



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: February 3, 2014
TO: Independent Rates Oversight Committee (IROC)
FROM: Halla Razak, Director of Public Utilities
SUBJECT: Fiscal Year 2013 IROC Annual Report

On December 20, 2013, IROC issued its Fiscal Year 2013 Annual Report with eight Key Recommendations.

We agree with four of the recommendations, partially agree with three recommendations, and disagree with one recommendation (see attachment). We will update IROC periodically to keep you informed of our progress towards implementation.

I would like to express my gratitude on behalf of the Public Utilities Department for your insightful and wide ranging recommendations. Staff will continue to evaluate and consider all of IROC's recommendations


Halla Razak

DB/db

Attachments: 1. Public Utilities Department Response to the Fiscal Year 2013 IROC Annual Report
2. Memo to Council Member Alvarez dated September 6, 2013

cc: Honorable Interim Mayor and City Council
Independent Budget Analyst
Tony Heinrichs, Deputy Chief Operating Officer
Tom Zeleny, Chief Deputy City Attorney

Public Utilities Department Response to the Fiscal Year 2013 IROC Annual Report

The complete Fiscal Year 2013 IROC Annual Report can be found on the City's website at: <http://www.sandiego.gov/publicutilities/boards/iroc/annualreports.shtml>

The following is a summary of IROC's eight Key Fiscal Year 2013 Recommendations followed by staff responses.

IROC'S KEY RECOMMENDATIONS:

- 1. Recommend IROC review the 2014 Wastewater Cost of Service Study (COSS) (including its detailed financial forecast) to determine whether the Wastewater fund needs to adjust planning accordingly, by raising enough cash to meet current expenses, but less than needed to fund new Capital Improvement Projects (CIP) (by drawing down cash levels). IROC requests that the Department complete the 2014 Wastewater COSS by March 2014, and provide IROC the underlying financial model for review prior to that date so that IROC can determine the reasonableness of the assumptions underlying the model. This will allow IROC to determine the reasonableness of the cash/investment levels in the Wastewater fund, and the reasonableness of any rate recommendation contained in the study.**

Department Response: The Department agrees with this recommendation.

The draft Wastewater COSS has been completed and the data tables have been provided to IROC. The model incorporated projected revenue and expenditure information to determine the net revenue requirement for the Wastewater System. The Department's Rates and Finance Section has compared projected revenue and expenditure information to actuals on an annual basis based on supplemental financial information provided by the Comptroller's Office. This included a detailed comparative analysis of revenues, O&M expenditures, CIP expenditures and debt service. The COSS will be finalized once the Recycled Water Pricing Study and proposed rates and the Industrial Wastewater Control Program fees and rate structure review is completed. The updated reports and data including the final Wastewater COSS will be presented to IROC for review.

- 2. Recommend that the Department seek to incorporate language in future Master Installment Purchase Agreements, if acceptable to bond purchasers, to allow surplus cash to either be counted toward compliance with debt service coverage (DSC) requirements or be rebated to customers without being counted against the requirement. This would prevent recurrence of the situation which occurred in the 2013 COSS whereby the Department has to recommend a water rate increase to comply with DSC requirements while still maintaining cash levels in excess of those needed for operating and capital needs.**

Department Response: The Department does not agree with this recommendation.

The existing Master Installment Purchase Agreements (MIPA) for both the Water Revenue Bonds and the Sewer Revenues Bonds include a mechanism for the City to manage its revenues and expenditures. For the Water System, the rate stabilization reserve (RSR) and the secondary purchase reserve are the mechanisms permitted by the MIPA to manage the DSC calculation to ensure appropriate ratios are maintained. Excess operating revenues in a given fiscal year can be transferred to the RSR during that fiscal year, which can be drawn down in later years to maintain coverage levels. The MIPA for the Sewer Revenue Bonds also provides for a rate stabilization reserve. The intent of the DSC calculation is to isolate revenue and expenditure activity by fiscal year to demonstrate the Department's compliance with the required minimum coverage on an annual basis. Revenues and expenditures should only be counted once. Current cash levels were recorded in a previous year as revenue.

While the mechanism exists in the MIPA, an operational action is required to transfer excess revenues in any given year into the RSR. The Water System had significant excess revenues in Fiscal Years 2007-2010, resulting in senior DSC ratios ranging between 3.99 and 5.27. No transfers were made to the RSR. However, more recently the rate stabilization reserve has been used effectively to manage the DSC for the Water System; specifically excess revenue was transferred to the RSR in Fiscal Year 2012 to manage the DSC requirement for Fiscal Years 2013 and 2014. The City expects to continue with this practice of regular monitoring and adjusting each year going forward.

With the clarifications provided above, no changes are warranted to either the Water or Sewer MIPA. It should be noted that all Water and Sewer Revenue Bonds are issued under a single MIPA for each of the systems. Any modifications would require an Amended and Restated MIPA, with modifications approved through an extraordinary process of written consent of the owners (bondholders) of a majority of outstanding bonds.

- 3. Recommend that an annual Actual vs. COSS financial variance analysis be produced for both the Water and Wastewater programs in a format similar to the one produced by Macias Gini & O'Connell in the program "Use of Funds" review to ensure that Department's finances are on track with the assumptions contained in the COSS upon which their rates are based. IROC recommends this be done by an independent outside party to ensure credibility with annual reporting to IROC, the NR&C Committee (Committee on the Environment) and the Independent Budget Analyst.**

Department Response: The Department partially agrees with this recommendation.

The Department will work with IROC on the format of the variance analysis. Once the format is approved, it can be determined if the schedules need to be reviewed by an outside party and the appropriate reporting.

- 4. Recommend the Department continue to assess the impact on recycled water costs to ratepayers, recognizing that there may be some benefit to potable water users as well, and identify appropriate rate adjustments to achieve greater cost recovery consistent with the twin goal of avoiding major demand disruption. IROC recommends that any adjustments be phased in over a five year period to avoid a large one year rate shock to recycled water users and to give wholesalers time to adjust their business models to the higher rates thereby avoiding major demand disruption.**

Department Response: The Department agrees with this recommendation.

The Department has engaged Black and Veatch to validate the Raftelis Recycled Water Pricing Study. In addition, they are evaluating a zone and wholesale rate. The Department has requested the City Attorney's office to assess the ability to phase the proposed rate increase over multiple years.

- 5. Recommend the Department and the Public Works Department develop a plan that will show how the two departments will be able to increase their capacity to fully implement the CIP program over the next five years. This plan should specify what levels of staffing will be required for both departments over the time period and identify the lead times needed to have staff in place by the time they are required. This plan should be presented to IROC, and the City Council's NR&C Committee (Committee on the Environment) and the Infrastructure Committee. After it is approved, the plan should be periodically reviewed by each of those committees to assure that the capability to fully and expeditiously implement and manage the CIP is being realized. If it is not, the City should consider either moving the implementation and management of the CIP back into the Department, or some other alternative so the CIP can move ahead as needed.**

Department Response: The Department partially agrees with this recommendation.

The Public Works Department is developing a strategy to address the growth in the Public Utilities Department CIP over the next five years as well as the overall CIP. Work in all asset classes are currently projected to grow over this time frame. Considering the current economic recovery it can be anticipated that the CIP Program will expand and the level of effort required of the Public Works Department will increase proportionately. Private development will require support from Public Works for improvements related to infrastructure improvements supporting the development which in turn will generate Facility Benefit Assessment fees and Developer Impact fees which fund additional CIP projects. In addition, the continued Deferred Capital Bond Funded Program has a long range Capital Improvement Plan that forecasts increased levels of improvements for the next five years. Growth of the entire CIP must be anticipated when discussing an expanded Capacity to deliver the CIP. The Public Works Department has been and will continue to provide updates related to capacity to deliver the entire CIP to the Infrastructure Committee and when necessary to the full City Council. A report will be

generated with the pertinent information related to the Public Utilities portion of the CIP and presented to IROC in the near future.

- 6. Recommend the Department report back to IROC with a plan to increase their construction management and contracting capability in order to successfully and expeditiously execute the CIP plan for FY2014 and FY2015.**

Department Response: The Department agrees with this recommendation.

The Public Utilities Department and the Public Works Department have a plan to achieve the goals of the current COSS and are working on the details of the work-plan to achieve both the expenditure goals and project development goals required. When complete, the proposed plan to meet the staffing and resource needs of the work plan will be presented to IROC.

- 7. Recommend the Department continue aggressive efforts in water conservation messaging and stakeholder engagement.**

Department Response: The Department agrees with this recommendation.

As a response to City Council's direction on enhancing water conservation public outreach efforts, the Department is spending up to \$250,000 in Fiscal Year 2014 on specific outreach such as television and radio ads, internet and social media ads, and more presence in community events. The Department is also adding \$250,000 per year to its budget beginning in Fiscal Year 2015 to provide this outreach on an ongoing basis. The outreach will be directed towards increasing the awareness of using water wisely, reinforcing efforts of citizens who have successfully conserved water, and directing the public to available incentives and services, such as landscape conversion rebates and installation of water efficient irrigation systems and rain barrels. In addition, "how-to" videos and public service announcements will be produced and aired on YouTube and City TV, and conservation messaging will be featured on bus wraps. To aid multicultural audiences, campaign messaging and videos will be available in English and Spanish.

The Department has consistently sought to ensure stakeholders are engaged and clearly understand the intended message through partnerships at community events, presentations, and through one-on-one communications. These avenues provide a forum for stakeholder input, discussion, and exchange of information.

Outreach efforts will be monitored through stakeholder participation in conservation programs and through citywide water use trends. The Department is expected to provide regular updates to IROC and the Council Committee of the Environment (formerly Natural Resources and Culture Committee).

Please refer to the attached memo to Council Member Alvarez, dated September 6, 2013, for more details on enhanced outreach activities.

8. Recommend the Department evaluate opportunities for managed competition and present options to IROC.

Department Response: The Department partially agrees with this recommendation.

When directed, the Department will respond to the Mayor with an evaluation of opportunities for managed competition should any exist. The Department will advise IROC of those opportunities when so directed by the Mayor. This action will be handled in concert with the bargaining units.



THE CITY OF SAN DIEGO

M E M O R A N D U M

DATE: September 6, 2013

TO: Honorable David Alvarez, Chair, Natural Resources & Culture Committee

FROM: J. Brent Eidson, Deputy Director, External Affairs
Marsi A. Steirer, Deputy Director, Long-Range Planning & Water Resources

SUBJECT: Current Public Utilities Department Outreach Efforts and Proposed Enhanced Outreach for Water Conservation

At two recent Natural Resources and Culture (NR&C) Committee meetings, Committee members asked about ongoing public outreach efforts undertaken by the Public Utilities Department (Department), and expressed an interest in increasing public outreach efforts to further promote water conservation. Questions were also directed at the cost of current outreach efforts, the cost for enhanced water conservation outreach, and the availability of funds to support these efforts on an ongoing basis. At the July 31, 2013, NR&C meeting, you requested that the Department provide a written description of outreach efforts and a cost estimate for additional outreach conservation related efforts.

This memo provides such details on the Department's outreach efforts. In order to raise the Department's internal and external communication standards to a higher level of effectiveness and efficiency, the External Affairs section was created a little over a year ago. Recognizing the value of coordinated outreach for the public, this unified group is well positioned to communicate to our customers about Department activities, programs and policies in a more consistent manner than previously done.

Current High-Profile Department Outreach Efforts**Water Conservation**

Outlined below, for comparison purposes, is a description of the Department's conservation outreach efforts covered in the current approved outreach contract. On Page 6 you will find details on additional proposed activities geared at promoting water conservation awareness, programs and practices.

The Water Conservation Program manages a \$200,000 per year community outreach contract to promote water conservation, woven into the additional year-around promotional and educational efforts performed by City staff. Collaborative Services, Inc. was selected through a competitive process in November 2010 for a total contract term of 5 years. Outreach services covered by this contract include:

- Preparation and distribution of regular communications, including electronic newsletters to stakeholders; press releases to support the City's various water conservation programs; brochures and fliers, and the Annual Water Conservation Calendar.
- Program support and coordination for the Annual Children's Poster Contest and the Annual Water Conservation Film Contest.
- Coordination of special events, such as the City Council presentation on Poster Contest winners, the Red Carpet Premiere of the Film Contest, May story time reading at City libraries and neighborhood bookstores, water conservation clinics at home improvement stores, the San Diego Watercolor Society's First Friday Water Conservation Exhibit and the Paint Out event at the Water Conservation Garden.
- Coordination of community outreach events, such as the display of water conservation posters at neighborhood location; community festivals and ethnic fairs, and speaker's bureau presentations.
- Campaign message development and yearly reevaluation of messages to determine if refreshing or redirection is needed to meet current and future outreach needs.
- Partnerships with student organizations at local universities to promote sustainability and water conservation at student fairs, freshmen orientations, and campus newsletters.

Biweekly meetings with Water Conservation, External Affairs and Collaborative Services staff provide project status updates and plan for new activities as the opportunities present themselves. The support of these contract services are key in helping the City's Conservation and External Affairs staff get the conservation message out to where the community is, such as special gatherings and day-to-day activities.

Demonstration and Potable Reuse Projects¹

Water Purification Demonstration Project (Demonstration Project) outreach efforts began in the spring of 2010 with the assistance of two on-site, full-time communication specialists from the public relations firm, Katz & Associates. Under direction of city staff a communication plan was prepared that outlines activities to encourage involvement among community leaders, stakeholders and residents. Activities included a speaker's bureau, developing written materials for English-speaking and non-English speaking audiences, stakeholder interviews, research surveys, community events and media outreach. Tours of the demonstration facility were also available for an up-close experience of the treatment process.

¹ Public outreach activities for the Demonstration and Potable Reuse Projects continue to be administered by the Long Range Planning and Water Resources Division, not External Affairs.

Outreach efforts during this time garnered positive coverage both locally and nationally. The San Diego Union-Tribune published an editorial declaring they have come to accept the science behind water purification technology and encouraged the rest of San Diego to do the same. Soon after the editorial, came a front page cover story in *USA Today* and, most notably, in the *New York Times*.

The far reaching success of Demonstration Project outreach efforts was made apparent through public opinion polling. Research shows a steady increase in the number of City residents who favor the addition of purified water to the City's drinking water supply from 26 percent in 2004, 68 percent in 2011 to 73 percent favorability in 2012.

Weekly meetings with City staff and Katz & Associates provides for project updates, strategic planning, and outlining of new tasks. Outreach efforts are designed to provide accurate information in a transparent manner and to increase the awareness and understanding of potable reuse. The Katz & Associates contract will exhaust its funding and terminate in December 2013.

A Request for Proposals has been issued for a professional community relations consulting firm to perform public outreach activities for two years beginning in 2014. Using the 2010 outreach contract as a guide, the level of service and associated costs was developed. It is estimated that in calendar year 2014, \$700,000 would be needed to cover expenses for two on-site, full-time consultants and the outreach services being requested.

The torch that was ignited in 2010 will carry over and influence outreach efforts for the Potable Reuse Project. Under the new contract a communication plan will be developed that will illustrate new efforts and guide existing ones. A major component of future outreach efforts will be to move away from the Demonstration Project and brand the new Potable Reuse Project. Some of the items that will be carried forward include:

- Speaker's bureau program coordination and follow-up.
- Print and electronic collateral material design and dissemination.
- Advanced Water Purification Facility tour coordination and feedback analysis.
- Project website maintenance (including HTML), updates, and re-designs.
- Partnerships with schools, colleges and youth groups to introduce and further the potable reuse discussion.
- Community event research, coordination and participation.
- Multi-cultural outreach
- Video production design and dissemination.
- Project research facilitation and dissemination.
- Media relations coordination, implementation and follow-up.
- Advertising design and dissemination.
- Internal communication updates.
- Social media project updates and promotion.
- Tracking system maintenance.

Through these and other outreach efforts, the City is diligently working to keep the public informed and up to date on the progress of San Diego's Potable Reuse Project.

Customer Support Division Outreach

Further demonstrating its strong commitment to delivering outstanding customer service, the City launched a new and improved Customer Advocacy and Outreach Program in April. Under the direction of a dedicated customer advocate with 17 years of utility management experience and eight years of advocacy/mediation experience, the new program has proven successful and continues to grow and address the needs of our customers.

The Advocate's role is to represent a customer-centric perspective. This includes:

- Focusing on the "big picture" end-to-end customer experience;
- Helping navigate our often complex procedures/organization;
- Acting as a cross functional go-to person;
- Engaging, facilitating and expediting resolution of customer service issues.

The advocate also provides presentations to community and business organizations on the following key topics relevant to the customer experience:

- Understanding your residential water/sewer bill
- Overview of fixed and variable fees and charges
- Go Green! Online self-service options
- Overview of key infrastructure and services
- What you can do when your utility bill is higher than expected

Feedback from customers obtained during these presentations is brought back to the Department's senior management to help improve service related efforts and customer satisfaction.

Additional outreach efforts targeted specifically to better inform customers and thereby reduce the volume of customer calls to the customer service call center were undertaken earlier this year:

- **Public Utilities Customer Service Web Pages** – In April, the Department completed an overhaul (organization and content) of utility related customer service information on the City's website. The new design simplifies and streamlines the delivery of the most frequently sought after information. Customer can now find answers to questions with fewer "clicks" and less effort.
- **"Is Your Bill Unusually High?" Bill Insert** – The insert was developed to curb the increase in customer call volume which normally occurs from May to September when utility bill amounts go up due to seasonal increases in water consumption. It helps customers understand why the amount of their bill may be higher (used more water, leak in customer's

system or meter reading error) and what the customer can do to confirm or fix the problem. The insert is being included in customer bills from May through October.

These outreach and customer targeted information efforts to reduce call volume have proven successful. The number of calls received from April to May 2013 dropped by 7 percent. Last year, the number of calls received during this period increased by 13 percent. The trend continued with no subsequent increase in call volume in June and July 2013. Call volume in July 2013 was 20 percent lower than July of last year.

Finance and Rates – Cost of Service Study

The Department met its commitment to an open and transparent Cost of Service Study by embarking on the most extensive public outreach at this stage of the study. The efforts, overseen by the External Affairs section, were designed to encourage and accept feedback and recommendations, not simply a one-way dialogue from the Department.

Over sixteen noticed public meetings were held, as well as numerous meetings with stakeholders representing groups including prominent business organizations, individual large businesses, industry consultants, education entities, hospitals, large hotels, landscape industry, biocom industry, etc. During these discussions, the Department provided detailed financial information, rate models for water and wastewater, historical data and projections.

Additional outreach is planned including direct mail to customers with detailed information about proposed rates, user-friendly information on the Public Utilities website, utilization of Social Media to drive customers to website and presentations to community and stakeholder groups.

Web Presence and Social Media

Recognizing the trend in electronic communications, the Department has dedicated resources to ensuring a robust and dynamic online presence. We continue to adjust to the every-changing world of social media by utilizing more traditional resources, such as the Department's public website, as well as constantly changing resources like Facebook, Twitter and YouTube. These different online resources allow the Department to provide both detailed information about the Department's activities, programs, and facilities as well as providing us the opportunity to interact with our customers through Facebook and Twitter.

As electronic communication continues to evolve, the Department is well positioned to evolve along with it as the future of good communication with our customers depends on it.

Other Department Outreach Activities

With a Department as large and diverse as Public Utilities, many other outreach activities are currently underway. Some of these include:

- Promoting the Department's Lakes and Recreation
- Sewer Spill Reduction Program
- Capital Improvement Program
- Recycled Water
- Facilities tours
- Emergency Response

Potential Enhancements to Water Conservation Program Outreach

The strengthening of water conservation messages in the community will help citizens implement water efficient measures and participate in water conservation programs, particularly the rebate programs which, for example, reward customers with financial incentives for turf replacement and rain barrels. Department staff proposes that these messages align with the current campaign "San Diegans Waste No Water." This statement is an affirmation that: 1) when called upon during the last drought, citizens successfully reduced water consumption by being mindful of their water use and not wasting water; 2) San Diegans have made water conservation a way of life; and, 3) even after the drought, wasting water is never an option.

Messages using the San Diegans Waste No Water theme will be prevalent in the following potential public outreach strategies:

- TV, radio and print media messaging – includes airing public service announcements, advertisement, and sponsorship of traffic and weather reports; ads in newspapers and news websites – for both English and Spanish media.
- Public service announcement videos shown at local theaters.
- Bus wraps for routes within all nine Council Districts.
- Improvements in lifeguard towers that incorporate water conservation messages with the community's identity.
- YouTube videos that can be posted on the Public Utilities YouTube channel. These videos provide an excellent opportunity to illustrate for customers how to read their water bills and water meter, check their homes for leaks, set irrigation timers, replace lawns with low water use plants, and fix toilet leaks. Videos can be developed to explain how the winter months' water usage is used to set sewer fees, and how customers can conserve water during winter months to lower their sewer fees. These videos can also be shown on the City TV channel.
- City TV, website, Twitter and Facebook messaging.
- Increased presence at community events citywide.

To achieve this enhanced level of water conservation outreach in the community, the department is recommending an annual budget increase of \$250,000 for outreach, exclusive of the current outreach contract. This estimate is based on actual expenditures for the successful Waste No Water campaign undertaken during the last drought (May 2009 to June 2011).

September 6, 2013

To maximize the budget and have a stronger impact on the community, staff recommends the following activity and expenditure schedule:

Schedule of Outreach Activities and Expenditures	Phase 1	Phase 2	Phase 3
	April to June	July-October	Nov- March
	35%	50%	15%

April and Earth Day celebrations kick off a string of water conservation community events, peaking in May (Water Awareness Month and Contest Award Ceremonies) and June (San Diego County Fair.) The period between July to October signifies the months when water usage is high due to warmer weather. Messaging during November to March is geared towards landscape replacements and rainwater harvesting. The Department has determined that funding to support this enhanced water conservation effort is available within the cost of service study assumptions as presented to NR&C at their July meetings.

Should you have any questions or concerns about the information presented in this memo we would be pleased to answer them.



J. Brent Eidson
Deputy Director



Marsi A. Steirer
Deputy Director