REQUEST FOR COUNCIL ACTION CITY OF SAN DIEGO		CERTIFICATE NUMBER (FOR COMPTROLLER'S USE ONLY)
TO: CITY COUNCIL	FROM (ORIGINATING DEPARTMENT): Public Utilities - Wastewater	DATE: 06/25/2013
SUBJECT: Macias Gini and O'Connell Review of Funds of the Water and Wastewater Rate Cases		
PRIMARY CONTACT (NAME, PHONE): Lee Ann Jones-Santos ,(858)614-4042 MS 901A	SECONDARY CONTACT (NAME, PHONE): Jeanne Cole , (858)292-6313 MS 901A	

COMPLETE FOR ACCOUNTING PURPOSES

FUND					
DEPT / FUNCTIONAL AREA					
ORG / COST CENTER					
OBJECT / GENERAL LEDGER ACCT					
JOB / WBS OR INTERNAL ORDER					
C.I.P./CAPITAL PROJECT No.					
AMOUNT	0.00	0.00	0.00	0.00	0.00
FUND					
DEPT / FUNCTIONAL AREA					
ORG / COST CENTER					
OBJECT / GENERAL LEDGER ACCT					
JOB / WBS OR INTERNAL ORDER					
C.I.P./CAPITAL PROJECT No.					
AMOUNT	0.00	0.00	0.00	0.00	0.00

COST SUMMARY (IF APPLICABLE):

ROUTING AND APPROVALS

CONTRIBUTORS/REVIEWERS:		APPROVING AUTHORITY	APPROVAL SIGNATURE	DATE SIGNED
Liaison Office		ORIG DEPT.	Sasaki, Ann	7/1/2013
		CFO		
		DEPUTY CHIEF		
		COO		
		CITY ATTORNEY		
		COUNCIL PRESIDENTS OFFICE		

PREPARATION OF: ☐ RESOLUTIONS ☐ ORDINANCE(S) ☐ AGREEMENT(S) ☐ DEED(S)

Informational Item Only

STAFF RECOMMENDATIONS:
Accept the Report and move to Council.

SPECIAL CONDITIONS (REFER TO A.R. 3.20 FOR INFORMATION ON COMPLETING THIS SECTION)

COUNCIL DISTRICT(S):	Citywide
COMMUNITY AREA(S):	Citywide
ENVIRONMENTAL IMPACT:	
CITY CLERK INSTRUCTIONS:	

COUNCIL ACTION
EXECUTIVE SUMMARY SHEET
CITY OF SAN DIEGO

DATE: 06/25/2013
ORIGINATING DEPARTMENT: Public Utilities - Wastewater
SUBJECT: Macias Gini and O'Connell Review of Funds of the Water and Wastewater Rate Cases
COUNCIL DISTRICT(S): Citywide
CONTACT/PHONE NUMBER: Lee Ann Jones-Santos /(858)614-4042 MS 901A

DESCRIPTIVE SUMMARY OF ITEM:
Informational presentation from Macias, Gini & O'Connell regarding their Independent Accountant's Report on applying Agreed-Upon Procedures to the Water and Wastewater Utility Funds for Fiscal Years 2008 through 2011.

STAFF RECOMMENDATION:
Accept the Report and move to Council.
EXECUTIVE SUMMARY OF ITEM BACKGROUND:

The Public Utilities Department commissioned a utility Cost of Service and Rate Design Study (COSS) for both the Wastewater and Water systems. On February 26, 2007, the City Council approved four year rate increases for both the Wastewater and Water systems.

In 2012,the Public Utilities Department commissioned Macias Gini and O'Connell independent auditors (MGO)to perform an agreed-upon procedure (AUP) engagement of the Water and Wastewater funds for the fiscal years ended June 30, 2008 through June 30, 2011. An AUP is an auditor performance of client defined procedures. MGO performed numerous procedures for each of the Water and Wastewater funds which focused on revenues, expenditures, cash balances, bond proceeds, and reserves. In addition, MGO performed a review between actual and COSS projections for the timeframe indicated.

FISCAL CONSIDERATIONS: N/A

EQUAL OPPORTUNITY CONTRACTING INFORMATION (IF APPLICABLE):N/A

PREVIOUS COUNCIL and/or COMMITTEE ACTION (describe any changes made to the item from what was presented at committee):

This item will be presented to the Natural Resources and Culture Committee on July 10, 2013.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: N/A

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

All City Water and Wastewater ratepayers.

Sasaki, Ann
Originating Department

_____
Deputy Chief/Chief Operating Officer

CITY OF SAN DIEGO, CALIFORNIA

PUBLIC UTILITIES DEPARTMENT
WATER AND WASTEWATER
UTILITY FUNDS

Independent Accountant's Report on
Applying Agreed-Upon Procedures to
the Water and Wastewater Utility Funds

MGO Certified Public Accountants.

CITY OF SAN DIEGO, CALIFORNIA

PUBLIC UTILITIES DEPARTMENT
WATER AND WASTEWATER
UTILITY FUNDS

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MGO Certified Public Accountants.

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Sacramento

Walnut Creek

Oakland

LA/Century City

Newport Beach

Seattle

Public Utilities Department
City of San Diego, California

Independent Accountant's Report on Applying Agreed-Upon Procedures to the Water and Wastewater Utility Funds

We have performed the procedures described in Attachment A, which were agreed to by the City of San Diego (City) Public Utilities Department, solely to assist you with respect to the accounting records related to the City's Water and Wastewater Utility Funds for the fiscal years ended June 30, 2008 through June 30, 2011. Management of the Public Utilities Department is responsible for the accounting records related to the City's Water and Wastewater Utility Funds. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described in Attachment A either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are described in Attachment A.

We were not engaged to and did not conduct an audit, the objective of which would be the expression of an opinion on the Water and Wastewater Utility Funds financial statements or as to the appropriateness of the other financial information summarized in Attachment A and Schedules 1 through 9. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Public Utilities Department of the City of San Diego, and is not intended to be, and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

San Diego, California
May 28, 2013

A. Analysis of Use of Rate Increase

For the City of San Diego – Water Utility Fund, we performed the following:

A1. Obtain a summary of revenues and expenses as presented on the Schedule of Estimated and Actual Revenue and Schedule of Appropriations, Expenditures and Encumbrances (E1/E2 Schedules) for the fiscal years ended June 30, 2008, June 30, 2009, June 30, 2010, and June 30, 2011. Trace the revenues and expenses reported on the E1/E2 Schedules to the Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Water Utility Fund to verify accuracy of the reports.

Results:

We obtained a summary of revenues and expenses presented on the E1/E2 Schedules produced by the City of San Diego Comptroller's Office for the years ended June 30, 2008, June 30, 2009, June 30, 2010, and June 30, 2011. We traced revenues and expenses from the E1/E2 Schedules to the City's accounting system reports (generated from AMRIS and SAP) to verify the accuracy of the E1/E2 Schedules. For revenues and expenses on the E1/E2 Schedules that we were unable to agree/reconcile to the City's Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Water Utility Fund, we reviewed the reconciliation performed by the Comptroller's Office for reasonableness.

Refer to the ***Schedule 1*** for the summary of revenues and expenses presented in the Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Water Utility Fund.

A2. Obtain a calculation of revenues generated by the rate increase. Any revenues generated as a result of pass-thru rate increases pursuant to the San Diego County Water Authority cost increases and the rate increase approved to provide funding for the Indirect Potable Reuse Demonstration Project should be excluded. Any revenue generated based on FY2007 rates and current year usage (volume of water sales) should be excluded. Confirm all rate increases used in the calculation were approved by reviewing City Council resolutions. Recalculate the rate increase schedule and trace the total revenues presented in the schedule to the billing system's Daily Revenue by Rate Schedule.

Results:

We obtained a calculation of revenues generated by the rate increases in FY2008 through FY2011 prepared by the Public Utilities Department (PUD) and noted that revenues generated as a result of pass-thru rate increases pursuant to the San Diego County Water Authority cost increases and the rate increase approved to provide funding for the Indirect Potable Reuse Demonstration Project were excluded in determining the actual revenues from the sale of water from the rate increases recommended by the 2006 Cost of Service Study (COSS).

We obtained the FY2007 rates and multiplied them by the volume of water sales for FY2008 through FY2011 to derive revenue based on FY2007 rates for each fiscal year respectively. Revenue based on the FY2007 rates were then backed-out from the total water sales revenue to derive the revenue generated by the rate increases recommended by the COSS (6.5% for four consecutive years, FY2008 through FY2011).

We recalculated the rate increase schedule to verify its accuracy. We confirmed all rate increases used in the calculation by reviewing the City Council resolutions approving the rate increases. Water consumption amounts used to calculate revenues were traced to the usage as reported per the billing system's Daily Revenue by Rate Schedule.

The following summarizes the revenues generated by the rate increase for FY2008 through FY2011:

For the fiscal year ended June 30, 2008	$ 9,876,090
For the fiscal year ended June 30, 2009	24,827,027
For the fiscal year ended June 30, 2010	49,500,321
For the fiscal year ended June 30, 2011	47,843,618
Total	$132,047,056

Refer to ***Schedule 2*** for the supporting calculation.

A3. Review the City Council resolution(s) approving the rate increases for limitations on the use of the revenues.

Results:

We reviewed the City Council resolutions approving rate increases between FY2008 through FY2011 for limitations on the use of revenues and noted the following limitations:

- Resolution R-302380 [Dated March 5, 2007] – No limitations listed.
- Resolution R-303047 [Dated October 18, 2007] – Revenue from rate increase to be used to offset increase in cost of water purchases.
- Resolution R-304434 [Dated November 25, 2008] – Revenue from rate increase to be used to offset increase in cost of water purchases and provide funding for the Indirect Potable Reuse Demonstration Project.
- Resolution R-305422 [Dated November 24, 2009] – Revenue from rate increase to be used to offset the increase in cost of water purchases.
- Resolution R-306550 [Dated January 28, 2011] – Revenue from rate increase to be used to offset increase in cost of water purchases.

A4. Compare individual commitment groups that comprise "operations and maintenance" expenses for the fiscal years ended June 30, 2008 to June 30, 2011, to identify significant fluctuations. For fluctuations each year that exceed 10%, inquire of management and document management's explanation for the nature of the fluctuation.

Results:

We compared individual commitment groups that comprise "operations and maintenance" expenses: Salaries and Wages, Supplies and Expenses, Equipment, and Debt Service. We identified significant fluctuations exceeding 10%, made inquiries of management and documented management's explanation. The summary of commitment groups and management's explanation on the sources of fluctuations are presented in ***Schedule 3***.

A5. Obtain the amount of capital project expenses incurred during the years ended June 30, 2008, June 30, 2009, June 30, 2010, and June 30, 2011 from the supplemental E1/E2 Schedules provided by Comptroller's Office. Obtain accounting system reports to determine the amount of capital project expenses that were funded by debt proceeds, State Revolving Funds (SRF), and grants. The difference between the capital project expenses and the amount funded by debt proceeds, SRFs, and grants represent the amount of capital project expenses that were funded by water rate revenues and other available water fund resources.

Results:

We obtained the capital project expenses incurred during the years ended June 30, 2008, June 30, 2009, June 30, 2010, and June 30, 2011 as reported on the supplemental E1/E2 Schedules. We obtained the amount of capital project expenses funded by debt proceeds, SRF, and grants from accounting system reports (SAP and AMRIS) and subtracted it from total capital project expenses to determine the portion funded by water rate revenues and other available water fund resources.

The following summarizes capital project activity for the years ended June 30, 2008 through June 30, 2011:

	FY2008	FY2009	FY2010	FY2011
Actual Capital Project Expenses	$ 55,004,708	$ 147,578,789	$ 116,648,468	$ 70,298,484
Bond Funded Portion	(32,698,428)	(117,733,862)	(76,658,381)	(25,126,904)
SRF Funded Portion	-	-	-	(12,000,000)
Grant Funded Portion	(2,097,847)	(2,212,950)	(2,128,640)	(4,366,321)
Water Funded Portion	$ 20,208,433	$ 27,631,977	$ 37,861,447	$ 28,805,259
% Water Funded	37%	19%	32%	41%

A6. Compare revenues generated by the rate increases to the change in expense activity for the years ended June 30, 2008 through June 30, 2011.

Results:

We compared the revenues generated by the rate increases as calculated pursuant to Procedure A2 to the change in expenses as reported on the E1/E2 Schedules and traced to accounting system reports for the years ended June 30, 2008 through June 30, 2011.

The table below summarizes the comparison between the additional revenues generated from the rate increases and the change in expenses from the base year of FY2007.

	FY2008	FY2009	FY2010	FY2011	Total FY2008-FY2011
Additional Revenues created solely from (6.5%) rate increases	$ 9,876,090	$ 24,827,027	$ 49,500,321	$ 47,843,618	**$ 132,047,056**
Change in operating expenses from base year	12,256,857	5,181,911	19,169,255	24,065,893	**60,673,916**
Change in debt service expenses from base year	1,580,052	8,833,874	17,784,123	23,743,315	**51,941,364**
Water Purchases	130,244,856	133,850,680	151,216,616	156,658,024	
Cost of San Diego County Water Authority (SDCWA) Pass-Through	3,841,853	15,380,320	40,012,806	52,610,668	
Water Purchases less Pass-Through	126,403,003	118,470,360	111,203,810	104,047,356	
Change in Water Purchases from base year	452,023	(7,480,620)	(14,747,170)	(21,903,624)	(43,679,391)
Capital project expenses	55,004,708	147,578,789	116,648,468	70,298,484	389,530,449
Less: Capital projects funded by bond proceeds	(32,698,428)	(117,733,862)	(76,658,381)	(25,126,904)	(252,217,575)
Less: Capital projects funded by State Revolving Fund (SRF) loan proceeds - Alvarado	-	-	-	(12,000,000)	(12,000,000)
Capital projects not funded by bond proceeds	22,306,280	29,844,927	39,990,087	33,171,580	**125,312,874**
Total change in expenses from base year	36,595,212	36,380,092	62,196,295	59,077,164	**194,248,763**
Deficiency of revenues from rate increase	$ (26,719,122)	$ (11,553,065)	$(12,695,974)	$(11,233,546)	**$ (62,201,707)**

A7. Obtain a detail of the sources of increases in restricted and unrestricted cash balances (net of reserves), within the Water Utility Fund for each fiscal years ended June 30, 2008 to June 30, 2011. Trace the balances as reported in the City's Comprehensive Annual Financial Report (CAFR) to source documentation.

Results:

We obtained the details of restricted and unrestricted cash balances recorded in the Water Utility Fund for the years ended June 30, 2008 through June 30, 2011 (Comparative Statement of Net Assets for Water Utility Enterprise Fund report from AMRIS for the years ended June 30, 2008 and June 30, 2009, and SAP system reports for the years ended June 30, 2010 and June 30, 2011) from the Comptroller's Office and agreed the restricted and unrestricted cash balances to the amounts reported in the City's CAFR for the years ended June 30, 2008 through June 30, 2011, respectively.

We reviewed the City of San Diego Reserves Policy and obtained the reserve balances for each of the years ended June 30, 2008 through June 30, 2011, as reported in the official statements and continuing disclosure annual reports for the water revenue bonds. The reserves are required per the City of San Diego Reserve Policy but are reported in the City's CAFR as a component of the unrestricted cash balance.

A summary of restricted and unrestricted cash balances and reserve balances is shown below:

	FY2008	FY2009	FY2010	FY2011
Total Restricted Cash and Equity (per CAFR)	$ 196,304,160	$ 263,883,959	$ 189,148,839	$ 161,686,246
Change in Restricted Cash and Equity		67,579,799	(74,735,120)	(27,462,593)
Change in Restricted Cash and Equity (%)		34.43%	-28.32%	-14.52%
Unrestricted: Cash and Equity in Pooled Cash and Investments (per City CAFR)	$ 212,932,389	$ 225,556,336	$ 221,584,695	$ 214,549,650
Rate Stabilization Fund	20,500,000	20,500,000	20,500,000	20,500,000
Secondary Purchase Fund	7,132,377	7,513,000	9,067,000	11,263,000
Operating Reserve	19,936,102	20,477,000	25,711,000	29,923,000
Emergency (Capital) Reserve	5,000,000	5,000,000	5,000,000	5,000,000
Dedicated Reserve for Efficiency and Savings (DRES)	-	2,252,000	15,127,000	15,127,000
Fund Reserves	52,568,479	55,742,000	75,405,000	81,813,000
Unrestricted: Cash and Equity net Fund Reserves [1]	$ 160,363,910	$ 169,814,336	$ 146,179,695	$ 132,736,650
Change in Unrestricted Cash and Equity net of Fund Reserves		$ 9,450,426	$ (23,634,641)	$ 13,443,045
Change in Unrestricted Cash and Equity net of Fund Reserves (%)		5.89%	-13.92%	9.20%

[1] Unrestricted Cash and Equity covers fund reserves as required by the City of San Diego Reserve Policy, encumbrances, and continuing appropriations according to budget.

B. Analysis of Use of Rate Increase

For the City of San Diego – Wastewater (Sewer) Utility Fund, we performed the following:

B1. Obtain a summary of revenues and expenses as presented on the Schedule of Estimated and Actual Revenue and Schedule of Appropriations, Expenditures and Encumbrances (F1/F2 Schedules) for the fiscal years ended June 30, 2008, June 30, 2009, June 30, 2010, and June 30, 2011. Trace the revenues and expenses reported on the F1/F2 Schedules to the Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Wastewater Utility Fund to verify accuracy of the reports.

Results:

We obtained a summary of revenues and expenses presented on the F1/F2 Schedules produced by the City of San Diego Comptroller's Office for the years ended June 30, 2008, June 30, 2009, June 30, 2010, and June 30, 2011. We traced revenues and expenses from the F1/F2 Schedules to the City's accounting system reports (generated from AMRIS and SAP) to verify the accuracy of the F1/F2 Schedules. For revenues and expenses on the F1/F2 Schedules that we were unable to agree/reconcile to the City's Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Wastewater Utility Fund, we reviewed the reconciliation performed by the Comptroller's Office for reasonableness.

Refer to ***Schedule 4*** for the summary of revenues and expenses presented in the Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Wastewater Utility Fund.

B2. Obtain a calculation of revenues generated by the rate increase. Any revenues generated by the Shames Settlement and revenue from services provided to Participating Agencies (PAs) should be excluded. Confirm all rate increases used in the calculation were approved by reviewing City Council resolutions. Recalculate the rate increase schedule and trace the total revenues presented in the schedule to the City's billing system's Daily Revenue by Rate Schedule. Perform analytical procedures on the revenues generated by the rate increase by multiplying the amount of the annual sewer revenues by the compounded effect of the rate increase.

Results:

We obtained a calculation of revenues generated by the rate increases in FY2007 through FY2011 prepared by PUD and noted that revenues generated by the Shames Settlement and revenue from services provided to Participating

Agencies were excluded in determining the actual revenues from sewer services from the rate increases recommended by the 2006 Cost of Service Study (COSS).

We recalculated the rate increase schedule to verify its accuracy. Total Sewer Service Revenue and Treatment Plant Services for PAs were agreed to the audited CAFR for FY2007 through FY2011. We reviewed the Shames revenue tracking report prepared by the PUD and recalculated to verify its accuracy. We verified the sewer base charge and sewer charge for FY2007 through FY2011 used in the tracking report to the City's billing system's Daily Revenue by Rate Schedule. We also confirmed all rate increases used in the calculation by reviewing the City Council resolutions approving the rate increases.

We performed analytical procedures on the actual revenues generated by the rate increase by multiplying the amount of sewer service revenues by the compound effect of the rate increase (8.75%, 8.75%, 7.0%, and 7.0% effective May 1st for FY2007 through FY2010, respectively) starting with the FY2007 Sewer Service Charge revenue as reported in the FY2007 F1/F2 Schedules and comparing that to the actual revenue generated from rate increases from FY2007 through FY2011.

The following summarizes the revenues generated by the rate increases for FY2007 through FY 2011:

For the fiscal year ended June 30, 2007	$ 3,459,653
For the fiscal year ended June 30, 2008	24,071,532
For the fiscal year ended June 30, 2009	43,786,218
For the fiscal year ended June 30, 2010	63,278,867
For the fiscal year ended June 30, 2011	71,914,292
Total	$206,510,562

Refer to the following table for the supporting calculation of the revenues generated by the rate increases:

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Authorized Rate Increase (effective May 1st)	8.75%	8.75%	7.00%	7.00%	-
Weighted Rate Factor	1.014583333	1.103359375	1.196453906	1.28020568	1.354023141
Total Sewer Service Revenue	$ 299,736,000	$ 325,048,000	$ 318,474,000	$ 376,403,000	$ 351,894,000
Less Treatment Plant Services for PAs	(59,043,000)	(65,015,000)	(41,978,000)	(77,298,000)	(66,943,000)
Adjusted Sewer Service Revenue	240,693,000	260,033,000	276,496,000	299,105,000	284,951,000
Less Shames Revenue	-	(3,069,850)	(9,826,873)	(9,996,067)	(9,902,271)
Actual Sewer Service Revenue (including the 8.75% / 7% rate increase)	240,693,000	256,963,150	266,669,127	289,108,933	275,048,729
Less Actual Sewer Service Revenue/Weighted Rate Factor	(237,233,347)	(232,891,618)	(222,882,909)	(225,830,066)	(203,134,437)
Revenue Generated from Rate Increase	$ 3,459,653	$ 24,071,532	$ 43,786,218	$ 63,278,867	$ 71,914,292

B3. Review the City Council resolution(s) approving the rate increases for limitations on the use of the revenues.

Results:

The following is a summary of limitations on the use of revenues from rate increases approved by each City Council resolution between FY2007 and FY2011.

- Resolution R-302378 [Dated March 5, 2007] – No limitations listed.
- Resolution R-303049 [Dated October 18, 2007] – Revenue from rate increase to be used for settlement from Shames vs. City of San Diego lawsuit.
- Resolution R-303048 [Dated October 18, 2007] – CEQA Exemption for Shames-related rate adjustments.

B4. Compare individual commitment groups that comprise "operations and maintenance" expenses for the fiscal years ended June 30, 2008 to June 30, 2011, to identify significant fluctuations. For fluctuations each year that exceed 10%, inquire of management and document management's explanation for the nature of the fluctuation.

Results:

We compared individual commitment groups that comprise "operations and maintenance" expenses: Salaries and Wages, Supplies and Expenses, Equipment, and Debt Service. We identified significant fluctuations exceeding 10%, made inquiries of management and documented management's explanation. The summary of commitment groups and management's explanation on the sources of fluctuations are presented in ***Schedule 5***.

B5. Obtain the amount of capital project expenses incurred during the years ended June 30, 2008, June 30, 2009, June 30, 2010, and June 30, 2011 from the supplemental F1/F2 Schedules provided by the Comptroller's Office. Obtain accounting system reports to determine the amount of capital project expenses that were funded by debt proceeds and grants. The difference between the capital project expenses and the amount funded by debt proceeds and grants represent the amount of capital project expenses that were funded by wastewater rates and other available wastewater fund resources.

Results:

We obtained the capital project expenses incurred during the years ended June 30, 2008, June 30, 2009, June 30, 2010, and June 30, 2011 as reported on the supplemental F1/F2 Schedules. We obtained the amount of capital project expenses funded by debt proceeds and grants from accounting system reports (SAP and AMRIS) and subtracted it from total capital project expenses to determine the portion funded by wastewater rate revenues and other available wastewater fund resources.

The following summarizes capital project activity for the years ended June 30, 2008 through June 30, 2011:

	FY2008	FY2009	FY2010	FY2011
Actual Capital Improvement Program (CIP) Expenses	$ 29,802,707	$ 50,016,290	$ 80,104,243	$ 93,701,014
CIP Bond Funded Portion	44,565,218	34,495,175	66,470,211	53,526,316
CIP Grant Funded Portion	10,716	-	38,127	354,678
CIP Wastewater Funded Portion	$ (14,773,227) [1]	$ 15,521,115	$ 13,595,905	$ 39,820,020
% Wastewater Funded	-49.57%	31.03%	16.97%	42.50%

[1] The Wastewater funded portion in FY2008 is negative because bond reimbursements were greater than the FY2008 CIP expenses. In FY2008, the bond proceeds were used to reimburse prior year CIP expenses (up to 18 months) along with current year expense reimbursements. Of the $44,565,218 that was debt funded in FY2008, $36,371,055 was prior year expenses and $8,194,163 was current year expenses.

B6. Compare revenues generated by the rate increases to the change in expense activity for the years ended June 30, 2008 through June 30, 2011.

Results:

We compared the revenues generated by the rate increases as calculated pursuant to Procedure B2 to the change in expenses as reported on the F1/F2 Schedules and traced to accounting system reports for the years ended June 30, 2008 through June 30, 2011.

The table on the following page summarizes the comparison between the additional revenues generated from the rate increases and the change in expenses from the base year.

	FY2008	FY2009	FY2010	FY2011	Total FY2008-FY2011
Additional revenues created solely from the rate increases [1]	$ 27,531,185	$ 43,786,218	$ 63,278,867	$ 71,914,292	**$ 206,510,562**
Change in operating expenses from base year	1,723,549	17,000,363	13,940,187	594,123	**33,258,222**
Change in debt service expenses from base year	(1,860,094)	(2,066,561)	14,305,309	10,743,911	**21,122,565**
Capital project expenses	29,802,707	50,016,290	80,104,243	93,701,014	**253,624,254**
Less: Capital projects funded by bond proceeds	44,565,218	34,495,175	66,470,211	53,526,316	**199,056,920**
Capital projects not funded by bond proceeds	(14,762,511)	15,521,115	13,634,032	40,174,698	**54,567,334**
Total change in expenses from base year	(14,899,056)	30,454,917	41,879,528	51,512,732	**108,948,121**
Surplus of revenues from rate increase	$ 42,430,241	$ 13,331,301	$ 21,399,339	$ 20,401,560	**$ 97,562,441**

[1] Additional revenues generated from the rate increase for FY2007 of $3,459,653 are included in the FY2008 amount. In FY2007, the 8.75% rate increase was effective on May 1, 2007.

B7. Obtain a detail of the sources of increases in restricted and unrestricted cash balances (net of reserve), within the Wastewater Utility Fund for each fiscal years ended June 30, 2008 to June 30, 2011. Trace the balances as reported in the City's CAFR to source documentation.

Results:

We obtained the details of the restricted and unrestricted cash balances recorded in the Wastewater Utility Fund for the years ended June 30, 2008 through June 30, 2011 (Comparative Statement of Net Assets for Wastewater Utility Enterprise Fund report from AMRIS for the years ended June 30, 2008 and June 30, 2009, and SAP system reports for the years ended June 30, 2010 and June 30, 2011) from the Comptroller's Office and agreed the restricted and unrestricted cash balances to the amounts reported in the City's CAFR for the years ended June 30, 2008 through June 30, 2011, respectively.

We reviewed the City of San Diego Reserves Policy and obtained the reserve balances for each of the years ended June 30, 2008 through June 30, 2011, as reported in the official statements and continuing disclosure annual reports for the sewer revenue bonds. The reserves are required per the City of San Diego Reserve Policy but are reported in the City's CAFR as a component of the unrestricted cash balance.

A summary of restricted and unrestricted cash balances and reserve balances is shown below:

	FY2008	FY2009	FY2010	FY2011
Total Restricted Cash and Equity (per CAFR)	$ 46,839,060	$231,212,176	$166,646,727	$114,498,744
Change in Restricted Cash and Equity	-	184,373,116	(64,565,449)	(52,147,983)
Change in Restricted Cash and Equity (%)	-	394%	-28%	-31%
Unrestricted: Cash and Equity in Pooled Cash and Investments (per CAFR)	291,144,338	345,932,763	380,774,348	419,209,039
Rate Stabilization Fund	16,300,000	19,300,000	21,300,000	21,300,000
Operating Reserve	31,654,000	31,653,000	30,530,000	33,926,000
Emergency (Capital) Reserve	5,000,000	5,000,000	5,000,000	5,000,000
Dedicated Reserve for Efficiency and Savings (DRES)	12,948,000	21,792,000	36,273,000	36,273,000
Fund Reserves	65,902,000	77,745,000	71,957,000	96,499,000
Unrestricted: Cash and Equity net of Fund Reserves [1]	$225,242,338	$268,187,763	$287,671,348	$322,710,039
Change in Unrestricted Cash and Equity net of Fund Reserves		$ 42,945,425	$ 19,483,585	$ 35,038,691
Change in Unrestricted Cash and Equity net of Fund Reserves (%)		19%	7%	12%

[1] Unrestricted Cash and Equity covers fund reserves as required by the City of San Diego Reserve Policy, encumbrances, and continuing appropriations according to budget.

C. Analysis of the Sources and Uses of Debt Proceeds - Water Revenue Bonds and Notes

C1. Obtain the Official Statement and the Trustees receipt of proceeds for the following: the $328,060,000 Water Revenue Bonds, Series 2009B, the $57,000,000 Non-Transferable Subordinated Water Revenue Notes, Series 2007A and the $150,000,000 Subordinated Water Revenue Notes, Series 2008A. Agree the debt amounts listed on the Official Statements to the amounts received on the Trustees Receipt of Proceeds. Obtain an understanding of the purpose of the debt issue by reviewing the usage of proceeds section.

Results:

We obtained and reviewed the Official Statement and Trustees Receipt of Proceeds for the following:

- $57,000,000 Non-Transferable Subordinated Water Revenue Notes, Series 2007A
- $150,000,000 Subordinated Water Revenue Notes, Series 2008A
- $328,060,000 Water Revenue Bonds, Series 2009B

We noted that the debt amounts listed on the official statements agree to the amounts received on the Trustees Receipt of Proceeds. We also reviewed the usage of proceeds section to obtain an understanding of the purpose of the debt issue.

C2. Review the total CIP expenses per the Grant Project Status Report or other accounting system report through June 30, 2011, and agree them to the bond proceeds available for capital projects per the Trustees Receipt of Proceeds for each debt issuance examined.

Results:

We obtained the system reports for debt funded capital project expenses (refer to Procedure A6) and compared the debt proceeds spent with the debt proceeds available for capital projects per the Trustees Receipts of Proceeds:

	FY2007	FY2008	FY2009	FY2010	FY2011	Totals	
Trustees Receipt of Proceeds - 2007A	$57,000,000	$ -	$ -	$ -	$ -	$ 57,000,000	
Debt Funded Expenses - 2007A	33,924,796	24,020,974	86,676	-	-	58,032,446	(2)
Trustees Receipt of Proceeds - 2008A	-	150,000,000	-	-	-	150,000,000	
Debt Funded Expenses - 2008A	-	8,677,454	115,151,117	29,049,698	-	152,878,269	(2)
Trustees Receipts of Proceeds - 2009B (1)	-	-	150,000,000	-	-	150,000,000	
Debt Funded Expenses - 2009B	-	-	-	47,608,683	25,126,904	72,735,587	(3)

(1) Principal amount of the Series 2009B Bond is $328,060,000 per the Trustees Receipts of Proceeds. We reviewed the Estimated Sources and Uses of Funds section on page 15 of the Official Statement and noted that new funds provided from the Series 2009B bond issuance was $150,000,000. The remaining proceeds were deposited into reserve funds used to repay previous loans and cost of issuance.

(2) The expended amounts exceeded the original proceeds of the bonds due to additional resources generated through investment earnings on unspent bond proceeds.

(3) The remaining $78,393,501 of the Series 2009B proceeds was fully disbursed in FY2012 and FY2013. The total amount disbursed for the Series 2009B, including interest earnings, was $151,129,088.

C3. Review the Master and Supplemental Installment Purchase Agreements to identify the listing of debt approved capital projects. Review the Master Installment Purchase Agreement (MIPA) to identify the procedures for modifying the listing of capital projects. Verify that capital projects reimbursed with debt proceeds but not listed on MIPA were eligible per the modification procedures listed in the MIPA.

Results:

We reviewed the Master and Supplemental Installment Purchase Agreements to identify the listing of debt approved capital projects and compared it to a Department summary listing of debt financed projects by bond issuance. We reviewed MIPA section 3.02 – Changes to Projects to identify the procedures for modifying the listing of capital projects. All projects in the summary listing were MIPA approved, or were eligible projects per the procedures identified in MIPA Section 3.02 – Changes to Projects.

C4. Obtain the Grant Project Status Report or other accounting system reports that lists actual expenses by project. Compare the list of debt-approved projects to the list of actual expenses by project.

Results:

We obtained accounting system reports (from AMRIS and SAP) that list actual expenses by project and by debt and compared the list of projects to the summary listing of debt financed projects (refer to Procedure C3) to identify any projects that received debt reimbursement, but was not on the summary listing of approved debt financed projects. No exceptions noted.

C5. Identify the portion of each project's expenses that were debt financed versus funded through other sources.

Results:

We obtained the accounting system reports (from AMRIS and SAP) detailing capital project expenses by funding source for the years ended June 30, 2008 through June 30, 2011. We calculated the total expenses funded by debt proceeds and total expenses funded by other sources for each capital project.

C6. Identify and determine the reasonableness of any funding transfers between projects.

Results:

We obtained the listing of all transfers in and out of capital projects from FY2008 through FY2011 and identified all inter-project transfers to determine proper approval of transfer. We excluded intra-project transfers such as 'annual allocation to sublet' or 'standalone to sub-project' because they are not considered to be transfers between projects.

We noted through inquiry of management that for FY2008 and FY2009, system reports from AMRIS for Fund 30244 Account 4278 - CIP Construction Fund Council Approval Account were reviewed by PUD personnel to identify the Batch Number for all transfer actions for those years. Per management, all batch detail and attachments were then manually reviewed by PUD personnel to identify inter-project transfers.

We noted through inquiry of management that for FY2010 and FY2011, PUD personnel produced system reports from SAP showing all capital project transfers for those years. Every transfer listed on the system report has an associated FMBB number. For all line items with the same FMBB number (same transfer), the 'Funded Prg' is reviewed to identify inter-project transfers. Annual Allocations start with 'A', sublets start with 'B', and Standalones start with 'S'. An inter-project transfer would be from 'A' to 'S', 'A' to 'A', or 'S' to 'S'. We reviewed the detailed listing of transfers to verify completeness of transfers identified.

We reviewed City Council resolutions or ordinances and verified that all inter-project transfers were approved. We determined that all transfers were reasonable as all inter-project transfers must be approved by City Council Resolution or Ordinance.

C7. Obtain a sample of thirteen (13) projects from PUD for additional testing.

i. Determine that the project description noted on the vendor invoice agreed to the project description noted on the Grant Project Status Report or other accounting system report.

ii. Determine that the amount of expenses per the Grant Project Status Report or other accounting system report agrees to the amount the City paid to the vendor.

iii. Determine the sufficiency of the documentation to support the bond reimbursements.

Results:

We received the list of projects selected by PUD for testing each of the three bond issuances identified in Procedure C1. The sample included projects having the largest expenses for each of the bond issuances (3 projects funded from the 2007A bond issuance, 7 projects funded from the 2008A bond issuance, and 3 projects funded from the 2009B bond issuance). We obtained the AMRIS/SAP detailed expense transactions listing for each of the 13 projects selected. We performed sampling procedures and selected 60 expense transactions from the aforementioned projects for additional testing of the criteria noted above.

For each of the 60 expense transactions selected, we traced the elements described above to the Grant Project Status Report and invoices described in C.7i and C.7ii and found no exceptions. We determined that there was sufficient documentation to support the bond reimbursements.

D. Analysis of the Sources and Uses of Debt Proceeds - Sewer Revenue Bonds and Notes

D1. Obtain the Official Statement and the Trustees receipt of proceeds for the following: the $453,775,000 Senior Sewer Revenue Bonds, Series 2009A and the $223,830,000 Subordinated Sewer Revenue Notes, Series 2007. Agree the debt amounts listed on the Official Statements to the amounts received on the Trustees Receipt of Proceeds. Obtain an understanding of the purpose of the debt issue by reviewing the usage of proceeds section.
Results:

We obtained and reviewed the Official Statement and Trustees Receipt of Proceeds for the following:

- $223,830,000 Subordinated Sewer Revenue Notes, Series 2007
- $453,775,000 Senior Sewer Revenue Bonds, Series 2009A

We noted that the debt amounts listed on the official statements agree to the amounts received on the Trustees Receipt of Proceeds. We also reviewed the usage of proceeds section to obtain an understanding of the purpose of the debt issue.

D2. Review the total CIP expenses per the Grant Project Status Report or other accounting system report through June 30, 2011, and agree them to the bond proceeds available for capital projects per the Trustees Receipt of Proceeds for each debt issuance examined.

Results:

We obtained the system reports for debt funded capital project expenses and compared the debt proceeds spent with the debt proceeds available for capital projects per the Trustees Receipts of Proceeds:

	FY2007	FY2008	FY2009	FY2010	FY2011	Totals	
Trustees Receipt of Proceeds - 2007	$ 80,088,828	$ -	$ -	$ -	$ -	$ 80,088,828	
Debt Funded Expenses - 2007	12,328,463	44,565,218	26,077,109	-	-	82,970,790	(1)
Trustees Receipts of Proceeds - 2009A	-	-	145,003,819	-	-	145,003,819	
Debt Funded Expenses - 2009A	-	-	8,418,066	66,470,211	53,526,316	128,414,593	(2)

(1) The expended amounts exceed the original proceeds of the bonds due to additional resources generated through investment earnings on unspent bond proceeds.

(2) The remaining $17,519,420 of the 2009A proceeds was fully disbursed in FY2012. The total amount disbursed for the 2009A series, including interest earnings, was $145,934,013.

D3. Review the Master and Supplemental Installment Purchase Agreements to identify the listing of debt approved capital projects. Review the Master Installment Purchase Agreement (MIPA) to identify the procedures for modifying the listing of capital projects. Verify that capital projects reimbursed with debt proceeds but not listed on the MIPA were eligible per the modification procedures listed in the MIPA.

Results:

We reviewed the Master and Supplemental Installment Purchase Agreements to identify the listing of debt approved capital projects and compared it to a Department summary listing of debt financed projects by bond issuance. We reviewed MIPA section 3.02 – Changes to Projects to identify the procedures for modifying the listing of capital projects. All projects in the summary listing were MIPA approved, or were eligible projects per the procedures identified in MIPA Section 3.02 – Changes to Projects.

D4. Obtain the Grant Project Status Report or other accounting system reports that lists actual expenses by project. Compare the list of debt-approved projects to the list of actual expenses by project.

Results:

We obtained accounting system reports (from AMRIS and SAP) that list actual expenses by project and by debt and compared the list of projects to the summary listing of debt financed projects (refer to procedure D3) to identify any projects that received debt reimbursement, but was not on the summary listing of approved debt financed projects. No exceptions noted.

D5. Identify the portion of each project's expenses that were debt financed versus funded through other sources.

Results:

We obtained the accounting system reports (from AMRIS and SAP) detailing capital project expenses by funding source for the years ended June 30, 2008 through June 30, 2011. We calculated the total expenses funded by debt proceeds and total expenses funded by other sources for each capital project.

D6. Identify and determine the reasonableness of any funding transfers between projects.

Results:

We obtained the listing of all transfers in and out of capital projects from FY2008 through FY2011 and identified all inter-project transfers to determine proper approval of transfer. We excluded intra-project transfers such as 'annual allocation to sublet' and 'standalone to sub-project' because they are not considered to be transfers between projects.

We noted through inquiry of management that for FY2008 and FY2009, system reports from AMRIS for Fund 30244 Account 4278 - CIP Construction Fund Council Approval Account were reviewed by PUD personnel to identify the Batch Number for all transfer actions for those years. Per management, all batch detail and attachments were then manually reviewed by PUD personnel to identify inter-project transfers.

We noted through inquiry of management that for FY2010 and FY2011, PUD personnel produced system reports from SAP showing all capital project transfers for those years. Every transfer listed on the system report has an associated FMBB number. For all line items with the same FMBB number (same transfer), the 'Funded Prg' is reviewed to identify inter-project transfers. Annual Allocations start with 'A', sublets start with 'B', and Standalones start with 'S'. An inter-project transfer would be from 'A' to 'S', 'A' to 'A', 'S' to 'S'. We reviewed the detailed listing of transfers to verify completeness of the transfers identified.

We reviewed City Council resolutions or ordinances and verified that all inter-project transfers were approved. We determined that all transfers were reasonable as all inter-project transfers must be approved by City Council Resolution or Ordinance.

D7. Obtain a sample of thirteen (13) projects selected by PUD for additional testing.

i. Determine that the project description noted on the vendor invoice agreed to the project description noted on the Grant Project Status Report or other accounting system report.

ii. Determine that the amount of expenses per the Grant Project Status Report or other accounting system report agrees to the amount the City paid to the vendor.

iii. Determine the sufficiency of the documentation to support the bond reimbursements.

Results:

We received the list of projects selected by PUD for testing both of the two bond issuances identified in Procedure D1. The sample included projects having the largest expenses for each of the bond issuances (5 projects funded from the Series 2007 Notes and 8 projects funded from the Series 2009A Bonds). We obtained the AMRIS/SAP detailed expense transactions listing for each of the thirteen (13) projects selected. We performed sampling procedures and selected 60 expense transactions from the aforementioned projects for additional testing of the criteria noted above.

For each of the 60 expense transactions selected, we traced the elements described above to the Grant Project Status Report and invoices described in D.7i and D.7ii and found no exceptions. We determined that there was sufficient documentation to support the bond reimbursements.

E. Analysis of the Dedicated Reserve from Efficiencies and Savings (DRES)

E1. Review Council Policy 100-20 as it pertains to the Dedicated Reserve from Efficiencies and Savings.

Results:

We obtained Council Policy 100-20 dated December 15, 2011, and reviewed sections pertaining to the Dedicated Reserve from Efficiencies and Savings (DRES).

E2. Obtain Water and Wastewater funds DRES account databases.

Results:

We obtained the DRES account details for each year ended June 30, 2008 through June 30, 2011 for the Water Fund and Wastewater Fund.

E3. Examine and compare a sample of database items (provided by the City of San Diego) to the supporting documentation to verify inflows and outflows are accurately recorded, properly authorized and are in accordance with Council Policy.

Results:

We obtained the sample of database items provided by the City of San Diego, 17 from the Water Fund and 10 from the Wastewater Fund, and supporting documentation (City Council resolutions, City ordinance, City memorandum, or Department approval via email correspondence) and verified that inflows and outflows of the DRES accounts were accurately recorded, properly authorized and were in accordance with Council Policy. Per Council Policy 100-20 on Reserves, the DRES reserve was established in FY08 to protect and preserve savings from efficiencies, changing priorities or other actions related to reducing costs of the CIP and O&M water and wastewater systems. Although annual savings are not required to comply with established policies (inflow), using the DRES fund (outflow) for other CIPs requires Department, the Independent Rate Oversight Committee (IROC), and City Council approval. Based on the council policy, no authorization is required for DRES inflows. There were no exceptions noted.

E4. Trace year-end DRES balances to the accounting records maintained by the Office of the City Comptroller to verify the completeness and accuracy of the databases.

Results:

We obtained the DRES account year-end balances for the years ended June 30, 2008 through 2011 and verified the year-end balances to Comptroller's general ledger records to verify accuracy and completeness. FY2008 and FY2009 year-end balances were agreed to AMRIS financial accounting system reports for general ledger account 895045 without exception. FY2010 and FY2011 year-end balances were agreed to SAP accounting system reports for general ledger account 330107 without exception.

F. Comparison of Actual Results with Those Expected in Cost of Service Study (COSS)

F1. Compare revenues and expenses for the Water Utility Fund for the period July 1, 2008 through June 30, 2011, as reported by the City on the E1/E2 Schedules to the projected revenues and projected expenses as reported in the 2006 Cost of Service Study.

Results:

We compared actual revenues and actual expenses as reported on the E1/E2 Schedules for the Water Utility Fund to the projected revenues and projected expenses included in the 2006 Water COSS for the years ended June 30, 2008 through June 30, 2011.

Refer to the Comparison of Actual and Projected Revenues and Expenses for the Water Utility Fund in ***Schedule*** 6.

F2. Obtain the assumptions used in the Cost of Service Study for the Water Utility Fund and inquire of management of differences in the assumptions when compared with actual events. Document management's explanation for the differences between assumptions and actual events.

Results:

We obtained the assumptions used in the 2006 COSS and inquired of management as to the differences in the assumptions when compared with actual events. Refer to ***Schedule 7*** for the list of assumptions and management's explanations for the differences between assumptions and actual events.

F3. Compare revenues and expenses for the Wastewater Utility Fund for the period July 1, 2008 through June 30, 2011, as reported by the City on the F1/F2 Schedules to the projected revenues and projected expenses as reported in the 2006 Cost of Service Study.

Results:

We compared actual revenues and actual expenses as reported on the F1/F2 Schedules for the Wastewater Utility Fund to the projected revenues and projected expenses included in the 2006 Wastewater COSS for the years ended June 30, 2008 through June 30, 2011.

Refer to the Comparison of Actual and Projected Revenues and Expenses for the Wastewater Utility Fund in ***Schedule 8***.

F4. Obtain the assumptions used in the Cost of Service Study for the Wastewater Utility Fund and inquire of management of differences in the assumptions when compared with actual events. Document management's explanation for the differences between assumptions and actual events.

Results:

We obtained the assumptions used in the 2006 COSS and inquired of management as to the differences in the assumptions when compared with actual events. Refer to ***Schedule 9*** for the list of assumptions and management's explanations for the differences between assumptions and actual events.

SCHEDULES

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
WATER UTILITY FUND
Fiscal Years Ended June 30, 2008 through June 30, 2011
($ in Thousands - Unaudited)

	FY2008	FY2009	FY2010	FY2011
OPERATING REVENUES				
Sales of Water	$ 297,225	$ 324,772	$ 354,543	$ 358,747
Charges for Services	33	-	14,655	3,789
Revenue from Use of Property	6,115	5,418	4,431	5,540
Usage Fees	1,235	1,272	503	33
Other	14,018	11,257	2,329	3,406
TOTAL OPERATING REVENUES	318,626	342,719	376,461	371,515
OPERATING EXPENSES				
Maintenance and Operations	100,360	95,979	70,568	72,027
Cost of Purchased Water Used	121,186	133,499	148,232	143,155
Taxes	162	162	1,805	1,755
Administration	36,722	33,258	65,169	65,926
Depreciation	29,870	39,627	38,525	43,054
TOTAL OPERATING EXPENSES	288,300	302,525	324,299	325,917
OPERATING INCOME	30,326	40,194	52,162	45,598
NONOPERATING REVENUES (EXPENSES)				
Earnings on Investments	15,536	12,478	8,914	4,468
Federal Grant Assistance	1,427	192	1,351	203
Other Agency Grant Assistance	272	1,070	(135)	7,028
Loss on Sale/Retirement of Capital Assets	(3,494)	(2,436)	(2,582)	(1,164)
Debt Service Interest Expense	(29,919)	(28,081)	(38,240)	(34,490)
Other	980	751	3,809	3,552
TOTAL NONOPERATING REVENUES (EXPENSES)	(15,198)	(16,026)	(26,883)	(20,403)
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	15,128	24,168	25,279	25,195
Capital Contributions	31,526	30,277	23,932	18,011
Transfers from Other Funds	578	439	245	113
Transfers from Governmental Funds	3,867	3,443	337	142
Transfers to Other Funds	(93)	(99)	(2)	-
Transfer to Governmental Funds	(834)	(530)	(612)	(222)
CHANGE IN NET ASSETS	50,172	57,698	49,179	43,239
Net Assets - Beginning of Year	1,315,348	1,365,520	1,423,218	1,472,397
NET ASSETS - END OF YEAR	$ 1,365,520	$ 1,423,218	$ 1,472,397	$ 1,515,636

Source: City of San Diego Comprehensive Annual Financial Reports for Fiscal Years 2008 through 2011

CITY OF SAN DIEGO
Public Utilities Department
Water Utility Fund - Revenue from Rate Increase Analysis
Fiscal Years Ended June 30, 2008 through June 30, 2011 (Unaudited)

	FY2008	FY2009	FY2010	FY2011
Sale of Water	$ 297,224,863	$ 324,772,235	$ 354,543,101	$ 358,324,730
San Diego County Water Authority (SDCWA) Pass-Thru Revenue:				
SDCWA Pass-Thru Increase Revenue (FY2008)	3,971,531	9,630,374	9,120,156	9,191,570
SDCWA Pass-Thru Increase Revenue (FY2009)	-	9,500,950	21,018,569	21,061,388
SDCWA Pass-Thru Increase Revenue (FY2010)	-	-	12,158,143	28,393,725
SDCWA Pass-Thru Increase Revenue (FY2011)	-	-	-	6,047,383
Total SDCWA Pass-Thru Revenue	3,971,531	19,131,324	42,296,868	64,694,066
Indirect Potable Reuse (IPR) Related Revenue	-	2,484,300	6,731,368	2,373,081
Revenue excluding SDCWA Pass-Thru and IPR Revenue	293,253,332	303,156,611	305,514,865	291,257,583
Revenue Based on FY2007 Rates (Commodity)	192,078,880	186,949,053	164,506,081	151,695,032
Revenue Based on FY2007 Rates (Fixed)	91,298,362	91,380,531	91,508,463	91,718,933
Revenue excluding Rate Increases (SDCWA & IPR)	283,377,242	278,329,584	256,014,544	243,413,965
Revenue from 6.5% Rate Increases	$ 9,876,090	$ 24,827,027	$ 49,500,321	$ 47,843,618

CITY OF SAN DIEGO
Public Utilities Department
Water Utility Fund - Operations and Maintenance Fluctuations by Commitment Group
Fiscal Years Ended June 30, 2008 through June 30, 2011 (Unaudited)

Commitment Group	FY2008	FY2009	Variance	Variance %	
Total Salaries and Wages	$ 43,088,121	$ 41,260,191	$ (1,827,930)	-4.24%	
Total Supplies and Expenses	85,215,888	80,153,199	(5,062,689)	-5.94%	
Total Equipment	656,093	471,765	(184,328)	-28.09%	Note 1
Total Debt Service	40,101,714	47,355,536	7,253,822	18.09%	Note 2
Total	$ 169,061,816	$ 169,240,691	$ 178,875		

Commitment Group	FY2009	FY2010	Variance	Variance %	
Total Salaries and Wages	$ 41,260,191	$ 42,157,518	$ 897,327	2.17%	
Total Supplies and Expenses	80,153,199	110,983,974	30,830,775	38.46%	Note 3
Total Equipment	471,765	521,131	49,366	10.46%	Note 4
Total Debt Service	47,355,536	56,305,785	8,950,249	18.90%	Note 5
Total	$ 169,240,691	$ 209,968,408	$ 40,727,717		

Commitment Group	FY2010	FY2011	Variance	Variance %	
Total Salaries and Wages	$ 42,157,518	$ 46,398,462	$ 4,240,944	10.06%	Note 6
Total Supplies and Expenses	110,983,974	113,960,503	2,976,529	2.68%	
Total Equipment	521,131	991,964	470,833	90.35%	Note 7
Total Debt Service	56,305,785	62,264,977	5,959,192	10.58%	Note 8
Total	$ 209,968,408	$ 223,615,906	$ 13,647,498		

Source: Office of the City Comptroller's Supplemental Schedules (E1/E2 Schedules), except for Debt Service which reflects actual debt service payments (bonds and State Revolving Fund loans) for FY2008-FY2009 per AMRIS and for FY2010-FY2011 per SAP.

Note 1 - The variance between FY2008 and FY2009 in Total Equipment reflects the change in the Public Utility Department's operational needs with regard to equipment outlay.

Note 2 - In FY2008, Subordinated Water Revenue Notes, Series 2008A was issued in the principal amount of $150,000,000, (new money), resulting in two (2) interest only payments in FY2009.

Note 3 - The major fluctuations were due to approximately $18 million in the cost of purchased water (Contractual services and In-Lieu Tax payment) beign captured in this category for FY2010 and FY2011 (water purchase costs are not a component of this schedule - refer to Schedule 6), the McGuigan settlement payment of $2 million; the recategorization of accounts during the transfer from ARMIS to SAP of $1.4 million; Tri Group Trench work for $2 million; Luth and Turley major projects (open Purchase Order) for $1.4 million; and IT expenses related to the San Diego Data Processing Corporation (SDDPC) of $4.3 million.

Note 4 - The variance between FY2009 and FY2010 in Total Equipment reflects the change in PUD's operational needs with regard to equipment outlay. Also, part of the variance is related to changes in the accounting and reporting structures associated with the conversion from AMRIS to SAP.

Note 5 – During FY2010, Non-Transferable Subordinated Water Revenue Notes, Series 2007A ($57,000,000) and Subordinated Water Revenue Notes, Series 2008A ($150,000,000), both of which had interest only payments, were refunded by the issuance of Water Revenue Bonds, Series 2009A in the amount of $157,190,000 (which required principal and interest payments) and Series 2009B in the amount of $328,060,000.

Note 6 - The variance between FY2010 and FY2011 in Salaries and Wages is due to the following: $1.2 million decrease from salary savings (vacancy factor); $1.6 million decrease related to Bid to Goal pay; $1.1 million in overtime and $0.4 million in compensation pay.

Note 7 - The variance between FY2010 and FY2011 in Total Equipment reflects the change in PUD's operational needs with regard to equipment outlay. In addition, during FY2011, payments were made to Global Power (Purchase Order 4500012789) in the amount of $187,844, which includes $56,000 for 4 new heat pumps at 4 separate locations and approximately $251,000 of expenses were incurred related to SDDPC charges.

Note 8 - Change is primarily attributable to the issuance of the Water Revenue Bonds Series 2009B, which closed in June 2009. As such, only one interest payment was made on it in February 2010, while full annual debt service was paid in FY2011 (two interest payments and one principal payment).

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
WASTEWATER UTILITY FUND
Fiscal Years Ending June 30, 2008 through June 30, 2011
($ in Thousands - Unaudited)

	FY2008	FY2009	FY2010	FY2011
OPERATING REVENUES				
Sewer Service Charges:				
Inside City:				
Domestic	$ 182,486	$ 200,990	$ 220,025	$ 209,703
Commercial and Industrial	77,547	75,506	79,080	75,248
Outside City:				
Treatment Plant Service for Others	65,015	41,978	77,298	66,943
Subtotal Sewer Service Charges	325,048	318,474	376,403	351,894
Services provided to City Departments	-	-	2,237	2,189
Total Charges for Services	325,048	318,474	378,640	354,083
Other Operating Revenues	3,071	4,097	3,485	3,648
TOTAL OPERATING REVENUES	328,119	322,571	382,125	357,731
OPERATING EXPENSES				
Maintenance and Operations	110,492	119,470	136,820	134,696
Administration	91,158	71,300	80,879	63,875
Depreciation	71,138	76,554	66,523	63,488
TOTAL OPERATING EXPENSES	272,788	267,324	284,222	262,059
OPERATING INCOME	55,331	55,247	97,903	95,672
NONOPERATING REVENUES (EXPENSES)				
Earnings on Investments	17,757	13,454	10,612	7,454
Federal Grant Assistance	134	-	175	380
Other Agency Grant Assistance	-	167	165	-
Loss on Sale/Retirement of Capital Assets	(2,057)	(3,525)	(558)	(1,961)
Debt Service Interest Expense	(48,571)	(46,151)	(53,348)	(51,112)
Other	4,524	5,244	7,750	6,404
TOTAL NONOPERATING REVENUES (EXPENSES)	(28,213)	(30,811)	(35,204)	(38,835)
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	27,118	24,436	62,699	56,837
Capital Contributions	25,359	28,780	21,346	12,345
Transfers from Other Funds	714	616	316	147
Transfers from Governmental Funds	9	1,238	-	-
Transfers to Other Funds	(1,214)	(59)	(119)	(10)
Transfer to Governmental Funds	(5,585)	(3,550)	(883)	(192)
CHANGE IN NET ASSETS	46,401	51,461	83,359	69,127
Net Assets - Beginning of Year	1,893,578	1,939,979	1,991,440	2,074,799
NET ASSETS - END OF YEAR	$ 1,939,979	$ 1,991,440	$ 2,074,799	$ 2,143,926

Source: City of San Diego Comprehensive Annual Financial Reports for FY2008 through FY2011

CITY OF SAN DIEGO
Public Utilities Department
Wastewater Utility Fund - Operations and Maintainence Fluctuations by Commitment Group
Fiscal Years Ended June 30, 2008 through June 30, 2011 (Unaudited)

Commitment Group	FY2008	FY2009	Variance	Variance %	
Total Salaries and Wages	$ 60,088,641	$ 54,717,779	$ (5,370,862)	-8.94%	
Total Supplies and Expenses	130,781,033	128,721,911	(2,059,122)	-1.57%	
Total Equipment	982,873	652,671	(330,202)	-33.60%	Note 1
Total Debt Service	93,456,902	93,250,435	(206,467)	-0.22%	
Total	$ 285,309,449	$ 277,342,796	$ (7,966,653)		

Commitment Group	FY2009	FY2010	Variance	Variance %	
Total Salaries and Wages	$ 54,717,779	$ 54,925,241	$ 207,462	0.38%	
Total Supplies and Expenses	128,721,911	160,581,206	31,859,295	24.75%	Note 2
Total Equipment	652,671	845,738	193,067	29.58%	Note 3
Total Debt Service	93,250,435	109,622,305	16,371,870	17.56%	Note 4
Total	$ 277,342,796	$ 325,974,490	$ 48,631,694		

Commitment Group	FY2010	FY2011	Variance	Variance %	
Total Salaries and Wages	$ 54,925,241	$ 54,630,332	$ (294,909)	-0.54%	
Total Supplies and Expenses	160,581,206	136,200,110	(24,381,096)	-15.18%	Note 5
Total Equipment	845,738	1,820,680	974,942	115.28%	Note 6
Total Debt Service	109,622,305	106,060,907	(3,561,398)	-3.25%	
Total	$ 325,974,490	$ 298,712,029	$ (27,262,461)		

Source: Office of the City Comptroller's Supplemental Schedules (F1/F2 Schedules), except for Debt Service which reflects actual debt service payments (bonds and State loans) for FY2008-FY2009 per AMRIS and for FY2010-FY2011 per SAP.

Note 1 - The variance between FY2008 and FY2009 in Total Equipment reflects the change in the Public Utility Department's (PUD) operational needs with regard to equipment outlay.

Note 2 - In FY2010, the City converted its financial system from AMRIS to SAP. Additionally, the Water and Wastewater Departments were combined, creating the Public Utilities Department. The combination of both events makes it difficult to compare FY2009 to FY2010 on an equivalent basis. Much of the variance between FY2009 and FY2010 refects changes in accounting and reporting structures, however, part of the variance is attributable to one time expenses incurred during FY2010, which include: the McGuigan settlement of $2.3 million, increase in chemical purchases of $2.5 million, $1.6 million of FY2009 chemical invoices that were applied to FY2010 resulting from the software conversion from AMRIS to SAP, and $8.6 million to "True-up" prior year expenses charged to the Participating Agencies.

Note 3 - The variance between FY2009 and FY2010 in Total Equipment reflects the change in PUD's operational needs with regard to equipment outlay. Also, as noted above in Note 2, part of the variance is related to changes in the accounting and reporting structures associated with the conversion from AMRIS to SAP. Some accounts that were previously included in the Equipment group under AMRIS, are now included in the Supplies and Expenses group under SAP.

Note 4 - The variance between FY2009 and FY2010 in Total Debt Service reflects the FY2010 debt service payment for two newly issued bonds. The Senior Sewer Revenue Bonds, Series 2009A ($453,775,000) refunded the 2007 Private Note, part of the 1997 Series A and Series B, and provided additional funds in the amount of $145 million. The Senior Sewer Revenue Refunding Bonds, Series 2009B ($634,940,000) refunded the 1993, 1995, and remainder of the 1997 Series A and B.

Note 5 - As previously mentioned in Note 2 above, expenses for FY2010 were abnormally high primarily due to factors associated with the conversion from AMRIS to SAP and the reorganization of PUD. Overall, from FY2008 to FY2011, the change in Total Supplies and Expenses was approximately 5%.

Note 6 - The variance between FY2010 and FY2011 in Total Equipment reflects the change in PUD's operational needs with regard to equipment outlay. Also, part of the increase in FY2011 expenses may have been due to delays in processing equipment requests in FY2010 related to the conversion from AMRIS to SAP. FY2011 records also reflect an approximate $227,000 increase associated with "Prior Year Assurance Fund Purchases."

Comparison of Actual and Projected Revenues and Expenses
Water Utility Fund
FY2008 through FY2011 (Unaudited)

	FY2008		FY2009		FY2010		FY2011		
Revenues	**E1/E2 Schedule**	**COSS**	**E1/E2 Schedule**	**COSS**	**E1/E2 Schedule**	**COSS**	**E1/E2 Schedule**	**COSS**	COSS Reference
Total Revenue	$ 382,731,866	$ 356,590,397	$ 486,456,114	$ 377,902,300	$ 467,716,982	$ 407,115,811	$ 438,075,676	$ 431,534,613	Table 5-1 & 5-6
Less SDCWA pass-through revenue (1)	(3,971,531)	-	(19,131,324)	-	(42,296,868)	-	(64,694,066)	-	
Less IPR related revenue (1)	-	-	(2,484,300)	-	(6,731,368)	-	(2,373,081)	-	
Less Bond Proceeds (1)	(32,698,428)	-	(117,733,862)	-	(76,658,381)	-	(25,126,904)	-	
Adjusted Revenues (2)	346,061,907	356,590,397	347,106,628	377,902,300	342,030,365	407,115,811	345,881,625	431,534,613	Table 5-6
Expenses									
Operating and Maintenance (3)	128,960,102	158,971,992	121,885,155	163,825,659	135,872,499	179,008,596	140,769,137	184,641,378	Table 5-6
Water Conservation	2,466,009	-	2,177,185	-	-	-	-	-	
Other Department	389,307	-	1,031,922	-	390,113	-	-	-	
Water Purchases	130,244,856	120,025,426	133,850,680	121,027,939	151,216,616	122,276,807	156,658,024	123,612,021	Table 5-6
Debt Service	40,101,714	52,821,500	47,355,536	61,777,500	56,305,785	72,875,400	62,264,977	80,677,300	Table 5-6
Total Expenses	302,161,987	331,818,918	306,300,478	346,631,098	343,785,013	374,160,803	359,692,138	388,930,699	
CIP									
CIP Expenses	55,004,708	154,706,437	147,578,789	158,385,406	116,648,468	136,108,514	70,298,484	135,857,527	Table 5-3

Source: Actuals amounts are from the Office of the City Comptroller's Supplemental Schedules (E1/E2 Schedules), except for the Debt Service (bonds and State Loans) and Water Purchases expenses. Debt Service and Water Purchases expenses for FY2008-FY2009 are obtained from the Simpler Financial Expenditure Balance Reports and for FY2010-FY2011, amounts are obtained from SAP Budget to Actual Reports. Projections are based on the 2006 Water Cost of Service Study (COSS) as referenced.

(1) Revenues related to the SDCWA Pass-Through, IPR, and bond proceeds were not included in the COSS projection assumptions. These revenues were backed out for comparative analysis between actual revenues and COSS revenues.

(2) COSS revenue projections per the Total Revenue reflected in Table 5-6 excludes the "Transfer from Expansion Fund" line, and includes "Capacity Charges" from Table 5-1.

(3) Operating and Maintenance expenses reflected in FY2010 and FY2011 exclude the Contractual Services and In-Lieu Taxes components related to Water Purchases. Specifically, in FY2010 Contractual Services for Water Purchases was $16,160,840 and In-Lieu Taxes was $1,629,284. In FY2011, the Contractual Services for Water Purchases was $18,998,494 and In-Lieu Taxes was $1,583,298.

2006 Water Cost of Service Study Assumptions vs. Actual Events

Population Growth Projections:

City of San Diego growth projections are based on San Diego Association of Governments (SANDAG) 2030 Forecasts which was approved by the Board of SANDAG in November 2003. The growth projections for FY2008 – FY2010 are 1.1% annually and 1% annually thereafter. These Rates are applied to the number of customer accounts. Current accounts are from Water Utilities Customers Information System (CIS) Monthly Rate Code Summary (Actual).

Management Comment(s): Actual growth in the number of customer accounts came in much lower than projected, due primarily to the recession. This had a negative impact on our water sales and capacity fee revenue. Account growth for FY2008-2011 per CIS:

FY2008 0.17% FY2009 0.09% FY2010 0.14% FY2011 0.23%

MGO Comment(s): Reviewed the number of meters listed on the Customer Information System Month End Rate Code Summary reports for months ending June 30th for FY2008, FY2009, FY2010, and FY2011 and recalculated the account growth percentages as reported by PUD management.

Right of Way Fees:

No Right of Ways fees are included.

Management Comment(s): No Comment

Private Financing:

Private short-term financing is assuming to be approximately $57 million in January 2007. This amount will cover the balance of the FY2007 CIP. Additional Private Financing Funds may be required in FY2008.

Management Comment(s): Private short-term financing included the 2007A Notes (interest only payments until refunded by 2009A Bonds) and the 2008A Notes in FY2008 (interest only payments until refunded by 2009B Bonds).

MGO Comment(s): Reviewed Official Statement and Master Installment Purchase Agreement for the 2007A Water Revenue Notes, 2008A Water Revenue Notes, and 2009B Water Revenue Bonds and verified the proceeds received by reviewing the Trustee Receipt of Proceeds. Reviewed the debt service schedule for 2009B bonds and noted only interest was to be paid until January 30, 2009.

Public Financing:

The Model assumes a public financing in July 2007 of approximately $335 million which includes refinancing the $57 million private financing, and in July 2009 of approximately $260 million.

Management Comment(s):

Total "New Money" Financings:

2007A Revenue Notes	$ 57 million
2008A Revenue Notes	150 million
2009B Revenue Bonds	150 million
Total	$ 357 million

MGO Comment(s): Reviewed Estimated Sources and Uses section of the Official Statement and Master Installment Purchase Agreement for the 2007A Water Revenue Notes, 2008A Water Revenue Notes, and 2009B Water Revenue Bonds and verified the 'New Money' portion of the proceeds received was $57 million for 2007A, $150 million for 2008A, and $150 million for 2009B.

Capital Financing:

The model assumes that capital costs will be 80% financed and 20% pay-as-you-go in FY2008 and later.

Management Comment(s): No comment

Capacity Charges:

The capacity charge is a full cost recovery charge reviewed as part of the Cost of Service Study (COSS). The result of that study increases the capacity charge to $3,047 (from $2,550) which is incorporated in the rate model.

Management Comment(s): Growth came in lower than the COSS projections due to the ongoing recession. Refer to the details below.

	New Equivalent Dwelling Units	Actual Revenue	COSS Revenue
FY2007	5788	$13.7 million	$12.5 million
FY2008	4337	$ 9.7 million	$14.3 million
FY2009	1826	$ 4.2 million	$14.5 million
FY2010	1567	$ 4.5 million	$14.6 million
FY2011	2474	$ 7.5 million	$14.4 million

MGO Comment(s): We agreed the New Equivalent Dwelling Units and Actual Capacity Charge Revenue to the Annual Report for disclosure purposes for FY2011 relating to Water Bonds. Also, we agreed the COSS revenue to Table 5-1 of the Water COSS.

Fund Balance Interest:

Interest rates estimated for projected earnings on fund balance are based on recent 15 years interest earnings using the U.S. Treasury Current Value of Funds Rate, which is 4.5% beginning in FY2009. The interest rate for FY2007 and FY2008 are 3% and 4% respectively.

Management Comment(s): Actual Rates provided by City Treasurer's Office for FY2008 through FY2011:

FY2008: 5.03% FY2009: 3.59% FY2010: 2.88% FY2011: 1.19%

MGO Comment(s): Verified fund balance interest rates for FY2008 through FY2011 with the City of San Diego Office of the City Treasurer.

Offerings Interest Rates:

Interest rates are estimated for the private short-term financing to be 4.2% and for the projected public financing to be 6%, based on the financial advisors' estimates.

Management Comment(s): Actual All-In True Interest Cost

2007A Notes: 4.06% 2008A Notes: 3.40% 2009B Bonds: 5.27%

MGO Comment(s): Agreed the interest rates to respective sources below:

2007A Notes: Notice of Proposed Sale submitted to California Debt and investment Advisory Commission on Nov 28, 2006.

2008A Notes: Final Pricing Report prepared by JP Morgan Securities Inc.

2009B Bonds: Final Pricing Report prepared by JP Morgan Securities Inc.

Inflation:

Annual inflation for O&M costs, except Salaries and Wages, is 4% based on the most recent 15 year San Diego area consumer price index for all urban consumers. The annual inflation for capital projects is stated as a conservative 4% based on the Engineering News Record Construction Cost Index most recent 10 year annual average and 15 year annual average.

Management Comment(s): Due to the on-going recession, inflation did not occur as projected in the COSS and in fact, CIP bids came in significantly lower than projected.

MGO Comment(s): Reviewed Bureau of Labor statistic data of CPI for all urban consumers in the San Diego Area and noted that CPI increased in annual rates of less than 4%. Reviewed Engineering News Record's presentation of Building Cost Index Monthly Increase for January 2009 through November 2011 and noted rate increase is around or lower than 4% with rate decreases in late 2009.

Salaries and Wages:

Salaries and Wages are increased by 4% in FY2008 but are not increased thereafter until FY2013, consistent with the City's 5-year financial plan.

Management Comment(s): City employees did not receive salary increases during FY2008 - FY2011.

MGO Comment(s): Confirmed with the Financial Management Department of the City of San Diego that no salary increases were granted during FY2008 - FY2011.

Position Reductions:

Assumes the reduction of 42.5 positions in FY2008 to reflect the Mayor's direction for streamlining.

Management Comment(s): No Comment

Lake Recreation:

Assumes the transfer of the Lakes Recreation project to the Park and Recreation Department in FY2008 reflecting the reduction of 31 full-time equivalents (FTEs) and the associated reduction in O&M cost and revenue.

Management Comment(s): No Comment

Retiree Health:

The Water Utility Fund will contribute its proportional share to the Retiree Health fund. There is a three year ramp up to full funding of an Annual Required Contribution. The cost is estimated at $2 million in FY2008 and ramps up to $6 million in FY2010 and stays at that level in FY2011. Cost estimates provided by the Office of the Chief Financial Officer.

Management Comment(s): Please refer to the FY2011 Continuing Disclosure for a comparison of COSS projections to actuals for Pension and Retiree Health.

MGO Comment(s): Reviewed FY2011 Continuing Disclosure Annual report Pension Contribution summary and Retiree Health Contribution summary and noted actual/budgeted pension contributions were less than projected by the COSS.

Pension Costs:

Additional pension costs are reflected based on the Water Utility Fund's proportionate share to fully fund the City's contribution to the pension fund. This is estimated at $2.4 million per year for FY2008 through FY2011. Cost estimates provided by the Office of the Chief Financial Officer.

Management Comment(s): Please see the FY2011 Continuing Disclosure for a comparison of COSS projections to actuals for Pension and Retiree Health.

MGO Comment(s): Reviewed FY2011 Continuing Disclosure Annual report Pension Contribution summary and Retiree Health Contribution summary. Actual/budgeted health contributions were less than projected by the COSS.

Enterprise Reporting Program:

Assumes the Water Fund's proportionate share of costs for implementation of an Enterprise Reporting Program is consistent with the Mayor's response to the Kroll Report. Cost estimates provided by the Office of the Chief Financial Officer.

Management Comment(s): No Comment

General Government Services:

Additional costs for General Government Services are reflected based on the reorganization of the city government and the allocation of the additional departments not previously included in the calculation. Cost estimates provided by the Office of the Chief Financial Officer.

Management Comment(s): No Comment

Treated Water Purchases:

Rate case assumes the City will not be a net purchaser of treated water beginning in FY10. Treated Water Purchases were approximately 33,000 Acre Feet/Year since FY2003.

Management Comment(s): Treated water is more expensive than untreated water, which negatively impacted our water purchase costs when compared to COSS projections.

Actual Treated Water Purchases

FY2008: 21,778 AF FY2009: 23,554 AF FY2010: 18,117 AF FY2011: 19,266 AF

MGO Comment(s): Verified the water purchase quantities with the Water Operations Engineering Group. Acre feet of water purchased were derived from the monthly San Diego County Water Authority invoices.

Water Conservation:

Water conservation is based on the City's Long-Range Water Resource Plan. Conservation is compared to water sales in FY1989. Conservation is anticipated to increase from 11.38% in FY2008 to 13.50% in FY2018. An additional 2% is added each year for passive conservation.

Management Comment(s): FY1989 is referenced because the department's conservation programs started in 1990. Conservation was amplified by the drought and recession that was not factored in the COSS projections.

Actual Conservation Percentages:

	2008 Actual	2009 Actual	2010 Actual	2011 Actual
AF conserved	32,286	33,070	34,149	34,833
Total AF sold	239,946	225,639	199,790	189,393
Total Sales + Conservation	272,232	258,709	233,939	224,226
Conservation %	11.9%	12.8%	14.6%	15.5%

MGO Comment(s): Verified water conserved quantity (AF) with the Water Operations Engineering Group, and confirmed the amounts were derived from the monthly San Diego County Water Authority invoices. We agreed the acre feet of water sold to the San Diego County Water Authority's Comprehensive Annual Financial Report for the respective fiscal years.

Financial Results:

The FY2003-2006 financial results are based on the best available financial data from the Office of the City Auditor and Comptroller.

Management Comment(s): No Comment

Grants:

The City is actively pursuing Proposition 50 grants and other grants; however they are not included in the model unless grant agreements have been approved by the City and the granting agency.

Management Comment(s): Actual Grant Receipts

FY2008	$ 3,037,578
FY2009	$ 2,311,542
FY2010	$ 2,586,733
FY2011	$ 2,894,488

MGO Comment(s): Reviewed the Water Department's FY2008 through FY2011 Grant Status Reports and verified grant receipts for each of the respective fiscal years.

Capital Improvement Costs:

Capital projects costs are estimated based on current design, construction management, and construction cost plus a contingency equal to approximately 5% of construction costs. An inflation factor, calculated as described previously under "Inflation," is added to the costs in the out-years.

Management Comment(s): Actual bids came in significantly lower during the FY2008-FY2011 timeframe due to the on-going recession. Please refer to the CIP schedule prepared by PUD staff which compares rate case estimated project expenses to actual expenses.

MGO Comment(s): Reviewed detailed listing of CIP expenses from FY2008 to FY2011 and noted total CIP expenses were less than projected in the Cost of Service Study.

Operating Reserve:

This Reserve is currently a 45-day operating reserve that will be ramped up over the next 4 years to 70 days in FY2011.

Management Comment(s): We were at 55 days in FY2008 and FY2009; 60 days in FY2010 and; 65 days in FY 2011.

MGO Comment(s): Reviewed PUD's reserve calculation for FY2008 through FY2011 noting the use of 55 days for FY2008 and FY2009, 60 days in FY2010, and 65 days in FY2011.

Secondary Purchase Reserve:

This reserve is intended as an emergency reserve for the purchase of water in the event of a drought or other emergency that suddenly disrupts the normal supply of water. The size of this reserve is intended to be equal to 6% of the annual water purchase budget.

Management Comment(s): No Comment

Rate Stabilization Fund:

The rate stabilization fund was established to stabilize the water rates in future years.

Management Comment(s): No Comment

Unallocated Reserve:

The unallocated reserve is intended to provide for unanticipated needs that arise during each year. Historically, this has been used for unanticipated capital needs and large liability claims. This reserve will be set at 4% of the department's operating budget in FY2008 and thereafter.

Management Comment(s): No Comment

CIP Reserve:

The CIP reserve is budgeted at $5 million in the CIP budget. This reserve is intended to provide for emergency capital needs in the event of a catastrophic failure of a major capital facility.

Management Comment(s): No Comment

Comparison of Actual and Projected Revenues and Expenses
Wastewater Utility Fund
FY2008 through FY2011 (Unaudited)

	FY2008		FY2009		FY2010		FY2011		
Revenues	F1/F2 Schedule	COSS	F1/F2 Schedule	COSS	F1/F2 Schedule	COSS	F1/F2 Schedule	COSS	COSS Reference
Total Revenue	$ 402,347,634	$ 308,402,300	$ 386,539,393	$ 338,107,520	$ 470,171,678	$ 365,342,969	$ 432,729,283	$ 392,619,392	Table 5-5
Less PA Revenue (Sewage Treatment Plant Services) (1)	(65,014,676)	-	(41,977,151)	-	(77,297,462)	-	(66,943,031)	-	
Less Shames Revenue (1)	(3,069,850)	-	(9,826,873)	-	(9,996,067)	-	(9,902,271)	-	
Less Bond Proceeds (1)	(44,565,218)	-	(34,495,175)	-	(66,470,211)	-	(53,526,316)	-	
Adjusted Revenues	289,697,890	308,402,300	300,240,194	338,107,520	316,407,938	365,342,969	302,357,665	392,619,392 (2)	
Expenses									
Operating and Maintenance	191,852,547	212,542,949	184,092,361	218,809,171	216,352,185	228,516,479	192,651,122	237,192,098	Table 5-5
Debt Service	93,456,902	77,716,684	93,250,435	83,584,794	109,622,305	90,613,292	106,060,907	101,945,625	Table 5-5
Total Expenses	285,309,449	290,259,633	277,342,796	302,393,965	325,974,490	319,129,771	298,712,029	339,137,723	
CIP									
CIP Expenses	29,802,707	95,984,538	50,016,290	119,488,802	80,104,243	185,475,309	93,701,014	184,417,295	Table 5-3

Source: Actual amounts are from the Office of the City Comptroller's Supplemental Schedules (F1/F2 Schedules), except for Debt Service expenses which reflect actual debt service payments (bonds and State loans) for FY2008-FY2009 obtained from the Simpler Financial Expenditure Balance Reports and FY2010-FY2011 obtained from SAP. Projections are based on the 2006 Wastewater Cost of Service Study as referenced.

(1) Revenues related to the Shames settlement, the Participating Agencies, and bond proceeds were not included in the COSS projection assumptions. These revenues were backed out for comparative analysis between actual revenues and COSS revenues.

(2) FY2011 projected rate increase of 4% was not implemented. Therefore, projected revenues from the 4% increase in FY2011 ($1,151,500) were not included in the COSS revenues for comparative analysis between and actual revenues and COSS revenues.

2006 Wastewater Cost of Service Study Assumptions vs. Actual Events

Consent Decree:

The Consent Decree projects are set to the following schedule for rehabilitation and replacement of collection system pipelines: In FY 2008 - 30 miles of rehabilitation; FY2009 - 35 miles of rehabilitation and 10 miles of replacement of pipelines; FY2010 through FY2013 - 25 miles of rehabilitation and 20 miles of replacement; and FY2014 through FY2017 - 15 miles of rehabilitation and 10 miles of replacement. The estimated cost is $2.3 million per mile for pipe replacement and $800 thousand per mile for pipe rehabilitation.

Management Comment(s): Actual bids came in significantly lower during the FY2008-FY2011 timeframe due to the on-going recession. Please refer to the CIP schedule prepared by PUD which compares rate case estimated project expenses to actual.

MGO Comment(s): Reviewed the detailed listing of CIP expenses from FY2008 to FY2011 and noted that total CIP expenses were less than projected in the Cost of Service Study.

Financing:

Private bond financing is scheduled for April 2007. The estimated bond proceeds are less than $200 million including funding the bond redemption for $144.6 million. Public bond financing is scheduled for April 2008. The public bond proceeds are estimated at less than $90 million. Interest rate estimated for the projected private and public financing of 6% is based on the financial advisors' estimates. For interest rates PUD was assuming a level rate throughout the projected years.

Bond proceeds are calculated based on the estimated eligible capital improvements planned each year. In the early FY2006-FY2007 and FY2007-FY2008 a project by project analysis resulted in higher percentages (82.2% and 83.6%) of the capital expenses than will be financed in those years. With the exception of FY2007 and FY2008, it is assumed that 80% of the capital expenses will be financed though FY2012 and 70% of all capital expenses for the remainder of the planning period will be financed.

Management Comment(s): The 2006 COSS assumed total debt service payments of $77.7 million in FY2008 increasing to $101.9 million by FY2011 (refer to page 5-6 in COSS).

Actual debt service payments were as follows:

FY2008 - $93.5 million

FY2009 - $93.3 million

FY2010 - $109.6 million

FY2011 - $106.1 million

Actual True Interest Cost (TIC) is as follows:

Series 2009A Bonds – 5.04%, Series 2007 Notes – 4.84%

MGO Comment(s): Agreed the interest rate to respective sources below:

Series 2007 Notes: Final Pricing Report prepared by Citigroup Global Markets Inc.

Series 2009A Bonds: Final pricing Report prepared by Banc of America Securities LLC

State Revolving Fund:

Repayment of loan proceeds begins one year after project completion. The term of the loan is 20 years and the interest rate is 2% on the funds received. (Source: SRF Loan Agreement)

Management Comment(s): The 2006 Wastewater COSS Table 5-4 Summary of Capital Financing Plan is inaccurate for SRF loans, as it reflects projected debt service and does not include the current annual payment of $6,059,214 for SRF debt service.

MGO Comment(s): Reviewed Table 5-4: Summary of Capital Financing Plan and noted that SRF loans payments were projected to be approximately $1.1 million from FY2008 through FY2011. According to PUD personnel, the COSS projection only considered projected SRF loans at the time the study was conducted and did not include current SRF loan payments. We reviewed the accounting system reports from AMRIS and noted that approximately $6 million in SRF loans were repaid each year from FY2008 through FY2011.

Debt Coverage Ratio:

The debt service requirements as covenanted in each Installment Purchase Agreement and State Revolving Fund (subordinate debt) are tested each projected fiscal year to assure compliance according to the agreement(s) terms.

Management Comment(s): No Comment

Financial Results:

FY2003 through FY2006 financial results are based on the best available financial data in November 2006 from the Office of the City Auditor and Comptroller.

Management Comment(s): No Comment

Flow and Load Projections:

Agreed upon flows are based on sewage flow projections provided by Participating Agencies and the Metropolitan Wastewater Department (MWWD) in March 2006. The flow data excludes Tijuana flow.

Flow, total suspended solids (TSS), and chemical oxygen demand (COD) projections are based on continuing evaluation of metered flow data, associated strength characteristics, current growth forecasts for specific sub-areas as well as wastewater monitoring reports from the mid-1980s to present. This is reported in the Metropolitan Sewerage System FY2006 Projected Flow and Strength Report (Draft) dated March 30, 2006.

For facility planning purposes, system-generated TSS concentration will remain at 197.7 metric ton/day for the 10-year planning horizon. The annual averaged TSS concentration for FY2005 is 195 metric ton/day. The COD concentration will remain at 386.5 mt/d. The annual averaged COD concentration for FY2005 is 382 mt/d. This is reported in the Metropolitan Sewerage System FY2006 Projected Flow and Strength Report (Draft) dated March 30, 2006.

For facility planning purposes, system-generated TSS concentration will remain at 293 mg/L for the 10-year planning horizon. The annual averaged TSS concentration for FY2005 is 286 mg/L.

Management Comment(s): Actual Flow for FY2005 was 185.2 and had a growth factor applied for the COSS. Actual flows for FY2008-FY2011 ranged from 163.2 to 154.8 due to the drought restrictions and conservation during this timeframe. Actual TSS for FY2008-FY2011 ranged from 175-191 mt/d. Actual COD concentrations for FY2008-FY2011 ranged from 335-351 mt/d. In summary, actual flows and strengths decreased due to the on-going drought restrictions during this timeframe and conservation measures. In July 2008, the City declared a Stage 1 Voluntary Compliance Water Watch and on May 5, 2009 the City declared a Drought Response Level 2 Condition (please refer to pages 41 and 42 of the 2012A Water Official Statement).

MGO Comment(s): Reviewed the Metropolitan System-wide End of Year Flow and Loads Analysis and verified actual FY2008-FY2011 TSS loads (175-191 mt/d) and COD concentrations (335-351 mt/d). Reviewed Metropolitan Sewage System Projected Flow and Load Report – FY2012 Attachment B and verified actual flow for FY2005 to be 185.2 mgd; actual flows for FY2008-FY2011 ranged from 163.2 mgd to 154.8 mgd. Verified declaration of Stage 1 Voluntary Compliance Water Watch in July 2008 and declaration of Drought Response Level 2 Condition on May 5, 2009 per pages 41-42 of the 2012A Water Revenue Bond Official Statement.

Population Growth Projections:

City of San Diego and overall regional growth projects are generally based on San Diego Association of Governments (SANDAG) 2030 Forecasts which were approved by the Board of SANDAG in November 2003. The City and individual Participating Agencies provide annual detailed growth projections based on agency planning and historical growth.

Management Comment(s): No Comment

Customer Accounts:

The projected customer accounts are based on projected years' rate of increase in the population of the City of San Diego. (Source: the projected population was obtained from the SANDAG 2030 population projections and adjusted based on recent historical growth). Current accounts were from the Water Utilities Customer Information System (CIS) Monthly Rate Code Summary (Actual).

Management Comment(s): In FY2006, capacity charge revenue was $16.5 million based on 5,150 equivalent dwelling units. The COSS assumed that this figure would increase based on a projected population figure from SANDAG. Due to the collapse of the building industry from FY2008-FY2010, actual capacity charge revenue ranged from $11.8 million to $5 million. This was a direct result of the on-going recession.

MGO Comment(s): Reviewed the FY2011 Annual Report for Debt Disclosure purposes (SD Investor website) and verified capacity charge revenues were $11.8 million in FY2008; $10.4 million in FY2009; $5.1 million in FY2010; and $9.3 million in FY2011. Reviewed the FY2010 Annual Report for Debt Disclosure purposes (SD Investor website) and verified capacity charge revenue for FY2006 was $16.5 million.

Planning:

The initial rate increase is effective May 1, 2007 and any subsequent years' increases are projected on the same date. Rate increases are projected each year in the Rate Case sensitivity from 2007 through 2017. An initial goal is approved rates for four consecutive year periods, with projected rates from FY2007 to FY2017.

Management Comment(s): The actual COSS model projected additional rate increases as noted below. PUD did not raise rates in FY2011 through FY2013 as anticipated.

FY2011 – 4%, FY2012 – 4% and FY2013 – 4%.

MGO Comment(s): We reviewed the Raftelis model for 2006 COSS and verified rate increases of 4% for FY2011, FY2012, and FY2013. Also, we verified that no additional rate increases occurred after FY2010 by searching the City of San Diego Office of the City Clerk official documents website for resolutions approving rate increases after FY2010.

Right-of-Way Fees:

No Right of Way fees will be included.

Management Comment(s): No Comment

Shames Lawsuit:

The Shames Lawsuit is not considered nor is it a part of the cost data for the base case.

Management Comment(s): Shames revenue should be backed out of the Service Charge Revenue listed in the F1/F2 Schedules in order to compare to the COSS.

MGO Comment(s): Recalculated the sewer service revenue in Procedure B.2 and verified the accuracy of Shames revenue and determined that the revenue was backed out of the Service Charge Revenue.

Inflation:

Annual inflation for Services Rendered to Others (less than 2% of total revenue) and Operating and Maintenance (O&M) costs is 4% based on the most recent 15 year San Diego area consumer price index for all urban consumers. The annual inflation for the construction component of capital projects is stated as a conservative 4% based on the Engineering News Record Construction Costs Index most recent 10 year annual average and 15 year annual average.

Management Comment(s): Due to the on-going recession, inflation did not occur as projected in the COSS and in fact, CIP bids came in significantly lower than projected.

MGO Comment(s): Reviewed the Bureau of Labor statistic data of CPI for all urban consumers in the San Diego Area and noted that CPI increased in annual rates of less than 4%. Also, reviewed the Engineering News Record's presentation of Building Cost Index Monthly Increase for January 2009 through November 2011 and noted that the rate increase was approximately or lower than 4% with the rate decreases in late 2009.

Participating Agencies' Allocation:

The allocation of O&M costs and capital improvement program costs to the Participating Agencies (PA) is based on the PA's percentages of the annual flow and load through the Metropolitan Sewer System dated April 2006. Participating Agencies will continue to finance the Metro system capital contributions as set forth in the Regional Wastewater Disposal Agreement (RWDA) which is approximately 30% of the cost.

Management Comment(s): PA revenue should be backed out of the F1/F2 Schedules in order to compare to the COSS.

MGO Comment(s): Recalculated the sewer service revenue in Procedure B.2 and confirmed that the PA revenue was backed out of the F1/F2 Schedules.

Participating Agencies' Contract Capacity:

The Participating Agencies own a contracted capacity of the Metropolitan Wastewater System. Two Participating Agencies are projecting a flow in excess of their contract capacity through FY2020. All other Participating Agencies and the City of San Diego are projecting having excess capacity and may sell capacity to those with higher flow than existing capacity. There is adequate projected excess capacity among the Participating Agencies to accommodate those with future capacity needs. Therefore, no revenue is projected from the sale of the capacity by the City of San Diego to Participating Agencies.

Management Comment(s): No Comment

Pension and Retiree Health Care Benefits:

Additional pension contribution is recognized at a cost of $1.9 million per year starting in FY2008 and continuing at the same value with inflation. Retiree health care benefits estimated liabilities will be considered and recorded as expenses in the amount of $2.7 million beginning in FY2008 and increased to $8.3 million in FY2010 based upon the current best estimates.

Management Comment(s): Please refer to the FY2011 Continuing Disclosures for a comparison between COSS projected pension and retiree health care benefit costs to actual costs.

MGO Comment(s): Reviewed FY2011 Continuing Disclosure Annual Report Pension Contribution summary and Retiree Health Contribution summary. Actual/budgeted pension contributions were less than projected by the COSS. Actual/budgeted retiree health contributions were less than projected by the COSS.

Secondary Treatment:

Secondary treatment at the South Bay Facility is planned for service by FY2018. Treatment at the secondary level at the Point Loma Wastewater Treatment Plant is not considered at all in the rate model.

Management Comment(s): No Comment

Fund Balance Interest:

Interest rates estimated for projected earnings on fund balance are based on the City Treasury Investments assumed rate of return for FY2007, which is 3%. This rate is based on the most recent three plus years' data. For interest rates PUD assumed a level rate throughout the projected years.

Management Comment(s): Actual rates provided by the City of San Diego's Office of the City Treasurer for FY 2008 through FY2011 were as follows:

FY2008: 5.03% FY2009: 3.59% FY2010: 2.88% FY2011: 1.19%

MGO Comment(s): We verified the fund balance interest rates for FY2008 through FY2011 with the City of San Diego Office of the City Treasurer.

Revenue:

The charges for the FY2007 through FY2017 are based on the projected population and the projected service rates. The new connections are projected by the percentage change in the population.

Capacity Charges are based on the 2006 Cost of Service Study throughout the ten year period from FY2007 to FY2017. Treatment Plant Services are based on projected flow, plus projected cost of treatment for the Participating Agencies (inflated).

Management Comment(s): Actual Capacity Charge revenue came in significantly lower than projected in the COSS – please refer to the Customer Accounts section above. Actual Sewer Service Charge revenue came in significantly lower than projected in the COSS due to the on-going drought restrictions and conservation efforts which impacted flows.

MGO Comment(s): Reviewed the FY2011 Annual Report for Debt Disclosure purposes (SD Investor website) and verified capacity charge revenues were $11.8 million in FY2008; $10.4 million in FY2009, $5.1 million in FY2010, and $9.3 million in FY2011. Reviewed the FY2010 Annual Report for Debt Disclosure purposes (SD Investor website) and verified capacity charge revenue for FY2006 was $16.5 million. Sewer Service Charge revenue was traced to accounting system reports generated from AMRIS and SAP.

Minimum Fund Balance:

The minimum fund balance will be maintained at a minimum of $20 million of unrestricted funds.

Management Comment(s): No Comment

Rate Stabilization Fund:

The rate stabilization fund is established to stabilize the sewer service rates in future years.

Management Comment(s): No Comment

Operating Reserve:

The operating reserve is increasing from 45 days to 70 days starting in FY2007 and ramping up through FY2010.

Management Comment(s): No Comment

Unallocated Reserve:

This reserve is for contingencies and it is established in the operating budget each fiscal year at $3.3 million.

Management Comment(s): No Comment

Shames Lawsuit:

In 2004, Michael Shames filed a lawsuit against the City of San Diego (Superior Court Case No. GIC 831539). The lawsuit alleges that Single Family Residence (SFR) customers paid a disproportionately higher share of sewer rates, which benefited the commercial and industrial users. On December 6, 2006, the City Council approved a settlement of the lawsuit that would give rebates to approximately 225,000 single-family ratepayers.

Overview of the Shames Settlement:

1) Proposed settlement is subject to Court approval.

2) $40 million total to be returned to the SFR class, less $5 million in Plaintiff's attorneys fees, rebated over a 4 year period.

3) Most SFR customers to benefit.

4) SFR settlement class is based on residence from May 23, 1994 through September 30, 2004.

The overall sewer rate increases with the proposed Shames settlement in FY2007-FY2010, will be as identified in the following table if the CIP and O&M rates are adopted. The Shames settlement rate impact in the first year will be 3.05%, if the other proposed rates are adopted, or as high as 6.0% if no rate increase is adopted.

Schedule 9

Effective Dates:	May 1, 2007	May 1, 2008	May 1, 2009	May 1, 2010
CIP/O&M Rates:	8.75%	8.75%	7.00%	7.00%
Shames Settlement:	3.05%	3.05%	0.60%	0.50%
Overall Rates:	11.80%	11.80%	7.60%	7.50%

The proposed rates increases for O&M will cumulatively provide approximately $241 million in additional revenue during those years.

Management Comment(s): The actual Shames rate increase included only two 3.05% rate increases. The terms of the settlement have been satisfied and the Shames rate increases were reversed March 2012.

MGO Comment(s): We verified the two 3.05% rate increases pursuant to the Shames Settlement first beginning on November 1, 2007 and then on May 1, 2008 (City Council resolution R-303049). We reviewed the actual water bill (disclaimer) to verify that effective February 29, 2012 the terms of the Shames rate increase have been satisfied and the sewer rate increase will be discontinued.

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City of San Diego

Public Utilities Department

NR&C
Committee Meeting
July 10, 2013

Review of Funds – Fiscal Years Ended
June 30, 2008- 2011

Overview

- Engagement Scope
- Accountant's Responsibilities
- Summary of the Procedures Performed

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Engagement Scope

- Perform agreed-upon procedures (AUP) as determined by the Public Utilities Department related to rate increases of the Water and Wastewater Utility Funds

- AUP are performed in accordance with attestation standards
  - Attestation standards provide a measure of quality and objectives to be achieved specific to the particular engagement

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Engagement Scope (continued)

- Agreed-upon procedures engagement is when a practitioner issues a report of findings based on specific procedures performed on a subject matter.
- AUP engagement is NOT an audit and there is no expression of an opinion regarding the fairness or accuracy of financial information presented based on management's assertion.
- MGO served as the City's auditors over the time frame covered by the AUP and issued unqualified opinions on the CAFR

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Engagement Scope (continued)

- Accountant has no responsibility concerning the sufficiency of the procedures, only to report on the results of the procedures performed
  - When conducting an audit, the auditor does have a responsibility regarding the nature and sufficiency of the procedures performed, in order to render an opinion

- Agreed-upon procedures covered the periods FY2008 through FY2011
  - During FY2012/13 complete AUP for FY2008 & FY2009
  - During FY2013/14 complete AUP for FY2010 & FY2011

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Accountant's Responsibilities (continued)

- Role of the Accountant
  - Plan and perform the agreed-upon procedures as determined by management and to report on the results of the procedures.
  - Ensure that the subject matter and procedures being performed is capable of evaluation against criteria that is suitable and available.
  - Suitable criteria must have the following attributes:
    - Objectivity
    - Measurability
    - Completeness
    - Relevance

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Procedures Performed

- Analysis of Use of Rate Increase
  - Water and Wastewater Utility funds
- Analysis of Sources and Uses of Debt Proceeds
  - Water and Wastewater Utility funds
- Analysis of Dedicated Reserve from Efficiencies and Savings
- Comparison of Actual Results with Expected in the Cost of Service Study

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Procedures Performed (continued)

- Analysis of Use Rate Increases for Water and Wastewater
  - 7 procedures performed (page 2 – 8)
  - refer to procedures A1 – A7 and B1 – B7)
- Analysis of Sources and Uses of Debt Proceeds for Water and Wastewater
  - 7 procedures performed (page 9 – 13)
  - Refer to procedures C1 – C7 and D1 – D7)

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Procedures Performed (continued)

- Analysis of Dedicated Reserves from Efficiencies and Savings
  - 4 procedures performed (page 13 – 14)
  - refer to procedures E1 – E4
- Comparison of Actual Results with Expected in the Cost of Service Study
  - 4 procedures performed (page 14)
  - refer to procedures F1 – F4

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Hopefully it wasn't so boring after all.

Thanks for listening.

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