

Independent Rates Oversight Committee – IROC

January 18, 2010

MINUTES

1. **Roll Call**

Chairperson Peugh brought the meeting to order at 9:32 a.m. Monica Foster 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	
Don Billings		X
Christopher Dull	X	
Andy Hollingworth	X	
Jack Kubota	X	
Colin Murray		X
Irene Stallard-Rodriguez	X	
Todd Webster		X
Gail Welch	X	
Ex-Officios		
Augie Caires, Metro JPA	X	
Ken Williams, City 10	X	

*Others in attendance: Roger Bailey, Director of Public Utilities; Tom Crane, Assistant Public Utilities Director; Tom Zeleny, Deputy City Attorney*

2. **Non-Agenda Public Comment**

There were no non-agenda public comments.

3. **Approval of the Special Workshop Minutes from December 13, 2010**

Chairperson Peugh asked for a motion to approve the Special Workshop Minutes. Committee Member Dull moved, Committee Member Welch seconded, with Committee Members Billings, Webster and Murray absent and no abstentions, all were in favor and the Minutes were approved.

**Approval of the Draft Minutes from December 20, 2010**

Chairperson Peugh asked for a motion to approve the Minutes. Committee Member Kubota moved, Committee Member Dull seconded, with Committee Members Billings, Webster and Murray absent and no abstentions, all were in favor and the Minutes were approved.

4. **Chair Updates – Chairperson Peugh**

None.

5. **City Staff Updates**

*Roger Bailey, Department Director*

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- As a result of the Mayor's State of the City Address, Bid to Goal will be concluding effective FY12. We will propose to honor the current contracts and promises made for FY10 and FY11. We will continue to strive for efficiencies.

Also mentioned in the State of the City Address, the Mayor indicated Public Utilities will be considered in the Managed Competition, which has already rolled out to two other areas of the City. Most specifically, with Public Utilities, it will be restricted to a limited section of Customer Service. Over the next several months, the Department will prepare for this.

- Congratulations to Terrell Powell, General Water Utility Supervisor, and his staff for responding and spending all night clearing approximately 1.5 million gallons of water at the Qualcomm Stadium due to the recent rain storm. Their effort made it possible for the football game to proceed as scheduled.
- Reminder of the Public Hearing for the Pass-through adjustment on January 24, 2011 at 2:00 p.m. He asked IROC members to attend if possible.

Stan Griffith, Deputy Director, Wastewater Collection:

- A graph was available showing the statistics for Total Spills from 2000-2010. For Calendar Year 2010 there were 41 Sanitary Sewer Overflows (SSO), 13 of which were public water spills, most caused from the recent storms. Since the last IROC meeting there have been 11 mostly due to the storms.
- A copy of the Watchdog report from the SD Union Tribune was provided. The City was commended for the Wastewater Collection Division's remarkable record in terms of reducing spills.

Committee Member Kubota asked if the number of personnel can be plotted on these spreadsheets, due to the reduction in personnel, and the Department continues to achieve success. Mr. Griffith took note.

Ann Sasaki, Assistant Director, Wastewater Branch

- The pump stations held up very well during the rain storm. In fact, at PS2 during the peak, all eight pumps were working.
- No spills on the Metro side.

Jim Fisher, Assistant Director, Water Operations Branch:

- 79 water main breaks so far this fiscal year to date, in comparison to 72 last year.
- There was minimal impact on the water system due to the rain storms, no impacts to the distribution or treatment systems.

Committee Member Kubota asked about the status of the Barrett Flume project, Mr. Fisher indicated it went operational approximately 10 days ago. Concrete covers were installed in the critical locations, and also made the necessary repairs. Committee Member Kubota also asked for the status of the Chollas Administration Building Project. Mr. Fisher noted there is an architect on board to assist with the Design/Build Contract

and expect it to be on street in the November/December 2011 timeframe, with an anticipated construction timeframe 8-12 months later.

6. **“Planned to Actual” Rate Case Projects for Water**

Jim Fisher provided a spreadsheet which listed projects contained in the Rate Case, and its summary sheet regarding the program itself. He referred to the presentation and handouts noting that the assumptions for the Rate Case were based on 2007 dollars with a 4% annual inflation. The Rate Case was developed to address and meet the Department of Public Health (DPH) compliance order and to meet future demands and system replacements. He added this is under the assumption the projects will be funded with 20% cash and 80% bond financing.

He briefly described the delays due to the reorganization and business process re-engineering in the 2007/08 timeframe, and the economic downturn. As a positive, the economic downturn did result in lower construction costs, which resulted in program savings. He reviewed the summary of planned expenditures which originally was planned to cover FY08-FY11 at approximately \$585,200,000. Because of the delays, the program will be extended to FY13, but as a result of lower bids and scope changes to certain projects, we are projecting the cost of the total program to be approximately \$518,289,732.

Mr. Fisher then reviewed the highlights for the program. In summary, the majority of projects proposed in this Rate Case, with the exception of the cancelled projects, are in the process of being implemented and will be completed by June 30, 2013 at a cost under the estimated Rate Case.

Committee Member Hollingworth indicated he would like submit a written list of questions relating to specific projects that can be covered at a Finance Subcommittee meeting. Mr. Fisher concurred.

7. **SRF Loan Funding for the Miramar Water Treatment Plant; and Increase in SRF Loan Funding for Otay Water Treatment Plant, Phase I**

Wilson Kennedy, Supervising Management Analyst, described this to be a low interest loan program established by the State and Federal government for project improvement to meet health based drinking water standards, activities related to the source water protection and improvement in the water system reliability. He reminded the IROC this request is for the Water side.

He mentioned in general, agencies can receive up to \$20 million per project and up to \$30 million per agency. He noted repayment is for 20 years and begins after project completion. Mr. Kennedy recapped the projects that were executed for the Water side in 2004 and 2010.

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He referred to handouts and described the \$27 million project (Otay Water Treatment Plant – Phase I) noting the Notice of Acceptance of Application from the Department of Public Health (DPH) reserving \$11 million. The State made available an additional \$7 million for the project which brings the total to \$18 million. He asked for the support to amend the funding Agreement to accept the additional \$7 million for the project. He added the interest loan has been locked into 2.5017% for this loan.

He then described the Miramar Water Treatment Plant which is a \$41 million project. CDPH deemed the City eligible to apply for \$20 million (cap) with a recalculated interest rate of 2.3035% which is lower than the original rate. Thus, decreasing the debt payment by approximately \$600,000, which is a savings for our rate payers.

He added using this SRF Loan program offers a lower interest rate compared to the traditional Bond Funding. After the recalculations, going with the SRF Loan financing shows a total savings for rate payers of approximately \$33 million for both projects. Mr. Kennedy requested the support to authorize the Mayor and/or designee to execute, for and on behalf of the City of San Diego, a SDWSRF loan, funding Agreement, Amendments, Reimbursement Claims, Final Release Form, and to take related actions for the \$18 million Otay Water Treatment Plant SRF Loan and the \$20 million Miramar Water Treatment Plant SRF Loan.

Chairperson Peugh asked for a motion to support. Committee Member Dull moved, Committee Member Welch seconded, with Committee Members Billings, Murray, and Webster absent, and no abstentions, all others were in favor supporting to authorize the Mayor and/or designee to execute, for and on behalf of the City of San Diego, a SDWSRF loan, funding Agreement, Amendments, Reimbursement Claims, Final Release Form, and to take related actions for the \$18 million Otay Water Treatment Plant SRF Loan and the \$20 million Miramar Water Treatment Plant SRF Loan.

**8. Subcommittee Reports:**

**a. Finance, *Andy Hollingworth, Chair***

- Discussion of the content and issues to be covered in the 2010 IROC Annual Report.

**b. Environmental & Technical: *Jack Kubota, Subcommittee Member***

- Presentation of the Water Purification Demonstration Project by Marsi Steirer and the professional Consultants. They presented the 90% complete actual plans, and an aggressive schedule. Very solid presentation.

**c. Public Outreach, Education & Customer Service: *Gail Welch, Chair***

Nothing to report, meeting was cancelled.

9. **Metro/JPA – Report Out**

Nothing to report, latest meeting was cancelled.

10. **Presentation: Effective Utility Management as a Strategic Planning Tool for Public Utilities**

Tom Crane, Assistant Director, provided copies of the presentation and referred to the slides. He indicated the Effective Utility Management (EUM) was put together by a large number of associations in water and wastewater management, and is used to enhance utility management and to help managers achieve performance excellence.

Mr. Crane indicated the manual has 10 attributes, 5 Management Keys to Implementation, and a 5-step Assessment and Planning Tool. He reviewed each of the 10 attributes which he described as a “piece to the wheel” for success. The EUM attributes were listed: Product Quality, Customer Satisfaction, Employee and Leadership Development, Operational Optimization, Financial Viability, Infrastructure Stability, Operation Resiliency, Community Sustainability, Water Resource Adequacy, Stakeholder Understanding and Support. Next, Mr. Crane listed the 5 Keys to Management Success which include: Leadership, Strategic Business Planning, Organizational Approaches, Measurement, and Continual Improvement Management Framework. He referred to handouts and described each in more detail.

He then reviewed the step-by-step process. This includes: Step 1- Candidly assess current condition; Step 2- Rank Importance of each attribute to your utility; Step 3- Graph attributes to determine importance and level of achievement; Step 4- Choose attributes; and Step 5- Develop and implement improvement plan. He then provided a chart of the EUM Ranking Exercise results from November 2010 Strategic Planning Session, and noted ALL of the attributes are very important and must be in play. He stated these results will be used at the February strategic planning meeting.

Chairperson Peugh asked IROC to keep in mind all of the attributes are important and how the wheel of “puzzle pieces” analogy works together. He added he feels the coherency of this process was valuable. Committee Member Kubota asked if the Leadership Development Program was underway? Mr. Crane stated yes, the candidates have been selected for the first classes which will begin in February/March and the curriculum has been approved. He would like to give a brief update once this begins. Mr. Crane added a mentoring program is also in the works, which is on a project basis with eight mentor/mentee teams selected and will last approximately 4 months.

11. **Water Purification Demonstration Project Update**

Marsi Steirer, Deputy Director, gave an oral report. She noted the Conservation Calendars from the poster contest held last year are made available after the meeting, as well as reusable bags as part of the Demonstration Project public outreach.

She began by indicating the facility itself is more than half of the project budget. She stated all is going smoothly, however the rain brought some concern at the concrete

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pouring area. The crews were able to work with this, and only put them behind schedule a couple of weeks. She added insulation activities will begin in March, and should be complete in early May, and tours should be open in the June timeframe. She noted as mentioned earlier, they did present to the Environmental & Technical Subcommittee recently, going over the detailed plans and schedule. Also discussed was the Testing and Monitoring Plan (Plan). The Plan is out for review by the California Department of Public Health as well as the Regional Water Quality Control Board, and she anticipates comments from them by the end of the month and should receive the presentation in the March timeframe.

Ms. Steirer indicated, going forward, there will be an additional Limnology workgroup meeting. She added over the last calendar year, there have been 60 speaker's bureau presentations and that all presentations are available on the PureWaterSD website. There will also be e-updates.

Ms. Steirer stated there will be tours of the key facilities including the Alvarado Water Treatment Plant, Pt. Loma Plant as well as the Advanced Water Purification Facility when complete. She mentioned that recently at SDSU there was a series of one-on-one, 63 face-to-face in-depth interviews, as well as 626 telephone interviews to City residences. This data will be looked at and will be used to enhance outreach activities.

Ex-Officio Member Williams asked if there was an update on the cost of the water for the Project. Ms. Steirer indicated not at this time, as it is included in the overall analysis in the report at the end. As part of the two contracts, they will provide full scale cost estimates associated with the equipment and will also have accurate O&M information, energy information, etc.

**12. Discussion of IROC's FY2010 Annual Report Development**

Chairperson Peugh asked the Subcommittee Chair's for their input of items, after discussion in their recent Subcommittee meetings.

Public Outreach, Education & Customer Service, Gail Welch, Chair

- Water Conservation Outreach
- Water Repurification Demonstration Project
- Improving the understanding of rates to the public
- Follow up to the Department's response if inclusions are needed going forward
- Possible other areas

Finance Subcommittee, Andy Hollingworth, Chair

- Focus on the scope of Department operations which may be included within managed competition and how managed competition is implemented within the Department.
- Focus on giving an evaluation of the CIP program, and the adequacy of financial reporting and controls currently in place

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Environmental and Technical Subcommittee

- Chairperson Peugh - Standard for evaluating valves.

Other comments/subjects:

- Committee Member Kubota suggested including a paragraph highlighting the contributions of Barry Newman.
- Chairperson Peugh would like to know the thought process for the Performance Audit as well as information on Personnel changes (salaried, retirement, etc.), reasons for turn-over, response to ads for hire, acceptance/turn down of positions.
- Chairperson Peugh suggested how to deal with issues when there are differences of opinions amongst the Committee members, in regard to verbiage in Reports, etc. Committee Member Welch suggested bringing the Report, or issues to the full IROC meetings to discuss with a full quorum.
- Vice Chair Hollingworth suggested IROC having input to the Department's 2012 Budget Schedule. Mr. Bailey indicated he has a meeting with his manager today and will look at the draft Budget (O&M and CIP) and find out if it is appropriate to discuss this information with IROC in advance. He will update the IROC on this, at the next IROC meeting.
- Chairperson Peugh suggested receiving information about the Managed Competition, particularly the overhead as a result of contracting out.
- Committee Member Welch suggested adding where we stand with the Pt. Loma Modified Permit, in preparation of the future.
- Committee Member Welch suggested having an Emergency Preparedness in terms of unexpected weather.
- Committee Member Welch suggested Automated Meter Reading.

**13. Proposed Agenda Items for future IROC Meetings:**

- Vice Chair Hollingworth asked about oversight of the Public Utilities Department RFP process and how the Managed Competition will work. Mr. Bailey indicated the Department will be presenting this outline in a future meeting.

**14. IROC Members' Comments**

Committee Member Kubota would like to know if there are reports from other Agencies about the process/progress of Managed Competition. Mr. Bailey indicated he will look in to.

The meeting was adjourned at 11:36.