

# AGENDA

## BOARD OF DIRECTORS FINANCE COMMITTEE MEETING

### DELTA DIABLO

(a California Special District)

2600 Pittsburg-Antioch Highway  
Pittsburg, California

TUESDAY, MARCH 6, 2018  
11:00 A.M.

*Persons who wish to address the board during Public Comment or with respect to an item that is on the Agenda, will be limited to three (3) minutes. The Board Chair may reduce the amount of time allotted per speaker at the beginning of each Item or Public Comment period depending on the number of speakers and the business of the day. Your patience is appreciated. A break or closed session may be called at the discretion of the Board Chair.*

- A. PUBLIC COMMENTS
  
- B. REVIEW AND COMMENT ON PRELIMINARY SEWER SERVICE CHARGE ANALYSIS FOR FISCAL YEAR 2018/2019 AND DRAFT PROPOSITION 218 NOTICES (Carol 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. Any disclosable public records related to an open session item on a regular meeting agenda and distributed by the District to a majority of members of the Board of Directors less than 72 hours prior to that meeting are available for public inspection at 2500 Pittsburg-Antioch Highway, Antioch, CA 94509 during normal working business hours.






## MEMORANDUM

Date: March 6, 2018

To: D. Pete Longmire, Chair, Finance Committee

From: Carol S. Margetich, Business Services Director 

SUBJECT: REVIEW AND COMMENT ON PRELIMINARY SEWER SERVICE CHARGE ANALYSIS FOR FISCAL YEAR 2018/2019 AND DRAFT PROPOSITION 218 NOTICES

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### RECOMMENDATION

- 1) Review and comment on proposed Sewer Service Charge (SSC) increases for Fiscal Year 2018/2019 (FY18/19).
- 2) Review and comment on Proposition 218 Notices addressing proposed increases and notifying property owners of the May 9, 2018 public hearing on this matter.

### Summary Statement

The proposed rate increases include:

- Applying a 6.0% SSC rate increase for Antioch and Pittsburg customers in FY18/19. The proposed rate increase (does not include wastewater collection) equates to an estimated SSC increase of \$21.06 per year or approximately \$1.76 per month.
- Applying a 5.0% SSC rate increase to Bay Point customers in FY18/19. The proposed rate increase (includes wastewater collection) equates to an estimated SSC increase of \$24.99 per year or approximately \$2.08 per month.

### No Proposed Street Sweeping Increase

- Annual Street Sweeping Charges, which vary by community (\$4.58 for Bay Point, \$10.26 for Pittsburg and \$5.60 for Antioch) are not proposed to increase.

### Background Information

Delta Diablo (District) is a California special district that provides wastewater, street sweeping, and household hazardous waste collection services to the City of Antioch, the City of Pittsburg, and the unincorporated community of Bay Point. For the community of Bay Point (Zone 1), the District also provides wastewater collection services, and Bay Point customers are charged for those additional services through Collection System operating and rehabilitation components added to their SSCs.





Pete Longmire, Chair, Finance Committee

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SSCs do not pay for any capital costs related to growth, which is funded through the District's Capital Facilities Capacity Charges (CFCCs). Serving nearly 210,000 residents and encompassing 54 square miles, the District is an award-winning agency with a mission to protect public health and the environment. Public ownership of these services allows customers the benefit of reliable service while still having rates among the lowest in the region.

High-quality and environmentally-sound resource recovery services (wastewater utility operations, household hazardous waste, and street sweeping) are essential for public health and economic vitality. Consistent delivery of District services requires continued top performance of our publicly-owned facilities and related infrastructure systems and the expertise of professionals, including state-certified staff.

Each year, the District submits required information to Contra Costa County to place SSCs on the property tax roll for most customers. The current rate analysis includes a 5-year financial planning horizon from fiscal years FY18/19 through FY22/23. The study meets the legal requirement for setting rates that are proportionate to the cost of services provided. The proposed single-year rate implementation will meet the financial goals of generating sufficient revenues given the current assessment of future expenses and economic reserves.

The Board last adopted a rate adjustment in June 2017. The adjustment consisted of a single-year increase of 6.5% for customers in Antioch and Pittsburg and 6.1% for customers in Bay Point, effective FY17/18.

The District's SSCs are determined based on the costs of providing services. These costs include utility operations, capital, rehabilitation, state and federal regulatory compliance, household hazardous waste collection, street sweeping services, and adopted fiscal policies. For the community of Bay Point (Zone 1), the District also provides wastewater collection services, and Bay Point customers are charged for that additional service through an added component to their SSCs. In addition to SSCs, District reserve funds are used consistent with Board policies to keep SSC increases as low as practical.

Based on the financial analysis, staff is recommending adjustments to SSCs rates to remain fiscally sound by:

- Collecting revenues sufficient to meet expenses.
- Complying with Proposition 218, which stipulates that:
  - An agency cannot collect revenue beyond what is necessary to provide service
  - No charge may be imposed for a service unless that service is actually used or immediately available to the owner of the property
  - Revenues derived from the charge shall not be used for any other purpose other than that for which the charge was imposed
  - Fairness in apportionment of total costs of service amongst ratepayer classes (avoidance of subsidization within the rates)





- Reflecting adopted fiscal policies for economic reserves of 40% of operating expenditures
- Meeting commitments made in loan agreements

The remainder of this report details the rates analysis process and conclusions necessitating the SSC rate increases.

### Analysis

The process to establish rates that support fiscal stability relies on long-term financial planning and sound fiscal policies. The District continues to be subject to increases in regulatory, operational, and rehabilitation costs. General cost increases include:

- Growth. Because the District uses a multi-year rate model to evaluate and project future costs and revenue requirements, projected growth is one of the key assumptions. To the extent growth is robust, fixed costs are spread over more services and rate adjustments may be lower; to the extent growth is slow, fixed costs are spread over fewer services resulting in marginally higher SSC adjustments. Beginning with the FY12/13 rate analysis, the growth assumption was reduced from 600 to 400 equivalent residential units (ERUs) annually. The average growth rate over the past five years (FY12/13 – FY16/17) has been 433 ERUs, so the assumption of 400 added ERUs annually has been maintained for the FY18/19 analysis.
- Operating Expenses. The District has seen costs increase in general. The assumption used for increases in annual operating expenses is 3.0% in the rate model.
- Salaries. Labor cost inputs were based on salaries in existing negotiated contracts. Salary and benefits were increased by 3.6% annually based on estimated cost of living adjustment (COLA) increases. Per the terms of the District's current labor Memoranda of Understanding (MOUs), COLA impacts are reviewed each year and adjusted as necessary.
- Regulatory Requirements. Wastewater utilities are highly regulated. New requirements, such as unfunded mandated programs, increasingly stringent reporting requirements, or compliance with updated standards, are routine.
- Wastewater Rehabilitation Costs. The District has over \$100 million in wastewater infrastructure assets (net of depreciation) and is currently conducting an assessment of its wastewater conveyance and treatment system infrastructure. The results of this study will better inform the District's need for long-term infrastructure rehabilitation. An effective rehabilitation program includes evaluations of facilities and proactive repairs and replacements, thus avoiding expenses associated with unexpected infrastructure failure. Alternatively, the utility would be obligated to seek bond financing or emergency loan funds to pay for the repairs, with associated high-interest rates.
- Economic Reserves. Utility economic reserves are an essential part of the utility's operating procedures and ensure the continued ability to provide services during budget shortfalls or unforeseen circumstances. The analysis includes a 40% economic reserve target based on operating expenditures.
- Debt Service Coverage. The District is obligated to meet debt service coverage requirements related to long-term debt as part of our various loan agreements. The typical rate covenant for debt issued on wastewater capital improvement projects requires a minimum debt service coverage ratio of 1.20





(ratio of net revenues to expenses). Maintaining debt service coverage requirements is crucial to maintaining the District's good credit rating.

The District's revenues and expenditures have been calculated for the next fiscal year based on the adopted FY17/18 Operating Budget, advanced treatment, and draft FY18/19 through FY22/23 capital improvement program (CIP), which have resulted in projected SSC adjustments to ensure that total revenues, including reserve use, cover the cost of providing service. The core components of SSCs are: Regional Treatment and Conveyance, which funds wastewater operations and maintenance (O&M) costs, Capital Asset (CA) for new wastewater reliability capital projects, and Capital Asset Replacement (CAR) for rehabilitation and replacement capital projects. Based on these projected expenditures, the SSCs need to increase for FY18/19, as reflected in Table 1. The projected increases are due to increases in core wastewater service operating and capital needs.

**Table 1: Sample Single Family Sewer Service Charge on Property Tax Bills for FY18/19**

<b>Residential Service</b>	<b>Current Rates</b>	<b>Proposed Rates</b>	<b>Increase</b>
Sewer Service Charges (Customers in Antioch and Pittsburg)	\$351.62	\$372.68	\$21.06
Sewer Service Charges (Customers in Bay Point)	\$497.14	\$522.13	\$24.99

Additionally, it continues to be likely that advanced treatment for nutrient removal will be required to meet future wastewater discharge standards. Funding for this effort began with the FY11/12 SSC review, when the Board established a designated Advanced Treatment (AT) Reserve fund and approved a new rate component to begin funding that reserve. This was the first step in a proposed sinking fund approach to build future cash reserves to levels sufficient to pay for project planning and design, and revenue streams to service debt for project construction. Original capital costs for this effort were estimated to be \$125 million in escalated dollars with an anticipated target date for compliance of FY23/24. However, as reported to the Board in November 2017 updated information on future permit requirements suggest a new target date of FY33/34, creating additional time to collect the designated funds necessary for this effort and mitigate the significant cost of future long-term debt.

Therefore, instead of 2.7% of the overall proposed increase being designated for future nutrient removal improvements, staff is now recommending 1.0% increases over the next two years. This is consistent with the fund strategy established by the Board of Directors in FY11/12 and minimizes rate increases over the long-run to meet these requirements. The proposed 1.0% increase in FY18/19 would add an additional \$3.47 per year to the AT Reserve rate component, or \$0.29 per month. This, added to the proposed increase for core wastewater SSC components, would bring the total annual adjustment to \$21.06 (6.0%), or \$1.76 per month for all three District zones.

In FY17/18, an additional \$4.1 million was transferred from the AT fund to fund the first year of the CAR fund-related CIP. These fund reserves are rate-funded and, as such, are not typically subject to inter-fund loan provisions. However, because the AT fund was set up for the specific purpose of funding the future AT Project, the transfer will be repaid from the CAR fund beginning FY20/21.





Pete Longmire, Chair, Finance Committee

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Additionally, inter-fund transfers from the CA fund to the CAR fund of \$1.2 million in FY18/19 and \$1.2 in FY19/20 will provide further funding for rehabilitation needs. Because both funds are rate-funded, inter-fund loans are not required.

Inter-fund loan repayments are also planned from the Capital Expansion fund to the CAR fund to repay funds previously borrowed to cover anticipated shortfalls in CFCC revenue and CFCC-funded debt service. Because the Expansion fund is funded by new development through CFCCs, the loan payments include interest based on Local Agency Investment Fund (LAIF) interest rates. The first repayment to the CAR fund, averaging about \$1 million annually, began in FY17/18 because the existing bonded debt was retired in FY16/17.

Street Sweeping Charges are not proposed to increase next year, as they are sufficient to cover the costs of providing street sweeping services.

### **Future Considerations**

Wastewater services are subject to a myriad of regulatory requirements, power supply, and chemical costs. In the upcoming year, rehabilitation funds will be used to extend the useful life of facilities at the treatment plant, pump station facilities, and in the collection system. In response to new water quality permit limits, the biological treatment process at the plant is anticipated to undergo significant construction during the upcoming years to allow the process to meet more stringent National Pollution Discharge Elimination System (NPDES) requirements. In addition, work to replace the existing Supervisory Control and Data Acquisition (SCADA) system has been ongoing over the past year and should be completed next year. This is a significant milestone that updates a major system that is vital to reliable and effective operation of the treatment plant. In addition to treatment plant improvements, work is planned each year to repair or replace portions of the wastewater collection system that have sustained damage due to age, tree root intrusion, or other natural forces.

### **Public Outreach**

In compliance with Proposition 218, a California law since 1996, notices on proposed rate increases will be sent to all utility customers by March 23, 2018 (a minimum of 45 days prior to the May 9, 2018 public hearing). A copy of the notice is included in this report as Attachment A. The notice outlines the process for protesting the proposed rate increases. Protest ballots can be mailed or hand delivered to the District on or before the public hearing date, or in person at the public hearing on May 9, 2018. In addition, pursuant to Government Code requirements, notices of the public hearing will be published twice in the East County Times. At the close of the Public Hearing, the Board Secretary will announce the total number of protest responses. If written protests against the proposed rate increases are presented by a majority of the owners of identified parcels, the District cannot impose the adjustments.

### **Fiscal Impact**

Without a rate increase, the overall economic reserves would decline rapidly; from an approximate 63.2% in FY17/18 to 48.9% in FY18/19 and 32.6% in FY19/20. At the end of five years (FY22/23), the reserves would be completely depleted and the District would be unable to fully fund its annual operating costs.



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With the proposed rate increase, Pittsburg and Antioch residential customers would see an estimated increase of \$21.06 per year or approximately \$1.76 per month, an increase of 6.0%. Bay Point residential customers would see an estimated increase of \$24.99 or approximately \$2.08 per month, an increase of 5.0%.

The proposed rate adjustments will result in additional revenue of approximately \$1.7 million to the District including the incremental increase of \$272,000 for deposit into the designated AT Reserve fund. There are separate surcharges for service to Bay Point for operation and rehabilitation of that community's Collection System. The Bay Point surcharges along with growth would increase FY18/19 revenues for Collection System operations and rehabilitation by about \$28,195.

The proposed rate adjustment maintains the District's position as one of the lowest cost overall service providers in the region; strengthens the District's rehabilitation program; and maintains economic reserves, helping to ensure fiscal soundness and resiliency in the face of upcoming unfunded mandates and regulatory requirements. A comparison of District rates, including rates for collections in the cities of Antioch and Pittsburg, with the rates of other regional sanitation agencies will be provided as part of the Board presentation.

Attachment

Draft Proposition 218 Notice

CSM/rem

cc: District File CORP.07-CORRES-XXX  
Chron File







# Notice of Proposed Fiscal Year 2018-2019 Rate Increases

Proposition 218 Notification to Property Owners of Public Hearing on Proposed Sewer Service Charge Rate Increases

**NOTICE IS HEREBY GIVEN** that the Delta Diablo Board of Directors will hold a public hearing on **Wednesday, May 9, 2018 at 5:30 p.m. in the Board Room at 2500 Pittsburg-Antioch Highway, Antioch, California**, to consider adoption of proposed rate increases for wastewater (sewer) utility services. Reasons for the proposed increases and instructions for protesting the rate increases are described in more detail below.

## WHAT DO SEWER CHARGES FUND?

The District provides sewer services to over 65,000 customers (residential and non-residential). Customers are typically billed on a fiscal-year basis on their annual property tax bill. These billings are the primary source of revenue for the District. Revenue is used solely to fund operational costs of the utility, such as salaries, regulatory compliance, maintenance, rehabilitation and replacement of infrastructure, chemicals, energy, household hazardous waste, and street sweeping. Utility rates are calculated based on the cost to provide service.

## PROPOSED INCREASES TO MONTHLY SEWER SERVICE CHARGES:

For Fiscal Year 2018/2019 (FY18/19), The District is proposing an effective Sewer Service Charge (SSC) rate increase of 6.0% for customers in Antioch and Pittsburg, and an effective SSC rate increase of 5.0% for customers in Bay Point. Increases are necessary to:

- Recover current and long-term projected costs of operating and maintaining the wastewater systems;
- Fund capital infrastructure to rehabilitate, replace and update aging wastewater systems;
- Maintain fiscal sustainability of the wastewater system and avoid deficits and depletion of financial reserves;
- Comply with state-mandated wastewater discharge regulatory requirements;
- Fund anticipated costs for state-mandated advanced treatment of wastewater;
- Meet and comply with annual debt service coverage requirements; and,
- Maintain the Bay Point sewer collection system (charged only to customers in the Bay Point community).

Table 1 below demonstrates the impact of the proposed rate increases on the annual property tax bill for a single-family customer:

Residential Service	Current Rates	Proposed Rates	Increase
Sewer Service Charges (Customers in Antioch and Pittsburg)	\$351.62	\$372.68	\$21.06
Sewer Service Charges (Customers in Bay Point)	\$497.14	\$522.13	\$24.99

## PUBLIC HEARING AND PROTEST PROCEDURES:

The Board of Directors will hold a public hearing on the proposed increases to SSCs on **Wednesday, May 9th, 2018 at 5:30 p.m., in the Board Room at 2500 Pittsburg-Antioch Highway, Antioch, California, 94509**. Public comments and written protests will be accepted at this Public Hearing, and the Board of Directors will be requested to take action to implement increases at this meeting. Written protests may be sent to the District prior to the public hearing to the attention of the District's "Business



Services Director” at the address shown above, and must include the property address AND the Assessor Parcel Number found on your mailing label.

At the close of the Public Hearing, the Board Secretary will announce the total number of protest responses, including any received at the public hearing. If written protests against the proposed sewer service charge increases are presented by a majority of the owners of identified parcels, the District cannot impose the adjustments.

**Delta Diablo SSCs have up to five components:** **1)** Operations and Maintenance (O&M) - for the regional cost to treat and dispose of wastewater and the cost for collecting household hazardous waste at the Delta Household Hazardous Waste Collection Facility; **2)** Capital Asset (CA) - for new wastewater reliability capital projects, **3)** Capital Asset Replacement (CAR) - for rehabilitation and replacement capital projects; **4)** Advanced Treatment (AT) - for funding a dedicated reserve fund to pay for advanced wastewater treatment facilities to meet new, more stringent regulatory requirements. These advanced treatment facilities are estimated to cost \$125 million when they are completed in the future. Should the District not continue to set aside necessary funds, future rate increases needed to fund these facilities would be substantially higher. **Continuing to increase this fund in advance results in the lowest SSCs over time;** and, **5)** BP Collections - for customers in Bay Point, an additional component to fund wastewater collections. Table 2 below outlines the SSC component increases by community.

<i>Table 2: Average Single Family Residential Rate Increases (by component)</i>		
<b>Antioch and Pittsburg Customers</b>		
	<b>FY17/18</b>	<b>FY18/19</b>
<b>Sewer Service Rate Components</b>	<b>Current</b>	<b>6.0%</b>
Regional Treatment and Conveyance	\$ 256.23	\$ 271.09
Capital Asset	\$ 18.11	\$ 18.47
Capital Asset Replacement	\$ 23.70	\$ 26.07
Advanced Treatment Reserve Fund	\$ 53.58	\$ 57.05
<b>Total Sewer Service Charges per ERU</b>	<b>\$351.62</b>	<b>\$372.68</b>
Approximate Equivalent Monthly Charge:	\$ 29.30	\$ 31.06
<b>Bay Point Customers</b>		
	<b>FY17/18</b>	<b>FY18/19</b>
<b>Sewer Service Rate Components</b>	<b>Current</b>	<b>5.0%</b>
Regional Treatment and Conveyance	\$ 256.23	\$ 271.09
Capital Asset	\$ 18.11	\$ 18.47
Capital Asset Replacement	\$ 23.70	\$ 26.07
Advanced Treatment Reserve Fund	\$ 53.58	\$ 57.05
Bay Point Collections	\$ 145.52	\$ 149.45
<b>Total Sewer Service Charges per ERU</b>	<b>\$497.14</b>	<b>\$522.13</b>
Approximate Equivalent Monthly Charge:	\$ 41.43	\$ 43.51

The SSC on your property tax bill also includes an annual charge (which is not proposed to increase) to sweep the streets. The total proposed charge, including street sweeping, is reflected in Table 3. Residential properties with multiple residential units (duplex, fourplex, apartment complex, etc.) can calculate their total annual cost by multiplying the per unit annual charge by the number of residential units.



**Table 3: Sample Single Family Sewer Service Charge including Street Sweeping on Property Tax Bills for FY18/19 (by community)**

Residential Service	Current Rates	Proposed Rates	Street Sweeping	Total with Street Sweeping
Antioch Sewer Service Charges	\$351.62	\$372.68	\$5.60	\$378.28
Pittsburg Sewer Service Charges	\$351.62	\$372.68	\$10.26	\$382.94
Bay Point Sewer Service Charges	\$497.14	\$522.13	\$4.58	\$526.71

**Non-Residential Charges:**

As a result of increased costs to treat and dispose of wastewater and continuing to set aside funds to meet new regulations, the annual SSC for tax year 2018-2019 will have to increase per Hundred Cubic Feet per Year (HCF/y) of water consumed as shown on the table below. If the annual water consumed is less than 90 hundred cubic feet, the minimum annual charge will be used.

**Table 4: Proposed FY18/19 Non-Residential Total Rate (xHCF/y)**




Non-Residential	FY17/18	FY18/19
<b>Zone 1 - Bay Point (includes collection charges)</b>		
Premark Packaging	\$ 5.85	\$ 6.15
Light Industrial	\$ 5.81	\$ 6.11
Misc Commercial	\$ 5.81	\$ 6.11
U.S. Army	\$ 5.68	\$ 5.97
Bakeries / Restaurants	\$ 8.38	\$ 8.83
Annual Minimum	\$497.14	\$522.13
<b>Zone 2 - Pittsburg</b>		
Bakeries/Restaurants	\$ 6.99	\$ 7.40
Dow Chemical	\$ 4.08	\$ 4.32
G&K Services	\$ 4.78	\$ 5.07
Hotel/Motel	\$ 3.74	\$ 3.96
Institutional	\$ 4.27	\$ 4.52
Light Industrial	\$ 4.27	\$ 4.52
Marinas	\$ 5.50	\$ 5.83
Generon IGS	\$ 7.95	\$ 8.43
Misc. Commercial	\$ 4.27	\$ 4.52
Mortuaries	\$ 4.82	\$ 5.11
Praxair	\$ 4.04	\$ 4.28
Annual Minimum	\$351.62	\$372.68
<b>Zone 3 - Antioch</b>		
Bakeries/Restaurants	\$ 6.92	\$ 7.34
Hotel/Motel	\$ 4.06	\$ 4.30
Institutional	\$ 4.25	\$ 4.50
Light Industrial	\$ 4.25	\$ 4.50
Marinas	\$ 5.54	\$ 5.88
Misc Commercial	\$ 4.21	\$ 4.46
Mortuaries	\$ 4.84	\$ 5.13
Annual Minimum	\$351.62	\$372.68





2500 Pittsburg-Antioch  
Highway, Antioch, CA 94509  
(925) 756-1900

## WHERE YOUR MONEY GOES

	<p><b>KEEPING SOUND AND STABLE UTILITY SERVICES:</b> To ensure high levels of customer satisfaction and reliable utility services, it takes appropriate staffing levels, quality programs and well-maintained infrastructure to deliver services that customers have grown to rely on and appreciate.</p>
	<p><b>MAINTAINING FISCAL STABILITY:</b> To protect the District's good credit rating, the District has a reserve policy that will maintain credit worthiness and allow the District to readily respond to unexpected and costly situations.</p>
	<p><b>COMPLYING WITH CHANGING REGULATORY CLIMATE:</b> State and federal mandates result in unfunded programs and services. The District is required to implement programs and operational changes as a result of changing laws.</p>

FOR MORE INFORMATION ABOUT DELTA DIABLO SEWER SERVICES,  
VISIT [DELTADIABLO.ORG](http://DELTADIABLO.ORG)