

DATE: February 1, 2023

TO: Board of Directors

FROM: James D. Herberg, General Manager

SUBJECT: Cost Savings Measures

As the Board of Directors prepares to consider a new rate program in 2023, I want to share with you some of the many cost savings and efficiency measures implemented during the past five years. Our ratepayers want to know that we are sound and that we are spending their fees responsibly to produce substantial benefits. In an effort to reduce costs, our employees are always looking for innovative ways to be more resourceful and efficient while ensuring we maintain our high standard of customer service.

The following list is a sample of some cost savings and efficiency measures that support our overarching goal to contain costs and limit long-term liabilities to the Orange County Sanitation District (OC San).

FINANCIAL MANAGEMENT

- Beginning in 2018, OC San issued three debt financing refunding obligations that generated a total of \$28.8 million in net present value savings due to the lower interest rate environment.
- Orange County Employee Retirement System (OCERS) pension prepayment over the last 5 years resulted in average savings of \$189,000/year.
- We continue to participate in local, state, and national cooperative purchasing programs such as OMNIA Partners Public Sector (formerly U.S. Communities), NASPO ValuePoint, and U.S. General Services Administration GSA Schedule 70/ GSA Multiple Award Schedule (MAS).
- We continue to maintain a AAA bond rating.

ENVIRONMENTAL SERVICES

- OC San holds a portfolio of air quality Emission Reduction Credits (ERCs). OC San will secure a brokerage firm to sell the surplus credits at fair market value which may range from \$1.2 to \$1.7 million of additional revenue which will offset other OC San expenditures.

- Despite adding almost 2,000 dental offices to the Pretreatment Program to comply with the new dental office regulation, OC San has not added new staff to the Pretreatment Program for this mandated program. OC San managed the workload internally. If outsourced, this extraordinary three-year effort to initiate and implement the program would have cost OC San at least \$3,000,000. Going forward, this is anticipated to result in an ongoing annual savings of \$300,000 by avoiding outsourcing.
- By developing internal capability and obtaining state and national accreditation for new analytical methods for constituents such as PFAS, Nitrate/Nitrite, and Microplastics, OC San has yielded up to \$175,000 in annual cost savings (when indexed against cost of contracting out these services).
- OC San's Ocean Monitoring Program Marine Vessel (M/V) *Nerissa* has been in service since 2004. Frequent maintenance, including in-house servicing by staff when possible, has kept *Nerissa* in excellent working condition despite its age, thus extending its lifespan and maximizing cost savings. Along with the modernization of instruments, this has yielded up to \$233,000 in annual cost savings by reducing/eliminating the need to outsource costly and inefficient monitoring services.

WORKFORCE OPTIMIZATION AND RISK MANAGEMENT

- OC San moved its employees' Life and Disability plans to a new carrier and bundled coverages for a 23.8% decrease in premiums and continued to participate in an insurance risk pool with Public Risk Innovation, Solutions, and Management (PRISM), resulting in cost savings on medical and dental insurance compared to the open market.
- By negotiating three-year labor contracts, we are providing long-term labor stability. In those negotiations, we reached agreement on items that support OC San's efficient operations.
- OC San has continued to conduct annual succession planning analyses to identify and address vulnerable areas within the organization. Based on this analysis, we are providing targeted development opportunities to support future staffing needs.
- We successfully implemented a virtual interview recruitment process to comply with COVID-19 restrictions, which has resulted in paperwork reduction, time savings, and greater accessibility for participants.
- We also expanded our virtual training process which has resulted in time savings, can be extended to larger audiences, and is recorded for greater accessibility.

- We revamped the internal leadership development program (BLAST) and rebranded it as OC San "U" to include virtual learning and mentoring, in-house presenters, and new topics resulting in increased employee participation and cost savings. Some courses have also been extended to OC San member agencies for networking and cost sharing.
- OC San restructured its contractor safety prequalification process for small contractors who were at a disadvantage and who may not otherwise have been able to bid on OC San's projects based on a relatively small number of injuries. The revisions to the prequalification process maintained the standard of safety, all while increasing our contractor pool, allowing for more competitive bidding.
- OC San moved reporting of construction safety from Construction Management to Risk Management. This has allowed for a consistent approach to safety, where both operational and construction safety are managed out of one office.
- The quarterly safety & health scorecard was revamped to include injury rates, work hours, classifications of injuries, trainings completed, permits, and inspections. The modifications allow the management team to make changes based on real data to prevent future injuries and illnesses from occurring.
- OC San developed a physical security plan, setting the design standards for security for all projects. The security plan helps ensure OC San facilities will be protected from threats and helps save money from over designed or under designed facilities.

OPERATIONS AND MAINTENANCE

- OC San completed the ferric chloride optimization study with an estimated cost savings of \$320,000 per year starting in FY 2021-2022. Due to volatile market conditions in FY 2022-2023 for chemicals, ferric chloride optimization is being reassessed at both plants.
- The anionic polymer optimization study at Plant No. 2 currently has a projected cost savings of \$75,000 per year. Estimated savings at Plant No. 1 will be evaluated after testing has concluded at Plant No. 2.
- The cationic polymer optimization study at Plant No. 1 thickening centrifuges currently has a projected cost savings of \$120,000 per year.
- Plant No. 1 switched from using City water to plant water for polymer blending at thickening and dewatering, resulting in \$150,000 City water cost savings.

- OC San is utilizing a variable speed drive for Plant No. 1 thickening centrifuges resulting in a \$76,000 SCE rebate.
- Through the use of new technology, OC San saved approximately \$2.5 million last year by optimizing odor control chemical dosing rates in the collection system.

ENGINEERING

- OC San received a United States Bureau of Reclamation Grant for the Ground Water Replenishment System Final Expansion in the amount of \$1,125,000.
- OC San completed the annexation of over 1,300 parcels in Anaheim, Villa Park, and Yorba Linda into OC San's service area that will generate approximately \$420,000 more in sewer service fees each fiscal year.
- The location of the new 110,000 square foot administrative Headquarters Building is across the street from Plant No. 1. With the close proximity, newly constructed utilities from the plant site to the new building will allow the bio-gas driven generators and chilled water produced by the treatment plant processes to supply 100% of the Headquarters' heating and cooling, resulting in long-term utility savings.
- OC San transferred over 7 miles of local sewer systems to local agencies to focus resources on the regional system.
- We have reduced the amount of printed project documents, utilizing electronic records and digital copies. This reduces the amount of file storage space needed at the new Headquarters Building and saves approximately \$3,000 per construction project, reducing associated print job costs by approximately 70%.
- We operate a 4.9-megawatt, 32-megawatt-hour Tesla lithium-ion energy storage system, saving a minimum of \$300,000 annually and reducing our overall electrical needs during peak use periods so that other customers have greater access to the supply.
- The completion of the sludge dewatering projects have resulted in an average of 10 less truckloads of biosolids per day yielding a savings of \$5.97 million per year over the last five years.