

Independent Rates Oversight Committee – IROC

December 19, 2011

MINUTES

1. **Roll Call**

Chairperson Peugh brought the meeting to order at 9:37 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 |
| Ex-Officios | | |
| 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 November 21, 2011**

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

Action: Vice Chairperson Hollingworth moved to approve them as is. Committee Member Webster seconded, with Committee Members Murray, Ross, Stallard-Rodriguez, and Welch absent, and Committee Member Dull abstaining, all others were in favor.

4. **Chair Updates** – *Chairperson Peugh*

- He will be meeting with the Tax Payers Association to discuss changing the legislation for IROC regarding the scope. He will be representing himself as a private individual, and will not be representing IROC.

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

- Referred to the distributed memo from Alex Ruiz dated 12/19/11 regarding the 2012 perspective refunding of 2002 Water Bonds. It is anticipated to go to City Council in January for the legal and financial documents, for approval to enter into the refunding opportunity. The Department monitors these on a continual basis with Debt Management. The target to go to market is the March timeframe. Committee Member Billing commended the Department for taking these actions.

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- Announced Jeanne Cole is now officially the Program Manager with Finance and Rates, after her past year as Interim Program Manager.
- Referred to a recently distributed memo from Michael Vogl, Deputy Customer Support Director, in response to recent media reports with regard to customer service concerns on the conversion of the billing system. Mr. Vogl corrected the mischaracterization relayed in the article, as well as went into detail with cited accounts in the article. Also provided was a summary of a presentation given to the Public Outreach, Education & Customer Service subcommittee recently, related to the conversion, benefits, and efforts to improve, etc.

He indicated the purpose was to make sure the stakeholders have a perspective that was perhaps not communicated in the context of the referenced UT article. He pointed out the article is factual in most cases, however, mischaracterized the nature of the situation.

Committee Member Billings asked if the 12 minute response time can be shortened, in regard to the Customer Service line. Mr. Vogl indicated steady improvements are being made, and the response time is at 10 minutes currently. He noted there are additional temporary staff starting and continue to fill the positions, which will help with the response time. Callers have the option to leave a message to be called back within 48 hours.

Ex-Officio Williams commented he feels 10 minutes is still too long, 30 seconds is more reasonable. Mr. Vogl indicated after temporary staff is trained, this will have a significant impact to the wait time.

6. Public Utilities Department Response to the FY10 IROC Annual Report

Tom Crane, Assistant Director, indicated a detailed written Report was issued on 12/7/11 to IROC. He then referred to his handouts as he gave the presentation. This provided a broad overview of the 14 Recommendations, listed prior year recommendations, and responses pertaining to each.

Mr. Crane noted, in reference to public outreach, Brent Eidson is now assigned to develop an external communications program. He will be supervising the Department's Public Information Officers (PIO).

He indicated in reference to #7: Emergency/Disaster Risks, the Department agrees and is contracting an updated vulnerability study that is expected to be awarded in the spring of 2012. Chairperson Peugh asked if IROC can view the scope. Mr. Crane concurred, and will have this brought to the full IROC.

He noted that he is working with Ernie Linares on a status report of the 2008/2009 recommendations that are not included in the current Report. This should be available soon.

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Vice Chairperson Hollingworth added he has obtained San Diego Airport Authority reports showing how their program is managed, metrics, schedule, and budget. He will share this with the Department and the IROC members. Mr. Crane concluded his presentation, and asked for comments and/or questions.

Committee Member Billings asked in regard to #1: Public Outreach, if focus groups are utilized. Mr. Ruiz indicated yes, they have been used for certain instances, and will be used for future projects once dedicated resources are in place for those efforts.

He also asked in regard to #4: Large Scale Potable Reuse - what is considered to be “large” scale. Mr. Bailey indicated this has not been determined yet, and is a policy issue to be determined by Council. He noted at the end of the pilot, a recommendation will be presented to the Mayor and Council.

Next, he commented in regard to #6: Developing a more effective Rate Structure - he is very skeptical about the benefits and the equitable nature of parcel based, budget based rates, and asked if these are being analyzed. Mr. Bailey indicated once the scope of work is completed, it is the intention to make sure we have enough flexibility to look at a broad range of rate structures, as well as discuss with the Mayor and Council. He added no particular option has been determined at this time.

In regard to #9: Lack of Standard for System Condition – he asked if when the analysis is done, at least one of the views is a revenue non-constrained view. Mr. Crane indicated this is the intention.

Committee Member Dull commended Mr. Crane for having more control over the contracting ability and procurement. He also asked if there are any other services currently being provided that the utility is looking at bringing back to have more control over and to run more efficiently? Mr. Crane indicated there is an assigned individual to do a separate performance and process analysis study to look at how business is being done, and how to streamline, and improvements should be forthcoming.

James Nagelvoort, Interim Assistant Director, added the Purchasing & Contracting Department was split up July 1 and Contracting was moved under Public Works, Engineering. This has helped tremendously. In addition, a presentation of 6 recommendations to improve the CIP was made before the Budget & Finance Committee in November. He indicated 5 of the members were very much in support, and he can make this presentation available to IROC. Mr. Crane clarified the Consulting Services portion is still under Procurement & Contracting.

Chairperson Peugh invited Mr. Nagelvoort to review this in the next full IROC meeting.

7. **Public Utilities Business Case Evaluation Process: CIP Project Justification**

Standards

Tom Crane, Assistant Director, provided a Powerpoint describing the Business Case Evaluation (BCE) process, a very effective asset management tool. He indicated it is used to determine how best to address asset needs considering financial, environmental and social impacts, as well as ensures fiscally responsible choices. There are two types of BCE's: Abstract and a full BCE. He added the BCE process is required for all CIP and O&M expenditures in the Department over \$50,000.

He noted the BCE was discussed in the CIP Audit presented months ago, and disagreed with the particular recommendation. Since then, we are in agreement that the Program is the way it should be.

Committee Member Webster asked what constitutes "high risk" in the provided flow chart of the BCE process. Susan Bowman, Asset Management Manager, indicated that is by the evaluation of the Deputy Director who are putting forth the projects, to request the process if it is under \$50,000.

Last, he indicated initially this item was marked for Action to seek agreement that this system is the correct way to proceed, so the Audit can reflect it has been presented to IROC and is approved of the way the system is operating.

Action: Vice Chair Hollingworth moved to support this process, Committee Member Dull seconded, with Committee Members Murray, Ross, Stallard-Rodriguez, and Welch absent, all others were in favor to support.

8. **Public Utilities' SAP Enterprise Asset Management (EAM) Implementation**

Susan Bowman, Asset Management Manager, presented the plan to implement SAP EAM Solution, and to seek approval of IROC. She provided follow along handouts, and gave an overview of where we are currently with asset management systems (mainly maintenance management systems) and replacing those with SAP EAM Solution.

She described a diagram showing different things considered to be part of a unified asset management solution and wanting to incorporate into the SAP Solution. She indicated a unified asset care system can be gained from this, and would be standardized across the Utility for all maintenance workforces. It would also complete CIS and CCS integration, centralize inventory and contractor management, improve CIP management, and much more. She added we hope to gain from this a better way to deploy our resources, being in one system across the Utility.

Ms. Bowman listed several systems currently being used separately, that would be integrated under one. This could be an annual support cost savings of \$310,700. She indicated the SAP EAM investment costs are already budgeted over the next 3 years (FY13-FY15). She briefly reviewed the implementation timeline schedule, anticipating

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beginning the full development of the blue printing and implementation stages toward the end of FY13 with an eventual implementation of FY15.

Committee Member Billings asked if any functionality is given up during this process. Ms. Bowman indicated that is not what is desired; however, with the change of systems there is a chance some functionality would be lost but a very thorough blue printing will be done so all necessary functionality is included and understood before proceeding with the implementation.

Chairperson Peugh asked if there would be transition uncertainties. Ms. Bowman indicated there may be challenges; however, the Department has resources in place to transition the users of the application.

Ex-Officio Williams asked if it is known what the total savings are, and if the Department is seeking approval at this time. Mr. Crane indicated yes, he would like to present this information at the next IROC meeting. He added the approval is not necessary at this moment, and can bring this action item back next month. He indicated he will include the Business Case Abstract as well. Chairperson Peugh added he would like to see the shortlist projection based on lessons learned from the Customer Service transition, as well as overall cost of the transition to anticipate this transition. Mr. Crane concurred.

9. **Presentation: Understanding the City of San Diego Consolidated Annual Financial Report (CAFR)**

Alex Ruiz, Assistant Director, mentioned staff has provided a series of financial documents to IROC over the past several months. He introduced Lee Ann Jones-Santos, Deputy Finance Director, who is providing a general presentation on CAFR's, how they are utilized and what components can be briefed on quarterly. Ms. Jones-Santos introduced along with Sarah Mayen, Financial Manager, Comptroller's Office, and Scott Clark, Principal Accountant, who both oversee the Water and Wastewater financial statement preparation and submission.

First, Ms. Jones-Santos referred to handouts, and gave an overview of the 3 primary financial statements (Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Fund Net Assets, and Statement of Cash Flows.) She described the difference between the CAFR and the internal documents that are provided to IROC. She noted the CAFR is prepared by the Comptroller's Office and internal documents are prepared the Public Utilities Department. However, all information flows from the Department to the Comptroller's Office, and the data is the Department's responsibility.

She indicated there are quarterly reports done by the Department (Budget) as well as the Comptroller's Office (Charter 39 Report). She noted Financial Statements are usually prepared on "accrual" basis, and Budgets usually are prepared on a "sources and uses" basis. The Financial Statements are prepared annually; the CAFR is usually issued 6 months after the fiscal year-end and is audited by a CPA firm.

She then reviewed detailed tables of the Statement of Net Assets as of June, 30, 2010 for the assets and liabilities for the Department, explaining terms and showing the breakdown of the total and unrestricted net assets. Also reviewed and described breakdowns of the Statement of Revenues, Expenses, Change in Net Assets, as well as Revenues, cash inflows, Expenses and cash outflows.

Ms. Jones-Santos concluded by adding part of the goal to getting familiar with the financial statements is to bridge how the internal documents are prepared, the budget and the CAFR together. She then referred to handouts, and described the differences between the CAFR vs. Budget Reporting, giving examples. She also included additional reports for the FY10 CYM Report as well as a Water Capital Asset summary and 5-yr summary of Capital Assets. She indicated if there are in depth questions, they can come back with more information any time.

Vice Chair Hollingworth thanked Ms. Jones-Santos for providing better financial reporting. He asked in regard to slide 8, will the Department provide a long-term cash flow forecast? Ms. Jones-Santos indicated yes, it is currently underway and is also part of what needs to be prepared for the Cost of Service Study.

10. California Regional Water Quality Review Board (San Diego Region): Review of Self Monitoring Reports

Steve Meyer, Deputy Director, Environmental Monitoring & Technical Services, provided a letter from the California Regional Water Quality Control Board (Regional Board) received on November 25, 2011. He indicated it is important to share this notice of violation with the IROC. He noted a response is being drafted and will be sent back to the Regional Board.

He described the identified 5 violations listed, after the Board reviewed monitoring reports for the Point Loma Wastewater Treatment Plant & Ocean Outfall for the months of July 2005 – July 2010. He indicated the 3rd violation maximum effluent limitation for settleable solids exceeded) the Department agrees with; however, the others seem to be misinterpretations with permit conditions, he then explained. He also noted that the comment made after Item 5 is listed, this is not understood exactly, but will be looked into and responded to.

Committee Member Billings asked if this monitoring is done only once every five years? Mr. Meyer would refer him to the Regional Board to ask this question. Sometimes the reviews are more up to date than this particular one. He pointed out that all of this data was reviewed by the EPA and the Regional Board and staff during the application process for the new permit, which was approved and effective in August 2010. Last, he noted the comment listed after the 5th violation is not understood fully, but will take it into consideration.

11. **Capital Improvement Program – First Quarter Report**

Guann Hwang, Deputy Director, Engineering & Program Management introduced Myrna Dayton, Interim Deputy Director, Public Works – Engineering, and Tung Phung, Senior Engineer presented the FY12, who are giving the First Quarter CIP Report for the period of July 1 to September 30, 2011.

Ms. Dayton referred to handouts included in the packet. The update covered the CIP highlights, dash board information, water and wastewater mileage progress (showing baseline for end of FY goal, DPH compliance order, and Department goal of 20 miles), forecast and actual expenditures (added and changed columns by IROC's request), project schedules including mandated deadlines, and project change orders that exceed 10% of project budget.

Mr. Hollingworth asked for clarification of line items with missing information. Ms. Dayton indicated this is not complete and will have it provided in the next update. Mr. Hollingworth requested the base line stay static, so he can see the progress of the Program. He noted these reports will provide sufficient monitoring of this Capital Program. He added would like to provide questions requiring more detailed answers so they can be addressed in a Finance Subcommittee. Mr. Hwang concurred.

12. **FY2011 IROC Annual Report Development Discussion**

Chairperson Peugh indicated two of the subcommittee reports were distributed. He indicated for starters, he would not like to have separate subcommittee recommendations. Once it is voted on, it is a recommendation of IROC. He would like to take the subcommittee recommendations and change them to "IROC Recommends..." He also added he modified the introductory areas, and left blanks to place the recommendations in.

Committee Member Billings asked if the Environmental & Technical (E&T) subcommittee report has been presented to and adopted by the subcommittee?

Chairperson Peugh stated no, it has not as there was not a meeting this month.

Committee Member Billings indicated he cannot support the Report with it going before the subcommittee to recommend to the full IROC.

Committee Member Webster spoke on behalf the E&T subcommittee, and indicated their document was provided to the members for review and comments/modifications 2 weeks ago. He received limited comments. Vice Chairperson Hollingworth noted that the Finance subcommittee also did the same, and did not receive comments.

Committee Member Kubota commented he is in concurrence with the Environmental & Technical portion of the Report. He is also can be available to meet before the full IROC in January if need be. He added, ultimately the Report needs to be fully vetted to the subcommittees before presenting to the full IROC.

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Vice Chairperson Hollingworth suggested Committee Members Billings and Kubota submit their comments to him via email. Committee Member Billings indicated he would like the dialogue for questions and answers for this. Chairperson Peugh suggested having a Special Finance Subcommittee before the next full IROC meeting. Vice Chairperson Hollingworth requested Committee Member Billings still submit his questions ahead of time for discussion in a special meeting.

Mr. Bailey noted if there is data to verify in the Report, how can Department staff take this opportunity? Chairperson Peugh suggested going to each Subcommittee to give response would be the best way. Mr. Bailey concurred, and predicts a quick turn-around. Tom Crane, Assistant Director, asked the members to consider the Responses given in FY10.

Chairperson Peugh indicated the only comments he has, is he suggested to Committee Member Webster for the E&T portion, in regard to Pt. Loma Effluent, where it states there is no environmental impact, it could be read, “the measurements taken to date do not indicate there is any impact”.

13. Subcommittee Reports:

a. Finance

- None, there was no meeting held.

b. Environmental & Technical

- None, there was no meeting held.

c. Public Outreach, Education & Customer Service

- None, there was not meeting held.

14. Metro/JPA – Report Out – Augie Caires

None, there was no meeting held.

15. Proposed Agenda Items for the next IROC Meeting

- As soon as members can review the Audit in more detail, we can follow up on points raised.

16. IROC Member’s Comments

- Committee Member Kubota noted that Ann Sasaki has been recognized for achieving 25 years with the City.
- Committee Member Billings wished all happy holidays and productive 2012.
- Committee Member Dull commended Marsi Steirer on a great presentation on the IPR Demonstration Project, at the SDCWA Board meeting.

Meeting adjourned at 11:57