

**City of San Diego
Independent Rates Oversight Committee**



Annual Report

Fiscal Year 2011

Issued: February 22, 2012



February 22, 2012

Honorable Mayor Sanders and
Members of the City Council

In accordance with Section 26.2003(i) of the San Diego Municipal Code, I am pleased to transmit the fourth annual report of the Independent Rates Oversight Committee (IROC).

The report summarizes IROC's work for the fiscal year ended June 30, 2011, and includes observations and recommendations with respect to the operations, investments and planning activities of the Public Utilities Department. It also includes issues that we plan to address, or continue to address in FY2012. We welcome input from the Mayor, City Council, staff, stakeholders and the public.

On behalf of my IROC colleagues, I want to express our appreciation for the opportunity to serve the ratepayers. We hope that this report will contribute to a respectful dialogue on the continuing challenges we face as a region in ensuring a safe and reliable water supply, sound environmental management, reasonable rates, wise investments, efficient operations, a knowledgeable public; all leading to cost effective and sustainable water and wastewater systems.

Implementing IROC's role adds a layer of inquiry and accountability to an already challenged staff, and to that end, IROC appreciates the cooperation, patience, and professionalism of the Public Utilities Department in its relationship with IROC.

Respectfully submitted,

James A. Peugh, Chair
Independent Rates Oversight Committee

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ATTACHMENTS

Attachment A: IROC Municipal Code

Attachment B: City Attorney Memorandum on Role of IROC

Attachment C: IROC Agenda Topics for FY2011

Attachment D: Finance Subcommittee Appendices 1-6

IMPORTANT NOTES TO READERS OF THIS REPORT:

The information, recommendations and conclusions stated in this Report are the opinion of IROC as an independent advisory committee and should not be construed as an audit, formal financial review, or as the official position of the City of San Diego.

It should be noted that even though this report covers the period of July 1, 2010 through June 30, 2011, some of IROC’s statements in this report include information that came to light after the end of that reporting period.

IROC OVERVIEW

Purpose and Intent

The purpose and intent of IROC is defined by section 26.2001 of the San Diego Municipal Code.

Attachment A is the IROC Section of the Municipal Code.

“It is the purpose and intent of the City Council to establish the Independent Rates Oversight Committee to serve as an official advisory body to the Mayor, City Council and City Manager on policy issues relating to the oversight of the Public Utilities Department operations including, but not limited to resource management, planned expenditures, service delivery methods, public awareness and outreach efforts, high quality and affordable utility services provided by the Public Utilities departments, including the Water and Metropolitan Wastewater Departments. In addition, the Independent Rates Oversight Committee is established to assist the City in tracking and reviewing the use of rate proceeds to advance the capital improvements related to the rate packages and work programs adopted by the City Council. It is the vision of the Independent Rates Oversight Committee that a high level of public confidence in the City of San Diego’s utility services is maintained because the services are provided in the most cost effective and environmentally sensitive way.”

To implement that purpose and intent IROC is an independent, non-compensated, advisory body composed of eleven members, nominated by the Mayor and confirmed by the City Council, representing all ratepayer classes and a set of defined professional disciplines. Its officers include a chair and a vice chair.

Attachment B is a City Attorney Report that addresses the responsibilities of IROC.

IROC Members and Officers

Jim Peugh, Chair	Environmental Professional
Andrew Hollingworth, Vice Chair	Audit/Accounting Professional
Don Billings	Finance/Municipal Finance Professional
Tony Collins	Multi-Family Residential Ratepayer
Christopher Dull	Construction Management Professional
Jack Kubota	Engineering Professional
Colin H. Murray	Law Professional
Irene Stallard-Rodriguez	Single-Family Residential Ratepayer
Todd Webster	Science Professional
Gail Welch	Commercial and Industrial Ratepayer

Ex-Officio Members:

Ken Williams	SDCWA City 10 Representative
Yen Tu	SDCWA City 10, Alternate
August Caires	Metro Wastewater JPA Representative
Mark Robak	Metro Wastewater JPA, Alternate

IROC SUBCOMMITTEES

IROC has formed three subcommittees to implement the direction of the Municipal Code: (1) Public Outreach, Education and Customer Service; (2) Environmental and Technical; and (3) Finance. The subcommittees typically address issues in greater detail than the full IROC and advance issues to the full IROC for action. All actions and recommendations coming from IROC must be approved by a majority of the full IROC and not from one of the subcommittees.

1. Public Outreach, Education and Customer Services Subcommittee:

The major issues addressed by this subcommittee in FY2011 included: 1) Maintaining water conservation efforts; 2) Reviewing water purification demonstration project metrics; 3) Reviewing progress for new Customer Care Solutions (CSS) system; and 4) Enhancing the public's understanding of reasons for water rate increases.

Members

Subcommittee members are: Gail Welch (Chair), Jack Kubota, Christopher Dull, Irene Stallard-Rodriguez, Jim Peugh (Ex-Officio) and Andy Hollingworth (Ex-Officio).

2. Environmental and Technical Subcommittee

The major issues addressed by this subcommittee in FY2011 were issues that are environmental and/or technical in nature, potentially having a direct effect on the performance and sustainability of the system, and eventually on the rates charged to the citizens of San Diego by the Public Utilities Department.

Members

Subcommittee members are Todd Webster (Chair), Jack Kubota, Gail Welch, Jim Peugh (Ex-Officio) and Andy Hollingworth (Ex-officio).

3. Financial Subcommittee

The major issues and areas addressed by this subcommittee in FY2011 included: 1) Departmental expenditures compared to budget; 2) Metropolitan Water District Pass-Thru Water Rates; 3) FY2012 Proposed Public Utilities Budget; 4) Public Utilities Department Fiscal Reserves; 5) Dedicated Reserve for Efficiencies and Savings (DRES); and various other financial reports and audits.

Members

Subcommittee members are: Andrew Hollingworth (Chair), Don Billings, Gail Welch, Augie Caires, Ken Williams and Jim Peugh (Ex-Officio).

FY2011 TOPICS OF DISCUSSION:

During Fiscal Year 2011, IROC discussed dozens of topics that span the spectrums of water and wastewater utilities. Most of those topics are on-going in nature and have been addressed in IROC's first three Annual Reports, FY2008, FY2009 and FY2010. Those Reports can be found on the City of San Diego's website (See web link below):

<http://www.sandiego.gov/mwwd/general/commissions.shtml>

Attachment C of this Report lists a summary of items discussed at IROC and its subcommittees during FY2011.

IROC'S KEY RECOMMENDATIONS:

1. The Department should continue its aggressive efforts to educate the public about water conservation and monitor the results of those efforts (See Page 7).
2. IROC recommends that the Department continue its public outreach campaign to explain the value, need, and safety of IPR based on the Demonstration Project (See Page 7).
3. IROC urges that the Department proactively provide information to the public and the media about the costs and need to adequately fund operation and infrastructure for our water and wastewater systems (See Page 7).
4. IROC urges that the Department fully stabilize the SAP system prior to seeking competitive bids for Managed Competition for the Customer Service System, based on reasons of finance and customer service (See Page 8).
5. IROC recommends that the Department perform additional strategic performance audits to identify potential savings and improvements, especially related to monitoring and maintaining water distribution valves and purchase of chemicals (See Page 8).
6. IROC recommends further promotion of gray water reuse (See Page 9).
7. IROC would like to review the results of the updated Long-Range Water Resources Plan in early 2012 and the Water Shortage Contingency Plan to compare for consistency with Capital Improvement Program plans (See Pages 9-10).
8. IROC recommends the Department review their water and sewer rates by producing a long term cash flow forecast taking into account forecasted inflation rates, costs, and schedules for the Department and its CIP Program; and when the current levels of continuing appropriations and encumbrances will actually be expended (See Pages 10 – 16).

Important Note: The context for the recommendations is in the Issues and Observations section that follows.

IROC's ISSUES AND OBSERVATIONS:

The following FY2011 issues were reviewed by the Public Outreach, Education and Customer Service Subcommittee:

Water Conservation

The City has been successful in creating a public outreach campaign for water conservation, starting with the “No Time to Waste, No Water to Waste” campaign, and the next phase of the City’s water conservation campaign of “San Diegans Waste No Water.”

IROC will continue to monitor the water consumption results and recommends that the Department continue its aggressive efforts to educate the public in water conservation.

Advanced Water Purification (AWP) Demonstration Project

IROC believes that the Demonstration Project is crucial to sustaining regional water resources for future generations. Further, if implemented, the project will reduce the City’s significant dependence on imported water. Not only is this critical for water reliability, but it also dampens the impact of future imported water cost increases. It is essential that the City continue its public outreach campaign to ensure stakeholders are engaged in the effort to ensure water reliability and quality for future years. IROC will continue to monitor community education and outreach efforts.

IROC recommends that the Department determine the percentage of people that are aware of the “demonstration project” as a result of the current outreach program to guide future efforts. Also, IROC would be interested in receiving that information at a future IROC meeting.

Proactive Public Education Campaign

IROC recognizes the need for effective and accurate public information to ensure the Public is educated on the various water and wastewater rate cost drivers.

IROC recommends that the Department proactively focus efforts to both the public and the media to promote accurate information about the costs of operation and infrastructure for our water and wastewater systems.

Managed Competition and the Customer Care Solutions (CCS) Function.

Last year, the Mayor announced that portions of the Public Utilities customer service system would be competed through the Managed Competition Program. This would allow private sector firms to compete against City employee groups to provide City services. While the customer support scope includes less than 60 employees out of a 1,600 person Department, IROC is concerned that “Customer Service” is the major interface between the ratepayers and the Department. Poor or ineffective customer service can have a negative impact on the public’s perception of all City services. IROC is also concerned about the timing of the transition to the new SAP software in conjunction with the transition to a contract staff for Customer Service.

IROC recommends that the SAP system be stabilized prior to seeking competitive bids. IROC will continue to follow this process closely as it moves forward and requests that the Department provide recent customer satisfaction survey results at a future IROC meeting.

The following FY2011 IROC issues were reviewed by the Environmental and Technical Subcommittee:

Identification of Public Utilities' Performance Audits

The full IROC, E&T subcommittee, and individual IROC members collaborated with the City Auditor's Office in refining a list of performance audit options that could be implemented in FY2011. The summary of audit options takes into consideration feedback from IROC Members, Department Management, an internal risk assessment and the Auditor's Office. The options include:

- Purchased Water (Including IPR)
- Capital Improvement Program
- Water Distribution (including valve maintenance)
- Water/Wastewater Treatment (including Chemical purchases)
- Overhead Rates/Inter-departmental charges

The E&T subcommittee determined, from a performance perspective, that a valve maintenance audit and a chemical purchase and usage audit would highlight cost savings that could be realized as they apply to water and wastewater rates. These two items are further detailed in ensuing sections.

System Condition Assessment, CIP, Water Rate Study, and Rate Case

The E&T subcommittee was presented information about the timing and interrelationships of the various programs utilized by the Department, including the emerging asset management program. It is hoped that the asset management program in conjunction with the System Condition Study will provide a better basis for the CIP. This will feed into future water rate studies and the upcoming Rate Cases. In the next calendar year, the Department will benchmark the Department's performance with comparable agencies which should also help develop a sophisticated asset management program.

Water Distribution Valves

In past IROC reports (most recently FY10), this subcommittee has expressed concerns that distribution system valves have not been a focus of the testing and preventive maintenance program, even though their inoperability exacerbates the impacts of water break impacts and can significantly delays repair and restoration of service. The Water Operations Branch tests each valve once every five years to see if the valves will turn, or if they are frozen. They find that only about 0.1% fail this test. In addition, the

Department does not test to see if the valves can be operated to the fully closed position. IROC has concerns about the adequacy of these testing methods. A large and unknown portion of valves cannot be shut off when needed to isolate broken or leaking pipes. Many water departments in the Nation test all of their distribution valves annually and test to verify that each valve can be fully closed.

IROC recommends that an audit be conducted to identify the age and condition of the components of the distribution system in a representative area, including the valves. The goal is to help identify the level of testing, maintenance, and replacement for these valves that would be optimum for long-term preventive maintenance plan, ultimately providing improved efficiency and minimization of downtime during pipe break issues.

Gray Water Systems

The use of gray water systems has not been promoted within the City of San Diego, thus limited implementation of fully permitted systems has occurred. Part of the reason for this limited implementation has been the difficulty in obtaining the necessary permits through the County of San Diego. Recently, in October, 2010, the City of San Diego has taken on this responsibility and has updated its permitting processes for residential gray water systems. This update has resulted in a straightforward process detailing approval requirements, submittal requirements, plan reviews, and associated fees. Such an update should make the requirements for the use of gray water systems more transparent and hopefully will lead to more such water systems being implemented. The fact that a clothes washer utilizing only a single domestic washing machine in a one or two dwelling unit does not require a plumbing permit for gray water reuse, should entice more residents to reuse this source of water. IROC would like to see further promotion of gray water reuse.

City's 2010 Urban Water Management Plan

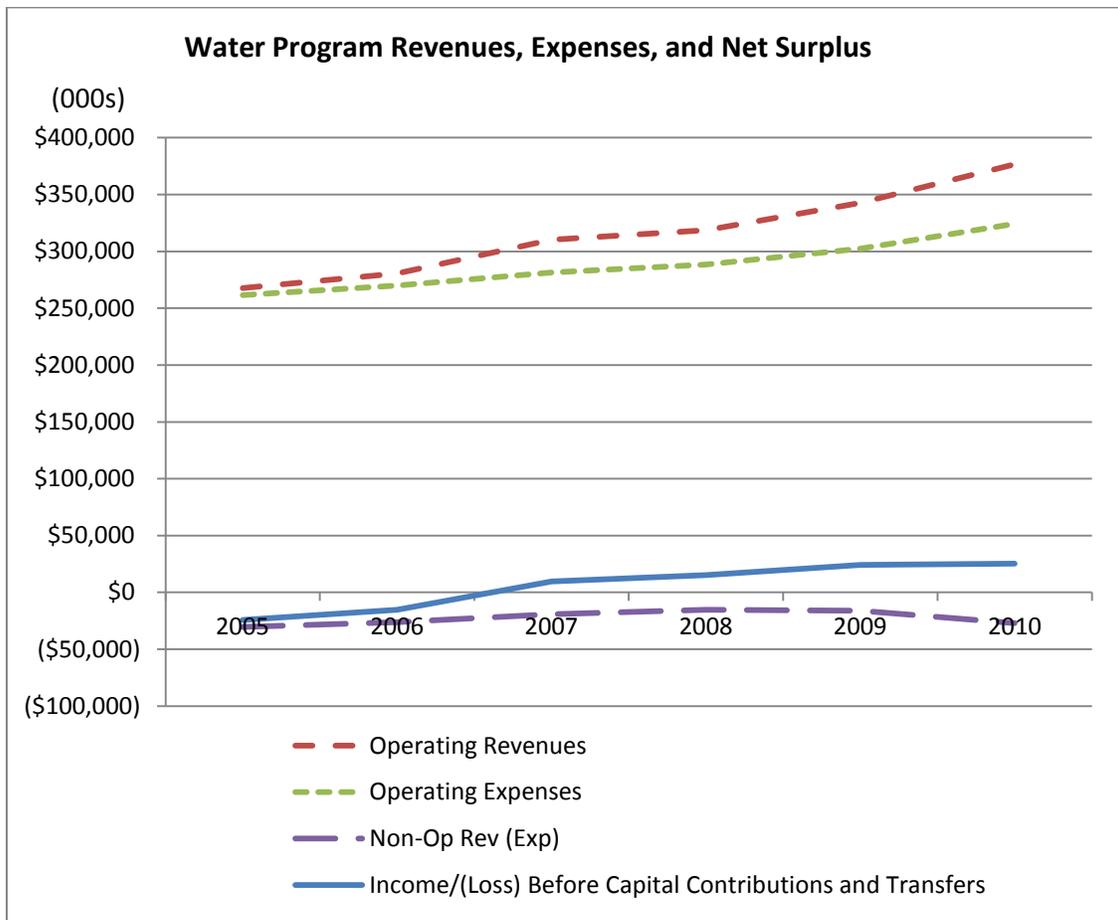
The E&T subcommittee was provided an update on the City of San Diego's 2010 Urban Water Management Plan. Overall, the E&T subcommittee supports the measures called out in the plan to ensure the future water availability over the next 25 years to the citizens of San Diego. Using the "95% of hydrological region target" to determine the gallon per capita per day (GPCD), the City has shown that the 142 GPCD requirement of the 149 GPCD calculated value can be met to meet the Senate Bill x7-7 (20x2020 conservation plan). The City conservation program has the City on track to meet the 2020 goal.

However, IROC would like to review the results of the updated Long-Range Water Resources Plan in early 2012 and the Water Shortage Contingency Plan. Both of these plans are useful in understanding if the current infrastructure projects are providing the necessary reliability while minimizing risk so that water demand can be effectively met. If not, then a reassessment of the current CIP and a potential risk-benefit analysis to mitigate these concerns is warranted.

The following FY2011 issues were reviewed by the Finance Subcommittee during FY2011:

Water Fund Financial Review

An overall analysis of the 2011 Finances for the water program are contained in appendices #1 and #2 while appendix #3 tracks the actual capital expenditures for the Department versus the original water capital improvement program expenditure projections to see if the CIP program is on track in terms of programmatic expenditures. The 2010 Comprehensive Annual Financial report shows that the water program continues to generate a growing net surplus before capital contributions and transfers to other funds. The 2010 net surplus was \$25.3M which represents 6.7% of total operating revenues. Capital contributions and inter-fund transfers added an additional \$23.9M to the surplus which resulted in Net Assets increasing \$49.2M during the year. Capital contributions represent mainly the fair market value of water connections which developers incur to connect houses to the main water lines. The surplus in FY2010 is consistent with trends shown in 2007 through 2009 when the program started showing a net surplus after the last rate case.



The main cause of the surplus continues to be water sale revenues that have increased about \$21.8M (8.9%) per year over the past five years. This rate of increase exceeded the annual growth in combined operating and net non-operating expenses which averaged \$9.9M average growth per year for the past five years. These expenses comprised mostly purchased water, administration, depreciation and debt service costs which have increased \$9.2M, \$5.5M, \$2.2M, and \$5.1 million per year respectively. Consequently the net surplus continues to increase at an annual rate of approximately \$9.9M each year. It should be noted that significant savings have been realized as a result of securing low interest loans from the State Revolving Funds, grant funding, and lower than projected CIP costs.

The Department runs both the revenues and costs of its capital improvement program through the water fund, and IROC continues to believe the key underlying cause of the surpluses and higher cash levels is the delays in executing its CIP program. Appendix three shows projected water system CIP project costs from its bond prospectus verses actual cash expenditures for 2009 and 2010. This comparison is not truly apples to apples, however, since projected expenditures are only for the CIP program as outlined in the Department's water bond prospectus. Capital Asset Cash Outflows comes from the 2010 CAFR for the water fund and represents the value of all capital expenditures for the Department, with costs for the CIP program representing an undetermined subset of the overall amount. The table shows that the bond prospectus anticipated that \$347M of expenditures would be made for the CIP program over the two year period from 2008-09 to 2009-10. Actual capital cash expenditures (for both CIP and other capital costs) for a comparable two year period were \$276M, or \$71M (20%) below anticipated levels. Therefore, CIP capital expenditures are not keeping pace with levels originally anticipated for this program which is the likely cause of the surpluses and cash/investment buildup since water rates may have been set at a level sufficient to fund a higher level of CIP program expenditures than is actually occurring.

The Department has provided a projected CIP expenditure schedule as follows:

FY12 -	\$73.4 million
FY13 -	92.0
FY14 -	89.1
FY15 -	81.4
FY16 -	<u>85.2</u>
Total -	\$421.1 million

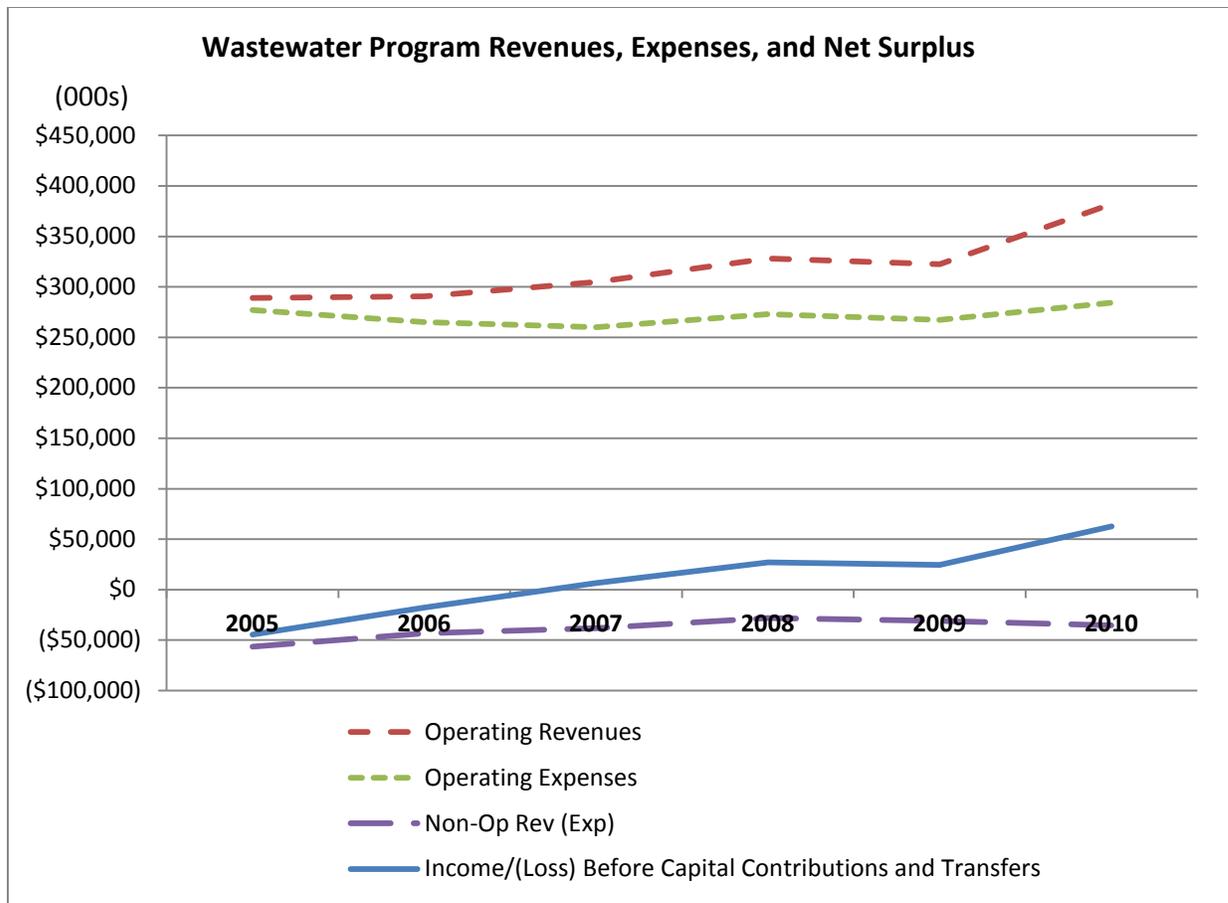
IROC fully understands that there are necessary and appropriate CIP projects which are needed by the City. Nonetheless, this growing surplus and the growth of unrestricted cash and investments is concerning. IROC recommends that the Department develop a long term cash flow forecast which will allow for a better review of water rates. The Department staff has said they are in the process of vendor selection for a Cost of Service Study. This study coupled with an ongoing cash flow forecast will provide assurance to IROC and the ratepayers that water rates are appropriate.

Analysis of the Department's operating expenses shows that the water program has been operating with relatively stable efficiency over the past five years, and has been keeping expenses under control. Gross operating expenses have increased about \$12.6M (4.8%) per year during the period. When we look at water program operating expenses as a percent of operating revenues and total assets under management we see that expenses have been a declining percentage of revenues because they haven't grown on par with revenues. Expenses as a percent of total assets under management have been relatively stable at 13.5% for the period. This control of expenses is a noteworthy accomplishment.

Wastewater Fund Financial Review

An analysis of the 2011 finances for the wastewater program are contained in Appendices #4 and #5 with appendix #6 showing the actual capital expenditures for the Department (including CIP program expenditures) versus the projected expenditures for the wastewater CIP program.

The Statement of Revenues, Expenses and Changes in Fund Net Assets in the 2010 CAFR shows that the sewer fund has been generating a consistent surplus since 2007 when the last rate case was adopted with the surplus increasing to a high of \$62.7M during 2010 when it equated to 16.4% of gross revenues. This surplus was mainly due to a \$60M increase in service charge revenue from 2009 to 2010. Operating revenues have grown an average of \$18.6M (6.4%) per year from 2005 to 2010 while operating expenses have increased only \$1.4M (0.5%) per year. Net non-operating expenses (including debt service) have decreased an average of \$4.2M a year. This small increase in operating expenses coupled with the reduction in non-operating expenses has caused the net surplus before capital contributions and transfers to grow an average of \$21.5M per year for the past five years which is on par with the \$21.6M annual increase in sewer fund net assets.



The expenses of operating the system have been controlled, with aggregate operating expenses increasing \$1.4M (0.5%) per year from 2005 to 2010. This control of expenses is reflected in the ratios of operating expenses to operating revenues, and the ratio of operating expenses to total assets under management. Both metrics have shown relatively steady decline over the past five years with the ratio of operating expenses to revenues decreasing from 95.9% in 2005 to 74.4% in 2010 with the decline attributable to controlled operating costs and increasing revenue growth. This favorable decline in expense ratios is similarly reflected in the ratio of operating costs to total assets which decreased from 9.0% in 2005 to 8.2% by 2010.

Similar to the water program, The Department runs both the revenues and costs of its sewer capital improvement program through the sewer fund, and IROC continues to believe the underlying cause of the surpluses and cash buildup is delays in executing the sewer CIP program. Appendix # 6 shows projected sewer system CIP project costs verses all actual cash capital expenditures for the sewer program for 2009 and 2010, including CIP capital expenditures. This comparison is not truly apples to apples, however, since projected expenditures are only for the CIP program as outlined in the Department’s sewer bond prospectus while Capital Asset Cash Outflows comes from the 2010 CAFR for the sewer fund and represents the value of all capital expenditures; with costs for the sewer CIP program representing an undetermined subset of this amount.

Appendix # 6 shows that the Sewer Revenue Bonds Series 2009A and 2009B Bond Prospectus expected to spend \$55.6M for CIP expenditures in 2009 while the CAFR shows that \$55.9M of total capital expenditures were made that year, which included an undetermined subset for the sewer CIP program. Therefore, it appears that CIP expenditures were likely on track with targets in 2009. The 2009A and 2009B Bond Prospectus anticipated that \$154M of sewer system CIP expenditures would be made in 2010, which the Sewer Revenue Bond Series 2010A Bond Prospectus revised back to \$74.0M – a 52% reduction. Actual total 2010 capital expenditures were \$88.3M which includes an undetermined subset for the CIP program. Therefore, total capital expenditures in 2010 represented only 57% of the amount called for in the 2009A and 2009B Bond Prospectus, but were more than the amount called for in the 2010A Bond Prospectus after projected expenditures were reduced by \$80M.

Therefore, CIP capital expenditures are not keeping pace with levels originally anticipated in the 2009A and 2009B Bond Prospectus which is the likely cause of the surpluses and cash/investment buildup since sewer rates were apparently set at a level sufficient to fund a higher level of CIP program expenditures than is actually occurring. All of the expenditure projections cited are from the Department, City of San Diego and reflect the 2007 rate case projections as revised March 14, 2009 and February 1, 2010.

As with the Water Department, there are ongoing obligations to fund an extensive aging capital infrastructure program which is under an EPA consent decree. IROC understands this need for CIP projects. The Department has provided the following CIP projected expenditures:

FY12 -	\$90.6 million
FY13 -	93.0
FY14 -	79.8
FY15 -	82.1
FY16 -	81.4
Total -	\$426.9 million

IROC agrees that there are necessary and appropriate wastewater CIP projects which are needed by the City. Even though these CIP projects are needed, IROC is concerned that surpluses are being generated well in advance of when the money will be spent and the Department needs to review their sewer rates by producing a long term cash flow forecast which incorporates this anticipated spending.

Water and Sewer Fund Reserve Level

City staff has maintained in the past that both the level of unrestricted cash and investments and the level of unrestricted net assets in the water and sewer funds are necessary to maintain adequate reserve levels as mandated by City policy. City staff therefore provided the following information regarding the amount of reserves in both line items for the water and sewer funds as of June 30, 2010.

	Water Fund	Sewer Fund
Reserves (Per City Council Approval)	\$94,000,000	\$99,000,000
Continuing Appropriations	78,000,000	158,000,000
Encumbrances	45,000,000	77,000,000
Undesignated	16,000,000	18,000,000
Total Reserves, Cont. Appropriations, Encumbrances as of June 30,2010	1/ 233,000,000	2/ 352,000,000
Total Unrestricted Net Assets Per 2010 CAFR	233,265,000	352,341,000
Total Unrestricted Cash and Investments Per 2010 CAFR	221,585,000	380,774,000
Budgeted Reserves, Cont. Appropriations, and Encumbrances as of June 30, 2010	3/ 192,642,562	3/ 82,548,155
Percent Reserves To Unrestricted Net Assets	40%	28%
Percent Reserves To Unrestricted Cash and Investments	42%	26%

1/ Source: Public Utilities Dept. presentation to IROC entitled "CAFR Training 101 Public Utilities" December 2011

2/ Source: Public Utilities Dept. response to IROC inquiry dated January 8, 2012.

3/ Source: Public Utilities Dept. 2010 Final Adopted Budget.

Based upon the preceding analysis, the following observations can be made. The above figures show the Department had trouble forecasting year-end reserves, continuing appropriations, and encumbrances in the 2010 Budget. Budgeted reserves, continuing appropriations, and encumbrances were within 83% of year-end actual expenditures for the water fund; but only 23% of year-end actual for the sewer fund. City staff indicated the SAP implementation made forecasting the continuing appropriation and encumbrance amounts for both the water and sewer funds difficult, and that historical data was used in budget formulation for both funds.

Reserves only accounted for 40% of Unrestricted Net Assets and 42% of Unrestricted Cash and Investments in the Water Fund; with continuing appropriations, encumbrances, and "undesignated" accounting for the remaining \$128 million of unrestricted cash and investments. Reserves only accounted for 28% of Unrestricted Net Assets and 26% of Unrestricted Cash and Investments in the Sewer Fund; with continuing appropriations, encumbrances, and "undesignated" accounting for the remaining \$282 million of unrestricted cash and investments. Thus, unrestricted cash and investments appear to be well in excess of what is required for reserves. Of course, some of this excess will be needed for scheduled capital projects. The question is how much will be required and when will it be spent?

In regards to encumbrances, City staff indicates that generally, encumbrances should be expended in the following fiscal year because the City's policy regarding operating encumbrances is that they will be spent within two years of initiation. Capital encumbrances, in contrast, can span the life of a project. City staff is working to identify both the specific fiscal years within which the encumbrances and continuing appropriations were originally incurred or appropriated and when they will actually be expended. At this point it is unknown how long these carryovers have been carried on the City's books, or when they will actually result in cash expenditures. The Department

stated they are working with the EPM Division and the Public Works – Engineering Division to review the continuing appropriations and have committed to provide the information to IROC within FY12 Q4. Determining when both the encumbrances and continuing appropriations will actually be expended is important, as it will determine both the level of, and the need for, future funding through revenue bond sales and water/sewer rate increases.

Both the water and sewer funds continue to generate surpluses and build unrestricted cash and investments as has been occurring steadily since 2007 under the last rate case. The surpluses are not caused by a need to meet targeted reserve levels since current cash and investments substantially exceed the levels approved by City Council. Rather the surpluses are mainly caused by the level of carryover appropriations and encumbrances which may be related to the relatively slow pace of both water and sewer program CIP expenditures since rate levels were set to fund a higher expenditure level for these programs. We commend the Department for securing SRF and grant funding and recognize that this has also contributed to the surplus. The Department therefore needs to justify the surpluses being generated along with a need to retain the cash and investment growth to finance forecasted operations and CIP expenditures within the next three years, taking into account future forecasted revenues from the next rate case; and forecasted inflation rates, operating costs, debt retirements, and debt coverage ratios. This justification should be based on the current construction schedule and forecasted CIP expenditures. Additionally, it should be noted that both funds have shown only small increases in their operating costs. These well controlled costs, while commendable and appreciated by ratepayers have also served to add to the surpluses.

IROC therefore recommends the Department review their water and sewer rates by a producing a long term cash flow forecast taking into account forecasted inflation rates, costs, and schedules for the Department and its CIP program; and when the current levels of continuing appropriations and encumbrances will actually be expended. Such forecasts are routinely done for construction program financial planning and should reflect anticipated cash revenues and expenditures rather than encumbrances and continuing appropriations. They should also forecast anticipated cash balances by fund as well as forecasted debt coverage ratios.

The forecast specifically needs to validate the ongoing surpluses and the buildup and retention of the higher unrestricted cash and investment levels in both the water and sewer funds by demonstrating a use for these assets within in the next three years to finance operating and capital expenditures, mitigate operating risk, or maintain debt coverage ratios to comply with bond covenants. This should be done through the creation of a comprehensive long term cash flow forecast which includes cash revenues, expenditures, and cash balances by fund. This forecast should be shared with both IROC and the Council. We recommend a three year horizon be used since it is consistent with the time horizon used in IRS arbitrage regulations used to determine whether tax exempt bond funds have been retained too long by public agencies.

LOOKING AHEAD: KEY ISSUES FOR FY2012

The following are key issues that IROC plans to review in FY2012:

Comprehensive Policy for a Sustainable Water Supply for San Diego

IROC anticipates addressing issues related to the implementation of the City's recently adopted Comprehensive Policy for a Sustainable Water Supply for San Diego as they emerge, in 2012.

CIP Audit Report Follow Up

The Public Utilities Capital Improvement Program Audit addresses a number of issues of concern. IROC anticipates following up on information provided by that Audit, and the Department's responses to the Audit in FY2012.

Non-Potable Use (Purple Pipe System) Expansion Analyses

IROC recognizes that one of the biggest challenges for the City is to decrease reliance on imported water, and to create a local sustainable water supply for the region. During the past year, one of the City's responses to creating a sustainable water supply has been through initiation of the Water Purification Demonstration Project. At the same time, the City's budgeting for non-potable purple pipe expansions has virtually disappeared leaving businesses, parks and golf courses with no options other than conservation or to use potable water for industrial and irrigation purposes.

Currently, the City's purple pipe system and reclaimed water production is underutilized, and the City continues to pay increasingly higher prices to purchase potable water from its suppliers. With the timeline for full implementation of the Water Purification Demonstration Project (assuming full development is approved by regulatory and other bodies) nearly 10 years or more away, IROC would like to better understand if it is appropriate to resume expansion of non potable purple pipe to offset the use of potable water supplies. The purple pipe expansion analyses could entail: grants; stimulus funds; or partnerships/cost sharing with commercial stakeholders.

IROC recommends that the Department provide a briefing on this subject at a future IROC meeting to assess the economics and value of available grants and explore other opportunities to offset purple pipe expansion costs. This is in sync with Councilmember Sherri Lightner's recent Council Policy to support cost-effective expansion of the City's non-potable recycled water distribution system.

Water and Recycled Water (purple pipe) Cost of Service Studies

IROC will continue to monitor the results of ongoing water and recycled water rate studies and urges the Department to ensure there are timely and appropriate outreach efforts to inform and educate the affected stakeholder groups on the study results, as well as any potential water and recycled water rate changes.

Human Resources Management/ Employee Retention and Recruitment

The City of San Diego, like most local governments, is going through difficult financial times due to the economic recession. While IROC understands the need to cut costs wisely to minimize future rate increases, it is important for the Department to provide adequate benefits to its employees in order to attract and retain a skilled and experienced workforce for years to come. This becomes more important as government reduces staffing levels. IROC requests periodic briefings on the Department's Leadership Development Program, as well as efforts to retain and recruit employees. This should include performance data to verify the Department is within industry standards and its staffing needs with respect to injury rates, turnover rates, retention rates, ability to recruit skilled employees, etc.

Advanced Water Purification System – Potable Reuse

The approach for treating the wastewater to tertiary standards at the North City Reclamation Plant was installed and commissioned in late spring 2011. Understanding that all of the testing results have not been fully qualified, IROC would appreciate the opportunity to receive progress reviews of preliminary data and findings in FY2012. In addition, any updates regarding the discussions and/ or interactions with the Technical Advisory Committee (TAC) and the California Department of Public Health (CADPH) while the plant is operating will be useful. The E&T subcommittee requests that the Department not wait until the end of the project study to see "final results," but instead would appreciate the opportunity to question testing if the need is apparent. In particular, items like the testing for chemicals of emerging concern, microbial sampling, membrane integrity, energy consumption, operator attention, and system uptime will be of interest to the Environmental and Technical subcommittee and to the full IROC.

As reported in prior year IROC reports (FY09 and FY10), IROC continues to raise the concern that sufficient planning should begin to move ahead with an operational system after the demonstration program has received agency acceptance. If preliminary data indicates a successful project, and the TAC and CADPH concur with the success, conceptual planning, design, engineering, identification of needed funds, or submittal of grant applications should be conducted in FY2012. As a potential significant part of the City's future water portfolio, IROC continues to urge the City to educate and prepare decision makers in the necessary steps to implement the full-scale IPR project, assessing the benefits and liabilities of moving ahead with additional tasks. The funding for such tasks could then be included in future rate cases.

Secondary Treatment Permit Waiver Issues

In prior IROC Annual Reports (FY08, FY09, and FY10), IROC has stressed the importance of planning for the inevitable waiver denial by the EPA. The Public Utilities Department relies on the belief that the Advance Primary Treatment Process at the Point Loma Wastewater Treatment Plant meets all of the requirements of the Clean Water Act, with the exception of the 30 mg/L TSS and BOD requirements (30/30 rule). IROC has not seen scientific evidence that demonstrates a significant negative impact to the biodiversity at the outfall has occurred as a result of the outfall not meeting the 30/30 rule. However, this subcommittee also understands that this may be less of a science issue and more of a political issue when the application for the next waiver is required.

Again, it is the stark reality that an additional waiver may not, and likely will not, be issued in 2016. Hence, we would like to see a 5, 10, and 15 year detailed plan how the City of San Diego will meet this future challenge. FY2012 should be the time that a technical subcommittee is formed within the Department, along with citizen involvement, to start outlaying the long-term plan. If the next waiver is denied in approximately 2016, the City of San Diego would likely have another 5-15 yrs to implement a strategy-solution to upgrade its water treatment capability. Significant planning is required now to assess how future rate cases may be affected by the lack of the waiver. Too much is at stake not to be engaged in FY12, instead of waiting until 2016. More so than in past years, IROC will continue to urge that such activities take place in the upcoming FY12.

Water Valve Audit

In FY2011, IROC suggested to the City Auditor that an extensive evaluation and audit of the water distribution system valve operability and maintenance program throughout the City be conducted. This audit will be conducted through FY2012 and the subcommittee will evaluate the findings of the audit as testing, repairs, and replacement could be pertinent to future rate cases.

Chemical Usage Audit

IROC recommended to the City Auditor that a full evaluation of chemical purchases and usage by the City's Public Utilities Department be performed. Such an audit has not been conducted in the past and could result in substantial cost savings. This audit will likely be conducted near the end of FY2012 or early FY2013. The E&T subcommittee will continue to work with the City Auditor and the Public Utilities Department to prioritize this effort. Such an audit could provide savings that could offset other potential costs that affect rate increases.

AC Pipeline Replacement

The City is evaluating a plan for the eventual removal and replacement of thousands of miles of Asbestos-Concrete (AC) pipes at the optimal time. Meanwhile, the City is focused on the removal of the cast iron piping that is more of an imminent concern and requirement. However, The E&T subcommittee anticipates learning more about the removal plan of the AC pipe. In particular, it has been suggested that up to 20 miles of AB pipe will be replaced per year. However, to meet the thousands of feet of pipe replacement required, at least 43 miles of pipe replacement will be necessary to meet the normal life expectancy of the pipe. IROC is concerned that the rate of water pipe replacement will add to the deferred maintenance backlog. IROC recommends that the Department enhance its Assets Management Program so that policy makers can determine an optimal level of pipe replacement or re-lining and about the potential consequences of returning to a pipe replacement rate that is so much below a break-even replacement rate. In addition, alternatives to pipe replacement such as relining have been recently discussed. Such alternatives may provide a more cost-effect means to resolve the problem with AC pipe and the E&T subcommittee and IROC will continue to discuss the possibilities of investigating this concept further with the City of San Diego Public Utilities Department in FY12.

Long Term Revenue and Expense Trends

IROC will examine these revenues and expenses each year to determine any unusual trends and their cause along with cash and debt coverage levels. The 2012 review will compare the level of unrestricted cash and investments to targeted reserve levels.

Review of Progress Made to Address the Departmental and CIP Reporting Issues

IROC will continue to work with the Department to develop appropriate reports for financial and CIP monitoring.

Service Level Agreement Review

A review will be conducted of material Service Level Agreements to provide assurance to ratepayers that Department costs are appropriate.

Article 6: Board and Commissions**Division 20: City of San Diego Independent Rates Oversight Committee***(Added 4-18-2007 by O-19607 N.S.; effective 5-18-2007.)***§26.2001 Purpose and Intent**

It is the purpose and intent of the City Council to establish the Independent Rates Oversight Committee to serve as an official advisory body to the Mayor, City Council, and City Manager on policy issues relating to the oversight of the City of San Diego's public utilities department operations including, but not limited to, resource management, planned expenditures, service delivery methods, public awareness and outreach efforts, high quality and affordable utility services provided by the public utilities departments, including the Water and Metropolitan Wastewater Departments. In addition, the Independent Rates Oversight Committee is established to assist the City in tracking and reviewing the use of rate proceeds to advance the capital improvements related to the rate packages and work programs adopted by the City Council. It is the vision of the Independent Rates Oversight Committee that a high level of public confidence in the City of San Diego's utility services is maintained because the services are provided in the most cost effective and environmentally sensitive way.

*("Purpose and Intent" added 4-18-2007 by O-19607 N.S.; effective 5-18-2007.)***§26.2002 Independent Rates Oversight Committee Established**

- (a) There is hereby created an Independent Rates Oversight Committee to consist of eleven members, the majority of whom shall be residents of the City of San Diego, who shall serve without compensation. The members shall be appointed by the Mayor and confirmed by the City Council. Each of the four ratepayer classes (single family residential, multifamily residential, commercial and industrial, and temporary irrigation and construction) will have one representative on the Committee. The Committee shall also include two ex-officio members, one representing and appointed by the Metropolitan Wastewater Joint Powers Authority, and one representing and appointed by the ten-member City representatives to the San Diego County Water Authority. A majority of the members of the committee shall possess expertise in one or more of the following areas: accounting, auditing, engineering, biology or environmental science, finance or municipal finance, law, and construction management.
- (b) Members shall serve four year terms, and each member shall serve until a successor is duly appointed and confirmed. In accordance with City Charter section 43, members are limited to a maximum of eight consecutive years, and an interval of four years must pass before such persons can be reappointed.

Initial members shall be appointed such that the terms of not more than six members shall expire in any one year so as to allow the Committee to be staggered. For the initial appointments, five members shall be appointed to an initial term that will expire May 1, 2009, and six members shall be appointed to an initial term that will expire May 1, 2011. Initial appointments which are less than the full term of four years will be allowed to serve two full terms. The expiration date of all terms shall be May 1. Any vacancy shall be filled for the remainder of the unexpired term. Vacancy appointment recommendations will come from the original recommending body. Any vacancy replacements will be eligible to serve the remaining term of the vacant position and two full terms.

- (c) For the initial year, the Mayor will designate one member as Chair. Thereafter, the Committee shall on or after May 1, select a Chair from among its members. The Chair will serve a one year term with the option of reappointment for one additional one year term, with a one year interval between consecutive terms as Chair.
- (d) The Committee may adopt rules consistent with the law for the governing of its business and procedures.
- (e) A conflict of interest code shall be adopted for the Committee, subject to City Council approval. The members of the Committee shall be required to complete and file statements of economic interests in accordance with the conflict of interest code.

(“Independent Rates Oversight Committee Established” added 4-18-2007 by O-19607 N.S.; effective 5-18-2007.)

§26.2003 Duties and Functions

The Committee shall:

- (a) Meet at least every other month with additional meetings convened as necessary and as determined by the Committee Chair, and set an attendance policy for Committee members to help ensure a quorum of members are present for all meetings.
- (b) Review reports from staff and an independent audit organization on rate and bond proceed expenditures.
- (c) Review independent performance audits on Water and Wastewater systems.
- (d) Provide advice on the efficiency and performance of Water and Wastewater systems on a regular basis.

- (e) Provide advice on future cost allocation models.
- (f) Oversee departmental savings efforts and deposits to the “Dedicated Reserve from Efficiency and Savings (DRES)” fund to be established as another part of the safeguard plan.
- (g) Assist in the selection and retention of the independent firm to conduct the annual financial audit of the utility departments’ budget activity.
- (h) Assist in the selection and retention of the independent firm to conduct the annual performance audit to be set for each utility department.
- (i) Provide an annual public report on the above issues to the Mayor and City Council.
- (j) Provide advice and review of policy and proposals as sought by department leaders and other City staff related to budget and finance, environmental issues, technology innovations, public outreach and education efforts.
- (k) Perform such further duties as may hereafter be delegated to the Committee by resolution of the City Council.

Any duties or functions of the Independent Rates Oversight Committee that fall within the oversight responsibilities of the Audit Committee should be fully coordinated with and reported to the Audit Committee.

(“Duties and Functions” added 4-18-2007 by O-19607 N.S.; effective 5-18-2007.)

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Jan I. Goldsmith
CITY ATTORNEY

December 23, 2011

REPORT TO THE AUDIT COMMITTEE

RESPONSIBILITIES OF THE INDEPENDENT RATES OVERSIGHT COMMITTEE UNDER
SAN DIEGO MUNICIPAL CODE SECTIONS 26.2001 THROUGH 26.2003

INTRODUCTION

On November 7, 2011,¹ the Audit Committee asked this Office to review the last five years of annual reports issued by the Independent Rates Oversight Committee (IROC) to identify any IROC recommendations or findings made outside the scope of IROC's responsibilities as described in San Diego Municipal Code (SDMC) section 26.2003(a)-(i), and to request from IROC the authority under which it acted if its recommendations or findings were outside the scope of its authority. Based on our review of the annual reports, we conclude that IROC's recommendations are within the scope of duties described in the SDMC.

DISCUSSION

The City Council approved the creation of IROC on April 10, 2007, by adding SDMC sections 26.2001 through 26.2003. San Diego Ordinance O-19607 (April 18, 2007).² The City Council confirmed the Mayor's appointments to IROC on October 18, 2007, and IROC held its first meeting on November 5, 2007. San Diego Resolution R-303045 (Oct. 18, 2007).

IROC issued annual reports in 2008, 2009, and 2010.³ IROC has not completed its 2011 annual report, which was discussed at the IROC meeting on December 19, 2011, so our review is limited to three annual reports.

The Audit Committee requested a review of IROC's annual reports in light of SDMC section 26.2003(a)-(i). We have broadened that review to include SDMC sections 26.2001 through 26.2003, as IROC's responsibilities are not limited to SDMC section 26.2003(a)-(i).

IROC's purpose and intent is broadly described in SDMC section 26.2001. Specifically, IROC advises the Mayor, the City Council, and the City Manager on policy issues relating to the oversight of the City of San Diego's public utilities department operations. Issues within IROC's

¹ The request followed a discussion of IBA Report No. 11-65 (Nov. 4, 2011) entitled "Independent Rates Oversight Committee (IROC) - Audit Responsibilities."

² See the attached Memorandum from Deputy City Attorney Thomas C. Zeleny dated February 23, 2009 for a comprehensive description of IROC's responsibilities.

³ IROC annual reports are available at <http://www.sandiego.gov/mwwd/general/commissions.shtml>.

purview include, but are not limited to, resource management, planned expenditures, service delivery methods, public awareness and outreach efforts, the provision of high quality and affordable utility services provided by the public utilities departments, and tracking and reviewing the use of rate proceeds to advance capital improvements related to the rate packages and work programs adopted by the City Council. IROC is also responsible for performing the mandatory functions delineated in SDMC section 26.2003. Except for SDMC section 26.2003 (i), which requires IROC to provide annual public reports to the Mayor and City Council, IROC is not provided with a timeframe in which it must complete these mandatory functions.

This Office believes each of the six conclusions pertaining to operations, capital improvement projects, financing, environmental management, rate structure equity and effectiveness, and education and outreach in the 2008 annual report fall within IROC's purview under the SDMC sections 26.2001, 26.2003(b), 26.2003(e), and 26.2003(j).

This Office also believes recommendations one through five of the 2009 annual report fall within the purview of IROC's responsibilities. These recommendations concern resource management, affordable utility services, and education and outreach under SDMC section 26.2001.

Recommendation six, entitled "other matters," includes a discussion of pension costs and the City Auditor's whistleblower hotline. The 2009 annual report includes a discussion of pension costs because "ratepayers are fully exposed to risks inherent in a defined benefit plan." Likewise, the City Auditor's whistleblower hotline is discussed because "IROC believes a confidential whistleblower process, including a fraud hotline, is an essential element of the Public Utilities Department's risk management program." Recommendation six likely falls within SDMC section 26.2001, which includes, but is not limited to, resource management, public awareness and outreach efforts, and the provision of affordable, high quality services.

The 2010 annual report includes fourteen recommendations that fall under resource management, planned expenditures, service delivery methods, public awareness and outreach efforts, and the provision of high quality and affordable utility services as described in SDMC sections 26.2001 and 26.2003(d).

CONCLUSION

Based on our review of the annual reports, we conclude that IROC's recommendations and findings are within its scope of duties as described in the SDMC.

Some Audit Committee members questioned whether IROC is fulfilling its objectives as intended by the City Council. Although the Audit Committee does not have oversight responsibility for IROC, "[a]ny duties or functions of the Independent Rates Oversight Committee that fall within the oversight responsibilities of the Audit Committee should be fully coordinated with and reported to the Audit Committee." SDMC section 26.2003. It would

December 23, 2011

therefore be permissible for the Audit Committee and members of IROC to meet in the future to discuss and to coordinate efforts in areas such as performance audits and the whistleblower hotline.

JAN I. GOLDSMITH, CITY ATTORNEY

By 

Mara W. Elliott

Deputy City Attorney

MWE:als

Attachment: Memorandum dated 2/23/09

RC-2011-41

Office of
The City Attorney
City of San Diego

MEMORANDUM

533-5800

DATE: February 23, 2009
TO: Natural Resources & Culture Committee
FROM: Thomas Zeleny, Deputy City Attorney
SUBJECT: Responsibilities of the Independent Rates Oversight Committee

INTRODUCTION

During the two previous meetings of the Natural Resources & Culture Committee, questions were raised as to what are the duties and responsibilities of the Independent Rates Oversight Committee ("IROC"). Specifically, the questions are (1) whether IROC should be reviewing City policies regarding the water and wastewater utilities or be focusing solely on the City's use of ratepayer funds, and (2) whether review by IROC is a prerequisite to City Council action on water and wastewater matters.

DISCUSSION

The City Council approved the creation of IROC on April 10, 2007 by Ordinance No. O-19607. The ordinance added Municipal Code sections 26.2001 - 26.2003 establishing IROC and repealed sections 26.1101 - 26.1103 relating to the former Public Utilities Advisory Committee. The City Council confirmed the Mayor's appointments to IROC on October 18, 2007 by Resolution No. R-303045. IROC held its first meeting on November 5, 2007.

The Municipal Code sets forth the purpose and intent of establishing IROC:

It is the purpose and intent of the City Council to establish the Independent Rates Oversight Committee to serve as an official advisory body to the Mayor, City Council, and City Manager on *policy issues* relating to the oversight of the City of San Diego's public utilities department operations including, but not limited to, resource management, planned expenditures, service delivery methods, public awareness and outreach efforts, high quality and affordable utility services provided by the public utilities departments, including the Water and Metropolitan Wastewater Departments. In addition, the Independent Rates Oversight Committee is established to assist the City in *tracking and reviewing*

the use of rate proceeds to advance the capital improvements related to the rate packages and work programs adopted by the City Council. It is the vision of the Independent Rates Oversight Committee that a high level of public confidence in the City of San Diego's utility services is maintained because the services are provided in the most cost effective and environmentally sensitive way.

SDMC § 26.2001 (emphasis added). The apparent purpose and intent is to give IROC the responsibility of advising the City on both "policy issues" and "tracking and reviewing the use of rate proceeds." The expressed duties and functions of IROC, however, are more narrowly focused on oversight of utility rates and performance, as the IROC name implies:

The Committee shall:

- (a) Meet at least every other month with additional meetings convened as necessary and as determined by the Committee Chair, and set an attendance policy for Committee members to help ensure a quorum of members are present for all meetings.
- (b) Review reports from staff and an independent audit organization on rate and bond proceed expenditures.
- (c) Review independent performance audits on Water and Wastewater systems.
- (d) Provide advice on the efficiency and performance of Water and Wastewater systems on a regular basis.
- (e) Provide advice on future cost allocation models.
- (f) Oversee departmental savings efforts and deposits to the "Dedicated Reserve from Efficiency and Savings (DRES)" fund to be established as another part of the safeguard plan.
- (g) Assist in the selection and retention of the independent firm to conduct the annual financial audit of the utility departments' budget activity.
- (h) Assist in the selection and retention of the independent firm to conduct the annual performance audit to be set for each utility department.
- (i) Provide an annual public report on the above issues to the Mayor and City Council.
- (j) Provide advice and review of policy and proposals as sought by department leaders and other City staff related to budget and finance, environmental issues, technology innovations, public outreach and education efforts.

(k) Perform such further duties as may hereafter be delegated to the Committee by resolution of the City Council.

Any duties or functions of the Independent Rates Oversight Committee that fall within the oversight responsibilities of the Audit Committee should be fully coordinated with and reported to the Audit Committee.

SDMC § 26.2003. Of these eleven subsections, seven relate to utility rates or performance, three to administration, and only one to City policy (subsection (j)). To reconcile any perceived conflicts between sections 26.2001 and 26.2003, and to help interpret subsection (j), we turn to the legislative record of the ordinance establishing IROC to examine the intent of the Mayor and City Council.

The information presented to the City Council when they considered creating IROC included a memorandum from the Mayor dated February 15, 2007 (attached as Exhibit 1). On page 1, the memorandum explains:

The IROC will assume and expand upon the role currently played by the City's Public Utilities Advisory Commission (PUAC) and will replace the PUAC as the venue for first review of changes in budgets and project scope being proposed for the water and wastewater systems.

IROC's assumption of the duties of the former PUAC is repeated on page 2 of the memorandum under "Primary Responsibilities of the IROC:"

Assume all PUAC duties related to the review of policy and proposals and advice as sought by Water and Wastewater department leaders and other City staff. The subject areas to be addressed by the IROC will include budget and finance, environmental issues, technology innovations, public outreach and education efforts.

This language is strikingly similar to that of subsection (j) of section 26.2003, thereby linking subsection (j) to the assumption of the duties of the PUAC. Therefore, the apparent intent of subsection (j) is for IROC to assume the responsibilities of the former PUAC as the Mayor's memo indicates.

This interpretation is affirmed by a recital in the City Council's action confirming the Mayor's appointments to IROC.

WHEREAS, the IROC will replace the City's existing Public Utilities Advisory Commission, assuming its duties related to the review of policy, proposals and advice sought by the water and wastewater systems, and will also take on expanded duties;

The duties of the PUAC are set forth in former Municipal Code section 26.1103 (now repealed, but attached as Exhibit 2). The subject matter assigned to the former PUAC was very broad, covering public policy issues not only for City utilities, but also for gas, electric, television and telecommunication services. According to above language in the Mayor's memorandum and the City Council's resolution, however, IROC's assumption of the PUAC's duties is limited to water and wastewater issues. Consistent with that direction, IROC has not considered matters related to gas, electric, television or telecommunication services.

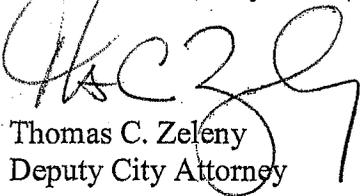
There is nothing in the IROC ordinance or the former PUAC ordinance that suggests review by IROC is a legal prerequisite to City Council taking action on a water or wastewater matter. IROC is purely an advisory body to the Mayor and City Council. It is certainly preferable that IROC review matters before they are considered by the City Council so that IROC's advice is timely, but City Council is free to act without consulting IROC.

CONCLUSION

The focus of IROC is oversight of water and wastewater ratepayer funds and the performance of the City utilities. IROC is also tasked with advising the Mayor and City Council on policy issues related to water and wastewater service, having assumed that responsibility of the former PUAC. While prior review by IROC is recommended so that IROC can accomplish its mission, IROC review is not a legal prerequisite to City Council action.

JAN I. GOLDSMITH, City Attorney

By


Thomas C. Zeleny
Deputy City Attorney

IROC Agenda Topics for Fiscal Year 2011

JULY, 2010

Full IROC

- Consideration of a draft Ordinance Amending the City's Emergency Water Regulations
- Advanced Meter Infrastructure (AMI) Update
- Briefing on recent Water and Wastewater Spills
- Fraud Hotline Overview
- NACWA Platinum Awards for Pt. Loma and North City Water Reclamation Plant

Finance Subcommittee

- Discussion on a proposal to move \$100,000 of Public Utilities funds, which is allocated for an external audit of the Department on behalf of IROC, to the Office of the City Auditor's budget, to be used for the City Auditor to work with IROC as its audit resource
- Metropolitan Water District Pass-Thru Rates and Policy Paper
- Monthly Water Fund: Actual Expenditures v Budget Report
- Monthly Wastewater Fund: Actual Expenditures v Budget Report

Public Outreach, Education, and Customer Service Subcommittee

Cancelled meeting

Environmental & Technical Subcommittee

- Follow up discussion with the City Auditor's Office to identify the types of performance audits to support IROC's oversight of the Public Utilities Department
- NACWA Platinum Awards for Pt. Loma and North City Water Reclamation Plant
- Review of timing and substance of the System Condition Assessment, CIP, Water Rate Study and the Rate Case and how they fit together

AUGUST, 2010

Full IROC

- Presentation from San Diego County Water Authority regarding key terms and conditions of a potential Water Purchase Agreement with Poseidon Resources for desalinated seawater from the Carlsbad Desalination Project
- Bid To Goal Program Status Update: Water Fund Program Implementation and Amendment to the Wastewater Fund Memorandum of Understanding
- Proposition 218 Noticing of the effects of the San Diego County Water Authority Pass-through rate increases
- Draft IROC Report on the Metropolitan Water District and County Water Authority rate increases

Finance Subcommittee

Cancelled meeting

Public Outreach, Education, and Customer Service Subcommittee

Cancelled meeting

IROC Agenda Topics for Fiscal Year 2011

Environmental & Technical Subcommittee

Cancelled meeting

SEPTEMBER, 2010

Full IROC

- Advanced Metering Infrastructure (AMI) - Head End System Request for Proposal & Project Financing Plan
- Advanced Metering Infrastructure Project Grant Opportunity
- Water Conservation Program – Request for Proposal for Public Outreach Campaign
- Draft IROC Report on the Metropolitan Water District and County Water Authority Rate Increases
- Adoption of an external audit scope of work for the Department, on behalf of IROC, to be performed by the Office of the City Auditor (\$100,000 budget).
- State Revolving Fund (SRF) Low Interest Loans for the Sewer Pipeline Rehabilitation Project
- Bid to Goal Program Update: Water Fund B2G Program approval process; and
- Third Party Goal Review
- Water Operations Efficiency Study

Finance Subcommittee

- Discussion on a proposal to move \$100,000 of Public Utilities funds, which is allocated for an audit of the Department on behalf of IROC, to the Office of the City Auditor's budget, to be used for the City Auditor to work with IROC as its audit resource.
- FY2011 Annual Public Utilities Budget
- Monthly Water Fund: Actual Expenditures v Budget Report
- Monthly Wastewater Fund: Actual Expenditures v Budget Report

Public Outreach, Education, and Customer Service Subcommittee

Cancelled meeting

Environmental & Technical Subcommittee

- Update on recent water main breaks and/or sewage spills
- Discussion of the options for a scope of work to be conducted by the City Auditor's Office on behalf of IROC (Budget \$100,000).
- Presentation on the methods used by Public Utilities to measure the Department's performance of its Strategic Plan
- Status and impact of County Water Authority Desalination Project on City of San Diego rate payers

OCTOBER, 2010

Full IROC

- Public Utilities FY10 Annual Capital Improvement Program Status Report
- Presentation on the Dedicated Reserve for Efficiencies and Savings (DRES)
- Wastewater Treatment and Disposal Efficiency Study

IROC Agenda Topics for Fiscal Year 2011

Finance Subcommittee

Cancelled meeting

Public Outreach, Education, and Customer Service Subcommittee

- Public Utilities Department Opinion Study Results
- City of San Diego Fraud Hotline – Public Utilities Department plan for communicating the purpose and phone number to all Departmental employees and the public
- Discussion: Public Utilities communications plan for educating the public on the various drivers/reasons for water and wastewater rate increases?

Environmental & Technical Subcommittee

- FY 2010 Operational Performance Measures
- Public Utilities Department's Energy and Climate Protection Plan (ECPD)
- Water Conservation
- Discussion of IROC Strategic Planning Meeting

NOVEMBER, 2010

Full IROC

- Workshop: Staff Presentation on Financial Planning Factors and Rate Setting Drivers
- Regular meeting:
- Public Utilities Department Reserves Policy
- Presentation: Otay II Pipeline Water Main Failure
- Wastewater Collections Efficiency Studies
- Follow-Up Discussion from the IROC Strategic Planning Ad Hoc Meeting of October 17, 2010

Finance Subcommittee

- Presentation on Public Utilities Department Fiscal Reserves
- Does the City have the ability to grant people of low income or special needs financial relief on their water bills. Has targeted relief been considered or attempted before in SD, in other places?
- Update on transition issues related to the Enterprise Resource Planning System: SAP
- Anticipated effects the failure of Prop D will have on PUD operations and costs.
- Anticipated effects the passage of Prop 26 will have on the ability of the PUD, CWA and MWD to assess future water rate increases
- Monthly Water Fund: Actual Expenditures v Budget Report
- Monthly Wastewater Fund: Actual Expenditures v Budget Report

Public Outreach, Education, and Customer Service Subcommittee

Cancelled meeting

Environmental & Technical Subcommittee

Cancelled meeting

IROC Agenda Topics for Fiscal Year 2011

DECEMBER, 2010

Full IROC

- Workshop: Rate Setting Process
- Regular Meeting:
- Presentation on Water and Wastewater fiscal reserve balances and usage
- "Planned to Actual" Rate Case projects for Wastewater
- First Quarter Capital Improvement Program Progress Report
- Wastewater CIP Project Prioritization Process
- Cooperative Hydrologic Investigations Agreement with United States Geological Survey
- Follow-Up Discussion from the IROC Strategic Planning Ad
- Hoc Meeting of October 17, 2010: Protocol for issuance of IROC communications; Key Agenda Items Facing IROC; Work Products for FY2011; IROC Independence
- Discussion of IROC's FY2010 Annual Report Development

Finance Subcommittee

- Management Advisory Letter #3 Presentation to Department from Subcommittee Chairman
- Status of Quarterly Capital Outlay program report and Management Advisory Letter #1
- November 2, 2010 Memo from Mary Lewis to the City Council "Financial Reports for Fiscal Years 2010 and 2011" and the impact on PUD financial reporting
- Update on balances in Water and Wastewater Division Reserve Funds including the Rate Stabilization and DRES Reserves. Estimated of the amount of Revenues to be raised from 4.69% rate increased proposed for city council adoption
- Report on capital projects proposed to be financed from the water and wastewater DRES reserves including: (a) current status of the project, (b) estimated cost and proposed funding for each project, (c) actual or estimated state and completion date for each project
- Presentation regarding PUD department risk assessment and deferred maintenance policies and procedures
- Monthly Water Fund: Actual Expenditures v Budget Report (Distribution Only)
- Monthly Wastewater Fund: Actual Expenditures v Budget Report (Distribution Only)

Public Outreach, Education, and Customer Service Subcommittee

- Water Purification Demonstration Project Public Outreach Metrics

Environmental & Technical Subcommittee

Cancelled meeting

IROC Agenda Topics for Fiscal Year 2011

JANUARY, 2011

Full IROC

- “Planned to Actual” Rate Case Projects for Water
- SRF Loan Funding for the Miramar Water Treatment Plant; and Increase in SRF Loan Funding for Otay Water Treatment Plant, Phase I
- Presentation: Effective Utility Management as a Strategic Planning Tool for Public Utilities
- Water Purification Demonstration Project Update
- Discussion of IROC’s FY2010 Annual Report Development

Finance Subcommittee

- Discussion of the Finance Subcommittee section of the FY2010 IROC Annual Report

Public Outreach, Education, and Customer Service Subcommittee

Cancelled meeting

Environmental & Technical Subcommittee

- Design of Indirect Potable Reuse Advanced Water Treatment Facility
- IROC FY2010 Annual Report Development

FEBRUARY, 2011

Full IROC

- Comprehensive Policy for a Sustainable Water Supply
- Presentation: The City’s Managed Competition Program
- Harbor Drive Trunk Sewer – DRES transfer
- Leadership Development Program Update
- Public Utilities Agreed Upon Procedures Audit to: (1) Analyze use of Water and Wastewater Funds associated with rate increases; (2) Analyze sources and uses of debt proceeds for water and sewer revenue bonds and notes; and (3) Analyze the Dedicated Reserve for Efficiencies and Savings.
- Discussion of IROC’s FY2010 Annual Report Development
- Discussion of Sale of Water Utility Land to the Carlton Oaks Country Club
- Native Habitat Restoration at Tecolote Canyon Natural Park

Finance Subcommittee

Cancelled meeting

Public Outreach, Education, and Customer Service Subcommittee

Cancelled meeting

Environmental & Technical Subcommittee

Cancelled meeting

IROC Agenda Topics for Fiscal Year 2011

MARCH, 2011

Full IROC

- Presentation on Public Utilities Capital Improvement Projects – FY2011 Second Quarter Update
- Asbestos - Cement Pipe Replacement Program
- FY2010 IROC Annual Report Development
- Leadership Development Program Update
- Scope of Work for Agreed Upon Procedures Audit to: (1) Analyze use of Water and Wastewater Funds associated with rate increases; (2) Analyze sources and uses of debt proceeds for water and sewer revenue bonds and notes; and (3) Analyze the Dedicated Reserve for Efficiencies and Savings.
- Native Habitat Restoration at Tecolote Canyon Natural Park

Finance Subcommittee

- Staff Presentation on a Scope of Work for an Agreed Upon Procedures Audit to: (1) Analyze use of Water and Wastewater Funds associated with rate increases; (2) Analyze sources and uses of debt proceeds for water and sewer revenue bonds and notes; and (3) Analyze the Dedicated Reserve for Efficiencies and Savings
- Discussion on Public Utilities Capital Improvement Projects – FY2011 Second Quarter Update

Public Outreach, Education, and Customer Service Subcommittee

Cancelled meeting

Environmental & Technical Subcommittee

- Presentation: State Legislative Report on Water and Wastewater Issues
- Subcommittee Discussion: Source Control (Water salinity issue from Councilmember Lightner's presentation at the February 22, 2011 IROC Meeting)
- IROC FY10 Annual Report Development Update

APRIL, 2011

Full IROC

- FY2012 Proposed Budget for the Public Utilities Department
- Request to Accelerate Customer Care Solutions Billing Project funding due to early implementation
- San Diego Intertie Feasibility Study
- Presentation of a typical Environmental Impact Report (EIR) Mitigation Impact on a Utility Project
- Managed Competition Program: Pre-Competition Assessment Report and the preliminary Statement of Work for Public Utilities Customer Service Functions
- Adoption of FY2010 IROC Annual Report
- Accepting nominations for the election of a new member to the Finance Subcommittee

IROC Agenda Topics for Fiscal Year 2011

Finance Subcommittee

- FY2012 Proposed Budget for the Public Utilities Department
- Discussion: What impact would an above average water supply year (rain, reservoirs, and snowpack) have on San Diego water costs and water rates
- Responses to Capital Improvement Program expenditure questions
- Water Rate structure concepts presented by Utility Consumers' Action Network (UCAN)
- Review and discussion of the subcommittee portions of the IROC FY 2010 Annual Report

Public Outreach, Education, and Customer Service Subcommittee

- Discussion: planning for a future human resource management presentation
- Customer Care Solution (CCS) Project Update
- Utility Bill Re-design
- Discussion: FY2011 Public Utilities On-Going Public Information & Outreach
- Review and Discussion of the subcommittee portions of IROC FY10 Annual Report

Environmental & Technical Subcommittee

- Presentation: City of San Diego Graywater regulations
- Overview of City's 2010 Urban Water Management Plan
- Review and Discussion of the subcommittee portions of IROC FY2010 Annual Report
- Stakeholder input on Comprehensive Policy for a Sustainable Water Supply

MAY, 2011

Full IROC

- Support for Managed Competition Program's Preliminary Statement of Work for Public Utilities Customer Service Functions
- 2010 Urban Water Management Plan
- Comprehensive Policy for a Sustainable Water Supply in San Diego
- FY2012 Proposed Budget for the Public Utilities Department – Including most current FY11 Actual Expenditure projections.
- Adoption of FY2011 IROC Annual Report
- Accepting nominations for Finance Subcommittee

Finance Subcommittee

Cancelled meeting

Public Outreach, Education, and Customer Service Subcommittee

Cancelled meeting

Environmental & Technical Subcommittee

Cancelled meeting

JUNE, 2011

Full IROC

Cancelled meeting

IROC Agenda Topics for Fiscal Year 2011

Finance Subcommittee

- Special meeting: Discussion: Finance Portion of the IROC 2010 Annual Report
- Cancelled regular meeting

Public Outreach, Education, and Customer Service Subcommittee

Cancelled meeting

Environmental & Technical Subcommittee

- Semi-Annual Update on Water Main Breaks and Sanitary Sewer Overflows
- Public Utilities' Condition Assessment Program
- Proposed changes to San Diego Municipal Code 67.38 "Emergency Water Regulations"
- Status of the FY2008 through FY2011 Public Utilities Capital Improvement Program schedule
- Discussion: Colorado River Water Supply Outlook

Appendix #1
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
WATER UTILITY FUND
Fiscal Years 2005 through 2010 (000s) (Audited)

Line #	Income/Expense	2005	2006	2007	2008	2009	2010	Total Chg 2005-10	Ann. Chg 2005-10	% Ann. Chg From 2005
1	Operating Revenues									
2	Sales of Water	245,287	258,900	289,127	297,225	324,772	354,543	109,256	21,851	8.9%
3	Charges for Services	1,027	1,031	1,147	33	-	14,655	13,628	2,726	265.4%
4	Revenues from Property Use	4,701	4,833	6,162	6,115	5,418	4,431	(270)	(54)	-1.1%
5	Usage Fees	1,756	1,943	1,594	1,235	1,272	503	(1,253)	(251)	-14.3%
6	Other	14,878	13,860	12,262	14,018	11,257	2,329	(12,549)	(2,510)	-16.9%
7	Subtotal	267,649	280,567	310,292	318,626	342,719	376,461	108,812	21,762	8.1%
8										
9	Operating Expenses									
10	Maint & Oper.	92,959	94,433	97,821	100,360	95,979	70,568	(22,391)	(4,478)	-4.8%
11	Purchased Water Cost	102,096	110,263	124,880	121,186	133,499	148,232	46,136	9,227	9.0%
12	Taxes	1,457	570	163	162	162	1,805	348	70	4.8%
13	Administration	37,762	35,370	30,964	36,722	33,258	65,169	27,407	5,481	14.5%
14	Depreciation	27,277	29,230	27,644	29,870	39,627	38,525	11,248	2,250	8.2%
15	Subtotal	261,551	269,866	281,472	288,300	302,525	324,299	62,748	12,550	4.8%
16	Operating Inc/(Loss)	6,098	10,701	28,820	30,326	40,194	52,162	46,064	9,213	151.1%
17										
18	Nonoper. Rev - (Exp)									
19	Invest. Earnings	7,258	6,966	11,461	15,536	12,478	8,914	1,656	331	4.6%
20	Federal Grants	640	424	283	1,427	192	1,351	711	142	22.2%
21	Other Agency Grants	694	359	284	272	1,070	(135)	(829)	(166)	-23.9%
22	Gain (Loss) Sale-Ret Assets	(26,141)	(9,819)	(5,076)	(3,494)	(2,436)	(2,582)	23,559	4,712	-18.0%
23	Debt Service Interest	(12,737)	(23,935)	(26,370)	(29,919)	(28,081)	(38,240)	(25,503)	(5,101)	40.0%
24	Other	32	(67)	175	980	751	3,809	3,777	755	2360.6%
25	Subtotal	(30,254)	(26,072)	(19,243)	(15,198)	(16,026)	(26,883)	3,371	674	-2.2%
26										
27	Inc - (Loss) Before Contrib. & Transfers	(24,156)	(15,371)	9,577	15,128	24,168	25,279	49,435	9,887	-40.9%
28										
29										
30	Capital Contribution	41,954	44,262	80,859	31,526	30,277	23,932	(18,022)	(3,604)	-8.6%
31	Trans. From Other Funds	3,377	220	352	578	439	245	(3,132)	(626)	-18.5%
32	Trans. From Govt. Funds	27	-	84	3,867	3,443	337	310	62	229.6%
33	Trans to Other Funds	(319)	(158)	(234)	(93)	(99)	(2)	317	63	-19.9%
34	Trans. To Govt Funds	(1,046)	(1,481)	(1,713)	(834)	(530)	(612)	434	87	-8.3%
35	Subtotal	43,993	42,843	79,348	35,044	33,530	23,900	(20,093)	(4,019)	-9.1%
36	Chg in Net Assets	19,837	27,472	88,925	50,172	57,698	49,179	29,342	5,868	29.6%
37										
38	Net Assets Beg of Year	1,179,114	1,198,951	1,226,423	1,315,348	1,365,520	1,423,218	244,104	48,821	4.1%
39	Net Assets End of Year	1,198,951	1,226,423	1,315,348	1,365,520	1,423,218	1,472,397	273,446	54,689	4.6%
40										

Financial Ratio Calculations (Unaudited)

Financial Ratios	2005	2006	2007	2008	2009	2010	Average
Total Assets	1,847,962	1,890,854	2,022,665	2,217,822	2,432,782	2,477,068	2,148,192
Oper. Exp. to Oper Rev.	97.7%	96.2%	90.7%	90.5%	88.3%	86.1%	91.6%
Oper. Exp to Total Assets	14.2%	14.3%	13.9%	13.0%	12.4%	13.1%	13.5%
Surplus/(Deficit) to Oper Rev	-9.0%	-5.5%	3.1%	4.7%	7.1%	6.7%	1.2%

Sources:

- (1) The information in Appendix # 1, lines 1 through 39, is taken from the City of San Diego Comprehensive Annual Financial Reports FY2005 through FY2010, and is audited information.
- (2) The information in Appendix # 1, lines 41 through 45, reflects calculations by a member of the IROC Committee and is unaudited information.

Appendix #2
STATEMENT OF NET ASSETS
WATER UTILITY FUND
Fiscal Years 2005 through 2010 (000s) (Audited)

Line #	Asset/Liability	2005	2006	2007	2008	2009	2010	Total \$ Chg 2005-10	\$ Yrly Chg	% Yrly Chg from 2005
1	ASSETS									
2	Current Assets:									
3	Cash & Invest.	117,892	154,889	196,510	212,932	225,556	221,585	103,693	20,739	17.6%
4	Receivables									
5	Accounts - Net of Allow.	42,973	36,385	42,697	43,854	43,573	62,048	19,075	3,815	8.9%
6	Claims - Net						284	284	57	NA
7	Contributions									
8	Accrued Interest	1,110		2,291	2,040	604	761	(349)	(70)	-6.3%
9	Grants	2,319	1,723	1,202	1,572	1,822	1,162	(1,157)	(231)	-10.0%
10	From Other Funds		1,655			-		-	-	NA
11	Invent. Of Water in Storage	28,923	26,546	27,556	36,593	36,947	38,303	9,380	1,876	6.5%
12	Inventories	478	428	414	463	620	700	222	44	9.3%
13	Prepaid Expenses	5	690	737	446	456	467	462	92	1848.0%
14	Total Current Assets	193,700	222,316	271,407	297,900	309,578	325,310	131,610	26,322	13.6%
15										
16	Non-Current Assets									
17	Restrict. Cash & Invest.	87,070	53,240	77,587	196,304	263,883	189,149	102,079	20,416	23.4%
18	Advances to Other Funds	644	644					(644)	(129)	-20.0%
19	Deferred Charges	4,989	4,792	4,704	4,515	6,988	6,840	1,851	370	7.4%
20	Interfund Int Rec.	668	773		-			(668)	(134)	-20.0%
21	Interfund Loan Rec.	2,386	2,386			-		(2,386)	(477)	-20.0%
22	Capital Assets - Non-Deprec.	354,052	285,466	216,124	134,738	240,760	226,299	(127,753)	(25,551)	-7.2%
23	Capital Assets - Deprec.	1,204,453	1,321,237	1,452,843	1,584,365	1,611,573	1,729,470	525,017	105,003	8.7%
24	Total Non-Current Assets	1,654,262	1,668,538	1,751,258	1,919,922	2,123,204	2,151,758	497,496	99,499	6.0%
25	Total Assets	1,847,962	1,890,854	2,022,665	2,217,822	2,432,782	2,477,068	629,106	125,821	6.8%
26										
27	LIABILITIES									
28	Current Liabilities:									
29	Accounts Payable	31,130	32,392	30,125	37,556	32,367	43,710	12,580	2,516	8.1%
30	Accrued Wage & Benefits	3,835	1,923	1,925	1,817	2,145	6,253	2,418	484	12.6%
31	Interest Accrued on LTD	11,139	11,133	11,772	13,236	11,598	15,165	4,026	805	7.2%
32	LTD Due Within One Year	11,652	17,577	18,776	76,962	19,705	26,181	14,529	2,906	24.9%
33	Due to Other Funds				1,242	558	99	99	20	NA
34	Due to Other Agencies	2,380	3,937	4,502	2,571	1,046	1,522	(858)	(172)	-7.2%
35	Unearned Revenue	3,618	3,289	1,004	1,143	817	665	(2,953)	(591)	-16.3%
36	Contract Deposits	5,647	5,151	5,569	4,519	4,756	4,670	(977)	(195)	-3.5%
37	Curr. Liab Pay. - Rest. Assets:							-	-	NA
38	Customer Dep. Payable	3,321	3,849	4,265	4,331	4,566	4,930	1,609	322	9.7%
39	Total Current Liabilities	72,722	79,251	77,938	143,377	77,558	103,195	30,473	6,095	8.4%
40										
41	Arbitrage Liability	187	176	193	429			(187)	(37)	-20.0%
42	Compensated Absenses	2,624	2,359	2,202	2,027	2,036	2,394	(230)	(46)	-1.8%
43	Liability Claims	2,313	3,642	5,340	5,534	1,576	3,107	794	159	6.9%
44	Loans Payable	-	20,257	19,385	18,490	17,573	16,634	16,634	3,327	NA
45	Notes Payable			57,000	150,000			-	-	NA
46	Net Revenue Bonds Payable	561,732	548,964	535,470	521,510	895,146	861,684	299,952	59,990	10.7%
47	Pollution Remediation Oblig.					620		-	-	NA
48	Obligation			2,659	6,578			-	-	NA
49	Net Other Post Emp Bene Oblig.						11,215	11,215	2,243	NA
50	Net Pension Payable	9,433	9,782	9,789	8,276	8,477	6,442	(2,991)	(598)	-6.3%
51	Total Non-Current Liabilities	576,289	585,180	629,379	708,925	932,006	901,476	325,187	65,037	11.3%
52	Total Liabilities	649,011	664,431	707,317	852,302	1,009,564	1,004,671	355,660	71,132	11.0%
53										
54	Net Assets:									
55	Invest in Capital Assets, Net of									
56	Related Debt	1,073,719	1,075,851	1,175,384	1,151,511	1,186,697	1,235,835	162,116	32,423	3.0%
57	Restricted for Debt Service	2,833	2,395	2,260	2,164	3,622	3,297	464	93	3.3%
58	Unrestricted	122,399	148,177	137,704	211,845	232,899	233,265	110,866	22,173	18.1%
59	Total Net Assets	1,198,951	1,226,423	1,315,348	1,365,520	1,423,218	1,472,397	273,446	54,689	4.6%
60	Total Liab & Net Assets	1,847,962	1,890,854	2,022,665	2,217,822	2,432,782	2,477,068	629,106	125,821	6.8%
61										

Financial Ratio Calculations (Unaudited)

	2005	2006	2007	2008	2009	2010
62 Financial Ratios:						
63 Unrest. Net Assets/ Total Assets	6.6%	7.8%	6.8%	9.6%	9.6%	9.4%
64 Total Net Assets / Total Assets	64.9%	64.9%	65.0%	61.6%	58.5%	59.4%
65 Unrest. Cash & Inv./ Total Assets	6.4%	8.2%	9.7%	9.6%	9.3%	8.9%
66 Total Cash & Inv./ Total Assets	11.1%	11.0%	13.6%	18.5%	20.1%	16.6%

Sources:

- (1) The information in Appendix # 2, lines 1 through 60, is taken from the City of San Diego Comprehensive Annual Financial Reports FY2005 through FY2010, and is audited information.
- (2) The information in Appendix # 2, lines 62 through 66, reflects calculations by a member of the IROC Committee and is unaudited information.

Appendix #3

**Water System
Summary of Projected CIP Project Costs v Actual Cash Outflows
Fiscal Years 2008-09 through 2012-13
(000s)**

**2008-09 to
2009-10**

Description	2008-09	2009-10	2010-11	2011-12	2012-13	Total	Total
Project Total Water System CIP Expenditures 1/ 2/	177,624	169,398	141,789	122,175	113,408	724,394	347,022
							2009-10
	2009	2010	2011	2012	2013	Total	Total
Acquisition of Capital Assets Cash Outflow (Actual) 3/ 4/	150,587	125,916	NA	NA	NA	NA	276,503

Notes:

- 1) Source: City of San Diego Water Department Bond Prospectus
- 2) Amounts reflect the aggregate costs of all CIP projects required to satisfy the DPH compliance Order as well as projects related thereto or necessary for the operations thereof. For Fiscal Year 2008-09 through Fiscal Year 2012-13, DPH Compliance Order required projects costing approximately \$413M and CPH related projects costing approximately \$102M.
- 3) Source: 2009, 2010 Comprehensive Annual Financial Report Statement of Cashflows.
- 4) Reflects all capital expenditures over PUD capitalization amount including expenditures for CIP projects which are included in the total.

Appendix #4
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
SEWER UTILITY FUND
Fiscal Years 2005 through 2010 (000s) (Audited)

Line #	Income/Expense	2005	2006	2007	2008	2009	2010	2005-10	\$ Yrly Chg	% Yrly Chg from 2005
1	Operating Revenues									
2	Sales of Water							-	-	
3	Charges for Services	283,423	286,416	299,736	325,048	318,474	378,640	95,217	19,043	6.7%
4	Revenues from Property Use						184	184	37	
5	Usage Fees							-	-	
6	Other	5,549	4,152	5,013	3,071	4,097	3,301	(2,248)	(450)	-8.1%
7	Subtotal	288,972	290,568	304,749	328,119	322,571	382,125	93,153	18,631	6.4%
8										
9	Operating Expenses									
10	Maint & Oper.	112,548	109,257	111,086	110,492	119,470	136,820	24,272	4,854	4.3%
11	Purchased Water Cost							-	-	
12	Taxes							-	-	
13	Administration	89,634	90,749	79,164	1,158	71,300	80,879	(8,755)	(1,751)	-2.0%
14	Depreciation	74,863	64,922	69,696	71,138	76,554	66,523	(8,340)	(1,668)	-2.2%
15	Subtotal	277,045	264,928	259,946	272,788	267,324	284,222	7,177	1,435	0.5%
16	Operating Inc/(Loss)	11,927	25,640	44,803	55,331	55,247	97,903	85,976	17,195	144.2%
17										
18	Nonoper. Rev - (Exp)									
19	Invest. Earnings	7,015	6,578	12,505	17,757	13,454	10,612	3,597	719	10.3%
20	Federal Grants	3	325	65	134	-	175	172	34	1146.7%
21	Other Agency Grants		136			167	165	165	33	
22	Gain (Loss) Sale-Ret Assets	(13,297)	(443)	(9,004)	(2,057)	(3,525)	(558)	12,739	2,548	-19.2%
23	Debt Service Interest	(57,668)	(54,132)	(44,735)	(48,571)	(46,151)	(53,348)	4,320	864	-1.5%
24	Other	7,394	4,313	3,093	4,524	5,244	7,750	356	71	1.0%
25	Subtotal	(56,553)	(43,223)	(38,076)	(28,213)	(30,811)	(35,204)	21,349	4,270	-7.6%
26										
27	Inc - (Loss) Before Contrib.									
28	& Transfers	(44,626)	(17,583)	6,727	27,118	24,436	62,699	107,325	21,465	-48.1%
29										
30	Capital Contribution	21,426	31,976	59,785	25,359	28,780	21,346	(80)	(16)	-0.1%
31	Trans. From Other Funds	504	481	7,738	714	616	316	(188)	(38)	-7.5%
32	Trans. From Govt. Funds			80	9	1,238	-	-	-	
33	Trans to Other Funds	(598)	(147)	(220)	(1,214)	(59)	(119)	479	96	-16.0%
34	Trans. To Govt Funds	(1,383)	(1,958)	(2,162)	(5,585)	(3,550)	(883)	500	100	-7.2%
35	Subtotal	19,949	30,352	65,221	19,283	27,025	20,660	711	142	0.7%
36	Chg in Net Assets	(24,677)	12,769	71,948	46,401	51,461	83,359	108,036	21,607	-87.6%
37										
38	Net Assets Beg of Year	1,833,538	1,808,861	1,821,630	1,893,578	1,939,979	1,991,440	157,902	31,580	1.7%
39	Net Assets End of Year	1,808,861	1,821,630	1,893,578	1,939,979	1,991,440	2,074,799	265,938	53,188	2.9%
40										

Financial Ratio Calculations (Unaudited)

Financial Ratios:	2005	2006	2007	2008	2009	2010	Average
41 Total Assets	3,094,722	3,082,660	3,207,474	3,216,578	3,453,324	3,474,070	3,254,805
42 Oper. Exp. to Oper Rev.	95.9%	91.2%	85.3%	83.1%	82.9%	74.4%	85.5%
43 Oper. Exp to Total Assets	9.0%	8.6%	8.1%	8.5%	7.7%	8.2%	8.3%
44 Surplus/(Deficit) to Oper Rev	-15.4%	-6.1%	2.2%	8.3%	7.6%	16.4%	2.2%

Sources:

- (1) The information in Appendix # 4, lines 1 through 39, is taken from the City of San Diego Comprehensive Annual Financial Reports FY2005 through FY2010 and is audited information.
- (2) The information in Appendix # 4, lines 41 through 45, reflects calculations by a member of the IROC Committee and is unaudited information.

Appendix #5
STATEMENT OF NET ASSETS
SEWER UTILITY FUND
Fiscal Years 2005 through 2010 (000s) (Audited)

Line #	Asset/Liability	2005	2006	2007	2008	2009	2010	Total \$ Chg 2005-10	\$ Yrly Chg	% Yrly Chg from 2005
1	ASSETS									
2	Current Assets:									
3	Cash & Invest.	174,763	177,495	205,229	291,240	345,933	380,774	206,011	41,202	23.6%
4	Receivables									
5	Accounts - Net of Allow.	31,320	30,040	35,746	37,627	35,172	48,763	17,443	3,489	11.1%
6	Claims - Net						305	305	61	NA
7	Contributions									
8	Accrued Interest	1,685	2,034	2,733	1,637	1,420	964	(721)	(144)	-8.6%
9	Grants	1		26			137	136	27	2720.0%
10	From Other Funds						-	-	-	NA
11	Invent. Of Water in Storage						-	-	-	NA
12	Inventories						-	-	-	NA
13	Prepaid Expenses		3	1	8	3	-	-	-	NA
14	Total Current Assets	207,769	209,572	243,735	330,512	382,528	430,943	223,174	44,635	21.5%
15										
16	Non-Current Assets									
17	Restrict. Cash & Invest.	21,062	21,079	101,168	46,839	231,212	166,647	145,585	29,117	138.2%
18	Advances to Other Funds	341	341					(341)	(68)	-20.0%
19	Deferred Charges	7,206	6,788	6,436	5,953	7,114	6,631	(575)	(115)	-1.6%
20	Interfund Int Rec.							-	-	NA
21	Interfund Loan Rec.	3,487	3,487	3,487	3,487	3,487	3,487	-	-	0.0%
22	Capital Assets - Non-Deprec.	204,389	181,206	140,261	107,309	118,881	138,386	(66,003)	(13,201)	-6.5%
23	Capital Assets - Deprec.	2,650,468	2,660,187	2,712,387	2,722,478	2,710,102	2,727,976	77,508	15,502	0.6%
24	Total Non-Current Assets	2,886,953	2,873,088	2,963,739	2,886,066	3,070,796	3,043,127	156,174	31,235	1.1%
25	Total Assets	3,094,722	3,082,660	3,207,474	3,216,578	3,453,324	3,474,070	379,348	75,870	2.5%
26										
27	LIABILITIES									
28	Current Liabilities:									
29	Accounts Payable	17,424	11,828	10,800	7,650	11,995	17,999	575	115	0.7%
30	Accrued Wage & Benefits	6,732	4,225	4,101	9,734	7,682	12,908	6,176	1,235	18.3%
31	Interest Accrued on LTD	6,398	6,716	8,010	7,679	6,162	7,867	1,469	294	4.6%
32	LTD Due Within One Year	72,648	52,056	39,061	264,772	54,663	54,807	(17,841)	(3,568)	-4.9%
33	Due to Other Funds				1,206	510	24	24	5	NA
34	Due to Other Agencies	7,980	8,263	5,511	2,897	10,262	698	(7,282)	(1,456)	18.3%
35	Unearned Revenue	4						(4)	(1)	-20.0%
36	Contract Deposits	2,478	4,009	3,828	3,314	3,503	3,633	1,155	231	9.3%
37	Curr. Liab Pay. - Rest. Assets:							-	-	NA
38	Customer Dep. Payable							-	-	NA
39	Total Current Liabilities	113,664	87,097	71,311	297,252	94,777	97,936	(15,728)	(3,146)	-2.8%
40										
41	Deposits/Advances from Others				250	250	530			
42	Arbitrage Liability	26	17	31	157			(26)	(5)	-20.0%
43	Compensated Absenses	3,267	2,973	2,673	2,422	2,323	2,954	(313)	(63)	-1.9%
44	Liability Claims	42,108	43,213	43,917	38,792	27,776	16,337	(25,771)	(5,154)	-12.2%
45	Loans Payable	60,492	66,313	76,490	71,838	67,100	62,274	1,782	356	NA
46	Notes Payable			223,830				-	-	NA
47	Net Revenue Bonds Payable	1,054,463	1,049,137	883,356	852,291	1,251,957	1,198,845	144,382	28,876	2.7%
48	Pollution Remediation Oblig.							-	-	NA
49	Obligation							-	-	NA
50	Net Other Post Emp Bene Oblig.				3,038	6,916	11,830	11,830	2,366	NA
51	Net Pension Payable	11,841	12,280	12,288	10,559	10,785	8,565	(3,276)	(655)	-5.5%
52	Total Non-Current Liabilities	1,172,197	1,173,933	1,242,585	979,347	1,367,107	1,301,335	129,138	25,828	2.2%
53	Total Liabilities	1,285,861	1,261,030	1,313,896	1,276,599	1,461,884	1,399,271	113,410	22,682	1.8%
54										
55	Net Assets:									
56	Invest in Capital Assets, Net of									
57	Related Debt	1,698,914	1,705,452	1,740,801	1,695,766	1,698,249	1,717,312	18,398	3,680	0.2%
58	Restricted for Debt Service	684	575	717	496	750	5,146	4,462	892	130.5%
59	Unrestricted	109,263	115,603	150,060	243,717	292,441	352,341	243,078	48,616	44.5%
60	Total Net Assets	1,808,861	1,821,630	1,891,578	1,939,979	1,991,440	2,074,799	265,938	53,188	2.9%
61	Total Liab & Net Assets	3,094,722	3,082,660	3,205,474	3,216,578	3,453,324	3,474,070	379,348	75,870	2.5%
62										

Financial Ratio Calculations (Unaudited)

Financial Ratios:	2005	2006	2007	2008	2009	2010
Unrest. Net Assets / Total Assets	3.5%	3.8%	4.7%	7.6%	8.5%	10.1%
Total Net Assets / Total Assets	58.4%	59.1%	59.0%	60.3%	57.7%	59.7%
Unrest. Cash & Inv./ Total Assets	5.6%	5.8%	6.4%	9.1%	10.0%	11.0%
Total Cash & Inv./ Total Assets	6.3%	6.4%	9.6%	10.5%	16.7%	15.8%

Sources:

- (1) The information in Appendix # 5, lines 1 through 61, is taken from the City of San Diego Comprehensive Annual Financial Reports FY2005 through FY2010 and is audited information.
- (2) The information in Appendix # 5, lines 63 through 67, reflects calculations by a member of the IROC Committee and is unaudited information.

Appendix #6

**Wastewater System
Projected Capital Improvement Program Expenditures by Rate Case v Actual
Fiscal Years 2009 through 2013
(000s)**

Expected Capital Improvement Expenditures by Rate Case	2009	2010	2011	2012	2013	2014	Total
March 14, 2009 Rate Case Total Wastewater System 1/ 2/ 3/	55,606	154,084	218,109	204,312	119,779	NA	751,890
February 1, 2010 Rate Case Total Wastewater System 4/ 5/	NA	74,885	135,996	165,680	143,230	117,850	637,641
Acquisition of Capital Assets Cash Outflow (Actual) 6/ 7/	55,809	88,293	NA	NA	NA	NA	NA

Notes:

- 1) Source: Metropolitan Wastewater Department bond prospectus reflects rate Case as of March 14, 2009.
- 2) Includes an assumed four percent annual increase in wastewater System CIP project costs for Fiscal Years 2010 through 2013. Includes projects required by the Final Consent Decree and those required as part of the annual maintenance of the wastewater system.
- 3) Assumes 80% of costs funded from debt financing and 20% from net system revenues (Paygo).
- 4) Source: Public Utilities Department Bond Prospects: Reflects Rate Case as of February 1, 2010.
- 5) Includes an assumed 3.5% annual increase in Wastewater System CIP project costs for Fiscal Years 2012 through 2014. Includes projects required by the Final Consent Decree and those required as part of the annual maintenance of the wastewater system.
- 6) Source: 2009, 2010 Comprehensive Annual Financial Report Statement of Cashflows.
- 7) Reflects all capital expenditures over PUD capitalization amount including expenditures for CIP projects which are included in the total.