

Delta Diablo

(a California Special District)

Board of Directors Finance Committee Meeting

4:30 PM, Wednesday, March 27, 2024

Plant Operations Center Conference Room
2500 Pittsburg-Antioch Highway, Antioch, CA 94509

AGENDA

A. PUBLIC COMMENTS

B. REVIEW AND COMMENT ON PROPOSED SEWER SERVICE CHARGES FOR FY24/25 AND DRAFT PROPOSITION 218 NOTICE (Nitish Sharma)

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 on the District website at www.deltadiablo.org and also at the District Administration Building located at 2500 Pittsburg-Antioch Highway, Antioch, CA 94509 during normal business hours.

Delta Diablo | 2500 Pittsburg-Antioch Hwy, Antioch, CA 94509 | Main 925.756.1900 | Fax 925.756.1961

TRANSFORMING WASTEWATER TO RESOURCES





MEMORANDUM

DATE: March 27, 2024

TO: Juan Banales, Chair, Finance Committee

FROM: Nitish Sharma, Business Services Director *Nitish Sharma*

SUBJECT: REVIEW AND COMMENT ON PROPOSED SEWER SERVICE CHARGES FOR FY24/25 AND DRAFT PROPOSITION 218 NOTICE

Recommendations

1. Review and comment on proposed Sewer Service Charge (SSC) increases for Fiscal Year 2024/2025 (FY24/25) and draft Prop. 218 Notice detailing the proposed SSC increases and notifying property owners of the associated public hearing.
2. Approve submitting the proposed FY24/25 SSC increases, draft Prop. 218 Notice, and public hearing date (June 12, 2024) for consideration at the April 10, 2024 Board Meeting.

Summary

The wastewater sector is heavily regulated with new and emerging issues competing with aging infrastructure needs, operating budget challenges (e.g., chemical, energy, hauling costs), regulatory compliance obligations, and limited state and federal funding support. The District endeavors to meet these challenges while ensuring SSCs remain below average when compared to peer agencies in the San Francisco Bay Area. The following key actions are associated with the proposed FY24/25 SSC increases:

- **SSC Revenue Increase:** Generate an additional \$2.5 million in annual SSC revenue to meet the District's capital investment and operational financial needs, which represents a 6.7% increase in anticipated FY24/25 SSC revenue.
- **Residential Customers**
 - Implement an annual SSC increase of \$24.80 (~\$2.07 per month or 5.5%) for Antioch (District Zone 3) and Pittsburg (District Zone 2). The proposed SSC increase does not include wastewater collection services, which are provided by the respective cities.
 - Implement an annual SSC increase of \$33.16 (~\$2.76 per month or 5.4%) for Bay Point (District Zone 1). The proposed SSC increase includes wastewater collection services provided by the District.
- **Non-residential Customers:** Implement an average SSC increase of 4.3% to specific business classes (refer to Table 2 in the attached draft Prop. 218 Notice).
- **2024 Cost-of-Service (CoS) Study:** The District updated its current total number of residential and non-residential customers and influent flow to the District's Wastewater Treatment Plant (WWTP) to ensure the proposed SSCs accurately reflect the District's cost of providing services to different customer classes.
- **Street Sweeping Charges:** No proposed changes (service level varies by community)
 - Annual single-family residential: \$4.58 for Bay Point, \$10.26 for Pittsburg, \$5.60 for Antioch
 - Annual non-residential unit: \$45.80 for Bay Point, \$51.35 for Pittsburg, \$56.00 for Antioch

Background Information

In developing proposed SSC adjustments to meet revenue requirements each year, staff utilizes the following guiding principles to ensure long-term financial sustainability, as highlighted under the Fiscal Responsibility goal area in the District's Strategic Plan (dated August 2021):

- Critically review operating budget each year to identify budget adjustment needs and business process optimization opportunities
- Ensure effective risk-based prioritization of a capital improvement program (CIP) that addresses critical infrastructure needs
- Utilize a 5-year rate model with a 10-year planning horizon to identify SSC revenue needed to meet cost projections without sharp rate increases
- Maximize cash funding of CIP (vs. debt financing) to ensure lowest overall costs for customers
- Meet District policy to maintain a minimum reserve balance of 40% of annual budgeted operating expenses in the Wastewater Operations & Maintenance (WW O&M) Fund
- Account for changes in customer data (i.e., residential vs non-residential, growth, changes in wastewater flow) each year to ensure equitable cost allocation across customer classes
- Effectively utilize available debt capacity to address aging infrastructure renewal, capacity expansion, and nutrient management regulations
- Meet District policy requirement to meet a minimum debt service coverage ratio of 1.40
- Maintain SSCs below average relative to peer agencies
- Comply with legal requirements for revenue collection

Staff has developed a 5-year financial plan (with a 10-year planning horizon) to effectively identify the District's capital investment and operational financial needs, while meeting District fiscal policy requirements. This financial planning approach ensures the District is setting appropriate rates to recover costs of providing service in compliance with California law, including Prop. 218. Staff has determined that the proposed FY24/25 SSC increases are necessary and meet the following requirements:

- Collect sufficient revenue to meet current and long-term projected costs of operations and maintenance, fund capital investments in aging infrastructure and debt service obligations necessary to maintain effective and reliable services and maintain overall financial stability.
- Comply with state-mandated regulatory requirements.
- Meet and comply with annual debt service requirements and loan agreements.
- Avoid generating operational deficits and depleting reserves.
- Comply with California Constitution Article XIII D, Section 6, which includes the following requirements:
 - 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 property owners.
 - Revenues derived from the charge shall not be used for any other purpose other than that for which the charge was imposed.
 - The amount of the charge is proportional to the cost of the service, and the apportionment of total costs among ratepayer classes must be reasonable (e.g., avoidance of subsidization across customer classes).

Each year, the District submits required information to Contra Costa County to place SSCs on the property tax roll for most customers.

Analysis

Key assumptions in developing the updated 5-year financial plan and associated FY24/25 SSC adjustments include:

- Preliminary FY24/25 Operating Budget: \$30.6M funded by SSCs (\$34.5M total) with planned escalations in the following years to accommodate changes in operational expenses associated with materials, energy, and labor benefits.
- Preliminary 5-year CIP: \$160.8M for Wastewater (\$186.7M total). Staff highlighted major factors impacting capital investment needs at the March 2024 Board meeting, including the \$110M Secondary Process Improvements Phase 1 Project, \$22.0M Antioch Conveyance System and Pump Station Improvements Project, and \$20M Cogeneration System Improvements Project.
- Compliance with Nutrient Removal Requirements: The District has identified a planning-level cost estimate of \$100M for the Secondary Process Improvements Phase 2 Project.
- Debt Utilization: The District will pursue federal Water Infrastructure Finance and Innovation Act (WIFIA) loan funding for both phases of the Secondary Process Improvements Project (\$53.9M for Phase 1 and \$49.0M for Phase 2).
- 2024 CoS Study and Growth Projection: The study has been updated to incorporate growth within the service area (1,738 equivalent residential units [ERUs]) and the associated additional flow to the District's WWTP. The financial plan includes an additional 400 ERUs will be added to the District's service area in FY24/25, resulting in \$189,000 in additional annual SSC revenue.
- Ad Valorem Taxes: The annual Ad Valorem Tax revenue assumption of \$3.7M increased by \$0.6M from prior financial planning activities. Ad Valorem Tax revenue is assumed to increase by 2.0% per year in subsequent years.
- Advanced Treatment (AT) Fund: The 5-year financial plan allocates \$20.7M in cash to the Secondary Process Improvements Phase 1 Project, which includes foundational infrastructure improvements to meet future regulatory requirements to remove nutrients at the District's WWTP.
- Inter-fund Loans: The District forecasts a \$14.0M loan from the WW Capital Asset Replacement (WW CAR) Fund to the Wastewater Expansion Fund in FY30/31 to fund the growth-related component of the Secondary Process Improvements Phase 2 Project.

In FY23/24, the Board elected to maintain SSCs at the same level as in FY22/23 (i.e., no rate increase) and staff projected a 2.5% rate increase for FY24/25. As reported at the February 2024 and March 2024 Board Meetings, however, key changes in nutrient removal planning assumptions (i.e., issuance of specific individual agency permit limits with 10-year compliance timeline) require an additional \$120M-\$140M in capital investment needs to meet this regulatory requirement. In addition, staff that capital cost estimates for two large-scale capital improvement projects (Cogeneration System Improvements, Antioch Pump Station and Conveyance System Improvements) have increased by a combined total of \$10.0M.

Public Communication and Outreach

In compliance with Article XIII D, Section 6 of the California Constitution, and Government Code Section 53750, *et seq.*, notices on proposed rate increases are planned to be sent to all utility customer accounts by April 28, 2024 (a minimum of 45 days prior to the public hearing in June) (refer to attachment). The Notice includes the information required under Prop. 218, and outlines the process for protesting the proposed rate increases. Written protests can be mailed or hand-delivered to the District on or before the public hearing date or in person at the public hearing that is expected to be set for June 12, 2024. In addition, notices of the public hearing will be published twice in the East County Times, in accordance with Health and Safety Code Section 5473.1 to

provide notice of the proposed collection of SSCs on the tax roll. 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 SSC increases are presented by a majority of the parcel owners in the District's service area, the District cannot implement SSC increases.

Financial Impact

If the Board approves the proposed SSC increases after the June 12, 2024 public hearing, an additional \$2.5 million in annual SSC revenue would be generated to meet the District's capital investment and operational financial needs.

Following implementation of the proposed SSC increases, the District's cost for providing wastewater collection, conveyance, and treatment services would remain below average when compared to peer agencies in the San Francisco Bay Area region. A comparison of District SSCs to regional peer agencies will be highlighted during the Finance Committee Meeting.

Attachments

Draft Prop. 218 Notice for Proposed FY24/25 SSC Increases



Notice of Proposed Sewer Service Charge Rate Increases for Fiscal Year 2024/25

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, 2024, 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 and associated financial needs and information, and instructions for protesting the rate increases (if desired) are provided below. In addition, related fact sheets and a “Frequently Asked Questions” document are available on the District’s website at www.deltadiablo.org.

WHAT IS DELTA DIABLO?

Delta Diablo (“District”) provides wastewater conveyance and treatment services for over 72,617 customer accounts (residential and non-residential), representing over 218,000 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 14.2 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 approximately 7.7 million gallons per day of recycled water, generating onsite renewable energy to meet over 50 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 FISCAL YEAR 2024/2025 SEWER SERVICE CHARGES

The District collects Sewer Service Charges (SSCs) from its customers each year as the primary revenue source needed to fund capital infrastructure investments, labor, energy, chemicals, regulatory compliance obligations, plant maintenance, and Delta HHW Collection Facility operations. For Fiscal Year 2024/25 (FY24/25) (July 1, 2024 – June 30, 2025), the District is proposing SSC increases of approximately +\$24.80 per year (+5.5%) for residential customers in Antioch and Pittsburg, and approximately +\$33.16 per year (+5.4%) for residential customers in Bay Point. The District continues to maintain its rates below the average of peer agencies in the San Francisco Bay Area region.

Because the District’s costs in the categories referenced above will increase in the next fiscal year, SSC increases are required to recover the District’s costs, maintain effective and reliable wastewater conveyance and treatment services, meet future regulatory requirements, and ensure financial integrity and long-term sustainability. In addition, the proposed FY24/25 SSCs incorporate FY24/25 Cost-of-Service Study findings, which updated growth in the service area and the corresponding additional wastewater flow to the District’s WWTP. SSCs for non-residential customers (i.e., commercial, industrial) were adjusted accordingly for FY24/25 based on customer class. Most District customers are billed on a fiscal-year basis and pay SSCs via annual property tax bills. Property tax bills also include a street sweeping service charge (no increase from FY23/24) that varies by community based on service frequency.

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

Table 1 – Example Annual Residential SSC on Property Tax Bills for FY24/25

Residential Service Customers	Proposed SSC Increase	Current FY23/24	Proposed FY24/25	Annual Change
Antioch/Pittsburg	+5.5%	\$448.75	\$473.55	+\$24.80
Bay Point**	+5.4%	\$615.77	\$648.93	+\$33.16

Notes: * Percentage increases are approximate.

** Delta Diablo provides wastewater collection services for Bay Point customers only (i.e., higher SSC), while the respective cities provide these services for Antioch and Pittsburg customers.

Non-residential Customers: The District is proposing SSCs increases for commercial and industrial customers based on annual potable water consumption data (i.e., the SSC rates are per one hundred cubic feet per year [HCF/y] of potable water consumption) by business class and community, as presented in **Table 2**. If annual water consumption is less than 80 HCF/y, a minimum annual charge of 80 HCF/y multiplied by the applicable rate for each business class will be applied.

Table 2 – Non-residential Proposed User Charges: SSC (\$) per Hundred Cubic Feet per Year

Business Class (Commercial/Industrial)	Bay Point (Zone 1)		Pittsburg (Zone 2)		Antioch (Zone 3)	
	Current FY23/24	Proposed FY24/25	Current FY23/24	Proposed FY24/25	Current FY23/24	Proposed FY24/25
Bakeries/Restaurants	\$9.43	\$9.67	\$7.66	\$7.82	\$7.66	\$7.82
Hotels/Motels	\$4.78*	\$4.97*	\$4.78	\$4.97	\$4.78	\$4.97
Institutional	\$6.18	\$6.47	\$4.41	\$4.61	\$4.41	\$4.61
Light Industrial	\$5.97	\$6.26	\$4.21	\$4.42	\$4.21	\$4.42
Marinas	\$6.31*	\$6.73*	\$6.31	\$6.73	\$6.31	\$6.73
Misc. Commercial	\$6.18	\$6.56	\$4.41	\$4.67	\$4.41	\$4.67
Mortuaries	\$6.10*	\$6.26*	\$6.10	\$6.26	\$6.10	\$6.26
Annual Minimum	varies**	varies**	varies**	varies**	varies**	varies**

Notes: * SSC per HCF/y for FY23/24 provided, although no businesses in these classes are known in Bay Point.

** Annual minimum charge is calculated by multiplying 80 HCF/y by the applicable SSC per HCF/y

WHAT DO SEWER SERVICE CHARGES FUND?

The SSC increases are necessary to generate \$2.5 million in increased revenue to meet capital and operating costs associated with providing wastewater services. The District utilizes SSC revenue 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.
- **Address aging infrastructure through prioritized capital investment.** The District continues to strategically rehabilitate and replace essential elements of the wastewater collection, conveyance, and treatment systems to maintain effective and reliable services.
- **Implement capital upgrades necessary to meet nutrient removal requirements.** The District anticipates a costly region-wide regulatory mandate to remove nutrients (e.g., ammonia) from wastewater prior to discharge to receiving waters in response to recent algal blooms in San Francisco Bay.

- **Recover increases in operating costs.** As a regulated utility that requires specialized employees, materials, and services 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.
- **Prevent the need for more significant SSC increases in the future.** In developing its 5-year financial plan each year, the District works hard to balance direct economic impacts to customers and the need for sufficient revenue to cover capital investment needs and operating costs. If SSC increases are not implemented this year, more significant rate increases may need to be proposed in subsequent years.
- **Focus on cash funding versus borrowing for capital improvements.** Increasing overall SSC revenue allows the District to continue cash funding a majority of necessary capital improvements in its wastewater conveyance and treatment systems.

Detailed information on operating and capital costs is available within the District’s budget and CIP 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, 2024, at 5:30 p.m., in the Board Room at 2500 Pittsburg-Antioch Highway, Antioch, California, 94509. After close of the public hearing and consideration of all public comments and written protests received, the Board of Directors will be asked to take action to implement the proposed SSC increases at this meeting.

Written protests may be sent to the District (attention of “Office Manager/Secretary to the Board”, 2500 Pittsburg-Antioch Highway, Antioch, California, 94509) prior to the close of the public hearing 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 Board will announce the total number of protest responses, including any received by the close of 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 increases.



Delta Diablo Wastewater Treatment Plant in Antioch, CA

 218,000 residents	 14.2 million gallons of wastewater per day	 76 miles of sewer pipes, force mains	 5 pumps stations to convey wastewater	 Wastewater Treatment Plant	 Recycled Water Facility
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2500 Pittsburg-Antioch Highway
Antioch, CA 94509

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

**5:30 PM
WEDNESDAY, JUNE 12, 2024
2500 PITTSBURG-ANTIOCH HIGHWAY
ANTIOCH, CA 94509**



Delta Diablo provides wastewater conveyance and treatment services to over 218,000 customers in Pittsburg, Antioch, and Bay Point

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

**Environmental
Stewardship**

In treating 14.2 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.