



**Meeting of the  
Metro Commission  
and Metro Wastewater JPA**

**Thursday, May 3, 2007  
9:30 a.m.**

**City of Imperial Beach  
Dempsey Holder Safety Center  
950 Ocean Lane  
Imperial Beach, CA 91932**

**AGENDA**

“The mission of the Metro Commission is to create an equitable partnership with the San Diego City Council on wastewater issues in the San Diego region that ensures fair rates for participating agencies, concern for the environment, and regionally balanced decisions through data analysis, collaboration among all stakeholders, and open dialogue.”

Documentation  
Included

1. ROLL CALL
2. PUBLIC COMMENT
- X 3. **ACTION** - APPROVE MINUTES OF APRIL 5, 2007
4. METRO TAC UPDATE
5. **ACTION** – DISCUSSION REGARDING REVIEW OF JPA PROFESSIONAL SERVICE CONTRACTS

Documentation  
Included

- X 6. **ACTION** – CONTRACT CHANGE ORDER FOR PBS&J FOR FISCAL YEAR 06-07
- X 7. REGIONAL JOINT GOVERNANCE AD HOC COMMITTEE
- X 8. FINANCE AD HOC COMMITTEE
- 9. METRO WASTEWATER DEPARTMENT UPDATE
- 10. PROPOSED AGENDA ITEMS FOR THE NEXT METRO COMMISSION/WASTEWATER JPA MEETING (JUNE 7, 2007)
- 11. METRO COMMISSIONERS' AND JPA BOARD MEMBERS' COMMENTS
- 12. ADJOURNMENT OF METRO COMMISSION AND JPA (**Strategic Planning Workshop will commence immediately following this meeting**)

\*Item 2 - This portion of the agenda provides an opportunity for members of the public to address the Commission and/or JPA items within the jurisdiction of the Commission and/or JPA that have not previously been before the Commission and/or JPA. Comments are limited to three (3) minutes per individual. **Note:** Any member of the Public may address the Commission and/or JPA on any Agenda Item. Please complete a Speaker's Slip in advance of the specific item being called. For alternative agenda format or disabled access to Metro Commission, please call M. Barrett at (619) 236-6585.

\*The Metro Commission and/or JPA may take action on any item listed in this Agenda whether or not it is listed "For Action." All items are for Metro Commission and JPA consideration unless otherwise specified.



**Metro Commission and  
 Metro Wastewater JPA Meeting  
 9192 Topaz Way (MOC II) Auditorium  
 San Diego, California**

**April 5, 2007  
 Draft Minutes**

Chairman Abarbanel called the meeting to order at 12:03 p.m. A quorum of the Metro Wastewater JPA and Metro Commission was declared, and the following representatives were present:

**1. ROLL CALL**

<u>Agencies</u>	<u>Representatives</u>		<u>Alternate</u>
City of Chula Vista	Cheryl Cox (Arrived at 12:10)	X	Scott Tulloch
City of Coronado	Al Ovrom	X	
City of Del Mar	Henry Abarbanel	X	
City of El Cajon	Mark Lewis	X	
City of Imperial Beach	Mayda Winter	X	
City of La Mesa	Ernie Ewin	X	
Lemon Grove Sanitation District	Jerry Jones		Patrick Lund
City of National City	Luis Natividad	X	
City of Poway	Merrilee Boyack	X	
City of San Diego	Tim Bertch	X	
County of San Diego	Dianne Jacob		Mohamad Fakriddine
Otay Water District	Mark Robak	X	(Arrived 12:06)
Padre Dam MWD	Augie Caires	X	
Metro TAC Chair	Scott Huth	X	
Public Utilities Advisory Commission	Chuck Spinks	X	

**2. PUBLIC COMMENT**

There was no public comment.

**3. APPROVE MINUTES FROM THE MEETING OF MARCH 1, 2007**

Upon motion by Commissioner Lewis, seconded by Commissioner Boyack, with Otay Water District absent, the minutes for the meeting of March 1, 2007 were approved.

**4. METRO TAC UPDATE**

Following item 6 of this agenda, Mr. Scott Huth provided updated data on Vice Chair Winter's previous request for additional information on the CIP Program. A flow chart showing the process of projects was distributed. A more definitive breakdown of annual allocations will be available at the next TAC meeting. Anyone interested in receiving a copy should contact Mr. Huth.

(Note: Commissioner Cox arrived.)

**5. REGIONAL JOINT GOVERNANCE STUDY**

As requested by this Board, the scope of work for this study was discussed at the last TAC meeting. A

copy of the 1989 management study by Touche Ross was obtained and a summary was emailed to all Commissioners prior to this meeting. Questions raised in this 1989 study are similar to issues that need to be answered now. Cost savings will occur if this study can be brought up-to-date to identify outstanding issues instead of recreating the study. From this information a proposal can be created to meet both the issues and the desire to form a joint agency for discussion at the Strategic Planning Workshop. In response to Commissioner Boyack's question as to the anticipated cost and timeline, Mr. Huth responded that TAC and PBS&J, who have already been contracted to create a scope of work, will work together. Chairman Abarbanel felt an outline should be available by early June.

Prior to a vote from any agencies, written information will be provided to all of the participating agencies. Commissioner Lewis requested an outline of the pros and cons for all of the agencies.

Chairman Abarbanel suggested that a letter be sent to Council Member Frye and the NR&C, informing them that costs will be significantly less than discussed in February, and that the JPA representatives will be prepared in May instead of April to meet with them again.

## **6. FINANCE AD HOC COMMITTEE**

Commissioner Ewin provided the following updates:

- Since the 2003 audit has been approved, no further updates are necessary. 2004 and 2005 audits should be concluded in the first quarter of the fiscal year.
- The financial advisors have confirmed that the rate differential is not significant at this time for the participating agencies for the City of San Diego's private short-term financing vs. going to the bond market.

(Note: Commissioner Robak arrived)

- Costs for PBS&J consulting fees are being analyzed in relation to their involvement with the Ad Hoc Committee and other projects they have undertaken.
- The Ad Hoc Committee will provide a more concise statement prior to the Strategic Planning Workshop on their activities over the last year, including future membership and the continuation of this Committee.

## **7. METRO WASTEWATER DEPARTMENT UPDATE**

Dr. Timothy Bertch provided a PowerPoint presentation to outline the following events that have occurred at MWWWD over the past month:

- There was a resolution on the reclaimed water valve with Otay Water District.
- Dr. Bertch reviewed a portion of the Regional Wastewater Disposal Agreement between the City of San Diego and the Metro Wastewater JPA.
- They are entering final stages of financing with private financing for the next stage of CIP, which includes the Metro projects for the next year.
- There was clarification that the recent multi-million dollar sewer spill was not in the City's jurisdiction.
- An April Fools hoax by Google posted on their website regarding broad band service was noted.
- Staff continues to work on the Transportation Agreement.

## **8. PROPOSED AGENDA ITEMS FOR THE NEXT METRO COMMISSION/WASTEWATER JPA MEETING (Strategic Planning Workshop, May 3)**

Chairman Abarbanel noted that there will be a brief JPA meeting prior to the start of the May 3<sup>rd</sup> Strategic Planning Workshop. RSVPs should be made with Teri Basta by April 20<sup>th</sup>.

## **9. METRO COMMISSIONERS' AND JPA BOARD MEMBERS' COMMENTS**

- Vice Chair Winter reported on a recent Union Tribune article regarding HR569, which passed in the House and is going to the Senate, providing \$1.7 billion in grants to improve aging sewerage infrastructures.
- Commissioner Robak noted his nametag needs to be corrected.

**10. ADJOURNMENT OF METRO COMMISSION AND JPA**

At 12:36 p.m., there being no further business, Chairman Abarbanel declared the meeting adjourned. The next regular meeting is May 3, 2007, 9:30 a.m., at the Dempsey Holder Safety Center in Imperial Beach located at 950 Ocean Lane.

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Recording Secretary



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April 27, 2007

Mr. Henry Abarbanel  
Councilmember, City of Del Mar  
Chairperson, Metro JPA  
1050 Camino del Mar  
Del Mar, California 92014

**SUBJECT: REQUEST FOR AMENDMENT TO CONTRACT**

Dear Mr. Abarbanel:

As discussed at the Metro AdHoc Finance Committee and MetroTAC meetings, PBS&J is requesting a change order in our Fiscal Year 2006/07 contract. We are in the second year of our Consultant Contract. Our scope of work and level of services has increased since we originally negotiated the scope of the contract in April 2005. As such, the fee has become insufficient to cover the requested additional work. The specific services we have provided causing this request for additional funding include:

1. Support for MetroTAC in developing a base Sewage Transmission Agreement for use by the PA's and the City of San Diego, including soliciting and consolidating comments from the PAs, providing technical support, and assisting with negotiations with the City of San Diego. (\$12,700)
2. Preparation of Request for Proposals and consultant support for the Capacity Valuation Study. (\$6,800)
3. Preparation of Request for Proposals and consultant support for Fieldman, Rolapp & Associates. (\$4,600)
4. Support for the Metro AdHoc Finance Committee which was formed after the inception of our current two year contract. (\$4,500)

The total additional support is \$28,600. We are happy to provide these additional services and feel that we have provided value added services to the MetroTAC and the Metro JPA/Commission. Without the change in scope we would have completed our contract under budget as always.

We have reviewed our current projected workload for May and June of 2007. During that time period we will be closing out the 2004 and 2005 audit reviews and will be actively working on the 2006 audit. In addition, we may be providing additional support to MetroTAC and the Metro JPA/Commission regarding the joint governance study. We also will be working with MWWD to ensure that the PA's are not being overcharged for General Government Services in the fiscal year 2007/08 budget estimates.

## **REVIEW OF PBS&J'S REPORT ON THE 1989 TOUCHE ROSS "MANAGEMENT AND ORGANIZATION STUDY PHASE I REPORT"**

**ISSUE:** Is there a need to perform a governance study to determine what type of governance structure would best meet the PAs' needs?

**RECOMMENDATION:** It is recommended that we not move forward with a governance study at this time, because it is felt that we have enough information to determine the direction amongst ourselves. Furthermore, it is recommended that we review our goals for Regional Governance and Expanding Representation and Participation, and that we evaluate proposed Governance alternatives. Once a determination is made as to how to proceed, we can identify what, if anything, needs to be further studied.

**FISCAL IMPACT:** Savings associated with the projected cost of performing the governance study.

**BACKGROUND:** At the direction of Metro Wastewater JPA and MetroTAC, PBS&J prepared an analysis of key findings and recommendations contained in the 1989 "Management and Organization Study Phase I Report" prepared by Touche Ross, and updated these to reflect their current standing. Karyn Keese of PBS&J presented the attached report, "Overview and Present Day Analysis, Management and Organization Study Phase I Report (1989)", at the April 18, 2007 MetroTAC meeting.

The 1989 Governance Study was conducted and was paid for by the City of San Diego in response to two key issues, the 1963 Operating Contract with the participating agencies was due to expire, and the City of San Diego was facing billions of dollars of costs for upgrading and expanding the Metro System.

The 1989 Study was to be performed to address four critical issues. The recommendations and the current status of these recommendations are summarized below.

### **Member Agency Participation**

**Recommendation:** A new structure should be developed to facilitate member agency involvement.

**Current Situation:** The PAs are currently sharing the risk with San Diego for NPDES requirements for the Metro System, but they do not have a "true" voice in this risk sharing and little recourse for San Diego's decisions and associated financial liabilities. Essentially the Landlord-Tenant relationship still exists. Since 1998 positive and cooperative relations with the City of San Diego have developed and since the time of the new Agreement the MetroTAC and Metro Commission have agreed with all major decisions made by MWWD.

### **System Governance**

**Recommendation:** Direct representation and shared authority for all participants is appropriate.  
**Current situation:** The City of San Diego continues to control the policy and decision-making process. An alternative governance structure that provides for direct representation for all participants in the Metro System has not been achieved. The Metro Commission created by the 1998 Agreement is a great improvement from the 1963 Agreement. Due to amicable relations with the City of San Diego the Metro Commission is functioning acceptably as an advisory body and has not had any major disputes with the City of San Diego since 1998.

### **System Ownership**

**Recommendation:** Metro Sewage treatment and disposal assets should be jointly owned by the participants.  
**Current situation:** The City of San Diego currently owns all Metro assets. The PAs have capacity rights to approximately 40% of the Metro facilities for which they are currently paying annual debt service based on their use of the Metro System.

### **Future Organizational Requirements**

**Recommendation:** Metro II planning activities should be assigned to a single purpose interim organization separate from the Water Utilities Department.  
**Current Situation:** This recommendation was totally implemented with the formation of MWWD. MWWD was created and was managed by a senior management team experienced in large scale construction management. Under their guidance the Metro Facilities specifically described in Exhibit A, Sections II and III, to the 1998 Agreement were constructed. MWWD has since its inception provided progressively enlightened Metro service; however, it is unknown whether this will be continued into the future due to the current Mayor's programs and departmental reorganization. It appears that MWWD's Services and Contracts Division is being transitioned from its former role of administrator and constructor to solely an accounting function. Many key personnel have left the Division and it is unclear who is left and what functions remain in the Division. As opposed to limiting the services provided by outside departments, the new San Diego governance structure is enlarging the concept of a "pooled function". Thus MWWD will have to rely on increased outside use of other City Departments for support. This increased reliance is in direct contrast with MWWD's current level of self sufficiency and thus a regression in the PAs' ability to control cost of service.

**ANALYSIS:** The TAC discussed the item and concluded that there was no need to perform another governance study at this time, as the information provided in the original study and the updates provided by PBS&J, along with our experience with the SANDistrict and in operating the JPA, as well as our previous discussions on weighted vote strategies, provide enough background that we can determine the direction we'd like to take on the governance issue amongst ourselves.

If the Board wishes to move forward with establishing an entirely separate regional agency, then it appears that the JPA format would provide the maximum flexibility in meeting the needs of a regional governance agency.

Depending on the direction taken by the Board, other specific areas may need to be studied, such as asset valuation and asset transfer.

Mr. Abarbanel  
April 27, 2007  
Page 2 of 2

This request is for a contract change order increase of **\$18,000** to cover the estimated additional costs for the period from April 15, 2007 to June 30, 2007. As you are aware we have never exceed our contract budget before. We respectfully request your consideration of our contract change order.

Sincerely,

A handwritten signature in blue ink, appearing to read "Karyn Keese", is written over a light gray rectangular background.

Karyn Keese  
Manager, Client Financial Services



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APRIL 17, 2007

## **OVERVIEW AND PRESENT DAY ANALYSIS MANAGEMENT AND ORGANIZATION STUDY PHASE I REPORT (1989)**

### **Preamble**

At the direction of Metro Wastewater JPA and MetroTAC, PBS&J has prepared an analysis of key findings and recommendation contained in the Management and Organization Study Phase I Report (1989 Study) and updated them in light of where they stand today. PBS&J consultants participated in the 1989 Study and prepared Section VIII (Governance) and Section XI (Potential Institutional Arrangements) as well as the Coastal Cites Review contained in the Appendices.

### **Introduction**

On April 4, 1989, the San Diego City Council authorized the City Manager to execute a contract with Touche Ross & Co. (now Deloitte & Touche) and The Keese Company (now PBS&J) to perform a Management and Organization Study of the Metropolitan Wastewater System (now the Metro portion of Metropolitan Wastewater Division). The study's mission was to:

*“Perform a critical comparison of alternative ownership and organizational structures with the objective of determining which alternative will provide the best public service at the lowest financing cost.”*

The 1989 Study was to be performed in two phases. Phase I was to address four critical issues:

- Member Agency Participation
- System Governance
- System Ownership
- Future Organizational Requirements

Phase II was to assist in the implementation of the Phase I recommendations. Phase II was never performed.

This study was quite thorough and many of its recommendations were enacted. It also addressed in detail many issues such as “potential institutional arrangements” that do not need to be updated today by another study. The following is a summary by study category of the study's recommendations. Items in bold have been implemented since that time period and reflect the current situation.

In reviewing the study it becomes apparent that a new study would produce similar recommendations and therefore would be duplicative. A more appropriate path may be to create a work group which would include the City of San Diego to work through the recommendations of this study similar to the recent discussions with the City regarding the weighted vote.

Following are the key recommendations from the Study. Included with each recommendation is a summary of what has been implemented since that time and what still needs to be addressed.

The Study used the term "Metro I" and "Metro II". Metro I was the Metro System as it was in 1989 and consisted of Point Loma Wastewater Treatment Plant, outfall, Pump Stations #1 and #2, North and South Metro Interceptors and the Fiesta Island Sludge Processing Facility. Metro II was the expansion of the Metro I system and contained several major infrastructure projects. Facilities constructed under Metro II were the North City Water Reclamation Plant, Metro Biosolids Center, South Bay Water Reclamation Plant and their connecting infrastructure. The objectives of Metro II provided for secondary treatment, capacity expansion, sludge processing, and water reclamation. The Metro II capital program was required to bring the Metro system into compliance with the 1972 Clean Water Act.

## **Key Recommendation 1: Member Agency Participation**

The 1989 Study recommended that the then existing “Landlord-Tenant” structure was no longer appropriate and that a new structure should be established to provide the Participating Agencies (PAs) with access to information and meaningful involvement in the Metro decisions making process. It provided three major recommendations. A discussion follows each recommendation to provide the history since 1989 regarding implementation of the recommendation.

- **Full member agency participation to achieve the lowest cost financing should be pursued.** Since the 1989 Study a new Regional Wastewater Disposal Agreement (Agreement) has been negotiated and ratified by the City of San Diego and the PAs. This Agreement became effective in May 1998. Since then the City of San Diego has financed \$1 billion worth of required Metro capital facilities through the issuance of debt, grants, and low interest loans. Past financings have included the PAs share of the Metro capital costs except for a pay-go portion as required by bond rating agencies. This pay-go portion normally ranges from 10% to 30% of annual capital requirements. PAs repay their portion of annual debt service payments based on their yearly flows and sewage strengths. In January 2001 the majority of the PAs formed the Metro Wastewater JPA. This JPA allows for member’s to jointly finance Metro and local capital facilities as a supplement and/or alternative to San Diego’s continued capital project financing.
- **A new structure for participation must be developed to facilitate Member Agency involvement.** All of the participating agencies entered into the Agreement in April/May of 1998. The Agreement gives the PAs an active advisory role in future Metro decisions and over the course of the last several years the relationship between the City and the PAs has grown from adversarial to partnership in the decision making process. However, the Agreement still maintains a “Landlord-Treatment” structure and therefore participation is only based on relationships not contractual rights.
- **Involvement of the PAs in Metro decisions making process offers an immediate opportunity for expanding participation.** The PAs currently only have an advisory role through the Metro Wastewater Commission and MetroTAC on items such as system design, financing, organizational staffing, operations and maintenance costs, etc. In other words, they do not have appropriate sharing of compliance risk and the associated financial liabilities. Under the Agreement the PAs have no voice in how the system is operated but will be required to pay their share of Metro System permit violations and fines if incurred by the City of San Diego.

### **Current Situation:**

Issue: The PAs are currently sharing the risk with San Diego for NPDES requirements for the Metro System. But they do not have a “true” voice in this risk sharing and little recourse for San Diego’s decisions and associated financial liabilities. Essentially the Landlord-Tenant relationship still exists. Since 1998 positive and cooperative relations with the City of San Diego have developed and since the time of the new Agreement the MetroTAC and Metro Commission have agreed with all major decisions made by MWWWD. Areas of contention have arisen due to San Diego’s current financial situation, their inability to issue bonds, and increases in required pension benefits starting in 2004.

## Key Recommendation 2: Governance

The 1989 Study found that the PAs were restricted to a limited advisory role and had no formal governance authority. Although this role had worked in the past due to the cost and complexity of the proposed Metro II system the Study challenged the appropriateness of this governance structure. The Study made two major recommendations for system governance. A discussion follows each recommendation to provide the history since 1989 regarding implementation of the recommendation.

- **Direct representation and shared authority for all Metro II participants is appropriate.** The Study recommended that a Special Act District was the most appropriate form of Governance for Metro II participants. The San Diego Wastewater Management District (Special Act District) was created by State statute passed in 1992 and effective in 1993. In 1993 a Board of Directors was appointed, officers were elected, an executive director and general counsel were hired, and meetings were held. An attempt was made to utilize the District to own and operate the Metro Sewer System. A draft agreement was prepared, negotiated, and debated. During the course of this process policy disagreements arose which caused the Board of Directors to conclude that the District was not a viable entity to own and operated the Metro System.

The current Agreement was entered into in 1998 and created the Metro Commission. The Metro Commission was created to advise the City of San Diego of its position on any issue relevant to the Metro System. Per Section VIII. B on page 20 of the Agreement, *“The City shall present the position of the majority of the Metro Commission to the City’s governing body in written staff reports. The Metro Commission may prepare and submit materials in advance and may appear at any hearings on Metro System matters and present its majority position to the governing body of the City”*. In addition the Technical Arm of the Metro Commission, MetroTAC, was formed to advise the Commission, and engineering, financial, and public affairs consultants have been hired to support both bodies.

- **A weighted voting structure can provide for greater equity in decision-making.** A weighted voting structure was included in the legislation that created the District. However it became one of the keys issues that made the Board of Directors conclude that the District was not viable. The Metro Commission currently has one vote per member in any matter considered by the Metro Commission. However, the City of San Diego participates in the Metro Commission on an ex officio, non-voting basis only. In October 2006 the MetroTAC/Commission received a consultant prepared report regarding a potential weighted vote proposal. This report was approved by both bodies and was reviewed by San Diego MWW staff. With staff’s

concurrence the proposal was vetted with the Mayor of San Diego and his staff and tacit agreement was reached.

**Current Situation:**

Issue: The City of San Diego continues to control the policy and decision-making process and full participation by the PAs has not been achieved. An alternative governance structure has not been achieved that provides for direct representation for all participants in the Metro System. The Metro Commission created by the 1998 Agreement is a great improvement from the 1963 Agreement. Due to amicable relations with the City of San Diego the Metro Commission is functioning acceptably as an advisory body and has not had any major disputes with the City of San Diego since 1998.

### Key Recommendation 3: Ownership

The 1989 Study found that the proposed infrastructure expansion of the Metro system assets, the magnitude of the project costs, the need for the lowest cost financing, and the complexities associated with the inclusion of water reclamation and reuse in the Metro program necessitated changes in the ownership structure. The Study made the following four recommendations. A discussion follows each recommendation to provide the history since 1989 regarding implementation of the recommendation.

- **Metro II sewage treatment and disposal assets should be jointly owned by the participants.** The 1993 Special Act District legislation included provisions for the transfer of assets. However, with the District in hiatus the 1998 Agreement governs the ownership of the Metro System. Section II, A of the Agreement states *“The City is the owner of the Metro System, and any additions to the Metro System or other facilities constructed pursuant to this Agreement. All decision with respect to the planning, design, construction, operation and maintenance of the Metro System shall rest with the City, in consultation with the Metro Commission. The Participating Agencies shall have a contractual right to use the Metro System and to participate in its operation as set forth in this Agreement”*.
- **Local retail sewerage collection systems should remain with local member agencies.** Prior to the 1993 Special Act District and the 1998 Agreement all of the PAs and San Diego owned and operated their own wastewater collection systems. That is still the case today.
- **Water reclamation wholesale distribution assets should be owned by the entity most capable of realizing the regional water reclamation objectives and reimbursing Metro II for the added cost of producing reclaimed water.** At the time of the 1989 Study the Metro System was administered by the Special Projects Division of the Water Utilities Department. The Study recommended that a free-standing organization distinct from the Water Utilities Department be created. From that recommendation the Metropolitan Wastewater Division (MWW) was created. The Study also recommended that likely candidates for ownership of the wholesale reclamation distribution assets included the County Water Authority, local water purveyors, Member Agencies, or some combination of these entities. Ultimately the water reclamation distribution system was taken over by the Water Department. The final Study recommendation of reimbursing Metro II for the added cost of producing reclaimed was incorporated into the 1998 Agreement. Section V. B. 2 Metro System Revenues provide the following guidance. *“All compensation or receipts from the sale or other conveyance or transfer of any Metro System by-products, including, but*

*not limited to gas, electrical energy, sludge products, and **Reclaimed Water** excepting there from any receipts allocated pursuant to subsection 2.a.(3) below.”*

Section 2.a.(3) reads: *“The distribution of revenue from the sale of Reclaimed Water from the North City Water Reclamation Plant, including incentives for the sale of Reclaimed Water, shall first be used to pay for the cost of Reclaimed Water Distribution System, then the cost of the Operation and Maintenance of the Tertiary Component of the North City Water Reclamation Plant that can be allocated to the production of Reclaimed Water and the to the Metro System”.*

- **Water reclamation retail assets should be owned by local entities most capable of handling the distribution function.** Similar to the wastewater collection systems discussed earlier, reclamation retail assets have always been and are currently owned by local entities. These include the City of San Diego Water Department, City of Poway, Otay Water District, and Padre Dam Municipal Water District.

#### **Current Situation:**

Issue: Currently the revenues from the sale of reclaimed water from the North City WRP are only being used to repay the Water Department for their investment in the North City distribution assets. At the estimated current rate of repayment Metro will not see revenues that will either pay for the tertiary process or become an income credit per the 1998 Agreement for at least twenty years. This is in part due to the Water Department’s “Incentive Rate” program which only charges \$350 per acre-foot for reclaimed water. With the completion of Otay Water District’s pipeline and pump station they will connect with the South Bay Water Reclamation Plant. It is estimated that they will be taking 2,000 acre-feet of reclaimed water from the South Bay Plant at a rate of \$3.50 per acre-foot or \$700k per year.<sup>1</sup> Per the 1998 Agreement these monies should become an income credit and offset the cost of producing tertiary water at the South Bay Plant. Per the 1998 Agreement there are no requirements to reimburse the Water Department for any cost at the South Bay Plant.

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<sup>1</sup> Per City of San Diego “Reclaimed Water Rate Case”, September 2002.

#### **Key Recommendation 4: Future Organization Requirements**

The 1989 Study found that the Special Projects Division of the Water Utilities Department (eleven staff members) relied extensively on services performed by external providers. The City of San Diego's Financial Advisors, among others, had identified administrative and management factors which represented key determinants of credit quality for future external financing. An over-reliance on external service providers for critical project management skills might have potentially detrimental impact on the credit quality perception of the needed projects and therefore, the overall cost of financing. They also found that the current decision making structure for the Clean Water Program was overly complex and might impede timely decision making. They recommended that the Metro II planning and implementing organization should be organizationally separated from the Water Utilities Department and that the Metro wholesale operations could be separated entirely from the City of San Diego. The Study made the following four recommendations. A discussion follows each recommendation to provide the history since 1989 regarding implementation of the recommendation.

- **Metro II planning activities should be assigned to a single purpose interim organization separate from the Water Utilities Department.** This recommendation was totally implemented with the formation of MWWD. MWWD was created and was managed by a senior management team experienced in large scale construction management. Under their guidance the Metro Facilities specifically described in Exhibit A, Sections II and III, to the 1998 Agreement were constructed.
- **Near term responsibility for the Metro II operations should remain with the City of San Diego Water Utilities Department.** This recommendation was totally implemented. Ultimately the operations of both the City of San Diego's municipal collection system and the Metro system were transferred to MWWD for operations oversight.
- **Support provided to the Metropolitan Wastewater Division by other Water Utilities Divisions and other City Departments needs to be further examined to explore opportunities for consolidation and improved cost reporting.** With the advent of the 1998 Agreement the PAs negotiated with MWWD to be an active participant in the Exhibit E Audit process. Exhibit E puts forth the annual costs allocated to the City's municipal collection system and the shared costs of the Metro System and is incorporated into the City's Certified Annual Financial Statements. A comprehensive scope of work was negotiated that expanded the sampling of Metro transactions and the external auditor's responsibilities. In addition, the PAs financial consultant and Treasurer became active participants in the annual audit. This oversight has saved the PAs an average of \$1 million annually. Currently the PAs

financial consultant is working with the MWWD staff to train accounting personnel to understand the difference between Muni and Metro costs in hope that this will improve the accuracy of their cost accounting.

- **Evolution of the future Metro II organization should be directed by the results of a series of management assessment studies.** The Metro Operations and Maintenance portion of MWWD was the first department in the City of San Diego to enter into optimization programs and which are currently being required by the Mayor for all departments. Their participation in this program began in the late 1990's MWWD in conjunction with an outside consultant has been very effective at implementing cost savings in their operational processes. The results of these procedures were evident when the year that the 15 MGD South Bay WRF was placed on line, system operational costs only increased 1% while the total system capacity of all Metro plants increased 5%.

#### **Current Situation:**

Issue: MWWD has since its inception provided progressively enlightened Metro service. However it is unknown whether this will be continued into the future due the current Mayor's programs and departmental reorganization. It appears that MWWD's Services and Contracts Division is being transitioned from its former role of administrator and constructor to solely an accounting function. Many key personnel have left the Division and it is unclear who is left and what functions remain in the Division. As opposed to limiting the services provided by outside department the new San Diego governance structure is enlarging the concept of a "pooled function". Thus MWWD will have to rely on increased outside use of other City Departments for support. This increased reliance is in direct contrast with MWWD's current level of self sufficiency and thus a regression in PAs ability to control cost of service.

## **Work of Metro Ad Hoc Finance Committee 2006/07**

### **We have as a matter of agenda addressed the following:**

1. Research regarding JPA Financing Issues, including but not limited to, legal feasibility, timing, pricing, process
2. Preparation of RFP/ Selection of Financial Advisor
3. Analysis of City of San Diego private financing
4. Monitoring of City Audit completion
5. Monitoring of City's Cost Allocation Study

The Trigger Points for JPA financing were as follows (discussed at May 4, 2006 JPA Meeting):

- a. Regional Governance
- b. EPA Waiver/ Secondary Treatment
- c. Rate Case Failure at City of San Diego
- d. Private Financing doesn't roll into Public Financing.

As stated in the minutes of the May [2007](#) JPA Meeting

Report on Activities of Finance Ad Hoc Committee Regarding Bonding and Financing Options  
Question and Answer scenarios for public financing were provided in the agenda packet received from BB&K. It was determined that public financing in the future would be appropriate if at minimum one of the following happens:

- 1) regional governance is established,
- 2) the EPA waiver issue gets accelerated,
- 3) the rate case fails at the City of San Diego,
- 4) San Diego's private financing approach does not get a chance to roll into the traditional bonding financial arrangement we have had as a JPA via San Diego.

There is not enough of a rate differential at this time between the private funding rates and terms vs. a public offering. We have additional informational data that BB&K has completed which we review and update periodically. We are working with and keeping the financial advisor engaged so as to be timely in any information/recommendations we need to convey to the Board in the future.