

Independent Rates Oversight Committee – IROC

October 17, 2011

MINUTES

1. **Roll Call**

Chairperson Peugh brought the meeting to order at 9:36 a.m. Monica Foster called roll and a quorum was declared. Attendance is reflected below:

<b>Member</b>	<b>Present</b>	<b>Absent</b>
Jim Peugh, Chair	X	
Don Billings <i>departed at 10:45</i>	X	
Christopher Dull	X	
Andy Hollingworth	X	
Jack Kubota	X	
Colin Murray	X	
Michael Ross	X	
Irene Stallard-Rodriguez	X	
Todd Webster		X
Gail Welch	X	
<b>Ex-Officios</b>		
Augie Caires, Metro JPA	X	
Ken Williams, City 10	X	

*Department representatives: Alex Ruiz, Assistant Director; Tom Crane, Assistant Director; and Tom Zeleny, Deputy City Attorney*

2. **Non-Agenda Public Comment**

None.

3. **Approval of Draft Minutes from September 19, 2011**

Committee Member Kubota pointed out in Item 11, the Action does not include the member who seconded the motion, and requested it to be added. Chairperson Peugh pointed out in Item 7, last paragraph, indicates “California gets 4.4 acre feet...”, however, it should read “California gets 4.4 *million* acre feet”.

**Action:** Chairperson Peugh asked for a motion to approve the Draft Minutes with said two corrections. Committee Member Billings moved to approve. Committee Member Kubota seconded, with Committee Member Dull abstaining, all other members were in favor to approve the Minutes with said corrections.

4. **Chair Updates – Chairperson Peugh**

- Will give a presentation of the 2010 IROC Annual Report to the NR&C Committee on Wednesday, October 19 at 2:00 p.m.

5. **City Staff Updates – Alex Ruiz, Assistant Public Utilities Director**

- Congratulated and announced that Lee Ann Jones-Santos has been officially appointed Deputy Director over the Finance, Information & Technology Division.

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- The lobby renovation will occur over the next several weeks, and the auditorium will be inaccessible during that period. The south entrance will be available for entering the building. Detour signs will be posted.
- Trade Mission from the United Kingdom here on Thursday and Friday of this week. The Trade Mission is comprised of industry representatives of the United Kingdom whose intent is to establish a greater economic tie with the City of San Diego. Roger will be giving an informative presentation on Thursday, and on Friday they will tour the Pt. Loma Wastewater facility.
- Councilmember Sherri Lightner will be presenting her Water Supply Policy document which was presented to IROC previously and supported, to Council today at 2:00 p.m.
- Wednesday, at Budget and Finance Committee of the City Council, the City's Reserve Policy and Bond Refunding will be presented for a vote, in addition we will present updates on the Indirect Potable Reuse Project, and consent items.

6. **Office of City Auditor Performance Audit: Public Utilities Capital Improvements Program**

Erin Noel and Deandre McCall, Office of the City Auditor, presented. Ms. Noel indicated their overall objective was to assess the effectiveness and efficiency of the Public Utilities' Capital Improvement Program (CIP). Therefore, they reviewed the Public Utilities' Asset Management Program and Capital Planning; Public Works/Engineering's project delivery costs and project charges; and Comptroller's Office's development of overhead rates for City departments. Also, they analyzed financial data; reviewed best practices for asset management; capital planning and project management; and assessed project delivery data.

Ms. Noel pointed out the City's process for the CIP is very complex and then reviewed a simplified version. She gave background of the CIP Process, and noted because of the structure, the findings and recommendations are addressed to four different departments, which included Public Utilities.

She indicated there were 4 major findings, where 18 recommendations were made for improvement. The Administration agreed or partially agreed with 14 of the findings, and disagreed with 4. She then gave brief highlights of the 4 major findings which included: 1) Public Utilities has taken steps to implement Asset Management, but efforts are not comprehensive; 2) Improvement is needed to Wastewater Master Plan and communicating Capital needs to stakeholders; 3) Project delivery costs are higher than statewide average for smaller projects, and project managers are not consistently charging appropriate line items elements of projects; and 4) The City is not charging overhead, which impacts Public Utilities' and other departments' forecasts of future project costs.

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Ms. Noel and Mr. McCall then referred to handouts, discussing the four major findings in more in detail with findings, examples, as well as improvements necessary.

Ms. Noel noted that in all total projects, they found the City's average project delivery costs are in line with state-wide averages. The state-wide average for the larger projects was 25% and the City's was 26%. For smaller projects, the City is 14% higher than the state average. Department officials attribute some of this to the declining economy driving down construction costs, no access to the public bond market, and other factors. Mr. McCall noted that details are on page 59 of the report. Some Committee Members had concern with these numbers.

Vice Chairperson Hollingworth commented with his experience, he considers project delivery costs over 20% to be excessive. He asked for comments. Ms. Noel indicated the small projects are an issue, though they tried to normalize for all the different factors, it was still higher than the average. She added there are not two different systems, so the process for doing a large project is the same as doing a small project. So you are losing those economies of scale, and the City did acknowledge and this will be addressed.

She indicated Public Utilities and Public Works/Engineering are generally agreeing with recommendations and open to improvement, but the Administration is not acknowledging the issues identified with SAP and appears unwilling to provide Departments with the tools needed. She then referred to her presentation, and discussed the listed the Recommendations of Disagreement.

Ms. Noel added to remember it is very difficult for Project Managers to manage their budget due to the many factors. Vice Chairperson Hollingworth asked if the Department [Public Works, Engineering] disagrees with the recommendation to provide the tools of a consolidated project to date budget vs. actual, Ms. Noel commented yes, the Department states it already exists, however the tool is not useable at this juncture, and there has not been training as of yet.

Vice Chairperson Hollingworth indicated he considers this a very serious program control weakness. Ms. Noel commented they are very willing to make changes and recognize the issues, and are agreeable. However, this was an Administration decision. Also, pointed out in the previous audit, there was not a crosswalk between the SAP and Primavera systems, which was an issue, but there will soon be a crosswalk for the two systems.

Last, Ms. Noel recapped and indicated that Public Utilities and Public Works Engineering generally agree with the recommendations and seem to be open for improvement. However, the Administration is not acknowledging the issues identified with SAP and

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not very willing to provide the Departments with some of the tools needed, which is outside of their control.

Committee Member Billings asked how is “back-log” defined, and how do we know there is a back-log? Ms. Noel indicated the Department has stated they do not have a back-log. However, there are always things that need to be done.

Ex-officio Williams indicated his concern with the disagreement between the City Administration and the Auditor’s Office. Specifically Recommendations 4 and 15, he asked what the outcome will be with the disagreement, and is there a resolution? Kyle Elser, Assistant City Auditor, addressed this question. He indicated there is a follow up process where twice a year, a report of Recommendation Follow-ups is done. Where there is disagreement, it will be addressed at the Audit Committee and this can then be forwarded to the City Council for discussion.

Vice Chair Hollingworth asked in her professional opinion, can this program be effectively managed financially with the assisting problems, and secondly, can the problems be resolved in the reasonable future. Ms. Noel indicated that Public Works/Engineering officials are making efforts to better manage projects, but face challenges for Project Managers to manage their budgets, due to SAP being difficult and is not user friendly. By following the recommendations it would make it easier for the Project Managers, and they do need the support of the Administration.

Committee Member Billings requested follow-up reports to the Recommendations. Vice Chairperson Hollingworth recommended IROC do a quarterly report on the progress of the quality of the CIP reporting and the financial reporting. Chairperson Peugh indicated there are several other issues as well needing attention. He suggested bringing this subject to discuss in more detail at the Subcommittee level next month.

**Action:** Chairperson Peugh asked for a motion to support the Report. Vice Chairperson Hollingworth moved to accept the Report as reported, Committee Member Stallard-Rodriguez seconded. Committee Member Murray suggested a different motion. Vice Chairperson Hollingworth withdrew his motion.

**Action (2):** Committee Member Murray made a motion to support the content of the Report and the recommendations. Committee Member Billings seconded, all others were in favor.

**7. Update on the Impact of the September 8, 2011 Power Outage on the Water and Sewer Utilities**

Jim Fisher, Assistant Director, provided a follow-up from the county wide power outage. He indicated from the Water perspective, once the boil-water orders were lifted, there

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was no additional work to be done within the water system itself. The boil-water notice was only a precautionary measure, and there was no contamination in the system at any time. Although, work has been focused on lessons learned and looking at emergency response and power supply. He added the Department is currently doing an analysis looking at different scenarios on what back-up power supply is needed, and a draft document is expected to move forward to NR&C in the November timeframe. In addition, there are meetings scheduled with SDG&E to discuss the power outage and expectations in the future, as well as their emergency planning scenario so we can plan appropriately within our system.

Ann Sasaki, Assistant Director, from the Wastewater perspective, as discussed at the last IROC meeting, there were 2 sewer spills at Pump Stations 1 and 64. Since then, there has been an investigative order from the Regional Water Quality Control Board as it relates to the spill at Pump Station 64. She indicated a report was provided back to them last week. She noted IROC has received copies of this investigative order, and as soon as she receives the report back it will be provided to IROC. On the Water side, she indicated we are looking at alternative sources of power at the Pump Stations and will be providing that report to NR&C next month.

Committee Member Stallard-Rodriguez asked why some customers were not notified via phone. She asked why this is. Mr. Fisher indicated this will be discussed with the Police Department who administers the calls. He added geographical boundaries are first identified by the Public Utilities Department which is then provided to the Police Department; in turn they notify those in those areas which have registered phone numbers. If numbers are not registered, most likely they are not called. Mr. Fisher added updates are constantly added to the website; however this recent power outage caused significant problems to the computer system throughout the City, which took some time to get the information on the website.

**8. Current Year Monitoring Report – First Quarter of FY2012**

Lee Ann Jones-Santos, Deputy Director, and Rex Ragucos, Supervising Management Analyst, presented. Ms. Jones Santos provided information on the Financial Summary for the first quarter of FY12, Current Year Monitoring. First, she referred to very detailed handouts and described line items on the Revenue & Expense Summary, noting the format was taken from the adopted budget and updated for the year-end projections for 2012. She described each slide in detail and noted they will be updated next month.

Ms. Jones-Santos then reviewed and discussed the FY12 Water and Wastewater Budget to Actual revenue comparison graphs, and the Water projected year-end revenue variances. Also included were the Water and Wastewater projected year-end expenditure variances. She then reviewed the IT budget summary with a breakdown per division. This showed explanations of variances, making it easier to track. Last, Ms. Jones-Santos showed several slides and graphs describing the Water and Wastewater funds Capital

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Improvement Program's budget vs. actual. This also included a detailed review of the Water and Wastewater CIP top 6 active projects.

Ex-officio Williams asked what process is used to do the projections. Ms. Jones-Santos indicated for the operating and the CIP, historical expending rates are evaluated, meet with individual Department managers, etc.

Vice Chairperson Hollingworth added the Department released the 2010 CAFR and during today's Finance Subcommittee meeting, went over the revenues and cash position for both Water and Wastewater funds. He pointed out some findings, and will email a copy of his analysis to IROC members.

9. **Subcommittee Reports:**

a. **Finance**

- Reviewed the 2010 CAFR for Water and Wastewater funds and long term revenue expenditure and cash trends.
- Reviewed projected revenue and expenditures.

b. **Environmental & Technical**

Nothing to report, meeting was cancelled.

c. **Public Outreach, Education & Customer Service**

- Marsi Steirer's team presented the metric on the Water Purification Demonstration Project, as well as presented an award the City won: 2011 Public Education Program Award from the Water ReUse Association conference.
- Reviewed metrics, materials and tools related to outreach to the public, media, business community, etc. on the Water Purification Demonstration Project.
- Discussed the 2011 Annual Report, with the Subcommittee committing to getting the Report out earlier than this year.

10. **Metro/JPA – Report Out – Augie Caires**

Nothing to report, no meeting was held.

11. **North City Cogeneration Facility Expansion Project at North City Water Reclamation Plant**

Tom Alspaugh, Senior Energy Engineer provided a presentation requested by the IROC previously. He provided handouts describing the project and indicated we are a very large renewable energy producer, and this project will expand that production. He stated this renewable energy power plant will be installed at the North City Water Reclamation Plant (NCWRP) as a partnership between the City and Fortistar Methane Group, who owns the collection systems at Miramar.

He gave a brief description of the Miramar landfill expansion area as well as the history of the landfill gas wells. Next, he listed some existing money saving benefits of having the Fortistar agreements. Mr. Alspaugh explained why the Miramar Landfill gas

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powered plants project is important, noting Environmental Services Department (ESD) needed additional wells, the Marines wanted renewable energy, NCWRP needed additional onsite generation capacity, and Metro Biosolids Center (MBC) wanted switchgear modifications. In turn, the City receives 8% royalties on new Fortistar revenues.

He then showed diagrams of the LFG well/cross section, cogeneration system and the North City cogeneration facility expansion. He reviewed the project description noting the total cost estimate is about \$3.6M, which includes a Design/Build contract which is expected to be under \$1M, four companies are competing now in the bidding process.

Mr. Alspaugh indicated they are asking City Council to approve the purchase of a 1.6 Mega Watt landfill gas engine, through a purchasing cooperative that allows the City to purchase directly from Caterpillar at a 17% discount. He then listed the project benefits, which included net revenues and energy savings at the NCWRP starting at about \$300K/year, and 8% of Fortistar's energy sales to NCCFE are split 50/50 with Environmental Services and Public Utilities Departments (approx. \$10,000 per year/department) to support the landfill gas system if needed.

Committee Member Kubota asked if the City is exempt from the Air Pollution requirements. Mr. Alspaugh indicated no, there is a permit application in process, and have satisfied all comments. Chairperson Peugh asked if Fortistar will operate the plant for the City. Mr. Alspaugh indicated this is unknown at this time, as we await Fortistar's proposal.

**12. Discussion: Development of the FY2011 IROC Annual Report**

Chairperson Peugh commented the first step is usually to develop recommendations through the subcommittees. He noted in his opinion there is a redundancy in the Report and perhaps ideas can be brought forward to streamline future reports. He then asked for initial comments from members. Comments were as follows:

- Vice Chairperson Hollingworth suggested the Finance section should go to the Audit Committee rather than the NR&C; he also suggested having quarterly reports (i.e. a 2 page letter) on progress of certain issues, which would make the Annual Report more concise. Chairperson Peugh added the summary of recommendations should still be included. Committee Member Stallard-Rodriguez noted it is late to do the quarterly reports for 2011, as the year is already about over.
- Vice Chairperson Hollingworth indicated for 2011, he is working on benchmarking the Department's cost structure against a peer group as well as the Water and Sewer rates against a peer group.
- Committee Member Dull added he would like the Report to be more concise, and if there are special reports during the year, that would be helpful.

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- Chairperson Peugh asked Subcommittee Chairs to have the 2011 Annual Report discussion on their Agendas at their next meeting to get ahead. He also indicated the Annual Report Ad-hoc meeting can also meet closer to the due date.
- Ex-Officio Williams suggested Vice Chairperson Hollingworth share information he presented at today's Finance Subcommittee meeting at the next full IROC meeting.
- Chairperson Peugh suggested Finance may want to do Topic Reports in the 2012 Report. Vice Chairperson Hollingworth added he prefer policy reporting to go through the NR&C and financial reporting to go through the Audit Committee.
- Committee Member Kubota suggested inviting City Council members to attend meetings and comment on the reporting.

**13. Accepting nominations for the Public Outreach , Education, and Customer Service Subcommittee**

Chairperson Peugh asked for nominations. Last month, Committee Member Ross was a nominated member, in his absence. Committee Member Ross indicated he is abstaining from joining the subcommittee at this time. He would like to join at a later date.

**14. Proposed Agenda Items for the next IROC Meeting**

- More interaction with the City Council members, perhaps having a standing item on the Agendas. Mr. Ruiz indicated this request has been passed to the Mayor's office, and has not heard back as of yet.
- Chairperson Peugh asked if information regarding the Water Pipe Relining topic should come to the E&T Subcommittee soon. Mr. Fisher indicated this needs a more thorough analysis, and more details from the vendor/contractor to better understand the system and to obtain more information regarding our concerns.

**15. IROC Member's Comments**

None.

Meeting adjourned at 12:06 p.m.