MINUTES OF THE BUDGET WORK SESSION
OF THE SANITARY BOARD OF
ORO LOMA SANITARY DISTRICT

March 30, 2017

The budget work session of the Sanitary Board of Oro Loma Sanitary District was called to order by President Shelia Young at 12:00 p.m. on Thursday, March 30, 2017, at the District offices at 2655 Grant Avenue, San Lorenzo. President Young noted that Directors Timothy Becker, Roland Dias, Rita Duncan, and Dan Walters were present. Also in attendance were Jason Warner, General Manager; Bill Halsted, District Engineer; Andreea Simion, Administrative Services Manager; Arlene Wong, Finance Manager; Scott von der Lieth, Maintenance Manager; Pearl Gonzales, Accountant; and Sally Green, District Secretary. No members of the general public were present.

The purpose of the meeting was to review and obtain feedback on the proposed budget for Fiscal Years 2017-18 and 2018-19. Finance Manager Arlene Wong presented an overview of the proposed budget. The key elements are summarized as follows.

1. Budget Basis & Assumptions - The CPI is projected to be 3% per year, which serves as the basis for calculating salaries and general supplies. Medical premiums are assumed to increase 4% per year, based trends in Kaiser medical premiums in the last 5 years. Retirement costs for each of the 3 retirement tiers are calculated according to the most recent CalPERS' valuation. For normal costs in Year 1, Tier 1: 10.848%, Tier 2: 7.850%, Tier 3: 6.908%. For normal costs in Year 2, Tier 1: 10.800%, Tier 2: 7.900%, Tier 3: 6.900%. Required contributions for unfunded liability are $208k for Year 1 and $361k for Year 2. Total retirement contributions, inclusive of the employer-paid member contributions for Tier 1 employees, are $932k for Year 1 and $1.1m for Year 2.

2. Staffing - The District plans for 43 full-time positions, with 1 position currently unfilled in the Engineering Department.

3. Based on the adopted 5-year rate plan in 2016, sewer rates increase 7.5% per year. For single family residences, $238 in Year 1 and $256 in Year 2. Commercial rates are $3.519 per ccf in Year 1, and $3.783 per ccf in Year 2. Garbage rates are assumed to increase 2.5% per year. No changes are budgeted for recycling fees, lift station surcharges and connection fees.

4. Operating Revenues are $21.0m in Year 1, and $22.0m in Year 2, increasing 7.8% and 4.8% respectively. Commercial sewer revenues are expected to be 13% higher in Year 1 than the FY 2016-17 budget, due to the end of the drought and the 7.5% rate increase. Sanitary truck waste is budgeted at $90k per year based on actual experience. Connection fees are $200k per year.

5. Operating Expenses are $20.6m in Year 1 (4.8% decrease), and $21.0m in Year 2 (2.0% increase). Total expenditures including capital spending are $27.2m in Year 1, and $25.2m in Year 2. In Year 1, a significant portion of savings comes from the $1m decrease in depreciation expense, for assets that have been fully depreciated. Many of such items were from the 2007 Treatment Plant Capacity Restoration Project. Departmental expenses remain stable for Year 1, and increase 3.1% in Year 2 (net of election expense). Compensation increases 3% per year, while employee benefits

increase around 7% per year. Under the account item Newsletter & Public Outreach, $240k in new costs include a potential full time position ($140k) and other action items in the recently approved Communications Plan ($100k). Pipeline replacements are budgeted at $4m for Year 1, and $3m for Year 2. Staff posed the question, given our strong reserve position and strategic goals, whether it made sense to increase the Year 2 line replacement budget to $4m, which the Construction Committee will discuss at its next meeting. EBDA O&M costs are assumed at 6% growth per year. General Manager Warner explained in detail the components that make up the $240k public outreach cost.

6. R&R and CIP - Warner highlighted the major projects in R&R and CIP, which include for Year 1: Point Repairs ($1.25m), Source Detection for Trojan Basin ($150k), Plant Painting ($150k), Influent Channel Coating (150k), Lift Stations Rehabilitation ($150k), Trojan Lift Station MCC Replacement ($400k), Altamont Easement SLR ($250k), Pipeline Replacements ($4m), Plant Paving ($500k), and Pond Bridge Piping/Containment ($250k). For Year 2: Point Repairs ($1.25m), Digester #3 Decommissioning ($100k), Secondary Clarifier Demolition and Coating of East Wall ($400k), Lift Stations Rehabilitation ($150k), Collections Secondary CCTV Van ($80k), Pipeline Replacements ($3m, additional $1m requested), Cogeneration Engine Overhaul ($175k), and Truck Wash Drainage Pump ($80k).

7. Projected Cash Balances & Reserves - The projected 5-year cash balances show a gradual decline from $18.2m at the beginning of Year 1 to $15.0m at the end of Year 5. The current reserve level is $9.5m. The Board discussed the option of making further paydown of the retirement unfunded liability. General Manager Warner stated that due the current high stock market levels, uncertainty in the future of nutrient removal requirements, and the need to gain CVSan's consensus, he proposes keeping the funds liquid to meet cash needs should the Nutrient Optimization project move forward. The issue will be discussed at the next Finance & Insurance Committee meeting.

8. Conclusion - Pension liabilities are growing and expected to increase further due to below-market returns and the phasing in of the discount rate reduction. The projected unfunded liability is $6m. Pipeline replacement is the major driver in CIP. Labor cost continues to be the largest expense, 48% of operating expenses in wastewater activities (excluding depreciation). Planned outreach efforts represent $240k in new expenses, 1.4% of total operating expenses (excluding depreciation). The most significant potential expense, nutrient optimization for $10m-$12m, has not been incorporated into the budget. A joint meeting with CVSan will take place on Monday, April 3, 2017 where the two Boards will discuss the issue.

Midway through the presentation, at approximately 1:30 p.m., President Young called for a five minute recess. When the meeting resumed, General Manager Warner asked Maintenance Manager Scott von der Lieth to summarize for the Board the criteria the District uses to determine when vehicles should be replaced. von der Lieth said that age of the vehicle is not the only factor, also considered is engine hours, maintenance costs, and replacement cost. Most of the vehicles the District replaces are at least 15 years old and have poor maintenance history. There are many 15-year-old vehicles with significant remaining useful life.

The Directors discussed the budget presentation, and asked several questions for clarification. Director Dias commented that revenues have been historically accurately forecast, while expenses are more variable.

President Young opened the floor for staff/Director comments. Director Duncan expressed appreciation to Finance Manager Wong and Accountant Pearl Gonzales for their work on the budget documents. The other Directors also expressed appreciation and thanked staff for their contributions.

President Young mentioned that she attended the General Manager's "Town hall" meeting the previous day, and, on behalf of the entire Board, she expressed appreciation to the staff for its hard work and dedication.

There being no further business to come before the Board, President Young adjourned the meeting at 2:35 p.m.

Rita Duncan
Secretary

(Recording Secretary:
Arlene Wong/Sally Green)