

City of San Diego  
Independent Rates Oversight Committee



Fiscal Year 2017  
ANNUAL REPORT

ISSUED: December 21, 2017





## Independent Rates Oversight Committee

December 21, 2017

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

The report summarizes IROC's work for the fiscal year ending June 30, 2017, 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 2018. 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 and professionalism of the Public Utilities Department in its relationship with IROC.

Respectfully submitted,

Gordon Hess, Chair  
Independent Rates Oversight Committee

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Attachment A – IROC Municipal Code  
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### **IMPORTANT NOTES TO READERS OF THIS REPORT:**

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

It should be noted that even though this report covers the period of July 1, 2016 through June 30, 2017, 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 2017**  
**Foreword**

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The format of this 2017 IROC Annual Report differs slightly from the last several annual reports. Previously, all IROC's recommendations were listed in each respective subcommittee section of the report and several of the recommendations were listed as Key Recommendations near the front of the report. To avoid listing some recommendations twice, this year, all recommendations are listed near 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.

The subcommittee reports have been shortened to address the major issues heard during the fiscal year, and avoid restating facts and figures available from the Department. In some cases when issues overlap different subcommittees, the issue is addressed in the subcommittee report but is noted as being heard by the full IROC. The Department's annual budget is a good example of a Finance subcommittee responsibility, but was reviewed by the full IROC.

We hope these changes make the Annual Report more readable, and we welcome your input.

## **IROC Membership, 2016-2017**

### **IROC Members and Officers**

|   |   |
|---|---|
| Gordon Hess, Chair <sup>(1)</sup>         | Temporary Irrigation & Construction               |
| Representative                            |   |
| Tiffany Mittal, Vice Chair <sup>(2)</sup> | Multi-Family Residential Ratepayer                |
| David Akin                                | Single Family Ratepayer Representative            |
| Christopher Dull                          | Construction Management Professional              |
| Jeff Justus                               | Environmental Science Professional Representative |
| Fred Kosmo <sup>(3)</sup>                 | Law Professional                                  |
| Jack Kubota                               | Engineering Professional                          |
| Luis Osuna                                | General/Law Professional                          |
| Jim Peugh                                 | Environmental Representative                      |
| Linh Quach                                | Commercial Ratepayer Representative               |
| Irene Stallard-Rodriguez <sup>(7)</sup>   | Single Family Residential Ratepayer               |
| Gail Welch <sup>(8)</sup>                 | Commercial and Industrial Ratepayer               |

### **Ex-Officio Members:**

|                             |                                     |
|-----------------------------|-------------------------------------|
| Jerry Jones <sup>(4)</sup>  | Metro Wastewater JPA Representative |
| Ed Spriggs <sup>(5)</sup>   | Metro Wastewater JPA Representative |
| Jim Peasley                 | Metro Wastewater JPA Alternate      |
| Ken Williams <sup>(6)</sup> | SDCWA City 10 Representative        |
| Lois Fong-Sakai             | 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 reappointed as IROC Chair June 2017
- (2) Tiffany Mittal reappointed as IROC Vice Chair June 2017
- (3) Fred Kosmo stepped down October 2017
- (4) Jerry Jones reappointed as Metro Wastewater JPA Representative August 2017
- (5) Ed Spriggs stepped down July 2017
- (6) Ken Williams stepped down September 2016
- (7) Irene Stallard-Rodriguez stepped down August 2016
- (8) Gail Welch stepped down August 2016

## IROC 2017 Recommendations

### San Diego Pure Water Program

#### Background

IROC is supportive of the City's Pure Water San Diego Program (Pure Water) and believes that continued aggressive implementation of Pure Water will provide both local and regional benefits in terms of reliability and local control. Because IROC is responsible for reviewing and making recommendations regarding all programs that will impact water and wastewater rates, it is important to understand how the recent decision to accelerate implementation will impact currently approved and future water rates. The program was accelerated in June of 2016 as follows:

#### **Pure Water Program Schedule, prior to June 2016**

| <u>Phase</u> | <u>Implementation Year</u> | <u>Capacity</u> |
|--------------|----------------------------|-----------------|
| 1a           | 2025                       | 15 MGD          |
| 1b           | 2030                       | 15 MGD          |
| 2 Central    | 2035                       | 38 MGD          |
| 2 South Bay  | 2035                       | 15 MGD          |

#### **Current Pure Water Program Schedule**

| <u>Phase</u> | <u>Implementation Year</u> | <u>Capacity</u> |
|--------------|----------------------------|-----------------|
| 1            | 2021                       | 30 MGD          |
| 2 & 3        | 2035                       | 53 MGD          |

In addition to the scheduled acceleration by up to 9 years, the level of treatment required of the project has increased because of the introduction of Pure Water into a smaller reservoir (Miramar Reservoir with a capacity of 6,682 acre-feet) rather than the larger San Vicente Reservoir (249,358 acre-feet). A smaller reservoir has less retention time than a larger reservoir, therefore regulatory requirement dictates a higher level of treatment, and thus at a higher cost. While in the long term some, or all, of the increased costs could be offset by lower pipeline construction distance and costs, the accelerated program will undoubtedly affect cash flows and costs of the program from what was assumed in the 2015 Cost of Service Study (COSS):

#### **2015 Cost of Service Study, Pure Water Expenditures, Water Fund**

|                                     |                      |
|-------------------------------------|----------------------|
| Capital Expenditure FY 2016 to 2019 | \$127,526,500        |
| Capital Expenditure FY 2020         | <u>\$226,831,600</u> |
| Total, FY 2016 to 2020              | \$354,358,100        |

The majority of this capital spending was to be financed and projected to occur in the final year of the approved 5-year rate plan and beyond. With the program acceleration and expansion, it appears that substantial additional expenditures for capital costs and interest expenses could occur during this COSS period and immediately beyond. IROC has asked for updated program costs, but to date has not received such an update. The Department stated that once design is further along (according to staff, the project is at the 30 percent design level), updated costs will

be presented. In October 2017, the Public Utilities Department (Department) asked for, and received from the City Council, authorization to apply for \$759 million in State Revolving Fund loans to help fund the Pure Water Phase I program and an additional \$508 million for the wastewater portion of the project. The City has also requested \$492 million under the federal Water Infrastructure Finance and Innovation Act of 2014 (WIFIA) to add additional financing flexibility for the project. The authorization for the water portion of the project appears substantially higher than the Pure Water costs contained in the 2015 COSS. IROC recognizes that the 2015 COSS contained Pure Water costs to FY 2020 only, however it is clearly apparent that the costs assumed in the 2015 COSS need to be updated.

### **Recommendations:**

1. The Department should release updated Pure Water program costs and timing of expenditures and evaluate the impact of the accelerated Pure Water program on not only the approved 2016 to 2020 water rate increases, but also on future water rates. IROC also recommends that the Department evaluate the additional costs resulting from the Pure Water program be evaluated to determine long term impacts on the City's wastewater rates and charges and charges to non-City entities that contract with the City for wastewater (i.e. JPA members) services.
2. Last year, IROC noted that the Pure Water program represented one of the largest investments ever made by the Department. As such, IROC believed that the program needed greater visibility at IROC and recommended that the reporting of the Pure Water budget, schedule, progress and other key elements of the program be separated out from reporting of other departmental programs so that IROC and others can better track the program. The Department agreed with this recommendation stating they would provide an annual report in December of each year. While IROC awaits its first annual report, IROC recommends that to meaningfully track progress and make recommendations in a timelier fashion, the Department report quarterly to IROC on Pure Water progress. IROC also recommends that Pure Water expenditures be shown separately in the Department's budget, or at a minimum provide IROC with detailed expenditures contained in the Department's annual proposed budget.

### **Other IROC Recommendations:**

3. The Department is currently undertaking an Alternative Water Rate Structure Study that could result in modifications to the existing way water is billed to consumers. This study, when completed, will become one of the building blocks to the next COSS rate setting process. Originally IROC was told that a working group would be formed to help guide the study and that IROC would have a representative on this group. Instead, the rate structure consultant gave presentations to solicit feedback from various community groups and IROC. IROC asked that the consultant and staff provide regular status reports on study progress so that IROC could better monitor study progress and provide ongoing guidance. IROC recommends that this request be followed and that IROC be given study

progress reports at each meeting as well as the opportunity to provide input as the study progresses.

4. Continue with the Pipeline and Facility Condition Assessments to help guide the Integrated Asset Management System and the CIP prioritization.
5. Increase the funding for the replacement of the aging portions of the water distribution system, especially replacement of Asbestos Cement pipelines. This should be guided by the Condition Assessment Studies to ensure that the most vulnerable parts of the system are being replaced first.
6. The Department should continue to 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. “Value of Water”).
7. The Department should notify and provide members of IROC copies or links to information and action items scheduled before the City Council. This will enable IROC members to be fully up to date and versed in the status of programs and issues within its area of responsibility.
8. The Department should provide regular (minimum bi-monthly) updates to the full IROC as it does at the sub-committee level on Water Sales and Purchases. Updates to the full IROC can be information items only, discussed upon request.
9. The Department should continue to provide quarterly, and annual summaries of miles of pipe and other infrastructure replaced and associated capital costs, as well as a summary of overall project costs that are associated with the CIP and Pure Water.



## **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 2017 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. Progress in these areas included:

#### Cost of Service Studies

- The full IROC heard a presentation from the Utility Consumers Action Network (UCAN) and was asked to endorse a proposal for an Independent Water Rate Consultant who could be used to advise and assist the City's Independent Budget Analyst (IBA) and IROC (through the IBA) in the evaluation of future COSS. IROC endorsed this proposal.
- The Finance subcommittee heard a presentation regarding the award of an As-Needed Agreement with Raftelis Consultants to provide various studies and reviews associated with water and wastewater rates and other services. The subcommittee asked that the Department include IROC in the COSS process and provide regular updates regarding the progress of each Task Order provided to Raftelis as it relates to water and wastewater costs.

#### Water Policy Implementation Task Force Recommendations

- The full IROC received a progress report by Public Utilities Department (PUD or Department) staff regarding the implementation of the City Council's Water Policy Implementation Task Force. The full IROC also received updates on the implementation of the Advance Metering Infrastructure (AMI) system and the pump storage program at the San Vicente Reservoir. IROC asked that the Department continue to implement and continue reporting progress on recommendations made by the Water Policy Implementation Task Force and accepted by the City Council.

#### Water Fund Sustainability and Affordability

- The Finance subcommittee received regular updates on water sales and purchases.

#### Budget Review

- In February of 2017 the Finance subcommittee was presented with a Mid-Year Budget Monitoring update. The full IROC was presented with a Pure Water San Diego Program (Pure Water) budget overview.
- In April of 2017 the full IROC was presented the 2017 PUD budget. IROC endorsed the proposed budget and appeared before the City Council to urge its approval. As recommended in 2015 and 2016, 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 the 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.

### Drought Impacts

- The Finance subcommittee was provided regular updates on drought impacts as they related to water conservation mandates, programs, costs, reduced local water supplies and the impact of reduced water sales as part of the regular finance update. The subcommittee asked Department staff to continue providing regular updates associated with the water conservation efforts and their effects on the financial stability of the Department and that the Department continue to move forward with evaluation of drought impacts through the evaluation and implementation of water efficiency measures between identified drought years.

### **Outreach & Communications Subcommittee:**

The FY 2017 IROC Work Plan included seven areas of focus including monitoring Department branding efforts, Pure Water outreach, review of external affairs activities, engaging elected officials, customer care solutions, water conservation and human resources. Progress in these areas included:

#### Public Utilities Department Facility Tours

- The Department presented ideas for facilities tours for IROC Board Members. The purpose is to provide greater understanding of the challenges and accomplishments of the Department.

#### Advanced Metering Infrastructure (AMI)

- The successful AMI pilot program has expanded to a City-wide installation to include all customers when completed. A primary driver of the expanded program is to provide customers with near real-time consumption data to have more control of water consumption. The completed program will allow the PUD to redistribute existing meter reading resources.

#### Human Resources

- The Department provided information on staffing resources and needs within the Department. The impact of elimination of the defined benefit pension system for more recently hired staff was discussed. As of the date of the presentation, recruitment and retention has not been impacted.

### Pure Water Phase I Projects

- The Pure Water Project remains on-track regarding all regulatory approvals and has strong public support. Staff anticipates completing major regulatory milestones by the end of 2018. Once the project is completed, Pure Water will provide one third of San Diego's potable water. San Diego will have less reliance on imported water and save millions of dollars over the life of the project compared to by imported water. There are additional savings by avoiding costly upgrades to the Point Loma Waste Water Treatment Plant. The treated waste water from Pure Water is near distilled quality and will be used for reservoir augmentation rather than direct potable reuse.

### Public Utilities Wellness Program

- The Department has dedicated resources to promoting employee physical and mental health and fitness. The Department produces a highly regarded newsletter promoting the program to employees.

### **Infrastructure & Operations (I&O) Subcommittee**

The FY 2017 IROC Work Plan included eight Infrastructure & Operations Areas of Focus, including condition assessment studies, infrastructure replacement program, long term water supply planning, audits, permitting the Point Loma Wastewater Treatment Plant, Pure Water Program, system operations, and energy management. Progress in these areas included:

#### System Condition Studies

- The Department completed three condition assessment contracts during the fiscal year, including Potable Water Reservoirs, Three Potable Water Transmission Pipelines, and Public Utility Facilities/Buildings and Underground Structures. The I&O subcommittee will be receiving the final reports on these assessments and reviewing the findings and recommendations. In the meantime, implementation of the system-wide upgrading and modernization continues at a significant rate.
- The following table details the remaining four contracts that are underway as this reporting period closes:

| No. | Project Type (W/WW/RW) | Contract Description  | Schedule    | Cost (Million \$) | Status  |
|-----|------------------------|---|-------------|-------------------|---------|
| 1   | W & RW                 | Programmatic Water Transmission Pipelines   | 2015 - 2018 | 8.0               | Ongoing |
| 2   | RW                     | Dam and Outlet Tower Condition Assessment   | 2016 - 2021 | 5.0               | Ongoing |
| 3   | WW                     | As-Needed Wastewater Facilities (Major Sewer Interceptors and various other facilities) | 2013 - 2018 | 5.0               | Ongoing |
| 4   | WW                     | Programmatic Wastewater Pipelines (Trunk Sewers & Large Force Mains)                    | 2013 - 2018 | 8.0               | Ongoing |

W = Potable Water; WW = Wastewater; RW = Raw Water

### Implementation of Ongoing Infrastructure Replacement Plans

- Capital Improvement Plan (CIP), Water: The I&O subcommittee received two quarterly reports on the CIP during the reporting period. The subcommittee heard the third quarterly report at its June 2017 meeting. For Water, staff reported that they awarded 3.76 miles of pipeline contracts for the quarter and are on a pace to complete the award of 33 miles of pipe, which is the goal for the year. The Department has expended \$84.8M or 119% of the anticipated expenditures for the quarter. The performance for other asset types appeared to be meeting projections except for pump stations, 53%, and water storage, 29%.
- CIP, Wastewater: Staff reported that it completed 19.88 miles of wastewater pipes for the quarter, which is 98% of their goal to replace or rehab 45 miles of pipe per year. Procurement for other asset types are also doing well except for large pump stations and muni pump stations, which are at 63% and 65%, respectively.

These results suggest that the Department is implementing the projects at the anticipated cost assumed in the COSS.

### Sustainable Long-Term Water Supply

- Water Use Efficiency: In April 2017, the I&O subcommittee received a presentation on water use efficiency and its implications on the wastewater system. While increased efficiency will improve water security it may have serious implications on the wastewater system because of corrosion, clogging, and increase concentrations of organics and nutrients. It may take years to fully assess these impacts and how to manage or avoid them.
- Renewable energy: The Department has presented its existing renewable energy program to the subcommittee. It is improving the sustainability of the system by using opportunities to produce about 24 megawatts (MW) of green energy. It does this by exploiting digester gasses and a hydroelectric generator at Point Loma, landfill and digester gasses at the Metropolitan Biosolids Center, landfill gasses at the North City Plant, and photovoltaic systems at three locations. This will be increased as the Pure Water Program is implemented.
- Advanced Metering Infrastructure: IROC received an update on the AMI system in December 2016. At that time 11,500 AMI meters had been installed on the highest water user of all classes. They will benefit customers by providing them current use information and will benefit the fee collection system. The system will also have benefits in managing water use during severe water shortages, which will improve long term water security.
- A five-year summary of miles replaced and associated capital costs was requested in IROC's 2016 Annual Report and provided to the I&O subcommittee.

### Targeted audits relating to water and wastewater infrastructure and operations.

- The I&O subcommittee discussed, but did not recommend any audits this year.

### Modified permit for the Point Loma Wastewater Treatment Plant.

- **Modified Permit progress:** In June of 2017, the full IROC received a presentation on the history of the Clean Water Act waiver and the current application for renewal. At that time, this fourth waiver had been approved by the California Regional Water Quality Control Board and the California Coastal Commission and tentatively approved by the Environmental Protection Agency (EPA). The City was awaiting final action by the EPA at that time. The Department is seeking legislative action to remove the need for periodic waivers because the net environmental benefits of the Pure Water Program exceed the benefits of converting to secondary treatment. It is not clear when politics will allow that change to be made.

### Pure Water San Diego Program

- In October of 2016 the Department presented an update to the full IROC on Pure Water and the I&O subcommittee heard staff comments related to it and media reports throughout the reporting period. The determination that the Miramar Reservoir can be used to store and mix the purified water with raw water, instead of the more distant San Vicente Reservoir, will reduce the cost and environmental impacts of the system. However, it will require an additional treatment measure to assure that the water will be fully protective of public health when it gets to users.
- The first phase of the project will provide 30 MGD of water instead of the planned 15 MGD and will be complete in 2021 vs. the planned 2023. The final phase will provide another 53 MGD by 2035. The system will be largely powered by landfill gas.
- Public opinion strongly supports the project, largely due to a major public education effort. The project won a 2016 Global Water Award as the Water Reuse Project of the Year. The implementation and the acceleration of Pure Water will clearly help provide a sustainable long-term water supply for our region.

### Water and Wastewater Systems Operations

- **Valve Maintenance:** In June of 2017 the I&O subcommittee received a presentation on the maintenance of the water system valves. An audit that was recommended by IROC suggested the Department implement a risk-based schedule for maintenance. Valve maintenance is very costly as the distribution system includes 73,721 valves. It is also very important. When water pipes break, the water will keep running until a valve can be found that will stop that flow. Sometimes that can take a while. As a result, the Department established a set of risk criteria to evaluate the impacts of each valve failing. The most critical valves (16% of them) will be exercised every 3 years. The rest will be exercised every 5 years. Systematic maintenance will improve the reliability of valves and will identify valves that are inoperative to help with maintenance and replacement planning. It should, over time, reduce the impacts and costs of the damage and flooding that occurs when water pipes break.
- **Optimization Study:** In June of 2017 the I&O subcommittee received a presentation on the Department's optimization study. For this study the Department contracted out for an independent analysis of specific facets of the operation of the Department to seek ways to improve operation efficiency and cost savings. They focused on energy, chemicals, and biosolids. The Department reported that the improvements will save in the range of \$6M per year, as well as many other benefits for an initial investment of about \$11M. More studies are planned.

- Spills and Breaks: The I&O subcommittee received reports on major water pipe breaks and wastewater spills that occurred over the reporting period. In March of 2017, the Department presented IROC a summary of wastewater spills since 2000. There are minor ups and downs from year to year, but it appears that the number of wastewater spills has been reduced about 90% and the number of spills to public waters has been reduced by about 93%. The 6,600-gallon spill in January in Tecolote Canyon was a dramatic exception to that decline. This reduction is a result of a large and strategic range of investments in infrastructure, and improvements in maintenance, operation, and equipment.
  - Water main breaks have reduced about 40% over the period from 2011 to 2015, but are a continuing and visible problem. Now that cast-iron mains have almost all been replaced, the breaks are mainly in Asbestos Cement (AC) pipe, which is much of the system. Much of it is approaching its service life. When AC pipe is replaced, it is typically replaced with PVC pipe which should have a longer working life.
- Integrated Asset Management System: In June of 2017, IROC received a presentation on the Integrated Asset Management Project, IAM. This project will replace outdated software and paper-based processes, with a single integrated software information and management system. The Department has been working on this since 2016 and it is expected to go live in 2018. It is expected to make operations more efficient and accountable, and reduce costs.

**Independent Rates Oversight Committee**  
**Looking Ahead: FY 2018 Annual Work Plan**  
**As Issued on March 20, 2017**

As required by City Code Section 26.2003, IROC has adopted this Work Plan for FY 2018. The plan contains three areas of focus, including Finance, Infrastructure and Operations, and Outreach and 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. 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 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 2018 budget assumptions.
  - b. Review FY 2018-19 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. **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 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, as needed.
  
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. Monitor and 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 and provide input on 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 Departments ability to hire and retain proper staffing for effective operation of current and emerging efforts.

## **ATTACHMENTS TO THE FY 2017 IROC ANNUAL REPORT:**

Attachment A – IROC Municipal Code

Attachment B – IROC Members Listing

Attachment C – IROC Agenda Topics for FY 2017

**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**

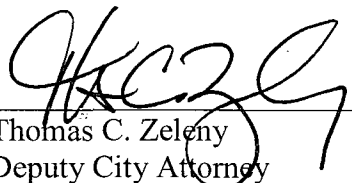
Any duties or functions of IROC that fall within the oversight responsibilities of the Audit Committee should be fully coordinated with and reported to the Audit Committee. IROC shall recommend at least one performance audit of the water or wastewater system each year for consideration by the City Auditor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

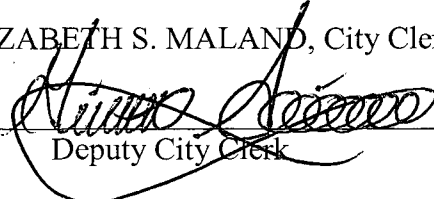
  
\_\_\_\_\_  
Thomas C. Zeleny  
Deputy City Attorney

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:

1/23/13  
(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<br>District 2 Point Loma                   | Multi-Family Residential<br>Ratepayer Class Rep.       | 1/30/2014                           | 5/1/2017                         |
| <b>VACANT</b> (Craig Chapman)*<br>Carlsbad                | Construction Management<br>Professional Rep.           | 1/30/2014                           | 5/1/2017                         |
| Jack Kubota<br>Carlsbad                                   | Engineering Professional                               | 1/30/2014<br>6/2/2009<br>10/18/2007 | 5/1/2017<br>5/1/2013<br>5/1/2009 |
| <b>VACANT</b> (Frederick Kosmo)*<br>District 2 Point Loma | Law Professional Representative                        | 8/4/2016                            | 5/1/2019                         |
| Jeff Justus<br>District 2 Pacific Beach                   | Environmental Science<br>Professional Rep.             | 1/30/2014<br>1/23/2012              | 5/1/2017<br>5/1/2013             |
| Christopher Dull<br>Escondido                             | Construction Management                                | 5/16/2011<br>10/9/2008              | 5/1/2015<br>5/1/2011             |
| <a href="#">Luis Osuna</a><br>District 3 Golden Hill      | General Representative                                 | 8/4/2016                            | 5/1/2019                         |
| Gordon Hess<br>District 3 Mission Hills                   | Temporary Irrigations &<br>Construction Representative | 1/30/2014                           | 5/1/2017                         |
| James Peugh<br>District 2 Point Loma                      | Environmental Rep.                                     | 5/16/2011<br>10/18/2007             | 5/1/2015<br>5/1/2011             |
| <a href="#">David Akin</a><br>District 2 Bay Ho           | Single-Family Residential<br>Ratepayer Representative  | 8/4/2016                            | 5/1/2019                         |
| <a href="#">Linh Quach</a><br>Bonita                      | Commercial and Industrial<br>Ratepayer Representative  | 8/4/2016                            | 5/1/2019                         |

\* 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 Statements of Economic Interests](#)

Most Recent Council Action 8/04/2016 R-310629

Register Revised 10/12/2017

ATTACHMENT C

IROC AGENDA TOPICS

FOR FY 2017

## Attachment C: IROC Agenda Topics for Fiscal Year 2017

### JULY 2016

#### Full IROC

- Presentation: Help to Others San Diego (H2O SD) Program
- Presentation: 5-Year Strategic Plan Final Report
- Discussion: Preparation of FY 2016 Annual Report
- Discussion: Review of FY 2017 Work Plan Calendar
- City 10 - County Water Authority Update
- Metro/JPA Report Out

#### Finance Subcommittee

- Discussion: Public Utilities Department Financial Update
- Discussion: Update on Water Sales and Purchases
- Discussion: Update on CWA Rates
- Discussion: Preparation of FY 2016 Annual Report
- Discussion: Review of FY 2017 IROC Work Plan Calendar

#### Outreach & Communications Subcommittee

- Discussion: Preparation of the FY 2016 Annual Report
- Discussion: Review of the FY 2017 IROC Work Plan Calendar
- Discussion: Planning for Public Utilities Department Facility Tours

#### Infrastructure & Operations Subcommittee

- Discussion: Preparation of the FY 2016 Annual Report
- Discussion: Review of the FY 2017 IROC Work Plan Calendar
- Discussion: Potential Audit Subjects

### AUGUST 2016

#### Full IROC

Cancelled

#### Finance Subcommittee

Cancelled

#### Outreach & Communications Subcommittee

Cancelled

#### Infrastructure & Operations Subcommittee

Cancelled

### SEPTEMBER 2016

#### Full IROC

- Presentation: FY 2016 Capital Improvement Program (CIP) Year End Report
- Discussion: Water Policy Implementation Task Force Recommendations
- Presentation: FY 2017 Strategic Plan
- Presentation: Sustainable Groundwater Management Act
- Discussion: Draft FY 2016 IROC Annual Report
- Discussion: Selection of New IROC Vice Chair
- Discussion: Selection of Subcommittee Members
- City 10 – County Water Authority Update
- Metro/JPA – Report Out

#### Finance Subcommittee

- Discussion: Public Utilities Department Financial Update
- Draft FY 2016 IROC Annual Report
- Discussion: Distribution of IROC Contact List



## Attachment C: IROC Agenda Topics for Fiscal Year 2017

### Outreach & Communications Subcommittee

- Presentation: Advanced Metering Infrastructure (AMI) Update
- Presentation: Human Resources Metrics
- Discussion: Draft FY 2016 IROC Annual Report
- Discussion: Distribution of IROC Contact List

### Infrastructure & Operations Subcommittee

- Discussion: Planning and Scheduling of Projects (Maintenance/Construction/Repair)
- Discussion: Condition Assessment Status Update
- Discussion: Breweries
- Discussion: Draft FY 2016 IROC Annual Report
- Discussion: Distribution of IROC Contact List

## OCTOBER 2016

### Full IROC

- Presentation: Pure Water Update
- Presentation: Water Main Breaks & Sewer Sanitary Overflow Quarterly Report
- Discussion: Draft FY 2016 IROC Annual Report
- Discussion: Creation of Ad Hoc Committees to Draft FY 2016 IROC Annual Report
- City 10 – County Water Authority Update
- Metro/JPA Report Out

### Finance Subcommittee

- Discussion: Public Utilities Department Financial Update
- Discussion: Draft FY 2016 IROC Annual Report

### Outreach & Communications Subcommittee

- Discussion: Outreach for Pure Water Phase I Projects and 10.22.16 Open House
- Discussion: Draft FY 2016 IROC Annual Report

### Infrastructure & Operations Subcommittee

- Discussion: Update on Tecolote Creek (Mission Bay) Wastewater Spill
- Discussion: Draft FY 2016 IROC Annual Report

## NOVEMBER 2016

### Full IROC

Cancelled

### Finance Subcommittee

Cancelled

### Outreach & Communications Subcommittee

Cancelled

### Infrastructure & Operations Subcommittee

Cancelled

## DECEMBER 2016

### Full IROC

- Presentation: Orientation Briefing, Department Briefing, and Q&A
- Presentation: Advanced Metering Infrastructure (AMI) Update
- Discussion: Adopt FY 2016 IROC Annual Report
- City 10 – County Water Authority Update
- Metro/JPA Report Out

## Attachment C: IROC Agenda Topics for Fiscal Year 2017

### Finance Subcommittee

- Discussion: Public Utilities Department Financial Update

### Outreach & Communications Subcommittee

- Presentation: Wellness Program Update

### Infrastructure & Operations Subcommittee

- FY 2017 Capital Improvements Program (CIP) Quarterly Update

## **JANUARY 2017**

### Full IROC

Cancelled

### Finance Subcommittee

Cancelled

### Outreach & Communications Subcommittee

Cancelled

### Infrastructure & Operations Subcommittee

Cancelled

## **FEBRUARY 2017**

### Full IROC

No Quorum

### Finance Subcommittee – Rescheduled meeting

- Discussion: Public Utilities Department Financial Update
- Presentation: Mid-Year Budget Monitoring
- Presentation: Pure Water Budget Overview
- Discussion: FY 2018 IROC Work Plan

### Outreach & Communications Subcommittee

- Discussion: FY 2018 IROC Work Plan

### Infrastructure & Operations Subcommittee

- Presentation: FY 2017 Capital Improvements Program (CIP) Quarterly Update
- Discussion: Public Utilities Renewable Energy Program
- Discussion: FY 2018 IROC Work Plan

## **MARCH 2017**

### Full IROC

- Presentation: Water Main Breaks and Sewer Sanitary Overflow Report
- Discussion: Update on Recent Water Main Breaks
- Public Utilities Department Financial Update
- Presentation: IROC Input on Independent Water Rate Consultant to Advise City Council and IROC
- Discussion: Adopt FY 2018 Work Plan
- Discussion: Selection of New Infrastructure and Operations Subcommittee Member(s) and Outreach and Communication Subcommittee Chair
- City 10 County Water Authority Update
- Metro/JPA Report Out

### Finance Subcommittee

Cancelled

### Outreach & Communications Subcommittee

Cancelled

## Attachment C: IROC Agenda Topics for Fiscal Year 2017

### Infrastructure & Operations Subcommittee

Cancelled

### APRIL 2017

#### Joint Full IROC/Finance Subcommittee Special Meeting

- Presentation: Public Utilities FY 2018 Proposed Budget
- City 10 – County Water Authority Update
- Metro/JPA – Report Out

#### Finance Subcommittee

Joint Meeting (see above)

#### Outreach & Communications Subcommittee

- Presentation: Customer Care Solutions Update
- Presentation: Update on Pure Water Outreach Activities

#### Infrastructure & Operations Subcommittee

- Presentation: Understanding Potential Water Use Efficiency (Conservation) Impacts on Wastewater, Recycling, and Reuse
- Discussion: Update on Restoration and Projects Affecting the Watershed

### MAY 2017

#### Full IROC

Cancelled

#### Finance Subcommittee

Cancelled

#### Outreach & Communications Subcommittee

Cancelled

#### Infrastructure & Operations Subcommittee

Cancelled

### JUNE 2017

#### Full IROC

- Discussion: Update on Quarterly Water Main Breaks & Sewer Sanitary Overflows
- Presentation: Brief History of Point Loma and Current Permit Status
- Presentation: Update on the Leadership Academy Program
- Presentation: I AM San Diego Project Update
- Discussion: New Chair, Vice Chair, Subcommittee Chairs, and Subcommittee Members
- City 10 – County Water Authority Update
- Metro/JPA – Report Out

#### Finance Subcommittee

- Discussion: Public Utilities Department Financial Update

#### Outreach & Communications Subcommittee

Cancelled

#### Infrastructure & Operations Subcommittee

- Presentation: FY 2017 Capital Improvements Program (CIP) Quarterly Update
- Discussion: Optimization Study Update
- Presentation: Valve Maintenance Program Update