

Independent Rates Oversight Committee – IROC

November 21, 2011

MINUTES

1. **Roll Call**

Chairperson Peugh brought the meeting to order at 9:34 a.m. Monica Foster called roll and a quorum was declared. Attendance is reflected below:

Member	Present	Absent
Jim Peugh, Chair	X	
Don Billings	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 <i>departed at 11:35</i>	X	
Ken Williams, City 10	X	

*Department representatives: Roger Bailey, Director; 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 October 17, 2011**

Chairperson Peugh asked for a motion to approve the Draft Minutes.

**Action:** Committee Member Webster noted the Draft Minutes reflect his attendance at the September 19 meeting. However, he was not in attendance. Committee Member Stallard-Rodriguez moved to approve with said correction. Committee Member Welch seconded, with Committee Members Dull and Ross absent, and Committee Member Webster abstaining, all others were in favor.

4. **Chair Updates – Chairperson Peugh**

- Presented IROC FY10 Annual Report to NR&C recently. Two NR&C Committee Members commented IROC’s focus should be purely on rate issues. Two other members commented IROC was looking at a good range of issues.
- He asked if the Response to the IROC’s Annual Report was in progress. Mr. Ruiz indicated it is, and Mr. Crane as worked diligently with staff to complete. It is currently under final review, and it will be available by next meeting.

5. **City Staff Updates**

*Ann Sasaki, Deputy Director, Wastewater*

- Spills for FY12 to date: 28 vs. 41 last year, for calendar year: 9 vs. 10.
- Spills reaching receiving waters: 8 (2 due to power outage) vs. 7 last year.

Independent Rates Oversight Committee – IROC

November 21, 2011

MINUTES

- Majority of sewer spills are related to grease and roots. Public outreach is routinely done in this regard.

*Jim Fisher, Deputy Director, Water*

- Water Main Breaks FY12 to date: 32 vs. 41 last year.
- Cast Iron Main breaks: 24 vs. 10 last year; AC Pipes 18 vs. 14 last year.

Committee Member Billings asked if there is benchmarking data regarding the comparison of spills/breaks with other agencies. Mr. Fisher indicated yes they do participate in the Qualserv Benchmarking nationally, and do not have the latest results back as of yet.

**6. Public Utilities Award from the Water Environment Research Foundation (WEF) for 20 years of Advancing Science**

Ms. Sasaki shared the proud news of the City receiving the WEF Public Utilities Award. Steve Meyer, Deputy Director of Environmental Monitoring & Technical Services, provided more information about the foundation. He indicated we were recognized for 20 years of sustained support for the research foundation mission. This foundation is very useful to us in leveraging research we could not do on our own. He passed the award around to view.

**7. Discussion: Selection of future City Auditor conducted “IROC Sponsored” Public Utilities Audit**

Kyle Elser, Assistant City Auditor, led a discussion on selection of the next IROC sponsored audit of the Public Utilities Department to be conducted by the Office of the City Auditor. He reviewed a summary of the risk assessment completed in September 2010. He recommended the next IROC sponsored audit to be Valve Maintenance (option #4), based on the risk assessment and discussions with the Executive Team and input from IROC members.

He reviewed and described the importance of valves, maintenance of, and potential risks if inoperable. He also referred to his handouts, listing 5 potential key questions that could be covered in the audit of valve maintenance. He added he is looking to IROC for input on areas to consider.

Vice Chair Hollingworth is concerned that FTE’s funded by the Enterprise fund might benefit the general fund, as has been charged in the past. He would like to audit at Overhead Rates and Interdepartmental Charges (option #9) this year.

Sean Karafin, representing the San Diego County Taxpayers Association, commented that the valve maintenance program is very important and a significant issue. However, they would like to the next audit to be option #9.

Vice Chairperson Hollingworth stated there were two elements to #9, one with interdepartmental charges, and the other to look at the FTE transfers. He believes this

Independent Rates Oversight Committee – IROC

November 21, 2011

MINUTES

issue can be visited this year. He also pointed out cross subsidies was one of the primary reasons IROC was established in 2008, and he feels it is time to have this audited. Mr. Elser indicated this would be in lieu of doing the Chemical Purchases and Usage (option #8). If IROC feels it is more pressing to do option #9, this can be considered. Committee Member Billings suggests going before the Audit Committee and ask for more funds so both can be done.

Tom Crane, Assistant Director, commented that audits are very staff intensive for the Department and two audits are more reasonable than three at this time. Committee Member Billings indicated if the FTE issue was a risk, he would be on board. Mr. Bailey added if IROC determines option #9 [FTE] is more of a priority than option #8, then he supports option # 9.

Committee Member Webster indicated he is not in favor of removing option #8 as it has great value, and would like to see this audit done as soon as possible.

**ACTION:** Committee Member Billings made a motion to support the audit as proposed to audit the Valve Maintenance (option #4). Committee Member Welch seconded. With Vice Chair Hollingworth abstaining, and Committee Member's Dull and Ross absent, all others were in favor.

Vice Chairperson Hollingworth would like to visit option #9 immediately, even if there is or is not cross subsidy on FTE transfers. Mr. Elser stated the overhead rates need to be established first. However, the FTE portion can be looked at but there is a limitation of staffing. Option #4 is anticipated taking approximately 3-4 months. The second audit would begin and try to complete as much as possible this fiscal year.

Committee Member Billings would like the risk of the mentioned FTE audit ranked, relative to other priorities. Vice Chairperson Hollingworth indicated FTE/cross subsidies are a central part of the IROC's mission and he would like to assure the stakeholders this is being done. Mr. Ruiz indicated the Department received a written request and provided response. He added this presentation can be updated and brought back. Mr. Bailey indicated it is always in the Department's best interest to make sure each dollar spent is related to the service provided.

Chairperson Peugh asked the risk of not performing an audit on option #8. Mr. Bailey indicated it could be money savings. Committee Member Webster added he would like to see option #8 performed, than waiting another year, due to the savings that could occur. Mr. Bailey indicated he feels confident the FTE subject will not be an issue. Therefore, concurrent with Committee Member Billings, spending time on an item that does not bring much value may not be the best choice. But ultimately, it is up to the IROC to decide.

Committee Member Billings noted that IROC needs to go before the Audit Committee with a potential scope to propose the need for more money to perform this financial audit related to FTE's.

***ACTION related:*** Vice Chairperson Hollingworth commented that he was under the impression there would be two audits, and had he realized only one audit will be funded, he would have voted NO to the original motion.

**8. City of San Diego Reserve Policy**

Alex Ruiz, Assistant Director, provided information regarding the Citywide Reserve Policy, as it comes forward to City Council. He noted on October 19, 2011, the Mayor's Office presented an action item to the Budget and Finance Committee with regard to the change to the Citywide Reserves Policy for a variety of reasons.

Mr. Ruiz made available the presentation itself, with regard to changes. He noted the document has changed from a Memorandum to a City Council Policy, and was requested to be moved before Council for adoption. He noted, within the discussion, comments were made with regard to the reserves associated with the Public Utilities Department. The presentation and staff report presented to the Committee outlined the changes. He narrated some of the fundamental changes in the Policy listed from pages 2 and 3 of the handouts available.

He explained that more discussion took place with regard to concerns Council Member DeMaio had which were expressed by one or more members of the IROC, related to the accumulation of the various reserves the Utilities had. The Department will present an overview of the use of the Utilities Reserves in early December. Also included in the presentation will outline the establishment of the Reserve Policy and other details, as well as how we intend to fund our Strategic Initiatives with regard to CIP going forward. Last, he noted the presentations are available online, and the link can be provided again by request. He also invited any IROC members to be present at the City Council discussion, the input would be welcome.

Vice Chairperson Hollingworth suggested addressing Unrestricted Cash and the build-up of Reserves compared to other utilities, when going before the Council in December. Roger Bailey, Director, indicated we will have an opportunity to present the entire scope to Council, to put some context behind the Reserves, and some clarity.

**9. CIP Project Prioritization Tool (Council Policy 800-14). This presentation addresses Recommendation #5 from the OCA's IROC Sponsored audit of the Public Utilities CIP Program issued in September 2011**

Jim Fisher, Assistant Director referred to slides, and gave a brief description of the 2003 Water Prioritization criteria, including 7 different areas. He noted regulatory requirements, operational need, and health and safety for both the public and employees, are the areas focused on. The process is utilized for all CIP related projects.

He indicated in 2008, the City Council established a priority process to be used City-wide on CIP projects, and their criteria had 8 different areas to consider, and the highest listed were similar to our previous prioritization criteria. Mr. Fisher explained although the Council Policy is high level, and difficult to apply directly as it is stated, the Department broke it down in Water “sub-criteria” to meet the needs of the Department to properly prioritize. He then shared a table breaking down the sub-criteria into multiple categories to appropriately apply to the Public Utilities CIP projects and needs.

Last, he showed and described a diagram comparing the Council Policy to the Water Prioritization, and the similarities to the breakdown. He added in part of the City-wide CIP audit, the auditor has asked that CIPRAC (governing body over the City-wide CIP) review the Council Policy criteria and has moved forward to develop new recommendations for Council to consider on their prioritization policy. They have recognized and agreed that due to the nature of the Public Utilities Department, the department has to be treated differently in regard to which factors to consider in the prioritization of criteria.

Committee Member Billings commended the Department for work well done.

**10. Water Main Replacement Program: Planning Rationale**

Guann Hwang, Deputy Director, presented the rationale of planning for water main replacements. He listed the three types of Main replacements: Cast Iron (CI) (90 miles remaining); Asbestos Cement (AC) Mains (2100 miles); and Transmission Pipelines (370 miles).

The Department of Public Health’s order was to replace 10 miles/year. He noted the remaining CI Mains need to be replaced as soon as possible due to the age and condition, and future replacement is targeted at 20 miles/year from FY12-FY16.

Mr. Hwang described the AC Water Mains near-term planning. He provided a detailed spreadsheet of the AC Pipeline Replacement Program (near term) and draft Prioritization Criteria. Plans are to finalize and apply the scoring criteria to develop the Near-Term Program. They will focus on the highest scoring mains first, and replace 20 miles/year from FY17-FY19.

He discussed the AC Water Mains Long-Term Planning. He indicated they are updating the policy for water main to improve data collection/sample collection needed. Also, will fine-tune and possibly modify the near-term methodology based on the evaluation of new technology, and develop the AC Main Replacement Program in FY20 and forward. He noted we are not behind in AC main replacement.

He discussed the replacement of the Transmission Pipelines. He noted the CIP project triggers are the Condition Assessment Program (1-2 per year), corrosion investigations, hydraulic deficiencies, and operational limitations. We plan to conduct 20 projects for the next 5 years.

Independent Rates Oversight Committee – IROC

November 21, 2011

MINUTES

Member Williams indicated asked what the needs are for pipe replacement over the next 10 years. Mr. Hwang stated the CI mains need to be replaced as soon as possible. However, there are other projects that must be considered as well. There are priority issues to consider. Roger Bailey, Director, commented part of the goal is to have a game plan for replacement using the methodology to determine the priorities. Right now the planning is over 5 years, however if it is able to be expedited, it will.

Mr. Fisher noted, based on operational data, when looking at the risk associated with the AC pipe, the need to replace AC is not that urgent. Mr. Bailey added once the amount of pipe to be replaced, over what period of time is established then we can determine cost. Ex-Officio Williams asked for more details related to the Transmission Pipelines. Mr. Hwang indicated because of the complexity, there are condition and corrosion assessments, models, as well as triggers, so priorities can be set. He added as an example, out of 370 miles, approximately 50 miles will be replaced over the next 5 years, which is adequate.

11. **Public Utilities' Business Case Evaluation Process: CIP Project Justification Standards. This presentation addresses Recommendation #4 from the OCA's IROC sponsored audit of the Public Utilities CIP Program issued in September, 2011**

This item was tabled to the next IROC meeting Agenda.

12. **Public Utilities' SAP Enterprise Asset Management Implementation**

This item was tabled to the next IROC meeting Agenda.

13. **Subcommittee Reports:**

a. **Finance**

- Discussed the Jefferson County Municipal Bankruptcy, to see if the City of San Diego has any similar risks. Will write up a report as a result of this.

b. **Environmental & Technical**

Nothing to report, meeting was cancelled.

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

- Discussed construction water uses in San Carlos community related to SDG&E Sunrise Powerlink Project, and use of potable water vs. reclaimed water.
- Discussed update on the Utility Billing System conversion with Michael Vogl.
- Discussed the IROC Annual Report, she asked her members to please forward comments, in regard to what was distributed, to her by end of week.

Committee Member Billings asked if the Basin Study will be discussed in the near future. Mr. Crane indicated an update can be provided soon.

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

- Several technical presentations on large purchases and projects.

Independent Rates Oversight Committee – IROC

November 21, 2011

MINUTES

- Presentation on the Revised JPA Strategic Plan, which will be finalized in January, 2012.

**15. FY2011 IROC Annual Report Development**

*Chairperson Peugh's comments:*

- At least two Council Members want IROC to focus on Rate issues.
- The Ordinance should be followed and IROC should issue the Report in January.
- For future Annual Reports, IROC should attempt to finalize in August and issue in September.

*Committee Member Kubota's comments:*

- Would like IROC to meet with Council Members more often so they can get a better understanding of IROC.

*Vice Chairperson Hollingworth's comments:*

- The enabling Ordinance seems fundamentally different than the Mayor's intent when IROC was initially established. He recommends that the City Council review the Ordinance and clarify IROC's mission.

*Committee Member Billing's comments:*

- Suggests that IROC propose a recommendation of how to change the IROC Charter if change is desired.
- Recommends looking back at what IROC focused on during the year as the basis of the Report.
- Perhaps a planning session should be created at the beginning of the year, to establish standing items, rather than items going to Council driving the Agenda.

*Committee Member Murray's comments:*

- Feels that some items addressed by IROC are outside the mandate of the Ordinance. The Ordinance would provide a good outline for the Annual Report.
- Mr. Hollingworth's comment of possibly revising the Ordinance may be something to think about in the future. For now the Ordinance should be followed.
- Agrees with Committee Member Billings, in having a planning meeting, to determine what information is wanted from the Department to establish points of focus. The planning meeting should most likely be done early in the year.

*Committee Member Welch's comments:*

- IROC should focus on the Ordinance and on FY12 goals and issues.

Chairperson Peugh asked for a motion for the creation of an Ad-Hoc Committee to draft the Annual Report for the December meeting.

Independent Rates Oversight Committee – IROC

November 21, 2011

MINUTES

**Action:** Committee Member Welch moved to have a planning meeting as soon as possible. Committee Member Billings seconded. With Committee Member's Dull and Ross absent, all others were in favor.

*Discussion:*

Tom Zeleny, Deputy City Attorney, indicated the IROC Ordinance does not state specifically what must be in the Annual Report, it is not limited to recommendations and conclusions. Nor does it preclude from issuing Reports throughout the year. Separate Reports can be issued at different timeframes.

Vice Chairperson Hollingworth indicated he would like to invite stakeholders (i.e. UCAN, Taxpayers Association, etc.) to make their views known to IROC and the Council, as to what they would like IROC to address, in the form of a letter. Committee Member Welch expressed those particular stakeholders are always invited to our meetings. She feels there is an obligation to comply with the Ordinance at this time (A-K) which was concluded in the past.

Committee Member Welch added, if members feel they need to do extensive research to be included in the Report, this should not occur, as we are past that point. If there are items needing focused on, it should be addresses as an FY12 goal. Vice Chairperson Hollingworth disagreed, and gave an example of the CAFR, which was a significant change for FY10, and he would like to include it. Chairperson Peugh indicated this should be a separate Report and introduced as a future topic, as it is not for the appropriate year of coverage, and will also hold up the Report.

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

- Public Utilities' Business Case Evaluation Process: CIP Project Justification Standards. This presentation addresses Recommendation #4 from the OCA's IROC sponsored audit of the Public Utilities CIP Program issued in September, 2011
- Public Utilities' SAP Enterprise Asset Management Implementation

**15. IROC Member's Comments**

None.

Meeting adjourned at