

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, MARCH 17, 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 March 17, 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/board-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/81726800022>

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: 817 2680 0022

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, MARCH 17, 2021

4:30 P.M.

A. PUBLIC COMMENTS

B. REVIEW AND COMMENT ON FINANCIAL IMPACT OF FUNDING SCENARIOS FOR SECONDARY PROCESS IMPROVEMENTS PROJECT (Brian Thomas)

C. REVIEW AND COMMENT ON CAPITAL FACILITIES CAPACITY CHARGE REDUCTION REQUEST FROM THE ATCHISON (Thanh Vo)

D. REVIEW AND COMMENT ON REVISIONS TO DISTRICT CODE PROVISIONS FOR CAPITAL FACILITIES CAPACITY CHARGE REDUCTION AND SEWER SERVICE CHARGE COLLECTION (Thanh Vo)

E. 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: March 17, 2021

TO: Juan Banales, Chair, Finance Committee

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

SUBJECT: REVIEW AND COMMENT ON FINANCIAL IMPACT OF FUNDING SCENARIOS FOR SECONDARY PROCESS IMPROVEMENTS PROJECT

RECOMMENDATION

Receive report and provide comments on the financial impact of various funding scenarios associated with implementation of the Secondary Process Improvements Project.

Background Information

As presented to the Board in November 2020 and January 2021, the District is currently anticipating implementation of the Secondary Process Improvements Project over the next five years to address critical aging infrastructure needs, meet future capacity requirements, and ensure long-term regulatory compliance with National Pollutant Discharge Elimination System (NPDES) discharge permit requirements.

Based on key findings from the ongoing Resource Recovery Facility Master Plan (RRFMP), the existing tower trickling filters (TTFs) present a significant risk for structural and/or mechanical failure in the near term. However, continued investment in the TTFs is not recommended because this treatment process unit is not compatible with long-term nutrient removal requirements, which are anticipated for inclusion in the District's NPDES permit in the future. To address this regulatory compliance vulnerability, the existing aeration basin volume (1.9 million gallons [MG]) will need to be expanded: 1) +0.8 MG for replacement of lost TTF treatment capacity, and 2) +0.4 MG to provide sufficient treatment capacity for growth in the service area through the year 2040. In addition, a sixth secondary clarifier will need to be added along with an upgrade of the existing second influent pumping station, aeration basin air feed system, and power distribution system.

Analysis

The preliminary cost estimate for this Secondary Process Improvements Project is \$60.0 million with the majority of expenditures occurring in Year 3, 4, and 5 of the upcoming 5-year Capital Improvement Program (CIP). The current 5-year CIP (FY20/21-FY24/25) totals \$81.3 million and does not include the \$60.0 million Secondary Process Improvements Project. This presents financial challenges associated with continued cash funding (i.e., "pay as you go") relative to the 5-year projected increase in Sewer Service Charges (SSCs) to meet operating and capital investment needs.

In order to support long-term financial sustainability, the District has established the following guiding principles (key items bolded):

- 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 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
- Factor growth into SSC calculation each year to ensure equitable cost allocation across customers
- **Reserve future debt capacity for long-term secondary capacity expansion and nutrient management treatment plant upgrades**
- Maintain SSCs below average relative to peer agencies

Because the Secondary Process Improvements Project includes replacement of infrastructure (TTFs), creation of new assets (aeration basins, power distribution, secondary clarifier, secondary influent pumping station), additional capacity for growth (through the year 2040), and additional capital investment (deeper aeration basins) to ensure compatibility with future nutrient removal requirements, the proposed cost allocation for the \$60.0 million cost is as follows:

Preliminary Capital Cost Allocation by District Fund

District Funds	Description	% of Total (\$60.0 million)	Cost Allocation
WW Capital Asset, WW Capital Asset Replacement ^[1]	Creation of new assets; replacement of existing infrastructure	78%	\$46.8M
WW Expansion ^[2]	Additional capacity for growth in service area	16%	\$9.6M
Advanced Treatment ^[3]	Compatibility with future nutrient removal requirements	6%	\$3.6M
Total		100%	\$60.0M

Notes: [1] Funded by SSCs to support capital investment needs

[2] Funded by growth in service area via collection of Capital Facilities Capacity Charges (CFCCs)

[3] Funded by SSCs to support compliance with long-term nutrient removal requirements

Staff is currently developing the proposed FY21/22 operating budget, as well as the new 5-year CIP. Using this preliminary information, staff has developed an analysis of the financial impacts associated with various funding strategies for the \$60.0 million Secondary Process Improvements Project, which will be highlighted for discussion during the Finance Committee meeting on March 17, 2021. Key scenarios include 100% cash funding, 100% debt financing, and various blends of cash and debt funding.

Fiscal Impact

As part of development of the proposed SSC increase for FY21/22, staff is working to minimize the magnitude of the near-term financial impacts on its customers, while ensuring sufficient revenue is generated to meet critical capital investment in aging infrastructure needs and ensure continued effective and reliable wastewater conveyance and treatment services for customers. Based on the cost magnitude and near-term timing for implementation, staff is likely to recommend that a significant portion of the Secondary Process Improvements Project cost be debt financed via low-interest loans and/or a revenue bond issuance. Staff intends to pursue the

lowest cost of capital and borrowing costs to ensure the highest value for the District's ratepayers.

Next Steps

Following discussion with the Finance Committee and an associated recommendation, staff intends to present this information via a presentation to the Board on March 25, 2021. Following discussion with the Board, staff will continue developing the proposed SSC increase for FY21/22 for presentation to the Board in April 2021.

cc: District File CORP.07-CORRES-XXX



MEMORANDUM

DATE: March 17, 2021

TO: Juan Banales, Chair, Finance Committee

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

SUBJECT: REVIEW AND COMMENT ON CAPITAL FACILITIES CAPACITY CHARGE (CFCC) REDUCTION REQUEST FROM THE ATCHISON

RECOMMENDATION

- 1) Provide comments regarding the staff recommendation that the Board approve and authorize the General Manager to execute an agreement with 2575 Railroad Ave., L.P. (The Atchison) allowing a 75% reduction (\$651,085.20) in Capital Facilities Capacity Charges (CFCCs) for 200 units of the 202-unit The Atchison Affordable Housing Development in Pittsburg.
- 2) Provide comments regarding the staff recommendation to authorize a Fiscal Year 2020/2021 Budget adjustment transferring \$651,085.20 in Ad Valorem Tax revenue from the Wastewater Capital Asset Replacement (WW CAR) Fund to the Wastewater Expansion (WW Exp) Fund to reimburse the WW Exp Fund for the reduction in CFCC revenue.

Background Information

District Code Section 2.16.070 allows a 75% reduction in CFCCs for new developments that meet specified criteria for use, including: 1) property is used exclusively for physically or mentally [disabled] persons; 2) property has received a density bonus or other incentive from the public agency with land use jurisdiction, or will be used for low-income housing; 3) property will consist of senior citizen housing; and/or 4) property will be used by a non-profit association as a child day care facility.

The Atchison has requested a reduction of CFCCs for development of low-income family residential units. This development comprises 202 dwelling units, 200 of which will be legally set aside for low-income family households.

In order to be granted the CFCC reduction, District Code Section 2.16.070 requires the developer to execute an agreement (attached) with the District to limit the use of the designated dwelling units. If the dwelling unit usage fails to comply with or is no longer eligible for the reduced CFCCs allowed by District Code, the property owner must pay the District the difference between the reduced CFCC paid now and the future full value of CFCCs applicable to the new development.

District's CFCCs have been developed in compliance with Government Code (GC) Section 66013 and Assembly Bill (AB) 1600, which both include cost-of-service principles that disallow the cross-subsidy or use of rate/fee revenue (i.e., SSC and CFCC revenue) received from one customer class to subsidize fee reductions for another customer class. Instead, CFCC reduction programs are typically funded with Ad Valorem Tax revenue or other revenue sources that are not subject to the GC Section 66013 and AB 1600 restrictions.

Analysis

The Atchison has provided evidence to the satisfaction of the District that it qualifies for CFCC reduction for 200 of the 202 dwelling units, in accordance with District Code Section 2.16.070. The documentation provided includes a City of Pittsburg (City) Planning Commission resolution from April 2020 approving the development and a draft Low Income Housing Density Bonus Agreement with the City. In addition, staff has confirmed the project drawings are approved for construction by the City. Staff recommends the Board authorize the General Manager to execute an agreement with The Atchison allowing for the reduction of the CCFCs for the development project.

All Wastewater (WW) CFCC revenue is appropriated to the WW Exp Fund to fund capital projects that provide for wastewater conveyance and treatment capacity for new developments. Staff recommends the Board authorize a budget adjustment to transfer Ad Valorem Tax revenue of \$651,085.20 in FY20/21, which is currently appropriated to the WW CAR Fund, to reimburse the CFCC revenue reduction in the WW Expenditure Fund.

Fiscal Impact

In FY19/20, District received \$3.1 million in Ad Valorem Tax revenue, which was \$1.1 million higher than the \$2.0 million budget assumption. The FY20/21 Budget assumes \$2.0 million in Ad Valorem Tax revenue is received and allocated to the WW CAR Fund. Excess Ad Valorem Tax revenue above budget assumption is assumed for FY/20/21.

Following application of the 75% CFCC reduction per District Code allowance, the District will still collect \$226,616 CFCC revenue from The Atchison, which represents approximately 12% of the total CFCC revenue budgetary assumption (\$1,840,000) for FY20/21. In order to maintain the project schedule, The Atchison previously paid the District for the total unreduced CFCC amount. If the Board authorizes the CFCC reduction and associated budget adjustments, The Atchison would be reimbursed for \$651,085.20.

Attachment

Agreement with The Atchison Allowing Reduction of Capital Facilities Capacity Charges

cc: District File CORP.07-CORRES-XXX

**RECORDING REQUESTED BY, AND
WHEN RECORDED MAIL TO:
Vince De Lange, General Manager
Delta Diablo
2500 Pittsburg-Antioch Highway
Antioch, CA 94509**

Assessor's Parcel No. – 088-184-006
Agreement No. R 2021-1

**AGREEMENT ALLOWING REDUCTION OF
CAPITAL FACILITIES CAPACITY CHARGES**

This agreement is made this _____ day of _____, 2021, by and between Delta Diablo, herein called "DISTRICT", and 2575 Railroad Ave., L.P., a California limited partnership, herein called "OWNER," in connection with OWNER's Atchison Affordable Housing Development, herein called "PROJECT".

RECITALS

1. The OWNER owns certain real property located at 2575 Railroad Avenue (Assessor's Parcel No. 088-184-006) in the City of Pittsburg, County of Contra Costa, State of California (the "Property"). OWNER's PROJECT on the Property will include construction of two hundred two (202) housing units on the Property, two hundred (200) of which will be for rental to lower income households, and two (2) of which will be manager units.
2. The DISTRICT supports the development of affordable housing projects through the reduction of Capital Facilities Capacity Charges (CFCCs).

3. As part of the PROJECT, the OWNER wishes to connect the Property to the DISTRICT's sewerage system, and prior to connection the OWNER must pay the DISTRICT's CFCC. The DISTRICT's CFCC is \$4,358.00 per unit in Fiscal Year 2020/21.
4. The OWNER has requested the DISTRICT approve the reduction of CFCCs in accordance with DISTRICT Code Section 2.16.070.
5. The DISTRICT's sewer service charge, which recovers the DISTRICT's costs of providing sewer service to the Property, is charged on the property tax bill and is not subject to reduction or deferral.

NOW, THEREFORE, in consideration of the faithful performance of the terms and conditions set forth herein, the parties hereto agree as follows:

ARTICLE 1. The OWNER shall maintain in effect the conditions for the entitlements required by the City of Pittsburg to build and maintain 200 units of housing on the Property for "lower income households," as defined in California Health and Safety Code Section 50079.5 (the definition of "lower income households" includes "very low" and "extremely low income households").

ARTICLE 2. The OWNER shall certify and provide evidence to the satisfaction of the DISTRICT's General Manager, or designee, that OWNER qualifies for the reduction in CFCCs in accordance with DISTRICT Code Section 2.16.070.

ARTICLE 3. In consideration of the OWNER's compliance with the provisions of this Agreement, and in accordance with DISTRICT Code Section 2.16.070, seventy-five percent (75%) of the DISTRICT's Capital Facilities Capacity Charge is reduced for each unit designated for very low income households. Prior to the City of Pittsburg issuing the first building permit for the PROJECT, the OWNER shall pay the following: (a) twenty-five percent (25%) of the DISTRICT's then-current CFCC (\$1,089.50 per ERU if paid prior to June 30, 2021) for each of two hundred (200) proposed units designated for very low income

households; and (b) the then-current full DISTRICT CFCC (\$4,358.00 if paid prior to June 30, 2021) for each of two (2) proposed units designated as manager units.

ARTICLE 4. If the OWNER, or its successor, fails to comply with or is no longer eligible for the reduced CFCCs allowed by DISTRICT Code Section 2.16.070, the OWNER, or its successor, or both, shall pay forthwith to the DISTRICT the difference between the then-current full CFCC, minus the reduced CFCC paid under this Agreement, for each unit no longer eligible for a reduced CFCC under DISTRICT Code Section 2.16.070.

ARTICLE 5. This Agreement is binding on each party and on its successors in interest.

DELTA DIABLO

2575 Railroad Ave., L.P., a California limited partnership, by its general partner Corporation for Better Housing, a California corporation:

Vince De Lange, General Manager

By: _____

Its: _____

By: _____

Its: _____



MEMORANDUM

DATE: March 17, 2021

TO: Juan Banales, Chair, Finance Committee

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

SUBJECT: REVIEW AND COMMENT ON REVISIONS TO DISTRICT CODE PROVISIONS FOR CAPITAL FACILITIES CAPACITY CHARGE (CFCC) REDUCTION AND SEWER SERVICE CHARGE (SSC) COLLECTION

RECOMMENDATION

- 1) Review and provide comments regarding proposed revisions to District Code provisions for CFCC reduction and SSC collection.
- 2) Provide comments regarding the staff recommendation that the Board of Directors consider introducing and adopting an ordinance to make the following changes to the District Code:
 - CFCC Adjustment under District Code Section 2.16.070:
 - **Alternative 1** (Recommended): Delete District Code Section 2.16.070 to eliminate CFCC reductions, allowing an increase of \$1.0 million in assumed Ad Valorem Tax revenue to be allocated to meet other District financial needs.
 - **Alternative 2:** Amend District Code Section 2.16.070 to provide qualifying developments a 25% CFCC reduction, not to exceed \$250,000 per development, and not to exceed an annual fiscal year aggregate cap of \$500,000. The fiscal year aggregate cap would be set by Board resolution.
 - Collection of Initial SSCs under Section 2.20.040(B): Amend District Code Section 2.20.040(B) to require collection of initial sewer service charges following District Engineer's inspection and determination a sewer service connection has been made in accordance with all code requirements.

Background Information

CFCC Reduction

In 1988, the District adopted Ordinance 34 to provide for the ability to reduce and defer connection and development fees for certain qualified developments. The deferral portion of the ordinance was removed in early 2000s. The adoption of Ordinance 34 and removal of the deferral portion of the ordinance resulted in the current CFCC reduction program with the following provision:

- District Code Section 2.16.070 allows for a 75% reduction in CFCCs for new developments that meet specified criteria for use, including: 1) property is used exclusively for physically or mentally [disabled] persons; 2) property has received a density bonus or other incentive from the public agency with land use jurisdiction, or will be used for low-income housing; 3) property will consist of senior citizen housing; and/or 4) property will be used by a non-profit association as a child day care facility.
-

In 2006, the District's CFCCs were updated to comply with Government Code (GC) Section 66013 and Assembly Bill (AB) 1600 to recover costs associated with development projects that require the construction or improvement of its facilities. The development of these CFCCs included cost-of-service principles that disallow the cross-subsidy or use of rate/fee revenue (i.e., SSC and CFCC revenue) received from one customer class to subsidize fee reductions for another customer class. The CFCC reduction program is typically funded with Ad Valorem Tax revenue or other revenue sources that are not subject to the GC Section 66013 and AB 1600 restrictions.

Because Ad Valorem Tax revenue must be used to offset any CFCC reduction, this reduces the availability of tax revenue to meet other District financial needs. The current 75% CFCC reduction code provision is not capped for an individual development and does not include an aggregate fiscal year limit. Staff is proposing revisions to District Code to increase the availability of Ad Valorem Tax revenue to meet capital investment in infrastructure and operating needs in the future.

SSC Collection

District Code Section 2.20.040(B) requires initial SSCs to be paid for new developments at the point of application for District sewer permit. Staff is proposing revisions to District Code regarding SSC collection to address collection of initial SSCs despite significant delays in a development connecting to the local sewer system (i.e., not discharging).

Analysis

CFCC Reduction

As presented at the November 2020 and January 2021 Board meetings, the District is currently anticipating implementation of a new \$60.0 million Secondary Process Improvements Project as part of the upcoming new 5-year capital improvement program (CIP), which is expected to exert financial pressure on the 5-year SSC increase projection. This project will be highlighted as part of another item on the Finance Committee agenda. Consistent with the District's financial sustainability principles, staff is proposing revisions to District Code regarding CFCC reductions to minimize the potential for sharp SSC increases and maximize cash funding (versus debt financing) of the CIP to ensure the lowest overall costs for District customers.

To ensure maximum utilization of the Ad Valorem Tax revenue for other District financial needs, staff has evaluated two District Code revision alternatives:

- **Alternative 1 (Recommended):** Eliminate CFCC reduction, allowing potential \$1,000,000 increase in annual Wastewater revenue budget assumption for Ad Valorem Tax beginning in FY21/22.
- **Alternative 2:** 25% CFCC reduction, \$250,000 cap for an individual development, \$500,000 cap for fiscal year total, allowing potential \$500,000 increase in annual Wastewater revenue budget assumption for Ad Valorem Tax in FY21/22. Under this alternative, the fiscal year aggregate cap would be set by a resolution adopted by the Board. If necessary, the Board could adjust the cap in future fiscal years by adopting another resolution.

Elimination of CFCC reduction (Alternative 1) is recommended because: 1) these provisions had limited utilization over the last ten years, 2) the uncapped nature of the code language creates financial revenue uncertainty, 3) an associated significant benefit is provided to all ratepayers via

Ad Valorem Tax revenue allocation to other needs, and 4) state law does not require a CFCC reduction for these developments.

SSC Collection

Staff is recommending revisions to District Code Section 2.20.040(B), which currently requires collection of SSCs for new developments at the point of application for a District sewer permit (along with payment of CFCCs). Instead, staff proposes to collect initial SSCs for new developments once the District Engineer has confirmed that the sewer connection satisfies code requirements and passes inspection or receipt of Certificates of Occupancy from the cities of Pittsburg, Antioch, or Contra Costa County depending on the location of the new development. This proposed code revision is consistent with SSC collection practices at other agencies in the Bay Area.

Fiscal Impact

Implementation of the proposed elimination of District Code provisions for CFCC reduction will allow an additional \$1.0 million in Ad Valorem Tax revenue to be allocated to meet capital investment and/or operating budget needs in FY21/22 with associated increases over time depending on future tax revenue growth. Although the proposed District Code revisions regarding collection of initial SSCs will defer SSC collection until the point of a compliant sewer connection, revenue collection will be better aligned with provision of District services and is not expected to have a significant financial impact.

Attachments

None.

cc: District File CORP.07-CORRES-XXX