



# Key Assumptions for Proposed FY23/24 Sewer Service Charges

Finance Committee Meeting  
March 16, 2023



# Overview

## FY23/24 SSC Development



- Staff is currently engaged in developing the proposed FY23/24 Budget and 5-year CIP
  - Ensure consistency with District's guiding principles for long-term financial sustainability
- In June 2022, staff projected a 4.5% SSC increase for FY23/24
- However, based on key changes to anticipated cash flow needs for major capital projects, staff is proposing that SSCs in FY23/24 be maintained at the same level as FY22/23 (i.e., no SSC increase)

# 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 that represent 60% of CIP
  - 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 SSCs

# Secondary Process Improvements Potential Expanded Scope/Cost

- Project schedule has been delayed by approximately two years (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

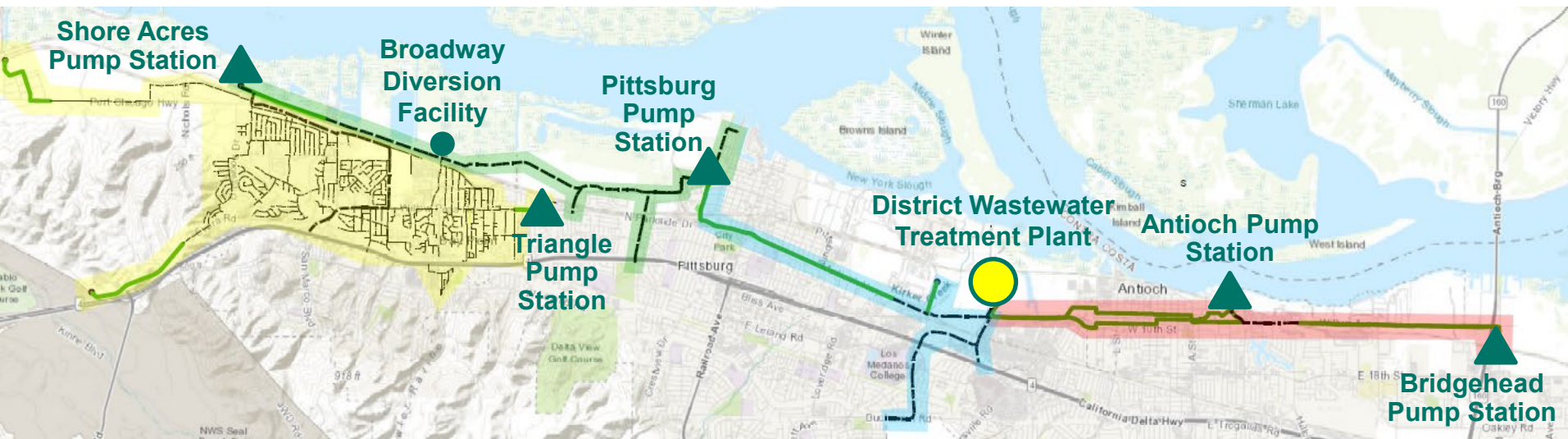


# Antioch PS and Conveyance System Improvements

## 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 FY23/24 SSCs



- Prior financial plans included different cost estimates and schedules for these major capital projects
  - Significant delays in project implementation impacts SSC revenue collection needs in near term
  - Cost estimates and schedules will be further refined in early 2024
- Supply chain disruptions have caused delays to other projects (Switchgear Replacement, Bridgehead Pipeline Replacement)
- 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) that balance increases in chemical and biosolids management costs

# 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 updated estimates of CIP cash flow magnitude and timing, staff has determined that FY23/24 SSCs could be maintained at FY22/23 levels without any significant impact on future SSC revenue projection needs
  - **0.0%** (FY23/24), **2.0 – 3.0%** (FY24/25-FY26/27)



# Additional FY23/24 SSC Considerations



- No Proposition 218 Notice is required to maintain FY22/23 SSCs in FY23/24; however, Board is required to approve a resolution authorizing SSC collection on tax roll
- Staff will include rebalancing the distribution of FY23/24 SSC revenue between capital and operating needs to cash flow and fund balance reserve requirements
- As reported by District's auditor (Feb 2023), District is currently in a strong financial position with sufficient fund balances and reserves

# Next Steps

- Review FY23/24 Operating Budget Assumptions
  - Finance Committee, Board (Apr 2023)
- Review Proposed Budget/5-year CIP and Establish Public Hearing Date
  - Finance Committee, Board (May 2023)
- Conduct Public Hearing and Consider 5-year CIP Adoption, Consider Approving FY23/24 Budget, Consider Authorizing FY23/24 SSC Collection on Tax Roll
  - Board (Jun 2023)

