

Independent Rates Oversight Committee (IROC)

November 19, 2012

M I N U T E S

1. Roll call

Chairwoman Welch called to order the regular meeting of the IROC at 9:33 a.m. Monica Foster conducted roll call, and a quorum was declared. Attendance is reflected below:

Members:	Present	Absent
Gail Welch, Chair	X	
Don Billings, Vice Chair	X	
Christopher Dull	X	
Noam Glick	X	
Andy Hollingworth <i>arrived at 11:30</i>	X	
Jeff Justus	X	
Jack Kubota	X	
Jim Peugh	X	
Michael Ross		X
Irene Stallard-Rodriguez		X
Todd Webster	X	
Ex-Officio Members:		
Luis Natividad, Metro JPA	X	
Ken Williams, City 10	X	

City representatives present: Tom Crane, Assistant Director; and Tom Zeleny, Deputy City Attorney.

2. Non-Agenda public comment

Ms. Julia Chunn Heer, representing Surfrider Foundation, commented related to the County Water Authority's (CWA) water purchase agreement consideration for desalination. She referred to IROC's letter last month with concerns over this agreement, and indicated this was to be discussed at the last Natural Resources & Culture Committee (NR&C) which was unfortunately cancelled due to lack of quorum. She indicated these concerns have not been fully vetted with the proper audience and urges IROC to take an opportunity to send a follow-up letter or statement to make sure these concerns are considered and fully vetted. She noted the CWA is pushing forward to have a vote on the water purchase agreement on November 29, which is their last Board meeting of the year, as well as the first opportunity to vote on this.

3. Approval of Draft Minutes of October 15, 2012

Action: Chairwoman Welch asked for a motion to approve the minutes.

Member Peugh indicated he would like the motion on Item 9 to be changed from, "...until the Rate Structure is agreed upon." To read, "... until the Rate Structure is agreed upon, the Public Utilities Department has evaluated the specific impacts on rate payers, and the Cost of Service Study completed.

Member Peugh moved to approve with said correction, Member Justus seconded.

Member Billings asked to withdraw the motion, and defer the approval of the minutes until he can provide more detailed information to capture the content and spirit of his

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comments, due to the malfunction of the recorder during this meeting. Chairwoman Welch concurred and withdrew the motion, to carry this item to the next full IROC meeting for action.

4. **Chair updates** – *Chairwoman Welch*

- Welcomed newest IROC member, Noam Glick, who is filling the legal professional position on IROC. Member Glick gave a brief background, indicating his years working as a legal professional, as well as his experience working with environmental policy issues, consulting for public sector clients (EPA) on climate changes, etc. He is excited to be on board.
- Commented on the Call Center Tour of November 8, she was very impressed by the improved response times, staff layout, professionalism, and staff dedication.
- Gave update on the desalination water purchase agreement (Desal), after IROC's letter of October 18 to Mayor and Council. Since then, Mayor Sanders has appeared at the CWA Board meeting of November 8, and spoke in support of the Desal project. She and Member Billings met with City 10 on November 15, prior to the special CWA Board meeting and addressed IROC's concerns, City 10 resolved that overall the City needs to be water independent and take a more holistic approach, they did not feel Desal competes with IPR, and that both are needed. Next steps are CWA Board will take an up/down vote on the Water Purchase Agreement November 29. If approved, there will be a COSS and recommendations made on how to legally, fairly and equitably allocate costs.

Vice Chair Billings added that at this special Board meeting, they raised questions and expressed the concern with the extreme cost of financing this, as well as private equity over the life of this "deal" in which the investors have a fixed rate of return. He noted this deal does not solve the reliability, in fact in the most recent water restriction environment the demand was reduced by 14%. He feels if we were to enter into this contract, we should first have the most public airing for the need for this supply, the alternatives available, financial information, and only then consider it. After that meeting, he indicated he was more concerned than initially. He continues to believe this is not a well structured deal nor in the best interest of the rate payers.

Ex-officio Williams, who also sits on City-10, emphasized that City-10 has not arrived at a decision. He indicated he was also at the same meeting spoke about, and the quotes were comments from individuals, and most likely not intended to represent the City-10 group. There has yet not been a vote.

Member Kubota added he understands the reason of the consideration of action next week, is due to a "deadline" of December 31, 2012. Vice Chair Billings indicated it has been represented that elements of the project may walk away, or re-open their bids if the water purchase agreement is not signed, but it has not be confirmed.

- In the Special Finance Subcommittee meeting of November 2, the Draft Annual Report was agreed to go forward to the Ad-hoc Annual Report Committee. The

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Finance revisions are being finalized and should be ready for review at the next full IROC meeting.

- IROC's proposed revisions to the Municipal Code were approved by NR&C to go forward to City Council for approval. Mr. Zeleny added this will require two readings, at least 12 days apart, at City Council before adoption.

5. City Staff updates

Tom Crane, Assistant Director of Public Utilities

- Public Utilities Department won the Platinum Award for Utility Excellence, from the Association of Metropolitan Water Agencies. Brochures of the event were passed out. He added we were 1 of 10 agencies in the country to win the Platinum Award, as well as the only agency to win in the state of California. Effective utility management, refinancing savings, achievements and efficiencies were just some of the acknowledgements.
- Presented and distributed the new Public Utilities Department organizational chart, as well as a memorandum to employees from Roger Bailey, indicating the reorganization of the department. This reorganization offers the opportunity to achieve a common skill set amongst the Branches and how to be one Department with one mission. It is anticipated a transition period for the complete operational effect to take place.

Some changes to the reporting include: Ann Sasaki leading the Business Support branch; Stan Griffith promoted to Assistant Director for a newly organized branch, Distribution and Collection; Tom Crane continues to lead Strategic Programs; and a vacant Assistant Director position for a new branch, Water Quality. Deputy Directors and Program Managers will provide the opportunity and method to obtain input from their respective teams, and suggestions will be aggregated for consideration by the Executive Team. Roger Bailey is excited for the next evolution of the City's Public Utilities Department.

Stan Griffith, Assistant Director, Wastewater Collections

- Since the last IROC meeting, there have been no sewer spills. This year to date: 33 opposed to 28 same time last year. This time last year there were 10 public water spills, and this year zero, which is phenomenal. We are a just a fraction of the volume released a year ago.

Stan Medina, Deputy Director, Construction & Maintenance

- Water main breaks: Year to date were 75 water main breaks, last year to date were 74. Total for calendar year 2011 was 94 vs. 132 for calendar year 2010.
- Since the last meeting, there was a significant water main connection break in the Midway area due to poor workmanship on the City's part. An improper fitting was installed, and staff immediately held a tailgate training. New ways of identifying will be implemented, such as color coding the two different types of parts. It took less than an hour to secure the spill, which was within the target time.

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Member Kubota referenced a few smaller **breaks** recently noted in the Sea World area, and asked if there are incident reports created. Mr. Medina indicated yes, breaks are also mapped in a system which gives all information including incident reports. Gathered information is provided to Engineering & Capital Projects. Ex-officio Member Natividad asked how valves are marked in order to avoid them being covered by asphalt or construction. Mr. Medina stated a major program was implemented approximately 6 years ago, to be able to identify all valves. If a valve is covered or obstructed, crews can back-up the system to prevent flow and potential damage.

Vice Chair Billings asked was there anything in the new Federal and State orders to achieve a certain level of investment in mains, did this include the measurement of output or performance improvement in the sense of breaks overall that we are required to meet? Mr. Griffith indicated on the Consent Decree, the order is to replace 45 miles per year, and the City has exceeded this requirement, to his knowledge, there is no particular output measure.

6. Mayor and Council Staff Comments

None.

Vice Chairman Billings commented that when IROC was created, it was widely publicized that IROC advises the Mayor and City Council. He indicated it is frustrating that no one from their staff comes to the meetings, and the level of engagement is minimal. He would like to see the Mayor and/or City Council attend IROC meetings. Ex-officio Member Natividad suggested an invitation be sent to when new Mayor begins office, to come to a future meeting.

7. FY2012 Annual Water Conservation Report

This item was heard out of order, following Item 8. Marsi Steirer noted this report is prepared annually, and the last report was imbedded within the 2010 Urban Water Management Plan approved by the City Council in June 2011. Next, Chris Robbins, Supervising Management Analyst, Water Conservation section presented information on the Annual Water Conservation Report (Report). He mentioned the different current costs of different types of water available.

He briefly reviewed the Water Conservation Act of 2009, also known as the 20x20 Plan, has a California state goal of reducing per capita urban water consumption by 20% by the year 2020. He reviewed the water conservation savings since the program began in 1985 (almost 32 million gallons per day), and pointed out that more than 327,000 toilets/urinals have been retrofitted saving 10.2 million gallons per day. He noted the drought is over, but not forgotten. We must always do our part to conserve water.

He referred to illustrated handouts and shared several examples of conservation and outreach such as low water landscaping in yards, use of rain barrels, survey programs, poster and film contests, rebates, contests, etc. He added the Metropolitan Water District

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offers rebates for residential customers and commercial customers as well as different devices for use to conserve water.

Ex-officio Member Natividad asked if the City helps to educate the smaller cities with the knowledge and incentives such as rain barrels, etc. Mr. Robbins indicated the San Diego County Water Authority (SDCWA) has a water conservation group that shares this type of information with other cities. Luis Generoso, Water Resources Manager, added that in about a month the SDCWA is rolling out their Prop.50 rebate program becoming available to the rest of the county (turf conversion, micro spray irrigation, irrigation controllers, etc.).

Member Kubota asked if there is anything that parallels this in the recycling program. Ms. Marsi Steirer indicated yes, there is an ongoing program promoting this as well as others which she indicated was described in the Urban Water Management Plan. Chairwoman Welch suggested that an upcoming campaign could be geared around outdoor wateruse/waste.

Member Glick asked, if on the landscape projects, has a study been done for potential water savings, which may be beneficial to understand water conservation compared to other potential efforts to handle the water supply issues. Mr. Generoso commented there have been several studies done which identify potential savings from outdoor irrigation. In terms of cost effectiveness, it differs by location (i.e. inland vs. coastal).

8. Water Policy Implementation Task Force Update

This item was heard out of order, following item 6. Cary Lowe, Chair of the Water Policy Implementation Task Force (Task Force) described of what the Task Force is, and what it is currently doing. He noted it is important to interact with IROC, since much of their work overlaps with IROC's tasks. He indicated the Task Force of 11 members was appointed in April, 2012 as an outgrowth of water supply policies adopted by the City Council, with the intention of giving the Council some recommendations in prioritizing and implementing various adopted policies. He indicated the Task Force meets on a monthly basis, being educated by various presentations, tours, meetings, etc., to stay at the same level as to the water supply issues facing the City.

Mr. Lowe indicated a series of working groups have been established, dealing with water conservation, water reuse and recycling, rate structure reform, and new technologies. Currently, an initial set of recommendations has been adopted on conservation, and next week will adopt recommendations on reuse and recycling at meeting as well as a report-back on rate restructuring. He noted sometime in the spring, he is hopeful to deliver a full report to City Council. He reminded IROC that this report must be reviewed first by IROC as well as the City's Attorney's office.

Vice Chairman Billings indicated he appreciates the work put forward. He added a few IROC members have been participating in developing the City's long range water resources plan, and is essentially complete, and published soon. He asked if the Task Force has had the opportunity to review this work and the conclusions it is drawing in

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terms of supply options. Mr. Lowe stated they are fully aware of this work, and will take it into account and noted 2 of the members also sit on the advisory group for the Long Range Water Plan. He added copies have been distributed to all of the Task Force members.

Member Peugh asked if minutes are available or distributed. Mr. Lowe indicated they are posted on their website and available at the meetings. He indicated his staff person will routinely forward them to IROC.

Chairwoman Welch asked for a brief update on Grey Water Reuse. Mr. Lowe indicated this was part of the reuse and recycling discussion, and has not yet adopted recommendations. He indicated he believes there is a lot of support within the Task Force for the concept of Grey Water installation, but comes with environmental issues as well as building industry. This will be discussed in depth next week.

9. **Impacts of not passing through the January 1, 2013 San Diego County Water Authority water cost increase to City of San Diego water rate payers**

Lee Ann Jones-Santos, Deputy Director of Finance and IT, along with Jeanne Cole, Program Manager of Rates and Finance and Tom Haynes, Program Manager of Budget, reviewed detailed presentation handouts. Ms. Jones-Santos mentioned we are always looking for efficiencies to lower the burden on rate payers and have a commitment to our rate payers.

Ms. Jones-Santos referred to various slides, and reviewed the calendar year 2012 rate increases and fiscal impacts, which the City absorbed. She then reviewed the 2013 rate increase and impacts, as well as the department actions to absorb costs. She also mentioned the efficiency initiatives for 2007 through 2012.

Ms. Jones-Santos briefly reviewed the 2013 budget, pointing out the largest component is water purchases. She noted that when this budget was put together, this did not incorporate the CWA pass through for calendar year 2013. She showed the debt coverage ratios, noting through the Bond contract, we are obligated to meet a minimum requirement, as well as mentioned in the Annual Report. She pointed out that part of the change from the Official Statement (projection for FY2012) does not include Grant proceeds (approximately \$46M received in FY12 deemed to be utilized for coverage ratio not in the projections, this decision was reviewed and approved by DPWG attorney), thus increasing overall rates for 2012.

Ms. Jones Santos indicated she received a list of questions/concerns from Member Hollingworth and gave responses to them. One particular question was regarding the Budget vs. Actuals for the reserves, specifically DRES and the Rate Stabilization and ending balance. She gave details and explained that during budget preparation, a revenue and expense statement was developed and included reserves. She noted that the department follows the City Policy and the Budgeted Reserves follow the reserve policy and was put together the previous year (2011), therefore the Department was unaware of a CWA pass through for FY2012, and what the City's position would take on the CWA

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rate increases. The department provided multiple sensitivities for City management to determine what action they would take in absorbing or not absorbing the calendar year 2013 pass-through.

Ms. Jones Santos then clarified and explained the reserve policy, as well as the guidelines for the use of DRES funds, and described that the verbiage used in his concern of “the water fund has been generating a \$25M annual operating “surplus” each year, is actually funds identified to be utilized in outer years to meet debt coverage ratio to be sensitive to rate impacts, is not necessarily a “surplus” but actually the Department looking very hard into efficiencies, being able to reduce expenditures to hold off on the pass through rate increase. She also clarified the difference between the 2013 debt ratio projections from the Official Statement of the 2012 refunding vs. current projections. She then indicated she will be documenting all responses back to the Finance Subcommittee.

Member Dull asked what the ratio about long-term vs. one-time savings, with his concern of seeing other agencies not raise rates and absorb rates by taking from reserves, which can cause problems. Ms. Jones-Santos indicated the Cost of Service Study is underway, which will recalibrate our rates. So any one-time savings that may have been able to be identified and any going forward out, are being incorporated.

Ex-officio Williams commented that (slide 9) projected debt coverage ratios for 2013 look thin, and not much commentary is offered. He asked for comments on how the rating agencies will react to these numbers, which he understands are still within the requirements? Ms. Jones-Santos indicated from a Department perspective, with a conservative reputation with the rating agencies, when projections are made we normally come in better than what is shown. They could also appear thin due to the incorporation of the CWA rate increase. She added the goal is to be as conservative as possible with projections. This is internally tracked, and an annual disclosure reporting does include this information.

Member Kubota commented in regard to the pass through absorptions, is there an opportunity to create a climate of education, this enterprise needs to function with a decent revenue stream to take care of business. Mr. Billings noted during the Mayor’s Press Release, it was stated this was a temporary situation and will have recapture this at some point in the future. He believes there will be a rate shock going forward. He also noted nobody in the Mayor’s office has consulted IROC. Ms. Jones-Santos added during the 2012 Bond refunding for the water fund, the use of the rate stabilization fund and operational efficiencies was documented in depth. They did ask a lot of questions regarding the absorption of the pass through. She added to see the Official Statement, page 68 for in depth coverage on this subject.

Member Hollingworth commented between the ending surplus and the cumulative aggregate costs of the Rate Stabilization Fund, and the DRES fund, could potentially draw down those for two years to fund down the increased cost, not including the operating surplus. Ms. Jones-Santos clarified and described in detail that the reserves

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cannot just be “drawn down” without an impact to the debt coverage ratios. Member Hollingworth indicated he will contact Ms. Jones-Santos to discuss further.

Ex-Officio Member Natividad asked if there is a summary report available showing the use and deposits of the DRES fund. Ms. Jones-Santos stated yes, the CIP group provides information. When deposits are made, a summary report is prepared and brought to the Finance Subcommittee, which is due. She added figures have been calculated through 2009 related to the CAFR (O&M component) and do have additional deposits from FY’s 2010/11/12 related to CIP, and needs to be put together and provided to the Finance Subcommittee.

10. **Customer Care Update**

This item was tabled to the next IROC meeting of December 17, 2012.

11. **FY2012 Strategic Plan Annual Report: Summary of FY2012 Strategic Initiative Results**

This item was tabled to the next IROC meeting of December 17, 2012.

12. **Public Utilities Department 1st Quarter FY2013 Capital Improvements Program (CIP) Update**

Guann Hwang, Deputy Director, Engineering & Program Management, introduced Darren Greenhalgh, Deputy Director, Engineering & Capital Projects. Mr. Greenhalgh presented the updates for the period of July-September which detailed information including dashboard, forecast and actual expenditures, project schedules, and project change orders. Mr. Greenhalgh reviewed the program highlights for Water and Wastewater, as well as regulatory project updates, which we are on track. He referred to the Forecast vs. Actual Expenditures detailed in the handout, and turned it over to Mr. Hwang.

Member Hollingworth commented in regard to projects marked as “TBD”, and if there were scope changes. He asked for clarification. Mr. Hwang indicated in comparison to last month’s report, there were some blank line items. This will be looked at and will fill in those line items for the next Report.

Mr. Crane commented he, Ann Sasaki, and Guann Hwang are working on simplifying the report going forward. Vice Chair Billings suggested developing a “heat map” referring to projects which makes it easier for items of interest to be recognized and organized, or ranked. Mr. Greenhalgh indicated yes, this is one of the ideas being discussed and will present a draft next quarterly report. Member Hollingworth offered to supply a report from the Airport Authority, which can be very useful for ideas. Mr. Crane concurred.

13. **Subcommittee Reports:**

a. **Finance – Andy Hollingworth**

- Completed his review of the Department’s comments related to the “surplus” in the DRES fund.

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b. Infrastructure and Operations – Jim Peugh

- Discussed how to present the CIP going forward.
- Guann presented information on techniques for analyzing of service life of sewer mains. Field personnel will be invited to speak at an upcoming meeting.
- Discussed the California Environmental Quality Act (CEQA) process, he is following in detail.
- Approved the Draft FY12 IROC Annual Report to be submitted to the Ad hoc Committee.

c. Outreach and Communications – Irene Stallard-Rodriguez

- Nothing to report.

14. Metro/JPA Report out – Luis Natividad

- County Water Authority presented information on the Desalination Water Purchase Agreement.
- Coastkeeper provided a position paper directing a motion in support of potable reuse over the desalination project.

15. Selection of an IROC Member for the Finance Subcommittee

Action: Chairwoman Welch stated Member Stallard-Rodriguez indicated she would like to join the Finance Subcommittee. She asked for a motion. Vice Chair Billings moved to nominate Member Stallard-Rodriguez to join the Subcommittee. Member Kubota seconded the motion. Motion Passed 8-0.

16. FY2012 Draft IROC Annual Report Development Update

Chairwoman Welch provided notes, and will have a Draft Report for review at the next IROC meeting.

17. Proposed Agenda items for next IROC meeting

- Update on the Public Utilities Department strategy for the next Pt. Loma Waiver opportunity.
- Invitation to Bob Filner to come to a future IROC meeting and communicating the importance of maintaining contact with IROC in the long term. Ex-officio Member Natividad suggesting meeting with the Mayor's staff to brief them on the importance and composition of the IROC. Chairperson Welch will coordinate a group from IROC to meet with the Mayor's office.
- Adoption of the IROC's Annual Report.
- Customer Care Update, deferred from today's meeting.
- FY2012 Strategic Plan Annual Report Summary of FY12 Strategic Initiative Results, deferred from today's meeting.

18. IROC Member's Comments

None.

Chairwoman Welch adjourned the meeting 12:09 p.m.

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Minutes submitted by: Monica Foster