

AGENDA

BOARD OF DIRECTORS FINANCE COMMITTEE MEETING

DELTA DIABLO

(a California Special District)

**2600 PITTSBURG-ANTIOCH HIGHWAY
ANTIOCH, CA 94509**

**WEDNESDAY, MAY 1, 2019
2:00 P.M.**

Persons who wish to address the Board during Public Comment or with respect to an item on the Agenda will be limited to three (3) minutes. The Board Chair may reduce the amount of time allotted per speaker at the beginning of each Item or Public Comment period depending on the number of speakers and the business of the day. Your patience is appreciated. A break may be called, or an item may be taken out of order, at the discretion of the Board Chair.

A. PUBLIC COMMENTS

B. REVIEW KEY ASSUMPTIONS FOR PROPOSED FISCAL YEAR 2019/2020 OPERATING BUDGET (Carol Margetich)

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 at 2500 Pittsburg-Antioch Highway, Antioch, CA 94509 during normal working business hours.





MEMORANDUM

Date: May 1, 2019

To: Sean Wright, Chair, Finance Committee

From: Carol Margetich, Business Services Director

SUBJECT: REVIEW KEY ASSUMPTIONS FOR PROPOSED FISCAL YEAR 2019/2020 OPERATING BUDGET

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RECOMMENDATION

Review and comment on key assumptions for the proposed Fiscal Year 2019/2020 (FY19/20) Operating Budget.

Background

In FY18/19, the District transitioned from submitting a three-year operating budget proposal for Board consideration and approval to a single-year budget approval process. Staff has prepared a single-year operating budget for FY19/20 and will continue to evaluate multi-year budget development approval processes with the goal of aligning the operating budget, capital improvement program, and sewer service charge (SSC) development processes. Staff will submit the FY19/20 Budget, which includes revenue, operating expenses, and capital expenditures, for Board consideration on June 12, 2019. Staff has conducted a rigorous review of the proposed FY19/20 operating budget with the goal of identifying and implementing applicable budget reduction opportunities. This successful effort directly supports the District’s long-term financial sustainability and effective stewardship of limited ratepayer funds to support operation of the District’s wastewater collection, conveyance, and treatment system infrastructure; household hazardous waste collection facility; and street sweeping services program.

Analysis

Key assumptions drive annual changes to the District’s operating budgets. These assumptions will be presented to the Finance Committee on May 1, 2019 for review and comment. After receiving Committee and Board comments on key assumptions, the Budget will be presented to the Board for approval consideration at its meeting of June 12, 2019. Key assumptions that impact the budget development and associated rate-setting process are provided below.

Staff has implemented key budget reduction strategies, which has allowed the District to reduce its proposed operating budget for FY19/20 by approximately \$0.6 million relative to FY18/19. This section highlights key assumptions associated with major cost categories in the FY19/20 operating budget, including salaries and benefits, utilities, chemicals, and outside services/repairs and maintenance.

Salaries and Benefits: This category represents approximately 59% of the District's FY19/20 operating budget.

- Cost-of-Living Adjustment: (COLA). An annual COLA is provided for in the memoranda of understanding (MOUs) for each of the three bargaining units. The MOUs provide that the District will adjust salaries for the first full pay period after July 1 each year, from a minimum of 2% up to 5% based on the April to April change in the Consumer Price Index (CPI), San Francisco/Bay Area Wage Earners. The percentage will be available in May and COLAs will be included in the FY19/20 Salaries and Benefits budget for the Board's consideration in June.
- Unfunded Positions: Based on an assessment of resource needs, staff estimates that three of the District's current vacancies will remain unfilled and unfunded in FY19/20. The reduction in budgeted full-time equivalents (FTEs) from 81.5 to 78.5 will result in an annual savings of \$0.7 million.
- New Position/Reclassification Requests: No new positions are recommended, but there are two proposed position reclassifications to allow staffing flexibility in FY19/20. Because staff is currently assessing conversion of the vacant Buyer position to a Purchasing Manager to oversee the District's procurement function, additional funding is included in the proposed budget. In addition, the budget includes funding to support reclassification of a Maintenance Mechanic III position to a Maintenance Planner/ Scheduler position to provide a dedicated and skilled resource for planning maintenance work in advance so that all needed equipment, parts and tools are prepared and organized for scheduling each work activity. This will improve the efficiency of the staff working to repair and maintain the District's assets for the appropriate operational reliability.
- Labor Reallocation: Staff has reallocated approximately \$0.85 million in salaries and benefits associated with Engineering Services Department staff from the operating budget to the capital budget.
- Medical Insurance: This cost has been increased by 5% while all other health benefits are not expected to increase.
- 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). Furthermore, 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. As of FY18/19, 43% of all employees are in either Tier 2 or Tier 3 and since new hires are no longer eligible to become members of Tier 1, there are 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 Tier 2, because it is likely that they would have been a member in CalPERS or a reciprocal plan. The District assumes that new entry level hires will be Tier 3, because it is unlikely that these hires would have been members in CalPERS or a reciprocal plan. In addition to the lower employer-paid contributions into CalPERS, all new hires pay their full employee contributions into CalPERS, as well as contributions into the Other Post-employment Benefits (OPEB) trust, which is at 3% of base salary.

- CalPERS Pension Unfunded Liability Contribution: This cost is budgeted at \$1.0 million, which is an increase of approximately \$0.18 million from FY18/19.
- Succession Planning: Staff has reduced the allowance for overlap of new hires and incumbents in critical positions from \$0.2 million in FY18/19 to \$0.1 million in FY19/20.
- Contra Costa County Retirees' Association (CCCERA) Funding: In July 2014, the Board established Contributed Benefit Savings (CBS) 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 2004.
- OPEB Trust Fund Annual Funding: The Board's adopted OPEB Funding Policy states the intent to fully fund the District's Actuarially Determined Contribution (ADC), which the Board has done each year since the trust fund was established in February 2010. District employees pay 3% of base salaries into the trust and the District budgets the required 3% match, as well as actual retiree medical costs which are deposited into the OPEB trust fund. The FY19/20 budget includes an ADC of \$1.0 million.
- Public Agency Retirement Services (PARS) Funding: The FY19/20 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.

Utilities: This category represents approximately 7% of the District's FY19/20 operating budget.

- Energy Costs: Staff continues to identify opportunities to reduce on-site energy demand and increase renewable energy production. Staff has identified and implemented changes to operating strategies based on variable energy cost schedules to reduce energy costs; for example, operating high-electricity demand solids dewatering centrifuges in a batch dewatering mode during off-peak hours. The budget assumes a 90% uptime for the on-site cogeneration engine, which is expected to meet over 60% of wastewater treatment plant power demand.

Chemicals: This cost is approximately 7% of the FY19/20 operating budget. The District continues to participate in the Bay Area Chemical Consortium to leverage purchasing power and receive cost-effective bids. As external factors (e.g., tariffs) cause chemical prices to rise, this approach allows the District to benefit from the most competitive market prices. Staff has conducted a comprehensive review of chemical unit costs, estimated quantities, and associated contingencies. The FY19/20 chemical budget totals \$1.9 million, including \$1.1 million for wastewater and \$0.8 million for recycled water, which represents no increase from FY18/19.

Outside Services/Repairs and Maintenance: This category represents approximately 16% of the District's FY19/20 operating budget. Staff has included funding to support a broad number of organizational improvement initiatives, including IT Strategic Planning, Munis Enterprise Resource Planning enhancements, as well as Cost-of-Service (SSC, Capital Facilities Capacity Charges) and total compensation studies.

As part of the operating budget development process, the District assumes a 3% inflation for selected line items, which is consistent with long-term historical averages.

Sean Wright, Chair, Finance Committee

May 1, 2019

REVIEW KEY ASSUMPTIONS FOR PROPOSED FISCAL YEAR 2019/2020 OPERATING BUDGET

Page 4

Financial Impact

The key budget assumptions provided herein are geared toward assisting the District in recovering its operating expenses, while also highlighting the District's efforts to implement budget reduction strategies that support long-term financial sustainability and responsible stewardship of limited ratepayer funds. Staff has included these assumptions in the District's long-term 5-year SSC rate model.

CM/VD:st