



Independent Rates Oversight Committee (IROC)  
Meeting of April 23, 2018  
M I N U T E S

1. **Roll Call**

Chairman Hess called to order the full IROC meeting at 9:35 a.m. Monica Foster conducted roll and a quorum was declared. Attendance is reflected below:

<b>Members:</b>	<b>Present</b>	<b>Absent</b>
Gordon Hess, Chair	X	
Tiffany Mittal, Vice Chair	X	
Christopher Dull	X	
Jeff Justus	X	
Jack Kubota	X	
David Akin	X	
Luis Osuna	X	
Jim Peugh	X	
Linh Quach	X	

**Ex-Officio Members:**

Jerry Jones, Metro JPA		X
Lois Fong-Sakai, City 10	X	

*City representatives present at dais: Vic Bienes, Director of Public Utilities; Cathy Pieroni, Government Relations Water Policy Manager; and Tom Zeleny, Chief Deputy City Attorney*

2. **Non-Agenda Public Comment**

None.

3. **Approval of Draft Minutes from Meeting of March 19, 2018**

**ACTION:** Chair Hess asked for a motion to approve the draft minutes. Member Peugh moved to approve as submitted, Member Kubota seconded. Motion passed unanimously 9 (in favor), 0 (oppose), 0 (abstain).

4. **Chair Updates** – *Gordon Hess, Chair*

- Recently moderated a panel discussion by the Water Reliability Coalition and the Regional Chamber of Commerce on the Alternative Water Rate Structure held at the San Diego Foundation. Some members of IROC and City staff members were present along with 35-40 people. An update will be given later in this meeting.
- Attended City Council Committee of the Environment recently and presented the IROC's FY 2017 Annual Report (Report) and the FY 2018 IROC Work Plan. Members of the Council thanked all IROC members for their dedication and hard work. He indicated he reviewed the structure of IROC and the Recommendations presented in the Report, and answered questions. He was asked about Alternative Water Rate Structure process, and he indicated he was pleased with the workshops and are making progress. He was also asked if IROC was monitoring the application process for grants and loans, etc. to offset the costs of the Pure Water Program, he said yes it was being monitored. He was asked about IROC's involvement with the outreach process of Pure Water, he indicated this is in the Work Plan and will follow through. He heard an update on the Twin Tunnels project and MWD's decision to fund the major portion of the \$16B project and IROC should get a report on this, as well as the future water rate impacts from CWA in the future.

5. **Mayor's Office Updates** – *Cathy Pieroni, Government Relations Water Policy Manager*

Ms. Pieroni reported that she had just returned from a trip to Washington DC where she joined the American Water Works Association's (AWWA) delegation of water professionals promoting policies in support of San Diego's initiatives. She also gave a brief update on the status on California legislation, SB 606 and AB 1668, which aim to establish a framework for water use efficiency in California. This legislation has been routing through the legislature for the past 2 years and is expected to be chaptered

Independent Rates Oversight Committee (IROC)  
**Meeting of April 23, 2018**  
**MINUTES**

into law soon. Public Utilities Department staff have been involved with reviewing and commenting on the technical aspects of the legislation throughout. Once chaptered into law, this legislation will update the 20x2020 framework and establish a “water budget” for each California utility based on efficient residential water use levels, efficient irrigation levels of irrigable landscapes and efficient water system water loss levels. Ms. Pieroni suggested that IROC might like a future briefing on this legislation to understand the impacts it may have on future water use.

6. **City Staff Updates** – *Vic Bianes, Director*

- Pure Water Program EIR was approved on April 10, 2018, he noted it went well and there were many comments from the community.
- Next steps will be to reach out to the Council offices to seek opportunities for mitigation, set up working groups, anticipating advertisement for contracts in the late summer timeframe. Things are moving forward.
- On the financial side, will continue to pursue any and all low interest loans, and free grant opportunities including seeking Water Infrastructure Finance Innovation Act (WIFIA) assistance (pursuing \$492M) for Pure Water, and possibly an increase in funding.
- Pursuing \$219M from the Water Storage Investment Program (WSIP). We did not get a favorable response back from the Water Commission staff and will not receive any funds. He noted criteria was very difficult. The appeal process is the next step. Will meet with the Water Commission on May 2, 2018.
- Continuing to work with affected customers on the high monthly billing to resolve this.
- California Water Fix, still assessing how this may affect our customers. Will await more information from the CWA.

Member Peugh asked when results of the billing findings would be available. Director Bianes indicated the Auditor will provide information when the results are ready, and is expected in the next couple of months. He noted the independent firm is also working through this and should be wrapped up in the late May-June timeframe as well. Information will be shared with IROC as soon as it is reviewed by the Mayor’s office.

Ex-Officio member Fong-Sakai commented she has hope that Pure Water will have the thumbs-up, and be seen as providing offsetting benefits to others. Director Bianes indicated that information may be provided by the Water Commission staff, the criteria has been very specific as to direct benefits to the Delta; responses are being prepared back to the Water Commission staff with those types of questions are included.

7. **Presentation: Public Utilities FY 2019 Proposed Budget** – *Seth Gates, Deputy Director*

Mr. Gates presented the Proposed Budget, noting it is basically in the same format as previous years, but includes expanded information in relation to comments and suggestions by IROC members over the past years. He is seeking IROC’s support of the presented Public Utilities FY 2019 Proposed Budget. He invited interested members of IROC to attend the Budget Review Committee on May 3, 2018 for support.

He reminded members that the budget development of proposed budget cycles are prepared each November/December of the prior year and to-date, and any mandates or significant corrections are done in the May Revision to the FY 2019 Proposed Budget. He pointed out figures shown in the presentation are FY 2017 Actuals and FY2018 Projections (developed through November 2017). Year-end projections will not be released until the May timeframe.

He noted key budget dates with Council approval being anticipated on June 11, 2018.

He provided an in-depth review of the budget including the Water side, Wastewater and General Fund sides. Last he gave a detailed reviewed of the Capital Improvement Program (CIP) and the way budgets work for the Department. For a better understanding, he noted for instance, budget for O&M does not carry over year to year like CIP does, due to the multi-year contract awards and phase funding, which carries over. So this explains the numbers on the Water and Wastewater sides reflecting the additional budgetary funding for contractual awards. He noted to keep in mind the numbers for the Water Fund

Independent Rates Oversight Committee (IROC)  
Meeting of April 23, 2018  
M I N U T E S

reflects Pure Water which includes the construction, completion of design components, and cost increases.

Mittal asked if going forward, the Actuals can be shown on the expense side along with the Projections on the Revenue. Mr. Gates indicated this is how it is projected based on the overall commitment item broken out at a higher level, to make it more helpful. But something like this can be looked at in the future fiscal years. Ms. Jones-Santos proposed bringing the actual individual accounts that feed into the summary items to the Finance Subcommittee for discussion to show the complexity, and make take recommendations for future budget presentations.

Member Dull suggested the City look at doing additional conferences to get the good messages out, and to share the successes and ideas with other industries. Member Kubota concurred.

Chair Hess asked if Pure Water is on track with regard to the budget projections over this year and the next couple of years. Mr. Gates indicated yes it is on track. He added funds are redistributed over the years, 2020 and 2021 are larger expenditure years for Pure Water for instance, therefore the budget will need to be aligned with that anticipated spend. Ms. Lee Ann Jones-Santos added once Construction & Maintenance is brought on they will help refine the projections. She indicated next year's budget presentation will show the overall total which will make it more concise.

Member Osuna asked if the department is limited by the overall adopted budget even when accounting for emergency situations. Mr. Gates explained the few ways to help mitigate, but the Director's Contingency is used for situations like this. With an unplanned expenditure within the first 6 months of the fiscal year there is some flexibility in the budget with some restrictions, and bringing an adjustment before Council is another option. Ms. Jones-Santos added there are also reserves defined for certain tasks which include emergencies if needed.

Member Quach asked if there are any grants that are anticipated to go through this fiscal year. Mr. Gates indicated there are a couple of small grants that have been received for long range planning and design, as well as the larger WSIP grant (\$219) being pursued. Also, approximately \$9M from the reclamation of funding for Pure Water which had an appropriation delay and are actively applying for currently.

Member Mittal asked on the FTE on Water and Wastewater sides, what happens to the budgeted amount. Ms. Jones-Santos indicated that the Director has tasked the department with making sure positions are filled as quickly as possible to reduce the vacancy factor. It is a detailed process, and the department is actively and aggressively filling them with assistance from Human Resources. She indicated the approval for the positions will come July 1, 2018, and explained how financial management has now placed a vacancy factor in the budget which is very accurate.

**ACTION:** Chair Hess asked for a motion to endorse the Public Utilities FY 2019 Proposed Budget as proposed. Member Akin moved to approve, Member Justus seconded. Motion passed unanimously 9 (in favor), 0 (oppose), 0 (abstain).

**8. Presentation: Alternative Water Rate Structure – Seth Gates, Deputy Director**

Mr. Gates provided an update on the Alternative Water Rate Structure. He indicated the department has been participating in a 2-part series sponsored by the Water Reliability Coalition. The first discussed high level concepts, and the second most recently on April 5, 2018 where discussions that took place with more detail on budget based billing and consumption based rates.

Some comments included were: Is there any way to look at budget based billing on a small scale, such as for irrigation meters only? It would present many challenges to implement on a full-scale at this time; consumption based rates which in concept is enticing but could be very complex; expansion of tiers and multifamily tiers; use AMI to make changes to billing frequency, and more. All of this input is incorporated and shared in the public outreach, and seeking opinions from stakeholders.

He indicated the department has undertaken additional outreach making sure to remain inclusive of the public and organizations advocating for a potential water rate change. There are plans to have additional

Independent Rates Oversight Committee (IROC)  
Meeting of April 23, 2018  
M I N U T E S

public meetings in the next few months. Director Bienes has been adamant about participating and continuing emphasis on listening, and talking with people and organizations throughout the entire process. Director Bienes commented he is looking for IROC's input and recommendations.

Member Mittal commented in regard to tiered billing for multi-family rate payers, perhaps reaching out to the San Diego County Apartment Association, and the Apartment Association of California would be beneficial.

Chair Hess commented that he is pleased to know that the department is looking into other options, and pilot programs such as irrigation to look at more innovative structures. Ms. Jones-Santos added that a budget based billing study was done previously and results were shared at the Environment Committee. Recommendations were very similar such as pilot programs for a smaller subset of customer base, etc. Member Justus recommended starting the pilot programs with water irrigation meters and for the recycled water user.

Tom Zeleny added that in order to change to a budget based billing rate structure, it would have to be put to a public vote. The amount charged for water must be based on the cost of service, and the City must be very careful about budget based billing.

9. **Presentation: Review of Funds Update** – *Seth Gates, Deputy Director*

As finalization of the FY 2016-17 report is approaching with the auditor, there will not be an Environment Committee meeting held in May, therefore the presentation is targeted for the June meeting. He proposed to present the Review of Funds and the impact from the FY 2016-17 review on rates to IROC in the May meeting. Some items being looked at are the pass-through component and based on CWA's information, they are looking at utilization of some excess reserves to help reduce the 2.5% increase rate estimated in the Cost of Service Study. The other component will be any potential change in the rate beyond the pass-through. We are currently working to model what impacts rate changes may have for the future. This information will be shared at the next IROC meeting.

10. **City 10 – County Water Authority (CWA) Update** – *Lois Fong-Sakai, Ex-Officio, City 10 Representative*

- CWA as well as the City of Los Angeles representatives voted against support of the California Water Fix to build 2 tunnels at an estimated cost of \$16B. If approved, particular concern is that the resolution would authorize the Metropolitan Water District's (MWD) General Manager (or designee(s)) to negotiate, execute and deliver in their discretion any and all agreements and documents they determine necessary or convenient to carry out any District Participation Action.
- CWA is interested in how the Water Fix costs will be distributed on MWD rates and charges once the design phases move forward.
- Last CWA Board meeting, received presentation on Offsetting Benefits, as it relates to the MWD Rate Litigation. Under State Law, MWD should consider whether the QSA Exchange Agreement water provides a benefit to MWD, then offset that benefit against the wheeling rate charged to the CWA.
- CWA is experiencing nitrification in its water system. CWA is planning to temporarily suspend the use of chloramines June-August, and use free chlorine to disinfect the water to starve the bacteria that causes nitrification. Planning, monitoring, and outreach plans will be coordinated with member agencies. Public outreach will be developed and distributed in the April/May timeframe.
- CWA and the City of San Diego are continuing to negotiate a contract for the San Vicente Pump Station Project, and additional information will be brought back as available.
- CWA Board will have a special meeting and retreat this week.

Independent Rates Oversight Committee (IROC)  
Meeting of April 23, 2018  
M I N U T E S

11. **Subcommittee Reports**
  - a. **Finance** – *Gordon Hess, IROC Chair for Jeff Justus, Subcommittee Chair*  
None.
  - b. **Infrastructure & Operations** – *Jim Peugh, Subcommittee Chair*  
None.
  - c. **Outreach & Communications** – *David Akin, Subcommittee Chair*  
None.
  
12. **Metro/JPA Report-Out** – *Jerry Jones, Metro JPA Representative, Ex-Officio*  
None.
  
13. **Proposed Agenda Items for Upcoming IROC Meetings**– *Gordon Hess, Chair and Beth Murray, IROC Coordinator*
  - Review of Funds
  - Selection of new IROC Chair
  - Selection of new Subcommittee Chairs
  
14. **IROC Members' Comments**  
Ex-Officio Member Fong-Sakai will not be in attendance at the next meeting.
  
15. **Meeting adjourned:** 12:05 p.m.

Minutes submitted by: Monica Foster , Administrative Aide II