

Independent Rates Oversight Committee – IROC

May 11, 2009
MINUTES

1. **Roll Call**

Chairperson Billings called the meeting to order at 10:04 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, Metro JPA		X
Augie Caires, Alternate (<i>for Scott Tulloch</i>)	X	
Ken Williams, City 10		X
Yen Tu, Alternate (<i>for Ken Williams</i>)	X	

2. **Non-Agenda Public Comment**

No non-agenda public comments.

3. **Approval of Minutes from 4/13/09**

Chairperson Billings asked for a motion to approve the “Revised” Draft Minutes from April 13, 2009. Committee Member Newman moved, Committee Member Welch seconded, with two abstentions, the Minutes were approved.

4. **Chair Updates** – *Don Billings*

- Mayor has forwarded to Council a new member to IROC, Andrew Hollingworth, and has asked City Council to reappoint Todd Webster and Jack Kubota. This is scheduled to be heard May 26, 2009. A second qualified individual will be added to IROC in the near future.
- If any members are interested in serving on the Finance Subcommittee, please let him know, as members are needed.

5. **City Staff Updates**

Water and Wastewater Departments, Rod Greek for Alex Ruiz and Bob Ferrier

- Channel 10 News interview went well. With Channel 10’s inquiries, Bob explained the Bid to Goal (B2G) Program, which results in savings of \$10-15M per year. He stated this program has benefited the utilities and the rate payers, and the Mayor is supportive of B2G going forward. Bid to Goal is presenting results of FY08 before the Audit Committee today.

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- The Budget presentation went before Council for FY10. Questions were raised regarding the new labor agreements. Mr. Barrett was there to answer. With questions from Councilwoman Emerald regarding unused high balances in the miscellaneous contractual services accounts in different Departments, the appropriate City staff, through Financial Management, will follow up. Kevin Faulkner was concerned by the size of our Pipeline projects, and was hoping to see larger projects in the future. He will be asking for updates on how to package some projects to bring the per-mile cost down for replacement. This was encouraging. Carl DeMaio's main concerns were related to IPR and Purple Pipe. Donna fry is supportive of IPR.
- In regard to Bonds, Wastewater issued 2009A Issuance, and another coming this week for the 2009B. In June, Water has a 2009B for new money and refunding options and will be covered later today on this Agenda.
- Level 2 Drought Alert, brought to Council weeks ago, will be effective June 1, 2009. All details on the City of San Diego's website at www.sandiego.gov/water/conservation/drought.

6. **American Recovery and Reinvestment Act Update**

Brent Eidson, Intergovernmental Relations Department, introduced himself and gave a brief overview of his Department which is responsible for the City's advocacy efforts. He then utilized the internet to introduce the useful Stimulus Tracker website located through the City of San Diego's website at www.sandiego.gov/stimulus/.

He mentioned from the City's perspective, there are 8 major categories in the Stimulus Package they are interested in: General Infrastructure, Transportation, Water, Housing, Economic Development, Public Safety, Energy, and Local Government Borrowing Aspects.

Mr. Eidson stated all information on the website can be tracked, and will be updated regularly. He briefly went through each category for a view of what information is available on the website. He also gave more details on some of the material listed in each category including funding and grant opportunities.

Committee Member Newman asked in regard to the funding process, how are they treated for both budget and reporting purposes and are they included in the budget or outside the budget? Mr. Eidson stated it depends when they are noticed. A lot will come through a Grant Acceptance Action by the City Council, which is a separate action from the budget but is inserted at a later date. This way all are tracked. This only after the funds are accepted and expended.

Comments were made by IROC members in regard to the use of the Stimulus money. Committee Member Peugh stated he feels this money would be an

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excellent opportunity for the IPR Project, especially elements outside the Demonstration Project, to be done simultaneously. Mr. Eidson said he would connect with Marsi Steirer. Committee Member Kubota stated submetering is also a subject of interest. Mr. Eidson stated Councilwoman Emerald has begun to convene a task force on this subject, and he will be meeting with her in the future.

Chairperson Billings stated regarding to the Water and Wastewater budget, he feels there are many ways to deploy the dollars both to physical assets and administrative support. He expects there will be updated reporting as this process moves forward as applicable. Committee Member Webster asked if in regard to the State Revolving Funds, will they cover the shortfall for Prop. 50 projects that have been stalled, due to the State budget shortfall? Mr. Eidson stated, primarily but not entirely.

He added a reminder that this website will be updated and added to regularly and encourages the IROC to visit the website.

7. **Quarterly Budget Review**

Ms. Tammy Rimes, Budget Manager, Water and Wastewater Departments, introduced herself and stated the challenge is to pull together both budgets into one working section yet still report out separately when need be. She gave a presentation detailing expenditures as well as revenues and a glimpse of the CIP projects. She stated this presentation is used for Management Team meetings and City Council. She then introduced her key staff working as a combined O&M team, CIP team and Revenue team.

She mentioned this presentation will be the new standard for which reports will be given in the future for current year monitoring updates. She explained that the Operations and Maintenance section is divided into key categories through the budget system. With Water, she pointed out has higher than anticipated charges such as the cost of chemicals and building materials (i.e. asphalt, petroleum products). However, there have been lower and more competitive costs in the construction side in the bidding process for contracts, as there is not a lot of work available on the private side of the market. She stated there have been savings with the result of the consolidation of Departments.

With variances for water purchase, variances showed the budget was set at a 15% conservation parameter however only saw a 6% conservation effort. She said the contingency reserve is large, and not spent. Strategically, she stated, the reserve accounts will be moved out of the O&M side of the budget, and put over onto the Reserve side so they are not constantly part of the O&M Budget.

Committee Member Newman asked for clarification in regard to listed contingency reserve, what this would be spent on if not used. Mr. Greek stated this reserve is for the operating reserve, and could, for example, be used for unforeseen acts of nature with financial systems going down for instance, and

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unable to collect revenue from bills and need access to funds to pay these bills. He did point out that there is a separate secondary reserve for water purchase as well.

Ms. Rimes then went over the same type of spreadsheets pertaining to Wastewater, with more detailed variances. She also went over several different categories expenditures and pointed out things such as a surplus on vacancies; delay in cleaning two of the Point Loma Digesters; and she explained the deficit in the Purchasing area, due to the bidding process and the higher cost of chemicals and the deficit in the Machines area, with the engine overhauls and such.

She then explained the Service Level Agreements (SLAs) (Agreements between our departments and other traditionally General Funded departments) that provide services to our Department. They are to charge us when they provide services for us, but with the recent reductions, they have had less people working on our projects, and we are finding they are not charging as much money as they used to. Over the course of FY10, there will be a mini-audit to compare the current situation with the past. Hence, the SLAs can be rewritten to have the actuals match the budgeted amount.

She then summarized provided tables on Revenues where there were higher revenues as a results of the increased rates and passthrough amounts, but less revenue in capacity charges due to less building permits being issues. For the CIP Projects, she provided the Public Utilities Top-5 projects for Muni, Metro and Water, which constitute at least 70% of the CIP budget. She also went over the pipeline agreements and stated Water's goal is to put 20 miles of pipeline into the ground each fiscal year, which are counted based on a notice-to-proceed to a contractor. Wastewater has a goal mandated by the Consent Decree Agreement that states we must put 45 miles of pipeline (new or rehabilitated) in the ground, which is counted when placed, and sewage actually running through them.

Ms. Rimes stated the FY10 Budget was presented to City Council last week, showing savings on expenditures, eliminated positions and took into account some pass-through charges and differences in revenues. One of the largest efforts of training, input and updates facing all City Budget Analysts is the conversion to the new SAP San Diego ONE system where all accounting, financing, purchasing and eventually Human Resources, into this system. The goal of completion is July 1, 2009.

She closed by asking for any input to this format of showing all sides of the house. Chairperson Billings asked about a DRES line being added for reserve balances, Mr. Greek stated this can be added to the presentation.

Committee Member Peugh asked if in regard to the way pipes are accounted for in the two departments, can there be a common definition at some point? Ms.

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Rimes stated Wastewater is Consent Decree driven, and under mandate. Mr. Greek stated the Department of Public Health regulator made this agreement for the Water side. He stated he can meet with Ann Sasaki to visit this suggestion.

8. Lake Murray Trunk Sewer

Ms. Marnell Gibson, Deputy Director, Engineering & Capital Projects Department, gave a brief presentation asking for IROC to support Advertise and Award of Lake Murray Trunk Sewer Project. She mentioned there is a specified EPA deadline of October 2011. It is to replace approximately 15,900 linear feet of trunk sewer ranging in diameter from 18” to 27”. She stated they have been approved by NR&C, and timing is very critical with meeting the deadline.

Ms. Gibson gave an overview of some of the challenges involved, including environmental restrictions, as well as being put on hold with the public bond market. She stated there was a Loss of Revenue study conducted for the Mission Trails Golf Course (Golfcourse). Funding has been now been identified, and the project has been turned over the Engineering & Capital Projects Department. After meeting, it was determined the estimate for the loss of revenue generated to the Golfcourse had a higher anticipated range than initially sought.

She is asking IROC to request that an additional \$250K be transferred from the Miramar Trunk Sewer project, which has been completed, through the DRES funds and into the Lake Murray Trunk Sewer project in order to move forward through construction.

Chairperson Billings asked about the loss to the Golfcourse, Ms. Gibson stated it is anticipated they will have a time period where the front 9 will be open, and then alternate with the back 9. During this time period, there will be an analysis and monitor how long the contractor is there. They are compensated for the lost revenue as a result of the construction activities. Mr. Peugh asked in regard to the presentation to the Mission Trails Regional Park Citizen’s Advisory Committee, will the Eucalyptus Trees be replaced after the construction. Mr. Dan Tittle stated no, plants will be provided in place of the trees.

Committee Member Peugh asked if there are added provisions when pipes are placed so close to the Reservoir. Mr. Tittle stated yes, there is a contingency plan developed during construction for any accidental spillage into the reservoir. There are no sensors, however PVC is a very durable material.

Chairperson Billings called for a motion, Barry Neman moved to support this expenditure, Committee Member Kubota seconded, all were in favor unanimously.

9. Nominations for Chairperson and Vice Chairperson of IROC

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Chairperson Billings asked for nominations for Chairperson for IROC for the coming year. Committee Member Newman nominated Don Billings, there were no other nominations made. He moved to have Don Billings be re-elected as Chair, Committee Member Welch seconded, all were in favor unanimously. Chairperson Billings accepted.

Chairperson Billings asked for nominations for the Vice Chairperson for IROC for the coming year. Committee Member Welch nominated Barry Newman, there were no other nominations made. She moved to have Barry Newman re-elected as Vice Chair, Chairperson Billings seconded, with all in favor, it was unanimous. Committee Member Newman accepted.

Committee Member Newman commented he would like to visit with the Mayor to inquire about changing the limitation of a 2 consecutive year term for IROC Members, to either a longer term or to have no term limits. Mr. Zeleny stated this 2 consecutive year term limit is part of the ordinance that created IROC, so would need a separate ordinance or approval of the City Council and Mayor to change this.

10. Committee Reports

a. Finance – *Gail Welch, Acting Chair*

- Reviewed the Water System financing and Water Revenue Bonds Series 2009B. Also discussed methodology. All in favor to support the Water Bond 2009B Issuance to be brought to City Council.
- Update on Public Utility Audit. As a result, would like to have more regular discussion on the governance of the internal audit program, and have more updates on items going to City Council Audit Committee.
- Need of new members of Finance Subcommittee, will be actively soliciting for additional participation by the IROC Committee.

b. Environmental & Technical – *Subcommittee Chair Peugh*

- Presentation on Water Facilities Master Plan. Projects are being collected this month for CIP and will be prioritized next month. They were surprised by City Council's list of criteria for CIP projects not including environmental nor greenhouse gas impacts. There is a second list, developed by City staff, of subcriteria which does include this, but is not a primary criterion. He would like IROC to look into this.
- Discussion about the Carmel Valley pipe break. It is difficult to draw conclusions because some of the pipe was missing afterward. There was no implication of what should happen system-wide as far as prevention or maintenance.

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- Alan Langworthy gave a write-up distributed to IROC today, regarding the City history as it pertains to wastewater permit applications.
- Discussion of pharmaceuticals being discharged. The Agencies are concerned about the pharmaceuticals in regard to the IPR system, and what kind of pretreatment or source control can be implemented for prevention. It was found they are prohibiting Hospitals and Biotech Industries from putting pharmaceuticals in the wastewater stream for prevention. The Water Environmental Research Foundation is being funded to look at the detect ability and potential biological impacts of pharmaceuticals issues.

Committee Member Kubota asked if possible in the future, could City staff provide some type of “incident report” which may highlight and describe some of the issues such as the Carmel Valley pipeline break. This could list costs, volume of water, outcome of repair, etc. He then recommended the use of “smart meters” and suggests the IROC look into this. Committee Member Welch volunteered to have a guest speaker on this subject.

Chairperson Billings asked about Committee Member Peugh’s potential action item to follow up on the earlier mentioned CIP prioritization in relation to global changes and greenhouse gases. Mr. Greek stated Public Utilities brings forward the recommendation of the projects to the City Council. The criteria are based on pipe condition assessment, break history, things of that nature, which may not necessarily be in alignment with the way the rest of the City prioritizes projects. He stated he can speak with Ann Sasaki come to talk about the process and criteria they use for the Public Utility projects specifically.

Mr. Zeleny added the City Council developed a Policy which assigned certain criteria and certain weight to the criteria for all CIP projects. The Water Department may have been working on Sub criteria within the criteria that had already been established by Council. Hence, the changes would have to go through City Council. He stated he believes the Water Department just wanted to bring Subcategories forward to Council within the already approved categories that have been adopted. Committee Member Peugh will follow up and get back to IROC.

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

Chair Welch

- Update on public awareness efforts for water conservation.
- Briefing on the City’s water emergency campaign.
- Update on what was going to City Council for the Drought Response Level II recently implemented.

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- Presentation by Marsi Steirer on IPR and outreach efforts being made. This may be setting the bar for public outreach for other projects.
- Follow up on pharmaceuticals, may be opportunity for public outreach and awareness. Committee Member Newman added the equal troublesome area is grooming and personal care products.

Chairperson Billings asked about IPR discussion. Committee Member Welch stated they inquired about getting the political champions on board early on in the process. She said Ms. Steirer had mentioned they are hiring an external PR firm. Ex-officio Committee Member Tu mentioned the City 10 with the County Water Authority also want to make sure the City coordinates with their campaign on Water Savings and Conservation, and are very well aware of this, and making every effort to make sure all is tied together.

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

The last meeting was held at the Chula Vista Nature Center and had a brief Agenda followed by a more extensive special Agenda to address Strategic Planning Goals and initiatives for the coming year, as well to think about the next 5 years. That part of the Agenda was facilitated by John Gavares.

He stated the key priority for Metro/JPA continues to be to make further emphasis on reclaimed water in general. Representatives spoke about a substantial investment on Purple Pipe, being reluctant to abandon this. But there is strong support for both IPR and Purple Pipe. Mr. Caires thanked John Gavares and City staff for the preparation going into this great workshop. He also mentioned once the final report is finished, he will share with IROC.

12. **Water Department’s Preliminary Official Statement and Feasibility Study**

Chairperson Billings noted this item should be an action item on the Agenda. Mr. Greek referred to the Memo included in the packet, requesting IROC’s support of the proposed Bond Issuance. This is related to the second part of the Water Bond Issuance 2009B. This component is not only for potential refunding opportunities and take out of a short-term note, but also for new money. He stated this was originally approved by ordinance in November 2008. He stated pricing will take place in mid-June. He briefly went over current outstanding bonds, then the financing structure, noting Bonds to be sold on a fixed rate basis, 30 year term (except 1998 economic refunding), Bonds to be rated by all 3 rating agencies and listed the legal requirements. He stated they meet with DPWG this afternoon for the POS, met last week on the feasibility study and expect one more meeting on all of the Bond documents soon, and should expect a web posting within the next couple of weeks.

The requested action is for IROC to support the proposed Water 2009B Bond Issuance. This will go to City Council on June 2, 2009.

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Chairperson Billings noted a detailed presentation was given at the Finance Subcommittee meeting this morning, and was a fair amount of discussion. He noted the Subcommittee recommends support for this item. Committee Member Newman moved to support the presentation to City Council as represented, Committee Member Welch seconded, all were in favor.

13. Proposed Agenda Items for next IROC Meeting of June 8, 2009

Committee Member Welch suggested the Smart Meter subject, and her getting an IBM guest. No other suggestions made. Please send suggestions to Chairperson Billings or Ernie Linares via email.

14. IROC Members' Comments

Committee Member Webster asked for clarification on the schedule for the Mayor's new program for exterior watering, which was listed in the paper. He stated the listed schedule did not designate fair or even allocation of the days for watering, for odd/even house numbers. He noted there could have been an error in the printing. Other IROC members mentioned they read a different schedule in other newsprint articles. Mr. Zeleny stated even numbered houses will be Monday, Wednesday, Saturday and the other will be Tuesday, Thursday, Sunday. He believes there must have been an error in that particular paper.

Committee Member Kubota asked if use of recycled water was ok to water with on non-designated days, if it is available. Mr. Greek stated that is correct, the restrictions are meant for potable water only.

Adjournment of IROC

At 12:02 Chairperson Billings called for a motion to adjourn, Committee Member Welch moved, Mr. Kubota seconded, unanimously the meeting was adjourned.

Recording Secretary: _____

Monica Musaraca