

Independent Rates Oversight Committee – IROC  
**June 21, 2010**  
**MINUTES**

**1. Roll Call**

Chairperson Billings brought the meeting to order at 10:05 a.m. Monica Musaraca called the roll and a quorum was declared. Attendance is reflected below:

<b>Member</b>	<b>Present</b>	<b>Absent</b>
Jim Peugh, Chair	X	
Tony Collins		X
Christopher Dull	X	
Andy Hollingworth	X	
Jack Kubota	X	
Don Billings	X	
Irene Stallard-Rodriguez		X
Todd Webster		X
Gail Welch	X	
<b>ExOfficios</b>		
Scott Tulloch, Metro JPA		X
Augie Caires, Metro JPA, <i>Alternate</i>	X	
Ken Williams, City 10	X	
Yen Tu, City 10, <i>Alternate</i>		X

**2. Non-Agenda Public Comment**

There were no non-agenda public comments.

**3. Approval of Minutes from 5/17/10**

Chairperson Peugh asked for a motion to approve the Minutes of May 17, 2010 with no corrections. Committee Member Welch moved to approve, Committee Member Kubota seconded the motion, unanimously the Minutes were approved with no correction.

**4. Chair Updates – Chairperson Peugh**

- Advanced Water Treatment funding not approved by NR&C, and was then postponed.
- Annual Report was presented to NR&C and was accepted

**5. City Staff Updates , Alex Ruiz, Interim Director**

- Mr. Ruiz stated, in regard to Chairperson Peugh’s updated on Advanced Water Treatment funding, was actually a motion to continue by Councilmembers Lightner and DeMaio. Council Member Emerald was absent. It was approved to be continued in July. Public testimony on this item as well as comments from Councilmember Frye were in support of project going forward, recognized this project had been approved by Council, monies had been raised, and execution of the procurement process, however it was carried over to the July meeting.

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- Water Conservation: Summary table handout for Billed Consumption was provided and reviewed. In summary, YTD FY10 vs. FY09 overall Citywide usage is down 12.4%.
- Cost of Service Study: Continue to work forward over the next couple of months, looking at finances to see if we will require a rate increase on either sewer or water side for FY12. July 1, 2010 is the final of the four 6.5% increases. After significant input for the draft Financial Plan, all will be reviewed with the IROC.
- Successful in the execution of refunding a portion of Revenue Bonds which concluded last week. Ratings came in at AA from Fitch, AA- from S&P, and AA2 from Moody's. They were very pleased with the management of the Water fund, and believe we have sound financials. There was some concern with the amount of debt coverage and how much we were asking our customers to pay from an affordability standpoint. But believed the long-term financial position of the Water fund was very strong. There was also some concern there was no forecast in the presentation, of any additional rate increases, we were very conservative. This element will be looked at as well.

Ann Sasaki, Assistant Director

- EPA issued our Modified Permit for Point Loma. It will go into effect on August 1, 2010 and will be good for 5 years, taking us through 2015. No additional provisions were added.

Committee Member Hollingworth asked Mr. Ruiz if there was a surplus in the sewer fund. Mr. Ruiz stated yes as a result of the Capital Program being pushed out. This will be looked at in FY11 for additional revenue requirements.

**6. Bid to Goal Program Update – Tom Crane**

- June 14 Audit Committee met and approved two actions requested. One, to take the 3<sup>rd</sup> Amendment to AKT Audit to full City Council to get FY09 results audited for the program. Second, approved the 3<sup>rd</sup> party goal review for benchmarks and industry standards. Wednesday was a kick-off to discuss scope and agreements.
- Water Fund Program, from the new MOU, awaiting docket on Rules Committee in July, to get the MOU to the next full City Council afterward. Wastewater MOU that was approved to move forward is also a companion piece to that same action.

Committee Member Billings requested, with respect to the external auditor looking at the new benchmarks, they come to IROC at some point. Mr. Crane concurred. He is awaiting the Draft Report.

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7. **Acceptance of the Department's Response to the FY09 IROC Annual Report (Report)**

Mr. Ruiz provided an updated presentation to the members to the one provided in the packet. He focused his attention to the slides and noted we anticipate the request to go back to a subsequent NR&C meeting to present, but have not been required to do so as of yet.

Mr. Ruiz gave an overview stating IROC issued the Report to the City on March 22, 2010 and our response was issued June 16, 2010. There were 6 Key Recommendations in the report, and he stated the Department agrees with all recommendations presented by IROC. The details are in the Report, which he went over in detail. The 6 recommendations were: 1) Water Supply in five areas, to secure safe and reliable water supply; 2) Controlling Internal Costs in regard to CIP program, having a more robust communication with E&CP which is occurring; 3) Influencing Uncontrollable Costs such as imported water costs and analysis of SDCWA and MWD rates, encourages IROC to go to Los Angeles and attend a Board meeting to express the concerns of independent individuals representing our rate payers; 4) Allocating Costs Equitably and in Support of Program Goals; Partnering with Ratepayers – Transparency. Mr. Ruiz stated he believes in transparency and will continue to update our Departmental website to include information especially our Bid to Goal program results and savings made which he encourages our customers to review; and 6) Other Matters such as pension costs, and whistleblower/fraud hotline which the Comptroller maintains this fraud hotline, and is very diligent about following up on complaints. This information can be provided to IROC, as well as having an independent assessment of our responsiveness with regard to these types of complaints.

Committee Member Hollingworth noted, with regard to item 3) Influencing Uncontrollable Costs, he is looking for the type of analysis done at the last hearing, looking at long term rate trends and cost structures. Mr. Ruiz acknowledged.

Committee Member Billings mentioned survey results of wastewater fraud and abuse, by the Association of Certified Fraud Examiners, show only 14% of corporate fraud is detected by auditors and that overwhelmingly it is self reported through hotlines. He feels hotlines are a very important element. He asked if the IROC could get a periodic report on the hotline calls and how they are disposed of. Mr. Ruiz concurred a yearend summary can be provided. Committee Member Billings also suggested making the website a bit more user friendly with more visuals on what the water bills actually include, such as internal costs, water, treatment, etc. to regularly inform rate payers in an easy-to-understand fashion. This will teach them the actual benefits that come along with the rate increases such as better system reliability, better treatment, storage, the value of conservation, etc. Mr. Ruiz concurred.

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Mr. Ruiz added this is an Action Item, and seek approval for the submission of the Report. Committee Member Billings made a motion to approve the submission of the Report, Committee Member Hollingworth seconded, all others in favor.

**8. FY2011 Public Utilities Department Strategic Plan**

Tom Crane started his presentation by mentioning this is the first Public Utilities Department Strategic Plan as a whole. He mentioned one of the bridging plans for one year, is to develop a true 5-year Strategic Plan for FY12-FY16. He referred to a document that would be used, and has great foundation work that will help develop the Plan. He stated there is a detailed briefing on the said document, on August 18, 2010 with the Strategic Planning group and invites a couple of representatives from IROC to join in, which will be valuable. TAC has named two representatives, as well as others.

He gave a brief overview of the Guiding Principles, and discussed the adjusted 4 Strategic Goals which are: 1) Safe, reliable, and efficient water, wastewater and recycled water services; 2) Fiscally-sound and effective public utility; 3) Sustainable growth and economic viability; and 4) Responsive, safe, committed and innovative workforce. He then went through each goal in more detail, describing the 10 Objectives and 26 Initiatives which were listed on the slides as well as handouts. He noted each initiative has a series of quarterly targets. The group meets every quarter and reviews the progress of each target, as well developing the next years initiatives. It is a very comprehensive plan and would like IROC's input.

Mr. Crane reminded the IROC, of Goal 2, and we are working on the 5-year financing plan, and IROC will be a critical part of this. He also noted we have a new Internal Control Program, established last year, and working diligently on the Bid to Goal Program. He also added, in regard to Goal 4, Objective 10, we have a very robust supervisor training program to be used and optimized, as well as an Employee Leadership Development Academy starting this fiscal year. He stated he would love to get IROC engaged.

Committee Member Billings volunteered to attend the August 18 Briefing. Mr. Crane added he would like to see the representative(s) continue to attend the 4 offsite quarterly meetings with the Executive Team. Committee Member Billings agreed. Committee Member Welch also agreed to attend the quarterly meetings.

Chairperson Peugh asked at what point are the measurability worked in, the Goal level, Objectives, or the Initiatives? Mr. Crane stated the Initiatives, which are measureable, and each have a sponsor and coordinator who are responsible for the report outs. Chairperson Peugh asked for the current report of measurabilities. Mr. Crane stated they are finished and can get them out to IROC within a few weeks. Committee Member Billings suggested bringing it to the appropriate Subcommittees. Mr. Crane concurred.

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9. **Sub-Committee Reports**

a. **Finance – Subcommittee Chair Hollingworth**

This morning's meeting covered the discussion of possible CWA rate increases for the next two years, as well as their lawsuit in response to MWD rate increases.

b. **Environmental & Technical – Subcommittee Chair Peugh**

- Discussion of the proposal to move \$100,000 to the IROC for the external audit, which it is also on today's full IROC meeting Agenda.
- Discussed the CIP facilities Masterplan Project scoring and ranking, showed us how the various sub-criteria are broken down and numerical comparability. Also learned about the upcoming Asset Management Coordination in the Department. He would like to see how all the studies and plans fit together.
- Update on AMI. Would like to know more about the schedule for doing the other 90% of the meters in San Diego and how it is anticipated to work out over time.

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

No meeting held this month, nothing to report for the last meeting. She added she reported she is participating in the Department's RFP for Consulting Services for the outreach for the Outreach for Water Conservation, for the City's "No time to waste, no water to waste" campaign. The kick-off meeting is this week downtown to discuss the process and timeline for the evaluation.

10. **Metro/JPA Report Out – Mr. Caires, JPA**

- Legal Services Agreement, Treasure's Services Agreement, Engineering and Financial Services Agreements were updated, as well as the Metro JPA Budget.
- Exhibit E Audit results reviewed and approved at this meeting.
- Wastewater Bid-to-Goal Contract Operations was approved, with only one dissenting vote.
- Letter of support for AB-2256 regarding flushable products.

**BREAK:** A cake was presented to Don Billings to thank him for his leadership over the past couple of years. The Committee expressed their appreciation for his efforts, and a certificate was presented from the City as well as a custom IROC ball cap Committee Member Kubota had made.

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**11. Presentation on a proposal to move \$100,000 of Public Utilities funds, which is allocated for an external audit of the Department on behalf of IROC, to the Office of the City Auditor's budget, to be used for the City Auditor to work with IROC as its audit resource**

Erin Noel, Principal Auditor, lead the presentation. She provided an advance Memorandum describing the proposal as well as a document named “ Ideas for the Office of the City Auditor Performance Audit of the Public Utilities Department. She stated she gave an overview and the Environmental & Technical Subcommittee last week.

She gave a brief overview of the ongoing Audit for the CIP, mentioning a broad survey began in February, 2010 looking at different issues with regard to the CIP Citywide. It was divided up, the first part was an overview of the actual CIP Process, with the objectives of looking at how jobs are initiated and prioritized, and tied to the general plan. The other piece is to look at the interrelationship of the Department. Currently, she stated, they are in the middle of their field work stage, so the findings have not been developed as of yet. They anticipate 2 more Audits, one may be the Bid and Award Process, because of the number of issues, as well as Construction Management, City Wide.

She discussed the provided read-ahead documents, which are ideas based on the IROC Report, came up with ideas looking at it from an Auditor's perspective. She added the ideas are not to limit your ideas at all, but to give you some discussion ideas. She also stated, when choosing your areas, keep in mind some areas are larger than others and would take up a lot of the \$100,000 budget. She stated to help in this scenario, a survey phase could be started off with, with only about 200 hours of the 1100 hours. She gave examples, and asked for input.

Committee Member Hollingworth stated he would like to meet with Ms. Noel to share his ideas, she concurred. Committee Member Billings asked if in regard to the Citywide CIP work, is it more of an internal control perspective or an efficiency perspective? Ms. Noel stated there will be a lot of different issues which will include more process oriented efficiencies.

Committee Member Billings reminded the IROC this should be thought of not as an internal control audit, but a performance audit as well. Chris Constantin, Office of the City Auditor, stepped up to elaborate on the meaning of this. He stated a performance audit focuses efficiency effectiveness of a program, and added in the end, their goal is to attempt to identify 4 to 1 terms of cost savings, which is the focus of this component of that. The larger more detailed risk assessment of Public Utilities is desired to identify specifically those areas that would yield the best savings.

Mr. Ruiz added IROC should decide what area they would like investigated, as IROC will be presenting the results of the audit to the NR&C next year. He encourages IROC to make sure it is the type of report they want in order to satisfy

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the performance and the proficiency of the City. Chairperson Billings stated going back to the Ordinance would be a start, to understand exactly what is being asked of IROC. Chairperson Peugh ask Ms. Noel what the next step would be. Ms. Noel stated if IROC approves going forward with the survey phase, that would begin. Mr. Constantin added once the recommended areas of focus are decided upon, this could start within the next couple of months.

Suggestions from the IROC members were as follows: Chairperson Billings: Risk Assessment Methodology, making sure it does not go more toward the Internal Control side, opposed to a performance audit given the Ordinances. Chairperson Hollingworth: P6 being utilized to maintain and monitor and manage schedules on projects; quarterly projects including updated estimated costs and comparing against current budget; formal quarterly review processes in place, looking at schedule for verification of review and management; change orders, process in place to make sure scope is not be expanded through change orders.

Mr. Constantin stated he would like communication on this item, as to getting specific areas of focus. Afterward, can make a decision as to how further IROC would like to proceed. Committee Member Billings suggested he and Committee Member Hollingworth meet with him to discuss areas of interest.

Chairperson Peugh announced a public speaker for this agenda item. Amy Harris, San Diego County Taxpayers Association, stated IROC is moving in the direction the taxpayers want to see. She stated they support the Audit Committee's direction at the April 12 meeting to move \$100,000 to the City Auditor's Department to conduct the audit, since a performance audit has not been done of the Public Utilities Department with oversight by IROC.

Mr. Ruiz clarified, in funding the efforts of the Auditor, which is fully supported, the proper mechanism is to engage into a Service Level Agreement (SLA) to augment the existing SLA by \$100,000 which preserves the expenditure within our O&M and allows the relationship to be properly defined, and no transfer of utility of rate payer funds into the OCA.

Committee Member Billings made a motion to support the Public Utilities Department revising its SLA with the Office of the City Auditor to allocate the foresaid resources for purposes of conducting a Performance Audit of Public Utilities during FY10. Committee Member Welch seconded. All were in favor of the said motion.

**12. Accepting nominations for the election of the Chairperson of the Environmental and Technical (E&T) Subcommittee**

Chairperson Peugh asked for nominations. Committee Member Welch nominated and made a motion to appoint Committee Member Webster as Chair of the E&T

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Subcommittee, Committee Member Kubota seconded the motion. All were in favor for the appointment of Chair of the E&T Subcommittee.

**13. Accepting nominations for the election of new members to the Finance Subcommittee**

Chairperson Peugh asked for nominations. Committee Member Hollingworth nominated Committee Member Billings to the Finance Subcommittee, Committee Member Dull seconded. All were in favor for the appointment as a new member to the Finance Subcommittee.

**14. Should IROC adjourn the IROC meeting and all subcommittee meetings in August, 2010?**

Chairperson Peugh asked for opinions on this matter. Mr. Ruiz stated there are a number of items from Staff to present. Chairperson Peugh took a show of hands for availability. It was decided to go “dark” for all Subcommittees, and have the full IROC meeting in August.

**15. Recommendations to the Mayor’s Office for nominations to fill the two vacant IROC appointments**

Chairperson Peugh asked members of IROC to let the Mayor’s Office know if they have anyone in mind that may be interested in the vacancies on IROC.

**16. Proposed Agenda Items for Next IROC Meeting**

Chairperson Peugh asked to send Agenda items to Ernie Linares.

**17. IROC Members’ Comments**

Committee Member Billings commented that at the last NR&C meeting, is online and IROC’s item can be viewed at Item 6. He recommends IROC members listen in and view. He added one particular member of Council has nothing positive to say about Government Agencies. He stated he feels the proof is there, such as main breaks are down, investment is moving ahead, we were granted the Waiver, etc. and we are sincerely devoting effort here.

**Adjournment of IROC**

At 12:04 Chairperson Peugh adjourned the meeting.

Recording Secretary: \_\_\_\_\_  
Monica Musaraca