



**Independent Rates Oversight Committee (IROC)
Meeting of January 22, 2019**

1. Roll Call

Vice Chair Justus called the full IROC meeting to order at 9:32 a.m. Yvonne Blantz conducted roll and a quorum was declared. Attendance is reflected below:

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

Ex-Officio Members:

Jerry Jones, Metro JPA	X	
Jim Peasley, Metro JPA Alt.		X
Tony Heinrichs, City-10	X	

City representatives present at dais: Matt Vespi, Interim Director of Public Utilities; Tom Zeleny, Chief City Attorney.

2. Non-Agenda Public Comment

None.

3. Approval of Draft Minutes from Meeting of November 19, 2018

ACTION: Vice Chair Justus asked for a motion to approve the minutes. Motion by Member Akin to approve. Second by Member Peugh. Motion passed (7 in favor, 0 opposed, and Member Dull abstained).

4. Approval of Draft Minutes from Meeting of December 17, 2018

ACTION: Vice Chair Justus asked for a motion to approve the minutes. Motion by Member Kubota to approve. Second by Member Weichelt. Motion passed (6 in favor, 0 opposed, Vice Chair Justus and Member Quach abstained).

5. Chair Updates – Jeff Justus, Vice Chair

This item was heard out of order during Item 8.

- Lois Fong-Sakai introduced new Ex-Officio (City-10), Tony Heinrichs. A registered civil engineer, Tony has been the Deputy Chief Operating Officer for the Infrastructure/Public Works Department and the Director of Public Works for the City of San Diego. Prior to that he was the Senior Director of the Facilities Department & Chief Engineer for the Port of San Diego, and Director of the Operations for the Navy Public Works Center. With his 45 years of experience with design, engineering, infrastructure, permitting & management, Tony is extraordinarily qualified to represent the City-10.

6. Mayor and Council Staff Comments

None.

7. City Staff Updates – Matt Vespi, Interim Director

- There is a national recruitment for the Public Utilities Director that will remain open for one month. The City has contracted with Koff Associates to assist with the recruitment. The recruitment flyer is posted on the City's website.

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8. **Presentation: Five-Year Financial Outlook** – *Charles Modica, Deputy Director and Vicky Ruiz, Senior Management Analyst*

- The Outlook is a planning tool not a budget
- Modeled after City's Five-Year Financial Outlook for the General Fund
- Pure Water
 - \$128.6 million (71%) of critical operating expenditures over Outlook period are associated with the Pure Water Program across both Water and Wastewater Systems
 - \$1.41 billion (48%) of CIP expenses over Outlook period are associated with the Pure Water Program cross both Water and Wastewater systems
- Phase 1 of Pure Water scheduled to come online in FY 2024 and will provide 33,600 acre feet of water each year
 - Reduces the City's cost to purchase water from the CWA by \$45 million annually
- Pure Water Program allows Department to avoid over \$1.8 billion in capital expenses that would otherwise be needed for upgrades at the Point Loma Treatment Plant
- Potable Water Sales Revenues grow from \$550 million in FY 2019 to \$750 million in FY 2024 due to anticipated increase in demand and preliminary rate adjustments projected for FY 2021-2024
- SRF Loans are assumed for a significant portion of CIP Projects as well as Pure Water Projects
- If SRF Loans are not awarded, the Department will have to either pursue higher cost debt or defer projects
- Sewer Service Charge Revenues grow from \$270 million in FY 2019 to \$328 million in FY 2024
 - Growth is largely due to preliminary wastewater rate increases of 3% in FY 2021, 5% in FY 2022 and 2023, and 5.5% in FY 2024
 - Actual rate increase will be determined through a cost of service study
 - Rates have not increased since 2010; Pure Water CIP and Operating needs are drivers in projected rate increases
- Member Akin inquired if there was money being budgeted for innovation dealing with climate change and interactions with other agencies. Mr. Modica stated LRPWR works on how to deal with climate change and future needs. PUD has a Grants & Loans Section that works with other governmental agencies that provide funding. PUD also works closely with other agencies and non-profits.
- Member Dull questioned the flatness of the baseline and wondered about planning for salary adjustments. Ms. Ruiz indicated it includes general salary increases and special pay increases. Mr. Modica responded that baselines have only been negotiated out to FY 2021 or 2022. Interim Director Vespi added the historical practice of projecting salary increases is to wait until labor negotiations have concluded and that we have agreements in place before we project increases.
- Member Akin was concerned about IT funding for the AMI Project. He wanted to make sure there was sufficient funding if the needs seem to be more complicated than expected. Assistant Director Jones-Santos stated PUD has \$67 million budgeted for the entire project and PUD is looking at what will be needed in an overall project rollout.
- Member Peugh questioned if PUD was cutting back on other CIP items due to the cost of Pure Water. Mr. Modica stated the Department is not anticipating that.
- Member Hess questioned the Rate Stabilization Fund Target and if it was a target, minimum, or maximum. He also inquired about how the rate stabilization was viewed. Mr. Modica stated the target is certainly not a maximum because we are exceeding it. Interim Director Vespi explained there is a City Council Policy that defines our reserve target and part of the policy states if you come below your reserve levels there is a requirement to lay out a plan for replenishment.
- Member Jones questioned the baseline and reserves for rate stabilization. His understanding was there is a need for the minimum. He wanted to know how the number was determined and how it is reported to Council. Mr. Modica stated they are funded levels not maximums and that is the amount PUD anticipates having in each of those years, so there really is no reserve maximum. The target levels are essentially minimums we do not want to drop beneath unless we really have to use that reserve. Interim Director Vespi explained the City has a Citywide budget monitoring process that reports quarterly to City Council. Each one of those quarterly reports includes an update on all of our reserve funds, enterprise funds, and general funds which is the format for reporting to City Council.

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- Member Akin asked for an explanation of how the budget adjust for the high vacancy rate. Mr. Modica replied there is an assumed vacancy rate between 6%-8%. There is an assumption that a certain number of those positions will be filled and the vacancy rate will be consistent across all personnel projections.
- Member Justus questioned the increase in Other Revenues from FY 2022-2023 that reflects \$18 million and then it almost doubles to \$31 million in 2024. Mr. Modica stated the increase is due to an expected receipt of \$11.5 million dollars from the Metropolitan's local resources program. PUD applied for a program that starts providing the funding or credits in 2024. Member Justus commented that with Pure Water coming online and replacing purchased water, he did not see where the water purchase went down and Pure Water cost increased. There does not seem to be an equalization between not having to purchase water and making our own water. Mr. Modica stated the amount grows from \$268 million FY 2020 up to \$315 million in 2023, but then it drops by ~\$30 million to \$286 million in 2024. Member Justus questioned the cost of Pure Water out of that ~\$30 million. Mr. Modica stated that is a cost decrease and there are some increases to the CWA rates that are accounted for as well. On the water side Pure Water's operating costs are ~\$46 million and the actual result in the value of the water we get is ~\$45 million, so it almost evenly offsets. There are also significant capital costs that are accounted for in our debt service costs that continue to go up and are not fully recovered.

9. **Presentation: Laboratory Process to Ensure Water Quality** – *Doug Campbell, Senior Chemist*

- Moved to February.

10. **Discussion: Adopt FY 2018 IROC Annual Report and Recommendations** – *Jeff Justus, Vice Chair*

- Member Peugh recommended a change to the Audit Recommendation listed in the Annual Report. IROC recommends that an audit of the City's personnel policies be performed for 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.
- Member Hess supported Member Peugh's recommended changes and suggested clarifying updates to the forward like including language about member attendance at public meetings.

ACTION: Motion by Member Peugh and seconded by Member Akin to approve the annual report with the change mentioned in the first bullet above and minor grammatical edits. Motion passed unanimously 8-0.

11. **Discussion: Adoption FY 2020 IROC Work Plan** – *Jeff Justus, Vice Chair*

- Member Hess suggested deferring the adoption of this work plan until February. He thinks it needs some revisions to be consistent with IROC's recommendations. He would like to see specific mentions of the Pure Water Program.
- Member Justus stated Pure Water is such a big effort that it needs to be discussed, identified, and reviewed in each of the subcommittees.

ACTION: Motion by Member Hess and seconded by Member Dull to continue the Work Plan to the next meeting. Motion passed unanimously 8-0.

12. **City-10 – County Water Authority Update** – *Tony Heinrichs, City-10 Representative*

- Member Hess stated Ms. Cathy Pieroni provided support for City-10 and the Mayor's staff. He inquired if there are plans to replace Ms. Pieroni in that position or if it had been done. Mr. Vespi indicated the Mayor's Office is working through the process of recruiting and filling that position to provide similar support.

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13. **Subcommittee Reports**

- **Finance** – *David Akin, Subcommittee Chair*
 - FY 2018 Water Audit Validation (non-revenue water)
 - FY 2018 IROC Annual Report Preparation and Recommendations
 - FY 2020 Work Plan
- **Infrastructure & Operations** – *Jim Peugh, Subcommittee Chair*
 - FY 2019 Capital Improvement Program (CIP) Quarterly Update
 - Water Main Break Updates
 - FY 2018 IROC Annual Report Preparation and Recommendations
 - FY 2020 Work Plan
- **Outreach & Communications** – *David Akin, Subcommittee Chair*
 - Public Liability Claims Process Overview
 - FY 2018 IROC Annual Report Preparation and Recommendations
 - FY 2020 Work Plan

14. **Metro/JPA – Report Out** – *Jerry Jones, Metro JPA, Ex-Officio Alternate*

- Amended Pure Water agreement was approved and signed by the Mayor.

15. **Proposed Agenda Items for Upcoming IROC Meetings** – *Wilson Kennedy, Supervising Management Analyst and Jeff Justice, Vice Chair*

- Update on Water Main Breaks & Sewer Sanitary Overflows
- Five Year Financial Outlook
- Laboratory Processes to Ensure Water Quality
- Water Billing Operations Improvement Project Update
- Adopt FY IROC 2020 Work Plan

16. **IROC Members' Comments** – IROC Members

- Pending action items discussed during this meeting:
 - From item 8 – PUD agreed to provide IROC with the final Five-Year Outlook document.

17. **Meeting adjourned:** 10:51 a.m.

Minutes submitted by: Erika McNeill