WATER AGENCY
Delivering Quality, Reliability and Safety

100 North Canyons Parkway
Livermore, CA 94551
(925) 454-5000

NOTICE OF SPECIAL MEETING OF BOARD OF DIRECTORS

BOARD WORKSHOP

DATE:	Wednesday, August 12, 2026
TIME:	6:00 p.m.
LOCATION:	Zone 7 Administration Building 100 North Canyons Parkway, Livermore
VIDEO/TELECONFERENCE:	https://us02web.zoom.us/j/83420802944 (669) 444-9171, Meeting ID: 834 2080 2944
LIVE STREAMING:	Comcast Channel 29 AT&T U-Verse Channel 99 (Livermore) Streaming Live at tv29live.org

Any member of the public wishing to address the Board on an item under discussion may do so upon receiving recognition from the President. If a member of the public wishes to provide comment before the meeting, please email publiccomment@zone7water.com by 5:00 p.m. on the day before the Board meeting.

In compliance with the Americans with Disabilities Act, the meeting room is wheelchair accessible and disabled parking is available at the Zone 7 Administrative Building lot. If you are a person with a disability and you need disability-related modifications or accommodations to participate in this meeting, please contact the Executive Assistant, Donna Fabian, at (925) 454-5000. Notification 48 hours prior to the meeting will enable Zone 7 to make reasonable arrangements to ensure accessibility to this meeting. {28 CFR 35.102-35, 104 ADA Title II}.

AGENDA

1. Call Zone 7 Water Agency Meeting to Order

2. Pledge of Allegiance

3. Roll Call of Directors

4. Public Comment on Non-Agenda Items
   The Public Comment section provides an opportunity to address the Board of Directors on items that are not listed on the agenda, or informational items pertinent to the Agency's business. The Board welcomes your comments and requests that speakers present their remarks in a respectful manner, within established time limits, and focus on issues which directly affect the agency or are within the jurisdiction of the Agency. The Board will not be able to act on matters brought to its attention under this item until a future Board meeting.

5. Board Workshop on Wholesale Treated Water Rates for Calendar Years 2027-2030

   <u>Recommended Action: Discuss and provide direction</u>

6. Adjournment

7. Upcoming Board Schedule: (All meeting locations are in the Boardroom at 100 N. Canyons Pkwy., Livermore, unless otherwise noted.)
   a. Legislative Committee Meeting: August 13, 2026, 4:00 p.m.
   b. Regular Board Meeting: August 19, 2026, 7:00 p.m.

ZONE 7 WATER AGENCY
Delivering Quality, Reliability and Safety

100 North Canyons Parkway
Livermore, CA 94551
(925) 454-5000

ORIGINATING SECTION: Administrative Services
CONTACT: Osborn Solitei

AGENDA DATE: August 12, 2026

SUBJECT: Board Workshop on Wholesale Treated Water Rates for Calendar Years 2027-2030

SUMMARY:

- The proposed action is aligned with Strategic Plan Goal H - Fiscal Responsibility: Operate the Agency in a fiscally responsible manner and Strategic Plan Initiative No. 21 – Continue to effectively manage financial resources for the Agency. In carrying out these fiscal responsibilities, Staff conducts a wholesale treated water rate study that involves analyzing various financial plan scenarios to develop wholesale treated water rates.

- In March 2026, the Agency and the rate consultant, Water Resources Economics, LLC, began the Wholesale Treated Water Rate Study (Rate Study) to set rates for calendar years (CYs) 2027, 2028, 2029, and 2030. The scope of work included two phases.

  - Phase I – staff developed a preliminary 10-year financial plan to determine the treated water rates needed to fund the Agency's proposed Two-Year Operating Budget for Fiscal Years 2026-27 and 2027-28. The Phase I analysis resulted in projected rate adjustments of 4.5% annually and was incorporated into the Adopted FY 2026-28 Two-Year Budget (FY 2026-28 Budget).

  - Phase II – staff developed various 10-year financial plan scenarios analyzing the required treated water rate revenue needed to fund the Agency's water enterprise operational and capital costs under different Sites Reservoir storage participation and cost allocation scenarios. Each scenario is structured to promote long-term financial stability, ensuring the enterprise remains fiscally sound with sufficient reserves to address future challenges. The scenarios aim to minimize rate impacts by strategic use of the Water Reliability Reserve over the 10-year period.

- Based on the Phase II findings of the Rate Study, staff recommend implementing a 4.5% annual water rate adjustment for each of the next four years.

- The following table summarizes the Agency's Sites Reservoir participation and funding allocation scenarios. Based on the current funding approach, 34% of the project costs are allocated to water rates (existing customers) and 66% are allocated to connection fees (future growth). If future connection fee revenues are insufficient to fund the growth-related share of the project, a larger portion of the costs may need to be funded through water rates (Attachment B):

Phase II Results			
Sites Project Financial Plan Scenarios	10-Year Annual Rate Adjustment	Estimated Annual Sites Payment from Water Rates	Total Estimated Sites Payments from Water Rates through FY 2036
Storage Participation			
Baseline = FY 2026-28 Budget + Adopted CIP (30K Acre Feet (AF) Sites, 34% to Water Rates)	4.5%	~$4.5M	~$24.7M
With 62K AF Sites, 34% to Water Rates	5.1%	~$9.1M	~$49.4M
Cost Allocation			
With 30K AF Sites, 100% to Water Rates	5.6%	~$13.7M	~$72.6M
With 62K AF Sites, 100% to Water Rates	7.1%	~$27M	~$145.2M

- The recommended annual rate adjustment of 4.5% for the four-year period is consistent with the Agency's FY 2026-28 Budget and is designed to maintain long-term financial stability while funding ongoing operations, capital improvements, and water supply reliability initiatives. Staff also recommend the planned use of the Water Reliability Reserve over a ten-year period to fund the Agency's Sites Reservoir commitments and other strategic water supply reliability projects. The four-year pro forma, reserves breakdown, and accompanying 10-year projected fund balances for the baseline scenario are shown in Attachment A.

- Phase II also evaluated the financial impacts of water conservation. Staff analyzed the impact of a 10% reduction in demand for three years (FY 2028 through FY 2030) under the baseline scenario. The result showed that if rates are maintained at 4.5% annually over the 10-year planning period, the Water Reliability Reserve is depleted two years earlier than planned, requiring higher rate increases in the future.

DISCUSSION

- The Agency developed a 10-year financial plan to evaluate the long-term impacts of the recommended four-year water rate adjustments and to help ensure long-term financial sustainability. While the financial plan provides a long-term outlook, staff does not recommend establishing water rates beyond the four-year period due to uncertainties that may significantly affect future costs and revenues.

- These uncertainties include evolving environmental and regulatory requirements, new drinking water quality standards, the increasing impacts of climate change, changes in land use and customer demand, and the continued development of major water supply reliability projects, including the Delta Conveyance Project. The following assumptions have been incorporated into the financial plan scenarios:

  - **Future Sites Reservoir payments:** The Agency expects Sites Reservoir project payments beginning in FY 2028-29 with annual payments increasing from approximately $1M to $4.5M over the 10-year planning period. The current adopted budget assumes 50% of the current storage participation level (30,000 AF), with 34% funded by water rates and 66% of the costs funded by water connection fees. As part of Phase II, staff evaluated different storage participation and funding allocation scenarios (as shown on Attachment B). The Agency is currently developing a Water Connection Fee Study which will incorporate the Sites allocation of 66% to water connection fees.

  - **Mocho PFAS debt financing:** The FY 2026-28 Budget and the 2026 Ten-Year Water System Capital Improvement Plan (CIP) assumes that $25 million of Mocho PFAS Treatment Plant project costs will be funded through forgivable loan proceeds. If the forgivable loan is not received, staff will return to the Board with funding options, which may include issuing bonds.

  - **Delta Conveyance Project:** Board approved payments for CYs 2026 and 2027 (Resolution No. 24-86). It is anticipated that additional funding will be required in 2028 but has not yet been determined.

  - **Chain of Lakes Conveyance System:** Debt financing beginning in FY 2033-34 based on the cost allocations set forth in the CIP.

  - **Treated Water Usage:** Total annual treated water demand is assumed to remain constant at 35,000 acre-feet (AF). This assumption is consistent with the FY 2026–28 Budget and the 2025 Urban Water Management Plan (UWMP). While treated water deliveries to the City of Pleasanton are expected to decline as its groundwater pumping is restored, those reductions are projected to be offset by future growth in water demand projected by the UWMP.

  - **Rate Structure:** Current rate structure maintained at 55% volume-based and 45% fixed charges.

- **Inflationary Adjustments:** The first two years of the financial plan reflect assumptions made in the FY 2026-28 Budget. Various inflationary factors were then used to project years three through ten of the financial plan. These inflationary factors are shown in the table below:

Expense Category	Inflation Factor (FY 2029 - FY 2036)
General Services and Supplies	3%
Personnel	4%
Chemicals	4%
Water and Utilities	5%
Capital Funding	3%

- **Reserves:** All water enterprise reserves are funded at Target levels and in compliance with the Reserve Policy.

  - **Water Reliability Reserve:** The Water Reliability Reserve Fund was established by the Board through Resolution No. 25-47 on June 18, 2025, using savings realized from several favorable water supply years that reduced operating expenditures. The Board designated these funds to support future water supply reliability investments, including potential Sites Reservoir payments and other strategic water supply projects, with the goal of moderating future water rate increases. The Board also recognized that the reserve is intended to be used over time and is not intended to be a permanent fund. Therefore, in all scenarios, the Water Reliability Reserve is drawn down by FY 2035-36 to offset the increasing Sites Project payments.

- The following table summarizes the Rate Study schedule and key milestones.

	Key Milestones	Date
✓	Phase I Completed / FY 2026-28 Two-Year Budget Adopted	June 17, 2026
✓	Postcard mailed to 101,000 residents and businesses	July 9, 2026
✓	Meeting with Retailers on Rate Study findings	July 30, 2026
	Board Workshop on Wholesale Treated Water Rates	August 12, 2026
	Sites Reservoir Workshop	August 19, 2026
	Second Wholesale Treated Water Rates Discussion	September 16, 2026
	Adoption of Proposed Treated Water Rates	October 21, 2026
	Treated Water Rates Effective Date	January 1, 2027

- Staff met with the Retailers on July 30, 2026, to review the Rate Study findings. At least one representative from each Retailer was present at the meeting. The Retailers appreciated and were satisfied with the information provided by staff.

- Staff will present the Phase II findings at the Special Board Meeting and seek direction from the Board on the financial plan scenarios. Based on the Board's feedback, staff will bring forth the rates for additional discussion at the September 16, 2026, Board meeting. The final rates are proposed for adoption at the October 21, 2026, regular Board meeting. The new rates would take effect January 1, 2027.

FUNDING:

Not applicable.

RECOMMENDED ACTION:

Discuss and provide direction.

ATTACHMENTS:

- Attachment A: Four-Year Pro Forma – Preliminary Wholesale Treated Water Rates (FYs 2027-2030) and 10-Year Projected Ending Fund Balances for Fund 100
- Attachment B: Estimated Annual Sites Reservoir Project Payments (Storage Participation and Cost Allocation Scenarios)

Attachment A

Four-Year Pro Forma – Preliminary Wholesale Treated Water Rates (FYs 2027-2030)

The table below shows the projected financial plan for the rate setting period of four years.

ProForma ($millions)	FY 2027	FY 2028	FY 2029	FY 2030
Fund 100 Beginning Fund Balance[1]	**$44.0**	**$46.2**	**$46.4**	**$50.5**
Rate Revenue Adjustment	**4.50%**	**4.50%**	**4.50%**	**4.50%**
Revenues[2]	**$75.5**	**$78.8**	**$82.3**	**$85.9**
Expenses				
Operating Expenses[3]	$52.0	$56.9	$54.3	$57.4
Sites Payments[4]	$0.0	$0.0	$1.1	$1.6
Debt Service[5]	$5.0	$5.0	$5.0	$5.0
Capital Funding[6]	$16.3	$16.8	$17.8	$18.8
Total	**$73.3**	**$78.7**	**$78.1**	**$82.8**
Net Cash Flow[7]	**$2.2**	**$0.2**	**$4.2**	**$3.1**
Fund 100 Ending Fund Balance	**$46.2**	**$46.4**	**$50.5**	**$53.6**
Reserve Targets & Balances				
Operating				
90 days of budgeted operating expenses	$14.0	$15.2	$14.8	$15.7
Emergency				
2.5% of the Agency's water system capital assets	$8.9	$9.0	$9.1	$9.2
Reserve for Economic Uncertainties				
15% of budgeted volume-based water sales	$6.0	$6.3	$6.5	$6.8
Section 115 Pension Trust Fund				
No minimum, target, or maximum	$2.4	$2.5	$2.6	$2.8
Total Target Reserves[8]	**$31.3**	**$33.0**	**$33.1**	**$34.5**
Water Reliability Reserve				
No minimum, target, or maximum	$14.9	$13.4	$17.4	$19.1
Total Reserves	**$46.2**	**$46.4**	**$50.5**	**$53.6**

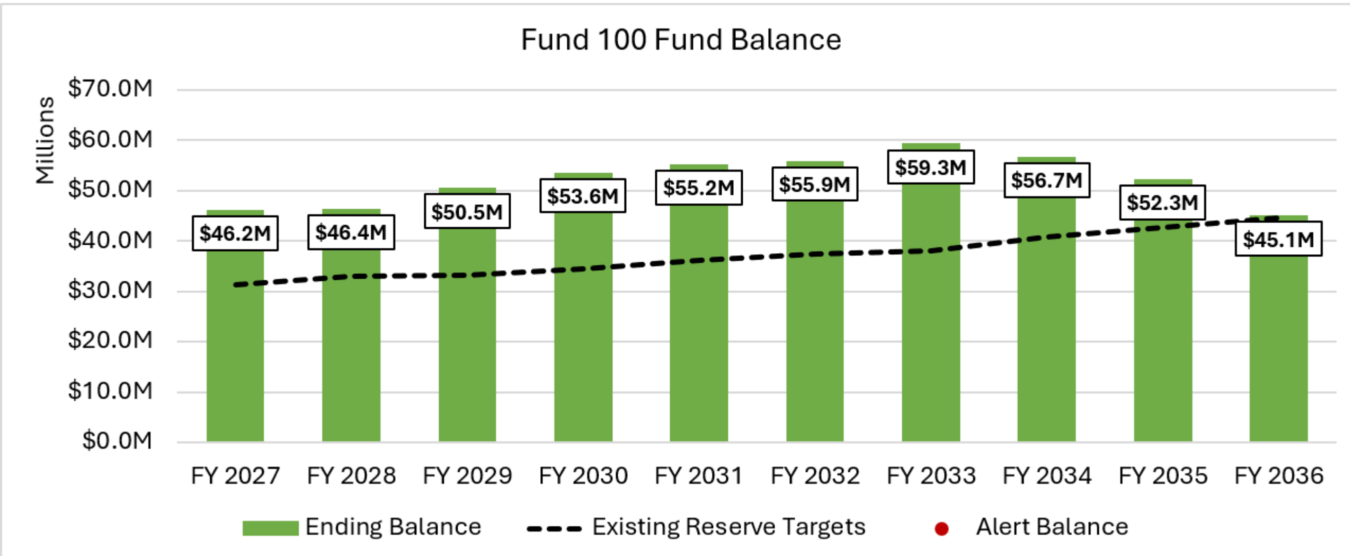
Values may not add due to rounding.

Notes:

1. The FY 2027 beginning fund balance is based on unaudited actuals for FY 2025-26.
2. Revenues include treated and untreated water sales revenue, interest income and other misc. revenue.
3. FY 2027 and FY 2028 Operating Expenses are based on the FY 2026-28 Budget; subsequent years are adjusted by inflation ranging from 3-5%.
4. Sites payments are based on a storage participation level of 30,000 AF and ramp up through FY 2036.
5. Debt Service includes the Agency's 2018 and 2023 bond payments.
6. FY 2027 Capital Funding is based on the CIP, subsequent years are adjusted by 3% annual inflation.
7. Net Cash flow = Revenues less Expenses.
8. Total Target Reserves include the following reserves: Operating, Emergency, Reserve for Economic Uncertainties, and the Pension Trust Fund. While the Pension Trust fund has no minimum, target or maximum defined levels, it is included in the Target reserves as the balance is restricted and excluded from the Water Reliability Reserve balance. The Water Reliability Reserve receives the balance of reserves after all other reserves are funded.

Ten-Year Projected Ending Fund Balances for Fund 100 - Water Enterprise Operations

The following chart shows the projected ending fund balance for Fund 100 (shown in the green bars), and the reserve policy targets (shown as the dashed line) over the 10-year period. The area above the dotted line represents the Water Reliability Reserve balance. As indicated in the chart, the Water Reliability Reserve is drawn down through FY 2035-36 to fund the increasing Sites Project payments. The establishment and use of the Water Reliability Reserve offset the need for higher water rate adjustments by 0.4% annually (4.5% vs 4.9%).



Attachment B
Estimated Annual Sites Reservoir Project Payments
(Storage Participation and Cost Allocation Scenarios)

The tables below summarize the Sites payments for the 10-year period under different storage participation and funding allocation scenarios.

Storage Participation Scenarios

Baseline Scenario 30,000 AF Sites Storage w/ 34% to Water Rates			
	Fund 100 (Water Rates)	Fund 130 (Connection Fees)	Total Payment
FY 2026-27	$0	$0	$0
FY 2027-28	$0	$0	$0
FY 2028-29	$1,070,000	$2,076,000	$3,146,000
FY 2029-30	$1,629,000	$3,163,000	$4,792,000
FY 2030-31	$2,230,000	$4,329,000	$6,559,000
FY 2031-32	$2,704,000	$5,250,000	$7,954,000
FY 2032-33	$3,301,000	$6,407,000	$9,708,000
FY 2033-34	$4,672,000	$9,069,000	$13,741,000
FY 2034-35	$4,533,000	$8,800,000	$13,333,000
FY 2035-36	$4,538,000	$8,808,000	$13,346,000
10-Year Total	**$24,677,000**	**$47,902,000**	**$72,579,000**

Sites Project Participation - Current Subscribed 62,000 AF Sites Storage w/ 34% to Water Rates			
	Fund 100 (Water Rates)	Fund 130 (Connection Fees)	Total Payment
FY 2026-27	$0	$0	$0
FY 2027-28	$0	$0	$0
FY 2028-29	$2,140,000	$4,152,000	$6,292,000
FY 2029-30	$3,258,000	$6,326,000	$9,584,000
FY 2030-31	$4,460,000	$8,658,000	$13,118,000
FY 2031-32	$5,408,000	$10,500,000	$15,908,000
FY 2032-33	$6,602,000	$12,814,000	$19,416,000
FY 2033-34	$9,344,000	$18,138,000	$27,482,000
FY 2034-35	$9,066,000	$17,600,000	$26,666,000
FY 2035-36	$9,076,000	$17,616,000	$26,692,000
10-Year Total	**$49,354,000**	**$95,804,000**	**$145,158,000**

Cost Allocation Scenarios

Baseline Scenario 30,000 AF Sites Storage w/ 100% to Water Rates			
	Fund 100 (Water Rates)	Fund 130 (Connection Fees)	Total Payment
FY 2026-27	$0	$0	$0
FY 2027-28	$0	$0	$0
FY 2028-29	$3,146,000	$0	$3,146,000
FY 2029-30	$4,792,000	$0	$4,792,000
FY 2030-31	$6,559,000	$0	$6,559,000
FY 2031-32	$7,954,000	$0	$7,954,000
FY 2032-33	$9,708,000	$0	$9,708,000
FY 2033-34	$13,741,000	$0	$13,741,000
FY 2034-35	$13,333,000	$0	$13,333,000
FY 2035-36	$13,346,000	$0	$13,346,000
10-Year Total	**$72,579,000**	**$0**	**$72,579,000**

Sites Project Participation - Current Subscribed 62,000 AF Sites Storage w/ 100% to Water Rates			
	Fund 100 (Water Rates)	Fund 130 (Connection Fees)	Total Payment
FY 2026-27	$0	$0	$0
FY 2027-28	$0	$0	$0
FY 2028-29	$6,292,000	$0	$6,292,000
FY 2029-30	$9,584,000	$0	$9,584,000
FY 2030-31	$13,118,000	$0	$13,118,000
FY 2031-32	$15,908,000	$0	$15,908,000
FY 2032-33	$19,416,000	$0	$19,416,000
FY 2033-34	$27,482,000	$0	$27,482,000
FY 2034-35	$26,666,000	$0	$26,666,000
FY 2035-36	$26,692,000	$0	$26,692,000
10-Year Total	**$145,158,000**	**$0**	**$145,158,000**