



Key Assumptions for FY23/24 Operating Budget Development

Finance Committee Meeting
April 26, 2023



TRANSFORMING WASTEWATER TO RESOURCES

FY23/24 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

Financial Planning

Project FY24/25 (second year) Operating Budget needs; no funding appropriated but supports GFOA requirements

Operating Budget

Proposed FY23/24 Operating Budget = \$33.0M

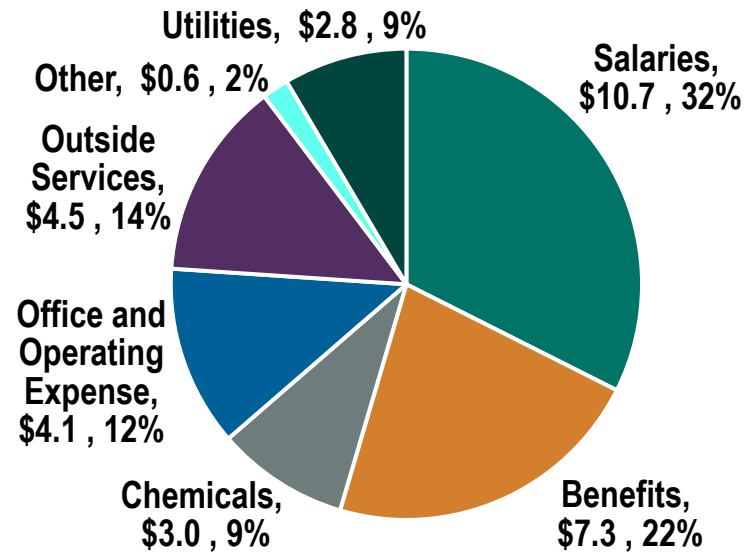
- **+\$1.3M** increase (4%) relative to FY22/23 (\$31.7M)
 - WW Operating Budget (funded by SSCs) = **+\$0.5M** (\$26.4M)
 - RW Operating Budget (funded by RWSCs) = **+\$0.6M** (\$3.9M)

FY23/24 Proposed Operating Budget Overview: Revenues/Expenses



- Proposed Operating Budget = \$33.0M:

- Wastewater Conveyance and Treatment **80%**
 - Bay Point Collection **2%**
 - HHW Collection **4%**
 - Recycled Water **12%**
 - Street Sweeping **2%**
- Sewer Service Charges (SSCs)**
- Recycled Water Service Charges**
- Street Sweeping Charges**



Proposed FY23/24 Operating Budget Breakdown (\$M)

Salaries

Benefits

Chemicals

Utilities

Office/
Operating

Outside
Services

FY23/24 Budget Development

Adjusting Approach to Meet Staffing Needs



- Drivers for Preliminary Staffing Changes
 - Supervisory span of control; technical leadership **Electrical Maintenance Supervisor**
 - Succession planning, span of control **Operations Supervisor**
 - Capital project delivery **Engineering position**
 - Classification upgrades to address recruitment challenges **Senior Construction Inspector**
 - Expanded information technology capacity **Systems Administrator**
 - Expanded electrical/instrumentation capacity **E/I Technician II**
 - Promotional opportunity **Collection System Worker III**
- Staff has developed Classification Control Plan for Board consideration as part of FY23/24 Budget review (May 2023)
 - No significant Operating Budget impact
 - Most staffing changes include conversion of existing positions with incremental cost differentials; **only one new position**

Key Assumptions

Salaries (\$10.7M, 32% of Total)

Ensuring Staffing Needs and Skilled Workforce

- Following critical review of position needs, incorporated multiple position changes for FY23/24
- 81.5 full-time equivalent (FTE) positions (4.0 FTE increase from FY22/23), including 4.5 FTEs for part-time positions
 - Incorporated labor savings (w/benefits) of \$1.0M due to vacancies (equivalent to 3.5 FTEs); additional labor savings in capital budget
 - Utilizing three experienced retired annuitants (Operations, Finance, Lab; 1.5 FTEs) and six intern positions (3.0 FTEs) to support critical business needs and workforce development
- Labor (salaries/benefits) budget is essentially same as FY22/23 (-\$21k)

Salaries

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Chemicals

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Office/
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Key Assumptions

Salaries (\$10.7M, 32% of Total) (cont'd)



Navigating a Competitive Labor Market – Salary Drivers

- Strong interest in recruiting and retaining highly-skilled staff in competition with peer agencies, consultants
 - Intensified focus on workforce development, industry engagement, training—+\$89k increase (\$295k)
- ~43% of staff has been with District <5 years—moderate shift to lower salaries with more staff in salary progression
- Labor MOU Obligations: Include annual cost-of-living adjustments (COLA) to be applied in July each year
 - COLA range = 2.0-5.0% (to be confirmed in May based on index)
 - Financial Impact: Assumed 5.0% COLA increase = \$0.6M

Salaries

Benefits

Chemicals

Utilities

Office/
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Outside
Services

Key Assumptions

Benefits (\$7.3M, 22% of Total)



- Managing Health Benefits Costs
 - Expected medical insurance premium increase is 10%; offset by expected decrease in medical costs due to changes in staff elections and labor agreement changes
 - Other health/life insurance are not expected to increase significantly
- Continuing Retirement Cost Reduction following Pension Benefits Changes and Reform (2012-13)
 - In FY23/24, **28% of staff are Tier 1** members (2.7%@55), while **72% are either Tier 2** (2.0%@55) or **Tier 3** (2.0%@62)
 - District pays CalPERS normal costs as % of salary: 15.85% (Tier 1); 12.37% (Tier 2); 7.91% (Tier 3), PEPRAs employee increase to 8.0%
 - CalPERS Unfunded Actuarial Liability (UAL): \$1.5M



Key Assumptions

Benefits (\$7.3M, 22% of Total) (cont'd)



- Continuing to Meet OPEB Trust Fund Obligations to Reduce Long-term Cost Liability
 - Employees hired before either October 16, 2022, or February 5, 2023, pay 3.0% of salary; all other staff will receive the PEMHCA minimum benefit at retirement
 - District contribution = \$0.4M to ensure full funding of Actuarially Determined Contribution (ADC)—includes \$0.3M (3.0% District match) + additional \$0.1M
 - Continue to effectively manage outstanding OPEB liability in accordance with District's OPEB Trust Fund Policy
- Established Retiree Health Savings accounts for employees
 - District contributes each pay period in accordance with labor MOUs
 - \$0.4M budgeted



Key Assumptions

Chemical and Utilities (\$5.8M, 18% of Total)



Chemicals (\$3M, 9% of total)

- **\$1.6M** for Wastewater, **\$1.4M** for Recycled Water
- Chemicals increased **\$0.8M** due to sharp increases in chemical unit prices (e.g., +104% for chlorine)
 - Considering ongoing value of BACC participation
- Critically reviewed quantity estimates while working to optimize chemical usage

Utilities (\$2.8M, 9% of total)

- Utilities increased **\$0.2M** (~8%) due to rising natural gas supply costs and increases in wastewater system conveyance pumping



Key Assumptions

Office & Operating/Other (\$4.7M, 14% of total)



Office and Operating (\$4.1M, 12% of total)

- \$0.7M increase (20%) due to insurance, hauling, IT technology systems and applications, program administration
- Intensified focus on workforce development, industry engagement, training—+\$89k increase (\$295k)

Other (\$0.55M, 2% of total)

- Reduced contingency allowance (\$250k from \$300k)
- Transfers to other District funds (\$0.3M)



Key Assumptions

Outside Services (\$4.5M, 14% of Total)



- Supporting strategic initiatives, continuous organizational improvement, and enhanced business processes through Professional Services (\$1.1M)
 - Munis Enterprise Resource Planning enhancements
 - Capital Facilities Capacity Charges study
 - Confined space rescue standby services
 - Updates to District standards
 - Recruitment services
 - Laserfiche implementation
- Street Sweeping, Household Hazardous Waste (\$1.7M)
- Temporary and Other Services (legal, facilities, maintenance, lab testing/analysis, misc.) (\$1.7M)



FY24/25 Budget Forecast

Financial Planning

Project FY24/25 (second year) Operating Budget needs; no funding appropriated but supports GFOA requirements

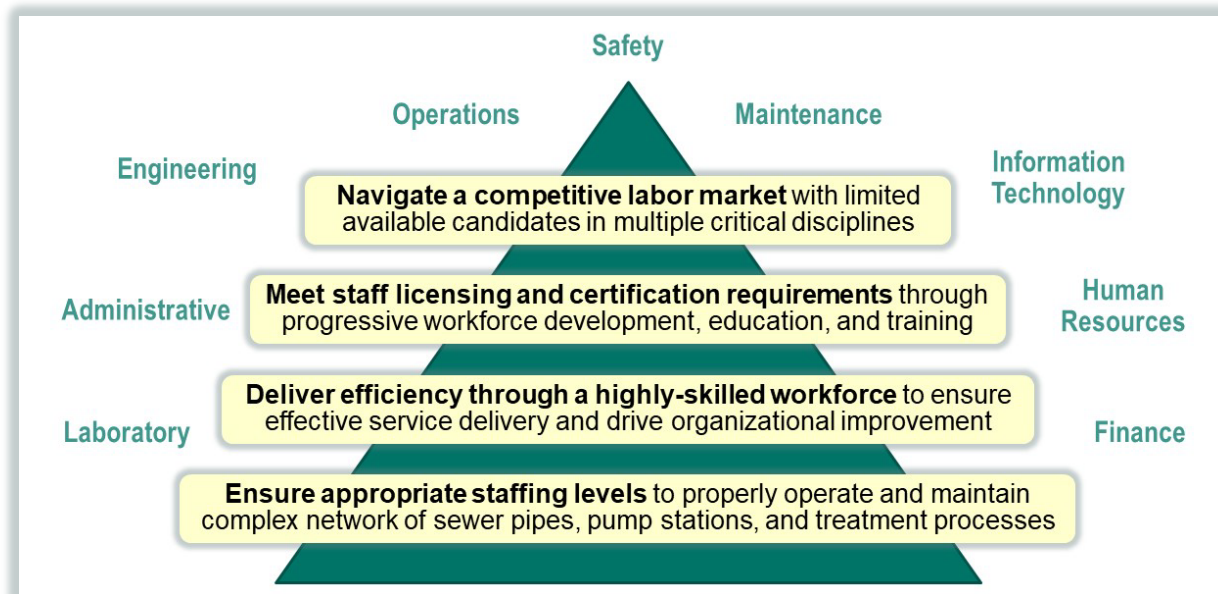
- GFOA budget award review guidelines recommend including criteria for long-range operating financial plan
 - Adding assumptions beyond current fiscal year for operating and capital expenses to District's FY23/24 Budget Book (June 2023)
- Projected FY24/25 Operating Budget (\$35.0M) is 6.1% higher (\$2.0M) than FY23/24
 - Not requesting the Board appropriate this funding until June 2024
 - Budget estimates based on escalation factors and specific operational initiatives planned for next fiscal year
- May recommend Board consideration a multi-year rate setting (i.e., Proposition 218 Notice) process next year

Summary

- Staff has developed a proposed FY23/24 Operating Budget that supports District's focus on long-term financial sustainability and Fiscal Responsibility goal in Strategic Plan (dated August 2021)
- Overall, FY23/24 Operating Budget (\$33.0M) is 4.0% higher (\$1.3M) than current year budget
 - Long-term financial planning includes 3.7% annual escalation factor assumption for operating budget
 - Staff updated the District's financial plan and confirmed no Sewer Service Charge increase is required

Next Steps

- Receive comments on key assumptions for proposed FY23/24 Operating Budget
- Consider recommending presentation for Board Meeting on May 10, 2023



Mission: Delta Diablo protects public health and the environment for our communities by safely providing exceptional wastewater conveyance, treatment, and resource recovery services in a sustainable and fiscally-responsible manner