

AGENDA

BOARD OF DIRECTORS FINANCE COMMITTEE MEETING

DELTA DIABLO

(a California Special District)

2500 Pittsburg-Antioch Highway | Antioch, CA 94509
(Note: There will be no in-person meeting at the District.)
WEDNESDAY, MAY 5, 2021

4:30 P.M.

In lieu of a public gathering, the Board of Directors Finance Committee meeting will be accessible via ZOOM to all members of the public as permitted by the Governor's Executive Order N-29-20, which suspends certain requirements of the Ralph M. Brown Act to allow for greater flexibility in conducting public meetings.

The Board of Directors Finance Committee Meeting on May 5, 2021 will not be physically open to the public and the Finance Committee Chair will be teleconferencing into the meeting. Members of the public can observe the meeting by following the steps listed below to view and listen to the Finance Committee Meeting.

Persons who wish to address the Finance Committee during the Public Comment period or with respect to an item on the Agenda will be limited to two (2) minutes. The Secretary to the Board will call on members of the public at the beginning of the meeting to establish a speaking order. Please indicate whether you wish to speak during the Public Comment period or on a specific Agenda item at that time.

Presentations will be made available online at <https://www.deltadiablo.org/finance-subcommittee-meetings> approximately one hour prior to the start of the Finance Committee meeting.

How to view, listen to, and provide a Public Comment during the meeting via ZOOM:

- Using your computer, access the Zoom meeting at: <https://us02web.zoom.us/j/83570100687>

How to listen and provide a Public Comment during the meeting via ZOOM:

- Using your telephone, access the Zoom meeting by dialing (669) 900-6833
- Meeting ID: 835 7010 0687

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 on the District website at www.deltadiablo.org

AGENDA

BOARD OF DIRECTORS FINANCE COMMITTEE MEETING

(Note: There will be no in-person meeting at the District.)

WEDNESDAY, MAY 5, 2021

4:30 P.M.

A. PUBLIC COMMENTS

B. REVIEW REPORT ON PREPARATION OF PROPOSED FISCAL YEAR 2021/2022 – 2025/2026 CAPITAL IMPROVEMENT PROGRAM (Thanh Vo)

C. REVIEW KEY ASSUMPTIONS FOR PROPOSED FISCAL YEAR 2021/2022 OPERATING BUDGET (Brian Thomas)

D. 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 on the District website at www.deltadiablo.org



MEMORANDUM

DATE: May 5, 2021

TO: Juan Banales, Chair, Finance Committee

FROM: Thanh Vo, Acting Engineering Services Director *TGV*

SUBJECT: REVIEW REPORT ON PREPARATION OF PROPOSED FISCAL YEAR
2021/2022 – 2025/2026 CAPITAL IMPROVEMENT PROGRAM

RECOMMENDATION

Review and comment on the proposed Fiscal Year 2021/2022 – 2025/2026 (FY21/22-FY25/26) Capital Improvement Program (CIP).

Background Information

Staff has developed a new 5-year CIP for FY21/22-FY25/26 to guide planning, design, construction, and financing of prioritized capital projects in the District's wastewater conveyance, collection, and treatment systems and recycled water system. These critical projects are necessary to ensure the continued effective and reliable operation of existing infrastructure, address future service needs, and meet current and future regulatory requirements. Staff prepares an updated 5-year CIP each year to reflect current priorities, address new project needs, and adjust estimated project costs and implementation schedules. In addition, this process assists in identifying long-term financial and resource needs and required budget appropriations required to support project implementation at the start of each fiscal year. The proposed 5-year CIP was considered in developing both the proposed Sewer Service Charges (SSCs) for FY21/22 and the 5-year SSC forecast, which were presented to the Board on April 14, 2021. Staff will present the proposed CIP to the Finance Committee and incorporate comments received into the draft CIP that will be presented to the Board for review on May 12, 2021.

Supporting documentation used during CIP development includes city and county General Plans, city collection system master plans, and detailed master plans prepared by the District for its wastewater treatment, recycled water, and conveyance system facilities. The District completed a Conveyance System Master Plan update in April 2010 and a Recycled Water Master Plan in August 2013, and is currently completing a Resource Recovery Facility Master Plan (RRFMP) that will supersede the 2011 Treatment Plant Master Plan.

Analysis

The proposed FY21/22-FY25/26 CIP includes approximately \$127 million in prioritized capital improvements. As reported at recent Board Meetings (November 2020 – April 2021), staff has incorporated significant findings and recommendations from recent condition assessment and master planning activities, as well as changes to existing projects, in developing the 5-year CIP. Note that the current 5-year CIP totals \$81.3 million. Key CIP highlights include the following:

- *Secondary Process Improvements Project:* As part of the RRFMP, the Secondary Process Improvements Project (\$60.0 million) was identified to replace the existing tower trickling filters with aeration basins in the next five years to: 1) address a significant regulatory compliance vulnerability associated with potential loss of critical infrastructure and associated treatment capacity, 2) ensure compatibility with long-term nutrient management

plant upgrades, and 3) accommodate growth in the District’s service area through 2040. The majority of project expenditures (\$58.0 million) is anticipated in Years 3, 4, and 5 of the CIP.

- Addressing New Infrastructure Needs: As a result of the RRFMP condition assessment findings, 16 new projects were added to the CIP with an estimated total project cost of \$10.0 million, including \$0.7 million for the Treatment Plant Structural Assessment and Rehabilitation Project and \$0.3 million for Condition Assessment of Treatment Plant Underground Piping Project, both of which will inform future infrastructure renewal needs.
- CIP Prioritization: To support incorporation of new projects, staff worked to prioritize and defer implementation of previously identified projects, which resulted in deferral of approximately \$10.0 million for seven projects from Years 1, 2, and 3 to Years 4 and 5 of the proposed CIP.
- Cash Funding Maximization: Despite the significant increase in the magnitude of the proposed 5-year CIP (\$127 million compared to \$81.3 million for the current 5-year CIP), staff has worked to ensure the lowest overall cost to ratepayers by maximizing cash funding versus issuing debt. The planned funding approach for the proposed 5-year CIP includes 74% cash funding (versus 92% for the current CIP), which incorporates a 50% debt financing assumption for the new \$60.0 million Secondary Process Improvements Project.
- Investing in Existing Wastewater Infrastructure Renewal: Approximately 70% of the CIP total is allocated to support rehabilitation and/or replacement of existing critical wastewater infrastructure, including Antioch Pump Station and Conveyance System Improvements (\$10.3 million), WWTP Electrical Switchgear Replacement (\$9.4 million), WWTP Cogeneration System Improvements (\$5.0 million), and Bridgehead Pipeline Replacement (\$2.3 million).
- Ensuring Integrity of Bay Point Collection System: The District owns and operates 43 miles of gravity sewers in Bay Point. The CIP includes \$3.2 million to support inspection, repair, and rehabilitation of prioritized segments over the next five years.
- Planning for the Future: The proposed CIP identifies funding for multiple master planning efforts, including the current RRFMP (\$0.2 million), Electrical System Master Plan (\$0.3 million in FY24/25), Supervisory Control and Data Acquisition Master Plan (\$0.5 million in FY23/24), Biosolids Management Master Plan (\$0.4 million in FY25/26), and Recycled Water Master Plan Update (\$0.3 million in FY23/24).

The proposed 5-year CIP is provided in the CIP Program Summary (refer to Attachment). A summary of capital project expenditures by major fund is presented in Table 1 below.

Table 1 – Proposed FY21/22-FY25/26 CIP Totals by Major District Fund

Fund	5-year CIP Total (\$M)	% of 5-Year CIP Total
Wastewater		
Capital Asset	1.0	0.8
Capital Asset Replacement	100.0	78.7
Expansion	11.7	9.2
Advanced Treatment	4.3	3.4
Recycled Water		
Capital Asset	1.6	1.3
Capital Asset Replacement	3.9	3.1
Expansion	0.2	0.1
Bay Point Collection	3.9	3.1
Household Hazardous Waste	0.4	0.3
Total	\$127.0M	100%

The FY21/22-FY25/26 CIP includes information regarding the location, scope, schedule, budget, risk, financing needs, and other information to adequately justify the need for capital projects. During development of the CIP, staff coordinated with planning agencies in the District's service area (i.e., the cities of Antioch and Pittsburg, and Contra Costa County) to ensure that recommended projects in the CIP are consistent with the respective agency's applicable specific and general plans. Staff used previously developed District planning documents to determine the recommended timing, scope, and budget for projects in the CIP. In accordance with the District's CIP development process, the CIP shall be adopted by, and shall be annually reviewed and revised by, resolution of the Board, following issuance of a notice of public hearing. Notice of the hearing will be given in accordance with Government Code Section 65090. The final CIP will be presented for approval at the same time the budget is presented for approval. Following the Board's adoption of the CIP, staff will provide copies of the approved CIP to the planning agencies in the District's service area and update the District's website to describe priority projects. Staff anticipates presenting the draft and final CIP for consideration at the May 12, 2021 and June 9, 2021 Board meetings, respectively.

Fiscal Impact

The proposed FY21/22-FY25/26 CIP includes approximately \$127 million in capital investment needs. As presented at the Board Meeting on April 14, 2021, staff is recommending that the majority of the District's capital spending be cash funded (versus debt financed) to provide the highest overall value to the District's customers. The proposed CIP has been incorporated into the current FY21/22 SSC analysis, which would provide necessary funding to support planned capital expenditures in FY21/22.

Attachment

FY21/22-FY25/26 CIP Program Summary

cc: District File CORP.09-CORRES-XXX



MEMORANDUM

DATE: May 5, 2021

TO: Juan Banales, Chair, Finance Committee

FROM: Brian Thomas, Acting Business Services Director ^{BAT}

SUBJECT: REVIEW KEY ASSUMPTIONS FOR PROPOSED FISCAL YEAR 2021/2022 OPERATING BUDGET

Recommendation

Review and comment on key assumptions for the proposed Fiscal Year 2021/2022 (FY21/22) Operating Budget.

Background Information

Following critical review of operating budget adjustment needs and opportunities, staff has developed a proposed FY21/22 Operating Budget, which served as the baseline for calculation of the proposed Sewer Service Charges (SSCs) presented to the Board on April 14, 2021. This critical review directly supports the District's long-term financial sustainability and effective stewardship of limited ratepayer funds in operating the District's wastewater collection, conveyance, and treatment systems; recycled water system; household hazardous waste collection facility; and street sweeping services program. Following concurrence of key assumptions for the FY21/22 Operating Budget by the Finance Committee on May 5, 2021, staff would present these assumptions to the Board on May 12, 2021. Staff would subsequently present the single-year FY21/22 Budget, which will include revenues, operating expenses, and capital expenditures, for consideration and approval at the Board meeting on June 9, 2021.

Analysis

The proposed FY21/22 Operating Budget totals \$28.9 million, which represents a \$0.5 million decrease (-1.4%) relative to FY20/21 (\$29.3 million). This section highlights major cost categories in the FY21/22 Operating Budget, including salaries and benefits, chemicals, utilities, office and operating, and outside services. The District anticipates that it will continue to experience progressive increases in annual operating costs in future years due to escalations in labor, chemical, energy, materials, supplies, equipment, hauling, and services costs, as well as increasingly more stringent regulatory requirements.

Salaries and Benefits: This category represents approximately 59% of the District's FY21/22 operating budget.

- Cost-of-Living Adjustment: (COLA). An annual COLA is specified in the memoranda of understanding (MOUs) for each of the District's three bargaining units. The MOUs specify that the District will adjust salaries for the first full pay period after July 1 each year, from a minimum of 2% up to 5% based on the April-to-April change in the Consumer Price Index (CPI), San Francisco/Bay Area Wage Earners. The percentage will be available in May and COLAs will be included in the FY21/22 Salaries and Benefits budget for the Board's consideration in June.

- Unfunded Positions: A total of 77.5 full-time equivalent (FTE) positions are budgeted for FY21/22, including 2.5 FTEs for part-time positions. Based on an assessment of resource needs, four positions are proposed to remain unfilled and unfunded in FY21/22, which results in an annual savings of \$1.1 million.
- Position Changes: No new full-time positions are recommended. The proposed FY21/22 Operating Budget includes funding for two retired annuitant positions—Operations Construction Coordinator/Retired Annuitant and Finance Professional/Retired Annuitant—which were approved by the Board in FY20/21, as well as three intern positions for the Laboratory, Maintenance, and Engineering Divisions.
- Medical Insurance: Annual medical insurance premium costs have been increased by 7.5%, while most other health benefits (e.g., vision, Employee Assistance Program, dental, and life insurance) are not expected to increase.
- California Public Employees' Retirement System (CalPERS) Funding: In November 2011, the Board adopted CalPERS Tier 2 (2.0% at age 55), which applies to employees hired between July 1, 2012 and December 31, 2012, or hired on or after January 1, 2013, as a member of a qualified public pension plan (e.g., CalPERS, Contra Costa County Employee Retirement Plan, etc.). Prior to July 1, 2012, 100% of all employees were enrolled in CalPERS Tier 1 (2.7% at age 55). Furthermore, the Public Employees' Pension Reform Act of 2013 (PEPRA), effective January 1, 2013, established Tier 3 (2.0% at age 62), which applied to employees hired on or after January 1, 2013, who are not members of a qualified public pension plan. As of FY20/21, 54% of all employees are in either Tier 2 or Tier 3 and since new hires are no longer eligible to become members of Tier 1, there are ongoing savings as employees leave the District and vacant positions are filled at Tiers 2 and 3. The District assumes that new journey level, professional, and management hires will be Tier 2, because it is likely that they would have been a member in CalPERS or a reciprocal plan. The District assumes that new entry level hires will be Tier 3, because it is unlikely that these hires would have been members in CalPERS or a reciprocal plan. In addition to the lower employer-paid contributions into CalPERS, all new hires pay their full employee contributions into CalPERS, as well as contributions into the Other Post-employment Benefits (OPEB) trust, which is at 3% of base salary.
- CalPERS Pension Unfunded Liability Contribution: This cost is budgeted at \$1.3 million, which is an increase of approximately \$0.2 million from FY20/21.
- Succession Planning: There was no change in the \$0.1 million budget for FY20/21 for overlap of new hires and incumbents in critical positions.
- Contra Costa County Retirees' Association (CCCERA) Funding: In July 2014, the Board established Contributed Benefit Savings funding levels of 3.75% of salaries to maintain the integrity of the CCCERA plan for District retirees and employees who remained in the CCCERA system after the District transitioned from the CCCERA pension plan to CalPERS in July 2014.
- OPEB Trust Fund Annual Funding: The Board's adopted OPEB Trust Funding Policy states the intent to fund the District's Actuarially Determined Contribution (ADC) within 30 years, which the District has done each year since the trust fund was established in February 2010. District employees pay 3% of base salaries into the trust and the District budgets the required 3% match, as well as actual retiree medical costs which are deposited into the OPEB trust fund. The FY21/22 Operating Budget includes an ADC of \$0.9 million and will be evaluated in accordance with the OPEB Trust Funding Policy after receipt of the audited financial statements.
- Public Agency Retirement Services (PARS) Funding: The FY21/22 Operating Budget includes a one-time payment of \$0.1 million to PARS. The PARS trust account was established to pre-fund both CalPERS pension obligations and/or OPEB obligations. The

additional funds in PARS will provide funding to mitigate future rate revenue required for projected sharp increases in pension or OPEB costs due to decreases in discount rates, an accelerated amortization schedule, and/or investment losses.

Chemicals: This cost is approximately 5% of the FY21/22 Operating Budget. The District participates in the Bay Area Chemical Consortium (BACC), which administers an annual bidding process for water and wastewater treatment chemicals, to leverage purchasing power among the members and receive cost-effective bids. As external factors (e.g., tariffs) cause chemical prices to rise, this approach allows the District to benefit from the most competitive market prices. However, because BACC eliminated the bidding process in FY20/21 due to the COVID-19 pandemic, the District secured one-year contract extensions at no additional cost. For FY21/22, the BACC resumed competitively bidding chemicals which resulted in increased chemical unit costs. The FY21/22 chemical budget totals \$1.5 million, including \$0.9 million for wastewater and \$0.6 million for recycled water.

Utilities: This category represents approximately 8% of the FY21/22 Operating Budget. Staff continues to identify opportunities to reduce on-site energy demand and increase renewable energy production. Staff has identified and implemented changes to operating strategies based on variable energy cost schedules to reduce energy costs, including: 1) operating high-electricity demand solids dewatering centrifuges in a batch dewatering mode during off-peak hours; 2) retrofitting the centrifuges with recovery vanes to capture rotational energy from discharged water (6% improvement in energy use); and 3) improving the aeration blower filtration system to decrease the pressure drop and improve energy performance. The budget assumes 85% uptime for the on-site cogeneration engine, which is expected to meet over 50% of plant power demand, while providing waste heat for the anaerobic digesters.

Office and Operating: This category represents approximately 11% of the FY21/22 Operating Budget. Permit and regulatory fees are expected to increase by 8% in FY21/22 for a total budget of \$0.3 million. The budget also included allowances for general office supplies, insurance, staff training and professional development.

Outside Services: This category represents approximately 14% of the FY21/22 Operating Budget and includes items such as temporary, legal, and professional services. Professional services is the largest item in the Outside Services category and is budgeted in the amount of \$1.0 million. This represents a 13% (\$0.2 million) decrease over last year. Organizational improvement initiatives, including Munis Enterprise Resource Planning enhancements, as well as Capital Facilities Capacity Charges study, GIS system improvements, regulatory compliance support services, and updates to District standards are planned for FY21/22.

Other: This category represents 3% of the FY21/22 Operating Budget and includes a contingency allowance of \$0.3 million and accounts for transfers to other District funds.

Fiscal Impact

The FY21/22 Operating Budget assumptions help ensure the District is recovering its operating expenses, while also highlighting efforts to implement budget adjustment strategies that support long-term financial sustainability and responsible stewardship of limited ratepayer funds. Staff has included these assumptions in the District's long-term 5-year SSC analysis, which was presented to the Board for review on April 14, 2021.

Attachment

None