



Key Assumptions for FY20/21 Operating Budget Development

Board of Directors Meeting
May 13, 2020



FY20/21 Budget and SSCs Development Schedule Overview



Board Meeting

March 11, 2020



April 23, 2020



May 13, 2020



June 25, 2020



July 8, 2020

- Board reviewed major capital project drivers, Advanced Treatment Fund considerations
- Board reviewed proposed SSC increases, set public hearing, and approved distribution of Prop. 218 notices
- Board reviews draft CIP and **key operating budget assumptions**
- Planned public hearings on CIP and SSC increases; Board considers approval of CIP and SSC increases
- Board considers budget appropriations

FY20/21 Operating Budget Overview



Board Policy

Adopt Budget (capital/operating) and appropriate new fiscal year budget no later than July each year

Fiscal Responsibility

Critically review proposed operating budget each year to identify budget adjustment needs and opportunities

Cost Control

Manage labor, chemical, energy, materials, supplies, hauling, services, and regulatory compliance costs

Operating Budget

Proposed FY20/21 Operating Budget = \$29.6M
▪ \$0.9M increase (3%) relative to FY19/20 (\$28.7M)

Presentation Goal

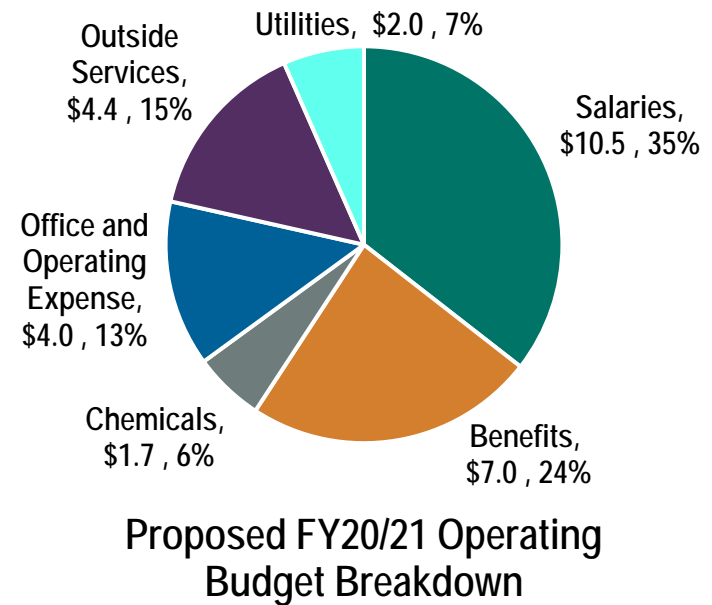
Review key assumptions driving FY20/21 Operating Budget

FY20/21 Proposed Operating Budget Overview



- Proposed Operating Budget = \$29.6M, funds:

- Wastewater Conveyance and Treatment **82%**
 - Bay Point Collection **3%**
 - HHW Collection **3%**
 - Recycled Water **10%**
 - Street Sweeping **2%**
- Sewer Service Charges (SSCs)
- Recycled Water Service Charges
- Street Sweeping Charges



Salaries

Benefits

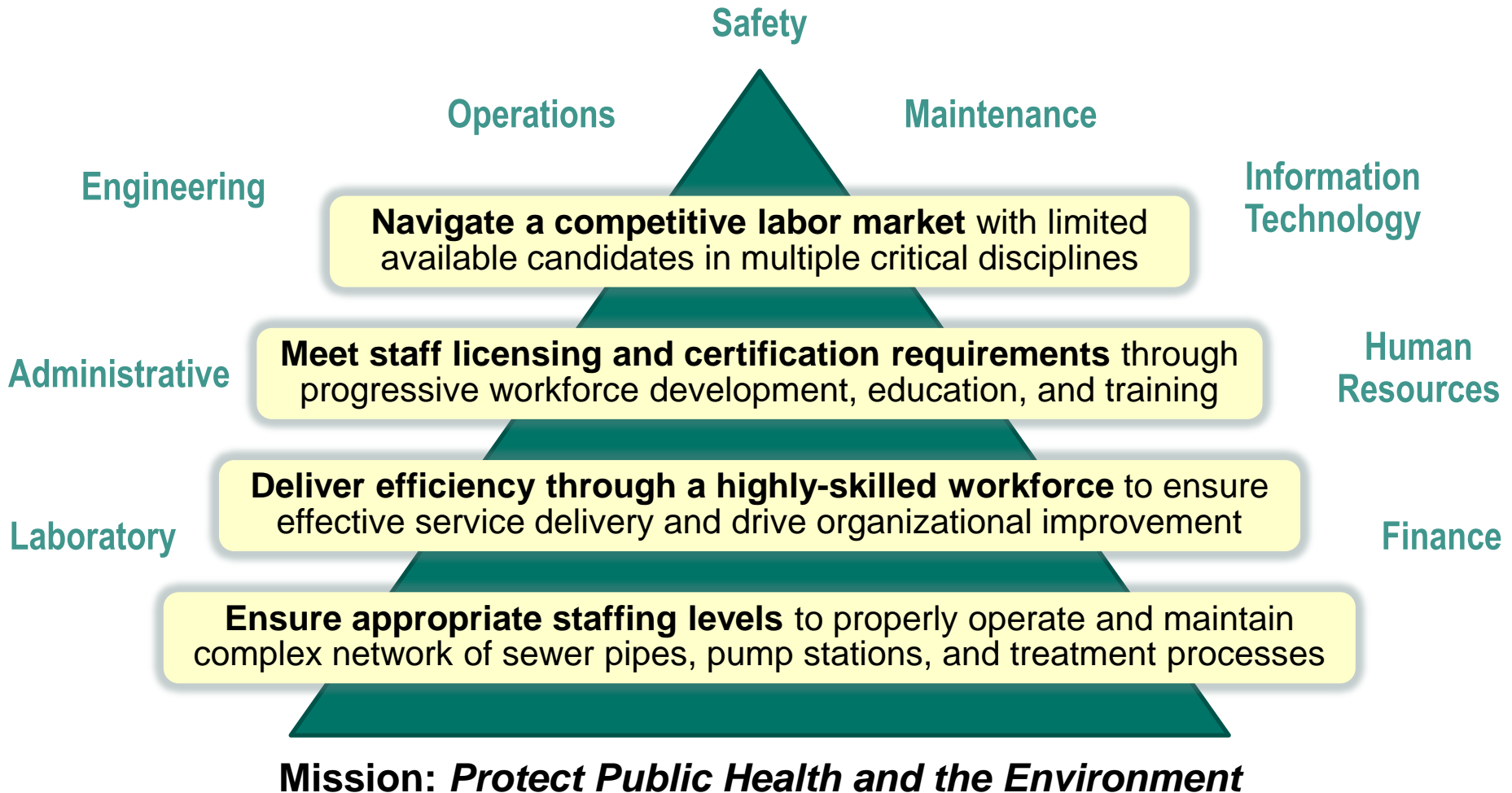
Utilities

Chemicals

Office/
Operating

Outside
Services

Critical Importance of Staff in Achieving the District's Mission



Key Assumptions

Salaries (\$10.5M, 35% of Total)

- Ensuring Appropriate Staffing Levels
 - Critical review of position needs, especially when vacancies occur
 - Implemented multiple position changes in last year to support organizational improvement; continuing in FY20/21
 - Engineering positions: Vacant Associate Engineer/Engineering Technician positions to be filled as Junior/Assistant Engineers
 - Funded 78 (of 81) full-time equivalent (FTE) positions
 - Annual savings from unfunding three positions = \$0.75M
- Delivering Efficiency through Highly-skilled Workforce
 - No new positions despite increasing initiatives, budget drivers
 - Multiple recent internal promotions to support certification levels
 - Succession Planning: Including \$0.1M for overlap of critical positions

Salaries

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Key Assumptions

Salaries (cont'd)



- Navigating a Competitive Labor Market – Salary Drivers
 - District interest in recruiting and retaining highly-skilled staff in competition with peer agencies
 - 40% of staff has been with District < 5 years – moderate shift to lower salaries with more staff in salary progression
 - Labor Agreement Obligations – MOUs include annual cost-of-living adjustment (COLA) to be applied in July each year
 - COLA range = 2-5% (to be confirmed in mid-May based on index)
 - Financial Impact: 2% COLA increase = \$0.2M
 - Staff has included use of existing reserves to mitigate potential impacts to customers via SSC collection

Salaries

Benefits

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Key Assumptions

Benefits (\$7.0M, 24% of Total)



- Managing Health Benefits Costs
 - Estimated medical insurance premium increase = 7.25% (+\$73k)
 - Other health/life insurance are not expected to increase
- Continuing Retirement Cost Reduction following Pension Benefits Changes and Reform (2012-13)
 - In FY19/20, **only 51% of staff are Tier 1** members (2.7% @55), while **49% are either Tier 2** (2.0% @55) **or Tier 3** (2.0% @62)
 - District pays CalPERS normal costs as percent of salary: 14.5% (Tier 1); 11.3% (Tier 2); 7.8% (Tier 3)
 - CalPERS Unfunded Actuarial Liability (UAL): \$1.1M
 - Additional \$0.1M to be paid to PARS Rate Stabilization Program



Key Assumptions

Benefits (cont'd)



- Continuing to Meet OPEB Trust Fund Obligations to Reduce Long-term Cost Liability
 - Employees pay 3% of Salary
 - District contribution = \$0.9M to ensure full funding of Actuarially Determined Contribution (ADC) – includes 3% District match (\$0.3M) + additional \$0.6M
 - District continues to effectively manage outstanding OPEB liability relative to peer agencies



Key Assumptions

Chemical and Utilities (\$3.7M, 13% of Total)



Chemicals (\$1.7M, 6% of total)

- Critically reviewed quantity estimates, prices, associated budget contingencies
- Negotiated a one-year (no cost increase) extension in lieu of Bay Area Chemical Consortium bids (suspended)
 - \$1.1M for Wastewater, \$0.6M for Recycled Water
- Recycled Water: \$0.2M decrease from FY19/20

Utilities (\$2.0M, 7% of total)

- 3.0% higher energy costs than in FY19/20



Key Assumptions

Office and Operating (\$4.0M, 13% of total)



- Supplies, technology systems and applications, insurance renewals, hauling services, and program administration (\$3.3M)
 - Includes significant increase (50%) in biosolids management costs from prior year (+\$0.2M/year)
- Staff training and professional development (\$0.3M)
- Operating budget contingency = 1.2% (\$0.36M)



Key Assumptions

Outside Services (\$4.4M, 15% of Total)

- Supporting Organizational Improvement and Business Processes through Professional Services (\$1.2M)
 - Munis Enterprise Resource Planning enhancements
 - Cost-of-service (SSC, Recycled Water, Capital Facilities Capacity Charges) and total compensation studies
 - Updating engineering construction contract specifications
- Street Sweeping, Household Hazardous Waste (\$1.2M)
- Temporary and Other Services (legal, facilities, maintenance, misc.) (\$2.0M)
 - Includes new site security services contract
 - Additional janitorial services in response to COVID-19

Salaries

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Summary

- Staff has developed a proposed Operating Budget that reflects financial sustainability considerations and ensures reliable service both during and after the current COVID-19 pandemic
- Overall, the FY20/21 Operating Budget (\$29.6M) is 3% higher (\$0.9M) than the current year's budget
 - Consistent with proposed Sewer Service Charge increase analysis presented to the Board on April 23, 2020

Enhancing Public Communications

- Staff has prepared additional supporting documentation and posted on the District's website

Ensuring Long-term Financial Sustainability Proposed Sewer Service Charge Increases

In developing its budget each year, Delta Diablo (District) carefully considers operational and capital investment needs to maintain effective and reliable wastewater collection (Bay Point only), conveyance, and treatment services for its **213,000 customers** in Antioch, Pittsburg, and Bay Point. The District's primary revenue source comes from **Sewer Service Charges (SSCs)*** charged to residential, commercial, and industrial customers on the tax roll each year.

The District continues to experience **progressive increases in annual operating costs** over time due to escalations in labor, chemical, energy, materials, supplies, equipment, hauling, and services costs, as well as **increasingly more stringent regulatory requirements**. In parallel, sustained **capital investment** is necessary to maintain the integrity of **aging wastewater system infrastructure****. The District critically reviews required SSC increases each year to ensure sufficient revenue collection, while working to minimize economic impacts to its customers. For **Fiscal Year 2020/2021** (effective July 1, 2020), the District has notified customers (via **Proposition 218 Notices***** mailed to property owners on or before May 1, 2020) of its intent to increase SSCs by **3.5% for Antioch/Pittsburg customers (+\$13.63/year** for single-family residential (SFR)) and **3.0% for Bay Point customers (+\$16.21/year for SFR)**.

- **SSC Revenue Allocation:** An estimated total SSC revenue need of **\$32.7 million** is required for FY2021, which includes **\$23.2 million** for operational needs and **\$9.5 million** for capital project funding. Other funding includes ad valorem taxes and available unallocated funds.
- **Annual Revenue Increase Drivers:** The proposed SSC increase would generate an **additional \$1.1 million in revenue** in FY2021, which is required to offset increased operational labor and wastewater treatment biosolids management costs, as well as capital investment needs with a focus cash funding versus debt financing infrastructure projects.
- **COVID-19 Impacts:** The District understands the current **COVID-19 pandemic** and associated shelter-in-place order will likely have sustained economic impacts on customers in its service area and has **worked hard to reduce impacts associated with SSC increases**. The proposed SSC increase is the **lowest annual SSC increase (by percent) in the last 14 years** (since 2006). The District is monitoring COVID-19-related financial impacts on its operations.
- **Long-term Financial Planning:** The District conducts a 5-year SSC analysis to identify future SSC increases required to **maintain sustained fiscal integrity**. In recent years, the projected range of annual SSC increases has been **reduced from 6.2-6.4% (June 2018) and 4.1-4.5% (June 2019), to the current projection of 3.5-4.0%****** for the next five years. Without this year's increase, annual SSC increases of 5.0-6.0% for Antioch/Pittsburg customers would be required over the next few years (compared to 4% each year). The **District continues to maintain its rates well below the average** of its Bay Area peer agencies.

As a nationally-recognized industry leader, the District values strong community engagement, serving as responsible stewards of the public's resources and trust, transparency, innovative approaches, and sustainable solutions in achieving its core mission.

* SSCs are not used for recycled water or street sweeping services, which are funded separately.
 ** Investing in Critical Wastewater Infrastructure" fact sheet is available for more information.
 *** Notice of Proposed SSC Increases for FY2021" is available on website for more information.
 **** Data collected by the National Association of Clean Water Agencies indicates that the average annual rate increase for wastewater agencies is approximately 3.8%.

About Delta Diablo

Delta Diablo is a special district that provides wastewater conveyance and treatment services for over 213,000 residents in Antioch, Pittsburg, and Bay Point.

The District treats 13 million gallons of wastewater each day with a focus on exemplary regulatory compliance, innovative and sustainable approaches, and sound stewardship of the public's resources and trust.

The District has transformed its Wastewater Treatment Plant (WWTP) into a "water resource recovery facility" by:

- ♻️ Producing 6 million gallons of recycled water per day
- ♻️ Generating on-site renewable energy to meet over 55% of WWTP power needs
- ♻️ Reusing residual biosolids as fertilizer through land application at farm sites
- ♻️ Providing household hazardous waste (HHW) collection services
- ♻️ Protecting the Delta by providing street sweeping services to remove pollutants that would otherwise enter local stormwater systems

Our Mission

Protect public health and the environment in our communities by providing wastewater resource recovery services of exceptional quality and value.



visit www.deltadiablo.org or call (925) 756-1900 for more information

FY20/21 Proposed Sewer Service Charge Increases Frequently Asked Questions

Delta Diablo has provided **two fact sheets**—"Proposed Sewer Service Charge Increases" and "Investing in Critical Wastewater Infrastructure"—on its **website*** to respond to the question, "Why is Delta Diablo Increasing Rates?"

This document complements these fact sheets by addressing potential questions from our customers regarding the **proposed Sewer Service Charge (SSC) increase** for Fiscal Year 2020/2021 (FY20/21).

* The referenced Fact Sheets are available at: <https://www.deltadiablo.org/proposed-sewer-service-charge-ssc-increases>

- Why is the District raising rates in the middle of a COVID-19 pandemic?** The economic impacts of COVID-19 and the shelter-in-place (SIP) order on customers in our service area are significant and may not be fully understood for months or even years into the future. We recognize that the prospect of raising rates in the middle of a pandemic is challenging when there is so much economic uncertainty in our local communities. As summarized in the two fact sheets referenced above, the District is proposing to increase SSCs by 3.5% (Antioch/Pittsburg) and 3.0% (Bay Point) to:
 - **Meet the District's core mission of protecting public health and the environment.** Achieving this mission requires sufficient capital investment and staffing levels to properly operate and maintain the District's complex network of sewer pipes, pump stations, and treatment processes. Failure to do so could expose our customers to costly regulatory fines and penalties if partially-treated wastewater is discharged to the Delta or sanitary sewer overflows occur in local communities and/or residences.
 - **Address aging infrastructure through prioritized capital investment.** We continue to strategically rehabilitate and replace essential elements of the District's wastewater collection, conveyance, and treatment system to maintain effective and reliable services. Addressing these issues in a proactive manner prevents infrastructure failure, which would lead to higher costs and associated rate impacts.
 - **Offset increases in operating costs.** As a regulated utility that requires employees with specialized skills to meet its mission, the District continues to experience progressive increases in annual operating costs due to escalations in labor, chemical, energy, materials, supplies, hauling, services, and regulatory compliance costs. Staffing levels are critically reviewed to meet service level needs, while ensuring cost-effective service delivery for our customers.
 - **Prevent the need for more significant SSC increases in the future.** In developing its 5-year SSC projection each year, the District works hard to balance direct economic impacts to our customers and the need for sufficient revenue to cover operating costs and capital investment needs. This effort resulted in the **lowest proposed SSC increase (by percent) in 14 years**, while continuing to maintain our rates below the average of our peer agencies in the Bay Area. If an SSC increase is not implemented this year, more significant rate increases would likely be required in the next few years.
 - **Focus on cash funding versus borrowing for capital improvements.** An SSC increase allows the District to continue predominantly cash funding its capital improvement program. If the District were to begin borrowing capital for these improvements, project costs to our customers could nearly double when considering loan interest repayment and the lack of available low-interest loans.

Throughout the SIP order, our core mission of protecting public health and the environment as an "essential governmental function" has remained unchanged as we continue to effectively convey and treat 13 million gallons of wastewater each day from our customers on a 24/7 basis.

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Next Steps

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