



Metro Finance Committee
(Finance Advisory Committee to Metro JPA)

TO: Finance Committee Members and Metro Commissioners
DATE: Wednesday, March 27, 2013
TIME: 8:30 a.m.
LOCATION: Atkins Global, 3570 Carmel Mountain Road, Suite 300, San Diego, CA 92130*

* The location and time of future meetings is subject to change

THIS NOTICE HAS BEEN DISTRIBUTED TO THE METRO COMMISSIONERS AND FINANCE COMMITTEE MEMBERS.

1. Roll Call
2. **ACTION:** Selection of Metro JPA Finance Committee Chair and Vice Chair
3. Public Comments
Persons speaking during Public Comment may address the Metro Finance Committee on any subject matter within the jurisdiction of the Metro Finance Committee 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 meeting.
4. Approval of Minutes from the May 23, 2012 Special Finance Committee Meeting (**Attachment**)
5. Public Utilities Financial Presentation (**Attachment**) (Lee Anne Jones-Santos)
6. ACTION: 2010 Exhibit E Audit Presentation (**Attachment**) (Macias Gini & O'Connell)
7. Overview of Finance Committee and Metro TAC Roles (Karyn Keese and Dennis Davies)
8. Other Business of the Finance Committee
9. Review of Items to be Brought Forward to the Metro Commission/Metro JPA
10. Adjournment

The Metro Finance Committee may take action on any item listed on the Agenda whether or not it is listed "for action".

Materials provided to the Metro Finance Committee related to any open-session item on this agenda are available for public review by contacting Karyn Keese (858)514.1008 during normal business hours.

Finance Committee 2013 Meeting Schedule

January 23	May 29	September 25
February 27	June 26	October 30
March 27	July 31	November 27
April 24	August 28	December 25

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

The Metro Finance Committee requests individuals who require alternative agenda format or special accommodations to access, attend, and/or participate in the Metro Finance Committee meetings, contact Margaret O'Donnell at (619)525.1354, at least forty-eight hours in advance of the meetings.

AGENDA ITEM 4

Attachment



Metro Wastewater JPA Finance Committee
May 23, 2012
Draft Minutes

Meeting called to order: 7:35 a.m. at Atkins North America Office, 3570 Carmel Mountain Rd., Suite 300, San Diego, CA 92130 by Committee Chairman Ovrom.

1. Roll Call

Attendees:

Al Ovrom, Committee Chairman, Metro Wastewater JPA Finance Committee
Merrilee Boyack, Vice Committee Chairperson, Metro Wastewater JPA Finance Committee
Ernie Ewin, Chairman, Metro Commission/JPA
Louis Natividad, Committee Member
Ed Spriggs, Committee Member

Support Staff:

Karen Jassoy, Treasurer
Greg Humora, Metro TAC Chairman
Karyn Keese, Atkins
Jennifer Duffy, Atkins
Paula de Sousa, BBK

City of San Diego Staff:

None

General Public:

None

2. Public Comment

There was no public comment.

3. Approval of Minutes from the November 30, 2011 Finance Committee Meeting

Upon motion by Committee Member Natividad, seconded by Committee Member Spriggs the November 30, 2011 Regular Meeting Minutes were approved unanimously.

4. Status of Fieldman Rolapp Open Contract

Paula de Sousa reviewed the status of the Fieldman Rolapp (FRA) contract with the Committee. The JPA hired Fieldman Rolapp in 2006 to advise the participating agencies (PAs) on their options for financing the PA's share of Metro's capital projects due to San Diego's inability to access the municipal debt market due to pension issues.

Fieldman Rolapp has served the JPA well but with San Diego's renewed ability to issue debt as needed on behalf of themselves and the PAs for capital projects FRA's services are no longer needed. The contract with FRA is an open contract and even though the last time the JPA used their services was 2009 FRA is still required to file an annual Statement of Economic Interests (Form 700). FRA has requested that if the JPA does not require their services that they be released from the contract.

Upon motion by Vice Chair Boyack, seconded by Committee Member Spriggs the Committee recommended this item be moved forward to the Metro Commission/JPA for approval.

5. JPA 2012 Year End Projections

Treasurer Jassoy reviewed the year-end projections with the Finance Committee members. Projections as of March 2012 show that the Metro JPA budget will come in \$22,881 under budget. Under this item the proposed JPA FYE 2013 budget was reviewed as well. Treasurer Jassoy presented the FYE 2013 budget with and without the \$10,000 contingency. The draft budget includes coverage of the JPA required operating reserve (4 months of operating expenses) plus will show a surplus of \$18,720.

Paula de Sousa discussed that due to the laws regarding financial reporting for JPAs and public perception of transparency in government that the JPA should look to having formal audits of their financial statements. While the law currently appears to permit the JPA's treasurer to conduct the JPA audit, from an appearance standpoint it makes more practical sense to have an outside person/entity conduct the audit. Treasurer Jassoy commented that she is looking into whether the JPA could do a two year audit and thus save money.

Discussion continued regarding whether to recommend the budget with or without the \$10,000 contingency. Metro TAC Chairman Humora reported that the Metro TAC had approved the FYE 2013 budget with the contingency to cover the potential cost of the audit. Finance committee members concurred but recommended that the contingency should be lowered to \$5,000 and that the audit should be formally budgeted at \$5,000.

Upon motion by Vice Chair Boyack, seconded by Committee member Natividad the Committee approved the FYE 2013 JPA budget as amended and recommended this item be moved forward to the Metro Commission/JPA for review and approval.

6. Atkins 2013 Contract

Karyn Keese reviewed the hours and dollars proposed for the Atkins 2013 contract. The hours have increased to include engineering as-needed services this next year in support of Metro TAC activities, especially implementation steps for the Recycled Water Study. Major projects anticipated this next year are establishment of cost allocations for the capital facilities recommended by the Recycled Water Study, City of San Diego's wastewater and recycled water rate cases, review of updated transportation rates prepared by PUD staff, and resolution of recycled water revenue issues.

Upon motion by Vice Chair Boyack, seconded by Chairman Ovrom the Committee approved the FYE 2013 Atkins contract and recommended this item be moved forward to the Metro Commission/JPA for review and approval.

7. Treasurers 2013 Contract

Karen Jassoy reviewed the Treasurer's contract. There are no changes to the dollar amounts or scope of services. Paula de Sousa reported that that Metro TAC had inquired as to the number of times the underlying contract could be amended, and in response explained that the underlying contract could be amended in perpetuity so long as both parties agreed, however, it would be appropriate and practical for a new contract to be entered into starting with the 2013-2014 fiscal year, it was suggested that the new contract would be for a term of two-years.

Upon motion by Vice Chair Boyack, seconded by Chairman Ovrom the Committee approved the FYE 2013 Treasurers contract and recommended this item be moved forward to the Metro Commission/JPA for review and approval.

8. Webmaster 2013 Contract

Paula de Sousa reviewed the Webmaster's contract. The Webmaster is requesting an increase of \$5 per month. Metro TAC Chairman Humora reviewed the Metro TAC's discussion of using the website more to upload agenda packages as packets are growing in size that cannot be easily emailed. The Finance Committee will look at this over the next year to determine if a change in agenda notifications is needed.

Upon motion by Vice Chair Boyack, seconded by Committee Member Natividad the Committee approved the FYE 2013 Webmaster contract and recommended this item be moved forward to the Metro Commission/JPA for review and approval.

9. JPA 2013 Draft Budget

This item was discussed and covered under Item 5 of this agenda.

10. Exhibit E Audit Update

Karyn Keese reported that the sample review has been completed for 2010 and that out of the 400 O&M samples there was \$900,000 in findings from 32 samples or an 8% error rate. The two largest were \$526,000 for SAP support that was charged 100% to Metro and \$138,000 for MOC 2

electricity. Ms. Keese discussed Metro TACs review of this item and that several members had expressed concern at the high error rate of the audit. Metro TAC Humora discussed that this is close to a normal audit error rate for Metro and that this was a year that San Diego had implemented new accounting software, SAP and that the error rate had remained about normal for this audit in a transition year where we were expecting a higher error rate. The consensus of the Committee was that this item should be moved forward to the Metro Commission/JPA as an informational item.

11. Request to San Diego to Complete Exhibit E Audit with CAFR

At their May 2012 meeting Metro TAC had referred their request to the Finance Committee that the Metro Commission/JPA should formally request that the Exhibit E audit should be completed with San Diego's CAFR as it had been done in the past. The Committee discussed this and deferred this issue until after the 2011 Exhibit Audit is complete to see if this is a realistic request.

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

The Committee recommended that Items 4 through 10 be moved forward to the June 2012 Metro Commission/JPA agenda.

13. Other Business of the JPA

The meeting location for the Finance Committee was discussed. No determination was made.

14. Adjournment

The meeting was adjourned at 8:50 a.m.

AGENDA ITEM 5

Attachment



THE CITY OF SAN DIEGO

Presentation to the Metro Finance Committee

Public Utilities Financial Presentation

Lee Ann Jones-Santos

March 27, 2013





Purpose

- Provide an overview of the following:
 - Financial Statement Overview
 - Cash balances and Unrestricted Net Assets
 - FY11 to FY12 variances
 - Debt Coverage Ratios
 - CIP Program
 - Rate Case Assumptions for FY08 – FY11
 - Actual Expenditures FY08 – FY12
 - Projections for FY13 – FY17
 - Revenue received



THE CITY OF SAN DIEGO



Financial Statement Overview

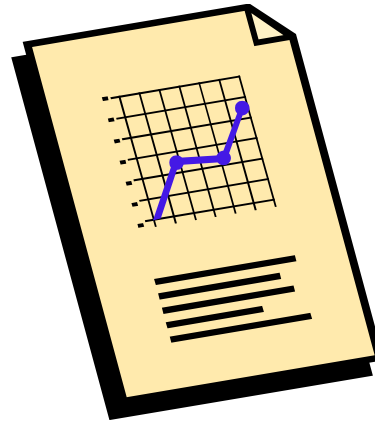
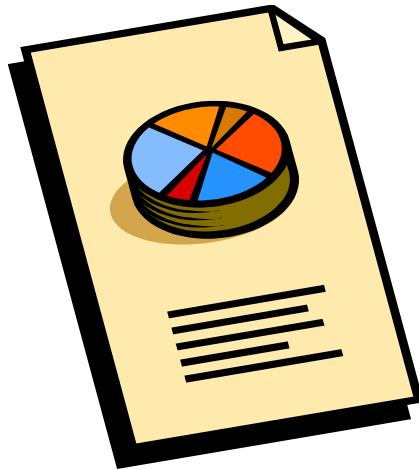




Understanding Primary Financial Statements

Statement of Revenues, Expenses, and Changes in Fund Net Assets

Statement of Net Assets



Statement of Cash Flows





Statement of Net Assets

ASSETS

Things we own of value

LIABILITIES

Things we owe

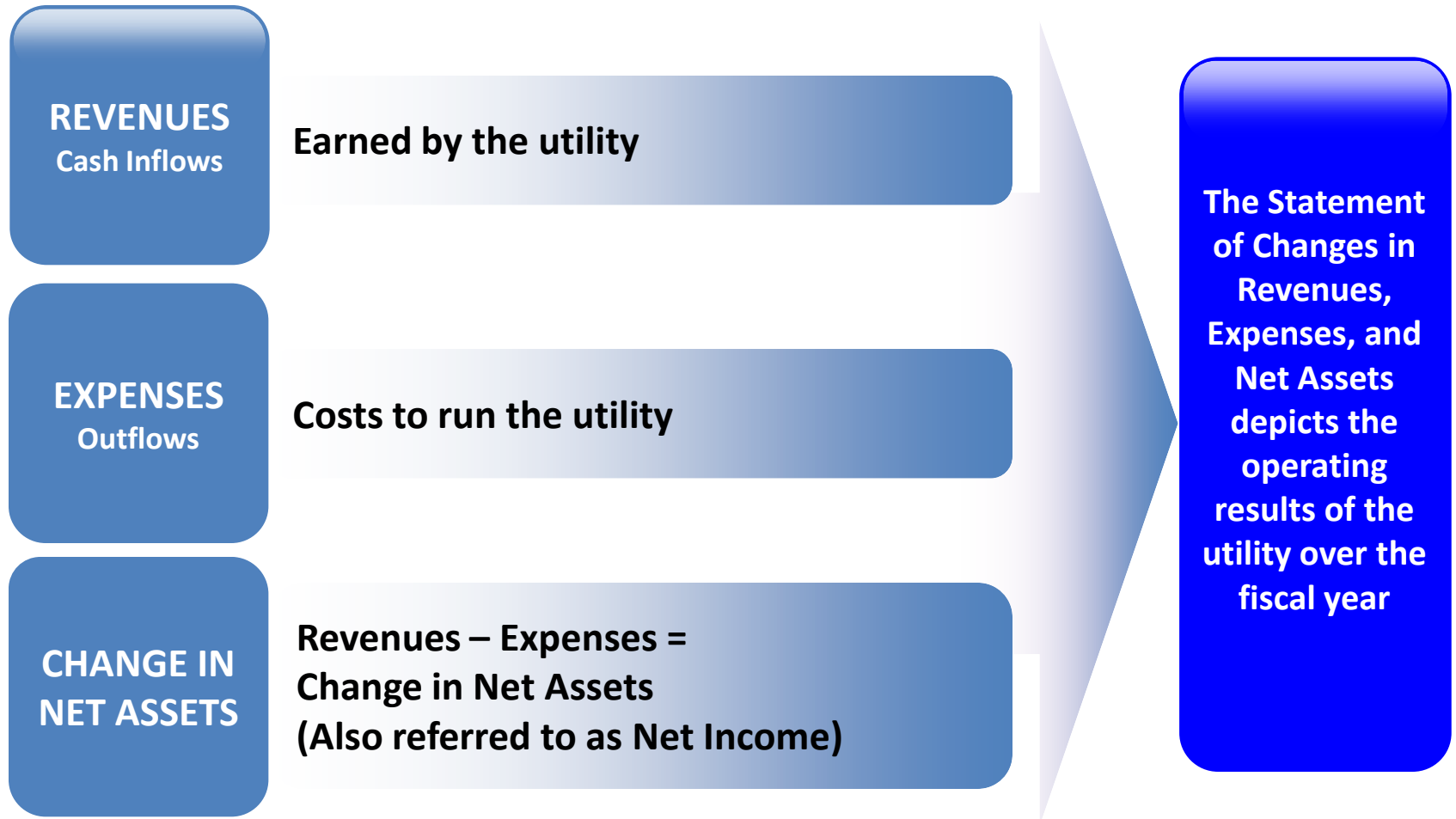
NET ASSETS

$\text{Assets} - \text{Liabilities} = \text{Net Assets}$

The
Statement of
Net Assets is
a “snapshot”
of the utility
on the last
day of the
fiscal year



Statement of Changes in Revenue, Expenses, and Net Assets





The Link Between Financial Statements

- Example Transaction – Increase in Revenue with no offsetting Expense
 - Statement of Revenues, Expenses, and Changes in Fund Net Assets
 - Increase in Revenue
 - Increase in Net Income
 - (Revenue minus Expense equals Net Income)
 - Statement of Net Assets
 - Increase in Cash
 - Increase in Unrestricted Net Assets
 - Statement of Cash Flows
 - Increase in Receipts



Fiscal Year 2012 Ending Balances

- Wastewater
 - Cash and Investments - \$433M
 - Unrestricted Net Assets - \$379M

Net Assets = Assets minus Liabilities.

For example, Accounts Receivable and Accounts Payable are included in the calculation of Unrestricted Net Assets.



Unrestricted Net Assets

- In government accounting assets with no external restriction as to use or purpose. They can be employed for any purpose designated by the governing board (i.e. City Council), as distinguished from funds restricted externally for specific purposes (i.e. Reserves for Debt Service held with Trustee).



Unrestricted Net Assets

**STATEMENT OF NET ASSETS
CITY OF SAN DIEGO - Public Utilities
YEAR ENDED JUNE 30, 2012
(In Thousands)**

	<u>SEWER</u>
Invested in Capital Assets Net of Related Debt	\$ 1,838,281
Restricted for Debt Service	9,449
Unrestricted	<u>379,114</u>
TOTAL NET ASSETS	<u>\$2,226,844</u>

ASSETS – LIABILITIES = NET ASSETS



Unrestricted Net Assets – Wastewater

STATEMENT OF NET ASSETS – WASTEWATER UTILITY As of June 30, 2012 (In Millions)

NET ASSETS - Unrestricted		\$379
Reserves (Per City Reserve Policy)	100	
Continuing Appropriations	147	
Encumbrances	87	
Undesignated	45	
		<hr/>
		\$379



Wastewater Projected Capital Program

	FY2013	FY2014	FY2015	FY2016	Total FY2013 - FY2016
Muni CIP	\$87,723,681	\$92,885,183	\$84,216,116	\$61,855,102	\$326,680,082
Metro CIP	\$21,220,524	\$28,634,808	\$38,127,124	\$26,629,011	\$114,611,467
Total CIP	\$108,944,205	\$121,519,990	\$122,343,240	\$88,484,113	\$441,291,549



THE CITY OF SAN DIEGO

Debt Coverage Ratios





Debt Service Coverage Ratio

- The **debt coverage ratio** (DCR) is the ratio of net system revenue available for debt service (interest and principal payments). It is a popular benchmark used in the measurement of an entity's (person or corporation) ability to produce enough cash to cover its debt payments. It may be expressed as a minimum ratio that is acceptable to a lender; it may be a loan condition or covenant. Breaching a DCR covenant can, in some circumstances, be an act of default.



Debt Coverage Ratio Calculation

- Aggregate Debt Coverage Ratio =
 - Net System Revenues/Total Debt Service
- Senior Debt Coverage Ratio =
 - Net System Revenues/Senior Debt Service
- Net System Revenues =
 - Total System Revenues less O&M Costs



Debt Service Coverage Ratio

- **The calculation is defined by the Master Installment Purchase Agreement (MIPA)**
 - *The MIPA is an agreement between the City and the Public Facilities Financing Authority (PFFA)*
 - *Wastewater - 1993 document and additional supplements for other issuances*
 - *The documents are prepared by Disclosure Counsel and approved by City Council*
 - *The documents are also reviewed and approved by the issuers of the bonds and signed by City Treasurer, City Attorney, the PFFA, City Clerk and City Financial Officer*



Debt Service Coverage Ratio

- **The calculation is prepared annually by the Office of the City Comptroller**
 - *The MIPA is the document that defines the calculation*
 - *If questions arise, it is discussed with the Public Utilities Department, Debt Management Department and the Office of the City Comptrollers and approved by the Disclosure Practices Working Group (DPWG) if needed*
 - *The Department prepares projected DCRs on an on-going basis*



Net System Revenues Available for Debt Service – Wastewater Fund

- Net System Revenue is current year system revenues less the maintenance and operation costs for the system
- System Revenues are defined in the MIPA on page 19
- Rate Stabilization transfer is recorded per the MIPA on page 32
- Operating Expenses tie to the CAFR (same as above) minus Depreciation which is referenced in the MIPA on pages 8 and 9



Public Utilities

- Net System Revenues Available for Debt Service
- Fiscal Year Ended June 30, 2012
 - See Handout



Investor Information

- Link –
<http://www.sandiego.gov/investorinformation/terms.shtml>
 - This will take you to the investor information page where you need to click “OK” to proceed (at bottom of page)
 - Includes CAFR, Continuing Disclosures, Official Statements, Current Credit Ratings, etc.



DCR Strategy

- Use of the Rate Stabilization Reserve (Per City Reserve Policy)
 - Can be used to stabilize or maintain a consistent DCR level
 - Use of the funds is limited only for the operation and maintenance system to maintain the required legal coverage ratios at a minimum of 1.2x
 - Deposits into the reserve are made from current system revenues



Wastewater Debt Coverage Ratios

	FY2011 (Audited)	FY2012 (Audited)	FY2013 (Projected)	FY2014 (Projected)
Sr. Liens Requirement 1.2x	1.77	1.85	1.63	1.50
Aggregate Debt Requirement 1.1x	1.67	1.75	1.54	1.42



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CIP Program





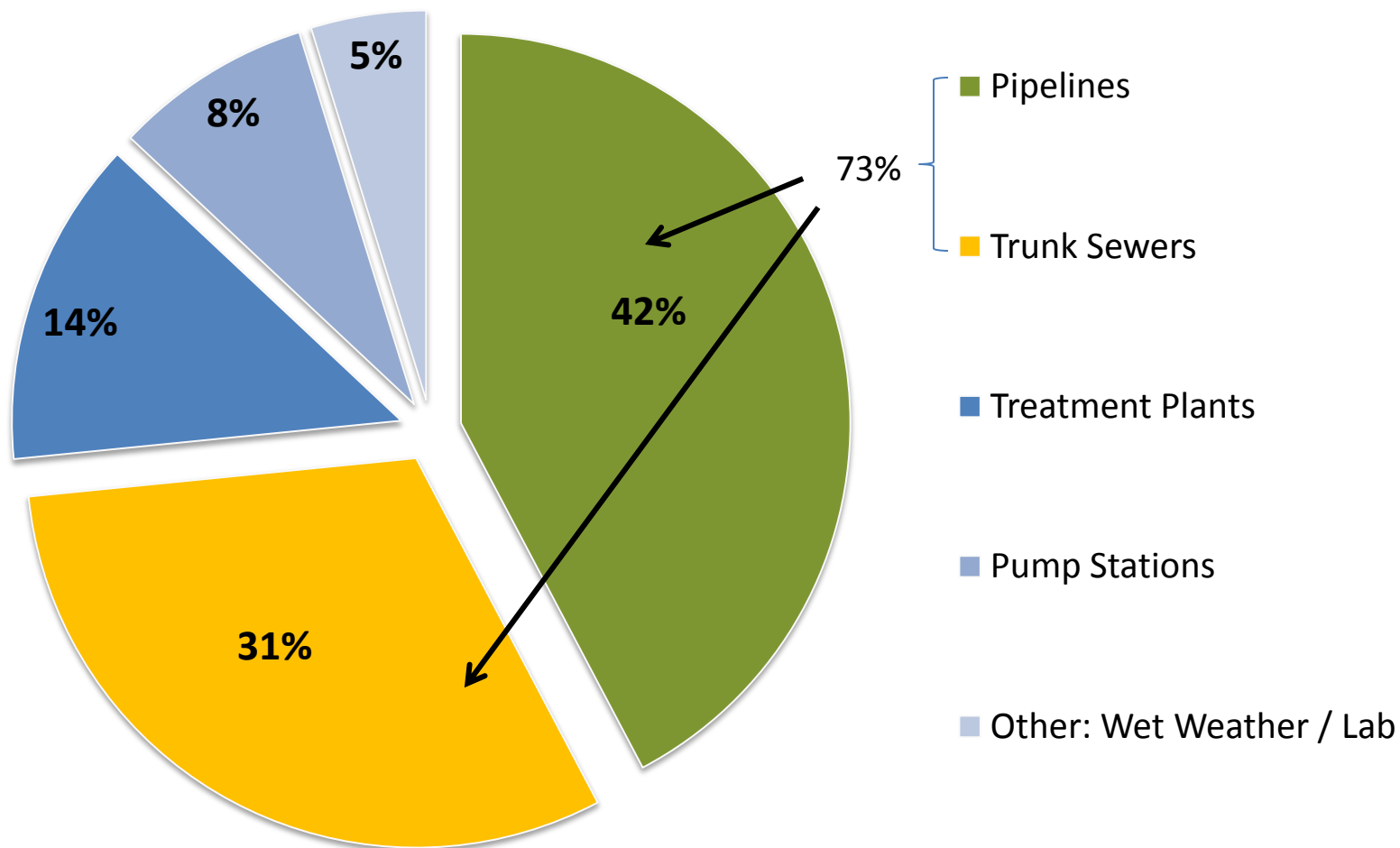
Wastewater Fund FY2008 – FY2011 Capital Program Overview*

- WASTEWATER
 - 50 Projects (Individual and “Annual Allocation”)
 - City Municipal system
 - Force mains, trunk sewers, pump stations
 - Metro system
 - Bio-solids storage, centrifuges, grit processing, control system upgrades, pump stations
 - 33.5% funded by Metropolitan System Joint Powers
 - \$585 million
 - EPA Consent Decree

*As Proposed in the 2007 Rate Case



Wastewater Fund FY2008 – FY2011 \$585M Planned Capital Program





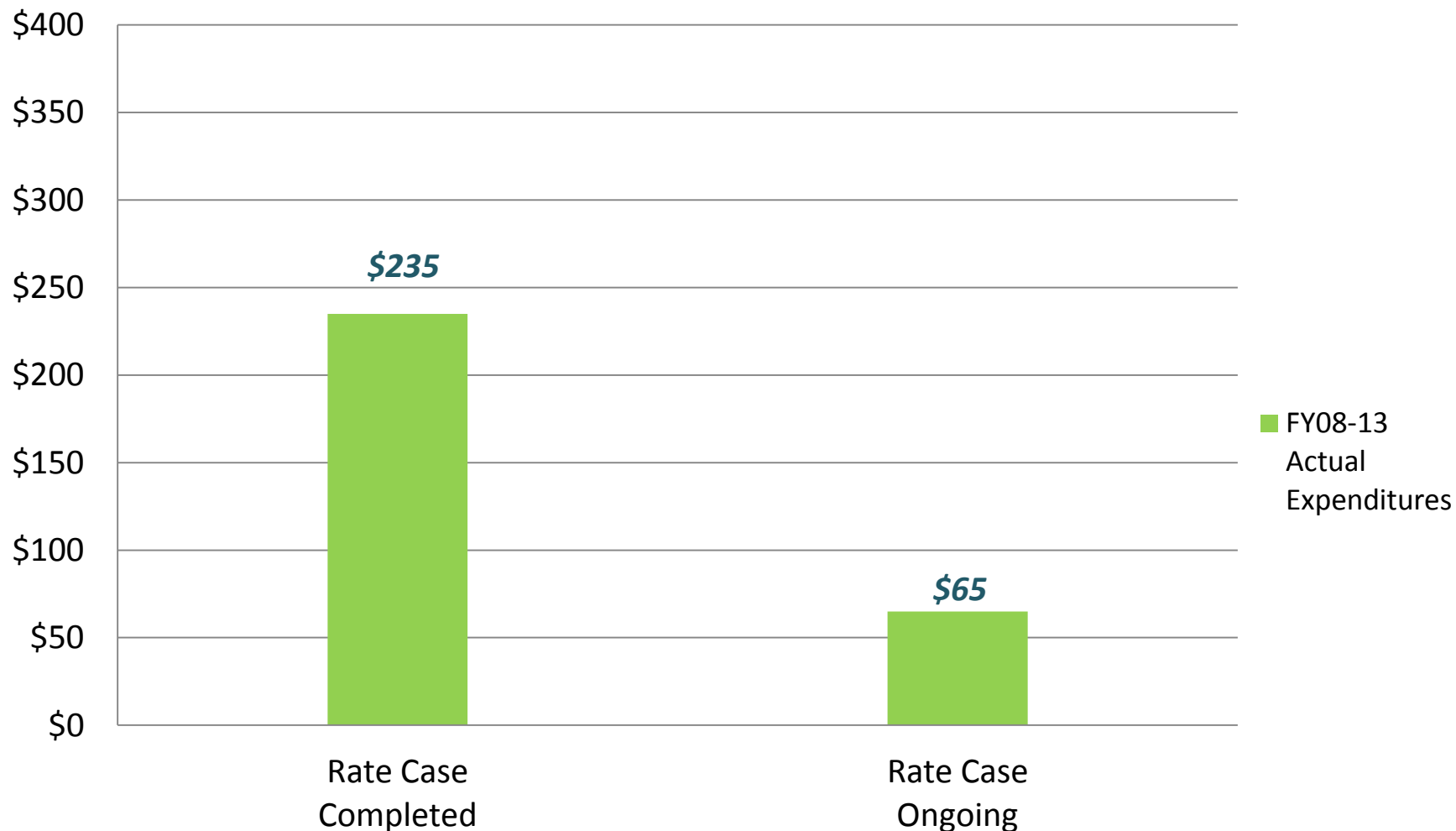
CIP Execution (Actual FY2008 - FY2013)*

- WASTEWATER
 - 23 Projects completed - \$235M
 - 14 Projects on-going - \$65M
 - 13 Projects Cancelled/On Hold
- CIP execution initially delayed in FY2008
 - City still met regulatory requirements

*As of December 2012



Wastewater Fund CIP Expenditures FY2008 – FY2013* (In \$ Millions)



* As of December 2012. Includes only Rate Case Projects.



Wastewater CIP Expenditures Rate Case vs. Actual (FY2008 - FY2013)

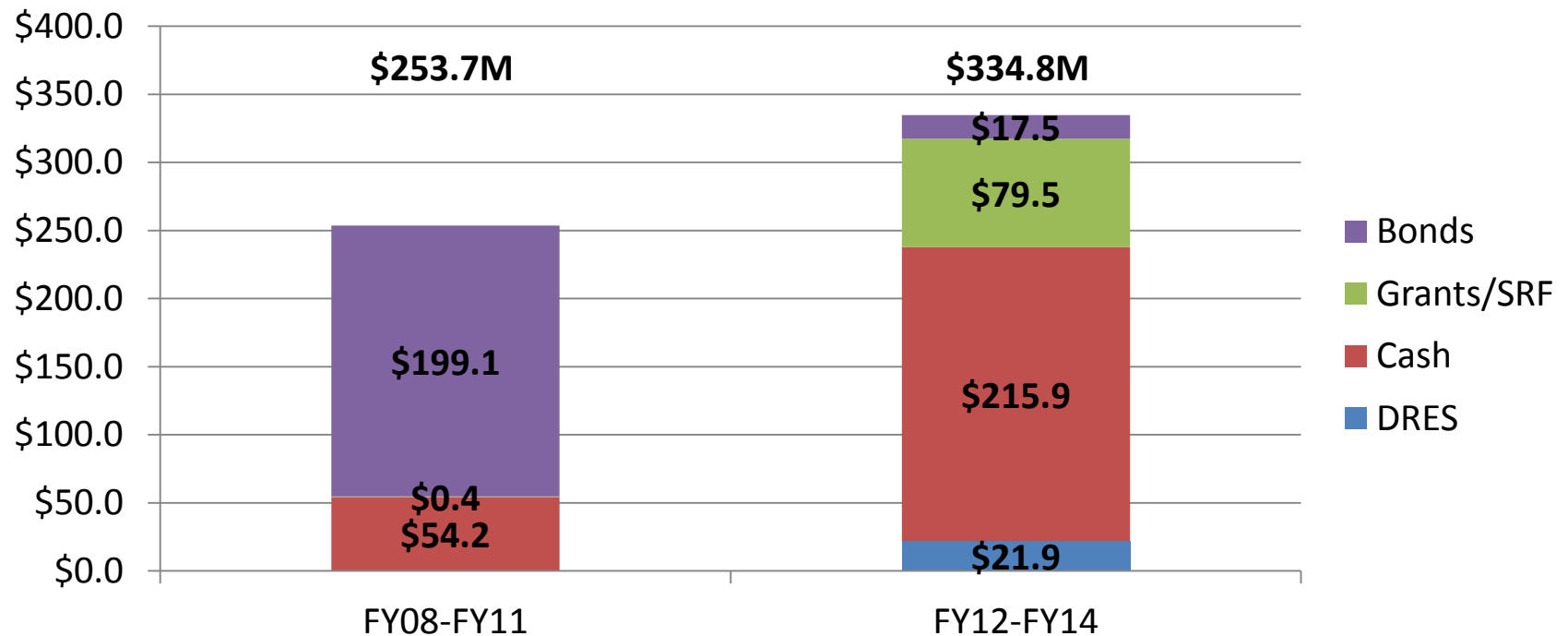
	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	Total FY2008- FY2013
Projected Capital Expenditures (COSS Table 5-3)	\$95,986,546	\$119,490,811	\$185,477,318	\$184,419,306	N/A	N/A	\$585,373,981
Actual Capital Expenditures	\$29,802,707	\$50,016,290	\$80,104,243	\$93,701,014	\$104,280,026	\$108,944,205	\$466,848,485
Variance (Actuals less Projected)	(\$66,183,839)	(\$69,474,521)	(\$105,373,075)	(\$90,718,292)	\$104,280,026	\$108,944,205	(\$118,525,496)

DRAFT – pending Review of Funds Completion



Wastewater CIP Financing

(in \$ Millions)



Figures rounded



THE CITY OF SAN DIEGO



Revenue Received





Wastewater Rate Increase Revenues Rate Case vs. Actual (FY2008-FY2011)

	FY2008 ⁽¹⁾	FY2009	FY2010	FY2011	Total FY2008- FY2011
Revenue from Rate Increase (COSS Table 5-5) ⁽²⁾	\$25,196,800	\$47,150,500	\$68,729,100	\$90,323,300	\$231,399,700
Actual Additional Revenue solely from Rate Increases ⁽²⁾ (calculated)	\$27,531,185	\$43,786,218	\$63,278,867	\$71,914,292	\$206,510,562
Surplus (Deficit) of revenues from rate increase	\$2,334,385	(\$3,364,282)	(\$5,450,233)	(\$18,409,008)	(\$24,889,138)

DRAFT – pending Review of Funds Completion

(1) FY2008 includes rate increase revenue from FY2007

(2) Rate Increases Effective May 1st each FY

FY2007 - FY2008 : 8.75%

FY2009 - FY2010: 7.00%



THE CITY OF SAN DIEGO



Questions?

AGENDA ITEM 6

Attachment

**CITY OF SAN DIEGO PUBLIC
UTILITIES DEPARTMENT**

Schedule of Allocation for Billing to Metropolitan
Wastewater Utility and Independent Auditor's Reports

For the Fiscal Year Ended June 30, 2010



Certified Public Accountants.

CITY OF SAN DIEGO PUBLIC UTILITIES DEPARTMENT
Schedule of Allocation for Billing to Metropolitan Wastewater Utility
and Independent Auditor's Reports
For the Fiscal Year Ended June 30, 2010

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

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

We have audited the accompanying Schedule of Allocation for Billing to Metropolitan Wastewater Utility (the Schedule) of the City of San Diego Public Utilities Department (the PUD), an enterprise fund of the City of San Diego (the City) for the fiscal year ended June 30, 2010. The Schedule is the responsibility of the PUD's and the City'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 PUD'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 opinion.

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. Accordingly, the Schedule is not intended to present the financial position or the changes in the financial position of the PUD in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the Schedule referred to above presents fairly, in all material respects, the allocation for billing to Metropolitan Wastewater Utility of the PUD for the fiscal year ended June 30, 2010 on the basis of accounting described in Note 3.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2013, on our consideration of the PUD'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, the Mayor, the City, the PUD's management, and Metro Commission/Metro Wastewater JPA Board 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

San Diego, California
February 21, 2013

CITY OF SAN DIEGO PUBLIC UTILITIES DEPARTMENT
SCHEDULE OF ALLOCATION FOR BILLING TO METROPOLITAN WASTEWATER UTILITY
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Operating Expenses		
	Municipal System	Metropolitan System	Total
Transmission			
Main Cleaning	\$ 12,093,833	\$ -	\$ 12,093,833
Sewer Pump Stations	6,090,380	-	6,090,380
Other Pump Stations	5,010,777	1,006,415	6,017,192
Pump Station 1	-	2,963,981	2,963,981
Pump Station 2	-	6,874,828	6,874,828
Other Muni Agencies	2,709,411	-	2,709,411
Pipeline Maintenance & Repair	10,860,022	50,867	10,910,889
Wastewater Collection (WWC) Engineering and Planning	4,564,937	-	4,564,937
Total Transmission	41,329,360	10,896,091	52,225,451
Treatment and Disposal			
Point Loma Wastewater Treatment Plant (PTLWWTP)	-	22,818,340	22,818,340
North City Water Reclamation Plant (NCWRP)	-	9,016,846	9,016,846
South Bay Water Reclamation Plant (SBWRP)	-	6,808,355	6,808,355
Metropolitan Biosolids Center (MBC)	-	15,919,143	15,919,143
Gas Utilization Facility (GUF)	-	1,259,233	1,259,233
Total Treatment and Disposal	-	55,821,917	55,821,917
Quality Control			
Sewage Testing and Control	2,787,829	293,386	3,081,215
Marine Biology and Ocean Operations	-	4,692,693	4,692,693
Wastewater Chemistry Services	-	5,915,069	5,915,069
Industrial Permitting and Compliance	3,334,915	-	3,334,915
Total Quality Control	6,122,744	10,901,148	17,023,892
Engineering			
Program Management & Review	880,032	6,301,612	7,181,644
Environmental Support	324,337	429,704	754,041
Total Engineering	1,204,369	6,731,316	7,935,685
Operational Support			
Central Support Comnet/Comc	578,102	4,371,159	4,949,261
Operational Support	1,530,624	10,278,938	11,809,562
Total Operational Support	2,108,726	14,650,097	16,758,823
General and Administrative			
Business Support Admin	31,036,932	20,789,231	51,826,163
Operating Division Admin	5,149,884	4,142,617	9,292,501
Total General and Administrative	36,186,816	24,931,848	61,118,664
TOTAL EXPENSES	86,952,015	123,932,417	210,884,432
CAPITAL IMPROVEMENT EXPENSE	70,053,201	10,863,476	80,916,677
DEBT SERVICE ALLOCATION	45,114,632	64,507,673	109,622,305
METROPOLITAN SYSTEM INCOME CREDITS			
Operating Revenue	-	(6,810,715)	(6,810,715)
Capital Improvement Project (CIP) - Revenue Bond Issue	-	(8,601,327)	(8,601,327)
Operating - Grant Revenue	-	(136,877)	(136,877)
CIP - Grant Revenue	-	(83,642)	(83,642)
TOTAL METROPOLITAN SYSTEM INCOME CREDITS	-	(15,632,561)	(15,632,561)
TOTAL ALLOCATION FOR BILLING PURPOSES	\$ 202,119,848	\$ 183,671,005	\$ 385,790,853

See accompanying notes to the Schedule of Allocation for Billing to Metropolitan Wastewater Utility.

CITY OF SAN DIEGO PUBLIC UTILITIES DEPARTMENT

Notes to the Schedule of Allocation for Billing to Metropolitan Wastewater Utility For the Fiscal Year Ended June 30, 2010

Note 1 – General

The City of San Diego Public Utilities Department (the PUD) 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 of San Diego (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 Wastewater Utility. The accompanying Schedule of Allocation for Billing to Metropolitan Wastewater Utility (the Schedule), represents the allocation of expenses for billing related to the Metropolitan Wastewater Utility of the Participating Agencies.

The PUD 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	Winter Gardens Sewer Maintenance District
Lakeside Sanitation District	Alpine Sanitation District

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 related to 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 Wastewater Utility Capital Improvement Expense

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

Metropolitan Wastewater Utility capital improvement income credits include, if any, contributions-in-aid-of-construction received from Federal and State granting agencies and reimbursements from bond proceeds.

CITY OF SAN DIEGO PUBLIC UTILITIES DEPARTMENT

Notes to the Schedule of Allocation for Billing to Metropolitan Wastewater Utility (Continued)

For the Fiscal Year Ended June 30, 2010

Note 5 – Debt Service Allocation Expenses

Debt service allocation expenses are that portion of the principal and interest payments relating to the Senior Sewer Revenue Bonds Series 1995, 1997A, 1997B, 1999A, 1999B, and 2009A and the Senior Sewer Revenue Refunding Bonds Series 2009B and 2010A, 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 costs incurred during the current or previous fiscal years. The PUD has agreed to share the income credits from the South Bay Water Reclamation Facility as per the 1998 Regional Wastewater Disposal Agreement. Currently, there is an unresolved issue between the Participating Agencies and the City regarding the calculation of the reclaimed water revenue. The Wastewater Division of the PUD has not collected any revenue from reclaimed water sales.

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

Note 8 – Pension Benefit Costs

The rates supporting expenses related to the employer share of pension costs are actuarially determined by the San Diego City Employees' Retirement System's actuary. Employer contribution rates are set with a 2 year time-lag (i.e., rates effective in fiscal year 2010 were calculated in the fiscal year 2008 actuarial valuation). The City's enterprise funds fully paid their pension rates set by the actuary in the actuarial report prepared in fiscal year 2008 for fiscal year 2010.

Further information regarding the City's pension plan, benefits costs and funded status at June 30, 2010 can be found in the City's Comprehensive Annual Financial Report.

CITY OF SAN DIEGO PUBLIC UTILITIES DEPARTMENT

Notes to the Schedule of Allocation for Billing to Metropolitan Wastewater Utility (Continued)

For the Fiscal Year Ended June 30, 2010

Note 9 – Postemployment Healthcare Benefits

Postemployment healthcare benefits costs are measured and accrued based upon annual actuarial valuations similar to current practice with pension plans. The actuarial valuations provide information on the annual required contributions (ARC) to fund the plan. The Schedule only includes postemployment healthcare benefits expenses incurred during the fiscal year ended June 30, 2010.

Further information regarding the City's Postemployment Healthcare Benefits at June 30, 2010 can be found in the City's Comprehensive Annual Financial Report.

Note 10 – Subsequent Event

The Local Agency Formation Commission approved a reorganization of the San Diego County sanitation services during fiscal year 2011. The San Diego County Sanitation District was formed on July 1, 2011. Lakeside Sanitation District, Spring Valley Sanitation District, East Otay Mesa Sewer Maintenance District, and Winter Gardens Sewer Maintenance District were reorganized into the San Diego County Sanitation District. The reorganization, however, does not affect the allocation of expenses for billing related to the Metropolitan System of those sanitation districts.

Note 11 – Administrative Protocol

In May 2010, an Administrative Protocol (Protocol) was approved between the City of San Diego and all Participating Agencies signatory to the Regional Wastewater Disposal Agreement. The Protocol that was effective during fiscal year 2010, established that the Participating Agencies would maintain at least a 1.2 debt service coverage ratio and fund a 45 day operating reserve. In addition, the Protocol establishes that beginning with fiscal year 2010, interest would accrue on the Participating Agencies' operating reserves and undesignated account. All interest earned during fiscal year 2010 was credited to the operating reserve, which ended the fiscal year with a 42-day reserve. The Participating Agencies have agreed to contribute additional funds to bring the operating reserve into compliance with the Administrative Protocol.



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

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

We have audited the accompanying Schedule of Allocation for Billing to Metropolitan Wastewater Utility (the Schedule) of the City of San Diego Public Utilities Department (the PUD), an enterprise fund of the City of San Diego (the City), California, for the fiscal year ended June 30, 2010 and have issued our report thereon dated February 21, 2013. 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. 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

Management of the PUD is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the PUD's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the PUD's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the PUD'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 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 the PUD'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 the Schedule's amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the PUD, in a separate letter dated February 21, 2013.

This report is intended solely for the information and use of the City Council, the Mayor, the City, the PUD's management, and the Metro Commission/Metro Wastewater JPA Board and is not intended to be and should not be used by anyone other than these specified parties.

Macias Fini & O'Connell LLP

San Diego, California
February 21, 2013