

AGENDA

BOARD OF DIRECTORS FINANCE COMMITTEE MEETING

DELTA DIABLO

(a California Special District)

**PLANT OPERATIONS CENTER CONFERENCE ROOM
2600 PITTSBURG-ANTIOCH HIGHWAY
PITTSBURG, CA 94565**

**TUESDAY, APRIL 2, 2019
9:00 A.M.**

Persons who wish to address the Board during Public Comment or with respect to an item 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 may be called, or an item may be taken out of order, at the discretion of the Board Chair.

A. PUBLIC COMMENTS

B. REVIEW AND COMMENT ON PRELIMINARY SEWER SERVICE CHARGE ANALYSIS FOR FISCAL YEAR 2019/2020 AND DRAFT PROPOSITION 218 NOTICE (Carol Margetich)

C. ADJOURNMENT

The District will provide reasonable accommodations for persons with disabilities who plan to participate in Board (or committee) meetings by contacting the Secretary to the Board 24-hours prior to the scheduled meeting at (925) 756-1927. 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: April 2, 2019

To: Sean Wright, Chair, Finance Committee

From: Carol S. Margetich, Business Services Director

SUBJECT: REVIEW AND COMMENT ON PRELIMINARY SEWER SERVICE CHARGE ANALYSIS FOR FISCAL YEAR 2019/2020 AND DRAFT PROPOSITION 218 NOTICES

RECOMMENDATION

- 1) Review and comment on proposed Sewer Service Charge (SSC) increases for Fiscal Year 2019/2020 (FY19/20).
- 2) Review and comment on draft Proposition 218 Notice addressing proposed increases and notifying property owners of the Public Hearing on this matter.
- 3) Approve submitting the proposed FY19/20 SSC, draft Proposition 218 Notice, and Public Hearing date for consideration at the April 10, 2019 Board meeting.

Summary Statement

The proposed rate increases include:

- Applying a 4.5% SSC rate increase for Antioch and Pittsburg customers in FY19/20. The proposed rate increase (does not include wastewater collection) equates to an estimated SSC increase of \$16.79 per year or approximately \$1.40 per month.
- Applying a 3.5% SSC rate increase to Bay Point customers in FY19/20. The proposed rate increase (includes wastewater collection) equates to an estimated SSC increase of \$18.13 per year or approximately \$1.51 per month.

No Proposed Street Sweeping Increase

- Annual street sweeping charges, which vary by community, are not proposed to increase.
- Annual single-family residential: \$4.58 for Bay Point, \$10.26 for Pittsburg, and \$5.60 for Antioch
- Annual non-residential unit: \$45.80 for Bay Point, \$51.35 for Pittsburg, and \$56.00 for Antioch

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.

Sean Wright, Chair, Finance Committee

April 2, 2019

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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 approximately 213,000 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.

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 FY19/20 through FY23/24. The analysis meets the legal requirement for setting rates that are proportionate to the cost of services provided. This cost includes utility operations, capital renewal and rehabilitation, state and federal regulatory compliance, household hazardous waste collection, street sweeping services, and adherence to 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. 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.

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 Board last adopted a rate adjustment in June 2018. The adjustment consisted of a single-year increase of 6.0% for customers in Antioch and Pittsburg and 5.0% for customers in Bay Point, effective FY18/19.

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:

REVIEW AND COMMENT ON PRELIMINARY SEWER SERVICE CHARGE ANALYSIS FOR FISCAL YEAR 2019/2020 AND DRAFT PROPOSITION 218 NOTICES

- 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 (FY13/14 – FY17/18) has been 429 ERUs, so the assumption of an additional 400 ERUs annually has been maintained for the FY19/20 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 5-year rate model forecast.
- Salaries. Labor cost inputs were based on salaries in existing negotiated contracts. Salary and benefits were increased by 4.0% 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 District would be obligated to seek bond financing or emergency loan funds to pay for the repairs, with associated high-interest rates.
- Economic Reserves. Maintaining sufficient economic reserves is an essential part of the District's operating procedures and ensures 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 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 debt service). 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 FY18/19 Operating Budget, future advanced treatment needs, and the draft FY19/20 through FY23/24 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 FY19/20, as reflected in Table 1. The projected

increases are due to increases in core wastewater service operating and capital needs over the 5-year financial planning horizon.

Table 1 – Example Annual Single Family Residential SSC on Property Tax Bills for FY19/20

Residential Service	Current FY18/19	Proposed FY19/20	Annual Change
4.5% SSC Increase for Customers in Antioch (Zone 3*) and Pittsburg (Zone 2*)	\$372.68	\$389.47	\$16.78
3.5% SSC Increase for Customers in Bay Point (Zone 1*) (includes wastewater collection services)	\$522.13	\$540.26	\$18.13

*Zones 1, 2, and 3 as shown on Map of Zones 1, 2, and 3 on file with the Board Clerk.

As presented at the March 13, 2019 Board meeting, staff intends to develop a Resource Recovery Facility Master Plan that will better define the scope, budget, and implementation schedule associated with future advanced treatment expansion of the Wastewater Treatment Plant to meet future nutrient removal regulatory requirements. The proposed FY19/20 SSC maintains the same rate component funding for the Advanced Treatment (AT) Reserve Fund as in FY18/19.

Inter-fund Transfers

In FY17/18, an additional \$4.1 million transfer was planned from the AT fund to fund the first year of the CAR fund-related CIP. However, as actuals were realized for FY17/18, it was determined the transfer was no longer required.

Other inter-fund transfers are planned within FY19/20 to ensure each “ratepayer”-based fund remains positive. As these funds share the same funding source, loans with interest are not required. However, as documented in the proposed CIP and SSC analysis, these transfers are part of the financing plan needed to address funding needs for each fund. Although inter-fund transfers net to zero organization-wide, the total amount planned to be transferred within funds (in and out) is up to \$378,546.

Inter-fund Loans

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 Capital 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 repayments to the CAR fund and O&M fund began in FY17/18, because the existing bonded debt was retired in FY16/17. In FY19/20, repayments in the amount of \$1.0 million to the CAR fund and \$0.5 million to the O&M fund are planned.

Street Sweeping Services

Street sweeping service charges are not proposed to increase next year, as they are sufficient to cover the costs of providing these services.

Public Outreach

In compliance with Proposition 218, a California law since 1996, notices on proposed rate increases will

Sean Wright, Chair, Finance Committee

April 2, 2019

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be sent to all utility customer accounts by April 19, 2019 (a minimum of 45 days prior to the June 12, 2019 Public Hearing). A copy of the Notice is included in this report as an attachment. 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 June 12, 2019. 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 Secretary to the Board will announce the total number of protest responses. If written protests against the proposed rate increases are presented by a majority of the parcel owners in the District's service area, the District cannot implement the SSC rate adjustments.

Fiscal Impact

Without a rate increase, the overall economic reserves would decline rapidly from an approximate 71.9% in FY19/20 to 59.4% in FY20/21, and 43.9% in FY21/22. At the end of five years (FY23/24), the reserves would be nearly depleted at 3.5%, which would not be consistent with the District's financial policy to maintain sufficient reserves to meet 40% of annual operating expenditures.

With the proposed rate increase, Pittsburg and Antioch residential customers would see an estimated increase of \$16.79 per year or approximately \$1.40 per month, an increase of 4.5%. Bay Point residential customers would see an estimated annual increase of \$18.13 or approximately \$1.51 per month, an increase of 3.5%. The proposed SSC adjustments in Pittsburg and Antioch will result in additional revenue of approximately \$1.3 million to the District. There are separate surcharges for service to Bay Point for operation and rehabilitation of that community's Collection System. The proposed rate adjustments will result in additional revenue of about \$10,499 for these services.

The proposed SSC adjustment maintains the District's position as one of the lower overall cost service providers in the region; strengthens the District's capital infrastructure investment program; and maintains economic reserves, helping to ensure fiscal integrity and resiliency. 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/rcm

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



Notice of Proposed Sewer Service Charge Rate Increases for Fiscal Year 2019-2020

Proposition 218 Notification to Property Owners of Public Hearing

NOTICE IS HEREBY GIVEN that the Delta Diablo Board of Directors will hold a public hearing on **Wednesday, June 12, 2019 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 utility services. A summary of the proposed rates, key financial drivers, and instructions for protesting the rate increases (if desired) are provided below.

WHAT IS DELTA DIABLO?

Delta Diablo (“District”) provides wastewater conveyance and treatment services for over 69,000 customer accounts (residential and non-residential), representing approximately 213,000 residents in the cities of Antioch and Pittsburg, and the unincorporated community of Bay Point. As part of our core mission to protect public health and the environment, the District treats 13 million gallons of wastewater each day with a focus on exemplary regulatory compliance, innovative and sustainable approaches, and sound stewardship of the public’s resources and trust. The District has transformed its Wastewater Treatment Plant (WWTP) into a “resource recovery facility” by producing 6 million gallons per day of recycled water, generating on-site renewable energy to meet over 60 percent of WWTP power needs, reusing residual biosolids as fertilizer via land application, providing household hazardous waste (HHW) collection services, and further protecting the Delta by providing street sweeping services to remove pollutants that would otherwise enter local stormwater systems.

PROPOSED INCREASES TO SEWER SERVICE CHARGES

For Fiscal Year 2019/2020 (FY19/20) (July 1, 2019 – June 30, 2020), the District is proposing approximate Sewer Service Charge (SSC) increases of 4.5% for Antioch and Pittsburg customers, and 3.5% for Bay Point customers. The District collects SSCs from its customers each year to provide the primary revenue source needed to fund labor, energy, chemicals, regulatory compliance requirements, plant maintenance, capital infrastructure renewal and rehabilitation, HHW facility operation, and street sweeping services. Because the District’s costs in these categories will increase in the next fiscal year, SSC adjustments are required to recover the District’s costs, maintain financial integrity, and ensure long-term fiscal sustainability. The SSCs are calculated based on the cost to provide service with customers typically billed on a fiscal-year basis via annual property tax bills.

Residential Customers: The impact of the proposed SSC adjustments on the annual property tax bill for a single-family customer is shown in **Table 1** below. The total annual charge for residential properties with multiple units (e.g., duplex, fourplex, apartment complex, etc.) can be calculated by multiplying the per unit SSC charge below by the number of units.

Table 1 – Example Annual Single-Family Residential SSC on Property Tax Bills for FY19/20

Residential Service Customers	Proposed SSC Increase	Current FY18/19	Proposed FY19/20	Annual Change
Antioch/Pittsburg	4.5%	\$372.68	\$389.47	\$16.78
Bay Point ^[1]	3.5%	\$522.13	\$540.26	\$18.13

Note: [1] Delta Diablo provides wastewater collection services for Bay Point customers only, while the respective cities provide these services for Antioch and Pittsburg customers.

SSCs on property tax bills will include an annual street sweeping service charge (no increase) that varies by community based on frequency of service. The FY19/20 residential unit street sweeping charge for Antioch, Pittsburg, and Bay Point customers is \$5.60, \$10.26, and \$4.58, respectively.

Non-residential Customers: The District is proposing increased SSCs for commercial and industrial customers based on annual potable water consumption (i.e., SSC is per hundred cubic feet per year [HCF/y]) as presented in **Table 2** below by business class and city/community. If annual potable water consumption is less than 90 HCF/y, a minimum annual charge will be applied. The annual non-residential unit street sweeping service charge (no increase) for Antioch, Pittsburg, and Bay Point customers is \$56.00, \$51.35, and \$45.80, respectively.

Table 2 – Non-residential Proposed User Charges: Total SSC per Hundred Cubic Feet per year (HCF/y) and Street Sweeping Rate (per Non-residential Unit)

Business Class (Commercial/ Industrial)	Zone 1 – Bay Point		Zone 2 – Pittsburg		Zone 3 – Antioch	
	Current FY18/19	Proposed FY19/20	Current FY18/19	Proposed FY19/20	Current FY18/19	Proposed FY19/20
Bakeries/ Restaurants	\$8.83	\$9.19	\$7.40	\$7.74	\$7.34	\$7.67
Light Industrial	\$6.11	\$6.33	\$4.52	\$4.72	\$4.50	\$4.69
Hotels/Motels	-	-	\$3.96	\$4.13	\$4.30	\$4.48
Marinas	-	-	\$5.83	\$6.09	\$5.88	\$6.13
Misc. Commercial	\$6.11	\$6.33	\$4.52	\$4.72	\$4.46	\$4.63
Mortuaries	-	-	\$5.11	\$5.34	\$5.13	\$5.36
Annual Minimum	\$522.13	\$540.26	\$372.68	\$389.47	\$372.68	\$389.47

WHAT DO SEWER SERVICE CHARGES FUND?

The District's SSC revenue is allocated to several key funds to support ongoing operations, as well as capital investment in existing and future infrastructure, as shown in **Table 3** below.

- Regional Treatment and Conveyance:** Funds facility operation and maintenance costs associated with regional wastewater conveyance and treatment, as well as the HHW facility.
- Capital Asset:** Funds new wastewater capital projects that are not related to new growth (the District charges separate Capital Facilities Collection Charges for growth-related capital costs).
- Capital Asset Replacement:** Funds capital infrastructure renewal and replacement projects.
- Advanced Treatment Reserve:** Provides dedicated funding to meet a future, more stringent regulatory requirement for advanced wastewater treatment, which is estimated to cost over \$150 million. This fund will assist the District in minimizing significant rate increases in the future.
- Bay Point Collections:** This SSC rate component is only collected for Bay Point customers and funds operation and maintenance of the Bay Point collection system.

Table 3 – Example Annual Single-Family Residential SSC by Rate Component for FY19/20

Sewer Service Charge (SSC) Component	Antioch/Pittsburg		Bay Point	
	Current FY18/19	Proposed FY19/20	Current FY18/19	Proposed FY19/20
Regional Treatment/Conveyance	\$271.09	\$280.58	\$271.09	\$280.58
Capital Asset	\$18.47	\$18.47	\$18.47	\$18.47
Capital Asset Replacement	\$26.07	\$33.37	\$26.07	\$33.37
Advanced Treatment Reserve Fund	\$57.05	\$57.05	\$57.05	\$57.05
Bay Point Collections	N/A	N/A	\$149.45	\$150.79
Total SSC per Equivalent Residential Unit	\$372.68	\$389.47	\$522.13	\$540.26
Estimated Monthly Charge	\$31.06	\$32.46	\$43.51	\$45.02

More information on the District's costs can be found in the District's budget and capital improvement program documents, which are on file at the District's offices.

PUBLIC HEARING AND PROTEST PROCEDURES

The Board of Directors will hold a public hearing on the proposed SSC increases on Wednesday, June 12, 2019 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 asked to take action to implement the SSC increases at this meeting.

Written protests may be sent to the District (attention of "Office Manager/Secretary to the Board") prior to the Public Hearing at the address shown on the previous page and **must include your property address and the Assessor Parcel Number** found on your mailing label.

At the close of the Public Hearing, the Secretary to the Secretary will announce the total number of protest responses, including any received at the Public Hearing. If written protests are presented by a majority of the parcel owners in the District's service area, the District cannot implement the SSC rate adjustments.



Delta Diablo Wastewater Treatment Plant in Antioch, CA



2500 Pittsburg-Antioch Highway
Antioch, CA 94509

**NOTICE OF PUBLIC HEARING
PROPOSED SEWER SERVICE CHARGE
RATE INCREASES**

**5:30 PM
WEDNESDAY, JUNE 12, 2019
2500 PITTSBURG-ANTIOCH HIGHWAY
ANTIOCH, CA 94509**



Delta Diablo provides wastewater conveyance and treatment services to approximately 213,000 customers in Pittsburg, Antioch, and Bay Point.

Delta Diablo *Our core mission is to protect public health and the environment in our communities by providing wastewater resource recovery services of exceptional quality and value.*

**Environmental
Stewardship**

In treating 13 million gallons of wastewater each day, Delta Diablo has an exemplary regulatory compliance record in meeting federal, state, and local regulatory requirements and protecting the local Delta receiving waters.

**Infrastructure
Investment**

Continued capital investment in the Wastewater Treatment Plant, 76 combined miles of sewer pipes and force mains, and five pump stations is critical to maintaining effective, reliable, and high-quality customer service.

**Fiscal
Responsibility**

Delta Diablo is committed to maintaining responsible rates by prioritizing capital investments, managing budgets through operational efficiencies, and targeting available grant and low-interest loan programs.

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