

AGENDA

BOARD OF DIRECTORS FINANCE COMMITTEE MEETING

DELTA DIABLO

(a California Special District)

2500 Pittsburg-Antioch Highway | Antioch, CA 94509

(Note: There will be no in-person meeting at the District.)

WEDNESDAY, APRIL 7, 2021

4:30 P.M.

In lieu of a public gathering, the Board of Directors Finance Committee meeting will be accessible via ZOOM to all members of the public as permitted by the Governor's Executive Order N-29-20, which suspends certain requirements of the Ralph M. Brown Act to allow for greater flexibility in conducting public meetings.

The Board of Directors Finance Committee Meeting on April 7, 2021 will not be physically open to the public and the Finance Committee Chair will be teleconferencing into the meeting. Members of the public can observe the meeting by following the steps listed below to view and listen to the Finance Committee Meeting.

Persons who wish to address the Finance Committee during the Public Comment period or with respect to an item on the Agenda will be limited to two (2) minutes. The Secretary to the Board will call on members of the public at the beginning of the meeting to establish a speaking order. Please indicate whether you wish to speak during the Public Comment period or on a specific Agenda item at that time.

Presentations will be made available online at <https://www.deltadiablo.org/finance-subcommittee-meetings> approximately one hour prior to the start of the Finance Committee meeting.

How to view, listen to, and provide a Public Comment during the meeting via ZOOM:

- Using your computer, access the Zoom meeting at: <https://us02web.zoom.us/j/85962880174>

How to listen and provide a Public Comment during the meeting via ZOOM:

- Using your telephone, access the Zoom meeting by dialing (669) 900-6833
- Meeting ID: 859 6288 0174

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

AGENDA

BOARD OF DIRECTORS FINANCE COMMITTEE MEETING

(Note: There will be no in-person meeting at the District.)

WEDNESDAY, APRIL 7, 2021

4:30 P.M.

A. PUBLIC COMMENTS

B. REVIEW AND COMMENT ON PROPOSED SEWER SERVICE CHARGES FOR FISCAL YEAR 2021/2022 AND DRAFT PROPOSITION 218 NOTICE (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



MEMORANDUM

DATE: April 7, 2021

TO: Juan Banales, Chair, Finance Committee

FROM: Brian Thomas, Acting Business Services Director ^{BAT}

SUBJECT: REVIEW AND COMMENT ON PROPOSED SEWER SERVICE CHARGES FOR FISCAL YEAR 2021/2022 AND DRAFT PROPOSITION 218 NOTICE

Recommendations

- 1) Review and comment on proposed Sewer Service Charge (SSC) adjustments for Fiscal Year 2021/2022 (FY21/22) and draft Prop. 218 Notice detailing the proposed SSC adjustments and notifying property owners of the associated public hearing.
- 2) Approve submitting the proposed FY21/22 SSC adjustments, draft Prop. 218 Notice, and public hearing date (June 9, 2021) for consideration at the April 14, 2021 Board Meeting.

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 Finance Committee 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.

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 adjustments. 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 among 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 Finance Committee Meeting.

Attachment

Draft Prop. 218 Notice for Proposed FY21/22 SSC Adjustments



Notice of Proposed Sewer Service Charge Rate Adjustments for Fiscal Year 2021/2022

Proposition 218 Notification to Property Owners of Public Hearing

NOTICE IS HEREBY GIVEN that the Delta Diablo Board of Directors will hold a public hearing on **Wednesday, June 9, 2021, at 4:30 p.m., in the Board Room at 2500 Pittsburg-Antioch Highway, Antioch, California**, to consider adoption of proposed rate adjustments for wastewater utility services. A summary of the proposed rates and associated financial needs and information, and instructions for protesting the rate adjustments (if desired) are provided below. In addition, related fact sheets and a “Frequently Asked Questions” document are available on the District’s website (www.deltadiablo.org).

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.

WHAT IS DELTA DIABLO?

Delta Diablo (“District”) provides wastewater conveyance and treatment services for over 70,000 customer accounts (residential and non-residential), representing approximately 214,000 residents in the cities of Antioch and Pittsburg, and the unincorporated community of Bay Point. As part of our core mission to protect public health and the environment, the District treats 13 million gallons of wastewater each day with a focus on exemplary regulatory compliance, innovative and sustainable approaches, and sound stewardship of the public’s resources and trust.

The District has transformed its Wastewater Treatment Plant (WWTP) into a “resource recovery facility” by producing approximately 6 million gallons per day of recycled water, generating on-site renewable energy to meet over 55 percent of WWTP power needs, reusing residual biosolids as fertilizer via land application, providing household hazardous waste (HHW) collection services, and further protecting the Delta by providing street sweeping services to remove pollutants that would otherwise enter local stormwater systems.

PROPOSED FISCAL YEAR 2021/2022 SEWER SERVICE CHARGES

The District collects Sewer Service Charges (SSCs) from its customers each year as the primary revenue source needed to fund capital infrastructure investments, labor, energy, chemicals, regulatory compliance obligations, plant maintenance, and Delta HHW Collection Facility operations. For Fiscal Year 2021/2022 (FY21/22) (July 1, 2021 – June 30, 2022), the District is proposing SSC adjustments of approximately 6.5% (+\$26.32 per year) for residential customers in Antioch and Pittsburg, and approximately 5.9% (+\$32.78 per year) for residential customers in Bay Point.

Because the District’s costs in the categories referenced above will increase in the next fiscal year, SSC adjustments are required to recover the District’s costs, maintain effective and reliable wastewater conveyance and treatment services, and ensure financial integrity and long-term sustainability. In addition, the proposed FY21/22 SSCs incorporate 2021 Cost-of-Service Study findings, 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. SSCs for non-residential customers (i.e., commercial, industrial) have been adjusted accordingly and vary based on customer class. Most District customers are billed on a fiscal-year basis and pay SSCs via annual property tax bills. Property tax bills also include a street sweeping service charge (no increase from FY20/21) that varies by community based on service frequency.

Residential Customers: The impact of the proposed SSC increase on the annual property tax bill for a single-family residential customer is shown in **Table 1**. The total annual charge for residential

properties with multiple units (e.g., duplex, fourplex, apartment complex, etc.) can be calculated by multiplying the applicable per unit SSC charge in **Table 1** by the total number of units.

Table 1 – Example Annual Residential SSC on Property Tax Bills for FY21/22

Residential Service Customers	Proposed SSC Increase*	Current FY20/21	Proposed FY21/22	Annual Change
Antioch/Pittsburg	6.5%	\$403.10	\$429.42	+\$26.32
Bay Point**	5.9%	\$556.47	\$589.25	+\$32.78

Notes: * Percentage increases are approximate.

** Delta Diablo provides wastewater collection services for Bay Point customers only (i.e., higher SSC), while the respective cities provide these services for Antioch and Pittsburg customers.

Non-residential Customers: The District is proposing SSCs adjustments for commercial and industrial customers based on 2021 Cost-of-Service Study findings and annual potable water consumption data (i.e., the SSC rates are per one hundred cubic feet per year [HCF/y] of potable water consumption), as presented in **Table 2**, by business class and community. A minimum annual charge of 80 HCF/y multiplied by the applicable rate for each business class will be assessed.

Table 2 – Non-residential Proposed User Charges: SSC (\$) per Hundred Cubic Feet per Year

Business Class (Commercial/Industrial)	Bay Point (Zone 1)		Pittsburg (Zone 2)		Antioch (Zone 3)	
	Current FY20/21	Proposed FY21/22	Current FY20/21	Proposed FY21/22	Current FY20/21	Proposed FY21/22
Bakeries/Restaurants	\$9.47	\$9.02	\$8.01	\$7.33	\$7.94	\$7.33
Hotels/Motels	-	\$4.57*	\$4.27	\$4.57	\$4.64	\$4.57
Institutional	\$6.52	\$5.91	\$4.89	\$4.22	\$4.85	\$4.22
Light Industrial	\$6.52	\$5.71	\$4.89	\$4.02	\$4.85	\$4.02
Marinas	-	\$6.03*	\$6.30	\$6.03	\$6.34	\$6.03
Misc. Commercial	\$6.52	\$5.91	\$4.89	\$4.22	\$4.79	\$4.22
Mortuaries	-	\$5.83*	\$5.53	\$5.83	\$5.55	\$5.83
Annual Minimum	\$556.47	varies**	\$403.10	varies**	\$403.10	varies**

Notes: * SSC per HCF for FY21/22 provided, although no businesses in these classes are known in Bay Point.

** Annual minimum charge is calculated by multiplying 80 HCF/y by the applicable SSC per HCF/y

WHAT DO SEWER SERVICE CHARGES FUND?

The SSC adjustments are necessary to fund \$1.6 million in increased costs attributable to providing wastewater services. The District utilizes annual SSC revenue 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.
- **Address aging infrastructure through prioritized capital investment.** The District continues to strategically rehabilitate and replace essential elements of the wastewater collection, conveyance, and treatment systems to maintain effective and reliable services.
- **Recover increases in operating costs.** As a regulated utility that requires specialized employees, materials, and services to meet its mission, the District continues to experience progressive increases in annual operating costs due to escalations in labor, chemical, energy, materials, supplies, hauling, services, and regulatory compliance costs.
- **Prevent the need for more significant SSC adjustments in the future.** In developing its 5-year financial plan each year, the District works hard to balance direct economic impacts

to customers and the need for sufficient revenue to cover capital investment needs and operating costs. The District continues to maintain its rates well below the average of its peer agencies in the Bay Area. If SSC adjustments are not implemented this year, more significant rate adjustments may need to be proposed in subsequent years.

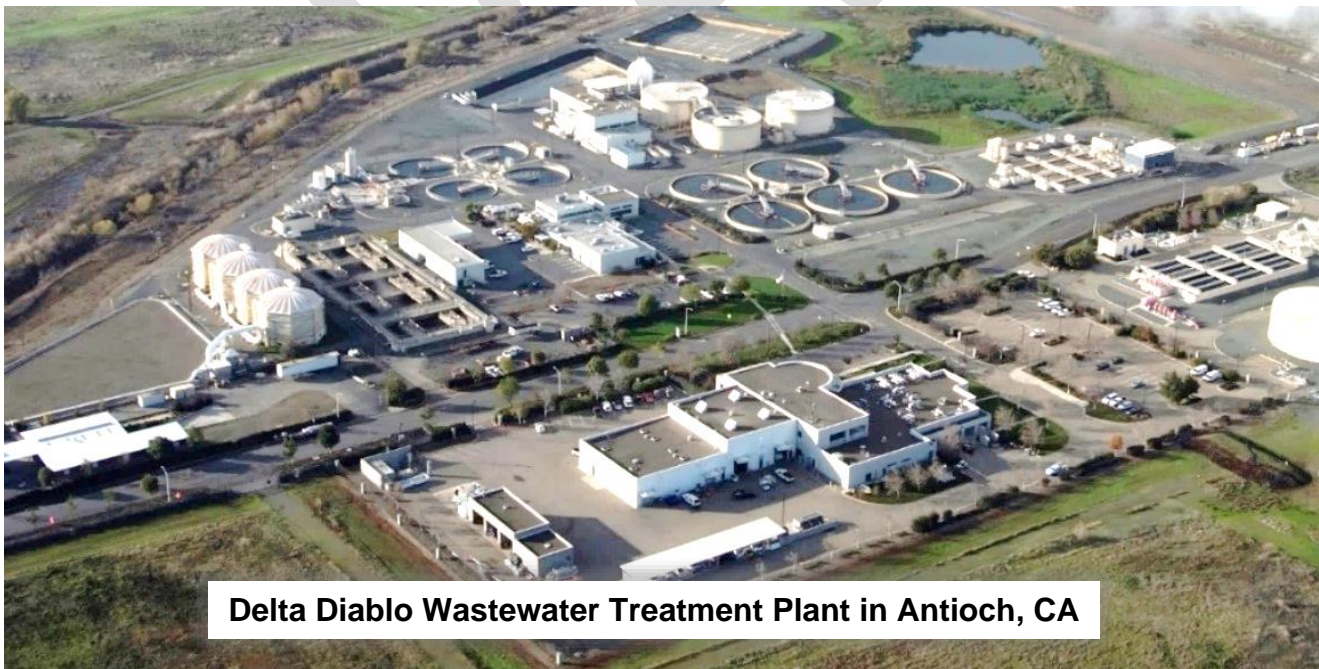
- **Focus on cash funding versus borrowing for capital improvements.** Increasing overall SSC revenue allows the District to continue cash funding a majority of necessary capital improvements in its wastewater conveyance and treatment systems.







Detailed information on operating and capital costs is available within the District’s budget and CIP documents, which are on file at the District’s offices.

PUBLIC HEARING AND PROTEST PROCEDURES

The Board of Directors will hold a public hearing on the proposed SSC adjustments on Wednesday, June 9, 2021, at 4:30 p.m., in the Board Room at 2500 Pittsburg-Antioch Highway, Antioch, California, 94509. 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. After the close of the public hearing and consideration of all public comments and written protests received, the Board of Directors will be asked to take action to implement the proposed SSC adjustments at this meeting.

Written protests may be sent to the District (attention of “Office Manager/Secretary to the Board”, 2500 Pittsburg-Antioch Highway, Antioch, California, 94509) prior to close of the public hearing and **must include your property address and the Assessor Parcel Number** found on your mailing label. At the close of the public hearing, the Secretary to the Board will announce the total number of protest responses, including any received by close of the public hearing. If written protests are presented by a majority of the parcel owners in the District’s service area, the District cannot implement the SSC increase.



 214,000 residents	 13 million gallons of wastewater per day	 76 miles of sewer pipes, force mains	 5 pumps stations to convey wastewater	 Wastewater Treatment Plant	 Recycled Water Facility
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2500 Pittsburg-Antioch Highway
Antioch, CA 94509

**NOTICE OF PUBLIC HEARING
PROPOSED SEWER SERVICE CHARGE
RATE INCREASES**

**4:30 PM
WEDNESDAY, JUNE 9, 2021
2500 PITTSBURG-ANTIOCH HIGHWAY
ANTIOCH, CA 94509**



Delta Diablo provides wastewater conveyance and treatment services to approximately 214,000 customers in Pittsburg, Antioch, and Bay Point

Our core mission is to protect public health and the environment in our communities by providing wastewater resource recovery services of exceptional quality and value

**Environmental
Stewardship**

In treating 13 million gallons of wastewater each day, Delta Diablo has an exemplary regulatory compliance record in meeting federal, state, and local regulatory requirements and protecting the local Delta receiving waters.

**Infrastructure
Investment**

Continued capital investment in the Wastewater Treatment Plant, 76 combined miles of sewer pipes and force mains, and five pump stations is critical to maintaining effective, reliable, and high-quality customer service.

**Fiscal
Responsibility**

Delta Diablo is committed to maintaining responsible rates by prioritizing capital investments, managing budgets through operational efficiencies, and targeting available grant and low-interest loan programs.

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