



THE CITY OF SAN DIEGO  
**REPORT TO THE CITY COUNCIL**

DATE ISSUED:

REPORT NO: 09-053

ATTENTION: Council President and City Council  
Docket of

SUBJECT: Sewage Transportation Agreements with Participating Agencies

REQUESTED ACTION: Authorize the Mayor to enter into agreements with Coronado and National City for the transportation of their wastewater through the City of San Diego's Municipal Wastewater Collection System (the Muni system).

STAFF RECOMMENDATION: Approve the ordinance.

SUMMARY:

The City of San Diego (the City) provides wastewater transportation, treatment and disposal services for the City and 15 adjacent cities and entities known as the Participating Agencies (PAs). The contractual conditions that related to these services are contained in two distinct documents.

The large sewer mains, pump stations and treatment plants that convey, treat and dispose of the sewage for the City and the PAs are referred to collectively as the Metro System. The Metro System services provided to the PAs are governed by the terms and conditions of the *Regional Wastewater Disposal Agreement* (the Metro Agreement), City Document No. OO-18517, filed May 18, 1998. This agreement remains in force through December 31, 2050.

The agreements that stipulate the terms and conditions under which wastewater is transported from the PAs through the municipal collection system (the Muni system) to the Metro system have expired for all but one of the PAs. The new *Sewage Transportation Agreements* (Transportation Agreements) will replace the expired agreements and will also be in effect through December 31, 2050 in order to run concurrent with the Metro Agreement.

Background

Over the past several years, the City has been in negotiations regarding the Transportation Agreements that the City had with the various PAs (excluding Del Mar), which have expired. Since that time, the City has been actively drafting new agreements and negotiating language and terms with the PAs, both jointly and as individual entities, in order to ensure terms and conditions that are fair and equitable to the PAs and to City of ratepayers. In addition to standard clauses related to insurance, dispute resolution, and other contractual necessities, these agreements outline the following:

- The transportation rate, identical for all PAs, that will be paid per gallon, per mile, per day (g/m/d) for the transport of wastewater through the municipal collection system;
- The frequency of and methodology for adjustments to the transportation rate;
- The method by which expenses for municipal pump stations utilized by the PAs will be allocated;
- The PAs' contract capacity rights in the municipal system and methodology for adjustment thereof; and
- The methodology for calculating cost apportionment for capital improvement projects affecting the infrastructure which conveys a PA's wastewater flows.

### Discussion

Each PA's wastewater takes a unique route from the agency boundary through the City's Municipal Sewer System to the Metro System. The PAs are billed for this conveyance of wastewater based on quantity of flow and total miles traveled from their system to the Metro System, as well as a proportionate share of operations and maintenance expense for any municipal pump stations utilized. In addition, PAs are liable for a proportionate share of any capital improvement expense on infrastructure used to convey their wastewater.

### *Transportation Rate Calculation*

The firm of Raftelis Financial Consultants, Inc. (Raftelis) was retained to formulate a municipal transportation rate to be applied to all PAs. Raftelis analyzed the portions of the system utilized by the PA's as well as the appropriate expenses for operations, maintenance, administration and support activities associated with the system elements. The analysis averages three years of actual expenses to ensure a fair and equitable rate.

After a detailed review of the referenced expenses, the rate of \$4.03 per g/m/d (in Fiscal Year 2008) was arrived at as the recoverable cost of operating and maintaining that portion of the municipal collection system utilized by the PAs. MWWD staff met with PA representatives during the course of the analysis and at the conclusion to ensure understanding and concurrence with the methods and results.

The above transportation rate will, as a ministerial matter, be adjusted annually based on the State of California Economic Forecast. For Fiscal Year 2009, this inflator brings the rate to \$4.16 per g/m/d. As an added safeguard for all stakeholders, this rate will be re-examined every 5 years, utilizing the most recent available 3-year average of actual expenses, to verify that the current rate is within 5% of the 3-year average. If the current rate deviates from this calculation by more than 5%, the rate is to be adjusted to the rate derived from the most recent 3-year average.

### *Future Capital Improvement Project (CIP) Cost-Sharing Calculation*

Some of the expired agreements contained a CIP cost component that was embedded in the municipal transportation rate (of the \$2.43 per g/m/d transportation rate, \$1.77 was the CIP component). While the exact source and formulation of the previous CIP charge is not clear, it is evident that this charge was meant to address infrastructure that existed at the time the agreements were executed and did not contemplate future infrastructure improvements.

The new Transportation Agreements address the process by which cost allocations are formulated for new CIPs on infrastructure used by one or more PAs. Put simply, these costs are to be distributed based

on each user's peak capacity as a portion of the design capacity of the improved infrastructure. All future CIP cost apportionments to PAs are to be paid as expenses are incurred, as stipulated in the Transportation Agreement.

#### Conclusion

The finalization of these Transportation Agreements will ensure that all parties have a clear understanding of their respective obligations regarding the City's collection system costs and improvements. Given the longevity of these agreements, it was incumbent upon all parties to ensure the end product was as comprehensive and well-considered as possible.

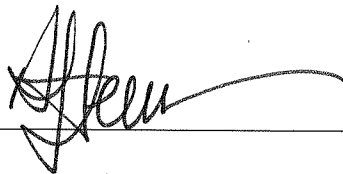
Considerable effort has been made by City staff and PA representatives to ensure that these agreements allocate the costs of operating, maintaining and improving the Municipal Collection System fairly and equitably. Staff from the City and the PAs has met numerous times to ensure that all involved understood and agreed upon the numerous elements in the agreements. Unlike the expired agreements, there are built-in inflators as well as periodic re-analyses to ensure that costs are appropriately allocated.

FISCAL CONSIDERATIONS: The estimated annual revenues from the Transportation Agreements with Coronado are \$3,300 for transportation charges. In the case of National City, San Diego utilizes a portion of their system to convey some wastewater; the net result of this reciprocal arrangement is an estimated annual expense to San Diego of \$7,500.

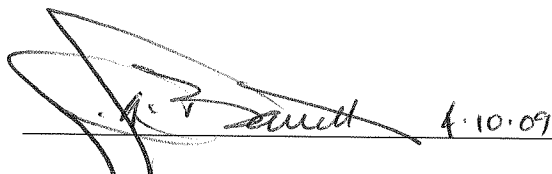
PREVIOUS COUNCIL and/or COMMITTEE ACTION: This item was presented to the Natural Resources and Culture Committee on April 22, 2009.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: In addition to extensive discussions with each PA on the particulars of their agreements, this item was presented to the Independent Rate Oversight Committee on April 13, 2009; and to the Metropolitan Technical Advisory Committee on April 15, 2009.

KEY STAKEHOLDERS AND PROJECTED IMPACTS: The Participating Agencies and City of San Diego ratepayers are the key stakeholders in this matter. These agreements ensure that costs of operating, maintaining and improving the municipal collection system are allocated fairly and equitably.



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Director



J.M. Barrett  
Director of Public Utilities

Attachments: Sewage Transportation Agreements between City of San Diego and Cities of Coronado and National City, and Exhibits A – C for each