

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
WEDNESDAY, APRIL 26, 2023
4:30 P.M.

- A. PUBLIC COMMENTS**
- B. REVIEW KEY ASSUMPTIONS FOR PROPOSED FISCAL YEAR 2023/2024 OPERATING BUDGET (Anika Lyons)**
- C. REVIEW REPORT ON PREPARATION OF PROPOSED FISCAL YEAR 2023/2024 - 2027/2028 CAPITAL IMPROVEMENT PROGRAM (Thanh Vo)**
- D. 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: April 26, 2023

TO: Juan Banales, Chair, Finance Committee

FROM: Anika Lyons, Finance Manager *al*

SUBJECT: REVIEW KEY ASSUMPTIONS FOR PROPOSED FISCAL YEAR 2023/2024 OPERATING BUDGET

Recommendation

Review and comment on key assumptions for the proposed Fiscal Year 2023/2024 (FY23/24) Operating Budget.

Background Information

Following critical review of operating budget adjustment needs and opportunities, staff has developed a proposed FY23/24 Operating Budget. This critical review directly supports the District's focus on long-term financial sustainability and effective stewardship of limited ratepayer funds in operating the District's wastewater collection, conveyance, and treatment systems; recycled water system; household hazardous waste collection facility; and street sweeping services program. Following review of key assumptions for the FY23/24 Operating Budget by the Finance Committee on April 26, 2023, staff would present these assumptions to the Board on May 10, 2023. On June 14, 2023, staff would present the single-year FY23/24 Budget, which will include estimated revenues, operating expenses, and capital expenditures, for Board consideration and approval. In support of future financial planning considerations, the FY23/24 Budget will include an estimate of the FY24/25 Budget; however, staff will not be requesting the Board to appropriate associated funding until June 2024.

Analysis

The proposed FY23/24 Operating Budget totals \$33.0 million, which represents a \$1.3 million increase (4.0%) relative to FY22/23 (\$31.7 million). This section highlights major cost categories in the FY23/24 Operating Budget, including salaries and benefits, chemicals, utilities, office and operating, and outside services. The District anticipates that it will continue to experience progressive increases in annual operating costs in future years due to escalations in labor, chemicals, energy, materials, supplies, equipment, hauling, and services costs, as well as increasingly more stringent regulatory requirements and has incorporated these cost increases in financial planning activities.

Salaries and Benefits (\$18.0 million): This category represents approximately 54% of the District's FY23/24 Operating Budget.

- **Cost-of-Living Adjustment (COLA):** An annual COLA is specified in the memoranda of understanding (MOUs) for each of the District's three bargaining units. The MOUs specify that the District will adjust salaries for the first full pay period after July 1 each year, from a minimum of 2.0% up to 5.0% based on the April-to-April change in the Consumer Price

Index (CPI), San Francisco/Bay Area Wage Earners and is estimated to be 5.0% based on current financial conditions. The actual percentage will be available in May 2023 and the associated labor cost increase will be included in the proposed FY23/24 Operating Budget for Board consideration in June 2023.

- Position Changes: A total of 81.5 full-time equivalent (FTE) positions, including 4.5 FTEs for part-time positions, are budgeted for FY23/24. This represents an increase of 4.0 FTEs from FY22/23, which includes an additional Associate Engineer, a Laboratory Management Professional/Retired Annuitant, a second Operations Supervisor, a second Maintenance Supervisor, and three interns in the Operations and Maintenance Divisions associated with the District's participation in the BAYWORK "stackable" internship program. As highlighted at the April 12, 2023 Board Meeting, staff intends to implement a number of additional modifications to existing positions that do not result in a net increase to total funded positions.
- Anticipated Salaries and Benefit Savings: Based on an assessment of anticipated vacancies and associated recruitment periods in FY23/24, staff has incorporated a labor cost savings of approximately \$1.0 million in the proposed FY23/24 Operating Budget.
- Medical Insurance: Annual medical insurance premium costs have decreased by 6%. Although the price of medical insurance premiums has increased by 10%, the District has experienced cost savings due to changes in medical benefit elections by employees and the decrease in the District's required medical coverage benefit in the three bargaining unit MOUs. The cost of other health benefits— vision, Employee Assistance Program, dental, and life insurance—are not expected to increase significantly.
- California Public Employees' Retirement System (CalPERS) Funding: In November 2011, the Board adopted CalPERS Tier 2 (2.0% at age 55), which applies to employees hired between July 1, 2012 and December 31, 2012, or hired on or after January 1, 2013, as a member of a qualified public pension plan (e.g., CalPERS, Contra Costa County Employee Retirement Plan, etc.). Prior to July 1, 2012, 100% of all employees were enrolled in CalPERS Tier 1 (2.7% at age 55). In addition, the Public Employees' Pension Reform Act of 2013 (PEPRA), effective January 1, 2013, established Tier 3 (2.0% at age 62), which applied to employees hired on or after January 1, 2013, who are not members of a qualified public pension plan.

In FY23/24, 72% of all employees are assumed to be in either Tier 2 or Tier 3, compared to 68% in FY22/23. Because new hires are no longer eligible to become members of Tier 1, the District receives ongoing savings as employees leave the District and vacant positions are filled at Tiers 2 and 3. The District assumes that new journey-level, professional, and management hires will be in Tier 2, because it is probable that they would have been a CalPERS or a reciprocal plan member. The District assumes that new entry-level hires will be in Tier 3, because it is less likely that these hires would have been CalPERS or a reciprocal plan member. In addition to the lower employer-paid contributions into CalPERS, all new hires pay their full employee contributions into CalPERS.
- CalPERS Pension Unfunded Liability Contribution: This cost is budgeted at \$1.5 million, which is a decrease of approximately \$0.1 million from FY22/23.
- Contra Costa County Retirees' Association (CCCERA) Funding: In July 2014, the Board established Contributed Benefit Savings funding levels of 3.75% of salaries to maintain the integrity of the CCCERA plan for District retirees and employees who remained in the CCCERA system after the District transitioned from the CCCERA pension plan to CalPERS in July 2014. Based on a recent actuarial valuation, the District is expected to experience an

annual reduction of approximately \$0.5 million in contribution requirements for the next two fiscal years.

- OPEB Trust Fund Annual Funding: The Board's adopted OPEB Trust Funding Policy states the intent to fund the District's Actuarially Determined Contribution (ADC) within 30 years, which the District has done each year since the OPEB Trust Fund was established in February 2010. District employees hired prior to the effective dates of the current bargaining unit MOUs pay 3.0% of base salaries into the trust and the District budgets the required 3.0% match for these employees, as well as actual retiree medical costs which are deposited into the OPEB Trust Fund. The FY23/24 Operating Budget includes an ADC of \$0.4 million and will be evaluated in accordance with the OPEB Trust Funding Policy after receipt of audited financial statements for FY22/23.
- Retiree Health Savings (RHS) Accounts: The District provides all employees with RHS accounts and provides contributions based on an employee's date of hire and specified amounts in the three bargaining unit MOUs. Employees may withdraw funds from the RHS accounts upon separation from District. The total FY23/24 budgeted amount for RHS account contributions is \$0.4 million.
- Public Agency Retirement Services (PARS) Funding: The FY23/24 Operating Budget includes a one-time payment of \$0.1 million to PARS. The PARS Trust account was established to pre-fund both CalPERS pension obligations and/or OPEB obligations. The additional funds in PARS will provide funding to mitigate future rate revenue required for projected sharp increases in pension or OPEB costs due to decreases in discount rates, an accelerated amortization schedule, and/or investment losses.

Chemicals (\$3.0 million): This cost is approximately 9% of the FY23/24 Operating Budget, and includes \$1.6 million for Wastewater and \$1.4 million for Recycled Water. The District participates in the Bay Area Chemical Consortium (BACC), which administers an annual bidding process for water and wastewater treatment chemicals, to leverage purchasing power among the members and receive cost-effective bids. Although this approach allows the District to benefit from competitive prices, current market conditions (including disruption in production activities and supply chain challenges) have resulted in significant increases in chemical unit costs. Staff continues to refine total annual chemical usage estimates, while working to optimize chemical consumption, to partially offset the impact of higher chemical supply costs. The Chemicals budget increased by \$0.8 million (+36%) to \$3.0 million in FY23/24 from \$2.2 million in FY22/23, which is driven largely by an increase of \$0.6 million in sodium hypochlorite (+104% unit price increase).

Utilities (\$2.8 million): This category represents approximately 9% of the FY23/24 Operating Budget. The budget increased \$0.2 million (9%) due to increased natural gas supply costs and expected increases in wastewater conveyance system pumping costs.

Office and Operating (\$4.1 million): This category represents approximately 12% of the FY23/24 Operating Budget. The budget increased 20% (\$0.7 million) due to expected increases in general insurance premiums, hauling services, and technology systems and applications. Staff training and professional development budget allowances have been augmented to support the District's strategic focus on workforce development.

Outside Services (\$4.5 million): This category represents approximately 14% of the FY23/24 Operating Budget and is relatively unchanged compared to FY22/23. This category includes \$1.1 million for professional services to support organizational improvement and business processes,

\$1.7 million for Street Sweeping and Household Hazardous Waste program services, and \$1.7 million for temporary and other services such as legal, facilities, and maintenance.

Other (\$0.6 million): This category represents 2% of the FY23/24 Operating Budget and includes a contingency allowance of \$0.3 million and accounts for transfers to other District funds.

Fiscal Impact

The FY23/24 Operating Budget assumptions help ensure the District is recovering its operating expenses, while also highlighting efforts to implement budget adjustment strategies that support long-term financial sustainability and responsible stewardship of limited ratepayer funds. At the March 8, 2023 meeting, staff informed the Board that no increases to Sewer Service Charges (SSCs) are likely to be required for FY23/24 (i.e., SSCs may be maintained at the same level as in FY22/23). Based on the proposed 5-year Capital Improvement Program and FY23/24 Operating Budget, staff has updated the District's financial plan and confirmed no SSC increase is required.

Attachments

None.



MEMORANDUM

DATE: April 26, 2023

TO: Juan Banales, Chair, Finance Committee

FROM: Thanh Vo, Acting Engineering Services Director *TV*

SUBJECT: REVIEW REPORT ON PREPARATION OF PROPOSED FISCAL YEAR
2023/2024-2027/2028 CAPITAL IMPROVEMENT PROGRAM

Recommendation

Review and comment on the proposed Fiscal Year 2023/2024-2027/2028 (FY23/24-FY27/28) Capital Improvement Program (CIP).

Background Information

Staff has developed a new 5-year CIP for FY23/24-FY27/28 to guide planning, design, construction, and financing of prioritized capital projects in the District's wastewater collection, conveyance, and treatment systems, and recycled water system. These critical projects are necessary to ensure the continued effective and reliable operation of existing infrastructure, address future service needs, and meet current and future regulatory requirements. Staff prepares an updated 5-year CIP each year to reflect current priorities, address new project needs, and adjust estimated project costs and implementation schedules. In addition, this process assists in identifying long-term financial and resource needs, and budget appropriations required to support project implementation at the start of each fiscal year. As presented to the Board on March 8, 2023, the District has experienced significant delays to several major capital projects, which has impacted future cash flow needs and timing and resulted in a staff recommendation to not increase Sewer Service Charges (SSCs) in FY23/24 (i.e., maintain SSCs at same level as in FY22/23). Based on the updated District financial plan, which incorporated the proposed 5-year CIP and FY23/24 Operating Budget, staff has confirmed no SSC increase is required for FY23/24. Staff will present the proposed 5-year CIP to the Finance Committee and incorporate comments received into the draft CIP that will be presented to the Board for review at its meeting on May 10, 2023.

Supporting documentation used during CIP development includes city and county General Plans, city collection system master plans, and detailed master plans prepared by the District for its wastewater treatment, recycled water, and conveyance system facilities. The District completed a Conveyance System Master Plan update in April 2010, a Recycled Water Master Plan in August 2013, and a Resource Recovery Facility Master Plan (RRFMP) in December 2022.

Analysis

The proposed FY23/24-FY27/28 CIP includes approximately \$139.1 million in prioritized capital improvements. As reported at the March 8, 2023 Board Meeting, staff has incorporated changes to existing projects, as well as new regulatory requirements, in developing the proposed 5-year CIP. Key CIP highlights include the following:

- § Secondary Process Improvements Project: The District has identified a \$60 million 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 RRFMP to address aging infrastructure needs (i.e., tower trickling filters) and future service area growth. Delayed initiation of this 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 likely accelerated implementation of nutrient limits in future NPDES permits for WWTPs as a result of algal blooms in San Francisco Bay (beginning in late July 2022 through mid-September 2022). 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 10-15% (or greater). While the estimated CIP total cost remains relatively unchanged from the previous 5-year CIP, 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.
- § Antioch Pump Station and Conveyance System Improvements Project: Implementation of this \$18.5 million project has been delayed by approximately two years as staff completed significant planning and predesign efforts to determine the most effective project approach to address future force main pipe alignments and major changes to pump station configuration.
- § 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 (approximately 30% of capital cost). 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 the project must be in construction by December 31, 2024. While the project construction cost is currently estimated to be approximately \$10 million, the proposed 5-year CIP includes \$6.7 million in cash flows and assumes the project will qualify for federal tax credit funding. Staff may request additional budget appropriations in future CIPs once actual construction cost is determined in summer 2024.
- § Addressing New Infrastructure Needs: The proposed 5-year CIP includes ten new projects totaling \$6.0 million, including \$2.0 million for the Manhole, Gravity Interceptor, and Easement Road Improvements Phase 2 Project and \$0.7 million for the Conveyance System Assessment Project to address infrastructure renewal needs.
- § Investing in Existing Wastewater Infrastructure Renewal: Approximately 78% of the CIP total is allocated to support rehabilitation and/or replacement of existing critical wastewater infrastructure, including Antioch Pump Station and Conveyance System Improvements (\$17.5 million), Cogeneration System Improvements (\$6.7 million), Willow Pass Interceptor Improvements (\$3.0 million), and Manhole, Gravity Interceptor, and Easement Road Improvements Phase 1 (\$1.5 million).
- § Ensuring Integrity of Bay Point Collection System: The District owns and operates 43 miles of gravity sewers in Bay Point. The CIP includes \$3.9 million to support inspection, repair, and rehabilitation of prioritized segments over the next five years.
- § Planning for the Future: The proposed 5-year CIP includes \$1.8 million for various master planning efforts to identify near- and long-term strategies, needs, and priorities associated

with specific focus area, including recycled water (\$0.3 million FY23/24), biosolids management (\$0.4 million in FY24/25), electrical systems (\$0.3 million in FY25/26), and supervisory control and data acquisition (SCADA) systems (\$0.5 million in FY26/27).

The proposed 5-year CIP is provided in the CIP Program Summary (refer to Attachment). A summary of capital project expenditures by major fund is presented in Table 1 below.

Table 1 – Proposed FY23/24-FY27/28 CIP Totals by Major District Fund

Fund	5-year CIP Total (\$M)	% of 5-Year CIP Total
Wastewater		
Capital Asset	2.0	1.4
Capital Asset Replacement	107.5	77.3
Expansion	13.1	9.4
Advanced Treatment	4.2	3.0
Recycled Water		
Capital Asset	1.8	1.3
Capital Asset Replacement	4.8	3.5
Expansion	0.2	0.1
Bay Point Collection	5.1	3.7
Household Hazardous Waste	0.4	0.3
Total	\$139.1M	100%

The proposed 5-year CIP includes information regarding the location, scope, schedule, budget, risk, financing needs, and other information to adequately justify the need for capital projects. During development of the CIP, staff coordinated with planning agencies in the District’s service area (i.e., the cities of Antioch and Pittsburg, and Contra Costa County) to ensure that recommended projects in the CIP are consistent with the respective agency’s applicable specific and general plans. Staff used previously developed District planning documents to determine the recommended timing, scope, and budget for projects in the CIP. In accordance with the District’s CIP development process, the CIP shall be adopted by, and shall be annually reviewed and revised by, resolution of the Board, following issuance of a notice of public hearing. Notice of the hearing will be given in accordance with Government Code Section 65090. The final CIP will be presented for approval at the same time the FY23/24 Budget is presented for approval. Following the Board’s adoption of the CIP, staff will provide copies of the approved CIP to the planning agencies in the District’s service area and update the District’s website to describe priority projects. Staff anticipates presenting the draft and final CIP for consideration at the May 10, 2023, and June 14, 2023 Board meetings, respectively.

Fiscal Impact

The proposed FY23/24-FY27/28 CIP includes approximately \$139.1 million in capital investment needs. Although staff is recommending that the majority of the District’s capital spending be cash funded to provide the highest overall value to the District’s customers, the District’s current financial plan includes an assumption of \$30 million in debt financing for the \$60 million Secondary Process Improvements Project. The proposed CIP has been incorporated into the current FY23/24 SSC analysis, which would maintain SSCs at the same level as in FY22/23 and provide sufficient funding to support planned capital expenditures in FY23/24.

Attachment

FY23/24-FY27/28 CIP Program Summary

