

City of San Diego
Independent Rates Oversight Committee



Fiscal Year 2016
ANNUAL REPORT

ISSUED: DECEMBER 19, 2016





Independent Rates Oversight Committee

December 19, 2016

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 ninth annual report of the Independent Rates Oversight Committee (IROC).

The report summarizes IROC's work for the fiscal year ending June 30, 2016, 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 FY 2017. 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 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, and a knowledgeable public. We hope this will lead 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.

Respectfully submitted,

Gordon Hess, Chair
Independent Rates Oversight Committee

TABLE OF CONTENTS

1. Foreword.....	4
2. IROC’s Key Recommendations.....	6
3. IROC Membership.....	8
4. IROC Subcommittees	9
5. Issues and Recommendations	10
a. Finance Subcommittee.....	10
b. Infrastructure & Operations Subcommittee	18
c. Outreach & Communications Subcommittee	23
6. Looking Ahead: Annual Work Plan FY 2017	26
7. Attachments to the FY 2016 IROC Annual Report.....	30
Attachment A – IROC Municipal Code	
Attachment B – IROC Members Listing	
Attachment C – IROC Agenda Topics for FY 2016	

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, 2015 through June 30, 2016, 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 2016

Foreword

The City of San Diego's Independent Rates Oversight Committee (IROC or the Committee) was established in 2007 and serves as an official advisory body to the Mayor and City Council on policy and financial issues related to the oversight of the City's Public Utilities Department (Department) operations. These issues include resources management, expenditures, service delivery methods, public awareness and outreach, and services. The Committee also reviews operating and capital expenditures and tracks programs adopted by the City Council.

One important vision of the City of San Diego is 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."¹ IROC's members are individuals selected for their experience in financial, engineering, legal, construction, environmental or other matters. The selections are made by the Mayor and approved by the City Council for appointment.

IROC has broad responsibilities and its members take its charge very seriously. With respect to reviewing and tracking expenditures of work programs, IROC has recommended the Department separate and show expenditures by program areas to better review all expenditures and spending trends. Some examples of this are expenses for imported water supplies, expenditures on conservation programs and public outreach, and overall capital expenses. Progress is being made in this area.

The municipal code details the purpose of IROC and lists eight specific duties of IROC; four require IROC review proposals by the City for changes to water rates and cost allocation models, and policy proposals for budget and finance, environmental, technology, outreach and other programs. One of the frustrations expressed by many IROC members is that it has not had much opportunity to review and provide input on proposals, but instead is only informed after-the-fact on programs or actions that have already been finalized or will soon be approved by the City Council. As an example, IROC was unable to review "cost of service models" or proposed water rate increases until the studies were completed and the water rate increase proposal was released to the public. The municipal code requires that "IROC shall: (5) Review cost allocation models that may be included in cost of service studies of the water and wastewater system."²

¹ San Diego Municipal Code, Article 6, Division 20: City of San Diego Independent Rates Oversight Committee:

² San Diego Municipal Code Section 26.2003

The water rate increases approved last fall are in effect but will undergo an audit to determine whether adjustments can be made to future scheduled increases. It is IROC's hope to be able to review and provide input to the Department prior to any decisions being made to keep or modify scheduled increases. IROC believes that important drivers such as water sales, progress on capital improvements, allocation of costs between water and wastewater services, and other issues should be factored into the review and compared with cost-of service assumptions.

If IROC is expected to provide meaningful input on proposals for water rates and proposed policies for budget, finance and other areas it must be brought into the process early on and asked for input. This may require changes to Department or City policies and procedures and IROC is willing to work with these entities to discuss and effectuate such changes. Engaging IROC on these important issues before they are decided will allow it to provide the input that was expected when the City established the Committee.

Finally, the Public Utilities Department is increasing, and has been very successful to date, its efforts to accelerate repair and replacement of aging pipelines and other critical infrastructure. At the same time, it is poised to embark on its largest construction and most expensive program ever in the Pure Water San Diego Program. These efforts are driving the need for increased water and wastewater rates. IROC fully supports these programs because with them comes increased water reliability, efficient use of resources and local control of the City's water supplies. One of the selling points for moving forward on the Pure Water San Diego Program was to obtain assurances that costly and unnecessary upgrades to the Point Loma wastewater treatment facility will no longer be required. Instead, an equivalent or better compliance could be achieved through reuse of this important resource. This long-term assurance has not yet been achieved, but IROC remains hopeful that the City can receive such assurance in the future. Not only City water and wastewater customers depend on a successful Pure Water San Diego Program, but other regional customers of the wastewater system are also counting on this success. Having clear visibility of costs and cost allocations among the beneficiaries of this, and other programs, will be critically important to maintain the confidence and support of water and wastewater ratepayers.

IROC's Key Recommendations

1. That Department staff regularly report to IROC with information regarding water sales, revenues, local supply availability and other factors that influence revenues and expenditures and how these track with cost of service assumptions. IROC also recommends that Department staff present to IROC and seek input to the consultant's independent analysis. Further IROC recommends that the department proceed with the evaluation of alternative rate structures as soon as possible and involve IROC and stakeholder groups in a thorough evaluation of alternatives given the new tools the Department will have (AMI), water supply conditions and the cost of developing new supplies so that costs and water rates are allocated and distributed in the most fair and equitable manner practicable in accordance with Proposition 218.
2. That the City staff, as part of its ongoing efforts to review alternative rates and rate structures, include reclaimed water pricing. Staff should consider having a separate supply rate and separate transportation rate for reclaimed water so that a unitary cost for each of these reclaimed water cost elements could still be used.
3. The Department's budget execution, particularly CIP award and completion rates are greatly improving. IROC recommends that the Department report back to IROC a five-year summary of budget completion and capital improvement completion in order for IROC to ascertain how much the trends are improving over past years. The ability to complete CIP activities in a timely manner affects the Department's budget needs and ultimately water and waste water rates and charges. IROC notes that the metric used for water main replacement is miles of pipeline awarded for construction while the goal for sewer main replacement is miles of pipeline replaced or rehabbed. IROC understand that the difference is due to legal reporting issues, however using the actual miles replaced is a better measurement of success than miles awarded and recommends that this metric be added to the water main reporting documents.
4. That IROC continue to monitor budget expenditures throughout the year. As recommended last year, the Finance Subcommittee reiterated its request that the Department provide IROC a copy of future proposed budgets as soon as possible after release by the Mayor's office, in addition to budget summaries normally prepared for the Subcommittee. IROC also recommends that future departmental budgets include key assumptions of drivers of revenues and costs, such as projected water sales and purchase volumes and availability of local supplies.

Further, IROC recommends that the City's budget document, as it pertains to the Department, include baseline assumptions (detailed above) so that year-to-year comparisons can be made of these assumptions as they relate to previous budget documents and the COSS. It also recommends that the budget document expand descriptions of the Department's goal and objectives, and include all relevant performance indicators to measure departmental success.

5. That Department staff reevaluate its method for assigning AMI cost to the wastewater (sewer) system to reflect cost of service and actual benefits received by sewer customers and make the appropriate budget adjustments to both Water and Wastewater funds so that sewer customers are not charged for AMI costs that provide only nominal benefits to them.
6. That the Department continue to pursue all options available to get regulatory certainty that the Pure Water San Diego Program will suffice to offset the requirement to move up to secondary treatment.

IROC MEMBERSHIP - 2015-2016:

IROC Members and Officers

Gordon Hess, Chair ⁽¹⁾⁽⁴⁾	Temporary Irrigation & Construction Rep.
Irene Stallard-Rodriguez, Vice Chair ⁽³⁾	Single-Family Residential Ratepayer
Craig Chapman ⁽⁵⁾	Construction Management Professional
Christopher Dull	Construction Management Professional
Jeff Justus ⁽²⁾	Environmental Science Professional Rep.
Jack Kubota	Engineering Professional
Tiffany Mittal	Multi-Family Residential Ratepayer
Jim Peugh	Environmental Representative
Gail Welch	Commercial and Industrial Ratepayer
Vacant	Law Professional

Ex-Officio Members:

Jerry Jones ⁽⁶⁾	Metro Wastewater JPA Representative
Ed Spriggs ⁽⁷⁾	Metro Wastewater JPA Representative
Jim Peasley	Metro Wastewater JPA Alternate
Ken Williams	SDCWA City 10 Representative
Yen Tu	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) Gordon Hess became IROC Chair May 2016
- (2) Jeff Justus, IROC Chair until May 2016
- (3) Irene Stallard-Rodriguez became IROC Vice Chair May 2016
- (4) Gordon Hess, IROC Vice Chair until May 2016
- (5) Craig Chapman stepped down January 2016
- (6) Jerry Jones became Metro Wastewater JPA Representative January 2016
- (7) Ed Spriggs stepped down December 2015

IROC SUBCOMMITTEES:

IROC has three subcommittees as allowed by the Municipal Code: (1) Finance; (2) Infrastructure & Operations, and (3) Outreach & Communications. The subcommittees typically address issues in greater detail than the full IROC and advance issues to the full IROC for action. Any action or recommendation coming from a subcommittee must be approved by the full IROC before becoming an action or recommendation of IROC.

1. Finance Subcommittee

The FY 2016 IROC Work Plan included multiple finance areas of focus. These areas included Cost of Service Studies (COSS); City Council Water Policy Implementation Task Force recommendations; Water Fund sustainability and affordability; budget review; performance audits; and financial reporting improvements. Specific topics can be found in Attachment C.

Members

Subcommittee members included Gordon Hess (Chair), Tiffany Mittal, and Ken Williams.

2. Infrastructure & Operations Subcommittee

The major topics addressed by this subcommittee in FY 2016 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 Department, on the service provided, and on the region's environment and natural resources. These focus areas included condition assessments; Capital Improvement Projects (CIPs); sustainable water supply; recommending audits; Point Loma permit; Pure Water San Diego Program; Water and Wastewater operations; and energy management efforts. Specific topics can be found in Attachment C.

Members

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

3. Outreach & Communications Subcommittee:

The major topics addressed by this subcommittee in FY 2016 were those that have a high impact on ratepayers, both from a service perspective and/or a potentially significant rate impact perspective. These areas of focus included branding, outreach; external affairs activities, customer care solutions, water conservation, and human resources. Specific topics can be found in Attachment C.

Members

Subcommittee members included Jack Kubota (Chair), Irene Stallard-Rodriguez, Christopher Dull, and Ed Spriggs.

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 FY 2016 IROC issues were reviewed by the Finance Subcommittee:

The FY 2016 IROC Work Plan included five finance areas of focus including COSS, City Council Water Policy Implementation Task Force Recommendations, Water Fund Sustainability and Affordability, Budgetary and Financial Reporting Issues, and Drought Impacts. All five areas were addressed in full or in part during FY 2016 as follows:

COST OF SERVICE STUDIES

1. PROPOSED WATER RATES AND CHARGES

Very early in the COSS process the City and its consultant gave a presentation to IROC on the steps by which the study would be implemented. At the time IROC asked that the study identify a rate system that would fully provide for the infrastructure needs and operation of the system even in a world of fluctuating water availability, would also inherently result in conservation, and would be fair to all user types and classes. IROC members urged that the Study seriously consider a range of alternative rate structures and not necessarily continue with the current structure. Due to timing and other issues this analysis was delayed (IROC understands that it will begin in late 2016 or 2017) and staff presented to the full IROC at its July 2015 meeting its recommended water rates for a five-year period with a rate increases proposed for January 2016, July 2016, July 2017, July 2018, and July 2019. Staff also presented, through a 67-page PowerPoint presentation, a framework for water rate setting and highlights of the cost of service study results. Staff did not provide to the IROC a copy of the actual cost of service studies prepared by consultants that support the recommended rate increases but did provide the data tables that were contained in the study. Department staff told the IROC how the rate increases would be implemented and that they could actually be less or more than what was being proposed, if certain conditions were met including imported water supplier pass through increases for July 2016 through July 2019 rate adjustments. The contingency conditions, as staff explained include water sales and availability of local water supply and other major factors that can affect water rates. However, specifics as to how a decision would be made to verify whether the contingencies would or would not be triggered were not detailed, but an independent consultant would be employed to perform an analysis of the Department's financial condition and the Department would decide whether the scheduled rate increases would be rolled back or not. Still, IROC understood that water rate increases would be needed to offset the reduction in sales due to the limited water supply, move ahead aggressively with the Pure Water San Diego Program, increase the rate of replacement of aging or outdated infrastructure, and conversion to Advanced Metering Infrastructure (AMI). IROC supported the recommendations regarding potable water rates and bringing them to City Council for discussion.

Recommendation: That Department staff regularly report to IROC with information regarding water sales, revenues, local supply availability and other factors that influence revenues and expenditures and how these track with cost of service assumptions. IROC also recommends that Department staff present to IROC and seek input to the consultant's independent analysis. Further IROC recommends that the department proceed with the evaluation of alternative rate structures as soon as possible and involve IROC and stakeholder groups in a thorough evaluation of alternatives given the new tools the Department will have (AMI), water supply conditions and the cost of developing new supplies so that costs and water rates are allocated and distributed in the most fair and equitable manner practicable in accordance with Proposition 218.

2. DISCUSSION OF THE STATUS OF THE RECYCLED WATER COST OF SERVICE STUDY

The Subcommittee was provided an update on the status of the Recycled Water Pricing. Because the Subcommittee consisted of some new members that were unfamiliar with recycled water pricing issues, the Subcommittee reviewed the last available study from 2013, prepared by consultants for the Department. In that study the consultant found that the current recycled water commodity rate of \$0.80 per hundred cubic feet has been in place since 2001, and that the rate is below the cost of service to provide such supplies. Pricing the commodity rate below the cost of service could cause other water users to support 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 that the commodity rate should continue to be lower than the potable water rate to incentivize sales. Further, the consultant presented two alternatives for an updated rate: a unitary rate for all recycled water customers, and a zonal rate with differential pricing depending on whether the use was in the north city area or south bay area. A decision on which rate to use and how much recycled water rates should increase was postponed in July 2013 by the Natural Resources and Culture Committee, who directed staff and consultants to review the study, assumptions and proposed rate. The Subcommittee received regular updates on the revised study progress during FY 2015. Staff reported in both July and August 2015 its recommended recycled water pricing options, including the unitary rate and the zonal recycled water rate. IROC declined to take a position on either rate method.

Recommendation: That the City staff, as part of its ongoing efforts to review alternative rates and rate structures, include reclaimed water pricing. Staff should consider having a separate supply rate and separate transportation rate for reclaimed water so that a unitary cost for each of these reclaimed water cost elements could still be used.

REVIEW OF PROGRESS IN IMPLEMENTATION OF THE CITY COUNCIL'S WATER POLICY IMPLEMENTATION TASK FORCE AS THE RECOMMENDATIONS RELATE TO FINANCIAL ISSUES

Neither the Subcommittee nor IROC were presented a specific progress report by Department staff regarding implementation of the City Council's Water Policy Implementation Task Force, approved by the City Council on December 10, 2013. However, reports were presented on the status of specific recommendations approved by the City Council. In FY 2015 Department staff prepared and presented a matrix of each recommendation including the Department's comments regarding the recommendation and the status of implementation. At that time the Subcommittee was pleased at the progress being made by staff, and noted that many of the recommendations were scheduled to be addressed in the ongoing (and now completed) water rate cost of service study. In FY 2016, specific reports were presented to the Subcommittee and IROC on the status of conservation funding and rebates for water users implementing conservation measures; efforts by the Department to reduce water losses; continued progress in the feasibility study for a pumped storage program at San Vicente Reservoir; and the initiation of a full scale AMI (Advanced Metering Infrastructure) program.

Recommendation: That the Department continue to implement and report progress to IROC on recommendations made by the Water Policy Implementation Committee and accepted by the City Council.

WATER FUND SUSTAINABILITY AND AFFORDABILITY AND BUDGETARY AND FINANCIAL REPORTING ISSUES

1. REVIEWED DEPARTMENTAL YEAR END FINANCIAL SUMMARY (OCTOBER 2015)

Each October, Department staff presents a financial summary for the previous fiscal year. In October 2015, a summary of the FY 2014 to 2015 accomplishments was presented as follows (FY 2015 figures were unaudited and subject to change based on final compilation of Comprehensive Annual Finance Report):

Water revenues were down \$1.1M from what was budgeted, and similarly expenses were down \$4.2M. This is due mainly from the reduced water sales and purchases, respectively due to the state mandated restrictions.

On the Wastewater budget, staff reported that revenues were down very slightly by \$0.9M but expenses were down \$39.8M from budgeted amounts. According to staff, this discrepancy is due to "true-ups" to Participating Agencies in the Metropolitan Wastewater System, multiple one-time projects being delayed or cancelled, and delayed Condition Assessment Projects. A small portion (of the \$3.0M) was due to Information Technology delays.

In terms of the CIP, on the Water side, the FY 2015 budget was \$191.6M (including monies carried over from previous years), and expenditures were \$116.1M, an increase from the previous year. Wastewater expenditures were \$147.5M, up from the

previous year. The current budget was \$251.2M, including carryover funds from the previous year.

The FY 2015 goal of 30 miles of Water CIP being awarded was 87 percent met. The goal for the next year is 35 miles. Similarly, the Wastewater goal of 45 miles of CIP pipelines was 87 percent, at 39.37 miles. The summary for FY 2016 (this Annual Report period) was made available in September 2016 and shows that the goals were exceeded.

Recommendation: The Department's budget execution, particularly CIP award and completion rates are greatly improving. IROC recommends that the Department report back to IROC a five-year summary of budget completion and capital improvement completion in order for IROC to ascertain how much the trends are improving over past years. The ability to complete CIP activities in a timely manner affects the Department's budget needs and ultimately water and waste water rates and charges. IROC notes that the metric used for water main replacement is miles of pipeline awarded for construction while the goal for sewer main replacement is miles of pipeline replaced or rehabbed. IROC understand that the difference is due to legal reporting issues, however using the actual miles replaced is a better measurement of success than miles awarded and recommends that this metric be added to the water main reporting documents.

2. REVIEWED PUBLIC UTILITIES DEPARTMENT BUDGET FOR FY 2017

In April and May 2016, the Subcommittee received and reviewed the Department's FY 2017 proposed budget. As the IROC understands it, the Department follows City guidelines in the presentation of its portion of the budget within the overall City budget. Many parts of the Department's portion of the City budget is at such a high level that it does not provide sufficient detail for the Subcommittee to evaluate the reasonableness of its content and compare it to past budget years. For instance, the Water Utility Operating Fund has, as all other funds have, a category for "Supplies". For the FY2017 proposed budget, this category was \$231M. This category can contain anything from pencils to purchasing water supplies from the San Diego County Water Authority (SDCWA). The IROC is not real interested in how much the Department spends on pencils, but it is interested in how much it spends from year to year on water supplies from SDCWA. Ironically, in other areas the budget document is overly detailed. The 32-page budget contains nearly 11 pages of description of time budgeted for every (or nearly every) position category within the Department. It is for the above reasons that the Subcommittee requested additional information from the Department prior to presenting the budget to the committee for review. The requested information included:

A. Water Sales and Purchases Information

- a. Total water sales assumption in budget and past 2 years actual (acre-feet and \$)
- b. Water sales by Class of Service category in budget assumption and past 2 years (acre-feet and \$)
 - i. SFR, MFR, Commercial, ag, etc.

- c. Imported Water purchase assumption in budget and past 2 years actual (acre-feet and \$)
 - i. SDCWA and MWD Charges by category
 - d. Local supply use- Budget assumption and past 2 years actual (acre-feet and \$)
 - e. Any other relevant water sales or purchase data
- B. Expenditures by Major program areas (budget and past 2 years)
 - a. Conservation
 - b. Outreach
 - c. Customer Support
 - d. Meter Reading
 - e. Treatment
 - f. System Maintenance
 - g. Other
- C. Travel and Training Expenses
- D. Outside Services
 - a. Any major outside services (non-capital)
- E. Proposed CIP expenditures by major program (total CIP program cost, expended to date, and budget)
 - a. AMI
 - b. Pure Water
 - c. Pipeline Replacement
 - d. Other

The Department was responsive to IROC's request for this information. The Subcommittee followed up the next month with a request for additional information, which was provided.

Overall, the Department budget for FY 2017 included \$594M in revenues based upon around 165,000 AF of water sales, about the same as FY 2016 year end projection of 160,000 AF, but still well below the 188,679 AF of sales for FY 2015. Water revenues were anticipated to be up \$137.2M from FY 2016 year end projections, mainly due to financing proceeds in addition to the water rate increase effective at the beginning of the year. Operating Expenses were projected to be up \$26.3M from \$476.7M in the FY 2016 year end projection to the proposed \$503.0M. The FY 2017 Proposed CIP budget was \$162.2M, up \$39.4M from the previous year.

On the Wastewater side, the FY 2017 proposed budget projected \$394.8M in revenues, down slightly from the previous year, however operating expenses are budgeted at \$357.3M, up \$20.7M from before. The FY 2017 Proposed CIP budget was \$155.5M, up \$41.5M from the previous year.

The Subcommittee's review of the budget also included consistency with the COSS and reasons for differentials between the FY 2016 and FY 2015 budget and projected actual costs.

Finally, the Subcommittee noted that the FY 2017 lacked the detail and description provided in the previous budget of the Department's Goals and Objectives. Each fiscal year contained 4 goals, however the descriptions of the objectives were so broad that the Subcommittee felt they lacked accountability. Further, the Key performance indicators were reduced from 13 in FY 2016 to only 7 in the FY 2017 proposed budget, but according to staff, was increase to 10 in the final budget. While the performance indicators for FY 2017 were deemed to be sufficient indicators of performance in some areas, the Subcommittee felt that combining both sets of performance indicators would provide a more robust set of indicators and performance standards for the Department.

After a review of all factors, the Subcommittee was satisfied with the proposed FY 2017 departmental budget and reported this to the full IROC. IROC was not asked to, nor did take an official position on the budget. One of the reasons for this was that staff presented all material at the Subcommittee level rather than IROC.

Recommendation: That IROC continue to monitor budget expenditures throughout the year. As recommended last year, the Subcommittee reiterated its request that the Department provide IROC a copy of future proposed budgets as soon as possible after release by the Mayor's office, in addition to budget summaries normally prepared for the Subcommittee. IROC also recommends that future departmental budgets include key assumptions of drivers of revenues and costs, such as projected water sales and purchase volumes and availability of local supplies.

Further, IROC recommends that the City's budget document, as it pertains to the Department, include baseline assumptions (detailed above) so that year-to-year comparisons can be made of these assumptions as they relate to previous budget documents and the COSS. It also recommends that the budget document expand descriptions of the Department's goal and objectives, and include all relevant performance indicators to measure departmental success.

Finally, IROC recommends that key issues such as the budget continue to be discussed in detail at the Subcommittee level, but Department staff also present the budget to the full IROC. This will allow all IROC members to have a greater understanding of the Department revenues and expenditures. Also, IROC recommends that key budget drivers, such as overall water sales, local supply availability be reported at each IROC meeting so as IROC can understand the ongoing trends, rather than once a year reporting after the fact.

DROUGHT IMPACTS

The Subcommittee and IROC heard regular reports on the drought impacts, including water conservation mandates, programs, costs, reduced local water supplies and the impact of reduced water sales. The Department was very much involved in helping to shape future water conservation criteria and helping to get credit from the State for regional water supplies such as seawater desalination that were developed to improve reliability in the City and region. They were successful in this effort, which helped to ease impacts and the level of shortage required throughout the City. The Subcommittee and IROC noted that water conservation restrictions are one driver for the water rate increases that were approved during FY 2016 and later years.

Recommendation: That as the State Water Resources Control Board revises its conservation mandates, that Department continue to provide a leadership role in shaping California's drought policy, so that the City receives credits for its actions and efforts in water conservation, reclamation, and Pure Water San Diego Programs.

Other Finance and Finance Committee Items:

1. In January 2016, the full IROC heard a presentation from staff regarding the status of the AMI Program. The program is moving forward in a timely manner and is scheduled to go on-line for some users later this year. According to the staff presentation, the benefits of AMI are (from the staff report):

- Easier collection of meter information from hard to reach locations
- Daily and hourly tracking of water usage online
- Assists customer with water conservation
- Allows for faster detection of potential water leaks
- Proactive approach to provide customers with information on abnormal water usage

IROC has been and continues to be supportive of this \$65M program. However, when questioned as to the funding of the program staff reported that half of the cost was to be paid by water ratepayers and half by wastewater ratepayers. The reason given for this was that water usage is used to estimate the usage of the wastewater system and billing. Given that the AMI is driven by the need for better water management, water billing, and benefits explained by staff rather than wastewater needs, IROC is concerned that applying half of the cost to the wastewater system could be a violation of cost of service principles dictated by Proposition 218. Even if staff's logic regarding use of the AMI to estimate sewer bills applied, the sewer bills are calculated from only two bi-monthly water bills, compared to the six that are used for water billing. By this logic and proportionality, not more than 25 percent (and likely less) should be assigned to sewer customers. Thus, it appears that sewer rate payers are being overcharged by at least \$16.5M and the water ratepayers undercharged by the same amount.

Recommendation:

That Department staff reevaluate its method for assigning AMI cost to the wastewater (sewer) system to reflect cost of service and actual benefits received by sewer customers and make the appropriate budget adjustments to both Water and Wastewater funds so that sewer customers are not charged for AMI costs that provide only nominal benefits to them.

2. The Subcommittee also heard updates on California Senate Bill SB 88, which would, among other things, exempt from CEQA the development and approval of building standards by state agencies for recycled water systems. The Bill was signed into law on June 24, 2015.

The following FY 2016 IROC issues were reviewed by the Infrastructure & Operations Subcommittee:

SYSTEM CONDITION ASSESSMENTS

The Department is in the process of performing seven system condition assessments as follows:

(W = Potable Water System; WW = Wastewater System)

No.	W / WW	Contract Description	Schedule	Cost (In Millions)
1	W	Potable Water Reservoirs	2013-2018	1.25
2	W	Three Water Transmission Mains	2013-2017	3.00
3	W	Pipeline condition assessment of three raw water pipelines and programmatic condition assessment of potable water transmission mains in Service more than 40 years	2015-2020	8.00
4	W	Dam and Outlet Tower Condition Assessment	2016-2021	5.00
5	WW	Major Interceptor Sewers and various other facilities	2013-2018	5.00
6	WW	Large Diameter Trunk Sewers and Force Mains	2013-2018	8.00
7	W & WW	Public Utilities Facilities; Buildings, Under Ground Structures	2014-2019	5.00
Total			2013-2021	35.25

In addition to the above, a \$2M contract to produce an Asbestos-Cement (AC) Pipe Condition Assessment report was completed in January 2016. This represents another milepost for the aggressive pursuit of "catching-up" with the pipeline rehabilitation/replacement of the potable water system. The 2,150 miles of AC pipe makes up almost two-thirds of the entire 3,400 miles of the City's distribution system. The AC report outlines a 20-year AC Replacement Program (divided into 5-year increments). Within the next 10 years, the Department is looking into completing the replacement of the 189 miles of high priority AC mains identified in the 20-year program. The entire AC Replacement Program was transferred to the Public Works/Engineering Department in February 2016 and under the latest Service Level Agreements, project implementation in a timely manner is anticipated. The Department plans to exceed the minimum level of investment for AC, a proactive approach, while continuing to monitor annual AC break rates and evaluating the effectiveness of the replacement program. The community has long-endured the agonies and expense of repairs of cast-iron pipe failures resulting from

the longest delays (pipes over 100 years old) and as the City closes in on the complete award for replacement by 2017 of these (12-inch and smaller) pipelines, the AC pipeline replacement program helps assure customers/rate payers that they will not bear a repeat of the cast-iron pipe experience. This contract demonstrated the vital part of the Department's strategy to pursue Condition Assessments for all of its operational facilities and is a corner stone for system-wide Asset Management.

Recommendation: That the Department continue to perform condition assessments in order to help guide the CIP for replacement or repair of major components of the system. However, IROC also recommends that routine replacement programs continue for system components whose service life is predictable.

MONITOR IMPLEMENTATION OF THE ONGOING INFRASTRUCTURE REPLACEMENT PLANS, INCLUDING THE CIP AND ITS BUDGET AND TIMING

The partnering agreement the Department initiated between Public Utilities and Public Works has resulted in improved implementation of the CIP. The practice of “over-programming” by about 20 percent has also helped by allowing the Department to work around unforeseen delays in one project by accelerating other needed projects that are ready to move forward. As a result of the two improvements, the Department appears to be accomplishing its anticipated replacement plans. The Department has improved the format and the structure of the information provided to IROC so that we can better review the overall implementation of the CIP as well as important critical projects.

On the Water side, based on March 2016 information, the Department will achieve its FY 2016 goal of awarding for replacement 35 miles of pipe and will expend or encumber over \$113M. The execution of the CIP for other Water asset types are very high except Water pump stations (44 percent of the Cost of Service Study estimates), water storage (58 percent), and Water treatment plants (42 percent).

On the Wastewater side, based on March 2016 information, the Department will achieve its FY 2016 goal of rehabbing and replacing 45 miles of pipe and expending or encumbering a little over \$128M. The execution of the CIP for other wastewater asset types was very high except for municipal pump stations (76 percent of the Cost of Service Study estimates), sewer treatment plants (71 percent), and trunk sewers (52 percent).

It appears that implementation of the current CIP is satisfying the cost and the performance commitment of the current rate case.

Recommendation: That the Department continue to implement the improvements to the CIP process and provide appropriate management-level information in a way that will facilitate project visibility and enable appropriate IROC oversight.

LONG RANGE WATER SUPPLY

The City has made substantial progress on the design of the first stage of the Pure Water San Diego Program in the last year. It will be a major advancement toward providing for a reliable, affordable, stable, and locally controlled long range water supply. IROC, many environmental groups, and the business community support the program. According to staff, using the Miramar Reservoir instead of San Vicente is likely to reduce both the infrastructure and operating costs of the program.

The regional seawater desalination project in Carlsbad will also help provide a stable water source. Both the Pure Water San Diego Program and desalination programs come at a higher water cost than traditional supplies, but are more reliable. These supplies will help offset some of the uncertainties associated with the Bay Delta and State Water Project, Colorado River, and climate change in California. Along with these new supplies, the emergency water storage system has helped to improve the City's water supply reliability. In the future, the cost of water from the Pure Water San Diego and regional desalination programs will likely be similar to or less costly than that of imported water as the latter increases.

The City's and the region's water conservation efforts have resulted in significant reductions in water use. It appears that much of that reduction in use is continuing even though the enforcement elements have been relaxed. The sustained reduction in use is the least costly means to increase our region's water supply reliability.

The State has decided to base its decisions on future water use restrictions on whether a region has a three-year supply available to it. This appears to assume that our main risk is a drought lasting for a few years. Although this is a serious risk, we are also facing a likely trend toward warmer temperatures, less precipitation, and less retention of snowpack, all in conjunction with occasional droughts. Our local decisions on water conservation, mandatory measures, and enforcement levels should be made with a much more sophisticated analysis than the statewide decisions.

Recommendation: That the City and the region continue their investment in developing secure sources of water and water storage as well as encouraging a sustained culture of water efficiency and conservation. IROC also encourages the City to develop a clear policy and regulations to guide the City Council and Mayor in making decisions to implement voluntary water use reductions, mandatory reductions, and enforcement for use reductions when they are needed.

REVIEW OF SAN DIEGO'S 2015 URBAN WATER MANAGEMENT PLAN

The Subcommittee, through the full IROC received a report from staff on San Diego Urban Water Management Plan (UWMP). State law requires the plan be updated every five years and that it provide a 25-year estimate of water supplies and demand and future water supply development. An updated plan is required in order for the City to be eligible for State grant funding and is considered a foundational document for water supply assessments required for new development. The 2015 plan, provides a forecast to the year 2040.

Water supplies must be “verifiable” (i.e. all permits have been issued and funding has been obtained) to be considered in the plan, however other supplies such as the City’s Pure Water San Diego Program, future groundwater projects and graywater use are listed as potential future water supplies for the City. The City coordinated with the San Diego County Water Authority on preparation of the plan to ensure that consistent numbers and terminology is used throughout the region.

The plan reflects an upward trend of water sales in the City over the long term, however due to the recent statewide drought and water use restrictions imposed by the State, water use for 2016 is down below 2010 levels and is expected to remain relatively flat through 2020. After that, water use is assumed to increase 33 percent for the following 10 years and only 3 percent in the final 10 years of the plan. Future water use can be difficult to predict due to the many factors that impact use. How much of the current drought response, that resulted in nearly 17 percent conservation citywide between June 2015 and February 2016 compared to water usage in 2013, will continue and become permanent remains to be seen. However, it is likely that future per capita water use will decrease in the future as reflected in the 2015 UWMP from the 2010 UWMP.

Recommendation: That the Department review its Long Range Water Demand Forecast and update, as appropriate, to reflect the lower future demand projects contained in the 2015 UWMP.

PROGRESS TOWARD MODIFIED PERMIT FOR THE POINT LOMA WASTEWATER TREATMENT PLANT

The Subcommittee and IROC have received presentations on the progress toward permits for the secondary equivalent concept of the Pure Water San Diego Program. At the present time, it appears that a legislative approach is not likely. However, it appears that the City has been successful in developing a process to obtain administrative permits to implement the Pure Water San Diego Program. The political climate might allow a legislative process to modify the Clean Water Act to approve the Pure Water San Diego Program at some time in the future. At that time, it would be good to consider taking advantage of that opportunity.

Recommendation: That the Department continue to pursue all options available to get regulatory certainty that the Pure Water San Diego Program will suffice to offset the requirement to move up to secondary treatment.

DEPARTMENTAL OPERATIONS

IROC has received presentations on a few aspects of the operations of the Water and Wastewater systems, including valve maintenance and pressure regulating valves. We have also received presentations on the major pipe breaks after each occurred and a summary of the history of breaks and spills over time. The reductions in breaks and spills have been impressive for both water and wastewater. They are partly due to improvements in inspection and maintenance and partly because of the replacement and repair of aging infrastructure.

The Department has continued to evaluate and perform studies to seek ways to improve operational efficiencies through optimizations utilizing in-house staff for the past several years. The 2013 Optimization Study by CH2M Hill Engineers, Inc. continues to provide recommendations for optimization measures and implementation plans. The focus for this study included: energy utilization; water and wastewater treatment processes; chemical usage; bio solids processing and disposal; distribution system efficiency and water quality; data utilization; and warehouse management.

Six water and wastewater treatment plants along with the bio solids plant have been assessed and focused on optimization of three major expenditures: energy, chemicals, and bio solids. The study seeks to identify improvements in efficiency, cost reduction, safety, reliability, energy conservation, greenhouse gas reductions and maintaining levels of service. We are looking forward to the final report on the optimization study.

Future efforts planned are a review and evaluation of the operations and maintenance business processes. This will include Department strategies, process control, maintenance and laboratory procedures, and existing documents (standard operating procedures and operating plans).

Recommendation: IROC has no recommendations at this time, but could after hearing the latest results of the optimization studies at an upcoming Subcommittee meeting. IROC requests periodic updates from the Department until the project is completed.

The following FY 2016 IROC issues were reviewed by the Outreach & Communications Subcommittee:

PURE WATER SAN DIEGO

The Subcommittee received detailed reports of the Department's activities related to the Pure Water San Diego Program, including participation in community-events, presentations to civic groups, and continuing the tours at the North City Advanced Water Purification Facility. The reports also included the outreach consultant's efforts to assist department staff in these efforts.

There has been positive response from utilizing technical journals and newspapers to report on the project. Public opinion continues to strongly support the program.

Recommendation: Near the end of the fiscal year, the Department announced changes to the program and schedule, accelerating implementation and favoring delivery of Pure Water to Miramar reservoir rather than San Vicente Reservoir. The Department needs to better explain these changes, reasons for the changes and cash flows and overall cost impacts to the public, community leaders and IROC. Also the Department should 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").

Recommendation: The Pure Water San Diego Program represents one of the largest investments ever made by the Department. As such, it needs greater visibility at IROC. IROC recommends that reporting of the Pure Water budget, schedule, progress and other key elements of the program be separated out from reporting of other departmental programs to IROC so that better tracking of the program can be done. IROC understands that reports on the program are regularly made to the Pure Water Technical Advisory Committee; these reports should also be provided to IROC and could serve as a beginning template for improved reporting to the full IROC.

WATER CONSERVATION

Due to statewide conservation mandates and drought, the Department's conservation program included total drought management including monitoring, messaging, enforcement, and water management. Vehicles for messaging such as trolley wraps, bus posters, and printed material continue. The Department's conservation consultant, City Works, was retained for a new 5-year contract to service the special needs of the program. Overall, IROC is pleased with the success of the conservation program. During this year of state mandated conservation goals, City residents not only met the goals, but exceeded them in nearly every month during this fiscal year.

Recommendation: That the Department continue to strengthen the "Water Conservation" campaign program messaging in order to sustain its effectiveness (despite improved water conditions) and report back to IROC the results of all water conservation efforts and programs.

CUSTOMER CARE SOLUTION (CCS) PROJECT

The Department handles 1,200 to 1,500 calls per day. According to department staff, average wait times continued to decrease as the Customer Care section became fully staffed, however retention of employees continued to be a concern into FY 2016.

Recommendation: That the Department continue to monitor and report back to IROC CCS system wait and response times and continuing efforts for improvement. In many cases the CCS is the only contact that residents have with the department. Resolving issues promptly and fairly will help create a favorable impression of both the City and the Department.

PUBLIC UTILITIES BRANDING

The entire City “business” was subjected to a critical analysis of then current practices of messaging, resulting in the complete reorganization of the “Communications Department”. Utility personnel were transferred to the Mayor’s Office but the Department retained its manager to continue to handle special Department-specific needs. An initial major task involved the development of a new city-wide logo that depicts the spirit of the community. IROC supports these changes which bring consistent messaging to City residents and the Department specific message of Quality, Value, Reliability – In Every Drop!

ADVANCED METERING INFRASTRUCTURE (AMI)

The AMI pilot program consisted of 10,000 monthly customers and 1,000 bi-monthly customers has been completed with 11,500 meters retrofitted with 12,500 endpoints, total pilot project cost \$6.0M. While this priority Capital Project has been delayed by issues of procurement of hardware/installation, it appears that the program is now on track with a completion date of 2018. AMI is an essential upgrade to not only assist in water system management and billing but also to give water users an essential tool to manage their own water use. This should result in increased water awareness, conservation and monetary savings for those who choose to use this tool. Implementation of AMI also positions the City as a statewide leader in efficient water management and at the forefront in utilizing this advance technology on such as large scale.

HUMAN RESOURCES

A comprehensive report was presented to both the subcommittee and the full committee on the “Human Resources Metrics” of the Department. It detailed important metrics such as retirements, vacancies, and overall turnovers. It was noted that vacancies (due to retirements) in several key senior positions in the Wastewater Treatment and Disposal Division have not been filled for a variety of reasons.

The Department delayed its Leadership Development Program during FY 2016 due to budget constraints. A consultant was retained to develop tailored programs for the field and management academies. The program is slated to restart during Fiscal Year 17-18. IROC supports this program and participated in the selection process for the consultant.

Other Related Activities:

1. Value of Water Campaign: This is a new program launched by the Department to effectively broadcast the true practical message to the community and customer about what the monthly “bill” is paying for. The goal is to educate the public on the importance of water supply, treatment, conveyance and distribution investments for the future.
2. Sub-Metering Program: The Development Services Department reports that a total of 6,646 sub-meters were permitted between 2013 and 2015. In July 2015, the Committee heard a presentation on sub-metering for high rise residential buildings. According to the presentation, new and accurate technologies exist for billing and providing residents with individualized water use data without costly retrofits of structures.

Recommendation: That the Department evaluate methods to incentivize existing owners of multi-family buildings to encourage sub-metering of individual units. Along with this, as part of its ongoing examination of the water rate structure, new tiered water rates for multi-family units with sub-meters should also be examined in order for residents in these units to take advantage of the lower tier water rates available to single family units when conservation measures are taken.

3. Facilities Tours: Several tours were conducted during FY 2016 including the Wastewater Collection System Operations Center. IROC members viewed live demonstrations of a variety of high-tech tools for inspection and maintenance of sanitary sewers. IROC members also observed a new mobile sewer cleaning machine that has an on-board treatment system that draws water from the sanitary sewer, treats it, and then uses this water for the cleaning operations. This \$500,000 unit was furnished to the Department by Environmental Solutions Group through their distributor, Haaker Equipment Company, for a period of time at no cost for demonstration purposes. Water conservation and elimination of the need for an external water supply is the one primary objective of this new equipment. The Clean-Water Operations Management Center (COMC) was the last tour of the fiscal year. The COMC is the “Command Center” for managing many wastewater facilities throughout the City including flow-meters, pumping stations, security cameras, and other critical infrastructure. It also serves as the Emergency Response Command Post for the Wastewater Division.

LOOKING AHEAD: FY 2017 ANNUAL WORK PLAN (AS ISSUED ON MARCH 21, 2016)

I. Finance Areas of Focus

1. **Cost of Service Studies (COSS)** (§26.2003(a)(3) and (5)):
 - a. Review analysis performed by independent consultant retained by department to examine department's financial condition and whether scheduled water rate increases should be adjusted given variabilities in actual sales, local supplies, and other factors from assumptions used in the five-year COSS.
 - b. Examine overall 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.
 - c. Participate with department in ongoing process to review alternative rate structures for customer classes. This will include the multi-family rate class to determine whether an alternative rate structure can be developed.
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 Metropolitan Water District and San Diego County Water Authority (SDCWA) recommendations for changes to water rate structure and long term projections of water rates and charges and its impact to City of San Diego (City) ratepayers.
 - b. Review future water supplies, demands, and sales projections that are used in the City's 2015 Urban Water Management Plan.
 - c. Review and consider the 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. **Budget Review, Performance Audits, and Financial Reporting**

Improvements (§26.2003(a)(3) and (7)):

- a. Monitor at least quarterly key metrics such as water sales, imported and local water supply purchases and availability, and other annual and capital spending and compare with FY 2017 budget assumptions.
- b. Review FY 2017-18 departmental budget and provide input to department staff, City Council and Mayors office.
- c. Review all performance audits and formulate recommendations for follow-up action, and recommend subjects for the annual performance audit.
- d. Review OCA audits related to Finance (e.g., reserves, overhead expenses, etc.).
- e. Recommend various financial reporting improvements to promote transparency for effective oversight.

5. **Drought Impacts (§26.2003(a)(3) and (8)):** Monitor monthly water sales to determine impact of ongoing drought and allocation of supplies on the department budget and plans. Develop recommendations as appropriate.

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)):** IROC will continue to review progress of ongoing assessment projects and will seek to verify the available results are reflected in the development of subsequent replacement plans and Capital Improvement Projects (CIPs). IROC will also continue to review metrics such as age of components, frequency of breaks and systems failures, and damage resulting from those failures for this purpose.
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 and asset classes 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. Public Utilities and Public Works-Engineering have developed an updated reporting format to enable the Committee to better assess the CIP Program as a whole. This will provide management level reporting and enable IROC to more effectively review execution of the CIP Program.
3. **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 will 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 reduced revenue due to deep and/or extended periods of conservation and/or restricted supply.

4. **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.
5. **Monitor the City's approach and progress toward the modified permit for the Point Loma Wastewater Treatment Plant** (§26.2003(a)(8)):
IROC will monitor the review and approval process of the City's modified permit application for the Point Loma Wastewater Treatment Plant. 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, through the Pure Water San Diego Program.
6. **Monitor the implementation of the Pure Water San Diego Program** (§26.2003(a)(5)(8)): IROC will continue to monitor the progress of the Pure Water San Diego Program 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. IROC will include monitoring the development of the system itself and the progress toward needed legislation, regulation, and permitting from the City and from other agencies.
7. **Review operations of the Water and Wastewater systems that have the most impact on system performance, infrastructure sustainability and rates** (§26.2003(a)(8)): The subcommittee has focused heavily on infrastructure during the reporting period. IROC anticipates increasing our review of the efficiency and effectiveness of the operation of the system. IROC anticipates that information from the Department's Operations Optimization Study will provide information that will be helpful for this review.
8. **Monitor the Department's Energy Management Efforts** (§26.2003(a)(8)):
IROC will monitor the department's efforts to reduce energy use, energy costs, and its Greenhouse Gas emissions. This will include monitoring the department's compliance with the City's Climate Action Plan and relevant State and Federal Climate Change guidelines, standards, and regulations.

III. Outreach and Communications Areas of Focus:

1. **Department Branding Effort** (§26.2001(a) and §26.2003(a)(8)): Monitor the department's efforts to the 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 Point Loma permit.
3. **External Affairs Activities** (§26.2003(a)(8)):
 - a. Complete review of all "External Affairs" activities of the Department. IROC has 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)): Initiate 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 "Environment Committee."
5. **Customer Care Solutions** (§26.2001(a) and §26.2003(a)(8)): Continue to monitor and review the Customer Care Solutions System for customer service quality improvements.
6. **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.
7. **Human Resources (HR)** (§26.2001(a) and §26.2003(a)(8)): Monitor the Department's ability to hire and retain proper staffing for effective operation of current and emerging efforts.

ATTACHMENTS TO THE FY 2016 IROC ANNUAL REPORT:

Attachment A – IROC Municipal Code

Attachment B – IROC Members Listing

Attachment C – IROC Agenda Topics for FY 2016

ATTACHMENT A

IROC MUNICIPAL CODE

(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

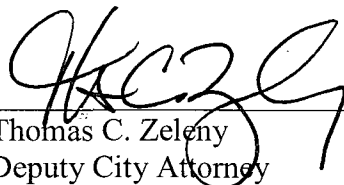
Any duties or functions of IROC that fall within the oversight responsibilities of the Audit Committee should be fully coordinated with and reported to the Audit Committee. IROC shall recommend at least one performance audit of the water or wastewater system each year for consideration by the City Auditor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

(date)

BOB FILNER, Mayor

Vetoed:

(date)

BOB FILNER, Mayor

ATTACHMENT B

IROC MEMBERS LISTING



Independent Rates Oversight Committee (IROC)

Committee Member	Category	Appointment Date	Term Expiration Date
Tiffany Mittal District 2 Point Loma	Multi-Family Residential Ratepayer Class Rep.	1/30/2014	5/1/2017
VACANT (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
VACANT (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](#)

Most Recent Council Action 1/30/2014 R-308709, R-308710 & R-308711

Register Revised 02/26/2016

ATTACHMENT C

IROC AGENDA TOPICS

FOR FY 2016

Attachment C: IROC Agenda Topics for Fiscal Year 2016

JULY 2015

Full IROC (Joint Meeting with Finance Subcommittee)

- Senate Bill (SB88)
- Cost of Service Study
- Should IROC and its Subcommittees go Dark in August
- City 10 – County Water Authority Update
- Metro/JPA Report Out

Finance Subcommittee (Joint meeting with Full IROC) (see above)

Outreach & Communications Subcommittee

- Discussion: Drought Response/Water Conservation Programs
- Submetering for High Rise Residential
- Advanced Metering Infrastructure Update
- Discussion: FY15 Annual Report

Infrastructure & Operations Subcommittee

- Water Main Breaks & Sewer Sanitary Overflow Report
- Pure Water Program
- Discussion: FY15 Annual Report

AUGUST 2015

Special Meeting of Full IROC

- Recycled Water Pricing Study Update
- FY15 Annual Report Discussion and Proposal for Ad Hoc Committee

Finance Subcommittee Cancelled

Outreach & Communications Subcommittee Cancelled

Infrastructure & Operations Subcommittee Cancelled

SEPTEMBER 2015

Full IROC

- FY15 Capital Improvement Projects Year End Report
- Update on the Pump-Storage at San Vicente Reservoir
- Discussion: FY15 IROC Annual Report Preparation
- City 10 – County Water Authority Update
- Metro/JPA Report Out

Attachment C: IROC Agenda Topics for Fiscal Year 2016

Finance Subcommittee

- Public Utilities Department Financial Update
- Discussion: FY15 Annual Report Preparation

Outreach & Communications Subcommittee

- AMI Update on the Pilot and Full Scale Program
- Discussion: FY15 Annual Report Preparation

Infrastructure & Operations Subcommittee

- FY15 Capital Improvement Program (CIP) – Year End Report
- Point Loma Water Main Break
- Discussion: FY15 Annual Report Preparation

OCTOBER 2015

Full IROC

- Update on Quarterly Water Main Breaks and Sanitary Sewer Spills
- Sub-Metering of High-Rise Residential Towers
- Adopt FY15 IROC Annual Report
- Planning for IROC Member Field Trips
- City 10 – County Water Authority Update
- Metro/JPA Report Out

Finance Subcommittee

- Public Utilities Department Financial Update
- Public Utilities FY15 Year End Current Year Monitoring Report
- Discussion: FY15 Annual Report Preparation

Outreach & Communications Subcommittee

- Discussion: Customer Billing Questions & the Customer (Advocate Program)
- Discussion: FY15 Annual Report Preparation

Infrastructure & Operations Subcommittee

- September 2015 Point Loma Water Main Break, Valve Information
- Process to Ensure Water Quality
- Discussion: FY15 Annual Report Preparation
- Discussion: Water Demand Response Measures in Place to Reduce Maximum System Capacity

NOVEMBER 2015

Full IROC

- Presentation: Public Utilities Human Resources Update
- Presentation: Water Quality Laboratory Overview
- Discussion: Draft Letter to the Mayor Regarding Committee Vacancies
- Discussion: FY15 IROC Annual Report Preparation
- Discussion: IROC Recess in December?
- City 10 – County Water Authority Update
- Metro/JPA Report Out

Attachment C: IROC Agenda Topics for Fiscal Year 2016

Finance Subcommittee

- Discussion: Public Utilities Department Financial Update
- Discussion: FY15 Annual Report Preparation

Outreach & Communications Subcommittee

- Presentation: Update on Pure Water San Diego
- Presentation: Update on Internal Branding Efforts
- Discussion: FY15 Annual Report Preparation

Infrastructure & Operations Subcommittee

- Presentation: El Monte Raw Water Pipeline Condition Assessment Result
- Presentation: Water Master Plan
- Discussion: FY15 Annual Report Preparation
- Discussion: Subcommittee Members Rate Proposal

DECEMBER 2015

Full IROC

Cancelled

Finance Subcommittee

Cancelled

Outreach & Communications Subcommittee

Cancelled

Infrastructure & Operations Subcommittee

Cancelled

JANUARY 2016

Full IROC

- Presentation: Pure Water Public Opinion Survey Update
- Presentation: Water Shut-Off Process
- Presentation: Advanced Metering Infrastructure Process
- Presentation: Public Utilities Human Resources Update
- Presentation: Leadership Development Program
- Discussion: Adopt FY15 IROC Annual Report
- City 10 – County Water Authority Update
- Metro/JPA Report Out

Finance Subcommittee

Cancelled

Outreach & Communications Subcommittee

Cancelled

Infrastructure & Operations Subcommittee

- Discussion: Water Demand Response Measures in Place to Reduce Maximum System Capacity
- Discussion: CIP Quarterly Update

Attachment C: IROC Agenda Topics for Fiscal Year 2016

FEBRUARY 2016

Full IROC

Cancelled

Finance Subcommittee

- Discussion: Public Utilities Department Financial Update
- Presentation: Mid-Year Budget Monitoring
- Discussion: Timing of Development and Release of FY16-17 Public Utilities Budget

Outreach & Communications Subcommittee

Cancelled

Infrastructure & Operations Subcommittee

Cancelled

MARCH 2016

Full IROC

- Presentation: I AM San Diego (SAP EAM Implementation)
- Presentation: Value of Water Campaign
- FY17 IROC Work Plan
- City 10 – County Water Authority Update
- Metro/JPA Report Out

Finance Subcommittee

- Public Utilities Department Financial Update
- FY17 IROC Work Plan

Outreach & Communications Subcommittee

- City's Rebranding Efforts
- FY17 IROC Work Plan

Infrastructure & Operations Subcommittee

- FY17 IROC Work Plan
- Discussion: Audit on the Street Division's Street Repairs

APRIL 2016

Full IROC

Cancelled

Finance Subcommittee

- Public Utilities Department Financial Update
- Public Utilities Department FY17 Proposed Budget

Outreach & Communications Subcommittee

Cancelled

Infrastructure & Operations Subcommittee

Cancelled

Attachment C: IROC Agenda Topics for Fiscal Year 2016

MAY 2016

Full IROC

- Presentation: Pure Water Update
- Presentation: San Diego Water Quality
- Presentation: 2015 Urban Water Management Plan
- Presentation: Update on Quarterly Water Main Breaks & Sanitary Sewer Spills
- Selection of New IROC Chair & Vice Chair
- Selection of Subcommittee Chairs and Members
- City 10 – County Water Authority Update
- Metro/JPA Report Out

Finance Subcommittee

- Discussion: Finance Subcommittee Chair Updates
- Discussion: Public Utilities Department Financial Update
- Discussion: Public Utilities Department FY2017 Proposed Budget Follow-up Questions

Outreach & Communications Subcommittee

- Presentation: Water Use Restrictions & Conservation Updates

Infrastructure & Operations Subcommittee

- Discussion: CIP Quarterly Update
- Presentation: Pressure Regulation System
- Presentation: Protection of Pure Water Infrastructure
- Presentation: Potable Reuse Research Update

JUNE 2016

Full IROC

Cancelled

Finance Subcommittee

Cancelled

Outreach & Communications Subcommittee

Cancelled

Infrastructure & Operations Subcommittee

Cancelled