

Independent Rates Oversight Committee – IROC

April 18, 2011

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1. **Roll Call**

Chairperson Peugh brought the meeting to order at 9:36 a.m. Monica Foster called the roll and a quorum was declared. Attendance is reflected below:

Member	Present	Absent
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	

Department representatives: Roger Bailey, Director of Public Utilities; Alex Ruiz, Assistant Director, Tom Crane, Assistant Director, and Tom Zeleny, Deputy City Attorney.

2. **Non-Agenda Public Comment**

None.

3. **Approval of Draft Minutes from March 21, 2011**

Action: Chairperson Peugh asked for a motion to approve the March 21, 2011 Draft Minutes. Committee Member Billings moved, Committee Member Welch seconded, with Committee Members Dull, Murray and Webster absent, all were in favor to approve the Draft Minutes. Later it was found the date needed to be changed from “2010” to read “2011”.

4. **Chair Updates – Chairperson Peugh**

- Commented that members were expecting to see different formats for the CIP reports, and asked Guann Hwang if this would be provided soon. Mr. Hwang concurred and should have examples available next meeting, but agreed to email them to Committee Members Hollingworth and Billings ahead of time, if complete sooner, to save time on finalizing them. The final versions will be presented during the quarterly report in June.

5. **City Staff Updates**

Alex Ruiz, Assistant Public Utilities Director

- (Two memorandums to NR&C related to Indirect Potable Reuse (IPR) and Water Budget Based Billing were circulated to the IROC). Listed items coming

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forward to NR&C on Wednesday, April 20, at 2:00 pm at the City Administration Building, floor 12. Items included consent items as well as an item on the Drought Response which the Mayor will recommend to Council we eliminate the Drought Response Level 2 and revert to “normal conditions” consistent with the actions taken by the MWD earlier this month. Also coming forward is the Acceleration of Expenditures related to Customer Care Solution (utility billing system); updates on Indirect Potable Reuse and the Urban Water Management Plan, which was presented to IROC’s Environmental & Technical Subcommittee recently; and Budget Based Water Billing being an informational item.

Marsi Steirer, Deputy Director, Long Range Planning & Water Resources

- In process of updating the 2002 Long Range Water Resources Plan. Typically have stakeholder process, this plan identified increments of alternative water supplies the City could achieve in 2010, 2020, and 2030. She provided a description to the members for those interested in participating as stakeholders. Please reply to Chairperson Peugh.

6. FY2012 Proposed Budget for the Public Utilities Department

Lee Ann Jones-Santos, Interim Deputy Director, Finance & Information Technology, presented the FY2012 Proposed Budget. She stated that the proposed budget totals are \$781.7M, which is an increase of \$10.6 million from FY2011. This is primarily due to the increased cost of water from the San Diego County Water Authority’s (CWA) purchases. She noted there is a decrease in the FTE count of approximately 31.94 positions found through efficiency studies and consolidation. She then reviewed the FY2012 significant budget changes, and presented a high overview of the budget.

Ms. Jones-Santos referred to handouts and reviewed the individual projects for the FY 2012 Proposed Wastewater (\$91M) and Water (\$109M) CIP Budgets. She then opened for questions and comments.

Ex-Officio Member Williams asked how the Proposed FY2011 compares to the FY2011 expenditure projections. Ms. Jones-Santos indicated that expenditure projections were used but does not include any year-end adjustments posted by the Comptroller’s Office. Exact figures are pending and not yet available. However, the year end projection of expenditures for FY11 should be available in the May timeframe and staff will brief IROC at that time.

Vice Chair Hollingworth asked if there would still be a change in water rates this and/or next year in light of reports of increased water supplies. Mr. Ruiz reminded him the Metropolitan Water District has already approved a 7.5% increase for January, 2012 and is proposing a 5% increase for 2013.

Vice Chair Hollingworth notified IROC that the Department has agreed to provide him a long-term cash flow forecast based upon their current schedule for the CIP Program and

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forecasted expenditures to justify the build-up of reserve and cash is necessary, he also suggested the Department perform a mid-year review and if the actual water sales are substantially higher than anticipated he recommends IROC request that the Department review the feasibility of implementing a special rebate at year end. Committee Member Billings reminded IROC to keep in mind, if water sales are higher than anticipated in the budget, so will the costs of purchasing water.

Karen Smith, a member of the public representing UCAN commented that the CWA water rate pass-through was created with the intent to cover the additional water purchase cost from CWA which was projected to collect \$25M. She asked how this figures in, based on the slide presentation cost showing only \$14M. Ms. Jones-Santos indicated you must take into account the contractual and taxes in lieu component, in addition we budget for current consumption with a conservation factor. Alex concurred, as it is based on the projections for demands in the succeeding fiscal year, in addition we absorb \$3M by implementing the CWA pass through on March 1 instead of January 1. He noted this proposed Budget does not include the projected 7.5% increase that would be in effect January 1 if the CWA takes action anticipated.

Committee Member Welch asked if Purple Pipe is budgeted, if not where the funds would come from, if an additional study were required for Purple Pipe. Mr. Ruiz indicated there are no additional monies yet identified in the CIP for those prospective projects associated with the recycled water distribution system. Ms. Jones-Santos added there is a Director's contingency for Water and Wastewater, if the Department decided to go in that direction. Marsi Steirer, Deputy Director, Long Range Planning & Water Resources added the Recycled Water Report will be available in August.

Vice Chair Hollingworth asked, in regard to his understanding with increased rates due to a drop in sales, expecting an increase in sales volume would a decrease in rates be expected? Mr. Ruiz pointed out over the past 5 years, the rate increases that have been recommended and approved by Council were not due to a decrease in retail sales. They were simply to recover the wholesale cost of water.

Vice Chair Hollingworth made suggestions of perhaps having a May revise which if revenues were above and beyond what was projected, perhaps there could be a special rebate. Mr. Bailey answered fundamentally; we need make an assessment where we are relative to our expenses and revenues. He would like to come back at a later time after all costs of service analysis and necessary assessments have been performed. Committee Member Billings, reiterated this would be very premature to assume, as the volume of sales is mirrored in the volume of purchases and he expressed caution to the members to very careful not to prematurely assume conclusions or expectations. He then suggested having another discussion or presentation regarding Reserves in a future meeting.

Committee Member Kubota added in his opinion, the water and sewer system is in dire need of upgrading as well as having a large amount of debt and if there are funds

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available, no matter the resource, they should be utilized for this reason. He added he does not support any move to decrease the availability of funds to get to the goals we have. This system needs attention and will not come if we do not use available funds. Chair Peugh reiterated that excess funds will go into the DRES.

Ex Officio Williams indicated he feels Budget vs. Budget is not a desired format. He would prefer to see Budget to Actuals. Ms. Jones-Santos indicated that current year monitoring reports, showing the budget to actual expenditures, are periodically presented to the IROC Finance Subcommittee. It is not in this particular format because this is not how it is presented from a Mayoral perspective to Council. Committee Member Billings added the Finance Subcommittee does see the information. Ex-Officio Williams indicated he would have difficulty supporting if it is not provided in a preferred format.

Committee Member Billings indicated he supports this budget with the condition that the 2011 “expenditure actual” do not deviate materially from 2011 Budget in whole or any significant line item. Mr. Williams disagreed, and feels it is a big assumption. Committee Member Billings reiterated it is a condition, not an assumption. Vice Chair Hollingworth stated he would like to revisit, and include the May Revise of revenues, if trending significantly higher would warrant a special rebate; and recommend the justification for the buildup of reserves and cash/investments in both the Water and the Sewer funds also be included as a condition.

Chairperson Peugh asked Mr. Ruiz if these suggestions are contrary to policy. Mr. Ruiz indicated performing a May Revise is not contrary policy. However, giving a rebate would not be consistent with our rate case methodology. He then pointed out mid-year would be the January timeframe, which is normally the lowest demand period. This would not show increased sales volume until the Spring, with the revenue not showing until end of the fiscal year. Vice Chair Hollingworth stated this would be reasonable. Mr. Ruiz indicated basing a rate rebate on 30 days worth of incremental revenue increase could be problematic. Committee Member Welch also expressed her concerns with not having actuals expenditures to compare.

Mr. Ruiz proposed again discussing the FY12 Proposed Budget at the May IROC meeting. These can be indicated when we come back next month, and potentially include the projections for year end for FY11 to give additional comfort to the IROC, these figures are in line with expected Actuals. He stated this proposed Budget goes to Council May 6 where it is heard, and Council can make recommendations for revisions if necessary. The next IROC meeting is May 16. He indicated the official Budget does not get approved until June, which is at the discretion of the Mayor’s Office. Mr. Ruiz proposed having a special IROC meeting prior to May 6, to review the information to see what can be presented at that time.

Initial Action: Upon motion by Vice Chair Hollingworth: He will support proposed budget if: (1) the Department comes back in May with projected 2011 operating results;

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(2) in May 2012, the Department revisits the actual sales volumes to consider whether a special rebate to the ratepayers would be in order if water sales are substantially higher than anticipated in the Budget; and (3) the Department comes back to IROC via a cash flow forecast to justify the build-up of reserves and cash and investments in the Water and Wastewater funds.

Mr. Ruiz offered clarification to point (2) above, he indicated it would be more appropriate, if that is the IROC's desire, based upon a reduction of costs of purchased water, which is more meaningful than the sales volume. Committee Member Billings agreed. Vice Chair Hollingworth then recommended comparing both costs and revenues and believes the Budget and Finance Committee should review this before approving the Budget.

Committee Member Welch offered to modify Vice Chair Hollingworth's motion at point (1) above to read: "(1) the Department comes back showing projected 2011 operating results that do not materially differ from the 2011 Budget".

Chair Peugh asked for a second on this motion with said modification. Committee Member Welch seconded Vice Chair's motion with point (1) modified as outlined above. No other IROC Members were in favor to support this motion mainly due to point (2) of Vice Chair's motion.

Committee Member Kubota stressed that asking for a rebate could be detrimental if there is a major issue with our water/sewer system. Chair Peugh then reminded the IROC the Rate Case did provide a policy of what happens with excess funds which is to deposit them in the DRES. Committee Members Billings and Stallard-Rodriguez concurred.

Final Action: Committee Member Billings made a motion to support this item on the condition that the Department provides IROC with actual expenditures from 2011 that does not materially differ from the 2011 Annual Budget. Otherwise this is withdrawn in effect.

Mr. Ruiz stated we can revisit this item providing additional granularity at the next IROC meeting, which can reaffirm the support of IROC that was made conditional today. IROC can determine if the information provided is materially different or not.

Committee Member Stallard-Rodriguez seconded the motion with the condition stated. With Committee Member Hollingworth voting NO, and Committee Members Dull, Murray and Webster absent, all others were in favor of this motion.

7. **Request to Accelerate Customer Care Solutions Billing Project funding due to early implementation**

Mike Vogl, Deputy Director, Customer Support Division, presented the recommendation of IROC's support to transfer funds in the amount of approximately \$4.9M to the CIS

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Enterprise Resource Planning (ERP) Project, also known as Customer Care Solutions project.

He provided background of the project, noting that the SAP ERP Core Components software was purchased in 2007. Public Utilities is implementing an integrated real-time enterprise customer information and billing system with SAP Industry Solution – Utilities modules, which is a replacement of the existing Customer Information System, moving into the SAP system. Deloitte Consulting LLP is the City's partner for this effort.

Mr. Vogl listed the goals and objectives for this project and reviewed the current project timeline. He indicated the go-live date is currently targeted for July 5, 2011. He added this is an accelerated go-live date as originally the go live date was August 31, 2011. Therefore, being ahead of schedule, the associated expenses will occur in FY 2011, hence the reason for this request. In turn, the FY2012 funding for this project will be reduced by an equal amount resulting in a net change in total project cost of \$0.

He indicated the transfer would be split equally between the Water Utilities Operating Budget and the Sewer Operation Budget.

Committee Member Billings asked if certain functions are outsourced, will the new firm be required to use this platform. Mr. Vogl indicated yes, whoever is providing the service would use this system.

Action: Chairperson Peugh asked for a motion. Committee Member Billings moved, Committee Member Stallard-Rodriguez seconded, with Committee Members Dull, Murray and Webster absent, all others were in favor of supporting this request.

8. San Diego Intertie Feasibility Study

Marsi Steirer, Deputy Director, Amy Dorman, Project Manager, and Brent Eidson, Policy Advisor, were available for this presentation. Ms. Steirer recognized, and also present, Cathy Pieroni who has worked on this project for many years including the negotiation phase. She also recognized Peggy Strand who was present earlier, from Sweetwater Authority, who is a partner in this study.

Amy Dorman indicated she is asking support for this study. Gave a brief background of this study and noted through this study there will be evaluations of the local reservoirs and what facility improvements could be made to provide more flexibility in moving water between the reservoirs. She stated the overriding objective is to increase our local supply reliability through better management of our storage capacity.

Ms. Dorman pointed out that 5 reservoirs will be looked at initially, which 3 are owned by the City of San Diego, and two are owned by Sweetwater Authority. The study will be conducted in 2 phases: Phase 1 - Pre-feasibility which the outcome is to identify a preferred alternative to take forward into Phase 2 to develop further. Phase 2 –

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Feasibility where we will prepare a “30% Design” requested by the Federal Government, and is much more extensive than usual. Not only will construction drawings be prepared, but the final study report will include a water quality analysis as well as a cost benefit analysis. Phase 3, the preparation of NEPA/CEQA documents, is not included in the current proposal. Based on the outcome of Phase 2, it can be determined if it is necessary to continue to participate in Phase 3. Ms. Dorman then reviewed the shared costs between the Bureau of Reclamation (50%); the 50% non-federal share would be met through Proposition 50 grant funds, City of San Diego funds and Sweetwater Authority funds. The City’s share of the total Phase 1 & 2 cost is ~30%.

Brent Eidson then presented the legislative background. He stated the City has worked through our legislators in Washington, DC to obtain authorization for this project since 2006. In 2009, it was authorized to spend up to \$3M with a 50% local cost match, which Ms. Dorman spoke about. Other funds needed are pending, and not approved as of yet. Also, with House eliminations of “ear marks”, valuable funding is halted. He added we are awaiting abilities for the direction of monies to this project, to see appropriations matching the authorization of the \$3M.

Ms. Dorman concluded with the request of IROC’s support for the Intertie Feasibility Study, expenditure of \$1,409,807 from the Water budget over fiscal years 2012-2014, and support to enter the agreement with the Bureau of Reclamation and Sweetwater Authority, as well as amend the Proposition 50 Grant Agreement, to name the City of San Diego the lead agency.

Committee Member Billings asked if this project will lend itself to capturing more local runoff, and storing more available water, optimally using the reservoirs. Ms. Dorman indicated yes, this is the goal to capture as much water as is available so in time of more constraints, we have the water available. Ex-officio Williams asked how the CWA interacts in this study, also in regard to the portion CWA has put into the expansion of San Vicente. Ex-officio Cairns added this has been in the works for many years, and is a concept that makes a lot of sense, is a great promise, and should be considered. It enables the City and the region to optimize its own storage, and currently, we are under utilizing storage.

Action: Committee Member Billings moved to support this study, Committee Member Kubota seconded, with Committee Members Dull, Murray and Webster absent, all others were in favor to support.

9. **Subcommittee Reports:**

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

- This morning’s meeting discussed the budget as well as a letter from the Utility Consumer’s Action Network, indicating they believe a violation of Prop.218 has occurred. The Department will work to formulate a study as to the feasibility of a allocation based rate structure.

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- He will begin a study of his own, benchmarking the Department's cost structure against a peer group of public and investor owned utilities and the comparison.
- b. **Environmental & Technical:** *Jack Kubota, in Todd Webster's absence*
- Presentation of the Council Member Lightner's proposal for the Comprehensive Policy. Made the recommendation for IROC to support, and hopes to have on the next IROC Agenda.
 - Presentation of the Urban Water Management Plan
 - Presentation of the Gray Water Regulations.
 - Discussed the Annual Report.
- c. **Public Outreach, Education & Customer Service:** *Gail Welch, Chair*
- At the April 11 meeting, Ms. Morrow-Truver took ideas for a future Human Resources Management presentation regarding how to retain and incentivize employees.
 - Michael Vogl gave update of Customer Care Solution project, and introduced them to the utility bill redesign. She encourages IROC to look on the Water website page and respond to survey.
 - Discussed ongoing public outreach efforts (San Diegans Waste No Water Campaign). She encourages and promotes conservation and non-waste.
 - Discussed Annual Report.
 - Mr. Kubota added Earth Day Festival is this Friday at 11:00am, at Qualcomm, 5775 Morehouse Drive, San Diego.
10. **Metro/JPA – Report Out**
No meeting was held.
11. **Presentation of a typical Environmental Impact Report (EIR) Mitigation Impact on a Utility Project**
This Item was not heard due to lack of time.
12. **Managed Competition Program: Pre-Competition Assessment Report and the Preliminary Statement of Work for Public Utilities Customer Service Functions**
Barbara Lamb, Program Manager, reminded IROC she presented an overview of the Managed Competition Process in general and how it relates to the Public Utilities Department, two months ago.

She gave a brief overview of the previous presentation to IROC, and a high overview of the steps necessary for the process. She then provided an update and status of the overall managed competition. She indicated since the last presentation, the pre-competition report has been issued, which is a public document and available on the City's public website. It was determined the customer service function within Public Utilities is

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eligible to proceed through the process. Also completed was the generation of the Preliminary Statement of Work, which should be available on the Council Rules Committee website.

Ms. Lamb indicated, in relation to Public Utilities, we anticipate going to full Council in May and spending the summer developing the Statement of Work and issuing the RFP in September and will receive proposals in November. She stated the estimate is to receive the proposals, taking a few months for evaluations and recommendations, and conduct meet and confer with Labor Relations and potentially go before Council for approval roughly in the summer months of 2012. She added depending on the outcome of proposals, we could transition to the City's new proposed configuration or the outside service provider perhaps by the end of 2012, or early 2013. She then reviewed the status of other 5 functions currently involved in the Managed Competition process.

Vice Chair Hollingworth requested a Public Utilities organization chart showing costs associated with the organizational units. Mr. Ruiz indicated there is not one currently available, however there are other budgetary documents showing these cost centers. Ms. Lamb stated in context of the pre-competition assessment, that information cannot be included which would be revealing procurement sensitive information that is not allowed. Tom Zeleny, Deputy City Attorney, concurred.

Cathleen Higgins, San Diego Municipal Employees Association, representing the City employees on this particular function of the Managed Competition, indicated she participates with the other functions in the Managed Competition, but this particular function is different. She shared her concerns stating this is a function still in a contract with the Bid to Goal, as well as the City has invested a substantial amount of time, training and money on the new computer system being implemented, and to have a third party vendor take over, would not be forward thinking. She stated next Wednesday this will go before the Rules Committee and at Council in May. She indicated she is not certain what role, if any, IROC plays in this process but is here in hopes that IROC has a very big role in this process.

Committee Member Welch thanked her for communicating her concerns and has had similar thoughts, with regard to the efficiencies already established and the 12 months it takes to implement the new computer system. Committee Member Billings added he does not believe IROC has a formal role in the decision making process, but can weigh in and express concerns/thoughts. Tom Zeleny, Deputy City Attorney indicated the Managed Competition process is managed by the Managed Competition Review Board. However, IROC is still an advisory body the Mayor and City Council and your concerns and comments are important.

Committee Member Billings would like more information on the decision drivers. Ms. Lamb indicated the Business Office has developed a very complex cost comparison tool which was based on the Federal Government tool used. She stated she could provide

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interested IROC members with a separate session to learn more about how it calculates. Chairperson Peugh indicated he would like Ms. Lamb to present to the Public Outreach, Education & Customer Service Subcommittee to better understand the process.

13. **Adoption of FY2010 IROC Annual Report**

This item was not heard due to lack of time. This item will be tabled to the next meeting.

14. **Accepting nominations for the election of a new member to the Finance Subcommittee:**

This item was not heard, and tabled to the next IROC meeting.

15. **Proposed Agenda Items for the next IROC meeting**

- Annual Report
- FY2012 proposed budget
- EIR Mitigation impact on a utility

16. **IROC Member's Comments**

None.

The meeting was adjourned at approximately 12:03.