



B A C W A
BAY AREA
CLEAN WATER
AGENCIES

AGENDA

BACWA Nutrient Strategy Team Meeting

Thursday April 4, 2024

8:30 am – 9:30 am

Physical locations:

EBMUD, 375 11th St, Oakland, CA 94607

Central San, 5019 Imhoff Pl. Martinez, CA 94553

SJ/SC RWF, 700 Los Esteros Rd, San Jose, CA 95134

SFPUC, 525 Golden Gate Ave, San Francisco, CA 94102

750 Limerick Ln. Alameda 94502

To attend the meeting via Zoom or submit a comment please [request access](#).

1. Introductions and Public Comment
2. Approval: Consideration of FY24 Contract with Raftelis for \$34K (\$18K for rate analysis, plus \$16K as-needed affordability analysis)
3. Update on Nutrient Watershed Permit Negotiations
4. CWEA Presentation
5. Adjourn



BACWA EXECUTIVE BOARD ACTION REQUEST

AGENDA NO.: 2

MEETING DATE: April 4, 2024

TITLE: CONTRACT WITH RAFTELIS FINANCIAL CONSULTANTS, INC. FOR FY24 PLANNING LEVEL RATE IMPACT ANALYSIS FOR NUTRIENT COMPLIANCE RELATED EXPENSES.

RECEIPT

DISCUSSION

RESOLUTION

APPROVAL

RECOMMENDED ACTION

Approve \$34,000 contract with Raftelis Financial Consultants for FY24 Planning Level Rate Impact Analysis for Nutrient Compliance Related Expenses.

SUMMARY

In 2018, BACWA Submitted a Nutrient Reduction Study (Study) to the Regional Water Board, in compliance with the first Nutrient Watershed Permit. The study made recommendations, including cost estimates, for nutrient reductions via treatment optimization, sidestream treatment, treatment upgrades, and other means. The Regional Water Board has since signaled its intention to require nutrient reduction to a level that best matches the “Level 2” treatment category identified in the Study. Assuming requirements matching Level 2 treatment for nitrogen only (rather than nitrogen and phosphorus) during the dry season (rather than year-round), the Study estimates the costs related to upgrades to be approximately \$11 billion regionally. This would represent the most significant investment in wastewater infrastructure in two generations, and will have substantial impacts on ratepayers. When communicating with regulators and the public about these requirements, it is important to convey how the costs may translate into increased utility bills. It is anticipated that the results of this rate analysis will be incorporated into BACWA’s written and oral comments on the Watershed Permit Tentative Order, which will be released by the Water Board for a 30-day public comment period as soon as Friday April 5. Adoption of the Permit is anticipated at the June 12, 2024 Regional Water Board meeting.

BACWA’s Executive Director conducted a single-source solicitation of a proposal to develop a planning level rate impact analysis for nutrient-compliance related expenses. Raftelis Financial Consultants, Inc was selected due to the firm’s existing relationship with BACWA members, and sole-sourcing was used due to the time constraints on this work. BACWA’s contracting Policy 2.03 allows sole-sourcing up to \$30,000, with the option of increasing that amount with justification. The attached contract would authorize \$18,000 to perform a high-level rate analysis with the outcome being the impact on household costs. An additional \$16,000 may be authorized at a later date to perform an affordability analysis.

FISCAL IMPACT

BACWA’s approved FY24 Budget includes a \$100,000 line item for General Technical Support that will be used to fund this work.

ALTERNATIVES

1. *Do not proceed with this work.* This alternative is not recommended since household costs are one of the key elements of BACWA’s comments on the 3rd nutrient watershed permit.
2. *Conduct a competitive selection process.* This alternative is not recommended due to the tight timeframe

needed to obtain the required rate information.

Attachments: FY24 Contract with Raftelis Financial Consultants, Inc.
=Raftelis Proposal: Planning Level Rate Impact Analysis for Nutrient-Compliance Related Expenses.

April 4, 2024

Approved: _____

Date: _____

Amit Mutsuddy, Chair,
BACWA Executive Board

Date: 04/04/24

BAY AREA CLEAN WATER AGENCIES
CONSULTING AGREEMENT

TO: Raftelis Financial Consultants, Inc.

FROM: Lorien Fono, Executive Director
BACWA
PO Box 24055, MS702
Oakland, CA 94623

lfono@bacwa.org
Phone: 510-684-2993

RE: BACWA Agreement for FY24 Planning Level Rate Impact Analysis for Nutrient-Compliance Related Expenses.

This Agreement covers professional services to be performed by Raftelis Financial Consultants, Inc. in order to develop a planning level rate impact analysis for nutrient-compliance related expenses. This work is described in the attached Proposal Scope of Work and under the direction of the BACWA Executive Director. The total cost of professional services to be performed by Raftelis Financial Consultants, Inc. is not to exceed \$18,000, with an additional \$16,000 that may be authorized to perform the Task 5 Affordability Analysis. The BACWA Executive Director will inform Raftelis Financial Consultants, Inc. in writing at a later date if BACWA chooses to authorize Task 5 Affordability analysis. This contract will be funded by the BACWA Budget under the General Technical Support line item.

This Agreement may be terminated by either party at any time for convenience with 30 day's notice. In the event of termination by BACWA, BACWA shall pay Raftelis Financial Consultants, Inc. for professional and competent services rendered to the date of termination upon delivery of assigned work products to BACWA.

Raftelis Financial Consultants, Inc. shall submit invoices to the BACWA Executive Director via e-mail. Invoices will be paid within thirty (30) days of receipt.

BACWA Executive Director E-mail: Lorien Fono, lfono@bacwa.org

Approved:

By _____
Amit Mutsuddy
Chair, BACWA Executive Board

By _____
Raftelis Financial Consultants, Inc.

Date _____

Date _____

BACWA EIN: 94-3389334

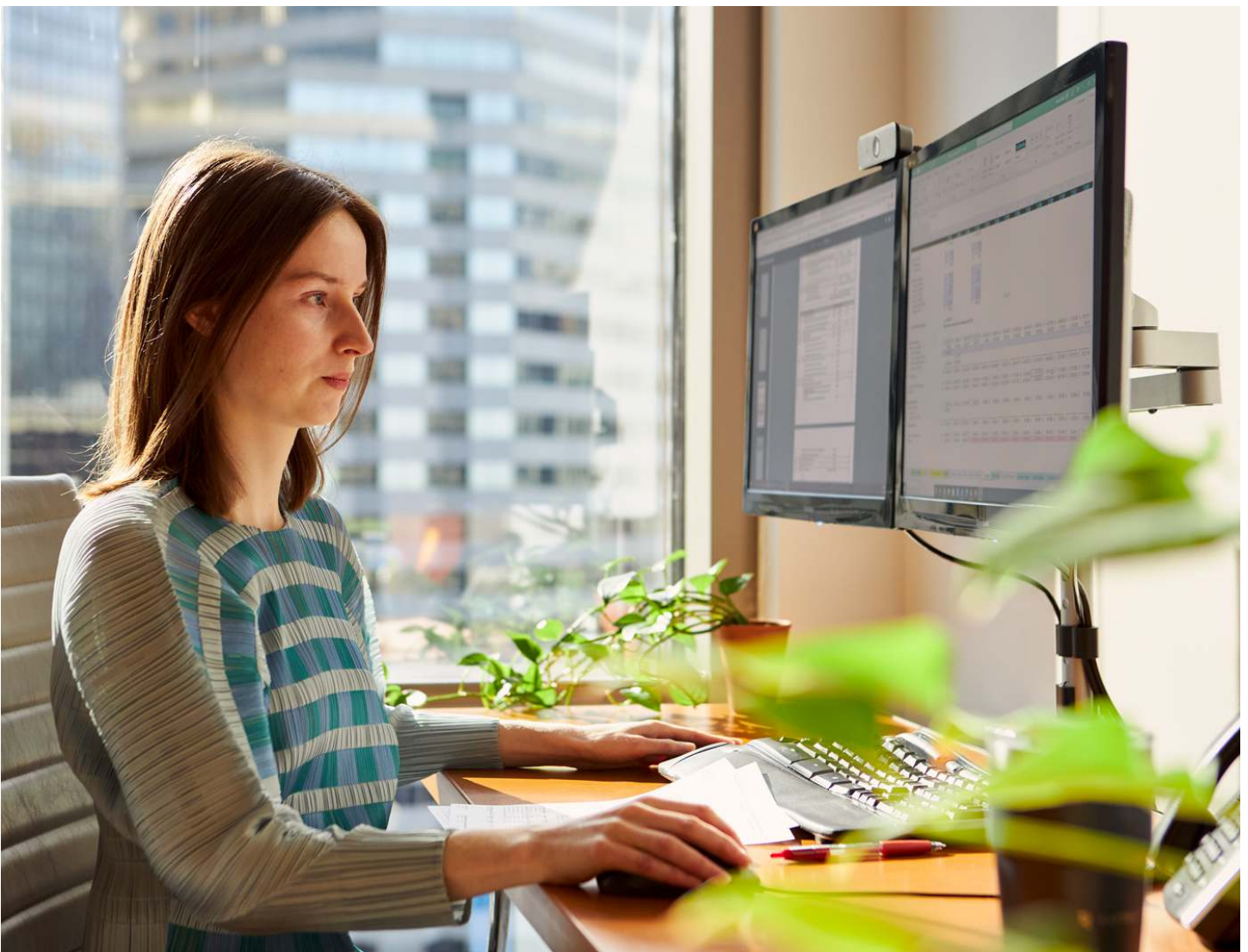
EIN:



Bay Area Clean Water Agencies

**Planning Level Rate Impact Analysis
Nutrient-Compliance Related Expenses**

PROPOSAL / MARCH 29, 2024





March 29, 2024

Dr. Lorien Fono
Executive Director
Bay Area Clean Water Agencies
PO Box 24055, MS 702
Oakland, CA 94623

**Subject: Proposal for Financial Analysis Assistance
Nutrient-compliance Rate Impact Analysis**

Dear Dr. Fono:

Raftelis is pleased to submit this proposal to assist Bay Area Clean Water Agencies (BACWA) with evaluating the potential customer cost impacts of complying with nutrient limit requirements to wastewater customers served by BACWA member utilities. This proposal details our project approach to completing the evaluation and provides our qualifications and experience within the water and wastewater utility industry to complete this work.

Raftelis was established in 1993 to provide financial, rate, and management consulting services of the highest quality to water and wastewater utilities. Since that time, Raftelis has grown to have the largest water and wastewater utility rate and financial consulting practice in the country, with more than 170 consultants. Our staff has provided rate and/or financial planning assistance to over 1,700+ local governments and utilities across the United States and have conducted thousands of studies. Our mission has always been focused on assisting our clients in meeting their goals of financial viability.

Raftelis understands that BACWA is looking to provide informed guidance for its member communities and the San Francisco Bay Regional Water Quality Control Board (Water Board) on the likely financial impacts associated with the adoption of new nutrient limitations for wastewater treatment plants discharging to the San Francisco Bay (SF Bay) and its tributary waters. Following on the guidance provided by the 2018 Nutrient Reduction Study, BACWA is interested in gaining an updated perspective of the practical financial impacts in its members' service areas.

We strongly believe our team would successfully complete the study and provide significant value to BACWA for several reasons, including:

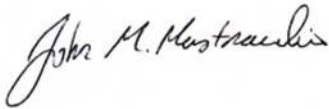
- **Breadth of experience** – We have conducted thousands of financial projects for more than 1,700+ local governments and utilities across the country, many of them similar to this study.
- **Knowledge of California sewer utilities** – Our team has worked with many utilities in California, including many in the SF Bay watershed, and has a well-practiced knowledge of the sewer utility industry and its regulatory landscape in the State.
- **Depth of resources** – No firm that specializes in financial consulting for the water and wastewater industry has the staff resources we have.

- **Drive to succeed** – Our project team will be focused on not only meeting, but exceeding BACWA’s expectations for ensuring that its members and regulatory staff are fully informed on the likely result of the evolving nutrient compliance requirements.

The attached scope and budget were developed for BACWA following our conversation earlier this week. If there are additional items that you would like us to incorporate as part of the evaluation, please feel free to reach out with suggested modifications to the proposed scope herein. John Mastracchio can be reached at jmastracchio@raftelis.com or 518.391.8944 and Toby Fedder can be reached at tfedder@raftelis.com or 603.817.7441.

We very much look forward to working with BACWA and its members on this project.

Sincerely,



John Mastracchio
Executive Vice President



Toby Fedder
Senior Manager

Project Understanding

Background

BACWA was established in 1984 under a joint powers agreement (JPA) and operates as a local government agency in the interest of its members. BACWA's current membership includes five Principal members, 12 Associate members, and 48 Affiliate members, which collectively provide wastewater management services to over seven million people in the SF Bay watershed. In its operations, BACWA assist agencies in the completion of initiatives intended to promote and maintain the protection of the SF Bay watershed and the public health of regional residents.

In 2014, the Water Board issued Order No. R2-2014-0014, beginning the process of tracking and potentially regulating nutrient discharges to SF Bay and its tributaries. In response, BACWA initiated a thorough review of the major wastewater discharges into the SF Bay watershed, culminating in the 2018 Nutrient Reduction Report (2018 Report). The 2018 Report outlines the regional facilities, each facility's attributes, and the expected approaches for each to comply with the nutrient limitations under consideration.

Project Goals

BACWA anticipates the issuance of the new permit limiting nutrient discharges within the next year. BACWA is interested in assisting its members and the regulatory community understand the financial impacts of the proposed regulations. More specifically, BACWA requests that Raftelis develop a high-level financial model to project future costs, cash flows, and high-level bill impacts on utilities and utility customers in the SF Bay watershed associated with the investments required to meet the new regulations. The evaluation results will be used for various discussions with BACWA members and regulators regarding the potential financial impacts of the new regulations.

Proposed Scope of Work

Task 1 – Review of Existing Documentation

Raftelis will review existing documentation regarding the required capital investments necessary to meet the new regulations. These documents will include, but not be limited to, the following:

1. The 2018 Report, including the financial projections therein and as may have been updated in the period since the report's issuance; and
2. The Draft TIN Load Reduction Estimates Memo, dated 10/10/23; and
3. Additional existing documents associated with expected nutrient-related investments which BACWA provides for our consideration.

Our review of the documents will focus on compiling the anticipated cost and timeline for making the necessary capital investments, as well as the impacts to operations and maintenance costs. Raftelis will identify and catalog existing engineering projections for capital expenditures (CapEx) and operational expenses (OpEx) associated with nutrient reductions for SF Bay discharges.

Task 2 – Projection of Aggregate Annual Revenue Requirements

Raftelis will prepare a projection of the aggregate annual capital and operating revenue requirements using the cost estimates that are identified under Task 1. The annual revenue requirements will be estimated as follows:

- a. A timeline for the capital investments and for the start of new facility operations will be summarized based on the review of the documents identified in Task 1.
- b. CapEx estimates will be converted to future dollars to the mid-point of construction by applying an appropriate cost escalation factor;
- c. OpEx estimates will be converted to future dollars to the anticipated beginning the expected year when these expense will be incurred (usually the year of substantial completion of the capital investments);
- d. CapEx funding and financing assumptions will be identified based upon a typical approach to funding and financing major wastewater utility capital investments. Using these funding and financing assumptions, annual capital expenses (including annual debt service payments) will be projected over a 20- to 30-year repayment period (the forecast period);
- e. Annual and aggregate revenue requirements (i.e., cash flow needs) including both annual capital and operating expenses will be estimated over the forecast period.

Task 3 – Calculation of Average Household Cost

In this task, Raftelis will calculate a high-level estimate of the annual cost of nutrient compliance expenses to the average residential wastewater customers within the BACWA member communities using data sources such as U.S. Census, American Community Survey data, member agency customer data provided by BACWA, or a combination of information sources. It is our understanding that several of the utilities with the BACWA JPA have already begun to address nutrient discharges. We will work collaboratively with BACWA to ensure that the nuanced impact of these already completed or underway investments is accounted for in our assessment.

Annual aggregate and high-level customer costs associated with nutrient compliance expenses will be presented in the following manner:

- a. Net present value of aggregate nutrient compliance spending;
- b. Annual aggregate pay-go and debt service obligations of BACWA members;
- c. Annual aggregate operational expenses of BACWA members; and
- d. Average annual household expense for a BACWA member customer by year.

Task 4 – Reporting

Raftelis will prepare a summary report detailing the analysis and documenting the findings of the evaluation. One draft version of the report will be prepared and provided to BACWA for review. Upon receipt of any comments requiring a revision to the draft report, Raftelis will prepare and deliver a final version of the summary report.

Task 5 – Prepare Preliminary Affordability Information (Optional Task)

If requested and authorized by BACWA, Raftelis will complete a high-level affordability analysis of the potential impact of the additional cost of nutrient compliance expenses on residential households. This will help provide context for both BACWA and the regulatory bodies in more fully understanding the financial burden that these expenses will have on the member agencies' customer base. This analysis will consist of:

- a. Estimating the current average residential wastewater bill of the BACWA member agencies, as data availability allows.

- b. Compiling the median household income (MHI) and the lowest quintile income (LQI) for the BACWA member communities.
- c. Calculating the cost as a percentage of MHI and LQI in the current year without the nutrient compliance expenses, and then preparing the same calculations including the nutrient compliance expenses.
- d. Comparing the resulting costs as a percentage of MHI and LQI to industry affordability benchmarks.

While the preliminary assessment will not delve further than community-level Census data, it will provide assistance to BACWA and the State in helping to identify which communities and projects are likely to need additional support in achieving water compliance goals. Raftelis will prepare and graphically present a summary of regional income and nutrient cost impact data for BACWA member communities.

Proposed Fee

For completion of this scope (Tasks 1-4), Raftelis proposes a lump sum, fixed fee of \$18,000, billed monthly on a progression basis. Should BACWA wish, Raftelis is also prepared to concurrently complete the optional Task 5, providing a preliminary affordability assessment for the communities within the SF Bay region. Similar to the main scope of work, Raftelis proposes that Task 5 be completed on a lump sum basis for an additional fixed fee of \$16,000.

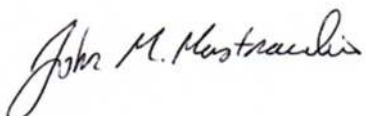
Anticipated Schedule

For the completion of Tasks 1-4, Raftelis proposes a schedule of 45 calendar days from receipt of an executed copy of this proposal. Should BACWA wish to concurrently proceed with the optional Task 5, Raftelis proposes a schedule of 60 days from receipt of the executed proposal.

We look forward to the opportunity to serve BACWA. If you have any questions, please don't hesitate to contact me using the contact information below.

John Mastracchio
40 British American Blvd, 2nd Floor, Latham, NY 12110
O: 518.310.6330 / M: 518.391.8944 / E: jmastracchio@raftelis.com

Sincerely,



John Mastracchio, PE
Executive Vice President

The Client accepts the terms of this engagement letter and proposal:

Approved: _____	Date: _____
Name of Signatory: _____	Title: _____