

# ***WATER FOR THE CITY OF SAN DIEGO REVISITED***

## ***SUMMARY***

The San Diego City water supply is a critical resource to our semi-arid community. The City purchases its imported water from the San Diego County Water Authority which, in turn, purchases the majority of its water from the Metropolitan Water District of Southern California. The imported water makes up 85% - 95% of the total water used by the City. Several solutions have been investigated over the past seven years to reduce the reliance on outside water. Searching for a single solution is completely ignoring the issue. Inaction by San Diego City government will not help solve the problem. The City has a major influence on water supply in the rest of the County. Solutions need to be found quickly.

As a perennial target for investigation, water is always a focus of concern by government and consumer groups. However, because of its importance to the health and well-being of all citizens and economy, water is worthy of close scrutiny.

## ***PURPOSE***

- Determine whether the actions taken by the City of San Diego comply with the Recommendations of the 1998-1999 San Diego County Grand Jury Report, *Water for the City of San Diego*.
- Find out if funds derived from four consecutive yearly 6% increases in water rates were appropriately applied.
- Ascertain what action the City should take regarding *The City of San Diego Water Reuse Study*, San Diego Water Department.
- Learn whether any corrective action has been taken by the City of San Diego to amend accounting practices that led to misapplication of \$3 million from the city water enterprise fund in fiscal year 2006.
- Assess the City of San Diego's Capital Improvement Plans to upgrade water and wastewater infrastructures. Determine if proposed rate increases to support these plans are appropriate and will be fairly applied to rate payers.
- Evaluate the City's approach in dealing with the waiver for secondary treatment at the Point Loma Wastewater Treatment Plant. The waiver expires in June, 2008. The last date to apply for a renewed waiver is December 31, 2007.

## ***PROCEDURES***

### ***Reviews:***

- Reviewed *Water for the City of San Diego* Grand Jury report from 1998-1999.
- Examined draft of the *City of San Diego Water Reuse Study*.
- Read the 2005 Urban Water Management Plan.
- Read numerous news articles on the subject of water and wastewater during the period for July 2006 through March 2007.
- Analyzed the following reports on water:
  - *Independent Accountant's Report on Agreed-Upon Procedures Applied to Water Fund Increases*, dated August 2, 2006, Mayer Hoffman McCann P.C.
  - *Independent Accountant's Report on Agreed-Upon Procedures Applied to Proposed Water Rate Increases*, dated November 17, 2006, Mayer Hoffman McCann P.C.
  - *San Diego Water Cost of Service Rate Study final report*, dated December 14, 2006, Raftelis Financial Consultants, Inc.
  - *Changes in Final Water Rates*, dated November 17, 2006
  - *Executive Summary Draft Handout*, dated December 16, 2006.
- Analyzed the following reports on wastewater:
  - *Independent Accountant's Report on Agreed-upon Procedures Applied to Wastewater Fund Rate Increases*, dated August 2, 2006, Mayer Hoffman McCann P.C.
  - *Independent Accountant's Report on Agreed-Upon Procedures to Proposed Wastewater Rate Increases*, dated November 17, 2006 Mayer Hoffman McCann P.C.
  - *San Diego Wastewater Cost of Service Rate Study*, dated December 15, 2006, Raftelis Financial Consultants, Inc.
  - *Changes in Final Wastewater Rates*, dated November 20, 2006
  - *Executive Draft Summary Handout*, dated December 16, 2006.

**Interviews:**

Conducted 14 interviews with City officials and individuals representing citizen groups.

**Audit:**

The San Diego County Auditor conducted an audit of policies and procedures currently in effect at the City Water Department and Wastewater Department.

**Visits:**

- Attended City Council and Natural Resource and Cultural Committee meetings
- Point Loma Wastewater Treatment Plant
- North City Water Reclamation Plant
- Metro Biosolids Center.

***DISCUSSION***

The 1998-1999 San Diego County Grand Jury issued a report, *Water for the City of San Diego*. That report focused on two issues:

- San Diego's water supply, particularly as it related to local sources of water
- A proposed water recycling and purification program

Eight years have elapsed since the report was published and issues with the available water supply still exist. In addition, the City is currently plagued with failing water and sewer infrastructures. In an attempt to stem the tide of infrastructure failures, the City has embarked on a course to repair broken systems when they break rather than performing preventative maintenance, particularly in the water system. Cost for this repair is being passed on to rate payers in the form of continued hikes for both sewer and water services.

The City has approved major rate hikes in both water and wastewater rates from 2007 to 2011 to repair the failing infrastructure and to bring systems into compliance with state and federal Clean Water Law. These combined hikes will cost the average rate payer approximately 30% more for water and wastewater on a monthly basis by 2011. Despite complaints about inequities in the application of increases by individuals and organized groups such as the Center on Policy Initiatives and Utility Consumers' Action Network (UCAN), the City approved the program.

The current waiver to the Clean Water Act to permit discharge of advanced primary waste from the Point Loma Wastewater Treatment Plant does not comply with the Environmental Protection Agency's (EPA) goal to upgrade the Point Loma facility to a secondary treatment level. The waiver expires in June, 2008. The current plan is to apply for a new waiver. If the waiver is denied, the estimated upgrade will cost approximately \$1 billion. There are no current provisions in the City's plan to cover this cost. However, in light of San Diego's financial condition, it is not surprising that a project of this magnitude is "on hold." It is significant to note that a portion of this cost will be passed on to all members of the San Diego Metropolitan Wastewater System on a proportional basis.

The City constructed North City and Otay Mesa wastewater reclamation facilities in accordance with a consent agreement born of a lawsuit filed by several environmental groups. In accordance with this agreement, the North City Treatment Water Reclamation Plant was required to sell 50% of its capacity by 2010. The Water Department admits this goal will not be achieved. The installation of recycled water pipe or “purple pipe” has been halted because continuation of this effort is not cost effective. The city is requiring new construction projects to use reclaimed water in areas where the “purple pipe” connections exist. This is not enough to meet the 50% goal. Additionally, the use of reclaimed water is seasonal. Less water is used for landscape and lawn maintenance in the cooler months even if rainfall is slight.

As a result of the same lawsuit, the City conducted a wastewater reuse study. The draft report was approved, but there is no indication that the City plans to proceed with study recommendations or implement the proposed program. The study indicated a reduction in reliance on outside water.

The City of San Diego has not aggressively pursued water desalinization or water reclamation as a potential solution to reducing reliance on outside sources of water. The City seems to be satisfied purchasing water from the San Diego County Water Authority (SDCWA). The SDCWA, by law, is responsible for providing most of the water for San Diego County. The City of San Diego is by far the largest water user in the County and as such, it has a strong representation on the SDCWA Board of Directors. Thus, the City is aware of and involved in the plans and forecasts for water availability and future costs. Meanwhile the water costs continue to rise and the rate payers will be required to pay the bill. There exist long range forecasts which predict future water shortages from the Colorado River, the State Water Project (Feather River) and the Sacramento River Delta where a large portion of purchased water originates. The City has not acknowledged that the region is suffering from a long term drought which may prove to be permanent.

The current plan to raise water rates to rebuild the failing infrastructure has not recognized a planned raise in water rates by SDCWA starting in 2008. The Grand Jury realizes that the actual percentage of increase in the cost of water has yet to be determined, but the City should forewarn rate payers that an increase is coming. The City will then be required to return to rate payers and request additional raises in rates, starting in 2008. The City appears to lack the vision to take actions to protect citizens from potential water shortages and the rising cost of water.

It is imperative that the City of San Diego pursue other water sources, including reclaimed wastewater, as part of a plan to improve reliability and cost stability of the City water supply. The City should be commended for its forthright approach to “fixing” the broken water and wastewater systems, but the plan falls short if it does not consider upgrading the Point Loma Wastewater Treatment Plant and identifying and pursuing alternate sources of water.

The City authorized an increase in sewer service charges of 7.5% for a period of four years beginning March 1, 2002, and ending in 2006. The City Council specified a

minimum of one third of the 7.5% raise be spent for sewer and pipe replacement. This resulted in a significant reduction of sewer spills.

A fix has been proposed for the Water and Wastewater systems of San Diego and the City has approved the plan. It is now time for the City to define a strategy for upgrade of the Point Loma Wastewater Treatment Plant. In addition they should implement a plan for new sources of water, in conjunction with the activity of the San Diego County Water Authority, including wastewater reclamation and desalinization.

The 1998-1999 Grand Jury report stated: "It is time for the City Council to take a position of leadership and to make policy which will result in the development of additional sources of water. The need of future generations should outweigh personal and public opinions as well as political expediency." The recommendation to the City fell on deaf ears. Instead of acting in the best interest of the citizens of San Diego, the City cancelled the Water Repurification Capital Improvement Project and replaced it with a study to develop options for the project. Despite a recommendation by the Grand Jury to support legislation to reallocate Colorado River water to provide increased urban water supply, the City chose not to support it. Currently there are no City Capital Improvement Projects to develop new sources of water. Approximately 85%-95% of the city water supply is limited to water purchased from the SDCWA which in turn buys it from the Metropolitan Water District. As water becomes scarcer, citizens of San Diego will pay a price for the inaction of the City.

Since 1997 the city has raised the wastewater rates nine times and the water rates eight times and still the City is plagued with failing water and wastewater infrastructures. The City requested major rate hikes in both water and wastewater rates to bring the systems into compliance with state and federal mandates and to "fix" the broken infrastructure. The plan appears marginal since it fails to recognize impending water rate increases by SDCWA during the next several years. The rate payers should be apprised of this additional impact. However, this effort falls short. It does not deal with the Point Loma Wastewater Treatment Plant issue of non-compliance with the EPA's requirement to upgrade the facility to a secondary level. The City will ask for a new waiver, however, if it is denied there is no apparent contingency plan for proceeding with the upgrade. The City will have to develop a plan for the upgrade which is estimated to cost \$1 billion. This cost will have to be shared by all members of the San Diego Metropolitan Waste Water System. Creating a plan on short notice with all participants will be difficult.

A plan has been proposed to streamline the Water and Wastewater Departments and solicit proposals from private industry to perform work currently done by city employees to save money. This is a commendable effort. The City should be more aggressive in exploring ways to reduce operating costs in both the Water and Wastewater Departments.

Between fiscal years 2002 and 2003, Wastewater Department retirement expenses increased from \$3.5 million to nearly \$5.5 million as a result of salaries for added staff and an increase in the retirement contribution rate from 6.68% to 10.94% of salaries. These increased costs combined with the discovery that approximately \$3 million was

misspent from the Water Enterprise Fund have resulted in a loss of credibility with the rate payers. A continued effort to correct procedures and reduce costs in these departments will go a long way in regaining rate payer confidence and support of upcoming rate increases.

The Wastewater Department should be congratulated for its programs to generate electricity from methane gas at Point Loma Wastewater Treatment Plant and the Miramar Land Fill as well as use of the waste outfall at Point Loma to generate electricity. These programs save rate payers a considerable amount each year.

## ***FACTS AND FINDINGS***

***Fact:*** The 1998-1999 San Diego County Grand Jury issued a study report *Water for the City of San Diego*. The report urged the City of San Diego to give high priority to increasing sources of water for future generations. The report also examined facts surrounding the then proposed water repurification project. In addition, the report made recommendations to the City Council and to SDCWA regarding future development of the San Diego water supply. In response, the City did the following:

- Worked with SDCWA to obtain approval of the Imperial Irrigation District (IID), and two canal lining projects (the Coachella Canal and the All-American Canal) for water transfer agreements using the Metropolitan Water District's aqueduct to provide an additional source of water.
- Resolved to cancel the water purification Capital Improvement Project. The City created a new Capital Improvement Project to study options for a purification project.
- Did not support legislation to reallocate Colorado River water to provide increased urban water supply.
- Responded to a lawsuit by the EPA and others for failing to meet sewage treatment standards. The City constructed the North City Water Reclamation Plant. The City received a waiver based on several concessions, one of which was to utilize 50% of reclaimed waste water from the North City Reclamation Plant for irrigation purposes by the year 2010.
- Instituted a water conservation program. The SDCWA estimates that 322,000 acre feet of water has been saved over the past 14 years and the City has been a large contributor to these savings.
- Did not report on seawater desalinization.

***Finding:***

- The City is in jeopardy of defaulting on the promise to the federal government to reuse beneficially 50% of reclaimed water from the North City Water Reclamation plant by 2010.
- The City has not responded on research concerning desalinization as a potential resource for potable city water.
- The Coachella Canal and All-American Canal projects are working their way through the construction phase and the legal system.

***Fact:*** Audits of the Water Department conducted by the City in 2006 determined that approximately \$3 million was improperly spent on projects which were not Water Department related. The audit was conducted in response to the 2005-2006 San Diego County Grand Jury Report: *Service Level Agreements Equal Back Door Funding*. As a result of that audit, the City committed to rate payers that the money would be repaid to the Water Department and new procedures would be adopted to ensure that this would not be repeated. The San Diego County Auditor was commissioned to conduct a follow-up audit of the City Service Level Agreements (SLAs) being issued by the Water and Wastewater Departments to determine if the City has instituted new procedures to ensure the integrity of the systems as promised to rate payers.

***Finding:*** The City did terminate water and wastewater SLAs by the end of 2006. The terminations resulted in reimbursement of approximately \$3 million to the water department.

The requested follow-up audit determined that the City has made significant internal control improvements over use of the SLA's. The details of these improvements are contained in Appendix A. An additional \$700,000 based on "questionable" charges made to other Water Department Accounts has also been refunded to the Water Department. The Water, Wastewater Departments, and the City are to be commended for its efforts in resolving issues presented in the 2005-2006 Grand Jury report.

***Fact:*** The City increased water rates 6% per year each year from July 1, 2002, for a period of four years ending June 30, 2006. The increase was advertised as necessary to upgrade, expand and maintain storage, treatment, and delivery systems. The resolution did not specify use of funds generated from this increase.

***Finding:*** The City directed increases in rates resulted in a rise in income of more than \$77 million through fiscal years 2002-2004. During the period of rate increases operating and capital expenses incurred by the Water Enterprise Fund exceeded revenues generated from rate increases by almost \$98 million. As a result, little, if any, effort was directed to upgrade the failing water infrastructure. Between the years 2000-2006, there were 999 water main breaks in the City.

**Fact:** The State Department of Health Services (DHS) issued a compliance order requiring the City to replace 10 miles of cast iron water pipe each year.

**Finding:** The City is struggling to meet that goal, even though the numbers of breaks have decreased. In 2006, there were 104 breaks.

**Fact:** The City adopted a resolution on October 16, 2001, to increase the cost of sewer service by 7.5% per year beginning March 1, 2002 through February, 2006. The resolution specified that a minimum of one third of the annual rate increase be applied to sewer pipe rehabilitation and replacement. The City requested that the Metropolitan Wastewater Department replace 45 miles of sewer pipe per year starting in the fiscal year 2003; an increase of 15 miles per year. The City also approved a 30% increase in staffing to support the increase in pipe replacement.

**Finding:** The rate increases provided more than \$108 million in additional revenues from 2001 to 2005. Direction from the City to increase sewer replacements resulted in sewer spill reduction. At the same time, retirement expenses increased from \$3.5 million to nearly \$5.5 million, resulting from of a 21% growth in payroll due to staff additions, salary increases and an increase in the retirement contribution rate from 6.68% to 10.94% of salaries.

**Fact:** The City Water Department issued a draft investigative report *City of San Diego Water Reuse Study* in March 2006. The study was presented to the Natural Resources and Culture Committee in July 2006. This committee recommended the City accept the report.

**Finding:** There are no apparent actions being taken by the City to proceed with recommendations of the study. It has met with mixed reviews. The approval of this report is pending.

**Fact:** Plans to raise the water and wastewater rates were announced on November 21, 2006. Water rates are to be raised 6.5% per year beginning fiscal year 2007 through 2010. Sewer rates are to be increased 8.75% in fiscal years 2007 and 2008, and 7% in fiscal years 2009 and 2010. The City plans to borrow an unspecified additional amount of money beyond these increases to bring the infrastructure of both systems up-to-date. The City approved the plan on February 26, 2007.

**Finding:** There were two Cost of Service Rate Studies prepared by Raftelis Financial Consultants Inc.; one for Water and one for Wastewater. The percentage of increase applied to different groups of water users has been challenged. The City approved the rate increases on February 26, 2007.

**Fact:** The City's plan for infrastructure upgrade mentioned the potential \$1 billion requirement to update the Point Loma Wastewater Treatment Plant to a secondary treatment facility; but did not specify a plan for doing so.

*Finding:* The current plan is to submit a request for an additional five-year waiver.

## ***RECOMMENDATIONS***

**The 2006-2007 San Diego County Grand Jury recommends that the City of San Diego:**

- 07-39:** Endorse the *City of San Diego Water Reuse Study* and proceed with the next steps as proposed.
- 07-40:** Implement the plan for upgrade of water and wastewater systems infrastructure.
- 07-41:** Attempt to streamline the water and wastewater systems, organization and procedures. This should include outsourcing where feasible.
- 07-42:** Work closely with the San Diego County Water Authority to generate a plan for the development of desalinization as an alternate source of water for San Diego.
- 07-43:** Implement new procedures to ensure that enterprise funds of the Water and Wastewater Departments are not misused.
- 07-44:** Ensure that funds obtained from the approved rate increases for both water and wastewater systems are properly utilized for infrastructure upgrade.
- 07-45:** Develop or update plans for the upgrade of the Point Loma Wastewater Treatment Plant to a secondary treatment level facility in accordance with the EPA's requirements.
- 07-46:** Exercise caution in increasing retirement benefits which will take funds from rate payers who have been promised that increases are for infrastructure maintenance and repair.
- 07-47:** Direct the Water Department to aggressively replace the aging infrastructure, particularly the cast iron water pipe, in accordance with the State DHS mandate. The "fix as it breaks" philosophy is costly and inefficient.

## ***REQUIREMENTS AND INSTRUCTIONS***

The California Penal Code §933(c) requires any public agency which the Grand Jury has reviewed, and about which it has issued a final report, to comment to the Presiding Judge of the Superior Court on the findings and recommendations pertaining to matters under the control of the agency. Such comment shall be made *no later than 90 days* after the Grand Jury publishes its report (filed with the Clerk of the Court); except that in the case

of a report containing findings and recommendations pertaining to a department or agency headed by an elected County official (e.g. District Attorney, Sheriff, etc.), such comment shall be made *within 60 days* to the Presiding Judge with an information copy sent to the Board of Supervisors.

Furthermore, California Penal Code §933.05(a), (b), (c), details, as follows, the manner in which such comment(s) are to be made:

- (a) As to each grand jury finding, the responding person or entity shall indicate one of the following:
  - (1) The respondent agrees with the finding
  - (2) The respondent disagrees wholly or partially with the finding, in which case the response shall specify the portion of the finding that is disputed and shall include an explanation of the reasons therefor.
- (b) As to each grand jury recommendation, the responding person or entity shall report one of the following actions:
  - (1) The recommendation has been implemented, with a summary regarding the implemented action.
  - (2) The recommendation has not yet been implemented, but will be implemented in the future, with a time frame for implementation.
  - (3) The recommendation requires further analysis, with an explanation and the scope and parameters of an analysis or study, and a time frame for the matter to be prepared for discussion by the officer or head of the agency or department being investigated or reviewed, including the governing body of the public agency when applicable. This time frame shall not exceed six months from the date of publication of the grand jury report.
  - (4) The recommendation will not be implemented because it is not warranted or is not reasonable, with an explanation therefor.
- (c) If a finding or recommendation of the grand jury addresses budgetary or personnel matters of a county agency or department headed by an elected officer, both the agency or department head and the Board of Supervisors shall respond if requested by the grand jury, but the response of the Board of Supervisors shall address only those budgetary or personnel matters over which it has some decision making authority. The response of the elected agency or department head shall address all aspects of the findings or recommendations affecting his or her agency or department.

Comments to the Presiding Judge of the Superior Court in compliance with the Penal Code §933.05 are required from the:

<u>Responding Agency</u>	<u>Recommendations</u>	<u>Date</u>
Mayor, City of San Diego	07-39 through 07-47	8/14/07



### ***Web References***

<http://www.sandiego.gov/breakingnews/pdf/waterarfund.pdf> (8/2/2006)  
<http://www.sandiego.gov/breakingnews/pdf/waterarincreases.pdf> (11/17/2006)  
<http://www.sandiego.gov/breakingnews/pdf/mwwdfund.pdf> (8/2/2006)  
<http://www.sandiego.gov/breakingnews/pdf/mwwdincreases.pdf> (11/17/2006)  
[http://www.sdcounty.ca.gov/grandjury/reports/1998\\_1999/water.html](http://www.sdcounty.ca.gov/grandjury/reports/1998_1999/water.html)  
[http://www.sdcounty.ca.gov/grandjury/reports/2005\\_2006/SERVICELEVELAGREEMENTS.doc](http://www.sdcounty.ca.gov/grandjury/reports/2005_2006/SERVICELEVELAGREEMENTS.doc)