


CITY OF SAN DIEGO
M E M O R A N D U M

DATE: July 11, 2007

TO: Darlene Morrow-Truver, Deputy Director, MWWD Administrative Services Division

FROM: Kyle Elser, Interim Internal Auditor, Office of the Auditor & Comptroller 

SUBJECT: ***Shames v. City of San Diego Wastewater Rate Increase Review***

Ms. Morrow-Truver,

At your request, we have reviewed the calculations for the wastewater rate increases related to the *Shames v. City of San Diego* Settlement Agreement, and the resulting rates as stated in the Proposition 218 notice.

Our procedures were limited to verifying MWWD's calculations of projected revenue and rebates over a 4 year period, based on the proposed Shames settlement rate increases; confirming that the proposed monthly rebate to Single Family Residents, net of other settlement costs, is cost neutral; and reviewing the rate summary tables. Calculations were reviewed for mathematical accuracy. Also, calculations in the Proposition 218 Noticing of Wastewater and Service Rates and Charges were reviewed. We did not audit the underlying assumptions used such as the projected sewer service revenue for July 2007.

Based on the information provided, the estimated projected revenue generated by rate increases due to the Shames settlement is \$40,148,000. This exceeds estimated distributions by \$148,000 or 0.37%. The rebate for eligible Single Family Residences is \$3.25 monthly. MWWD has advised the revenues generated and the rebates, and other settlement expenses, will be monitored and, if necessary, adjustments can be made to ensure the changes are cost neutral.

As a result of our review, MWWD revised the calculations, and the Department has now determined the wastewater rate increases due to the Shames settlement should be implemented as of May 1, 2008 rather than August 1, 2008, in order to generate sufficient amounts for rebates and other settlement costs. Also, some minor adjustments to the rate summary tables were necessary.

Based on our review, we found no material errors in the mathematical accuracy of the revised calculations used.

Please contact me if you have any questions.

cc Honorable Mayor Jerry Sanders
Honorable Audit Committee Members
Jay Goldstone, COO, City of San Diego
David Jarrell, Assistant Deputy Chief of Public Works
Timothy C. Bertch, Ph.D., Metropolitan Wastewater Department Director
Martin Kane, Supervising Management Analyst, MWWD
Orrie Irwin, Senior Management Analyst, MWWD