WATER AGENCY
Delivering Quality, Reliability and Safety

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

ZONE 7 BOARD OF DIRECTORS
FINANCE COMMITTEE

DATE:	Thursday, September 24, 2026
TIME:	3:00 p.m.
LOCATION:	Boardroom Zone 7 Administration Building 100 North Canyons Parkway, Livermore

Director Burnham
Director Narum
Director Roberts

A G E N D A

1. Call Meeting to Order
2. Public Comment on Items Not on the Agenda
3. FY 2025-26 Unaudited Fourth Quarter Revenue and Expenditure Report
4. Untreated Water Rate Study and Preliminary Untreated Water Rates for Calendar Years 2027-2030
5. Adjournment

ZONE 7 WATER AGENCY
Delivering Quality, Reliability and Safety

ITEM NO. 3

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

DATE: September 24, 2026

TO: Finance Committee

FROM: Osborn Solitei, Treasurer/Assistant General Manager – Finance

SUBJECT: FY 2025-26 Unaudited Fourth Quarter Revenue and Expenditure Report

SUMMARY:

The proposed action is in support of 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 provides quarterly financial reports to the Finance Committee and the Board. This quarterly report provides a summary of unaudited revenue and expenditures, fiscal year-end projections, and explanations of any major variances through the fourth quarter of fiscal year (FY) 2025-26 (July 1, 2025 – June 30, 2026) for the following funds:

- Fund 100 – Water Enterprise Operations
- Fund 110 – State Water Facilities
- Fund 120 – Water Enterprise Renewal/Replacement and System-Wide Improvements
- Fund 130 – Water Enterprise Capital Expansion
- Fund 200 – Flood Protection Operations
- Fund 210 – Flood Protection Development Impact Fee Fund

Highlights of this report include:

- **Renewal of 30-year Retailer Contracts** - In the fourth quarter of FY 2025-26 and the first quarter of FY 2026-27, the Agency executed agreements with all four retailers for their 30-year treated water supply contracts. These new contracts extend Zone 7's role as the exclusive water supply provider for the City of Livermore, Cal Water, Dublin-San Ramon Services District, and the City of Pleasanton through 2055.

- **FY 2026-28 Two-Year Operating and Capital Budget** – On June 17, 2026, the Board adopted the Two-Year Operating and Capital Budget for FYs 2026-27 and 2027-28.

- **State Water Project Allocation** – In May 2026, the Department of Water Resources announced an increase to the calendar year 2026 State Water Project allocation from 30% to 45% due to consistent rainstorms in April.

- **Storm Damage Repair Projects** – Delays in environmental permitting for the high-priority storm damage sites, the Alamo Creek Project, and Phase 1 Group A Storm Repairs, pushed repair work to summer 2026 and summer 2027. The US Army Corps of Engineers (USACE) successfully completed Phase 1 repairs on four high-priority bank stabilization sites along Arroyo Mocho in November 2025. USACE awarded the construction contract for Phases 2 and 3 and issued the notice to proceed and construction at the City of Pleasanton sites has begun.

FUNDING:

N/A

RECOMMENDED ACTION:

Information only.

ATTACHMENT:

- FY 2025-26 Unaudited Quarterly Revenue and Expenditure Report | Fourth Quarter

Zone 7 Water Agency
Unaudited Quarterly Revenue and Expenditure Report
FY 2025-26 | Fourth Quarter

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Report Overview

The following financial report is produced on a quarterly basis and provides a summary of unaudited revenue and expenditures, fiscal year-end projections, and explanations of any major variances through the fourth quarter of fiscal year (FY) 2025-26 (July 1, 2025 – June 30, 2026) for the following funds:

- Fund 100 – Water Enterprise Operations
- Fund 110 – State Water Facilities
- Fund 120 – Water Enterprise Renewal/Replacement & System-Wide Improvements
- Fund 130 – Water Enterprise Capital Expansion
- Fund 200 – Flood Protection Operations
- Fund 210 – Flood Protection Development Impact Fee Fund

Fund 100 - Water Enterprise Operations

Primary Funding Source: Water Rates

The purpose of the Water Enterprise Operations Fund is to ensure the delivery of high-quality drinking and irrigation water to the Livermore-Amador Valley. This operations and maintenance fund includes water treatment and distribution of potable water, distribution of untreated/agricultural water, and groundwater management. Activities include water treatment, water quality analysis, water resource management, groundwater recharge and protection, maintenance, and water supply engineering.

Comprehensive Fund Summary

Details of Revenue and Expenses for Fund 100

Category	FY 2026 Amended	FY 2026 YTD Actuals	Year-End Over/ (Under) Budget
Beginning Fund Balance	**$38,704,352**	**$38,704,352**	**-**
Revenues			
Water Sales & Service	$71,268,000	$72,156,285	$888,285
Other Revenue	$313,000	$644,406	$331,406
Grants	$130,000	$14,335	-$115,665
Investment Earnings	$454,000	$1,196,719	$742,719
Total Revenues	**$72,165,000**	**$74,011,745**	**$1,846,745**
Expenditures			
Personnel	$21,851,000	$22,271,641	$420,641
Professional Services	$4,265,656	$2,979,015	-$1,286,641
County Services	$1,936,000	$1,360,099	-$575,901
Insurance Services	$900,000	$894,344	-$5,656
Legal Services	$455,000	$365,705	-$89,295
Water	$6,374,148	$2,969,982	-$3,404,166
Delta Conveyance Project	$1,650,000	$1,320,000	-$330,000
Chemicals	$4,350,000	$3,678,125	-$671,875
Utilities	$3,220,000	$4,108,624	$888,624
Telecommunications	$157,000	$187,263	$30,263
Maintenance Services	$2,412,000	$2,421,133	$9,133
Rental Services	$116,650	$132,203	$15,553
Office Supplies and Other Services	$1,056,774	$720,732	-$336,042
Organizational Memberships and Support	$437,752	$402,302	-$35,450
Training and Travel	$199,350	$82,287	-$117,063
Water Conservation Program	$158,000	$32,208	-$125,792
Equipment	$31,000	$43,001	$12,001
Debt Service	$4,976,000	$4,975,713	-$287
Capital Funding	$17,618,000	$16,546,552	-$1,071,448
Total Expenditures	**$72,164,330**	**$65,490,926**	**-$6,673,404**
Total Revenues Less Expenditures	**$670**	**$8,520,819**	**$8,520,149**
Ending Fund Balance	**$38,705,022**	**$47,225,171**	**$8,520,149**

*Beginning fund balance reflects audited actual.

Explanation of Major Variances

Revenue

1. **Water Sales and Service:** FY 2025-26 unaudited water sales revenue reflects treated water sales of approximately 35,029 acre-feet through June 30, 2026, which is in line with the budgeted 35,000 acre-feet of sales. FY 2025-26 unaudited water sales and service revenue also includes unplanned revenue of $1.5M for the sale of 4,000 acre-feet of water to Westside Water Districts.
2. **Other Revenue:** FY 2025-26 unaudited revenue is primarily made up of Department of Water Resources refunds.
3. **Grants:** The FY 2025-26 Budget includes planned receipt of Prop 1 Integrated Regional Water Management Program Round 2 grant proceeds for the water supply risk model enhancements and optimization project. The year-end projection is less than the budget due to the long reimbursement process. Approximately $50,000 was received in FY 2024-25 and the majority of the remaining reimbursement is expected in fiscal year 2026-27.
4. **Investment Earnings:** The FY 2025-26 unaudited investment revenue exceeds budget due to the Agency's rate of return exceeding 1.5% as planned in the budget.

Expenses

1. **Personnel:** FY 2025-26 unaudited personnel costs include salaries and benefits through June 30, 2026. The unaudited actual is over budget due to newly approved longevity pay for employees reaching five and 10-year milestones with the Agency, a higher than planned cost of living adjustment (6% vs. planned 4%), and differences between the projected and actual allocation of staff time between the operating and capital funds.
2. **Professional Services:** Includes professional services related to water enterprise operations. The year-end projection is less than the budget primarily due to unused contingencies ($250K), a variety of as-needed services (~$400K), and ongoing efforts that will continue into fiscal year 2026-27 (~$400K).
3. **County Services:** FY 2025-26 unaudited actuals are under budget because Zone 7 has not received the charges for the 2026 Board election. Per the County, approximately $900K will be invoiced in September 2026.
4. **Water production costs:** Includes Water, Chemicals, and Utilities. FY 2025-26 unaudited water production costs are under budget. The primary drivers of the under-budget outcome are described below.

   a. ***Water:*** The Agency receives approximately 90% of its annual water supply on average from imported State Water Project water. The past three years of State Water Project allocations have been favorable — 100% in 2023, 40% in 2024, and 50% in 2025. Calendar year 2026 followed this trend, with a final State Water Project allocation of 45%. These favorable hydrologic and storage conditions have significantly reduced water costs, causing the FY 2025-26 unaudited actuals to be under budget. The following table summarizes the major variances for year-end unaudited water costs.

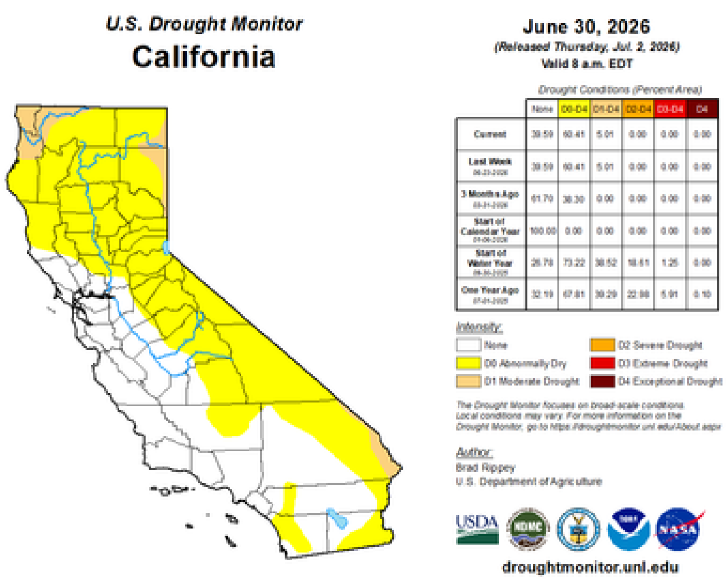
	FY 2025-26 Amended Budget	FY 2025-26 Unaudited Actual	Difference	Reason for Variance
State Water Project Conveyance	$3,000,000	$2,192,000	($808,000)	Surface water supply was lower than usual due to increased groundwater production in fall 2025 and early 2026. Reasons for increased groundwater production include: • Reducing groundwater levels to create room for the upcoming wet season • Del Valle Water Treatment Plant offline due to routine plant shutdown and extended for progress on capital projects at the plant
Water Purchase / Transfers	$1,000,000	$44,000	($956,000)	Unaudited actual cost reflects Zone 7's option payment to reserve the right to purchase water from Sutter Extension Water District in 2026 ($39K) and the purchase of 41 acre feet of water under the Lower Yuba River Accord Water Purchase Agreement (~$5K).
Water Banking Program (Cawelo & Semitropic)	$2,178,000	$576,000	($1,602,000)	Unaudited actuals reflect an annual fixed charge to Semitropic. No water was recovered or banked during the fiscal year.
Other Water Costs	$196,000	$158,000	($38,000)	Charges for programs such as mussel inspection at Lake Del Valle and Municipal Water Quality Investigations (MWQI)
Total	**$6,374,000**	**$2,970,000**	**($3,404,000)**	

Note: Values are rounded to the nearest thousand.

b. ***Chemicals and Utilities:*** FY 2025-26 unaudited chemical expenditures are under budget while unaudited utility costs are over budget. This outcome is in line with the FY 2025-26 water operations plan that put a larger emphasis on groundwater production which reduced chemical treatment needed for surface water and increased utility costs from more frequent pumping at the wells. As stated in the water cost table above, the Agency realized an operational shift from surface water to groundwater production in Summer 2025 to create capacity in the groundwater basin in preparation for the upcoming wet season. Additionally, Del Valle Water Treatment Plan was offline in January and February 2026, for annual routine maintenance and was extended to allow progress on the Underdrain Pump Station Upgrade Project as well as the Booster Pump Station Variable Frequency Drive Replacement Project.

5. **Delta Conveyance Project:** The Agency approved funding for pre-construction for calendar years 2026 and 2027 via Resolution No. 24-28, dated October 16, 2024. No expenses were incurred in calendar year 2025. The FY 2025-26 unaudited actual reflects six months of Delta Conveyance Payments as stated in the 2026 Statement of Charges.
6. **Water Conservation Program:** The Agency's water conservation program provides rebates for approved water efficiency projects. The FY 2025-26 unaudited conservation program costs are under budget and reflect a slow-down in rebates as interest in this program typically peaks during droughts.
7. **Capital Funding:** The FY 2025-26 unaudited capital funding is less than the budget as the budget assumed a 3% annual adjustment, and the actual Engineering News Record Construction Cost Index (ENRCCI) adjustment from June 2024 to June 2025 was -0.555%.

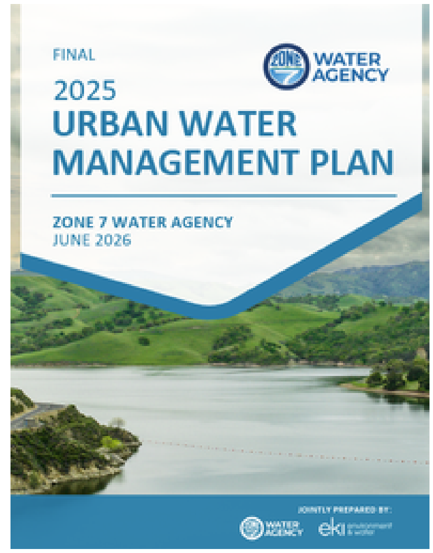
Water Supply Conditions



The State Water Project's final allocation for calendar year 2025 is 50% and 45% for calendar year 2026. As of June 30, 2026, the United States Drought Monitor indicates the northern and eastern regions of California are experiencing abnormally dry conditions while the coast and southern California are experiencing no drought. For more information, please see the Monthly Water Inventory and Water Budget Update in the monthly Board packets.

Source: U.S. Drought Monitor

Water Enterprise Highlights



Water Transfer Sale with Westside Water Districts — The Agency, through a water transfer agreement, sold 4,000 acre feet of water to Westside Water District. This sale generated $1.5M in revenue for the Water Enterprise Operations Fund.

2025 Urban Water Management Plan — Staff completed and submitted the 2025 Urban Water Management Plan in June 2026, meeting the California Department of Water Resources's deadline of July 1, 2026. The Urban Water Management Act requires urban water suppliers to prepare an Urban Water Management Plan every five years and to submit this plan to the Department of Water Resources, the California State Library, and any city or county within which the supplier provides water supplies. The Urban Water Management Plan serves as a planning, water management, and communication tool that assesses the condition and management of water supply and demands for a planning horizon of at least 20 years.

Fund 100 Reserves Breakdown

Per Initiative No. 21 of the Agency's Strategic Plan, the Agency shall maintain target levels of reserves, where applicable. Unaudited Fund 100 reserves are fully funded at the target level as of June 30, 2026. The table below compares minimum, target, and maximum reserves to the projected year-end reserves.

Fund 100 Reserves	Minimum	Target	Maximum	FY 2025-26 Unaudited Actual
Operating Reserves[1]	$9,390,000	$14,086,000	$18,781,000	$14,086,000
Emergency Reserves[2]	7,146,000	8,932,000	10,718,000	8,932,000
Reserve for Economic Uncertainties[3]	3,850,000	5,774,000	7,699,000	5,774,000
Water Reliability Fund[4]	-	-	-	16,034,000
Subtotal	**$20,386,000**	**$28,792,000**	**$37,198,000**	**$44,826,000**
Pension Trust Fund[5]				2,399,000
Ending Fund Balance				**$47,225,000**

Note: Values rounded to the thousands.

[1]The FY 2025-26 unaudited actual Operating Reserve is funded at the target level of 90 days of FY 2026-27 budgeted operating expenses.

[2]The FY 2025-26 unaudited actual Emergency Reserve is funded at the target level of 2.5% of FY 2026-27 budgeted Water Enterprise assets.

[3]The FY 2025-26 unaudited actual Reserve for Economic Uncertainties is funded at 15% of FY 2026-27 budgeted volume-based water sales revenue.

[4]The Board established the Water Reliability Reserve via Resolution No. 25-47, dated June 18, 2025. The Water Reliability Reserve provides flexibility and agility to address water supply challenges and opportunities. The reserve has no assigned minimum, target, or maximum amount. This reserve holds the balance of funds once target levels are achieved.

[5]The FY 2026-27 Budget plans for an annual contribution of $125K into the Pension Trust.

Fund 120 - Water Renewal/Replacement and System-wide Improvements

Primary Funding Source: Water Rates via capital funding from Fund 100

The purpose of this fund is to ensure funding is available for capital renewal, replacement, and system-wide improvement projects needed to keep the current water treatment and delivery systems functioning effectively. Fund 120 pays for capital projects as outlined in the Agency's asset management program and the capital improvement program.

Comprehensive Fund Summary

Details of Revenue and Expenses for Fund 120

Category	FY 2026 Amended	FY 2026 YTD Actuals	Year-End Over/(Under) Budget
Beginning Fund Balance	**$89,592,777**	**$89,592,777**	**-**
Revenues			
Other Revenue	$2,000	$4,153,691	$4,151,691
Grants	-	$1,599,999	$1,599,999
Investment Earnings	$812,000	$2,833,102	$2,021,102
Capital Funding	$17,398,000	$16,353,442	-$1,044,558
Total Revenues	**$18,212,000**	**$24,940,234**	**$6,728,234**
Expenditures			
Personnel	$2,819,013	$2,139,833	-$679,180
Professional Services	$29,000	$28,786	-$214
Capital Projects	$25,454,746	$8,528,799	-$16,925,947
Total Expenditures	**$28,302,759**	**$10,697,418**	**-$17,605,341**
Total Revenues Less Expenditures	**-$10,090,759**	**$14,242,816**	**$24,333,575**
Ending Fund Balance	**$79,502,018**	**$103,835,593**	**$24,333,575**

*Beginning fund balance reflects audited actual.

Explanation of Variances

Revenue

1. **Other Revenue:** The FY 2025-26 unaudited actual is made up of a $250K cash settlement and a $500K land credit from the City of Pleasanton as well as $1.3M DuPont, $1.4M Tyco, and $583K BASF class action settlement payments for per- and polyfluoroalkyl substances (PFAS) contamination.
2. **Grants:** The FY 2025-26 unaudited actual reflects the last invoice (retention) received for the Stoneridge Well PFAS Treatement Plant from the Sustainable Groundwater Management Grant Program.
3. **Investment Earnings:** The FY 2025-26 unaudited investment revenue exceeds budget due to the Agency's rate of return exceeding 1.5% as planned in the budget.
4. **Capital Funding:** The FY 2025-26 unaudited capital funding is less than the budget as the budget assumed a 3% annual adjustment, and the actual Engineering News Record Construction Cost Index (ENRCCI) adjustment from June 2024 to June 2025 was -0.555%.

Expenses

1. **Personnel:** The FY 2025-26 unaudited actual labor includes salaries and benefits for the water system capital project through June 30, 2026. The unaudited actual is under budget due to differences between the projected and actual allocation of staff time between the operating and capital funds.
2. **Capital Projects:** The budget includes approved capital projects for FY 2025-26 and ongoing capital projects for the water system. The FY 2025-26 unaudited actual is less than the budget due to the multi-year nature of capital projects. Approximately $13M will be carried forward and spent in FY 2026-27. The following major capital projects are in process and will continue into next fiscal year:

    a. Del Valle Water Treatment Plant and Patterson Pass Water Treatment Plant HVAC and Improvements Project
    b. Mocho Wells PFAS Treatment Facility
    c. North Canyons EV Chargers
    d. Silver Oaks Pump Station Replacement
    e. Stoneridge PFAS Treatment Facility Power and Resource Pooling Authority (PWRPA) Improvements
    f. Wells & Mocho Groundwater Demineralization Plant Electrical Replacement/Upgrades

Capital Project Highlights

Mocho PFAS Treatment Plant
Conceptual Rendering

Stoneridge Well Emergency Repair
Motor Alignment

The Agency has a variety of water system capital improvement projects in process. A few of these projects are highlighted below:

Chain of Lakes Chromium-6 Removal Study — The purpose of this study is to evaluate strategies to optimize removal of both PFAS and hexavalent chromium (Cr6) in a cost-effective manner. The Board awarded the contract at the June Board meeting, and the contract has been executed. The consultant is preparing a Cr6 Operations Plan for submittal to the State Water Resources Control Board. Pilot-scale testing is scheduled to begin in late 2026 to evaluate treatment media performance and alternative treatment approaches.

Mocho PFAS Treatment Plant — The purpose of this project is to remove PFAS from the Mocho well field to meet drinking water standards, restore production capacity and water supply reliability, restore salt removal at the Mocho Groundwater Demineralization Plant, and replace aging electrical switchgear. The project has continued to make significant progress, including the award of the progressive design-build contract to Garney Pacific and adoption of the CEQA Initial Study Mitigated Negative Declaration. The Basis of Design Report has been completed, establishing the technical foundation for the project's continued development. The Early Works Package to procure long-lead electrical equipment was approved, helping to mitigate potential schedule impacts. In parallel, design submittals continue to advance as the project moves forward toward the next phases of implementation.

Stoneridge Well Emergency Repair — The purpose of this project is to return the Stoneridge Well to reliable service following motor failure. The recent outage resulted from a motor rotor failure, which the on-call consultant traced to a compromised component in the electrical switchgear. To restore service, a replacement motor and associated electrical improvements were installed in late-August.

The permanent electrical upgrades are planned for this winter. The improvements are expected to improve water production reliability and increase operational flexibility.

Fund 120 Capital Projects in Process

The table below summarizes the major water renewal/replacement and system-wide improvement projects in process. For more information on capital projects, please see the Capital Projects Status Report in the August 19, 2026, Board meeting agenda packet.

Project	Total Estimated Cost	Fund 120 Share	Status	Estimated In-Service Date
Chain of Lakes Chromium-6 Removal Study	$350,000	$350,000	In-process	Summer 2027
Del Valle and Patterson Pass Water Treatment Plant HVAC and Improvements	$12,060,000	$12,060,000	Preliminary Design	Summer 2028
Del Valle Water Treatment Plant Master Plan	$690,000	$690,000	In-process	Summer 2027
North Canyons Electric Vehicle Chargers	$850,000	$850,000	Pre-construction	Fall 2026
North Canyons Interior Repair and Update	$905,000	$905,000	Planning/Design	Spring 2027
Mocho PFAS Treatment Plant*	$55,000,000	$55,000,000	Basis of Design Report — Completed	Summer 2028
Silver Oaks Pump Station	$20,500,000	$16,400,000	Planning	Fall 2031
Stoneridge PFAS Treatment Plant	$16,300,000	$16,300,000	Functional Completion	PWRPA Power Switchover Winter 2027
Stoneridge Well Emergency Repair	$560,000	$560,000	In-process	Summer 2026
Transmission System Plan and Hydraulic Model Update	$875,000	$656,250	In-process	Summer 2027
Wells and Mocho Groundwater Demineralization Plant Electrical Upgrades/Replacements	$7,340,000	$7,340,000	In-process	Spring 2027
Total	**$115,430,000**	**$111,111,250**		

*The Mocho PFAS Treatment Plant project is anticipated to be partially funded by external funding sources.

Fund 120 Reserves Breakdown

The table below compares the FY 2025-26 Amended Budget ending reserve balances to the unaudited actual ending reserve balances.

Fund 120 Reserves	FY 25-26 Amended Budget	FY 25-26 Unaudited Actual
Debt Service Rate Stabilization Reserve	$6,300,000	$6,300,000
Pension Trust	64,000	57,000
Designated for Capital Projects Reserve[1]	62,560,000	97,479,000
Total	**$68,924,000**	**$103,836,000**

Note: Values are rounded to the thousands.

[1]Capital Projects Reserve is designated for capital projects to fund water system renewal/replacement and system-wide improvement projects. The reserve's minimum level is equal to 100% of the estimated pay-go capital budget for the fiscal year immediately succeeding the then-current budgeted fiscal year. There is no target or maximum level for this reserve.

Fund 110 - State Water Facilities

Primary Funding Source: Property Taxes. The property tax override is exempt from the ad valorem property tax levy limitations of Article XIIIA of the Constitution of the State of California as the indebtedness was approved prior to July 1, 1978.

The Agency's cost of importing water from the Department of Water Resources is funded through the State Water Facilities Fund. This includes repayment of voter-approved, State-incurred, long-term debt.

Comprehensive Fund Summary

Details of Revenues and Expenses for Fund 110

Category	FY 2026 Amended	FY 2026 YTD Actuals	Year-End Over/(Under) Budget
Beginning Fund Balance	**$57,911,111**	**$57,911,111**	**-**
Revenues			
Water Sales & Service	$2,995,000	$2,695,751	-$299,249
Property Taxes	$22,201,000	$23,835,522	$1,634,522
Other Revenue	$3,675,000	$4,369,241	$694,241
Investment Earnings	$784,000	$1,490,053	$706,053
Total Revenues	**$29,655,000**	**$32,390,566**	**$2,735,566**
Expenditures			
Professional Services	$16,000	$28,849	$12,849
Water	$31,236,000	$29,577,829	-$1,658,171
Total Expenditures	**$31,252,000**	**$29,606,678**	**-$1,645,322**
Total Revenues Less Expenditures	**-$1,597,000**	**$2,783,888**	**$4,380,888**
Ending Fund Balance	**$56,314,111**	**$60,694,999**	**$4,380,888**

*Beginning fund balance reflects audited actual.

Explanation of Major Variances

Revenue

1. **Water Sales & Service:** FY 2025-26 unaudited actuals reflect the receipt of the Dougherty Valley surcharge, which is collected separately from the property tax override as the Dougherty Valley is in Contra Costa County.
2. **Property Taxes:** FY 2025-26 unaudited actual is made up of planned property tax collections from the property tax override as well as other miscellaneous property tax collections such as unsecured and supplemental.
3. **Other Revenue:** FY 2025-26 unaudited actual other revenue includes refunds from the Department of Water Resources.

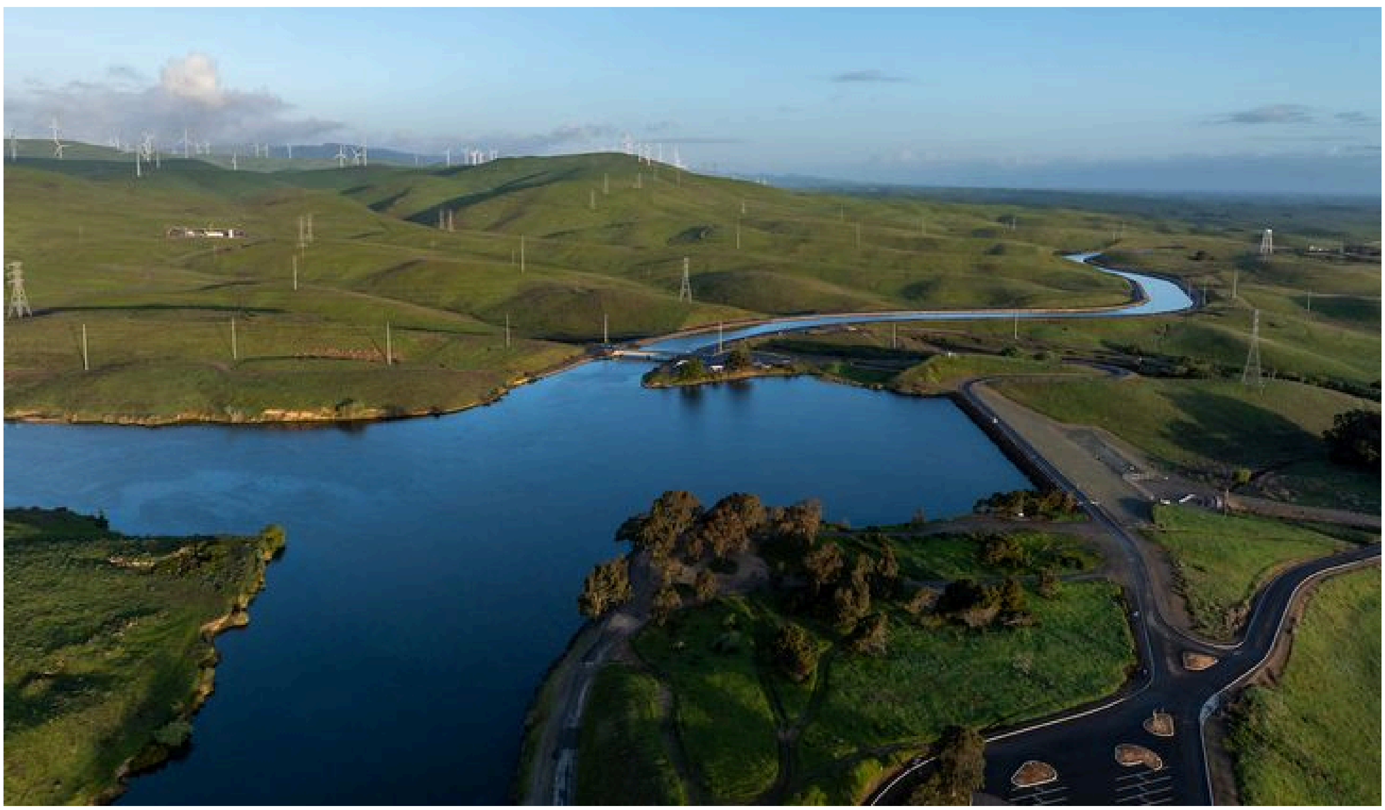
4. **Investment Earnings:** The FY 2025-26 unaudited investment revenue exceeds budget due to the Agency's rate of return exceeding 1.5% as planned in the budget.

Expenses

1. **Water:** The FY 2025-26 unaudited actual water costs include the Department of Water Resources fixed charges. Transportation capital charges and the improvement portion of the South Bay Aqueduct Improvement and Enlargement Project debt service payments are paid in January / July and March / September, respectively.

State Water Project Highlights

State Water Project Allocation – In May 2026, the Department of Water Resources announced an increase to the calendar year 2026 State Water Project allocation from 30% to 45%. As stated on the California Department of Water Resources website, the increase in allocation stems from "consistent rainstorms in April providing critical runoff through the system allowing the Department of Water Resources to capture more water and meet environmental regulations without using stored water".



Bethany Reservoir, Alameda County - March 2026
Source: California Department of Water Resources

Fund 110 Reserves Breakdown

The following table compares the FY 2025-26 Amended Budget ending reserve balance to the FY 2025-26 unaudited actual ending reserve balance at June 30, 2026.

Fund 110 Reserves	FY 25-26 Amended Budget	FY 25-26 Projected Actual
State Water Facilities Operating Reserve[1]	$56,314,000	$60,695,000
Total Reserve	$56,314,000	$60,695,000

Note: Values rounded to the nearest thousand.

[1] The State Water Facilities Reserve is designated by the Board to maintain a reserve for fixed costs related to the State Water Project that are not tied to development. State Water Project costs are highly volatile and can be challenging to predict. The reserve's minimum level is equal to 50% of the following year's projected annual operating expenses. There is no target or maximum reserve level.

Fund 130 - Water Enterprise Capital Expansion

Primary Funding Source: Water Connection Fees

The purpose of this fund is to ensure the Agency can meet the future needs of new customers with development paying its own way. The program is primarily intended to provide funding for new or expanded facilities and additional water supplies to serve additional capacity requirements for development. Most expenses in this fund are fixed (i.e., bond payment obligations for debt incurred by others to increase capacity, such as the enlargement portion of the South Bay Aqueduct Improvement and Enlargement Project). Developer fees can only be used for projects related to water system expansion.

Comprehensive Fund Summary

Details of Revenue and Expenses for Fund 130

Category	FY 2026 Amended	FY 2026 YTD Actuals	Year-End Over/(Under) Budget
Beginning Fund Balance	**$78,681,415**	**$78,681,415**	**-**
Revenues			
Connection/Development Fees	$10,000,000	$22,219,786	$12,219,786
Other Revenue	$3,000,000	$3,404,677	$404,677
Investment Earnings	$835,000	$2,113,665	$1,278,665
Total Revenues	**$13,835,000**	**$27,738,127**	**$13,903,127**
Expenditures			
Personnel	$255,166	$334,748	$79,582
Professional Services	$50,000	$25,500	-$24,500
Legal Services	$92,000	$18,393	-$73,607
Water	$17,400,000	$16,424,874	-$975,126
Capital Projects	$2,787,502	$371,675	-$2,415,827
Debt Service	$1,100,000	$1,098,450	-$1,550
Total Expenditures	**$21,684,668**	**$18,273,640**	**-$3,411,028**
Total Revenues Less Expenditures	**-$7,849,668**	**$9,464,487**	**$17,314,155**
Ending Fund Balance	**$70,831,747**	**$88,145,902**	**$17,314,155**

*Beginning fund balance reflects audited actual.

Explanation of Major Variances

Revenue

1. **Connection/Development Fees:** FY 2025-26 unaudited actual revenue is made up of water connection fees from approximately 604 new connections from July 1, 2025, through June 30, 2026. The connection fee revenue received to-date is primarily from the Dublin San Ramon Services District service area. The revenue exceeded budget as development occurred faster than anticipated.
2. **Other Revenue:** FY 2025-26 unaudited actual revenue consists of refunds from the Department of Water Resources.
3. **Investment Earnings:** The FY 2025-26 unaudited investment revenue exceeds budget due to the Agency's rate of return exceeding 1.5% as planned in the budget.

Expenses

1. **Personnel:** FY 2025-26 unaudited personnel costs include salaries and benefits through June 30, 2026, for water system capital expansion projects. Personnel costs exceed budget due to ongoing staff time on the Sites Reservoir project, Chain of Lakes Conveyance System project, and the Groundwater Regional Well project.
2. **Water:** FY 2025-26 unaudited actual expenses are made up of the first and second installments of the South Bay Aqueduct Enlargement debt service payments (paid in September and March) as stated in the 2026 Statement of Charges.
3. **Capital Projects:** Includes approved capital expansion projects for FY 2025-26. The unaudited actual expenses are less than budget as the majority of costs incurred in the early stages of the capital projects are reflected in the personnel costs. The projects are multi-year in nature and will continue into next year.
4. **Debt Service:** Reflects the Fund 130 portion of the Water Revenue Bonds, 2018 Series A debt service. The bonds refunded the Agency's obligations in connection with the Cawelo Water District Certificates of Participation, Series 2006.

Ongoing Development Highlights

The primary revenue source for Fund 130 is water connection fees from new development within the service area. While the connection fee revenue received in FY 2025-26 predominately came from new connections in the Dublin San Ramon Services District, the City of Livermore is currently underway with numerous developments around the Agency's headquarters. The images below show the ongoing development within the City of Livermore, specifically development as part of the Isabel Neighborhood Plan. The City of Livermore is also developing at Arroyo Crossing on Las Positas Road.

Triad Place, City of Livermore
April 2026

Serenity, City of Livermore
April 2026

Triad Place, City of Livermore
August 2026

Serenity, City of Livermore
August 2026

Historical Water Connection Fee Collections

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	FY 2025-26 Unaudited Actual
Connection Fee Revenue	$22,461,926	$13,609,527	$19,669,510	$17,023,624	$11,860,411	$22,940,368	$22,219,786
Number of New Connections	796	470	643	535	340	672	604

Expansion Capital Project Highlights

South Bay Aqueduct — The largest expense in Fund 130 is the Agency's annual debt obligations for the South Bay Aqueduct improvements and enlargement project by the California Department of Water Resources. The project involved expansion of the South Bay Aqueduct to convey 130 cubic feet per second of water through Reach 1 and 80 cubic feet per second through Reaches 2 through 4. The project also included the construction of the Dyer Reservoir, a 425-acre-foot raw water reservoir located near Dyer Road.

Sites Reservoir Project — Sites Reservoir is a proposed 1.5 million acre foot off stream reservoir designed to adapt to changing climate conditions, providing a more flexible water supply for California. As a rain-fed storage solution, Sites Reservoir will be able to capture water from extreme storm events, which can be used by communities, farms, and the environment when water is more scarce. The Agency has been participating in the planning phase of the project since 2017. The FY 2025-26 budget reflects Agency staff time for planning efforts during Phase 2.

Dryer Reservoir
Source: Department of Water Resources

Sites Reservoir Project Map

Fund 130 Reserves Breakdown

The table below compares the FY 2025-26 Amended Budget ending reserve balances to the unaudited actual ending reserve balances.

Fund 130 Reserves	FY 25-26 Amended Budget	FY 25-26 Unaudited Actual
Sinking Funds[1]	$31,540,000	$31,540,000
Debt Service Rate Stabilization Reserve	2,300,000	2,300,000
Designated for Capital Projects Reserve[2]	25,756,000	54,289,000
Pension Trust Fund	17,000	17,000
Total Reserves	**$59,613,000**	**$88,146,000**

Note: Values are rounded to the nearest thousand.

[1]Reserve established by the Board to fund South Bay Aqueduct debt service payments that continue after the Agency's service area is built-out.

[2]Reserve designated for capital projects to fund expansion capital improvement projects over the next ten years. The reserve's minimum level is equal to 60% of the current annual budgeted non-discretionary amount. There is no target or maximum level for this reserve.

Fund 200 - Flood Protection Operations

Primary Funding Source: Property Taxes. Ad valorem property taxes equal to one percent (1%) of the full cash value, of which Zone 7 of the Alameda County Flood and Water Conservation District receives a proportionate share.

This fund receives property taxes to provide general administration, maintenance, and operation of regional flood protection facilities. The Agency manages a watershed of 425 square miles in eastern Alameda County, receiving drainage from parts of Contra Costa, Santa Clara, and San Joaquin Counties. More than 37 miles of flood control channels and regional drainage facilities are owned and maintained by the Agency. This fund supports a comprehensive year-round maintenance program that includes repairing slides and erosion, refurbishing access roads and associated drainage ditches, installing and repairing gates and fences, and maintaining landscaped areas. This fund also supports renewal/replacement and improvement projects for the existing flood protection system.

Comprehensive Fund Summary

Details of Revenues and Expenses for Fund 200

Category	FY 2026 Amended	FY 2026 YTD Actuals	Year-End Over/(Under) Budget
Beginning Fund Balance	**$33,637,946**	**$33,637,946**	**-**
Revenues			
Property Taxes	$13,077,000	$12,937,793	-$139,207
Other Revenue	$236,000	$213,001	-$22,999
Grants	-	$1,816,234	$1,816,234
Investment Earnings	$180,000	$1,070,483	$890,483
Total Revenues	**$13,493,000**	**$16,037,511**	**$2,544,511**
Expenditures			
Personnel	$3,208,000	$3,565,041	$357,041
Professional Services	$4,140,162	$2,331,734	-$1,808,428
County Services	$110,500	$176,463	$65,963
Legal Services	-	$10,985	$10,985
Telecommunications	$6,000	$4,627	-$1,373
Maintenance Services	$20,812,141	$6,774,331	-$14,037,810
Rental Services	-	$13,764	$13,764
Office Supplies and Other Services	$840,322	$783,642	-$56,680
Organizational Memberships and Support	$91,300	$63,425	-$27,875
Training and Travel	$27,000	$2,340	-$24,660
Equipment	$35,000	-	-$35,000
Capital Funding	$16,000	$11,890	-$4,110
Total Expenditures	**$29,286,425**	**$13,738,243**	**-$15,548,182**
Total Revenues Less Expenditures	**-$15,793,425**	**$2,299,268**	**$18,092,693**
Ending Fund Balance	**$17,844,521**	**$35,937,214**	**$18,092,693**

*Beginning fund balance reflects audited actual.

Explanation of Major Variances

Revenue

1. **Property Tax:** FY 2025-26 unaudited actual revenue reflects the Agency's collection of ad valorem property taxes received from the County.
2. **Grants:** FY 2025-26 unaudited actual grant revenue comprises reimbursement from FEMA and Cal OES for completed 2023 emergency storm repair projects.
3. **Investment Earnings:** The FY 2025-26 unaudited investment revenue exceeds budget due to the Agency's rate of return exceeding 1.5% as planned in the budget.

Expenses

1. **Personnel:** FY 2025-26 unaudited personnel costs include this fund's share of salaries and benefits through June 30, 2026. The unaudited actuals are over budget primarily due to newly approved longevity pay for employees reaching five and 10-year milestones with the Agency and a higher than planned cost of living adjustment (6% vs. planned 4%).
2. **Professional Services:** The FY 2025-26 Budget includes ongoing project costs for the Flood Management Plan Phase 2A as well as a variety of on-call and as-needed services for flood-related engineering, permitting, and planning services. The year-end projection is less than the budget primarily due to the multi-year nature of the Flood Management Plan ($610K), unspent as-needed services ($300K), as well as unspent contingency ($500K).
3. **Maintenance Services:** The FY 2025-26 Budget includes routine flood engineering repair services (~$3M) and approximately $17M for planned flood emergency projects. The year-end projection is less than budget due to delayed storm repair projects from environmental permitting delays. Storm repairs planned for summer 2025 were shifted to summer of 2026. Construction on several sites began in June 2026 and will continue through summer 2027.

The following table lists major projects that are in-process.

Project	Total Cost	Fund 200 Share	Status	In-service
Alamo Creek Bank Stabilization Pilot Project[1]	$6.1M	$6.1M	2 of 3 permits received	Winter 2027
2022-23 Storm Damage High Priority Repairs	$2.4M	$2.4M	Permits received	Fall 2026
2023 Storm Damage Repairs – Phase 1A/1B	$25.0M	$25.0M	Permits received	Fall 2026/Fall 2027
Arroyo Mocho Medeiros Reach Bank Stabilization	$2.2M	$2.2M	Permits pending	Fall 2027
El Charro Weir Repair	$3.84M	$3.84M	Design Complete	Fall 2028
US Army Corps of Engineers (USACE) Rehabilitation	$6.15M	$6.15M	Construction	Fall 2027

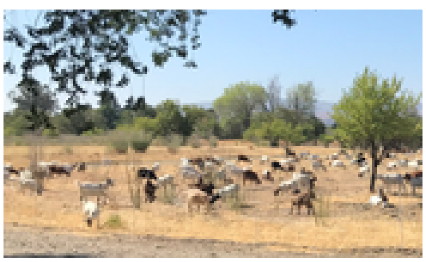
[1]DWR has awarded approximately $3.9M in grants through the Floodplain Management, Protection, and Risk Awareness (FMPRA) Grant program.

Flood Operations and Maintenance Highlights

Flood Maintenance — Each summer the Agency uses goat grazing services at its flood protection facilities for vegetation maintenance to abate fire fuels and maintain channel capacity. This summer, 176 acres of flood control facilities were grazed by goats.

Rehabilitation Project — In November 2025, the U.S. Army Corps of Engineers (USACE) completed Phase 1 of the Rehabilitation Project, successfully repairing four high-priority bank stabilization sites along Arroyo Mocho near West Las Positas Boulevard in Pleasanton. Phases 2 and 3 will address a total of 41 additional bank repair sites, with 21 sites in Pleasanton planned for construction during summer 2026, followed by 20 sites in Dublin scheduled for summer 2027. USACE has awarded the Phase 2 and 3 construction contract and issued the notice to proceed.

2023 Storm Damage Repairs — Phase 1 — The purpose of the Phase 1 repairs is to restore channel embankments damaged during the December 2022-January 2023 storm event. The repairs will include stabilization of channel banks utilizing rock rip rap, bio-engineered building units, and eco-friendly crib walls. Erosion control fabric will also be placed on top of all new repairs and hydroseeded. As of August 2026, all environmental permits were secured. Since June 2026, the contractor has completed 17 of approximately 50 total sites, with work continuing along Line J (South San Ramon Creek) and Line F (Alamo Creek) in Dublin.



Flood Maintenance Goat Grazing - Summer 2025

US Army Corps of Engineers Rehabilitation Project

Line G – Arroyo Mocho in Pleasanton

Line J – South San Ramon Creek

Fund 200 Reserves Breakdown

The table below compares the FY 2025-26 Amended Budget ending reserve balance to the projected ending reserve balance.

Fund 200 Reserves	Minimum	Target	Maximum	FY 25-26 Unaudited Actual
Operating Reserves[1]	$7,287,000	-	$18,219,000	$7,287,000
Designated for Capital Projects Reserve[2]	-	-	-	$28,388,000
Section 115 Pension Trust	-	-	-	262,000
Total Reserves	**$7,287,000**	-	**$18,219,000**	**$35,937,000**

Note: Values are rounded to the nearest thousand.

[1] This fund may be routinely utilized to cover temporary cash flow deficiencies caused by timing differences between revenue and expenses and/or shifts in the allocation of property taxes to Zone 7. The minimum reserve level is equal to 20% of the Agency's current annual budgeted flood protection operating expenses, excluding capital. The maximum reserve level is equal to 50% if the current annual budgeted flood protection operating expenses, excluding capital. There is no target level for this reserve.

[2] Per the Agency’s Reserve Policy, there is no minimum or maximum level required for the Flood capital projects reserve.

Fund 210 - Flood Protection Development Impact Fee

Primary Funding Source: Development Impact Fees.

The purpose of this fund is to ensure the Agency can meet future needs for expansion-related flood control facilities. The program is primarily intended to provide funding for any flood control facilities required for new development. Funds are expended on the planning, design, land and right of way acquisition, environmental review, permitting, and construction for drainage projects.

Comprehensive Fund Summary

Details of Revenues and Expenses for Fund 210

Category	FY 2026 Amended	FY 2026 YTD Actuals	Year-End Over/(Under) Budget
Beginning Fund Balance	**$85,092,017**	**$85,092,017**	**-**
Revenues			
Connection/Development Fees	$1,500,000	$2,966,176	$1,466,176
Other Revenue	$25,000	-	-$25,000
Investment Earnings	$1,187,000	$2,486,647	$1,299,647
Total Revenues	**$2,712,000**	**$5,452,823**	**$2,740,823**
Expenditures			
Personnel	$160,641	$77,622	-$83,019
Professional Services	$1,636,304	$724,532	-$911,772
Capital Projects	$500,000	-	-$500,000
Total Expenditures	**$2,296,945**	**$802,154**	**-$1,494,791**
Total Revenues Less Expenditures	**$415,055**	**$4,650,669**	**$4,235,614**
Ending Fund Balance	**$85,507,072**	**$89,742,686**	**$4,235,614**

*Beginning fund balance reflects audited actual.

Explanation of Major Variances

Revenue

1. **Connection/Development Fees:** Development impact fees are collected from a development project within Zone 7's service area equal to the number of square feet of impervious surface created, meaning, any surface or parcel that reduces the rate of natural infiltration of storm water into the soil. The fee is $1.00 per square foot. The FY 2025-26 unaudited actual reflects revenue primarily received from the Dublin-San Ramon Services District and the City of Livermore.
2. **Investment Earnings:** The FY 2025-26 unaudited investment revenue exceeds budget due to the Agency's rate of return exceeding 1.5% as planned in the budget.

Expenses

1. **Personnel:** The FY 2025-26 unaudited actual reflects salaries and benefits for flood expansion projects through June 30, 2026.
2. **Professional Services:** The budget primarily includes professional service funding for a portion of as-needed programmatic permitting and environmental compliance, and funding for the Flood Management Plan Phase 2A. The FY 2025-26 unaudited actual is less than the budget as the Flood Management Plan will continue into next fiscal year and no flood expansion related permitting funds were spent in FY 2025-26.
3. **Capital Projects:** The budget consists of contingency funds for unforeseen projects or emergencies. No contingency funds were spent in FY 2025-26.

The Agency is in the process of developing and implementing a Flood Management Plan to direct the Agency's future flood maintenance activities and flood capital projects.

Fund 210 Reserves Breakdown

The following table and chart compare the FY 2025-26 Amended Budget ending reserve balance to the projected ending reserve balance.

Fund 210 Reserves	FY 25-26 Amended Budget	FY 25-26 Projected Actual
Capital Projects Reserve	$83,715,000	$89,743,000
Total Reserves	**$83,715,000**	**$89,743,000**

Note: Values are rounded to the thousand.

ITEM NO. 4

ZONE 7 WATER AGENCY
Delivering Quality, Reliability and Safety

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

DATE: September 24, 2026

TO: Finance Committee

FROM: Osborn Solitei, Treasurer/Assistant General Manager – Finance

SUBJECT: Untreated Water Rate Study and Preliminary Untreated Water Rates for Calendar Years 2027-2030

SUMMARY:

- The proposed action is in support of Strategic Plan Goal H – Fiscal Responsibility: Operate the Agency in a fiscally responsible manner and Strategic Initiative No. 21 – continue to effectively manage financial resources. In carrying out these fiscal responsibilities, staff periodically conduct untreated water rate studies to evaluate the rate-setting methodology and develop future untreated water rates.

- The Agency has historically established untreated wholesale water rates annually based on the estimated cost of service for the upcoming calendar year. Differences between projected and actual water supply costs have been addressed through reconciliation adjustments, which can contribute to year-to-year rate fluctuations.

- For calendar year 2027, a $41 per acre-foot (AF) reconciliation charge was previously scheduled to be added to the untreated water rate. However, favorable hydrologic and storage conditions during calendar years 2023, 2024, and 2025 significantly reduced water supply costs. These conditions also allowed for water transfer sales in 2024 and 2025, generating additional revenue to the Water Enterprise Operations Fund (Fund 100), a portion of which was allocated to the Untreated Water Program. As a result, the Untreated Water Program's outstanding balance was reduced to $0 as of December 2025, eliminating the need for the planned reconciliation charge.

- The favorable financial results provide an opportunity to establish a rate stabilization reserve using the projected fiscal year 2026 credit (a portion from water transfer sales) and transition to a multi-year rate structure. In March 2026, the Agency retained Water Resources Economics, LLC to conduct an Untreated Water Rate Study (Rate Study) to evaluate the current rate methodology and alternative approaches for establishing untreated water rates and determine rates for the Untreated Water Program.

- Based on the Rate Study, staff propose a four-year untreated water rate schedule with a review after two years, similar to the Agency's treated water rate structure. The current calendar year (CY) 2026 rate is $287/AF, including the $32/AF reconciliation charge. The proposed CY 2027 rate is $273/AF, increasing by 7% annually during the four-year rate cycle. The proposed multi-year structure would provide greater rate predictability for untreated water customers while allowing the Agency to use the rate stabilization reserve to manage fluctuations between projected and actual water supply costs.

- If the Agency continued its historical practice of establishing rates annually, the projected CY 2027 rate would be $273/AF based on current projections. If the $41/AF reconciliation charge remained necessary, the rate would have been $314/AF.

- The preliminary untreated water rates based on the current methodology and the four-year rate schedule are shown in the table below:

Untreated Water Rates ($/AF)	CY 2027	CY 2028	CY 2029	CY 2030
Current Methodology				
Untreated Water Rate	$273	-	-	-
Recommended Methodology				
Proposed Annual Rate Adjustment	7%	7%	7%	7%
Untreated Water Rates	$273	$292	$312	$334

Note: Rates are preliminary and subject to change.

- On July 28, 2026, staff met with the Untreated Water Working Group to present the 2025 reconciliation results and the alternative rate methodology evaluation. The Working Group was receptive to pursuing a multi-year rate structure and rate stabilization reserve and supported further development of the proposed methodology.

- At this Finance Committee meeting, staff will present the Rate Study findings, preliminary untreated water rates for CYs 2027 through 2030, and key assumptions supporting the recommended methodology. Staff will seek Committee feedback and a recommendation, which will be incorporated into the final Rate Study and presented to the Board on October 21, 2026, for consideration of the final rates.

FUNDING:

N/A

RECOMMENDED ACTION:

Discuss and provide direction regarding the recommended rate-setting methodology and the preliminary untreated water rates.

ATTACHMENT:

2026 Untreated Water Rate Study – Executive Summary

ZONE 7 WATER AGENCY

2026 Untreated Water Rate Study

Executive Summary
September 2026

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Background

Agency Background

Zone 7 Water Agency (the "Agency") was established in 1957 to provide untreated water to support agriculture and provide treated wholesale water to the Livermore-Amador Valley. In 1961, the Agency contracted for State Water Project (SWP) water deliveries through the South Bay Aqueduct (the "SBA").

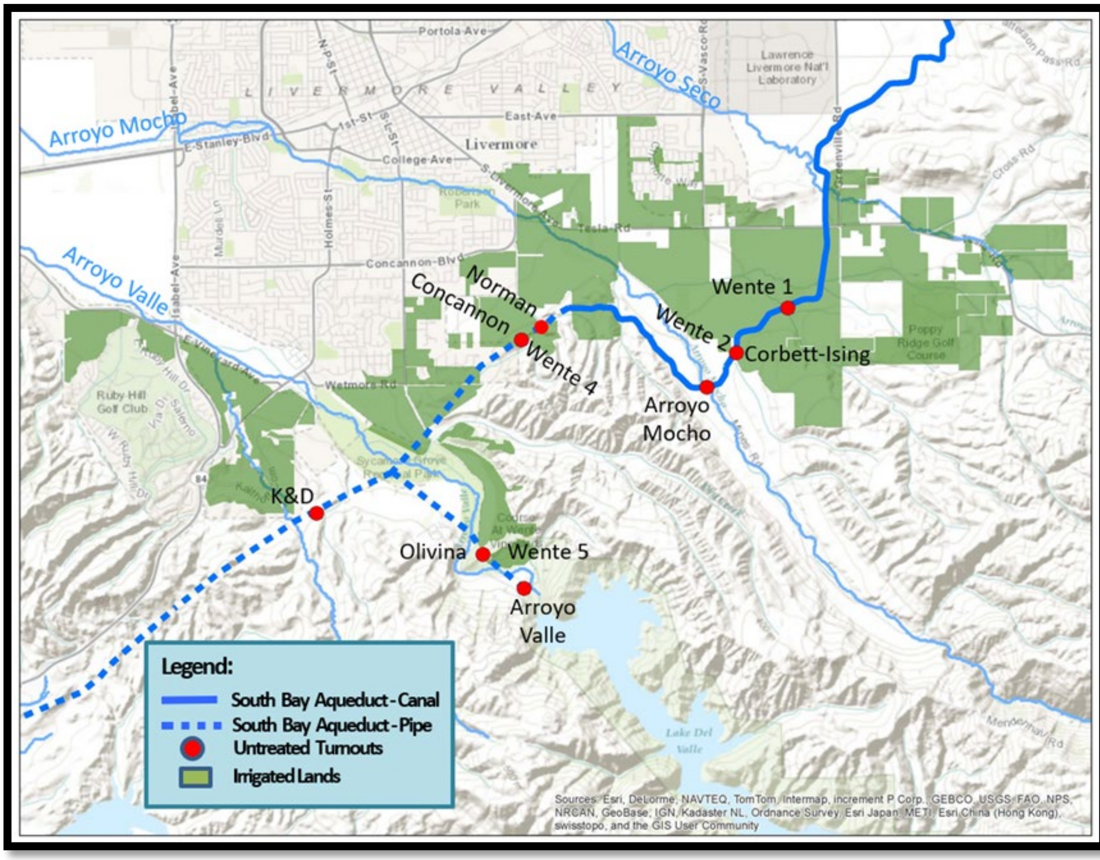
The Agency's water resources include imported water from the SWP, local groundwater storage, local water captured in Lake Del Valle, and offsite groundwater banking in Kern County. Historically, most of the Agency's water demand has been met by imported water from the SWP; approximately 90 percent of the current water demand is met through water originating from the SWP.

The Agency began delivering untreated water to its service area from the California Department of Water Resources (DWR) via the SBA in 1962. Over the years, deliveries increased with the agricultural development of South Livermore. The Agency provides untreated water service to 95 untreated water users that may collectively request water deliveries of up to 8,104 acre-feet (AF) per year. However, only eight of these contractors receive water from the Agency directly from an SBA turnout. These eight water users are referred to as "turnout water users." The remaining 87 "remote water users" receive their water deliveries through the turnout water users' respective conveyance facilities. The Agency's current practice is to invoice turnout water users for all water delivered through the turnouts, which includes water wheeled, or delivered through their respective facilities, to remote water users. The turnout water users, in turn, invoice the respective individual remote water users. The Agency does not invoice remote water users and is not involved in setting remote water user rates.

Prior to 2011, the Agency had contracts with separate users. In 2011, the Agency transitioned from individual contracts to the Rules and Regulations Governing Water Service. The Rules and Regulations Governing Water Service was recently updated in August 2025, and reflects the actual relationship the Agency has with its untreated water customers. This transition allowed the Agency to administer the untreated water program more effectively by clearly documenting and maintaining a maximum annual allocation for each water user and providing a process for water transfers within the service area.

Figure 1 shows the map of the untreated water turnouts and deliveries via the SBA.

Figure 1: Map of Untreated Water Turnouts



Current Rate Methodology Background

The Agency currently establishes untreated water rates on an annual basis. The untreated water rate is designed as a fully volumetric rate charged per acre foot that recovers the estimated cost of service including water service (labor) charges, overhead, and water supplies, such as SWP supplies and other imported and local water sources, for the upcoming calendar year. The current methodology is based on the Board principles for untreated water rates adopted via Resolution No. 21-77, dated October 20, 2021, and subsequent Board Resolution No. 22-85, dated October 19, 2022.

Challenges with Current Rate Methodology

While the Agency establishes untreated water rates on an annual basis to recover the estimated cost of service for the upcoming calendar year, actual costs (primarily water supply costs) often differ from projected costs. To address water supply cost volatility, the Agency implemented a rate setting strategy using historical average water supply costs and deliveries to set future rates. While this strategy reduced significant fluctuations in the calculated rate setting year-to-year, it did not directly address the main issue of volatile water supply costs, which are realized as part of the annual reconciliation.

To address these differences, the Agency has historically performed an annual reconciliation, or "true-up," to recover under-collected costs or return over-collected revenues. However, due to the Agency's financial reporting schedule, the reconciliation process operates on a two-year lag. Water supply cost financial data for the prior calendar year are finalized after untreated water rates are adopted each October, meaning that rates for the upcoming calendar year reconcile actual costs incurred two calendar years earlier, causing delayed recovery of actual water supply costs.

More recently, rather than recovering the full reconciliation amount in a single year, large reconciliation balances have been spread over multiple years to reduce significant annual rate impacts. As a result, portions of prior-year costs are recovered over an extended period instead of being fully reflected in the next available rate adjustment. Most of these costs are water supply costs, which make up 75-85% of the Untreated Water Program costs.

Current Rates

The Agency's current untreated water rates include two components: an untreated water rate for normal water service and a temporary untreated water rate for customers that require temporary service and are unable to obtain water from other areas in the valley. **Table 1** shows the current untreated water rates, which the Agency adopted on October 15, 2025, via Resolution No. 25-81.

Table 1: Current Untreated Water Rates (CY 2026)

Current Untreated Water Rates ($/AF)	CY 2026
Untreated Water Rate	$287[1]
Temporary Untreated Water Rate	$1,023

Annual Reconciliation and Calendar Year 2025 Results

The Untreated Water Program experienced significantly higher than expected water supply costs in calendar years 2021 and 2022 due to the prolonged drought. The unexpected costs were realized as part of the annual "true-up", which determined that the Agency had under-charged the untreated water customers and needed to recover under-collected costs. By the end of calendar year 2022, the negative balance, or amount owed by the untreated customers, reached negative $1.4M. Prior to setting the calendar year 2025 untreated water rates, the Board approved a five-year implementation schedule (Resolution No. 23-77) to collect the 2023 reconciliation balance of approximately negative $1.1M by the end of calendar year 2028. Since 2023, a reconciliation charge has been added to the calculated untreated water rate to collect additional revenue to offset the balance due.

The past three years (calendar years 2023, 2024, and 2025) have been exceptional due to favorable hydrologic and storage conditions that significantly reduced water costs. These

[1] Current rate includes a $32/AF reconciliation charge.

favorable conditions also enabled the Agency to sell excess water in calendar years 2024 and 2025, increasing revenue to the Water Enterprise Operations Fund – Fund 100, a portion of which was allocated to the Untreated Water Program. Because of the low water costs and additional revenue received from the water transfer sales, as of December 2025, the Untreated Water Program's balance owed is $0 as shown **Table 2**. These findings were presented to the Finance Committee on September 1, 2026, as an informational item.

Table 2: 2025 Reconciliation Cash Flow Analysis

Reconciliation Cash Flow Analysis	CY 2025
Actual Untreated Water Rate Revenue	$1,147,206
Actual Allocated Water Transfer Sale Revenues	$92,203
Total Untreated Water Program Revenue	**$1,239,409**
Less: Actual Untreated Water Costs	$511,346
CY 2025 Credit	**$728,063**
Reconciliation Balance as of December 2024	($728,063)
Reconciliation Balance as of December 2025	**$0**

2026 Rate Study Background

The Agency engaged Water Resources Economics, LLC, to conduct an Untreated Water Rate Study (Rate Study), which involved review of the current rate methodology, evaluation of alternative methodologies for establishing untreated water rates, and developing the untreated water rates.

The primary objectives of the Rate Study include:

- Evaluate alternative methodologies for establishing untreated water rates
- Design and determine untreated water rate(s) that maintain revenue stability and service reliability, minimize customer impacts to the extent possible, and maintain fairness and equitability of rates
- Ensure financial sufficiency for the untreated water enterprise to meet cost of service

This Executive Summary encompasses the evaluation of alternative methodologies for untreated water rates, key assumptions and inputs used to develop a long-term financial plan, and the preliminary untreated water rates developed based on the recommendations from Rate Study.

Evaluation of Alternative Rate Setting Methodologies

The Untreated Water Program has been caught in a reactive state as annually reconciling prior year water supply costs creates volatility and uncertainty around annual rate setting. Due to these challenges and the Untreated Water Program's $0 reconciliation balance, staff requested an evaluation of alternative methodologies for establishing untreated water rates. The objective of the evaluation was to establish a more stable and proactive method to set untreated rates, providing financial stability for the Untreated Water Program and rate predictability for the untreated customers.

The alternative rate-setting methodologies evaluated as part of this Rate Study include:

1. **Fixed and Variable Rate Structure** - Under this approach, fixed costs, such as administrative and overhead costs, Semitropic fixed charges, and other fixed contractual obligations, would be recovered through a fixed charge. Variable water supply costs would continue to be recovered through a volumetric rate stated in $/acre foot.

2. **Interruptible and Non-Interruptible Rates** - Under this approach, the Agency would establish separate rates for interruptible and non-interruptible untreated water service. This structure could allow certain costs to be included in or excluded from each rate based on the level of reliability provided.

3. **Water Supply Cost Surcharge** - Under this approach, the Agency would continue using a base untreated water rate but would implement a surcharge after lower-cost water supplies have been exhausted and the Agency must purchase higher-cost water supplies.

4. **Multi-Year Rates with a Rate Stabilization Reserve** - Under this approach, untreated water rates would be adopted for a four-year period with a two-year review, consistent with the treated water enterprise, rather than being updated annually. Additionally, a rate stabilization reserve would be established to manage fluctuations between projected and actual water supply costs instead of relying primarily on the existing reconciliation process.

Recommended Methodology

Based on the evaluation of the alternative methodologies described above, staff recommend designing a multi-year rate with a rate stabilization reserve. Key criteria under this approach include:

1. **Development of Four-Year Rate Structure** - Untreated water rates adopted for a four-year period with a two-year review, consistent with the treated water enterprise.

2. **Establishment of Rate Stabilization Reserve** - Differences between projected and actual costs managed through a rate stabilization reserve instead of relying primarily on the existing reconciliation process.

3. **Development of Long-Term Financial Plan for Rate-Setting Period (FY 2027-2030)** - Ensure untreated water rate revenue requirements sufficiently cover operating costs and meet rate stabilization reserve targets.

The benefits of this methodology include:

» Development of a long-term financial plan to ensure financial sufficiency of the Untreated Water Program
» Use of reserve balances to offset year-to-year fluctuations in water supply costs, reducing the risk of sharp rate adjustments in the future
» Multi-year rates provide customers with rate predictability and improve long-term financial planning
» Better alignment of cost recovery with when costs are incurred
» Reduced dependence on the existing reconciliation process

Although the recommended methodology helps to overcome the current challenges of the existing rate-setting methodology, it is important to note that additional rate increases, or reconciliation adjustments may be required in the future under the two-year review process if actual water supply costs differ substantially from projections. Establishing a target reserve and maintaining that level will be crucial for the long-term success of the program.

Financial Plan Key Assumptions

A long-term financial plan was developed for the rate setting period (FY 2027 through FY 2030). The projected untreated water rate revenue requirements are designed to cover operating costs and meet rate stabilization reserve targets. The key components of the long-term financial plan include:

1. **Cost Analysis:** A thorough assessment of water supply costs and other operational expenses.
2. **Rate Determination:** The determination of the total amount of funding required to meet these costs.
3. **Long-Term Financial Stability:** A strategic approach ensuring the enterprise remains financially healthy, with adequate reserves to address future challenges and maintain service reliability without sudden or excessive rate increases.

The long-term financial plan projects operating expenses allocated to the Untreated Water Program including water supply costs, water service costs, and overhead. Details of these operating expenses are below.

Water Supply Costs

Water supply costs make up approximately 75-85% of the untreated water rate and historically have been very volatile and challenging to predict.

The first two years of the long-term financial plan reflect water supply costs as planned in the FY 2026-28 Adopted Budget. Water supply costs for the last two years assume an inflationary factor of five percent per year. These assumptions are consistent with the assumptions made in the treated water rate study. Water supply costs that do not directly serve the Untreated Water Program are excluded from the long-term financial plan. The long-term financial plan also includes a new water supply cost for the Sites Reservoir Project beginning in FY 2029.

The Agency's water sources are used to meet treated and untreated water demand. Treated water demand comes from municipal (retailers) and industrial (direct) customers and untreated water demand comes from agricultural customers. The following water supply costs are included in the rate calculation for both treated and untreated water deliveries.

State Water Project

- **Table A**
  Table A is the Agency's portion of the State Water Project annual allocation and represents the largest portion of Zone 7's "new" water supply each year. The Agency's

maximum allocation is 80,619 AF annually. Each year, the Agency receives a Table A allocation representing a percentage of 80,619 AF.

- **Carryover**
  This is officially referred to as "Article 56" water and is available when the Agency's Table A water rolls over as carryover for use in future years. In most years, this water remains in the San Luis Reservoir, but in wet years, such as 2023, the San Luis Reservoir can be at risk of spilling, which causes stored carryover to be lost. Each year, the Agency typically reserves 10,000 to 15,000 AF as a carryover to mitigate against fluctuating Table A allocations.
- **Delta Conveyance Project**
  This project offers alternative conveyance to the existing State Water Project system based on a new, single-tunnel option to bypass the South Delta when it is unusable. The project has been developed by DWR to address challenges related to climate change/sea level rise, earthquakes, environmental impacts, and water quality degradation rendering the State Water Project conveyance system and Delta unreliable. The Board has directed staff to continue participation in the project through December 2027 (Resolution No. 24-86).

Water Reliability Project (NEW)

- **Sites Reservoir Project**
  The long-term financial plan includes the Untreated Water Programs planned allocation of the estimated Sites Reservoir Project payments as planned in the 2026 Ten-Year Water System Capital Improvement Plan. These costs are planned to begin in FY 2029 and are subject to change. The Agency's participation level will be determined based on the Board's final commitment decision.

Water Transfers/Exchanges

When available, this supply is comprised of imported water purchased by the Agency through both long-term and short-term (annual) agreements with another entity (e.g., water agency, farm).

- **Yuba Accord**
  Water from this source is available mainly in dry years through an agreement with the DWR and Yuba County Water Agency. The Agency receives a small share of the water when available.
- **Dry Year Transfer Program**
  During dry years, the State Water Contractors negotiate water purchases north of the Delta, making additional water available to interested State Water Project contractors.
- **Other Transfers**
  Water from this source is obtained through negotiations with other SWP contractors, typically in dry years when the Table A allocation is low.
- **Sutter Extension (5-Year Transfer)**
  During dry years, the Agency has the option of calling up to 3,000 AF from Sutter Extension at predetermined prices. This agreement expires in December 2029.

Banked Water Programs

- **Cawelo and Semitropic Banked Water**
  The Agency has agreements with Semitropic Water Storage District and Cawelo Water District in Kern County for 78,000 AF and 120,000 AF of storage capacity, respectively. The Agency recovers water from these banks as needed during dry years (such as 2021 and 2022) and stores water in wet years (2023 and 2024). Recovered water is delivered via exchange through the SBA as surface water is conveyed through the Delta.

Water Service Costs

The Agency is committed to providing a reliable supply of high-quality water for municipal, industrial, and agricultural customers and spends a considerable amount of time managing the water supply portfolio.

Water service costs are inclusive of Agency staff time in various staff programs that benefit the Untreated Water Program and typically make up approximately 12-15% of the costs. Water service costs for FY 2027 are projected based on planned hours worked and hourly rate. A three percent annual inflationary adjustment was used to project costs for FY 2028 through FY 2030.

Table 3 describes the various staff programs and their roles in the untreated water system. Agency staff programs that do not serve the untreated water customers (i.e. Water Treatment, Groundwater Administration, Local Water Rights, and Flood Protection) have been excluded.

Table 3: Agency Staff Programs

Agency Programs	Description
State Water Project Program	Administration of the State Water Project water supply
Untreated Water Program	Execution, management, and administration of the Untreated Water Program
Water Supply and Storage Program	Operational planning of the water utility and the water supply, day-to-day water supply management activities, administration and support related to water storage, water supply and conveyance, and other water supplies
Cawelo Bank Water Program	Administration, operation, and maintenance of the Cawelo water supply, including recovery and storage
Semitropic Banked Water Program	Administration, operation, and maintenance of the Semitropic water supply, including recovery and storage

Overhead

Overhead costs are the ongoing costs of running the Agency that are not directly tied to water production or water service. Overhead typically makes up approximately 8% of the total costs and includes expenses like property management and utilities at the Agency's headquarters, Board and administration salaries, information technology, and insurance.

Planned Deliveries

Table 4 shows the planned water deliveries for untreated and treated water customers for the four-year period. Untreated water demand is assumed to remain constant at 5,000 acre feet per year and treated water demand is assumed to remain constant at 35,000 acre feet per year. Given these demand projections, the planned allocation of the operating expenses to the Untreated Water Program will be 12.5 percent per year.

Table 4: Planned Water Deliveries (2027-2030)[2]

Water Customer	Total Acre Feet	Percent Allocation
Untreated Water	5,000	12.5%
Treated Water	35,000	87.5%
Total	**40,000**	**100%**

Rate Stabilization Reserve

The following parameters are proposed regarding the establishment of a rate stabilization reserve for the Untreated Water Program.

Initial Contribution

Staff propose establishing the rate stabilization reserve with an initial contribution of the projected FY 2026 credit, which includes $76,662 from unallocated calendar year 2025 water transfer sales revenue. The Board of Directors will have full discretion of any future allocations of water transfer sales to the Untreated Water Rate Stabilization Reserve.

Reserve Targets

Staff propose establishing minimum, target, and maximum reserve levels. Establishing an untreated rate stabilization reserve will provide a mechanism to address future water supply volatility and maintain service reliability without sudden or excessive rate increases.

Table 5: Proposed Rate Stabilization Reserve Targets

Reserve Levels	Definition	FY 2027 Projected Reserve Amount[3]
Minimum	60 days of current year operating costs of the Untreated Water Program	$214,000
Target	Two-year average of most recent drought deficit (CY 2021-2022)	$770,000
Maximum	Four-year average of estimated untreated rate revenue (2027-2030)	$1,464,000

[2] The planned deliveries for the next four years match the treated water rate setting assumptions.
[3] Values are rounded to the nearest thousand.

Untreated Water Rate Scenarios and Preliminary Untreated Water Rates

As part of the Rate Study, Water Resources Economics, LLC, worked closely with staff to analyze various scenarios to determine the rate impacts of certain policy decisions. The Study involved determining sufficient revenue adjustments for the four-year rate setting period to meet the objectives of the multi-year rate setting methodology. In addition, staff calculated the untreated water rate for calendar year 2027 with the current methodology. These scenarios are described below.

Financial Plan Scenario – Recommended

The objective of this scenario is to establish annual rate adjustments to cover the costs of the Untreated Water Program and meet the minimum reserve level by FY 2030. This objective will help the program establish the foundation of the untreated rate stabilization reserve. The success of the Untreated Water Program's long-term financial sufficiency hinges on the program's ability to eventually meet and maintain a rate stabilization reserve at the target level.

Table 6 shows preliminary untreated water rates for calendar years 2027 through 2030 based on the recommended annual rate adjustments of seven percent.

Table 6: Recommended Preliminary Untreated Water Rates (CY 2027-2030)

Recommended Preliminary Untreated Water Rates	CY 2027	CY 2028	CY 2029	CY 2030
Untreated Water Rates ($/AF)[4]	$273	$292	$312	$334
Recommended Annual Rate Adjustment	7%	7%	7%	7%

Table 7 shows the five-year cash flow projections based on the untreated water rates shown in **Table 6**. Note the FY 2026 amounts are unaudited and based on year-end projections.

[4] Rates are preliminary and subject to change.

Table 7: Cash Flow Projections – 7% Annual Rate Adjustment[5]

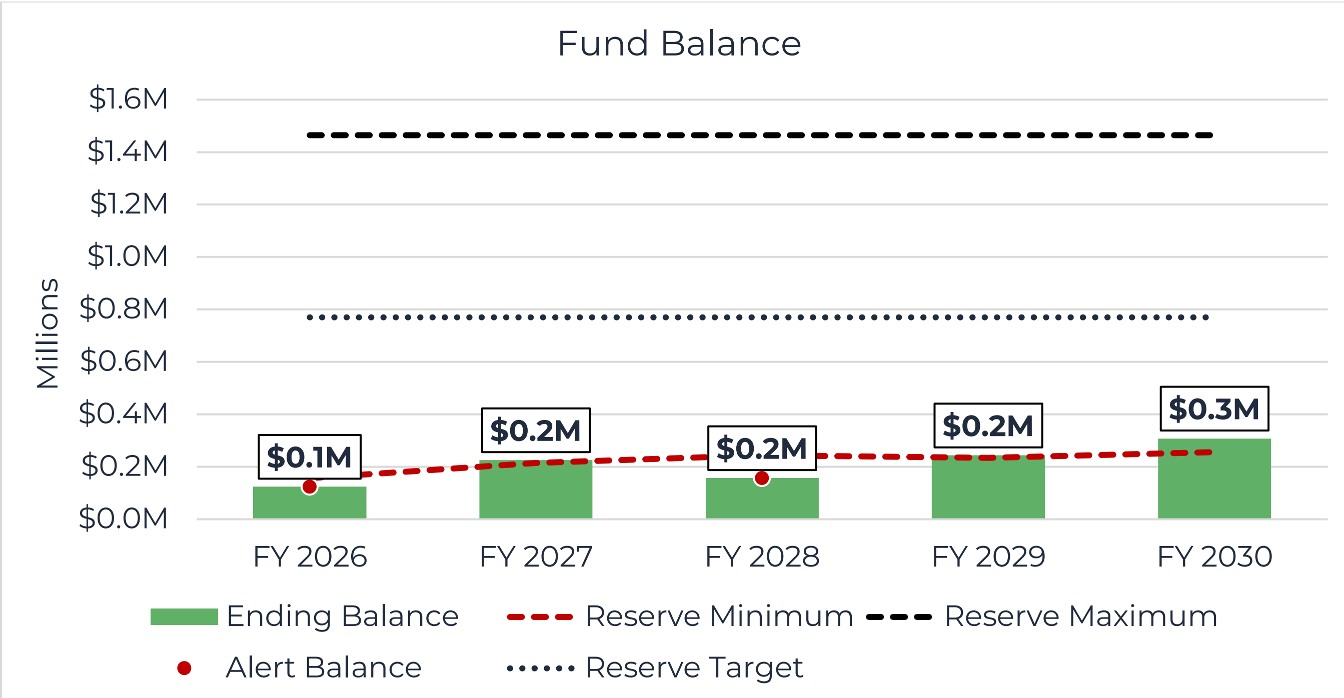
Cashflow Projections	FY 2026 (Unaudited)	FY 2027	FY 2028	FY 2029	FY 2030
Beginning Fund Balance	**($254,104)**	**$124,152**	**$225,436**	**$157,019**	**$243,557**
Revenues					
Rate Revenues (Incl. Reconciliation)	$1,162,479	$1,400,000	$1,412,500	$1,510,000	$1,615,000
Water Transfer Revenue	$168,865	$0	$0	$0	$0
Interest Income	$0	$4,316	$4,722	$4,945	$6,808
Total	**$1,331,344**	**$1,404,316**	**$1,417,222**	**$1,514,945**	**$1,621,808**
Expenses					
Water Supply Costs	$494,192	$593,750	$968,750	$1,017,188	$1,068,047
Water Service Program Costs	$206,353	$190,146	$172,595	$177,772	$183,106
Sites Program Costs	$0	$0	$0	$133,750	$203,625
Delta Conveyance Costs	$142,045	$412,500	$247,500	$0	$0
Overhead Costs	$110,498	$106,637	$96,794	$99,698	$102,689
Total	**$953,088**	**$1,303,032**	**$1,485,638**	**$1,428,408**	**$1,557,466**
Net Cash Flow	**$378,256**	**$101,284**	**($68,417)**	**$86,538**	**$64,342**
Ending Fund Balance	**$124,152**	**$225,436**	**$157,019**	**$243,557**	**$307,899**
Reserve Minimum	**$156,672**	**$214,197**	**$244,215**	**$234,807**	**$256,022**
Reserve Target	$769,909	$769,909	$769,909	$769,909	$769,909
Reserve Maximum	$1,464,375	$1,464,375	$1,464,375	$1,464,375	$1,464,375
Meets Reserve Target Minimum?	***No***	***Yes***	***No***	***Yes***	***Yes***

The program's FY 2027 beginning fund balance of $124,152 comprises an additional allocation of water transfer revenues from calendar year 2025 and projected water supply cost savings through June 30, 2026.

Figure 2 shows the five-year fund balances which compares the projected ending balance for the Untreated Water Program (shown as green bars) to its rate stabilization targets, including a minimum (shown as dashed red line), target (shown as dotted black line), and maximum (shown as dashed black line). Based on seven percent annual rate adjustments, the Agency will achieve the objective and meet its rate stabilization reserve minimum by the end of the rate setting period in FY 2030.

[5] Values may not add due to rounding.

Figure 2: Projected Five-Year Fund Balances – 7% Annual Rate Adjustment



Other Untreated Water Rates

In addition to the untreated water rates, the resolution that will be brought forth to the October 2026 Board meeting will include calculated untreated rates for the following:

Temporary Untreated Water Service Charge

- Initial Service Establishment Charge – fixed at $125 per turnout
- Monthly service charge – fixed at $21 per turnout
- Delivery charge – rate calculation includes the State Water Project fixed costs collected through the property tax override

Non-Scheduled Untreated Water Service Charge

- Delivery charge – same calculation for the Temporary Untreated Water Delivery charge

Article 21 Water Charge

- Delivery charge – charged at cost if the purchased water is above and beyond the monthly delivery schedules provided by the Department of Water Resources. Actual rate is determined at time of delivery and equal to the Department of Water Resources' variable rate at that time.

Current Methodology – Status Quo

Table 8 shows the preliminary untreated water rate if the Untreated Water Program continues with the current methodology for setting untreated water rates. This preliminary rate calculation for calendar year 2027 is consistent with the Board policy guidelines for untreated water rates adopted via Resolution No. 21-77 on October 20, 2021, and subsequent Board Resolution No. 22-85 on October 19, 2022.

Table 8: Preliminary Untreated Water Rate - Current Methodology

Preliminary Untreated Water Rates	CY 2027
Current Methodology	
Calculated Rate ($/AF)	$273
Planned Reconciliation Charge	$0
Preliminary Untreated Water Rate	$273

For calendar year 2027, a $41/AF reconciliation charge was previously scheduled to be added to the untreated water rate. However, due to the program's current reconciliation balance of $0 as of December 2025, the need to implement the planned reconciliation charge is eliminated. If the $41/AF reconciliation charge remained necessary, the calendar year 2027 rate would have been $314/AF.