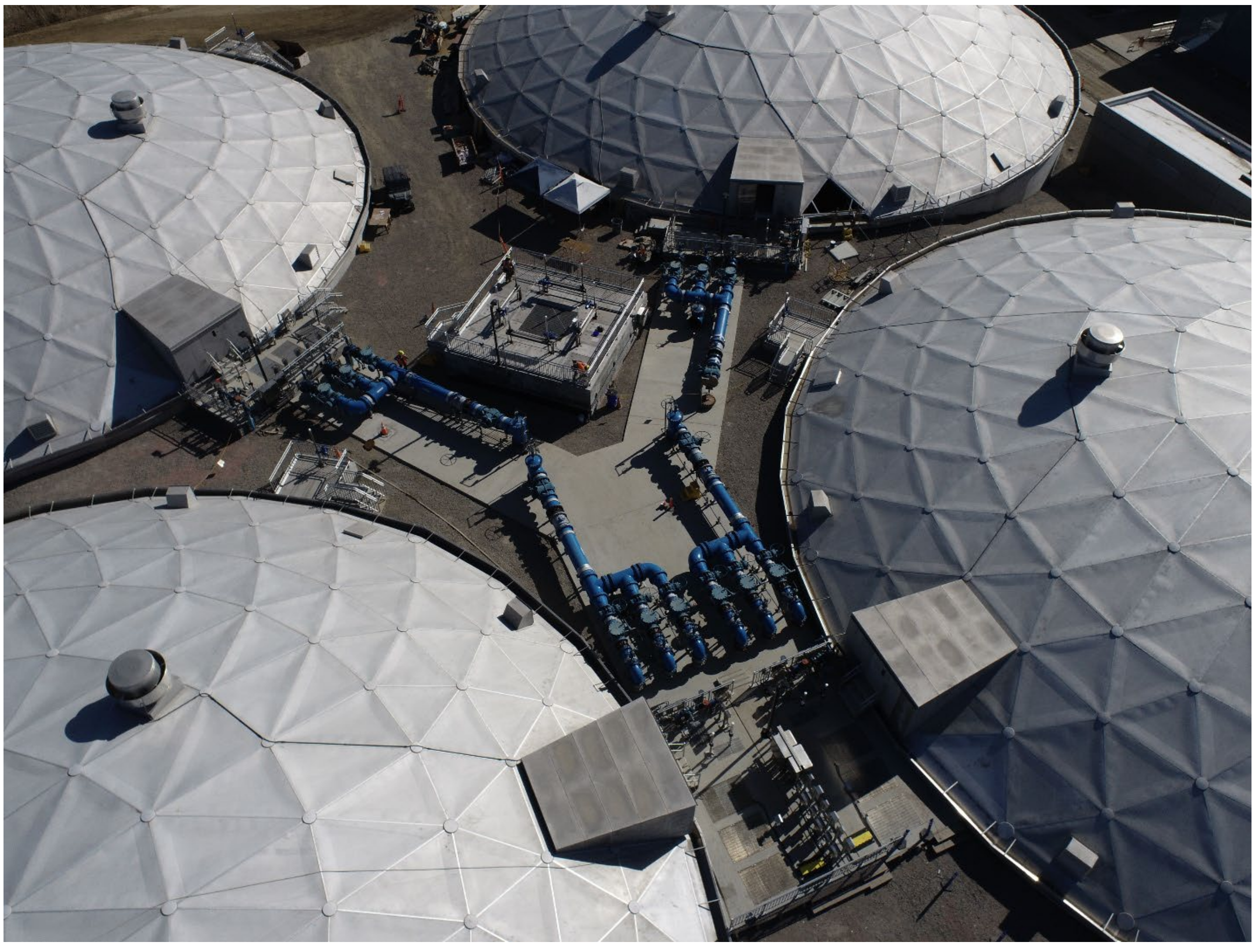
Monthly Executive Director's Report
March 2026

The purpose of this report is to provide an update on the activities, progress, and outcomes related to the JPA's initiatives. It aims to ensure transparency, document key discussions and decisions, and keep all stakeholders informed of ongoing efforts and upcoming milestones.



This month's picture is a recent picture of the North City Secondary Clarifiers and RAS Piping. See discussion of upcoming North City Pure Water Facility tour after the May Board Meeting. Sign up now!

March concluded on a very positive note, with both the City of San Diego Environment Committee and the County of San Diego unanimously approving the Second Amended and Restated Agreement (SARA) and Administrative Agreement No. 1 (AA1). Notably, the County's approval occurred on the consent calendar without discussion, reflecting a high level of confidence in the agreements. The City of San Diego is expected to bring SARA and AA1 forward to the full City Council in early April.

With these actions, 11 of the 12 Participating Agencies have now approved the agreements unanimously. In total, this represents approval and endorsement from 56 City Council and Board Members, along with three appointed Metro Commissioners—representing approximately 60% of local leadership across the region. Collectively, this demonstrates strong and consistent regional alignment in support of SARA and AA1, with broad participation across agencies of all sizes and governance structures.

And as a reminder, City of San Diego staff will be offering a tour of the North City Pure Water Facility following the May Board Meeting. Directors and TAC members who are interested in taking this tour should contact the Board Secretary. Directors and TAC members who have previously participated in a tour are welcome to submit a request to attend, and every effort will be made to accommodate as many participants as possible. Please note that participation is limited to six Board Members due to Brown Act restrictions. Spaces will be filled on a first-come, first-served basis, with priority given to Directors who did not participate in the previous tour.

Van transportation will be provided from the Metro Operations Center to the North City facility, as construction activities have significantly limited on-site parking. Board and TAC members interested in attending are encouraged to contact the Board Secretary to reserve a space. This is expected to be an especially exciting tour, as the new Operations Building should be open and several other facilities will be nearing completion.

Key Tasks and Updates:

1. **Functional Allocation Billing (FAB): Summary Overview for Policymakers**

   At the February Board meeting, direction was provided to the Executive Team by Board Members to develop a concise summary of FAB titled "Functional Allocation Billing (FAB): A Modern, Fair Billing System." The Executive Team worked in collaboration with City of San Diego staff and Stantec consultants to prepare this document, which provides a clear and accessible overview of the FAB methodology. The summary is attached to this Report.

   While the document is three pages in length, each page is intentionally designed to address a distinct aspect of FAB, recognizing that the methodology is complex and cannot be fully captured on a single page.

Page 1 provides a stand-alone, high-level overview of FAB, the “one-pager”, addressing the following key questions: What is the Metro Wastewater Billing Framework? Why was the framework updated? What does the updated framework do?

Page 2 and Page 3 provide additional detail for readers seeking a deeper understanding. Page 2 outlines the key elements of the FAB framework.

Page 3, titled “What Changes for Agencies?”, addresses the practical implications of FAB and what Participating Agencies can expect under the updated billing framework.

As a reminder, background materials related to SARA, AA1, and FAB are available on the JPA website, and this document will be included alongside those resources. They can be accessed from the home page under “News”.

https://www.metrojpa.org/home

2. Executive Director Succession and Recruitment

The Executive Director Ad Hoc Committee convened in March to review applications and resumes submitted for the Executive Director position. Following this review, a group of highly qualified candidates was identified for further consideration. Interviews are scheduled for early April, and the Committee will continue its evaluation process thereafter. A full report on current consultant reviews and an update on the Executive Director recruitment process was discussed in closed session at the April Board meeting.

3. FY 2027 Metro Budget

Following last month’s update, the Finance Executive Team continued working closely with City of San Diego Public Utilities Department staff to evaluate financing alternatives to the current pay-as-you-go approach contained in the January estimate and to refine underlying flow assumptions. These efforts were presented at the March Metro TAC meeting.

Based on updated flow projections from the East County agencies and the incorporation of debt financing for certain CIP and Pure Water Phase 1 costs, the preliminary FY 2027 budget outlook has improved, with notable reductions from the initial January estimate. Flow assumptions for the East County agencies continue to be refined, and a revised FY 2027 budget is anticipated to be provided to the Participating Agencies in early April.

4. Metro FY 2024 and FY 2025 "Exhibit E" Audits

Sample selection for Metro O&M, CIP, and Pure Water transactions was completed in March for the FY 2024 and FY 2025 City of San Diego "Exhibit E" audits. In accordance with the Agreed-Upon Procedures, the auditors, Crowe, selected 90 O&M samples; City of San Diego staff selected 100 municipal (Muni) samples; and the JPA Finance Team selected 100 Metro O&M samples, along with 25 Metro CIP and revenue samples.

All Pure Water capital contracts, as well as associated consulting agreement costs for these fiscal years, will be included as part of the sample review process. The purpose of the sample review is to verify that costs have been appropriately classified, supported, and allocated in accordance with the applicable agreements and audit requirements.

5. Inflow and Infiltration (I&I) Study:

The I&I Committee did not meet in March due to spring break. The next meeting is scheduled for April 23 at 2:00 p.m.

6. Finance and AdHoc Committee Meetings Update

- **Finance Committee**

  The Finance Committee met in March to continue its review of key financial matters and to provide further directions on development of the FY 2027 JPA Draft Budget.

  The Committee reviewed the updated status of the draft budget for ongoing programs and provided additional guidance to staff in preparation of a refined draft to be presented at their April meeting. The FY 2026 budget is still projected to come in under budget. Finalization of the FY 2027 budget remains dependent on completion of such items as the Executive Director recruitment process and contract negotiations, which are anticipated to occur prior to the April Finance Committee meeting.

  The Committee also continued its discussion of potential new program elements for FY 2027, including organizational memberships (such as the California Special Districts Association and the California Association of Sanitation Agencies), conference participation, and the potential development of a Metro JPA social media presence. Staff was directed to further evaluate these items, including any associated liability insurance considerations, and to return with additional information as part of the final budget development process.

The Finance Committee will reconvene in April to review the updated draft budget. It is anticipated that, following the April meeting, the FY 2027 Draft Budget will be advanced to the Board for consideration and potential approval at the May or June Board meeting.

- **Succession Planning AdHoc**

  The Succession Planning Ad Hoc Committee met to consider several organizational and governance items. The Committee reviewed and discussed potential revisions to the Treasurer and Board Secretary job descriptions, as well as updates to the Metro JPA organizational chart, providing directions for further refinement.

  The Committee also discussed the role of City of San Diego technical support in relation to the Metro JPA Executive Team and considered the potential development of a Metro JPA social media presence, including oversight considerations. The Committee will continue to advance these topics at future meetings as directed by the Board.

- **Executive Director Ad Hoc**

  Covered under Item 2.

- **Pure Water AdHoc**

  The Pure Water Ad Hoc Committee met in March to review the status of SARA implementation and discuss next steps as the approval process continues to advance. The Committee will continue to monitor progress and provide input as implementation moves forward.

UPCOMING MEETINGS:

Metro TAC:

Regular Meeting:
April 15, 2026
11-1 Via Zoom

Finance Committee:

Regular Meeting:
April 28, 2026
10-Noon; Hybrid Meeting
MOC Conference Room 2B

Metro JPA/Commission:

Regular Meeting:
May 7, 2026
Noon-2 PM MOC Auditorium

Functional Allocation Billing (FAB), A Modern Fair Billing System

What Is the Metro Wastewater Billing Framework?

The City of San Diego operates a regional Metro Wastewater System that provides wastewater treatment and disposal services for the City and twelve Participating Agencies across the region. Costs to operate, maintain, and invest in this shared system are allocated among users through a billing framework established under the Amended and Restated Agreement. The updated framework, known as **Functional Allocation Billing (FAB)**, modernizes how these shared costs are distributed so that they better reflect how the system is used today and how it must be maintained for the future.

Why Was the Framework Updated?

The prior billing approach, known as **Strength-Based Billing (SBB)**, was adopted in 1998 and relied almost entirely on annual wastewater flow and strength to allocate costs. Since then, several major changes have occurred:

- The wastewater system itself has evolved, including major investments in water reuse and advanced treatment.
- Wastewater flows and characteristics have shifted due to conservation, population changes, and new local treatment facilities.
- Significant portions of system costs, such as debt service, are fixed and driven by long-term capacity needs, not just year-to-year usage.

These changes made it necessary to update the billing framework so that costs remain equitable, transparent, and financially sustainable.

What Does the Updated Framework Do?

The FAB framework introduces a modern, engineering-based approach to allocating both operating and capital costs. It aligns costs with:

- **Actual system use** - how much wastewater is sent to the system and its pollutant strength characteristics, and
- **Capacity needs** - the infrastructure required to handle peak flows and long-term demand.

This dual perspective enables agencies to pay their fair share for both daily operations and the shared infrastructure that must be maintained for reliability and resilience.

Key Elements of the FAB Framework

Functional and Design-Based Cost Allocations

The **functional–design based cost allocation framework** is a widely used cost-of-service approach in the wastewater industry that recognizes two complementary drivers of system costs: (1) how facilities operate on a day-to-day basis, and (2) how infrastructure is designed and sized to reliably meet peak and long-term demands. By applying both perspectives, the framework assigns costs in a manner that reflects actual use of the system while also accounting for the capacity that must be built and maintained for all users.

- **Functional allocations** are used primarily for operating and maintenance costs and reflect day-to-day system operations and the associated cost drivers.
- **Design allocations** are used primarily for capital costs and reflect how facilities are sized to meet peak conditions and long-term capacity requirements.

Together, these approaches enable costs to be tied to both appropriate use and design factors for each agency

Fixed and Variable Charges

The FAB framework clearly separates costs into two components:

- **Fixed charges**, which recover capital investments and other costs that do not vary year to year. These are based on long-term capacity rights, including average flows and peak capacity needs.
- **Variable charges**, which recover operating costs (in addition to pre-2022 debt service) and are based on actual measured flows and wastewater strength each year.

This structure better aligns bills to the fixed costs of owning and operating the Metro system, improves cost predictability, and reduces volatility for participating agencies.

Recognition of Peak Capacity Needs

The updated framework explicitly accounts for incremental peak capacity and the system's ability to handle wet-weather and extreme flow events. Agencies are billed for their share of this capacity so that the costs of maintaining a system ready for peak events are equitably distributed.

Treatment of Advanced Water Purification Reject Streams

The framework introduces a specific billing component for reject streams from advanced water purification processes. These high-strength flows are allocated only to the facilities that handle them (Point Loma WTP and Pump Station 2) and billed to the agencies that produce them, improving transparency and fairness.

What Changes for Agencies?

Under the FAB framework:

- Bills are divided into fixed and variable components, providing greater stability and predictability.
- Agencies that reduce average flows through local reuse projects still contribute to the cost of maintaining regional capacity needed during peak events.
- Costs associated with unique waste streams are assigned directly to the agencies responsible for them.

Overall, the framework is designed to moderate impacts, avoid extreme year-to-year changes, and adapt over time as system conditions evolve.

Why This Matters

The updated billing framework serves as a long-term solution to Metro system billing by:

- Promoting equitable cost-sharing among all users.
- Providing a stable financial foundation for critical wastewater infrastructure.
- Adapting to changing dynamics in the Metro system and evolving usage and capacity needs of PAs.
- Encouraging responsible system use and investments that reduce peak demands.
- Aligning billing practices with widely accepted cost-of-service principles.

In short, the FAB framework modernizes how the region pays for wastewater services, balancing equity, transparency, and long-term system reliability.