

AGENDA

BOARD OF DIRECTORS FINANCE COMMITTEE MEETING DELTA DIABLO

(a California Special District)

**2600 Pittsburg-Antioch Highway
Pittsburg, California**

**WEDNESDAY, MAY 2, 2018
9:00 A.M.**

- A. PUBLIC COMMENTS**

- B. REVIEW KEY ASSUMPTIONS FOR PROPOSED FISCAL YEAR
2018/2019 (FY18/19) OPERATING BUDGET (Margetich)**

- 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.

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Delta Diablo

MEMORANDUM

Date: May 2, 2018

To: D. Pete Longmire, Chair, Finance Committee

From: Carol Margetich, Business Services Director 

SUBJECT: REVIEW KEY ASSUMPTIONS FOR PROPOSED FISCAL YEAR 2018/2019 (FY18/19) OPERATING BUDGET

RECOMMENDATION

Review and comment on key assumptions for the proposed Fiscal Year 2018/2019 (FY18/19) operating budget.

Background Information

FY17/18 marked the final year of the three-year operating budget cycle spanning FY15/16 to FY17/18. In contrast to the previous approach of proposing a three-year operating budget and planning cycle, a single-year budget is proposed for FY18/19. Based on a staff recommendation, the Board adopted a repeal of Resolution No. 9/97, "Approval of Three Fiscal Year Budget Proposal", on April 11, 2018 to provide flexibility to utilize a single-year budget process. As part of its Strategic Business Plan, the District undertook a FY17/18 business initiative to "Evaluate alternatives and provide a recommendation for improvements to the rate-setting and capital improvement program development process." As part of this effort, it is the District's intent to complete a single-year budget for FY18/19 and possibly FY19/20 with the goal of transitioning to a budget cycle that better aligns the rate-setting and capital improvement program (CIP) development process. The FY18/19 Operating Budget (the Budget) will be considered by the Board at its June meeting in accordance with Board policy, which requires budget adoption by the first meeting in July each year. The Budget, in conjunction with the CIP budget, serves as the basis for future year sewer service charges and recycled water charges in the rate models developed by staff.

Staff has included a number of budget reduction strategies that are in currently in place or will be implemented in the upcoming fiscal year to ensure that the District continues to serve as a responsible steward of funds provided by ratepayers in our service area, including:

- Retirement Tiers for New Hires:
 - The District has three retirement plan tiers. Tier 1 (2.7% at age 55) applies to employees hired prior to July 1, 2012. Tier 2 (2.0% at age 55) 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.). Tier 3 (2.0% at age 62) applies to employees hired on or after January 1, 2013, who are not members of a qualified public pension plan.
 - There are currently five vacant positions in, or soon to be in, the recruitment and hiring process. In addition, it is anticipated that several current District employees will retire during FY18/19. No



new hires may become members of the Tier 1 retirement plan tier, so there are savings as Tier 1 employees leave the District and are replaced by new hires. In addition to lower required employer contributions into CalPERS, all new hires pay their full employee contributions into CalPERS, as well as into the Other Post-Employment Benefits (OPEB) trust at 3% of base salary.

- It is assumed that entry level positions will be hired into the Tier 3 (2.0% at age 62) plan, because it is unlikely that these hires would have been members in CalPERS or a reciprocal public retirement plan prior to joining the District. It is assumed that journey level, professional, and management employees will be hired into the Tier 2 (2.0% at age 55) plan, because it is highly likely that they would have previously been a member in CalPERS or a reciprocal plan.
- Energy Management Plan: Energy is a major operating cost. Staff is currently developing an energy management plan to identify opportunities to reduce on-site energy demand and increase renewable energy production. In addition, staff is identifying changes to operating strategies based on variable energy cost schedules to provide potential cost savings. For example, shifting operation of high energy-consuming machinery and equipment to avoid peak energy cost periods, when possible, would provide a financial benefit to ratepayers.
- Building Renovation Project: This project will include opportunities to increase operational efficiency through improved building renovations.
- Zero-based Budgeting: Staff has applied a zero-based budgeting approach to selected discretionary items to establish a cost baseline and increase overall budget awareness.

Analysis

Key assumptions drive annual changes to the District's operating budgets. These assumptions will be presented to the Finance Committee on May 2, 2018 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 13, 2018. Key assumptions that impact the budget development and associated rate-setting process are provided below.

Key Assumptions:

- Salaries and Benefits: The budget includes regular pay, step increases, overtime pay, and the following notable items:
 - Medical Insurance: Medical insurance is estimated to grow at 11% while all other health benefits are not expected to increase. The baseline benefit budget is estimated at \$4.4 million.
 - CalPERS pension unfunded liability contribution is budgeted at \$0.8 million.
 - The budget includes an additional full-time equivalent (FTE) position budget of \$0.2 million to provide overlap of staff for critical positions for succession planning purposes.
 - Cost of Living Adjustments (COLAs). COLAs are provided for in each bargaining unit's memorandum of understanding (MOU). 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 the COLAs will be included in the FY18/19 Salaries and Benefits budget for the Board's consideration in June.

- **Inflation:** The District has historically assumed that normal inflation will be 3.0%, consistent with long-term historical averages. For the FY18/19 Budget, each budget line item has been reviewed in detail to determine if an inflationary adjustment is appropriate.
- **Organization Changes:** Baseline salary budget reflects 81.0 full-time FTEs and 0.5 temporary FTEs with no new position recommendations. However, staff will be continuing to evaluate resource needs as employees retire during the fiscal year. Additionally, the Communication-Outreach Division was transferred from the Administration Department to the Business Services Department in mid-FY17/18 to better align programs and services. There is no impact to the total number of authorized positions from this transfer.
- **One-time funding of \$0.5 million to PARS in FY18/19:** The trust account with PARS was set up 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, accelerated amortization schedule, and/or investment losses.
- **Chemicals Prices:** Wastewater and recycled water chemical costs and quantities have been reevaluated in detail. The FY18/19 chemical budget has a total of \$1.7 million with \$1.0 million in Wastewater and \$0.7 million in Recycled Water.
- **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 for the required 3% match, as well as actual retiree medical costs which are deposited into the OPEB trust fund. The FY18/19 budget includes an ADC of \$.9 million.

Financial Impact

The single-year budget for FY18/19 gives the District an opportunity to review, reassess, and recalibrate the baseline budget based on the new business initiatives and priorities.

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