

Independent Rates Oversight Committee – IROC

March 9, 2009

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1. **Roll Call**

In Chairperson Billings' absence, Vice Chairperson Newman called the meeting to order at 10:02 a.m. Monica Musaraca called the roll and a quorum was declared. Attendance is reflected below:

Member	Present	Absent
Donald Billings, Chair		X
Linda Cocking	X	
Christopher Dull	X	
Jack Kubota	X	
Barry Newman	X	
Jim Peugh	X	
Charles Richardson	X	
Irene Stallard-Rodriguez	X	
Todd Webster	X	
Gail Welch	X	
ExOfficios		
Scott Tulloch		X
Augie Caires, Alternate (<i>for Scott Tulloch</i>)	X	
Ken Williams		X

2. **Non-Agenda Public Comment**

Mr. Chris Eader of No More Geysers shared some information about a product he invented which can help people save water in irrigation due to broken sprinkler systems. He stated this product shuts off a sprinkler when it breaks, saving the customer money and the City wasted water. He offered anyone interested in the product to visit his website www.nomoregeysers.com. He explained this product does prevent water loss, hillside erosion, downstream pollution, sedimentation runoff and customer calls for repair. He believes it is something the City could use, as well as customers. He stated he is working with the MWD to get a rebate program, and he has received a grant from the innovative conservation program to do a study. He then provided brochures and handed out some of his products to several members of the audience.

3. **Approval of Minutes from 1/29/09 and 2/9/09**

Vice Chairperson Newman called for a motion to approve the Minutes of 1/29/09, Committee Member Peugh moved, Committee Member Dull seconded, with Chairperson Billings absent, all were in favor, they were unanimously approved. He then asked for a motion to approve the Minutes of 2/9/09, Committee Member Cocking moved, Committee Member Dull seconded, with Chairperson Billings absent, all were in favor, they were also unanimously approved.

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4. **Chair Updates**

Vice Chairperson Newman asked Tom Zeleny, Deputy City Attorney, to give a briefing on the Memo included in the packet, regarding the responsibilities of the IROC. Mr. Zeleny noted that as a result of the City Council's Natural Resources & Culture Committee (NR&C), in the inquiry of what the role of IROC was and if this body should focus solely on performance and the rates of the Department or whether their responsibilities extended further into policy issues, he drafted a memo to the NR&C that was presented to them in conjunction with the IROC's first Annual Report. The memo describes some of the statements made in the back up material that was presented to the City Council when they approved the creation of IROC. In short, these indicate that the IROC was to assume the duties and responsibilities of the formal Public Utilities Advisory Committee, which included advising the City Council on policy matters with regard to water and wastewater and was incorporated into the role of IROC through one of the subdivisions in the IROC ordinances. He stated, in summary, the role of IROC is not to solely focus on the performance and rates of the Department, but to also focus on some of the policy issues in the operation of the Departments. Vice Chairperson Newman added the duties of the IROC are not limited, they are expanded.

Committee Member Peugh suggested having this reviewed in a future IROC meeting. Vice Chairperson Newman concurred.

5. **City Staff Updates**

Water Department, *Alex Ruiz*

- Continue to monitor the water supply situation. He mentioned the Governor's declaration recently announcing the state-wide water emergency, asking the Department of Water Resources to prepare by March 30th an assessment of whether or not the Governor should declare a mandatory 20% conservation target. With continuous monitoring, currently there is a better snow pack and precipitation both in Northern California and Eastern Sierras, which means there is a bit of easing off in terms of the supply situation. The Governor's call for assessment is out of phase with the way DWR does their precipitation analysis which could delay the potential mandatory 20% reduction. MWD may delay their own assessment and determine whether or not from the MET standpoint, they will need to reduce the amount of water available to the wholesalers here in California.
- Continuing to address the response plan refining the allocation methodology, talking to stakeholders, making recommendations and taking different approaches based on feedback received. This is expected to be finalized sometime in mid March. He said there are several specific detailed anomalies that are being addressed throughout our customer base. He stated once implemented July 1st we will continue to refine the process

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as we go through in anticipation of perhaps a second year or modifications if we are not achieving the savings expected.

Committee Member Peugh stated he feels May is too late to make decisions, and asked if there are any services the City is subscribed to that make predictions? Mr. Ruiz stated there are resources to look to for precipitation and air temperature, etc., but until we know how a potential reduction impacts MET, how far down they will draw their storage and how likely it is for them to procure water, it is hard to move forward. The allocation methodology is in place, and we will know how to reduce if there is a 20% reduction demand. The City will continue to stay on track. He added the City continues to ask customers to cut back on water usage, and communicates this in a number of ways. Vice Chairperson Newman agrees with Committee Member Peugh and stated we live in a desert environment, this is not a drought, time is of the essence.

MWWD, Bob Ferrier

- Department is focusing on financing issues at this time, and expecting to go to market by mid May. The combination of reviews of the Feasibility Study and the Preliminary Official Statement have taken dedicated time to make sure there is an appropriate description of the system and all of the disclosure documents are done correctly. Also being prepared is a presentation as well as tours for the rating agencies in town the week of March 23rd.
- Waiver process updates.

6. IROC Annual Report – NR&C Follow-Up

Vice Chairperson Newman commended Chairperson Billings on a job well done with the presentation. He witnessed a strong supportive reaction on the part of the Committee Members and thanked Committee Member Richardson for his large part in the Report. He stated the IROC will be asked to do a presentation to the Audit Committee to address the financial aspects of the role of IROC. He complimented the IROC Committee and all who contributed to the presentation and the Annual Report preparation.

Augie Caires added he was present at this meeting, and felt it was well received and well done. He also reported this to the Metro Commission. They would like Don to present to their Committee in April.

7. Finance Subcommittee Needs Additional Members

As a result of two members departing the IROC, Vice Chairperson Newman mentioned the urgent need for volunteers for the Finance Subcommittee. He asked that anyone interested, please notify Don Billings. He commended Committee Members Richardson and Cocking for their time served.

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8. **Subcommittee Reports**

- a. **Finance** – *Subcommittee Chairperson Richardson*
Referring to the Minutes included in the packet, he mentioned that the Water Department gave a brief update on the Year-to-Date (YTD) Capital Expenditures, top 15 and further details. Also discussed was the YTD CIP projects scheduled for the remainder of the FY09 as well as Volume and Cost of Water Purchase which are running above the level that was budgeted for FY09 due primarily to conservation levels being less than anticipated by the Water Department. Lastly, Rod Greek, Water Department, spoke to the Subcommittee about the fact that rate prospects for FY10 are being discussed by MET, SCMWD and there is an expectation that rates will be increased by an amount not determined yet.
- b. **Environmental & Technical** – *Subcommittee Chairperson Peugh*
No meeting held last month. No comments at this time.
- c. **Public Outreach, Education & Customer Service** – *Subcommittee Chairperson Welch*
There was no meeting held last month. She did mention they are looking for opportunities to address the public outreach efforts as a result of the NR&C meeting, and water conservation updates.

Vice Chairperson Newman asked the status of the billing inserts. Mr. Bresnahan stated they are in the process of completing the cycle of sending them out. A couple of members stated they did not receive theirs in their bill, Mr. Bresnahan stated they should expect it soon, if they are on the end of the cycle. Vice Chairperson Newman asked if multi-tenants are receiving billing inserts? Mr. Ruiz stated not at this time, they are issued to the account holders on record only. Mr. Bresnahan added all information and notices are available on the website, which is available to and used by customers who do not receive a bill. Mr. Ruiz added they work hard on getting the message to all customers in a variety of ways, and will look into ways to identify the multi tenants who are not getting the message. Upon request of Committee Member Webster, Mr. Bresnahan explained the cycle process.

Mr. Kubota suggested if the City offers fliers on doors or in newspapers, much like the City of Carlsbad, where customers can report neighbors who are wasting water. He also asked if this coordinated with the surrounding agencies. Mr. Bresnahan stated there are forms very similar to this which are given to field staff who are able to leave on doors when witnessing waste of water, in turn is recorded for future tracking. They are also given to customers at

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request. Mr. Ruiz mentioned there had been negative feedback on this process, where customers were taking an opportunity to report their neighbors, however, he agrees this process can help. Vice Chairperson Newman said he feels it can help neighbors who do not realize they have a water leak until they are noticed, because of the hours they are irrigating. Mr. Ruiz concurred. Vice Chairperson Newman asked for any information to be given to Ernie Linares. Vice Chairperson Newman and Committee Member Peugh asked if there is a way to figure out how many multi-family customers are not getting a bill, Mr. Ruiz will research and determine the expected number of customers who are served by multi family unit accounts.

Vice Chairperson Newman asked Tom Zeleny, Deputy City Attorney, in regard to inserts and UCAN's request, where they are in that process? Mr. Zeleny stated the City Council and UCAN were unable to agree on the language for the inserts. This went back to the presiding judge, and was resolved. To his knowledge, UCAN has since supplied language which is in conformance with the judge's order, but still waiting for approval. If approved, UCAN will provide the notices, and the City will begin with the insertion process. Vice Chairperson Newman asked if this information is available by the next IROC meeting, it be included in the package.

9. Metro/JPA Report Out

Vice Chairperson Newman stated he was not present at this meeting, and asked Augie Caires to brief the IROC. Mr. Caires stated they looked at the outlook of 2009 water supply and rates by the County Water Authority. He feels there is a culture change in water use and going in the right direction, but still a long way to go. He also mentioned discussed was the 2006 audit allocation results in which the Participating Agencies are getting \$10.8M back, and anxious to see the next audit. Last, the Annual Strategic Planning Workshop is scheduled in May, and Don Billings was asked to do a presentation on the IROC's Annual Report at their April meeting.

10. Water Facilities Master Plan

Marsi Steirer began by mentioning this item was previously presented to IROC in September, 2008 and IROC supported entering into a consultant agreement with CDM for the project's execution. The NR&C committee recommended approval of the Agreement in October, 2008 and the City Council approved it in December, 2008. The notice to proceed was issued on January 9, 2009 and CDM staffs have been working with City staff for approximately four weeks. Ms. Steirer introduced Amy Dorman, Senior Civil Engineer over the Master Plan Section. Ms Dorman briefed the IROC on the benefits of the Master Plan, which will produce critical information regarding prioritized water infrastructure needs and the basis for developing the next CIP. Ms. Dorman gave a short presentation

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starting out by listing the primary tasks of the Master Plan which include: evaluate facility condition; update supply portfolio; review system performance criteria and Level of Service Goals; identify operational deficiencies; prioritize projects; and develop CIP (2012-2032). She indicated that for CIP development, project cost estimates and project schedules would be prepared so that the future CIP would have updated project scopes and priorities. Upcoming Master Plan tasks include conducting condition assessments and supply portfolio and Level of Service Goals, update prioritization method and identify system deficiencies, and define new projects, full prioritization and development of the CIP to be completed by June 2010.

Vice Chairperson Newman asked in regard to the development of the CIP Schedule, are budget constraints taken into consideration? Ms. Steirer stated no, budget constraints are identified at this planning stage.

Committee Member Peugh asked if the water mains and valves are evaluated in this report, Ms. Steirer said no, only larger diameter pipelines are included in this evaluation.

11. Public Utility Debt Financing Plans

Darlene Morrow-Truver, MWW, Deputy Director, provided handouts of the Report to City Council and backup spreadsheets, and briefed the IROC. She discussed the importance of this item stating since 1993, sewer revenue bonds have been issued to finance projects and upgrades to the Wastewater System (System). The City is proposing the issuance of its first public offering since 1999 in May 2009. There will be two issuances in order to take out the outstanding private Subordinated Sewer Revenue Notes, fund 18 months of the System's CIP, cash fund the debt service reserve fund requirement for certain outstanding Bonds as necessary, and economic refunding of outstanding Bonds that generate at least 3% in net present value savings. This issuance is needed to stay in compliance and maintain integrity of the System. She went over the financial impact which is an estimated \$29.1M annual debt service for a 30 year term. The total cost of issuance, which includes fees for financing and legal services and the underwriters discount is estimated at \$2.3M. She mentioned staff will monitor the interest rates closely to identify opportunities to refund the Outstanding Senior Bonds to maximize the debt service savings. The City estimates that for every \$100M of refunded outstanding Bonds, the City will save \$290K. Last, the cost of issuance associated with the subsequent financing tranches will be funded from the respective bond proceeds. Ms. Morrow-Truver is asking the IROC to support the proposed bond issuances.

Committee Member Richardson added this item was discussed during the Finance Subcommittee Meeting. He definitely feels long term financing is beneficial. He stated the 1st offering is definitely necessary and the 2nd depends upon the market, which could be a benefit to the City.

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Committee Member Peugh asked do other agencies have to approve of the bond offering before going to market? Ms. Truver stated no.

Vice Chairperson Newman asked for a motion. Committee Member Richardson moved to approve the item, Committee Member Dull seconded, with Chairperson Billings absent, all were in favor and was unanimous.

12. Bid-to-Goal Verification Audit and Gainsharing

John Gavares, MWWD, Organization Effectiveness Specialist III, gave a background and overview of the City's Bid to Goal program. He noted MWWD is in the 2nd year of a 5 year department wide program, which is the first time. Prior to this, it was only offered in 2 major divisions. He informed the IROC eligible employees in both MWWD and the Water Department are close to receiving gain sharing payouts if the Departments have met both the savings targets and achieved department wide department goals and divisional performance goals. He mentioned all employees are working very hard to achieve very specific targeted goals. Mr. Gavares then stated Water is currently developing a 5-year Bid to Goal Agreement to emulate MWWD's 5 year Bid to Goal program. If City Council approves, it will be in place as of July 1, 2010 and would replace the Operation & Maintenance and the Customer Support Division's programs. He stated it will be presented to City Council's Audit Committee Briefing about March 23, 2009. He noted not all employees will receive the maximum payout due to length of service in the Department, and whether or not they achieved the performance objectives that each division section had. He then went through the Water and MWWD schedule of payouts to occur this Spring. He then opened for questions.

Committee Member Dull asked who approves the goals and objectives? Mr. Ruiz stated the Annual Performance Goals are developed by the Divisions then approved by the Division heads and then screened by himself and Jim Barrett for approval. He pointed out Unclassified Managers are not eligible for this program. They are in a position to get the performance out of their employees without a conflict of interest with regard to the establishment. Committee Member Dull asked if there is any way move this forward. He added, with the length of time that passes from the end of the period to the payout date, are you finding adequate incentive to the employees. Mr. Gavares stated it is attempted to expedite, however, it is an aggressive process due to the results occurring June 30th, then there are encumbrances for payouts, next it goes through an external auditor in the November/December timeframe and results are finalized by March. Briefings are then given to various members.

Committee Member Webster asked for clarification of the payout process with different scenarios. Darlene Morrow-Truver explained there must be savings calculated, if there are none there will be no payout. She stated savings is capped

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at \$10M per year and then looking toward each Division and what their percentage of goals are met. They will then get paid on that percentage. She noted all employees are paid the same no matter what their title may be (\$4,000 is the cap for each employee), but are prorated depending on their time of service during that fiscal year and have met satisfactory performance.

Committee Member Richardson asked what the aggregate payout might be for Water and MWWD for 2008. Mr. Gavares stated he does not have that figure off hand, but for example for MWWD, if 100% of the goals were achieved, and all 850 employees received the \$4,000 net, this would be approximately \$5.1M for MWWD. Committee Member Peugh asked what the cost is to administer the monitoring and preparation for this program. Mr. Gavares stated there are City staff and an outside auditing firm and periodically to create the 5 year plan, a firm is hired to develop the private market proposal. Ms. Morrow-Truver stated it has not been computed, but a rough estimate could be brought back at a later date, as there is a job order accounting system which identifies this. Mr. Ferrier stated this program was started to maximize the efficiency of the operation and also prepare ourselves ultimately for some sort of managed competition in the future, so we are already in a competitive basis.

13. Proposed Agenda Items from Next IROC Meeting of April 13, 2009

Vice Chairperson Newman recapped some of the items mentioned to be considered, as well as other members' comments for future agenda items:

- Update on the financial environment and the bond issuance
- Discussions of the UCAN insert and review of Tom Zeleny's memorandum
- Discussion on which customers are not receiving bills directly, and how to access them
- Staff update on Water Allocation including the forum and meeting feedback
- Review of the Annual Report to plan for next year's report

14. IROC Members' Comments

None

Adjournment of IROC

At 12:02 Vice Chairperson Newman called for a motion to adjourn, Mr. Richardson moved, Mr. Kubota seconded, with Chairperson Billings absent, unanimously the meeting was adjourned.

Recording Secretary: _____

Monica Musaraca