

MINUTES

Tuesday, January 28, 2025

East Bay Municipal Utility District
Board of Directors
375 Eleventh Street
Oakland, California

Special Meeting

President Marguerite Young called to order the Special Meeting of the Board of Directors at 8:34 a.m. in the Administration Building Boardroom. The Board met in workshop session to discuss the District's budget including major investments in Fiscal Year (FY) 2024 and FY 2025, the approach to developing the FY 2026 and FY 2027 biennial budget, preliminary budget proposals, operating and capital priorities, and staffing.

ROLL CALL

Directors April Chan, Luz Gómez, Valerie D. Lewis, Jim Oddie, Joey D. Smith, and President Marguerite Young were present at roll call. Director Andy Katz arrived at 8:54 a.m. (late arrival).

Staff participants included General Manager Clifford C. Chan, General Counsel Derek T. McDonald, Director of Finance Sophia D. Skoda, Manager of Budget Samuel A. Feldman, Treasury Manager Robert L. Hannay, Director of Engineering and Construction Serge V. Terentieff, and Secretary of the District Rischa S. Cole.

Public Comment. Addressing the Board were the following: 1) Justin Young, Acting President, AFSCME Local 2019, commented on the District's current debt and expressed concerns about the use of consultants for design and construction work on capital improvement projects at water treatment plants; and 2) Eric Larsen, President, AFSCME Local 444, commented on the union's support for the budget outline presented, workforce development, recruiting and retaining trades workers, and allocating resources for trades worker training programs.

Presentation/Documentation. 1) Presentation entitled "FY 2026 & FY 2027 Biennial Budget Workshop #1," dated January 28, 2025; and 2) Presentation slide titled "Revenue Recommendations and Projections" (corrected to replace Presentation slide 65).

DISCUSSION

General Manager Clifford C. Chan introduced the workshop, highlighted recent infrastructure milestones and outlined goals for the proposed FY 2026 and FY 2027 biennial budget. Budget priorities include addressing aging infrastructure, climate resilience, and nutrient issues in the San Francisco Bay while maintaining customer affordability and planning for sustainable investments. Staff is requesting the Board's input on the proposed budget, focusing on strategic priorities, guidance on areas for additional investments, and feedback on the proposed rates and funding scenarios.

Director of Finance Sophia D. Skoda reviewed the workshop agenda and explained the District's budget funds the Water and Wastewater systems - two financially separate but connected systems. She highlighted key budget components which include operating expenses, the Capital Improvement Program (CIP), and debt service; the budget and rates process; how the Strategic Plan drives budget

priorities; and how budgeting is a balancing act. She reviewed key dates in the process noting staff is scheduled to present the biennial budget and proposed rates for both systems for Board consideration on June 10, 2025.

Manager of Budget Samuel A. Feldman reviewed the adopted FY 2024-2025 budget and rates and FY 2026-2028 projections approved by the Board in June 2023 for the Water and Wastewater systems. The Board also approved planned debt issues in the adopted FY 2024-2025 budget as well as FY 2026-2028 forecasted debt for both systems. Mr. Feldman highlighted major investments made in infrastructure, workforce development, and education in FY 2024-2025, key goals for the workshop, and challenges ahead for both systems. The proposed FY 2026-2027 budget focuses on adapting to climate change; investing in and renewing aging infrastructure; preserving high water quality and meeting or surpassing regulations; ensuring environmental stewardship for the watershed and the San Francisco Bay; balancing expenses, debt, and rates for long-term fiscal health; investing in innovation; engaging the community; developing a strong workforce; and delivering services equitably and in ways that reflect EBMUD's community. Based on preliminary figures, major expense categories in the FY 2026-2027 budget for both systems include operating and capital labor, operating and capital non-labor, and debt service. Budget increases are being driven by labor and operating as well as the need to address challenges in both systems through prudent infrastructure investments.

Treasury Manager Robert L. Hannay discussed the District's plan to fund the 10-year CIP which will include the long-standing practice of funding with a mix of cash and borrowing (borrowing is largely in the form of revenue bonds). Under Board-approved Policy 4.27 – Debt Management, the District can borrow for a maximum of 65 percent of its capital expenses; however, the preliminary 10-year CIP implements a prudent level of borrowing that is below the policy maximum. Staff will bring bond issues to the Board in the spring, which are part of the already approved FY 2024-2025 budget. The District currently has about \$3 billion in outstanding debt across the Water and Wastewater systems. Mr. Hannay expressed the importance of cash funding ongoing, perpetual capital needs, like pipeline rebuild, and debt funding for larger, once-in-a-generation projects, like major treatment plant upgrades. He reviewed the District's strategic use of debt in capital planning and the Water System debt service schedule through FY 2054, noting that without issuing additional debt, the District's debt capacity could increase in 15 years (by 2040) providing room to fund large future projects. The District plans to issue bonds carefully over the next 10 years to increase debt capacity. He provided an illustrative scenario (not based on actual scenario planning) showing the capacity to debt-fund a \$2 billion future generational project.

Next, Manager of Budget Samuel A. Feldman reviewed revenues and expenses for the Water System's FY 2024-2025 biennial budget and its proposed FY 2026-2027 biennial budget; staffing history and preliminary staffing changes; and aspects of the Water System CIP including asset class, major projects, phases, and refinements at Almond Reservoir and the Mokelumne Aqueducts Resiliency Project. For the Water System, staff is recommending a 6.5 percent rate increase in FY 2026 and in FY2027; projecting 6.5 percent increases in FY 2028 and FY2029 and 5 percent in FY 2030; and planning for 5 percent increases in FY 2031 through 2035. Mr. Feldman noted the recommended budgeted debt issuances listed for FY 2026 – FY 2035 in slide 48 will change in the proposed budget presented to the Board in March.

- The Board recessed at 10:28 a.m. and reconvened at 10:35 a.m.
- President Young left the meeting at 10:36 a.m. and returned at 10:38 a.m.

Mr. Feldman continued with an overview of revenues and expenses for the Wastewater System's FY 2024-2025 biennial budget and for the proposed FY 2026-2027 biennial budget; staffing history and preliminary staffing changes; and aspects of the Wastewater System CIP including asset class, major projects, phases, and refinements for laboratory seismic and HVAC improvements and the remote Wet Weather Facilities Improvements Project. The Influent Pump Station received approximately \$27 million in grant funding from the Federal Emergency Management Agency's Hazard Mitigation Grant Program. The funding is now on pause due to the new Administration's recent freeze on all federal grant funding. He discussed the need to consider constructing additional secondary reactors to comply with new nutrient regulations. Staff has been conducting innovative testing of nutrient-removal using existing infrastructure; however, the Wastewater System CIP includes \$200 million to prepare for that need. Next steps include a thorough engineering evaluation of the complete capital investment solution to comply with future nutrient removal requirements. He highlighted scenarios for Wastewater System funding that includes the \$200 million which would start with either 8.5 percent rate increases, or 7 percent rate increases in FY 2026 and in FY 2027. In both scenarios, the rates would step down to 5 percent increases during the last two years of the 10-year CIP. Even though both scenarios end up collecting the same amount at the end of the 10 years, increasing rates earlier ends with slightly lower bills for ratepayers. Mr. Feldman noted slide 65 contained incorrect percentages for rate revenue increases for FY 2028 through FY 2033 and that a corrected slide had been provided at Board places. For the Wastewater System, staff recommends an 8.5 percent rate increase in FY 2026 and in FY2027; projecting 6.5 percent increases in FY 2028 and FY 2029 and 5 percent in FY 2030; and planning for 5 percent increases in FY 2031 through 2035. He noted the recommended budgeted debt issuances listed for FY 2026 – FY 2035 in slide 65 will change in the proposed budget presented to the Board in March 2025. Mr. Feldman concluded with an overview of the proposed budgets for FY 2026 and FY 2027 District sponsorships and community memberships.

Director of Finance Sophia D. Skoda reported the District's Cost of Service (COS) study for the Water System is ongoing with an independent consultant and expected to be complete by this spring. Changes are expected to cost allocations, including adjustments to the service charge (based on meter size) and volumetric rates (based on usage). Starting July 1, 2025, customer bills would be, pending Board approval, affected both by COS study results and the increased revenue requirement. The existing Wastewater System COS study was completed in 2019. The District is not yet at the 10-year deadline to complete a new study. However, significant upcoming decisions to address nutrient regulations may warrant new Wastewater System COS considerations in the next two years. The plan is to defer the study and evaluate timing to conduct the study before the next budget cycle. Community engagement around the budget and rates will begin in March. The Proposition 218 notice is scheduled to begin mailing in March and media engagement will kick off in May. Information will be disseminated in the *Customer Pipeline* newsletter, during Water Wednesday webinars, and on social media. Budget Workshop No. 2 is scheduled for March 25; the General Manager's report on rates and charges will be presented to the Board on May 13; and the public hearing on rates and charges is scheduled for the Board's Regular meeting on June 10.

There was considerable Board discussion and questions throughout the presentation about the impact of population growth on revenue; the impact of water conservation on inflation; impacts if rates and charges are not implemented by July 1, 2025; District internships; impacts of proposed rate increases on a \$100 customer bill; flexibility in the budget to support growth in the education program; steps that will be taken to reflect the community served by the District; a process for employees to submit ideas on making the District more efficient; providing the Board with staff responses to public comments that are not included in Board information memos; engaging the community on projects that have been deferred;

accountability and internal and external audits; alternatives for smoothing the proposed rate increases for the Wastewater System; and pathways for workforce development and internships for the community. Board members thanked staff for their work and expressed overall support for the staff recommendations.

The Board requested the following:

- A chart showing the breakdown of blue collar versus white collar District internships
- A chart showing historical rate increases for the Water and Wastewater systems
- Individual charts showing the major expense categories for the Water and Wastewater systems
- A summary of historical system capacity charge revenue
- Alternatives for smoothing rate increases for Wastewater System over the next 10 years
- Information on budget tracking and accountability
- Information on the process for the Board to select the District's external auditor
- Information on the District's plan to create more pathways for blue collar jobs
- Information on increasing efficiency and effectiveness at the District and soliciting staff feedback
- A communication plan for the budget to explain the need for the rate increases
- Review demand and funding needed to accommodate growth in the education program
- Examples of what is meant by "in ways that reflect our community" as stated in slide 24
- Conduct follow up outreach with the community on projects that have been deferred where there has been previous outreach

ADJOURNMENT

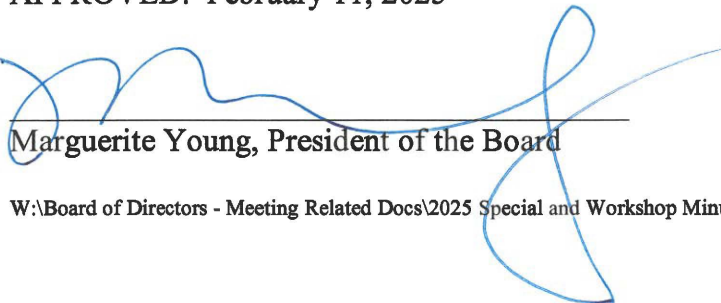
President Young adjourned the Special Meeting at 11:24 a.m.

SUBMITTED BY:



Rischa S. Cole, Secretary of the District

APPROVED: February 11, 2025



Marguerite Young, President of the Board