

FY18 & FY19 Budget Workshop #2

Board of Directors

March 14, 2017

Workshop Agenda



- Introduction
- Recommended FY18 & FY19 budget & rates
- Additional Staffing Considerations
- Board discussion / final direction

Introduction

Critical Timeline Factors



Goals for today

- Final direction on rates critical today
- Workshop #3 will present detailed proposed budget
- Consequence of not receiving final direction today – rates will not be effective 7/1

Workshop #1 Recap



FY18 & FY19 biennial budget considerations:

- Low projected water sales will drive rate increases
- Changes proposed for operating, capital & staffing
- Use of Water System rate stabilization funds are required

Non-rate Revenue Opportunities

– Water/Wastewater



- Property Management
 - Current leases generated \$3.3 M (FY16)
 - Expanding lease of MacMillan property could generate up to \$100,000 annually
 - Cell tower leases are in negotiations and could generate significant additional revenue
 - Advance leasing opportunities for property assets
 - Sales of surplus property opportunities are reviewed on regular basis

Non-rate Revenue Opportunities

– Water/Wastewater



- Environmental Credits
 - Revenue from Oursan Ridge and future Pinole Valley conservation bank credits will go towards future watershed land purchases
- Freeport Capacity
 - Exploring use by other agencies

Non-rate Revenue Opportunities

– Water/Wastewater



- Lab Services
 - Currently provide limited lab services to outside agencies (~\$200,000)
 - Lab generally runs at capacity under existing staffing, so expanding outside services has limited net revenue potential
- Grants and low cost loans
 - Staff continually seeks grant funding that aligns with our CIP priorities and timing; Recent grant examples: Chabot dam seismic (\$5M), DERWA recycled water (\$2M)
 - Recent SRF applications in for MacArthur /Davenport (\$11M) and South Reservoir (\$22M)

Non-rate Revenue Opportunities

– Water/Wastewater



- Other Bay Area water agencies have similar non-rate revenue sources
 - Leases and rentals
 - Recreation fees
 - Land use permits
 - Lab work
- CCWD collects a unique source of revenue through a 3rd party house line insurance program
 - Exterior water line insurance coverage for homeowners
 - CCWD collects a small percentage of revenue that is generated (their portion in \$70k)

Non-rate Revenue Opportunities – Water



- Estimates of non-rate revenues of Bay Area water agencies

| | Revenue Source | Revenues | % of Budget |
|---------------|-----------------|------------|-------------|
| EBMUD (Water) | Lease/Rental | \$3.3m | 0.9% |
| | Agency billing | \$2.2m | 0.4% |
| | Recreation fees | \$1.5m | 0.3% |
| SFPUC (Water) | Lease/Rental | \$12m | 2.6% |
| | Lab work | \$400k | <0.1% |
| CCWD | Lease/Rental | \$700k | 0.7% |
| | Recreation fees | \$600k | 0.6% |
| | Wind royalty | \$345k | 0.3% |
| | Line Insurance | \$70k | <0.1% |
| | Lab work | \$40k | <0.1% |
| MMWD | Lease/Rental | \$1m | 1.7% |
| | Recreation fees | \$300k | 0.5% |
| | Film permits | \$53k | <0.1% |
| Zone 7 | Various | Negligible | <0.1% |

Non-rate Revenue Opportunities – Wastewater



- Estimates of non-rate revenues of the District and SFPUC wastewater enterprises

| | Revenue Source | Revenues | % of Budget |
|--------------------|-------------------|----------|-------------|
| EBMUD (Wastewater) | Resource Recovery | \$11m | 9.4% |
| | Lease/Rental | \$240k | 0.2% |
| | Lab work | \$200k | 0.2% |
| SFPUC (Wastewater) | Lease/Rental | \$750k | 0.3% |
| | Biofuel sales | \$450k | 0.2% |

FY18 & FY19 Budget and Rates

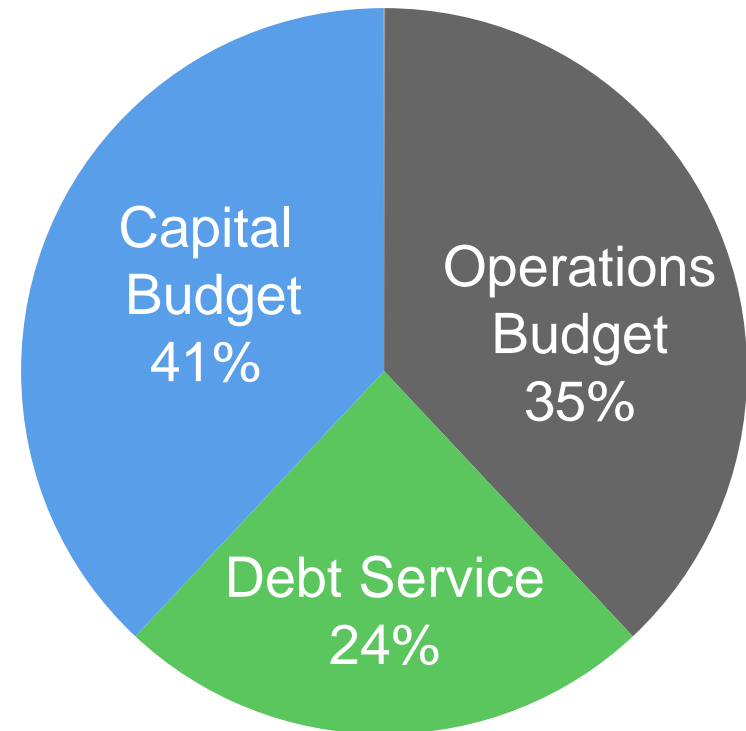
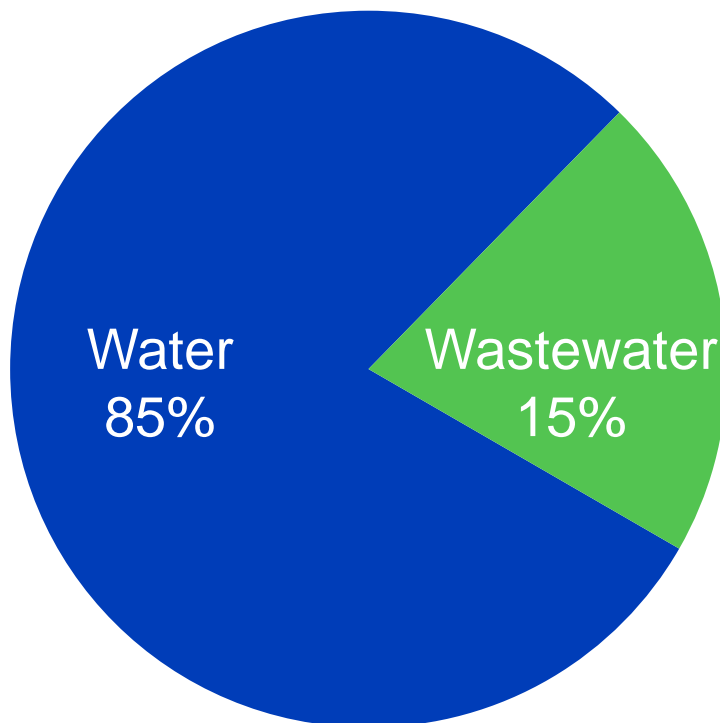
Budget Priorities

- Increase investments in and maintenance of aging infrastructure
- Managing the financial and operational impacts of severely reduced consumption

Biennial Budget—FY18 & FY19



\$2.0 Billion



- Water budget ~6x Wastewater budget
- 65% of budget is capital investment-related

Biennial Budget—FY18 & FY19



FY18 & FY19 APPROPRIATIONS

(\$ Millions)

| | FY18 | | | FY19 | | | FY18 & FY19 |
|---------------------------|--------------|--------------|----------------|--------------|--------------|----------------|----------------|
| | Water | Wastewater | Total | Water | Wastewater | Total | Grand Total |
| Operations ^{1,2} | 277 | 71 | 348 | 290 | 73 | 364 | 711 |
| Debt Service | 200 | 35 | 234 | 210 | 32 | 242 | 476 |
| Capital Appropriation | <u>386</u> | <u>34</u> | <u>421</u> | <u>367</u> | <u>51</u> | <u>419</u> | <u>839</u> |
| Total | 863 | 140 | 1,003 | 868 | 156 | 1,024 | 2,027 |
| Drought Contingency | - | - | <u>0</u> | <u>45</u> | - | <u>45</u> | <u>45</u> |
| Grand Total | \$863 | \$140 | \$1,003 | \$913 | \$156 | \$1,069 | \$2,072 |

¹ Additional staff added to address operating overtime.

² Each fiscal year includes \$1.5 million for lead sampling for schools & voluntary customer program.

Overtime – Water System Maintenance & Construction



- Multiple variables drive the amount of overtime required to maintain our system such as:
 - Time of a main break
 - Local regulations for street work
 - Staffing levels
- In FY16 main breaks drove emergency overtime
 - 1,155 main breaks vs the long-term average of 870 main breaks
 - ~17,000 hours of emergency overtime
- Since FY13, the number of funded positions to support has risen 17% to increase maintenance and address overtime

FY18 & FY19 Biennial Budget Recommended Staffing



Proposed changes to Position Resolution

- Total authorized FTEs will increase from 2,068 to:
 - 2,090 (FY18)
 - 2,096 (FY19)
- Net increase of 28 FTEs:

| | FY18 | FY19 | Total |
|-----------|------|------|-------|
| Additions | 27 | 6 | 33 |
| Deletions | (5) | - | (5) |
| Total | 22 | 6 | 28 |

- Flex staffing change of 11 existing FTEs

Five-Year Capital Improvement Program Cash Flows (\$ Millions)



| | FY18 | FY19 | FY20 | FY21 | FY22 | 5-Year Total |
|------------|-------|-------|-------|-------|-------|--------------|
| Water | \$268 | \$270 | \$305 | \$337 | \$322 | \$1,502 |
| Wastewater | \$41 | \$40 | \$38 | \$35 | \$34 | \$188 |

- ¹ Wastewater contingency appropriation not shown above includes \$10 million for potential food waste projects.
- ² Discounted cash flow shown above includes Administration of Capital.

Capital Improvement Program

Water System Major Cash Flows (\$ Millions)



FY18-22

- Pipelines (transmission, distribution, laterals) \$ 522
- Pressure Zone Improvements (Maloney, Wildcat) \$ 188
- Water Treatment Plants (Walnut Creek, Sobrante) \$ 167
- Water Supply & Recycling (San Ramon Valley) \$ 128
- Transmission Facilities (pumping plants, regulators) \$ 119
- Distribution Reservoirs (San Pablo, steel tanks) \$ 110
- Raw Water Aqueducts (isolators, anchors) \$ 106



Capital Improvement Program

Wastewater System Major Projects (\$ Millions)



FY18-22

- | | |
|--|-------|
| - Treatment Plant Infrastructure (grit, drains) | \$ 44 |
| - 3 rd Street Sewer Interceptor Rehab | \$ 32 |
| - Odor Control Improvements (influent pump stat) | \$ 23 |
| - Digester Upgrades (covers, coatings) | \$ 21 |
| - Concrete Rehabilitation (sedimentation tanks) | \$ 19 |
| - Nutrient Management | \$ 15 |
| - Equipment Replacement | \$ 13 |



Rates & Charges—FY18 & FY19



Five-Year Forecast

| | Proposed | | Projected | | |
|------------|-------------|-------------|-------------|-------------|-------------|
| | <u>FY18</u> | <u>FY19</u> | <u>FY20</u> | <u>FY21</u> | <u>FY22</u> |
| Water* | 9% | 9% | 7% | 7% | 5% |
| Wastewater | 5% | 5% | 4% | 4% | 4% |

*Requires use of RSF; replenishment of RSF by FY21.

Impact of Lower Than Projected Water Sales Is Significant



- In both the Recommended and Lower Rates scenarios, the RSF drops below policy levels if water sales do not recover.
- Further, out year rate increases will need to be higher than projected.

Five-Year Forecast

| | Proposed | | Projected | | |
|-------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| | <u>FY18</u> | <u>FY19</u> | <u>FY20</u> | <u>FY21</u> | <u>FY22</u> |
| Water Sales | 137 133 MGD | 141 133 MGD | 144 135 MGD | 147 138 MGD | 150 141 MGD |
| Recommended | 9% | 9% | 8.5% | 8.5% | 7.5% |
| Lower Rates | 8.5% | 8.5% | 10% | 9% | 8% |

Recommended Rates Customer Impacts

Monthly Single Family Residential Customer Impacts—Water



| | SFR Use (Ccf) | FY17 Bill | FY18 Bill | Increase from FY17 | Change | FY19 Bill | Increase from FY18 | Change |
|-----------------------------|---------------|-----------|-----------|--------------------|--------|-----------|--------------------|--------|
| 25 th Percentile | 4 | \$33.33 | \$36.31 | \$2.98 | 8.9% | \$39.58 | \$3.27 | 9.0% |
| 50 th Percentile | 6 | \$39.65 | \$43.19 | \$3.54 | 8.9% | \$47.08 | \$3.89 | 9.0% |
| 75 th Percentile | 10 | \$55.83 | \$60.82 | \$4.99 | 8.9% | \$66.31 | \$5.49 | 9.0% |
| 95 th Percentile | 22 | \$116.31 | \$126.76 | \$10.45 | 9.0% | \$138.19 | \$11.43 | 9.0% |
| Average SFR Use * | 8 | \$47.15 | \$51.36 | \$4.21 | 8.9% | \$55.99 | \$4.63 | 9.0% |

*8 Ccf/month represents recent average single-family residential use, down from 10 Ccf/month historic use

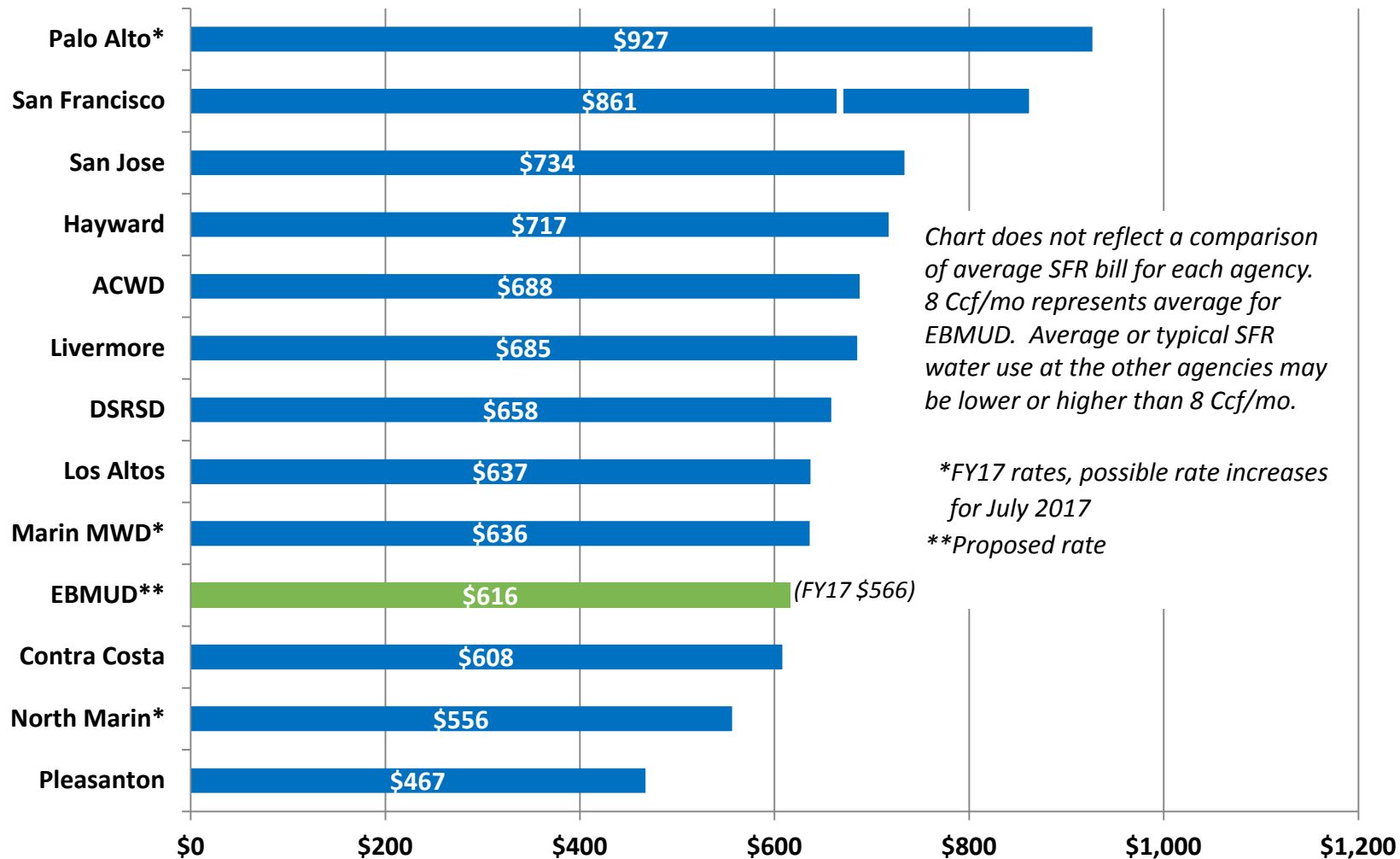
Monthly Single Family Residential Customer Impacts—Wastewater Treatment



| | Use (Ccf) | FY17 Current | FY18 Proposed | Increase from FY17 | Change | FY19 Proposed | Increase from FY18 | Change |
|--|--------------|-----------------|------------------|-----------------------|--------|------------------|-----------------------|--------|
| Single Family Residential Avg | 6 | \$19.93 | \$20.89 | \$0.96 | 4.8% | \$21.95 | \$1.06 | 5.1% |
| Single Family Residential Max | 9 | \$23.20 | \$24.31 | \$1.11 | 4.8% | \$25.55 | \$1.24 | 5.1% |

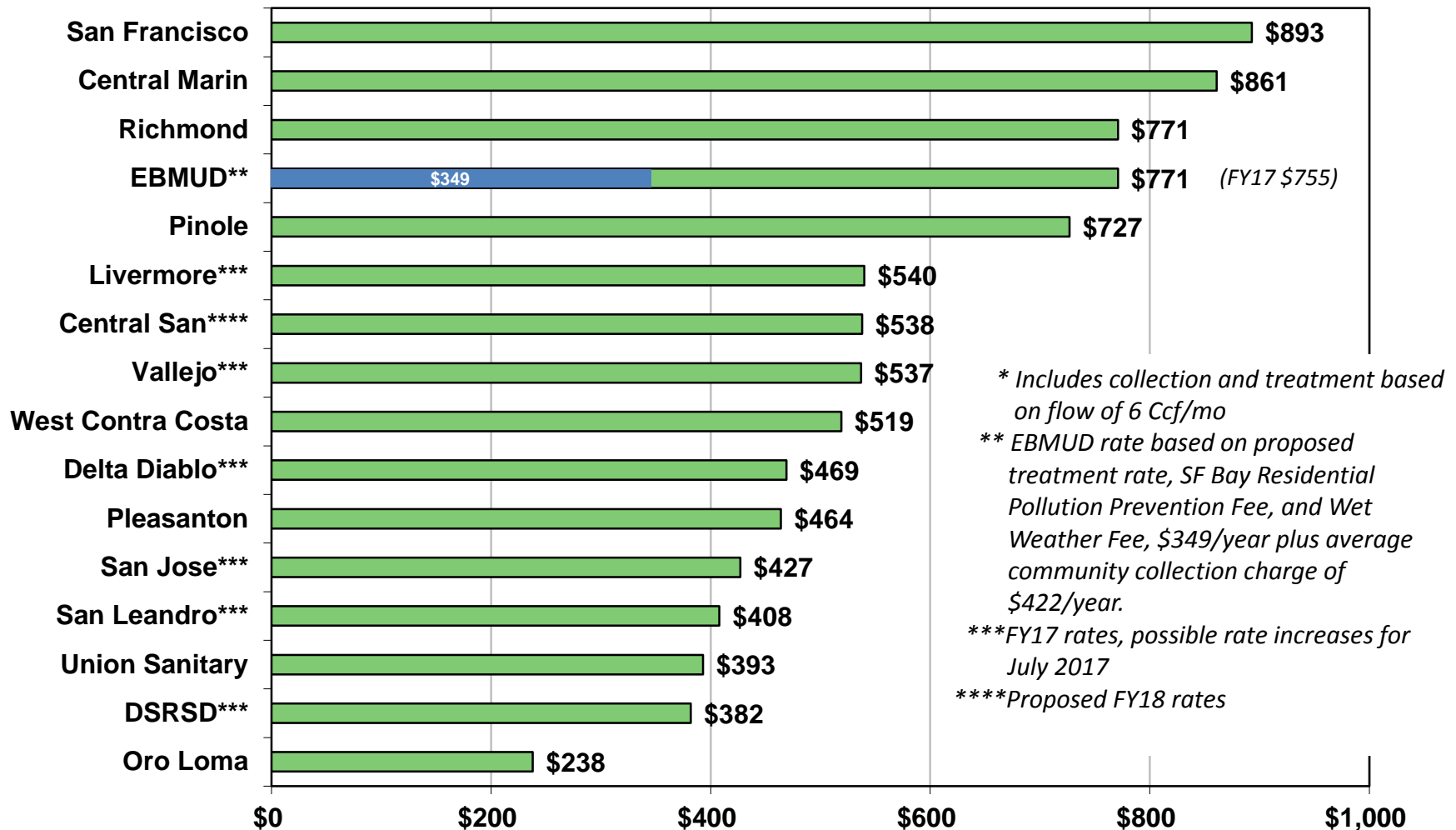
Water Bills Calculated for 8 CCF/Mo

Annual Charge for SFR – Effective 7/1/17



Wastewater Bills Calculated for 6 CCF/Mo Discharge

Annual Charge for SFR – Effective 7/1/17



Updated Trends in CA Water Rates



- Average annual rate increase 2003-15 in CA: 6.3%
- Average annual EBMUD increase in same: 5.8%
- 10 yr average annual EBMUD rate increase: 7.1%
- Some private water utilities in CA have been projecting 1% annual decrease in water sales in CPUC rate filings
- Average annual EBMUD budget revenue increase over past 10 years has been ~4%

Additional Staffing Considerations

Additional Staffing Considerations - Water



| Initiative | Job Classification | FTEs |
|--|-------------------------------|------|
| Increase preventative maintenance | Utility Laborers | 7.0 |
| Accelerate addressing identified IT security risks | Senior Systems Programmer | 2.0 |
| Incorporate geospatial data | Senior Civil Engineer | 1.0 |
| Expand diversity / inclusion outreach | Human Resources Analyst I/II | 1.0 |
| Perform design work | Associate Civil Engineer (LT) | 1.0 |
| IT intern program | IT Interns | 2.0 |
| Further diversity in engineering | Engineering Aides (PT) | 1.5 |
| Delivery of CIP program | Survey Tech I/II | 1.0 |
| WTP Distributed Control Systems & Industrial Control Systems support | Associate Electrical Engineer | 1.0 |
| Total | | 17.5 |

Rate Impact of Additional Staffing Considerations 9.5%/9.0%



Five-Year Forecast

| | Proposed | | Projected | | |
|---------------------|-------------|-------------|-------------|-------------|-------------|
| | <u>FY18</u> | <u>FY19</u> | <u>FY20</u> | <u>FY21</u> | <u>FY22</u> |
| Recommended | 9% | 9% | 7% | 7% | 5% |
| Additional Staffing | 9.5% | 9.0% | 7% | 7% | 5% |

Workshop Conclusions

Workshop Conclusions



- Increases capital investments in water and wastewater infrastructures
- Utilizes prudent assumptions for water sales
- Requires use of the Water System rate stabilization funds
- Provides for long-term financial stability

Public Outreach



- Board Meetings and Workshops on Reduced Water Sales, Budget and Rates

FY16 Board Meetings: 2/23/16
4/12/16

FY16 Board Workshop: 5/24/16

FY17 Board Workshops: 12/13/16
1/24/17
3/14/17
4/11/17

FY17 Public Hearing: 6/13/17

Public Outreach (cont.)



Forums

- Staff 1/20, 3/15, 4/14
- Union Leaders 1/31
- District Community Leaders 2/28
- **Ward Events:**
 - Director Katz – May 2
 - Director Coleman – May 25
 - Director Mellon – May TBD
 - Directors Linney & Patterson – June TBD

Mailed Publications:

Jan/Feb & May/June Customer Pipeline
May Prop 218 Mails

Community Presentations:

- 3/15 Grand Lake Neighbors
- 3/23 Rodeo Municipal Advisory Council
- 4/16 West Oakland Neighbors
- 4/20 Earth Day Events (various); West County Mayors' and Supervisors Association
- 4/25 Hercules City Council
- 5/25 Fairmede-Hilltop Area Neighborhood Council
- May: Pinole Municipal Advisory Council
- June: Richmond Municipal Advisory Council

Positive Media:

Helipipe, Dam Safety, Carr Ranch, Orinda WTP Return to Service

FY18 & FY19 Budget and Rates Schedule



- Board Workshop #1 1/24/17
- Board Workshop #2 Today
- Final Board Workshop #3 4/11/17
- Print and Mail Notice 4/12 to 4/29/17
- Public Hearing/Adoption 6/13/17

Board Discussion

