

Independent Rates Oversight Committee – IROC

April 13, 2009

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MINUTES

1. **Roll Call**

Chairperson Billings called the meeting to order at 10:01 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**

No non-agenda public comments.

3. **Approval of Minutes from 3/9/09**

Chairperson Billings asked for a motion to approve the Minutes from March 9, 2009. Committee Member Newman moved, Committee Member Cocking seconded, with Committee Member Dull absent and one abstention, the Minutes were unanimously approved.

4. **Chair Updates** – *Don Billings*

- According to the IROC By-laws, IROC should elect a Chairperson and Vice Chairperson next meeting. He asked if anyone is interested or would like to nominate another member, it will be on the Agenda next meeting.
- With the resignations of Committee Members Cocking and Richardson, he expressed his regrets of their inability to renew their continuation to serve on the IROC. He commended them for their valuable contributions to the IROC. He mentioned other members have terms expiring next month, and stated some of the members have contacted him and wish to continue to serve. Ernie Linares added Lisa Gordon from the Mayors Office will be in touch with the individuals that have terms expiring, to seek their interest in continuing to serve. If not, replacements will be sought and will then go to City Council for approval.

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- MWWD facilities have been visited throughout the past year, and now the IROC can look forward to visiting the Water Department facilities.

5. **City Staff Updates**

Water Department, Bob Ferrier for Alex Ruiz

- Water supply evaluations are still in progress at the whole sale level. It is anticipated a 10% reduction, as much as 20% from MWWD. Water Department staff will recommend the implementation of the Level 2 (behavior modification) Drought Alert, however, the Allocation Methodology is still needed to be in place. He mentioned Mr. Barrett is at the MET today, and a final decision should be made this week.
- Water Operations and City Attorney's office are in discussion with Santa Fe and San Diegito Irrigation District regarding the operation of Lake Hodges in regard to historic storage rights in the lake itself. This is related to an emergency storage project proposed by CWA.
- Also in discussion with SDGE is the Sunrise Power Link project, crossing some Water Department properties. The work will be coordinated with Real Estate Assets.
- Consolidation still ongoing with both Water and MWWD. It is anticipated the activities involved will be complete by later Summer, early Fall so any consolidations or efficiencies can be reflected in the 2011 Budget.

MWWD, Bob Ferrier

- Going to Council today for issuance of the Bonds. This process is going well. The schedule still calls for pricing and sale of Bonds in May.
- Waiver process still on-going and in same state as last update. Anticipated final approval from USEPA in the July time frame.

Chairperson Billings asked for an update on the "boil water" order that was given in Carmel Valley recently. Mr. Ferrier stated he does not have the specifics but believes it was a 24" ductile iron pipe that blew out. When pressure drops in a significant event like this, there are concerns about a siphoning effect, for example, contaminants can be reintroduced into the water system by virtue of that pressure drop because there is not backflow protection on most residences. He said he does not recall any findings or problems, but the "boil water" order is a precautionary measure until determined. This particular line was isolated and quickly repaired.

Committee Member Peugh asked for more information on the pipe break itself. Mr. Ferrier stated he does not have specific details and will get back to Mr. Peugh. However, he believes the pipe itself did not break, it appeared to be at the joint. The pipe may have had some movement and deflected slightly, causing the rubber gasket to fail, which would cause the pipe to move sideways. It does not appear to be a failure of the pipe section itself, as opposed to the joint itself.

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Chairperson Billings asked if the City is exposed to litigation risk on the part of businesses having to lose time because of this. Mr. Ferrier referred to Tom Zeleny, Deputy City Attorney, on the legal exposure. Mr. Zeleny stated no. Under the government code, municipality law suits can only occur under certain given circumstances. With the limited circumstance, this type of instance is not one of them.

6. **Water Allocation Plan Update**

This item was postponed and heard following Item #13 to accommodate having Alex Ruiz present for the item. Mr. Ruiz stated a lot has been going on in regard to water allocations. He mentioned he did supply IROC with a memo from Jim Barrett to the Mayor and Councilwoman Frye, Chair of NR&C Committee. He stated in regard to that, MWD will be making a decision today and tomorrow regarding the allocations to Southern California. Jim is there now, and heads the Committee which will be there at 1:30 today. He stated it is likely that MWD will raise their response level to Level 2, which does not line up with CWA nor the City of San Diego's Level 2 Drought Alert. This means they expect up to a 10% reduction in supply. This will be passed to CWA and on April 23, they will determine what the impact will be for its member agencies. He believes it will be somewhere between 6-10%. With this low level of reduction, he stated, it is unlikely that allocation penalty rates will have to be implemented, but we still want to be prepared and go through with the allocation methodology. The reductions that will be required to hit targets, will likely be achieved through the implementation of a Level 2 Drought Alert to implement mandatory behavior restrictions.

With regard to implementation, we are asking for Council to approve the methodology that would be put in place at a separate time in the future. This would require a separate recommendation by the Mayor and a separate action by Council to implement that methodology. He then briefly went through the methodology criteria. He then mentioned all of the meetings, public outreach, communication through website and customer workshops that have taken place recently in regard to how the methodology should be structured.

Mr. Ruiz briefly described calculating allocation. With regard to the allocation amount, once the calculated figure was derived for customers, which is seasonally adjusted for every billing period, customers will have an allocation that spans 4 months time. This way, they will have an opportunity to calibrate their performance before penalized. He then went over penalties for overuse, enforcement. Mr. Ruiz stated the penalties and fines will have separate PUD accounting used to offset CWA penalties. Funds collected will be used to offset enforcement activities. The accounting process will be similar to the DRES. It will be accounted for and presented to IROC before transferring funds.

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He noted customers can establish allocation variances based upon a variety of situations, but must demonstrate efficiency. Last, Mr. Ruiz stated this will require a Prop. 218 Notice, he then briefly discussed on-going refinements, suggestions and additional considerations. He then referred to tables with allocation examples.

Committee Member Kubota commented he is impressed with the amount of time and energy expended in this program and supports the staff in going forward with this. Committee Member Peugh mentioned in regard to the memo to the Mayor and Councilwoman Frye, will this have a cost impact and financial problems to the Department? Mr. Ruiz stated for FY09 and FY2010, we planned for a 15% reduction in revenues bases upon a drop in sales. An expenditure level was met to match up to a 15% reduction in revenues. This gives the Department a cushion, however, there are a number of positions that would be recommended to Council to hire in order to enforce. Some positions have been approved to provide field contact related to behavior restrictions or allocation methodology. These positions can be absorbed because of vacant positions, but would be temporary positions. We are hopeful customers will heed and hit the lower target we are looking for. Councilmember Peugh asked if IROC can see what is being deferred? Alex said yes, he will bring this information to IROC. Also, the variance process forms will be public and available online.

Chairperson Billings thanked the Department for the great work dedicated on this challenge. He added this process is not the City trying to penalize people, but a way for the City to fairly allocate any penalties that we as a city as a whole would have to pay if exceeded. Committee Member Welch thanked the Department for working with the clients with Process Water, she really appreciates it.

7. American Recovery and Reinvestment Act Update

This item was tabled to the next scheduled meeting of May 11, 2009.

8. Barrett Flume 22 Reconstruction – Transfer of Funds

Mr. Eric Rubalcava, Associate Civil Engineer, Water Resources & Planning Division, presented this item which requests a transfer of funds for this project. He noted recently the Water Department requested \$700K for repair of a different section of this same flume. He stated this was to mitigate some erosion problems caused by the 2007 wild fires and heavy rains, adding it was State funded and the City will be expecting a refund.

He gave an overview of the City owned reservoir systems. The water goes to the Otay Water Treatment Plant and also serves Southeast customers. Barrett Flume is an 11 mile long man made structure which transports water from lower Otay to Barrett Reservoir. He stated currently water cannot be transferred from the two lakes due to the collapsed section.

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Mr. Rubalcava reviewed the plan of action which is to use MWWD's as-needed design-build contract to expedite things. The scope of work will include a 90 foot pre-fabricated bridge, 54-inch pipeline and a fire retardant coating. The consequences of this project not going forward would be the City will be unable to use \$11.5M of usable raw water in Barrett Lake as well as not being able to lower Barrett Lake for the upcoming rainy season which will cause overflow. He noted this project was not funded for FY09 or FY10. Proposed is the excess funding in the Barrett Reservoir Outlet Tower, which is near completion, be transferred to the Barrett Flume project. The amount requested to transfer is \$1M.

Committee Member Kubota asked if other sections that may need upgrades? Mr. Rubalcava stated this would only be to make it possible to transfer water. Next fiscal year, money will be available for a planning study to assess the full 11 miles.

Committee Member Peugh asked if using the as-needed Contractor opposed to a competitor procurement is a definite decision. Mr. Rubalcava stated they are at the planning stages, and this is the plan of action, because this project must be expedited before a possible rainy season begins. Mr. Peugh asked what the timing is for a competitive process. Mr. Hooman Partow stated after the funding is secured, it will be transferred to Engineering where it can then be considered. He said the Operations Division worked on this project over the past year and have put together a design which is at about 30%, so it would be much faster to hire a builder. This lends itself to a design-build process. However, both options will be considered. He also noted even if the existing contract was used, it would be somewhat competitive because there are several firms who put bids. It is not a sole source.

Committee Member Welch asked if the project will be using the full \$1M for this project. Mr. Rubalcava stated it may be less than that amount. Once the project is complete, what funds are left will be transferred to the DRES. Committee Member Richardson asked why the transfer is not originally being made through the DRES, as DRES was meant to do with projects needing funding on a priority basis where it was not planned into the budget. Mr. Partow stated there was not enough funds in the DRES at that time, as most of the funds were allocated to other projects. Because of the existing project having extra funds that could be available, this is the route that was taken in order to expedite the project.

Rod Greek stated the audited financial statements were just received from the Auditor's Office the last week of March. He said we are in the process of finalizing what the balance should be based on the results of operations from FY08. At the time Mr. Partow asked for the funds, there were not sufficient funds.

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Committee Member Richardson asked if a stipulation can be placed, where once the DRES has been finalized, the IROC's preference would be to go through the DRES account first and would like to see the receivables and payables through the DRES. Mr. Greek stated the language is already created, but perhaps this could be part of IROC's recommendation on whether or not you support this item. Once it goes to Council, this discussion can take place. More questions were raised regarding the possibility of making the debits and credits in the DRES for recording purposes. Mr. Greek explained the process of the Auditor's Office, and stated all funds must be certified before the action goes to Council.

Committee Member Richardson gave a brief overview of what the DRES's purpose is. IROC would like to see the items where there are excess funds, go into the DRES and then out of the DRES for accounting records. Mr. Greek stated he will make contacts and do his best to modify this, based on IROC's recommendation. Committee Member Kubota added with this project needing to be expedited, he supports the staff recommendation of Design/Build to move it along. Mr. Peugh asked if the construction can be done without a lot of damage since this area is rugged, and if there are mitigation sites in the event there is. Marsi Steirer stated there are some cornerstones in that area that are adjacent to it, however, the Environmental staff is working closely with us and there should not be a problem.

Committee Member Webster asked for a description of the planning process for when projects are identified as needing repair and how they are prioritized in the current budget process. Mr. Hooman stated there are certain projects that start off as Operations and Maintenance (O&M) projects. O&M staff would then evaluate and plan to do the project themselves. This particular project was one of these. At some point, it was deemed to be too elaborate for the staff, so it was decided to have a professional construction firm do the work. At this point, the budget was already put together. It was not identified in the Rate Case, so in essence, it is still required to come to IROC for your support. He added there are several requests throughout the year from the O&M Division to take over projects, and we will continue to come to IROC for your support.

Chairperson Billings asked for a motion to support this request conditioned upon the transfer of funds from the Tower account to the Flume account to be fully transparent and accounted for within the DRES. Mr. Ferrier asked, for clarification, if there is a chance this cannot happen this way, because of an auditing issue for example, is this project still supported to go forward with. Committee Member Richardson stated in the absence of being able to do it through the DRES, IROC will require full documentation of why it could not have been. Chairperson Billings suggested a visible footnote in the DRES. Mr. Ferrier concurred. With Committee Member Dull absent, all were in favor.

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9. Amendment to USGS Agreement for Groundwater Services

Chairperson Billings mentioned a speaker slip was submitted from Mr. Wes Danskin, representing the USGS, who does not have comments at this time but is available to answer any questions as needed.

Marsi Steirer introduced Larry Abutin, Project Manager, and stated he is involved with a number of ground water projects associated with San Pasqual Basin. Ms. Steirer began her presentation, pointing out USGS has been integrated into the overall plan associated with the development of the groundwater program. San Diego Water Authority also has been utilizing their services for a number of years. She gave a brief background and listed the Plan's groundwater goals which are to develop 10,000 AFY groundwater desalination then 20,000 AFY of groundwater storage to diversify the City's water portfolio and be an increase to local water supply.

Ms. Steirer pointed out several projects completed by USGS as well as the current project of constructing Monitoring Wells in the San Pasqual Basin. She stated what is proposed is to amend the Agreement the Council executed last year and add the proposed project which is the hydrogeological investigation of several San Diego groundwater basins, including developing a surface water/groundwater model of the San Diego River system which includes the San Diego Formation basin. She concluded by going over the cost not to exceed \$250K and the work would be scheduled for 2010-2013.

Chairperson Billings asked for a motion to support the amendment agreement with USGS for cooperative hydrogeological investigations for an amount not to exceed \$250K. Committee Member Newman moved, Committee Member Peugh seconded, with Committee Member Dull absent, all were in favor.

10. Design/Build Contract for Fluoridation

Mr. Iraj Asgharzadeh, Project Manager, Fluoride Facilities introduced himself and gave a brief description of the requested action to support amendment to the Water Department FY09 Appropriations Ordinance by adding CIP 72-935.0; transfer of \$3,227,016 from the SD-17 Pump Station & Flow Control Facility CIP 73-314.0 to CIP 72-935.0; and award the Design/Build Contract to J.R. Filanc Construction Company for construction of Fluoridation Facilities for an amount not to exceed \$3,227,016. He mentioned the First 5 Commission has chosen the City of San Diego to provide \$3.9M to fluoride through Alvarado Treatment Plant, Miramar and Otay. He stated all Department of Public Health requirements must be met. Meetings have been held in May, 2008 where a letter of commitment was received. The desired finish date would be within 2 years of 2008. He stated J.R. Filanc Construction Company (Design/Build) is working to meet this goal by May 2010 with a very aggressive schedule. To be reimbursed by First 5 Commission, the City must use Water Revenue to pay up front, and as invoices are submitted, the City will be reimbursed. He stated they are hoping to

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go to Council early June, 2009 and start construction July, 2009. He asked for the support before gone before NR&C and City Council.

Chairperson Billings asked if there is a Letter of Credit from First 5. Mr. Tom Zeleny stated there is not, but in his recollection since that point it has been memorialized into a Contract. Mr. Asgharzadeh noted he believes the Agreement has not been signed, but will be before taken to City Council. Mr. Zeleny stated if invoices were submitted, and the City was not reimbursed, there would be an obligation to stop. He believes there was an initiative in San Diego, prohibiting us from putting fluoride into the system, however, this is pre-empted by State Law, if the funding is provided, we must fluoridate.

Committee Member Richardson asked under the terms of the Contract, whether signed or not, when is the payment from First 5 due? Mr. Asgharzadeh stated as invoices are submitted on a monthly basis, and should be reimbursed then. Mr. Zeleny noted we must be reimbursed each year, as long as we are operating. If there is no funding, it will be shut down. Committee Member Newman asked if there was an initial term to this, and would like more information. Mr. Zeleny concurred and will confirm and get back to IROC.

Chairperson Billings asked for a motion to support the three requested actions. Committee Member Newman moved, Committee Member Richardson seconded, with Committee Member Dull absent, all were unanimously in favor.

11. Committee Reports

a. Finance – *Subcommittee Chair Richardson*

- Discussion, by Lakshmi Kommi, Director of Debt Management, on the upcoming Public Utilities Debt Financing Plans for MWWWD which is underway and possibly executed in May.
- Discussion regarding status of the Metropolitan Water District of Southern California's timing of rate increases for FY10, still in discussion at their Board. Chairperson Billings asked about the size of the increases, and if it would require a 218 Notice. Sam Gray concurred the increases may be between 20 - 30%, and all increases require a 218 Notice. However, the increase may not come all at once. The reason for the proposed price increase is their efforts to find additional water supply primarily.

Chairperson Billings suggested having this continue to be a Finance Subcommittee Item, and have updates as needed to the full IROC. Committee Ex-Officio Member Williams stated the price increases are driven by two factors, 1) additional water sources, primarily making deals with farmers further north to sell water

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they have to MET; and 2) anticipation of fewer acre feet of water coming through the system, yet having to maintain the fixed cost of the system.

b. Environmental & Technical – *Subcommittee Chair Peugh*

- Update on IPR project. Contracts for both the Demonstration Project and the Reservoir Study have been approved. The expert advisory panel has set up a meeting and moving forward.
- Discussion regarding Consumers Alternative put together by Brown & Caldwell. It is anticipated information will be brought to the next meeting.
- Submetering was discussed. New construction would not be a problem, however retrofitting would be incredibly difficult and expensive. Will continue to discuss in the future.
- It was learned that when hospitals dispose of medicines that have been taken out of storage, they go down the toilet. This is alarming. This will be looked into in the future.

Chairperson Billings asked if this subject can be an action item on the Committees Agenda. Committee Member Peugh concurred.

c. Public Outreach, Education & Customer Service – *Subcommittee Chair Welch*

- UCAN insert review of 5 versions, which were approved by the Judge and will be released 3x a year over the next 5 years.
- Water Allocation discussion
- How best to communicate to water customers the need to conserve water and how to conserve, including multi tenants
- Public Outreach regarding IPR

12. Metro/JPA Report Out – *Chairperson Billings/Augie Caires*

- Presentation on weather-based irrigation controllers and systems
- Presentation of the IROC Annual Report
- Presentation by Alan Langworthy of the Southern California Coastal Water Research Project and the funding of this project
- Announcement of Annual Strategic Planning Meeting on May 7, 2009. This will be a 3 hour meeting, looking into the next year

13. Coronado/Nat'l City Transportation Agreements

Darlene Morrow-Truver gave a brief update and background on the Transportation Agreements. She mentioned the City provides wastewater transportation treatment disposal services to 15 Participation Agencies (PAs), including municipal services to some. There are 2 separate Agreements, the

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Regional Wastewater Disposal Agreement for Metro Treatment Facilities and a Sewer Transportation Agreement for transportation issues. Transportation Agreements are entered individually with the City and the Agency. 13 Participating Agencies use a portion of the Municipal System before getting to the Metro System, these Agreements, with the exception of Del Mar, have expired and in the process of getting new Agreements in place and will run through 2050, to be concurrent with Wastewater. A Transportation Rate has been identified to pay for the O&M portion of the costs running through the pipes, and a methodology for digesting the transportation rate. She also explained the capacity rights in the Municipal System, which may be different than the Metro System, and how they might be adjusted, with a methodology for a portion of the Capital Improvement Costs of the Municipal pipes used. Ms. Morrow-Truver noted each entity only pays for the actual pipes and/or pump stations they use, whereas in the Metro Agreement, it is treated as a regional system, and they pay their share. She mentioned Raftelis was brought in to help develop a rate, and have discussed with the different agencies. She stated it will include the annual inflator, but at 5 years, the expenses over the past 3 years will be looked at, to make sure it is still in sync, with an over or under collected. If actuals are more than 5% off, then would start over again. There are capital improvement cost sharing, based on their peak design capacity, and will be paid as incurred, but they will be notified far in advance.

Ms. Morrow-Truver stated the two (Coronado and National City) Agreements are ready to move forward and have been approved by the Agencies' Councils and will go to City Council in 2 weeks, with. She did mention with National City, the City of San Diego uses some of their Municipal System, so we will owe them money, based on this new rate.

Committee Member Newman asked if in the Agreements, with the PAs or within the City itself, are there any constraints upon what materials can be put into the sewer? Bob Ferrier said Yes. Barry then mentioned the pharmaceutical issue concerns. Mr. Ferrier stated the Industrial Waste Program is oriented toward this, and regulated and works with the PAs as well. He added, with respect to pharmaceuticals, he is unsure of the constraints but will check in to it. Mr. Newman asked if this can be an ongoing subject. Mr. Ferrier stated in regard to the Agreements themselves, there are also elements they have subscribed for to a certain amount of capacity, and there are flow projections going into the future. We are aware and can appropriately plan for the future with the controls built into this.

Committee Member Kubota asked if in the Agreements, are there quantity restrictions with chemicals and biological discharging? Ms. Truver stated she does not believe there are with the Municipal Agreements, but are on the Metro side and billed based on COD TSS. Committee Member Peugh requested

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bringing the other Agreements for a briefing to IROC when they are ready to go to Council. Ms. Morrow-Truver stated she would do so.

14. Metro Wastewater Department's Preliminary Official Statement and Feasibility Study – Debt Financings

Ms. Truver stated the next piece of Bond Issuance (Preliminary Official Statement (POS)) is going to Council today, including the Feasibility Study plus the CAFR. After your recent consent of agreement to issue Bonds, Council agreed to continue with the financing as well. Today, the actual documents will be presented. There are two POS, one 2009A to take care of the private note, and add \$145M new money, also \$51M of refunding from the 1997 Bonds which will go with it. The second is 2009B to refund \$403M to refinance some of the older debt. She then went over the financing schedule. She added the POS was prepared by Hawkins Delafield and thoroughly reviewed by the Disclosure Practice Working Group (DPWG) by the financing group. The Mayor has also signed a certification and the City Attorney and CFO certified that it is complete and sufficient at well. This will all go to City Council today, to give the assurance.

She stated the Feasibility Study and other attachments were supplied to IROC, and recommends reading. This was conducted to support the bond issues by Malcolm Pirnie who will be at Council today to answer questions.

15. Proposed Agenda Items for next IROC Meeting of May 11, 2009

Please send suggestions to Chairperson Billings via email.

16. IROC Members' Comments

Chairperson Billings stated he would like to formally thank Committee Members Richardson and Cocking for their time served on IROC. Committee Member Cocking said it has been a pleasure working with everyone. Committee Member Richardson said he has been impressed with the professionalism of IROC and the City. As a citizen and ratepayer, it has been a pleasure to serve on IROC and understand how well the City is managing its water and wastewater with the resources and management in place. Chairperson Billings presented both Committee Members with a framed certificate.

Adjournment of IROC

At 12:15 Chairperson Billings called for a motion to adjourn, Committee Member Welch moved, Mr. Kubota seconded, with Committee Member Dull absent, unanimously the meeting was adjourned.

Recording Secretary: _____

Monica Musaraca