

# AGENDA

## BOARD OF DIRECTORS FINANCE COMMITTEE MEETING

### DELTA DIABLO

*(a California Special District)*

2600 Pittsburg-Antioch Highway  
Pittsburg, California

TUESDAY, MARCH 27, 2018  
11:00 A.M.

*Persons who wish to address the board during Public Comment or with respect to an item that is 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 or closed session may be called at the discretion of the Board Chair.*

- A. PUBLIC COMMENTS
  
- B. REVIEW REPORT ON PREPARATION OF PROPOSED FISCAL YEAR  
2018/2019 THROUGH 2022/2023 CAPITAL IMPROVEMENT PROGRAM  
*(Thanh Vo)*
  
- C. ADJOURNMENT

Note: The District will provide reasonable accommodations for persons with disabilities planning to participate in Board (or committee) meetings who contact the Office Manager/Secretary to the Board at (925) 756-1927 at least 24 hours prior to the scheduled meeting. Any 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: March 27, 2018

To: D. Pete Longmire, Chair, Finance Committee

From: Thanh Vo, Acting Engineering Services Director 

SUBJECT: REVIEW REPORT ON PREPARATION OF PROPOSED FISCAL YEAR  
2018/2019 THROUGH 2022/2023 CAPITAL IMPROVEMENT PROGRAM

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RECOMMENDATION

Review and comment on the proposed update to the District's Fiscal Year 2018/2019 – 2022/2023 (FY18/19 – FY22/23) Capital Improvement Program.

Background

The District's five-year Capital Improvement Program (CIP) is developed to guide the planning, design, construction, and financing of major projects to ensure the continued effectiveness and reliability of existing infrastructure, address future service needs, and meet current and future regulatory requirements. Each year, the District prepares an update to its CIP to reflect projects planned over the next five years. Preparation of a five-year CIP assists in identifying long-term financial and resource needs, while establishing budget appropriations required to support implementation of projects planned for the new fiscal year beginning in July. Anticipated project expenditures and future appropriations are included for the four subsequent years. In addition, the CIP is incorporated into the annual rate analysis to establish required sewer service charges (SSCs). Staff will present the proposed CIP to the Finance Committee and incorporate comments received into the final CIP.

Supporting documents used for the development of the District's CIP include planning projections from updates to city and county General Plans, city Collection System Master Plans, as well as detailed master plans prepared by the District for its treatment plant and conveyance system facilities. The Conveyance System Master Plan update was completed in April 2010, the Treatment Plant Master Plan update was completed in April 2011, and the Recycled Water Master Plan was completed in August 2013.

Development and expansion, as measured by new service connections expressed in equivalent residential units (ERUs), has tracked below the long-term annual average for the past seven years, and this trend is expected to continue in the near term. Staff reviewed historical growth and development trends for the service area and completed an analysis of expected revenue generated by new development. Based upon this review and analysis, and input from the Finance

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Committee, staff recommends including an annual average growth assumption of 400 ERUs throughout the five-year planning period to reflect the lower rate of growth and development.

Analysis

The FY18/19 – FY22/23 CIP includes approximately \$108 million in planned improvements. In FY18/19, staff recommends adding 13 new projects with an estimated combined total value of \$10.8 million. Attachment 1 provides a Program Summary of the proposed CIP with these new projects highlighted. These recommended projects are needed to ensure renewal and replacement of critical District capital assets to maintain continued operational effectiveness and reliability.

In the Wastewater Capital Asset Replacement Fund, continuation of several existing projects, such as the Primary Clarifier Area Improvements, Treatment Plant Switchgear Replacement, Headworks Improvements, and District Office Building Roof Replacement, will ensure current and future wastewater treatment system operational reliability. In addition, the District is conducting a thorough evaluation of its wastewater conveyance and treatment system infrastructure as part of the Resource Recovery Master Plan. This assessment is anticipated to be completed by early 2019. This evaluation will guide the District's long-term infrastructure rehabilitation needs. Key new projects include construction of the Antioch Pump Station grinder and diversion structure (\$2 million), recoating of the primary clarifiers (\$1.4 million), and replacement of the Triangle Pump Station, (\$500,000). The Rehabilitations and Replacements Project is recommended to be funded at \$2 million in FY18/19 for planned maintenance projects, based on staff's facility condition assessment efforts in 2017.

In the Wastewater Capital Asset Fund, key new projects include the evaluation and implementation of the Asset Management Program (AMP) at a total estimated cost of \$1.3 million and the construction of intertie piping between the Recycled Water Facility (RWF) and the treatment plant (\$1.7 million). The AMP will develop a tactical plan, including new software identification, to manage the District's assets. This will improve the District's ability to be proactive with repairs and replacements, while reducing costs associated with unexpected infrastructure failure. The RWF and treatment plant intertie will provide operational flexibility to further treat secondary effluent in the event of a treatment plant upset.

In the Recycled Water Capital Asset Fund, continuation of the existing Emergency Back-Up Power Generator Project will ensure reliable power supply to the RWF, which will allow the District to make operational changes while providing recycled water to all customers under all demand conditions. A key new project includes improving the recycled water distribution system (\$300,000). This project will provide even distribution of recycled water over a 24-hour period, which will result in energy savings and lower operations and maintenance costs.

Public Code Section 65403 establishes requirements for the content of the CIP document, as well as the timeline for review and consideration of approval. At least 60 days prior to consideration of adoption by the Board, the proposed CIP must be circulated to planning agencies within the District's service area for review. This review ensures that the CIP accurately reflects the

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District's policy regarding physical and economic development within our service area. As shown in the CIP Preparation Schedule (Attachment 2), staff recommends that the Board consider approval of the CIP at the June Board meeting so that adopted capital project costs are known in advance of any SSC adjustments considered by the Board.

Financial Impact

The CIP Summary Table shows the draft Project List and anticipated expenditures in each fiscal year. A total of 13 new projects are requested for addition to the CIP, as highlighted in Attachment 1 (Program Summary), with the majority in the Wastewater Capital Asset Replacement Fund. The overall five-year costs are approximately \$108 million with over \$22 million funded with low-interest (1% to 3%) State Revolving Fund (SRF) and IBank loans. The proposed total CIP budget of \$108 million will impact SSCs. Please refer to Finance's FY18/19 Sewer Service Charge Staff Report for full discussion on options for addressing SSC increases.

Attachments

- 1) CIP Program Summary Table
- 2) CIP Preparation Schedule
- 3) FY18/19 Sewer Service Charge Staff Report

TV:dcj

cc: District File No. CORP.09-CORRES-XXXX  
Chron File

**Delta Diablo**  
**FY18/19 - FY22/23 Capital Improvement Program**  
**Program Summary**

Page	Project Name	Project No.	Priority	Lead Dept.*	Approved Budget through FY17/18	Anticipated Budgets					Estimated Total Project Cost
						FY18/19	FY19/20	FY20/21	FY21/22	FY22/23	
<b>Wastewater Capital Asset (Fund 120)</b>											
CA-	Permanent Brine Transfer Facility	18109	1	ES	\$1,000,000						\$1,000,000
CA-	Resource Recovery Master Plan	18110	1	ES	\$2,000,000	\$500,000					\$2,500,000
CA-	Conveyance and Treatment System Reliability Improvements	18107	3	RRS	\$50,000						\$50,000
CA-	Desalination Study Coordination	TBA	3	ES	\$175,000						\$175,000
CA-	East County Bioenergy Project	16117	3	ES	\$1,500,000	\$5,000,000	\$10,000,000	\$11,000,000			\$27,500,000
CA-	Energy and Water Efficiency Improvements	18108	3	ES	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$300,000
CA-	Future Use Project	18099	3	ES	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$300,000
CA-	Small District Capital Asset Project	18100	3	ES	\$150,000	\$150,000	\$150,000	\$150,000	\$150,000	\$150,000	\$900,000
New	Asset Management Program	TBA	3	ES		\$300,000	\$1,000,000				\$1,300,000
New	RWF & TP Intertie	TBA	1	ES				\$500,000	\$1,200,000		\$1,700,000
<b>Wastewater Capital Asset Fund Total</b>					<b>\$4,975,000</b>	<b>\$6,050,000</b>	<b>\$11,250,000</b>	<b>\$11,250,000</b>	<b>\$750,000</b>	<b>\$1,450,000</b>	<b>\$35,725,000</b>
<b>Wastewater Capital Asset Replacement (Fund 130)</b>											
CAR -	Digester Gas Compressor Replacements	TBA	1	ES				\$500,000			\$500,000
CAR -	Digester No. 2 Evaluation and Repair	18111	1	ES	\$400,000	\$200,000					\$600,000
CAR -	District Office Building Roof Replacement	18112	1	ES	\$1,000,000	\$1,000,000					\$2,000,000
CAR -	District Office Building Rehabilitation	18113	1	ES	\$500,000	\$1,000,000	\$1,000,000	\$2,000,000			\$4,500,000
CAR -	Headworks Improvements	17117	1	ES	\$1,800,000	\$500,000	\$1,000,000	\$8,000,000			\$11,300,000
CAR -	Primary Clarifier Area Improvements	17140	1	ES	\$2,500,000	\$1,500,000					\$4,000,000
CAR -	Pump Station Facilities Repair	17122	1	ES	\$5,330,800	\$4,000,000	\$2,000,000				\$11,330,800
CAR -	SCADA Communication Network/PLC Processor Upgrade	18114	1	RRS	\$600,000	\$400,000					\$1,000,000
CAR -	Sodium Bisulfite Tank and Chemical Building Canopy Replacement	13105	1	ES	\$500,000	\$100,000					\$600,000
CAR -	Treatment Plant Roadway Maintenance Project	18115	1	ES	\$300,000			\$500,000	\$1,500,000		\$2,300,000
CAR -	Treatment Plant Electrical Switchgear Replacement	17120	1	ES	\$1,300,000	\$1,500,000					\$2,800,000
CAR -	Conveyance System Improvements - Sewer Main Blowoffs	TBA	1	ES					\$200,000		\$200,000
CAR -	Conveyance System Rehabilitation and Replacement	18101	2	ES	\$200,000	\$1,000,000	\$200,000	\$200,000	\$200,000	\$200,000	\$2,000,000
CAR -	Emergency Retention Basin Improvements	TBA	2	ES		\$100,000					\$100,000
CAR -	Sewer Permit Software Replacement	18107	2	ES	\$50,000						\$50,000
CAR -	Rehabilitations and Replacements	18102	3	RRS	\$1,000,000	\$2,000,000	\$1,000,000	\$1,250,000	\$1,000,000	\$1,000,000	\$7,250,000
New	APS Grinder & Diversion Structure	TBA	2	ES					\$2,000,000		\$2,000,000
New	Chlorine Contact Influent Gates Replacement	TBA	1	RRS				\$400,000	\$1,100,000		\$1,500,000
New	Primary Clarifier Nos. 1-4 Coating	TBA	1	ES		\$400,000	\$500,000	\$500,000			\$1,400,000
New	RAS Pump Rehabilitation	TBA	2	RRS				\$300,000			\$300,000
New	SCADA Master Plan	TBA	1	ES		\$500,000					\$500,000
New	Triangle Pump Station Replacement	TBA	1	ES		\$200,000	\$330,000				\$530,000
New	On-Site Fueling Station Replacement	TBA	1	ES		\$200,000	\$200,000				\$400,000
New	Primary Clarifier #5 Installation	TBA	2	ES					\$600,000		\$600,000
<b>Wastewater Capital Asset Replacement Fund Total</b>					<b>\$15,480,800</b>	<b>\$13,700,000</b>	<b>\$6,630,000</b>	<b>\$12,450,000</b>	<b>\$4,600,000</b>	<b>\$4,900,000</b>	<b>\$57,760,800</b>
<b>Wastewater Expansion (Fund 140)</b>											
E-	Bridgehead Phase IV Expansion - Force Main Completion	10178	3	ES	\$250,000			\$600,000	\$2,750,000		\$3,600,000
<b>Wastewater Expansion Fund Total</b>					<b>\$250,000</b>			<b>\$600,000</b>	<b>\$2,750,000</b>		<b>\$3,600,000</b>

**Delta Diablo**  
**FY18/19 - FY22/23 Capital Improvement Program**  
**Program Summary**

Page	Project Name	Project No.	Priority	Lead Dept.*	Approved Budget through FY17/18	Anticipated Budgets					Estimated Total Project Cost
						FY18/19	FY19/20	FY20/21	FY21/22	FY22/23	
<b>Advanced Treatment (Fund 125)</b>											
AT-	Nutrient Technology Research and Innovation	17123	1	ES	\$200,000	\$100,000					\$300,000
AT-	Treatment Plant Nutrient Removal	TBA	3	ES						\$500,000	\$500,000
<b>Advanced Treatment Fund Total</b>					<b>\$200,000</b>	<b>\$100,000</b>				<b>\$500,000</b>	<b>\$800,000</b>
<b>Recycled Water Capital Asset (Fund 220)</b>											
RWA-	Analyzer Room Installation	10187	1	ES	\$150,000						\$150,000
RWA-	Commercial/Residential Recycled Water Fill Station	17124	1	ES	\$50,000						\$50,000
RWA-	Emergency Back-Up Power Generator	15126	1	ES	\$1,400,000	\$300,000					\$1,700,000
RWA-	RWF Filter Backwash Valve Installation	18117	1	ES	\$100,000						\$100,000
RWA-	Recycled Water Asset Advanced Treatment Study and Evaluation	TBA	2	ES	\$100,000						\$100,000
RWA-	Influent Pump Station Improvements	10050	3	ES	\$200,000			\$100,000			\$300,000
RWA-	Power Plant Blowdown Re-routing	15115	3	ES	\$150,000			\$150,000			\$300,000
RWA-	Process Drain Line Modifications	10188	3	ES	\$175,000			\$225,000			\$400,000
RWA-	Recycled Water Facility Filter Cover Improvements Phase II	TBA	3	ES	\$35,000	\$15,000					\$50,000
RWA-	Recycled Water Master Plan Update	TBA	3	ES						\$250,000	\$250,000
RWA-	Small Recycled Water Facility Capital Asset Project	18103	3	ES	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$50,000	\$300,000
RWA-	Treatment Plant Flow Equalization Improvements (ESB)	TBA	3	ES				\$125,000			\$125,000
New	Recycled Water Distribution System Improvements	TBA	3	ES		\$300,000					\$300,000
<b>Recycled Water Capital Asset Fund Total</b>					<b>\$2,410,000</b>	<b>\$665,000</b>	<b>\$50,000</b>	<b>\$650,000</b>	<b>\$50,000</b>	<b>\$300,000</b>	<b>\$4,125,000</b>
<b>Recycled Water Capital Asset Replacement (Fund 230)</b>											
RWR-	RWF CCT Influent Valve Replacement	18118	1	ES	\$100,000						\$100,000
RWR-	FEB Diversion Gate and Control Replacement	TBA	3	ES			\$100,000	\$570,000			\$670,000
RWR-	Recycled Water Facility Repair & Replacement Project	18104	3	RRS	\$100,000	\$400,000	\$300,000	\$100,000	\$100,000	\$100,000	\$1,100,000
New	RWF DEC Drain Valve Automation	TBA	2	ES		\$120,000					\$120,000
New	RWF Sand Filter Backwash Optimization	TBA	2	ES		\$100,000					\$100,000
<b>Recycled Water Capital Asset Replacement Fund Total</b>					<b>\$200,000</b>	<b>\$620,000</b>	<b>\$400,000</b>	<b>\$670,000</b>	<b>\$100,000</b>	<b>\$100,000</b>	<b>\$2,090,000</b>
<b>Recycled Water Expansion (Fund 240)</b>											
RWE-	Distribution Expansion System	18110	3	ES	\$900,000						\$900,000
RWE-	Recycled Water Chlorine Contact Basin Study	TBA	3	ES				\$50,000			\$50,000
<b>Recycled Water Expansion Fund Total</b>					<b>\$900,000</b>			<b>\$50,000</b>			<b>\$950,000</b>
<b>Bay Point Collection (Fund 520)</b>											
BP-	Bay Point Rehabilitation Phase IV	18119	1	ES	\$500,000	\$600,000	\$1,000,000				\$2,100,000
BP-	Unanticipated Bay Point Repair and Replacement	18106	2	ES	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$600,000
<b>Bay Point Collections Fund Total</b>					<b>\$600,000</b>	<b>\$700,000</b>	<b>\$1,100,000</b>	<b>\$100,000</b>	<b>\$100,000</b>	<b>\$100,000</b>	<b>\$2,700,000</b>
<b>Household Hazardous Waste (Fund 310)</b>											
HHW-	Household Hazardous Waste Improvements	18105	3	ES	\$50,000	\$50,000	\$25,000	\$25,000	\$25,000	\$25,000	\$200,000
<b>Household Hazardous Waste Fund Total</b>					<b>\$50,000</b>	<b>\$50,000</b>	<b>\$25,000</b>	<b>\$25,000</b>	<b>\$25,000</b>	<b>\$25,000</b>	<b>\$200,000</b>
<b>Total</b>					<b>\$25,065,800</b>	<b>\$21,885,000</b>	<b>\$19,455,000</b>	<b>\$25,795,000</b>	<b>\$8,375,000</b>	<b>\$7,375,000</b>	<b>\$107,950,800</b>

## Delta Diablo Fiscal Year 2018/2019 - 2022/2023 Capital Improvement Program – Preparation Schedule

Task	Documents/Preparation	Completion Date	Meeting Time	Status
Distribute Request for Projects to District Management Staff	Memo via email, attach link for project request form and prep schedule	December 7, 2017	-	Complete
Submit Draft Project Request Forms to CIP Manager	Depts. submit to folder in z drive	January 5, 2018	-	Complete
CIP Update Kickoff Meeting Develop/Review Draft Project List with Staff	Send out meeting notice, schedule meeting room, prepare Kickoff Agenda, Tables, Email, Memo, and Attachment	January 11, 2018	1:00 – 2:00 pm	Complete
Submit Final Project Requests to CIP Manager	Depts. Submit to CIP Manager	<b>By January 19, 2018</b>	-	Complete
Finalize Preferred Project List; Confirm Revenue Sources	Send out project list to confirm with Staff	February 16, 2018	-	Complete
CIP Project Prioritization Meeting (Group)	Table 1	February 21, 2018	2:00 – 3:00 pm	Complete
Executive Management review of Draft CIP (SE, ESD, DGM, GM)	Table 1	March 6, 2018	2:00 – 3:00 pm	Complete
Contact Board Secretary to schedule Finance Committee Meeting	Call or email request	-	-	Complete
Finance Committee Packet Items due for review	Memo, Table 1	March 22, 2018	-	Complete
<b>Draft CIP Report to Finance Committee</b>	<b>Prepare Memo, Table 1A and 1B for meeting</b>	March 27, 2018	11:00 am – noon	Scheduled
Board Meeting Packet Items due for review		March 28, 2018	-	Pending
Prepare Final Draft CIP Document: <b>Initiate 40-day Public Review (This date is driven by necessity to meet June Board Meeting)</b>	<b>Prepare updated CIP (copied &amp; bound), letter to Cities/County &amp; mail, internal review with memo to staff</b>	<b>April 11, 2018</b>	-	Pending
<b>Present Draft CIP to Board and Establish Public Hearing Date</b>	<b>Prepare Docket, New Project Table, CIP Preparation Schedule, &amp; Draft CIP Docs</b>	<b>April 11, 2018</b>	4:30 – 5:30 pm	Scheduled

<b>Task</b>	<b>Documents/Preparation</b>	<b>Completion Date</b>	<b>Meeting Time</b>	<b>Status</b>
Internal Review Comments on Draft CIP	Update draft CIP with changes/additions from internal review	April 16, 2018	1:00 – 2:00 pm	Pending
<b>Submit Final Draft to Finance Committee</b> (This meeting is to be scheduled only if necessary due to significant changes or addition during public review period prior to Board Meeting)	<b>Contact Secretary to the Board to schedule. Prepare Agenda item and Tables 1A and 1B</b>	<b>May 2017 (tentative – depends on necessity) (Date TBD)</b>	Time to be determined	Schedule w/ Board Secretary, if needed
Receive Public Review Comments (This date is driven by 40-day review initiation date)	Receive comments, if any, and update finalize draft CIP document	May 22, 2018	-	Pending
Prepare Final draft CIP Document	Update document	May 30, 2018	-	Pending
<b>Publish Public Hearing Notice</b> (Minimum 10 days prior to Hearing Date)	<b>Senior Engineer to write up notice and Submits to Secretary to the Board to publish</b>	<b>May 30, 2018</b>	-	<b>Scheduled</b>
<b>Final CIP Document Board Approval, Public Hearing</b>	<b>Prepare Board item, Power Point and Final Draft CIP (copy/bind)</b>	<b>June 13, 2018</b>	<b>4:30 – 5:30 pm</b>	<b>Scheduled</b>
Send CIP to printing company (ABC Imaging)	Prepare final CIP in pdf format	June 15, 2018	5:00 pm	Pending
Send out Finalized CIP document	Prepare transmittals for Cities and County and Interoffice memo for DD Employees	Before July 1, 2018	5:00 pm	Pending
Update DD website	Email link to PIM	Before July 1, 2018	5:00 pm	Pending



## ITEM E/3

March 14, 2018

REVIEW PROPOSED SEWER SERVICE CHARGE INCREASES, SET PUBLIC HEARING FOR MAY 9, 2018, AND AUTHORIZE DISTRIBUTION OF PROPOSITION 218 NOTICESRECOMMENDATION

- 1) Review and comment on proposed Sewer Service Charge (SSC) increases for Fiscal Year 2018/2019 (FY18/19).
- 2) Set public hearing to receive public comment and respond to questions regarding the proposed rate increases for wastewater services for May 9, 2018 at 5:30 p.m.
- 3) Authorize distribution of Proposition 218 Notice addressing proposed increases and notifying property owners of the public hearing on this matter.

Summary Statement

The proposed rate increases include:

- Applying a 6.0% SSC rate increase for Antioch and Pittsburg customers in FY18/19. The proposed rate increase (does not include wastewater collection) equates to an estimated SSC increase of \$21.06 per year or approximately \$1.76 per month.
- Applying a 5.0% SSC rate increase to Bay Point customers in FY18/19. The proposed rate increase (includes wastewater collection) equates to an estimated SSC increase of \$24.99 per year or approximately \$2.08 per month.

## No Proposed Street Sweeping Increase

- Annual Street Sweeping Charges, which vary by community (\$4.58 for Bay Point, \$10.26 for Pittsburg and \$5.60 for Antioch) are not proposed to increase.

Background Information

Delta Diablo (District) is a California special district that provides wastewater, street sweeping, and household hazardous waste collection services to the City of Antioch, the City of Pittsburg, and the unincorporated community of Bay Point. For the community of Bay Point (Zone 1), the District also provides wastewater collection services, and Bay Point customers are charged for those additional services through Collection System operating and rehabilitation components added to their SSCs.

SSCs do not pay for any capital costs related to growth, which is funded through the District's Capital Facilities Capacity Charges (CFCCs). Serving nearly 210,000 residents and encompassing 54 square miles, the District is an award-winning agency with a mission to protect public health and the environment. Public ownership of these services allows customers the benefit of reliable service while still having rates among the lowest in the region.

High-quality and environmentally-sound resource recovery services (wastewater utility operations, household hazardous waste, and street sweeping) are essential for public health and economic vitality. Consistent delivery of District services requires continued top performance of our publicly-owned facilities and related infrastructure systems and the expertise of professionals, including state-certified staff.



Each year, the District submits required information to Contra Costa County to place SSCs on the property tax roll for most customers. The current rate analysis includes a 5-year financial planning horizon from fiscal years FY18/19 through FY22/23. The study meets the legal requirement for setting rates that are proportionate to the cost of services provided. The proposed single-year rate implementation will meet the financial goals of generating sufficient revenues given the current assessment of future expenses and economic reserves.

The Board last adopted a rate adjustment in June 2017. The adjustment consisted of a single-year increase of 6.5% for customers in Antioch and Pittsburg and 6.1% for customers in Bay Point, effective FY17/18.

The District's SSCs are determined based on the costs of providing services. These costs include utility operations, capital, rehabilitation, state and federal regulatory compliance, household hazardous waste collection, street sweeping services, and adopted fiscal policies. For the community of Bay Point (Zone 1), the District also provides wastewater collection services, and Bay Point customers are charged for that additional service through an added component to their SSCs. In addition to SSCs, District reserve funds are used consistent with Board policies to keep SSC increases as low as practical.

Based on the financial analysis, staff is recommending adjustments to SSCs rates to remain fiscally sound by:

- Collecting revenues sufficient to meet expenses.
- Complying with Proposition 218, which stipulates that:
  - 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
  - Fairness in apportionment of total costs of service amongst ratepayer classes (avoidance of subsidization within the rates)
- Reflecting adopted fiscal policies for economic reserves of 40% of operating expenditures
- Meeting commitments made in loan agreements

The remainder of this report details the rates analysis process and conclusions necessitating the SSC rate increases.

### Analysis

The process to establish rates that support fiscal stability relies on long-term financial planning and sound fiscal policies. The District continues to be subject to increases in regulatory, operational, and rehabilitation costs. General cost increases include:

- Growth. Because the District uses a multi-year rate model to evaluate and project future costs and revenue requirements, projected growth is one of the key assumptions. To the extent growth is robust, fixed costs are spread over more services and rate adjustments may be lower; to the extent growth is slow, fixed costs are spread over fewer services resulting in marginally higher SSC adjustments. Beginning with the FY12/13 rate analysis, the growth assumption was reduced from 600 to 400 equivalent residential units (ERUs) annually. The average growth rate over the past five



years (FY12/13 – FY16/17) has been 433 ERUs, so the assumption of 400 added ERUs annually has been maintained for the FY18/19 analysis.

- **Operating Expenses.** The District has seen costs increase in general. The assumption used for increases in annual operating expenses is 3.0% in the rate model.
- **Salaries.** Labor cost inputs were based on salaries in existing negotiated contracts. Salary and benefits were increased by 3.6% annually based on estimated cost of living adjustment (COLA) increases. Per the terms of the District’s current labor Memoranda of Understanding (MOUs), COLA impacts are reviewed each year and adjusted as necessary.
- **Regulatory Requirements.** Wastewater utilities are highly regulated. New requirements, such as unfunded mandated programs, increasingly stringent reporting requirements, or compliance with updated standards, are routine.
- **Wastewater Rehabilitation Costs.** The District has over \$100 million in wastewater infrastructure assets (net of depreciation) and is currently conducting an assessment of its wastewater conveyance and treatment system infrastructure. The results of this study will better inform the District’s need for long-term infrastructure rehabilitation. An effective rehabilitation program includes evaluations of facilities and proactive repairs and replacements, thus avoiding expenses associated with unexpected infrastructure failure. Alternatively, the utility would be obligated to seek bond financing or emergency loan funds to pay for the repairs, with associated high-interest rates.
- **Economic Reserves.** Utility economic reserves are an essential part of the utility’s operating procedures and ensure the continued ability to provide services during budget shortfalls or unforeseen circumstances. The analysis includes a 40% economic reserve target based on operating expenditures.
- **Debt Service Coverage.** The District is obligated to meet debt service coverage requirements related to long-term debt as part of our various loan agreements. The typical rate covenant for debt issued on wastewater capital improvement projects requires a minimum debt service coverage ratio of 1.20 (ratio of net revenues to expenses). Maintaining debt service coverage requirements is crucial to maintaining the District’s good credit rating.

The District’s revenues and expenditures have been calculated for the next fiscal year based on the adopted FY17/18 Operating Budget, advanced treatment, and draft FY18/19 through FY22/23 capital improvement program (CIP), which have resulted in projected SSC adjustments to ensure that total revenues, including reserve use, cover the cost of providing service. The core components of SSCs are: Regional Treatment and Conveyance, which funds wastewater operations and maintenance (O&M) costs, Capital Asset (CA) for new wastewater reliability capital projects, and Capital Asset Replacement (CAR) for rehabilitation and replacement capital projects. Based on these projected expenditures, the SSCs need to increase for FY18/19, as reflected in Table 1. The projected increases are due to increases in core wastewater service operating and capital needs.

**Table 1: Sample Single Family Sewer Service Change on Property Tax Bills for FY18/19**

Residential Service	Current Rates	Proposed Rates	Increase
Sewer Service Charges (Customers in Antioch and Pittsburg)	\$351.62	\$372.68	\$21.06
Sewer Service Charges (Customers in Bay Point)	\$497.14	\$522.13	\$24.99

Additionally, it continues to be likely that advanced treatment for nutrient removal will be required to meet future wastewater discharge standards. Funding for this effort began with the FY11/12 SSC review, when the Board established a designated Advanced Treatment (AT) Reserve fund and approved a new rate component to begin funding that reserve. This was the first step in a proposed sinking fund approach to build future cash reserves to levels sufficient to pay for project planning and design, and revenue streams to service debt for project construction. Original capital costs for this



effort were estimated to be \$125 million in escalated dollars with an anticipated target date for compliance of FY23/24. However, as reported to the Board in November 2017 updated information on future permit requirements suggest a new target date of FY33/34, creating additional time to collect the designated funds necessary for this effort and mitigate the significant cost of future long-term debt.

Therefore, instead of 2.7% of the overall proposed increase being designated for future nutrient removal improvements, staff is now recommending 1.0% increases over the next two years. This is consistent with the fund strategy established by the Board of Directors in FY11/12 and minimizes rate increases over the long-run to meet these requirements. The proposed 1.0% increase in FY18/19 would add an additional \$3.47 per year to the AT Reserve rate component, or \$0.29 per month. This, added to the proposed increase for core wastewater SSC components, would bring the total annual adjustment to \$21.06 (6.0%), or \$1.76 per month for all three District zones.

In FY17/18, an additional \$4.1 million was transferred from the AT fund to fund the first year of the CAR fund-related CIP. These fund reserves are rate-funded and, as such, are not typically subject to inter-fund loan provisions. However, because the AT fund was set up for the specific purpose of funding the future AT Project, the transfer will be repaid from the CAR fund beginning FY20/21.

Additionally, inter-fund transfers from the CA fund to the CAR fund of \$1.2 million in FY18/19 and \$1.2 in FY19/20 will provide further funding for rehabilitation needs. Because both funds are rate-funded, inter-fund loans are not required.

Inter-fund loan repayments are also planned from the Capital Expansion fund to the CAR fund to repay funds previously borrowed to cover anticipated shortfalls in CFCC revenue and CFCC-funded debt service. Because the Expansion fund is funded by new development through CFCCs, the loan payments include interest based on Local Agency Investment Fund (LAIF) interest rates. The first repayment to the CAR fund, averaging about \$1 million annually, began in FY17/18 because the existing bonded debt was retired in FY16/17.

Street Sweeping Charges are not proposed to increase next year, as they are sufficient to cover the costs of providing street sweeping services.

### **Future Considerations**

Wastewater services are subject to a myriad of regulatory requirements, power supply, and chemical costs. In the upcoming year, rehabilitation funds will be used to extend the useful life of facilities at the treatment plant, pump station facilities, and in the collection system. In response to new water quality permit limits, the biological treatment process at the plant is anticipated to undergo significant construction during the upcoming years to allow the process to meet more stringent National Pollution Discharge Elimination System (NPDES) requirements. In addition, work to replace the existing Supervisory Control and Data Acquisition (SCADA) system has been ongoing over the past year and should be completed next year. This is a significant milestone that updates a major system that is vital to reliable and effective operation of the treatment plant. In addition to treatment plant improvements, work is planned each year to repair or replace portions of the wastewater collection system that have sustained damage due to age, tree root intrusion, or other natural forces.

### **Public Outreach**

In compliance with Proposition 218, a California law since 1996, notices on proposed rate increases will be sent to all utility customers by March 23, 2018 (a minimum of 45 days prior to the May 9, 2018 public hearing). A copy of the notice is included in this report as Attachment A. The notice outlines the process for protesting the proposed rate increases. Protest ballots can be mailed or hand delivered to



the District on or before the public hearing date, or in person at the public hearing on May 9, 2018. In addition, pursuant to Government Code requirements, notices of the public hearing will be published twice in the East County Times. At the close of the Public Hearing, the Board Secretary will announce the total number of protest responses. If written protests against the proposed rate increases are presented by a majority of the owners of identified parcels, the District cannot impose the adjustments.

Staff presented the proposed SSC analyses to the Finance Committee on March 6, 2018, and the Committee recommended that the Board consider the core SSC, Advanced Treatment and Bay Point Collection System rate component adjustments for the upcoming fiscal year. The Finance Committee also recommended that draft Proposition 218 notices reflecting an increase of up to 6.0% for customers in Pittsburg and Antioch; and an increase of up to 5.0% for customers in Bay Point, be reviewed by the full Board.

#### Fiscal Impact

Without a rate increase, the overall economic reserves would decline rapidly; from an approximate 63.2% in FY17/18 to 48.9% in FY18/19 and 32.6% in FY19/20. At the end of five years (FY22/23), the reserves would be completely depleted and the District would be unable to fully fund its annual operating costs.

With the proposed rate increase, Pittsburg and Antioch residential customers would see an estimated increase of \$21.06 per year or approximately \$1.76 per month, an increase of 6.0%. Bay Point residential customers would see an estimated increase of \$24.99 or approximately \$2.08 per month, an increase of 5.0%.

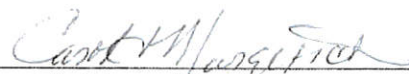
The proposed rate adjustments will result in additional revenue of approximately \$1.7 million to the District including the incremental increase of \$272,000 for deposit into the designated AT Reserve fund. There are separate surcharges for service to Bay Point for operation and rehabilitation of that community's Collection System. The Bay Point surcharges along with growth would increase FY18/19 revenues for Collection System operations and rehabilitation by about \$28,195.

The proposed rate adjustment maintains the District's position as one of the lowest cost overall service providers in the region; strengthens the District's rehabilitation program; and maintains economic reserves, helping to ensure fiscal soundness and resiliency in the face of upcoming unfunded mandates and regulatory requirements. A comparison of District rates, including rates for collections in the cities of Antioch and Pittsburg, with the rates of other regional sanitation agencies will be provided as part of the Board presentation.

#### Attachments

- 1) Finance Committee Staff Report Memo, dated March 6, 2018
- 2) Draft Proposition 218 Notice

Signature: \_\_\_\_\_

  
Carol S. Margetich, Business Services Director

cc: District File CORP.07-CORRES-XXX

