THE CITY OF SAN DIEGO

# MEMORANDUM

DATE: February 16, 2016

TO: Independent Rates Oversight Committee

FROM: Halla Razak, Director, Public Utilities Department

SUBJECT: Department Response to the Fiscal Year 2015 IROC Annual Report

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On January 19, 2016, the Independent Rates Oversight Committee (IROC) issued its Fiscal Year 2015 Annual Report with seven key recommendations. In addition, there were four Finance Subcommittee recommendations, two Infrastructure & Operations Subcommittee recommendations, and two Outreach & Communications recommendations.

The Public Utilities Department (Department) agrees with three and partially agrees with four of IROC's key recommendations. The Department agrees with all four Finance Subcommittee recommendations; agrees with both Infrastructure & Operations Subcommittee recommendations; and agrees with one and partially agrees with the other Outreach & Communications Subcommittee recommendation (see attachment). We will update IROC periodically to keep you informed of our progress towards implementation.

I would like to express my gratitude on behalf of the Department for your insightful and wide ranging recommendations. Staff will continue to evaluate and consider all of IROC's recommendations. If you have any questions or require additional information, please contact IROC Coordinator, Wilson Kennedy at (858) 614-4070.

Halla Razak

WK/slh

Attachment: Department Response to the Fiscal Year 2015 IROC Annual Report

cc: Honorable Mayor and Members of the City Council
Scott Chadwick, Chief Operating Officer
Paz Gomez, Deputy Chief Operating Officer, Infrastructure/Public Works
Andrea Tevlin, Independent Budget Analyst
Tom Zeleny, Chief Deputy City Attorney, Office of the City Attorney

**Public Utilities Department**
**Response to the Fiscal Year 2015 IROC Annual Report**
**Issued: January 19, 2016**

## 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. – Finance Subcommittee

   **Department Response: The Department partially agrees with this recommendation.**

   **The Department agrees to continue providing IROC with quarterly financial reports for the Water and Wastewater Funds.**

   **The Department, City, and other agencies use a variety of criteria for validating the need for future rate increases. The criteria include debt coverage ratios, cash on hand, and the CIP Program to name a few. The Department also works with other City departments to review the financials including Debt Management, Financial Management, and the Office of the City Comptroller.**

   **The Department will provide a detailed briefing of the elements of COSS while the rates are under development.**

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. – Finance Subcommittee

   **Department Response: The Department partially agrees with this recommendation.**

   In the FY 2016 COSS for the Water Fund, the Department agreed to form a rate structure review working group. Additionally, during the COSS, the Department has reviewed past expenditures for recycled water. The Department provided two rate options to the Environment Committee on August 5, 2015 and to the City Council on November 17, 2015. City Council approved the recycled water unitary rate on November 17, 2015.

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. – Infrastructure & Operations Subcommittee

   Department Response: **The Department agrees with this recommendation.**

   **The Department has implemented a robust condition assessment program for water and wastewater infrastructure which includes pipelines. The results of these assessments, along with forecasted demands and operational data, are used to determine future capital improvements and needs. The Department has a 10-year CIP model in place to identify and prioritize capital assets and financial tools to successfully carry out the Department's mission to provide a reliable service at the lowest cost possible, and in an environmentally responsible manner. Furthermore, the Department is in the process of implementing a user friendly SAP Enterprise Asset Management System.**

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. – Infrastructure & Operations Subcommittee

   Department Response: **The Department agrees with this recommendation.**

   **The Department agrees to continue to provide IROC with quarterly CIP progress reports. These reports will provide IROC with dashboard information on program performance which includes fiscal year expenditures and mileage goals.**

5. That the City regularly assess 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. – Infrastructure & Operations Subcommittee

   Department Response: **The Department partially agrees with this recommendation.**

   **The Department regularly assesses long-term water supply needs, taking into account its conservation initiatives and the state imposed water conservation mandate. These assessments are conducted in consultation with regional partners to ensure consistency and validity. The Department is also actively working to develop an adaptive strategy with decision criteria 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. – Infrastructure & Operations Subcommittee

   **<u>Department Response</u>: The Department agrees with this recommendation.**

   **The Department will continue to work with federal and state regulatory officials to ensure secondary equivalency at Point Loma by implementing the Pure Water San Diego Program.**

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. – Outreach & Communications Subcommittee

   **<u>Department Response</u>: The Department partially agrees with this recommendation.**

   **The Department's 2015 outreach metrics increased over previous years in three primary categories:**

   - ✓ **Tour participants at the Advanced Water Treatment Facility;**
   - ✓ **Interviews with community leaders; and**
   - ✓ **Community presentations.**

   **The Pure Water San Diego Program outreach efforts are scheduled to continue as designed.**

**Finance Subcommittee:**

1. **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.

   **<u>Department Response</u>: The Department agrees with this recommendation.**

   **The Department will continue to implement and report progress to IROC on recommendations made by the Water Policy Implementation Committee that have been accepted by the City Council.**

2. **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.

Department Response: **The Department agrees with this recommendation.**

**The Department will provide further updates to IROC on the status of the issue, and include a report on recent efforts to enact state legislation in this regard.**

3. **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.

   Department Response: **The Department agrees with this recommendation.**

   **The Department will report back to IROC with the details of various ongoing efforts to reduce departmental costs including updates on the specific group designated to be responsible for identifying department-wide cost reducing opportunities.**

4. **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.

   Department Response: **The Department agrees with this recommendation.**

   **The Department will continue to provide IROC with financial information as soon as possible. In addition, the Department will include key assumptions of drivers of revenues and costs in future departmental budgets.**

**Infrastructure & Operations Subcommittee:**

1. **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.

**Department Response: The Department agrees with this recommendation.**

**The Department will continue to update IROC on department-wide retention, recruitment, level of experience, and anticipated retirement of employees, by specialties. The Department will also initiate a study 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. Finally, the Department will continue to monitor the succession planning initiative to recruit and retain employees.**

2. **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.

   **Department Response: The Department agrees with this recommendation.**

   **The Department will continue to provide IROC with periodic updates on the optimization studies until the projects are complete.**

**Outreach & Communications Subcommittee:**

1. **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.

   **Department Response: The Department partially agrees with this recommendation.**

   **The Department is embarking on a "Value of Water" campaign that will strengthen the "Water Conservation" messaging to ensure effectiveness and report back to IROC with the results of this effort.**

2. **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.

   **Department Response: The Department agrees with this recommendation.**

   **The Department will continue to thoroughly monitoring the CCS System to ensure excellence in customer service.**