



FY2020/2021 Proposed Sewer Service Charge Increases

Board of Directors Meeting
June 25, 2020



FY20/21 Budget and SSCs Development Schedule Overview



Board Meeting

March 11, 2020

- Board reviewed major capital project drivers, Advanced Treatment Fund considerations

April 23, 2020

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

May 13, 2020

- Board reviewed key operating budget assumptions, draft FY20/21 – FY24/25 CIP

June 25, 2020

- CIP Public Hearing, Board considers approval of CIP; SSC Public Hearing Board considers approval of SSCs

July 16, 2020

- Board considers budget appropriations

COVID-19, Local Impacts, and SSC Increases



- Economic impacts on customers in service area are significant and may not be fully understood for months or even years into the future
- District has continued to provide effective and reliable “essential services” throughout the COVID-19 pandemic
- District is proposing SSC increases to:
 - Continue meeting core mission of protecting public health and the environment via sufficient capital investment and staffing levels
 - Address aging infrastructure needs with multiple large-scale projects in progress
 - Offset progressive increases in operating costs
 - Prevent the need for more significant SSC increases in the future
 - Support cash funding (versus borrowing) for capital improvements

COVID-19, Local Impacts, and SSC Increases (cont'd)



- Staff actively worked to mitigate impacts to ratepayers
 - Proposed SSC increase is lowest in 14 years
 - SSC increase supports continued reduction in 5-year SSC increase projections
- Property tax payment deferral is available to District customers under Governor's Executive Order
 - District collects SSC revenues via the County property tax roll
 - Order allows November 2020 and April 2021 tax payments to be deferred until May 6, 2021 without penalties or interest under certain conditions

Financial Sustainability

Guiding Principles



- 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
 - Significantly reduced availability of Clean Water State Revolving Fund low-interest loans (~2.0% for wastewater)
 - Alternative sources of debt (e.g., IBank, bond issuance) may require 4.0-5.0% interest rates

Financial Sustainability

Guiding Principles (cont'd)



- Meet District policy to maintain minimum reserve balance of 40% of annual budgeted operating expenses in Wastewater O&M Fund during 5-year SSC analysis period
- Factor growth into SSC calculation each year to ensure equitable cost allocation across customers
- Reserve future 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 all California Constitution Article XIII D, Section 6 requirements for revenue collection

FY20/21 SSC 5-year Analysis

Key Assumptions



- Preliminary FY20/21 operating budget = \$26.4M for SSCs (\$29.3M total) as baseline w/escalation in subsequent years
- Draft 5-year CIP = \$69M for SSCs (\$81M total)
 - Major project drivers presented on March 11, 2020
 - \$8.3M for new project following Antioch FM failure
- Existing debt = \$25.1M, pending debt = \$18.0M
 - Low-interest SRF and Municipal Finance Corporation loans (~1.9%-4.9%) total = \$43.1M (96% low interest)
- District continues to receive \$2M per year in ad valorem taxes (dependent on property values)

FY20/21 SSC 5-year Analysis

Key Assumptions (cont'd)



- Suspend SSC component allocation to Advanced Treatment Reserve Fund
 - As presented at March 11, 2020 Board Meeting:
 - Successful collaboration with regulators, scientists, and peer agencies has extended implementation timeline
 - Preliminary analysis from Resource Recovery Facility Master Plan indicates significant reduction of initial capital cost estimate and future integration with secondary process upgrade
 - Increase Capital Asset Replacement (CAR) Fund allocation
- Reduce reliance on debt financing
 - Last year, 5-year SSC analysis assumed \$22M in new debt financing
 - Key Outcome: Current 5-year SSC analysis shifted approximately \$20M from debt financing to cash funding CIP projects

FY20/21 Proposed SSC Increases



Community/Category	SSC Increase	Current SSC	Proposed SSC	Annual Increase
Antioch/Pittsburg				
▪ Residential (Single Family)	+3.5%	\$389.47	\$403.10	\$13.63
▪ Non-residential		varies	varies	varies
Bay Point*				
▪ Residential (Single Family)	+3.0%	\$540.26	\$556.47	\$16.21
▪ Non-residential		varies	varies	varies

* Bay Point SSC includes wastewater collection services; cities provide these services directly to Antioch/Pittsburg customers

- Total increase in SSC annual revenue in FY20/21 = \$1.1 million
- No increase in residential annual Street Sweeping Service Charge

FY20/21 SSC Increase in CAR Fund

Key Drivers



- Draft 5-year CIP includes \$57M in CAR-funded critical wastewater infrastructure budget needs
 - Antioch Pump Station and Conveyance System (\$8.3M)
 - Headworks Improvements (\$8.0M)
 - New Cogeneration Engine (\$5.0M+)
 - Switchgear Replacement (\$3.8M)
 - Pump Station Facility Repair (\$3.5M)
- Facility condition assessment at District's WWTP to be completed later this year
 - Likely to identify additional CAR-funded needs
- Future construction cost, bid climate uncertainty

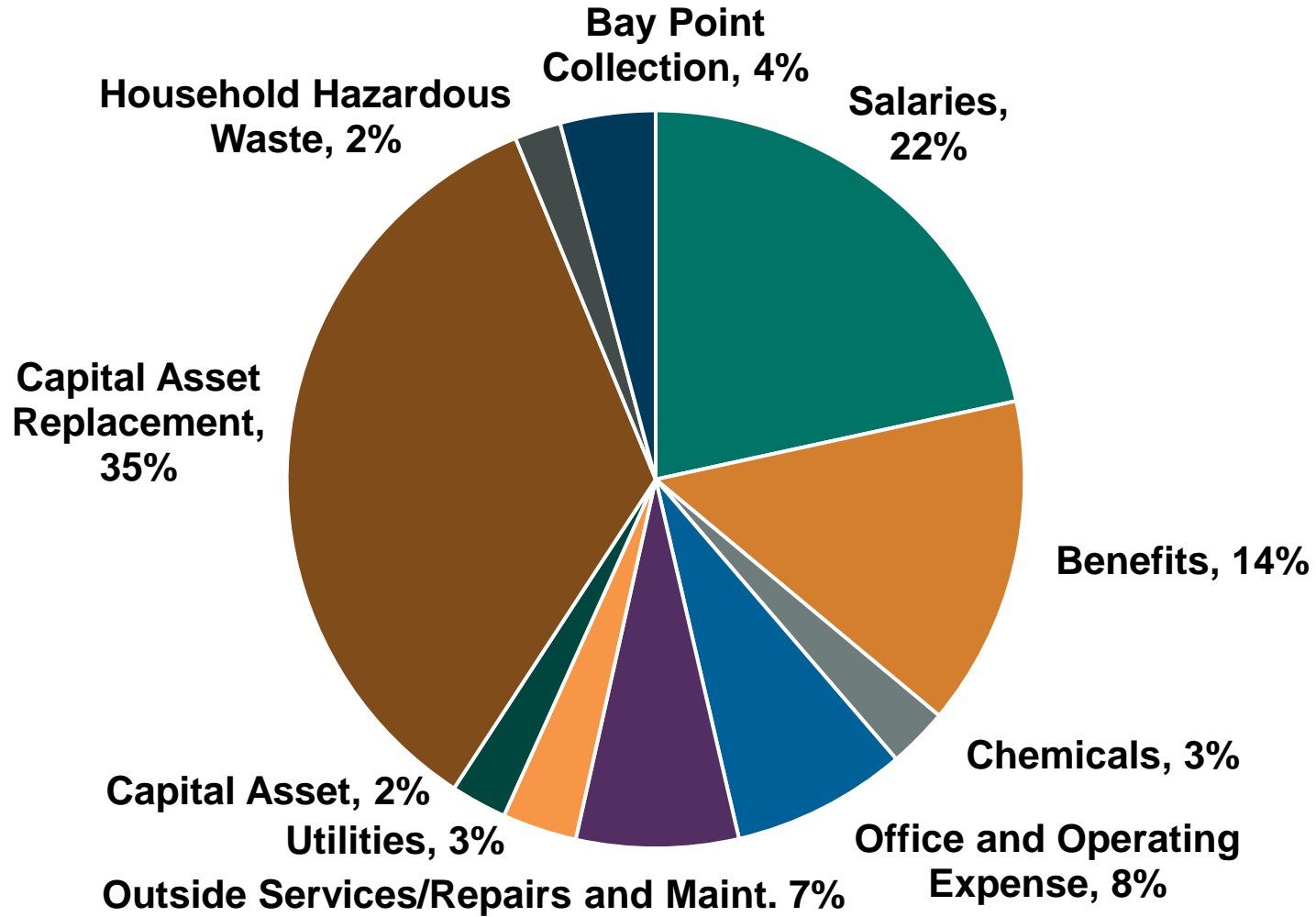
FY20/21 SSC Increase in CAR Fund

Key Drivers (cont'd)

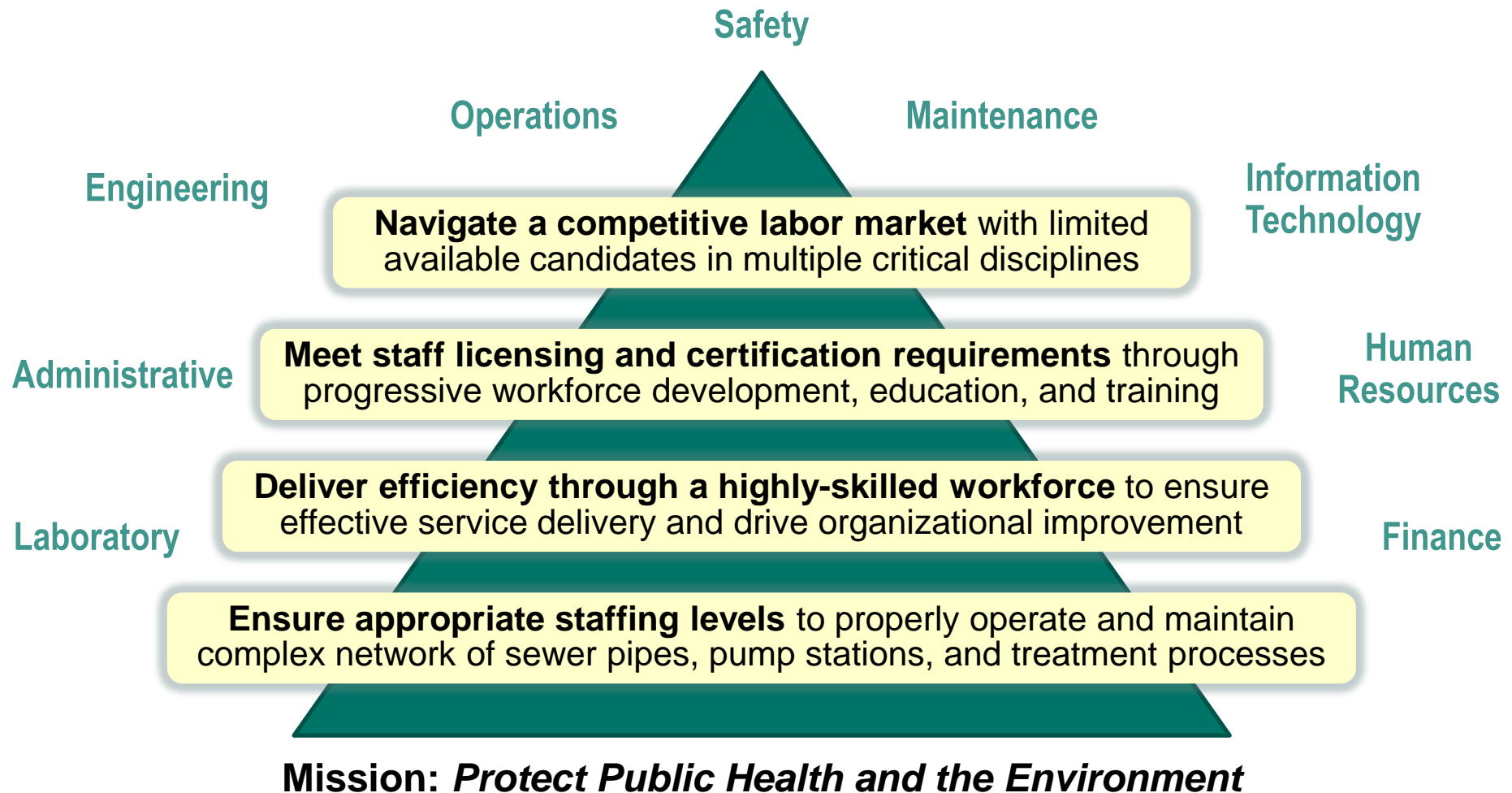


- Increase cash funding (vs. debt financing)
 - Reduced availability of low-interest loans (5.0% vs. 2.0%)
 - Eliminate \$20M in new debt issuance from last year's 5-year SSC financial plan
 - Financial Impact of Cash Funding
 - \$20M in debt increases total project cost (w/interest) to ~\$40M
 - Cash funding saves ~\$20M over long term
- Reserve future debt management capacity for long-term secondary capacity expansion and nutrient management treatment plant upgrade
 - Minimum Debt Service Coverage Ratio >1.80

What Do Utility Rates Pay For? Proposed FY20/21 Expenses



Critical Importance of Staff in Achieving the District's Mission



FY20/21 Rate Comparison

- District SSCs are below average when compared to peer agencies in the Bay Area



5-Year SSC Increase Projection



Current SSC Increase Projection

	FY20/21	FY21/22	FY22/23	FY23/24	FY24/25
Antioch and Pittsburg Customers					
SSC Increase	3.5%	4.0%	4.0%	4.0%	4.0%
Bay Point Customers					
SSC Increase	3.0%	3.5%	3.5%	3.5%	3.5%

Previous SSC Projection (June 2019)

	FY19/20	FY20/21	FY21/22	FY22/23	FY23/24
Antioch and Pittsburg Customers					
SSC Increase	4.5%	4.5%	4.1%	4.1%	4.1%
Bay Point Customers					
SSC Increase	3.5%	3.5%	3.3%	3.2%	3.2%

Future Impact of No SSC Increase in FY20/21 on 5-Year Projection

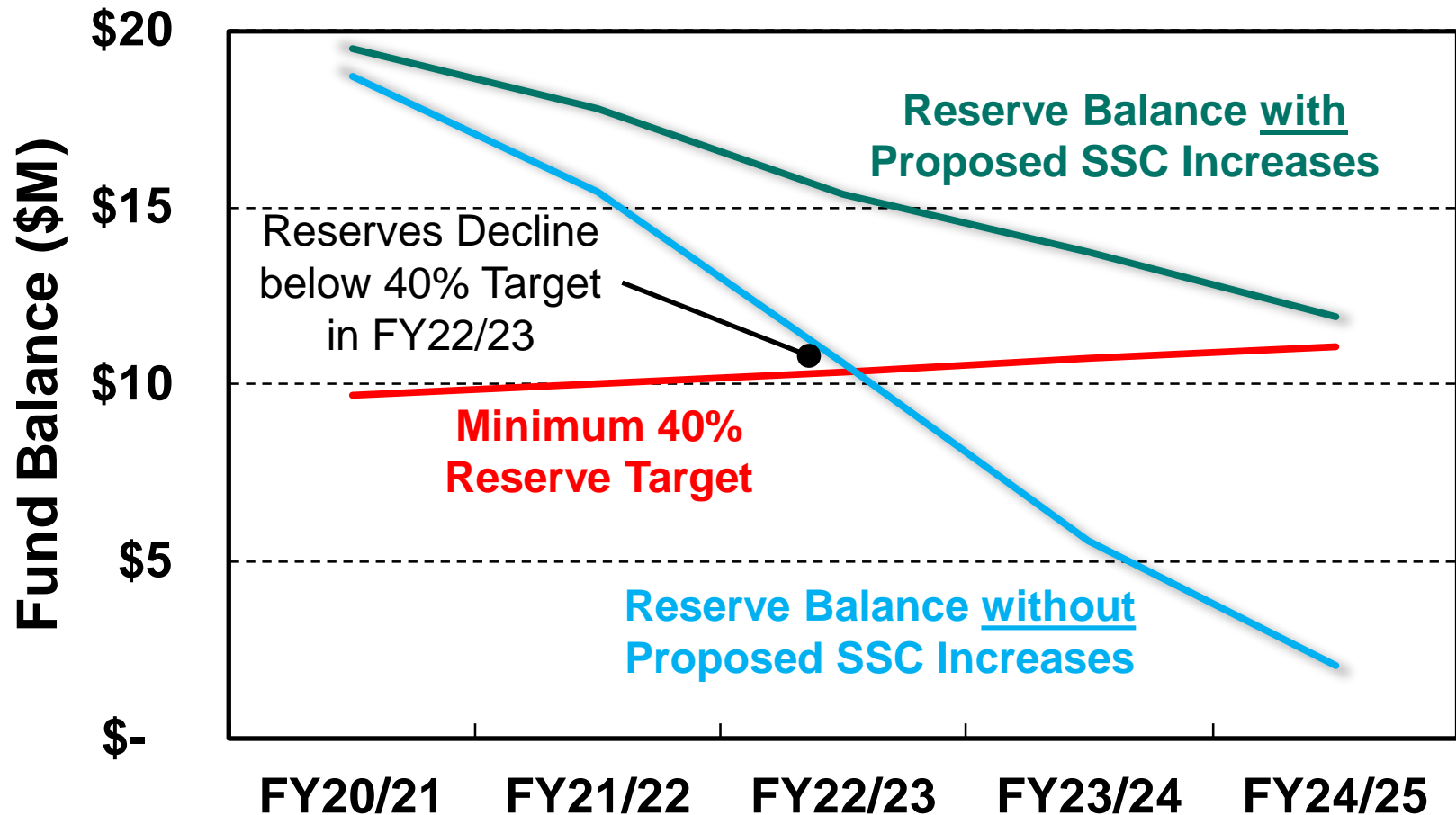


- District has progressively reduced 5-year SSC increase projections over last three years
 - Antioch/Pittsburg customers:
 - June 2018: 6.2-6.4%; June 2019; 4.1-4.5%; Current: **3.5-4.0%**
 - No increase in FY20/21 would raise likelihood of higher SSC increases next year and thereafter

SSC Increase Projection without FY20/21 SSC Increase

	FY20/21	FY21/22	FY22/23	FY23/24	FY24/25
Antioch and Pittsburg Customers					
SSC Increase	0%	6.0%	6.0%	5.5%	5.0%
Bay Point Customers					
SSC Increase	0%	5.5%	5.5%	5.0%	4.5%

Wastewater O&M Fund Projection without SSC Increases over 5 Years



Prop. 218 Notice/Written Protests

- Referenced procedural conditions if COVID-19 Health Orders remain in effect at time of public hearing
- Provided background on District, proposed SSC increases for residential/non-residential, fund allocations
- Described procedure for protesting SSC increase
- Mailed to property owners by May 1, 2020 (met minimum requirement of 45 days prior to public hearing)
- 26 written protests received at time of Board packet mailing (Monday, June 22, 2020)
 - Secretary to the Board to provide updated total after close of Public Hearing
 - 27,442 written protests are required for the Board to determine that a majority protest exists

Property Tax Payment Deferral for Customers (Governor's Executive Order N-61-20)



- Order provides taxpayers with a process to seek a waiver of penalties and interest on delinquent property tax payments through May 6, 2021, as long as the taxpayer meets certain requirements:
 - Taxes cannot have been delinquent on March 4, 2020;
 - Taxpayer demonstrates an economic hardship due to the COVID-19 emergency or emergency response; and,
 - Taxpayer does not pay property tax bill through impound account
- Waiver available to owner-occupied residential properties and small business
- For more information, customers should contact the Contra Costa County Treasurer-Tax Collector

Recommendations

- Conduct public hearing on FY20/21 SSCs and Delinquency Charges and Collection System Charges and Surcharges
- Receive and consider any testimony and protests received
- Determine that no majority protest exists within the meaning of Article XIII.D. Section 6 of the California Constitution and Health and Safety Code Section 5473.2
- Adopt ordinance establishing SSCs and Surcharges be effective in FY20/21
- Adopt resolution approving Written Report and collection of SSCs on the County Property Tax Roll