



Key Assumptions for FY21/22 Operating Budget Development

Finance Committee Meeting
May 5, 2021



TRANSFORMING WASTEWATER TO RESOURCES

FY21/22 Budget and SSCs Development Schedule Overview



Board Meeting

March 25, 2021

- Board reviewed financial impacts of new \$60M Secondary Process Improvements Project on 5-year SSC increase projection

April 14, 2021

- Board reviews proposed SSC adjustments, considers setting public hearing and approving distribution of Prop. 218 notices

May 12, 2021

- **Board reviews key operating budget assumptions,** draft FY21/22 – FY25/26 CIP

June 9, 2021

- CIP Public Hearing, Board considers CIP approval
- SSC Public Hearing, Board considers SSC approval and authorizing collection on tax roll, Board considers approval of FY21/22 Budget appropriations

FY21/22 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

Operating Budget

Proposed FY21/22 Operating Budget = \$28.9M
▪ \$0.5M decrease (1.4%) relative to FY20/21 (\$29.3M)

Presentation Goal

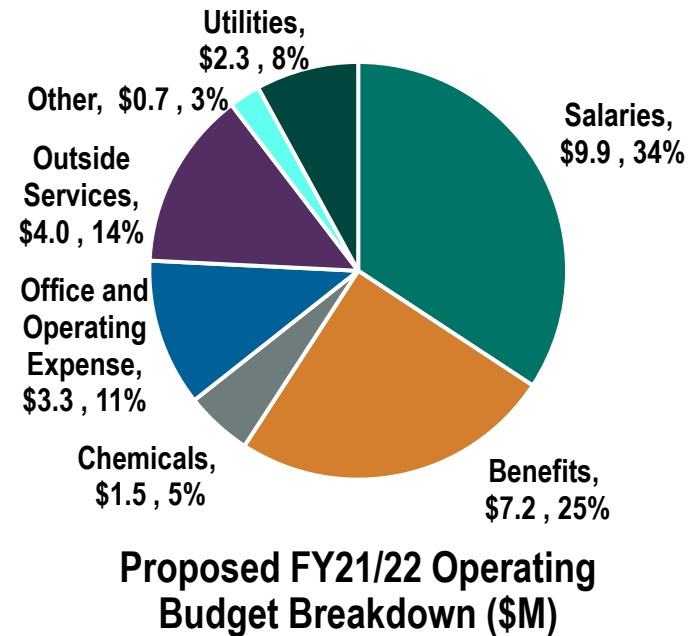
Review key assumptions driving FY21/22 Operating Budget

FY21/22 Proposed Operating Budget Overview



- Proposed Operating Budget = \$28.9M:

- Wastewater Conveyance and Treatment **80%**
 - Bay Point Collection **4%**
 - HHW Collection **3%**
- Sewer Service Charges (SSCs)**
- Recycled Water **11%**
 - Street Sweeping **2%**
- Street Sweeping Charges**



Salaries

Benefits

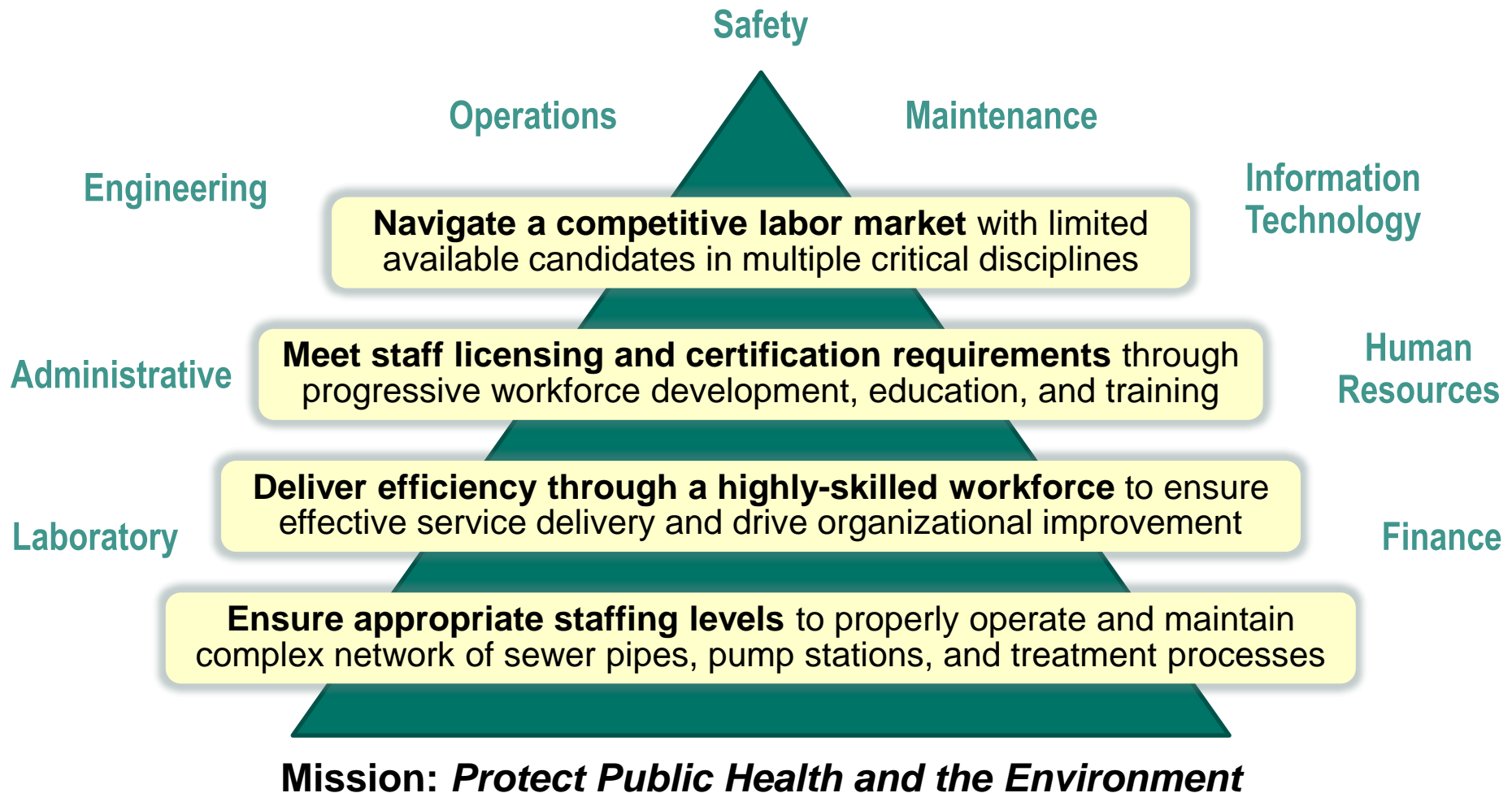
Utilities

Chemicals

Office/
Operating

Outside
Services

Critical Importance of Staff in Achieving the District's Mission



Key Assumptions

Salaries (\$9.9M, 34% of Total)

- Ensuring Appropriate Staffing Levels
 - Critical review of position needs, especially when vacancies occur
 - Implemented multiple position changes in last year to support organizational improvement; continuing in FY21/22
 - Funded 77.5 (of 81.5) full-time equivalent (FTE) positions
 - Annual savings from four unfunded positions = \$1.1M
- Delivering Efficiency through Highly-skilled Workforce
 - No new positions despite complex initiatives, budget drivers
 - Includes Operations Support-Construction Coordinator/RA, Finance Professional/RA, three intern positions (Maintenance, Engineering, Laboratory) (5 x 0.5 FTE each = 2.5 FTEs)
 - Succession Planning: \$0.1M for overlap of critical positions

Salaries

Benefits

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Key Assumptions

Salaries (cont'd)



- Navigating a Competitive Labor Market – Salary Drivers
 - District interest in recruiting and retaining highly-skilled staff in competition with peer agencies
 - ~36% of staff has been with District <5 years – moderate shift to lower salaries with more staff in salary progression
 - Labor Agreement Obligations – MOUs include annual cost-of-living adjustment (COLA) to be applied in July each year
 - COLA range = 2-5% (to be confirmed in mid-May based on index)
 - Financial Impact: 2% COLA increase = \$0.23M
 - Staff has included use of existing reserves to mitigate potential impacts to customers via SSC collection

Salaries

Benefits

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Key Assumptions

Benefits (\$7.2M, 25% of Total)



- Managing Health Benefits Costs
 - Estimated medical insurance premium increase = 7.5% (+\$60k)
 - Other health/life insurance are not expected to increase
- Continuing Retirement Cost Reduction following Pension Benefits Changes and Reform (2012-13)
 - In FY21/22, **only 46% of staff are Tier 1** members (2.7% @55), while **54% are either Tier 2** (2.0% @55) **or Tier 3** (2.0% @62)
 - District pays CalPERS normal costs as percent of salary: 14.35% (Tier 1); 11.12% (Tier 2); 7.7% (Tier 3)
 - CalPERS Unfunded Actuarial Liability (UAL): \$1.3M
 - Additional \$0.1M to be paid to PARS Rate Stabilization Program



Key Assumptions

Benefits (cont'd)



- Continuing to Meet OPEB Trust Fund Obligations to Reduce Long-term Cost Liability
 - Employees pay 3% of Salary
 - District contribution = \$0.9M to ensure full funding of Actuarially Determined Contribution (ADC) – includes 3% District match (\$0.3M) + additional \$0.6M
 - Continue to effectively manage outstanding OPEB liability in accordance with District's OPEB Trust Fund Policy



Key Assumptions

Chemical and Utilities (\$3.8M, 13% of Total)



Chemicals (\$1.5M*, 5% of total)

- Critically reviewed quantity estimates, prices, associated budget contingencies
- Continued participation in the Bay Area Chemical Consortium (BACC)
 - \$0.9M for Wastewater, \$0.6M for Recycled Water
 - *Budget estimate likely to change to \$1.7M based on recent BACC bid results and polymer unit price negotiations

Utilities (\$2.3M, 8% of total)

- Cogeneration engine uptime and total power production estimates lowered to reflect current engine performance



Key Assumptions

Office & Operating/Other (\$4.0M, 14% of total)



Office and Operating (\$3.3M, 11% of total)

- Supplies, technology systems and applications, insurance renewals, hauling services, and program administration
- Staff training and professional development

Other (\$1.5M, 5% of total)

- Operating budget contingency allowance (\$0.3M)
- Transfers to other District funds



Key Assumptions

Outside Services (\$4.0M, 14% of Total)

- Supporting Organizational Improvement and Business Processes through Professional Services (\$1.0M)
 - Munis Enterprise Resource Planning enhancements
 - Capital Facilities Capacity Charges study
 - GIS system improvements
 - Regulatory compliance support services
 - Updates to District standards
- Street Sweeping, Household Hazardous Waste (\$1.3M)
- Temporary and Other Services (legal, facilities, maintenance, misc.) (\$1.7M)
 - May require amendment for site security services contract

Salaries

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Summary



- Staff has developed a proposed FY21/22 Operating Budget that reflects financial sustainability considerations and the District's guiding financial principles
- Overall, the FY21/22 Operating Budget (\$28.9M) is 1.4% lower (\$0.5M) than the current year's budget
 - Consistent with proposed Sewer Service Charge (SSC) increase analysis presented to the Board on April 14, 2021
 - Potential adjustments to the total budget will likely not affect SSC analysis

Enhancing Public Communications

- Staff has prepared additional supporting documentation and posted on the District's website

April 2021

Ensuring Long-term Financial Sustainability Proposed Sewer Service Charge Increases


In developing its budget each year, Delta Diablo (District) carefully considers operational and capital investment needs to maintain effective and reliable wastewater collection (Bay Point only), conveyance, and treatment services for its **214,000 customers** in Antioch, Pittsburg, and Bay Point. Our primary revenue comes from **Sewer Service Charges (SSCs)*** charged to residential, commercial, and industrial customers on the tax roll each year.

We continue to prioritize sustained **capital investment** to maintain the integrity of our **aging wastewater system infrastructure****, while ensuring sufficient funding to meet **progressive increases in annual operating costs** over time due to escalations in labor, chemical, energy, materials, supplies, equipment, hauling, and services costs, as well as **increasingly more stringent regulatory requirements**.


We critically review required SSC adjustments to ensure sufficient revenue collection that reflects cost-of-service, while minimizing economic impacts to customers. For **Fiscal Year 2021/2022** (effective July 1, 2021), the District has notified customers (via **Proposition 218 Notices***** mailed to property owners on or before April 26, 2021) of its intent to increase SSCs for residential customers by **\$26.32/year** (6.5%, \$429.42 total) for **Antioch/Pittsburg** and **\$32.78/year** (5.9%, \$589.25 total) for **Bay Point**.

- **SSC Revenue Allocation:** We have identified a total SSC revenue need of **\$34.8 million** for FY21/22, which includes \$15.1 million for operational needs and \$19.7 million for capital project funding. Other funding includes ad valorem taxes and available unallocated funds.
- **Annual Revenue Increase Drivers:** The proposed SSC increase would generate an **additional \$1.6 million in revenue** in FY21/22 to support cash funding of critical capital investments in aging infrastructure to ensure the lowest overall cost to ratepayers.
- **Updated Cost-of-Service Study Revenue Allocation:** Based on the District's 2021 Cost-of-Service Study, proposed SSC increases for residential customers include a shift in the annual revenue requirement from non-residential (i.e., commercial, industrial) to residential customers of approximately \$550,000. The District is required to assess SSCs based on cost-of-service avoid subsidizing a customer class with revenues from other classes.
- **COVID-19 Impacts:** In providing essential services throughout the COVID-19 pandemic, we have worked hard to minimize financial impacts to our customers. The proposed SSC increases for residential customers in FY21/22 will help the District continue meeting its core mission of protecting public health and the environment.
- **Long-term Financial Planning:** We conduct a 5-year SSC analysis to identify future SSC adjustments to **maintain sustained fiscal integrity**, while avoiding sharp rate increases. **The District continues to maintain its rates well below the average** of its peer agencies in the San Francisco Bay Area.
 - * SSCs are not used for recycled water or street sweeping services, which are funded separately.
 - ** "Investing in Critical Wastewater Infrastructure" fact sheet is available on website for more information.
 - *** "Notice of Proposed SSC Adjustments for FY21/22" is available on website for more information.


As a nationally-recognized industry leader, the District values strong community engagement, serving as responsible stewards of the public's resources and trust, transparency, innovative approaches, and sustainable solutions in achieving its core mission.




13 million gallons of wastewater per day




76 miles of sewer pipes, force mains




5 pumps stations to convey wastewater



Wastewater Treatment Plant



Proposed SSC Revenue for FY21/22 Budget



Proposed SSC Increase

Capital \$15.7M

Operating \$15.1M

+\$26.32/year (Antioch/Pittsburg residential)

+\$32.78/year (Bay Point residential)

April 2021

FY21/22 Proposed Sewer Service Charge Increases Frequently Asked Questions

Delta Diablo has provided two **fact sheets**—"Proposed Sewer Service Charge Increases" and "Investing in Critical Wastewater Infrastructure"—on its **website*** to respond to the question, "**Why is Delta Diablo Increasing Rates?**"

This document complements these fact sheets by addressing potential questions from our customers regarding the **proposed Sewer Service Charge (SSC) increase** for Fiscal Year 2021/2022 (FY21/22).

* The referenced Fact Sheets are available at: <https://www.deltadiablo.org/proposed-sewer-service-charge-ssc-increases>

- Why is the District raising rates for residential customers during the COVID-19 pandemic?** The economic impacts of the COVID-19 pandemic on customers in our service area are significant and may not be fully understood for months or even years into the future. We recognize that the prospect of raising rates during a global pandemic is challenging when there is so much economic uncertainty in our local communities. As summarized in the two fact sheets referenced above, the District is proposing to increase SSCs for residential customers by \$26.32/year (6.5%, \$429.42 total) for Antioch/Pittsburg and \$32.78/year (5.9%, \$589.25 total) for Bay Point to:
 - **Meet the District's core mission of protecting public health and the environment.** Achieving this mission requires sufficient capital investment and staffing levels to properly operate and maintain the District's complex network of sewer pipes, pump stations, and treatment processes. Failure to do so could expose our customers to costly regulatory fines and penalties if partially-treated wastewater is discharged to the Delta or sanitary sewer overflows occur in local communities and/or residences.
 - **Address aging infrastructure through prioritized capital investment.** We continue to strategically rehabilitate and replace essential elements of the District's wastewater collection, conveyance, and treatment system to maintain effective and reliable services. Addressing these issues in a proactive manner prevents infrastructure failure, which would lead to higher costs and associated rate impacts.
 - **Offset increases in operating costs.** As a regulated utility that requires employees with specialized skills to meet its mission, the District continues to experience progressive increases in annual operating costs due to escalations in labor, chemical, energy, materials, supplies, hauling, services, and regulatory compliance costs. Staffing levels are critically reviewed to meet service level needs, while ensuring cost-effective service delivery for our customers.
 - **Prevent the need for more significant SSC increases in the future.** In developing its 5-year SSC projection each year, the District works hard to balance direct economic impacts to our customers and the need for sufficient revenue to cover operating costs and capital investment needs. If an SSC increase is not implemented this year, more significant rate increases would likely be required in the next few years.
 - **Focus on cash funding versus borrowing for capital improvements.** An SSC increase allows the District to continue predominantly cash funding its capital improvement program. If the District were to begin borrowing capital for these improvements, project costs to our customers could nearly double when considering loan interest repayment and the lack of available low-interest loans.

Throughout the COVID-19 pandemic, our core mission of protecting public health and the environment as "essential services" has remained unchanged as we continue to effectively convey and treat 13 million gallons of wastewater each day from our customers on a 24/7 basis.

visit www.deltadiablo.org or call (925) 756-1900 for more information

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