

Independent Rates Oversight Committee – IROC

March 21, 2011

MINUTES

1. **Roll Call**

Chairperson Peugh brought the meeting to order at 9:33 a.m. Monica Foster called the 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	
Irene Stallard-Rodriguez <i>(departed at 11:35)</i>	X	
Todd Webster	X	
Gail Welch	X	
Ex-Officios		
Augie Caires, Metro JPA	X	
Ken Williams, City 10	X	

Department representatives: Roger Bailey, Director of Public Utilities; Alex Ruiz, Assistant Director; Tom Crane, Assistant Director, Ann Sasaki, Assistant Director; Tom Zeleny, Deputy City Attorney.

2. **Non-Agenda Public Comment**

None.

3. **Approval of Draft Minutes from February 22, 2011**

Chairperson Peugh asked for a motion to approve the February 22, 2011 Draft Minutes. Committee Member Kubota noted on page 1, Item 3, 2010 should be changed to 2011 in the title, as well as in the first line. Committee Member Billings pointed out on page 2, 1st full paragraph, should read “Committee Member Billings” opposed to “Chairperson Billings”. Committee Member Billings moved, Committee Member Kubota seconded, all were in favor to approve the Draft Minutes with said corrections.

4. **Chair Updates – Chairperson Peugh**

None.

5. **City Staff Updates**

Roger Bailey, Department Director

City Council approved both the Water and Wastewater Branch MOUs for the Bid to Goal Program. The Bid to Goal Program will end June 30, 2011. However, the staff will be paid out for their commitments for FY10 and FY11, following audits.

6. Presentation on Public Utilities Capital Improvement Projects – FY11 Second Quarter Update

James Nagelvoort, Engineering & Capital Projects, and Guann Hwang, Engineering & Program Management presented this item. Mr. Nagelvoort reminded the IROC last presentation they gave an update on the CIP Program up to the end of FY10, and agreed to bring quarterly updates and a full presentation at the end of FY11.

He included in his handouts, information on the CIP project highlights for Quarter 2. These were: Facilities Controls System Upgrade at the Metro Biosolids Center, Sunset Cliffs Trunk Sewer, North City Water Reclamation Plant Electro Dialysis Reversal Unit #6, Famosa Accel – Sewer and Water, Otay Water Treatment Plant Upgrades – Phase 2, and Sewer & Water Group Job 728.

Mr. Nagelvoort referred to the Water and Wastewater pipeline mileage update charts, and FY11 awarded water mains. He pointed out for Water, the Department of Public Health's compliance order is a total of 10 miles of cast iron main replacement, with the 2007 Rate Case having a goal of 20 miles. However, the Department's goal is to complete 35 miles of cast iron main replacement before the end of the year. For Wastewater, the EPA mandate and the Rate Case requirements are 45 miles of sewer main replacement, the Department's goal was to accomplish 60. Mr. Nagelvoort indicated currently, we are behind schedule and estimate approximately 40-45 miles this year, due to having several rehab contracts being held up in the purchasing phase.

He then gave feedback on projects that exceeded their budget, which was requested by IROC this past summer. Committee Member Billings commented in regard to the metrics used in the comparison of Water and Wastewater, he would like to request the information be presented in a “dashboard” fashion rather than a project listing. This way they can be compared by period, and be able to distinguish the projects that are on time, or over budget for instance. Mr. Ruiz indicated that during the Finance Subcommittee, some ideas were discussed on how CIP is reported, and a desire to see greater granularity with regard to all projects included in the 2007 Rate Case. These and will be coming back and offered to provide a other formats to review that may meet IROC's needs, at the next meeting.

Mr. Nagelvoort briefly reviewed the FY2011 Water and Wastewater Expenditure Reports included in the packet. Vice Chair Hollingworth asked for clarification on certain line items in the Expenditure Reports. He also requested that the next report show a very detailed summary of all projects. Mr. Nagelvoort indicated he will provide a detailed report for him, and a dashboard summary for Committee Member Billings, and asked if once the format is decided upon, we stay with it. Committee Member Hollingworth agreed this would be helpful. Mr. Hwang stated he will bring back different formats to choose from next meeting to capture the requests.

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Vice Chair Hollingworth added after reviewing the provided handouts, he had discussed in his Finance Subcommittee meeting earlier, that he has developed a list of questions and clarification needed to be addressed. He indicated the Department agreed to respond and cover in his Finance Subcommittee meeting, and will share with the full IROC.

Last, Mr. Hwang noted there is a sewer rehabilitation project along Highway 163 which will cause partial closure of this freeway during weeknights, and full closure during weekend nights. The word has been out in many forms to the public, as well as a comprehensive traffic control plan with CalTrans to avoid congestion. This project started March 14, and will run for 2.5 months, just before Memorial Day weekend.

7. **Asbestos – Cement (AC) Pipe Replacement Program**

Guann Hwang gave a brief summary of the asbestos cement pipeline replacement program. He indicated the Public Utilities Department (Department) is beginning the planning phase for an AC pipeline replacement program. Beginning FY17 through FY30 and beyond, approximately \$40 million annually has been planned for.

He referred to handouts and gave a brief background and status update. He noted CDM was tasked to perform the preliminary investigation of AC pipes within a water system, which consisted of surveying other water agencies, testing and estimating the existing structural integrity of several City of San Diego AC water main breaks and develop findings, as well as review the City's AC water main leak and break data. Through a series of workshops, the Department has developed a draft "Prioritization Criteria" for the AC pipeline replacement program. He then went thru the attachments of maps, charts and the Draft Prioritization Criteria sheet.

Mr. Hwang indicated the next steps are to review the draft CDM report and prepare the Department's comments for CDM to finalize the report within the next 30 days. He added, will also will develop and recommend a master plan for the Department's AC pipeline replacement program. Last, will program future CIP expenditures for the proposed AC pipeline replacement program.

Committee Member Kubota asked for a brief description of a typical failure the AC Pipe may experience. Mr. Fisher suggested one has to do with the change to the chemistry of the water and the impact this has to the rubber gaskets. Another area for failure is if there is contaminated soil reacting adversely with the pipe, or vibration/traffic loading that causes stress on the pipe.

Committee Member Billings commented about the Prioritization Criteria, he would be interested in seeing more in-depth information. Mr. Hwang concurred, and can present in more detail at a future Environmental & Technical subcommittee meeting. Committee Member Webster asked if the Report from CDM would also be available at that time. Mr. Hwang indicated he will bring all information available, and can fine tune the Report.

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8. FY2010 IROC Annual Report Development

Chairperson Peugh stated he has put a lot of time into this Report and still has more to complete. He will distribute his draft to the Annual Report Development Ad-Hoc team for feedback, and report back.

9. Subcommittee Reports:

a. Finance, *Andy Hollingworth, Chair*

- Detailed discussion on scope of the upcoming audit, has come to a consensus as to what should be included.
- Discussed the detailed Capital Improvement program, he will await the Department's written response to his questions to be shared at the next meeting.

b. Environmental & Technical: *Todd Webster, Chair*

- Cathy Pieroni, Principal Water Resources Specialist, gave an update on legislative affairs in place, and Assembly Bills and how the City monitors them in terms of their affect on water rates, water supply issues, etc.
- Discussed water softener issues, seems not to be enforced effectively. Will follow up in the future.
- Discussed emergency preparedness. Looking for a county and state wide perspective. Will address next month with Jim Fisher, Assistant Director.

c. Public Outreach, Education & Customer Service: *Gail Welch, Chair*

- No meeting was held last month. Next meeting will hope to review information with the Public Information Officers on the City's comprehensive outreach program.

Committee Member Billings suggested learning more about how the water bills can show more of a breakdown in charges to educate the public more. Mr. Ruiz concurred. There is a mainframe system being replaced and this goes live mid-year. There will be a variety of additional customer service components including a greater granularity of the bill structure.

10. Metro/JPA – Report Out

- Exhibit E Audit results approved, subject to an investigation by the Public Utilities Department, of two overcharges.
- Approved a calculation of the Operations Reserve and will be looked at annually.
- The bi-annual Strategic Planning meeting will be held May 5, 2011. The IROC Chair, or his designee, is invited to participate, as well as Roger Bailey and appropriate staff.
- Presentation by the environmental community on recycled water.

11. Leadership Development Program Update

John Gavares, Strategic Support Services Manager, indicated the Program is up and running, and right on schedule with having all participants being matched together for the project bases activities, where they are developing their skills. He added we are very pleased with the status, schedule and the responses of the participants.

He explained the funding was approved by Council in September 2010, it is a 5-year Program and designed to essentially have 510 employees over this course of this time. He stated the consultant was selected by the 5 person selection panel, which included IROC Committee Member Jack Kubota.

Mr. Gavares gave a brief overview of the Field (Crew Leaders and Field Supervisors) and Management Academies (Second Line Supervisors and above, or high potential candidates for these positions). He noted the program's goals are to develop leaders at all levels within the organization through intensive, competency-based training; build the Utility's leadership "bench strength" and execute a succession planning initiative; and promote growth and skill-development in identified core competencies of future Utility leaders. He then listed the program components and the status of academies.

He then gave an overview of the Mentorship Program. He indicated the mission for this program is to create a formalized program, matching current leaders with employees in mentor-mentee relationships, capitalize upon the institutional knowledge and wisdom, providing learning opportunities for those who aspire to develop leadership skills and competencies. He then gave a brief overview of the duration of the classes which are now underway. He also added there has been a project based component added to this Program, each mentor identifies projects that can be assigned to the mentee to complete with the mentor. Last, there will also be a graduation ceremony for these academies. Each estimated Mentee time is 6-12 hours per month of the time shared in engagement, in which 50% of this time is actually project related.

Committee Member Billings asked if this program will be institutionalized. Mr. Gavares indicated it is up to management, this is a pilot program and keeping it small and targeted brings good results, which was a recommended.

Mr. Caires asked what the mentees can do outside of this class. Mr. Gavares stated they intend to offer alumni events after the second year as well as ongoing educational opportunities. Mr. Gavares gave examples of what the candidates learn and the many quality opportunities available as they go through the program.

12. **Scope of Work (SOW) for Agreed Upon Procedures Audit to (1) Analyze use of Water & Wastewater funds associated with rate increases; (2) Analyze sources and uses of debt proceeds for water and sewer revenue bonds and notes; and (3) Analyze the Dedicated Reserve for Efficiencies and Savings (DRES).**

Susan LaNier, Internal Controls Program Manager, briefly reminded the IROC of her request for feedback at last IROC meeting, regarding the SOW for financial review of our Water and Wastewater rates, use of Bond proceeds and activity of the DRES fund. She noted that comments and feedback were received and have made some changes to the document provided, and were highlighted. She added this topic was also discussed in the Finance Subcommittee this morning.

She then asked for IROC's acceptance of the Scope of Work. Vice Chair Hollingworth commented he reviewed this SOW and his one concern was to be able to select a CPA firm who has experience in Program Auditing (State Controller's Office for example), however he added he believes this SOW is good. He also would like to see a "cash flow forecast" showing the drawdown of the cash balances out 2-3 years in the future. He added this may not be able to be done. Ms. LaNier indicated this piece may be able to be addressed via a section for Additional Services, under this contract the work may be performed at a later date. Mr. Ruiz also added when CAFR's are complete by the July timeframe, and the FY2011 CAFR following thereafter on the normal schedule, our own cash flows can be produced and added as a task item to this audit review.

Vice Chair Hollingworth moved to propose this Scope of Work, Committee Member Billings seconded, with all others in favor it was approved.

13. **Native Habitat Restoration at Tecolote Canyon Natural Park**

Guann Hwang, Deputy Director, Engineering and Program Management, and Keli Balo, Senior Planner, Project Manager for the Central Tecolote Mitigation project introduced themselves. Ms. Balo briefly described the project which will serve as compensatory mitigation for impacts to sensitive resources associated with the canyon sewer cleaning and maintenance program. The sewer line in the Tecolote canyon needing cleaning and repairs has impact to sensitive habitats and water ways. She indicated because of these impacts, we are required to mitigate. She noted it is approximately 27 acres, which includes removal of all non-native plant species, insulation of a temporary irrigation system, planting and seeding of native plants and a 5-year maintenance and monitoring program.

Vice Chair Hollingworth asked if this can be financed out of the General Fund. Mr. Hwang indicated this is not CIP funded but is O&M funded. City Attorney, Tom Zeleny, addressed this question. When the Utility has such an impact on the natural habitat, the City must also pay for the impact it causes, as it is a utility related function. This would not be covered by the General Fund, as it was not caused by a General Fund activity.

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Chairperson Peugh asked if this will be for mitigation to this canyon only, or other areas, and is there any long term weed management? Ms. Balo indicated it would be for this canyon as well as any impacts within the water shed. And there will be weed management by the Park and Recreation Department as usual. A question was raised if the plants were indigenous or not. Ms. Balo stated all plants being removed are non-native and invasive to the canyon.

Vice Chair Hollingworth shared his concern with not fully understanding the project being responsible for the non native species being introduced to the canyon. Ms. Balo explained they are not necessary directly related. She indicated the non-natives over time are naturalized by nearby properties, bird droppings, etc. The resource agencies that provide our permits to move forward with the project require mitigation. This would be through wetland, or enhancing them. This is an existing wetland and she added the value and function would be enhanced by removing the non-native species.

Mr. Zeleny explained the Department may impact native habitat, therefore you want to put native habitat back. In order to accomplish this, non-native, invasive species must be removed. This includes removal of non-native trees. Committee Member Billings asked if we are able to anticipate the costs, and there is some rational approach to estimate before the next Rate Case, so it can be put into the budget. He stated he would like to know sometime, the anticipated costs or if it is avoidable.

Vice Chair Hollingworth closed with making a motion to urge the Department to re-draw the scope of this project, to mitigate only directly related impacts related to this particular sewer project, rather than it being such an expansive project.

Mr. Zeleny indicated he assumes the scope of this project was determined primarily by the resources agencies as approved through the EIRs. If the scope was reduced it may be in violation of CEQA. Vice Chair Hollingworth added he feels the scope can be re-examined to draw back the scope, which would include what the law actually specifies. The permits do state the minimum amount of work it is that is required to accomplish the work. Going beyond that could put us in violation with CEQA.

Chairperson Peugh stated he the Department should come back to IROC so they can understand more about this process as a whole. He offered perhaps taking a sample project explaining how all of the mitigation requirements fit together. Mr. Ruiz concurred by saying they can layout our environmental review process, costs for EIR mitigation both on a project basis or total, based upon feedback can take additional direction.

Ann Sasaki, Assistant Director, reminded the IROC this project is currently in construction, to keep this in mind if any changes were requested. An existing contract would have to be terminated which has costs associated with it. She would suggest coming back to give a background on why this must be done, and the requirements are. She added associated with this project are a number of smaller projects that have permits

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associated with them as well. This would cause more violations of these permits, and could potentially be fined by the resource agencies.

Ms. Balo concurred and will come back to the next meeting. Vice Chair Hollingworth withdrew his earlier motion.

14. Proposed Agenda Items for future IROC Meetings:

- Habitat restoration/mitigation
- Annual Report
- Upcoming Rate Case look ahead

15. IROC Members' Comments

Committee Member Kubota announced the American Society of Civil Engineers (ASCE), San Diego Section, made the award of the Project of the Year of the Alvarado Water Treatment Plant Expansion Project. He expressed his honor to all who are involved.

The meeting was adjourned at approximately 11:55.