



Key Assumptions for FY22/23 Operating Budget Development

Board of Directors Meeting
May 11, 2022



FY22/23 Budget and SSCs Development Schedule Overview



Board Meeting

March 30, 2022

- Board received report regarding major factors impacting development of new 5-year Capital Improvement Program (CIP) (FY22/23-FY26/27)

April 20, 2022

- Board reviewed proposed SSC adjustments, set public hearing, and approved distribution of Prop. 218 notices

May 11, 2022

- Board reviews key operating budget assumptions for FY22/23 Budget, draft 5-year CIP

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- CIP Public Hearing, Board considers CIP approval
- SSC Public Hearing, Board considers SSC approval and authorizing collection on tax roll
- Board considers approval of FY22/23 Budget appropriations

FY22/23 Operating Budget Overview



Board Policy

Adopt Budget (capital/operating) and appropriate new fiscal year budget no later than July each year

Fiscal Responsibility

Critically review proposed operating budget each year to identify budget adjustment needs and opportunities

Cost Control

Manage labor, chemical, energy, materials, supplies, hauling, services, and regulatory compliance costs

Operating Budget

Proposed FY22/23 Operating Budget = \$31.6M

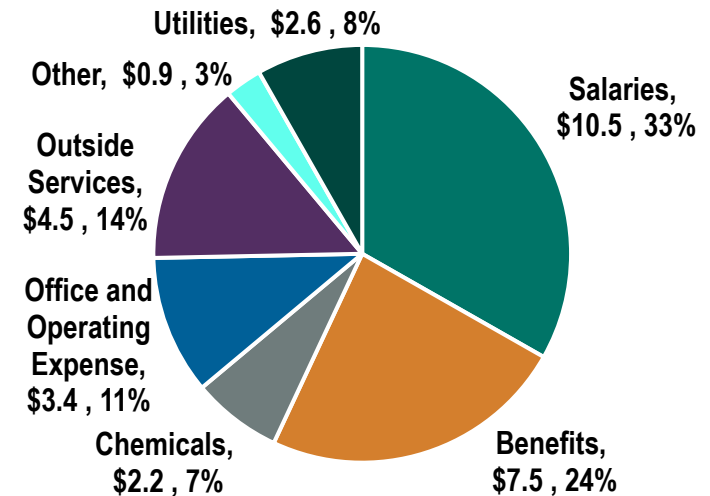
- \$2.3M increase (7.7%) relative to FY21/22 (\$29.3M)
 - Wastewater Operating Budget (funded by SSCs) = +\$1.5M
 - Recycled Water Operating Budget (funded by RWSCs) = +\$0.7M

FY22/23 Proposed Operating Budget Overview



- Proposed Operating Budget = \$31.6M:

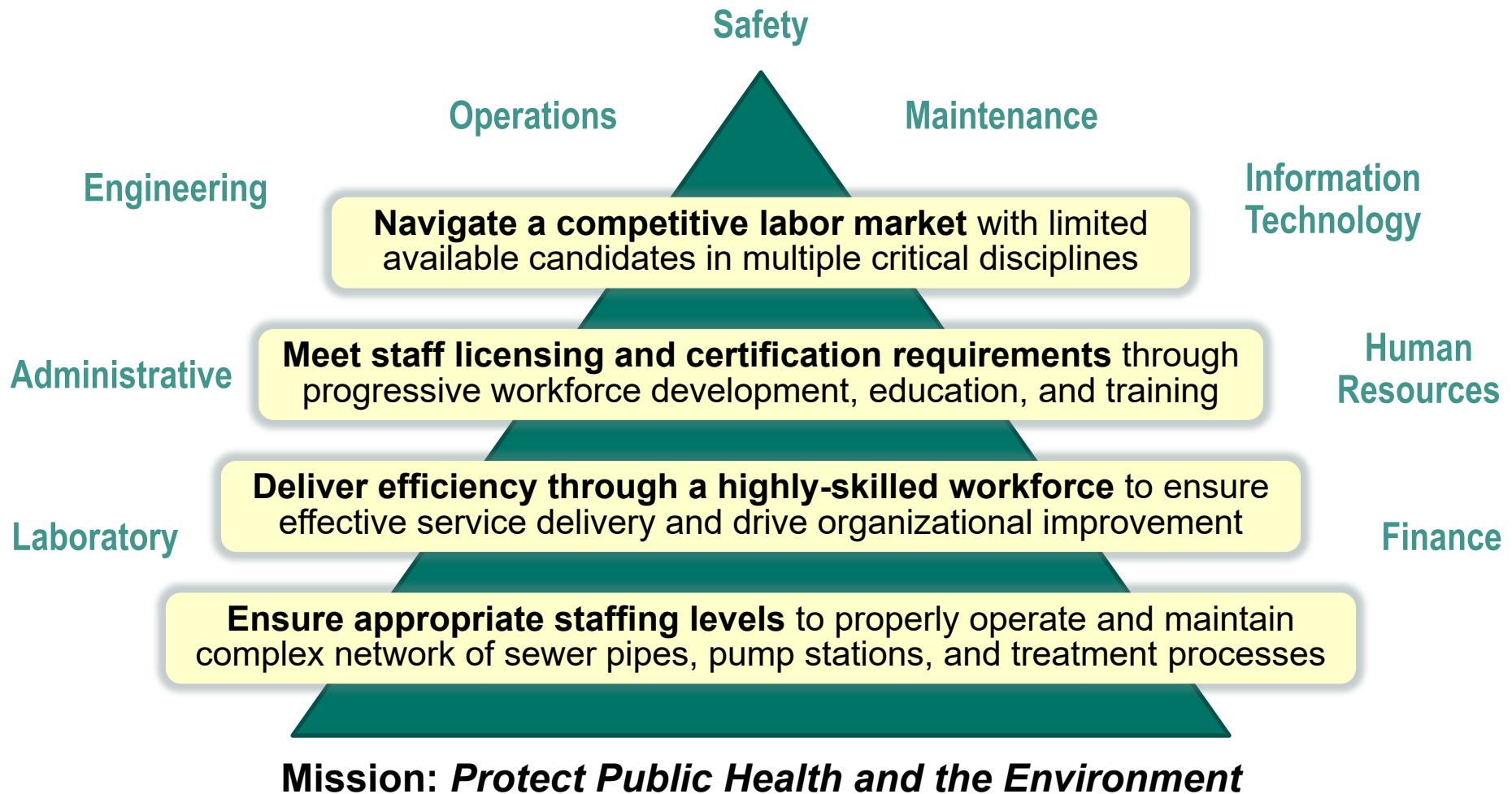
- Wastewater Conveyance and Treatment **81%**
 - Bay Point Collection **2%**
 - HHW Collection **3%**
- Sewer Service Charges (SSCs)**
- Recycled Water **11%**
 - Street Sweeping **3%**
- Recycled Water Service Charges**
- Street Sweeping Charges**



Proposed FY22/23 Operating Budget Breakdown (\$M)



Critical Importance of Staff in Achieving the District's Mission



Key Assumptions

Salaries (\$10.5M, 33% of Total)

- Ensuring Appropriate Staffing Levels
 - Critical review of position needs, especially when vacancies occur
 - Implemented multiple position changes in last year to support organizational improvement; continuing in FY22/23
 - Funded 77.5 (of 81.5) full-time equivalent (FTE) positions
 - Annual savings from four unfunded positions = \$0.9M
- Delivering Efficiency through Highly-skilled Workforce
 - No change in total FTEs, funding the Deputy General Manager position and not funding the Government Affairs Manager position
 - Includes Operations Support-Construction Coordinator/RA, Finance Professional/RA, three intern positions (Maintenance, Engineering, Laboratory) (5 x 0.5 FTE each = 2.5 FTEs)

Salaries

Benefits

Utilities

Chemicals

Office/
Operating

Outside
Services

Key Assumptions

Salaries (cont'd)



- Navigating a Competitive Labor Market – Salary Drivers
 - District interest in recruiting and retaining highly-skilled staff in competition with peer agencies
 - ~46% of staff has been with District <5 years – moderate shift to lower salaries with more staff in salary progression
 - Labor Agreement Obligations – MOUs include annual cost-of-living adjustment (COLA) to be applied in July each year
 - COLA range = 2-5% (to be confirmed in mid-May based on index)
 - Financial Impact: Assumed 4.5% COLA increase = \$0.5M
 - Staff has included use of existing reserves to mitigate potential impacts to customers via SSC collection

Salaries

Benefits

Utilities

Chemicals

Office/
Operating

Outside
Services

Key Assumptions

Benefits (\$7.5M, 24% of Total)



- Managing Health Benefits Costs
 - Expected medical insurance premium increase = 14% (+\$127k)
 - Other health/life insurance are not expected to increase significantly
- Continuing Retirement Cost Reduction following Pension Benefits Changes and Reform (2012-13)
 - In FY22/23, **32% of staff are Tier 1** members (2.7%_{@55}), while **68% are either Tier 2** (2.0%_{@55}) **or Tier 3** (2.0%_{@62})
 - District pays CalPERS normal costs as percent of salary: 14.35% (Tier 1); 11.10% (Tier 2); 7.65% (Tier 3)
 - CalPERS Unfunded Actuarial Liability (UAL): \$1.6M
 - Additional \$0.1M to be paid to PARS Rate Stabilization Program



Key Assumptions

Benefits (cont'd)



- Continuing to Meet OPEB Trust Fund Obligations to Reduce Long-term Cost Liability
 - Employees pay 3% of Salary
 - District contribution = \$0.6M to ensure full funding of Actuarially Determined Contribution (ADC) – includes 3% District match (\$0.3M) + additional \$0.3M
 - Continue to effectively manage outstanding OPEB liability in accordance with District's OPEB Trust Fund Policy

Salaries

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Key Assumptions

Chemical and Utilities (\$4.8M, 15% of Total)



Chemicals (\$2.2M, 7% of total)

- \$1.3M for Wastewater, \$0.9M for Recycled Water
- Chemicals increased \$0.4M due to increases in chemical unit prices (~12%-95%)
- Critically reviewed quantity estimates, prices, and associated budget contingencies
- Continued participation in the Bay Area Chemical Consortium (BACC)

Utilities (\$2.6M, 8% of total)

- Utilities increased \$0.2M (~11%) due to rising natural gas supply costs



Key Assumptions

Office & Operating/Other (\$4.3M, 14% of total)



Office and Operating (\$3.4M, 11% of total)

- Supplies, technology systems and applications, insurance renewals, hauling services, and program administration
- Staff training and professional development

Other (\$0.9M, 3% of total)

- Operating budget contingency allowance (\$0.3M)
- Transfers to other District funds



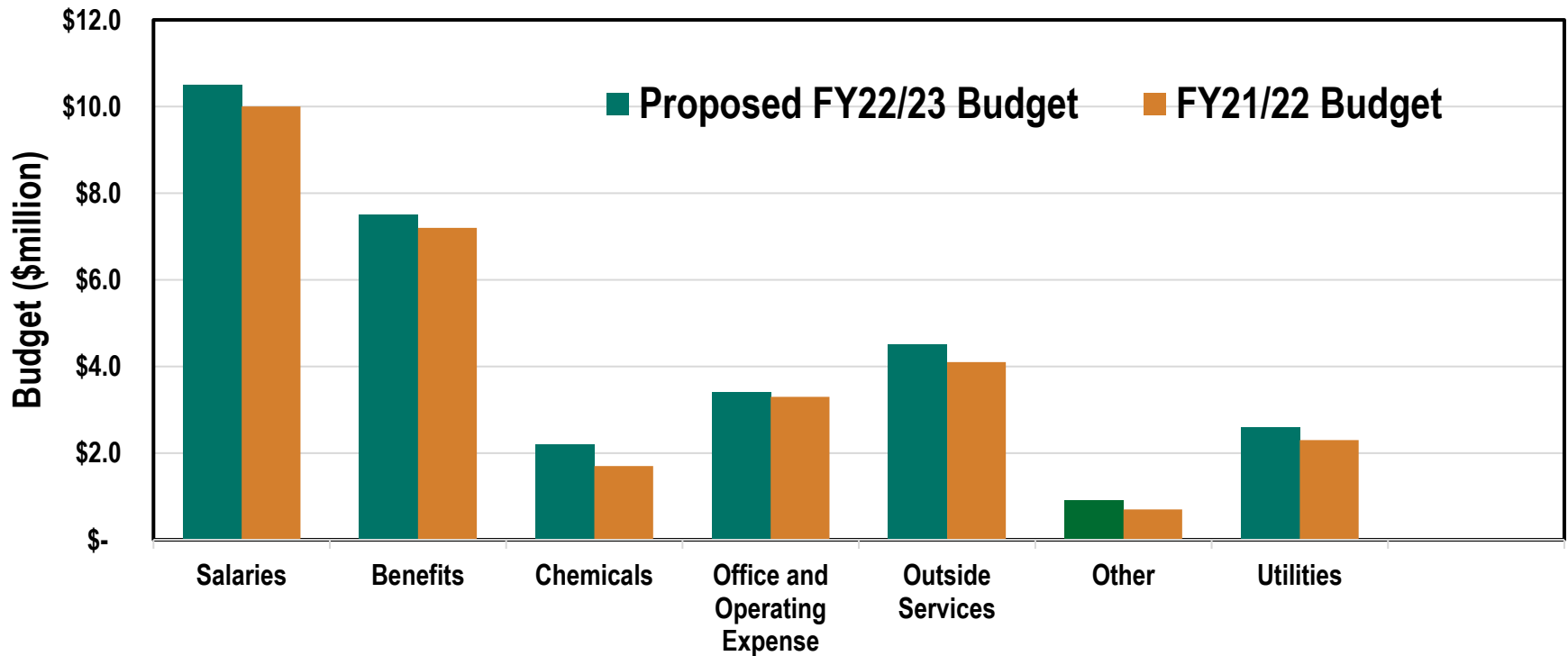
Key Assumptions

Outside Services (\$4.5M, 14% of Total)

- General increase in services as District returns to pre-COVID operations
- Supporting Organizational Improvement and Business Processes through Professional Services (\$1.3M)
 - Munis Enterprise Resource Planning enhancements
 - Capital Facilities Capacity Charges study
 - Confined space rescue standby services
 - Regulatory compliance support services
 - Updates to District standards
- Street Sweeping, Household Hazardous Waste (\$1.4M)
- Temporary and Other Services (legal, facilities, maintenance, COVID testing, misc.) (\$1.8M)



FY22/23 Proposed Operating Budget Comparison to Last Year



Salaries

Benefits

Utilities

Chemicals

Office/
Operating


Outside
Services

Summary

- Staff has developed a proposed FY22/23 Operating Budget that supports District's focus on long-term financial sustainability and Fiscal Responsibility goal in Strategic Plan (dated August 2021)
- Overall, FY22/23 Operating Budget (\$31.6M) is 7.7% higher (\$2.3M) than current year's budget
 - FY21/22 Operating Budget was essentially flat relative to FY20/21 Operating Budget due to COVID-19 pandemic impacts
 - Consistent with proposed Sewer Service Charge (SSC) increase analysis presented to Board on April 20, 2022
 - Long-term financial planning includes 3.7% annual escalation factor assumption for operating budget

Enhancing Public Communications

- Staff has prepared additional supporting documentation and posted on the District's website



Ensuring Long-term Financial Sustainability Proposed Sewer Service Charge Increases

April 2022

In developing its budget each year, Delta Diablo (District) carefully considers operational and capital investment needs to maintain effective and reliable wastewater collection (Bay Point only), conveyance, and treatment services for its **215,000 customers** in Antioch, Pittsburg, and Bay Point. Our primary revenue comes from **Sewer Service Charges (SSCs)*** charged to residential, commercial, and industrial customers on the tax roll each year.


We continue to prioritize sustained **capital investment** to maintain the integrity of our **aging wastewater system infrastructure****, while ensuring sufficient funding to meet **progressive increases in annual operating costs** over time due to escalations in labor, chemical, energy, materials, supplies, equipment, hauling, and services costs, as well as **increasingly more stringent regulatory requirements**.


We critically reviewed required SSC adjustments to ensure sufficient revenue collection that reflects cost-of-service, while minimizing economic impacts to customers. For **Fiscal Year 2022/2023** (effective July 1, 2022), the District has notified customers (via **Proposition 218 Notices***** mailed to property owners on or before May 8, 2022) of its intent to increase SSCs for residential customers by **\$19.33/year** (4.5%, \$448.75 total) for **Antioch/Pittsburg** and **\$26.52/year** (4.5%, \$615.77 total) for **Bay Point**.


- **SSC Revenue Allocation:** We have identified a total SSC revenue need of **\$36.7 million** for FY22/23, which includes \$20.9 million for operational needs and \$15.8 million for capital project funding. Other funding includes ad valorem taxes and available unallocated funds.
- **Annual Revenue Increase Drivers:** The proposed SSC increase would generate an **additional \$1.2 million in revenue** in FY22/23 to support cash funding of critical capital investments in aging infrastructure to ensure the lowest overall cost to ratepayers.
- **Cost-of-Service Study Revenue Allocation:** Key findings from the 2021 Cost-of-Service Study, which reapportioned certain costs from non-residential customers to residential customers to **ensure SSCs accurately reflect the District's cost of providing services** to different customer classes, are incorporated into the development of proposed SSC increases for FY22/23.
- **Strategic Plan:** The District faces challenges related to aging infrastructure, meeting regulatory drivers, navigating a competitive labor market, and effectively engaging with the local community to ensure sustained organizational improvement. The District's Strategic Plan (dated August 2021), coupled with Board of Directors leadership, provides a **strategic framework that will guide key decisions, initiatives, and activities** at the District.
- **Long-term Financial Plan:** We conduct a 5-year SSC analysis to identify future SSC adjustments to **maintain sustained fiscal integrity**, while avoiding sharp rate increases. The **District continues to maintain its rates well below the average** of its peer agencies in the San Francisco Bay Area.


* SSCs are not used for recycled water or street sweeping services, which are funded separately.
 ** "Investing in Critical Wastewater Infrastructure" fact sheet is available on website for more information.
 *** "Notice of Proposed SSC Increases for FY22/23" is available on website for more information.

As a nationally-recognized leader and progressive "Utility of the Future", the District values community engagement, serving as responsible stewards of the public's resources and trust, transparency, innovation, and workforce engagement and development to achieve its mission.


13.6 million gallons of wastewater per day


76 miles of sewer pipes, force mains



5 pumps stations to convey wastewater


Wastewater Treatment Plant

Proposed SSC Revenue for FY22/23 Budget
 Capital **\$15.8M** Operating **\$20.9M**

Proposed SSC Increase
 +\$19.33/year (Antioch/Pittsburg residential)
 +\$26.52/year (Bay Point residential)

visit www.deltadiablo.org or call (925) 756-1900 for more information



FY22/23 Proposed Sewer Service Charge Increases Frequently Asked Questions

April 2022

Delta Diablo has provided two fact sheets—"Proposed Sewer Service Charge Increases" and "Investing in Critical Wastewater Infrastructure"—on its website* to respond to the question, "Why is Delta Diablo Increasing Rates?" This document complements these fact sheets by addressing potential questions from our customers regarding the proposed Sewer Service Charge (SSC) increase for Fiscal Year 2022/2023 (FY22/23).

* The referenced Fact Sheets are available at: <https://www.deltadiablo.org/proposed-sewer-service-charge-ssc-increases>

1. **Why is the District raising rates for residential customers during the COVID-19 pandemic?** We recognize that the economic impacts of the COVID-19 pandemic on customers in our service area are significant and the prospect of raising rates during an ongoing global pandemic is challenging when there is economic uncertainty in our local communities. As summarized in the two fact sheets referenced above, the District is proposing to increase SSCs for residential customers by \$19.33/year (4.5%, \$448.75 total) for Antioch/Pittsburg and \$26.52/year (4.5%, \$615.77 total) for Bay Point to:
 - **Meet the District's core mission of protecting public health and the environment.** Achieving this mission requires sufficient capital investment and staffing levels to properly operate and maintain the District's complex network of sewer pipes, pump stations, and treatment processes. Failure to do so could expose our customers to costly regulatory fines and penalties if partially-treated wastewater is discharged to the Delta or sanitary sewer overflows occur in local communities and/or residences.
 - **Address aging infrastructure through prioritized capital investment.** We continue to strategically rehabilitate and replace essential elements of the District's wastewater collection, conveyance, and treatment system to maintain effective and reliable services. Addressing these issues in a proactive manner prevents infrastructure failure, which would lead to higher costs and associated rate impacts.
 - **Offset increases in operating costs.** As a regulated utility that requires employees with specialized skills to meet its mission, the District continues to experience progressive increases in annual operating costs due to supply chain constraints and escalations in labor, chemical, energy, materials, supplies, hauling, services, and regulatory compliance costs. Staffing levels are critically reviewed to meet service level needs, while ensuring cost-effective service delivery for our customers.
 - **Prevent the need for more significant SSC increases in the future.** In developing its 5-year SSC projection each year, the District works hard to balance direct economic impacts to our customers and the need for sufficient revenue to cover operating costs and capital investment needs. If an SSC increase is not implemented this year, more significant rate increases would likely be required in the next few years.
 - **Focus on cash funding versus borrowing for capital improvements.** An SSC increase allows the District to continue predominantly cash funding its capital improvement program. If the District were to begin borrowing capital for these improvements, project costs to our customers could nearly double when considering loan interest repayment and the lack of available low-interest loans.

Throughout the COVID-19 pandemic, our core mission of protecting public health and the environment as "essential services" has remained unchanged as we continue to effectively convey and treat 13.6 million gallons of wastewater each day from our customers on a 24/7 basis.

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