

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

**AGENDA**

**Thursday, October 4, 2007, 12:00 p.m.  
9192 Topaz Way (MOC II) Auditorium  
San Diego, California**

“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 AUGUST 2, 2007
- X 4. REVIEW AND APPROVAL OF METRO WASTEWATER JPA FINANCIAL STATEMENTS FOR FISCAL YEAR ENDING JUNE 30, 2007
5. METRO TAC UPDATE
- X 6. REVIEW OF RECENTLY RELEASED STREAMLINING SAN DIEGO REPORT AS IT RELATES TO WASTEWATER AND POTENTIAL COST SAVINGS RESULTING FROM CONCEPTS PRESENTED THEREIN [www.sandiegoinstitute.com/pdf/121.pdf](http://www.sandiegoinstitute.com/pdf/121.pdf)  
(See link provided)
7. FINANCE AD HOC COMMITTEE
- X a) **ACTION** - REVIEW AND ACCEPTANCE OF FISCAL YEAR 2004 EXHIBIT E AUDIT
8. REGIONAL JOINT GOVERNANCE AD HOC COMMITTEE
- X a) LETTER TO MAYOR SANDERS
- b) **ACTION** - CREATE AN AD HOC SUBCOMMITTEE TO WORK WITH CITY OF SAN DIEGO REPRESENTATIVES TO MEET AND DISCUSS REGIONAL ISSUES, INCLUDING BUT NOT LIMITED TO ISSUES SURROUNDING UPGRADES AND FUTURE CAPABILITIES OF THE POINT LOMA TREATMENT PLANT

9. PROPOSED AGENDA ITEMS FOR THE NEXT METRO COMMISSION/WASTEWATER JPA MEETING (November 1, 2007)
10. METRO COMMISSIONERS' AND JPA BOARD MEMBERS' COMMENTS
11. ADJOURNMENT OF METRO COMMISSION AND JPA

\*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.

# Agenda Item 3



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

**August 2, 2007  
 Draft Minutes**

Chairman Abarbanel called the meeting to order at 12:09 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	X
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 (Arrived 12:06)
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	Daniel Brogadir
Otay Water District	Mark Robak	Larry Breitfelder
Padre Dam MWD	Augie Caires	X
Metro TAC Chair	Scott Huth	X
Public Utilities Advisory Commission	Chuck Spinks	No Representation

**2. PUBLIC COMMENT**

There was no public comment.

**3. APPROVE MINUTES FROM THE MEETING OF JULY 12, 2007**

Upon motion by Vice Chair Winter, seconded by Commissioner Natividad, with the City of La Mesa absent and the Otay Water District abstaining, the minutes from the July 12, 2007 meeting were approved.

At this time, Chairman Abarbanel thanked Commissioner Boyack for hosting the July JPA meeting at the City of Poway's Council Chambers.

**4. METRO TAC UPDATE**

Chairman Abarbanel noted that information from the City of San Diego will be included in Metro TAC's reports today and future meetings. Scott Huth reported on the following:

- The Capacity Valuation Study continues to be discussed, focusing on two items 1) content of the report and incoming comments, and 2) discussion on how to interact

with each other over capacity and the use of capacity that we already have, including ideas on renting, leasing, or selling extra capacity. They would like to spend a couple of months on this discussion and then report back to the JPA. A subcommittee was formed to discuss use of capacity.

- The Transportation Agreement is moving along well. Comments from participating agencies are still being collected. It is anticipated that a report will be brought to the JPA in a couple of months.

(Note: Commissioner Ewin arrived.)

- MWWWD Update – There has been discussion on potential changes with OPRA that could affect our ability to secure another waiver and/or other requirements that could force us into secondary treatment. The City has drafted a letter providing feedback, which will be circulated to all participating agencies at the next TAC meeting. Recommendations will be presented at the next JPA meeting.

## **5. FINANCE AD HOC COMMITTEE**

Karyn Keese provided handouts on the summary of adjustments to the August 2007 billings and a summary of changes to the FYE 2008 budget. Karyn still has questions on the amounts billed vs. flows. In regards to the budget, in January it was estimated that East Otay Mesa would be projected in part of the budget this year, but they will not be. The handout reflects this change.

## **6. REGIONAL JOINT GOVERNANCE AD HOC COMMITTEE**

- Chairman Abarbanel announced that on July 17<sup>th</sup> the City of Chula Vista City Council voted unanimously to join the Metro Wastewater JPA.
- A response from Mayor Sanders was received in response to our request to have two members on IROC. Our request was declined. Chairman Abarbanel, Vice Chair Winter, Scott Huth, and Scott Tulloch have a meeting scheduled with the Mayor on September 7<sup>th</sup>. If there are suggestions for discussion points, please submit them to Chairman Abarbanel.
- On July 18<sup>th</sup>, Chairman Abarbanel went before the NR&C Committee for the second time regarding Regional Governance, Alternative One. There was not as much interest at this meeting as there had been in February. Chairman Abarbanel expressed his disappointment in Dr. Bertch's recommendation at this meeting not to adopt, study, analyze or participate in Alternative One due to no financial gain to the City of San Diego. Dr. Bertch commented that additional responsibilities should be gained along with additional authority. He also noted that it may be better to pursue this issue after December 15<sup>th</sup> due to constraints and timing with the waiver issue.

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

There were no comments.

## **8. PROPOSED AGENDA ITEMS FOR THE NEXT METRO COMMISSION/WASTEWATER JPA MEETING**

The League of California Cities will be meeting the first week of September. At this time it

was announced that the September 6<sup>th</sup> Metro Wastewater JPA meeting will be cancelled.

**9. CLOSED SESSION – CONFERENCE WITH LEGAL COUNSEL – ANTICIPATED LITIGATION, INITIATION OF LITIGATION PURSUANT TO SUBDIVISION (c) of SECTION 54956.9**

At 12:30 p.m., all persons left the room with the exception of the Board of Directors, Metro Wastewater JPA consultants, Secretary, and Metro Wastewater JPA Counsel.

No action was taken in closed session. There were no minutes taken, and the session was not tape recorded.

At 1:05 p.m., Chairman Abarbanel declared the meeting to be in open session.

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

At 1:05 p.m., there being no further business, Chairman Abarbanel declared the meeting adjourned.

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Recording Secretary

# Agenda Item 4

Metro Wastewater JPA

Treasurer's Report  
Year Ending June 30, 2007  
Unaudited

<b><u>Beginning Cash Balance at July 1, 2006</u></b>	<b>\$ 76,570</b>
<b><u>Operating Results</u></b>	
Membership dues & Interest income	\$ 220,063
Expenses	\$ (298,507)
Net Income (Loss)	\$ (78,444)
Net change in receivables & payables (see cash flow statement)	\$ 28,493
<b>Cash provided (used) from operating activities</b>	<b>\$ (49,951)</b>
<b><u>Ending Cash Balance at June 30, 2007</u></b>	<b><u>\$ 26,619</u></b>

Submitted by:

*Doug Wilson, Treasurer*  
August 10, 2007

**Metro Wastewater JPA - C/O Padre Dam MWD**  
**Balance Sheet**  
 As of June 30, 2007

	<u>Jun 30, 07</u>	<u>Jun 30, 06</u>	<u>\$ Change</u>
<b>ASSETS</b>			
<b>Current Assets</b>			
<b>Checking/Savings</b>			
California Bank & Trust	24,063	76,070	-52,007
California Bank - checking	2,555	499	2,056
<b>Total Checking/Savings</b>	<u>26,619</u>	<u>76,570</u>	<u>-49,951</u>
<b>Accounts Receivable</b>			
Accounts Receivable	-13,680	0	-13,680
<b>Total Accounts Receivable</b>	<u>-13,680</u>	<u>0</u>	<u>-13,680</u>
<b>Total Current Assets</b>	<u>12,939</u>	<u>76,570</u>	<u>-63,631</u>
<b>TOTAL ASSETS</b>	<u><b>12,939</b></u>	<u><b>76,570</b></u>	<u><b>-63,631</b></u>
<b>LIABILITIES &amp; EQUITY</b>			
<b>Liabilities</b>			
<b>Current Liabilities</b>			
<b>Accounts Payable</b>			
Accounts Payable	31,724	14,161	17,563
<b>Total Accounts Payable</b>	<u>31,724</u>	<u>14,161</u>	<u>17,563</u>
<b>Other Current Liabilities</b>			
Deferred Income - Survey	0	2,750	-2,750
<b>Total Other Current Liabilities</b>	<u>0</u>	<u>2,750</u>	<u>-2,750</u>
<b>Total Current Liabilities</b>	<u>31,724</u>	<u>16,911</u>	<u>14,813</u>
<b>Total Liabilities</b>	<u>31,724</u>	<u>16,911</u>	<u>14,813</u>
<b>Equity</b>			
Retained Earnings	59,659	38,383	21,276
Net Income	-78,444	21,276	-99,719
<b>Total Equity</b>	<u>-18,785</u>	<u>59,659</u>	<u>-78,444</u>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<u><b>12,939</b></u>	<u><b>76,570</b></u>	<u><b>-63,631</b></u>

Metro Wastewater JPA - C/O Padre Dam MWD  
**Profit & Loss Budget vs. Actual**  
 July 2006 through June 2007

	<u>Jul '06 - Jun 07</u>	<u>Budget</u>	<u>\$ Over Budget</u>
<b>Ordinary Income/Expense</b>			
<b>Income</b>			
<b>Membership Dues</b>	215,294	215,294	0
<b>Opinion survey billing</b>	2,750		
<b>Interest_ Income</b>	2,019	250	1,769
<b>Total Income</b>	<u>220,063</u>	<u>215,544</u>	<u>4,519</u>
<b>Expense</b>			
<b>PBS&amp;J</b>	120,482	102,484	17,998
<b>Capacity Valuation study</b>	60,300	60,300	0
<b>Public Information</b>	36,961	35,800	1,161
<b>Legal</b>	30,810	14,000	16,810
<b>Per Diem - Agency</b>	14,250	12,000	2,250
<b>Administrative Support - Padre</b>	12,335	14,000	(1,665)
<b>Financial Consulting</b>	9,445	0	9,445
<b>Metro/JPA/TAC meeting expenses</b>	4,846	6,400	(1,554)
<b>Annual Retreat - strategic plan</b>	4,816	5,300	(484)
<b>Per Diem - Chairman</b>	3,450	2,700	750
<b>Miscellaneous</b>	368	200	168
<b>Bank charges</b>	309	0	309
<b>Office Supplies</b>	80	65	15
<b>Business meals</b>	54		
<b>Supplies</b>	0	450	(450)
<b>Automobile Expense</b>	0	50	(50)
<b>Other expense</b>	0	119	(119)
<b>Dues and Subscriptions</b>	0	500	(500)
<b>Contingencies</b>	0	3,000	(3,000)
<b>Total Expense</b>	<u>298,507</u>	<u>257,368</u>	<u>41,139</u>
<b>Net Ordinary Income</b>	<u>(78,444)</u>	<u>(41,824)</u>	<u>(36,620)</u>
<b>Net Income</b>	<u><b>(78,444)</b></u>	<u><b>(41,824)</b></u>	<u><b>(36,620)</b></u>

Metro Wastewater JPA - C/O Padre Dam MWD  
Statement of Cash Flows  
July 2006 through June 2007

	<u>Jul '06 - Jun 07</u>
<b>OPERATING ACTIVITIES</b>	
Net Income	-78,444
Adjustments to reconcile Net Income to net cash provided by operations:	
Accounts Receivable	13,680
Accounts Payable	17,563
Deferred Income - Survey	-2,750
Net cash provided by Operating Activities	<u>-49,951</u>
Net cash increase for period	-49,951
Cash at beginning of period	76,570
Cash at end of period	<u>26,619</u>

# Agenda Item 6

[www.sandiegoinstitute.com/pdf/121.pdf](http://www.sandiegoinstitute.com/pdf/121.pdf)

# Agenda Item 7A

**CITY OF SAN DIEGO  
METROPOLITAN WASTEWATER UTILITY  
(AN ENTERPRISE FUND OF THE  
CITY OF SAN DIEGO)**

Independent Auditor's Reports  
and Schedule of Allocation for Billing  
to Metropolitan System  
For the Fiscal Year Ended June 30, 2004

DRAFT

**CITY OF SAN DIEGO METROPOLITAN WASTEWATER UTILITY**  
**(AN ENTERPRISE FUND OF THE CITY OF SAN DIEGO)**  
Independent Auditor's Reports and Schedule of Allocation for Billing to Metropolitan System  
For the Fiscal Year Ended June 30, 2004

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DRAFT

To the Honorable Mayor and City Council  
of the City of San Diego  
San Diego, California

### INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying Schedule of Allocation for Billing to Metropolitan System (the "Schedule") of the City of San Diego Metropolitan Wastewater Utility, an enterprise fund of the City of San Diego, (the "Utility") for the year ended June 30, 2004. This Schedule is the responsibility of the Utility's management. Our responsibility is to express an opinion on the Schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utility's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall presentation of the Schedule. We believe that our audit provide a reasonable basis for our opinion.

As described in Note 2, the accompanying Schedule referred to above was prepared for the purpose of complying with, and in conformity with the accounting practices prescribed by the Regional Wastewater Disposal Agreement between the City of San Diego (City) and the Participating Agencies in the Metropolitan Sewerage System dated May 18, 1998 and the First Amendment dated May 15, 2000 (Agreements). Accordingly, the Schedule is not intended to present the financial position or the changes in financial position of the Utility in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Schedule referred to above presents fairly, in all material respects, the allocation for billing to Metropolitan System for the year ended June 30, 2004 on the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 22, 2007 on our consideration of the Utility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information and use of the City Council and the Utility's management and is not intended to be and should not be used by anyone other than these specified parties. However this report is a matter of public record and its distribution is not limited.

Certified Public Accountants

Los Angeles, California  
May 22, 2007

# City of San Diego Metropolitan Wastewater Utility

SCHEDULE OF ALLOCATION FOR BILLING TO METROPOLITAN SYSTEM  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

	Operating Expenses		
	Municipal System	Metropolitan System	Total
<b>TRANSMISSION:</b>			
Cleaning and Stoppage Removals, Mains and Laterals.....	\$ 13,397,691	\$ -	\$ 13,397,691
Maintenance of Laterals.....	3,652,410	-	3,652,410
Maintenance of Mains and Manholes.....	14,797,336	-	14,797,336
Sewage Pumping Stations.....	11,269,406	723,593	11,992,999
Metro Pump Station #1.....	-	2,291,430	2,291,430
Metro Pump Station #2.....	-	6,052,515	6,052,515
<b>TOTAL TRANSMISSION.....</b>	<b>43,116,844</b>	<b>9,067,537</b>	<b>52,184,382</b>
<b>TREATMENT AND DISPOSAL:</b>			
Cogeneration Facilities.....	-	1,691,965	1,691,965
Point Loma Plant.....	8,632	15,446,909	15,455,541
North City Water Reclamation Plant.....	13,349	7,505,278	7,518,627
Metro Biosolid Center.....	7,892	14,315,111	14,323,003
South Bay Water Reclamation Plant.....	3,499	5,390,949	5,394,448
San Pasqual Water Reclamation Plant.....	81,692	-	81,692
Escondido System.....	2,245,585	-	2,245,585
Sewage Testing and Control.....	4,763,526	175,536	4,939,062
Wastewater Chemistry.....	284,812	5,207,934	5,492,746
Biology/Ocean Operations.....	1,260,891	3,442,906	4,703,797
<b>TOTAL TREATMENT AND DISPOSAL.....</b>	<b>8,669,878</b>	<b>53,176,588</b>	<b>61,846,466</b>
<b>GENERAL, ADMINISTRATIVE AND TAXES:</b>			
Utilities Administration and General Expenses.....	22,740,268	21,850,598	44,590,867
Utility Commercial.....	6,244,060	-	6,244,060
Technical Services Administration.....	-	2,681,211	2,681,211
Central Support Facility.....	1,121,359	8,069,404	9,190,762
Expenses of Other City Departments Applicable to Sewerage Utility.....	13,354,067	4,041,969	17,396,036
Engineering Expenses.....	6,025,914	3,559,151	9,585,065
<b>TOTAL GENERAL, ADMINISTRATIVE AND TAXES.....</b>	<b>49,485,667</b>	<b>40,202,333</b>	<b>89,688,000</b>
<b>TOTAL EXPENSES.....</b>	<b>101,272,389</b>	<b>102,446,459</b>	<b>203,718,848</b>
<b>CAPITAL IMPROVEMENT EXPENSE.....</b>	<b>114,237,918</b>	<b>22,143,048</b>	<b>136,380,966</b>
<b>METROPOLITAN SYSTEM CAPITAL IMPROVEMENT INCOME CREDITS.....</b>	<b>-</b>	<b>(20,268,523)</b>	<b>(20,268,523)</b>
<b>DEBT SERVICE ALLOCATION.....</b>	<b>22,002,829</b>	<b>58,413,965</b>	<b>80,416,794</b>
<b>METROPOLITAN SYSTEM INCOME CREDITS.....</b>	<b>-</b>	<b>(3,711,254)</b>	<b>(3,711,254)</b>
<b>TOTAL ALLOCATION FOR BILLING PURPOSES.....</b>	<b>\$ 237,513,136</b>	<b>\$ 159,023,695</b>	<b>\$ 396,536,831</b>

See notes to the Schedule of allocation for billing to Metropolitan System

**CITY OF SAN DIEGO METROPOLITAN WASTEWATER UTILITY  
(AN ENTERPRISE FUND OF THE CITY OF SAN DIEGO)**

Notes to the Schedule of Allocation for Billing to Metropolitan System  
For the Fiscal Year Ended June 30, 2004

**Note 1 – General**

The City of San Diego Metropolitan Wastewater Utility (“the Utility”) operates and maintains the Metropolitan Wastewater System (the “Metropolitan System”) and the Municipal Wastewater Collection System (the “Municipal System”). The Utility operates the collection and transportation of untreated raw sewage for the City of San Diego (City) as well as other municipalities and districts (the “Participating Agencies”). The Participating Agencies and the City have entered into the Regional Wastewater Disposal Agreement dated May 18, 1998 and amended on May 15, 2000, for their respective share of usage and upkeep of the Metropolitan System. The accompanying Schedule of Allocation for Billing to Metropolitan System (the “Schedule”), represents the allocation of expenses for billing related to the Metropolitan System of the Participating Agencies.

The Participating Agencies consist of the following municipalities and districts:

City of Chula Vista	Lemon Grove Sanitation District
City of Coronado	City of National City
City of Del Mar	Otay Water District
East Otay Mesa Sewer Maintenance District	Padre Dam Municipal Water District
City of El Cajon	City of Poway
City of Imperial Beach	Spring Valley Sanitation District
City of La Mesa	Wintergardens Sewer Maintenance District
Lakeside/Alpine Sanitation Districts	

**Note 2 – Summary of Significant Accounting Policies**

**(a) General**

The Utility is accounted for and reported as an enterprise fund of the City of San Diego.

**(b) Basis of Presentation**

The Schedule has been prepared for the purpose of complying with the Regional Wastewater Disposal Agreement between the City and the Participating Agencies as discussed in note 1 above. As a result, the Schedule is not intended to be a presentation of financial position or the changes in financial position in conformity with generally accepted accounting principles. The more significant differences are:

1. Purchases of capital assets are presented as capital improvement expenses.
2. Payments of principal and interest on long-term debt are presented as debt service allocation expenses.

The preparation of the Schedule requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

**CITY OF SAN DIEGO METROPOLITAN WASTEWATER UTILITY  
(AN ENTERPRISE FUND OF THE CITY OF SAN DIEGO)**

Notes to the Schedule of Allocation for Billing to Metropolitan System (Continued)  
For the Fiscal Year Ended June 30, 2004

**(c) *Metropolitan System Capital Improvement Expense***

Construction costs incurred during the fiscal year to maintain and improve the Metropolitan System and equipment purchases used in the maintenance of the Metropolitan System are included in capital improvement expense.

Metropolitan System capital improvement income credits include contributions-in-aid-of-construction received from federal and state granting agencies and reimbursements from bond proceeds.

**(d) *Debt Service Allocation***

Debt service allocation is that portion of the principal and interest payments relating to the 1993, 1995, 1997A, 1999A and 2004 sewer revenue bonds and the State of California loans outstanding.

**(e) *Metropolitan System Income Credits***

Metropolitan system income credits are revenues earned for which costs have been incurred during the current or previous fiscal years.

**(f) *Total Allocation for Billing Purposes***

The Utility costs to be billed to Participating Agencies include all individual construction projects and operation and maintenance expenses attributable to the Metropolitan System. Costs are apportioned to the Participating Agencies based on their percentage of flow, suspended solids, and chemical oxygen demand ("COD"). Each Participating Agency and the City flows are sampled quarterly, with plants sampled daily. The percentages are normally determined from cumulative samples and monitored flow. In the current year, flows were estimated and agreed upon for 2004 by the participating agencies.

For construction project expenses, percentages were allocated to flow, suspended solids and COD based on each project's design and function. The percentages were weighted by total project cost and combined to determine the final three derived percentages. Total annual costs are then allocated based on the three derived percentages and the measured flow, suspended solids and COD of each Participating Agency.

Operations and maintenance ("O&M") costs as a percentage of flow, suspended solids and COD were evaluated based on four cost categories: pump stations, plant operations, technical services and cogeneration. These percentages were weighted by the annual O&M cost for each category, and combined to determine a derived percentage for administrative costs. All O&M costs were then allocated based on the measured flow, suspended solids and COD of each Participating Agency.

**CITY OF SAN DIEGO METROPOLITAN WASTEWATER UTILITY  
(AN ENTERPRISE FUND OF THE CITY OF SAN DIEGO)**

Notes to the Schedule of Allocation for Billing to Metropolitan System (Continued)  
For the Fiscal Year Ended June 30, 2004

**(g) *Net Pension Obligation***

The City's actuary determines the rates supporting expenses related to the employer share of pension costs. Employer contribution rates are usually set with a 2-year time-lag resulting in the rates in effect for fiscal year ending 2004 being determined by the actuarial study prepared for the fiscal year ending 2002. Even though the Utility paid an amount calculated based on the fiscal year ending 2002 actuarial valuation, a subsequent review of this allocation determined that the Utility did not fully meet its contributions with respect to pension, postemployment health care and the Corbett Settlement. As a result, at June 30, 2004 a net pension obligation in the amount of \$9.6 million has been reported to record the Utility's liability.

**(h) *Post Employment Retirement Healthcare Benefits***

GASB recently issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for Statement No. 45. This Statement could affect the structure and amount of OPEB that the City provides to its employees. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions and for certain employers, the extent to which the plan has been funded over time. Application of this Statement is effective for the City's fiscal year ending June 30, 2008.

**(i) *Commitments and Contingencies***

As of June 30, 2004, the Utility's contractual commitments totaled \$108 million. The Utility intends to finance the contractual commitments with reserves, service charges, and revenue bonds secured by net system revenues.

The Utility is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following is a listing of significant litigation related to the Utility:

**CITY OF SAN DIEGO METROPOLITAN WASTEWATER UTILITY  
(AN ENTERPRISE FUND OF THE CITY OF SAN DIEGO)**

Notes to the Schedule of Allocation for Billing to Metropolitan System (Continued)  
For the Fiscal Year Ended June 30, 2004

*Gleason v. City of San Diego*

This lawsuit filed in January 2003 was a class action complaint against the City and San Diego City Employees Retirement System (SDCERS). The complaint alleged that from fiscal year 1997 to present, the City had not contributed to SDCERS the annual amount required by certain provisions of the City Charter and San Diego Municipal Code (SDMC). After extensive negotiations, a settlement agreement was reached between the parties, including the certified Class. To secure the City's obligation with respect to the settlement agreement, the City has provided as collateral to SDCERS \$375 million worth of real property, including real properties that are assets of the Utility. The property will be released in equal installments of \$125 million annually on July 1 or when SDCERS receives payment, which ever occurs later. The last City payment under the settlement agreement, and corresponding release of lien on the City's real property, should occur no later than July 1, 2007.

*Proposed Consent Decree*

On April 2, 2001, two environmental groups filed suit against the City alleging that the Municipal System's collection system was deficient as a result of sewer spills from December 1996 to the time of the filing. The complainant seeks injunctive relief to prevent illegal discharges, a compliance schedule to upgrade the Municipal System's collection system, and civil penalties of \$27,500 per day for each day of a violation. The Environmental Protection Agency (EPA) and the State also filed suits against the City alleging the same collection system violations, seeking unspecified penalties and injunctive relief for collection system improvements. All three cases were consolidated. The City settled the litigation with the State on March 16, 2005. The EPA, environmental groups and the City staff tentatively reached agreement on additional requirements to reduce sewer spills which will be set forth in a Proposed Consent Decree. The Proposed Consent Decree must still be approved by the Mayor and the City Council, and the Administrator of the EPA. The Proposed Consent Decree would supersede the requirements of the Administrative Order and the Partial Consent Decree and settle the litigation.

*Shames v. City of San Diego, et al.*

This is a class action lawsuit alleging that the City of San Diego employed an improper method in calculating sewer rates. As a result of the improper billing calculation, the plaintiff alleges that residential users were overcharged while industrial users were undercharged (discussed in the illegal acts section of this note). A settlement agreement has been entered into and the liability is reported on the City's financial statements; however, Council still needs to approve a rate increase in the future to fund this liability.

To the Honorable Mayor and City Council  
of the City of San Diego  
San Diego, California

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE SCHEDULE OF ALLOCATION FOR BILLING TO METROPOLITAN SYSTEM PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the accompanying Schedule of Allocation for Billing to Metropolitan System (the "Schedule") of the City of San Diego Metropolitan Wastewater Utility (the "Utility") for the year ended June 30, 2004, and have issued our report thereon dated May 22, 2007. Our report contained an explanatory paragraph describing that the Schedule was prepared for the purpose of complying with, and in conformity with the accounting practices prescribed by the Regional Wastewater Disposal Agreement between the City of San Diego and the Participating Agencies in the Metropolitan Sewerage System dated May 18, 1998 and the First Amendment dated May 15, 2000 (Agreements). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

*Internal Control over Financial Reporting*

In planning and performing our audit, we considered the Utility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the Schedule and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the Schedule being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

*Compliance and Other Matters*

As part of obtaining reasonable assurance about whether the Utility's Schedule is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Utility in a separate letter dated May 22, 2007.

This report is intended solely for the information and use of the City Council and the Utility's management and is not intended to be and should not be used by anyone other than these specified parties. However this report is a matter of public record and its distribution is not limited.

Certified Public Accountants

Los Angeles, California  
May 22, 2007

# Agenda Item 8A



September 13, 2007

Mayor Jerry Sanders  
City of San Diego  
City Administration Building  
202 C Street, 11<sup>th</sup> Floor  
San Diego, California 92101

Dear Mayor Sanders,

Thank you for meeting with us to discuss enhancing the existing positive relationship between the Metro Wastewater Commission/JPA (Chula Vista, Coronado, County of San Diego, Del Mar, El Cajon, Imperial Beach, Lemon Grove Sanitation District, La Mesa, National City, Otay Water District, Padre Dam Municipal Water District, and Poway).

We appreciate your willingness to join the discussion at the Metro Commission on a quarterly basis and send a representative of your office on others of our monthly meetings. We will work closely with your office to coordinate those meetings you attend with critical political and financial issues facing the Commission members and the City of San Diego. As agreed, we will hold those meetings in your offices in San Diego City Hall to provide a mesh with your demanding schedule.

Clearly critical issues over the coming years will include financial arrangements for capital improvement projects in a cooperative fashion between the Commission member agencies and the City of San Diego and discussions of regional strategies on applications for a waiver at the Point Loma plant and plans and conditions for transitioning to secondary treatment over the years.

We have already had excellent discussions with Mr. Jay Goldstone of your senior staff on the former, and we look forward to both enhancing that ongoing relationship and building one on the latter set of complex issues. In that regard, among the Commissioners and members of our Technical Advisory Group, Metro TAC is expertise in depth on the issues being addressed by the Scripps Institution of Oceanography panel now advising you. Dr. Tim Bertch is in close contact with Metro TAC and will work with them on these matters.

Again, many thanks for your time, and best regards.

Henry Abarbanel  
Councilmember, City of Del Mar  
Chair, Metro JPA

Mayda Winter  
Mayor Pro-tem, City of Imperial Beach  
Vice-Chair, Metro JPA

c: Metro Commissioners and Alternates  
Metro TAC members and Alternates

THE JOINT POWERS AUTHORITY PROACTIVELY ADDRESSING REGIONAL WASTEWATER ISSUES.