



**Special Meeting of the
Metro Commission
and Metro Wastewater JPA
(Strategic Planning Workshop)**

**Thursday, May 3, 2007
Immediately following 9:30 a.m. regular
Metro Commission and Metro Wastewater JPA Meeting**

**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."

1. PUBLIC COMMENT
2. METRO COMMISSION/METRO WASTEWATER JPA STRATEGIC PLANNING WORKSHOP
3. ADJOURNMENT

*Item 1 - 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."

Metro Commission/JPA Strategic Planning Workshop
May 3, 2007 Agenda
Immediately Following the 9:30 a.m. Regular Meeting

- I. Metro Commission/Wastewater JPA Meeting 9:30

- II. Strategic Planning Workshop: Opening Comments,
Review of Goals and Agenda, and Opening Activity

- III. MC/JPA History, Accomplishments and Approaches:
Dialogue and Agreement Setting Activity
Presentation by Augie Caires, Commissioner

- IV. Opportunities on the Horizon: Example of
Water-Born Pharmaceuticals in Waste Water
Presentation by Jim Howell, Alternate and TAC Member

- V. Lunch 11:45

- VI. Review of Regional Governance Options 12:30
Presentation: Scott Huth, Alternate, & Karyn Keese (PBS&J)

- VII. Break

- VIII. Regional Governance Options (Continued):
Agreement Setting and Decision-Making

- IX. Wrap-up

- X. Adjournment of Metro Commission and JPA Workshop 3:30

STRATEGIC PLANNING WORKSHOP

DISCUSSION ITEM

REVIEW OF GOVERNANCE ALTERNATIVES

ISSUE: If the Board decides to move forward with a change in the current organizational structure, which governance alternatives would they prefer?

RECOMMENDATION: It is recommended that the workshop participants review their goals related to Regional Governance, Expanding Representation and Participation in the Metro System, then make a decision on what future course to take while considering the governance alternatives.

FISCAL IMPACT: The following is an estimate of the impact of the proposed alternatives before the Board.

- No Action – no impact
- **Alternative One** (revise Metro Commission and contract)
Minimal impact, mainly legal review of changes to existing contract, estimated to be \$20,000 or less
- **Alternative Two** (Form JPA, Not an Owner, no asset transfer)
Legal expenses estimated to range between \$50,000 and \$100,000
- **Alternative Three** (JPA, Full Ownership)
Undetermined, costs may include the cost of selling and/or transferring assets and/or capacity to the JPA, legal expenses. This could be an item for study, if selected.

BACKGROUND: In 2003, several of the vision statements developed at the METRO Commission/JPA workshop centered around the Regional Governance concept, the basis of which was to provide the Participating Agencies with a greater role in and participation in the Metro system. Two key visions statements were that by 2008, “we would have become a Regional Wastewater Authority, and that we would have changed the governance structure, with the City of San Diego and the Participating Agencies sitting side by side in governing the Regional Wastewater Authority.” The benefits of such a change were:

1. Creates a Regional Agency focused exclusively on the wastewater issues of San Diego County (without the normal distractions faced by a municipal City Council).
 - a. Regional decision-making
 - b. Regional policy making
 - c. Regional governance

- d. Regional cost sharing
 - e. Regional water recycling program (as a beneficial water resource to San Diego County)
2. Transfers of City Metro debt obligations to the Regional Agency, thereby freeing up bonding capacity for the City of San Diego.
 3. Transfers regional wastewater responsibilities to the new agency.
 4. Promotes and communicates regional wastewater issues to the broader community.
 5. Consistent enforcement of strength-based billing structure
 6. Cost efficiencies
 7. Potential recovery by the City of San Diego of their excess capacity costs.
 8. Places all Participating Agencies in an ownership position.

These visions of a Regional Authority and the potential benefits that would accrue became the basis for our efforts to gain support for the Regional Agency concept from the City of San Diego. From the beginning the general concept was to create a Regional Authority with a neutral impact to, at least, the Participating Agencies' rate payers, and we knew we would need to find a way to make it beneficial to San Diego's rate payers.

Based on these concepts and the report from PBS&J on the 1989 Touche Ross study, staff (TAC and Karyn Keese of PBS&J) developed the following governance alternatives:

- No change
- **Alternative One:** Add San Diego to Metro Commission, Metro Commission makes all Metro decisions and San Diego's Mayor and Council would ratify or overturn.
- **Alternative Two:** Form a Regional Agency JPA, use voting structure developed in October of 2006, San Diego remains the owner, and there is no asset/debt transfer.
- **Alternative Three:** Form a Regional Agency JPA, use voting structure developed in October of 2006, JPA becomes the owner and operator. Asset and debt transfers occur.

ANALYSIS: Specific descriptions and the preliminary analysis are provided in the attached PBS&J report on “Proposed Governance Alternatives.”

At the last TAC meeting, San Diego staff provided insight into the potential that, if a Regional Agency was formed and a transfer of control and assets were to occur, this might not be rate payer neutral and could create a situation wherein San Diego would want compensation. That may have a negative effect on the Participating Agencies’ rate payers. There are several thoughts on this issue, and this would be a topic to study if the Board were inclined to select Alternative Three, or were San Diego to move forward on its own volition.

For this upcoming workshop, we encourage the participants to review Exhibit 11 of the 1989 Touche Ross report, which talks about alternative selection. During the workshop we will provide a more detailed breakdown of how the JPA alternative can meet the present day needs of the agencies.



An employee-owned company

APRIL 17, 2007

PROPOSED GOVERNANCE ALTERNATIVES

The 1989 Study reviewed and contrasted thirteen institutional arrangements that were available under California law. These thirteen alternatives, in addition to a modification of the 1963 Agreement between the City of San Diego/PAs, comprised the fourteen institutional alternatives potentially available for use by the Metro II participants. The key drivers that were evaluated were the ability of the institutional arrangement to achieve the lowest cost financing and provide the best public service.

The Study determined that a Special Act District most closely met these two primary objectives. The only reason that a Joint Powers Authority (JPA) was not selected was that the Consultant felt that it was important for the new structure to have taxing powers to achieve the lowest cost financing.

Since that time the Metro Wastewater JPA has hired a financial advisor, Fieldman, Rolapp & Associates. It is the opinion of the financial advisor that low cost financing can be achieved through a JPA as long as all participants in the pooled financing arrangements continue to keep their sewer user rates at appropriate levels.

The following are three alternatives for instructional arrangements. The first modifies the existing 1998 Agreement to include San Diego as a participant. The other two are variations of structures that could be used under a JPA.

Alternative 1

Alternative 1 is based on the concept that everything stays the same as it currently is but the PAs gain a greater voice and influence in the decision making process. We would have a direct line of communication with the Mayor and City Council. This alternative adds a member to Metro Commission from San Diego. The expanded body would be responsible for decisions or recommendations regarding the Metro system. San Diego's City Council would ratify or overturn the Commission's decisions, but the Commission is the deciding body. This is similar in structure to how the City of San Antonio currently operates their water and sewer systems.

The voice that we are seeking is peer to peer with policy makers as opposed to advisory recommendations to subcommittees. This would not have any financial effects on the rates.

Pros:

1. Status quo – we do not have to deal with issues involved in forming a new agency (transfer of assets, financing, etc.)
2. Gives more influence and stronger voice to the PAs.
3. Brings all participants together in a unified voice and sharing policy authority.
4. Implemented by minor changes to the Regional Wastewater Disposal Agreement and San Diego Mayor and Council action.

Cons:

1. Does not create a true regional agency.
2. San Diego's Mayor and Council still have ultimate approval authority.

Neutral:

1. San Diego still owns and operates the Metro System.
2. Maintains current comfort level.

Alternative 2

Alternative 2 is to form a regional agency (JPA) where the recommended voting structure developed in October 2006 is used and the Metro assets are not transferred to the Regional Agency. San Diego still operates the Metro system and owns the assets but we work together. Everyone is a wholesale member. Although San Diego is the owner of the system the relationship would be one of more of a service provider. As owner/operator these issues would stay with San Diego:

- Personnel Issues (e.g. staff classifications, salaries, human resource policies, etc.)
- Appointment of Executive Management (e.g. General Manager, in-house counsel)

The JPA would govern in the following manner:

The following items would be one vote per agency:

- Approval of Minutes/Agenda Items
- Approval of Consent Items
- Election of Officers of the Board
- Operational Structure (by-laws, governance organization, etc.) of the JPA
- Permit Issues (Waivers, Consent Decrees, NPDES Permit Issues, Clean Water Act compliance, etc.), and
- Capital Improvement/Strategic Planning

The following items could be subject to a weighted vote determined as one (1) vote for every one million gallons of annual average daily flow contributed to the system by the respective agency, determined annually. Each representative shall receive a minimum of one (1) vote, and the calculated vote shall be rounded to the nearest one thousandth of a whole vote. The option of the weighted vote may be waived by all representatives present for the vote. The items subject to a weighted vote may include, but are not limited to:

- Finance/Bonding/Debt Issuance/Treasury Policy
- Approval of annual and Operations & Maintenance expenditures
- Capital Improvement Program Projects
- Legal Issues (lawsuits, lobbying, etc.), and
- Major Asset Acquisitions
- Rate setting (e.g. regional capacity fee)

Pros:

1. PAs share management/ policy authority over the Metro system.
2. Provides a legal entity for capital project financing.
3. Unified voice in decision making.
4. Could be implemented in a short period of time with minimal costs and effort.

Cons:

1. Not an owner or operator.
2. Not a one vote agency structure for everything.
3. The JPA would not have authority over personnel issues.

Neutral:

1. Creates an independent regional agency.

Alternative 3

Alternative 3 is similar to Alternative 2 but the Metro Assets are transferred to the JPA. Each PA would maintain their existing contract rights and a capacity would be established for San Diego. The remaining system capacity would form a pool and could be purchased by any of the JPA members as needed. The Regional Agency would assume the operations of the Metro System. The City of San Diego, as would all of the PAs, would own and operate their own collection systems. The JPA would govern as follows:

For non-financial or non-contested items, each representative is entitled to one (1) vote. These items may include, but are not limited to:

- Approval of Minutes/Agenda Items

- Approval of Consent Items
- Election of Officers of the Board
- Operational Structure (by-laws, governance organization, etc.)
- Personnel Issues (e.g. staff classifications, salaries, human resource policies, etc.)
- Appointment of Executive Management (e.g. General Manager, in-house counsel)
- Permit Issues (Waivers, Consent Decrees, NPDES Permit Issues, etc.), and
- Capital Improvement/Strategic Planning

For financial and financially related items each representative is entitled to one (1) vote for every one million gallons of annual average daily flow contributed to the system by the respective agency, determined annually. Each representative shall receive a minimum of one (1) vote, and the calculated vote shall be rounded to the nearest one thousandth of a whole vote. The option of the weighted vote may be waived by all representatives present for the vote. The items subject to a weighted vote may include, but are not limited to:

- Finance/Bonding/Debt Issuance/Treasury Policy
- Annual and Operations & Maintenance expenditures
- Capital Improvement Program Projects
- Legal Issues (lawsuits, lobbying, etc.), and
- Major Asset Acquisitions

Pros

1. PAs share management/ policy authority over the Metro system.
2. Provides a legal entity for capital project financing.
3. Unified voice in decision making.
4. Would allow for the establishment of a regional capacity fee based on the Metro assets. This money would go to the Regional Agency for construction of future projects and would allow for diversification of revenue sources for the JPA.
- 5.

Cons

1. The transfer of assets or the excess capacity purchased from San Diego cost the ratepayer more.

Neutral

1. This would form a true regional agency.
2. The transfer of assets or the excess capacity purchased from San Diego is revenue neutral over time.