



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

AGENDA

**Thursday, MARCH 3, 2011
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."

Note: Any member of the Public may address the Metro Commission/Metro Wastewater JPA on any Agenda Item. Please complete a Speaker Slip and submit it to the Administrative Assistant or Chairperson prior to the start of the meeting if possible, or in advance of the specific item being called. Comments are limited to three (3) minutes per individual.

Documentation
Included

1. ROLL CALL
2. PLEDGE OF ALLEGIANCE TO THE FLAG
3. PUBLIC COMMENT

Persons speaking during Public Comment may address the Metro Commission/ Metro Wastewater JPA on any subject matter within the jurisdiction of the Metro Commission and/or Metro Wastewater JPA that is not listed as an agenda item. Comments are limited to three (3) minutes. Please complete a Speaker Slip and submit it prior to the start of the meeting.
- X 4. **ACTION** – CONSIDERATION AND POSSIBLE ACTION TO APPROVE THE MINUTES OF [February 3, 2011](#) (**Attachment**)
- X 5. **ACTION** – CONSIDERATION AND POSSIBLE ACTION TO APPROVE AMENDMENT TO THE ADMINISTRATIVE SUPPORT SERVICES CONTRACT AND AMENDMENT TO ADMINISTRATIVE SERVICES REIMBURSEMENT AGREEMENT WITH THE CITY OF SAN DIEGO (**Attachment**)
6. FINANCE COMMITTEE MEMBERSHIP
 - a. Consideration and possible action to reduce number of Finance Committee Members (from 6 to 5)
 - b. Appointment by Chair of members to the Metro JPA Finance Committee
- X 7. **ACTION** – CONSIDERATION AND POSSIBLE ACTION TO REVIEW AND ACCEPT THE FY 2009 EXHIBIT E AUDIT (**Attachment**)

- X 8. CALCULATION OF 2011 OPERATIONS RESERVE **(Attachment)**
- 9. METRO TAC UPDATE
- 10. IROC UPDATE
 - a. Report from IROC Representative Caires
- X 11. FINANCE COMMITTEE UPDATE
 - a. Report from Finance Committee
 - b. July 28, 2010 Minutes
- 12. STRATEGIC PLANNING COMMITTEE
 - a. Report from Strategic Planning Committee
- 13. PRESENTATION BY THE ENVIRONMENTAL COMMUNITY ON RECYCLED WATER AND THE REGIONAL WASTEWATER SYSTEM
- X 14. KEY RELATED ITEMS WE SHOULD BE TRACKING/GETTING UP TO SPEED ON **(Attachment)**
- 15. REPORT OF GENERAL COUNSEL
- 16. PROPOSED AGENDA ITEMS FOR THE NEXT METRO COMMISSION/ METRO WASTEWATER JPA MEETING **April 7, 2011**
- 17. METRO COMMISSIONERS' AND JPA BOARD MEMBERS' COMMENTS
- 18. ADJOURNMENT OF METRO COMMISSION AND METRO WASTEWATER JPA

The Metro Commission and/or Metro Wastewater JPA may take action on any item listed in this Agenda whether or not it is listed "For Action."

Materials provided to the Metro Commission and/or Metro Wastewater JPA related to any open-session item on this agenda are available for public review by contacting L. Peoples at (619) 476-2557 during normal business hours.

***In compliance with the
AMERICANS WITH DISABILITIES ACT***

The Metro Commission/Metro Wastewater JPA requests individuals who require alternative agenda format or special accommodations to access, attend, and/or participate in the Metro Commission/Metro Wastewater JPA meetings, contact E. Patino at (858) 292.6321, at least forty-eight hours in advance of the meetings.

AGENDA ITEM 4

Attachment



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

**9192 Topaz Way (MOC II) Auditorium
San Diego, California**

February 3, 2011

DRAFT Minutes

Chairman Ewin called the meeting to order at 12:06 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		Scott Tulloch
City of Coronado	Al Ovrom		Scott Huth
City of Del Mar	Donald Mosier	X	
City of El Cajon	Bill Wells	X	Dennis Davies
City of Imperial Beach	Ed Spriggs	X	
City of La Mesa	Ernie Ewin	X	
Lemon Grove Sanitation District	Jerry Jones		Patrick Lund
City of National City	Louis Natividad		(No representative)
City of Poway	Merrilee Boyack	X	Leah Browder
City of San Diego	Jerry Sanders		Roger Bailey
County of San Diego	Dianne Jacob		Daniel Brogadir
Otay Water District	Mark Robak	X	
Padre Dam MWD	Augie Caires	X	Augie Scalzetti
Metro TAC Chair	Scott Huth	X	Greg Humora
IROC	Jim Peugh		(No representative)

Others present: Metro JPA General Counsel Paula de Sousa; Metro JPA Secretary David Scherer; Metro JPA Treasurer Karen Jassoy; City of San Diego Public Utilities Director Roger Bailey; City of San Diego Deputy City Attorney Tom Zeleny; Karyn Keese and Dean Gipson – PBS&J

2. PLEDGE OF ALLEGIANCE TO THE FLAG

Chairman Ewin led the Pledge.

Chair Ewin introduced Ed Spriggs, newly elected Councilmember for Imperial Beach and newly appointed representative to the Metro JPA. Commissioner Spriggs provided the Board with a brief bio.

Chair Ewin then introduced Karen Jassoy, the new Finance Director for Padre Dam Municipal Water District who is also the new Metro JPA Treasurer.

3. PUBLIC COMMENT

There was no public comment.

4. ACTION - CONSIDERATION AND POSSIBLE ACTION TO APPROVE THE MINUTES OF DECEMBER 2, 2010.

ACTION: Upon motion by Commissioner Mosier seconded by Commissioner Caires, the December 2, 2010 Regular Meeting Minutes were approved unanimously.

5. ACTION - CONSIDERATION AND POSSIBLE ACTION TO APPROVE THE JPA MID YEAR FINANCIAL STATEMENTS

Metro JPA Treasurer Jassoy provided a brief overview of the financial statements.

ACTION: Upon motion by Commissioner Caires, seconded by Commissioner Boyack, the JPA Mid-Year Financials were unanimously received subject to audit.

6. PRESENTATION ON CITY OF SAN DIEGO STAFFING CHANGES

Edgar Patino representing Lee Ann Jones-Santos, provided a handout and stated that back in October a presentation had been provided to the JPA regarding full time employees (FTE's) and the fiscal year 2011 FTE allocation. The Commission had made a request for an explanation as to how the implementation and consolidation of the FTEs between the wastewater and water departments had come together. The handout provided a summary of the Public Utilities FTE by Fiscal Year 2009-2010 and 2011 as well as by Fiscal Year 2011 by Division. Mr. Patino stated that the metro branch had seen the largest change in that the employees were now actually budgeted where their work was occurring as well as an allocation based on each individual employee's percentage of work for a specific fund. Further, City of San Diego staff had worked on this with Metro JPA representatives Karyn Keese and Doug Wilson. From FY 2010 to 2011 the change is about 11%.

Commissioner Robak requested Mr. Patino provide the associated dollars/cents information to the JPA.

Ms. Keese added that this presentation was brought before the Finance Committee and up until the City of San Diego got their new accounting system, they would budget all the muni-support staff into the metro budget and then do a year end reconciliation. One of the things the City of San Diego had promised when they got their new software was that they would budget people where they were doing the work thus eliminating the year end reallocation, thus what is being presented is a much improved way of accounting for personnel. However, Ms. Keese added that time cards would still be checked during the annual audit. Ms. Keese then welcomed new Metro JPA Treasurer Jassoy and noted that she has offered to assist with the future Exhibit E audits.

7. UPDATE AND STATUS OF PBS&J 2011 CONTRACT

Ms. Keese provided a handout of the PBS&J contract status for 7/1/10 to 12/31/10 and stated that the contract status had been taken to and reviewed by the Finance Committee. She then provided a brief summary after which she turned the one item that was significantly over budget to Dean Gipson and Scott Huth to present which dealt with the Recycled Water Master Plan that the City of San Diego was doing. She noted that limited funds for meeting attendance had been budgeted; however time spent had increased greatly as staff has become more involved in order to make sure that the interests of the participating agencies are reflected.

Chair Ewin commented that MetroTAC in the past had kept the Board apprised as to any projects that required more demand for PBS&J services or were getting to more than the amount budgeted and would continue to do so.

MetroTAC Chair Huth stated that there were 3 items that MetroTAC was working on with Ms. Keese and Mr. Gipson of PBS&J that could really expand their workload and if anything changed, they would continue to keep the Board advised of the potential impacts to the budget. Mr. Huth also commented that on Task 5 listed as the Reclaimed Water Master Plan or Recycled Water Study, originally when PBS&J put their budget together, their interaction was envisioned to be just attendance at the Status Update Meetings. From the start that changed as the tempo of the study was in conflict with some of the goals of the JPA and so they engaged that process a lot more and both Mr. Gipson from PBS&J and Al from Padre Dam began working on the actual

technical memorandums and those meetings associated with them. This has doubled the amount of meetings and their workload. Further, there is a lot of stake depending on what policy decisions come out of this study, It could effectively be something that builds a new system in some areas, so the investment being made now by staying on top of this and interacting with San Diego into the mix early on is going to be vital in continuing to influence the process which he felt is money well spent. Mr. Huth noted however, that the general thought process was to continue to try to bring it in within budget.

Chair Ewin stated that he appreciated the work Mr. Gipson of PBS&J was doing in continuing to work with MetroTAC and inquired as to whether there was anything they should know that may lead to another item later on.

Mr. Gipson stated that there had been 5 Technical Memorandums of an expected 8 issued as to date and they have been reviewing them with the MetroTAC, attending the workshop meetings and making sure that they were not only looking at the options presented in the workshop but that the input from the Participating Agencies was also being heard and being documented. He then stated that there were two technical memorandums that were coming up that would be critical but had not yet been released. The first would pertain to the Recycled Water Use Study – how it is being used throughout the City of San Diego and throughout the region. The second pertains to the different options on finance. He, Al from Padre Dam and MetroTAC members are looking not only at the options presented in the workshop but those other options that the Participating Agencies are interested in promoting throughout the region and they will continue to report back.

8. APPOINTMENT BY METRO JPA CHAIR OF MEMBERS TO STRATEGIC PLANNING COMMITTEE

Strategic Planning Chair Caires stated that a Strategic Planning Workshop was planned for May 5, 2011 in Coronado. Typically it would be a mid-day event starting at 11:00 and concluding at 3:00 p.m. with lunch provided. The purpose is to update what is in fact the 2-year strategic plan and take a look ahead for the next 2 years. It is envisioned that the committee will have 2 or 3 meetings including one with Mr. Bailey and some of his key staff asking the City of San Diego to look ahead 2 years as well and help the JPA understand what may be coming that will impact the participating agencies. The Strategic Plan is relatively small, approximately 15 pages and the goal is to make sure it is current.

Chair Ewin stated this was an Ad Hoc Committee, not a permanent committee and asked if there was anyone interested in serving on this committee.

Commissioner Robak expressed interest. Chairman Ewin appointed Commissioner Caires to continue as Committee Chair and Commissioner Robak and himself as members. He also requested the participation of PBS&J representatives Keese and Gipson and MetroTAC Chair Huth. The Committee will meet and report back at the March Metro JPA meeting.

9. ACTION – CONSIDERATION AND POSSIBLE ACTION TO APPROVE ELECTION OF OFFICERS:

General Counsel de Sousa stated that the terms of office were 2 years or less for the Chair and Vice Chair who must be members of the JPA and a Secretary who may but not need be a director. The current Chair is Ewin, Vice Chair Jones and Secretary Scherer who is retiring in April. In looking over the duties of Secretary, they appear to be very similar to those performed by Lori Peoples for the JPA.

ACTION: Motion by Commissioner Caires, seconded by Commissioner Robak, to re-elect current Chair Ewin as Chair. Motion carried with Chair Ewin abstaining.

Motion by Chair Ewin, seconded by Commissioner Caires, to elect Commissioner Robak as Vice Chair. Motion carried with Commissioner Robak abstaining.

Motion by Chair Ewin, seconded by Commissioner Boyack to elect Lori Peoples as Secretary, motion carried unanimously.

10. KEY RELATED ITEMS WE SHOULD BE TRACKING/GETTING UP TO SPEED ON

Chairman Ewin asked the members to submit any items they would like to see added or elevated.

11. METRO TAC UPDATE

MetroTAC Chairman Huth stated that at the last MetroTAC meeting they had covered mainly financial issues; the City of San Diego had provided them with their Final Exhibit E Audit and out of that exhibit there were a number of adjustments that significantly affect the member agencies and some information remains that Ms. Keese of PBS&J is working on and will bring back in March for review; the Operation Reserve Fund was discussed and what adjustments were needed to keep it at the level agreed upon; the other item was a current situation with Padre Dam concerning overbilling and the way the system works is if there is an adjustment in billing it effects everyone so this is something that may need to be discussed in the future if it effects the PAs; the other item was a mutual start of a discussion to work with the City of San Diego on a location for a Vactor Waste Dump area and whether there are opportunities for the PAs to participate in that. Mr. Huth then stated that the City of San Diego had contacted them and a meeting has been scheduled for right after the March JPA meeting to discuss the outstanding issue on the recycled revenues associated with the South Bay Plant which is approximately \$2 million that would be coming back to the PAs.

Commissioner Robak stated that he had noticed there was no one assigned to the Advanced Water Purification Project and recommended that MetroTAC and the Metro JPA give this item their attention. MetroTAC Chair Huth stated that there was not a specific member assigned to that pilot project, however there was under the Recycled Water Study which is the primary focus of that technology but he will bring this back to the MetroTAC to consider the assignment of someone.

12. IROC UPDATE

a. Report from IROC Representative Caires on Financial Planning & Rate Case Drivers

IROC Representative Caires stated that his report would cover the December and January meetings. He started with the Mayor's State of the City Address which announced the end of the B2G program, it was acknowledged that the program had been a success and the methodology would continue to be used; that the Public Utilities Department will be considered for managed competition but in a limited way, mostly customer service at this point; the IPR Project is now the Advanced Water Purification Facility and the project is under construction and due to be completed in May – a tour will be scheduled for Metro JPA and MetroTAC members; there will be further tours of the Orange County Replenishment Projects; there was a presentation by CDM that outlined the design criteria, layout and testing of the facility and the final report of the demonstration project results will be coming in December of 2012; a recap of the 2007-2011 Wastewater Rate Case – the Planned Sewer Rehab Miles was 115 estimated and 117 accomplished – Planned Sewer Replacement 50 miles – actual 68 miles, cost per mile of rehab \$800k budgeted vs. \$500k actual and cost per mile for replacement budgeted \$2.2 million vs. \$1.5 million actual. The estimated savings resulting from a favorable bid environment was about \$120 million; some projects were delayed for up to 2 years and a few were cancelled after review; the funding was 80% bond and 20% cash; there was a recap of the 2007-2011 Water Rate Case and they are \$67 million below the actual estimate on the water side; the IROC Annual Report (the third) is being formulated and will include at least the Performance Audit – the 2015 Waiver and strategies to continue waiver approvals – the AWPf Project – the Water Conservation Outreach – improving public understanding of rates and rate processes – oversight of the CIP program – personnel costs and staffing levels and when completed copies will be provided to all JPA members; there was a brief report on SRF loan funding which the City of San Diego continues to use these loans to fund a portion of their projects – the interest rates are generally ½ of the market rates and this benefits the PAs; heard a presentation on Effective Utility Management (EUM) which is a tool for public utilities and the City of San Diego is using it as a foundation for the 2012 Strategic Plan development. It was developed by the EPA with 6 major

utility associations involved; other reports were heard with regards to wastewater spills; there was also a CIP progress report; the monthly financial summary; a staffing report and PUD Risk Assessment which included deferred maintenance policies and procedures.

13. FINANCE COMMITTEE

a. Report from Finance Committee

Vice Chair Boyack stated that they had no report.

Chairman Ewin thanked Councilmember Sotelo-Soliz from National City for her service on the Finance Committee and noted that Commissioner Wells schedule had shifted and he was no longer able to attend the meetings. He stated he was therefore looking for members to participate on the Finance Committee. Currently Commissioner Ovrom was the Chair and Commissioner Boyack the Vice Chair, Commissioner Caires and himself. He stated he was looking for two more people so he could remove himself and be just an Ex-Officio. He asked that if anyone was interested in being on the committee, they contact him and requested this item will be brought back on the March agenda.

14. REPORT OF GENERAL COUNSEL

General Counsel de Sousa advised the Board that on last Friday, the State Water Resources Control Board issued a draft of the Statewide General NPDES Permit for discharge of storm water associated with industrial activities (also called the Industrial Permit) which applies to manufacturing facilities, outdoor storage areas, transportation facilities and wastewater treatment works and unless coverage is obtained through a separate permit, the industrial permit applies to both private companies, municipal, school district, and special districts corporate yards, treatment works and related treatment facilities. For the first time this permit contains numeric action limits and numeric affluent limits and facilities that exceed these limits are subject to fines. A Public Hearing is set for March 29, 2011 in Sacramento and comments due no later than April 18th. She suggested the members make their various City Engineers aware of this. General Counsel de Sousa stated she would check to see if her partner Shaun Haggerty would be attending and if desired by the JPA will request he come and provide a presentation.

MetroTAC Chair Huth inquired as to whether this would affect any of the JPA cities as they are all under the current permit. General Counsel de Sousa stated she would check into this and provide clarification back.

15. PROPOSED AGENDA ITEMS FOR THE NEXT METRO COMMISSION METRO WASTEWATER JPA MEETING (January 6, 2011)

The assignment of members to the Finance Committee.

16. METRO COMMISSIONERS' and JPA BOARD MEMBERS' COMMENTS

There were none.

17. ADJOURNMENT OF METRO COMMISSION AND METRO WASTEWATER JPA

At 12:45 p.m., there being no further business, Chairman Ewin declared the meeting adjourned.

Recording Secretary

AGENDA ITEM 5

Attachment

ADMINISTRATIVE SUPPORT SERVICES AGREEMENT
BY AND BETWEEN
LORI ANNE PEOPLES
AND METRO WASTEWATER JOINT POWERS AUTHORITY
AMENDMENT NO.1

WHEREAS, Lori Anne Peoples (“Ms. Peoples”) entered into an Administrative Support Services Agreement (“Agreement”) with the Metro Wastewater Joint Powers Authority (“Metro JPA”), collectively referred to herein as the “Parties,” to provide clerical staff and services for meetings of the Metro Commission, which agreement is dated April 10, 2009; and

WHEREAS, the Parties mutually desire to amend the Agreement to modify the administrative support services; and

WHEREAS, the Parties mutually agree to amend the Agreement as follows:

1. Section 2 of the Agreement shall be replaced in its entirety by the following:

The term of this Agreement shall commence on April 21, 2011 and terminate on June 30, 2013 (“Term”). This Term may be extended in a writing signed by both Parties. Either Party may terminate this Agreement upon thirty (30) calendar days written notice to the other Party.

2. The following sentences will be added to Section 3 of the Agreement:

Metro JPA will, upon submission of proper documentation, reimburse Ms. Peoples up to \$450 per quarter, or pro rata portion thereof, for cell phone and technology costs incurred by Ms. Peoples requisite to conduct the Administrative Services.

3. In Section 5 of the Agreement, “monthly invoices” will be replaced with “quarterly invoices.” Section 5 will otherwise remain unchanged.

This Amendment No. 1 to the Administrative Support Services Agreement shall affect only the paragraphs and/or terms and conditions referred to herein. All other terms and conditions of the Agreement shall remain in full force and effect.

(Signatures on following page)

IN WITNESS WHEREOF, this Amendment No. 1 is executed by Lori Anne Peoples and Metro JPA as of the date written below, and is effective on April 21, 2011.

Metro Wastewater
Joint Powers Authority

Lori Anne Peoples

By:_____

By:_____

Title:_____

Title:_____

Date:_____

Date:_____

Approved as to form:

Paula C.P. de Sousa
General Counsel
Metro Wastewater Joint Powers Authority

CITY OF SAN DIEGO
PUBLIC UTILITIES DEPARTMENT
REIMBURSEMENT AGREEMENT
FOR
ADMINISTRATIVE SUPPORT SERVICES
BY AND BETWEEN
THE CITY OF SAN DIEGO
AND METRO WASTEWATER JOINT POWERS AUTHORITY
AMENDMENT NO.2

WHEREAS, the City of San Diego ("City") entered into a Reimbursement Agreement ("Agreement") with the Metro Wastewater Joint Powers Authority ("Metro JPA"), collectively referred to herein as the "Parties," to provide clerical staff and services for meetings of the Metro Commission, which agreement is dated April 10, 2009 and the original of which is on file in the Office of the San Diego City Clerk as Document No. C-15017; and

WHEREAS, the Parties entered into a First Amendment dated June 30, 2010 (the original of which is on file in the Office of the City Clerk as Document No. C-15294) to increase the contract value to \$32,000.00; and

WHEREAS, the Parties mutually desire to extend the contract completion, revise billable items, revise the billing schedule, and establish a new contract value for the extended term.

NOW THEREFORE, the Parties mutually agree to amend the Agreement as follows:

1.0 Add the following sentence to Section 1 – Reimbursement to Metro JPA:

"The City agrees to reimburse Metro JPA up to \$360.00 per quarter or pro rata portion thereof, with proper documentation, for phone and technology costs incurred by Ms. Peoples in the performance of the Administrative Services."

2.0 Replace Section 1.1 of the Agreement (which was added by the First Amendment to the Agreement) in its entirety with the following:

"1.1 Maximum Reimbursement. The City's total reimbursement obligation under the term of the Agreement, from April 20, 2011 through June 30, 2011, shall not exceed thirty-two thousand dollars (\$32,000.00) for administrative services, which is inclusive of reimbursement for the phone and technology costs identified in Section 1.0 above."

3.0 Add the following sentence to Section 2 – Monthly Hours:

"These estimated monthly hours may be extended or otherwise modified upon mutual agreement of the Parties to obtain increased or amended Administrative Services as

necessary, consistent with the Administrative Support Services Agreement between Metro JPA and Ms. Peoples. Any increase in estimated hours shall not exceed the maximum reimbursement identified in Section 1.1 of the Agreement without written consent of the parties.”

4.0 Section 3 – Invoicing: replace the word “monthly” with “quarterly.”

5.0 Section 4 – Term and Termination: replace “April 20, 2011” with “June 30, 2013.”

This Amendment No. 2 to the Reimbursement Agreement shall affect only the paragraphs and/or terms and conditions referred to herein, and is effective on April 21, 2011. All other terms and conditions of the Agreement shall remain in full force and effect.

IN WITNESS WHEREOF, this Amendment No. 2 is executed by the City of San Diego, acting by and through its Mayor or designee pursuant to Municipal Code section 22.3036 authorizing such execution, and by the Metro JPA.

Metro Wastewater
Joint Powers Authority

The City of San Diego
A Municipal Corporation

By:_____

By:_____

Title:_____

Title:_____

Date:_____

Date:_____

Approved as to form:

Paula C.P. de Sousa
General Counsel
Metro Wastewater Joint Powers Authority

[Name of City Attorney]
Counsel
City of San Diego

AGENDA ITEM 7

Attachment

**METRO JPA/TAC
Staff Report**

Subject Title: Consideration and Possible Acceptance of 2009 Exhibit E Audit

Requested Action: Acceptance of 2009 Exhibit E Audit

Recommendations:

Metro TAC:	Reviewed twice. Recommend acceptance.
IROC:	N/A
Prior Actions: (Committee/Commission, Date, Result)	Reviewed by Finance Committee. Recommend acceptance.

Fiscal Impact:

Is this project budgeted?	Yes _____ No <u>X</u>
Cost breakdown between Metro & Muni:	66.02% Metro 33.98% PAs
Financial impact of this issue on the Metro JPA:	Overall adjustment \$50,523

Capital Improvement Program: N/A

New Project?	Yes _____ No _____
Existing Project?	Yes _____ No _____ upgrade/addition _____ change _____

Comments/Analysis:

The 2009 year budget for the PAs was lowered to \$57.5 million from the normal \$65 million in annual contributions. The audited cost for the PAs came in \$50,523 overall higher than the budget. These additional costs were for treating the wastewater flow. During 2009 the Metro system experienced an overall 8% decrease in flows. Thus higher than expected costs divided by lower than expected flows caused an overall increase in flow related costs of 9%. Some agencies will see a refund others will be invoiced for their additional 2009 costs based on their proportionate share of the overall audited costs and flows. A copy of the final adjustments by agency with a comparison of budget versus actual is attached to this staff report.

The final 2009 costs to the PAs would have been \$316,000 higher except for their portion of the audit findings. The audit findings for 2009 totaled \$928,829 and the PAs share of these savings was \$315,616 (33.98%). During 2009 the operations cost for the Metro JPA was approximately

\$200,000. While the gap is decreasing between the PAs portion of the findings and the operations of the JPA it should be noted that it is still beneficial for the JPA to participate in the Exhibit E audit process. However, having dedicated PUD internal audit staff has significantly improved the audit process and the decrease in findings.

Section 1: Comparison of Number of Findings								
Findings	2009	2008	2007	2006	2005	2004	2003	
Metro	23	28	15					
Muni	1	7	9					
Total	24	35	24					
Section 2: Comparison of Total Dollars of Findings								
Findings	2009	2008	2007	2006	2005	2004	2003	7-Year Average
Metro	\$ 928,829	\$ 697,915	\$ 368,292	\$ 772,778	\$ 2,289,812	\$ 1,774,222	\$ 1,400,000	\$ 1,175,978
Muni		\$ 354,673	\$ 189,024	\$ -	\$ -	\$ -	\$ -	\$ 90,616
Total Metro/Muni Findings	\$ 928,829	\$ 1,052,588	\$ 557,317	\$ 772,778	\$ 2,289,812	\$ 1,774,222	\$ 1,400,000	\$ 1,266,594
Section 3: Annual Metro Savings From Audit Findings								
Findings	2009	2008	2007	2006	2005	2004	2003	7-Year Average
Total Annual Metro Savings	\$ 928,829	\$ 343,242	\$ 179,268	\$ 772,778	\$ 2,289,812	\$ 1,774,222	\$ 1,400,000	\$ 1,098,307
Total Savings PAs	\$ 315,616	\$ 120,135	\$ 62,744	\$ 270,472	\$ 801,434	\$ 620,978	\$ 490,000	\$ 383,054

Attached to this staff report is the final audit and report to management issued by MGO December 28, 2010. A representative from MGO will be at the March Meeting to review the audit for the Commissioners. More detailed numbers and explanation of the audit findings and the reconciliation can be provided by Karyn Keese at PBS&J/Atkins at 858-514-1008.

Previous TAC/JPA Action:
Approval by TAC and Finance Committee

Additional/Future Action:

Unknown

City Council Action:
N/A

TABLE B

CITY OF SAN DIEGO - METROPOLITAN WASTEWATER DEPARTMENT
DISTRIBUTION OF SYSTEM WASTEWATER COSTS - FISCAL YEAR 2009
FUNCTIONAL-DESIGN BASED ALLOCATION METHOD

AGENCY	TOTAL COST BY AGENCY		AUDIT % OF TOTAL	BUDGET % OF TOTAL	TOTAL PAID FOR FY 2009	DIFFERENCE
	AUDITED	BUDGET *7/23/08				
CHULA VISTA	\$16,848,305	\$16,418,850	9.90%	9.71%	\$16,418,852	\$429,453
CORONADO	\$1,651,915	1,933,485	0.97%	1.14%	\$1,933,484	(\$281,569)
DEL MAR	\$608,011	646,077	0.36%	0.38%	\$646,076	(\$38,065)
EAST OTAY MESA	\$4,213	5,381	0.002%	0.003%	\$5,380	(\$1,167)
EL CAJON	\$6,958,958	7,387,871	4.09%	4.37%	\$7,387,872	(\$428,914)
IMPERIAL BEACH	\$2,190,452	1,939,345	1.29%	1.15%	\$1,939,344	\$251,108
LA MESA	\$4,590,116	4,433,748	2.70%	2.62%	\$4,433,748	\$156,368
LAKESIDE/ALPINE	\$2,811,310	2,783,612	1.65%	1.65%	\$2,783,612	\$27,698
LEMON GROVE	\$2,012,655	1,945,615	1.18%	1.15%	\$1,945,616	\$67,039
NATIONAL CITY	\$4,018,814	4,692,326	2.36%	2.78%	\$4,492,652	(\$473,838)
OTAY	\$1,305,026	1,043,538	0.77%	0.62%	\$1,043,540	\$261,486
PADRE DAM	\$3,882,426	5,410,652	2.28%	3.20%	\$5,410,652	(\$1,528,226)
POWAY	\$3,212,522	2,686,541	1.89%	1.59%	\$2,686,544	\$525,978
SPRING VALLEY	\$6,393,551	5,402,040	3.76%	3.20%	\$5,402,040	\$991,511
WINTERGARDENS	\$812,209	720,549	0.48%	0.43%	\$720,548	\$91,661
SUBTOTAL PARTICIPATING AGENCIES	\$57,300,483	\$57,449,630	33.68%	33.98%	\$57,249,960	\$50,523
SAN DIEGO	\$112,837,836	\$111,615,371	66.32%	66.02%	111,815,045 *	\$1,022,791
TOTAL	\$170,138,319	\$169,065,001	100.00%	100.00%	\$169,065,005	\$1,073,314

(a) Allocations based on estimated annual flows and strength loadings - See Table C

*Includes National City budget reduction

**CITY OF SAN DIEGO
METROPOLITAN WASTEWATER
DEPARTMENT**

Report to Management

For the Fiscal Year Ended June 30, 2009



Certified Public Accountants.

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

In planning and performing our audit of the Schedule of Allocation for Billing to Metropolitan System (the "Schedule") of the City of San Diego Metropolitan Wastewater Department ("MWWD") for the year ended June 30, 2009, we considered the MWWD'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.

However, during our audit we noted certain matters involving internal controls and their operation, and are submitting for your consideration related recommendations designed to help the City of San Diego (the "City") make improvements and achieve operational efficiencies. Our comments reflect our desire to be of continuing assistance to the City. This letter does not affect our report dated December 28, 2010 on the Schedule.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and recommendations with various City personnel and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

This letter is intended solely for the information and use of the Honorable Mayor and City Council of the City of San Diego and is not intended to be and should not be used by anyone other than these specified parties.

Macian Fini & O'Connell LLP

Certified Public Accountants
San Diego, California
December 28, 2010

CITY OF SAN DIEGO METROPOLITAN WASTEWATER DEPARTMENT
Schedule of Findings
For the Fiscal Year Ended June 30, 2009

CURRENT YEAR COMMENT

Recording of Metropolitan and Municipal Wastewater Utility Related Expenses

Observation – During our testing of a total of four hundred and fifty-seven (457) samples – two hundred and twenty-five (225) Metropolitan (Metro) expenses selected by Macias Gini & O’Connell (“MGO”), one hundred and two (102) Metropolitan expenses selected by Metro Commission/ Metro TAC, forty (40) Municipal (Muni) expenses selected by MGO, twenty-five (25) payroll expenses selected by MGO, ten (10) CIP expenses selected by Metro Commission/Metro TAC, forty (40) San Diego Data Processing Center (SDDPC) billing items selected by MGO, and fifteen (15) Income Credit revenue items selected by Metro Commission/ Metro TAC – charged to the Metropolitan System for reasonableness as well as for compliance with the contractual agreements between the City and the participating agencies, we noted the following:

- Twenty-three (23) cash disbursements samples selected overcharged Metro expenditures and were not allocated accurately between Muni and Metro funds.
- One (1) cash disbursement sample selected undercharged Metro expenditures and was not allocated accurately between Muni and Metro funds.

Recommendation – In response to the findings noted above, we recommend the following;

- Since Metro-Muni allocation percentages vary depending on the agreements between the City and the Participating Agencies in the Metropolitan Wastewater System (the “PA”), allocation basis and circumstances, MWWD should establish strong controls to ensure accuracy on expenditure allocation calculations.
- We recommend MWWD maintain a master file to record and keep track of various allocation methods and percentages. Whenever there is a change to any allocation methods or percentages, such change, along with the rationale, should be documented in writing. We also recommend MWWD, City Comptroller and other departments involved in Exhibit E recording and reporting keep communications open. Updates on allocation methods or percentages should be communicated to all related parties timely.
- Periodical meetings should be held between Muni and PA to agree upon allocation methods and basis on various categories of expenses, as well as clearing any disputes. We recommend the meeting to be held quarterly or at least semi-annually. This should reduce year end adjustments/corrections and audit findings.

Management Response – MWWD will continue to have one full-time accountant on staff to specifically work on Exhibit E accounting issues. Currently, this accountant reviews all payment documents and verifies that appropriate support is provided, determining whether the payment is a Metro versus Muni expense. If an allocation is used, the accountant verifies the documentation and appropriateness of the allocation method. A binder has been created to house any unique allocation methods. This will ensure consistency in how expenditures are applied to the Metro and Muni funds. MWWD will continue to meet with the PA's at the monthly TAC meetings, at which time issues such as the dispute are addressed. Additional meetings, outside of TAC, will continue to be arranged with the PA's as the need arises.

CITY OF SAN DIEGO METROPOLITAN WASTEWATER DEPARTMENT

Schedule of Findings (Continued)
For the Fiscal Year Ended June 30, 2009

PRIOR YEAR COMMENTS

Fiscal Year 2008:

Recording of Metropolitan and Municipal Wastewater Utility Related Expenses

Observation – During our testing of a total of four hundred and eighteen (418) samples – two hundred and fifty (250) Metropolitan (Metro) MGO selected, one hundred (100) Metropolitan Metro Commission/Metro TAC selected, forty (40) Municipal (Muni) MGO selected, ten (10) CIP Metro Commission/Metro TAC selected, and one (1) legal cost MGO selected on cash disbursement expense items and seventeen (17) Income Credit Metro Commission/ Metro TAC selected on income revenue items – charged to the Metropolitan System for reasonableness as well as for compliance with the contractual agreements between the City and the participating agencies, we noted the following:

- Twenty-three (23) cash disbursements selected overcharged Metro expenses and were not allocated accurately between Muni and Metro funds.
- Seven (7) cash disbursements selected undercharged Metro expenses and were not allocated accurately between Muni and Metro funds.
- Three (3) cash disbursements selected were actually prior year's expenses that were not accrued in the prior year, but were captured and reported in the current year.
- One (1) cash disbursement selected was actually subsequent year's expense that should not accrue in the current year, but was reported in the current year.
- One (1) cash disbursement selected was properly allocated but was charged to the wrong account, causing the allocation method to be incorrect.
- One (1) income credit selected under-reported Metro revenue was not allocated accurately between Muni and Metro funds.
- One (1) income credit selected over reported Metro revenue was not allocated accurately between Muni and Metro funds

Status – In progress. See current year finding.

Fiscal Year 2007:

Recording of Metropolitan and Municipal Wastewater Utility Related Expenses

Observation – During our testing of a total of three hundred and sixty seven (367) samples – two hundred and twenty seven (227) Metropolitan MGO selected, one hundred (100) Metropolitan Metro Commission/Metro TAC selected and forty (40) Municipal MGO selected, on cash disbursement expense items charged to the Metropolitan System for reasonableness as well as for compliance with the contractual agreements between the City and the participating agencies, we noted the following:

CITY OF SAN DIEGO METROPOLITAN WASTEWATER DEPARTMENT

**Schedule of Findings (Continued)
For the Fiscal Year Ended June 30, 2009**

- 15 cash disbursements selected undercharged Municipal expenses and were not allocated accurately between Muni and Metro funds.
- 9 cash disbursements selected undercharged Metro expenses and were not allocated accurately between Muni and Metro funds.

Status – In progress. See current year finding.

Fiscal Year 2006:

Recording of Metropolitan and Municipal Wastewater Utility Related Expenses

Observation – During the testwork on cash disbursements charged to the Metropolitan System for reasonableness as well as for compliance with the contractual agreements between the City and the participating agencies, we noted the following;

- 3 cash disbursement transactions selected were actually prior year expenses that were not accrued in the prior year, but were captured and reported in the current year.
- 3 cash disbursement transactions were not allocated accurately between Muni and Metro funds.
- 6 cash disbursement transactions did not have sufficient supporting documentation that these were Metro fund expenses versus Muni fund expenses.

Status – In progress. Please see current year finding.

Fiscal Year 2005:

Recording of Metropolitan and Municipal Wastewater Utility Related Expenses

Observation – We performed testwork on cash disbursements and payroll expenses charged to the Metropolitan System for reasonableness as well as for compliance with the City and participating agencies contractual agreements. During the performance of this testwork, we noted that 13 out of 325 cash disbursement items tested were incorrectly allocated (either over or under allocated) to the participating agencies.

Status – In progress. Please see current year finding.

Allocation Ratio Expenses

Observation – During the performance of expense testing, we noted that the ratio used to split expenses shared by Metropolitan and Municipal Wastewater Utility was not always used appropriately. During the performance of this testwork, we noted that 6 out of 325 cash disbursement items tested had incorrect allocations between these utilities.

Status – In progress. Please see current year finding regarding expenditure allocation between Muni and Metro.

**CITY OF SAN DIEGO METROPOLITAN
WASTEWATER DEPARTMENT**

**Schedule of Allocation for Billing to Metropolitan
System and Independent Auditor's Reports**

For the Fiscal Year Ended June 30, 2009

CITY OF SAN DIEGO METROPOLITAN WASTEWATER DEPARTMENT
Schedule of Allocation for Billing to Metropolitan System and Independent Auditor's Reports
For the Fiscal Year Ended June 30, 2009

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**INDEPENDENT AUDITOR'S REPORT
ON SCHEDULE OF ALLOCATION FOR BILLING TO METROPOLITAN SYSTEM**

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

We have audited the accompanying Schedule of Allocation for Billing to Metropolitan System (the "Schedule") of the City of San Diego Metropolitan Wastewater Department (MWWD), and enterprise fund of the City of San Diego (the "City"), for the year ended June 30, 2009. The Schedule is the responsibility of the MWWD'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 MWWD'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 Schedule presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 3, 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 and the Participating Agencies in the Metropolitan Wastewater System dated May 18, 1998 and amended on May 15, 2000 and June 3, 2010 (Agreements). Accordingly, the Schedule is not intended to present the financial position or the changes in the financial position of the MWWD in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Schedule referred to above present fairly, in all material respects, the allocation for billing to Metropolitan System for the year ended June 30, 2009 on the basis of accounting described in Note 3.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2010, on our consideration of the MWWD'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 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 MWWD'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.

Macias Jini & O'Connell LLP

Certified Public Accountants
San Diego, California
December 28, 2010

CITY OF SAN DIEGO METROPOLITAN WASTEWATER DEPARTMENT
Schedule of Allocation for Billing to Metropolitan System
For the Fiscal Year Ended June 30, 2009

	Operating Expenses		
	Municipal System	Metropolitan System	Total
TRANSMISSION:			
Cleaning and Stoppage Removals, Mains and Laterals	\$ 11,088,042	\$ -	\$ 11,088,042
Accrued Claims	-	-	-
Maintenance of Laterals	2,825,332	-	2,825,332
Maintenance of Mains and Manholes	9,355,929	-	9,355,929
Sewage Pumping Stations	10,730,236	1,603,701	12,333,937
Metro Pump Station #1	-	2,840,600	2,840,600
Metro Pump Station #2	-	7,397,929	7,397,929
TOTAL TRANSMISSION	33,999,539	11,842,230	45,841,769
TREATMENT AND DISPOSAL:			
Cogeneration Facilities	-	1,351,607	1,351,607
Point Loma Plant	-	18,656,575	18,656,575
North City Water Reclamation Plant	-	8,378,469	8,378,469
Metro Biosolid Center	-	14,341,672	14,341,672
South Bay Water Reclamation Plant	-	7,204,471	7,204,471
San Pasqual Water Reclamation Plant	43,404	-	43,404
Escondido System	2,870,089	-	2,870,089
Sewage Testing and Control	4,442,904	473,801	4,916,705
Wastewater Chemistry	240,039	5,940,796	6,180,835
Biology/Ocean Operations	1,218,018	3,405,312	4,623,330
TOTAL TREATMENT AND DISPOSAL	8,814,454	59,752,703	68,567,157
GENERAL AND ADMINISTRATIVE:			
Utilities Administration and General Expenses	20,229,702	16,332,664	36,562,366
Utility Commercial	5,354,435	-	5,354,435
Technical Services Administration	-	1,548,419	1,548,419
Central Support Facility	1,116,050	10,046,542	11,162,592
Expenses of Other City Departments Applicable to Sewerage Utility	9,732,929	7,285,769	17,018,698
Engineering Expenses	4,553,841	3,577,044	8,130,885
TOTAL GENERAL AND ADMINISTRATIVE	40,986,957	38,790,438	79,777,395
TOTAL EXPENSES	83,800,950	110,385,371	194,186,321
CAPITAL IMPROVEMENT EXPENSES	45,978,713	6,279,208	52,257,921
METROPOLITAN SYSTEM CAPITAL IMPROVEMENT INCOME CREDITS	-	(2,771,713)	(2,771,713)
DEBT SERVICE ALLOCATION EXPENSES	34,422,085	58,828,350	93,250,435
METROPOLITAN SYSTEM INCOME CREDITS	-	(2,582,900)	(2,582,900)
TOTAL ALLOCATION FOR BILLING PURPOSES	\$ 164,201,748	\$ 170,138,316	\$ 334,340,064

See accompanying notes to Schedule of Allocation for Billing to Metropolitan System

CITY OF SAN DIEGO METROPOLITAN WASTEWATER DEPARTMENT
Notes to the Schedule of Allocation for Billing to Metropolitan System
For the Fiscal Year Ended June 30, 2009

Note 1 – General

The City of San Diego Metropolitan Wastewater Department (“MWWD”) operates and maintains the Metropolitan Wastewater System (the “Metropolitan System”) and the Municipal Wastewater Collection System (the “Municipal System”). The Participating Agencies and the City have entered into the Regional Wastewater Disposal Agreement dated May 18, 1998 and amended on May 15, 2000 and June 3, 2010, 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 MWWD is accounted for and reported as an enterprise fund of the City of San Diego.

Note 2 – 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 3 – Summary of Significant Accounting Policies

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 the financial position or the changes in the 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.

Note 4 – 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.

CITY OF SAN DIEGO METROPOLITAN WASTEWATER DEPARTMENT
Notes to the Schedule of Allocation for Billing to Metropolitan System (Continued)
For the Fiscal Year Ended June 30, 2009

Note 5 – Debt Service Allocation Expenses

Debt service allocation expenses are that portion of the principal and interest payments relating to the 1993, 1995, 1997A, 1997B, 1999A and 1999B sewer revenue bond issuances, 2007 sewer revenue note issuance, and outstanding loans with the State of California.

Note 6 – Metropolitan System Income Credits

Metropolitan System income credits are revenues earned by the Metropolitan System for which costs have been incurred during the current or previous fiscal years. There is a dispute between the Participating Agencies and the City regarding reclaimed water revenue. The City's position is that the Reclaimed Water system is one system and at this time it is not earning revenue in excess of its operating and capital costs. MWWD has not collected any revenue from reclaimed water.

Note 7 – Total Allocation for Billing Purposes

Costs to be billed to Participating Agencies include all individual construction projects costs and operation and maintenance expenses attributable to the Metropolitan System. Costs are apportioned back to the Participating Agencies based on their percentage of each of the totals of flow, suspended solids and chemical oxygen demand ("COD"). Each Participating Agency and the City are sampled quarterly, with plants sampled daily. The percentages are determined from cumulative samples and monitored flow.

For construction projects, percentages were allocated to flow, suspended solids and COD based on each of the 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.

Operation 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.

Note 8 – Pension

The rates supporting expenses related to the employer share of pension costs are actuarially determined by the San Diego City Employees' Retirement System's (SDCERS) actuary. Employer contribution rates are set with a 2 year time-lag (i.e., rates effective in fiscal year 2009 were calculated in the fiscal year 2007 actuarial valuation). The City's enterprise funds fully paid their pension rates set by the actuary in the actuarial report prepared in fiscal year 2007 for the fiscal year 2009.

CITY OF SAN DIEGO METROPOLITAN WASTEWATER DEPARTMENT
Notes to the Schedule of Allocation for Billing to Metropolitan System (Continued)
For the Fiscal Year Ended June 30, 2009

Note 9 – Post Employment Retirement Healthcare Benefits

In fiscal year 2008, the City implemented the Governmental Accounting Standards Board (GASB) Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*. This statement has significant effects on the accounting treatment and financial reporting of other post employment benefits other than pensions that the City provides to its employees. Specifically, GASB Statement No. 45 requires the City to recognize the cost of benefits when incurred rather than when paid or provided. The costs are measured and accrued based upon annual actuarial valuations similar to current practice with pension plans. The actuarial valuations will provide information on the annual required contributions (ARC) to fund the plan. If the City fails to fund the plan, based on the ARC, it will be required to report a liability on the face of the financial statements for the "underpayment."

Further information regarding the City's Post Employment Retirement Healthcare Benefits at June 30, 2009 can be found in the City's Comprehensive Annual Financial Report.



**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***

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

We have audited the accompanying Schedule of Allocation for Billing to Metropolitan System (the "Schedule") of City of San Diego Wastewater Department (MWWD), an enterprise fund of the City of San Diego (the "City"), for the year ended June 30, 2009, and have issued our report thereon dated December 28, 2010. Our report contained an explanatory paragraph indicating 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 Wastewater System dated May 18, 1998 and amended on May 15, 2000 and June 3, 2010 (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 MWWD's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of MWWD's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the MWWD's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the MWWD's Schedule will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether MWWD'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 Schedule 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 MWWD, in a separate letter dated December 28, 2010.

This report is intended solely for the information and use of MWWD's management, City Council, others within the entity, 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.

Maxian Jini & O'Connell LLP

Certified Public Accountants
San Diego, California
December 28, 2010

AGENDA ITEM 8

Attachment

**METRO JPA/TAC
Staff Report**

Subject Title:

Calculation of 2011 Operations Reserve

Requested Action:

Accept calculation of 2011 Operations Reserve

Recommendations:

Metro TAC:	Reviewed twice. Recommend acceptance
IROC:	N/A
Prior Actions: (Committee/Commission, Date, Result)	Reviewed by Finance Committee. Recommend acceptance.

Fiscal Impact:

Is this projected budgeted? Yes ____ No ____ N/A	
Cost breakdown between Metro & Muni:	N/A
Financial impact of this issue on the Metro JPA:	\$31,085 rolled over to 2012. Interest will be earned on this amount.

Capital Improvement Program: N/A

New Project? Yes ____ No ____	
Existing Project? Yes ____ No ____ upgrade/addition ____ change ____	

Comments/Analysis:

In April 2010 the Metro JPA/Commission approved the "Administrative Protocol on Allocation of Operating Reserves and Debt Service Coverage to the Participating Agencies". The Protocol is attached to this staff report.

The 2010 operating reserve was based on 45 days of the average operating expenses for audited years of 2007 and 2008 and the audited flows for 2008. It is the intention of the protocol that each year the operating reserve will be recalculated based on the most recent audit. With the close of the 2009 audit the PAs share of the operating reserve has been recalculated. City staff has applied the interest earned on the operations reserve and the net effect is that the City owes the PAs \$31,085. A summary of the allocation of the interest and recalculation of the operating reserve is attached to this staff report.

The calculation of the 2011 operations reserve was reviewed by Metro TAC at their February 16, 2011 and the Finance Committee at their February 23, 2011 meeting and they recommended that the balance in the operations reserve for each PA should just be carried forward until next fiscal year. City staff is keeping a monthly record of revenues and expenses to calculate the interest on the operations reserve as well as on the undesignated fund balance. The undesignated fund balance is used to calculate the debt service coverage ratio of 1.2 on the PAs portion of the outstanding debt. For fiscal year 2011 there will be not adjustment to the debt service coverage as the cash flows are adequate to fund the required coverage ratio.

If you have questions or require additional information please contact Karyn Keese, PBS&J/Atkins at 858-514-1008.

Previous TAC/JPA Action:

Acceptance by Metro TAC and the Finance Committee.

Additional/Future Action:

Review interest calculation, undesignated fund balance, and cash flow during 2010 Exhibit E Audit.

City Council Action:

N/A

Administrative Protocol on Allocation of Operating Reserves and Debt Service Coverage to Participating Agencies

BACKGROUND:

In early 2008 the MetroTAC formed a working group in response to the City of San Diego's request for \$20 million in funding in FYE 2009 from the Participating Agencies ("PAs") for operating reserves and debt service coverage. The working group continued to meet with City of San Diego staff regarding the establishment of a mutually agreed upon protocol through early February 2010. A summary of the City of San Diego's 2008 proposal and the negotiated 2010 protocol is included as Attachment A.

At its regular meeting of February 17, 2010, the MetroTAC approved the following recommendations to move to the Finance Committee of the Metro Wastewater JPA and thereafter to the Metro Commission/ Metro Wastewater JPA for discussion and action:

- Proceed with PAs funding a 1.2 debt service ratio coverage
- Proceed with PAs funding a 45 day operating reserves
- The PAs will fund no other reserves
- FY07 and FY08 refund monies will be used to fund the operating reserves
- Interest accrual on operating reserves and undesignated accounts will start with FY10 (beginning on July 1, 2009)

The Finance Committee of the Metro Wastewater JPA, at its February 24, 2010 meeting, took action to recommend approval of the above, by the Metro Commission/ Metro Wastewater JPA. At its March 4, 2010 meeting, the Metro Commission/ Metro Wastewater JPA, comprised of representatives of the PAs, approved the components of the negotiated policy, with the understanding that any such policy would serve as an administrative protocol regarding the allocation of debt service coverage to the PAs and funding of operating reserves by the PAs.

PROTOCOL REGARDING PA FUNDING OF OPERATING RESERVES:

Background:

Operating reserves are established to provide funding for unforeseen events that might occur during the course of the fiscal year such as unforeseen major maintenance or capital projects. The PAs performed a survey of other regional wholesale agencies and determined that agencies such as the San Diego County Water Authority maintain a 45 day operating reserves. Although the City of San Diego's current policy is to increase operating reserves for its retail customers from 45 to 70 days, the City realizes that if a major maintenance incident should occur it can immediately request payment from the PAs per the Regional Wastewater Disposal Agreement. The City of San Diego's retail customer's rates cannot be immediately increased due to Proposition 218 requirements for noticing and public hearings.

Protocol:

Attachment B is a summary of the funding strategy showing each PAs 2007 and 2008 refunds based on recent City Metro Wastewater Exhibit E audits. The refunds will be used to fund the PAs 45 day operating reserves contribution. In the majority of cases most PAs will see a refund even after they have

fully funded their portion of the operating reserves. PAs that do not have adequate refunds will be billed for their portion of the reserve in the next quarterly 2010 billing. The operating reserves for each fiscal year will be established based on 45 days of operating revenues as determined by the following formula:

$$\frac{\text{Fiscal Year Estimated Operating Expenses (not including CIP and debt service)} \times 45 \text{ days}}{365 \text{ days}}$$

The number of days included in the calculation cannot be changed without prior consent of the PAs.

The operating reserves will be maintained by the City of San Diego and interest will accrue on a monthly basis based on actual interest rates on the City's investments. This interest revenue will be added to the PAs undesignated fund balance for that fiscal year. As part of each year's Exhibit E audit the actual required operating reserves and interest earned on it will be determined and audited by the City of San Diego's external auditors and PA representatives. A summary of the operating reserves balance and interest earned for each PA will be included as a footnote or attachment to the City Metro Wastewater Exhibit E Audit.

PROTOCOL REGARDING ALLOCATION OF DEBT SERVICE COVERAGE TO PAs

Background:

A 1.2 debt service coverage ratio is a requirement for all of the outstanding Metro parity debt. A cash flow prepared by the City of San Diego shows (Attachment C) that if the PAs are billed at the current level (\$65 million annually to cover the PAs portion of operations, pay-go capital, and debt service expense) for the next three to five years that this requirement can be achieved without additional contributions by the PAs. This provides the PAs a stable projected annual Metro contribution for the next three to five years.

Protocol:

The PAs will maintain through annual contributions and use of PA undesignated fund balance a positive cash flow not to exceed 1.2 times the PA share of the required annual debt service on Metro Debt. The debt service coverage ratio of 1.2 cannot be changed without prior consent of the PAs.

The undesignated fund balance will be maintained by the City of San Diego and interest will accrue on a monthly basis based on actual interest rates on the City's investments. This interest revenue will be added to the PAs undesignated fund balance for that fiscal year.

As part of each year's Exhibit E audit the actual required reserve coverage and interest earned on the undesignated fund balance will be determined and audited by the City of San Diego's external auditors and PA representatives. A summary of the debt service coverage requirement and portion of interest earned on the undesignated fund balance for each PA will be included as a footnote or attachment to the City Metro Wastewater Exhibit E Audit.

If the cash flow in any year does not provide the required 1.2 debt service coverage the PAs will be billed the additional required revenue including interest.

Fiscal Year 2011 Operating Reserve Contribution

Based on 2009 Flows and Loads

Final

AGENCY	TOTAL % Flow and Loads	FY 11 Operating Reserve Contribution	FY 10 Operating Reserve Interest Earned Allocation	FY 11 Operating Reserve Contribution DUE
CHULA VISTA	29.403%	(\$90,237)	\$94,915	\$4,679
CORONADO	2.883%	(\$8,847)	\$11,343	\$2,496
DEL MAR	1.061%	(\$3,256)	\$3,478	\$222
EAST OTAY MESA	0.007%	(\$23)	\$0	(\$23)
EL CAJON	12.145%	(\$37,271)	\$51,610	\$14,339
IMPERIAL BEACH	3.823%	(\$11,732)	\$12,344	\$612
LA MESA	8.011%	(\$24,584)	\$29,884	\$5,300
LAKESIDE/ALPINE	4.906%	(\$15,057)	\$18,106	\$3,049
LEMON GROVE	3.512%	(\$10,779)	\$12,205	\$1,426
NATIONAL CITY	7.014%	(\$21,524)	\$25,593	\$4,069
OTAY	2.278%	(\$6,989)	\$1,553	(\$5,437)
PADRE DAM	6.776%	(\$20,794)	\$17,567	(\$3,227)
POWAY	5.606%	(\$17,206)	\$19,500	\$2,294
SPRING VALLEY	11.158%	(\$34,243)	\$34,867	\$624
WINTERGARDENS	1.417%	(\$4,350)	\$5,010	\$660
SUBTOTAL PARTICIPATING AGENCIES	100%	(\$306,891)	\$337,976	\$31,085
(1) Negative=Invoice				

AGENDA ITEM 11

Attachment



Metro Wastewater JPA Finance Committee
July 28, 2010
Minutes

Meeting called to order: 8:34 a.m. at PBS&J Offices, 9275 Sky Park Court, San Diego, CA 92101 by Committee Chairman Ovrom.

1. Roll Call

Attendees:

Al Ovrom, Committee Chairman, Metro Wastewater JPA Finance Committee
Merrilee Boyack, Vice- Chair, Metro Wastewater JPA Finance Committee
Alejandra Sotelo-Solis, Committee Member
Augie Caires, Committee Member
Bill Wells, Committee Member

Support Staff:

Karyn Keese, PBS&J
Paula de Sousa, BBK
Scott Huth, Metro TAC Chair

City of San Diego Staff:

Edgar Patino, Public Utilities Department (PUD)

General Public:

There were no general public.

2. Public Comment

There was no public comment.

3. Approval of Minutes from the May 26, 2010 Finance Committee Meeting

Upon motion by Committee Member Boyack, seconded by Committee Member Sotelo-Solis, the May 26, 2010 Regular Meeting Minutes were unanimously approved.

4. Election of Finance Committee Vice-Chair

Merrilee Boyack was unanimously elected as Vice-Chair of the Committee.

5. FY2010 Period 11 Budget Update

Ms. Keese reviewed the May budget report that was presented to the IROC. The overall wastewater operating budget is showing \$5.8 million in savings, contract savings are at \$17 million, and the IT budget is \$2.9 million under budget as of May 2010. As the financial report that is presented to IROC covers water, and both Muni and Metro budgets, the Committee requested that City staff prepare a smaller version to be presented to the Committee and the Metro JPA/Commission that just covers Metro each month.

6. Review of JPA External Auditor Proposal

At the last Committee Meeting the Committee requested Treasurer Wilson solicit a proposed fee from the Padre Dam MWD external auditors to audit the JPA's financial statements for 2010. The auditor submitted a fee ranging from \$5,000 to \$7,500. If the audit is wanted, it should proceed soon as the 2010 fiscal year ended June 30th. Audit results should be presented to the Metro JPA/Commission by the September/October time frame. Also the Metro JPA/Commission should try to have the timing coincide with Padre's on-sight auditor work for better efficiency. Historical financial results become stale when provided late.

The consensus of the Committee was that the audit would be very simple due to the small amount of transactions and that the Treasurer should negotiate with the auditors to lower the fee to \$3,500 if possible.

ACTION: Upon motion by Committee Member Boyack, seconded by Committee Member Caires, the Committee unanimously approved that the audit proposal should be brought forward to the Metro JPA/Commission and that the audit fee should not exceed \$5,000.

7. Exhibit E Audit Status

Ms. Keese reviewed the status of the 2009 audit. The audit is essentially complete with only a couple issues remaining. These should be resolved in the next two weeks. She also reviewed the audit planning for the 2010 audit and the agreed upon cost allocations presented by PUD internal audit staff. She expressed her thanks to PUD internal audit staff for including the PA audit team in upfront planning and establishing written protocols for cost allocation purposes.

8. 2010 Performance Audit of Public Utilities Department

Committee Member Caires reviewed the IROC's request to conduct an external audit of the PUD in 2010 which focuses on departmental performance. The audit is to be led by IROC who will advise the Mayor and Chief Financial Officer about the scope. The City has budgeted \$100,000 for this review. IROC and the Office of the City Auditor will finalize the scope of work at their September meeting, so any input from the Metro JPA/Commission/TAC wishes to provide needs to be formulated by early September. It was the unanimous decision of the Committee to move this forward to Metro TAC in August and the Metro JPA/Commission for discussion in September.

9. Review of Items to be Brought Forward to the Metro JPA/Commission

The Finance Committee recommended that items 3, 4, 5, and 6, should be moved forward to the July 2010 Metro JPA/Commission meeting.

10. Other Business of the Finance Committee

Ms. Keese discussed that since the established meeting date for the Finance Committee is the last Wednesday in the month there are two upcoming instances in 2011 (August and November) where the Finance Committee falls one day before the Metro JPA/Commission meeting. This does not allow enough time to move items forward to the Metro JPA/Commission in a timely manner. It was agreed that the Finance Committee 2010 Meeting Schedule should be expanded to include 2011 so that the August and November meetings could be moved to the week prior to the Metro JPA/Commission meeting. This change in the schedule would be agendized for a future Finance Committee meeting.

11. Adjournment

The meeting was adjourned at 9:23 a.m. The next regularly scheduled meeting of the Finance Committee will be August 25, 2010 at the PBS&J San Diego Office.

AGENDA ITEM 14

Attachment

MetroTAC
2010/2011 Work Plan

MetroTAC Items	Description	Subcommittee Member(s)
Lateral Issues	Sewer laterals are owned by the property owners they serve, yet laterals often allow infiltration and roots to the main lines causing maintenance issues. As this is a common problem among PAs, the MetroTAC will gather statistics from national studies and develop solutions.	Tom Howard Joe Smith
Advanced Water Purification Demonstration Project	San Diego engaged CDM to design/build/operate the project for the water repurification pilot program. <i>2/8/11: Equipment to arrive 3/2011; tours will be held when operational (June/July 2011 timeframe)</i>	Al Lau
Fiscal Items	The Finance committee will continue to monitor and report on the financial issues affecting the Metro System and the charges to the PAs. The debt finance and reserve coverage issues have been resolved. Refunds totaling \$12.3 million were sent to most of the PA's.	Greg Humora Scott Huth Karen Jassoy Karyn Keese
Recycled Water Revenue Issue	Per our Regional wastewater Agreement revenues from SBWTP are to be shared with PA's. San Diego has not met the terms of the agreement and there are revenues owed the PA's. <i>2/2011: Staff is scheduled to meet with San Diego Staff on 3/3/11 to discuss issue.</i>	Scott Huth Scott Tulloch Karyn Keese
Water Reduction - Impacts on Sewer Rates	The MetroTAC wants to evaluate the possible impact to sewer rates and options as water use goes down, and consequently the sewer flows go down, reducing sewer revenues. Sewer strengths are also increasing because of less water to dilute the waste. We are currently monitoring the effects of this. <i>2/2011: wastewater revenues are declining due to conservation and flow reductions and agencies are re-prioritizing projects to be able to cover annual operations costs</i>	Eric Minicilli Manny Magaña Karyn Keese
"No Drugs Down the Drain"	The state has initiated a program to reduce pharmaceuticals entering the wastewater flows. There have been a number of collection events within the region. The MetroTAC, working in association with the Southern California Alliance of Publicly-owned Treatment Works (SCAP), will continue to monitor proposed legislation and develop educational tools to be used to further reduce the amount of drugs disposed of into the sanitary sewer system. <i>8/2010: County Sheriff and Chula Vista have set up locations for people to drop off unwanted medications and drugs.</i>	Greg Humora Dean Gipson
Flushable Items that do not Degrade	Several PAs have problems with flushable products, such as personal wipes, that do not degrade and cause blockages. MetroTAC is investigating solutions by other agencies, and a public affairs campaign to raise awareness of the problems caused by flushable products. We are also working with SCAP in their efforts to help formulate state legislation to require manufacturers of products to meet certain criteria prior to labeling them as "flushable." Follow AB2256 and offer support.	Eric Minicilli Dean Gipson
Grease Recycling	To reduce fats, oils, and grease (FOG) in the sewer systems, more and more restaurants are being required to collect and dispose of cooking grease. Companies exist that will collect the grease and turn it into energy. MetroTAC is exploring if a regional facility offers cost savings for the PAs. The PAs are also sharing information amongst each other for use in our individual programs.	Eric Minicilli Dean Gipson
"Power Tariff"	Power companies are moving to a peak demand pricing scheme which negatively impacts PAs with pump stations and other high energy uses. MetroTAC wants to evaluate the new legislation and regulations, and to identify and implement cost savings efforts for the PAs. <i>(8/2010): John Helminski at the City of San Diego is working on a sustainability project for CoSD</i>	Tom Howard Paula de Sousa

MetroTAC Items	Description	Subcommittee Member(s)
Recycled Water Study	As part of the secondary waiver process, San Diego agreed to perform a recycled water study within the Metro service area. That study is currently underway, and MetroTAC has representatives participating in the working groups. 8/2010: Al Lau and Dean Gipson attended the Coarse Screening Workshop in August 2010. <i>2/2011: The next Status Update Meeting is 3/29/11; final draft report expected in April 2011</i>	Scott Huth Al Lau Dean Gipson
Recycled Water Rate Study	San Diego is working on a rate study for pricing recycled water from the South Bay plant and the North City plant. MetroTAC, in addition to individual PAs, have been engaged in this process and have provided comments on drafts San Diego has produced. We are currently waiting for San Diego to promulgate a new draft which addresses the changes we have requested. 8/2010: draft study is expected in September 2010. <i>2/2011: draft study still not issued</i>	Karyn Keese Scott Huth
Metro JPA Strategic Initiatives	MetroTAC to develop success measures for the JPA strategic initiatives and suggest a schedule to complete certain items.	Scott Huth Dan Brogadir Dean Gipson
Salt Creek Diversion	9/2010: OWD, Chula Vista and San Diego met to discuss options and who will pay for project; Chula Vista and OWD are reviewing options. <i>2/2011: OWD and PBS&J reviewed calculations with CoSD staff; San Diego to provide backup data for TAC to review</i>	Roberto Yano Manny Magaña Karyn Keese
Board Members' Items		
Metro JPA Strategic Plan	<i>2/2011: committee to meet 2/28/11 to plan for retreat to be held on 5/5/11</i>	Augie Caires Ernie Ewin Mark Robak
Rate Case Items	San Diego is starting the process for their next five-year rate case. As part of that process, MetroTAC and the Finance Committee will be monitoring the City's proposals as we move forward.	Karyn Keese
Schedule E	MetroTAC and the Finance Committee are active and will monitor this process. Individual items related to Schedule E will come directly to the Board as they develop.	Karen Jassoy Karyn Keese
Future bonding	MetroTAC and the Finance Committee are active and will monitor this process. Individual items related to bonding efforts will come directly to the Board as they develop.	Karen Jassoy Karyn Keese
Changes in water legislation	MetroTAC and the Board should monitor and report on proposed and new legislation or changes in existing legislation that impact wastewater conveyance, treatment, and disposal, including recycled water issues	Paula de Sousa
Role of Metro JPA regarding Recycled Water	As plans for water reuse unfold and projects are identified, Metro JPA's role must be defined with respect to water reuse and impacts to the various regional sewer treatment and conveyance facilities	Scott Huth Dean Gipson
Border Region	Impacts of sewer treatment and disposal along the international border should be monitored and reported to the Board. These issues would directly affect the South Bay plants on both sides of the border.	
IROC Performance Audits	Work with IROC to identify areas to be audited; participate in audit process. 8/2010: provide the top 5 areas to audit by September IROC meeting	Augie Caires

Completed Items	Description	Subcommittee Member(s)
Debt Reserve and Operating Reserve Discussion	In March 2010, the JPA approved recommendations developed by Metro JPA Finance Committee, MetroTAC, and the City of San Diego regarding how the PA's will fund the operating reserve and debt financing. MetroTAC has prepared a policy document to memorialize this agreement. Project complete: 4/10	Scott Huth Karyn Keese
State WDRs & WDR Communications Plan	The Waste Discharge Requirements (WDRs), a statewide requirement that became effective on May 2, 2006, requires all owners of a sewer collection system to prepare a Sewer System Management Plan (SSMP). Agencies' plans have been created. We will continue to work to meet state requirements, taking the opportunity to work together to create efficiencies in producing public outreach literature and implementing public programs. Project complete: 5/10	Dennis Davies Patrick Lund
Ocean Maps from Scripps	Schedule a presentation on the Sea Level Rise research by either Dr. Emily Young, San Diego Foundation, or Karen Goodrich, Tijuana River National Estuarine Research Reserve Project complete: 5/10	Board Member Item
Secondary Waiver	The City of San Diego received approval from the Coastal Commission and now the Waiver is being processed by the EPA. The new 5 year waiver to operate the Point Loma Wastewater Treatment Plant at advanced primary went into effect August 1, 2010. Project complete 7/10	Scott Huth