



California

ITEM NO. 3

CITY OF OCEANSIDE

MAYOR AND COUNCIL WORKSHOP

MAY 23, 2012

ADJOURNED MEETING 2:00 PM COUNCIL CHAMBERS

2:00 PM - **OCEANSIDE CITY COUNCIL
- WORKSHOP**

Mayor

Jim Wood

Deputy Mayor

Jack Feller

Councilmembers

Jerry Kern
Esther Sanchez
Gary Felien

City Clerk

Barbara Riegel Wayne

Treasurer

Gary Ernst

City Manager

Peter Weiss

City Attorney

John Mullen

The adjourned meeting of the Oceanside City Council was called to order at 2:01 PM, Wednesday, May 23, 2012.

2:00 PM - ROLL CALL

Present were Mayor Wood, Deputy Mayor Feller and Councilmembers Kern and Felien. Councilmember Sanchez arrived at 2:03 PM. Also present were City Manager Weiss, City Attorney Mullen and Assistant City Clerk Trobaugh. Mayor Wood led the Pledge of Allegiance.

WORKSHOP ITEMS:

1. **Review of proposed FY 2012-13 City Budget**

PETER WEISS, City Manager, stated this is a brief overview of the City's General Fund, Enterprise Fund and CIP budgets, which are scheduled for Council's formal adoption on June 6, 2012. The purpose of today is to go over, in general terms, what everyone has seen several times before, and to provide Council and the public an opportunity to address issues or ask questions. When we come back on June 6th for the final adoption, Council will not be seeing any real budget documents. Council will be seeing the implementing resolutions and those documents that will implement the budget. We will not necessarily address any specific questions or issues that they may still have.

We transmitted to Council a comprehensive and detailed budget book on May 1, 2012, that included the General Fund and all of the different budgets, including the CIP. Council also had a separate CIP budget book distributed with some updates. We don't intend to go through those in detail today, but in regards to the General Fund, based on the Council's direction, we have presented a balanced budget. Out of the \$116,000,000 General Fund expenditures and revenues, we have approximately \$68,000 in surplus. The General Fund budget does not include any money to restore any reserves that have

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been used over the last year in regards to funding for special issues, including the elections. It does not include any additional monies to fund long-term pension obligations or unfunded liabilities. It addresses the operating budget only at this point, and it is balanced, based on Council's prior direction.

FRANK QUAN, Harbor & Beaches Coordinator, stated the Harbor Fund receives revenue from four sources: 75% is boat slip rental related, like boats, slips, lockers, etc.; 15% is from leases, such as the Jolly Roger, Monterrey Bay Cannery, and other businesses throughout the Harbor; 9% is parking; and 1% is investment income. They total \$6,280,000.

Debt service is the repayment of outstanding boating and waterways loans. We have three of them. Also, 9% of the gross goes to the City is Tidelands lease. Our debt service for 2012-13 is a little over \$900,000.

Administration is the customer service representatives who comprise our accounting department and handle grant writing, accounts payable and accounts receivable. We are pretty close to last year with \$725,000.

Maintenance is responsible for maintaining the boat docks, buildings, landscaping, parking lots and other facilities. There are 10 full-time permanent employees and one temporary part-time employee assigned to the maintenance division. The total would be \$2,200,000.

The Oceanside Police Harbor Unit is responsible for police services on land and in the water. They have primary fire suppression responsibility for any boat fires and are responsible for boat rescues in their area of operation. They have 8 sworn officers, one reserve and one Sergeant. It is a 24/7 operation.

Our Capital Improvement Program addresses the repairs and replacement of the infrastructure in the Harbor. For 2012-13, we will be finishing up the Harbor Maintenance storage facility and parking lot, next to the launching ramps. We plan to replace a sewer forced mainline in the 200 and 300 blocks of Harbor Drive South.

We are currently working on dock electrical repairs. They've been removed from the Capital Improvement list and are being repaired using the Maintenance and Operations Budget. This year we've replaced 7 of the 21 electrical main lines and plan on doing the same number in 2012-13.

We've had several reductions. One of them is replacing a full-time customer service representative with a part-time, temporary employee. We'll have a Maintenance Worker II retire in July of 2012. The position will be left open or be filled by a part-time, temporary employee. Since October of 2011, we've been closing our office on Sundays. We are working on a Request for Proposal (RFP) to outsource the administration and maintenance.

CARI DALE, Water Utilities Director, presented the budgets for water/sewer and for solid waste for the fiscal year 2012-13.

With water, sales revenues are showing a 4% reduction in sales. This is a trend that we've seen over the last few years, especially with the drought. We've seen a little bit of recovery, but the revenues are very conservative to reflect ongoing reductions in the community.

The revenues also reflect a 7% increase in rates from Oceanside and a pass-through of rates from Metropolitan Water District (MWD) and the San Diego County Water Authority (SDCWA). There will be a more detailed budget workshop later in June regarding these rates.

The total expenses for the Enterprise are just under \$54,000,000. Many of the costs within our control deal with wrench-on-bolt type of work. The actual work

occurring in the fields at our treatment plants has been reduced by approximately \$600,000 over the previous year. Again, expenses reflect pass-through costs of approximately 9.6 - 9.7% from SDCWA, and approximately 5% for MWD.

Some of the larger cost drivers are pass-through costs of the wholesale water from the two agencies mentioned; capital projects from SDCWA, as well as Oceanside; debt service at the SDCWA, as well as here in Oceanside; operations and maintenance costs, because there has been an increase in the MWD operations and maintenance costs; and our largest cost driver, which is the purchase of water.

In the sewer fund, revenues reflect a recommended 3.5% increase in rates. We'll be discussing those more in a June workshop. Expenses total approximately \$30,400,000. The costs within the department's control increased about \$400,000, mainly due to increases in risk management costs. We did a fairly good job of holding the line on our own internal costs.

Some of the major expenditures and cost drivers are operations and maintenance costs; debt service, which has grown over the year with emergency repairs; and an increase in the capital project budget.

Solid waste revenues are anticipated to be \$23,800,000. This reflects just under a 3% increase in rates due to the Waste Management contract. Expenses are approximately \$23,600,000, and also reflect flat operating costs within the City.

DAVID TOSCHAK, Senior Civil Engineer, stated the 2012-13 budget is approximately \$37,000,000. We have many projects in 13 different programs. It is very similar to the fiscal year 2011-12 budget of \$43,000,000 in both number of projects and programs. We've gone to the various commissions and committees in the City, the latest being yesterday afternoon's Utilities Commission meeting.

We have a wide variety of Capital Improvement projects that are typical projects. The largest is our annual overlay program of \$5,300,000 this year. The project consists of removing a portion of the roadway section and replacing it with new asphalt. We also have our slurry seal program of approximately \$1,100,000 with 30 lane-miles. We apply a coating that basically seals and prolongs the life of existing pavement.

We have the street-lighting projects throughout the City; traffic capacity projects where we intend to improve the capacity of the roads within the City; Mission Avenue improvements downtown; and on Mission Avenue at Valley Heights we're widening the road by constructing a retaining wall and improving the land widths.

The major project of note this year is the Melrose Extension design and permitting project. We will be taking that to Council after the award of the Circulation Element on June 6th.

We will also be working with other departments throughout the City to manage not only our projects, but their projects as well. An example is the Lot 26 parking structure project entitlement. We're working with Neighborhood Services to do a lighting project and some sidewalk improvements in the Crown Heights area.

In CIP projects, we're working on flood control, which is the Loma Alta Creek Detention Basin project. That will be the third of a series of three detention basins along Loma Alta Creek. Another project we have is a vegetation removal study.

Regarding the Water Utilities CIP budget, **MS. DALE** recapped her presentation from a workshop held earlier in the month. A computer graphic was used to show the important water projects that are moving forward. Five out of the eight listed actually increase local water supplies and help us mitigate rate increases that we're seeing from SDCWA and MWD. In total, the water projects are just under \$7,900,000 next year.

Sewer projects total \$2,700,000 and include projects that were listed on a

computer graphic. The San Luis Rey Digester Rehabilitation will help us with the efficiency at the plant. Most of the sewer projects are Planning or Engineering type work.

Public input

JIMMY KNOTT, 127 Sherri Lane, sits on the Utilities Commission Budget Committee. He looked at the cost of electricity for the UV system at Loma Alta Creek where the water that is exiting the creek can be legally put out into the ocean. How much electricity does the department use? He could not find that answer. He had to dig for it. He asked staff who said it was in there.

He asked why we can't have a system where we can take similar items and group them together so we can start evaluating and coming up with ideas to solve or reduce some things.

This needs to be easier to read and understand. The public gets lost with the acronyms that are in there, and it's convoluted.

LEE MILLER, 5449 Parrolette Court, President and CEO of Cannon Pacific Services, Inc., commended staff for balancing the budget. It's not a bad position to be in considering the state of the economy. He wanted to point out, though, that they did it using outsourced services. The Harbor is looking at outsourcing next year. All of the CIP projects include contractors, engineers and consultants. There's an outsourcing media there. Also, the Water Utilities Department mentioned a lot of projects that are probably using local contractors, engineering firms and consultants. Not all contractors are bad, despite what some may say.

Quality is not lost by outsourcing. It's about accountability and partnering with the private sector. It's no different than employing staff, where there is an understanding and agreement to the scope and quality of work and the terms of the arrangement. The public/private partnerships and outsourcing those services that cities don't need to be involved in are what makes local governments tick and what balances budgets. It's been proven here today. The budget is balanced and there is a partnership.

He is here to reiterate his willingness and desire, as a contracting firm, to provide City services and add another \$118,000 to that surplus that the City Manager described, just in the first year, and add \$500,000 in savings over 5 years. Our offer still stands.

Public input concluded

COUNCILMEMBER KERN has been reading in the newspaper about the SDCWA and their 10% increase, 9% of which is coming from MWD. When will we see that come through to us?

MS. DALE stated the workshop is scheduled for June 19th, and Council will see full details on the rate increases from the SDCWA and MWD. MWD took an action last month in their rates, and the SDCWA is taking an action tomorrow. The workshop in June will be followed by the rate increases coming forward around October, with rates being effective January 1, 2013.

COUNCILMEMBER KERN asked if it will be all at once. In the past we've done increases in January and July.

MS. DALE responded we decided to do just one year of rate increases this year, due to the lawsuit between MWD and SDCWA, hoping that if there was some sort of resolution to the lawsuit, we wouldn't have to go back and reduce rates if we were successful in the lawsuit. We're going to go a year at a time until that lawsuit is settled.

Referencing a computer graphic used earlier, **COUNCILMEMBER FELIEN**

asked for more information regarding the Mission Avenue improvements.

MR. TOSCHAK stated the graphic shows a couple of blocks west of the Lowe's center. Around the corner is a two-lane road, so we're bringing the sidewalk back. Where you see the left-hand turn, we're pulling all of that vegetation back, building a retaining wall and providing a sidewalk.

COUNCILMEMBER FELIEN asked if we're buying the property in order to do this project.

MR. TOSCHAK responded no. The property is within our right-of-way already, so there's no land acquisition. We're able to go in right along the property line in our right-of-way to construct the retaining wall, and then extend that sidewalk straight through our own right-of-way.

COUNCILMEMBER FELIEN asked if it has been the City's choice to wait until now to do this. Was there anything holding this up or was it based on the priority of the project?

SCOTT SMITH, City Engineer, responded we did have to acquire some right-of-way there. Previously, the lot line did extend closer to the center line than the road. At this point in time, it's been acquired, and we're able to move forward with the project.

CITY MANAGER WEISS indicated that part of the process for the CIP is to take public input on projects. This project actually did come from a member of the public about 3 years ago. That process in regards to the acquisition, design and now construction, was a result of public input.

COUNCILMEMBER SANCHEZ stated this is a workshop with a recommendation for direction to staff, so we're not taking a vote this evening. We'll do that at a publicly noticed, regularly scheduled 5:00 PM meeting. That's a time when more people can come. This is a snapshot. It's like a progress report. We are still moving forward as a community in trying to establish economic development projects and working with our employees. This is also direction to staff in terms of what our visions are. For example, on the capital projects downtown, she would have preferred to put more money into the waterfront projects, like the bathrooms that we've been hearing about for a long time.

Under the Capital Projects Thoroughfare, she's going to be asking to vote separately on the Melrose Extension, which is in here for \$2,300,000. She's also going to be asking to separate the vote regarding the signal light at Rancho del Oro and Cameo.

She congratulated staff for putting together a good budget that is going to take us through to the next year. This doesn't end it. We're continuing to work hard on ensuring that all of our future is secure at the City.

MAYOR WOOD stated one of the big cost factors are the items in water. He's gone up with staff to see the MWD and ask why we have continued double-digit increases for San Diego County alone. We're looking at a 101% rate increase since 2006. Is that correct?

MS. DALE doesn't have those figures, but its double digits.

MAYOR WOOD stated those are pass-throughs that we have to pass on to our citizens, and every year it seems to be a double-digit pass-through. SDCWA is suing MWD over those issues. Hopefully we'll get that resolved. Cost increases in this economy are what we don't want.

One of the biggest cost factors to us as a City is if we fail to make repairs and fix things like the sewer lines and they break. The fines can be a lot more than all of these

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combined from some of these outside agencies. He appreciates staff trying to take care of those before they happen.

He thanked staff for all of the work they've done on this budget.

Councilmember Sanchez requested that some of these items be separated out at the next meeting where we vote on this. He agrees and would like to see those two issues addressed separately.

2. Public Communications on City Council Matters (Off-Agenda Items) – None

ADJOURNMENT

MAYOR WOOD adjourned this meeting to a regularly scheduled meeting on Wednesday, June 6, 2012, at 2:00 PM. This adjourned meeting of the Oceanside City Council was adjourned at 2:32 PM, Wednesday, May 23, 2012.

ACCEPTED BY COUNCIL:

Barbara Riegel Wayne
City Clerk, City of Oceanside



California

CITY OF OCEANSIDE

MAYOR AND COUNCIL WORKSHOP

JUNE 19, 2012

ADJOURNED MEETING 2:00 PM COUNCIL CHAMBERS

**2:00 PM - OCEANSIDE CITY COUNCIL
- WORKSHOP**

Mayor

Jim Wood

Deputy Mayor

Jack Feller

Councilmembers

Jerry Kern
Esther Sanchez
Gary Felien

City Clerk

Barbara Riegel Wayne

Treasurer

Gary Ernst

City Manager

Peter Weiss

City Attorney

John Mullen

The adjourned meeting of the Oceanside City Council was called to order at 2:00 PM, Tuesday, June 19, 2012.

2:00 PM - ROLL CALL

Present were Mayor Wood, Deputy Mayor Feller, Councilmembers Sanchez, Kern and Felien. Also present were City Manager Weiss, City Attorney Mullen and Assistant City Clerk Trobaugh. Cari Dale led the Pledge of Allegiance.

WORKSHOP ITEMS:

1. **Presentation on proposed water rate increases, external water provider charge increases and wastewater rate increases**

MAYOR WOOD stated everybody on the Council has complained about these rate increases. It comes from the Metropolitan Water District (MWD) as pass-through rates. He and Councilmember Felien went up to MWD, along with staff, and personally complained about these ongoing increases. The rate increases are going to be a 101% increase since 2006, and that's outrageous. San Diego County Water Authority (SDCWA) has a lawsuit pending against MWD regarding this.

CARI DALE, Water Utilities Director, is here to talk about both water and sewer utility rates being recommended for implementation on January 1, 2013. We'll be reviewing some of the historical rate increases we've had for MWD and SDCWA.

With respect to water, we've had quite a few rate increases over the past few years. A graphic was used to show a summary of the increases since 2009. From MWD we've seen almost a 50% rate increase, which translates to Oceanside ratepayers as a

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40% rate increase. Previous to that, the 2007 increase was 16% and 2008 was 1%.

In 2009 and 2010, a lot of the rate increases went to the SDCWA and MWD as pass-through costs. It also paid for some increased costs of water and small adjustments for personal costs for Oceanside. That followed suit in 2011 with the two rate increases. There is a theme here. Most of the rate increases are going to SDCWA and MWD. In the last 2 years, Council did make the decision to fund infrastructure again, which was not funded previously.

MWD has a complex rate structure made up of a lot of different components. One of those components is the transportation rate, which is one of the components that has the largest cost increase this year. The transportation rate pays for the transport of water through the systems to get it from the water source to the user. The increase this year is 14.4% from MWD. Last year's increase on this rate component was 18.5%.

A graphic was used to show the impact of the transportation rate from MWD to the ratepayers in the San Diego region. The transportation rate is the basis of the lawsuit between MWD and the SDCWA.

Earlier this year, several people got on a bus and went and talked to the MWD Board before they considered their rate increases for this year. In February of this year, Council passed a resolution in support of the rate litigation. We carried that resolution up to MWD, along with 1,100 rate protest letters from Oceanside ratepayers from 2007 to 2010, and presented those to the Board. Among 28 San Diego representatives that testified, 7 were from Oceanside, including Mayor Wood and Councilmember Felien. We were the largest representatives of any one agency in the County.

At the time, MWD was proposing two rate increases; a 7.5% and another 7.5% the next year. We believe it was due to a lot of these efforts and people voicing their opinions that they passed a 5% and 5% increase.

The information you'll see in the newspapers, if MWD puts out the information, is that the average rate increase is 5%. What they don't tell you is that's 5% for Los Angeles, Orange County and San Diego. So it's a melded increase for the region. The actual impact to the San Diego region is much more at about 8.5%.

SDCWA has put together a website if anyone would like more information about the status of the lawsuit.

The SDCWA increases, effective in January of 2013, are a little less than 10%. To mitigate some of their increases, they've made some reductions in operating and maintenance expenses, including reducing staffing and programs. They've drawn from their reserves and achieved a lower debt service coverage for this year only, as well as challenging the MWD rate structure.

Another thing they're doing is diversification of water supplies. The debt service is going up this year, reflecting the investment the SDCWA has made in regional water supplies and in storage to diversify supplies and get off the MWD system.

Some of the other rate drivers for the SDCWA cost increases include the MWD costs, as well as low water sales.

A graphic was used to show the water supplies around 1991, when 95% of all water purchased was purchased from MWD. That was the year that within 100 days we had notice from MWD that we were going to a 50% cutback in supplies. This initiated a drive, regionally and here in Oceanside, to develop local water supplies. We're seeing that in the San Diego region. In fact, 47% of the water purchased regionally is from MWD, and in another few years the SDCWA hopes that will be as low as 30%.

This translates to Oceanside ratepayers as a 6.5% overall recommended

increase. The rate-drivers are very simple. They're increased costs from MWD, as well as from the SDCWA. Any bill that we receive from MWD is passed through the SDCWA for payment and then comes to the City for payment. It is ultimately passed on to ratepayers through their utility bill.

Approximately 46¢ of every dollar that we collect goes straight to MWD or the SDCWA. It doesn't remain here. 25¢ goes to our operations: treatment plants, field workers and operating and maintaining our pipelines and hydrants.

In 2000, 92% of Oceanside's water was MWD, or imported water supplies. As we look to the future in 2025, our water supply portfolio looks quite a bit more diversified with about 41% overall being purchased from MWD and SDCWA. We also have desalination, recycled water and expansion of the Mission Basin Desalter. Our 2011 supplies are about 85% imported right now, and about 15% is produced locally at the Mission Basin Desalter.

Some of the other local projects that Council has supported and we've either built or plan to build in the future, include the Mission Basin Desalter. This year we're spending a minimal amount of money on the capital side for some site infrastructure and building upgrades. Council has also given the go-ahead to design and build the 511 Pump Station, which maximizes our local supplies at the Mission Basin. This really optimizes the supply that we already have here in Oceanside, as well as forging forward with studies that will bring desalination to Oceanside.

The Council goal of 50% local supplies by 2030 cannot be met without reclaimed water playing a portion in meeting that. We're really ramping up this program and have quite a few opportunities with a lot of neighboring agencies, including Camp Pendleton, Fallbrook and Carlsbad, who have some supplies that we may be able to share and distribute to some users in Oceanside.

We don't talk a lot about the Weese Filtration Plant, but this investment that we've made in this infrastructure treats raw water from the SDCWA and MWD. It does so at about a 10-15% savings over what we'd otherwise pay those utilities to treat our water. Our earlier investments in infrastructure and local supplies are really paying off for us to help mitigate the rate increases that we're bringing forward today.

ROB GRANTHAM, Carollo Engineering, stated in terms of the financial forecast, the critical element is reduction in terms of our total demand. Between 2008 and 2011, our total water demand dropped by 25%. Moving forward, we've plateaued this year. We're assuming that we will continue to get about a 4% reduction in demand year after year, which allows us to be fiscally prudent. Along those lines, we're also looking at necessary reserves, whether its capital reserves to pay for long-term infrastructure, or operating reserves. There is a natural cycle that we see over the course of the year, in terms of when our revenues come in at the height of the summer when people are using water, and then what our expenditures are, which tend to be flatter.

We're also focusing on our bond coverage. Regarding sewer, Council made a difficult decision several years ago to right the ship. From here forward, we are looking at our debt coverage so we can optimize our borrowing costs going into the future as we have to borrow.

Long term, we are trying to create a financially solvent utility. Looking at what those needs are in terms of the capital program moving toward diversification. How are we incorporating that into today's analysis so we're prepared for tomorrow? That is what the Citizen's Advisory Committee brought forward in 2007 and before: realistic financial policies, adequate bond coverage and setting rates based on costs of service. People are paying their charges based on the services that we're providing.

In terms of this proposal, we're looking for a January 1, 2013, increase. We're looking at a calendar year, and we've taken that into account in terms of when the need for the revenue is and the rate increase associated with that revenue.

MS. DALE stated some of the things we've done in the department to mitigate the rate increase is we have reduced operating and maintenance costs by almost \$600,000 over the previous fiscal year. We recognize that the rates are substantial from MWD and SDCWA, so we're doing this on a temporary basis to take the sting out of the pass-throughs until such time as the lawsuit is resolved.

Last year we eliminated 5 positions. We've been optimizing our local water supplies, the 511 Pump Station, as well as our treatment facilities; auditing our accounts and correcting those discrepancies; and implementing operational efficiencies. Those are noted in the memo Council received yesterday.

In addition, on occasion we are successful in getting some grants. A graphic was used to show a listing of some of the grants that they have been successful in receiving in the Water Utilities in the last few years.

How does this translate to single-family residential rates? We compared a single-family customer using 12 units of water a month. The present rate is \$58.85. Last July we had a 7.8% rate increase. This year we're recommending a 6.5% rate increase, which translates to \$62.65 per single-family residential customer.

The regional average for rates in January is almost \$67.00. We're well below that regional average. We had set a goal of maintaining our utility rates at less than or at the average. We've met that goal with this rate increase.

We're recommending that the recycled water rate remain flat to encourage additional use of the recycled water system and the 50% local water supply goal.

With wastewater, unlike water, we have no wholesaler or middle man that we're dealing with. This is an entity that is entirely within the City. Our recommended rate increase for sewer is 5% overall.

Regarding the Haymar fine, we are still talking with the regional board. Right now, we know that the fine will be \$1,500,000. We're recommending that we add an additional fixed amount to each account of \$3.30 over the next year to collect that amount of revenue and then remove that charge from the billing. That is in addition to the 5% increase and is a temporary measure for one year.

MR. GRANTHAM stated one of the critical things in sewer is looking at where we're collecting our revenues. Our rate structure, as it currently stands for single-family residential, has high-, medium- and low-volume users. One of the issues we've seen, not only on the water side, but because our wastewater/sewer charge is based on water consumption, is a decrease in the average. Over the past 4-5 years, we've seen a reduction of about half of a CCF (350 gallons) in terms of what people are contributing to the sewer on an annual basis. With that, every now and again we need go back and evaluate where our average is relative to those tiers: high, medium and low. We've seen a reduction, so we're getting more people in a lower tier, and we have lower revenues.

In terms of the other rate drivers, we need to take into account the Haymar trunk and other risk management items. How are we incorporating that into our financial forecast and are we whole?

One of the critical components to this year's analysis is looking at those tiers. What we've seen is a reduction in terms of the number of customers in the high, medium and low usage. That translates into a loss of revenue. The average is shifting downward, and we'd like to shift the tiers so we're continuing to maintain the average.

Through this process, working with utility billing, we did an audit of the utility billing system. There's a slight nuance in there in terms of the calculation. The analysis in the ordinance assumed a 5.00, rounded so a low volume user would be up to 5 CCF

units per month, medium volume from 6-10, and high volume from 10 and beyond. What we're seeing is a reduction in revenue due to a cut-off in the billing system. It's a little bit confusing. Translating it to dollars, we're losing about \$1,200,000 due to rounding from the billing system if we go up to 6 CCF. It's \$600,000 if we're at 5.5 CCF. One of the points we'd like to come back to Council with is talking about rounding down to 5.00 and 10.00, so we're not losing that revenue.

MS. DALE stated as with water, we wanted to provide a high level slide showing where every dollar goes that we collect. Every dollar that we collect doesn't go to some third party, it actually stays here. 54% is spent on sewer operations, which covers operations to collect, pump or convey, and treat and dispose of sewage through the outfall.

As with water, Council has had the foresight to be supportive of a lot of different projects that help mitigate our costs. One of those is the cogeneration facility at the San Luis Rey facility. Council has been very supportive of improvements at the La Salina Wastewater Plant. We recently finished up a needs assessment, which helped us prioritize the money that you've dedicated toward putting to infrastructure, as well as we've finished up the needs assessment at the San Luis Rey Wastewater Plant.

MR. GRANTHAM stated similar to water, on the wastewater side, we are looking at being proactive. Council, for many years, has asked us to look forward in terms of the replacement of the system, making sure that we were being proactive. Along those lines, a couple of years ago we incorporated the full sewer replacement fee depreciation on a go-forward basis. For the sewer fund, we're collecting \$7,000,000 a year for long-term replacement and reinvestment in the system. This is a shift in terms of our business orientation for the sewer utility, and long term it's intended to reduce our costs. It's a significant investment.

In terms of revenues, we're trying to be realistic about what we anticipate to come in, as well as the reserves and bond coverage. Wastewater several years ago was the issue. We were put on negative credit watch with Standard & Poors, but we are now in a good position thanks to tough decisions made. We want to continue moving forward in that direction.

MS. DALE stated one of the things the department has done this year to keep the costs as low as possible is that we have kept the operating and maintenance costs flat versus the prior year. We brought forward a solar power purchase contract, which saves us on electrical use. Council approved that last month. We're also working with the Treasurer's office to look at our debt, because the debt in the sewer fund is significant. There are some opportunities for us to reissue that debt at a lower interest rate in the coming year and a half, and we'll be bringing those forward to Council at the appropriate time.

We've been working very hard on renegotiating regional contracts. Council will be pleased when some of those come forward as they're going to be a benefit for the sewer utility. As mentioned, we are auditing the billing accounts for any discrepancies and bringing those forward or making corrections, as well as implementing operational efficiencies, which were detailed in Council's memo.

For a single-family residential sewer customer on medium sewer use, the present sewer rate is \$54.05. There was a 9% increase with the last rate go-around, and come January 1, 2013, we're recommending a 5% increase to bring that to \$56.76. That's also with the implementation of the flat fee of \$3.30 per account for a one-year period to cover the Haymar potential fine.

A graphic was used to show a calendar of events for actions relating to the rate implementation. On July 1, 2012, we're going to be noticing customers in the mail, as required by law, and bringing forward the public hearing on October 3, 2012, for Council consideration. This will allow rates to be effective January 1, 2013.

Public input

JIMMY KNOTT, 127 Sherri Lane, sits on the Water Utilities Commission and is on the Budget Committee of that Commission. As an example of how MWD wastes money, he recently went on the Colorado River inspection tour. For lunch, MWD took us to the most expensive nearby resorts and gave us hamburgers made with Kobe beef. They also took care of the tips for the servers. At a special banquet, they gave us bacon-wrapped filet mignon with butterflied shrimp. There were trinkets given on every stop we made. This was all done on ratepayer money. They have no idea what frugality is. They're still doing that.

There are a couple of threats locally. We have the steelhead trout that could potentially curtail the drawdown of our water out of the San Luis Rey River, especially during the summer months if the other agencies decide to do it. A new one came along recently, and it's about the reservations making agreements with Escondido and Vista. They could potentially manipulate our water coming down San Luis Rey. The side effect is that because of this uncertainty, federal and State funds can be frozen along the entire river. We need some proactive measures.

In 2014, according to recent records discovered by the Historical Society, it will be our 100th year anniversary for our sewer system. He encouraged Council to look at long-term infrastructure and replacement needs and consider a bond measure.

BRIAN BOYLE, 3232 San Helena Drive, found it fascinating that the SDCWA put an actual figure of elasticity on rate increases and the subsequent lower consumption. What they came up with is every time the rates go up by 10%, usage goes down by 2%. That's been across the board in every example that they've seen. It's something we need to think about.

One of the things he's observed overall and creates a lot of ire in the citizenry and voters is explanations of the bills, like the individual billing instructions. They just don't get what most of the charges on there are. A lot of the political cover could potentially be improved by some slight increases with that, too. Irvine had put together a billing system that has 2 specific categories of billing: one is commodity and one is infrastructure and everything else. The ones that are going up disproportionately are the supply numbers. People are ignorant about these things, so the more information we can give them on bills, the better off we would all be.

FRANCES KAZERSKI, 276 North El Camino Real, stated there are types of grass that don't take as much water as other types of grass. The City and individuals could save a lot of money by changing their grass, especially during the hot summer months.

He heard on television that MWD had a cartel going against San Diego County. That affects him because his mother is a widow. Six months ago they had to go the Public Utilities Commission hearing and ask for a break on the utility having to do with the electricity because her air conditioning bill was about \$132 for one month. If someone is on disability or social security, this is an option.

Oceanside's future is in the desalination plants like Carlsbad has. One of these days the Hoover Dam water is not going to be available. We need to come up with a remedy to this water problem.

Public input concluded

COUNCILMEMBER SANCHEZ likes the speaker's suggestion about showing on the bill where the money would be going. She'd also like to see reference to the City's lawsuit on the bill, and some suggestions about what people can do to keep the rates low.

One of the graphics shows that your total for conservation and recycling for 2011

and 2020 aren't very different. It shows 12% conservation for 2011, and for 2020 it's 13%. The same is true for recycled. Currently we have 5%, and in 2020 we anticipate it will be 6%.

MS. DALE responded the important thing to look at is the actual numbers. The conservation for 2011 is 72,000 acre-feet. In 2020, that increases by about 30,000 acre-feet. The same is true with the recycled water. Even though it's about the same percentage overall, the volume is much larger over time.

COUNCILMEMBER SANCHEZ stated while we want to wean ourselves off MWD, their costs are going to up because of the decrease in demand. Is that right?

MS. DALE responded that is some of the reason that the rate is going up. The lawsuit addresses the disproportional impact of portions of their rate to San Diego.

COUNCILMEMBER SANCHEZ stated the issue that people have a hard time understanding is if they conserve, why is their rate going up. They're cutting down on their water use by watering less, using more efficient appliances and following all of the things that have been suggested for conservation. So why is their water bill still not going down?

MS. DALE responded one of the things that we could do a better job of is going back to the situation in 1991 when we had all of the cutbacks from MWD and were getting water from one source. There's been a lot of investment in supply development and storage facilities here. The debt that is now due on those large infrastructure projects is driving parts of the rate to also go up. It's somewhat of a double-edged sword. People cut back, but they're also paying for reliability that we didn't have in 1991.

COUNCILMEMBER SANCHEZ stated someone asked her about fracking, which she had never heard of. Is that going to be a problem for us?

MS. DALE has only heard of fracking in regards to oil and not water.

COUNCILMEMBER SANCHEZ stated the notion is that it contaminates the water and makes it reek or fizz. She assumes not, but is it going to be a problem for us at all?

MR. GRANTHAM hopes not in San Diego County. What we've seen in Pennsylvania, for example, and the Midwest is that they're basically injecting water into the ground in order to release natural gas, and it's contaminating the aquifers. We are primarily service water. We do have some ground water with the desalination plant, but hopefully that will never be an issue in Oceanside. We will check in to it.

COUNCILMEMBER SANCHEZ stated because we have no oil drilling here, she is referring to Statewide. If it were a problem it would become an issue of cost in trying to figure out how to clean up that mess. To your knowledge, is there any issues statewide of fracking?

MS. DALE responded not that she's aware of. It's something we can raise on a regional level so there's some awareness of the potential.

Regarding the customer's bill, **MR. GRANTHAM** stated it's an important conversation that we've had for multiple years. Just prior to the presentation tonight, we were looking at the comparison in terms of the water. We're using 12 CCF as the average, but we've actually seen a 25% reduction over a 4-year period in terms of total water. We were even thinking that the average that we're showing should be at a lower unit and lower usage.

As Director Dale notes, we have made proactive investments in the region, but we're also seeing with that reduction that the bill is not going up at the same trajectory

as the overall rate increases because people are continuing to conserve. That's an important message. If you conserve, you will have the opportunity to reduce your bill relative to where it was.

COUNCILMEMBER SANCHEZ asked if, with respect to the fine from the Regional Water Quality Control Board of \$1,500,000, is there a potential for applying to use it to address any other issues we may have?

MS. DALE responded that may be part of our strategy. She assumes that will come to Council in Closed Session.

CITY ATTORNEY MULLEN stated if there is a proposed settlement of that matter, we'll bring it to Council for your consideration.

COUNCILMEMBER KERN thinks the only potential area of California that's open for fracking is Elk Hills up by Taft. He doesn't think we need to be concerned with that. We don't get any water out of that aquifer at Taft.

He asked Mr. Grantham to comment on how the \$3.26 surcharge is going to be applied, either on a per account basis or a usage basis.

MR. GRANTHAM responded with respect to the current \$1,500,000 in fines for the overflow and looking at the financial forecast, it's unanticipated. How do we deal with that? In terms of our reserves, that money is identified for operations and replacing our system over time, etc. In terms of our financial forecast, we asked if we could potentially recover that \$1,500,000 through a surcharge. The surcharge would be short-term, would sunset, and there is a designated purpose.

We looked at it two ways. One, if we were to collect it from every customer paying an equal amount. To collect that in one year, it would be \$3.30 per customer. We also looked at it based on capacity, how much you're putting into the system. On a per unit basis, it would be about 55¢. We can come back with a recommendation if we were to collect that surcharge, on what it would be and what is the most equitable basis, a per account or a per-unit-of-flow basis.

COUNCILMEMBER KERN would like to do it on a per usage basis, rather than a per account basis. When we have some small homes and people with very low usage, \$3.30 proportionately is a much higher cost to them than somebody who uses a large capacity. Both can be defended as being fair, but he leans toward usage versus per-account.

MR. GRANTHAM stated for the benefit of everyone else, we did discuss, in terms of the affordability, potentially spreading it over a couple of years instead. That's something to bring back with a recommendation.

COUNCILMEMBER KERN says that because during the winter months he uses one unit of water. He doesn't have a backyard anymore. It's all native plants now with a small patch of grass in front, so his water usage is mostly inside the house now. Last month, which was fairly warm, he used 7 units. When he drives around, he sees more people doing native and drought-tolerant plants. This trend will probably continue. Whenever the rates get raised, people start using less.

Speaking of potential sources of water, he lives right off the Fallbrook Utilities outfall. We have these potential water sources for indirect potable use, which is much cheaper than desalination. Full ocean desalination has a lot of problems, the worst of which is the extremely high energy cost. Then you have all of the environmental issues. That's what Poseidon got hung up on. The way to mitigate that is the offshore wells, and that's a very expensive process.

In our strategic planning, we need to start looking at the outfalls. We're at the end of the funnel here, and we have a lot of potential to capture that water instead of

sending it out to the ocean. In the long-term, we can actually meet our goal of 50% water independence or more, if we can capture that water.

He asked about the \$4,400,000 acre-feet settlement. He has read that it's settled and then it read it's not. Do you know what's happening with that?

MR. BOYLE stated there is speculation all the time on all sorts of different scenarios. He was confused about it when he first got to the SDCWA, but then he looked at the treaties and agreements between the states, us and Mexico. We're having to deal with Homeland Security at SDCWA, which he would never have guessed. There are always threats, but we're pretty sound the way it stands right now. He hasn't foreseen anything that would be a calamitous thing coming down the road. He'll keep you posted.

Going back to the issue of the fine, **COUNCILMEMBER FELIEN** stated we were told that our attempts to maintain this pipe has been obstructed by different government agencies and agencies outside the City for a long period of time, and yet we're being handed the bill. If other agencies held up this maintenance, what's the justification for the fine and who gets to keep the money?

CITY ATTORNEY MULLEN stated we're still in the process of contesting that, and it's certainly part of the defense that the City is raising. We'll brief Council in Closed Session about the process that we're going through right now. Essentially, part of our defense is that we were denied the ability to get appropriated easements from Fish & Game in order to relocate this portion of the line. Their theory is more along the line of strict liability; there was a spill and it was in our line so therefore we're going to pay.

COUNCILMEMBER FELIEN is glad to hear that we're contesting that. If it's not resolved by the time of the hearing, we should make it well-known that we're not satisfied with that. If we end up losing our fight, who would keep the money?

CITY ATTORNEY MULLEN responded we anticipate that at some point we'll have an agreement to bring to Council to resolve it, and that will dictate how the proceeds are going to be used.

COUNCILMEMBER FELIEN asked if the Carlsbad desalination plant is factored into these projections in terms of usage and non-MWD water sources, or is that still up in the air?

MS. DALE responded it's factored into the regional demand for the SDCWA on the graphics that she used. It's still being negotiated between SDCWA and Poseidon, who is the private company building the facility. They're going back and forth about a lot of different things, but it is in the forecast as a water supply for the region.

COUNCILMEMBER FELIEN asked on the graphic showing where the money goes, what does the "ISF" stand for.

MS. DALE responded Internal Service Funds, which covers fleet maintenance and replacement costs, general administrative overhead, risk management, building rents, the call center, information technology and the cashier billing system.

COUNCILMEMBER FELIEN stated on the graphic dealing with the treated versus untreated, and 2000 versus 2025 sources of water, you were talking about one of the facilities we built. He would like to understand the relationship better. We have an option to get treated or untreated water from MWD. If we buy it untreated and treat it ourselves, it costs less. Treated costs more, is that correct?

MS. DALE responded correct.

COUNCILMEMBER FELIEN asked if on the 2011 chart for imported water, is that all treated water that we're paying for.

MS. DALE responded no. She did not break that out into treated and untreated.

COUNCILMEMBER FELIEN asked if by 2025 we will be treating the overwhelming majority of our own water that we import and only a small portion, about 2%, is treated water we're buying from MWD.

MS. DALE responded correct.

MAYOR WOOD agrees with Councilmember Kern that he'd like to see 50% of our water coming internally. That involves a lot, trying to get federal money to increase our size and potential. It's one of the most valuable assets we have. It would be nice to be self-dependent. He knows it's a financial issue that we have to address, but we also have concerns with Gregory Canyon. He'd hate to increase to 50% of our water and find out it's getting contaminated by a dump facility.

Regarding the tiered rating system, he asked if changing that needs approval from Council or is that something you still need to move toward.

MS. DALE responded we would need approval from Council and would bring that forward in an ordinance. It was the intent, when developing the rates, to implement them in that manner. We're finding they're not being done in that way.

MAYOR WOOD would like staff to go in that direction and bring it back to Council. Failure to keep up with infrastructure costs us a lot more than keeping up with it. He would like to keep moving forward on that. The fines are devastating when we get them.

He gets a lot of feedback from people who have brought down their water usage and now their rates are increasing. He understands their anger and agrees with them. It's about transportation costs from MWD going up. The citizens don't understand how they can do everything we ask them and now they're getting double-digit rate increases. He can see their frustration level. We haven't done a very good job of explaining it to them. That has to be better in the future. Some of this is being forced on us, and we have to pass it through to the ratepayers. The rate increases are a slap in the face to people who have tried so hard to bring their usage down. When we bring our usage down, we don't bring in enough money to take care of the costs, so it's a Catch 22.

He asked for clarification as to whether the desalination system on Camp Pendleton is going forward.

MS. DALE has not received an update on that recently.

MAYOR WOOD thanked everyone in the group who went to MWD to protest. Every city in San Diego County came up with a representative. San Diego County pays much more than cities and counties north of us for transportation costs. He heard about the back door deals with MWD, and he called the U.S. Attorney out of San Diego and complained. It's criminal and should be looked into. He asked if there has been any feedback from the U.S. Attorney since then.

MS. DALE responded not from the U.S. Attorney. However, we did get an update on the rate litigation today, and it is very favorable for the SDCWA. MWD's tactics are to delay anything going forward, which is pushing the trial to a mid-2013 date.

MAYOR WOOD thought they would delay it. The interest they would make with the delay would pay their fines. He was frustrated about that potential delay.

CITY ATTORNEY MULLEN spoke yesterday with the general counsel for the SDCWA to get an update, and they have filed a second lawsuit against MWD over the recent rate action and are moving to consolidate it with the first case. They have a

hearing date of July 2nd, which is the first substantive hearing on MWD's objections to the Complaint. There are a series of discovery motions that are pending right now. We understand those are likely to be resolved in July. There is a hearing on MWD's Demurrer to the Complaint and Motion to Strike on July 2nd as well. There may be more information to report at that time.

MAYOR WOOD stated MWD can delay this. Even if they lose, they have so much money they can pay the fines and not care. The reason he called the U.S. Attorney's office is because he thought if they made it criminal, then MWD would be concerned about their actions.

2. **Public Communications on City Council Matters (Off-Agenda Items) – None**

ADJOURNMENT

MAYOR WOOD adjourned this meeting to Wednesday, June 20, 2012 at 2:00 PM for a regularly scheduled meeting. This adjourned meeting of the Oceanside City Council was adjourned at 3:06 PM, Tuesday, June 19, 2012.

ACCEPTED BY COUNCIL:

Barbara Riegel Wayne
City Clerk, City of Oceanside