

Independent Rates Oversight Committee - IROC

July 14, 2008

MINUTES

1. **Roll Call**

Chairperson Billings asked Monica Musaraca to call the roll at 10:03, a quorum was declared. Attendance is reflected below:

Member	Present	Absent
Donald Billings, Chair	X	
Larry Clemens		X
Linda Cocking	X	
Jack Kubota	X	
Barry Newman	X	
Jim Peugh		X
Charles Richardson	X	
Irene Stallard-Rodriguez		X
Todd Webster	X	
Gail Welch	X	
ExOfficios		
Augie Caires, Alternate (for Scott Tulloch)	X	
Yen Tu		X

2. **Non-Agenda Public Comment**

There was no non-agenda public comment. Chairperson Billings noted that Item #9, History of the Metro Wastewater Commission/JPA, will be moved up on the Agenda, immediately following item #4.

3. **Approval of Minutes from 6/9/2008**

Chairperson Billings called for a motion to approve the minutes. Mr. Newman moved, Mr. Richardson seconded, with one abstention the minutes were approved as submitted.

4. **Chair Updates**

Chairperson Billings reminded the Committee that the meetings previously scheduled for August are “dark”, and to be prepared for a busy Fall. He also mentioned his attendance at the last JPA meeting. The JPA wants to participate in the selection of the underwriters for the new Bond Issues. He expects some discussion on this in the future. He mentioned his meetings with Councilmember Elect De Maio and his and Mr. Richardson’s meeting with Councilmember Faulconer.

He gave a brief synopsis of the Hyperion Tour that took place on Friday, July 11. The tour was taken in order to get a broader view on why Los Angeles went to Secondary Treatment, and to discuss the political, technical, and financial aspects. It was extremely interesting and added that IROC can think about what role it can play to more actively define a case for putting Secondary in the context of other priorities, as well as finding more ways to establish IROC as an independent voice in this process. He reminded the

MINUTES

Committee that the focus will increase in the future and IROC has a lot of opportunities to ramp up its profile in the interest to protecting rate payers, and being prepared.

5. **City Staff Updates**

➤ Water Department - Alex Ruiz

- A number of items going forward to the Natural Resources & Culture Committee, such as the CalTrans pipe relocation; and contracts in regard to ground water from the 2 basins which will provide the basis for determining the feasibility of extracting and storage of additional ground water on a go-forward basis. These projects are long-term in nature, so we need to commit the funds now. These were identified in the budget for next Fiscal Year.
- Mr. Barrett added there are discussions taking place on trying to bring forward and finalize a municipal version of the Regional Drought Ordinance the CWA has put forward. This brief will be forthcoming. He also stated the City has presented recently at least one lawsuit and one potential lawsuit, from Santa Fe and San Dieguito Irrigation Districts. This brief is also forthcoming.

Mr. Kubota expressed his concerns about the expansion of UTC. Mr. Barrett stated Westfield is one of the two trial developments that are in focus. They have been allowed the opportunity to purchase connections for public agencies on the purple pipe system, to offset the new requirements that their development may need. Unfortunately, they are facing a number of alternative scenarios that may actually change the size of the development.

Chairperson Billings asked if the Muni Drought Ordinance would include mandates to find opportunities to increase conservation in multifamily units. Mr. Barrett said no, but there are meetings coming up to better understand the Department's responsibilities under these laws and it is under study. He will be discussing a potential look at code changes for metering of multi family units. However, this will add more cost to the developments.

Mr. Newman commented that he feels the City should move rapidly with the study because of the expense and complexity of it. He feels it is dramatically cheaper to install during initial construction than it is to retrofit after construction is completed, and that every piece of new construction built before such a policy is put in place, reduced the future benefits of such a policy.

➤ Metropolitan Wastewater Department

No comments.

July 14, 2008

MINUTES

6. **Proposed pass-through water increases as a result of MWD/CWA water cost increases**

Mr. Ruiz briefed the Subcommittee on the expected increase of the price of water as a result of action taken by the MWD and CWA. The CWA has passed their proposed rate increase at their June 26 meeting. He went over information gathered from that meeting and the projections of use for FY09 going forward. He then went over the timing and schedule to have it approved by the Mayor's office, schedule with Council, and notification of customers of pending rate increases giving them an opportunity to protest, set a hearing in the Fall to take action to approve, then the increase will take effect January 1, 2009. He mentioned Prop. 218 notification is in the final stages, including the costs associated with the mailing. Some savings could be recognized by only sending the notification to customers rather than property owners. Chairperson Billings asked this to be brought to the Finance Subcommittee

Mr. Barrett briefed on last year's projected costs and rate increase to customers, comparing current projections and costs. Mr. Ruiz added this information will be in more detail when brought before the Finance Subcommittee, but pointed out the increase is based upon the per acre-foot increase from CWA.

7. **IPR Demonstration Project**

Alex Ruiz gave an introduction of the status of moving forward, with looking at various cost components associated with this Project. He introduced Marsi Steirer who gave an update on the Project. She pointed out a few changes, primarily with the size, since the last presentation. She explained this project will now be full scale (700 gallons a minute) versus the smaller demo size (300 gallons a minutes) initially planned, due to comments received from the Department of Public Heath. The benefit to having the actual size would help the public understand what it would look like. Because of the increase of size, the price has also increased. Other tasks in development are bringing on consultants and technical staff to help, as well as the recommendation to bring on an independent advisory panel that are recognized for their expertise in various related fields. Also mentioned was the need to hire a public outreach team to assist with preparing and making presentations, conducting tours, preparing collateral materials, etc. which will be a full time activity.

Ms. Steirer concluded with stating that the City has received word that on behalf of the San Diego Region, they were given the full \$25M for the Prop 50 Integrated Regional Management Plan. Of this amount, about more than \$6M is for water related projects and a \$1M is for the Demonstration Project. After front funding, this would be reimbursed. She then mentioned a number of items are going forward to NR&C next week, and they are in the process of finalizing the Demonstration Project cost and will be able to provide more details later.

Mr. Webster expressed his discouragement with building a full scale plant. He talked about his experience in this area, and feels it will take much longer and increases the cost

July 14, 2008

MINUTES

significantly. He asked if it is necessary, as well as what the benefit of going this large would be. Ms. Steirer concurred that it will take longer, but explained it is a matter of trade offs, and timing. The DPH is requesting the larger scale project, thus there is no assurance from DPH that they would agree with the smaller size project. For this reason Water Department is going to move forward to determine cost and the scope for the larger scale project.

Chairperson Billings asked for an explanation of cost changes, with the larger scale project being built. Ms. Steirer stated that initially the costs were predicted to be approximately \$6-8M which includes outreach, pilot plant, consultants, etc., the costs now will be substantially higher. This is being finalized and will provide the IROC a reasonable framework for moving forward. Ms. Steirer also reminded the IROC that building the larger scale projects is more valid from the public outreach and education perspective.

Mr. Newman shared his reservations and concerns about the idea of building the larger scale project due to costs, and thoughts that this could reduce Council and public support for the Project. Mr. Webster added in his experience some of the costs will be similar, so not all costs will be affected. In his opinion going from a 20 to a 1,000 gpm system, the cost change would be 2-3 times the cost. Ms. Steirer stated that the magnitude of the increase should not be double. Mr. Ruiz added there definitely is a trade off, and Ms. Steirer's team will be presenting the pros to the Project and it will be up to the Council members to decide how we move forward. Chairperson Billings said he wants the public to have a very realistic figure to prepare people. He wants this to be evaluated on a success or fail on its technical ability to produce clean water. Ms. Steirer concurred.

Chairperson Billings and Mr. Newman voiced their opinion of having the IROC take a position on this Project, Mr. Ruiz pointed out that there doesn't seem to be a resistance at this time; and also added by the September meeting, the estimate will be refined. Chairperson Billings stated this item can be included on the September IROC Agenda for action. Mr. Caires noted he intends to bring this up at the Metro Commission/JPA for their support as well.

8. Otay Mesa Trunk Sewer Supplemental Sewer Capacity Fees

Ann Sasaki, Deputy Director of Engineering & Program Management Division, gave a presentation about the supplemental sewer capacity fee which is charged to new development to pay their fair share of the infrastructure that is needed to support their growth. She went through slides explaining that in order to promote growth in the Otay Mesa area, a Master Plan was developed in 1984. Infrastructure was constructed and a fee was created to reimburse for the costs put forward. Two supplemental fees were adopted at that time, one for the gravity sewers and one for the pump station and forced main. With continued growth, in order to comply, the Otay Mesa Trunk Sewer system needed to be expanded and extended to the west, in 2001 Pardee Homes updated the 1984

MINUTES

Master Plan, which identified the additional pipelines needed to be constructed. The total cost for the additional work is \$135M, which will give capacity to the build out to 2050.

Ms. Sasaki stated an increase to the supplemental fees to pay for the additional infrastructure is desired. She noted that of this amount, the City fronted \$13.9M in 2001 when the decision to update the Master Plan was made, as well as portions of the trunk sewer being constructed while development was in progress. This fee will refund the City this fronted amount. She made it clear that when this occurred, it was decided that any future costs of the sewer would need to be fronted by the developers. To recover the costs for the improvements, a consultant was hired to determine what the fees should be. After the cost analysis was complete, two alternatives were suggested: 1: Equal sharing; and 2: Separate Billing, which would be one fee for the upgrades to the sewers and one fee for the pump station, similar to the way the fees are set up currently. A third alternative was also proposed by Pardee, which was one fee for developers upstream from the pump station (east side) and one fee for developers on the west side, for the in structure within their boundaries. She stated City staff is recommending Alternative 2, and plans to move forward with this fee proposal to City Council next week.

9. History of the Metro Wastewater Commission/JPA

This item was discussed following Item #4. Augie Caires gave a presentation on the history of the relationship between the City of San Diego (City) and the Participating Agencies (PAs). He began with what he referred to as the “Medieval Period” because there really was no relationship between the PAs and the City; and then touched on the “Middle Ages”, which began in 1963 where the PAs contracted with the City for transportation, treatment and disposal of wastewater. The PAs had no voice or role at this point. In late 1980s, the PAs became very unhappy, and by 1990 the Special Act District was formed with legislative approval. Due to distress that built up over the years, and the negative leadership that existed on both sides, the Special Act District eventually died over a weighted vote issue which resulted in many PAs walking out.

After the Special Act District disengaged, the Agencies for Fair & Objective Rate Determination, (AFFORD) was formed. The PAs and the City were not talking, and AFFORD prepared for legal action. In 1995, through 1998, reformation took place with skepticism on both sides. Legal actions were held in abeyance, negotiating teams were formed, the PAs appealed to City sense of public good, and regionalism and partnership and the City of San Diego went along suspiciously. He explained that with several meetings, they wrote down anything that could be agreed upon, which became the basis for contracts that were later developed. There were 27 contract drafts, nearly 100 meetings, and negotiations with Jack McGrory. In 1998 through 2008, Mr. Caires referred to this period as “Renaissance I” where the Metro Commission, Metro TAC, Public Utilities Advisory Commission (PUAC), and the IROC were formed. Mr. Caires mentioned the accomplishments of the 52-year Agreements, Advisory Commission and real dollar savings.

July 14, 2008

MINUTES

He talked about the working knowledge of Metro Operations and CIP, and mentioned capacity rights are now established as well as excellent relationships with City staff. He feels their participation has improved the audit process over the years, and they now have a comfort with the City's financials in regard to wastewater, and are also partners in Strategic Planning.

Mr. Caires concluded with concerns, which are primarily being fully engaged in all issues. He then announced the 10 year anniversary of the Metro Commission (1998-2008). He went over the organization chart and strategic goals such as reducing costs and ensuring fair rates, creating alignment among JPA members, enhancing positive/effective relations with San Diego, and creating/sustaining a positive image in the region, as well as environmental stewardship.

Mr. Kubota pointed out that the relationship the US Navy has had throughout the years with the City seemed very positive. Mr. Barrett agreed, then added his curiosity of why the U.S. Navy is not involved in the Metro Commission/JPA. Mr. Caires stated they did participate in the Metro TAC, as so did the Marines, but are not represented at this time. Mr. Newman requested information on the reason why they are not involved anymore. Mr. Caires concurred and offered to research this.

Chairperson Billings asked if the PAs have looked at ways to consolidate themselves and their functions. Mr. Caires stated they have looked at governance and have been an advocate for regionalizing wastewater, with the idea of taking all of the metro and trunk functions and combining them into one single purpose agency. It has not yet developed, but hopefully the City and the PAs study the issue when the timing is better.

10. Committee Reports

a. Finance

Mr. Richardson went over his subcommittee notes mentioning presentations received from the Debt Financing and Administration Department and the Chief Investment Officer. He said the City's debt issuance policies and procedures and investment policies and practices were reviewed which were quite informative and professionally organized for both utilities. He reported in regard to the recent meeting with Councilmember Faulconer, items discussed were: covering assistance in terms of selection and retention of independent reviewers or auditors of financial statements, and performance audits for both utilities. He stated he expressed his position as the representative for the audit and accounting for the IROC, and suggested to Councilmember Faulconer that the word "assist" needs to be defined, pointing out that it should not be assumed that IROC has to be involved in the selection or retention process, instead should mean that if the City Audit Committee at its own discretion feels they are in need of IROC's input in process, then IROC is obligated to assist. Councilmember Faulconer concurred. Mr. Richardson added it was mentioned that the IROC is presently working with both utilities and establishing a

July 14, 2008

MINUTES

framework for entry specific performance audits, which he would be pleased to review with the City's audit committee once a draft is reasonably developed. He stated he would meet periodically with the Audit Committee to give them updates as well as results as we move forward with the performance audit, for the review and consideration.

b. Environmental & Technical

No updates.

c. Public Outreach, Education & Customer Service

No updates.

11. Proposed Agenda Items for next IROC meeting of 9/8/08

- IPR

- Final Annual Report

Mr. Newman asked for an update on fluoridation, Mr. Ruiz responded with an update. He stated they met with the First 5 Commission to discuss the scope of the project and prepare a draft contract to execute. A draft was presented with some of the items. First 5 Commission was asked to consider incorporating approximately \$35K and front funding so the detailed design analysis can be started. A preliminary report was completed to DPH which was requested by July 1, outlining the schedule for going forward. He mentioned a more detailed design is desired on each of these projects at each of the treatment plants, and will cost approximately \$20-30K to launch. This was also asked to be front funded, but the City has not heard back yet. This is a 2 year contract, and trade offs are being looked at to make the deadline.

12. IROC Members Comments

Chairperson Billings complimented Mr. Langworthy for the excellent attention given during the L.A. Hyperion Plant tour last week, due to the great relationships he has built over the years.

Mr. Kubota mentioned AWWA's National Conference was recently held in Atlanta, next year it will be held on June 14-18, 2009 in San Diego. This is a great opportunity to take advantage of, for those in the water business. He also said he feels the new exhibit called H2O = Life at the San Diego Natural History Museum is Jul 19-Nov 30 is a great exhibit and educational for all. Mr. Newman suggested the registration cost provision be made in the budget for the AWWA's National Conference next year.

Mr. Webster requested Mr. Ruiz make available to the IROC, a summarization of notes from the Department of Public Health. Mr. Ruiz said he will get them out.

Mr. Ruiz mentioned if the Rate Increase is noticed this month, he would like to come back as soon as possible to describe how those rate increases are translated to each

Independent Rates Oversight Committee - IROC
July 14, 2008

MINUTES

individual customer, as well as take the opportunity to lay out past rate increases approved, and what it will look like between now and the end of the current rate case in 2011. This will include water and sewer rate increases, and what the storm water fee currently is.

Adjournment of IROC

At 12:00 Chairperson Billings called for a motion to adjourn, Mr. Newman moved and Ms. Welch seconded, unanimously the meeting was adjourned.

Reminder: No meeting August 11, 2008.

Next Scheduled Meeting: September 8, 2008, 10:00 a.m. – 12:00 noon.
Location: Metropolitan Wastewater Department, Auditorium,
9192 Topaz Way, San Diego, CA 92123 (858)292-6300

Recording Secretary: Monica L. Musaraca