

**City of San Diego
Independent Rates Oversight Committee**



Annual Report

Fiscal Year 2014

Issued: October 30, 2014



Independent Rates Oversight Committee

October 30, 2014

Honorable Mayor Kevin Faulconer and
Members of the City Council

In accordance with Section 26.2003(a) (9) of the San Diego Municipal Code, I am pleased to transmit the seventh annual report of the Independent Rates Oversight Committee (IROC).

The report summarizes IROC's work for the fiscal year ended June 30, 2014, and includes observations and recommendations with respect to the operations, investments and planning activities of the Public Utilities Department. It also includes issues that we plan to address, or continue to address in FY2015. We welcome input from the Mayor, City Council, staff, stakeholders and the public.

On behalf of my IROC colleagues, I want to express our appreciation for the opportunity to serve the ratepayers. We hope that this report will contribute to a respectful dialogue on the continuing challenges we face as a region in ensuring a safe and reliable water supply, sound environmental management, reasonable rates, wise investments, efficient operations, a knowledgeable public; all leading to cost effective and sustainable Water and Wastewater systems.

Implementing IROC's role adds a layer of inquiry and accountability to an already challenged staff, and to that end, IROC appreciates the cooperation, patience, and professionalism of the Public Utilities Department in its relationship with IROC.

Please note in May 2015, IROC will have five (5) members' terms ending and we currently have one (1) vacancy (IROC board consist of 11 members). Of these five members four served faithfully since 2007, and one from 2008. We request the Mayor and Council identify qualified candidates as soon as possible.

Respectfully submitted,


Irene Stallard-Rodriguez, Chair
Independent Rates Oversight Committee

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IMPORTANT NOTES TO READERS OF THIS REPORT:

The information, recommendations and conclusions stated in this Report are the opinion of IROC as an independent advisory committee and should not be construed as an audit, formal financial review, or as the official position of the City of San Diego.

It should be noted that even though this report covers the period of July 1, 2013 through June 30, 2014, some of IROC’s statements in this report may include information that came to light after the end of that reporting period.

**IROC Annual Report
Fiscal Year 2014
Executive Summary**

Established in 2007¹, the Independent Rates Oversight Committee (IROC, or the Committee) serves as an official advisory body to the Mayor and City Council on policy issues relating to the oversight of the City of San Diego Public Utilities Departments' operations, including, but not limited to, resource management, planned expenditures, service delivery methods, public awareness, outreach efforts, and high quality and affordable services. In addition, the Committee assists the City in tracking and reviewing the use of rate proceeds to advance the capital improvements related to the rate packages and work programs adopted by the City Council.

This report was prepared by IROC as part of its duties under the Municipal Code, which calls for an annual public report to the Mayor and City Council on its activities, conclusions, and recommendations, including progress on its annual work plan. This Executive Summary frames the recommendations that IROC makes in the report, and we hope sets the stage for further progress in addressing San Diego's critical water needs today and in the future.

An Unsustainable Status Quo

Like other great metropolitan areas in the American Southwest, San Diego has grown and today thrives only because of previous generations of leaders who came together and created and executed on a bold vision of a city sustained by imported water. Its citizens understood that it would require vast financial resources to bring that water across deserts and over mountains. For generations, San Diegans have benefited from this vision and investments in dams, canals, treatment plants, and pipelines. However, the recent drought has brought to light that importing water from hundreds of miles away does not always provide reliable supplies and that the past may not represent the future, given climate change and increasing competition for scarce supplies of imported water.²

Today, the region can no longer rely as heavily on imported water to meet its current and likely future needs. Imported supplies are at risk due to a combination of natural and man-made causes, and long range supply and demand forecasts demonstrate that more must be done to ensure the region's water security.

Among the challenges the region faces is the need to better inform the public about both the nature of the problem, and the costs and benefits of alternative solutions. For example, the media and others poorly serve the community by mischaracterizing emerging conditions as a temporary "drought", when we are awash in scientific evidence that such

¹ San Diego Municipal Code section 26.2001

² Based on historical flow rates, Colorado River water has long been over-allocated, but only recently have those allocations been fully called, as Arizona and Nevada have grown and asserted their full water rights.

conditions are neither unusual nor temporary. In fact, the last century may have been unusually wet, and what we are experiencing is not a “drought” at all, and a system built on a recent but passing climatological anomaly is certain to fail.

At the same time, some believe that water is plentiful if we would only take it from the ocean. But, while ocean desalination may have a role in the region's water supply future, it is an expensive and energy-intensive source of potable water, and a policy based solely on ocean water would be prohibitively expensive for the vast majority of San Diego households and businesses. The San Diego region needs to increase its conservation efforts and diversify its water supply sources with a mix of local and imported supplies.

The Way Forward

IROC believes that, for the most part, current City leadership is aligned on both the nature of the challenge and the actions needed to move San Diego from this unsustainable status quo to a more robust and sustainable future. The future requires an abiding culture of conservation and “water wise” behavior, greatly expanded water recycling (a.k.a., Pure Water San Diego), supply diversification, prudent levels of storage, and an optimized program of system investment and maintenance, all within the constraints of affordability.³ IROC believes that it is also necessary to explore whether there are alternative rate structures that could better support these goals.

But moving forward requires not just consensus on the goals, but also funding, public trust and support, and political will. In the current institutional arrangement⁴, rates must be approved by members of the city council, who always face and will continue to face pressures to cut costs or services in the name of lower rates, but often at the expense of long term needs, water and system reliability. A key to helping our elected officials defend against these pressures to make short term choices that may conflict with long term goals and responsibilities is a well-informed public that understands that water reliability has a cost, has confidence that its funds are carefully managed by a professional utilities organization, and that failure to invest is irresponsible.

Keys to success

IROC believes that, under current City leadership and with the support of a broad coalition of business and environmental groups, San Diego is better placed today than at any time in recent memory to meet the real and present challenges to water security we face as a community. But we are a long way from the finish line. IROC believes that success requires a deliberate, sustained, and properly-resourced program that:

1. Invests fully in public information;
2. Financially supports conservation and water wise behavior;

³ Members of IROC participated in the development of the current Long Range Water Resources Plan, which embraces this vision.

⁴ In other utility districts, rates are set by elected boards of directors, by appointed members, or others.

3. Moves aggressively to implement a large scale Pure Water San Diego plan; and
4. Does not lose sight of the need to fully and timely invest in system maintenance.

Success is not a given. It will require consensus, education, and courage in the face of many obstacles. But there is no alternative. And there is no time to waste.

On the following page, we offer IROC's key recommendations in support of these goals.

IROC's Key Recommendations

1. Enhance public understanding of the costs and benefits of the water and wastewater system, through consistent information and messaging, under a clear, compelling, value statement (e.g., “San Diego Water: Pure Value”).
2. Consider much greater investment in conservation incentives (based on the proposition that conservation saves funds by avoiding costs, both infrastructure and commodity at highest marginal price). *IROC believes that the public interest is better served, and conservation goals better met, through incentives to encourage water wise investments and behavior, than through the current intrusive and ineffective “Water Cop” approach.*
3. Fully and timely fund system maintenance and replacement, based on ongoing condition assessments and other optimization tools. *Pipe breaks lose more than water; they lose public support for the investments needed to reduce pipe breaks.*
4. Continue to press forward on all levels with the Pure Water San Diego Program (legislative, regulatory, educational, design, investment).
5. Explore alternative rate structures that are fair (regionally/north-south, by customer class, by customer), consistent with long-range policy goals (especially conservation), and fiscally sound. Ensure sustainability while seeking opportunities to enhance fairness and affordability (including continuing to explore ways and means to provide a “lifeline” rate).
6. Alert Mayor and Council to pending vacancies in May 2015, when 5 members are termed out. Request that the Mayor and Council identify qualified candidates as soon as possible.

IROC MEMBERSHIP:

IROC Members and Officers

Irene Stallard-Rodriguez, Chair⁽¹⁾

Don Billings, Vice Chair⁽²⁾

Gail Welch

Christopher Dull

Gordon Hess

Jeff Justus

Jack Kubota

Jim Peugh

Tiffany Mittal

Craig Chapman

Vacant

Single-Family Residential Ratepayer

Finance/Municipal Finance Professional

Commercial and Industrial Ratepayer

Construction Management Professional

Temporary Irrigations & Construction Rep.

Environmental Science Professional Rep.

Engineering Professional

Environmental Representative

Multi-Family Residential Ratepayer

Construction Management Professional

Law Professional

Ex-Officio Members:

Luis Natividad

Jim Peasley

Ken Williams

Yen Tu

Metro Wastewater JPA Representative

Metro Wastewater JPA, Alternate

SDCWA City 10 Representative

SDCWA City 10, Alternate

Attachment B contains more detailed information on IROC Member Appointment Dates, Term Expiration Dates and Council District/Community Representation.

Notes:

(1) Ms. Irene Stallard-Rodriguez became IROC Chairwoman on May 19, 2014

(2) Mr. Don Billings became IROC Vice-Chairman on May 19, 2014

IROC SUBCOMMITTEES:

IROC has formed three subcommittees to implement the direction of the Municipal Code: (1) Finance; (2) Infrastructure and Operations, and (3) Outreach and Communications. The subcommittees typically address issues in greater detail than the full IROC and advance issues to the full IROC for action. All actions and recommendations coming from IROC must be approved by a majority of the full IROC and not from one of the subcommittees.

1. Finance Subcommittee

The major issues and areas addressed by this subcommittee in Fiscal Year (FY) 2014 included Water and Wastewater Fund Financial Reviews of the following: 1) Long Term Revenue and Expense Trends; 2) Cash and Investment Levels; 3) Operating Surpluses; 4) Department Reporting; 5) Dedicated Reserve for Efficiencies and Savings (DRES) Fund; 6) Water Cost of Service Study; and 7) the CIP Program.

Members

Subcommittee members are: Gordon Hess (FY2014 Chair), Don Billings, Tiffany Mittal, and Ken Williams.

2. Infrastructure and Operations Subcommittee

The major issues addressed by this subcommittee in FY2014 were issues that are both environmental and/or technical in nature, potentially having a direct effect on the rates charged to the citizens of San Diego by the City of San Diego Public Utilities Department (Department), on the service provided, and on the region's environment and natural resources. Beginning in FY2014, this subcommittee is also responsible for oversight of the Department's Capital Improvement Program (CIP) to ensure it is accomplished on schedule and on budget.

Members

Subcommittee members are Jim Peugh (FY2014 Chair), Jeff Justus, Jack Kubota, Craig Chapman and Gail Welch.

3. Outreach and Communications Subcommittee:

The major topics addressed by this subcommittee in FY2014 are those that have the highest impact on ratepayers, both from a service perspective and/or a potentially significant rate impact perspective. These include: 1) Maintaining water conservation efforts; 2) Reviewing water purification demonstration project metrics; 3) Reviewing progress for new Customer Care Solutions (CSS) system; and 4) Enhancing the public's understanding of reasons for water rate increases.

Members

Subcommittee members are: Irene Stallard-Rodriguez (FY2014 Chair), Christopher Dull, Jack Kubota and Luis Natividad.

IROC SUBCOMMITTEE DISCUSSION OF ISSUES AND RECOMMENDATIONS:

This section of the Annual Report provides issues, observations, recommendations and future topics of discussion for each of the three subcommittees.

The following issues were reviewed in FY 2014 by the Finance Subcommittee:

APPROVED AND RECOMMENDED CHANGES TO WATER RATES AND WATER RATE STRUCTURE.

Over the prior fiscal year (2012-13) the IROC regularly monitored and provided input to staff and consultants performing a cost of service based evaluation of the Department's water system costs. Rising water costs from the City's imported water supplier, changing demand patterns, future capital and operations costs and the need to maintain a strong financial platform are all drivers and considerations to maintain a utility that provides safe and reliable water supplies. The independent analysis that was performed found that the water utility had a potential bond/loan coverage problem that needed to be addressed. The Department absorbed Calendar Years (CY) 2012 and 2013 wholesale water purchase cost increases and the Department's Debt Service Coverage (DSC) target was nearing its minimum. A strong DSC ratio is an important factor in achieving lower interest rates on future borrowing. In order to recover prior year and current pass through costs from its imported water supplier, plus meet a target aggregate DSC ratio of 1.25X, two annual rate increases were proposed of approximately 7.25% and 7.50% for CY 2014 and 2015, respectively. In addition, and as recommended by the City Council's Water Policy Implementation Force, the recommendation included an adjustment (reduction) in the single family monthly base fee and a 4-tiered water consumption rate structure (from 3 tiers) to encourage conservation and more closely match the city's costs of providing services. The recommended tiers had slightly greater differentials between the lower tiers and more significant differentials in the higher tiers. Irrigation, multifamily, agricultural and industrial rates were also adjusted, but remained in one tier to address complexities of these water users.

The new rates and charges were supported by IROC in September 2013 and subsequently adopted by the City Council in November 2013.

Recommendation: Continue monitoring of departmental costs to measure accuracy of assumptions used in the Cost of Service Study (COSS), develop a method to "true-up" costs for any cost categories found to be significantly different than the assumptions used, and perform regular cost of service studies to be used for future rate adjustments.

In addition, the Department should continue working with others to provide programs or encourage assistance for low income users to address some of the needs they may have in respect to water bills.

REVIEWED INDUSTRIAL WASTEWATER CONTROL PROGRAM AUDIT

The Office of the City Auditor completed in August 2013, an audit of the Industrial Wastewater Control Program (IWCP). The IWCP focuses on minimizing toxic discharges to the sewerage system, and regulates industrial waste dischargers both within the City and in areas outside of the City via inter-jurisdictional agreements with participating agencies in the County areas. The audit reviewed the IWCP and identified billing lapses, internal control weaknesses and outdated permit fee structures that do not achieve cost recovery. The audit noted that some regulated agencies and businesses had not been billed for recoverable costs for at least a 5 year period. In total, the audit provided 8 recommendations to which the Department agreed and is in the process of implementation.

Recommendation: The Committee continues to review updated fees and rate structure and monitor progress of the Department strategic initiative to review all rates and fees for departmental services.

REVIEWED AND ENDORSED PUBLIC UTILITIES DEPARTMENTAL BUDGET FOR FY 2014-15

In April 2014 the Committee received and reviewed the Department's FY 2015 proposed budget. For the water fund, the budget was proposed at \$461.9 million, an increase of \$22.7 million or 5.2% above the FY 2014 adopted budget and \$22.1 million, or 5.0 percent above the estimated FY 2014 expenditures. Full time equivalent positions were proposed to increase by 18.65 positions, from 703 to 722. The proposed budget increase was mainly attributable to increase water purchase costs from the imported water supplier, increased efforts towards developing the Pure Water San Diego Program, and increased payments for State Revolving Fund loan repayments. The budget was found to be consistent with the COSS used to set water rates for CY 2014 and 15.

With respect to the Sewer (Wastewater) budget, the proposed operating expenses were \$347.5 million vs. the FY 2014 adopted budget of \$339.4 million. This was slightly below the FY 2015 COSS estimate of \$353.5 million. The increase in the proposed budget is mainly due to the Pure Water San Diego Program and State Revolving Fund Loan repayments. An increase of 14 full time equivalent positions, from 860 to 874 was also proposed.

The Committee's review of the budget focused mainly on consistency with the COSS, proposed capital expenditures, reasons for differential between the FY 2015 and FY 2014 budget and projected actual costs. After a review of all factors, the Committee voted to endorse the proposed FY 2015 departmental budget.

Recommendation: That the Committee continue to monitor budget expenditures throughout the year. It is also recommended that the Department provide the Committee a copy of the FY 2016 budget detail as soon as possible after release by the Mayor's Office, in addition to budget summaries normally prepared for the Committee.

ELIMINATION OF THE DRES FUND

In May 2014 the Committee received and reviewed a copy of the Performance Audit of Public Utilities Department's Reserves, prepared by the City of San Diego Office of the City Auditor. The report provided three recommendations to the Department, all of which were agreed to be implemented in a timely fashion. One recommendation was to "propose a change to the City's Reserve Policy to eliminate the Appropriated and Dedicated Reserve from Efficiency and Savings (DRES) reserves for Water and Wastewater funds." The DRES was created in 2007, along with the IROC which is responsible for overseeing the reserve. The purpose of the DRES reserve is to protect and preserve savings related to CIP and operations and minimize future rate increases. It has primarily been funded by unspent CIP dollars. However, in order to minimize rate increases these savings funds should be spent on other necessary CIP projects or programs, yet cash held in reserves is not readily available to be spent on CIP projects, because the IROC and City Council must approve transfer of funds out of the reserves. Further, calculating the savings attributable to efficiency as opposed to other savings is judgmental at best, and thus the DRES creates unnecessary administrative burdens and does not necessarily minimize future rate increases. With proper departmental and IROC oversight, this mechanism could be bypassed and the monies spent directly on CIP projects. IROC agreed with the auditor's recommendations and the matter was sent to City Council for its approval to change the reserve policy.

Recommendation: Make changes to the IROC's mission and purpose to eliminate reference to the DRES fund.

RECEIVED STATUS REPORT AND PROVIDED COMMENTS AND RECOMMENDATIONS TO RECYCLED WATER PRICING STUDY

The Committee reviewed and provided comment on the Recycled Water Pricing Study, prepared by consultants for the Department. The consultant found that the current recycled water commodity rate of \$0.80 per hundred cubic feet has been in place since 2001, and is below the pricing study to provide such supplies. Pricing the commodity rate below the pricing study causes other water users who benefit from the product to fund recycled water, beyond any benefits these other water users might realize from the availability of recycled water and reduced demands for potable water. The consultant recommended the commodity rate should continue to be lower than the potable water rate to incentivize sales and that a phased in adjustment to the pricing study may be possible. Further, the consultant presented two alternatives for an updated rate: a unitary rate for all recycled water customers, and a zone rate with differential pricing depending on whether the use was in the north city area or south bay area. The decision on which rate to use and how much recycled water rates should increase was postponed by the City Council, who instead directed staff to make revisions to the study and conduct a more intensive public

outreach program to receive comments and input from recycled water customers. The Committee received regular updates on the revised study progress, but did not receive details on the updated study results.

Recommendation: The Committee receive and review the updated study results in early FY 2015, in order to provide meaningful comments as part of an increased public outreach effort.

REVIEWED DEPARTMENTAL YEAR END FINANCIAL SUMMARY (SEPTEMBER 2013)

The Committee was presented with a financial year end summary of FY 2013 adopted budget versus actual expenditures comparison for the water and wastewater budgets. Staff presented that the water revenues were down \$16.7M over what was budgeted, and that expenses were down \$45.9M. On the wastewater side, budget staff stated that revenues were down slightly (\$0.3M) while expenses were up \$10.1M over the budgeted amounts. Staff includes financing proceeds within the revenue figures, so when these are netted out, water revenues actually rose \$11.7M over what was budgeted. This was due mainly to increased capacity charge revenue and "other" revenue. "Other" revenue includes items such as settlements, sales of real estate, materials and equipment, cooperative agreements and refunds. Expenses were down mainly because of reduced CIP expenditures (-18.0M) and Departmental Expenses (-15.8M) from what was budgeted.

REVIEWED AND SUPPORTED RECOMMENDATIONS PROVIDED BY THE CITY COUNCIL'S WATER POLICY IMPLEMENTATION TASK FORCE

The Committee and full IROC reviewed the recommendations provided by the City's Water Policy Implementation Committee and voted to support the recommendations of the Task Force, but had several comments that were forwarded to the City Council's Natural Resources and Culture Committee. Previously, IROC received presentations from the Task Force Chairman on draft recommendations and provided the Task Force with several pages of comments regarding individual recommendations. The final comments focused on the fact that the Task Force recommendations did not address the overall financial implications of the recommendations, the potential loss of a beneficial "grandfather" provision for City businesses if changes were made to the existing retrofit on resale City requirement, and concerns of sending mixed message to the regional community if the City were to move to a permanent voluntary drought standard. IROC also provided individual member comments to the Committee for its information, but these comments were not approved or endorsed by the full IROC. The Task Force recommendations were ultimately approved by the City Council, with priorities and some modifications.

Recommendation: The Committee review departmental progress in implementing the approved Task Force Recommendations that fall within the responsibilities of IROC.

OTHER FINANCE COMMITTEE ITEMS:

- Potential impact of reduced water sales on departmental budget.

The following FY2014 IROC issues were reviewed by the Infrastructure and Operations Subcommittee:

CAPITAL IMPROVEMENT PROGRAM (CIP) BUDGET AND SCHEDULE REPORTING:

For the past year, the Public Utilities Department (Department) and the Public Works Department – Engineering Branch (Public Works) have utilized a new CIP tracking report that combines both budget and schedule reporting into one consolidated report. This includes both life-of-project actual versus budget financial reporting by project as recommended by IROC to help improve overall cost and budgetary oversight of the CIP program.

A re-baselining of CIP water and wastewater project schedules and budgets was completed by the Department and Public Works after the FY2014-2015 Cost of Service Study was approved in order to “sync up” the CIP program with the rates being charged to fund it. The Department is maintaining a “cross walk” schedule between the old and new schedules and budgets to show how the program has changed. This quarterly report has helped IROC to better assess CIP program progress with respect to the approved FY2014-2015 Cost of Service Study (COSS).

The improved CIP process also includes a “project charter” which is an agreement between the Department and Public Works for each new project’s schedule and budget. Subsequent amendments to that charter due to either budget or schedule slippages are agreed to by both Departments, though that will not change the COSS budget or schedule variances reported to IROC so that program progress and financial management can be monitored. This improvement in CIP monitoring and reporting has helped create more transparency into the Department’s CIP program and has improved IROC’s ability to assess whether the CIP program is on schedule and on budget.

For FY14, Public Works has identified sizeable under-spending in the CIP program and IROC has requested additional information from Public Works to explain that under spending. Some of the contributing factors are cost savings due to bids being lower than budgeted and a delay in the FY14 Budget being approved, which directly contributed to a later start of projects. Certain large variances were being researched by Public Works and were not annotated on the report.

Recommendation: IROC recommends that the Department continue to highlight significant CIP schedule and cost variances on the CIP Report to allow IROC and City Council oversight of the capacity to deliver projects on time and within budget.

IROC also recommends that the Department carefully monitor implementation of the CIP and make any adjustments that are needed to expeditiously accomplish planned infrastructure upgrades and replacements.

SYSTEM CONDITION ASSESSMENTS

The Department has an important program underway to determine the current physical condition of the vast potable and wastewater systems. Five separate engineering services projects are underway and the sixth project is going through the “Selection Process” to retain a consultant. Four are for the potable water system and two are for the wastewater system. Work commenced in 2013 and is projected to be completed by 2020. The initial budget for the entire program is \$28.3 million dollars

IROC has been presented with progress reports and has participated in the selection process for the consultants. During the current year, the Miramar Road Transmission Main Assessment was completed. The results of that project demonstrate the value of the aggressive pursuit of field surveys. Utilizing the latest technology, the field investigation resulted in the redirection of the “pipeline replacement” project to a “repair” where ‘trouble spots’ were detected. The estimated savings for the project was in the order of \$50 million.

We expect the first project, to be completed in FY 2014-2015, to be the “System-Wide AC Water Main Replacement Program”. This is actually Phase II of the program that commenced in FY2011-2012. As we complete the replacement of Cast-Iron pipe (vintage 1900) we can look forward to the “health” of some 2,100 miles of Asbestos-Cement (AC) pipe.

We look forward to seeing the information from a broad System Condition Assessment program flowing into the asset management process and guiding the development and adjustment of the CIP with the goal of maximizing the integrity of the infrastructure while minimizing and stabilizing rates. It is hoped that this coherent process would provide enough clear information to decision makers, the public, and the media so that water rates will be set based on the long-term needs of the system and the water users and not on political expediency.

We urge that the 2016 Cost of Service Study (COSS) provide the funds to accelerate needed infrastructure replacement. It is important to recall from last year’s report that an average of 50 miles per year of asbestos/concrete pipe were installed in San Diego from 1950 to 1980. Much of that pipe will exceed its service life during the time we will be paying for the Pure Water San Diego Program and while the cost of the desalinated water is also increasing our rates. It would be unfortunate if the City is forced to catch-up with the replacement of aging infrastructure at that time.

Recommendation: Continue with and accelerate where reasonable, the ongoing program of System Condition Assessments to lead to a more effective CIP and maintenance program by providing better information on which infrastructure elements need repair, upgrading, replacement, increased maintenance, or no investment.

But we recommend that the Department not wait until the System Condition Assessments are complete to accelerate infrastructure replacement.

We recommend that the 2016 COSS identify the funds to accelerate replacement of our aging infrastructure, especially water pipes.

SUSTAINABILITY OF THE SYSTEM

To assure the sustainability of the system, IROC urges that the Department periodically perform a long range financial projection, ~20 or 30 years, of system needs, costs, and revenues. The purpose of the projection would be to try to keep current decisions from inadvertently preventing us from accommodating the needs of the future. The projection should consider the value and uncertainty of factors such as future construction costs, Metropolitan Water District water costs, energy costs, water consumption, water shortages, affordability levels, etc. Obviously the results of the projection will be uncertain. Knowing the range of uncertainty might be very important. Looking to the future might encourage the Department to move some investments forward to avoid unacceptable spikes in rates or borrowing.

Currently about 80% of the CIP is covered by financing and 20% is paid from current funds. In the 2014 COSS, the Department plans on cash funding the program for FY 2014 and FY 2015. It would seem prudent to consider reducing the Department's debt in the near future to allow for more flexibility in the longer run. We urge that the City and the Department do some analysis to see if reducing the portion of the CIP that is financed and increasing the portion that is paid from current funds and increasing the current level of replacement might help alleviate serious spikes in rates in the future and improve the sustainability of the Water and Wastewater systems.

Recommendation: Perform a long term projection (~20-30 years) of needs, costs, and revenues to make sure that future needs can be planned and accommodated, without unacceptable spikes in rates, in the face of uncertainties in future consumption, supply, and costs.

Consider whether financing 80% or some different portion of the CIP is optimum for the long run.

SUSTAINABILITY OF THE SYSTEM AND RATES

The current rate system leaves the system vulnerable to serious losses of funds when conservation improves or where there are reductions in supply. The typical answer is to have a larger fixed cost. But doing so reduces the financial signal to encourage conservation. Also it is unfair to ratepayers who use very little water and should not be held responsible for the same portion of the infrastructure costs as much larger users. The rate system used by the City of Davis allows for greater rate stability, more fairness, and a greater incentive for conservation than our current system and should be further studied.

Recommendation: IROC recommends that the Department seriously consider for the next rate case, adopting a rate system that allows for greater rate stability, more fairness, and a greater incentive for conservation.

SUSTAINABILITY OF THE SYSTEM AND STAFFING

The operation and sustainability of the Department depends heavily on the experience of its staff, from top management to field workers. IROC continues to be concerned about the turnover rate that we see in the Department. We understand that the Department does not routinely collect and provide statistics on losing employees, unfilled vacancies, numbers of applicants for jobs, the ability to hire people once they are selected, and likely retirements. Skilled and experienced employees are essential for the cost/efficient and safe operation of the water and wastewater system and to plan for its future. It is extremely important for recruitment and retention information to be available for all levels of management, policy makers, the media, the public, and IROC whenever needed. Such information is needed for setting salaries, training, promotion, education, and incentive programs. We strongly urge that such information be collected routinely and the data made available to decision makers and the public on a regular basis. It should show current values and long and short term trends. Such information is essential to ensure that the Department is and will be capable of operating the system in a sustainable and cost effective manner.

Recommendation: Assemble and regularly update a report on the retention, recruitment, and anticipated retirement of employees, by specialties, within the Department.

RELATIONSHIP BETWEEN THE PUBLIC UTILITIES DEPARTMENT AND THE PUBLIC WORKS DEPARTMENT

Until about 2007, the Department did the contracting and implementation of its CIP and other projects. Since then, those functions and some of the staff to accomplish them were transferred to the Public Works Department. More recently the Council has adopted policies giving departments a greater role in contracting and spending. The contracting and implementation of the Pure Water San Diego Program will be done directly through the Department (not through Public Works) with the assistance of a support contractor.

In past years, there have been problems implementing the CIP. We understand that the Department and Public Works are in the process of developing a partnering agreement to streamline the CIP process, accelerate project execution, emphasize accountability, and provide enhanced reporting to IROC. The Department CIP is massive, a total of about \$350 million including about 460 different ongoing projects, each with a different scale, complexity, problems, and criticality. IROC expects that this new partnering agreement will address the problems and potential structures, policies, tools, procedures, as well as other opportunities to help create a measurable improvement in the implementation and timely delivery of projects.

The Department expects to have a finalized plan in place by January 2015 and has indicated that it will update IROC regularly on progress being made. Based on the results of this new partnering effort, IROC may request an independent analysis or audit of the

process to determine whether the current assignment of roles, responsibilities, and controls between the two departments has worked as well as it should, or whether some other approach should be considered to achieve the goal of improving CIP implementation along with timely delivery.

Recommendation: Recommend that the Department provide quarterly updates to IROC on progress being made on both CIP management and CIP performance as a result of this new partnering agreement, by January 2015.

PURE WATER SAN DIEGO PROGRAM

IROC has received a number of presentations on the Pure Water San Diego Program as it has evolved since the Recycled Water Study. IROC has expressed its support for this program to help provide a reliable, locally controlled, cost effective, secure, and environmentally beneficial approach to our water needs. We also greatly appreciate its value for reducing our discharge of Total Suspended Solids without a costly upgrade to the Point Loma Wastewater Treatment Plan. We anticipate more detailed information on the program in the coming year.

Recommendation: Continue with the aggressive Pure Water San Diego Program and its goal to provide for the potable reuse of 83 MGD by 2035.

Continue to pursue the possibility of implementing some level of direct potable reuse to reduce the cost and the time to implement the Pure Water San Diego Program while moving ahead with the current plan.

Ensure that the Cost of Service Study for the 2016 water rates will provide adequate funding for the accelerated implementation of the Pure Water San Diego Program.

UPCOMING DISCHARGE PERMIT FOR THE POINT LOMA WASTE WATER TREATMENT PLANT

The subcommittee has received a briefing on the monitoring performed by the Department on the effluent from the Point Loma Wastewater Treatment Plant and its impact on the ocean environment around the discharge point. From the information provided it appears that the Department is fully implementing its monitoring responsibilities to date. We see no reason to believe that the current discharges result in any damage to the marine environment.

IROC and the Infrastructure & Operations subcommittee have received periodic presentations on the Department's concept of implementing the water quality standards of the Clean Water Act by reducing the volume of its discharge, through the Pure Water San Diego Program, instead of implementing secondary treatment at the Plant. The subcommittee generally agreed that the concept was appropriate for assuring water supply, protecting ratepayers, and protecting ocean water quality. The details of the proposed strategy for working with the EPA, Coastal Commission, State Water Resources Control Board, and Regional Water Quality Control Board to implement this concept will be presented to the IROC and the subcommittee in future meetings.

Recommendation: Continue with the effort to negotiate an agreement, or modify legislation, to allow meeting ocean discharge requirements by reducing discharge volumes through the Pure Water San Diego Program, instead of reducing them by modifying the Point Loma Wastewater Treatment Plant to achieve secondary treatment.

INCREASE USE OF NON-POTABLE WATER

IROC recognizes that one of the biggest challenges for the City is to decrease reliance on imported water, and to create a local sustainable water supply for the region. The Department has a plan for long range water supply that includes the “Pure Water San Diego” program. This plan, which IROC supports, will help create a safe, reliable and cost-effective drinking water supply for San Diego, using proven technology to purify recycled water.

Currently, the City’s purple pipe system and reclaimed water production is underutilized, and the City continues to pay increasingly higher prices to purchase potable water from its suppliers. Added to that, are the worsening drought conditions in the San Diego region. Meanwhile many commercial/industrial businesses continue to rely on potable water for irrigation and industrial use, such as cooling towers, when reclaimed water could suffice.

IROC received a presentation from the Department in May 2013 on “Activities to Increase Recycled Water Use” in which the Department determined that it was beneficial to expand purple pipe to customers in close proximity to the existing distribution system. The Department also determined that these smaller expansions would not be a detriment to the development of the Pure Water San Diego Program.

With the timeline for full implementation of the Pure Water San Diego Program (assuming full development is approved by regulatory and other bodies) nearly 8-10 years away, IROC encourages the City to implement now the most cost effective expansions that provide maximum value to avoid significant use of increasingly costly potable water.

OPERATION OF THE WATER AND WASTEWATER SYSTEMS

The Department is currently doing an optimization study on its operations. The results will be available to the subcommittee in a future meeting. We plan to carefully review the results of that study and provide our observations and make recommendations on the operation of the system after that.

We have been informed about, and have discussed the circumstances of each of the serious water and wastewater spills and pipe breaks throughout the year and were presented summary information covering breaks, spills, and especially spills that have reached public waters.

WATER DISTRIBUTION SYSTEM VALVE MONITORING AND MAINTENANCE

Often the impacts of water pipe breaks are amplified because the valves that should be able to shut off water to the broken pipes do not work. This can increase the impacts on the community, public safety, and other infrastructure. Also an earthquake can cause a lot of distribution system pipes to break and a lot of fires to occur. If many valves are inoperative, it can be very difficult to turn off the water to those broken pipes to maintain water pressure for firefighting. So there are a lot of reasons for the Department to have operative valves and to know ahead of time which valves are inoperative.

Several years ago IROC requested an audit on the exercising of the valves in the water distribution system. At that time Department policy was that each valve in the water distribution system would be tested once every five years. The testing was limited to seeing if the valve would move, not if it would actually close. The national standard is that each valve should be tested every year and the test should determine whether it will fully close or not. Periodic full operation of the valves is said to remove corrosion and mineral deposition and extend the useful life of the valve. The Auditor's report found that the Department was not meeting its five year standard and recommended that more frequent testing be performed for a set of selected priority valves within the system.

We have recently been informed that the Department will increase its valve testing staff, purchase automated valve testing machinery, and test each valve at least once every three years. The Department will present how the new policy will be implemented in a future meeting. We are looking forward to learning more about that improvement.

We are also concerned that when a valve cannot be operated, by a repair crew that its failure is not noted in the data base that contains the results of the routine valve tests. We are also concerned that decisions to replace groups of pipe do not take into consideration the operability of the valves that would also be replaced along with those pipes as well as the condition of the pipes to be replaced.

Recommendation: Move forward with the planned increases in the valve testing program.

Record every valve that cannot be operated when needed by a field worker and include that information in the valve testing data.

Use the data on inoperative valves to help prioritize which water distribution pipes should be replaced first.

Provide IROC with periodic summary information on the number of valves tested, number of inoperative valves found, and what will be done about them.

The following FY2014 issues were reviewed by the Outreach and Communications Subcommittee:

Pure Water San Diego (formerly known as Advanced Water Purification Demonstration Project) Public Outreach effort is comprised of City Staff and Consultant. The 3-year contract awarded in 2010 to consultant Katz & Associates expired in June 2014 valued at \$1.5 million. Katz & Associates will continue with a new two year contract at \$1 million. The outreach effort has continued to make significant progress in public education and has continued to actively promote the demonstration tour at the North City Reclamation Plant via onsite and “virtual” tours online. City staff and consultant staff handling the public outreach have been successful in working with local community leaders and engaging in community events (fairs, town meetings, etc.) and local community papers, to educate and inform the public on the Demonstration project. There has been positive public response and school tours have helped to spread the word, as well as utilizing technical journals and newspapers to report on the project. Public opinion has changed dramatically over the past several years, as well, with an overwhelming majority viewing water reuse as a positive and necessary process.

Recommendation: The Department provide quarterly presentations to IROC detailing their outreach to the various community leaders in all areas of San Diego, and their engagement with them to help promote the Pure Water San Diego Program outreach and awareness efforts.

Water Conservation campaign is critical as we enter the third year of drought in San Diego. The Department provided a water conservation update on the current “San Diegans Waste No Water” campaign. The main communication objective of the campaign is to make water conservation more personal and less authoritative. Focusing on the wise use of water was instrumental to maintain the public’s water conservation momentum. The City’s Water Conservation Section continues to focus on conservation programs and initiatives, offering free water surveys and grant funded rebate programs for replacement of turf and rain barrels. A new trolley wrap and buses were outfitted with eye catching and creative messaging. Community fairs and speaking engagements were utilized to spread the conservation message, along with press releases, online messaging, public service announcements and advertising in Spanish language publications. In addition, the annual water conservation film and poster contests continue to provide excellent outreach to engage students in the conservation message.

Recommendation: The Department continues to strengthen the “Water Conservation” campaign program messaging to ensure effectiveness and report back to IROC.

Customer Care Solution (CCS) Project: The Department moved to a new location on September 23, 2013 located at 525 “B” Street, San Diego, California 92101. The Department performed well during the move and transition to the new data center. Several IROC members toured the new location and found the new working environment to be productive and well managed. The Department had experienced a variety of Customer service issues and responded with increased staff and weekend shifts to handle the increased calls triggered by the billing system change. The Department has provided

targeted training, improved website help and increased phone capacity to reduce call queue times and help alleviate the issues. The Department handles 1200-1500 calls per day. Over 113,000 users are successfully utilizing the online bill payment system and the system appears to have stabilized.

The Department has added 60 new walk-in payment locations which include Wal-Mart, K-mart and the new downtown walk-in payment center location. The City now accepts credit card/debit cards for customer convenience.

Customer Care Liaison: This position established in April 2013, has been very effective in the new role of Customer Advocate. The advocate's role is to represent and promote a customer-centric perspective including: Focusing on the "big picture" end-to-end customer experience, helping customers navigate through complex procedures and organization. The advocate has assisted 266 customers and has made 21 presentations city wide.

Recommendation: The Department continues to monitor the CCS system to ensure excellence in customer service.

Advanced Metering Infrastructure (AMI): AMI city wide implementation is underway. Initial AMI Implementation consists of 10,000 monthly customers and 1,000 bi-monthly customers. Contract approved November 2012 with a total project cost \$6.0 million. The vendor selected was Itron, Inc. System acceptance projected for December 2014.

External Affairs Group. IROC continued to be briefed by the External Affairs Program Manager about the on-going efforts of the department to emphasize the importance for the Department's transparency of an effective communications plan to educate the public on the various drivers/reasons for water and wastewater rate increases.

This group was formed with a goal to improve customer and stakeholder confidence through communications and advocacy. The various Public Information Officers (PIO's) will report through this group which will provide education and outreach to the public and to improve customer confidence in the Department.

IROC is concerned by the possible move of this department into the General City organization. IROC would like to be kept informed of any decisions on moving this group into the General City organization as this may have a negative impact on the Department's ability to perform.

Public Utilities Department Awards. Honorable Mention in the International Association for Continuing Education & Training 2013 • Partnership for Safe Water Awards • National Association of Clean Water Agencies • California Water Environment Association • American Society of Civil Engineers – Outstanding Civil Engineering Achievement

Human Resources Management and Formal Analysis of Retention and Recruitment for the Department: IROC understands the need to manage budgets to wisely minimize future rate increases, however, it is still important for the Department to provide adequate compensation to its employees in order to attract and retain a dedicated, skilled, and experienced workforce for years to come. IROC requested periodic briefings on the Department's Leadership Development programs such as Management Academy, Field Academy and Mentorship Programs as well as efforts to retain and recruit employees. This should include pertinent performance metrics to verify the Department is within industry standards with respect to injury rates, turnover rates and retention rates, etc.

Proactively advise the Mayor and Council Members via reports and periodic communications. IROC recognizes the need for effective communications exchange with the Mayor, Committee on the Environment, and Council Members.

Other Related Activities: Participated in Long Range Water Resource Plan (LRWRP) Final report issued May 2014. Participated in Interviews of new professional community relations consulting group "Pure Water San Diego Program" outreach \$1 million (October 3, 2013).

Other Related Activities:

In FY2014, IROC members participated in the various departmental workshops, special studies and initiatives such as:

1. **Department's Strategic Initiatives Workshop.** The FY2012-2016 Strategic Business Plan, and the FY2015 Strategic Initiatives developed during the spring of 2014, are updated and modified on an annual basis by the Department to ensure that the Department continues to make positive progress towards its vision of improving operations and providing improved services to customers and the San Diego community.
2. **Water Cost of Service Study.** In FY2014 IROC continued to be involved in the Departments activities for COSS, cost allocations and final rate.
3. **Outreach and Communication for the Pure Water San Diego Consultant Contract.** IROC participated in the contractor selection panel.
4. **Long Range Water Resource Planning Workshops.** IROC participated in the meetings.
5. **Call Center Tours.** IROC members toured the new facility.
6. **Ride Along.** IROC participated in a ride along with meter readers, code enforcement and Wastewater pipe cleaning crew.

LOOKING AHEAD: FY2015 WORK PLAN (AS ISSUED ON MARCH 26, 2014)

I. Finance Areas of Focus

1. **Cost of Service Studies (COSS)** (§26.2003(a)(3) and (5)):
 - a. Review and monitor ongoing Wastewater COSS and Recycled Water Pricing Study and provide recommendations and feedback to Department staff and consultants.
 - b. Examine financial trends of Water and Wastewater funds to determine whether rates are at appropriate levels, and whether the utilities are operating in a cost effective manner, and in accordance with COSS projections.
 - c. As part of the 2016 Water COSS, review alternative rate structures for single family residential and irrigation, such as water budget based billing, and provide recommendations to Department staff regarding the feasibility and applicability of these alternative structures for implementation within the City.

2. **City Council Water Policy Implementation Task Force Recommendations** (§26.2003(a)(3) and (8)):
 - a. As appropriate and consistent with IROC's duties and functions as contained in Ordinance No. O-20233, review progress of Department actions in response to Council approved recommendations from the Water Policy Implementation Task Force (Task Force).
 - b. Monitor progress by Department regarding Task Force recommendations deferred by Council for additional analysis or implementation at a future date.

3. **Water Fund Sustainability and Affordability** (§26.2003(a)(3) and (8)):
 - a. Monitor and review San Diego County Water Authority (SDCWA) recommendations for incorporating Carlsbad Desalination Project costs into SDCWA water rates and charges.
 - b. Review assumptions regarding future water supplies, demands, and sales projections that will be used in the City's 2015 Urban Water Management Plan.
 - c. Develop recommendations and specific elements to be included in an analysis of affordability and sustainability of the Water fund given future increased costs of water resulting from the Metropolitan Water District, SDCWA and development of the Pure Water San Diego Program.

4. **DRES Fund** (§26.2003(a)(6)):

Examine the scope and purpose of the Dedicated Reserve from Efficiency and Savings Funds and procedures for deposits and withdrawals from the fund. Determine whether past withdrawals and deposits have been made consistent

with the fund's purpose and scope and whether changes, if any, should be made to ensure the fund is being used consistent with its intended purpose.

5. **Budget Review, Performance Audits, and Financial Reporting Improvements** (§26.2003(a)(3) and (7)):
 - a. Review FY 2014-2015 departmental budget and provide input to Department staff, City Council and Mayors office.
 - b. Review all performance audits and formulate recommendations for follow-up action, and recommend subjects for the annual performance audit.
 - c. Review OCA audits related to Finance (e.g., reserves, overhead expenses, etc.).
 - d. Recommend various financial reporting improvements to promote transparency for effective oversight.

II. Infrastructure and Operations Areas of Focus

1. **Review upcoming system condition studies and analyses to gauge the current infrastructure needs** (§26.2003(a)(8)):

Compare infrastructure replacement needs against replacement plans for equipment and Capital Improvement Projects (CIP). IROC will review metrics such as age of components, frequency of breaks and systems failures, and damage resulting from those failures. IROC will attempt to assess whether current condition assessment planning is adequate and to verify that the results are reflected in the development of subsequent CIPs.
2. **Monitor the implementation of the on-going infrastructure replacement plans, including the CIP and its budget and timing** (§26.2003(a)(2)(A) and (4)):

IROC will monitor and identify projects that are behind schedule, or over budget. Of particular interest will be whether or not schedule slippage is leading to cost increases and whether it will delay other improvements.
3. **Monitor and comment on the 2016/2017 COSS and its assumptions relating to funding for operations, maintenance, and infrastructure replacement** (§26.2003(a)(3) and (8)):

IROC will urge that the COSS recommend adequate funds to assure the sustainability of the Department's infrastructure and adequacy of service, especially for the water distribution system. IROC will also urge that any rate recommendations reflect the cost of service to ratepayers, support water conservation, and maintain the sustainability of the Department, its infrastructure, and its operation.
4. **Evaluate City planning efforts for a sustainable long term water supply** (§26.2003(a)(8)):

IROC will receive presentations and comment on the City's planning and actions for maintaining a sustainable supply of water long into the future. IROC anticipates continuing to advocate that the City move swiftly and

aggressively in implementing the reclamation of water for potable use and water conservation efforts. Seek an analysis of what level of conservation is feasible for San Diego and what measures could be considered to keep the Department sustainable in the face of deep levels and extended periods of conservation and/or restricted supply.

5. **Recommend targeted audits relating to infrastructure and operations** (§26.2003(a)(3)(7) and (8)):
IROC will continue to recommend various performance audits to identify efficiencies and savings and improve operations.
6. **Monitor the City's approach and progress toward the next discharge permit for the Point Loma Wastewater Treatment Plant** (§26.2003(a)(8)):
IROC will monitor the progress of the City and the relevant agencies toward the development of the next discharge permit for the Point Loma Wastewater Treatment Plant (PLWWTP). The new policy should protect ocean water quality; advance cost-effective wastewater treatment; minimize energy use and other environmental impacts, and satisfy the requirements of State and national regulations while advancing the development of the infrastructure to provide large quantities of affordable, dependable, and safe potable water.
7. **Monitor and make recommendations regarding the Department's planning and implementation for potable reuse of water** (§26.2003(a)(5)(8)):
Since the Recycled Water Study and the Water Purification System Final Report have been approved by the City Council, IROC will monitor the progress of the subsequent planning and implementation for potable reuse with the goal that it provide additional water supply security, be cost effective, provide for public health, improve drinking water quality, and minimize the cost of complying with the Clean Water Act in the long run.
8. **Review operations of the Water and Wastewater systems and their impact on system performance, infrastructure sustainability and rates** (§26.2003(a)(8)):
The subcommittee has focused heavily on infrastructure during the reporting period. We anticipate that the Department's Optimization Study will provide very useful information for improving the efficiency and effectiveness of the operation of the system in FY 2014.

III. Outreach and Communications Areas of Focus:

1. **Department Branding Effort** (§26.2001(a) and §26.2003(a)(8)):
Review the Department's new Branding initiative that encompasses its entire product/servicing offering, brand commitments, and internal and external implementation.
2. **"Pure Water San Diego" Program Outreach** (§26.2001(a) and §26.2003(a)(8)):

Review and seek analysis of the outreach effort and associated communications related to potable reuse and the Pt. Loma permit.

3. **External Affairs Activities** (§26.2003(a)(8)):
 - a. Complete review of all “External Affairs” activities of the Department. We have a multitude of specific areas such as water conservation, water rates, potable reuse, and industrial waste. Some of the activities have “outsourced” consultants and maintain different lists of stakeholders for messaging.
 - b. Examine the current staffing on all divisions that are doing “outreach” activities and look to integration/augmentation of personnel.
4. **Engage Elected Officials** (§26.2001(a)(2) and (b)):

Expand contact/dialogue with the Mayor and City Council so that they get to know IROC better. Also target the several special Council committees beyond our reporting group “Committee on the Environment”.
5. **Customer Care Solutions (CCS)** (§26.2001(a) and §26.2003(a)(8)):

Continue to monitor and review the Customer Care Solutions (CCS) system for customer service quality improvements.
6. **Managed Competition** (§26.2001)(a)(b)):

Review the Managed Competition Program’s impact on Public Utilities.
7. **Water Conservation** (§26.2001(a) and §26.2003(a)(8)):

Continue to monitor the City’s efforts to keep the “water conservation” campaign at appropriate levels.
8. **FY15 Rate Structure** (§26.2001(a) and §26.2003(a)(4)(8)):

Monitor the impacts of the FY 2015 water rate structure changes on the City and its ratepayers.
9. **Human Resources (HR)** (§26.2001(a) and §26.2003(a)(8)):

Evaluate whether the Department is able to hire and retain proper staffing for effective operation of current and emerging efforts. If not, review and analyze how can this be improved (i.e., improved succession planning, proactive and innovative recruiting methods, increased compensation and benefits). Review what improvements can be made at the Department level and what would require City approval.
10. **COSS Outreach** (§26.2001(a) and §26.2003(a)(8)):

Encourage the City to reach out to diverse stakeholders in its efforts to conduct Cost of Service Studies.

ATTACHMENTS TO THE FY2014 IROC ANNUAL REPORT:

Attachment A: IROC Municipal Code (Latest Version)

Attachment B: IROC Members Listing

Attachment C: IROC Agenda Topics for FY2014

ATTACHMENT A

**IROC MUNICIPAL CODE
(LATEST VERSION)**

(O-2013-39)

ORDINANCE NUMBER O- 20233 (NEW SERIES)

DATE OF FINAL PASSAGE JAN 23 2013

AN ORDINANCE AMENDING CHAPTER 2, ARTICLE 6,
DIVISION 20 OF THE SAN DIEGO MUNICIPAL CODE
BY AMENDING SECTIONS 26.2001, 26.2002, AND 26.2003,
AND BY ADDING NEW SECTION 26.2004, ALL RELATING
TO THE INDEPENDENT RATES OVERSIGHT COMMITTEE.

WHEREAS, on April 18, 2007, the Independent Rates Oversight Committee (IROC) was established pursuant to Ordinance No. O-19607 to oversee water and wastewater services provided by the City; and

WHEREAS, on June 27, 2012 and October 10, 2012, the Natural Resources and Culture Committee discussed the role and responsibilities of IROC and heard from various stakeholders; and

WHEREAS, on October 10, 2012, the Natural Resources and Culture Committee approved amending the Municipal Code to clarify the role and responsibilities of IROC consistent with this proposed ordinance; and

WHEREAS, the City Council desires to clarify the role and responsibilities of IROC;
NOW, THEREFORE,

BE IT ORDAINED, by the Council of the City of San Diego, as follows:

Section 1. That Chapter 2, Article 6, Division 20, of the San Diego Municipal Code is amended by amending sections 26.2001, 26.2002, and 26.2003, and by adding new section 26.2004, to read as follows:

Division 20: City of San Diego Independent Rates Oversight Committee

§26.2001 Purpose and Intent

- (a) It is the purpose and intent of the City Council to establish the Independent Rates Oversight Committee (IROC) to serve as an official advisory body to the Mayor and City Council on issues relating to the oversight of the City of San Diego's water and wastewater services. IROC will assist the City in tracking and reviewing the use of rate proceeds to advance the capital improvements related to the rate packages and work programs adopted by the City Council. IROC will also oversee and advise on planning and operations including, but not limited to, resource management, cost effectiveness, planned expenditures, service delivery methods, public awareness and outreach efforts, and the City's efforts to provide high quality and affordable services. It is the vision of the City of San Diego that a high level of public confidence in the City of San Diego's utility services be maintained in the most cost effective and environmentally sensitive way. IROC is formed in support of this vision.
- (b) IROC will independently evaluate information and conduct its work in a manner which considers and balances the interests of both the public utilities department and the ratepayers. IROC will diversify its information sources to promote objectivity and independence, and will solicit information from other City departments and outside sources to supplement public utilities department information in conducting its work.

§26.2002 Independent Rates Oversight Committee Established

- (a) IROC shall consist of eleven members, the majority of whom shall be residents of the City of San Diego, who shall serve without compensation. The members shall be appointed by the Mayor and confirmed by the City Council. The four ratepayer classes of single family residential, multifamily residential, commercial and industrial, and temporary irrigation and construction will each have one representative on IROC. In addition to the eleven members, IROC shall also include two ex-officio members, one representing and appointed by the Metropolitan Wastewater Joint Powers Authority, and one representing and appointed by the ten-member City representatives to the San Diego County Water Authority. A majority of the members of IROC shall possess expertise in one or more of the following areas: accounting, auditing, engineering, biology or environmental science, finance or municipal finance, law, and construction management.
- (b) Members shall serve four year terms, and each member shall serve until a successor is duly appointed and confirmed. In accordance with City Charter section 43, members are limited to a maximum of eight consecutive years, and an interval of four years must pass before such persons can be reappointed. Initial members shall be appointed such that the terms of not more than six members shall expire in any one year so as to allow the terms to be staggered. Initial appointments which are less than the full term of four years will be allowed to serve two full terms. The

expiration date of all terms shall be May 1. Any vacancy shall be filled for the remainder of the unexpired term. Vacancy appointment recommendations will come from the original recommending body. Any vacancy replacements will be eligible to serve the remaining term of the vacant position and two full terms.

- (c) On or after May 1, IROC shall select a Chair from among its members. The Chair will serve a one year term with the option of reappointment for one additional one year term, with a one year interval between consecutive terms as Chair.
- (d) IROC may adopt rules consistent with the law for the governing of its business and procedures.
- (e) A conflict of interest code shall be adopted for IROC, subject to City Council approval. The members of IROC shall be required to complete and file statements of economic interests in accordance with the conflict of interest code.

§26.2003 Duties and Functions

- (a) IROC shall:
 - (1) Meet at least every other month with additional meetings convened as necessary and as determined by the Chair, and set an attendance policy for IROC members to help ensure a quorum of members is present for all meetings.
 - (2) Present an annual IROC work plan to the Natural Resources and Culture Committee by May 1 of each year for discussion and

comment, but not for approval. IROC may change its work plan to incorporate comments and feedback received from the Natural Resources and Culture Committee. The work plan shall describe the activities and tasks IROC anticipates performing in the coming year. The work plan shall include, as a priority, the following components:

- (A) A quarterly review of the current schedule versus the original schedule for each capital improvement project and project to date expenditures versus the budget for each project funded by the water and wastewater enterprise funds.
 - (B) Any duties delegated to IROC by resolution of the City Council.
- (3) Review factors, drivers, and cost structures of any proposed changes to City water or wastewater rates.
 - (4) In conjunction with any proposals by the City to increase water or wastewater rates, other than proposed increases attributable solely to increases in the wholesale cost of water, conduct a cumulative review of the project schedules and budgets set forth in Section 26.2003(a)(2)(A) for capital improvement projects initiated or completed since the last City water or wastewater rate increase was implemented.

- (5) Review cost allocation models that may be included in cost of service studies of the water and wastewater systems.
- (6) Oversee departmental savings efforts and deposits to, and withdrawals from, the “Dedicated Reserve from Efficiency and Savings (DRES)” fund.
- (7) Advise on the priority and scope of performance audits of the water and wastewater systems, and review any resulting performance audit reports.
- (8) Provide advice and review of policy and proposals as sought by department leaders and other City staff related, but not limited to budget and finance, environmental issues, technology innovations, system viability, water supply, and public outreach and education efforts.
- (9) Provide an annual public report to the Mayor and City Council discussing the activities, conclusions and recommendations of IROC and addressing the duties and functions of IROC set forth in this Section. The report shall include a discussion of all the components of the work plan, or an explanation as to why any components of the work plan are not included or incomplete. IROC shall present its annual reports at meetings of the Natural Resources and Culture Committee.

- (b) IROC may also provide correspondence, interim reports, and appear at meetings of the City Council and Council Committees, as IROC deems necessary in the performance of its duties and functions.

§26.2004 Coordination with Audit Committee

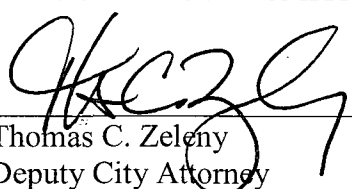
Any duties or functions of IROC that fall within the oversight responsibilities of the Audit Committee should be fully coordinated with and reported to the Audit Committee. IROC shall recommend at least one performance audit of the water or wastewater system each year for consideration by the City Auditor in time for inclusion in the City's audit plan.

Section 2. That a full reading of this ordinance is dispensed with prior to its passage, a written or printed copy having been made available to the City Council and the public prior to the day of its passage.

Section 3. That this ordinance shall take effect and be in force on the thirtieth day from and after its final passage.

APPROVED: JAN I. GOLDSMITH, City Attorney

By



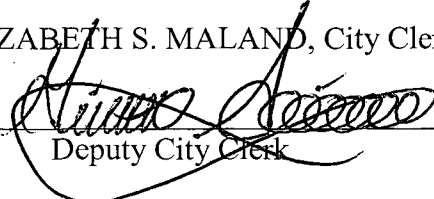
Thomas C. Zeleny
Deputy City Attorney

TCZ:mb
10/25/12
Or.Dept:NR&C
Doc No:461824

I hereby certify that the foregoing Ordinance was passed by the Council of the City of San Diego,
at its meeting of JAN 8 2013.

ELIZABETH S. MALAND, City Clerk

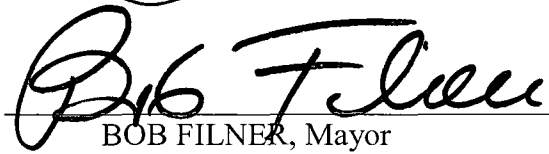
By



Deputy City Clerk

Approved:

1/23/13
(date)



BOB FILNER, Mayor

Vetoed:

(date)

BOB FILNER, Mayor

ATTACHMENT B

IROC MEMBERS LISTING



Independent Rates Oversight Committee (IROC)

Committee Member	Council District/Community	Category	Appointment Date	Term Expiration Date
Tiffany Mittal	District 2 Point Loma	Multi-Family Residential Ratepayer Class Rep.	1/30/2014	5/1/2017
Craig Chapman	Carlsbad	Construction Management Professional Rep.	1/30/2014	5/1/2017
Jack Kubota	Carlsbad	Engineering Professional	1/30/2014 6/2/2009 10/18/2007	5/1/2017 5/1/2013 5/1/2009
VACANT (Noam Glick)*	District 3 North Park	Law Professional	11/6/2012	5/1/2015
Jeff Justus	District 2 Pacific Beach	Environmental Science Professional Rep.	1/30/2014 1/23/2012	5/1/2017 5/1/2013
Christopher Dull	Escondido	Construction Management	5/16/2011 10/9/2008	5/1/2015 5/1/2011
Donald Billings	Solana Beach	Finance/Municipal Finance Rep.	5/16/2011 10/18/2007	5/1/2015 5/1/2011
Gordon Hess	District 3 Mission Hills	Temporary Irrigations & Construction Rep.	1/30/2014	5/1/2017
James Peugh	District 2 Point Loma	Environmental Rep.	5/16/2011 10/18/2007	5/1/2015 5/1/2011
Irene Stallard-Rodriguez	District 7 San Carlos	Single-Family Residential Ratepayer	5/16/2011 10/18/2007	5/1/2015 5/1/2011
Gail Welch	District 1 Carmel Valley	Commercial and Industrial Ratepayer	5/16/2011 10/18/2007	5/1/2015 5/1/2011

*Resigned

11 Members, 4 Year Term

Appointed by Mayor, Confirmed by Council

San Diego Municipal Code 26.2001 – 26.2003

[Members are required to file Statement of Economic Interests](#)

Register Revised 10/22/2014

Last Update 1/30/2014 R-308709, R-308710 & R-308711

ATTACHMENT C

IROC AGENDA TOPICS
FOR FY2014

IROC Agenda Topics for Fiscal Year 2014

JULY, 2013

Full IROC

- San Diego Water Policy Implementation Task Force Report
- The Amendment to San Diego Municipal Code – Low Flow Toilet Retrofit Upon Re-Sale Ordinance Revision
- 2012 Long-Range Water Resources Plan (LRWRP)
- Pt. Loma Wastewater Treatment Plant Permit
- Recycled Water Pricing Study
- Should IROC and its subcommittees go dark in August
- Response to NR&C comments on IROC FY14 Work-plan
- City 10 – County Water Authority Update

Finance Subcommittee

- Update on CIP Project Report
- Recycled Water Pricing Study Discussion
- Subcommittee Planning: FY2013 IROC Annual Report Development, Finance Portion

Outreach and Communications Subcommittee

- Public Utilities Department Rewards and Recognition
- Introduction of the newly created Public Utilities Customer Advocate position
- Planning Item: IROC to consider amending the FY14 Work-Plan based on the NR&C feedback received on May 15, 2013
- Subcommittee Planning: FY2013 IROC Annual Report Development, Outreach and Communications portion

Infrastructure and Operations Subcommittee

- CIP Report & Projects on the Radar
- Discussion of issues related to Group Job 767
- Subcommittee planning: FY 2013 IROC Annual Report Development, Infrastructure and Operations Subcommittee portion
- Discussion of how the Subcommittee should address Department Operations. What should be the goals? What information is needed?

AUGUST, 2013

Full IROC

Cancelled

Finance Subcommittee

Cancelled

Outreach and Communications Subcommittee

Cancelled

Infrastructure and Operations Subcommittee

Cancelled

IROC Agenda Topics for Fiscal Year 2014

SEPTEMBER, 2013

Full IROC

- Proposed Water Rate Adjustment / Black and Veatch Contract Amendment
- Industrial Wastewater Control Program Audits update
- CIP FY 2013 Annual Report
- Water Policy Implementation Task Force Report Discussion (to agree on group recommendations for the Task Force/NR&C)
- FY2013 Annual Report Discussion & Proposal for Ad Hoc FY13 Annual Report Committee
- City 10 – County Water Authority update

Finance Subcommittee

- Debt Coverage Ratio discussion
- Industrial Wastewater Control Program Audit update
- FY 2013 Year-End Financial Summary
- Subcommittee planning: FY2013 IROC Annual Report Development, Finance portion

Outreach and Communications Subcommittee

- Portable Reuse Project outreach efforts update
- Subcommittee Planning FY2013 IROC Annual Report development

Infrastructure and Operations Subcommittee

- Quarterly CIP Review
- Subcommittee Planning FY 2013 IROC Annual Report development
- Infrastructure & Operations Subcommittee Work Plan objectives

OCTOBER, 2013

Full IROC

- City 10 – County Water Authority Update
- Update on public Comment regarding code compliance issue
- Discussion – Service Line Warranties of America
- Presentation of 2014 Strategic Initiatives
- Review/approve draft letter to City Council regarding current vacancies and expired terms
- Discussion – FY2013 Annual Report
- Discussion – Council Policy 400-15 water related issues

Finance Subcommittee

Cancelled

Outreach and Communications Subcommittee

- Public Utilities External Affairs Program update
- Management & Field Academy Retention and Promotion Rates
- Honorable mention in the International Association for Continuing Education & Training 2013 Exemplar Award for Internal Training
- How should IROC respond/follow-up with community ratepayers that come before the committee(s)
- Subcommittee planning: FY2013 IROC Annual Report development, Outreach & Communications Subcommittee portion (if needed)

IROC Agenda Topics for Fiscal Year 2014

Infrastructure and Operations Subcommittee

- Management & Field Academy Retention and Promotion Rates
- Quarterly CIP Review follow-up on FY2012 Baseline
- Funding for Water Distribution Valve Maintenance
- Subcommittee planning: FY2013 Annual Report development, Infrastructure & Operations Subcommittee portion (if needed)

NOVEMBER, 2013

Full IROC

- City 10 – County Water Authority update
- Portable Reuse – 90 Day update
- Discussion Service Warranties of America
- Update on Cost Service Study Outreach
- International Association for Continuing Education and Training – Award Training update
- Capital Improvement Project (IP) Prioritization Policy update
- CIP Quarterly Report
- FY2013 Annual Report
- Council Policy 400-15 Water Related Issues

Finance Subcommittee

- Subcommittee Planning FY2013 IROC Annual Report Development, Finance portion
- Update on the Office of the City Auditor Public Utilities Department Reserves Audit
- Discussion Council 400-15 Water Policy Issues

Outreach and Communications Subcommittee

Cancelled

Infrastructure and Operations Subcommittee

- Discussion: CH2M Consulting Services for Public Utilities Department Operations Optimization
- CIP Crosswalk update
- CIP Program update
- Rate ca vs. Actual Lockdown spreadsheet
- Impacts of deep water conservation or shortage
- Discussion: Council Policy 400-15 water related issues
- FY13 Annual Plan, Infrastructure & Operations section

DECEMBER, 2013

Full IROC

- City 10 – County Water Authority update
- International Association for Continuing Education and Training Award/Training Section update
- Asset Management Council Policy 800-16 and SAP Enterprise and Asset Management Project update
- FY2013 Annual Report

IROC Agenda Topics for Fiscal Year 2014

Finance Subcommittee

- Annual reconciliation of Actuals vs. Cost of Service
- Discussion: FY13-FY15 Continuing Appropriations
- Rate Case vs. Actual Lockdown spreadsheet
- Report on water purchases in acre-feet
- Update on Wastewater Cost of Service Study

Outreach and Communications Subcommittee

Cancelled

Infrastructure and Operations Subcommittee

- Project Charter for S11024 – Miramar Clearwells
- Update on Rate Case vs. Actual Lockdown spreadsheet
- Water Production Report
- Impacts of severe water shortages

JANUARY, 2014

Full IROC

- City 10 – County Water Authority update
- Annual Water Conservation Report
- The Amendment to San Diego Municipal Code – Low Flow Toilet Retrofit Upon Re-Sale Ordinance Revision

Finance Subcommittee

- Wastewater Cost of Service Study
- Supplemental Financial Schedules
- Status of the “Project to Date” CIP Report
- Discussion: Low-income support for Water customers
- Discussion: Implementation Plan from the internal Working Group on the Water Policy Implementation Task Force recommendations

Outreach and Communications Subcommittee

- Public Utilities Department Customer Support and Call Center update
- Service Line Warranties of America Discussion
- Update on the Outreach for New Water Rates and Structure
- Update on the Pt. Loma Permit/Potable Reuse Project

Infrastructure and Operations Subcommittee

- Capital Improvement Program (CIP) Crosswalk Variance Report cost
- Water Main Breaks and Sanitary Sewer Overflow update
- County Water Authority’s 2013 Water Facilities Master Plan, Climate Action Plan and associated Supplemental Environmental Impact Report

IROC Agenda Topics for Fiscal Year 2014

FEBRUARY, 2014

Full IROC

- City 10 – County Water Authority update
- Pure Water Project update
- Approve transfer of funds to Water Group Job 787
- Protection of personal customer information
- Advanced Metering Infrastructure update
- Special Workshop/Ad Hoc Committee for FY15 Work Plan development
- IROC Outreach and Communications Subcommittee nominations and appointments
- IROC Infrastructure and Operations Subcommittee nominations and appointments
- IROC Finance Subcommittee nominations and appointments
- IROC participants for the FY15 Strategic Plan development

Finance Subcommittee

- Public Utilities Department financial update (Monthly)
 - County Water Authority Cost of Service Study
 - Recycled Water
 - Industrial Waste
 - Other
- Funding for Recycled Water Projects
- Discussion: FY15 IROC Work Plan

Outreach and Communications Subcommittee

- Automated Metering Infrastructure Update
- Enhanced Conservation Outreach Strategy
- Discussion: FY15 IROC Work Plan

Infrastructure and Operations Subcommittee

- Backup Generator update
- Capital Improvement Program (CIP) Crosswalk
- CIP Program Update
- Rate Case CIP Comparison
- Discussion: Graphic Metrics
- Discussion: FY15 IROC Work Plan

MARCH, 2014

Full IROC

- City 10 – County Water Authority update
- CIP Program update
- FY15 Annual Work-Plan

Finance Subcommittee

- Public Utilities Department Financial Update:
 - County Water Authority Cost of Service Study
 - Recycled Water Pricing Study
 - Wastewater Cost of Service Study
 - Other
- Current Year Monitoring
- IROC FY15 Annual Work-Plan

IROC Agenda Topics for Fiscal Year 2014

Outreach and Communications Subcommittee

- Discussion: FY15 Outreach & Communications Portion of IROC's Annual Work-Plan

Infrastructure and Operations Subcommittee

- Water Main Break update
- Discussion: FY15 Infrastructure & Operations Portion of IROC's Annual Work-Plan

APRIL, 2014

Full IROC

- City 10 – County Water Authority update
- Quarterly report on Water Main Breaks and Sanitary Sewer Overflow
- Proposed FY15 Public Utilities Budget
- Communications to the Mayor

Finance Subcommittee

- Public Utilities Department Financial update
- Metropolitan Water District Rate update
- FY15 Proposed Public Utilities Department Budget
- FY15 Work-Plan Areas of Focus: Finance

Outreach and Communications Subcommittee

- External Affairs update
- Public Utilities Department Branding effort
- Discussion: Tours of Public Utilities Department facilities for IROC members
- FY15 Annual Work-Plan Areas of Focus: Outreach & Communications

Infrastructure and Operations Subcommittee

- Water Main Breaks & Sanitary Sewer Overflow Update
- City Reserve Policy
- FY15 Annual Work-Plan Areas of Focus: Infrastructure & Operations

MAY, 2014

Full IROC

- City 10 – County Water Authority update
- 3rd Quarter CIP Update
- City Reserve Policy
- Selection of New IROC Chair and Vice Chair

Finance Subcommittee

- Public Utilities Department Financial update
- City Reserve Policy
- Follow-up on Prior Year Budget variances
- FY15 Work-Plan Areas of Focus

Outreach and Communications Subcommittee

- Water Conservation update
- Update on Impacts of the FY 2015 Water Rate Structure
- FY Work-Plan Areas of Focus – Outreach & Communications

IROC Agenda Topics for Fiscal Year 2014

Infrastructure and Operations Subcommittee

- 3rd Quarter CIP Program Update
- Miramar Water Pipeline Condition Assessment
- Discussion: Public Utilities Organization Structure
- FY Work-Plan Areas of Focus – Infrastructure & Operations

JUNE, 2014

Full IROC

- City 10 – County Water Authority update
- City Audit update
- San Vicente Hydropower
- Solar Initiatives
- Should IROC and its Subcommittees go Dark in August

Finance Subcommittee

CANCELLED

Outreach and Communications Subcommittee

CANCELLED

Infrastructure and Operations Subcommittee

- San Diego Kelp Forest Ecosystem Monitoring Project
- Groundwater update
- Solar Initiatives
- Potable Water Reservoirs Condition Assessment
- FY 2015 IROC Work-plan Calendar