will receive a copy via e-mail soon after the meeting. The four goals are: a safe and clean city; a fiscally-sound, effective city government; sustainable growth and economic prosperity; and a responsive, committed and innovative workforce. The objectives were described and may be added to.

Chairperson Billings asked, in respect to the General Plan process, about the update process. Mr. Barrett explained the process is a long-term 20 year plan with Community Plan Amendments that must be folded in. Water follows behind this plan but also has its own requirements. The Utility side is mandated by State Law to conduct Water Supply Assessments if the development's size trips certain thresholds. Also, in order to get State funds, the City must submit an Urban Water Management Plan based on a 5-year look ahead, which is now in the process of being updated.

Committee Member Peugh asked about the condition applied to the Waiver. Mr. Barrett stated that the condition, as currently written, would require the City to come back and respond to the Commission with a summary Report on the cooperative agreement we have with the environmentalists and how the City intends to implement that Report. The findings or recommendations of the Report are unclear at this time so it would be impossible for the City to explain how the recommendations would be implemented.

Committee Member Peugh stated the Environmental Working Group has evaluated that the City's water has an abundance of pollutants in it however, the newspapers state this is not true. Is there a response ready for the Environmental Working Group? Mr. Barrett stated there is no intention to respond at this time. He stated the report was biased, and related to the Safe Water Drinking Act. He noted the water agencies across the country are very effective in dealing with the contaminants they are required to deal with. It is the things there are no requirements for, that the Report tends to be more inflammatory about. The results used were not data from treated or filtered water, there was raw water data combined as well. In short, the City complies with all given requirements.

- With regard to Bid to Goal, the item would be heard on February 1 (rescheduled to later date), Mr. Barrett has a meeting with the Mayor's staff on January 20 to review our response and the Auditor's findings. Recommendations were agreed to, most dealing with the earlier Agreements. The program has now been in place for approximately 12 years, with many improvements.

Alex Ruiz, Assistant Director

- No NR&C reports at this time. Requested from Councilmember Frye to have a substantial portion of her meeting to demonstrate the new Rate Model functionality, since the time was not allotted in October.
- With regard to the Water Conservation figures, do not have final figures at this time due to conversion of the calculations of figures.

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- In regard to IPR, Ms. Steirer has proceeded to engage public forums. We anticipate going to Council, as well as having the final scope for the RFP for the construction operation of the demonstration project by the close of this month.
- Letter received from GCR Attorneys on behalf of the Otay Water District litigation threat with regard to our recycled water pricing study. It was noted a number of objections with regard to what they were briefed on sometime before hand as well as what they saw in a draft pricing study produced some time ago. This Draft has since been superseded. We are working closely with Raftelis and will bring this before IROC soon. We are now engaged with collection of a bill Otay owes the City for several hundred thousands of dollars for the purchase of excess treated water at the Otay Treatment Plant. This has been forwarded to the City Attorney's Office and Collections for action.
- Partnership for Safe Water is a volunteer program between the City and the EPA to encourage Water Treatment Plants to go above and beyond regulations in order to provide a heightened level of safe water to customers. The Otay Treatment Plant has a new Superintendent, Jim McVeigh, who is a valuable asset for the region. He has been with us for a couple of years and has instituted a plan, do, measure, check process and engaged this Partnership with the EPA as a mechanism to drive additional performance. Mr. McVeigh produced an Annual Report which was required, and we have received very positive comments from AWWA, included in the packet. Added, last year received the Director's Award as part of this program and we are very proud.

Chairperson Billings asked if there is a rise in collection issues due to the economy. Mr. Ruiz stated no, however there is an increase in the number of accounts that are closed, reverting back to the property owner with no renter. Chairperson Billings then asked if there is historical data on consumption, with given drivers to develop an explanation in these factors. Mr. Ruiz stated the data is available and has in the past been analyzed with different drivers and factors. A report was completed by Renwick & Green in 2001 which outlined analysis on all factors. This was a great report that relied on data from the mid 90's to the early 2000's. This data suggested it is necessary to double the price to get a 20% decrease in demand, the significant driver was average temperature, not precipitation.

Ann Sasaki, Assistant Director

- Finished calendar year 2009 with only 38 sewer spills, a significant reduction and record for the Wastewater side. Crews are doing a great job.
- Within the Consent Decree there are milestones to be met with several projects. A pump station was to be completed by the end of December 2009. This was not met and the City could potentially be fined. Tom

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Zeleny, Deputy City Attorney, added the EPA has agreed not to impose any fines or penalties for sewer spills, but now that we are out of compliance, and sewer spills that may occur between now and the time the project is finished larger than 1,000 gallons and reach public waters, there are stipulated penalties within the Consent Decree on a per/gallon basis.

Committee Member Hollingworth asked what the cause of the delay is, and when this project is due to be completed. Ms. Sasaki stated we are awaiting an update from the Contractor, and it appears the project may not be completed until the end of March. Part of the delay was getting the pumps manufactured and sent out to the site. We are doing our best to accelerate it, but the rain is deterring.

6. Actuarial Assumptions of Pension Obligations on Public Utilities Department

Rod Greek, Deputy Director, gave a summary and a presentation on this item. This was a continuation from the last IROC meeting of discussion and how it impacts the Utility. Handouts of the presentation were provided and he listed some of the major actuarial assumptions including the investment return rate, inflation rate, interest credited to member contributions, salary increase rates, annual cost of living adjustments and additional assumptions regarding rates of separation from active membership, post retirement mortality, active member mortality and rates of retirement. He noted the SDCERS website (www.sdcers.org) provides a copy of the recently released 2009 CAFR and a copy of their last actuarial evaluation study if interested.

Mr. Greek reviewed a provided chart of the Pension System covering the valuation dates from 2004-2008, showing the Assets, AAL, Funded Ratio and UAAL. He stated 2009 numbers are available and reiterated these reports are all located on the SDCERS website. He stated last year was not a good year for any investments, but over the past 6 months there has been a dramatic increase in investment returns and hope to see the same from the pension fund going forward.

He then pointed out the Pension Funds for 2008 through 2011 for Wastewater and Water. The Rate Case projections and actual/budgeted are to contribute. He also discussed the Retiree Health Contributions for Wastewater stating this is made up of the pay-go portion to pay for the health for current retirees and a prefunded portion which is an amount paid for the accrual of future retirees. He stated in FY11, the City is anticipating to pay about \$62.2M for retiree health, which is only 52% of the full ARC, noting it is not a legal requirement to pay the full ARC. He then went over the Water Contributions which are similar. He added the Utilities are part of the Citywide program so we continue to participate at the same level as the City as a whole.

Last, he provided pie charts showing where salaries, fringe, retiree health are in comparison to the operation budget for Wastewater and Water, being very similar.

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He added that in past years, the utilities have paid additional amounts to the Pension which would have generated a higher funded percentage than the rest of the City, but this practice has stopped and the utilities were reimbursed to bring us back to the same funding levels as this practice created problems with accurate tracking. If the Utilities wanted to increase their funding of the Pension System and Retiree Health, it would be recommended moving toward creating a separate fund in SDCERS. He stated he is not sure if this would be favored by the Mayor and Council. Chairperson Billings concurred and would like to further engage in this idea in the future as the rate case moves forward.

7. FY11 Public Utility Proposed CIP and O&M Budgets

Rod Greek, Deputy Director, noted this item was initially intended to be an action item to ask for IROC's support, however, the timeline has slipped so this is an information item. He briefed the IROC on the unique challenges in the Budget process for FY11. He noted the consolidation efforts of bringing the two departments together has presented unique challenges for budgeting as different parts of operations are being combined into newly created branches. He provided handouts of his presentation and described the Public Utilities organization structure.

Mr. Greek noted the SAP systems are still being implemented, the finance and logistics module went live July 1, 2009; the Human Capital Management (HCM) went live recently in December 2009; the Public Budget Formulation (PBF) module will go live this month; and Accounts Receivable module will go live in March 2010. These are all unique challenges and are starting to see the benefits.

He reviewed the 2 funds within the Utilities Department which are the Water Enterprise Fund and the Sewer Enterprise Fund. There is a legal requirement to keep them separate when doing the budget. He listed the branches and divisions for Public Utilities for FY11 which support both Water and Wastewater Enterprise Funds and went over the process to date, with regard to budget preparation and Budget Bowls.

He stated the call memo from the downtown Budget office recently which was delayed due to some challenges they encountered with the 18 month budget deadline, as well as the new SAP system. He listed the key dates beginning with January 2010 Budget document development and workshops; February 2010 zero based budgeting of equipment outlay, contract and hourly; and ending with April 2010 fiscal year 2011 Proposed Budget release. The goal is to bring the full Budget to IROC for support in February.

He provided materials and reviewed the coming CWA and MWD Impacts and schedule. He stated we will not see the increased water purchase costs that will take effect next January in the FY11 Budget to be distributed in February, but will do a mid-year adjustment depending on the impacts. He provided in the

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handouts, websites where more information can be found as budgets are developed further.

Committee Member Welch inquired about the expansion of the Reclaimed Water extension that was mentioned in 2006, to be included in the 2011 budget. She asked if this was still included in the budget. Mr. Greek stated it is not included, Public Utilities does not have the revenue to do so. Mr. Barrett added any projects regarding the expansion have been removed until it is decided where the revenue will come from on the reclaimed side, to pay for expansions of the System. Ms. Steirer added Chairperson Billings in the past, had asked to have this come back early this year to present information on what funds are available and what is planned. This is being put together now and should be ready to present in the near future.

Chairperson Billings mentioned his outlook in regard to the pass through rate increases. He stated with the increases, the public outreach is very important with the Council members as well as the public. He is concerned with the risk internally and political environment locally that is driven by these uncontrollable costs. He added it is critical to communicate to CWA and MET the consequences here, and the importance of having them get their controllable internal costs under control. Mr. Barrett concurred.

Chairperson Hollingworth asked when submitting the Budget, can the subcommittee get the back-up documents earlier to review in the Subcommittee next month, Mr. Greek stated he would get this together.

8. Water Rate Recalibration

Alex Ruiz provided handouts of the presentation and gave an overview on the work that has been accomplished over the past several months in regard to recalibrating the existing rates within the structures we have had in place, as result of the prior Cost of Service Study (COSS) done in 2006, applied to the 2007 4-year rate case. He stated we will be coming back in February or March to ask for IROC's support in recalibrating rates, and will be looking forward to feedback about the methodology and approach undertaken. He mentioned two significant issues to address which are what the Departmental response should be in the event of additional restrictions imposed upon us by our wholesalers; and what should be the Department's preferred option for instilling longer-term conservation among its customers.

Mr. Ruiz summarized the response to the current shortage noting that the City has achieved 10.9% savings under the 8% CWA water supply reduction. The City has used 42% of its annual allocation (pacing target is 49%). He stated most of the savings have come in July and August. He then noted the CWA supply outlook as of December 2009.

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He referred to his slides, showing the cumulative daily/monthly precipitation graphics and the reservoir conditions at Lake Oroville and San Luis Reservoir noting we are below average. He added for the Colorado River System, Lake Powell is 62% full, Lake Mead is 42% full and we need several years of above average run-off to replenish the system. The local reservoir storage levels are at 43% capacity as of 11/30/2009. He then went over the precipitation and temperature predictions (as of 12/17/2009) for the next 3 months.

He stated the City must be able to increase savings if needed and instill current savings in the long-term, even if supplies remain the same by keeping our response option approaches of emergency water regulations, and pricing signals through rate structure. Mr. Ruiz referred to his illustration and listed the pricing approach showing the current structure (commodity 1/01/10) for single, multi-family, commercial, industrial, and irrigation and small price increases between tiers in SFR as well as alternative pricing approaches and explored them. He gave sample customer results with Current, Notional and the Variance. He then explained the elasticity factors and prices, noting a price decrease in the 1-5 HCF and 6-9 HCF consumption class. Mr. Ruiz reminded IROC, when talking about an alternative pricing approach, irrigation use must be targeted as well as consumption and sanitary purposes. Both market segments typically have separate irrigation meters at one cost.

He then touched on a “budget” approach to SFR, as part of the recommendations from the 2010 COSS. There is limited applicability to commercial accounts. In regard to irrigation, he added we have in place, a study looking at 3 communities within San Diego County to see if we can statistically validate the amount of irrigated landscape based on lot size. This is a key to validation. Mr. Ruiz then explained the difference between the Irvine Ranch Model and the Notional Model. They both create multiple levels of pricing structures for increasing demand usages. For Notional, the consumption is fixed for all customers, with Irvine Ranch it is based upon an efficiency evaluation at the property but fundamentally, both charge more for the more you use.

Last, he reviewed the preliminary actions of consideration of 2 additional fixed tiers for single family residents, maintaining revenue neutrality with 2007 Cost of Service Study (COSS) requirements; provide steeper price jumps between tiers; ensure recommended rates target discretionary usage for irrigation; recommend alternative pricing structure for irrigation-only accounts based upon existing CLSP; and defer commercial and multi-family accounts until 2010 COSS is completed. He stated the next steps are to obtain IROC feedback and to finalize recommendations, then present to stakeholder groups, IROC in February with an alternative on rate recalibration, and to present to NR&C in March. He then thanked Chris Ojeda and Rod Greek for all of their hard work.

Chairperson Billings expressed his gratitude for the range of information and very clear exposition.

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Chairperson Billings asked in regard to the Notional 5-Block Structure. He asked if the demand reduction is modeled based on the “tier shock” or on the total bill? Because the customer may pay more attention to the overall bill, which is actually declining. Mr. Ruiz stated it is based upon the tier shock, and he noted this outlook.

Committee Member Webster asked if any additional studies have been done in regard to the base fee. He stated his concern is for single family residential unit in a lower tier is actually paying a disproportionate amount compared to others. Mr. Ruiz stated this is being looked at as part of the COSS in 2010 and the costs associated. In addition, provided the legal challenges are overcome, we are looking at whether or not we can place additional conservation costs incurred, to the higher users.

Committee Member Welch added she feels the tiers will accomplish conservation. She asked where the rebates are, are they included in this rate structure? Mr. Ruiz stated the rate structure will generate revenue needed to support the operations and conservation program. The rebates from MWD for the commercial sector have diminished for this FY. There are some available for single family residential customers. Ms. Welch suggested getting this message out.

Committee Member Kubota stated the fact that the fixed costs include a significant amount of investment and money for the fire protection in the reservoirs, pump stations and the size of the pipelines, he suggests letting the customers know this so they understand.

9. Small and Local Business Program for Public Works Contracts

Chairperson Billings referred to the distributed draft letter to the Mayor and Council. He stated he has become aware of a Draft Ordinance which has since gone before Council and unanimously approved by Council. He proposed IROC send the letter to the Mayor and Council stating IROC’s mandate is not to set policy, but to ensure that when such policies are adopted to extent they place an additional burden on rate payers, that burden be accounted for so rate payers understand this cost is needed for the operation, infrastructure and maintenance. He feels they should not be funded not be rate payers, but by the General Fund. He is concerned there is a 5% premium for special class bidders to bid on contracts. He would like to see the costs measured and reimbursed to rate payers. He asked the IROC members their feedback on sending this letter.

Committee Member Kubota supports sending the letter if it is decided. Committee Member Peugh asked what legal requirements there are for City Council to take into consideration the benefits to rate payers opposed to tax payers. Mr. Zeleny stated the Council cannot only consider the concerns of the rate payer. They can balance a competing interest. In this case, there are potentially higher costs for water and sewer projects. There are other public

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purposes and policies the Council can legitimately balance against the cost to the rate payers. They believe the City needs to do more to bring in smaller and local businesses into the program. He pointed out there is an existing Program within the City, which is any Public Works contracts below \$250,000 currently go to the Minor Construction Program which is essentially a small pool of relatively small contractors competing among themselves. The City already has mandatory subcontractor participations on most of the Public Utilities contracts now. He then elaborated.

Committee Member Welch stated her concern of what strain it puts on whom to manage. Chairperson Billings feels it should be through the Comptroller's Office in his opinion. He added the City Council may be unconcerned with the additional costs and how to measure them. Chairperson Peugh asked if there was any discussion of the costs? Mr. Barrett stated on a number of occasions, he has had this discussion as contracts have come up and have explained it is his personal belief with his experience, that this type of program will increase costs due to the breaking up of programs into projects with the intent of preventing any large businesses from outside the area coming down and establishing a foothold. These large businesses are able to operate at a higher efficiency than local businesses. The benefit to Council is to put more residents to work using municipal funds. This is hard to argue.

Chairperson Billings asked for a motion to approve sending the letter out to Mayor and Council. Mr. Zeleny added there is one sentence in the letter he would recommend striking from the letter, he pointed it out. Chairperson Billings concurred and asked for the motion. Committee Member Kubota moved, Committee Member Collins seconded, with one opposed (Stallard-Rodriguez) and one abstained (Hollingworth).

10. **Urban Water Management Plan 2010**

This item was deferred to the next scheduled meeting of February 16, 2010.

11. **Sub-Committee Reports**

a. **Finance – Subcommittee Chair Hollingworth**

January meeting was cancelled. Nothing to report at this time.

b. **Environmental & Technical – Subcommittee Chair Peugh**

- December Notes are included in packet.

c. **Public Outreach, Education & Customer Service – Subcommittee Chair Welch**

January meeting was cancelled. Nothing to report at this time

12. **Metro/JPA Report Out – Chairperson Billings**

- Discussed rebates to Member Agencies.
- Discussion of status of the Waiver by Mr. Barrett.

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- Discussion of Recycled Cost of Service Study
- Action for letter of support for IPR.

13. IROC Annual Report

Ad-hoc Committee has circulated drafts and hopeful the Committee will approve by the end of next week. This will then go to management for review and comments so it may be brought before full IROC by next meeting if possible, for approval.

14. UCAN Offer to IROC for use of “Funds Raised” from Ratepayers

Chairperson Billings will provide a Draft next meeting. He encourages anyone who wants UCAN to devote its resources to, please get that information to him as soon as possible.

15. Proposed Agenda Items for Next IROC Meeting

- Urban Water Management Plan 2010
- UCAN’s offer to IROC for use of funding

Please send any other items to Chairperson Billings or Ernie Linares.

16. IROC Members’ Comments

Committee Member Kubota stated this Thursday, the Planning Commission will be hearing the request from Councilmember Marti Emerald’s office for the sub-metering of apartments.

Adjournment of IROC

At 12:05 Chairperson Billings motioned to adjourn, all were in favor, the meeting was adjourned.

Recording Secretary: _____
Monica Musaraca