



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: February 21, 2012 REPORT NO: 12-019
ATTENTION: Natural Resources & Culture Committee
Agenda of February 29, 2012
SUBJECT: Sewage Transportation Agreement with City of Imperial Beach

REQUESTED ACTION: Authorize the Mayor to enter into an agreement with City of Imperial Beach 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 12 adjacent entities known as the Participating Agencies (PAs). The contractual conditions that are 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 Muni System to the Metro System have expired for all but four of the PAs. The new *Sewage Transportation Agreement* (Transportation Agreement) will replace the expired agreement 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, which have expired. Currently – Spring Valley, Del Mar, Coronado and National City have current transportation agreements. During the negotiation period all PAs agreed to a set of terms in effect while in negotiations towards a transportation agreement, which includes:

- One unified transportation rate of charge to be paid per million gallons, per mile, per day (g/m/d) for the transport of wastewater through the Muni System.

- Methodology on annual adjustments to the transportation rate.
- Methodology for calculating cost apportionment for future capital improvement projects affecting the infrastructure which conveys the PA's wastewater flows.

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 the City of San Diego 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 million gallons, per mile, per day (g/m/d) for the transport of wastewater through the Muni 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 the PA's wastewater flows.

Discussion

Each PA's wastewater takes a unique route from the agency boundary through the City's Muni System to the Metro System. The PAs are billed for this conveyance of wastewater based on quantity of flow and total miles traveled in the City's Muni 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 which was finalized in Fiscal Year 2008. Raftelis analyzed the portions of the system utilized by the PAs, 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 million gallons x miles was calculated as the recoverable cost of operating and maintaining that portion of the municipal collection system utilized by the PAs. Public Utilities 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.

In Fiscal Year 2012 the rate is \$4.36 per million gallons x miles. 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. As a ministerial matter, the transportation rate will be adjusted annually for inflation based on the State of California Economic Forecast Index.

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 million gallons x miles transportation rate, \$1.77 was the CIP component). While the exact history and provisions associated with the formulation of the previous CIP component has been questioned by PA's during renegotiations, 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 or regulatory mandates.

The new transportation agreement addresses the process by which cost allocations are formulated for new CIPs on infrastructure utilized by one or more PAs. Put simply, these costs are to be apportioned based on each user's peak capacity as a proportion of the design capacity of the improved infrastructure. All CIP expenses are to be paid as they incur or as agreed upon by both agencies.

City of Imperial Beach Agreement

San Diego and Imperial Beach had previously entered into an Agreement of 1984 between the City of San Diego and the City of Imperial Beach for the Financing and Operation of the Palm City Trunk Sewer System, under which San Diego authorized Imperial Beach to discharge sewage into the Muni System for transportation to the Metro System and under which the parties had operated. As discussed above, the new agreement standardizes terms and ensures that conditions are fair and equitable to the City of Imperial Beach and to the City of San Diego ratepayers. Specifically this agreement does the following:

- Allows Imperial Beach to discharge sewage into the Muni System for transportation to the Metro System.
- Establishes a rate to be charged for sewage transportation services rendered by San Diego to Imperial Beach.
- Establishes Imperial Beach's contract capacity in the Muni System for the use of a portion of the Muni System.
- Establishes a method to allocate the capital improvement project costs of future improvements, repair, rehabilitation, or replacement to the Muni System as are deemed necessary by San Diego and in consultation with authorized agencies affected by the work on a fair and equitable basis.

Conclusion

As we continue the finalization of these transportation agreements, we 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 is in the best interest of all parties to ensure the end product is 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 Muni System fairly and equitably. Staff from the City and the PAs has met numerous times to ensure that all parties involved understood and agreed upon the numerous elements in the agreements. Unlike the expired agreements, there are built-in inflators as well as periodic review to ensure that costs are appropriately allocated.

FISCAL CONSIDERATIONS: The estimated annual revenue from the transportation agreement with the City of Imperial Beach is about \$3,700 in transportation charges.

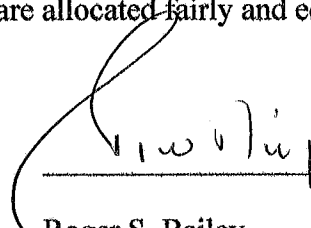
PREVIOUS COUNCIL and/or COMMITTEE ACTION: None.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: There were extensive discussions with each PA on their particular agreements.

KEY STAKEHOLDERS AND PROJECTED IMPACTS: The City of Imperial Beach and the City of San Diego ratepayers are the key stakeholders in this matter. This agreement ensures that costs of operating, maintaining and improving the Muni System are allocated fairly and equitably.

 2/16/12

Alex Ruiz
Assistant Director of Public Utilities



Roger S. Bailey
Director of Public Utilities

Attachment: Sewage Transportation Agreement between City of San Diego and City of Imperial Beach and Exhibits A – D