

Independent Rates Oversight Committee (IROC)

**January 22, 2013**

**MINUTES**

**1. Roll call**

Chairwoman Welch called to order the regular meeting of the IROC at 9:36 a.m. Monica Foster conducted roll call, and a quorum was declared. Attendance is reflected below:

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

*City representatives present: Roger Bailey, Director of Public Utilities, Tom Crane, Assistant Director; and Tom Zeleny, Deputy City Attorney.*

**2. Non-Agenda public comment**

None.

**3. Approval of Draft Minutes of December 17, 2012**

**ACTION:** Chairwoman Welch asked for a motion to approve the minutes as submitted. Member Peugh moved, and Member Justus seconded. Motion passed 6 (in favor)-1 (abstained Webster)-0 (opposed).

(4.) *This numbered item was inadvertently left off of the agenda; no contents.*

**5. Chair updates – Chairwoman Welch**

- IROC FY2012 Annual Report was distributed to the Mayor and Council in December. Comments will be provided by Public Utilities, and hope to present the Report to the Natural Resources & Culture Committee in the February/March timeframe.
- Revisions to the IROC Ordinance were read twice at City Council. It is anticipated the new Ordinance will be effective in late February.
- The new requirement for the IROC Work-Plan must be submitted by May 1, 2013.
- Per the Charter, IROC has an opportunity to provide input to the Office of the City Auditor for their performance audits. Agenda Items 8 and 9 are related to this.
- Contact was made by phone to get on the Mayor’s agenda, now awaiting return call to set a date to meet.

Independent Rates Oversight Committee (IROC)

January 22, 2013

MINUTES

- With new IROC members on the Committee, Chairwoman Welch suggested planning future tours to some of the major facilities of Public Utilities.

6. **City Staff updates**

*Terrell Powell, General Water Utility Supervisor, Wastewater Branch*

- Sewer spills for calendar year (CY) 2012: 40 spills vs. 32 CY2011. Only 1 was a public water spill which was not significant but was recorded. Mr. Stan Griffith, Assistant Director, added this is a remarkable accomplishment as a year ago there were 10 public water spills.
- For CY2012, cleaned 2,130 miles of pipe which was 130 miles more than last year. For right-of-ways, cleared 146,000 feet of access paths, and hydro-seeded over 10,000 feet.

Vice Chairman Billings asked if there was anything that was surprising about any pipe breaks, and comparing records, what should be expected going forward. Mr. Griffith indicated, going forward it is expected to be similar but some things are out of our control. He noted we are recognized by other agencies for outstanding results. He added crews are very aggressive with the cleaning, which has a direct result of the number of sanitary sewer spills.

*Bernard Powell, District Manager, Water Branch*

- Water main breaks for CY2012: 99 vs. 94 CY2011. He noted coming more apparent is that the number of water main breaks in asbestos cement pipe is exceeding those in cast iron. There is a program in place and soon some of the older asbestos cement pipe will be replaced by the CIP program.

Mr. Griffith added so far this year to date, there are 8 main breaks compared to 7 the same time last year.

Member Peugh commented during one of the breaks under the I-5 Ingraham Bridge, the traffic control was not properly controlled, causing danger to those making a U-turn. He suggested better traffic control many need to be implemented. Mr. Powell noted this and will look into incorporating this within future plans. He added there are CalTrans requirements and standards that our vendors need to comply with, and this will be considered.

Member Kubota asked how the calls are handled when there is a water main break. Mr. Powell indicated depending on the time, either the fire department or Station 38 will receive the calls. Public Utilities are the first to arrive to shut the water off in an emergency situation. He noted most citizens do call the communications center. He added that the SCADA system can also record a drop in water pressure at certain locations to dispatch emergency services; however this system is not complete and is primarily on large transmission lines at this time.

Independent Rates Oversight Committee (IROC)

January 22, 2013

MINUTES

Member Billings expressed concern if these emergency dispatch functions are ever outsourced out of state. He commented that this is a critical function that should remain in-house. Director Bailey pointed out that the new Mayor has indicated he has concern about managed competition, and has put on hold any new initiatives regarding managed competition at this time. Member Kubota added that he learned that in San Francisco, the Fire Department inspects fire hydrants every week, and is also the first to respond to emergency water calls, to determine if there are any potential risks to not having fire service available.

Member Webster asked in reference to asbestos cement pipe replacement mentioned, he recollects this was not scheduled for CIP until 2017, and also asked if pipes are only being replaced, or are they being relined as well. Director Bailey indicated a condition assessment is currently underway.

**7. Mayor and Council Staff Comments**

No one was present to comment. Chairwoman Welch indicated when she meets with the Mayor's Office she will try to identify a point of contact from their staff, to interface with more regularly.

**8. Results of the Office of the City Auditor conducted Public Utilities Performance Audits**

**1. Water Valve Maintenance:** Chris Constantin, Assistant City Auditor, indicated the team is here to today to review the results of the audits. He acknowledged Ed Moreno, who worked on the Chemical Purchases audit, and Sonja Howe, who worked on the Valve Maintenance audit, who are no longer with their office, and were not present. Lead Auditor, Claudia Orsi then introduced Andy Hanau who began the presentation of the performance audit of the Valve Maintenance Program.

Mr. Hanau indicated the audit was conducted as a part of a Service Level Agreement (SLA) with the Office of the City Auditor (OCA) for audit for FY2012, also receiving suggestions from IROC to be covered by the audit, taking that into account, and conducting the audit in accordance with the government auditing standards.

He pointed out that 6 Findings and 12 Recommendations to improve the Public Utilities Department's (Department) program efficiency and productivity were identified. He noted the Department has the goal of maintaining all valves every five years. He then gave a brief background of the maintenance of the Department's 78,000 valves and fire hydrants, listing risks involved. Next, he described the objectives of the audit of the valve maintenance program operation and the management of monitoring reports and applicable data. To answer the objectives, he indicated they reviewed policies and procedures, and industry guidelines and best practices for the maintenance; interviewed relevant management and staff including rides-along with crew members; and analyzed valve and hydrant maintenance and other asset data for fiscal years 2007-2012.

Independent Rates Oversight Committee (IROC)

January 22, 2013

MINUTES

Ms. Raskas indicated that the 12 Recommendations were made and they are glad to report the Department agrees to implement all of them to improve program and efficiency and productivity.

Vice Chair Billings asked in regard to industry best standards, shouldn't the frequency of maintenance be annually. Mr. Hanau stated that although industry standards do recommend annual maintenance, in practice very few utilities maintain them on an annual basis due to resource constraints. The risk-based approach is the industry best practice because it is more efficient to concentrate resources on the highest risk valves and hydrants, rather than maintaining all valves and hydrants equally. Mr. Hanau added the recommendation is for the Department to develop their own risk based system, and the cost depends on what is done.

Member Kubota commented he is in favor recuperating costs from individuals knocking over hydrants, as well as for the disruption in water service.

Member Peugh referred to a memo of 9/16/2010 from Eduardo Luna to IROC, describing what would be covered in the audit. He indicated it is unfortunate that some items suggested were not in the report. Also identified in the letter how we account for economic impact of breaks, this was not included, and is looking forward to a future follow-up and would like to see some of the other issues addressed that were not included such as the difference of maintaining the valves every year vs. every 5 years, and having a more optimal program, as well as a cost comparison of different management strategies.

Mr. Hanau stated that in terms of cost, by implementing the recommendations to improve the efficiency of the program PUD could likely have maintained all valves and hydrants in the last five years within the current budget, so the audit did not recommend increasing staffing. However, he reiterated that more or less resources could be required once the Department implements the risk-based maintenance system.

Mr. Hanau also indicated when an audit is conducted, some areas covered do not make it into the final audit due to not having related findings, or not having recommendations to make. For example, the auditors did find that industry standards and manufacturer guidelines recommend fully closing valves during maintenance, however some jurisdictions, including the Department, have had problems with fully closing valves, water shutoffs for customers, and pressure changes in the system. Due to these problems the auditor could not support a recommendation to fully close the valves. Member Peugh expressed he would have liked to see this review, or benchmarking during the process to see both sides of the issue. Vice Chair concurred, and also asked looking beyond the internal costs, to the external costs of water main breaks to get an order of magnitude to see if more analysis is cost effective.

Ms. Claudia Orsi commented there were discussions to do a follow up audit but due to time restraints, it was not possible. Mr. Peugh commented that many agencies use an automated process for valve testing, and the Department uses a manual approach.

Independent Rates Oversight Committee (IROC)

January 22, 2013

MINUTES

Chairwoman Welch read submitted questions by Member Glick who was not present. 1) On the valve report, the OCA recommends that the Department perform preventative maintenance on all valves/hydrants within a given area before moving on to the next area, as well as recommends prioritizing valve/hydrant maintenance based on risk factors. Are these two recommendations consistent, and can/should the City maintain all valves in one area when there may be valves in other areas that need more immediate attention based on risk factors? Mr. Hanau indicated they could still have the system of cycling through the City, while using a risk-based approach which is more efficient. For example, the Department could cycle through the City every year, only hitting those appurtenances that were due for maintenance based on their priority.

Ms. Raskas indicated with regard to Member Peugh's comment of implementing an automated system, during the benchmarking this was not a common practice industry-wide. And again, the scope was limited to maintenance and operation, less so on equipment. Mr. Peugh reiterated favoring the automated process.

Vice Chair Billings asked from the Department, an ongoing update on any actions taken on the Responses. Mr. Crane concurred.

**2) Chemical Purchases Audit:**

Claudia Orsi, Performance Auditor, began by pointing out the tours of the different facilities will be very useful to IROC, so the members can get a sense of the operations and the needs of the facilities. She followed her presentations, and noted there were two Findings and four Recommendations to improve program efficiency and productivity. Ms. Orsi gave a brief background indicating the water treatment chemicals play a critical role in providing clean water. She noted the Public Utilities Department (Department) utilizes certain chemicals to treat drinking water and decontaminate wastewater.

Ms. Orsi indicated the 4 Recommendations to management to ensure that the City obtains the best process for its chemical purchases and state mandated inspections are performed. The Management agreed with 3 and partially agreed with 1 of the Recommendations. She opened for questions.

Chairwoman Welch asked, in regard to the strategies to reducing prices, if you had benchmarked prices paid per unit against what other municipalities pay to determine what the savings could have been. Ms. Orsi stated the comparison is very difficult due to all municipalities do not use the same type of chemicals. Also, the City is unique that it still has a primary treatment facility which requires a lot more chemicals than the average agency. After researching, it was found the best way to go is to utilize the market strategies.

Vice Chair Billings commented there is an assumption that there is enormous volatility in the price of the chemicals and asked if there is information about the actual deltas on these. Ms. Orsi stated there is volatility in the chemical market prices, and the Department is not a very big player, when it comes to purchasing the chemicals. Ex-

Independent Rates Oversight Committee (IROC)

January 22, 2013

MINUTES

officio Member Ken Williams pointed out the amount of money spent on Chemicals is approximately only 1-2% of the Departments' total budget. Ms. Orsi indicated, still, one of the elements is how to achieve savings in buying chemicals for the Department.

Vice Chair Billings added that one of IROC's challenges is resources for performance audits. He suggested an open dialogue with the OCA regarding the amount of money that is spent on performance audits. He commended the audit team for their hard work.

**ACTION:** Chairwoman Welch asked for a motion to accept both of the performance audits. Member Billings moved to accept both. Member Kubota seconded. Motion passed 7-0.

**9. Identification of FY2014 IROC sponsored Performance Audits**

Chris Constantin, Assistant City Auditor, thanked the Department management and staff for being a pleasure to work with, always helpful, knowledgeable, and open for improvement. He then explained they conduct an annual Risk Assessment and evaluate all elements of the City against 10 different factors to determine what audits to perform. He added input is also solicited from the Department, Mayor, Council, and other interested parties on areas thought to be increased risks or concerns.

He indicated for FY2013, there are two Department areas for audit: 1) Customer Support, premised on a partnership with the Department to advertise in water bills, an acknowledgement of the Fraud, Waste and Abuse Hotline the City has. This has been very popular means for the customers; and 2) the Environmental Monitoring & Technical Services Industrial Waste Program, based on experience with source control and inefficiencies identified from previous jurisdictions.

Going forward, he noted they would like to solicit IROC's input on audits for FY2014. He referred to a distributed memo outlining an action plan to help guide IROC in terms of how to move forward. He indicated in terms of cost, they are not looking to enter into a Service Level Agreement (SLA), as the City's budget process allocates cost to the enterprise fund for the benefit of maintaining the audit function. He then asked for questions.

Chairwoman Welch asked if both audits utilized 500 hours each, with the limit being 1000 hours. Mr. Constantin indicated the hours exceeded the expect budget; however what was billed to the Department ended on June 30<sup>th</sup> resulting in the department reimbursing less than the amount contemplated in the SLA. He added a lot was covered in regard to work methods analysis.

Vice Chair Billings asked to be reminded of the audit planning cycle. Mr. Constantin stated that after release of the Mayor's proposed budget, information in the risk assessment will be updated and the Auditor's Office will engage departments in completing the City Auditor's citywide risk assessment. In the April timeframe, the City Auditor will request from the Mayor and Council, departments, and other entities, their suggestions for audits and potential concerns. He anticipates IROC's input by early May

Independent Rates Oversight Committee (IROC)

January 22, 2013

MINUTES

based on the suggested action plan. Chairwoman Welch suggested all subcommittees add discussion of potential audits to their upcoming agendas.

Member Stallard-Rodriguez mentioned two suggestions came from the Finance Subcommittee today, one was to review procedures by which funds are continually appropriate for the CIP program; and the second was reasons for the continued build-up of unrestricted cash and investments from 2010-2012. Mr. Constantin noted that not all performance audits yield money; it could yield efficiency, policy issues, etc. Additionally, Mr. Constantin advised that while the City Auditor solicits input into audits to perform, it is the City Auditor's sole determination what actual gets audited and what the scope of each audit will entail.

Member Peugh asked how to follow the audits as they move forward. Mr. Constantin indicated they can communicate what is defined as the scope as an updated memo provided to management about what the specific areas are. The scope can be discussed, but cautioned that the auditor does need to keep the independence of defining audit scope; but the City Auditor does welcome input. Member Peugh concurred.

Ex-officio Member Williams commented looking at the issue from the rate payer's point of view, he suspects the rate payers would be interested in the Customer Service audit, as well as the cash build up issue. He also asked what areas the Department believes would be helpful to their management of the system. Mr. Constantin indicated there has not been any input received at this time. Mr. Crane stated for FY2013 the Department did not participate in the selection of these two audits. However, for FY2014 the Department requested to be more proactive in the selection, as well as IROC, and they have agreed.

Chairwoman Welch requested the subcommittees cover this in their February meetings to discuss and recommend performance audits, and bring to full IROC for discussion and a vote of prioritization in the March full IROC meeting. She mentioned the Department should have comments in relation to IROC's recommendations from the subcommittee meetings.

Lastly, Mr. Constantin added that the Department staff is very capable, and suggests IROC consider balancing their requests with what the staff can actually do in terms of their internal analysis, and what analysis they do not have the resources, ability, or skill set that would be better utilized by an external resource like the OCA. Chairwoman Welch concurred.

**10. Update on City of San Diego Rewards and Recognition Programs**

John Gavares, Strategic Support Services Supervisor, along with Margaret Wyatt, Human Resources Manager, presented. Mr. Gavares indicated that Director Bailey would be responding to the request from the Mayor for ideas as to ways to demonstrate appreciation for employees. He noted that the IROC has indicated an interest in supporting the Mayor's and Department's efforts in demonstrating appreciation for employee efforts and accomplishments. He then gave a brief summary of the best practices of the Department. He noted that Director Bailey encourages the divisions to

Independent Rates Oversight Committee (IROC)

January 22, 2013

MINUTES

create a culture of inclusion so employees feel valued, respected, seen, heard, and appreciated.

Mr. Gavares indicated the Department does have motivational tools in place. He listed and described the Department's award systems currently in place as: Designated Leave, Discretionary Leave Bucks (1-4 hours leave); High 5 certificates (employees can recognize anyone on any level) in which 20 of these per month are pulled to receive a \$25 gift card; Years of Service Awards; and STAR Program (Suggestions to Achieve Results) incentivizing 2 employees per month for efficiency and savings with a \$25 gift card.

He asked for IROC's thoughts. Member Peugh asked if there is a current program in place where if an employee submits an idea with a huge impact of efficiency or savings, they are given a significant award. Mr. Gavares said no, not at this time. There was an Administrative Regulation similar to this that was offered in the past which awarded employees economically for submitting ideas that resulted in a significant dollar savings, but it is inactive. He added one recommendation submitted to Director Bailey was to request the City reinstate that Administrative Regulation. Member Peugh indicated he supports this type of award system.

Vice Chair Billings communicated one popular vehicle is recognition events in which employees come together and celebrate accomplishments. This would be a great opportunity for other leaders to acknowledge the employees as well, such as the Mayor. Mr. Crane indicated that Director Bailey has been active in this role to create inclusion. He mentioned the large group meetings, management academies and mentorship programs. Vice Chair Billings added just as important is getting the word out to the general public, about how crucial the employees work and the accomplishments that have been made. Also, branding the value of the service in a way that the general public understands is very important. Member Kubota concurred.

Member Webster inquired about tuition reimbursement or employees being able to be involved with outside organizations. Ms. Wyatt indicated there is tuition reimbursement program. She also mentioned another effort underway is providing Performance Management Training for supervisors, which is about rewarding good behavior and performance as well as correct discipline. This creates a balanced approach and employee motivation and pride.

Chairwoman Welch asked, in regard to the Department requesting for a reinstatement of the past suggestion awards program, is there anything IROC can offer to assist. She indicated in any corporation, incentives are necessary to give employees motivation, opportunity to provide ideas, and something to reach for. Mr. Crane indicated he believes that if the Mayor agrees to reinstate the suggestion awards program, this Administrative Regulation will be reviewed and the Department will have an opportunity to provide suggested updates.

Chairwoman Welch indicated she would like IROC to have the opportunity in the future to support this if necessary. She added she will be meeting with the Mayor's office soon,



Independent Rates Oversight Committee (IROC)

January 22, 2013

MINUTES

and will add this item to the agenda of items. Member Peugh concurred, and suggested looking back if the past City's Suggestion Awards Program to analyze whether it had been successful in generating incentive suggestions from employees. Vice Chair Billings indicated his support for the incentive programs, and commented that an analysis of the cost-benefits of the past program may be helpful, and, he believes some things are worth rewarding that may not have quantifiable benefits, such as customer service.

**11. Subcommittee Reports:**

**a. Finance**

Due to time limitations, no comments were made.

**b. Infrastructure and Operations**

Due to time limitations, no comments were made.

**c. Outreach and Communications**

Due to time limitations, no comments were made.

**12. Metro/JPA Report out – Gail Welch**

None.

**13. Development of FY204 IROC Annual Work-Plan**

Chairwoman Welch reminded members that the newly revised IROC Charter has a May 1 deadline to present the Work-Plan to NR&C. The Outreach & Communications Subcommittee created a draft work-plan for their subcommittee. The subcommittees in February will have the opportunity to provide revisions to the Work-Plan so it can be finalized and adopted at the March 19 IROC meeting and presented to the Natural Resources & Culture Committee (NR&C) in April.

Member Peugh asked what level this document is expected. Vice Chair Billings stated he anticipates it being a high-level Work-Plan. Chairwoman Welch indicated that this Work-Plan is for FY2014, and what is not accomplished in the Work-Plan submitted, will need to be addressed in the FY2014 IROC Annual Report, as to why it was not complete. Vice Chair Billings added this will be an opportunity for NR&C members to comment on IROC's plan. Last, Chairwoman Welch asked all Subcommittees to focus on this subject in their February meetings.

**14. Seeking IROC Member volunteers to be part of the Public Utilities Department's Strategic Planning Process**

Chairwoman Welch reached out for volunteers for the Department's Strategic Planning process, providing an opportunity for members to be more involved with the Department. Mr. Crane added the Department is planning on following the same format as past years. He indicated the meetings will be April 5, May 3, and May 31 from 8:30 a.m. -1:30 p.m. If needed a June meeting will be scheduled. He indicated at least two members would be welcome to join in. Chairwoman Welch stated Member Stallard-Rodriguez expressed interest in participating. Member Peugh then volunteered if there are no other members.

**15. Proposed Agenda items for next IROC meeting**

None mentioned.

Independent Rates Oversight Committee (IROC)

January 22, 2013

MINUTES

16. **IROC Member's Comments**

None.

Chairwoman Welch adjourned the meeting 12:11 p.m.

Minutes submitted by:           Monica Foster