

Independent Rates Oversight Committee (IROC)

April 21, 2014

MINUTES

1. Roll call

Vice Chair Billings called to order the regular meeting of the IROC at 9:40 a.m., in Chairwoman Welch’s absence. Monica Foster conducted roll call, and a quorum was declared. Attendance is reflected below:

Members:	Present	Absent
Gail Welch, Chair <i>arrived at 10:00</i>	X	
Don Billings, Vice Chair	X	
Craig Chapman		X
Christopher Dull	X	
Gordon Hess	X	
Jeff Justus	X	
Jack Kubota	X	
Tiffany Mittal	X	
Jim Peugh	X	
Irene Stallard-Rodriguez	X	
Ex-Officio Members:		
Luis Natividad, Metro JPA	X	
Ken Williams, City 10	X	

City representatives present at dais: Halla Razak, Director; Tom Crane, Assistant Director; Tom Zeleny, Deputy City Attorney

2. Non-Agenda public comment

None.

3. Approval of Draft Minutes of March 17, 2014

Vice Chair Billings asked for a motion to approve the March 17, 2014 Draft Minutes. **ACTION:** Upon motion by Member Kubota, seconded by Member Peugh, motion passed 9 (in favor)-0 (opposed).

4. Chair updates – Chairwoman Welch

This item was heard out of order, and followed Item 7.

- April 22 is Earth Day. Qualcomm is having an organized fair, and will have not only 3 City groups (Water Conservation, Sewer, Pure Water), but food booths, live entertainment, activities, and information booths displaying water saving fixtures, and home ideas, etc.

5. City Staff updates – Halla Razak, Director

- Stan Medina, Deputy Director of Water Operations and Construction, recently resigned; Isam Hireish is Interim Deputy Director until the position is filled.
- Marie Wright-Travis, Assistant Director is now heading Finance, Long Range Planning, and Customer Service, since Ann Sasaki, Assistant Director is focusing on Pure Water. Ms. Wright-Travis had quite a few years with the City as an Attorney, and was most previously was with a Pharmaceutical Company. She has a wealth of experience to share with our Department.

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- Tom Alspaugh, Energy Manager is resigning on May 8. He will be giving an Energy Conservation/Green Energy presentation on the Department's efforts and accomplishments. He has been a valuable part of the team.
- Mayor released the budget for the coming year; Tom Haynes will review our portion in today's IROC meeting. The proposed budget must still be heard at Council and approved.
- IROC Members Welch and Billings attended a Message and Communication Workshop on Pure Water recently. The Pure Water concept and program is being released to the public soon, and it is important internally to have employees more informed, providing more training.

Member Kubota added that in the recent Outreach & Communications Subcommittee, Brent Eidson, Program Manager, presented the new proposal of a new Communications Department that will be out of the Mayor's Office. He asked the status. Director Razak indicated communication with the Mayor's office has on-going with concerns of the creation of this new department. Discussions will continue, and information should be forthcoming.

Member Peugh asked in regard to the new department, if there is a risk of information/communication that will be available to IROC and the public. Director Razak indicated this is a risk and these concerns were shared with the Mayor's office. The final decision of the make-up of the new Department has not been made as of yet. She is hopeful some staff can be retained within the Department.

Member Kubota mentioned his concern also with outsourcing, and is hopeful, and believes it is in the rate payer's best interest to keep divisions and positions here in the Department.

6. Mayor and Council Staff comments

None.

7. City 10 – San Diego County Water Authority (SDCWA) update – Ken Williams

- Water outlook stays at Stage 1 drought alert with the request to save 20% water.
- Current situation:
 - Sierras:
 - Snow pack at 24% of average
 - Last 2 months provided some relief in northern California
 - State allocation to be sent to the south was raised to 5% from 0%, and 5% will be the lowest allocation ever so the State encourages agencies to share
 - MWD Storage:
 - Started this season with 2.4 M ac/ft in storage and will draw down to 1.1 M ac/ft this year, leaving only 1.3 M ac/ft for next year

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- Colorado Mountains:
 - Better than that of California, above average at 113% of average snowpack, but still low level in Lake Mead and Powell's capacity
- Local:
 - Less than average at 49% precipitation, overall not favorable and still in drought conditions.
- MWD Rates will increase 1.5% effective January 1, 2015 and another 1.5% in 2016. This was not a pleasing outcome for the County Water Authority Representatives, all four voted against.
- Carlsbad Desal Plant will be opening 3 months early, targeted for September, 2015.
- The Water Authority is looking at the possibility of a pumped storage hydropower project at Lake San Vicente (SV Pumped Storage). SV Pumped Storage is in the early, conceptual design stages and has not been authorized by the Water Authority's Board of Directors yet. Similar to an existing pumped storage project between the Olivenhain and Hodges Reservoirs, SV Pumped Storage would connect San Vicente with a new and smaller reservoir to be built above the level of San Vicente. By making hydropower available during peak periods, SV Pumped Storage could provide much needed energy storage services for the region while generating significant revenues to help offset the cost of the Water Authority's water supplies. Member Peugh expressed his concerns for the cost risks, and the environmental impacts.

Member Mittal asked, if it has been considered, if a pump station is already being built at San Vicente for Pure Water, can the same pump station be re-routed to go up to the new reservoir, then having that come down to San Vicente for the energy rather than building two separate pump stations. Cathy Pieroni, Principal Water Resources Specialist (PWRS), noted that Department staff had submitted this concept to Water Authority staff for consideration.

Vice Chair Billings asked how IROC can get more involved to know the impacts and risks of this project. Director Razak indicated the Department has worked very closely with Water Authority staff and the City-10 members, and that the point person on this project is Bob Mulvey, Assistant Director. Director Razak indicated this year will give the Department the opportunity to look at all of the pieces. Member Peugh commented that he is not comfortable with the process at this time. Director Razak added that the Board and the Department are very engaged, and as more information is available she will share it with IROC.

Member Peugh commented that he would like a process where you know the financial impacts before projects are approved, unlike the Carlsbad desalination project. Vice Chair Billings added that he would also like to know what the decision points will be. Ms. Pieroni commented that Water Authority staff had acknowledged at one of their recent Board meetings the need for Board guidance on how to treat costs and revenues associated with a proposed pumped storage

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project at San Vicente prior to authorizing the project. Ex-officio Member Williams indicated that there has been no Board approval on the project at this time. Next step is to have a vote on very preliminary expenditures of money which will include a study on the impact on Pure Water. Ms. Pieroni added that the Water Authority's limnology study for the project will be based off the same model as was used for the City's Water Purification Demonstration Project.

Member Hess indicated the Water Implementation Task Force looked at the issue of pumped storage and recommended that the Department study opportunities for promoting long-term energy savings. Member Hess stated that since the City Council adopted the Task Force's recommendations, that the Water Authority's study on SV Pumped Storage was in line with Council priorities.

- Impacts that the Carlsbad desalination project will have on the Water Authority's rates and charges continue to be deliberated by the Board and the General Managers. At the last County Water Authority Board meeting the City put forth a motion to not finalize any apportionment of costs onto its rates and charges for 2015 rates, except for the cost associated with the pipeline that is used to get the water from Carlsbad into our system. It is agreed that those costs should be posted to the Water Authority's transportation rate category. This motion was approved by 65% of the weighted vote at the Water Authority's Board of Directors meeting. Department staff will continue working with the City-10 members to proactively develop a recommendation(s) for consideration of the Water Authority's member agencies at both the Board and staff levels.

8. Quarterly Report on Water Main Breaks and Sanitary Sewer Overflow

Sanitary Sewer Spills Update: Agnes Generoso, Deputy Director, Wastewater Collection; Terrell Powell, Water Utility Supervisor

Sewer spills first quarter total of 5, with overflow volume of 2791 gallons. No spills in the canyons. Compared to last year, 14 spills, with overflow volume of about 16,000 gallons. She reported that a record has been set, first time in spill history there were no spills in the month of February. Also noted 54 days went without any sanitary sewer spills.

Vice Chair Billings commented that this update is very impressive and should be noted in the newspaper so the public can be aware. He asked if this type of information can be published periodically. Ms. Generoso indicated Brent Eidson put out a Press Release in March, but unaware of the exact publications. Member Peugh suggested working with Surfrider Foundation publicity capabilities. Director Razak agreed.

Chairwoman Welch asked to have the statistics in a chart or spreadsheet to make it easier on staff, going forward. Ms. Generoso concurred.

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Water Main Breaks/Cleaning Update: Isam Hirash, Interim Deputy Director, Construction & Maintenance, Bernard Powell, Water Systems District Manager

Water Main breaks the first quarter was a total of 28 compared to 42 the same time last year (33% reduction). Some statistics - Asbestos Cement: 14; Cast Iron: 9; Fire Hydrants were 21 this quarter, opposed to 24 the same time last year.

9. Proposed FY2015 Public Utilities Budget

Tom Haynes, Budget Manager, reviewed an overview of the Water and Wastewater FY15 Proposed Budget. He provided a high level presentation, noting the budget was released last week, currently the Office of the Independent Budget Analyst is reviewing the Mayor's proposed budget, releasing their preliminary report next week. The hearing for the Department is May 6.

Mr. Haynes gave a brief overview of the proposed budget summary, outlining the FY2014 adopted vs. the proposed FY2015, showing the changes and significant Budget adjustments. He noted that the largest impact is water purchases projected to increase about \$17.3M, driven both by the CWA rate increase as well as increases in purchase volume due to less local water available. Also, some reductions incorporated are COMNET and the Water facility repair and maintenance. He also provided a comparison of the FY15 proposed Budget vs. the COSS for Water and Wastewater.

Mr. Haynes reviewed the Water and Wastewater revenues and expenditure details noting that the projections incorporate a full year of the rate increase that went into effect January 2014 as well as 6 months of the rate increase scheduled to go into effect January 2015. He pointed out the FY2014 Budget did not include any impact from this increase because it had not been approved yet.

Mr. Haynes then gave a breakdown of the fixed Department core operations, and historical expenditure trends. Last, he provided a detailed overview of the Department Capital Improvement Program details. He noted that this information included the carry-forward Budget which includes encumbrances and continuing appropriations.

Member Dull asked for clarification of the increased variances to the Water and Sewer expenditures spanning from FY2013-FY2014 shown on the Historical Trend slides. Mr. Haynes explained some of the costs were not included due to certain items not approved, etc. Lee Ann Jones-Santos, Deputy Director of Finance, indicated on the contractual side is usually where the variance is, and these expenditures will be picked apart and discussed at the Finance Subcommittee meetings going forward, as the current year monitoring is shown for year-end.

Member Hess asked in terms of water sales forecast (acre feet), what is being used in the current year opposed to last year, with regard to the 20% voluntary reduction call. Mr. Haynes commented that he does not have the actual volume numbers available at this time; however the assumptions underlying the projections are actually assuming zero percent change.

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Member Mittal asked if more information can be provided regarding the Operations increase in FY2014-15. She suggesting having the FY2013 actuals included in the slides to see the breakdown of the increase. Mr. Haynes concurred, and can provide that information on future information. Ms. Jones-Santos indicated this can be taken to the Finance Subcommittee next month, in detail as current year monitoring is shared. Member Hess asked for more information once the May revise is complete.

Ms. Jones-Santos indicated that IROC was very instrumental in reviewing the Cost of Service Study presented, operating expenditures, and revenues. The Department knows from experience, things change as it relates to materiality in contracts. The Department is very conservative and reminded IROC that the Department usually comes in under budget and the debt coverage ratios come in higher than projected. Vice Chair Billings added that the Cost of Service Study has been reviewed in multiple detailed Finance meetings, and he is comfortable supporting this as presented. Member Stallard-Rodriguez concurred.

ACTION: Member Stallard-Rodriguez motioned to support the Proposed FY15 Budget as presented. Vice Chairman Billings seconded. Member Hess asked to add to the current motion to support the proposed FY2015 Budget as being consistent with the Cost of Service Study. Members Stallard-Rodriguez and Billings concurred. Motion passed 9-0.

10. Communications to the Mayor

Chairwoman Welch indicated that the IROC's position is to have more active outreach with the Mayor's office, leading to potential Council staff meetings. Vice Chair Billings noted he wants to ensure that IROC is part of the conversation in a more substantive and timely way. He mentioned his concern with managed competition. The Ordinance states that IROC exists first and foremost to advise the Mayor and City Council on issues involving Water and Wastewater. He added that this Department is critical to the health and safety of the City. He asked for IROC's input, and indicated that this will be expressed with Mayor Faulconer on April 28. The goal is to come up with an item to have more engagement with the Mayor's office, and discuss managed competition which could have proposals that will impact rate payers.

Member Stallard-Rodriguez indicated there were some successful meetings when IROC met with Ex-Mayor Filner, and she was very impressed with the communications. She agrees there needs to be many more meetings with the Mayor or Council representatives.

Director Razak mentioned she has had communication with the Mayor's office about managed competition, and indicated that the Mayor, in the coming months will be looking at what has worked and has not worked with managed competition. He will be looking for creative ideas on how to achieve efficiencies whether it is through managed competition or other programs. She indicated she will be sharing with him, the Optimization Study findings, and partnerships with the different unions, as possible efficiencies that could be achieved through other types of programs.

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Vice Chair Billings added that his premise is that the voters did not understand enough about managed competition when it was voted on. He added he would like to see transparency on managed competition, and education to the public that there are numerous costs and risks associated with outsourcing, which need to be disclosed so IROC can be engaged and supportive.

Ken Williams asked how much support there is amongst the IROC, of this viewpoint if carried through. Vice Chair Billings clarified that his request for IROC is to seek better engagement consistent with the IROC Charter with the Mayor and Council, and provide an opportunity to put this into action, and that it become one of the Mayor's priorities. Also, ask to seek full transparency with any proposals to outsourcing functions of the Public Utilities Department.

Member Peugh indicated he is not sure all of the effort should be focused on Managed Competition, when there are other things listed on the Work-Plan. He added he does agree the Managed Competition is an important issue that needs to be addressed; however many items on the Work-plan should be focused on in communications with the Mayor. Vice Chair Billings concurred. Member Stallard-Rodriguez pointed out that the time spent visiting with the Mayor goes very quickly, to keep that in mind.

ACTION: Upon motion by Vice Chair Billings to support that he and Member Stallard-Rodriguez meet with the Mayor to seek more consistent engagement with the Mayor in a more timely and substantive manner to discuss issues related to the Public Utilities Department and IROC's annual Work-plan; Chairwoman Welch seconded. Motion passed 9-0.

11. Subcommittee Reports

a. Finance – Gordon Hess, Chair

- Department Financial update by Lee Ann Jones-Santos
- Discussion by Cathy Pieroni on the Metropolitan Water District rate updates, and reserve level information
- Discussed Annual Work-Plan Finance Subcommittee portion. He suggested the need to collaborate with all subcommittees during this process to avoid any overlapping, etc.

b. Infrastructure and Operations – Jim Peugh, Chair

- Update on Main breaks and spills
- Discussed the Work-Plan Infrastructure and Operations Subcommittee portion. He suggested the need to create a similar format of the 3 subcommittee portions, as well as create timelines or a checklist as the Annual Work-Plan process moves forward.

c. Outreach and Communications – Irene Stallard-Rodriguez, Chair

- Presentation by Brent Eidson on the new Communications Department with the Mayor's office. She concurs with Mr. Eidson that a Public Utilities Department member should be included, or have its own Communications Division. He also discussed conservation, and shared the calendar contest results.

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- Discussed clarification of Pure Water with Nancy Rosenfeld, also discussed the Modified Permit.
- Schedule of tours for Customer Service was sent out to IROC, and hopes some members can attend.
- Discussed Annual Work-Plan for Outreach and Communications Subcommittee portion, and will share the format with the other subcommittees.

Member Kubota commented that the San Diego Water Reliability Coalition, founded by the Surfriders Association, and they are aggressively involved with the Pure Water program.

12. Metro/JPA Report Out

None.

13. Proposed Agenda Items for next/future IROC meeting

- Pure Water messaging update as more information comes available. Tom Crane, Assistant Director, indicated that the roll out is in June/July timeframe and will share information as soon as it is available.
- Elections for the next IROC Chair and Vice Chair
- Department Branding presentation
- Pure Water update

Chairwoman Welch indicated to have the items to her or David Bryant by end of May.

14. IROC Members' Comments

None.

Meeting adjourned at 12:20 p.m.

Minutes submitted by: Monica Foster