

**CITY OF SAN DIEGO PUBLIC  
UTILITIES DEPARTMENT**

Schedule of Allocation for Billing to Metropolitan  
Wastewater Utility and Independent Auditor's Reports

For the Fiscal Year Ended June 30, 2018



Certified  
Public  
Accountants

**CITY OF SAN DIEGO PUBLIC UTILITIES DEPARTMENT**  
Schedule of Allocation for Billing to Metropolitan Wastewater Utility  
and Independent Auditor's Reports  
For the Fiscal Year Ended June 30, 2018

***Table of Contents***

	<i><b>Page</b></i>
Independent Auditor's Report on the Schedule of Allocation for Billing to Metropolitan Wastewater Utility .....	1
Schedule of Allocation for Billing to Metropolitan Wastewater Utility .....	3
Notes to the Schedule of Allocation for Billing to Metropolitan Wastewater Utility.....	4
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Schedule of Allocation for Billing to Metropolitan Wastewater Utility Performed in Accordance with <i>Government Auditing Standards</i> .....	7



## **Independent Auditor's Report on the Schedule of Allocation for Billing to Metropolitan Wastewater Utility**

To the Honorable Mayor and City Council  
City of San Diego California

### **Report on the Schedule**

We have audited the accompanying modified cash basis Schedule of Allocation for Billing to Metropolitan Wastewater Utility (the Schedule) of the City of San Diego Public Utilities Department (PUD), an enterprise fund of the City of San Diego, California (the City) for the fiscal year ended June 30, 2018, and the related notes to the Schedule, as listed in the table of contents.

### ***Management's Responsibility for the Schedule***

Management is responsible for the preparation and fair presentation of the Schedule in accordance with the modified cash basis of accounting described in Note 3, this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the Schedule in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the Schedule based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the Schedule in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Schedule.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the Schedule referred to above presents fairly, in all material respects, the Allocation for Billing to Metropolitan Wastewater Utility of the PUD pursuant to the Regional Wastewater Disposal Agreement (Agreement) between the City and the Participating Agencies in the Metropolitan Wastewater System dated May 18, 1998 as amended on May 15, 2000 and June 3, 2010, respectively, for the fiscal year ended June 30, 2018, in accordance with the modified cash basis of accounting as described in Note 3.

### ***Basis of Accounting***

We draw attention to Note 3 of the Schedule, which describes that the Schedule is prepared for the purpose of complying with the Regional Wastewater Disposal Agreement between the City and the Participating Agencies and is presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 26, 2020 on our consideration of the PUD's internal control over financial reporting as it relates to the Schedule and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the PUD's internal control over financial reporting or on compliance related to the Schedule. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the PUD's internal control over financial reporting and compliance related to the Schedule.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

San Diego, California  
June 26, 2020

**CITY OF SAN DIEGO PUBLIC UTILITIES DEPARTMENT**  
**Schedule of Allocation for Billing to Metropolitan Wastewater Utility**  
**For the Fiscal Year Ended June 30, 2018**

	<b>Operating Expenses</b>		
	<b>Municipal System</b>	<b>Metropolitan System</b>	<b>Total</b>
<b>Transmission</b>			
Main Cleaning .....	\$ 12,307,306	\$ -	\$ 12,307,306
Sewer Pump Stations.....	4,753,959	-	4,753,959
Other Pump Stations.....	5,525,618	571,506	6,097,124
Pump Station 1.....	-	1,918,982	1,918,982
Pump Station 2.....	-	6,359,493	6,359,493
Other Muni Agencies.....	5,972,933	-	5,972,933
Pipeline Maintenance and Repair.....	11,962,739	103,314	12,066,053
Wastewater Collection (WWC) Engineering and Planning.....	2,317,947	-	2,317,947
<b>Total Transmission.....</b>	<b>42,840,502</b>	<b>8,953,295</b>	<b>51,793,797</b>
<b>Treatment and Disposal</b>			
Point Loma Wastewater Treatment Plan (PTLWWTP).....	-	23,376,544	23,376,544
North City Water Reclamation Plant (NCWRP).....	-	11,232,382	11,232,382
South Bay Water Reclamation Plant (SBWRP).....	-	9,292,184	9,292,184
Metropolitan Biosolids Center (MBC).....	-	16,607,023	16,607,023
Cogeneration Facilities.....	-	295,004	295,004
Gas Utilization Facility (GUF).....	-	723,547	723,547
Wastewater Treatment and Disposal (WWTD) Plant Engineering.....	-	810,195	810,195
<b>Total Treatment and Disposal.....</b>	<b>-</b>	<b>62,336,879</b>	<b>62,336,879</b>
<b>Quality Control</b>			
Sewage Testing and Control.....	350,426	393,017	743,443
Marine Biology and Ocean Operations.....	2	5,231,075	5,231,077
Wastewater Chemistry Services.....	960,307	5,832,956	6,793,263
Industrial Permitting and Compliance.....	4,940,359	31,408	4,971,767
<b>Total Quality Control.....</b>	<b>6,251,094</b>	<b>11,488,456</b>	<b>17,739,550</b>
<b>Engineering</b>			
Program Management and Review.....	2,971,482	8,961,584	11,933,066
Environmental Support.....	2,771,977	245,715	3,017,692
<b>Total Engineering.....</b>	<b>5,743,459</b>	<b>9,207,299</b>	<b>14,950,758</b>
<b>Operational Support</b>			
Central Support: Clean Water Operations Management Network (Comnet)...	175,550	3,162,673	3,338,223
Operational Support.....	1,293,278	6,082,028	7,375,306
<b>Total Operational Support.....</b>	<b>1,468,828</b>	<b>9,244,701</b>	<b>10,713,529</b>
<b>General and Administrative</b>			
Business Support Administration.....	23,394,744	25,088,359	48,483,103
Operating Division Administration.....	6,204,464	5,088,880	11,293,344
<b>Total General and Administrative.....</b>	<b>29,599,208</b>	<b>30,177,239</b>	<b>59,776,447</b>
<b>TOTAL EXPENSES.....</b>	<b>85,903,091</b>	<b>131,407,869</b>	<b>217,310,960</b>
<b>CAPITAL IMPROVEMENT EXPENSE.....</b>	<b>68,608,811</b>	<b>48,914,684</b>	<b>117,523,495</b>
<b>DEBT SERVICE ALLOCATION.....</b>	<b>33,744,804</b>	<b>75,045,785</b>	<b>108,790,589</b>
<b>METROPOLITAN SYSTEM INCOME CREDITS.....</b>			
Operating Revenue.....	-	(13,616,591)	(13,616,591)
Capital Improvement Project (CIP) - Revenue Bond Issue.....	-	-	-
Operating - Grant Revenue.....	-	-	-
CIP - Grant/SRF Revenue.....	-	(10,306,385)	(10,306,385)
<b>TOTAL METROPOLITAN SYSTEM INCOME CREDITS.....</b>	<b>-</b>	<b>(23,922,976)</b>	<b>(23,922,976)</b>
<b>TOTAL ALLOCATION FOR BILLING PURPOSES.....</b>	<b>\$ 188,256,706</b>	<b>\$ 231,445,362</b>	<b>\$ 419,702,068</b>

See Accompanying Notes to the Schedule of Allocation for Billing to Metropolitan Wastewater Utility

**CITY OF SAN DIEGO PUBLIC UTILITIES DEPARTMENT**  
Notes to the Schedule of Allocation for Billing to Metropolitan Wastewater Utility  
For the Fiscal Year Ended June 30, 2018

**Note 1 – General**

The City of San Diego Public Utilities Department (the PUD) operates and maintains the Metropolitan Wastewater System (the Metropolitan System) and the Municipal Wastewater Collection System (the Municipal System). The Participating Agencies and the City of San Diego (the City) have entered into a Regional Wastewater Disposal Agreement dated May 18, 1998 as amended on May 15, 2000 and June 3, 2010, respectively, for their respective share of usage and upkeep of the Metropolitan Wastewater Utility. The accompanying Schedule of Allocation for Billing to Metropolitan Wastewater Utility (the Schedule), represents the allocation of expenses for billing related to the Metropolitan Wastewater Utility of the Participating Agencies.

The Metropolitan System and Municipal System are accounted for as enterprise funds and reported in the Sewer Utility Fund in the City's Comprehensive Annual Financial Report.

**Note 2 – Participating Agencies**

The Participating Agencies consist of the following municipalities and districts:

City of Chula Vista	City of National City
City of Coronado	City of Poway
City of Del Mar	Lemon Grove Sanitation District
City of El Cajon	Otay Water District
City of Imperial Beach	Padre Dam Municipal Water District
City of La Mesa	San Diego County Sanitation District

**Note 3 – Summary of Significant Accounting Policies**

***Basis of Presentation***

The Schedule has been prepared for the purpose of complying with the Regional Wastewater Disposal Agreement between the City and the Participating Agencies as discussed in Note 1 above, and is presented on a modified cash basis of accounting. As a result, the Schedule is not intended to be a presentation of the changes in the financial position of the City or the PUD in conformity with generally accepted accounting principles. The more significant differences are:

1. Purchases of capital assets are presented as capital improvement expense.
2. Depreciation expense on capital assets is not reported in the Schedule.
3. Payments of principal and interest related to long-term debt are reported as debt service allocation.
4. Unbudgeted expenses related to compensated absences, liability claims, capitalized interest, other postemployment benefits, and net pension obligation are excluded from the Schedule.

The preparation of the Schedule requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## **CITY OF SAN DIEGO PUBLIC UTILITIES DEPARTMENT**

Notes to the Schedule of Allocation for Billing to Metropolitan Wastewater Utility (Continued)  
For the Fiscal Year Ended June 30, 2018

### **Note 4 – Capital Improvement Expense**

Construction and related costs incurred during the fiscal year (FY) to maintain and improve the Metropolitan and Municipal Wastewater Utility and equipment purchases used in the maintenance of the Metropolitan and Municipal Wastewater Utility are included in capital improvement expense.

### **Note 5 – Debt Service Allocation**

Debt service allocation represents a portion of the principal and interest payments relating to the Senior Sewer Revenue Bonds Series 2009A, the Senior Sewer Revenue Refunding Bonds Series 2009B, 2015, and 2016A, and the outstanding State Revolving Fund (SRF) loans from the State of California.

### **Note 6 – Metropolitan System Income Credits**

Metropolitan System income credits are revenues earned by the Metropolitan System for costs incurred during the current or previous fiscal years. The PUD has agreed to share the income credits from the South Bay Water Reclamation Facility in accordance with the 1998 Regional Wastewater Disposal Agreement. An agreement was reached in FY 2015 regarding revenue generated from the South Bay Water Reclamation Facility and revenue sharing payments were issued for FY 2006 through FY 2014 to the Participating Agencies. During the fiscal year ended June 30, 2018, revenue sharing payments for FY 2018 of approximately \$3.4 million were transferred from the City's Water Fund and are included in the Schedule as part of the income credits.

Metropolitan system capital improvement income credits include, if any, contributions-in-aid-of-construction received from Federal and State granting agencies and reimbursements from bond proceeds.

### **Note 7 – Total Allocation for Billing Purposes**

Costs to be billed to Participating Agencies include all individual construction projects costs and operation and maintenance expenses attributable to the Metropolitan System. Costs are apportioned back to the Participating Agencies based on their percentage of each of the totals of flow, suspended solids and chemical oxygen demand (COD). Each Participating Agency and the City are sampled quarterly, with plants sampled daily. Beginning in FY 2014, the percentages were determined from a new sample data set taken during the fiscal year and annual monitored flow.

For construction projects, percentages were allocated to flow, suspended solids and COD based on each of the project's design and function. The percentages are weighted by total project costs and combined to determine the final three derived percentages. Total annual costs are then allocated based on the three derived percentages and the measured flow, suspended solids and COD of each Participating Agency.

Operation and maintenance (O&M) costs as a percentage of flow, suspended solids and COD are evaluated based on four cost categories: pump stations, plant operations, technical services and cogeneration. These percentages are weighted by the annual O&M costs for each category, and combined to determine a derived percentage for administrative costs. All O&M costs are then allocated based on the measured flow, suspended solids and COD of each Participating Agency.

**CITY OF SAN DIEGO PUBLIC UTILITIES DEPARTMENT**

**Notes to the Schedule of Allocation for Billing to Metropolitan Wastewater Utility (Continued)**  
**For the Fiscal Year Ended June 30, 2018**

**Note 8 – Administrative Protocol**

In May 2010, the City and all Participating Agencies signatory to the Regional Wastewater Disposal Agreement established an Administrative Protocol (Protocol) which was effective beginning in FY 2010. The Protocol established a requirement that the Participating Agencies maintain a 1.2 debt service coverage ratio on parity debt, fund a 45-day operating reserve, and earn interest on the operating and unrestricted reserve accounts. All interest earned during FY 2018 was credited to the operating reserve, which ended the fiscal year above the required 45-day reserve.

**Note 9 – Pure Water Program**

In 2014 the City began planning for the Pure Water Program. The Pure Water Program is the City's phased, multi-year program that will provide one-third, or 83 million gallons per day (MGD), of San Diego's water supply locally by 2035. The Pure Water Program uses proven technology to clean recycled water to produce safe, high-quality drinking water while providing the benefit of continuing advanced primary treatment at the Point Loma Wastewater Treatment Plant. This program is being jointly funded by both water and wastewater ratepayers, and the Participating Agencies represent approximately 35% of the wastewater portion of this program. During FY 2018 the following Pure Water Program costs were incurred that were charged to the Metropolitan Wastewater Fund:

	<b><u>FY 2018 Pure Water Program Costs</u></b>
Total operating and maintenance costs	<u>\$ 6,012,202</u>
Capital improvement costs:	
Morena Blvd. Pump Station and Pipelines	13,105,870
North City Water Reclamation Plant Expansion	9,302,856
Metropolitan Biosolids Center (MBC) Improvements	3,322,308
Total capital improvement costs	<u>25,731,034</u>
Total Pure Water Program – Metropolitan Wastewater Fund costs	<u>\$ 31,743,236</u>

Pure Water O&M costs consist of task orders for various engineering consultants and other support services that cannot be directly capitalized into a capital improvement project. The final cost allocation of O&M task orders, as well as capital improvement projects is currently in progress. Once finalized, if changes to the draft cost allocation of project costs between water and wastewater is needed, an adjustment will be made during the audit of the Schedule.





**Independent Auditor's Report on Internal Control Over Financial Reporting and  
on Compliance and Other Matters Based on an Audit of the Schedule  
of Allocation for Billing to Metropolitan Wastewater Utility Performed  
in Accordance with *Government Auditing Standards***

To the Honorable Mayor and City Council  
City of San Diego California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedule of Allocation for Billing to Metropolitan Wastewater Utility (the Schedule) of the City of San Diego Public Utilities Department (PUD), an enterprise fund of the City of San Diego, California (the City), for the fiscal year ended June 30, 2018, and the related notes to the Schedule, and have issued our report thereon dated June 26, 2020. Our report contains an explanatory paragraph indicating that the Schedule was prepared for the purpose of complying with, and in conformity with, the accounting practices prescribed by the Regional Wastewater Disposal Agreement between the City and the Participating Agencies in the Metropolitan Wastewater System dated May 18, 1998 as amended on May 15, 2000 and June 3, 2010, respectively.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the Schedule, we considered the PUD's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the PUD's internal control related to the Schedule. Accordingly, we do not express an opinion on the effectiveness of the PUD's internal control related to the Schedule.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the PUD's Schedule is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, including the Regional Wastewater Disposal Agreement between the City and the Participating Agencies dated May 18, 1998 as amended on May 15, 2000 and June 3, 2010, respectively, noncompliance with which could have a direct and material effect on the determination of Schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, including the requirements of the Regional Wastewater Disposal Agreement between the City and the Participating Agencies dated May 18, 1998 as amended on May 15, 2000 and June 3, 2010, respectively.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the PUD's internal control or on compliance related to the Schedule. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the PUD's internal control and compliance related to the Schedule. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

San Diego, California  
June 26, 2020