EBMUD

BOARD OF DIRECTORS
EAST BAY MUNICIPAL UTILITY DISTRICT

375 - 11th Street, Oakland, CA 94607 | Office of the Secretary: (510) 287-0440

Notice of Special Meeting

Fiscal Years 2024 & 2025
Budget Workshop No. 1
Tuesday, January 24, 2023
9:00 a.m.
Boardroom, 2nd Floor
375 11th Street
Oakland, California

***** Please see appendix for public participation instructions*****

At the call of President John A. Coleman, the Board of Directors has scheduled Fiscal Years 2024 & 2025 Budget Workshop No. 1 for 9:00 a.m. on Tuesday, January 24, 2023, in the Administration Building Boardroom at 375 11th Street, Oakland, California.

The Board will meet in workshop session where staff will review the approach to develop the Fiscal Years 2024 and 2025 budget and rates, preliminary assumptions for rate increases, operating and capital priorities, and staffing.

Dated: January 19, 2023

Dana R. Mims
Acting Secretary of the District

W:\Board of Directors - Meeting Related Docs\Notices\Notices 2023\012423_FY24-25_Budget Workshop 1_notice.docx

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BOARD OF DIRECTORS
EAST BAY MUNICIPAL UTILITY DISTRICT

375 - 11th Street, Oakland, CA 94607 Office of the Secretary: (510) 287-0440

AGENDA

Special Meeting

Fiscal Years 2024 & 2025
Budget Workshop No. 1
Tuesday, January 24, 2023
9:00 a.m.
Boardroom, 2nd Floor
375 11th Street
Oakland, California

***** Please see appendix for public participation instructions*****

ROLL CALL:

PUBLIC COMMENT: The Board of Directors is limited by State law to providing a brief response, asking questions for clarification, or referring a matter to staff when responding to items that are not listed on the agenda.

DISCUSSION:

1. Staff will review the approach to develop the Fiscal Years 2024 and 2025 budget and rates, preliminary assumptions for rate increases, operating and capital priorities, and staffing. (Skoda)

ADJOURNMENT:

Disability Notice

If you require a disability-related modification or accommodation to participate in an EBMUD public meeting please call the Office of the Secretary (510) 287-0404. We will make reasonable arrangements to ensure accessibility. Some special equipment arrangements may require 48 hours advance notice.

Document Availability

Materials related to an item on this Agenda that have been submitted to the EBMUD Board of Directors within 72 hours prior to this meeting are available for public inspection in EBMUD's Office of the Secretary at 375 11th Street, Oakland, California, during normal business hours, and can be viewed on our website at www.ebmud.com.

W:\Agendas\Agendas 2023\2023_Special Mtgs & Workshops Agendas\012423_FY24-25_Budget Workshop 1_agenda.doc

APPENDIX

Fiscal Years 2024 & 2025 Budget Workshop No. 1
Tuesday, January 24, 2023 – 9:00 a.m.

EBMUD public meetings of the Board will be conducted in person in the Boardroom and via Zoom. These meetings are recorded, live-streamed, and posted on the District's website.

In Person
In accordance with District safety protocols, masks are required while in the building and Boardroom regardless of vaccination status.

*Online**
https://ebmud.zoom.us/j/94804788254?pwd=Z2duWU9RZzVqb3RMd1RlNXVISjNsUT09
Webinar ID**:** 948 0478 8254
Passcode: 467920

By Phone
Telephone: 1 669 900 6833
Webinar ID: 948 0478 8254
Passcode: 467920
International numbers available: https://ebmud.zoom.us/u/kb5JZuQJvV

*To familiarize yourself with Zoom, please visit https://support.zoom.us/hc/en-us/articles/201362193-Joining-a-Meeting

Providing public comment - *The EBMUD Board of Directors is limited by State law to providing a brief response, asking questions for clarification, or referring a matter to staff when responding to items that are not listed on the agenda.*

- Each speaker is allotted 3 minutes to speak; the Board President has the discretion to amend this time based on the number of speakers
- The Secretary will track time and inform each speaker when the allotted time has concluded
- Comments on **non-agenda items** will be heard at the beginning of the meeting
- Comments on **agenda items** will be heard when the item is up for consideration
- The Secretary will call each speaker in the order received

In person
- Fill out and submit a blue speaker card which is available in the foyer of the Boardroom

Via Zoom
- Use the raise hand feature in Zoom to indicate you wish to make a public comment https://support.zoom.us/hc/en-us/articles/205566129-Raising-your-hand-in-a-webinar
    - If you participate by phone, press *9 to raise your hand
- When prompted by the Secretary, please state your name, affiliation if applicable, and topic

Submitting written comments or materials
- Email written comments or other materials for the Board of Directors to SecOffice@ebmud.com
- Please indicate the meeting date and agenda item number or non-agenda item in the subject of the email. Contact information is optional.
- **Please email by 4 p.m. the day prior to the scheduled regular meeting**; written comments and other materials submitted to the Board of Directors will be filed in the record.
-

To *observe* the workshop, please visit:
https://www.ebmud.com/about-us/board-directors/board-meetings/

EAST BAY MUNICIPAL UTILITY DISTRICT

DATE: January 19, 2023

MEMO TO: Board of Directors

THROUGH: Clifford C. Chan, General Manager CCC

FROM: Sophia D. Skoda, Director of Finance SDS

SUBJECT: Fiscal Years 2024 & 2025 Budget Workshop No. 1 – January 24, 2023

SUMMARY

Budget Workshop No. 1, scheduled on January 24, 2023, will review the approach to develop the Fiscal Year 2024 (FY 2024) and 2025 (FY 2025) budget and rates, preliminary assumptions for rate increases, operating and capital priorities, and staffing. A second Board workshop is scheduled for March 28, 2023, and April 25, 2023 has been reserved as a third date, if necessary, to prepare the FY 2024 and FY 2025 budget and rates.

DISCUSSION

Beginning in 2014, following a series of workshops on long-term financial stability, the Board decided to move towards more cash funding of capital, improved debt service coverage ratios, and conservative water sales assumptions. These decisions have put the District in a good financial position in light of the less-than-planned water consumption due to the drought declaration, twin challenges of decreased revenue due to the drought and increased expenses for supplemental water purchases, the challenge of aging infrastructure in both the Water and Wastewater systems, the issue of nutrients in San Francisco Bay, and the highest national inflation in 40 years. To address these financial pressures, as well as meet Board goals as detailed in the District's Strategic Plan, the District's approach to the FY 2024 and FY 2025 biennial budget is to focus on realistic projections of revenues and expenses and find the most cost-effective way to implement Board direction.

FY 2024 and FY 2025 Budget and Rate Planning

In preparing a preliminary FY 2024 and FY 2025 biennial budget and rates proposal, staff considered the impacts of inflation and other national and global trends on costs of items needed for District operations, the regional economy, and the District's ratepayers. Across the District Water and Wastewater systems, labor costs have risen substantially and are projected to be higher than the long term-inflation average for at least the next year. For both systems, there are also significant increases in operating costs for energy and chemicals as a result of national and global trends.

Revenue for the Water System is driven primarily by water consumption. Based on current year water consumption data and drought recovery trends, the budget assumed FY 2024 consumption of approximately 139 million gallons per day (MGD) increasing to 143 MGD for FY 2025, and assumes drought restrictions are lifted in FY 2023. This reflects a slight rebound from water sales of 137 MGD projected for FY 2023 while under drought restrictions. Energy sales for the Water System are expected to increase due to the higher wholesale pricing staff is seeing currently, though at a slower rate than the growth in energy expenses. For the Wastewater System, non-rate revenue drivers are expected to be largely stable, though Resource Recovery and energy sales revenues are expected to decrease as the District takes steps to manage its nutrient loadings.

Given the above assumptions for revenues and expenses, preliminary rate increase projections are 8.5 percent for FY 2024 and 8.5 percent for FY 2025 for both the Water and Wastewater systems. Staff believes these rate increases will ensure the District can continue to meet Board goals, including continuing to make progress on critical maintenance work, moving forward with the highest-priority infrastructure needs, improving overall system resilience, and maintaining progress on long-term financial stability goals.

Capital Improvement Plan

The FY 2024-2028 five-year combined Water and Wastewater CIP is projected to grow by 20 percent over FY 2022-2026 levels. The Board will be presented with two capital scenarios for each system. Replacing aging infrastructure remains the dominant focus of the CIP for both systems. Significant work on the Water System includes rehabilitating water treatment plants, replacing water distribution and large diameter pipelines, and implementing other systemwide improvements, including major work to reservoirs and pumping plants. Significant work in the Wastewater System CIP includes addressing nutrients levels, designing a new dewatering facility, rehabilitating sewer interceptors, and implementing seismic retrofits at the Main Wastewater Treatment Plant.

Staffing

The goal for staffing considerations in the FY 2024 and FY 2025 budget is to support investments in key Board priorities, including increasing the number and scope of capital projects to improve and replace the District's aging infrastructure and respond to the existing and future pressures of climate change. Additionally, staffing recommendations support of other critical areas for investment, including: addressing Diversity, Equity and Inclusion; meeting critical operating and maintenance needs; supporting the Customer Assistance Program; addressing the needs of new development during peak workload; assisting in obtaining state and federal grant funds; and securing and improving information technology infrastructure.

While increased staffing grows the District's long-term costs, staff supports the addition of new positions to meet the challenges ahead.

CCC:SDS:SAF

Attachment

I:\Sec\2023 Board Related Items\Workshop 2023\1-24-23 Board Workshop 1\FIN - FY24-25 Budget Workshop 1 memo.docx

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EAST BAY MUNICIPAL UTILITY DISTRICT

Fiscal Years 2024 & 2025 Budget Workshop No. 1

Board of Directors

January 24, 2023

Today's Speakers

Sophia Skoda
Director of Finance

Sam Feldman
Manager of Budget

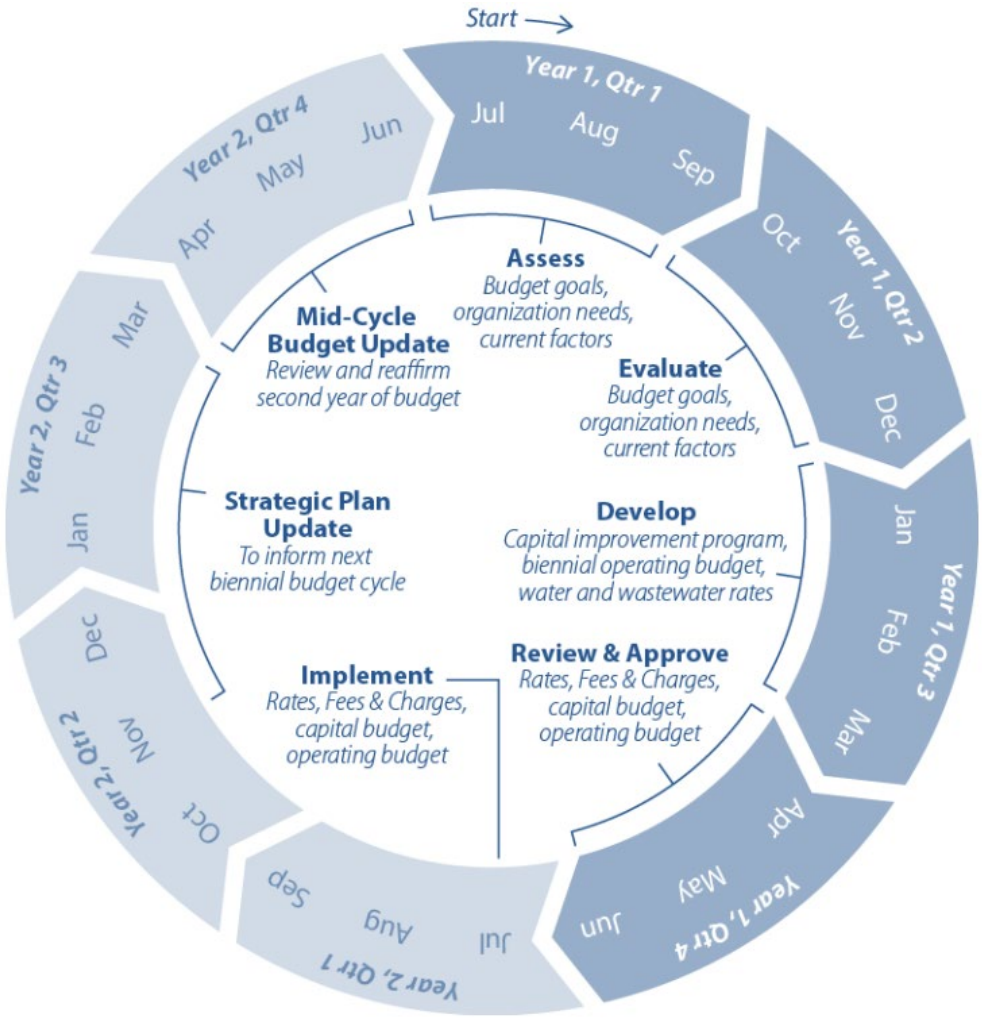
Nathan Hood
Principal
Management Analyst

Workshop Agenda

- Budget Process & Strategic Plan
- Major Budget Drivers & Themes
- Current Economic Landscape
- Water System & Rates
- Wastewater System & Rates
- Areas of Note in the Biennial Budget

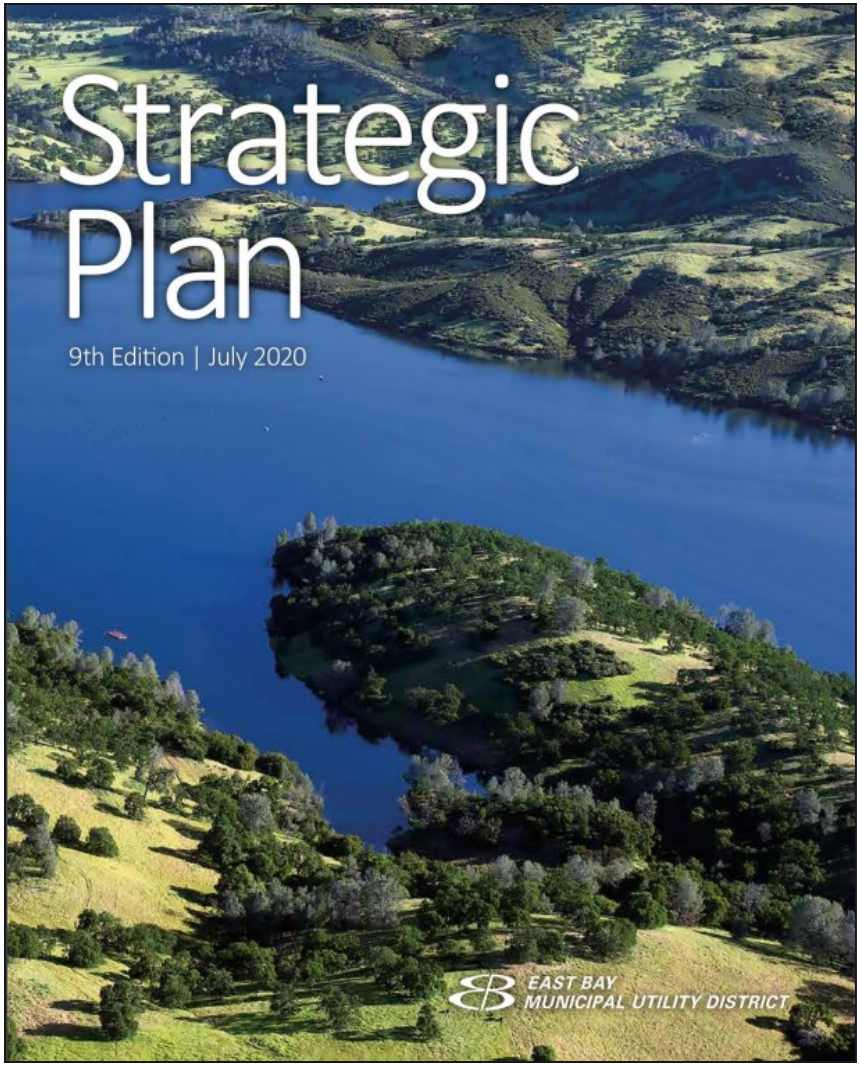
Budget Process & Strategic Plan

Budget Process



- Year 1
  - **Assess** and **Evaluate** goals and needs
  - **Develop** capital program, budget and rates
  - **Review** and **Approve** budget, rate, fees, and charges
- Year 2
  - **Implement** budget
  - **Evaluate** opportunity presented by Strategic Plan changes
  - Mid-Cycle budget **update**

Strategic Plan



Strategic Plan Goals
Long-Term Water Supply
Water Quality & Environmental Protection
Long-Term Infrastructure Investment
Long-Term Financial Stability
Customer & Community Services
Workforce Planning & Development

Strategic Plan Drives Budget Priorities

Strategic Plan Goals	Notable Budget Investments
Long-Term Water Supply	• Continued investments in long-term water supply resilience (e.g., recycled water, groundwater, regional partnerships)
Water Quality & Environmental Protection	• Capital funding for Water Treatment Plants, Nutrients, and Interceptors • Funding for monitoring and testing
Long-Term Infrastructure Investment	• Substantial growth in five-year capital plan • Increased resources to support capital and O&M
Long-Term Financial Stability	• Adding grant writing resource • Increased resources for cybersecurity
Customer & Community Services	• Staff resources for Customer Assistance Program • Additional support for peak applicant work
Workforce Planning & Development	• Increasing workforce opportunities through added internships • Investments in Diversity, Equity and Inclusion • Additional funding for training

Challenges Ahead

- Aging infrastructure
- Climate change resulting in increased:
  - Severity and frequency of droughts
  - Weather extremes
  - Wildfire risk
- Nutrients
- Emerging contaminants
- Changing regulations

Major Budget Drivers & Themes

Major Expense Drivers
Capital

- **Capital Investments**
  - Increased number and scope of projects, increased labor costs and inflation, and continued supply chain disruptions
  - Water: Increasing pipeline replacement miles, substantial investment in water treatment infrastructure
  - Wastewater: Accelerating maintenance and repair of interceptors, preparing for nutrient projects
  - >20% / $500 million growth in Five-Year Capital Plan

Major Expense Drivers Labor

Major Drivers of Labor Cost Increases	Increase Over FY 2023 Budget (District-wide) in FY 2024	Increase Over FY 2023 Budget (District-wide) in FY 2025
Inflation and Labor Agreements	+$60 million	+$80 million
27th Paycheck	+$17 million	$0
Proposed Additional Staffing	+$17 million	+$17 million
TOTAL* *Does not total due to rounding	**+$94 million**	**+$97 million**

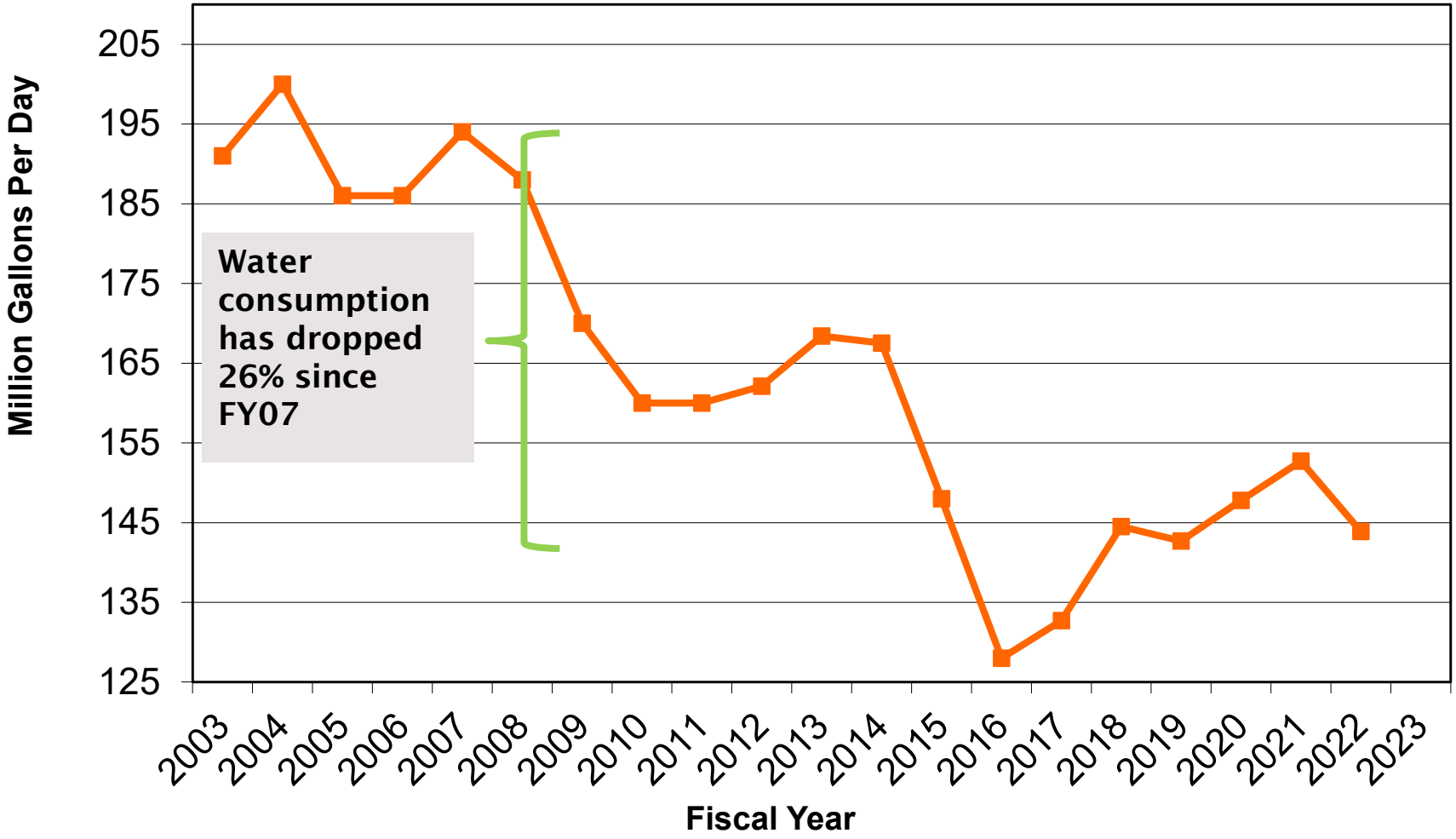
Major Expense Drivers Operating Non-Labor

- **Energy:** Substantial increase in prices
  - +48% / +$7.2 million in FY 2024
  - Additional +18% / +$3.9 million expected in FY 2025
- **Chemicals:** Continued supply chain disruptions
  - +90% / +$13.9 million in FY 2024
  - Additional +10% / +$3 million in FY 2025
- **Software:** Shift to cloud and limited competition
  - +43% / +$2.7 million in FY 2024
  - +6% / +$600 thousand in FY 2025

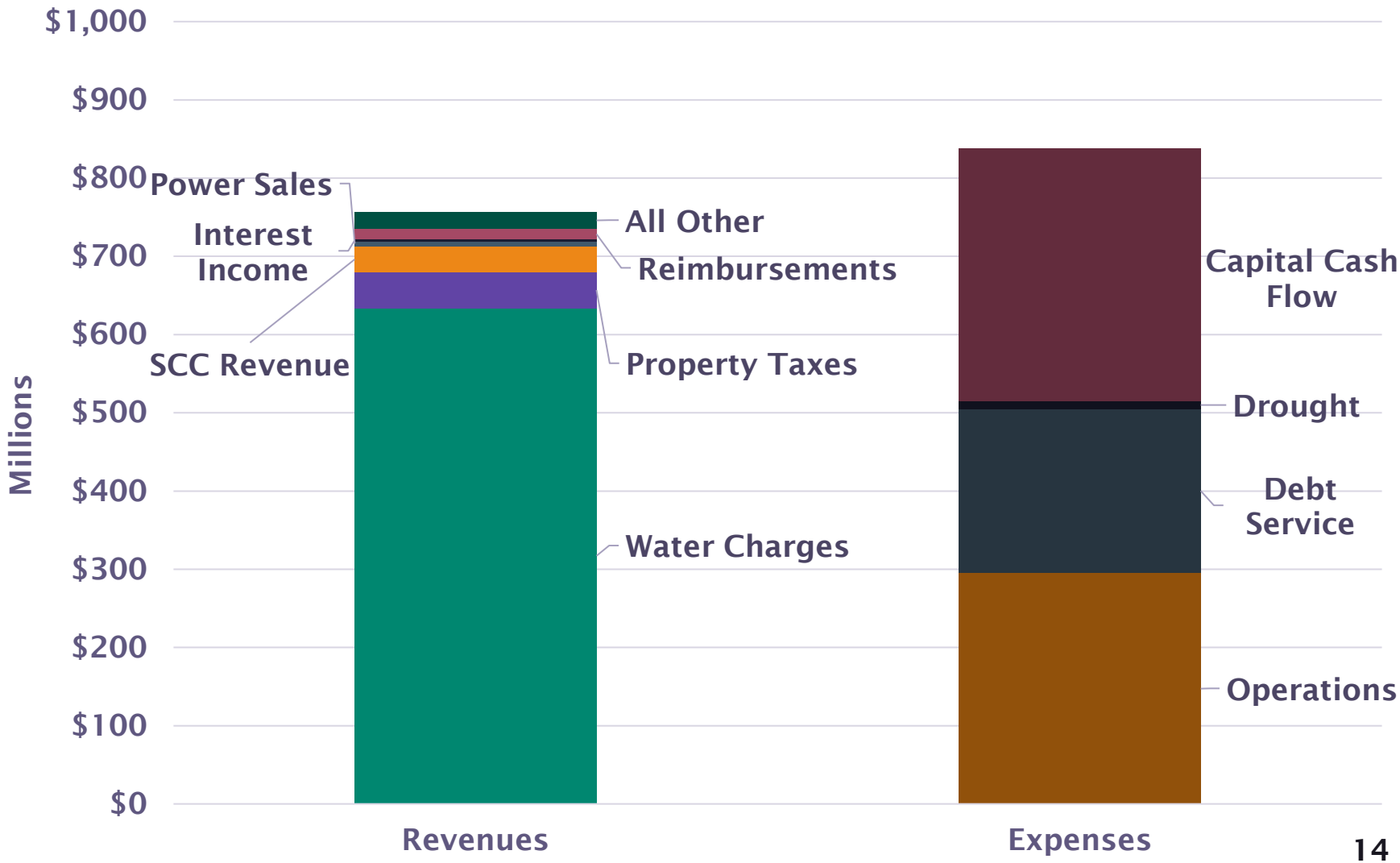
Major Drivers
Revenue

- **Drought: Modest Rebound in Consumption**
  - Budget assumes drought will end in FY 2023
  - Consumption historically remains depressed for multiple years
- **Energy**
  - Energy revenue fluctuates, but is not expected to increase at the same rate as energy expenses

Trends in Consumption



Looking back…FY 2022 Water Revenues and Expenses



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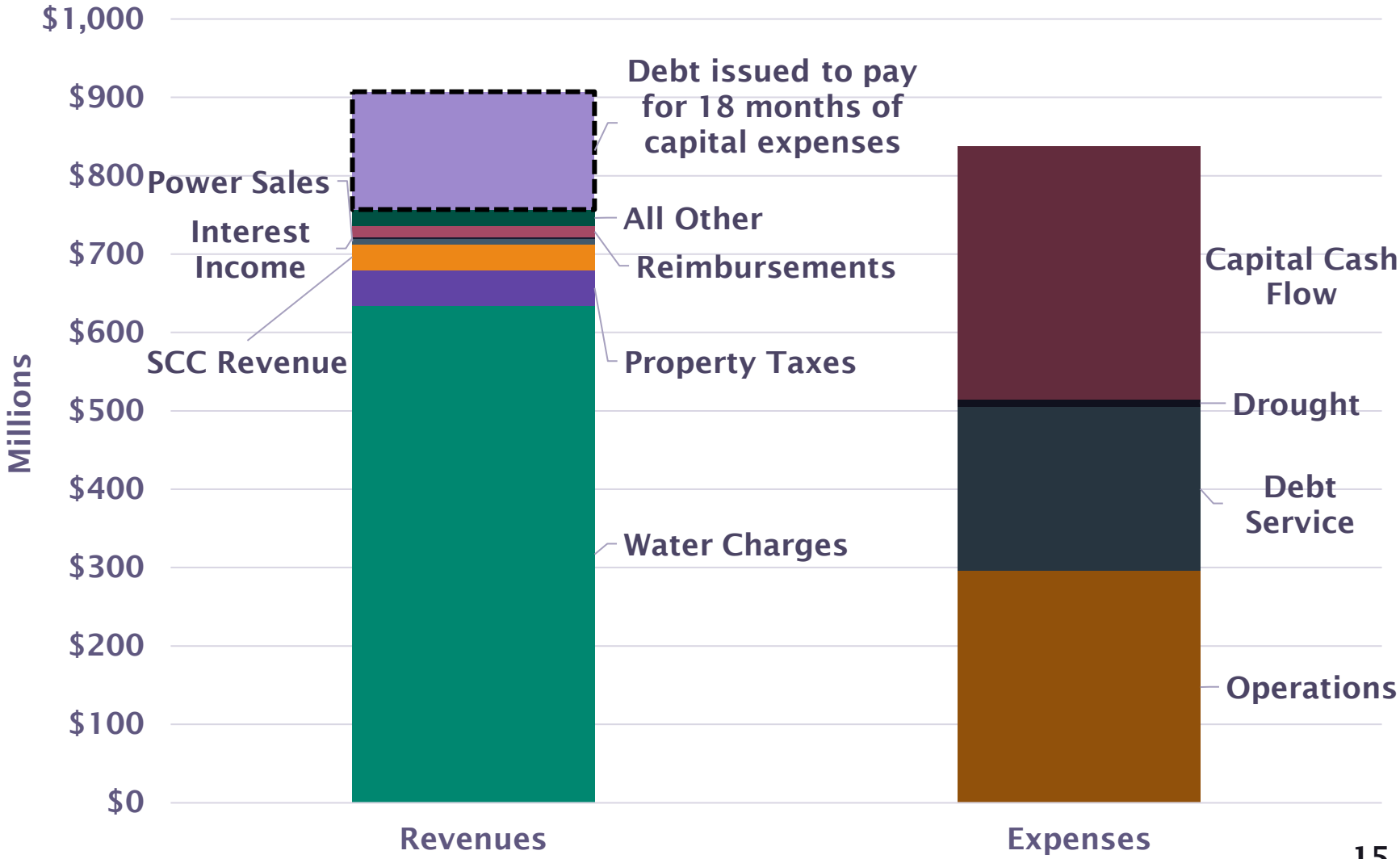
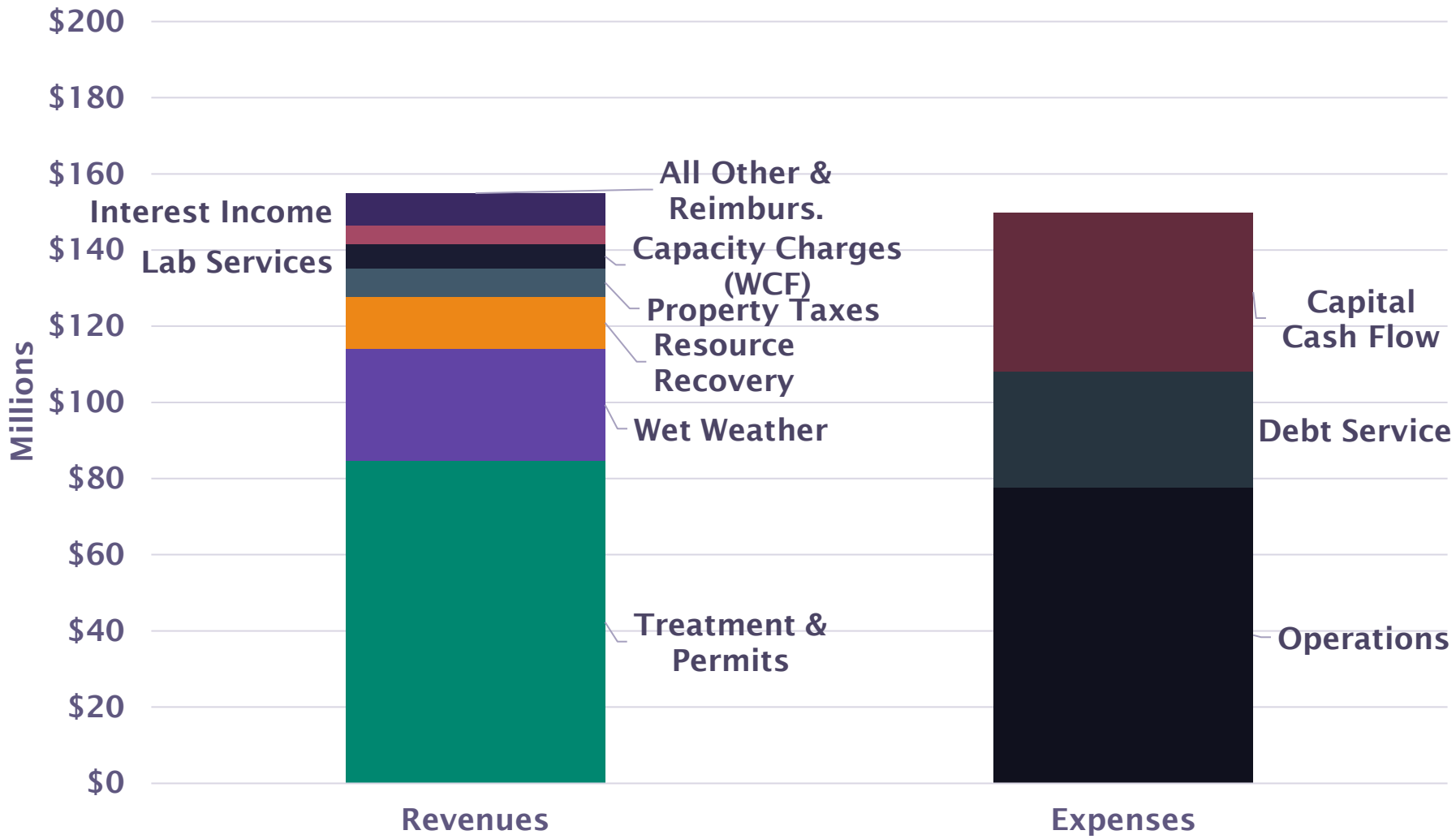
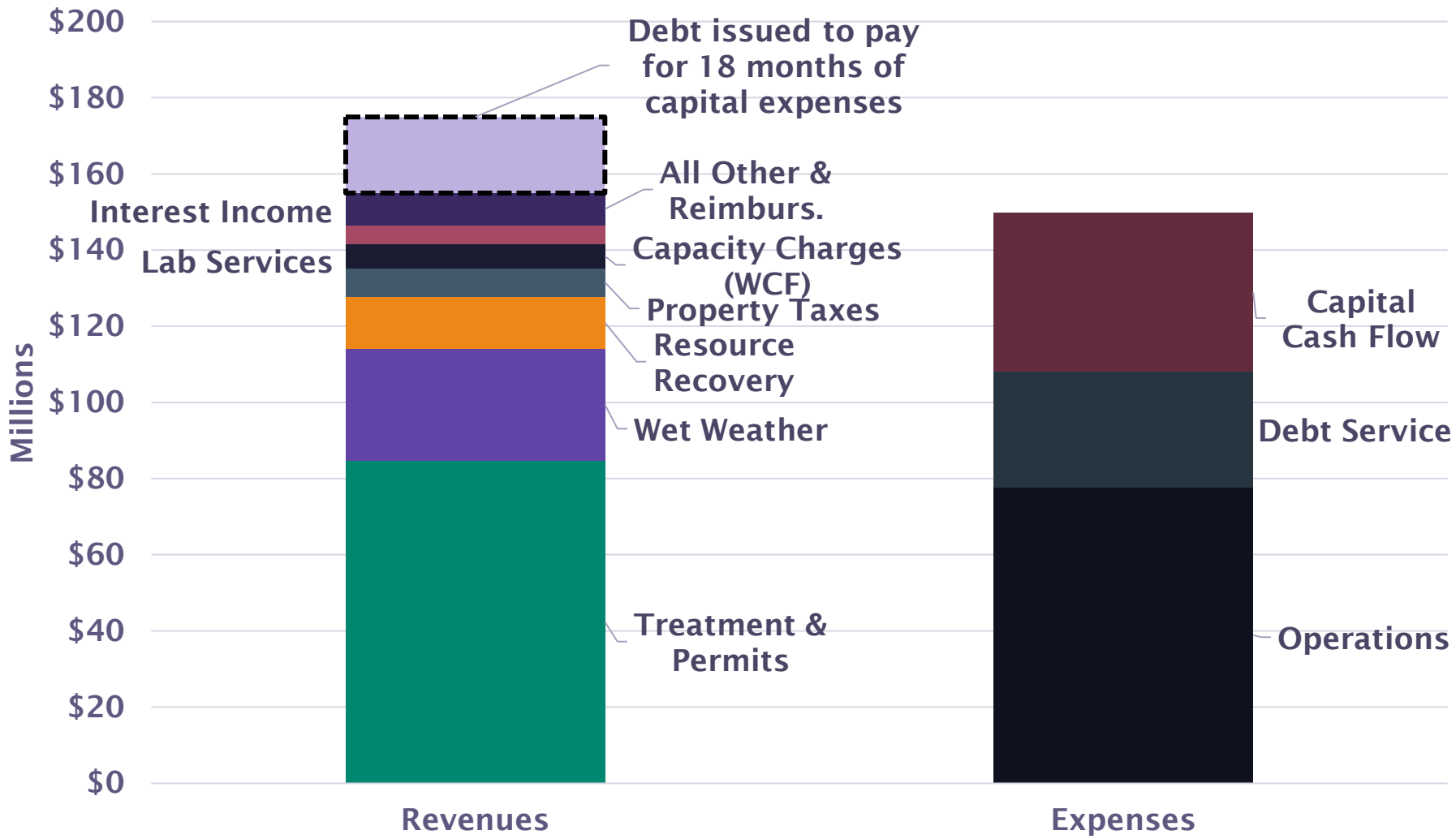


FY 2022 Wastewater Revenues and Expenses



FY 2022 Wastewater Revenues and Expenses



Current Economic Landscape

Economic Conditions

- Influence assumptions for future costs
- Affect rate affordability and revenue expectations
- Certain economic indicators are softer in the Bay Area than national trends
  - Note that 1-2 years of negative trends may indicate volatility, not a permanent trend
  - Other indicators remain strong:
    - 2.8% unemployment rate as of Nov 2022
    - 3.3% increase (38,000) in total employees in Oakland-Hayward-Berkeley in the year leading up to Nov 2022

While Near-Term Inflation is High, Conditions May Not Persist

The Washington Post
Democracy Dies in Darkness

Pandemic exodus left Bay Area with largest drop in household income in U.S.

By Bryan Pietsch

October 9, 2022 at 3:35 a.m. EDT

NEWS

More Bay Area tech companies announce layoffs, hiring freezes

by: Alex Baker
Posted: Sep 29, 2022 / 12:41 PM PDT
Updated: Sep 29, 2022 / 03:37 PM PDT

LOCAL NEWS

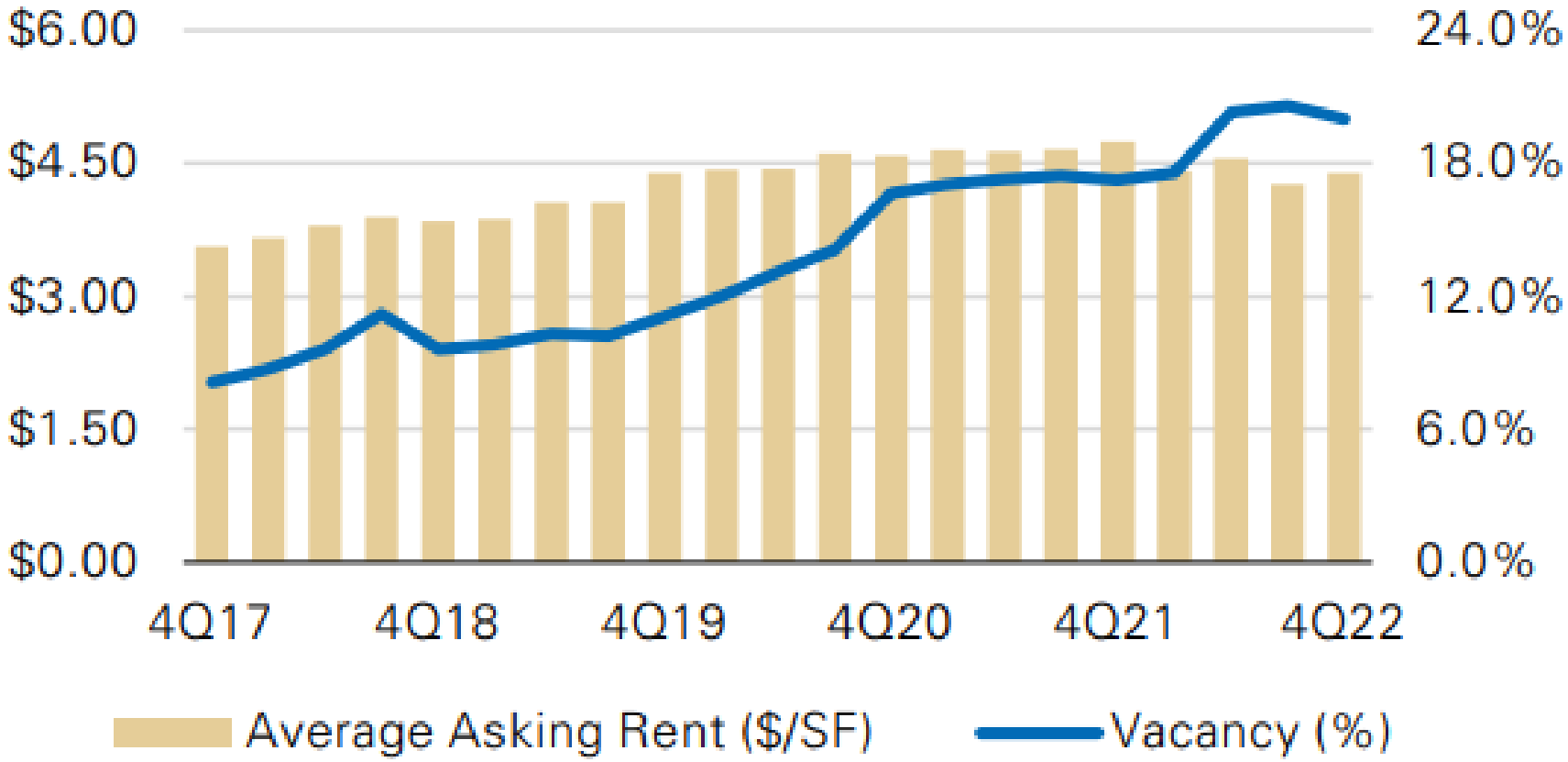
Chevron is paying its California employees to relocate to Houston

Chevron says the company's headquarters will remain in California, but those willing to move to Texas will be compensated to do so.

Salesforce, San Francisco's largest employer, conducts layoffs

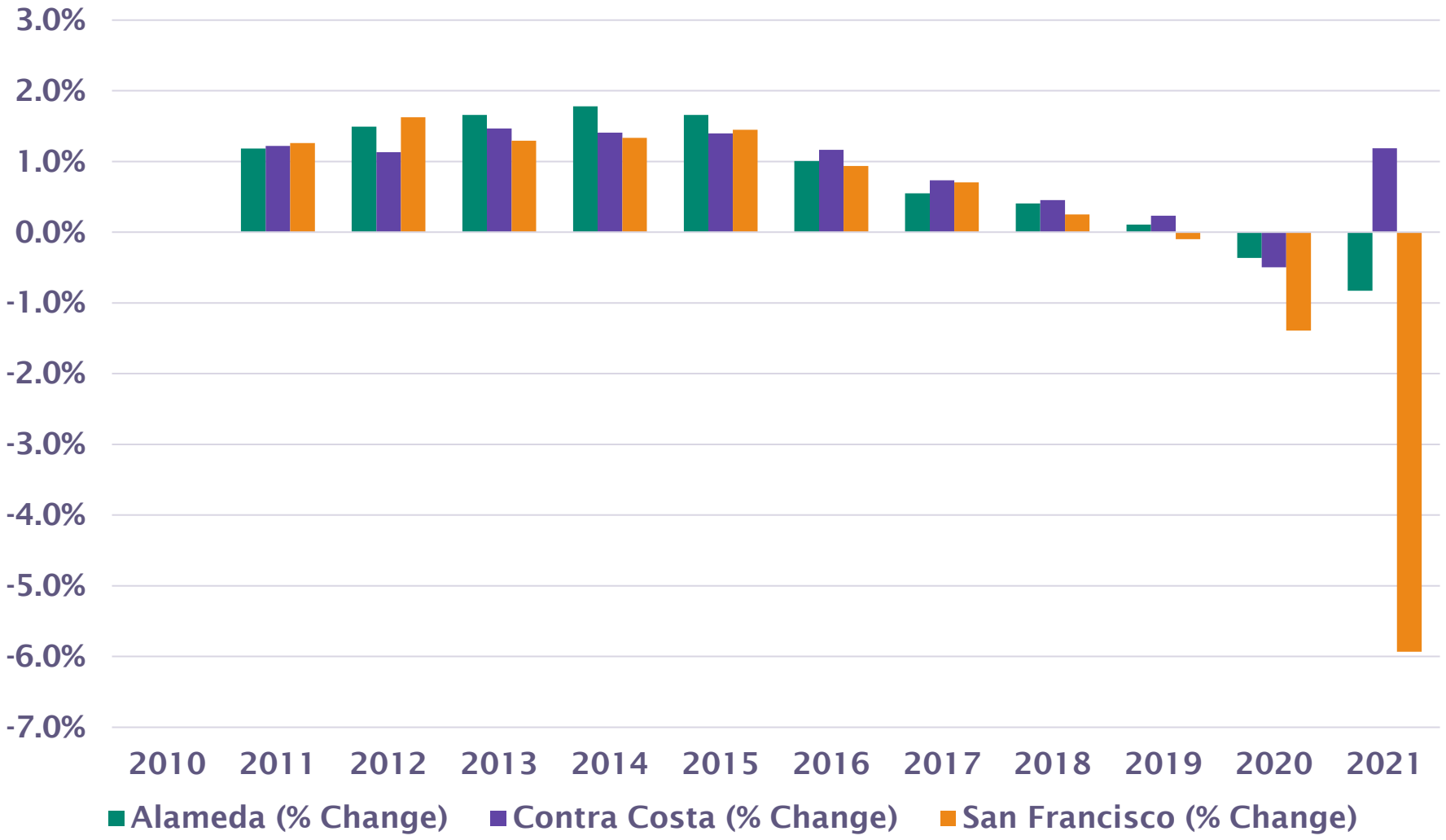
Joshua Bote - 1h ago

Office Space Vacancies Remain High in Bay Area



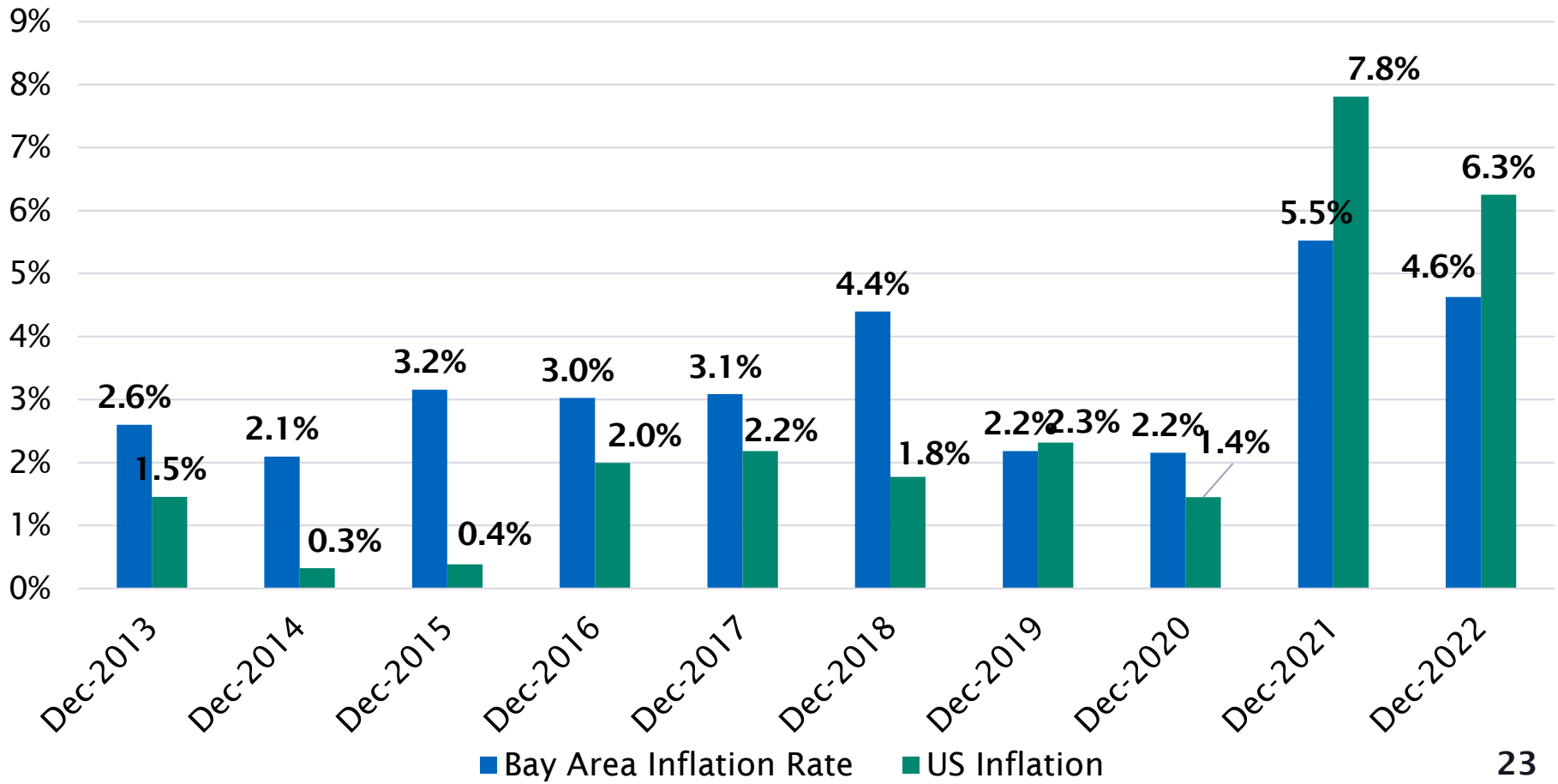
Source: Newmark 4Q22 Market Report

Changing Population Trends



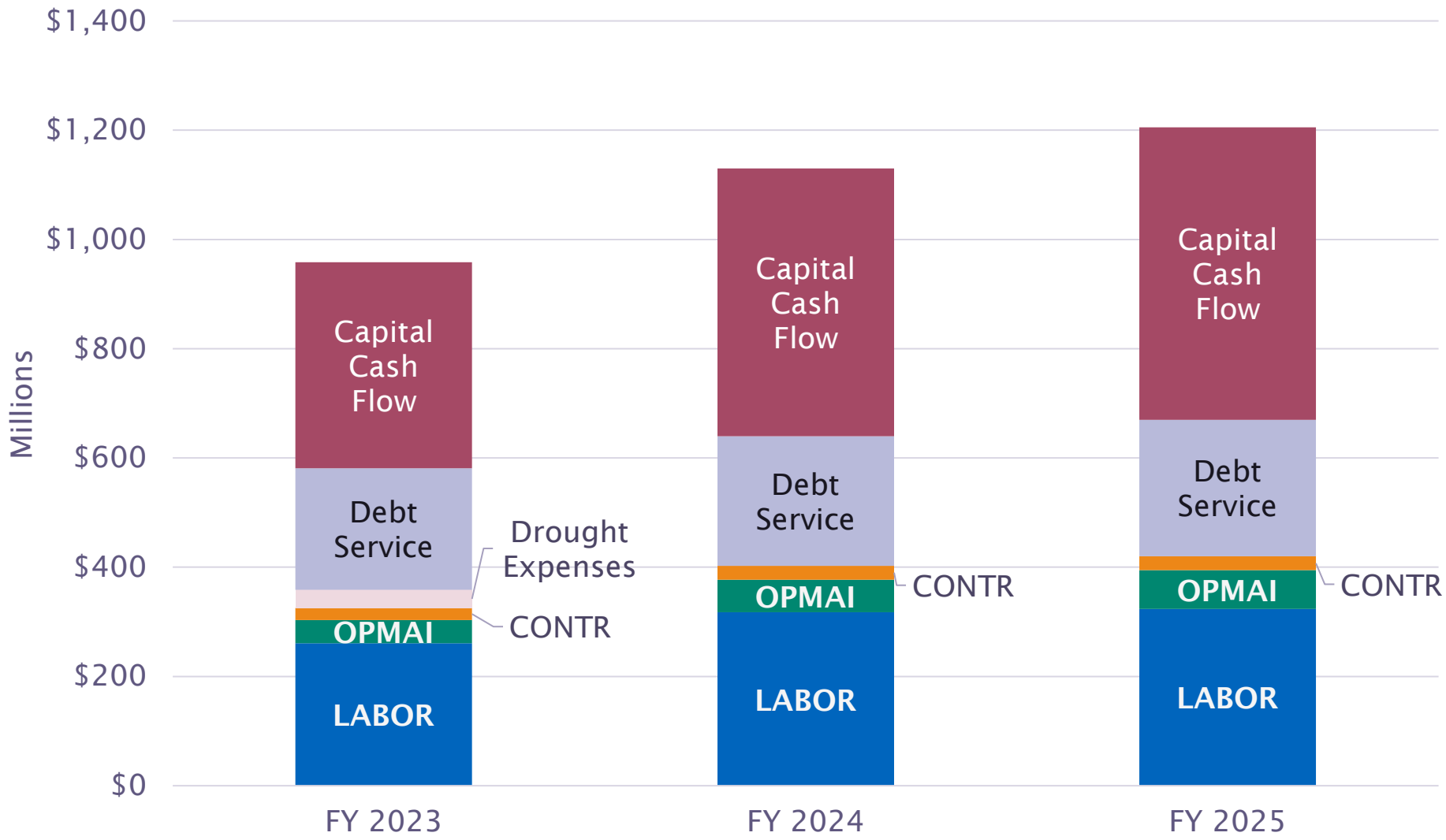
Inflation in Bay Area Compared to National Inflation

- Annual inflation (CPI-W) is typically higher in the Bay Area than national trends, **until 2021 & 2022**



Water System & Rates

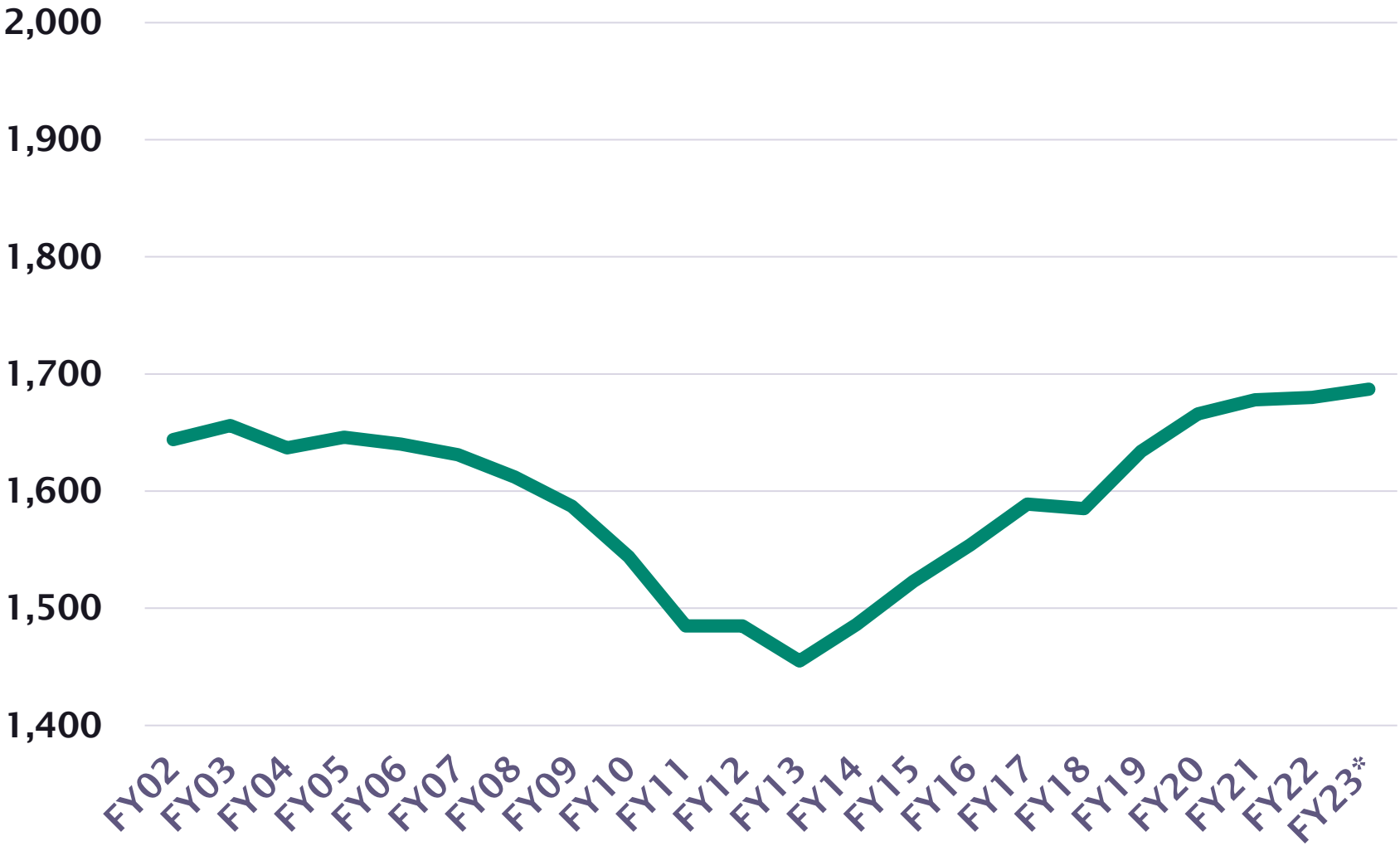
Water System
FY 2024 & FY 2025 Overview



Water System
Major Drivers of Operating Costs

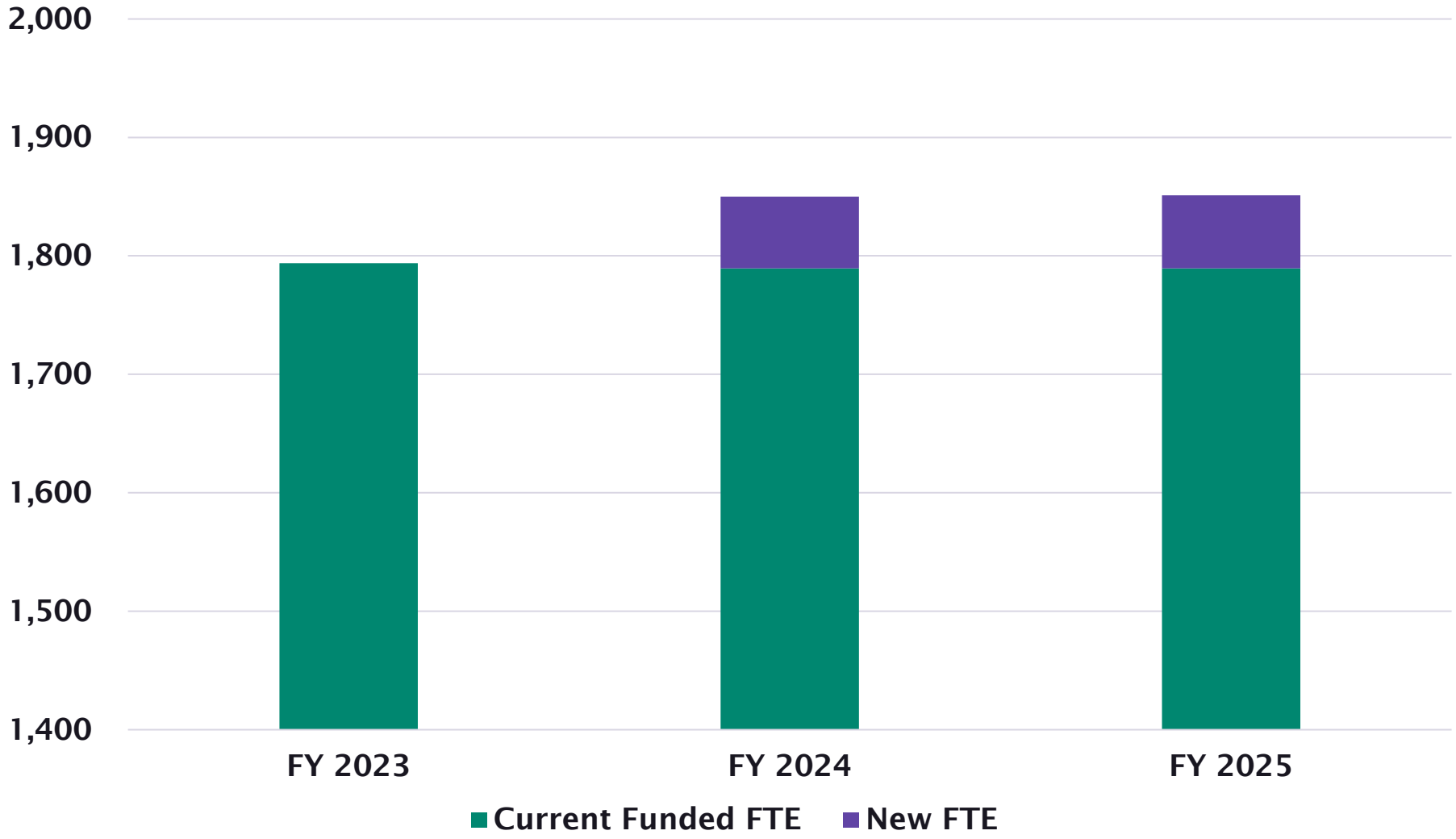
- **Energy, Chemicals, Disposal, Software, Insurance and Training:**
  - +$16.6 million / 55% increase
- **DERWA:**
  - +$1 million / 90% increase
- **Voluntary agreements with state for Bay-Delta programs**
  - +$3 million in FY 2024
  - +$5 million in FY 2025 (+$2M more)

Water System
Staffing History – Filled Positions



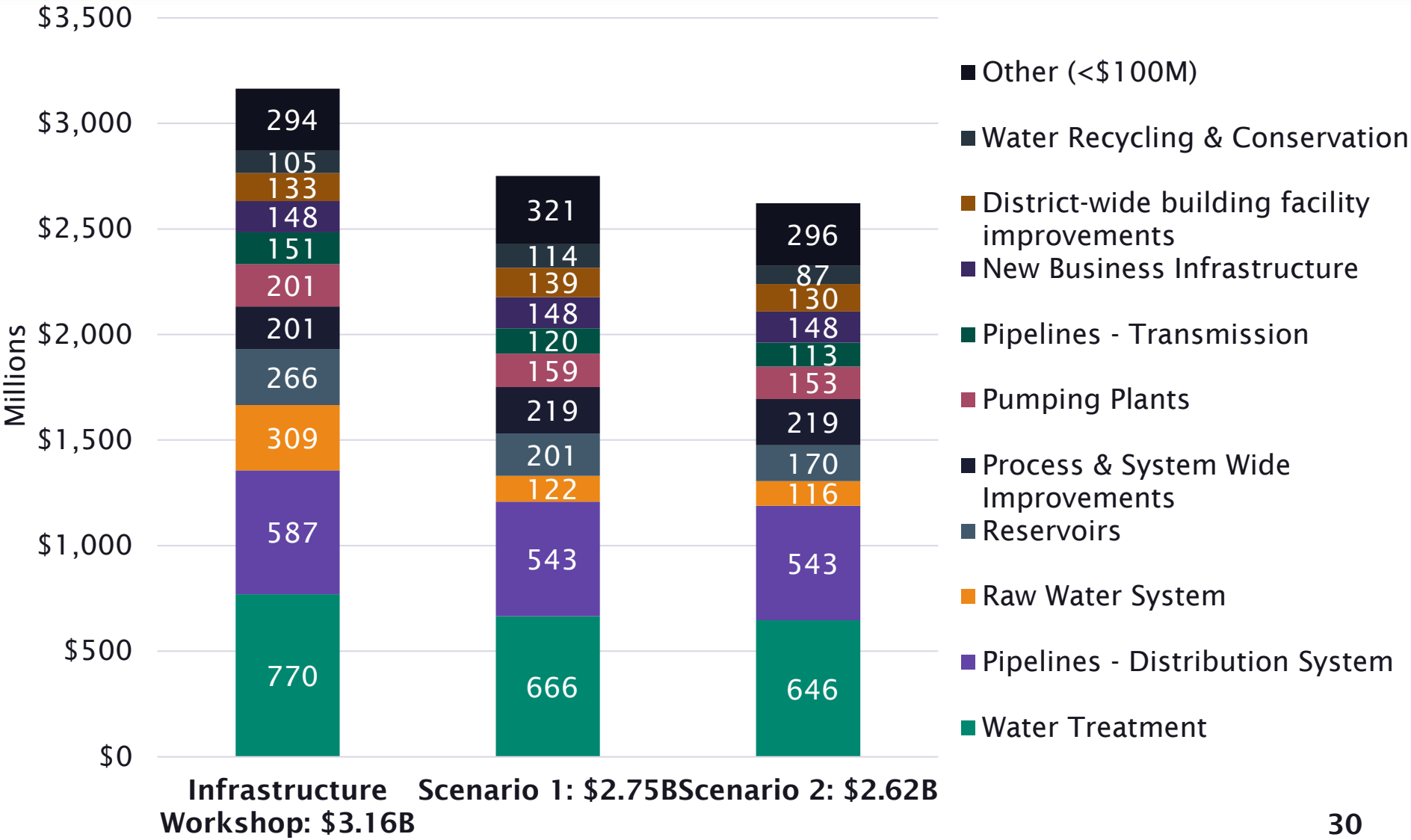
*Year-to-date

Water System Proposed Staffing Increase

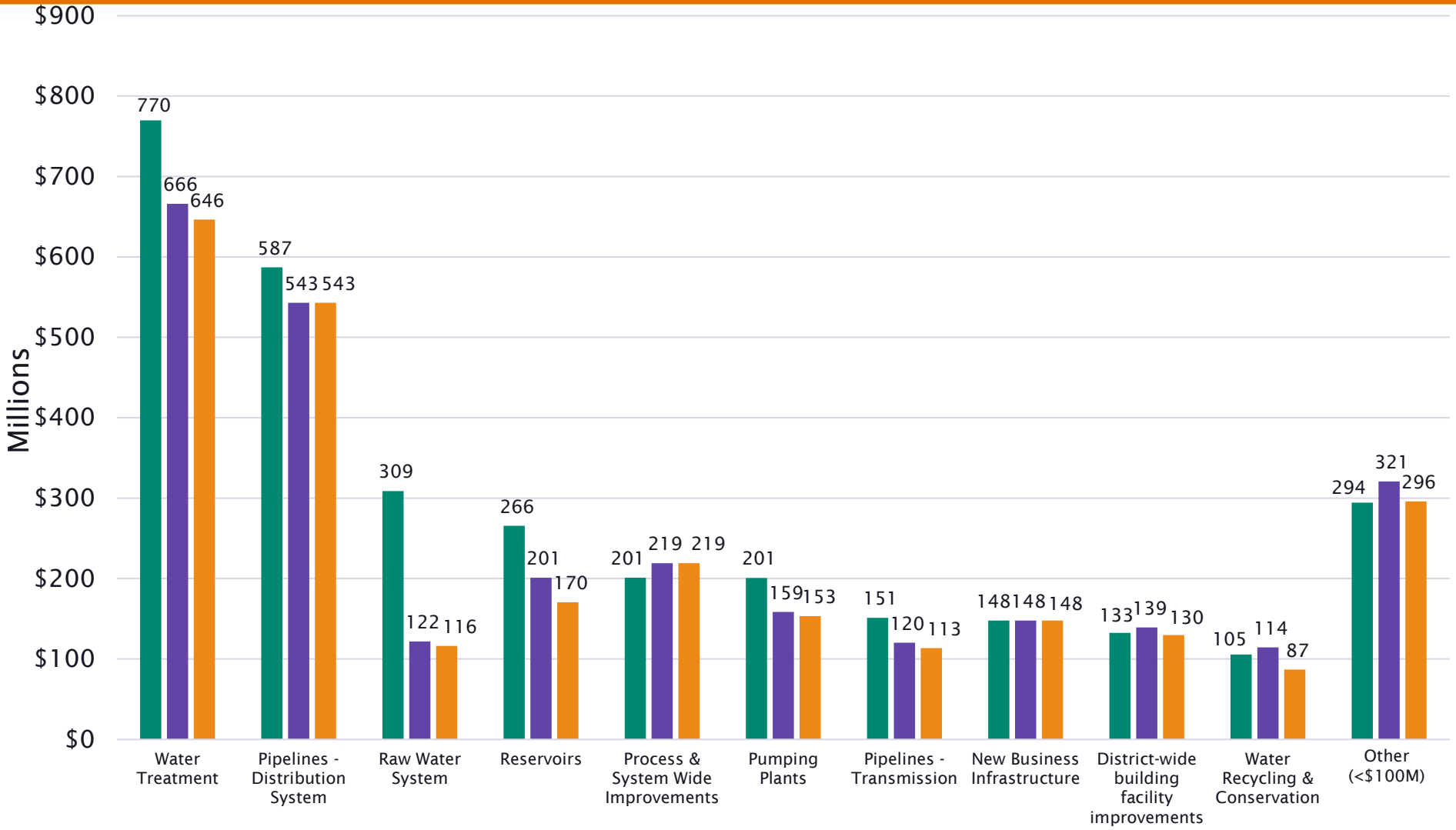


Water System Capital Improvement Plan (CIP)

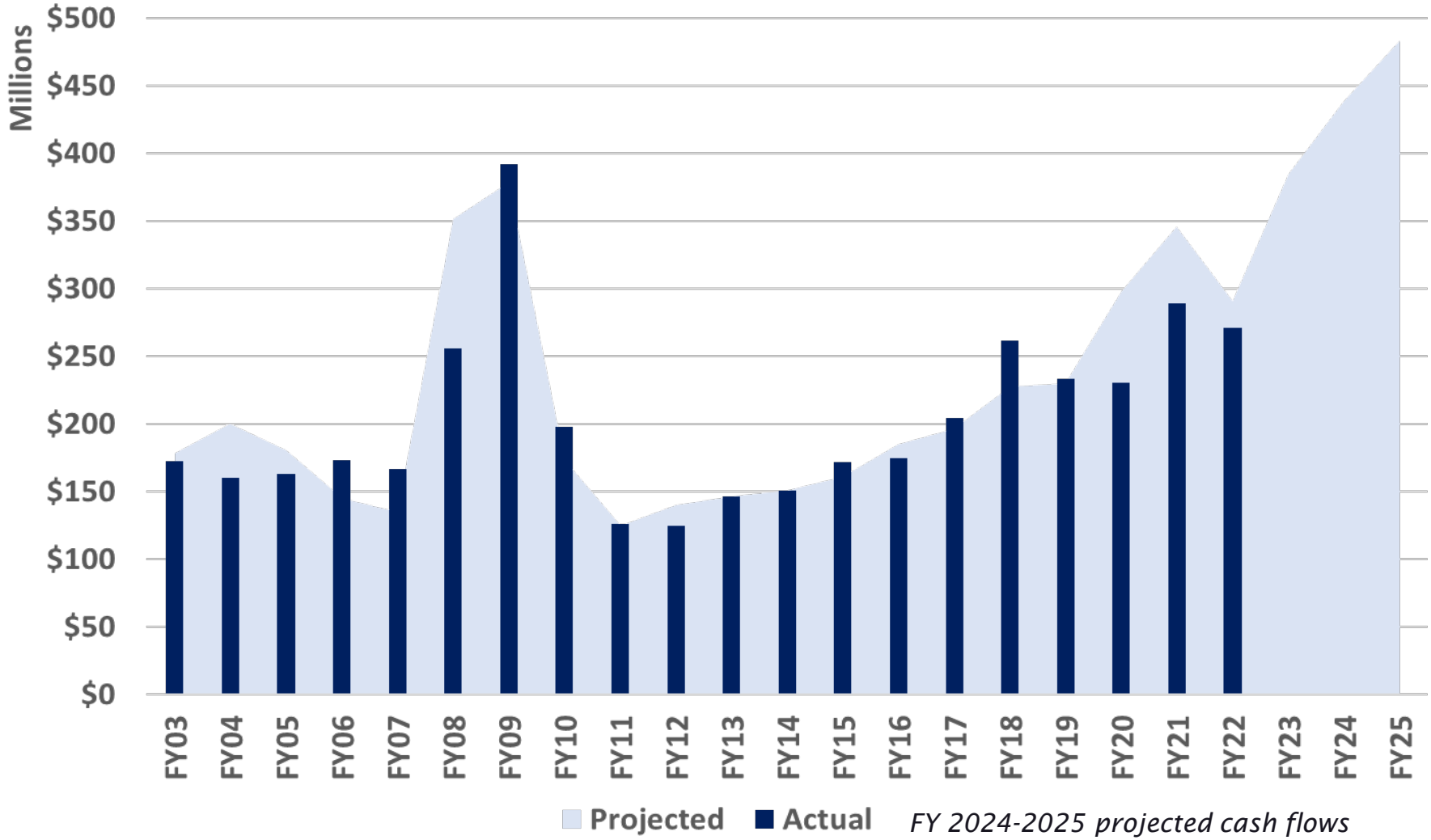
Water System Capital Scenarios – 5-year Totals



Water System Capital Scenarios – 5-year Totals

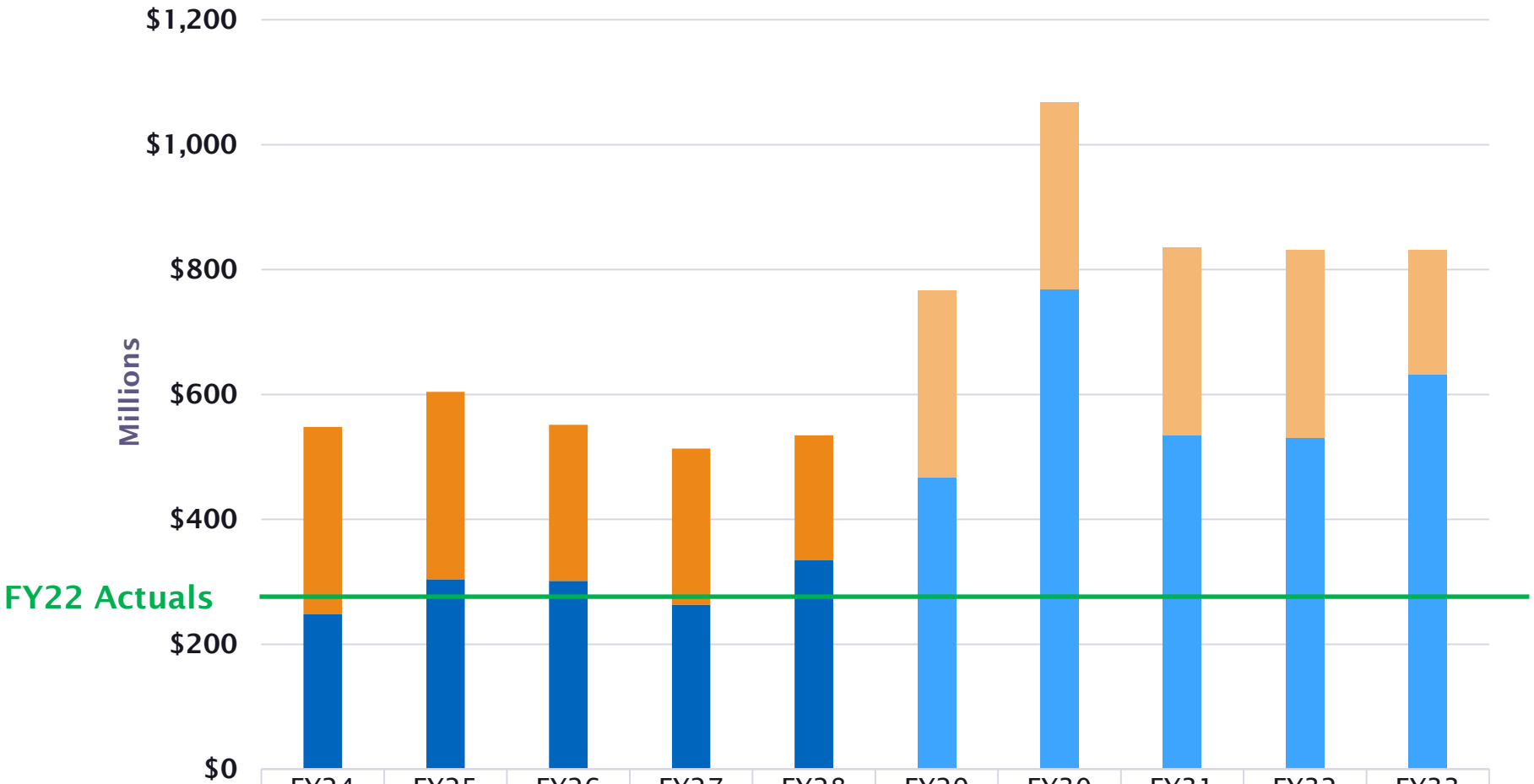


Water System
Historical and Projected Cash Flows



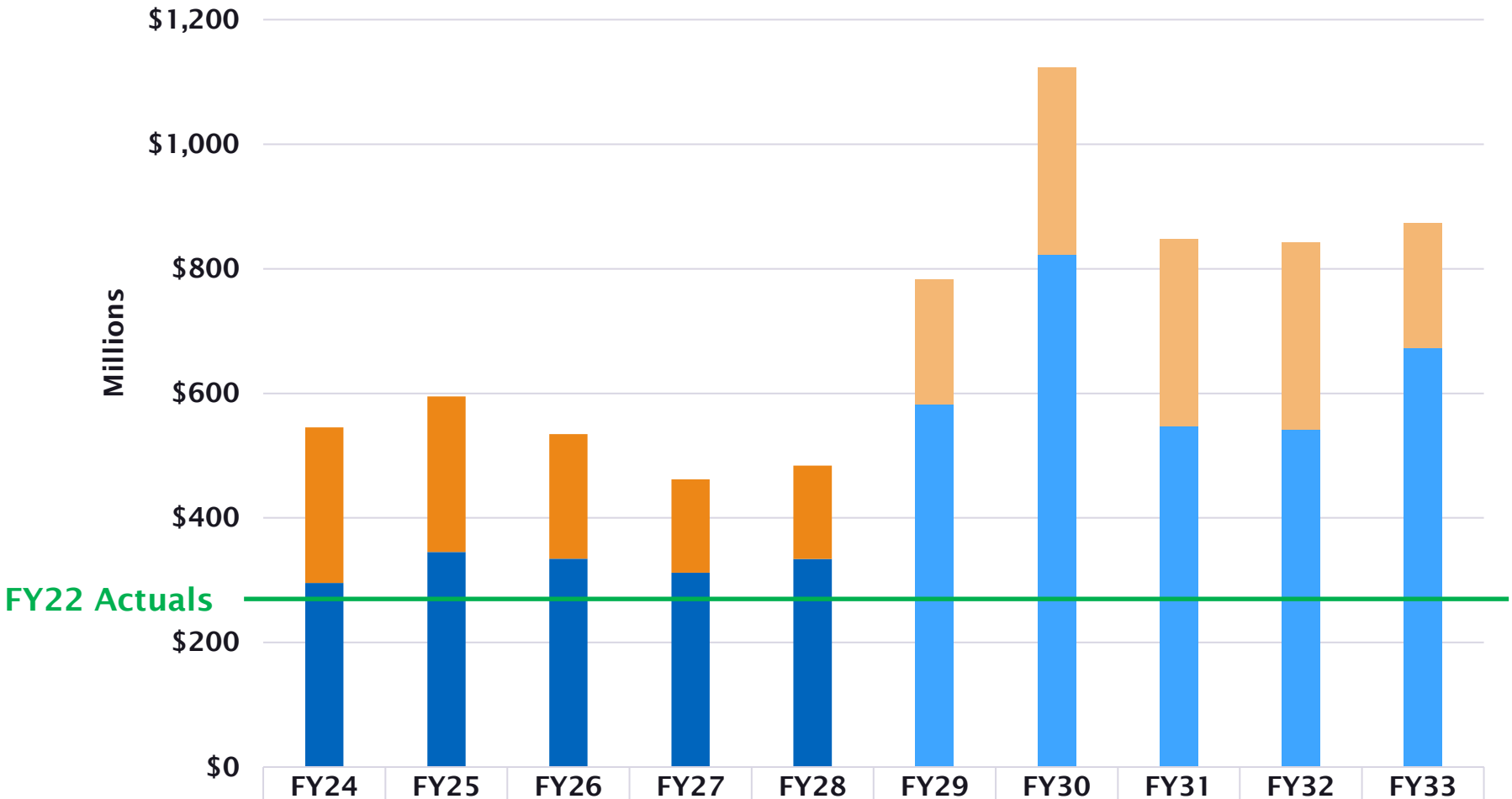
FY 2024-2025 projected cash flows reflect the $2.7 billion scenario.

Water System Capital Expenses Scenario 1: $2.7 Billion



	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
Funded by Debt	300	300	250	250	200	300	300	300	300	200
Funded by Revenue	248	304	301	263	334	467	768	535	530	632

Water System Capital Expenses Scenario 2: $2.6 Billion



	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
Funded by Debt	250	250	200	150	150	200	300	300	300	200
Funded by Revenue	296	345	335	312	334	582	824	547	542	674

What does the Water CIP buy?

- 127+ miles of replaced Pipeline over the next five years
- Orinda Water Treatment Plant (WTP) Improvements
- Upper San Leandro WTP Reliability Improvements
- Additional Water Treatment Plants
  - Lafayette Disinfection and Residuals
  - Sobrante and Walnut Creek Design
- Mokelumne Aqueducts Recoating and Relining
- Reservoir and Pumping Plant Replacements (2/Year)
- Additional Aging Infrastructure Improvements for a More Resilient Water System

Debt Financing Capital Projects

Funding Options for Each $100 Million in Capital Expenses			
	Cash Funded	65% Debt Financed	100% Debt Financed
Project Cost	$100M	$100M	$100M
First Year	$100M	$35M plus $4.2M	$6.5M
Next 29 Years	$0	$4.2M	$6.5M
Interest Cost	$0	$62M	$95M
Total Cost	**$100M**	**$162M**	**$195M**

Water Rate Planning

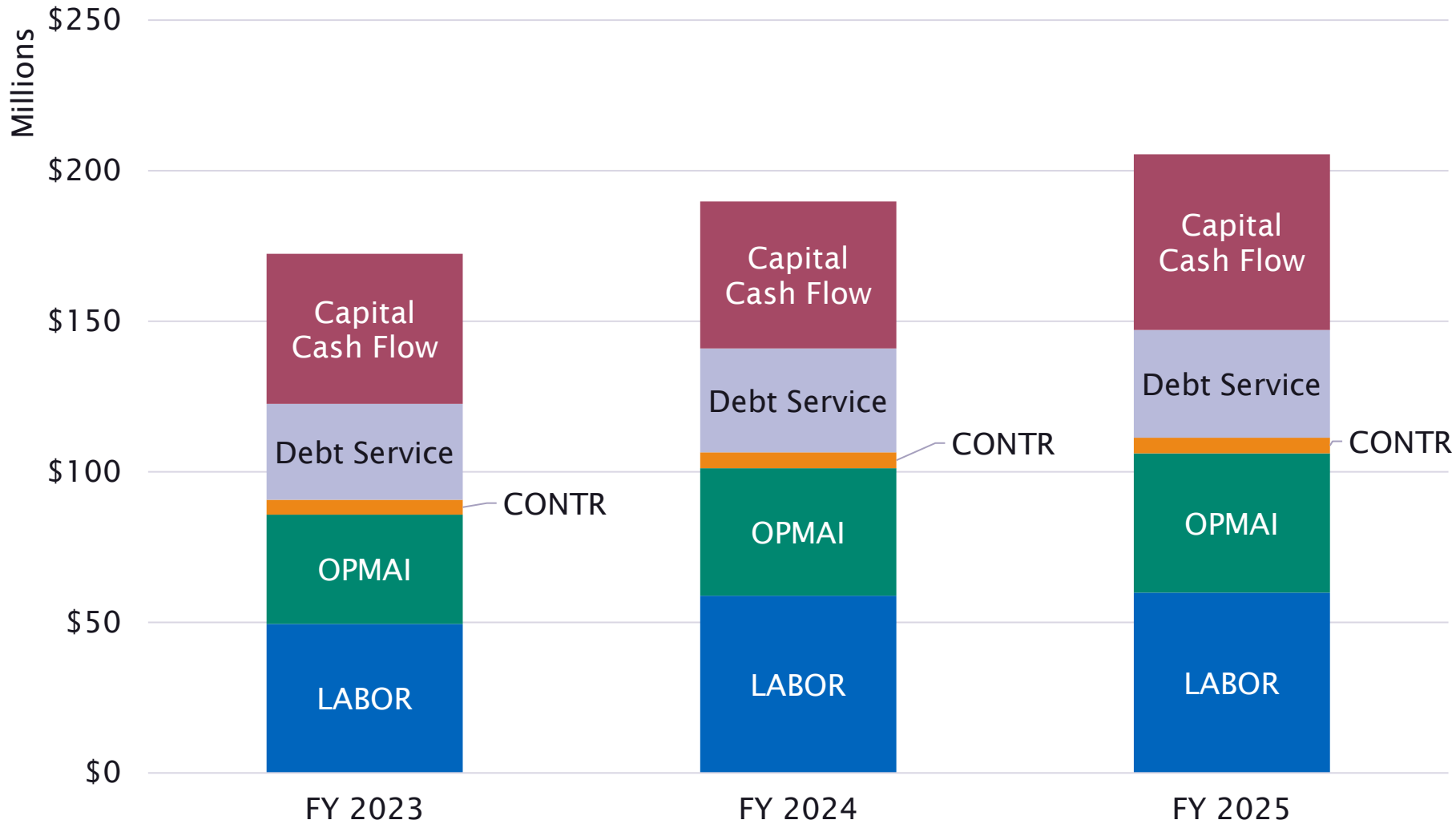
Scenario 1 $2.75B CIP	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Rate Increase	8.5%	8.5%	6.0%	6.0%	6.0%
	Biennial Budget		Future Projection		

Scenario 2 $2.62B CIP	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Rate Increase	8.5%	8.5%	5.0%	5.0%	5.0%
	Biennial Budget		Future Projection		

Break

Wastewater System & Rates

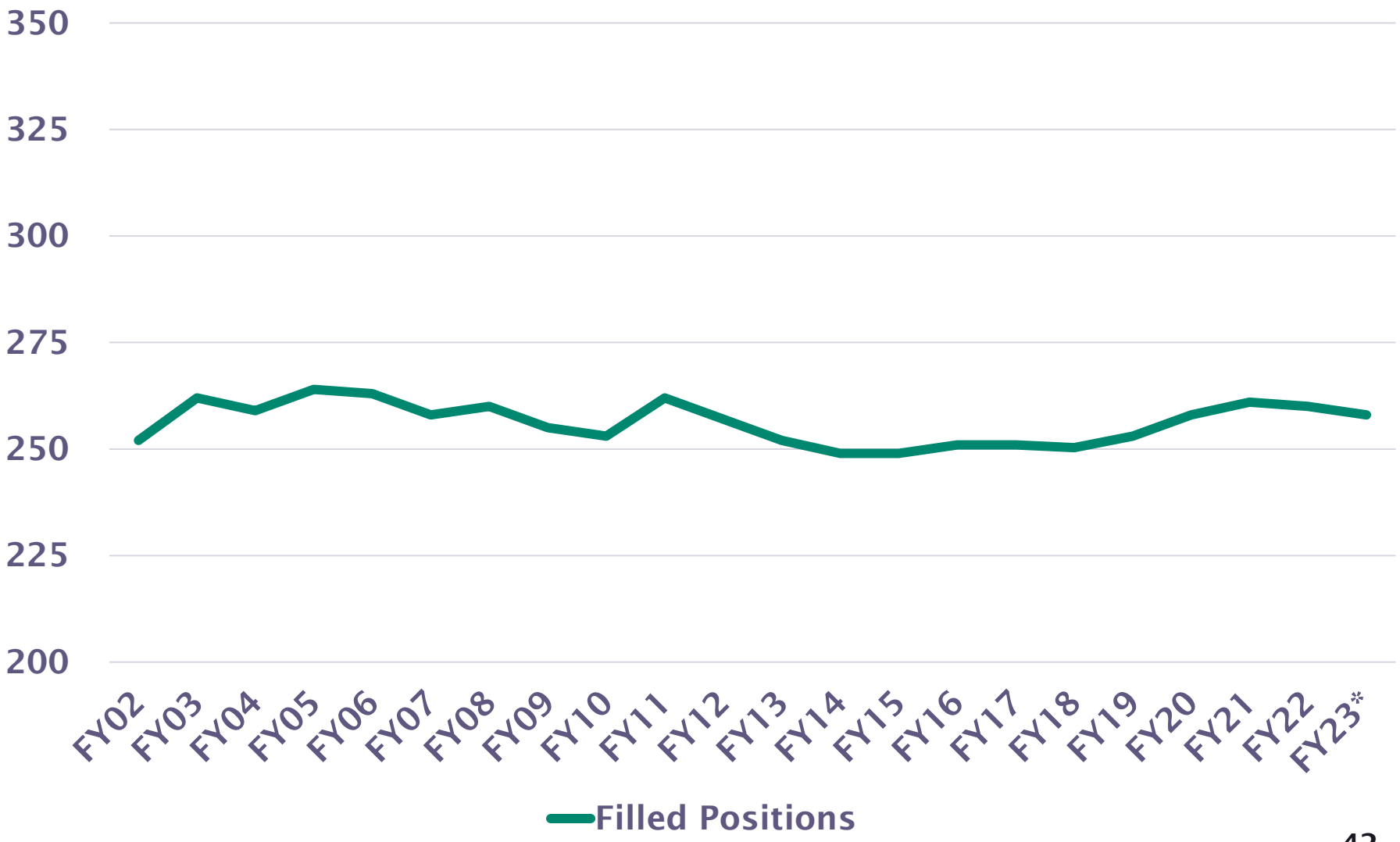
Wastewater System
FY 2024 & FY 2025 Overview



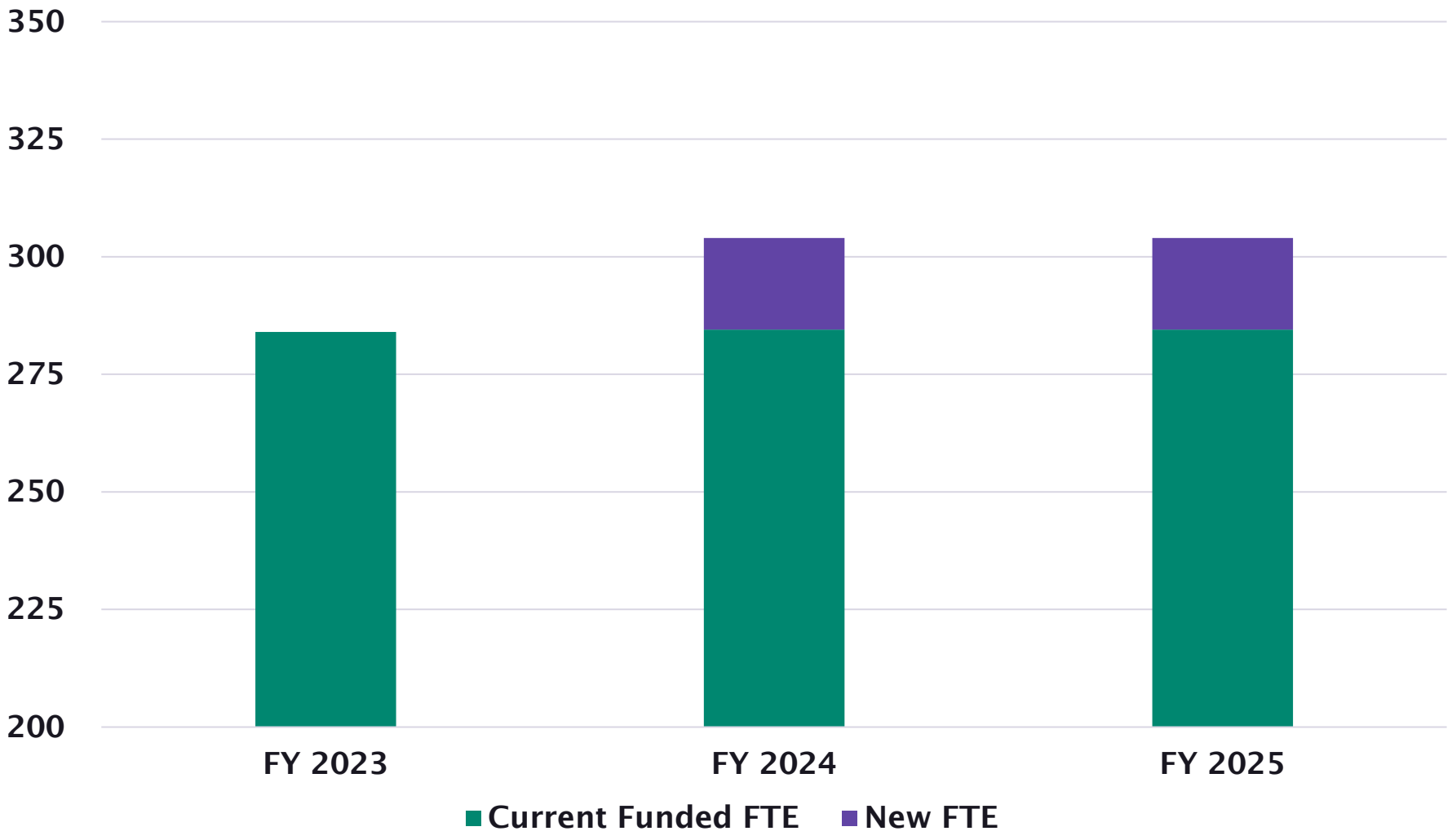
Wastewater System
Major Drivers of Operating Costs

- Chemicals:
  - +$6.7 million / 40% increase in FY 2024
  - +$2.3 million / 13% increase in FY 2025
- Energy:
  - $1.8 million / 54% increase in FY 2024
  - +$700 thousand / 22% increase in FY 2025

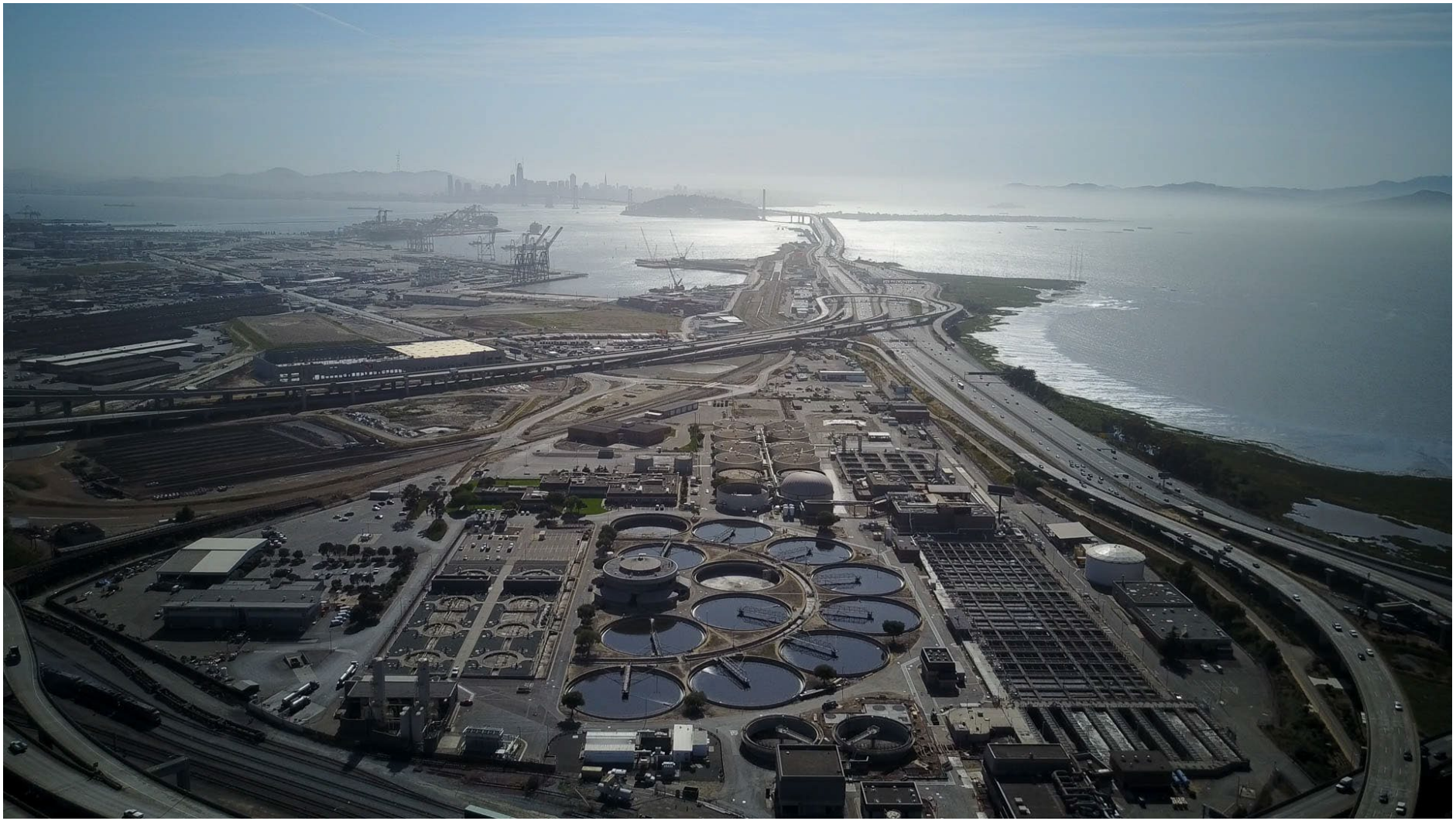
Wastewater System Staffing History



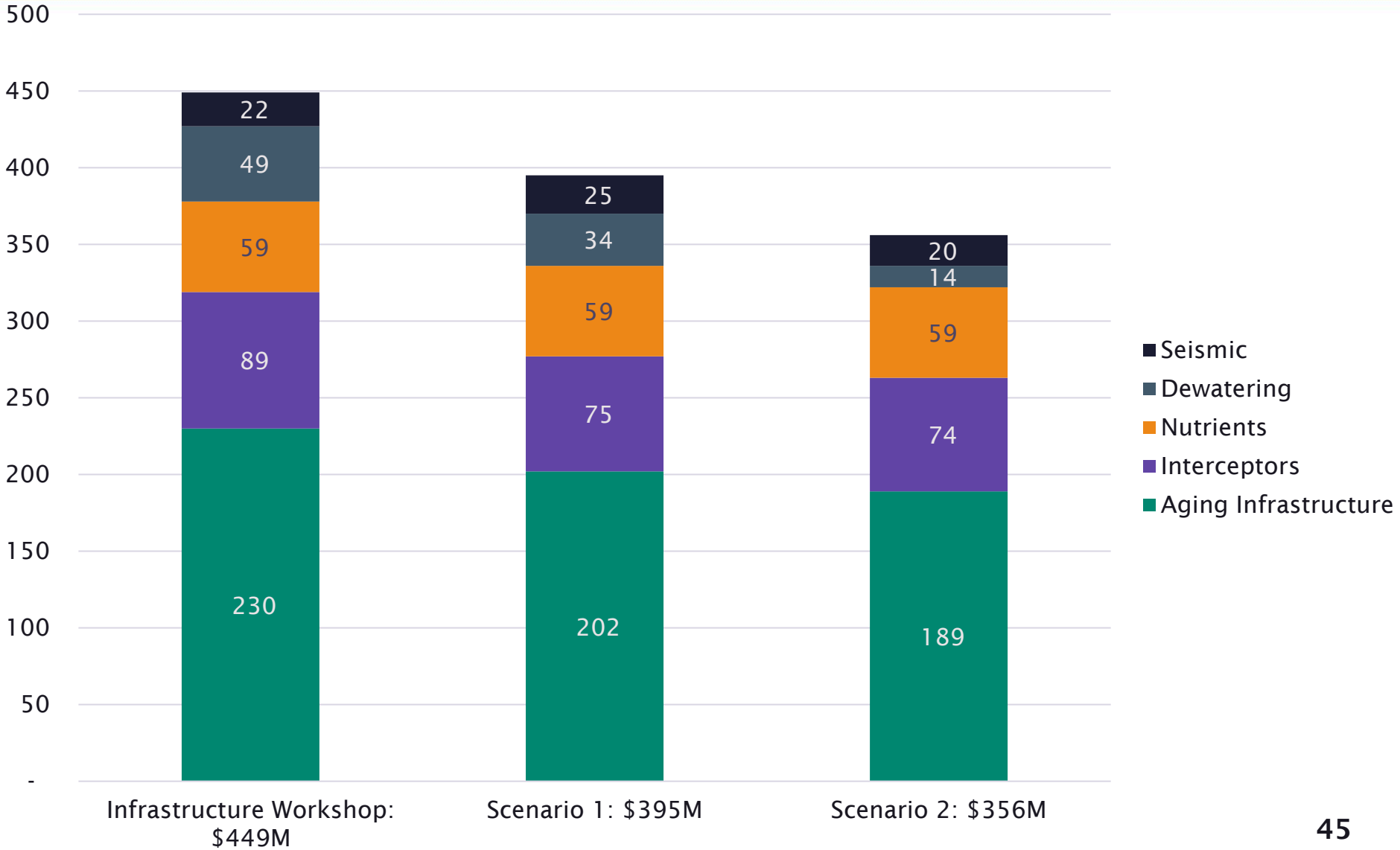
Wastewater System Staffing Proposal



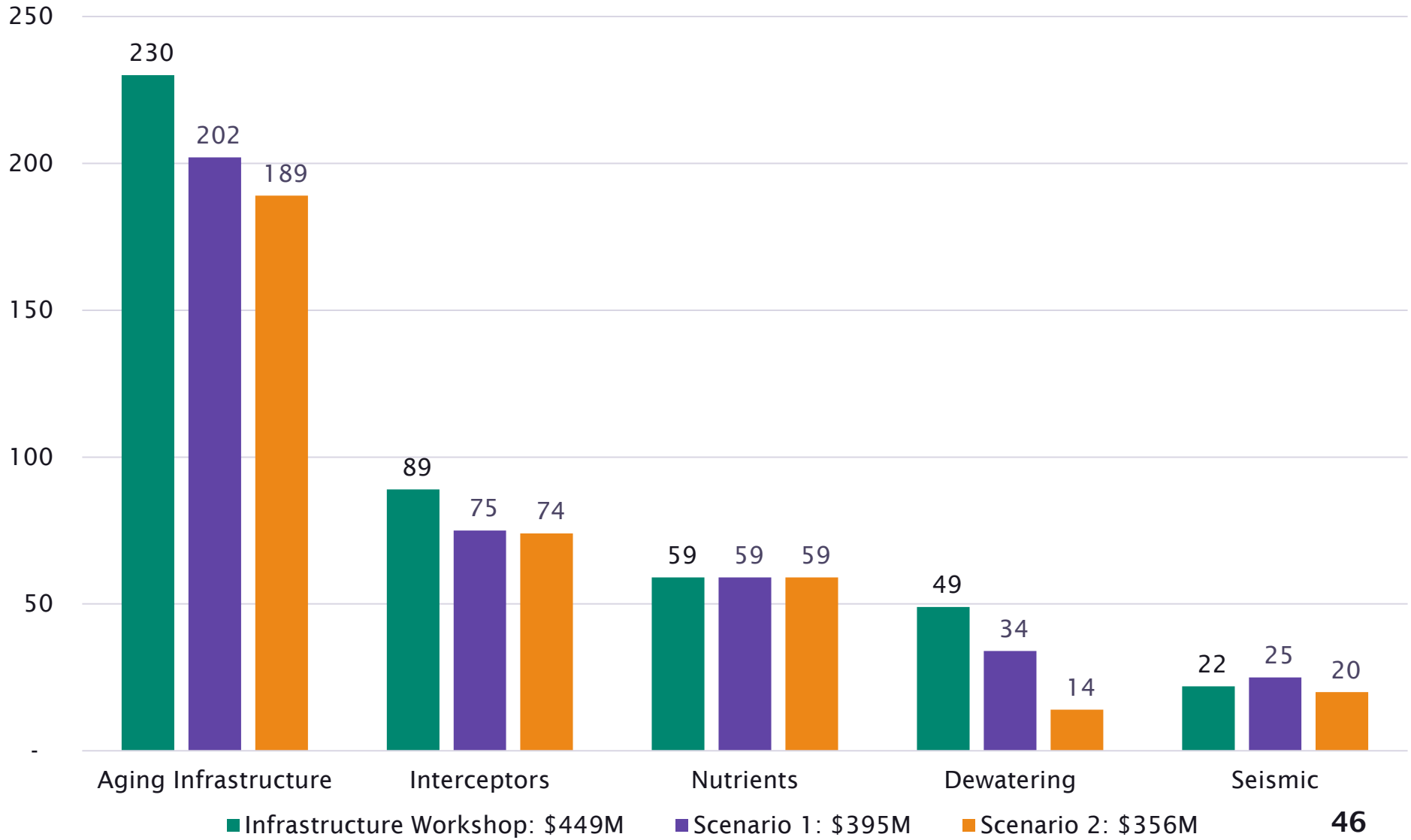
Wastewater System Capital Improvement Plan (CIP)



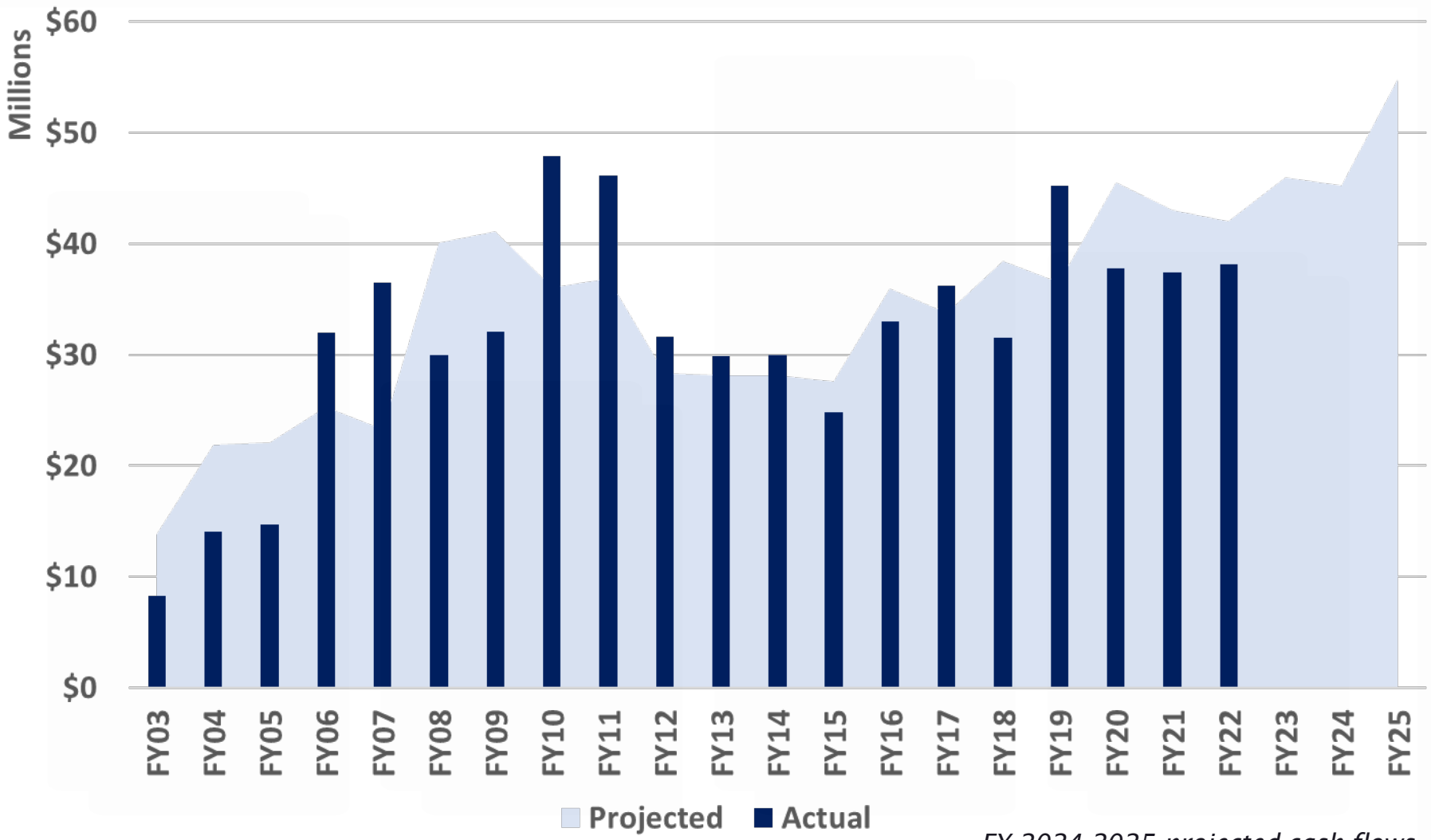
Wastewater System Capital Scenarios – 5-year Totals



Wastewater System Capital Scenarios – 5-year Totals

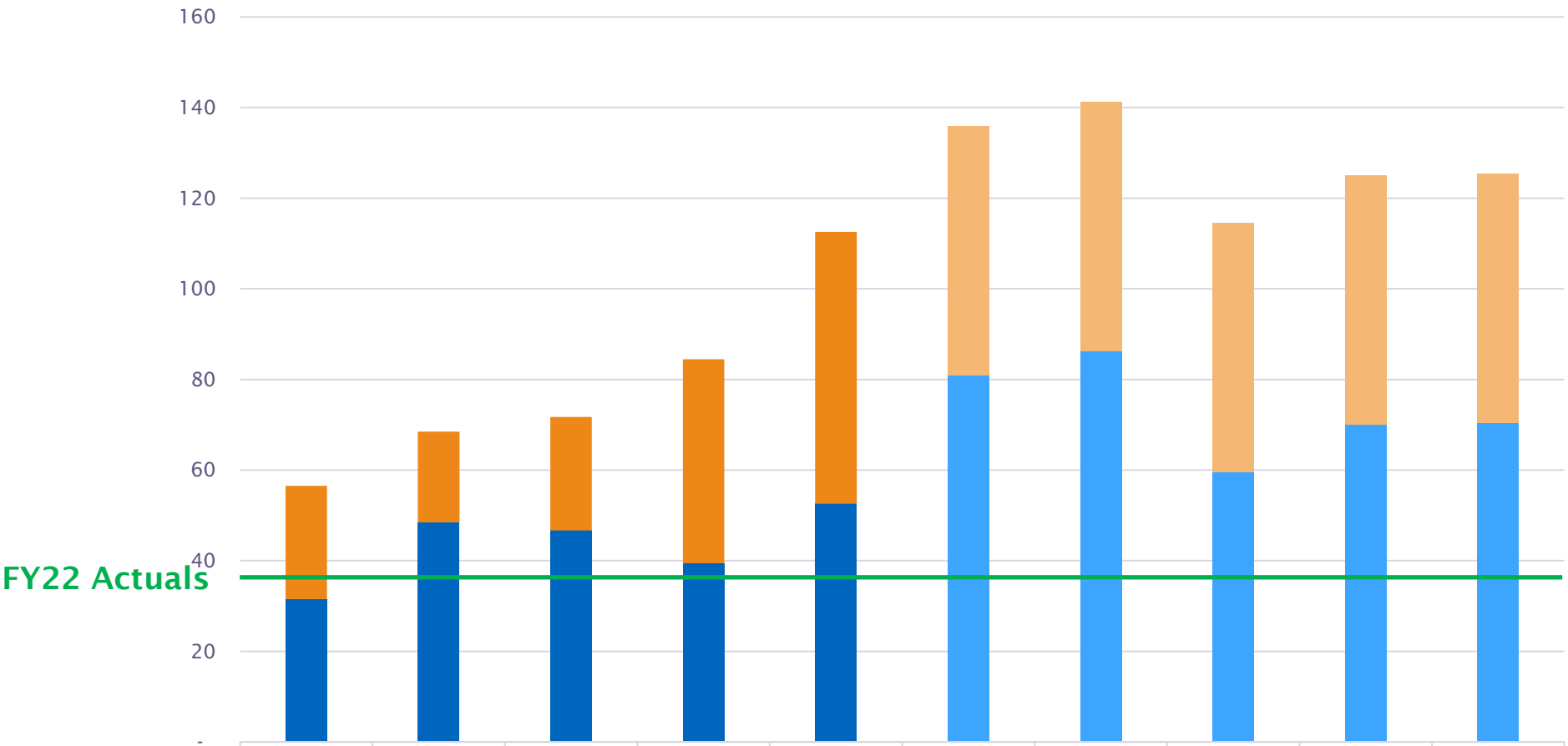


Wastewater System
Historical and Projected Cash Flows



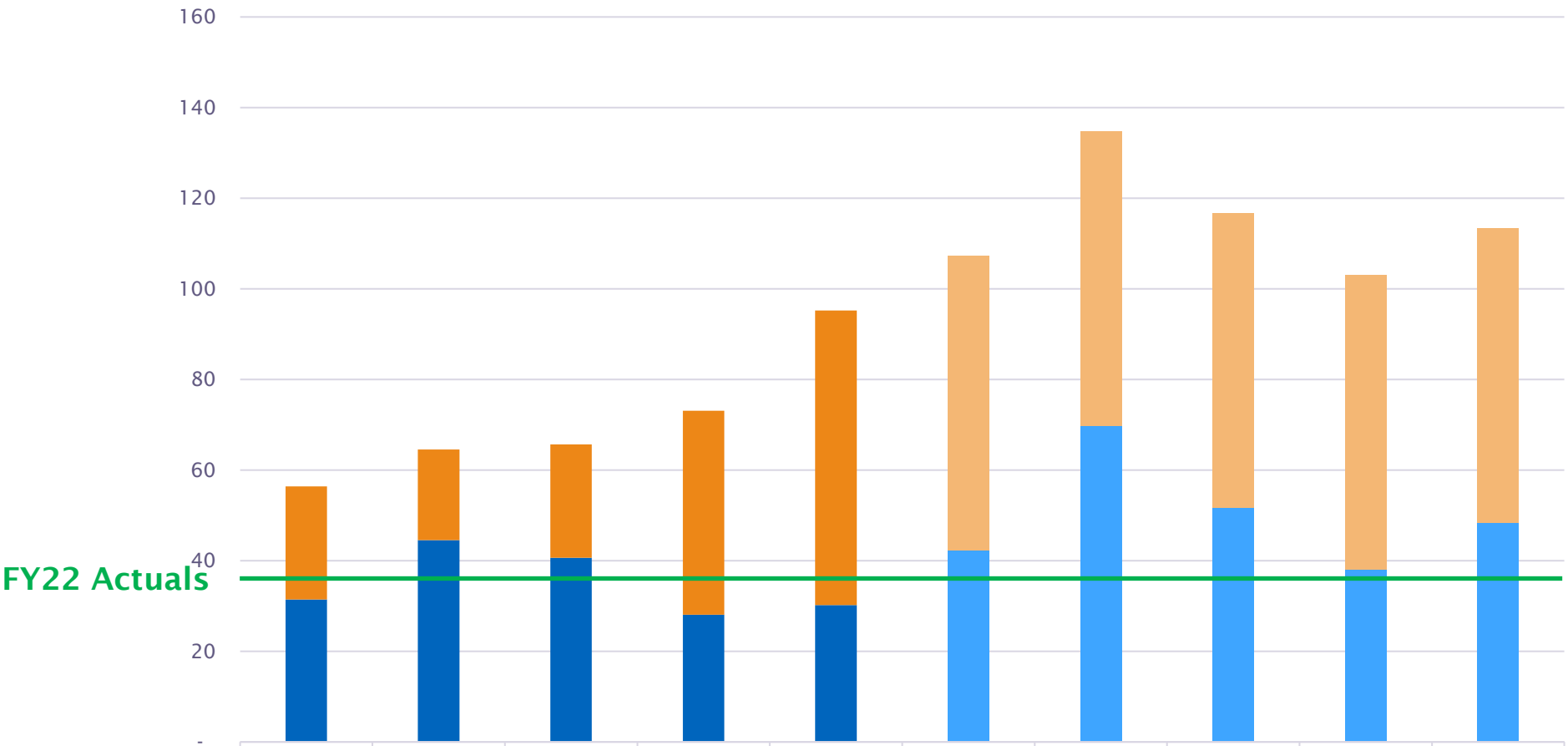
FY 2024-2025 projected cash flows reflect the $395 million scenario.

Wastewater System Scenario 1: $395 Million



	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
Funded by Debt	25	20	25	45	60	55	55	55	55	55
Funded by Revenue	32	48	47	39	53	81	86	60	70	70

Wastewater System
Scenario 2: $356 Million



	FY24	FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32	FY33
Funded by Debt	25	20	25	45	65	65	65	65	65	65
Funded by Revenue	31	45	41	28	30	42	70	52	38	48

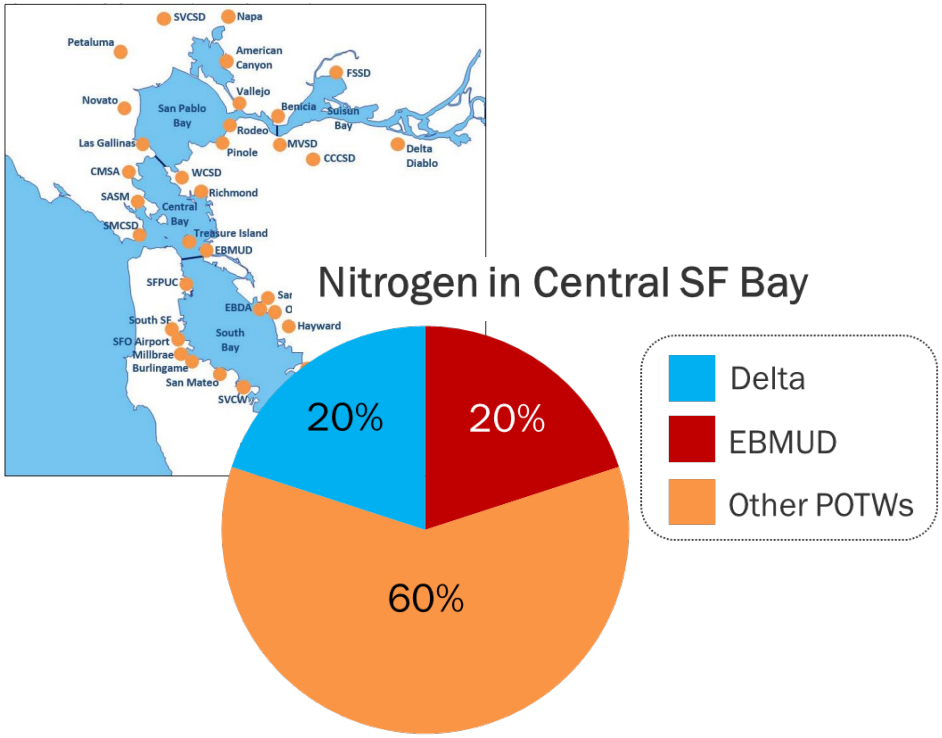
What does the Wastewater CIP buy?

- Rehabilitation of 6 interceptor segments
- A more resilient Influent Pump Station
- Modernized Oxygen Plant
- Rehabilitation of Secondary Reactors and Clarifiers
- Significant nutrient removal project
- Begin New Dewatering Building Project
- Seismically retrofit two high occupancy buildings
- Additional Aging Infrastructure Improvements for a More Resilient Wastewater System

Nutrient Removal Strategy

Regulatory Requirements Established → **Near-Term Solutions** → **Long-Term Solutions**

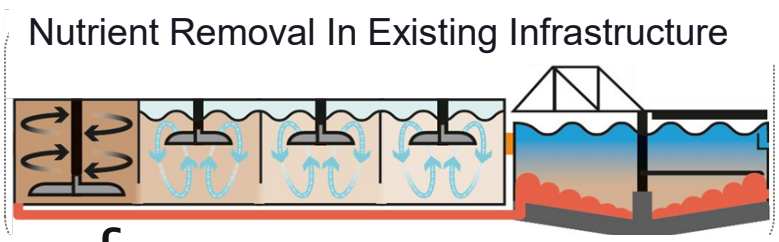
- Regional Board to establish Nutrient Load Cap in 2024
- Compliance schedule to be negotiated
- Capital project solutions have long lead time, high cost

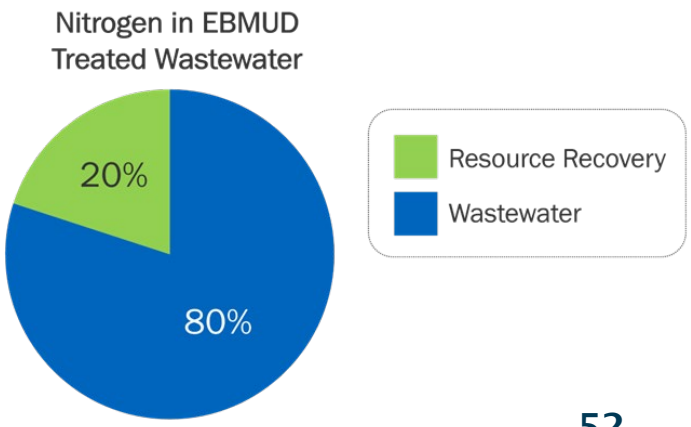


Multiple Nutrient Removal Options

Regulatory Requirements Established → **Near-Term Solutions** → Long-Term Solutions

- Continue funding science of nutrient impacts to SF Bay
- Complete demonstration testing of "low cost" nutrient removal with existing infrastructure
- "Right Size R2" – potential reduction in high-nitrogen trucked waste





Long Term Solutions

- Continue to work with SFEI and Regional Board
- Implement significant nutrient removal project
- Examine timing and need for further nutrient removal to protect SF Bay (e.g., Partial Mainstream Nutrient Removal)

Wastewater Rate Planning

Scenario 1 $395M CIP	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Rate Increase	8.5%	8.5%	6.0%	6.0%	6.0%
	Biennial Budget		Future Projection		

Scenario 2 $356M CIP	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Rate Increase	8.5%	8.5%	5.0%	5.0%	5.0%
	Biennial Budget		Future Projection		

Areas of Note in the Budget

New Business Office
Peak Applicant Project Workload

Peak Applicant Project Workload

Peak Workload → Near-Term Solutions → Long-Term Solutions

- Demand for Housing
- Local & State Funding
- Construction Complexity
- Unpredictable Housing Market

District Solutions to Demand

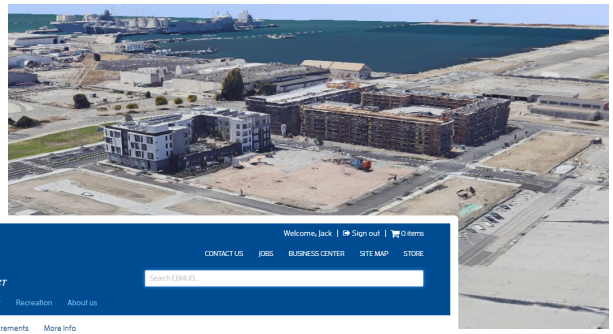
Peak Workload → **Near-Term Solutions** → Long-Term Solutions

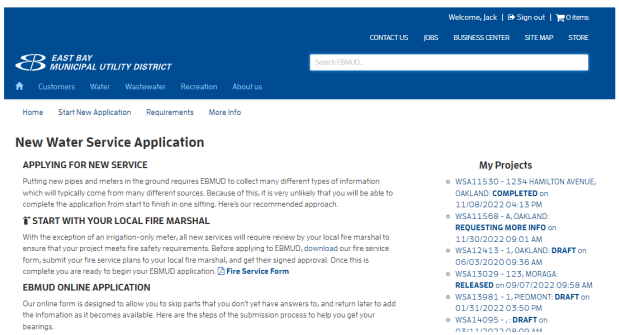
- Expanding internal resources to support administrative review
- Piloting applicant supported trench excavation
- Supporting pre-application meetings & bi-monthly project meetings to track progress

Long Term Applicant Solutions

Peak Workload → Near-Term Solutions → **Long-Term Solutions**

- Exploring ability to augment existing resources with consultant resources
- Assessing pilots to expand expedited solutions
- Updating online water service application to better user experience





Diversity, Equity, and Inclusion

Investments in DEI

- Adding, funding, and organizing internships and training programs under the Office of Diversity, Equity and Culture
  - 38 total positions and 23.5 FTE
- Additional resources added for translation services, training, and other key priorities under the DEI Strategic Plan & Action Plan
  - +$300,000 / +97% increase
- Total increases to support DEI: +$3.1 million

Construction and Maintenance Services (FM&O)

Construction and Maintenance Services (FM&O) FY 2022

- Historically used FM&O to augment District forces to meet peak needs
- District utilization of FM&O resources has modestly grown in some areas, has remained flat in others, and has shrunk in some

Benefits of FM&O
Manages peak workload and reserves District forces for core and baseline work
Supports development of small, local, minority and women-owned businesses
Supports good jobs in our community

Distribution of Contracting Awards FY 2022

Category (number of firms)	FY 2022 Cost	% Spent in CEP Category		
		EM/WW	SBE	LBE
Saw cutting (5)	$304,120	53%	56%	84%
Paving & Striping (5)	$3,601,831	0%	59%	97%
Concrete (5)	$932,784	37%	37%	100%
Flagging (7)	$2,148,184	79%	79%	81%
Sweeping (1)	$35,205	0%	0%	100%
Earth moving (5)	$30,122	100%	0%	0%
Dump Truck (23)	$3,574,470	73%	79%	67%
Welding (5)	$49,743	0%	79%	52%
Hydro Excavator (5)	$497,541	44%	27%	87%
Total	**$11,174,000**			

District Approach to FM&O

- Support peak workload and supplements and is managed by District forces
- Maximize opportunities to support CEP
  - Ethnic Minorities/White Women Businesses
  - Small Businesses
  - Local Businesses
- Contractor performance and distribution of work among contractors is monitored and analyzed
- Add staff when necessary to get benefits of District forces

Other Board Priorities & Enhancements to Support the Strategic Plan

Additional Board Priorities

- Adding grant writer position to support obtaining external revenue, particularly for major investments in capital
- Adding additional resources for:
  - Community outreach
  - Cybersecurity
  - Support services

Schedule and Next Steps

Budget and Rates Proposed Outreach

- **Budget and Rates Roadshow**
  (March – July 2023)
  - Alameda and Contra Costa Mayors Conferences
  - Community/Civic Group presentations
  - Internal: Unions and general staff communications
- **Infrastructure Behind the Scenes Tours – Local Officials**
  (March – May 2023)
- **Community/City Newsletters**
  (March – June 2023)
- **Prop 218 Notice Mailing**
  (March 31, 2023)
- **Media Engagement**
  (May – June)
  - Press releases
  - Interviews
  - Possible infrastructure tour
- **Additional Outreach**
  - Website updates
  - Pipeline Newsletter
  - Water Trivia Night
  - Water Wednesdays webinars

Next Steps & Schedule

- Next Board Workshop
  - March 28, 2023
- Additional Workshop (if necessary)
  - April 25, 2023
- Public Hearing
  - June 13, 2023

Board Discussion