

AGENDA

BOARD OF DIRECTORS FINANCE COMMITTEE MEETING

DELTA DIABLO

(a California Special District)

PLANT OPERATIONS CENTER CONFERENCE ROOM

2500 Pittsburg-Antioch Highway | Antioch, CA 94509

THURSDAY, MARCH 16, 2023

4:30 P.M.

A. PUBLIC COMMENTS

B. REVIEW KEY ASSUMPTIONS FOR PROPOSED FISCAL YEAR 2023/2024 SEWER SERVICE CHARGES (Brian Thomas)

C. ADJOURNMENT

The District will provide reasonable accommodations for persons with disabilities who plan to participate in Board (or committee) meetings by contacting the Secretary to the Board 24 hours prior to the scheduled meeting at (925) 756-1927. Disclosable public records related to an open session item on a regular meeting agenda and distributed by the District to a majority of members of the Board of Directors less than 72 hours prior to that meeting are available for public inspection on the District website at www.deltadiablo.org and also at the District Administration Building located at 2500 Pittsburg-Antioch Highway, Antioch, CA 94509 during normal business hours.



MEMORANDUM

DATE: March 16, 2023

TO: Juan Banales, Chair, Finance Committee

FROM: Brian Thomas, Acting Business Services Director/District Engineer ^{BST}

SUBJECT: REVIEW KEY ASSUMPTIONS FOR PROPOSED FISCAL YEAR 2023/2024
SEWER SERVICE CHARGES

Recommendation

Review and comment on key assumptions for the proposed Fiscal Year 2023/2024 (FY23/24) Sewer Service Charges (SSCs).

Background Information

Staff is currently engaged in the FY23/24 Budget and 5-year (FY23/24-FY27/28) Capital Improvement Program (CIP) development processes to meet operational and capital investment needs in the District's wastewater collection, conveyance, and treatment, and recycled water systems and ensure collection of sufficient revenue. This work directly supports the Infrastructure Investment and Fiscal Responsibility goal areas in the District's Strategic Plan (dated August 2021).

In considering the need for SSC increases 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 CIP that addresses critical infrastructure needs
- § Utilize a 5-year financial plan (with a 10-year outlook) 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 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 treatment improvements, which includes infrastructure renewal, capacity expansion, and nutrient management upgrades
- § Maintain SSCs below average relative to peer agencies
- § Comply with legal requirements for revenue collection

In June 2022, staff projected that a 4.5% SSC increase would be required in FY23/24; however, based on more current, updated information staff is proposing that SSCs in FY23/24 are maintained at the same level as in FY22/23 (i.e., no SSC increase). During the Finance Committee Meeting, staff will highlight the key drivers impacting this change to SSC revenue needs in FY23/24.

Analysis

CIP Drivers: As presented to the Board at its March 8, 2023 meeting, the District has experienced significant delays to major capital projects, including three projects that represent approximately 60

percent of the District's 5-year CIP. Based on updated estimates of CIP cash flow magnitude and timing, staff has prepared a preliminary update to the District's 5-year financial plan and determined that FY23/24 SSCs could be maintained at FY22/23 levels without any significant impacts of future SSC revenue projection needs.

§ Secondary Process Improvements Project: The District has identified a \$60 million Secondary Process Improvements Project to address a significant regulatory compliance vulnerability associated with potential loss of critical infrastructure and associated treatment capacity, ensure compatibility with long-term nutrient management plant upgrades, and accommodate growth in the District's service area through 2040. This project was established as part of the Resource Recovery Facility Master Plan to address aging infrastructure needs (i.e., tower trickling filters) and future service area growth. While the estimated total cost remains unchanged from previous 5-year CIPs, staff has adjusted the timing of cash flow needs based on delays in initiating pre-design and design activities with the bulk of the \$60 million cost now occurring in FY24/25-FY26/27, which is two years later than originally estimated in prior 5-year financial plans that were used to develop SSC revenue needs.

Delayed initiation of the Secondary Process Improvements Project provides the District with an opportunity to engage with regulators and the scientific community via the Bay Area Clean Water Agencies (BACWA) to understand potential impacts associated with algal blooms in San Francisco Bay (beginning in late July 2022 through mid-September 2022) and the adaptive measures that may be necessary to address this watershed-level issue. As highlighted at the Board Meeting on October 12, 2022, the Regional Water Quality Control Board is likely to accelerate implementation of nutrient limits in future NPDES permits for WWTPs, while considering the benefit of "early actions" by WWTPs to address nutrient loading. In response, the scope of the Secondary Process Improvements Project will now include an evaluation of intermediate, cost-effective treatment process upgrades that could reduce nutrient loading in the District's WWTP effluent by approximately 15-20%. If future regulations are enacted that require the District to fully remove nutrients, the estimated capital cost to implement nutrient removal process upgrades at the District's WWTP would likely exceed \$150 million with a significant increase in ongoing operating costs.

§ Antioch Pump Station and Conveyance System Improvements: Implementation of this \$18.5 million project has been delayed by approximately two years as staff completed significant planning and pre-design efforts to determine the most effective project approach to address future force main pipe alignments and major changes to pump station configuration. This change in cash flow timing directly impacts current and future SSC revenue needs.

§ Cogeneration System Improvements Project: At the November 9, 2022 Board Meeting, staff highlighted the District's focus on expanding biogas utilization, pursuing federal tax credits under the Inflation Reduction Act (30-50% of capital cost), and the likelihood that the project cost estimate in the current 5-year CIP (\$5.0 million) will be increased to approximately \$10.0 million in the upcoming 5-year CIP update. At the February 9, 2023 Board Meeting, a consultant contract was awarded for design services with an accelerated project schedule to meet the Inflation Reduction Act requirement that project must be in construction by December 31, 2024. Implementation of this project has been delayed by approximately one year, which provided an opportunity to access federal funding; however, this also impacts SSC revenue collection needs.

§ Supply Chain Delays: Supply chain limitations have extended the scheduled completion date for several capital improvement projects that are in construction including the Treatment Plant Electrical Switchgear Replacement Project (~\$12.2 million total budget) and Bridgehead Temporary Pipeline Installation & Replacement Project (~\$4.8 million total budget). Both

projects have been delayed by over a year due to limited availability of construction materials and factory production capacity, which has been factored into updated cashflow assumptions in the District's 5-year financial plan.

Staff expects that cost estimates and schedules for the Secondary Process Improvements Project and the Cogeneration System Improvements Project will be more defined in early 2024 once the alternatives analyses have been completed for each project.

SSC Revenue Needs and Projections: The District's 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. In 2021, the District projected that a 5.8% SSC increase would be necessary for FY23/24 followed by 2.0% to 2.5% increases in FY24/25 and FY25/26. In 2022, staff reduced the FY23/24 SSC rate increase projection to 4.5% with 2.0% to 2.5% SSC increases in FY24/25-FY26/27. Staff has conducted a preliminary financial analysis utilizing the District's FY22/23 financial model with the proposed 5-year CIP (FY23/24-FY27/28) totalling \$137.2 million (an increase of \$1.3 million from last year's CIP) to determine how the CIP drivers noted above affect projected SSC rate increases. Based on the delays in major capital project expenditures, staff recommends maintaining the same SSC in FY23/24 as in FY 22/23 (i.e., no increase to SSCs), while rebalancing allocation of FY23/24 SSC revenue between the District's operating and capital funds to meet updated cash flow needs and fund balance reserve requirements. If no SSC increase is implemented in FY23/24, staff is projecting SSC increases in the range of 2.0% to 3.0% in subsequent fiscal years.

It should be noted that the District continues to expand its SSC revenue collection base each year as growth occurs in the service area, while continuing to effectively manage its operating budget with additional salary and benefit savings (i.e., vacancies) that balance increases in chemical and biosolids management costs. The preliminary FY23/24 Operating Budget (\$30.3 million to be funded via SSCs) aligns with annual increase forecasts included in prior 5-year financial plans.

As reported by the District's auditor at the Board Meeting on February 8, 2023, the District is currently in a sound financial position with sufficient fund balances and reserves to effectively support the District's operational and capital needs.

Fiscal Impact

Staff will ensure that SSC revenue in FY23/24 is sufficient to meet operating and capital investment needs. The proposed and final 5-year CIP and associated FY23/24 Budget will be presented to the Board for review and approval in May and June 2023. In addition, staff will submit a resolution for Board consideration to authorize collection of FY23/24 SSCs on the tax roll in June 2023. Note that a Proposition 218 Notice is not required to be distributed to customers if no changes are proposed to the District's SSCs in FY23/24.

Attachments

None.