

ITEM G

April 20, 2022

REVIEW PROPOSED SEWER SERVICE CHARGE INCREASES FOR FISCAL YEAR 2022/23; SET PUBLIC HEARING FOR JUNE 22, 2022, AT 5:30 P.M., TO CONSIDER PROTESTS AGAINST SEWER SERVICE CHARGE INCREASES FOR FISCAL YEAR 2022/23, AND TO CONSIDER AUTHORIZING COLLECTION OF FISCAL YEAR 2022/23 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) increases for Fiscal Year 2022/2023 (FY22/23).
- 2) Set public hearing for June 22, 2022 at 5:30 pm, at which the Board will do the following: receive public comments; consider all protests received; consider whether to adopt an ordinance establishing increased SSCs effective FY22/23; and consider whether to adopt a resolution authorizing collection of the increased SSCs on the tax roll.
- 3) Authorize distribution of Proposition 218 Hearing Notices addressing proposed SSC increases 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 FY22/23 SSC increases:

- Generate an additional \$1.2 million in annual revenue to meet the District's capital investment and operational financial needs, which represents a 4.5% increase in anticipated FY22/23 revenue
- Residential Customers
 - Implement a 4.5% SSC increase for Antioch (District Zone 3) and Pittsburg (District Zone 2). The proposed SSC adjustment (does not include wastewater collection services, which are provided by the respective cities) equates to an annual SSC increase of \$19.33 (or approximately \$1.61 per month)
 - Implement a 4.5% SSC increase for Bay Point (District Zone 1). The proposed SSC adjustment (includes wastewater collection services provided by the District) equates to an annual SSC increase of \$26.52 (or approximately \$2.21 per month)
- Non-residential Customers: Implement a 4.5% SSC increase to specific business classes (refer to Table 2 in attached draft Prop. 218 Notice)
- 2021 Cost-of-Service (CoS) Study: Key findings from the 2021 CoS 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 adjustments for FY22/23
- 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, as highlighted under the Fiscal Responsibility goal area in the District's Strategic Plan (dated August 2021):

- 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 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

During the Board Meeting, staff will highlight the District's efforts to integrate these guiding principles and support Strategic Plan implementation 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 FY22/23 SSC increases 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 13, 2022, staff presented the proposed SSC increases and associated recommendations to the Finance Committee (Committee), and the Committee recommended that these items be submitted to the Board for consideration on April 20, 2022.

Analysis

Key assumptions in developing the updated 5-year financial plan and associated FY22/23 SSC adjustments include:

- **Preliminary FY22/23 Operating Budget:** \$28.4M funded by SSCs (\$31.7M total) with escalation in subsequent years to address increasing operating costs over time
- **Preliminary 5-year CIP:** \$117.0M for Wastewater (\$135.8M total). Staff highlighted major factors impacting capital investment needs at the March 2022 Board meetings, including the \$60M Secondary Process Improvements Project, \$18.5M Antioch Conveyance System and Pump Station Improvements Project, and \$18M for wastewater treatment plant electrical system, digester gas handling, and cogeneration improvement projects.
- **Debt Utilization:** Consistent with prior Board direction regarding financial impacts associated with various funding approaches for the \$60M Secondary Process Improvements Project, staff continues to recommend 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).
- **FY22/23 Service Area Growth:** A total of 520 equivalent residential units (ERUs) to date have been added to the 5-year financial plan, which generates an additional \$225,000 in 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:** The annual Ad Valorem Tax revenue assumption of \$3.0M remained unchanged from the current fiscal year.
- **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, the 2021 CoS Study findings were implemented in FY21/22 to rebalance the cost allocation between residential and non-residential customer categories, change the annual minimum charge for non-residential customers (i.e., 80 HCF) and eliminate SSC differences for the same business classes in different District zones. The proposed SSC adjustments incorporate the 2021 CoS recommendations.
- **Inter-fund Loans:** The 5-year financial plan includes a \$9.6M loan from the WW Capital Asset Replacement (WW CAR Fund) to the Wastewater Expansion Fund in FY24/25 with a subsequent annual \$1.0M payment until the loan is repaid.

In June 2021, the Board adopted an FY21/22 SSC increase of 6.5% for Antioch/Pittsburg customers and 5.9% for Bay Point customers. At that time, staff projected a future FY22/23 SSC increase of 5.8% for Antioch/Pittsburg and Bay Point residential customers (current proposed



FY22/23 SSC increase = 4.5%). Key changes driving these differences from last year's 5-year SSC projection include: 1) a significant increase in the customer base which resulted in increased annual revenue, 2) fund balances were higher than estimated during the previous budget development process, and 3) delay in implementing of the \$60M Secondary Process Improvements Project, which remains as a near-term priority in the proposed 5-year CIP.

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 May 8, 2022 (a minimum of 45 days prior to the public hearing in June) (refer to attachment). The Notice includes the information required under Prop. 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 22, 2022. 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 SSC increases.

If state and local COVID-19 regulations remain in effect, the June 22, 2022 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 22, 2022 public hearing, an additional \$1.2 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 13, 2022 (w/o attachment)
- 2) Draft Prop. 218 Notice for Proposed FY22/23 SSC Increases

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cc: District File No. BRD.01-ACTS

