

CITY OF SAN DIEGO INDEPENDENT RATES OVERSIGHT COMMITTEE





January 22, 2019

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

The report summarizes IROC's work for the fiscal year ending June 30, 2018, and includes observations and recommendations with respect to the operations, investments, and planning activities of the Public Utilities Department. It also includes issues we plan to address, or continue to address in FY 2019. 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.

Next year and beyond, a host of critically important issues are expected to be addressed at IROC, including alternative water rate structures and cost of services studies, department audit recommendations and reforms, new leadership, advanced metering infrastructure (AMI), Pure Water, and the department's five-year financial outlook. We look forward to providing a layer of inquiry and accountability to the Mayor's office, City Council, and PUD on these, and other issues. IROC appreciates the cooperation, patience, and professionalism of the Public Utilities Department in its relationship with IROC.

Respectfully submitted,

Tiffany Mittal, Chair Independent Rates Oversight Committee

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Attachment A – IROC Ordinance to Amend the Municipal Code Attachment B – IROC Members Listing Attachment C – IROC Agenda Topics for FY 2018 Attachment D – Water Reliability Coalition, Water Rate Reform Themes

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, 2017, through June 30, 2018, some of IROC's statements in this report may include information that came to light after the end of that reporting period.

All recommendations are listed in the front of the report regardless of which subcommittee(s) addressed the issue that generated the recommendation. All recommendations were reviewed and approved by the full IROC.

IROC Annual Report Fiscal Year 2018 Foreword

Fiscal Year 2018 was a challenging year for both the Public Utilities Department and IROC. The Public Utilities Department (PUD) faced much criticism over water billing issues, customer service, and certain program implementation and operational inefficiencies. The Mayor's Office, City Council, and the Department all took steps to further identify problems within the Department through audits and review of operations and to implement measures aimed at resolving deficiencies in order to improve operations and begin to regain public confidence.

IROC has for several years expressed some frustration with the department on the timing, or lack thereof, of information brought to the committee. It has worked hard over the past several years to provide more input into key issues before they are decided. In 2018, we welcomed an increased level of communications with the Mayor's Office through the appointment of a liaison to attend all IROC meetings and had high ranking members of the Mayor's staff address the full committee.

IROC Members take their appointment and responsibilities very seriously. At least one IROC Member attended each of the public meetings to hear customer concerns regarding water billings and rates, and reached out to others to seek their input into the water rate structure and rates. We have always encouraged PUD to become more transparent, the departmental budget being a good example of this. Three years ago, the Department presented its budget to the IROC Finance Subcommittee, but not to the full IROC. The budget is the key document that guides and controls all departmental operations. Since that time, IROC provided PUD staff with a list and format of how it wished to review the budget and held meetings with the full IROC to go through and take action on the recommended budget. For the past two years IROC has reported, in person, that review and action to the City Council.

Next year and beyond, a host of critically important issues are expected to be addressed at IROC, including alternative water rate structures and cost of services studies, department audit recommendations and reforms, new leadership, advanced metering infrastructure (AMI), Pure Water, and the department's five-year financial outlook. We look forward to providing input to the Mayor's Office, City Council, and PUD on these, and other issues.

IROC Membership, 2017-2018

Established in 2007, the Independent Rates Oversight Committee (IROC, or the Committee) serves as an official advisory body to the Mayor and City Council on policy issues relating to the oversight of the City of San Diego Public Utilities Departments' (PUD, or the Department) operations, including, but not limited to, resource management, planned expenditures, service delivery methods, public awareness, outreach efforts, and high quality and affordable services. In addition, the Committee assists the City in tracking and reviewing the use of rate proceeds to advance the capital improvements related to the rate packages and work programs adopted by the City Council.

IROC Members and Officers

Tiffany Mittal, Chair ⁽¹⁾ Jeff Justus, Vice Chair ⁽²⁾ David Akin Christopher Dull Gordon Hess Fred Kosmo ⁽³⁾ Jack Kubota Luis Osuna Jim Peugh Linh Quach Robert Weichelt ⁽⁴⁾ Vacant

Ex-Officio Members:

Jerry Jones ⁽⁵⁾ Ed Spriggs ⁽⁶⁾ Jim Peasley Lois Fong-Sakai Multi-Family Residential Ratepayer Representative Environmental Science Professional Representative Single-Family Ratepayer Representative Construction Management Professional Rep. Temporary Irrigation & Construction Ratepayer Rep. General/Law Professional Representative Engineering Professional Representative General/Law Professional Representative Environmental Professional Representative Commercial & Industrial Ratepayer Representative Finance Professional Representative Construction Management Professional Rep.

Metro Wastewater JPA Representative Metro Wastewater JPA Representative Metro Wastewater JPA Representative, Alternate SDCWA City-10 Representative

Attachment B contains more detailed information on IROC Member appointment dates, term expiration dates and Council District/Community representation.

Notes:

- (1) Tiffany Mittal appointed as IROC Chair, May 2018
- (2) Jeff Justice appointed as Vice Chair, May 2018
- (3) Fred Kosmo stepped down, October 2017
- (4) Robert Weichelt joined IROC, June 2018
- (5) Jerry Jones reappointed as Metro Wastewater JPA Representative, August 2017
- (6) Ed Spriggs stepped down, July 2017

IROC's 2018 Key Recommendations

1. Audit Reports and Tracking

The Department was under increased scrutiny, in large part due to multiple audits revealing a lack of management controls and organizational culture issues within the Department. Most notably the performance audit of PUD Water Billing Operations, and West Monroe Partners Meter to Cash Operational Assessment and immediately followed by the Water Meter Cover Replacement Program Audit. IROC recommends the Department develop and track a public-facing Key Performance Indicators (KPIs) Dashboard that is relevant to water billing operations, tracks improvements being made within the Department and can be easily understood by the public, reported out monthly to IROC, and displayed on the City's website. IROC recommends the Department do a thorough review of its management structure, internal controls, processes and protocols, employee training programs, oversight, and accountability controls to determine where improvements can be made. IROC recommends the Department audit their written policies and procedures to identify any deficiencies, and implement proper standard operating procedures. IROC recommends the Department identify and implement appropriate changes by end of Fiscal Year 2019. IROC also recommends that the Department follow through and report out to IROC monthly on the progress on the implementation of the recommendations asserted by the Office of the City Auditor for both the Water Billing Operations Audit and the Water Meter Cover Replacement Program Audit as well as the Meter to Cash Operational Assessment.

2. Audit Recommendation

IROC recommends that an audit of the City's personnel policies be performed for the PUD. It should include assessing compensation, retirement benefits, other benefits, recruitment, responses to position offers, retention, advancement, turnover, unfilled positions, and employees that transition to other entities. The analysis should include data for PUD employees compared to data from other similar utilities. The focus should be to determine if the relatively low employee compensation for PUD employees saves the ratepayers money, or if the resulting additional recruitment, hiring, training, overtime, and experience levels, cost the ratepayers more than they save.

3. San Diego Pure Water Program

Last year, IROC noted its support for the Pure Water Program and belief that continued aggressive implementation of the program will provide both local and regional benefits in terms of reliability and local control of the City's water resources. As recommended, updated Pure Water costs and the schedule was presented to IROC and to those who contract with the City for wastewater services (i.e. JPA members). However, IROC reiterates its recommendation that PUD track and show all Pure Water expenditures separately in its budget document along with how the costs are split between Water and Wastewater, and

include Pure Water as one of its key objectives in the departmental strategic plan (see Strategic Plan, below).

4. AMI

IROC recommends the Department provide a comprehensive project plan to complete the installation of the remaining meters for the Phase II citywide deployment of AMI. The Committee was asked to provide support for the funding request for the Phase II deployment and was not able to provide support to their request as it came to light the Department had no official implementation plan to install the remaining meters. The Department is struggling to keep current with work order backlogs in the same division that is expected to complete the AMI installation. IROC firmly recommends the Department to focus on the remaining boxes and lids backlogs as well as focus on operational improvements needed within the same division.

5. Five-Year Financial Outlook

IROC recommends that the Department provide IROC a five-year financial outlook yearly in advance of their standard budget cycle whereas IROC can review and provide feedback regarding the financial assumptions and projections for the Departments funding and financial goals.

6. Strategic Plan

Broad goals, objectives, and KPIs are stated for PUD in its portion of the City's budget document. Additionally, PUD has a 2017-21 "Strategic Plan" dated January 11, 2016, and a progress report on the status of the plan's strategic initiatives was prepared in 2017. The Strategic Plan includes four goals dealing with water supply, organizational excellence, community engagement, and infrastructure management. IROC finds that the plan's goals and initiatives are overly broad and thus lacking in detail to measure progress. For FY 2017, the goals were supported by 19 Strategic Initiatives, of which 15 of the 19 were reported completed. However, many of the initiatives reported completed in 2017 should be ongoing efforts or expanded in order to meet the Plan's (broadly) stated goals. No efforts for last year (2018) or beyond are reported in the Plan. IROC recommends that PUD develop a Strategic Plan and/or Business Plan with more detailed goals and objectives for each major departmental program, including KPIs to provide PUD with clear objectives and timelines to measure success. This Strategic Plan and its goals, objectives, and indicators should be made available to IROC and the public in order to provide more visibility of PUD operations and help to regain public trust in the Department and ensure that Standard Operating Procedures (SOPs) are being adhered to.

7. IROC Inspection Tours of Facilities

IROC recommends that staff continue to organize inspection tours for members of IROC of City facilities in order to increase awareness of department operations, successes, and challenges. Past tours have included the Metropolitan Operations Complex (MOC), Point Loma Wastewater Treatment Plant and the Billing and Call Center. Suggested tours could include water treatment plants, San Vicente Reservoir, and Chollas Operations Center.

8. Review of Funds

The Department performed a formal Review of Funds in FY 2017-2018. The purpose of the review was to compare assumptions made in the 2015 Cost of Service Study (COSS) with actual financial performance to date. This review was performed one year later than promised when the current five-year rate plan was adopted by City Council in 2015. The Review of Funds resulted in a nearly 3 percent roll-back of the scheduled 5 percent overall water rate (i.e. from 5 percent to 2.16 percent) increase planned for July 2018. IROC recommends that the Department undertake an annual informal Review of Funds through 2021 to assess and compare assumptions made in the COSS versus actual financial performance to date.

9. Alternative Rate Structure

PUD began its review of alternative water rate structures during the past fiscal year. Staff provided IROC with an overview of the various rate structures it was considering and received input from the IROC Members. Several public outreach meetings were held, along with two workshops sponsored by the Water Reliability Coalition and Regional Chamber of Commerce. These workshops provided valuable feedback to assist PUD as it brings forth rate alternatives. IROC recommends that in order to ensure the general public and interested stakeholders' input were duly considered, that PUD make public the mechanism that it uses to track comments received at each meeting and produce a short response as to how each comment or suggestion was (or was not) incorporated into the rate alternatives that will ultimately be presented and recommended.

10. Water Sales and Purchases

The Department should provide regular (minimum bi-monthly) updates to the full IROC as it does at the subcommittee level on Water Sales and Purchases. Updates to the full IROC can be information items only, discussed upon request.

11. Pipeline and Facility Condition Assessments and Aging Infrastructure

PUD performs regular condition assessments of pipelines and facilities in order to prioritize replacement of aging infrastructure. IROC recommends that funding for the replacement of the aging portions of the water distribution system continue to be a priority as guided by the condition assessments.

12. IROC Meeting Structure

IROC recommends that the Department work with the Committee to align its monthly meeting agendas around IROC's Annual Work Plan and the Department's annual recurring commitments. A standardized schedule of topics will provide the Department adequate time to prepare while ensuring that IROC maintains comprehensive coverage of its Charter and commitments to the ratepayers and City.

13. Independent Consultant

IROC has requested multiple times that an independent third-party consultant be retained in an effort to assist in reviewing upcoming rate designs and for the upcoming COSS. Under the direction of the Department, IROC worked to include language in a Resolution of the Council of the City of San Diego directing the Independent Budget Analyst to include as a City Council budget priority, the hiring of a consultant to advise the City Council and IROC on water and wastewater COSS and rate designs. In 2018, IROC requested to utilize a consultant in the upcoming rate designs that will be used in the FY 2020 COSS. It was communicated by the Office of the Independent Budget Analyst that this was not available for IROC in this capacity. IROC Members are frustrated with the continuous miscommunication from the Department on this topic and recommends that an independent consultant be provided on an as-needed contract basis for IROC Members to assist with an independent review of alternative rate structures, rate designs, and, (but not limited to) the COSS.

IROC Subcommittee Reports

IROC's three subcommittees meet regularly to discuss their respective areas of focus assigned in the Annual Work Plan. In some instances, issues may overlap among the subcommittees and are discussed at both the subcommittee level and the full IROC, or at the full IROC only. Following are subcommittee reports that address each of their respective areas of focus:

Finance Subcommittee

The FY 2018, IROC Work Plan included multiple finance areas of focus. These areas included: COSS, City Council Water Policy Implementation Task Force Recommendations, Water Fund Sustainability and Affordability, Budget Review, Performance Audits, and Financial Reporting Improvements. Progress in these areas included:

Cost of Service Studies

Although no COSS were currently in process during the 2018 Fiscal Year, the following items were heard:

- In September of 2017 and again in March and April of 2018, the full IROC heard presentations on Alternative Water Rates being developed by PUD staff in conjunction with consultant Raftelis Financial. To date, IROC has not been presented with actual proposed Alternative Water Rates but has provided input to the department on several occasions and participated in two workshops sponsored by the Water Reliability Coalition, along with PUD staff, community leaders, experts, and others. A summary of the Water Rate Reform Themes can be found in **Attachment D**.
- In March of 2018, the full IROC heard a presentation on updated Pure Water costs and schedule and the status of PUD's Proposition 1 grant application.

Water Policy Implementation Task Force Recommendations

• In November of 2017, the full IROC heard a presentation on Stormwater Capture and Reuse.

Water Fund Sustainability and Affordability

• The Finance Subcommittee received regular updates on water sales and purchases.

Budget Review

- In March of 2018, the Finance Subcommittee was presented with a Mid-Year Budget Monitoring update.
- In April and May of 2018, the full IROC heard updates on the Review of Funds. It supported the rate increase roll-back proposed by staff.
- In May of 2018, the full IROC was presented with PUD's May Budget Revision for the FY 2019 proposed budget. IROC endorsed the proposed budget and appeared before the City Council to urge its approval. As recommended in 2015, 2016, and 2017, the Finance Subcommittee reiterated its request that the Department provide IROC with a copy of

future proposed budgets as soon as possible after release by the Mayor's Office, in addition to the budget summaries normally prepared for the Finance Subcommittee.

Financial Reporting

• Bi-monthly finance updates were provided by Department staff on the various means and methods PUD was utilizing to finance the Department and stay on budget. This included updates on water sales and purchases, updates on the San Diego County Water Authority rates, funding sources, and grants. The Finance Subcommittee asked that the Department continue to provide monthly or bi-monthly financial updates associated with the water and wastewater facilities financing.

Outreach & Communications Subcommittee

For FY 2018, the Outreach & Communications Subcommittee planned to address the issues set forth. It held three subcommittee meetings throughout the year and intends to accomplish more in the on-going fiscal year. As provided below, each substantive activity is highlighted below for the last fiscal year and on-going fiscal year to date:

Continue to review "Water: Getting More Local" in collaboration with External Affairs

The Subcommittee received a presentation on the "Water: Getting More Local" in January of 2018 from External Affairs. The presentation included the overall goal of communications which is to achieve an agreement that water reliability is worth the investment. Further, the information provided also included the audience background and strategy: customers, leaders, and staff. Other local water communications covered include (i) One Water L.A., (ii) You Can't Make This Stuff, and (iii) More Than Water. The National Organizations discussed was (i) Water is Essential; (ii) Water Changes Everything; and (iii) One Water, One Future. The Subcommittee also received information on the messaging, testing, meanings, visual language, and how the information is provided in the customer bill, social media, fact sheets, staff e-blasts, department posters, video testimonials, signage, and website. The committee intends to continue to collaborate and have visibility on this effort.

Monitor the on-going efforts of the Wellness Program

• The Subcommittee received a presentation on the City's Wellness Program in August of 2018. The presentation highlighted the overall goals and implementation of the Wellness Program. The Employee Wellness Program was implemented in 2015 and was designed to enhance the quality of life of the Public Utilities employees and families by providing information, workshops, events and other opportunities. The City's Wellness Program is strategically being offered at various times and with an array of activities to ensure participation. Based on the update provided, the City's on-going effort on this Wellness Program is a benefit that employees are utilizing. Further, an annual survey is conducted

to capture the participant's needs and wants for this program. The Subcommittee intends to continue to monitor and collaborate with the City to ensure the implementation is successful.

Evaluate and understand the Human Resources Metrics

The subcommittee received a presentation on the Human Resources Metrics in August of 2018. This presentation provided the subcommittee with the background, update, and activity on the way in which the Human Resources Metrics is continued and implemented. The Monthly Metrics includes (i) High 5 Awards by Division; (ii) DLBs Awards by Division; (iii) Overtime Budget by Division; (iv) Vacancies; and (v) Employee of the Year nominees. The presentation included statistics in each section and activity. The subcommittee intends to continue obtaining visibility and understanding in this area and assess improvements as changes occur in the budget.

Monitor the City's Approach in the Communications Department

• The subcommittee received a presentation from the Communications Department in November of 2018. The Communications Department discussed the background and overall process of how certain communications are implemented. The presentation highlighted how the media can capture and cover issues based on the timing. Specifically, the subcommittee discussed the efforts provided in response to the water main ruptures. The subcommittee intends to continue to collaborate with the Communications Department for updates on the process and ensure timely responses are successfully provided.

Monitor and Obtain Updates on the Waste No Water Campaign and other MWD, and SDCWA Programs

• The subcommittee anticipates obtaining a presentation on the "Waste No Water" campaign in the upcoming fiscal year as well as a briefing on the MWD and SDCWA programs. The subcommittee intends to continue to collaborate with the various groups to assess the updates and improvements in each issue.

Infrastructure & Operations Subcommittee

For FY 2018, the Infrastructure & Operations Subcommittee planned to address 8 issues. During the four subcommittee meetings held over the year, our activity for each of those issues is as follows:

Review upcoming system condition studies and analyses to gauge the current infrastructure needs

• The subcommittee received a presentation on the Facilities Condition Assessments in May of 2018. It covered 10 major assessment contracts, 5 completed, costing \$16.25M, and 5

in progress costing \$27.75M. The subjects of the assessments included water and wastewater pipelines, pump stations, treatment facilities, buildings, etc. The presentation also indicated projects that have moved to the CIP process as a result of the completed assessments. That included the replacement of 189 miles of asbestos/concrete pipe and a number of other major items. The committee has requested more detailed information about the financial projection of cost for rehabilitation/replacement. The system condition assessment process is very important for both guiding infrastructure replacement and for minimizing infrastructure failure for a reasonable investment.

Monitor the implementation of the on-going infrastructure replacement plans, including the CIP, and its budget and timing

- The full IROC received a year-end report on the CIP in November of 2017 and the subcommittee received a quarterly update report in March of 2018.
- For the year-end report, the Public Works Department reported that the City was on a pace to replace an average of 35 miles a year of water pipe and 45 miles of wastewater pipe over the 4-year period from 2016 to 2020. For the fiscal year, the expenditure goal for water was \$100M and the actual expenditure was \$139M. The expenditure goal for wastewater was \$83M and the actual was \$110M. The expenditure goals mentioned were those defined in the June 2015 COSS.
- The replacement goal for water pipes was 20 miles, and 17.7 were replaced. For wastewater replacement goal was 45, and 47.4 was replaced.
- Besides these summary numbers, Public Works provided us with specific progress and expenditure information and comments on their progress for all major projects and projects that were having significant problems.
- When considering these replacement numbers, it is important to keep in mind that the City installed an average of 50 miles a year of water pipe between the years of 1950 and 1980. Much of that pipe will need to be replaced in the next few decades.

Evaluate City's planning efforts for a sustainable long-term water supply

• The subcommittee planned to receive presentations and comment on the Department's planning and actions for maintaining a sustainable supply of water long into the future. We were not provided information on this subject during the reporting period. The Bureau of Reclamation and the Department have been working on a Basin Plan for the region which will provide relevant information and analysis. Also, the Department is beginning work on its 2020 Urban Water Management Plan, in which IROC expects to be an active stakeholder participant.

Recommend targeted audits relating to infrastructure and operations

• The full IROC has prepared a recommendation for an audit of the AMI project and its implementation. The subcommittee supports that recommendation.

Monitor the City's approach and progress toward the modified permit for the Point Loma Wastewater Treatment Plant

The full IROC received a presentation on the modified permit during an agenda item on the Pure Water Program in March of 2018. It is very impressive that the multiple permit processes have moved so smoothly since there were so many things that could have gone wrong. The permit will allow PUD to avoid roughly \$2.1B by avoiding the cost of upgrading the Point Loma Wastewater Treatment Plan to Secondary Treatment. The reduction in the discharge of treated wastewater will offset the water quality impact of staying with the advanced primary level of treatment. We anticipate that the modified permit will 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 through the Pure Water San Diego Program.

Monitor the implementation of the Pure Water San Diego Program

- The full IROC received a presentation on the Pure Water Program in March of 2018.
- The Pure Water Program EIR has been certified and all needed permits have been acquired. After the FY 2017 reporting period, the City Council voted to move ahead with the project. The very significant cost of the system will be reduced by a number of grants and preferential loans. IROC will include monitoring the development of the system itself and its design and implementation.

<u>Review operations of the Water and Wastewater systems that have the greatest impact on system</u> <u>performance, infrastructure sustainability and rates</u>

- The subcommittee had anticipated receiving the results from the Optimization studies that are relevant to Department operations during the reporting period to increase our understanding of the efficiency and effectiveness of the operation of the system. We hope to receive that in FY 2018.
- In January of 2018, a report was given to the full IROC on sewer cleaning and long-term maintenance in canyons. Maintenance and access for inspecting and maintenance in canyons is a difficult problem. Many of our canyons contain sensitive habitat types and specific sensitive species. Canyons are subject to serious erosion if access or maintenance is done poorly, which can result in downstream flooding, habitat degradation, and/or water quality problems. Also, our canyons are used by residents for environment-based recreation. The City policy was developed by the Canyon Sewer Maintenance Task Force in

the 1998-2000 timeframe. Before this program, overflows in canyons were a serious problem because of lack of maintenance due to the access problems.

- Based on the Canyon Policy, PUD has developed measures for the mapping of sensitive resources that need to be protected, sewer access needs, and benign access routes. They have also acquired special low-impact equipment for constructing roadway/trails and for maintaining wastewater facilities in canyons. The program includes special training for the workers involved. The program involves very complex permitting because of the large range of potential environmental impacts. It includes avoidance of impacts where possible, restoration of habitat after temporary impacts, and mitigation to offset unavoidable impacts. The program also includes looking for opportunities to relocate sewer pipes out of canyons and into the street where they are more accessible and more visible, where practical.
- The subcommittee received presentations on 5 major breaks and spills over the year. They typically included the circumstances of each event including location, age, and material of the pipe, response time, the volume of the discharge, any property damage, and time to restore service.
- The full IROC received a presentation summarizing water pipe breaks and wastewater pipe spills over CY 2017 in January 2018. There were 79 water main breaks, which is slightly above the average for the previous 3 years. 62 of the breaks were from asbestos/concrete pipe. This is not surprising because over 2000 miles of the system are A/C pipe, some of which is getting pretty old. The number of breaks of cast iron pipe was down to 5. This has been declining quickly as cast iron is being aggressively replaced, and is down to 46 miles. There were 6 breaks of the newer PVC pipe, of which there are about 700 miles in the system.
- The summary presentation for wastewater spills showed dramatic improvements in the last 18 years. In 2000 there were 365 spills, of which 33 spills discharged 35M gallons to public waters and lots of penalties. The City started an aggressive and effective effort to stop the spills since then. The Canyon Sewer Access project mentioned above was part of that. In contrast, in 2017 there were 35 spills, 5 of which discharged 41K gallons to public waters. Unfortunately, 2016 was an isolated bad year, largely because of the Tecolote Spill which discharged 6.6M gallons into Tecolote Creek and Mission Bay.

Monitor the Department's Energy Management Efforts

• The subcommittee had planned to monitor the Department's efforts to reduce energy use, energy costs, and its Greenhouse Gas emissions during the reporting period. We were made aware of the significant green energy elements of the Pure Water Project but not for other aspects of PUD. We anticipate that the subcommittee will receive more information in the current fiscal year so that we will be able to monitor the Department's compliance with the City's Climate Action Plan and relevant State and Federal Climate Change guidelines.

Independent Rates Oversight Committee Looking Ahead: FY 2019 Annual Work Plan As Issued on January 16, 2018

As required by City Code Section 26.2003, the Independent Rates Oversight Committee (IROC) has adopted this Work Plan for FY 2019. The plan contains three areas of focus, including Finance, Infrastructure & Operations, and Outreach & Communications corresponding to the three subcommittees of IROC. While each subcommittee has its areas of focus in the plan, overall responsibility for the work plan rests with the full IROC and many of the individual tasks in the areas of focus can and will be addressed by the full IROC in conjunction with the individual subcommittees.

I. Finance Areas of Focus

- 1. **Cost of Service Studies (COSS)** (§26.2003(a)(3) and (5)):
 - a. As applicable, review analysis performed by independent consultant retained by department to examine department's financial condition and whether scheduled water or wastewater 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 (§S26.2003(a)(3) and (8)):

- 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 rates and long term projections of water rates and charges and its impact to City of San Diego (City) ratepayers. 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 2019 budget assumptions.
 - b. Review FY 2019-20 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 Office of the City Auditor audits related to Finance (e.g., reserves, overhead expenses, etc.).
 - e. Recommend various financial reporting improvements to promote transparency for effective oversight.

5. Water Use and Sales (§26.2003(a)(3) and (8)):

Monitor monthly water sales to determine impact of ongoing water use patterns and allocation of supplies on the department budget and plans. Develop recommendations as appropriate.

II. Infrastructure & 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, as needed.

5. 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. Information from the Department's Operations Optimization Study will provide information that will be helpful for this review.

6. 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 updates on progress of the proposed San Vicente Project as well as 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 & Communications Areas of Focus:

- 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. Monitor and review of all "External Affairs" outreach 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."
- 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 Use Efficiency (§26.2001(a) and §26.2003(a)(8)): Continue to monitor the City's efforts to use water efficiently.
- Human Resources (HR) (§26.2001(a) and §26.2003)(a)(8)): Monitor the Departments ability to hire and retain proper staffing for effective operation of current and emerging efforts.

ATTACHMENTS TO THE FY 2018 IROC ANNUAL REPORT:

Attachment A – IROC Ordinance to Amend the Municipal Code

Attachment B – IROC Members Listing

Attachment C – IROC Agenda Topics for FY 2018

Attachment D – Water Reliability Coalition, Water Rate Reform Themes

ATTACHMENT A

IROC ORDINANCE TO AMEND THE MUNICIPAL CODE

Item # 50

(O-2013-39)

ORDINANCE NUMBER O- **2023** (NEW SERIES)

DATE OF FINAL PASSAGE JAN 2 3 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.

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(O-2013-39)

§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 tenmember 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

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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

-PAGE 4 OF 8-

(O-2013-39)

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. Zelenv Deputy City Attorne

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

(O-2013-39)

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____

3 Approved: (date)

Vetoed:

(date)

ELIZABETH S. MALAND, City Clerk By Deputy Ci

BOB FILNER, Mayor

BOB FILNER, Mayor

ATTACHMENT B

IROC MEMBERS LISTING



Independent Rates Oversight Committee (IROC)

Committee Member	Category	Appointment Date	Term Expiration Date	
<u>Tiffany Mittal</u>	Multi-Family Resident Ratepayer Class Rep.	6/14/2018	5/1/2021	
Point Loma, District 2		1/30/2014	5/1/2017	
VACANT (Craig Chapman)* Carlsbad	Construction Management Professional Rep.	1/30/2014	5/1/2017	
Jack Kubota	Engineering Professional	1/30/2014	5/1/2017	
Carlsbad		6/2/2009	5/1/2013	
		10/18/2007	5/1/2009	
Robert Weichelt	Finance Professional	6/14/2018	5/1/2019	
San Carlos, District 7				
Jeff Justus	Environmental Science	1/30/2014	5/1/2017	
Pacific Beach, District 2	Professional Rep.	1/23/2012	5/1/2013	
Christopher Dull	Construction Management	5/16/2011	5/1/2015	
Escondido		10/9/2008	5/1/2011	
<u>Luis Osuna</u> Golden Hill, District 3	General Representative	8/4/2016	5/1/2019	
Gordon Hess	Temporary Irrigations &	6/14/2018	5/1/2021	
Golden Hill, Mission Hills, District	Construction Representative	1/30/2014	5/1/2017	
James Peugh	Environmental Rep.	5/16/2011	5/1/2015	
Point Loma, District 2		10/18/2007	5/1/2011	
David Akin	Single-Family Residential	8/4/2016	5/1/2019	
Bay Ho, District 2	Ratepayer Representative			
Linh Quach	Commercial and Industrial	8/4/2016	5/1/2019	
Bonita	Ratepayer Representative			

11 Members, 4 Year Term Appointed by Mayor, Confirmed by Council

San Diego Municipal Code 26.2001 – 26.2003

Members are required to file Statements of Economic Interests

Most Recent Council Action 6/14/2018 R-311793 Register Revised 06/25/2018

ATTACHMENT C

IROC AGENDA TOPICS

FOR FY 2018

JULY 2017

Full IROC – Special Meeting
• Tour of the Point Loma Wastewater Treatment Plant
Finance Subcommittee
Recess
Outreach & Communications Subcommittee
Recess
Infrastructure & Operations Subcommittee
Recess

AUGUST 2017

ancontra est	
	Full IROC
	Recess
	Finance Subcommittee
	Recess
	Outreach & Communications Subcommittee
	Recess
	Infrastructure & Operations Subcommittee
	Recess

SEPTEMBER 2017

Full IROC

- Presentation: Alternate Water Rate Structure
- Presentation: MyWaterEasy Update
- Discussion: FY 2017 IROC Annual Report Preparation
- City 10 County Water Authority Update
- Metro/JPA Report Out

Finance Subcommittee

- Discussion: Public Utilities Department Financial Update
- Discussion: FY 2017 IROC Annual Report Preparation

Outreach & Communications Subcommittee

• Discussion: FY 2017 IROC Annual Report Preparation

Infrastructure & Operations Subcommittee

- Presentation: Update on Recent Water Main Breaks
- Discussion: FY 2017 IROC Annual Report Preparation

OCTOBER 2017

Full IROC
Recess
Finance Subcommittee
Recess
Dutreach & Communications Subcommittee
Recess
nfrastructure & Operations Subcommittee
Recess

NOVEMBER 2017

Full IROC – Special Meeting

- Presentation: FY 2017 Capital Improvements Program (CIP) Year-End Report
- Discussion: Help to Others San Diego (H2O SD) Program Update
- Presentation: Storm Water Capture & Reuse Update
- Discussion/Possible Action: FY 2017 IROC Annual Report Preparation/Recommendations
- City 10 County Water Authority Update
- Metro/JPA Report Out

Finance Subcommittee

- Discussion: Public Utilities Department Financial Update
- Discussion: FY 2017 Annual Report Preparation

Outreach & Communications Subcommittee

- Presentation: Customer Service Update
- Presentation: Human Resources Update
- Discussion: FY 2017 Annual Report Preparation

Infrastructure & Operations Subcommittee

- Presentation: Update on Recent Water Main Breaks
- Discussion: FY 2017 Annual Report Preparation

DECEMBER 2017

Full IROC
Recess
Finance Subcommittee
Recess
Outreach & Communications Subcommittee
Recess
Infrastructure & Operations Subcommittee
Recess
JANUARY 2018
Full IROC
 Presentation: Update on Quarterly Water Main Breaks & Sewer Sanitary Overflows Presentation: Canyon Sewer Cleaning and Long-Term Sewer Maintenance Program Discussion: Adopt FY 2019 IROC Work Plan
 Discussion: Potential Performance Audit Recommendations
 City 10 – County Water Authority Update
• Metro/JPA – Report Out
Finance Subcommittee
Discussion: Public Utilities Department Financial Update
Outreach & Communications Subcommittee
Presentation: Water: Getting More Local
Infrastructure & Operations Subcommittee

Recess

FEBRUARY 2018

Full IROC

Recess

Outreach & Communications Subcommittee Recess	
Recess	
Infrastructure & Operations Subcommittee	

MARCH 2018

Full IROC

- Discussion: Monthly Billing Update
- Presentation: Pure Water Cost and Schedule Update
- Discussion: Impact of Updated Pure Water Costs on Cost of Service and Proposition 1 Grant Application Status
- Presentation: Financial Calendar (Highlight IROC Involvement)
- Discussion: Alternative Water Rate Structures
- Discussion: Recommended Performance Audit
- City 10 County Water Authority Update
- Metro/JPA Report Out

Finance Subcommittee

- Public Utilities Department Financial Update
- Presentation: Mid-year Budget Monitoring

Outreach & Communications Subcommittee

Recess

Infrastructure & Operations Subcommittee

- Update on Recent Water Main Breaks
- FY 2018 Capital Improvement Program (CIP) Quarterly Update

APRIL 2018

Full IROC

- Presentation: Public Utilities FY 2019 Proposed Budget
- Presentation: Alternative Water Rate Structure
- Presentation: Review of Funds Update
- City 10 County Water Authority Update

Metro/JPA – Report Out

Finance Subcommittee

Recess

Outreach & Communications Subcommittee

Recess

Infrastructure & Operations Subcommittee

Recess

MAY 2018

Full IROC

- Presentation: Review of Funds
- Presentation: May Budget Revision for FY2019 Proposed Budget
- City 10 County Water Authority Update
- Metro/JPA Report Out

Financ	e Subcommittee
Recess	
Outrea	ch & Communications Subcommittee
Recess	
Infrast	ructure & Operations Subcommittee
•	Presentation: Update on Recent Water Main Breaks (Recurring Item)
•	Presentation: Facilities Condition Assessment
JUNE	2 2018

Full IROC	
Recess	
Finance Subcommittee	
Discussion: Review of Funds	
Outreach & Communications Subcommittee	
Recess	
Infrastructure & Operations Subcommittee	
Recess	

ATTACHMENT D

WATER RELIABILITY COALITION, WATER RATE REFORM THEMES



Water Rate Reform Themes

The Water Reliability Coalition, with the support of the San Diego Foundation, hosted two workshops on water rate reform in March and April 2018 to bring experts and thoughtful discussion to water stakeholders within the City of San Diego's Public Utilities Department (PUD) service area. Panelists included:

- Vic Bianes, Director, Public Utilities Department, City of San Diego
- Paul Cook, General Manager, Irvine Ranch Water District
- Seth Gates, Deputy Director of Finance & IT, Public Utilities Department, City of San Diego
- Haney Hong, President & CEO, San Diego County Taxpayers Association
- Lee Ann Jones Santos, Assistant Director, Public Utilities Department, City of San Diego
- Alan Karnovitz, Senior Associate, Hazen and Sawyer
- Don Kelly, Executive Director, Utility Consumers' Action Network
- Charles Modica, Fiscal & Policy Analyst, Independent Budget Analyst's Office, City of San Diego

Local stakeholders who participated in workshop planning and workshop attendees included many individuals representing various private companies and community organizations including:

- Balboa Park Cultural Partnership
- Biocom
- Building Industry Association San Diego
- California American Water
- Center for Sustainable Energy
- City of San Diego Independent Rates
 Oversight Committee
- Energy Policy Initiatives Center
- Industrial Environmental Assn.
- Institute of Electrical & Electronics Engineers
- Otay Water District
- Public Health Alliance of Southern California

- San Diego Audubon Society
- San Diego Coastkeeper
- San Diego County Apartment Association
- San Diego County Taxpayers Association
- San Diego Regional Chamber of Commerce
- San Diego Regional Climate Collaborative
- San Diego Regional EDC
- San Diego Water Tech Alliance
- Surfrider Foundation, San Diego Chapter
- The San Diego Foundation
- UCSD
- Utility Consumers' Action Network

In addition to developing stakeholder understanding of the issue as a component of the holistic "One Water" approach to regional policy, the workshops identified four major reoccurring themes to consider alongside your priorities when engaging in water rate reform discussions.

Theme #1 – Focus on education, outreach and community dialogue to promote conservation. The awareness achieved during California's 2014–17 drought state of emergency resulted in a 21 percent reduction in water usage, demonstrating people are willing to change their behavior if conservation and efficiency is widely emphasized. Many experts concur, prioritizing a productive dialogue is not only the most effective conservation tactic, but also results in higher levels of public trust. The City should explore ways to expand community dialogue efforts with excessive users and communicate more widely with all users about ongoing investments in water and wastewater infrastructure.

Consider asking the following questions to promote effective education, outreach and community dialogue focused on conservation.

- How effective have our past education, outreach and community dialogue efforts focused on conservation, and how are we improving those efforts?
- How does our level of funding for conservation education, outreach and community dialogue compare to previous rate cases and to other water retailers?
- From which ratepayer tiers, and to what degree from each, are funds allocated currently for education, outreach and community dialogue efforts focused on conservation?
- How much would it impact an efficient user's bill if education, outreach and community dialogue efforts focused on conservation were exclusively funded through the top tiers charged to excessive users, assuming this is a legally viable option?

Theme #2 – Prioritize achieving the lowest possible bill for low-income ratepayers who are conserving as much as possible to save on their bill. Water is a fundamental need. We have an obligation to ensure it is safe, reliable and affordable. Rate structures cannot rely on a cross-subsidy to ensure that low-income ratepayers have affordable bills as Proposition 218 (1996) does not allow any ratepayer to be charged more than it costs to serve them. The lowest tier(s) should be designed to cover basic needs at the lowest possible cost. In addition, to achieve this goal, the variable portion of the bill should be designed to cover PUD's "partially fixed" and "variable" costs.

Consider asking questions similar to the following to promote a rate structure that ensures low-income ratepayers can achieve affordable bills through conservation.

- How many people live in a typical single-family home and how much water is considered enough to cover basic needs for that household?
- Does the amount of water needed to cover basic needs of a household correspond to our lowest tier?
- How much does the amount of water needed to cover basic needs change with the size of a household, and how does our current rate structure result in the bill changing with additional people in a water-efficient household?
- What are the barriers and corresponding potential solutions to creating a separate tiered structure for multifamily ratepayers?
- In what ways can we consider creating a Proposition 218-compliant program designed to allow households with unusually high occupancy to receive a variance ensuring their bill is not subsidizing others?

Theme #3 – Distinguish between "fixed-fixed," "partially fixed" and "variable" costs. There are several costs that could be considered either fixed or variable depending on perspective. In these cases, we should be looking for opportunities to designate these partially fixed costs as variable and therefor recovered through the tiered rate structure rather than the base fee. This is necessary to not only ensure an opportunity for low-income ratepayers to achieve an affordable bill through conservation, but is also necessary to ensure the rate structure incentivizes conservation as much as possible without jeopardizing PUD's ability to cover its costs. Examples of departmental costs that could be characterized as "partially fixed" include piping infrastructure, chemicals, repairs and maintenance.

Consider asking questions similar to the following to promote conservation without compromising solvency.

- What percentage of PUD's expenditures do not change annually regardless of even dramatic changes in water use either up or down?
- In addition to debt service, which line items are fixed?
- Are there any line items that are considered fixed that would in fact change if there was dramatic conservation or a dramatic increase in water use?
- How would rates, efficiency and conservation be impacted if a water bill's base fee were to be a higher percentage of the overall bill similar to other California jurisdictions?

Theme #4 – Sending clear price signals to customers is important. Ratepayers are much more likely to respond with conservation and efficiency measures when they have the right information presented to them in a clear, concise and timely fashion. For example, real-time metering information can help to detect leaks and identify which appliances are causing a bill to spike. Conversely, being unclear can doom even well-designed reforms if it causes confusion.

Consider asking questions similar to the following to best ensure PUD is sending clear price signals.

- What is the status and schedule for implementing automated/advanced metering infrastructure (AMI) and how could it impact rates, efficiency and conservation?
- What is the status and schedule for moving to monthly billing and how could it impact rates, efficiency and conservation?
- In what ways should we consider changing the layout and information provided to customers to improve ratepayers' understanding of their water use and its impact on the environment and their water bill?
- In what ways can we work to ensure renters have the opportunity to save on their bill by conserving?

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The Water Reliability Coalition is a broad-based affiliation of more than 25 organizations that have come together to educate and advocate for water reuse and reliability in the San Diego region.