



Major Factors Impacting CIP Development and Sewer Service Charge Projections

Board of Directors Meeting
March 8, 2023



Overview

New 5-Year CIP Development



- Preliminary new 5-year CIP = **\$137.2M** (current = \$135.9M)
- Although CIP total is nearly the same, cash flow magnitude and timing has changed significantly from two years ago for several major capital projects
 - Secondary Process Improvements Project (\$60.0M)
 - Antioch Pump Station and Conveyance System Improvements Project (\$18.5M)
 - Cogeneration System Improvements Project (\$10.0M)
- Key CIP Development Drivers: Significant scope and cost estimate increases, schedule delays for these projects
 - Directly impacts revenue, cash flow needs, and associated District Sewer Service Charges (SSCs)

Secondary Process Improvements Potential Expanded Scope/Cost

- Project schedule has been delayed by approximately 18 months (delays in completing master planning work)
 - Significant impacts to future SSC rate projections
- Original project scope (\$60.0M) did not include nutrient removal (renew infrastructure, address service area growth)
- Algal blooms in SF Bay last summer may accelerate implementation of nutrient removal requirements
 - Full nutrient removal cost at District = \$150-200M+ (not in CIP)
 - Regional Water Board is considering “early actions” by POTWs
- Staff is now considering inclusion of a partial (15-20%) nutrient removal approach—if cost effective

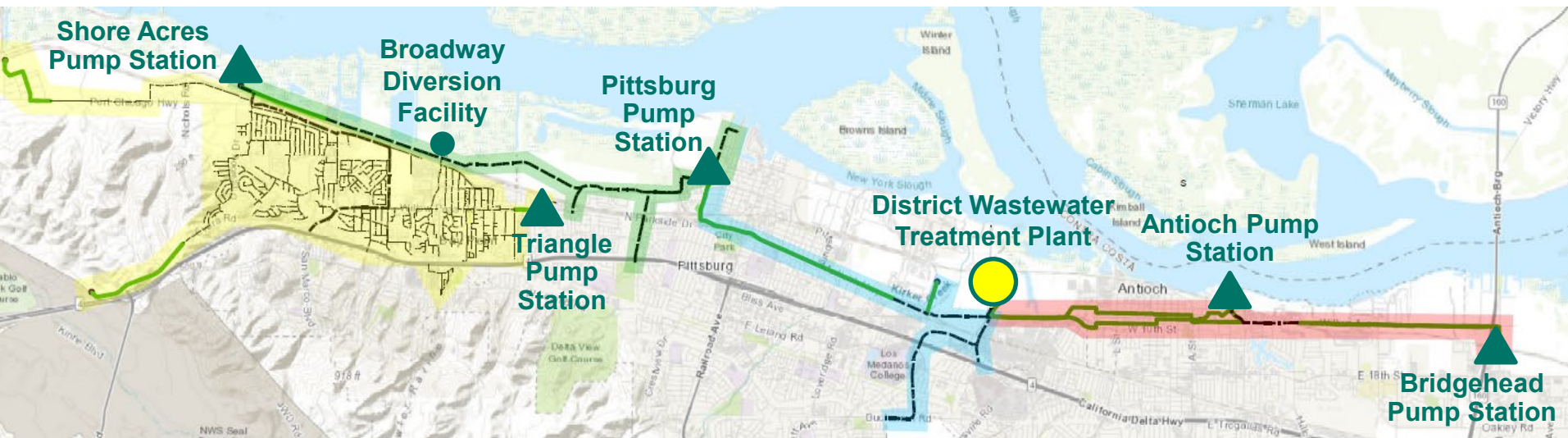


Antioch PS and Conveyance System Improvements

Schedule Delay/Increased Cost



- Project schedule has been delayed by approximately two years (significant planning/predesign efforts to determine best project approach)
 - Significant impacts to future SSC rate projections
- Project cost was increased from \$9.0M to \$18.5M in current 5-year CIP



Cogeneration System Improvements Project Schedule Delay/Increased Cost

- Project schedule has been delayed by approximately one year—provided opportunity to access federal funding
 - District recently (Feb 2023) awarded project design contract and is pursuing federal tax credits (30-50% of capital cost) under Inflation Reduction Act (requires in construction by Dec 2024)
- Current 5-year CIP includes \$5.0M cost estimate
 - Staff will include \$7.0M cost in new CIP (\$10.0M project cost with assumed \$3.0M federal tax credit)
- District is also considering expanded biogas production and utilization, which will increase nutrient loading and need to be addressed via Secondary Process Improvements Project



Major Factors Impacting Sewer Service Charge (SSC) Projections



- District incorporated cost estimates and schedules for these major capital projects in prior financial plans
 - Significant delays in project implementation impacts SSC revenue collection needs in near term
- Increased growth in service area has provided additional SSC revenue
- District continues to effectively manage its operating budget with additional salary and benefit savings (i.e., vacancies), while managing increases in chemical, biosolids management costs
- Supply chain disruptions have caused delays to other projects (Switchgear Replacement, Bridgehead Pipeline Replacement)

Summary of Recent SSC Increases and Updated Preliminary SSC Projections



- District increased SSCs in recent years to meet capital infrastructure investment and operational needs
 - **3.5%** (FY20/21), **6.5%** (FY21/22), **4.5%** (FY22/23)
- In June 2022, staff projected the following SSCs:
 - **4.5%** (FY23/24), **2.5%** (FY24/25), **2.0%** (FY25/26), **2.0%** (FY26/27)
- Based on CIP drivers described, staff preliminarily estimates that no SSC increase is projected for FY23/24
 - **0.0%** (FY23/24), **2.5%** (FY24/25), **2.0%** (FY25/26), **2.0%** (FY26/27)
- In early 2024, staff will incorporate updates to all three project costs, schedules as design work is completed
- Staff will conduct Finance Committee Meeting on March 16, 2023, to confirm SSC projections

Next Steps

- Review SSC Financial Modeling Assumptions with Finance Committee Mar 2023
- Review Draft CIP with Finance Committee Apr 2023
- Present proposed CIP to Board and Establish Public Hearing Date May 2023
- Conduct Public Hearing, Consider CIP Adoption, Authorize FY23/24 SSC Collection Jun 2023

