

June 12, 2024

**CONDUCT PUBLIC HEARING ON SEWER SERVICE AND DELINQUENCY CHARGES AND COLLECTION SYSTEM CHARGES AND SURCHARGES; CLOSE PUBLIC HEARING AND CONSIDER ANY OBJECTIONS AND PROTESTS; DETERMINE NO MAJORITY PROTESTS EXISTS; ADOPT ORDINANCE ESTABLISHING CHARGES; AND ADOPT RESOLUTION APPROVING FINAL WRITTEN REPORT AND DIRECTING COLLECTION OF CERTAIN SEWER SERVICE AND DELINQUENCY CHARGES ON COUNTY TAX ROLL**

### Recommendations

1. Conduct a public hearing on Fiscal Year 2024/2025 (FY24/25) Sewer Service Charges (SSCs) and Delinquency Charges and Collection System Charges and Surcharges;
2. Receive and consider any testimony and protests received;
3. Determine that no majority protest exists within the meaning of Article XIII D, Section 6 of the California Health and Safety Code Section 5473.2;
4. Adopt Ordinance (Attachment 1) establishing SSCs and Surcharges to be effective in FY24/25; and
5. Adopt Resolution (Attachment 2) approving Written Report and directing collection of SSCs and delinquent charges on the County Tax Roll.

### Summary

The proposed SSC increases for FY24/25 include:

- Applying a 5.5% SSC rate increase for Antioch (District Zone 3) and Pittsburg (District Zone 2) residential customers in FY24/25. The proposed rate increase (does not include wastewater collection services, which are provided by the respective cities) equates to an SSC increase of \$24.80 per year or approximately \$2.07 per month for residential customers.
- Applying a 5.4% SSC rate increase to Bay Point (District Zone 1) residential customers in FY24/25. The proposed rate increase (includes wastewater collection services provided by the District) equates to an SSC increase of \$33.16 per year or approximately \$2.76 per month for residential customers.
- Applying an average SSC increase of 4.3% to specific business classes (non-residential customers).
- Key findings from the 2024 Cost-of-Service (CoS) Study, which incorporates updated total residential and non-residential customers, as well as the influent flow to the District's Wastewater Treatment Plant (WWTP). These updates ensure the proposed SSCs accurately reflect the District's cost of providing services to different customer classes.
- The proposed SSC increases are expected to generate approximately \$2.5 million in additional revenue in FY24/25 to meet the District's capital investment and operational needs, which represents a 6.7% increase in anticipated FY24/25 SSC revenue.

### No Proposed Street Sweeping Charge 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, \$5.60 for Antioch
  - Annual non-residential unit: \$45.80 for Bay Point, \$51.35 for Pittsburg, \$56.00 for Antioch



## Background Information

Delta Diablo is a California special district that provides wastewater conveyance and treatment, recycled water production and distribution, renewable energy production, pollution prevention, street sweeping, and household hazardous waste (HHW) collection services to over 218,000 customers in Antioch, Pittsburg, and the unincorporated community of Bay Point. As a progressive “Utility of the Future,” the District embraces innovative approaches, sustainable solutions, and community engagement in achieving its core mission of protecting public health and the environment, while maintaining reasonable rates and serving as responsible stewards of the public’s resources and trust. For Bay Point, the District also provides wastewater collection services, and only Bay Point customers are charged for those additional services through a separate SSC component to recover wastewater collection system operating, maintenance, and rehabilitation costs (Bay Point Collections). SSC revenues are not used to pay for any capital costs related to growth, which is funded through Capital Facilities Capacity Charges (CFCCs). 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 described below.

1. Regional Treatment and Conveyance (Wastewater O&M): Funds facility operation and maintenance (O&M) costs associated with regional wastewater conveyance and treatment, as well as the District’s share of the Delta HHW facility expenses.
2. Capital Asset: Funds new wastewater capital projects that are not related to new growth (the District charges separate CFCCs for growth-related capital costs).
3. Capital Asset Replacement: Funds capital infrastructure renewal and replacement projects.
4. Advanced Treatment Reserve: This fund is designed to minimize significant future rate increases by providing dedicated funding to meet a future, more stringent regulatory requirement for advanced wastewater treatment (i.e., removal of nutrients from treated wastewater prior to discharge).
5. Bay Point Collections: This SSC rate component is only collected for Bay Point customers and funds operation and maintenance/rehabilitation of the Bay Point collection system.

Each year, the District submits required information to Contra Costa County to place SSCs on the property tax roll for most customers. 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. Staff endeavors to meet these challenges while ensuring the District’s SSCs remain among the lowest when compared to its peer agencies in the Bay Area region.

## Analysis

In order to determine annual revenue requirements to meet operating cost and capital investment needs, the District utilizes a long-term financial model that considers a 10-year planning horizon while focusing on balancing revenues and costs by fund over the next 5 years through application of SSC adjustments, operating cost reductions, prioritization of capital investment needs, and financing assumptions (i.e., cash funding versus debt financing). Key model inputs include the preliminary FY24/25 operating budget with estimated increases in subsequent years and the draft FY24/25-FY28/29 Capital Improvement Program (CIP), which was presented to the Board for consideration in draft form on May 8, 2024. The final FY24/25-FY28/29 CIP has been submitted for Board consideration of approval on the June 12, 2024 Board Meeting agenda. In developing the proposed FY24/25 SSCs, staff worked with an experienced financial planning consultant to refine the District’s rate modeling approach to effectively support dynamic scenario

planning and sensitivity analyses across a range of operating cost, capital investment, existing cash balance use, and financing assumptions, while meeting the District’s fiscal policy requirements. This financial planning approach ensures the District is charging rates that are appropriate to recover costs of providing service and in compliance with California law, including Proposition 218. In addition, the proposed FY24/25 SSCs incorporate 2024 CoS Study findings, which incorporated the revision of the total count of residential and non-residential customers, as well as the influent flow to the District’s WWTP. These updates ensure the proposed SSCs accurately reflect the District’s cost of providing services to different customer classes. Staff has determined that the proposed increases to FY24/25 SSCs are necessary and meet the following requirements:

- Collects sufficient revenue to meet current and long-term projected costs of operations and maintenance, fund capital investment in aging infrastructure necessary to maintain effective and reliable services, and maintain overall financial stability
- Complies with state-mandated regulatory requirements
- Meets and complies with annual debt service requirements and supports new debt issuance.
- Avoids generating operational deficits and depleting reserves
- Complies 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 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
  - The amount of the charge must be proportional to the cost of the service, and the apportionment of total costs of service amongst ratepayer classes must be reasonable (e.g., avoidance of subsidization within the rates)
- Meets District fiscal policy to maintain a minimum reserve balance of 40% of annual budgeted operating expenditures in the Regional Treatment and Conveyance (Wastewater O&M) Fund
- Meets commitments made in loan agreements

In June 2022, the Board adopted an FY22/23 SSC increase of 4.5% for Antioch/Pittsburg and Bay Point customers. At that time, staff projected a future FY23/24 SSC increase of 4.5% for Antioch/Pittsburg and Bay Point residential customers. In FY23/24, the Board elected to maintain SSCs at the same level as in FY22/23 (i.e., no rate increase) due to significant schedule delays for several major capital projects and staff projected a 2.5% SSC 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 \$120-\$140 million in capital investment needs to meet this regulatory requirement. In addition, staff highlighted 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 \$10.0 million.

**Table 1 – Example Annual Residential SSC on Property Tax Bills for FY22/23**

<b>Residential Service</b>	<b>Current FY23/24</b>	<b>Proposed FY24/25</b>	<b>Annual Change</b>
5.5% SSC Increase for Customers in Antioch (Zone 3*) and Pittsburg (Zone 2*)	\$448.75	\$473.55	+\$24.80
5.4% SSC Increase for Customers in Bay Point (Zone 1*) (includes wastewater collection services)	\$615.77	\$648.93	+\$33.16

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



The following key considerations and assumptions were used in completing the SSC analysis:

- FY24/25 Service Area Growth: 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.
- 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 WWTP to ensure the proposed SSCs accurately reflect the cost of providing services to different customer classes.
- Operating Expenses. The District continues to experience progressive increases in annual operating costs over time due to escalations in chemical, energy, materials, supplies, equipment, hauling, and services costs, as well as increasingly more stringent regulatory requirements.
- Salaries and Benefits. The labor cost assumption was based on budgeted salaries and benefits based on positions included in existing labor agreements with estimated salary increases in accordance with memoranda of understanding (MOUs) for each of the District's three bargaining units and general industry cost projections for various medical and retirement benefits.
- Wastewater Infrastructure Investment Costs. The District continues to plan for and implement major capital improvements to ensure the continued reliability of its wastewater conveyance, collection, and treatment infrastructure. The proposed FY24/25-FY28/29 CIP totals \$187.1 million and includes approximately \$160.8 million in prioritized wastewater conveyance and treatment system infrastructure investment needs to be funded by SSCs. The District's ongoing Resource Recovery Facility Master Plan (RRFMP) identified the \$110 million Secondary Process Improvements Project for implementation 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. In addition, the District intends to make significant investments in renewal of existing critical wastewater infrastructure, including Antioch Pump Station and Conveyance System Improvements (\$22.0 million), WWTP Cogeneration System Improvements (\$13.5 million SSC and \$6.5 million Inflation Reduction Act tax credits), and Pittsburg Pump Station Pump Replacement (\$3.0 million).
- Financing Assumptions: Despite increasing the proposed 5-year CIP (\$187.1 million compared to \$139.1 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 71% cash funding, which incorporates a 50% debt financing assumption for the \$110 million Secondary Process Improvements 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 (\$53.9 million for Phase 1 and \$49.0 million for Phase 2).
- Advanced Treatment (AT) Reserve Fund: The 5-year financial plan allocates \$20.7 million 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.
- Regulatory Requirements. Because the wastewater sector is highly regulated, the District is subject to new requirements, such as unfunded mandated programs, increasingly stringent process monitoring and reporting requirements, and/or compliance with updated testing standards.



- Compliance with Nutrient Removal Requirements: The District has identified a planning-level cost estimate of \$100 million for the Secondary Process Improvements Phase 2 Project.
- Economic Reserves. Maintaining sufficient economic reserves is an essential part of the District’s ability to ensure reliable and cost-effective services now and in the future. As referenced above, the District has established a policy to maintain a minimum reserve balance of 40% of annual budgeted operating expenditures in the Regional Treatment and Conveyance (Wastewater O&M) Fund. In addition, other fund balances are included in the 5-year financial analysis. These funds are designated to support multiple District services (beyond wastewater operations) and are constrained as to their use, applicability, and consideration as “available cash.” Maintaining economic reserves supports the District’s efforts to meet unanticipated operating costs, continue services during unforeseen economic events and emergencies, and address other urgent and/or unusual items.
- Ad Valorem Taxes: The annual Ad Valorem Tax revenue assumption of \$3.7 million increased by \$0.6 million from prior financial planning activities. Ad Valorem Tax revenue is assumed to increase by 2.0% per year in subsequent years.
- Debt Service Coverage. The District is obligated to meet debt service coverage requirements related to long-term debt as part of various loan agreements. On March 13, 2024, the Board adopted a Debt Management and Continuing Disclosure Policy, which included a minimum debt service coverage ratio (ratio of net revenues to debt service) of 1.40, which helps maintaining the District’s good credit rating, reduce future borrowing costs, and ensure long-term financial sustainability.
- Inter-fund Loans: The District forecasts a \$14.0 million 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 FY24/25, the District will utilize existing Wastewater O&M Fund equity (~\$3.9 million) in combination with directing approximately 35% of SSC revenue to the WW CAR Fund to support cash funding (versus debt financing) of critical wastewater infrastructure projects. This approach provides the highest overall value to District ratepayers and preserves future debt management capacity for long-term treatment process upgrade and expansion improvements.

#### 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 Communication and Outreach

Pursuant to Proposition 218, a California law since 1996, notices on proposed rate increases were sent to all utility customer accounts prior to April 30, 2024 (meets minimum of 45 days prior to the June 12, 2024 Public Hearing) (Attachment 5). Proposition 218 provides the opportunity for District customers to protest proposed rate adjustments. In the event protests are received representing more than 50% of parcel owners, adjustments could not be implemented. To date, seven written protests have been received and are provided in Attachment 4. Protests may be received until the closing of the public hearing by the Board of Directors.

A public notice announcing the date and time of this public hearing was published on May 17, 2024 and May 24, 2024 in the East County Times newspaper, in accordance with state law. At the close of the public hearing, the Secretary to the Board will announce the total number of protests received.



In addition to distributing Proposition 218 Notices, the District also prepared two fact sheets—“Proposed Sewer Service Charge Increases” (Attachment 6) and “Investing in Critical Wastewater Infrastructure” (Attachment 7)—as well as a “Frequently Asked Questions” (Attachment 8) document to enhance public communications regarding the proposed SSC increases.

## Financial Impact

If the Board approves the proposed SSC increases at the June 12, 2024 public hearing, Pittsburg and Antioch residential customers would experience an estimated increase of \$24.80 per year or approximately \$2.07 per month, an approximate increase of 5.5%. Bay Point residential customers would experience an estimated annual increase of \$33.16 or approximately \$2.76 per month, an approximate increase of 5.4%. Non-residential customer rates would increase 4.3% on average according to the table provided in the attached Prop. 218 Notice (Attachment 5). The proposed SSC increases for Pittsburg, Antioch, and Bay Point customers in FY24/25 would result in additional annual SSC revenue of approximately \$2.5 million to recover costs of providing wastewater service and infrastructure replacement.

Following implementation of the proposed SSC increases, the District’s cost for providing wastewater conveyance and treatment services would remain below average when compared to peer agencies in the San Francisco Bay Area region. A comparison of total rates for wastewater collection and treatment services, including District SSCs and wastewater collection rates for Antioch and Pittsburg, to regional peer agencies will be included in the Board presentation.

## Attachment

- 1) Proposed Ordinance
- 2) Proposed Resolution
- 3) FY24/25 Wastewater Rate Study (2024 Cost-of-Service Analysis)
- 4) Written Protests Received
- 5) Proposition 218 Notice – Proposed FY24/25 SSC Increases
- 6) Proposed Sewer Service Charge Increases Fact Sheet
- 7) Investing in Critical Wastewater Infrastructure Fact Sheet
- 8) FY24/25 Proposed Sewer Service Charge Increases Frequently Asked Questions

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cc: District File No. BRD.01-ACTS

