Independent Rates Oversight Committee

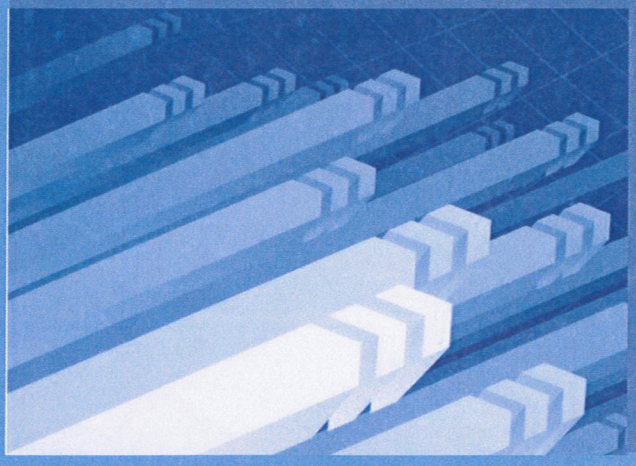
City of San Diego

Independent Rates Oversight Committee

ANNUAL REPORT

FISCAL YEAR 2015

ISSUED: JANUARY 19, 2016



January 19, 2016

Honorable Mayor Kevin Faulconer and
Members of the City Council

In accordance with Section 26.2003(a) (9) of the San Diego Municipal Code, I am pleased to transmit the eighth annual report of the Independent Rates Oversight Committee (IROC).

The report summarizes IROC's work for the fiscal year ending June 30, 2015, and includes observations and recommendations with respect to the operations, investments and planning activities of the Public Utilities Department. It also includes issues that we plan to address, or continue to address in FY 2016. We welcome input from the Mayor, City Council, staff, stakeholders, and the public.

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

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

Please note that since May 2015, four IROC members have been serving beyond their terms and the Committee has three unfilled vacancies (the IROC board consist of 11 members). The IROC members mentioned have served since as early as 2007 and we request the Mayor and Council identify and appoint qualified candidates to fill these positions as soon as possible.

Respectfully submitted,

Jeff J. Justus, Chair
Independent Rates Oversight Committee

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IMPORTANT NOTES TO READERS OF THIS REPORT:

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

It should be noted that even though this report covers the period of July 1, 2014 through June 30, 2015, some of IROC's statements in this report may include information that came to light after the end of that reporting period.

IROC Annual Report
Fiscal Year 2015
Foreword

The City of San Diego's (City) Independent Rates Oversight Committee (IROC or the Committee) was established in 2007 and serves as an official advisory body to the Mayor and City Council on policy issues related to the oversight of the City's Public Utilities Department's (Department) operations. These include resource management, expenditures, service delivery methods, public awareness and outreach, and services. The Committee also reviews operating and capital expenditures and tracks work programs adopted by the City Council. While the City has control and oversight of its own expenditures and programs, mandates and charges from others are a significant, if not the largest contributor to what drives water and wastewater rates, and rate increases.

Recent Successes to Improve Water Supply Reliability

California as a whole, southern California as a region and San Diego as a City have nearly always faced challenges and tough decisions with regards to its water supply. Since the drought shortages of 1991-1992, the region has made great strides in securing its water supply future and reliability. With the support of the City, it has secured the largest ever agriculture to urban water transfer, spent hundreds of millions of dollars lining leaky canals in the desert so that it could reap the benefit of the conserved water as a new relatively low cost secure long-term water supply, built a seawater desalination plant which is the largest in the western hemisphere, increased surface storage in the region for emergency supplies, and implemented and instilled a new water conservation ethic among City residents. This is evidenced by sustained conservation throughout the summer months with hopes of continuing this admirable record next year and beyond.

But all of this success is not without a price for our investments. Water rates have more than doubled over the past 10 years and are slated to continue increasing into the future, as evidenced in part by the five-year rate increase that the City Council approved on November 17, 2015.

Controlling Costs

Why has the region made such investments? Two reasons are given most often: water supply reliability and local control of costs. The region's reliability has increased immensely (despite the Governor's order for 16 percent conservation within the City in 2015) since 1992. But do we really have local control of our costs? When the City begins receiving water from its Pure Water San Diego Program, we know exactly who will use the supplies and who will benefit from our investments. We know that spending money in our own community will have a multiplier effect in the San Diego economy, as compared to spending money outside of the region. This same principle applies to our water ratepayer dollars also. When we pool our money within the region to make water supply investments, we know the City will have a voice and receive its fair share of supply and reliability. With 39.8 percent of the vote at the San Diego County Water Authority (CWA) the City is well represented. After all it will be a principal contributor of funds for those regional projects.

Beyond that it becomes less clear. CWA pays roughly 24 percent of the costs at the Metropolitan Water District of Southern California (MWD). Given the City's share of CWA costs, City water ratepayers pay about 9.5 percent of MWD's expenses. The City should, by logic, receive 9.5 percent of MWD's program benefits. But does it? Recently, MWD spent nearly $400 million in just a couple of months giving out rebates to convert turf to native plants, rock gardens, or artificial turf. Without getting into the wisdom of whether or not it was a good idea, City rate payers likely paid 9.5 percent of the amount, or $38 million for this program. It's easy to cheer and say we like programs where apparent free money and incentives are given out (albeit to just a small portion of water users), but is it really free and did the City's rate payers really get their money's worth? Or could that money have been better spent returning it to those that provided it in the first place, with better control over local conservation program spending or to help mitigate water rate increases?

By comparison, the City has investigated and done thorough analysis to determine whether it should build and implement an Advanced Metering Infrastructure (AMI) system to remotely read its water meters. This would also allow water users to access and help manage water use by knowing at all times what their water consumption is. Years in the making, decisions carefully weighed, and benefits to the ratepayers certain, the cost is similar in magnitude to what City water users were charged for MWD turf rebate and other programs. Unlike these programs, the City has control over AMI expenditures and the benefits will be tangible to all City water ratepayers.

Costs on the Horizon

There are a host of issues on the horizon where others will be making decisions that will have a huge impact on our water bills. One important decision will be for the Bay Delta Conservation Plan, now known as the California Water Fix or Twin Tunnels Project in Northern California. It consists of two 40 foot diameter tunnels, each 35 miles long to move water under the Sacramento San Joaquin Delta to the State Water Project and Central Valley pumps near Tracy, California. The estimated cost of the project is $15 billion or more. The City's share will likely be $450 million or more. The City's benefits are yet to be determined. Shouldn't the City be told how much it will be asked to pay for such a project and what benefits it will receive before the cost shows up on the ratepayers' bills? One would hope so, but again these decisions will be made elsewhere rather than locally.

The City is moving forward on its Pure Water San Diego Program. This will require a significant investment by San Diego City ratepayers. Also, MWD recently began considering a pilot plant that could lead to it undertaking and funding a similar system in the Los Angeles area. If they do, this would lead to tens of millions of dollars, if not more, sent north by San Diego City ratepayers for a Los Angeles recycling system, when it has its own system to build. It's a good idea to recycle wastewater, but shouldn't Los Angeles area users that benefit from the project pay for it, rather than other regions that will not benefit or be able to use this supply?

Adapting to a new Conservation Ethic

The City's success in conservation and meeting the Governor's mandate this year is commendable. The question is whether it will be sustained for as long as we need it, and if so will it turn into a permanent change for City residents and businesses. The recent water rate case assumes nearly flat growth in water sales over its five-year period. If water demands rebound slightly and local supplies are replenished through El Nino or even just a return to normal rainfall in the future then perhaps, the full rate increase will not be needed. If conservation is sustained, this should be an opportunity to review the City's long-term water supply plans to ensure that they are right-sized to meet this new conservation ethic.

By law, Urban Water Management Plans must be updated every five years. The 2015 Plans are due in June 2016. This is also an opportunity for others, including both CWA and MWD to review their long-term plans given this new era of conservation and local water supply development.

Keys to Success

IROC believes that, under current City leadership and with the support of a broad coalition of business and environmental groups, San Diego is well placed today to meet the real and present challenges of water reliability we face as a community. But we are a long way from the finish line. IROC believes that success requires a deliberate, sustained, and properly-resourced program that:

1. Does not lose sight of the need to fully and timely invest in system maintenance;
2. Continues to move forward with the implementation of the Pure Water San Diego Program;
3. Regularly assesses long-term water supply needs given the successes of its conservation initiatives;
4. Engages those outside of our region to understand the City's own investments in water reliability;
5. Continually assesses the true cost of delivering water to the rate payers, in setting water rates; and
6. Invests fully in public information, conservation and water wise behavior.

Success is not a given. It will require consensus, education, and courage in the face of many obstacles. But there is no alternative. And there is no time to waste.

On the following pages, IROC offers its key recommendations in support of these goals.

IROC's Key Recommendations

1. That Department staff regularly report to IROC with information regarding water sales, revenues, local supply availability and other factors that influence revenues and expenditures and how these track with cost of service assumptions. IROC also recommends that Department staff develop more specific criteria for validating the need for future water rate increases and a process for reviewing and approving the consultant's independent analysis. For future Cost of Service Studies (COSS), IROC recommends that it be provided opportunities to be more informed and provide input to the Department, the City Council, and the Mayor at earlier stages in the evolution of the rate study.

2. That the City staff, as part of its ongoing efforts to review alternative rates and rate structures, include reclaimed water pricing. It is also recommended that staff review past expenditures for reclaimed water supplies to see if it would be appropriate to recover some of these costs in a reclaimed water supply rate. Finally, in accordance with a court decision regarding San Juan Capistrano's pricing of reclaimed water supplies, staff should reexamine whether the current methodology of assessing reclaimed water distribution costs can or needs to be amended to accomplish pricing objectives and cost of service requirements.

3. That the Department continue to perform condition assessments in order to help guide the Capital Improvement Program (CIP) for replacement or repair of major components of the system. However, IROC also recommends that routine replacement programs continue for system components whose service life is predictable.

4. That the Department continue to implement the improvements to the CIP process and provide appropriate management-level information in a way that will facilitate project visibility and enable appropriate IROC oversight.

5. That the City regularly assesses long-term water supply needs given the successes of its recent conservation initiatives. Further, a clear policy with decision criteria should be adopted to guide the City Council and Mayor in making decisions to implement voluntary water use reductions or mandatory reductions, if needed, quickly and decisively.

6. That the Department continue to pursue all options in order to get regulatory certainty that the Pure Water San Diego Program will suffice to offset the requirement to move up to secondary treatment.

7. That the Department continue, and consider increasing at this critical time, outreach to various community leaders in all areas of San Diego in order to promote the Pure Water San Diego Program and suggest that local media outlets might benefit from a targeted outreach and education effort. Also, the Department should enhance public understanding of the costs and benefits of the water and wastewater system, through consistent information and messaging, under a clear, compelling, value statement (e.g., "San Diego Water: Pure Value"). Quarterly reports to IROC on these efforts should continue to be made.

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IROC MEMBERSHIP:

IROC Members and Officers

Jeff Justus, Chair [1]	Environmental Science Professional Rep.
Gordon Hess, Vice Chair [2]	Temporary Irrigation & Construction Rep.
Irene Stallard-Rodriguez [3]	Single-Family Residential Ratepayer
Gail Welch	Commercial and Industrial Ratepayer
Christopher Dull	Construction Management Professional
Jack Kubota	Engineering Professional
Jim Peugh	Environmental Representative
Tiffany Mittal	Multi-Family Residential Ratepayer
Craig Chapman	Construction Management Professional
Don Billings [4]	Finance Professional
Vacant	Law Professional

Ex-Officio Members:

Luis Natividad [5]	Metro Wastewater JPA Representative
Ed Spriggs	Metro Wastewater JPA Representative
Jim Peasley	Metro Wastewater JPA Alternate
Ken Williams	SDCWA City 10 Representative
Yen Tu	SDCWA City 10 Alternate

Attachment B contains more detailed information on IROC Member Appointment Dates, Term Expiration Dates and Council District/Community Representation.

Notes:

(1) Jeff Justus became IROC Chair in May 2015
(2) Gordon Hess became IROC Vice-Chair in May 2015
(3) Irene Stallard-Rodriguez, IROC Chair until May 2015
(4) Don Billings, IROC Vice-Chair until May 2015
(5) Luis Natividad, stepped down November 2014

IROC SUBCOMMITTEES:

IROC has three subcommittees as allowed by the Municipal Code: (1) Finance; (2) Infrastructure & Operations, and (3) Outreach & Communications. The subcommittees typically address issues in greater detail than the full IROC and advance issues to the full IROC for action. Any action or recommendation coming from a subcommittee must be approved by the full IROC before becoming an action or recommendation of IROC.

1. Finance Subcommittee

The FY 2015 IROC Work Plan included multiple finance areas of focus. These areas included COSS; City Council Water Policy Implementation Task Force recommendations; water fund sustainability and affordability; Dedicated Reserve from Efficiency and Savings (DRES) Fund; budget review; and performance audits and financial reporting improvements. Specific topics can be found in Attachment C.

Members

Subcommittee members included Gordon Hess (FY 2015 Chair), Don Billings, Tiffany Mittal, and Ken Williams.

2. Infrastructure & Operations Subcommittee

The major issues addressed by this subcommittee in FY 2015 were issues that are both environmental and/or technical in nature, potentially having a direct effect on the rates charged to the citizens of San Diego by the Department, on the service provided, and on the region's environment and natural resources. Beginning last fiscal year, this subcommittee was also responsible for oversight of the Department's CIP to ensure it is accomplished on schedule and on budget.

Members

Subcommittee members included Jim Peugh (FY 2015 Chair), Jeff Justus, Jack Kubota, Craig Chapman, and Gail Welch.

3. Outreach & Communications Subcommittee:

The major topics addressed by this subcommittee in FY 2015 were those that have the highest impact on ratepayers, both from a service perspective and/or a potentially significant rate impact perspective. These included maintaining water conservation efforts; reviewing water purification demonstration project metrics; reviewing progress for new Customer Care Solutions (CSS) system; and enhancing the public's understanding of reasons for water rate increases.

Members

Subcommittee members included Irene Stallard-Rodriguez (FY 2015 Chair), Christopher Dull, Jack Kubota and Luis Natividad.

IROC SUBCOMMITTEE DISCUSSION OF ISSUES AND RECOMMENDATIONS:

This section of the Annual Report provides issues, observations, recommendations and future topics of discussion for each of the three subcommittees.

The following FY 2015 IROC issues were reviewed by the Finance Subcommittee:

The FY 2015 IROC Work Plan included multiple finance areas of focus including COSS, City Council Water Policy Implementation Task Force Recommendations, Water Fund Sustainability and Affordability, DRES Fund, and Budget Review, Performance Audits and Financial Reporting Improvements. All areas were addressed in full or in part during FY 2015 as follows:

COST OF SERVICE STUDIES

1. PROPOSED RATES AND CHARGES

The Finance Subcommittee inquired and received regular reports on the status of the COSS that were being conducted to support anticipated water rate increases. However, these reports lacked specific information as to what the magnitude of increases might be, or whether a two-year rate increase was to be proposed (similar to the last increase) or for a greater period of time. IROC members also expressed concern that the recent mandate by the Governor to reduce water consumption, and thus reduce water sales, could have an impact on future water rate increases. Department staff acknowledged that the COSS needed to be modified to reflect lower sales dictated by the Governor's mandate.

Staff presented to the full IROC at its July 2015 meeting its recommended water rates for a five-year period with rate increases proposed for January 2016, July 2016, July 2017, July 2018, and July 2019. Staff also presented, through a 67 page PowerPoint presentation, a framework for water rate setting and highlights of the COSS results. Staff did not provide to the IROC a copy of the actual COSS prepared by consultants that supported the recommended rate increases, but did provide the data tables that were contained in the study. Department staff told IROC how the rate increases would be implemented and that they could actually be less than what was being proposed, if certain conditions were met regarding imported water supplier pass-through increases. The contingency conditions for lower increases did not specifically include water sales or availability of local water supply thresholds which are two major factors that can affect water rates. Further, how a decision would be made to verify whether the contingencies would or would not be triggered were not detailed. IROC's understanding is that an independent consultant would be employed to perform an analysis of the Department's financial condition and the Department would decide whether the scheduled rate increases would be rolled back or not. Still, IROC understood that water and recycled water rate increases would be needed to offset the

reduction in sales due to the limited water supply, move ahead aggressively with the Pure Water San Diego Program, increase the rate of replacement of aging or outdated infrastructure, and conversion to AMI. IROC supported the recommendations regarding potable water rates and bringing them to City Council for discussion.

Recommendation: That Department staff regularly report to IROC with information regarding water sales, revenues, local supply availability and other factors that influence revenues and expenditures and how these track with cost of service assumptions. IROC also recommends that Department staff develop more specific criteria for validating the need for future water rate increases and a process for reviewing and approving the consultant's independent analysis. For future COSS, IROC recommends that it be provided opportunities to be more informed and provide input to the Department, the City Council, and the Mayor at earlier stages in the evolution of the rate study.

2. DISCUSSION OF THE STATUS OF THE RECYCLED WATER COST OF SERVICE STUDY

The Subcommittee was provided an update on the status of the Recycled Water Pricing Study. Because the Subcommittee consisted of some new members that were unfamiliar with recycled water pricing issues, the Subcommittee reviewed the last available study from 2013, prepared by consultants for the Department. In that study the consultant found that the current recycled water commodity rate of $0.80 per hundred cubic feet has been in place since 2001, and that the rate is below the cost of service to provide such supplies. Pricing the commodity rate below the cost of service causes other water users to support recycled water, beyond any benefits these other water users might realize from the availability of recycled water and reduced demands for potable water. The consultant recommended that the commodity rate should continue to be lower than the potable water rate to incentivize sales. Further, the consultant presented two alternatives for an updated rate: a unitary rate for all recycled water customers, and a zonal rate with differential pricing depending on whether the use was in the North City or South Bay areas. A decision on which rate to use and how much recycled water rates should increase was postponed in July 2013 by the Natural Resources and Culture Committee, who directed staff and consultants to review the study, assumptions and proposed rate. The Subcommittee received regular updates on the revised study progress in FY 2015, but did not receive details on the updated study results until after this reporting year.

Staff reported in both July and August 2015 its recommended recycled water pricing options, including the unitary rate and the zonal recycled water rate. IROC declined to take a position on either rate method. One suggestion was to have a separate supply and transportation rate for reclaimed water so that a unitary cost for the reclaimed water supply could still be used.

Recommendation: That the City staff, as part of its ongoing efforts to review alternative rates and rate structures, include reclaimed water pricing. It is also recommended that staff review past expenditures for reclaimed water supplies to see if it would be appropriate to recover some of these costs in a reclaimed water supply rate. Finally, in accordance with a court decision regarding San Juan Capistrano's pricing of reclaimed water supplies, staff should reexamine whether the current methodology of assessing reclaimed water distribution costs can or needs to be amended to accomplish pricing objectives and cost of service requirements.

WATER POLICY IMPLEMENTATION TASK FORCE RECOMMENDATIONS

REVIEW OF PROGRESS IN IMPLEMENTATION OF THE CITY COUNCIL'S WATER POLICY IMPLEMENTATION TASK FORCE AS THE RECOMMENDATIONS RELATE TO FINANCIAL ISSUES

The Subcommittee heard a presentation by Department staff regarding implementation of the City Council's Water Policy Implementation Task Force, approved by the City Council on December 10, 2013. The City Council prioritized each of the 38 recommendations for which the Department has responsibility, with a Phase I and possibly Phase II implementation. Department staff prepared a matrix of each recommendation including the Department's comments regarding the recommendation and the status of implementation.

Overall, the Subcommittee was pleased at the progress being made by staff, although many of the recommendations were scheduled to be addressed in the ongoing water rate COSS. Some notable progress included: increased conservation funding and rebates for water users installing conservation measures; additional water rate tiers and increased differential between water use tiers; efforts by the Department to reduce water losses; continued progress in the feasibility study for a pumped storage program at San Vicente Reservoir; development of a City policy for on-site wastewater reclamation; and initiation of a full scale AMI Program.

Recommendation: That the Department continue to implement and report progress to IROC on recommendations made by the Water Policy Implementation Committee and accepted by the City Council.

WATER FUND SUSTAINABILITY AND AFFORDABILITY

DISCUSSION OF A LOW INCOME CUSTOMER ASSISTANCE PROGRAM

The Subcommittee asked for and received a presentation on the possibility of implementing a low income customer assistance program, to provide certain qualifying individuals with assistance in paying water/wastewater bills. The Subcommittee discussed issues related to having such a program, such as Proposition 218 (that limits fees and charges to the cost of service) and national research that has been done with regards to such programs. It was noted that many low-income customers may live in multi-family residential units and their water bills are paid by

the landlord and included in rent payments. Opportunities for partnering with others such as non-profits were also discussed. It was also mentioned that State legislation that deals with this issue was being contemplated. Department staff listed four next steps they will perform including: identifying costs of administration of such programs; compiling a list of services provided by experienced non-profit organizations; compiling a set of lessons learned through other similar programs and other utility providers; and reporting back to the committee with a proposal for review.

Recommendation: That the Department provide further updates to the Committee on the status of this issue, and include a report on recent efforts to enact state legislation in this regard.

DEDICATED RESERVE FROM EFFICIENCY AND SAVINGS (DRES) FUND

DRES FUND ELIMINATION

In the previous fiscal year, the Subcommittee received, reviewed, and agreed with a recommendation from the City Auditor to eliminate the DRES reserves for the water and wastewater funds. The fund was eliminated per the recommendation and IROC further recommended that changes to IROC's mission and purpose be made to eliminate reference to the DRES Fund. This recommendation was not implemented; however, the Department appears willing to initiate an ordinance change to implement this recommendation.

BUDGET REVIEW, PERFORMANCE AUDITS AND FINANCIAL REPORTING IMPROVEMENTS

1. REVIEWED DEPARTMENTAL YEAR END FINANCIAL SUMMARY (OCTOBER 2014)

The Subcommittee was presented with a financial year end summary and comparison of FY 2014 adopted budget versus actual expenditures for the water and wastewater budgets. Staff presented that the water revenues were up $43.8 million over what was budgeted, and that expenses were about even with the budget. Of this amount, around $10 million was due to the fact that when the budget was put together, the rate increases had not yet been approved and therefore could not be included in the budget. Capacity charge revenues were also up, by some $6.5 million. Actual Expenditures including O&M Expenses, Water Purchases and Debt Service totals tracked pretty well with the COSS, having about a 0.67 percent to the positive (savings). The revenue for the entire water fund compared to the COSS projections were up by about $29.72 million.

On the wastewater budget, staff reported that revenues were down $13.6 million, but expenses were also down $21.7 million from budgeted amounts. Staff includes State Revolving Fund (SRF) Loan proceeds within the revenue figures, so when these are netted out, wastewater revenues actually rose $17.3 million over what was budgeted. This was due mainly to increased capacity charge revenue and sewer service charges. Expenses were down mainly because of reduced O&M and debt service expenses. Compared to the COSS, expenditures were down $19.7 million and revenues were up slightly, $1.9 million. Both are within an expected and acceptable range.

Recommendation: That the Department report back to IROC details of ongoing efforts to reduce departmental costs, including the Mayor's "San Diego Works" Program as it applies to the Department and the Department's five-year plan to reduce costs. The Department should also consider expanding its efforts to examine cost reduction by designating a specific group within the Department to be responsible for identifying cost reducing opportunities throughout the Department.

2. REVIEWED AND ENDORSED PUBLIC UTILITIES DEPARTMENT BUDGET FOR FY 2016

In April 2015, the Subcommittee received and reviewed the Department's FY 2016 proposed budget. For the water fund, the budget was proposed at $505.8 million, an increase of $43.1 million or 9.3 percent above the FY 2015 adopted budget and $49.3 million, or 10.8 percent above the estimated FY 2015 expenditures. Full time equivalent positions were proposed to increase by 17.5 positions, from 717 to 735. The proposed budget increase was mainly attributable to increase water purchase costs from the imported water supplier, increased efforts towards developing the Pure Water San Diego Program, facility/infrastructure condition assessments, increase repair and maintenance expenditures, and security enhancements. There was also nearly $6 million allocated to the Sweetwater Desalination Facility pursuant to a 2013 Settlement Agreement. The budget was found to be consistent with the COSS used to set water rates for Calendar Years 2014 and 2015.

With respect to the wastewater budget, the proposed operating expenses were $353.9 million vs. the FY 2015 adopted budget of $345.7 million. This was below the draft FY 2015 COSS estimate of $397.3 million. The increase in the proposed budget is mainly due to non-discretionary adjustments (insurance utilities, etc.), SRF Loan repayments, and increased repair and maintenance expenses. A slight decrease of 5 positions, from 871 to 866 was also proposed.

The Subcommittee's review of the budget focused mainly on consistency with the COSS, proposed capital expenditures, and reasons for differential between the FY 2015 and FY 2014 budget and projected actual costs. After a review of all factors by the Subcommittee and IROC, IROC endorsed the proposed FY 2015 departmental budget.

It was the Subcommittee's understanding that changes to the budget it reviewed were being contemplated as a result of possible decreased sales and increased expenses due to water conservation efforts and proposed mandatory conservation requirements ordered by the State. These possible changes were not available at the time the Committee made its review.

Recommendation: That IROC continue to monitor budget expenditures throughout the year. As recommended last year, the Subcommittee reiterated its request that the Department provide IROC a copy of future proposed budgets as soon as possible after release by the Mayor's office, in addition to budget summaries normally prepared for the Subcommittee. IROC also recommends that future departmental budgets include key assumptions of drivers of revenues and costs, such as projected water sales and purchase volumes and availability of local supplies. IROC also notes that the severe drought and water use reductions ordered by the State will significantly impact water sales and revenues and that increased monitoring of costs and expenditures will be necessary in the upcoming year.

Other Finance Subcommittee Items

- Heard a presentation from Olivenhain Municipal Water District on its conservation rate structure.
- Examined and held discussions on the potential impact of reduced water sales on the departmental budget.
- Monitored progress on the development of the City's Urban Water Management Plan, due in June 2016.

The following FY 2015 IROC issues were reviewed by the Infrastructure & Operations Subcommittee:

SYSTEM CONDITION STUDIES

IROC is very concerned with the maintenance and replacement of aging water and wastewater infrastructure. The previous increases in the rate of pipeline replacement appear to have reduced the frequency of water main breaks. However, some of San Diego's infrastructure is approaching the age at which it is more likely to fail. IROC recognizes that age is not the only factor affecting infrastructure life and that some infrastructure can last over one hundred years and some may fail before its predicted service life. Many variables affect service life including soil stability and chemistry, mechanical stress, invasions of roots, weakening by nearby construction, and faulty installation, manufacturing, handling or joints. The Department's approach is to identify and replace the infrastructure that is most likely to fail or to make repairs that will extend the life of infrastructure that is close to failure, if that is more cost effective. Since 2013, the Department has initiated eight system condition studies at a total cost of about $37 million. This is generally considered to be the most cost effective means to guide the replacement of aging infrastructure.

IROC was briefed on the results of the completed system condition assessments. The assessments tend to identify the specific problems of a particular component including how long it is expected to last and what level of repair and maintenance is needed to extend its life, or whether replacement would be more cost effective. In some cases the results of one study can be used to infer the maintenance, repair, and replacement needs of other similar infrastructure in similar circumstances. More of these studies are being initiated each year.

The condition assessment process will feed into the system-wide asset management program that in turn will feed into the Capital Improvement Plan and sustain the potable water, sanitation, and recycled water systems in the most cost effective manner. A summary of the current condition assessment projects are listed on the following page:

Summary of Condition Assessment Program Contracts
(W = Potable Water System; WW = Wastewater System)

No.	W / WW	Contract Description	Schedule	Cost (In Millions)
1.	W & WW	Major Water Transmission Mains; Sewer Force Main	2010-2015	5.00
2.	W	Asbestos – Cement Pipelines Replacement Master Plan	2013-2015	2.00
3.	W	Potable Water Reservoirs	2013-2018	1.25
4.	W	Major Waste Transmission Mains (3)	2013-2017	3.00
5.	W	Water Transmission Mains In Service more than 40 years	2015-2020	8.00
6.	WW	Major Interceptor Sewers	2013-2016	5.00
7.	WW	Large Diameter Trunk Sewers and Force Mains	2013-2018	8.00
8.	W & WW	Public Utilities Facilities; Buildings, Under Ground Structures	2015-2019	5.00
Total			2010-2020	37.25

A good example of the condition assessment process is provided by the current activities at the Metropolitan Biosolids Center. System condition studies that started in 2007 indicated a number of deficiencies that needed to be resolved in order to keep it operating efficiently and reliably. Four major projects are underway based on these investigations, totaling $34 million. The major elements are replacement of aging equipment, upgrade of process controls, odor control improvements, and increasing capacity. These projects will be completed in 2017.

Recommendation: That the Department continue to perform condition assessments in order to help guide the CIP for replacement or repair of major components of the system. However, IROC also recommends that routine replacement programs continue for system components whose service life is predictable.

MONITOR IMPLEMENTATION OF THE ONGOING INFRASTRUCTURE REPLACEMENT PLANS, INCLUDING THE CIP AND ITS BUDGET AND TIMING.

In FY 2015, the Department announced that a new partnering agreement between Public Utilities and Public Works has resulted in improved CIP execution and reporting. By involving Public Works early in the planning process, the Department is able to develop more robust CIP scopes and schedules. In order to improve forecasting and expenditure performance, the Department has implemented approximately 20% of "over-programming" for water and wastewater mileage projects as a form of "contingency" that

is built into the schedule, to be monitored by Public Works. This over-programming is intended to help achieve CIP budgeted commitments, as it compensates for any unforeseen circumstances that could cause project delays and result in undelivered CIP work scope.

The Department developed a revised IROC CIP Status Report that has enabled IROC to better understand the overall CIP status, expenditures and schedules for both water and wastewater projects and help identify potential issues or problems earlier. This report is based on asset class and outlines major budget and schedule variances. In addition, the report provides CIP status at a more detailed level to allow for further analysis than the previous report allowed. The report also highlights projects that have a "charter amendment" which explains the reasoning behind any significant cost or schedule variances.

IROC reviewed the FY 2015 CIP year-end report and commends the Department for improving the CIP process and performance. On the water side, the City has awarded $71.1 million of the original $79.4 million CIP projects and accomplished 100% of the water mileage goal of 30 miles awarded within 50 days of fiscal year end. On the wastewater side, the City has awarded $93.3 million of the original $103.1 million CIP projects and accomplished 87% of the wastewater goal of 45 miles replaced or rehabilitated at the end of the fiscal year.

Recommendation: That the Department continue to implement the improvements to the CIP process and provide appropriate management-level information in a way that will facilitate project visibility and enable appropriate IROC oversight.

LONG RANGE WATER SUPPLY

The Pure Water San Diego Program will be a major advancement toward providing for a reliable, affordable, stable, and locally controlled long range water supply. The Department appears to be working very aggressively and effectively at implementing this program, which IROC, numerous environmental groups and the business community support. The regional seawater desalination project in Carlsbad will also help provide a stable water source. Both the Pure Water San Diego Program and desalination programs come at a higher price, but will help offset some of the uncertainties associated with the Bay Delta and State Water Project, Colorado River, and climate change in California. Along with these, the emergency water storage system has helped to improve the City's water security.

The City has also proactively engaged in a comprehensive water conservation program which has resulted in significant reductions in water use. Continued reduction in water use will help reduce the risk of water supply shortages, but could face occasional water shortages in the future.

Recommendation: That the City regularly assesses long-term water supply needs given the successes of its recent conservation initiatives. Further, a clear policy with decision criteria should be adopted to guide the City Council and Mayor in making decisions to implement voluntary water use reductions or mandatory reductions, if needed, quickly and decisively.

HUMAN RESOURCES MANAGEMENT AND FORMAL ANALYSIS OF RETENTION AND RECRUITMENT

IROC understands the need to manage budgets to wisely minimize future rate increases, however, it is still important for the Department to provide adequate compensation to its employees in order to attract and maintain a dedicated, skilled, and experienced workforce. IROC received briefings on the Employee Rewards and Recognition programs as well as efforts to retain and recruit employees. IROC is concerned that a high number of employees (248) are eligible to retire and that key institutional knowledge could be lost.

The operation and sustainability of the Department depends heavily on the experience of its staff, including management, engineers, administrators, and field workers. IROC continues to be concerned about the turnover rate that we see in the Department. Skilled and experienced employees are essential for the efficiency and safe operation of the water and wastewater system and to plan for its future. It is extremely important for information on recruitment, retention, and potential retirements to be available for all levels of management, policy makers, the media, the public, IROC, and elected officials to be available. Such information is needed for setting salaries, training, promotion, education, retirement, and incentive programs and should show current values and long and short term trends. Such information is essential to assure that the Department is and will be capable of operating the system in a safe, sustainable, and cost effective manner.

Recommendation: IROC urges that the Department establish a template to regularly update and report on the retention, recruitment, level of experience, and anticipated retirement of employees, by specialties, within the Department. A study should be initiated to assess whether the City's limitations on compensation are resulting in savings that exceed the costs of turnover, including training, level of experience, and hiring that result from those limitations. The study should also compare the Department with other similar departments and identify reasons for any issues it identifies and potential measures to resolve them. Finally, the Department should continue to monitor the progress of its succession planning initiative to recruit and retain employees.

PROGRESS TOWARD MODIFIED PERMIT FOR THE POINT LOMA WASTEWATER TREATMENT PLANT

The Subcommittee and IROC have received presentations on the progress toward permits for the secondary equivalent concept of the Pure Water San Diego Program. At the present time, it appears that both the administrative solution and legislative approach modifying the Clean Water Act are very uncertain processes.

Recommendation: That the Department continue to pursue all options in order to get regulatory certainty that the Pure Water San Diego Program will suffice to offset the requirement to move up to secondary treatment.

DEPARTMENTAL OPERATIONS

The Department has continued to evaluate and perform studies to seek ways to improve operational efficiencies through optimizations utilizing in-house staff for the past several years. To further advance those efforts, in late 2013 the Department hired CH2M Hill Engineers, Inc. to conduct a comprehensive operational optimization study and provide recommendations for optimization measures and implementation plans. The focus for this study included: energy utilization; water and wastewater treatment processes; chemical usage; biosolids processing and disposal; distribution system efficiency and water quality; data utilization; and warehouse management.

Over the course of the project, six water and wastewater treatment plants along with the biosolids plant have been assessed and attention focused on optimization of three major expenditures: energy, chemicals, and biosolids.

The Department indicates that efficiency opportunities have been identified along with projected cost savings. Opportunities that do not result in potential savings were included to help ensure sustainable operations by eliminating risk (i.e. safety and reliability concerns, maintaining levels of service). Based on high-level assumptions, the Department's initial analysis provided validation to determine if an opportunity should be pursued. Opportunities with low or no capital investment are expected to be implemented more quickly, while higher capital investment opportunities will likely require further evaluation.

Additionally, the Department is working to implement strategies to achieve attainable greenhouse gas reduction targets in alignment with the goals set forth in the City's Climate Action Plan. The Department has identified two feasibility studies: fats, oils, grease and food waste to energy (FOG) project, and small-scale hydro energy recovery (Hydro) project. Both of these studies have been added to the optimization study. These studies will serve as a basis to determine if the Department should move forward with project development and implementation.

In parallel with the above feasibility studies, the Department is also conducting an assessment of energy and chemical use of the water distribution and wastewater collections pumping system, along with a review of Department warehousing and supply chain processes, and inventory tracking procedures. Future efforts planned are a review and evaluation of the operations and maintenance business processes. This will include Department strategies, process control, maintenance and laboratory procedures, and existing documents (standard operating procedures and operating plans).

Once the results of the study are finalized, the Department will develop a plan that identifies and prioritizes the opportunities for immediate and future implementation (capital improvements, technology enhancements, process adjustments, training or other related tasks). The Department expects to have its Operations Optimization Study Draft Report by February 2016, a final report the following April, and initiation of projects by August 2016.

Recommendation: IROC has no recommendations at this time, but could after hearing the latest results of the optimization studies at an upcoming Subcommittee meeting. IROC requests periodic updates from the Department until the project is completed.

The following FY 2015 IROC issues were reviewed by the Outreach & Communications Subcommittee:

PURE WATER SAN DIEGO

Pure Water San Diego Program outreach efforts have made significant progress in public education and has continued to actively promote the demonstration tour at the North City Reclamation Plant via onsite and "virtual" tours online. City staff has been successful in working with local community leaders and engaging in community events (fairs, town hall meetings, etc.) and local community papers, to educate and inform the public on the Demonstration project. There has been positive public response and school tours have helped to spread the word, as well as utilizing technical journals and newspapers to report on the project. Public opinion has changed dramatically over the past several years, as well, with an overwhelming majority viewing water reuse as a positive and necessary process. However, national and local television news coverage concerning water supply solutions to the drought seems to emphasize desalination and conservation, often failing to mention potable reuse.

Recommendation: That the Department continue, and consider increasing at this critical time, outreach to various community leaders in all areas of San Diego in order to promote the Pure Water San Diego Program and suggest that local media outlets might benefit from a targeted outreach and education effort. Also, the Department should enhance public understanding of the costs and benefits of the water and wastewater system, through consistent information and messaging, under a clear, compelling, value statement (e.g., "San Diego Water: Pure Value"). Quarterly reports to IROC on these efforts should continue to be made.

WATER CONSERVATION

The Water Conservation campaign is critical as the State is in its fourth year of drought. The Department provided a water conservation update on the current "San Diegans Waste No Water" campaign. The main communication objective of the campaign is to make water conservation more personal and less authoritative. Focusing on the wise use of water was instrumental to maintain the public's water conservation momentum. The City's Water Conservation Section continues to focus on conservation programs and initiatives, offering free water surveys and grant funded rebate programs for replacement of turf and rain barrels. Community fairs and speaking engagements were utilized to spread the conservation message, along with press releases, online messaging, public service announcements and advertising in Spanish language publications. In addition, the annual water conservation film and poster contests continue to provide excellent outreach to engage students in the conservation message.

Recommendation: That the Department continue to strengthen the "Water Conservation" campaign program messaging to ensure effectiveness and report back to IROC the results of this effort.

CUSTOMER CARE SOLUTION (CCS) SYSTEM

The Department handles 1,200 to 1,500 calls per day. Average wait times have decreased as CSS became fully staffed, however retention of employees continues to be a concern. Several actions have been taken to improve customer service including:

- Changing the customer call back message to a one day call back instead of two days.
- Customers can receive/pay bill using mobile device or computer.
- Replacing phone system.
- Implementing Image Cash Letter (electronic deposit of customer checks to expedite processing).

It was also noted that the Customer Advocate position established in April 2013 continues to be effective assisting 572 customer cases, and making 58 presentations City-wide in FY 2015.

Recommendation: That the Department continue to monitor the CCS System, to include billing issues, call centers wait and response times to ensure excellence in customer service.

PUBLIC UTILITIES BRANDING

The Department has been fully engaged in the Branding effort for building trust and confidence in the Department from the rate payers and employees. A brand is a descriptive communication to positively influence feelings and beliefs. By engaging employees as the ambassadors for the Department and its brand is critical for credibility and delivery of commitments. Quality, Value, Reliability – In Every Drop!

ADVANCED METERING INFRASTRUCTURE

The AMI pilot program consisting of 10,000 monthly customers and 1,000 bi-monthly customers has been completed with 11,500 meters retrofitted with 12,500 endpoints, total pilot project cost was $6 million. Installation of approximately 270,000 endpoints City-wide has begun. The estimated cost for City-wide implementation of the AMI project is $60 million. The Department has a targeted completion of deployment by December 31, 2017.

EXTERNAL AFFAIRS

The Subcommittee and IROC continue to be briefed by the External Affairs Program Manager about the ongoing efforts of the Department to emphasize the importance of transparency in order for the Department to have an effective communications plan to educate the public on the various drivers/reasons for water and wastewater rate increases. With the reorganization and transfer of public information duties into a more centralized function through the Mayor's office, the Department's focus will be education and

outreach. The Department should continue to work on improving customer and stakeholder confidence through this education and outreach program.

Other Outreach & Communications Subcommittee Items:

- **Proactively advise the Mayor and Council Members via reports and periodic communications.** IROC recognizes the need for effective communications exchange with the Mayor, Environment Committee, and Council Members.

- **Public Utilities Department Awards.** The Pure Water San Diego Program won a number of significant awards in 2015, including the U. S. Water Prize, CA Association of Sanitation Agencies and Public Outreach. Wastewater Collections awards – California Water Environment Association, Large Collection System of the Year. Alvarado Water Treatment Plant – American Society of Civil Engineers, Outstanding Civil Engineering Achievement Award.

- **Tours.** In FY 2015, IROC members participated in a tour of the Point Loma Wastewater Treatment Plant and the Environmental Monitoring & Technical Services Division Laboratory.

LOOKING AHEAD: FY 2016 ANNUAL WORK PLAN (AS ISSUED ON MARCH 16, 2015)

I. Finance Areas of Focus

1. **Cost of Service Studies (COSS)** (§26.2003(a)(3) and (5)):
   a. Review and monitor ongoing water and wastewater COSS and the Recycled Water Pricing Study and provide recommendations and feedback to Department staff and consultants.
   b. Examine financial trends of water and wastewater funds to determine whether rates are at appropriate levels, and whether the utilities are operating in a cost effective manner, and in accordance with COSS projections.
   c. As part of the 2016 Water COSS, review alternative rate structures for single family residential and irrigation, such as water budget based billing, and provide recommendations to Department staff regarding the feasibility and applicability of these alternatives structures for implementation within the City.
   d. Research alternative rate structures for all customer classes.

2. **City Council Water Policy Implementation Task Force Recommendations** (§S26.2003(a)(3) and (8)):
   a. As appropriate and consistent with IROC's duties and functions as contained in Ordinance No. O-20233, review progress of Department actions in response to Council approved recommendations from the Water Policy Implementation Task Force (Task Force).
   b. Monitor progress by the Department regarding Task Force recommendations deferred by Council for additional analysis or implementation at a future date.

3. **Water Fund Sustainability and Affordability** (§26.2003(a)(3) and (8)):
   a. Monitor and review CWA recommendations for incorporating Carlsbad Desalination Project costs into CWA water rates and charges.
   b. Review assumptions regarding future water supplies, demands, and sales projections that will be used in the City's 2015 Urban Water Management Plan.
   c. Develop recommendations and specific elements to be included in an analysis of affordability and sustainability of the Water Fund given future increased costs of water resulting from MWD, CWA, and development of the Pure Water San Diego Program.

4. **Budget Review, Performance Audits, and Financial Reporting Improvements** (§26.2003(a)(3) and (7)):
   a. Review FY 2016 departmental budget and provide input to Department staff, City Council and Mayors office.

b. Review all performance audits and formulate recommendations for follow-up action, and recommend subjects for the annual performance audit.
c. Review OCA audits related to Finance (e.g., reserves, overhead expenses, etc.).
d. Recommend various financial reporting improvements to promote transparency for effective oversight.

5. **Drought Impacts** (§26.2003(a)(3) and (8)):
Monitor monthly water sales to determine impact of ongoing drought and possible allocation of supplies on the Department budget and plans. Develop recommendations as appropriate.

II. Infrastructure & Operations Areas of Focus

1. **Review upcoming system condition studies and analyses to gauge the current infrastructure needs** (§26.2003(a)(8)):
IROC will continue to review progress of ongoing assessment projects and will seek to verify that the available results are reflected in the development of subsequent replacement plans and CIPs. IROC will also continue to review metrics such as age of components, frequency of breaks and systems failures, and damage resulting from those failures for this purpose.

2. **Monitor the implementation of the ongoing infrastructure replacement plans, including the CIP and its budget and timing** (§26.2003(a)(2)(A) and (4)):
IROC will monitor and identify projects and asset classes that are behind schedule, or over budget. Of particular interest will be whether or not schedule slippage is leading to cost increases and whether it will delay other improvements. Public Utilities and Public Works-Engineering have developed an updated reporting format to enable the Committee to better assess the CIP as a whole. This will provide management-level reporting and enable IROC to more effectively review execution of the CIP.

3. **Monitor and comment on the upcoming COSS and its assumptions relating to funding for operations, maintenance, and infrastructure replacement** (§26.2003(a)(3) and (8)):
IROC will urge that the COSS recommend adequate funds to assure the sustainability of the Department's infrastructure and adequacy of service, especially for the water distribution system. IROC will also urge that any rate recommendations reflect the cost of service to ratepayers, support water conservation, and maintain the sustainability of the Department, its infrastructure, and its operation.

4. **Evaluate City planning efforts for a sustainable long-term water supply** (§26.2003(a)(8)):
   IROC will receive presentations and comment on the City's planning and actions for maintaining a sustainable supply of water long into the future. IROC continues to advocate that the City aggressively implement the Pure Water San Diego Program and water conservation efforts. IROC will seek an analysis of what level of conservation is feasible for San Diego and what measures could be considered to keep the Department sustainable in the face of reduced revenue due to deep and/or extended periods of conservation and/or restricted supply.

5. **Recommend targeted audits relating to infrastructure and operations** (§26.2003(a)(3)(7) and (8)):
   IROC will continue to recommend various performance audits to identify efficiencies and savings, and improve operations.

6. **Monitor the City's approach and progress toward the modified permit for the Point Loma Wastewater Treatment Plant** (§26.2003(a)(8)):
   IROC will monitor the review and approval process of the City's modified permit application for the Point Loma Wastewater Treatment Plant. The new policy should protect ocean water quality; advance cost effective wastewater treatment; minimize energy use and other environmental impacts; and satisfy the requirements of State and national regulations while advancing the development of the infrastructure to provide large quantities of affordable, dependable, and safe potable water, through the Pure Water San Diego Program.

7. **Monitor the implementation of the Pure Water San Diego Program** (§26.2003(a)(5)(8)):
   IROC will monitor the progress of the Pure Water San Diego Program with the goal that it provide additional water supply security, be cost effective, provide for public health, improve drinking water quality, and minimize the cost of complying with the Clean Water Act in the long run.

8. **Review operations of the Water and Wastewater systems and their impact on system performance, infrastructure sustainability, and rates** (§26.2003(a)(8)):
   The Subcommittee has focused heavily on infrastructure during the reporting period. We anticipate increasing our review of the efficiency and effectiveness of the operation of the system. We anticipate that information from the Department's Optimization Study will provide information that will be helpful for this review.

III. Outreach & Communications Areas of Focus:

1. **Department Branding Effort** (§26.2001(a) and §26.2003(a)(8)):
   Monitor the Department's efforts to the Branding initiative that encompasses its entire product/servicing offering, brand commitments, and internal and external implementation.

2. **"Pure Water San Diego" Program Outreach** (§26.2001(a) and §26.2003(a)(8)):
   Review and seek analysis of the outreach effort and associated communications related to potable reuse and the Point Loma permit.

3. **External Affairs Activities** (§26.2003(a)(8)):
   a. Complete review of all "External Affairs" activities of the Department. We have a multitude of specific areas such as water conservation, water rates, potable reuse, and industrial waste. Some of the activities have "outsourced" consultants and maintain different lists of stakeholders for messaging.
   b. Examine the current staffing on all divisions that are doing "outreach" activities and look to integration/augmentation of personnel.

4. **Engage Elected Officials** (§26.2001(a)(2) and (b)):
   Initiate contact/dialogue with the Mayor and City Council so that they get to know IROC better. Also target the several special Council committees beyond our reporting group, "Environment Committee".

5. **Customer Care Solutions** (§26.2001(a) and §26.2003(a)(8)):
   Continue to monitor and review the CCS System for customer service quality improvements.

6. **Managed Competition** (§26.2001)(a)(b)):
   Review the San Diego Works Program impact on the Department.

7. **Water Conservation** (§26.2001(a) and §26.2003(a)(8)):
   Continue to monitor the City's efforts to keep the "water conservation" campaign at appropriate levels.

8. **FY 2014 Rate Structure** (§26.2001(a) and §26.2003(a)(4)(8)):
   Monitor the impacts of the FY 2014 water rate structure changes on the City and its ratepayers.

9. **Human Resources (HR)** (§26.2001(a) and §26.2003)(a)(8)):
   Evaluate whether the Department is able to hire and retain proper staffing for effective operation of current and emerging efforts. If not, review and analyze how can this be improved (i.e., improved succession planning, proactive and innovative recruiting methods, increased compensation and benefits). Review what improvements can be made at the Department level and what would require City approval.

10. **COSS Outreach** (§26.2001(a) and §26.2003(a)(8)):
    Encourage the City to reach out to diverse stakeholders in its efforts to conduct COSS.

ATTACHMENTS TO THE FY 2015 IROC ANNUAL REPORT:

Attachment A – IROC Municipal Code

Attachment B – IROC Members Listing

Attachment C – IROC Agenda Topics for FY 2015

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ATTACHMENT A

IROC MUNICIPAL CODE

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Item # 50
1/8/13

(O-2013-39)

ORDINANCE NUMBER O- 20233 (NEW SERIES)

DATE OF FINAL PASSAGE JAN 23 2013

AN ORDINANCE AMENDING CHAPTER 2, ARTICLE 6, DIVISION 20 OF THE SAN DIEGO MUNICIPAL CODE BY AMENDING SECTIONS 26.2001, 26.2002, AND 26.2003, AND BY ADDING NEW SECTION 26.2004, ALL RELATING TO THE INDEPENDENT RATES OVERSIGHT COMMITTEE.

WHEREAS, on April 18, 2007, the Independent Rates Oversight Committee (IROC) was established pursuant to Ordinance No. O-19607 to oversee water and wastewater services provided by the City; and

WHEREAS, on June 27, 2012 and October 10, 2012, the Natural Resources and Culture Committee discussed the role and responsibilities of IROC and heard from various stakeholders; and

WHEREAS, on October 10, 2012, the Natural Resources and Culture Committee approved amending the Municipal Code to clarify the role and responsibilities of IROC consistent with this proposed ordinance; and

WHEREAS, the City Council desires to clarify the role and responsibilities of IROC; NOW, THEREFORE,

BE IT ORDAINED, by the Council of the City of San Diego, as follows:

Section 1. That Chapter 2, Article 6, Division 20, of the San Diego Municipal Code is amended by amending sections 26.2001, 26.2002, and 26.2003, and by adding new section 26.2004, to read as follows:

Division 20: City of San Diego Independent Rates Oversight Committee

§26.2001 Purpose and Intent

(a) It is the purpose and intent of the City Council to establish the Independent Rates Oversight Committee (IROC) to serve as an official advisory body to the Mayor and City Council on issues relating to the oversight of the City of San Diego's water and wastewater services. IROC will assist the City in tracking and reviewing the use of rate proceeds to advance the capital improvements related to the rate packages and work programs adopted by the City Council. IROC will also oversee and advise on planning and operations including, but not limited to, resource management, cost effectiveness, planned expenditures, service delivery methods, public awareness and outreach efforts, and the City's efforts to provide high quality and affordable services. It is the vision of the City of San Diego that a high level of public confidence in the City of San Diego's utility services be maintained in the most cost effective and environmentally sensitive way. IROC is formed in support of this vision.

(b) IROC will independently evaluate information and conduct its work in a manner which considers and balances the interests of both the public utilities department and the ratepayers. IROC will diversify its information sources to promote objectivity and independence, and will solicit information from other City departments and outside sources to supplement public utilities department information in conducting its work.

§26.2002 Independent Rates Oversight Committee Established

(a) IROC shall consist of eleven members, the majority of whom shall be residents of the City of San Diego, who shall serve without compensation. The members shall be appointed by the Mayor and confirmed by the City Council. The four ratepayer classes of single family residential, multifamily residential, commercial and industrial, and temporary irrigation and construction will each have one representative on IROC. In addition to the eleven members, IROC shall also include two ex-officio members, one representing and appointed by the Metropolitan Wastewater Joint Powers Authority, and one representing and appointed by the ten-member City representatives to the San Diego County Water Authority. A majority of the members of IROC shall possess expertise in one or more of the following areas: accounting, auditing, engineering, biology or environmental science, finance or municipal finance, law, and construction management.

(b) Members shall serve four year terms, and each member shall serve until a successor is duly appointed and confirmed. In accordance with City Charter section 43, members are limited to a maximum of eight consecutive years, and an interval of four years must pass before such persons can be reappointed. Initial members shall be appointed such that the terms of not more than six members shall expire in any one year so as to allow the terms to be staggered. Initial appointments which are less than the full term of four years will be allowed to serve two full terms. The

expiration date of all terms shall be May 1. Any vacancy shall be filled for the remainder of the unexpired term. Vacancy appointment recommendations will come from the original recommending body. Any vacancy replacements will be eligible to serve the remaining term of the vacant position and two full terms.

(c) On or after May 1, IROC shall select a Chair from among its members. The Chair will serve a one year term with the option of reappointment for one additional one year term, with a one year interval between consecutive terms as Chair.

(d) IROC may adopt rules consistent with the law for the governing of its business and procedures.

(e) A conflict of interest code shall be adopted for IROC, subject to City Council approval. The members of IROC shall be required to complete and file statements of economic interests in accordance with the conflict of interest code.

§26.2003 Duties and Functions

(a) IROC shall:

(1) Meet at least every other month with additional meetings convened as necessary and as determined by the Chair, and set an attendance policy for IROC members to help ensure a quorum of members is present for all meetings.

(2) Present an annual IROC work plan to the Natural Resources and Culture Committee by May 1 of each year for discussion and

comment, but not for approval. IROC may change its work plan to incorporate comments and feedback received from the Natural Resources and Culture Committee. The work plan shall describe the activities and tasks IROC anticipates performing in the coming year. The work plan shall include, as a priority, the following components:

(A) A quarterly review of the current schedule versus the original schedule for each capital improvement project and project to date expenditures versus the budget for each project funded by the water and wastewater enterprise funds.

(B) Any duties delegated to IROC by resolution of the City Council.

(3) Review factors, drivers, and cost structures of any proposed changes to City water or wastewater rates.

(4) In conjunction with any proposals by the City to increase water or wastewater rates, other than proposed increases attributable solely to increases in the wholesale cost of water, conduct a cumulative review of the project schedules and budgets set forth in Section 26.2003(a)(2)(A) for capital improvement projects initiated or completed since the last City water or wastewater rate increase was implemented.

(5) Review cost allocation models that may be included in cost of service studies of the water and wastewater systems.

(6) Oversee departmental savings efforts and deposits to, and withdrawals from, the "Dedicated Reserve from Efficiency and Savings (DRES)" fund.

(7) Advise on the priority and scope of performance audits of the water and wastewater systems, and review any resulting performance audit reports.

(8) Provide advice and review of policy and proposals as sought by department leaders and other City staff related, but not limited to budget and finance, environmental issues, technology innovations, system viability, water supply, and public outreach and education efforts.

(9) Provide an annual public report to the Mayor and City Council discussing the activities, conclusions and recommendations of IROC and addressing the duties and functions of IROC set forth in this Section. The report shall include a discussion of all the components of the work plan, or an explanation as to why any components of the work plan are not included or incomplete. IROC shall present its annual reports at meetings of the Natural Resources and Culture Committee.

(b) IROC may also provide correspondence, interim reports, and appear at meetings of the City Council and Council Committees, as IROC deems necessary in the performance of its duties and functions.

§26.2004 Coordination with Audit Committee

Any duties or functions of IROC that fall within the oversight responsibilities of the Audit Committee should be fully coordinated with and reported to the Audit Committee. IROC shall recommend at least one performance audit of the water or wastewater system each year for consideration by the City Auditor in time for inclusion in the City's audit plan.

Section 2. That a full reading of this ordinance is dispensed with prior to its passage, a written or printed copy having been made available to the City Council and the public prior to the day of its passage.

Section 3. That this ordinance shall take effect and be in force on the thirtieth day from and after its final passage.

APPROVED: JAN I. GOLDSMITH, City Attorney

By _____
Thomas C. Zeleny
Deputy City Attorney

TCZ:mb
10/25/12
Or.Dept:NR&C
Doc No:461824

I hereby certify that the foregoing Ordinance was passed by the Council of the City of San Diego, at its meeting of JAN 8 2013.

ELIZABETH S. MALAND, City Clerk

By _____
Deputy City Clerk

Approved: 1/23/13
(date)

_____
BOB FILNER, Mayor

Vetoed: _____
(date)

_____
BOB FILNER, Mayor

ATTACHMENT B

IROC MEMBERS LISTING

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Independent Rates Oversight Committee (IROC)

Committee Member	Council District/Community	Category	Appointment Date	Term Expiration Date
Tiffany Mittal	District 2 Point Loma	Multi-Family Residential Ratepayer Class Rep.	1/30/2014	5/1/2017
Craig Chapman	Carlsbad	Construction Management Professional Rep.	1/30/2014	5/1/2017
Jack Kubota	Carlsbad	Engineering Professional	1/30/2014 6/2/2009 10/18/2007	5/1/2017 5/1/2013 5/1/2009
VACANT (Noam Glick)*	District 3 North Park	Law Professional	11/6/2012	5/1/2015
Jeff Justus	District 2 Pacific Beach	Environmental Science Professional Rep.	1/30/2014 1/23/2012	5/1/2017 5/1/2013
Christopher Dull	Escondido	Construction Management	5/16/2011 10/9/2008	5/1/2015 5/1/2011
VACANT (Donald Billings)*	Solana Beach	Finance/Municipal Finance Rep.	5/16/2011 10/18/2007	5/1/2015 5/1/2011
Gordon Hess	District 3 Mission Hills	Temporary Irrigations & Construction Rep.	1/30/2014	5/1/2017
James Peugh	District 2 Point Loma	Environmental Rep.	5/16/2011 10/18/2007	5/1/2015 5/1/2011
Irene Stallard-Rodriguez	District 7 San Carlos	Single-Family Residential Ratepayer	5/16/2011 10/18/2007	5/1/2015 5/1/2011
Gail Welch	District 1 Carmel Valley	Commercial and Industrial Ratepayer	5/16/2011 10/18/2007	5/1/2015 5/1/2011

*Resigned

11 Members, 4 Year Term
Appointed by Mayor, Confirmed by Council
San Diego Municipal Code 26.2001 – 26.2003

Members are required to file Statement of Economic Interests

Register Revised 5/20/2015
Last Update 1/30/2014 R-308709, R-308710 & R-308711

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ATTACHMENT C

IROC AGENDA TOPICS

FOR FY 2015

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Attachment C: IROC Agenda Topics for Fiscal Year 2015

JULY 2014

Full IROC

- City 10 – County Water Authority Update
- Water Main Breaks and Sanitary Sewer Spills Report
- State Water Mandate Update
- Advanced Metering Infrastructure Update
- FY2014 Annual Report Preparation

Finance Subcommittee

- Public Utilities Department Financial Update
- Discussion: Recycled Water Pricing Study Report Presented in July 2013
- Discussion: FY2014 IROC Annual Report

Outreach & Communications Subcommittee

- FY13 Annual Water Quality Report
- Conservation and Possible State Mandated Water Rationing
- FY2014 IROC Annual Report Preparation

Infrastructure & Operations Subcommittee

- Quarterly Report: Water Main Breaks and Sanitary Sewer Overflow
- Programmatic Wastewater Pipelines Condition Assessment Study
- Pure Water Update
- FY2014 IROC Annual Report Preparation

AUGUST 2014

Full IROC

Cancelled

Finance Subcommittee

Cancelled

Outreach & Communications Subcommittee

Cancelled

Infrastructure & Operations Subcommittee

Cancelled

SEPTEMBER 2014

Full IROC

- City 10 – County Water Authority Update
- Public Utilities Department Platinum Award
- Capital Improvement Program Update
- Point Loma Permit Application
- Pure Water San Diego's Effect on Rates
- Discussion: FY2014 Annual Report

Attachment C: IROC Agenda Topics for Fiscal Year 2015

Finance Subcommittee

Cancelled

Outreach & Communications Subcommittee

- Water Conservation Update
- Human Resources Staffing
- FY2014 IROC Annual Report Preparation

Infrastructure & Operations Subcommittee

- Capital Improvement Program Update
- Point Loma Permit Application/Pure Water Update
- System-wide AC Water Main Replacement
- FY2014 IROC Annual Report Preparation

OCTOBER 2014

Full IROC

- City 10 – County Water Authority Update
- Pure Water As-Needed Contracts for Engineering & Technical Services
- Discussion: Prop A (2012)
- Discussion: FY2014 Annual Report

Finance Subcommittee

- Public Utilities Department Financial Update
- Public Utilities FY14 Year End Current Year Monitoring Report
- Discussion: FY2014 IROC Annual Report

Outreach & Communications Subcommittee

- Water Conservation Update
- Briefing on High Five & Discretionary Leave Utilization
- FY14 IROC Annual Report preparation

Infrastructure & Operations Subcommittee

- Three Water Conveyance Pipelines Condition Assessment
- Pure Water: As-Needed Contract for Technical Engineering Services
- Trunk Sewer Capacity Assessment
- FY2014 Annual Report Preparation

NOVEMBER 2014

Full IROC

- City 10 – County Water Authority Update
- Olivenhain Municipal Water District Drought Rates Presentation
- FY15 1st Quarter Capital Improvement Program Update
- Public Utilities Human Resources Update

Finance Subcommittee

- Public Utilities FY15 1st Quarter Current Year Monitoring
- Low Income Customer Assistance Program Informational Report
- Water Policy Implementation Task Force Recommendation Update

Outreach & Communications Subcommittee

- External Affairs Update
  - Communications Department
  - Pure Water San Diego Outreach
  - Water Conservation Outreach
- Pt. Loma Wastewater Treatment Plant & Environmental Monitoring & Technical Services Tours

Infrastructure & Operations Subcommittee

- Discussion: Recycled Water Pricing Study Status Update
- Capital Improvement Project (CIP) Savings/CIP Update
- Valve Maintenance Program
- Discussion: FY14 Annual Report – Environment Committee Presentation

DECEMBER 2014

Full IROC

- City 10 – County Water Authority Update
- Valve Maintenance Program
- Water Policy Implementation Task Force Recommendations Update

Finance Subcommittee

Cancelled

Outreach & Communications Subcommittee

- Pure Water San Diego Outreach Metrics
- Public Utilities 2014 Customer Survey
- Discussion: Mandatory Water Restrictions
- Pt. Loma Wastewater Treatment Plant & Environmental Monitoring & Technical Services Tour Update

Infrastructure & Operations Subcommittee

- SAP Discussion
- Business Case Evaluation Example
- Public Notice for Pure Water EIR
- Discussion: San Diego Public Works/Managed Competition Update
- Discussion: Water Main Break – 54th and Orange Avenue

JANUARY 2015

Full IROC

- City 10 – County Water Authority Update
- Pure Water San Diego Update
- Pure Water San Diego Outreach Presentation
- Public Utilities Customer Survey (Deferred)
- Discussion: Cost of Service Study Update

Attachment C: IROC Agenda Topics for Fiscal Year 2015

Finance Subcommittee

- Public Utilities Department Financial Update
- Discussion: FY2015 IROC Work Plan - Finance Subcommittee

Outreach & Communications Subcommittee

Cancelled

Infrastructure & Operations Subcommittee

- Asset Management Plan/Enterprise Asset Management Project Update
- Public Utilities/Public Works Partnering Agreement
- Discussion: Pump Station 2 Upgrades
- Discussion: FY15 IROC Work Plan - Infrastructure & Operations Subcommittee

FEBRUARY 2015

Full IROC

- City 10 – County Water Authority Update
- Public Utilities Review
- Transfer of Funds to CIP S-11059 – Otay Concrete Work
- Climate Action Plan
- Enterprise Asset Management
- Discussion: FY16 IROC Work Plan

Finance Subcommittee

- Wastewater Advanced Refunding at Budget Committee
- Urban Water Management Plan Request for Proposal (RFP) Update
- Public Utilities Current Year Monitoring Mid-Year Report
- Discussion: FY16 IROC Work Plan

Outreach & Communications Subcommittee

- Discussion: FY 15 IROC Work Plan - Outreach & Communications Subcommittee
- Discussion: FY 16 IROC Work Plan

Infrastructure & Operations Subcommittee

- Draft CIP IROC Report
- Condition Assessment Contracts Status Update
- Discussion: Review of Public Utilities Performance Audit Options
- Discussion: FY16 IROC Work Plan

MARCH 2015

Full IROC

- Nominations and Appointment to Fill a Vacancy on the IROC's Outreach & Communications Subcommittee
- FY 2016 Work Plan
- Public Utilities Customer Support/Call Center Update
- City 10 - County Water Authority Update

Finance Subcommittee

- Public Utilities Department Financial Update
- Discussion: FY16 IROC Work Plan

Attachment C: IROC Agenda Topics for Fiscal Year 2015

Outreach & Communications Subcommittee

- Public Utilities Customer Support/Call Center Update
- Public Utilities Branding Update
- Discussion: FY16 IROC Work Plan

Infrastructure & Operations Subcommittee

- Discussion: Logistics of Emergency Pipe Repair
- Condition Assessment Contracts Status Update
- Update on Long-Term Water Supply/Urban Water Mgmt. 5-year Plan
- Discussion: FY16 IROC Work Plan

APRIL 2015

Full IROC

- Water Main Breaks and Sanitary Sewer Spills
- CIP Program Update
- Public Utilities Customer Survey
- FY16 Proposed Public Utilities Budget

Finance Subcommittee

- Public Utilities Department Financial Update
- FY16 Proposed Public Utilities Budget

Outreach & Communications Subcommittee

- Status of Outreach for Conservation/Allocations
- City of San Diego Water Sub-metering Requirements
- Discussion: Public Utilities Department Org Chart

Infrastructure & Operations Subcommittee

- Water Main Breaks and Sanitary Sewer Spills
- CIP Program Update
- Metro Biosolids Center Construction Projects
- Discussion: Public Utilities Emergency Preparedness
- Discussion: Advanced Metering Infrastructure and Submetering

MAY 2015

Full IROC

- Selection of New IROC Chair & Vice Chair
- Selection of Subcommittee Chairs and Members
- City 10 – County Water Authority Update

Finance Subcommittee

Cancelled

Outreach & Communications Subcommittee

Cancelled

Infrastructure & Operations Subcommittee

- Discussion: ADS Flow Monitoring System
- Discussion: Optimization Study Update

- Discussion: FY15 IROC Infrastructure & Operations Work Plan
- Discussion: FY15 IROC Annual Report - Infrastructure & Operations Subcommittee

JUNE 2015

Full IROC

- Customer Support/Call Center Update
- Should IROC and its Subcommittees go Dark in August?
- City 10 – County Water Authority Update

Finance Subcommittee

- Cancelled

Outreach & Communications Subcommittee

- Communications Department Update
- Drought Communications Update
- Pure Water Communications Update

Infrastructure & Operations Subcommittee

- Cost of Service Update
- Discussion: Pure Water Cost Allocation Subgroup
- Drought Measures Update
- Discussion: FY2016 IROC Annual Report