**ITEM F**

April 14, 2021

REVIEW PROPOSED SEWER SERVICE CHARGES FOR FISCAL YEAR 2021/22, INCLUDING INCREASES FOR CERTAIN RATEPAYER CLASSES; SET PUBLIC HEARING FOR JUNE 9, 2021, AT 4:30 P.M., TO CONSIDER PROTESTS AGAINST SEWER SERVICE CHARGE INCREASES FOR FISCAL YEAR 2021/22, AND TO CONSIDER AUTHORIZING COLLECTION OF FISCAL YEAR 2021/22 SEWER SERVICE CHARGES ON THE TAX ROLL; AND AUTHORIZE DISTRIBUTION OF PROPOSITION 218 HEARING NOTICES AND PUBLICATION OF HEARING NOTICES

**Recommendations**

1) Review proposed Sewer Service Charge (SSC) adjustments for Fiscal Year 2021/2022 (FY21/22).
2) Set public hearing for June 9, 2021 at 4:30 pm, at which the Board will do the following: receive public comments; consider all protests received; consider whether to adopt an ordinance establishing adjusted SSCs effective FY21/22; and consider whether to adopt a resolution authorizing collection of the adjusted SSCs on the tax roll.
3) Authorize distribution of Proposition 218 Hearing Notices addressing proposed SSC adjustments and notifying property owners of the associated public hearing; and authorize publication of hearing notices in accordance with Health and Safety Code Section 5473.1.

**Summary**

The following key actions are associated with the proposed FY21/22 SSC adjustments:

- Generate an additional $1.6 million in annual revenue to meet the District's capital investment and operational financial needs, which represents a 4.8% increase in anticipated FY21/22 revenue (without an SSC increase)
- 2021 Cost-of-Service (CoS) Study: Adjust FY21/22 SSCs to incorporate key findings:
  - Shift approximately $550,000 in cost reallocation from non-residential customers to residential customers
  - Adjust potable water consumption basis for calculating an annual minimum charge for non-residential customers to 80 hundred cubic feet per year (HCF) (from 90 HCF in FY21/22)
  - Eliminate differences in SSCs for same business classes in different District zones
  - Implement associated SSC adjustments for residential and non-residential customers (SSC adjustments referenced below include CoS findings)
- Residential Customers
  - Implement a 6.5% SSC increase for Antioch (District Zone 3) and Pittsburg (District Zone 2). The proposed SSC increase (does not include wastewater collection services, which are provided by the respective cities) equates to an SSC increase of $26.32 per year (or approximately $2.19 per month)
  - Implement a 5.9% SSC increase for Bay Point (District Zone 1). The proposed SSC increase (includes wastewater collection services provided by the District) equate to an SSC increase of $32.78 per year (or approximately $2.73 per month)

- Non-residential Customers: Implement SSC adjustments to specific business classes based on updated CoS findings (refer to Table 2 in attached draft Prop. 218 Notice)
- Street Sweeping Charges: No proposed changes (required service level varies by community)
  - Annual single-family residential: $4.58 for Bay Point, $10.26 for Pittsburg, $5.60 for Antioch
  - Annual non-residential unit: $45.80 for Bay Point, $51.35 for Pittsburg, $56.00 for Antioch

**Background Information**

In developing proposed SSC adjustments to meet revenue requirements each year, staff utilizes the following guiding principles to ensure long-term financial sustainability:

- Critically review operating budget each year to identify budget adjustment needs and opportunities
- Ensure effective prioritization of a capital improvement program (CIP) that addresses critical infrastructure needs
- Utilize a 5-year rate model to identify SSC revenue needed to meet cost projections without sharp rate increases
- Maximize cash funding of CIP (vs. debt financing) to ensure lowest overall costs for District customers
- Meet District policy to maintain minimum reserve balance of 40% of annual budgeted operating expenses in the Wastewater Operations & Maintenance (WW O&M) Fund
- Factor growth into SSC calculation each year to ensure equitable cost allocation across customers
- Reserve debt management capacity for long-term secondary capacity expansion and nutrient management treatment plant upgrades
- Maintain SSCs below average relative to peer agencies
- Comply with legal requirements for revenue collection

During the Board Meeting, staff will highlight the District's efforts to integrate these guiding principles in its financial planning activities.

Staff has developed a 5-year financial plan (with a 10-year outlook) to effectively identify the District's capital investment and operational financial needs, while meeting District fiscal policy requirements. This financial planning approach ensures the District is charging rates that are appropriate to recover costs of providing service and in compliance with California law, including Proposition 218. Staff has determined that the proposed FY21/22 SSC adjustments are necessary and meet the following requirements:

- Collects sufficient revenue to meet current and long-term projected costs of operations and maintenance, fund capital investment in aging infrastructure necessary to maintain effective and reliable services, and maintain overall financial stability
- Complies with state-mandated regulatory requirements
- Meets and complies with annual debt service requirements
- Avoids generating operational deficits and depleting reserves
- Complies with California Constitution Article XIII D, Section 6, which includes the following requirements:
  - An agency cannot collect revenue beyond what is necessary to provide service

- No charge may be imposed for a service unless that service is actually used or immediately available to the owner of the property
- Revenues derived from the charge shall not be used for any other purpose other than that for which the charge was imposed
- The amount of the charge must be proportional to the cost of the service, and the apportionment of total costs of service amongst ratepayer classes must be reasonable (e.g., avoidance of subsidization across customer classes)

- Meets District fiscal policy to maintain a minimum reserve balance of 40 percent of annual budgeted operating expenditures in the Regional Treatment and Conveyance (WW O&M) Fund
- Meets commitments made in loan agreements

Each year, the District submits required information to Contra Costa County to place SSCs on the property tax roll for most customers. The wastewater sector is heavily regulated with new and emerging issues competing with aging infrastructure needs, operating budget challenges (e.g., chemical, energy, hauling costs), regulatory compliance obligations, and limited state and federal funding support. Staff endeavors to meet these challenges while ensuring the District's SSCs are among the lowest when compared to its peer agencies in the Bay Area region.

On April 7, 2021, staff presented the proposed SSC adjustments and associated recommendations to the Finance Committee (Committee), and the Committee recommended that these items be submitted to the Board for consideration on April 14, 2021.

**Analysis**

Key assumptions in developing the updated 5-year financial plan and associated FY21/22 SSC adjustments include:

- Preliminary FY21/22 Operating Budget: $26.2M funded by SSCs ($28.9M total) with escalation in subsequent years to address increasing operating costs over time
- Preliminary 5-year CIP: $113M for Wastewater ($127M total). Staff has highlighted major capital investment needs in recent Board meetings (November 2020 to March 2021), including the new $60M Secondary Process Improvements Project and $11M for prioritized new projects resulting from recent condition assessment work completed as part of the Resource Recovery Facility Master Plan.
- Debt Utilization: Following engagement with the Board on March 25, 2021 regarding financial impacts associated with various funding approaches for the $60M Secondary Process Improvements Project, staff is recommending that the District fund this project with $30M in cash with the remainder funded by a new debt issuance (i.e., 50% cash/50% debt scenario).
- FY20/21 Service Area Growth: A total of 1,099 equivalent residential units (ERUs) have been added to the 5-year financial plan, which generates an additional $450,000 annual SSC revenue. Staff updates the District's 5-year financial plan each year to reflect any growth that has occurred in the service area during the current year.
- Ad Valorem Taxes: Based on the assumption that District Ordinance No. 120 will be adopted by the Board on April 14, 2021 to eliminate Capital Facilities Capacity Charge (CFCC) reductions for certain development types and support the District's financial needs, staff has increased the annual Ad Valorem Tax revenue assumption from $2.0M to $3.0M (i.e., $1M

had previously been set aside to offset CFCC reductions to restore lost CFCC revenue in the Wastewater Expansion Fund).

- Advanced Treatment (AT) Fund: Based on the extended timeline for implementation of nutrient removal regulatory requirements, staff is recommending that the District continue suspending collection of this SSC revenue component.
- 2021 Cost-of-Service (CoS) Study: As referenced above, adjustments to SSCs are required for both residential and non-residential to rebalance cost allocation between these customer categories. Implementation of CoS findings only (without an SSC revenue increase) in FY21/22 would result in aggregate (i.e., adjustments vary by individual communities and business classes) SSC adjustments of +1.7% and -15.8% for residential and non-residential customers, respectively. Staff has also implemented the recommended changes to annual minimum charges for non-residential customers (i.e., 80 HCF) and elimination of SSC differences for the same business classes in different District zones.
- Inter-fund Loans: The 5-year financial plan includes: 1) repayment of the FY20/21 Board-approved $3.0M loan from the AT Fund to the WW Capital Asset Replacement (WW CAR) Fund in FY21/22; 2) a $9.6M loan from the WW CAR Fund to the WW Expansion Fund in FY24/25 with a subsequent annual $1.0M payment until the loan is repaid.

In June 2020, the Board adopted an FY20/21 SSC increase of 3.5% for Antioch/Pittsburg customers and 3.0% for Bay Point customers. At that time, staff projected a future FY21/22 SSC increase of 4.0% for Antioch/Pittsburg residential customers (current proposed SSC increase = 6.5%) and 3.5% for Bay Point residential customers (current proposed SSC increase = 5.9%). Key changes driving these differences from last year's 5-year SSC projection include recommended implementation of: 1) the $60M Secondary Process Improvements Project, which has emerged as a near-term priority in Year 3-5 of the new 5-year CIP, and 2) the 2021 Cost-of-Service Study findings.

**Public Communication and Outreach**

In compliance with Article XIII D, Section 6 of the California Constitution, and Government Code Section 53750, *et seq.*, notices on proposed rate adjustments are planned to be sent to all utility customer accounts by April 23, 2021 (a minimum of 45 days prior to the public hearing in June) (refer to attachment). The Notice includes the information required under Proposition 218 and outlines the process for protesting the proposed rate increases. Written protests can be mailed, or hand delivered to the District on or before the public hearing date or in person at the public hearing that is expected to be set for June 9, 2021. In addition, notices of the public hearing will be published twice in the East County Times, in accordance with Health and Safety Code Section 5473.1 to provide notice of the proposed collection of SSCs on the tax roll. At the close of the public hearing, the Secretary to the Board will announce the total number of protest responses. If written protests against the proposed rate adjustments are presented by a majority of the parcel owners in the District's service area, the District cannot implement the SSC rate adjustments.

If state and local COVID-19 restrictions remain in effect, the June 9, 2021 Board Meeting agenda posted on the District's website will inform members of the public as to how the public hearing will be conducted in accordance with applicable laws, health orders, and Governor's executive orders.

**Fiscal Impact**
If the Board approves the proposed SSC adjustments after the June 9, 2021 public hearing, an additional $1.6 million in annual SSC revenue would be generated to meet the District's capital investment and operational financial needs.

Following implementation of the proposed SSC adjustments, the District's cost for providing wastewater collection, conveyance, and treatment services would remain amongst the lowest when compared to peer agencies in the San Francisco Bay Area region. A comparison of District SSCs to regional peer agencies will be highlighted during the Board Meeting.

**Attachments**
1) Finance Committee Staff Report Memorandum dated April 7, 2021 (w/o attachment)
2) Draft Prop. 218 Notice for Proposed FY21/22 SSC Adjustments

Prepared by: ____________________
Brian Thomas
Acting Business Services Director

cc: District File No. CORP.07-CORRES-XXX