

Zone 7 Water Agency

2026 Untreated Water Rate Study Final Report – October 2026

Prepared by: Water Resources Economics, LLC



**Water Resources
Economics**

PROMOTING THE VALUE AND PRICE OF
WATER SERVICE



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October 12, 2026

Osborn Solitei
Treasurer / Assistant General Manager
Zone 7 Water Agency
100 North Canyons Parkway
Livermore, CA 94551

Subject: Zone 7 Water Agency Untreated Water Rate Study

Dear Mr. Solitei,

Water Resources Economics, LLC (WRE) is pleased to submit this 2026 Untreated Water Rate Study to the Zone 7 Water Agency (Agency). This report documents the results and recommendations of the Agency's untreated water rate study.

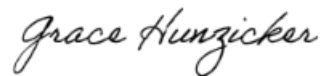
The goals of the study were to develop a new multi-year rate-setting methodology for the Agency's untreated water enterprise, establish a reserve policy to improve financial and rate stability, and develop a four-year schedule of untreated water rates that will sufficiently fund the Agency's untreated water system expenses and be consistent with cost-of-service principles. The proposed four-year rate schedule will be reviewed periodically to evaluate actual financial performance and water supply costs and determine whether adjustments to the adopted rate schedule are warranted.

It has been a pleasure assisting the Agency, and we appreciate the support provided by yourself, Ms. Green, Ms. Foss, and other Agency staff during this study.

Sincerely,



Nancy Phan, Principal Consultant



Grace Hunzicker, Project Analyst

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1. EXECUTIVE SUMMARY

1.1 AGENCY OVERVIEW

Zone 7 Water Agency (Agency) was established in 1957 to provide wholesale treated and untreated water to the Livermore-Amador Valley area. Untreated water is distributed to agricultural businesses for irrigation of approximately 3,500 acres, primarily in the South Livermore Valley vineyards. The Agency has eight “turnout water users” and approximately 87 “remote water users” who receive untreated water deliveries through the turnout users’ respective conveyance facilities. Turnout users are billed for all water delivered through their turnouts and, in turn, invoice their respective remote water users.

The Agency’s water supply sources include but are not limited to imported water from the State Water Project (SWP), local groundwater storage, surface water from Lake Del Valle, and offsite groundwater banking in Kern County.

1.2 RATE STUDY OVERVIEW

The Agency engaged WRE in 2026 to conduct a comprehensive untreated water rate study with the following objectives:

- Evaluate the Agency’s existing annual rate-setting and reconciliation methodology and develop a new multi-year rate-setting methodology that improves rate and revenue stability.
- Establish a reserve policy for the untreated water enterprise to manage differences between projected and actual costs and reduce reliance on future reconciliation adjustments.
- Develop a four-year untreated water rate schedule for Calendar Year (CY) 2027 through CY 2030, subject to periodic review based on actual financial performance and updated water supply cost projections.

1.3 RATE STUDY PROCESS

This study was conducted using industry-standard methodology outlined by the American Water Works Association (AWWA) in its *Manual of Water Supply Practices M1: Principles of Water Rates, Fees and Charges, Eighth Edition* (M1 Manual). The rate study process includes the following steps:

1. **Financial Plan:** Annual expenses and revenues are projected over the evaluation period to assess financial sufficiency and determine the level of rate revenue required.
2. **Financial Policy Development:** Reserve policy alternatives are evaluated to establish appropriate minimum, target, and maximum reserve levels to support financial resiliency and rate stability.
3. **Rate Design:** The Agency’s existing annual rate-setting and reconciliation methodology is evaluated, alternative methodologies are considered, and a new multi-year rate-setting methodology and four-year rate schedule are developed.
4. **Rate Study Documentation:** This report documents the analyses, methodology, financial policies, and resulting rates developed through the study.

1.4 ADDITIONAL INFORMATION AND DISCLAIMERS

This report summarizes the data, analyses, processes, and results of the Agency’s water rate study. Some important information to keep in mind when reading the report includes the following:

- All study projections are based on the best available data as of September 2026.
- All table values are rounded to the nearest digit shown unless stated otherwise. However, all calculations are based on precise values. Attempting to manually recreate the calculations described in this report from the values displayed in tables may therefore produce slightly different results.

1.5 CURRENT RATES

The Agency’s current untreated water rates include 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. Both rates are charged based on water consumption in acre-feet (AF).

Table 1-1 shows the current untreated rates as of 1/1/2026.

The total untreated water rate (Line 3) includes a calculated rate (Line 1) and reconciliation charge (Line 2) component. The calculated rate recovers budgeted costs for the upcoming year, while the reconciliation charge represents a true-up of prior actual costs and operates on a two-year lag. This means that the CY 2026 reconciliation charge represents a true-up of CY 2024 actual costs.

Table 1-1: Current Untreated Rates

Line	Current Untreated Rates	As of 1/1/2026
1	Calculated Rate	\$255
2	Reconciliation Charge / (Credit)	\$32
3	Total Untreated Water Rate (\$/ AF)	\$287
4		
5	Temporary Untreated Water Rate (\$/ AF)	\$1,023

1.6 CURRENT METHODOLOGY

The Agency currently establishes untreated water rates on an annual basis based on the estimated cost of water supplies, including State Water Project supplies and other imported and local water sources for the upcoming year. Since actual costs often differ from budgeted costs, historically the Agency has performed an annual reconciliation, or “true-up,” to recover under-collected costs or return over-collected revenues. Due to the Agency’s financial reporting schedule, however, the reconciliation process operates on a two-year lag. Water supply cost financial data are finalized after untreated water rates are adopted each October, meaning that rates for the upcoming calendar year reconcile actual water supply costs incurred two calendar years earlier.

More recently, rather than recovering the full reconciliation amount in a single year, the Agency has spread large reconciliation balances over multiple years to reduce annual rate impacts. As a result, portions of

prior-year supply costs are recovered over an extended period instead of being fully reflected in the next available rate adjustment.

While the current methodology has generally allowed the Agency to recover water supply costs over time, several challenges have emerged:

- **Annual water supply cost fluctuation:** Annual water supply costs are difficult to estimate accurately. This results in recurring reconciliation adjustments, which introduce uncertainty into the rate-setting process.
- **Interfund equity:** When reconciliation balances are spread over multiple years, the treated water enterprise effectively funds the shortfall until those costs are recovered through future untreated water rates.
- **Delayed recovery of actual water supply costs:** The existing two-year lag in the reconciliation process delays cost recovery and when reconciliation balances are subsequently spread over multiple years, the period between when costs are incurred and when they are recovered becomes even longer.
- **Significant rate volatility:** Although spreading reconciliation balances over several years reduces the impact of any single year's true-up, untreated rates may still fluctuate substantially as multiple years of reconciliation adjustments are layered into the rate calculation. At the same time, the Agency has limited flexibility in managing these fluctuations because it does not currently maintain a reserve for untreated water rates.

1.7 RATE METHODOLOGY UPDATE

WRE worked closely with Agency staff to evaluate alternative rate methodologies and identify an approach that addresses the Agency's rate stability, cost recovery, and financial management objectives. Some alternative methodologies evaluated include fixed and variable rate structures, interruptible and non-interruptible rates, and water supply cost surcharges.

Based on the results of this evaluation, Agency staff provided direction to proceed with a multi-year rate-setting methodology supported by a rate stabilization reserve. Under the proposed methodology, rates are established for a four-year period rather than recalculated annually. However, the Agency will review the financial condition of the Untreated Water Program periodically, based on updated actual and projected water supply costs, revenues, reserve balances, and other relevant financial conditions. If actual financial results differ materially from study projections, the Agency may consider adjustments to the remaining rate schedule.

In addition, the existing reconciliation charge is phased out beginning January 1, 2027. Differences between projected and actual costs will instead be managed through the rate stabilization reserve, subject to the annual review process.

The proposed methodology is intended to improve year-to-year rate and revenue stability, better align cost recovery with the period in which costs are incurred, reduce reliance on the treated water enterprise to temporarily fund unrecovered untreated water costs, and use reserve balances and associated interest earnings to mitigate future rate volatility.

Zone 7 Water Agency 2026 Untreated Water Rate Study

Because actual water supply costs may differ materially from projections, the financial condition of the Untreated Water Program will be reviewed periodically and may require adjustment based on updated financial conditions.

1.8 PROPOSED FINANCIAL PLAN

PROPOSED FINANCIAL POLICIES

As part of the new multi-year rate-setting methodology, WRE worked with Agency staff to develop a new untreated water reserve policy. The reserve policy is intended to provide liquidity to absorb differences between projected and actual water supply costs, support the transition away from the annual reconciliation process, and mitigate the need for sudden or significant rate adjustments. The proposed policy establishes minimum, target, and maximum reserve levels as follows:

- **Minimum:** 60 days of annual operating expenses
- **Target:** \$769,909, based on the two-year average of the most recent drought-period deficit from CY 2021 through CY 2022
- **Maximum:** \$1,457,500, based on the four-year average of projected untreated water rate revenues from Fiscal Year (FY) 2027 through FY 2030

Based on projected expenses, the minimum reserve requirement ranges from approximately \$156.7K to \$256.0K over the study period (FY 2026-2030).

PROPOSED FINANCIAL PLAN

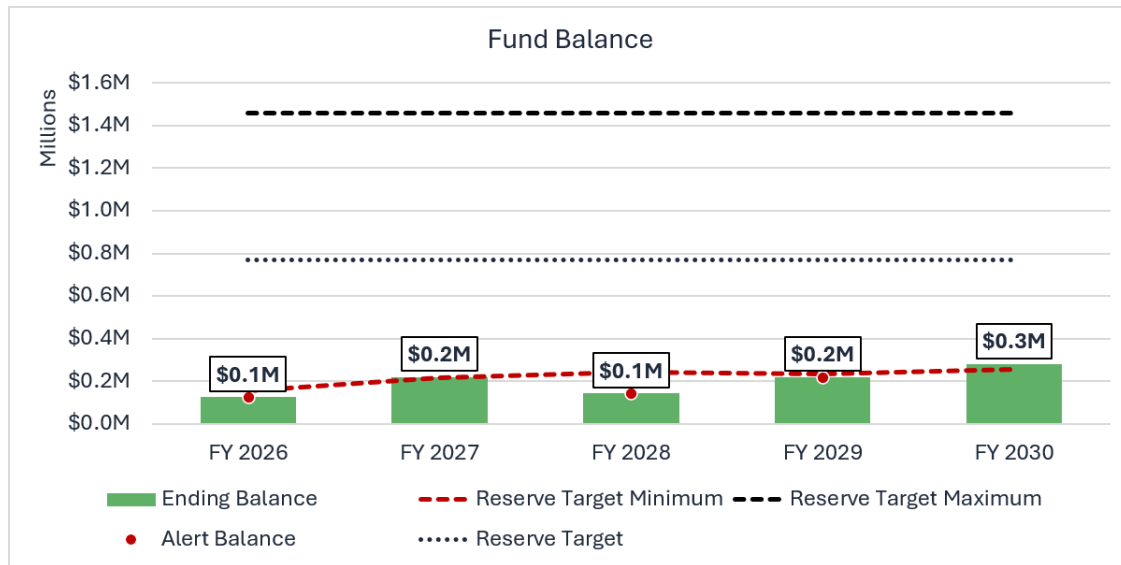
WRE worked with Agency staff to develop the proposed financial plan shown in **Table 1-2**. The proposed plan includes four years of rate adjustments designed to recover projected untreated water expenses while building the newly established rate stabilization reserve toward its minimum policy level by FY 2030. The proposed four-year rate schedule will be reviewed periodically based on updated financial conditions and direction from the Board of Directors.

Table 1-2: Proposed Financial Plan Scenario

Line	Fiscal Year	Effective Date	Rate Adjustment	Proposed Untreated Rate
1	FY 2026	1/1/2026	N/A	\$255
2	FY 2027	1/1/2027	6.0%	\$271
3	FY 2028	1/1/2028	7.0%	\$290
4	FY 2029	1/1/2029	7.0%	\$311
5	FY 2030	1/1/2030	7.0%	\$333

Figure 1-1 shows the projected fund balances under the proposed scenario for the rate setting period. Projected fund balances (green bars) are compared against the proposed reserve target minimum (dashed red line), reserve target (dotted black line), and reserve target maximum (dashed black line). In this scenario, the Agency's fund balances meet the minimum reserve requirement by FY 2030

Figure 1-1: Projected Fund Balances



1.9 PROPOSED RATES

PROPOSED FOUR-YEAR WATER RATE SCHEDULE

The proposed four-year untreated water rate schedule is recommended by the Finance Committee and based on the proposed financial plan and new multi-year rate-setting methodology. The proposed rates phase out the existing reconciliation charge beginning January 1, 2027, with future differences between projected and actual costs managed through the rate stabilization reserve and a periodic review process. Per the Finance Committee's recommendation, the four-year rate schedule will be reviewed next year based on the updated financial conditions of the Untreated Water Program.

The temporary untreated water rate includes the regular untreated water rate plus additional temporary water supply costs. No change to the existing temporary untreated water rate methodology is proposed.

Table 1-3 shows the current and proposed untreated rates effective starting on 1/1/2027 and each January thereafter.

Table 1-3: Proposed Untreated Rates

Line	Proposed Untreated Rates	As of 1/1/2026	Effective 1/1/2027	Effective 1/1/2028	Effective 1/1/2029	Effective 1/1/2030
1	Calculated Rate	\$255	\$271	\$290	\$311	\$333
2	Reconciliation Charge / (Credit)	\$32	\$0	\$0	\$0	\$0
3	Total Untreated Water Rate (\$/ AF)	\$287	\$271	\$290	\$311	\$333
4						
5	Temporary Untreated Water Rate (\$/ AF)	\$1,023	\$1,044	\$1,091	\$1,136	\$1,182

2. FINANCIAL PLAN

2.1 FINANCIAL PLAN METHODOLOGY

The purpose of a financial plan is to project revenues, expenses, cash flows, and reserve balances over a multi-year period to assess financial sufficiency and performance and to determine the amount of required rate revenue. For this study, the rate-setting period is from FY 2027 through FY 2030. The key steps in developing a financial plan for a water enterprise are below:

- **Expense projections:** Annual untreated water expenses are projected over the rate-setting period.
- **Financial policy development:** A new reserve policy is established to provide a framework for evaluating financial performance, managing cost variability, and supporting rate stabilization.
- **Proposed financial plan projections:** Projected expenses, revenues, cash flows, and reserve balances are evaluated over the study period. Proposed rate adjustments are developed to recover projected expenses and build reserves toward the established policy levels.

2.2 EXPENSES

Expenses included in the untreated water rate calculation are projected over the rate-setting period (FY 2027 through FY 2030). Agency-wide expenses are allocated to untreated water service and include direct expenses related to water supply, water service programs, the Sites program, and the Delta Conveyance Project, as well as indirect administrative overhead expenses.

INFLATIONARY ASSUMPTIONS

WRE worked with Agency staff to determine the annual inflationary assumptions to apply to the Agency's direct and indirect operating expenses. Agency staff provided budgeted expenses for FY 2027 and FY 2028; all other years are projected based on the inflationary assumptions shown in **Table 2-1**.

Table 2-1: Expense Inflationary Assumptions

Line	Inflationary Assumptions	FY 2027	FY 2028	FY 2029	FY 2030
1	General	3.0%	3.0%	3.0%	3.0%
3	Water	5.0%	5.0%	5.0%	5.0%

DIRECT EXPENSES

Table 2-2 shows the Agency's direct expenses including water supply costs, water service program costs, Sites program costs, and Delta Conveyance project costs that serve both treated and untreated customers. For water supply costs, staff provided projected values for FY 2026 and budgeted values for FY 2027 and FY 2028. For water service program costs, staff provided projected values for FY 2026 and budgeted values for FY 2027. Values for all future years are projected based on the inflationary assumptions from **Table 2-1**. Staff provided Sites program and Delta Conveyance costs for all years.

Water service program costs are calculated based on projected hours worked by Agency staff and applicable hourly rates. All identified water service programs serve both treated and untreated customers except Untreated Water Administration and the Cost of Service Study Consultant Fee, which are allocated entirely to untreated water service. Programs that do not serve untreated customers such as Groundwater Administration and Local Water Rights are excluded.

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Table 2-2: Agency-Wide Direct Expenses

Line	Agency-Wide Expenses	Escalation	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
1	Untreated Water Supply Costs						
2	Total Supply Costs	Water Supply	\$4,592,456	\$4,750,000	\$7,750,000	\$8,137,500	\$8,544,375
3	Subtotal		\$4,592,456	\$4,750,000	\$7,750,000	\$8,137,500	\$8,544,375
4							
5	Untreated Water Service Program Costs						
6	Untreated Water Administration (1002)	General	\$48,343	\$41,927	\$43,185	\$44,480	\$45,815
7	Water Utility Planning Administration (1005)	General	\$855,245	\$643,419	\$662,721	\$682,603	\$703,081
8	State Water Project Administration (2003)	General	\$179,272	\$186,691	\$192,291	\$198,060	\$204,002
9	Water Storage Administration (3001)	General	\$867	\$898	\$925	\$953	\$982
10	Other Water Supplies (2007)	General	\$131,563	\$137,845	\$141,980	\$146,239	\$150,627
11	Supply Source & Conveyance Administration (2001)	General	\$14,556	\$14,839	\$15,284	\$15,743	\$16,215
12	Semitropic (3005)	General	\$12,491	\$12,913	\$13,301	\$13,700	\$14,111
13	Cawelo (3006)	General	\$8,261	\$8,520	\$8,776	\$9,039	\$9,310
14	Cost of Service Study Consultant Fee	Non-Recurring	\$3,078	\$22,578	\$0	\$0	\$0
15	Subtotal		\$1,253,676	\$1,069,630	\$1,078,463	\$1,110,817	\$1,144,142
16							
17	Sites Program Costs	Staff Provided	\$0	\$0	\$0	\$1,070,000	\$1,629,000
18	Delta Conveyance Costs	Staff Provided	\$1,320,000	\$3,300,000	\$1,980,000	\$0	\$0
19							
20	Total		\$7,166,132	\$9,119,630	\$10,808,463	\$10,318,317	\$11,317,517

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After projecting agency-wide direct expenses, applicable costs are allocated to untreated water service using the methodologies shown in **Table 2-3**. Most shared expenses are allocated based on the proportion of actual or planned untreated water deliveries relative to total treated and untreated water deliveries.

Table 2-3: Untreated Allocation Methodology

Line	Untreated Allocation Methodology	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
1	Actual Consumption	10.8%	12.5%	12.5%	12.5%	12.5%
2	Planned Consumption	12.9%	12.5%	12.5%	12.5%	12.5%
3	All Untreated	100.0%	100.0%	100.0%	100.0%	100.0%

Table 2-4 shows the untreated direct expense allocation based on the applicable untreated allocation methodologies from **Table 2-3**.

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2026 Untreated Water Rate Study

Table 2-4: Untreated Direct Expenses

Line	Untreated Direct Expenses	Untreated Allocation	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
1	Untreated Water Supply Costs						
2	Total Supply Costs	Actual Consumption	\$494,192	\$593,750	\$968,750	\$1,017,188	\$1,068,047
3	Subtotal		\$494,192	\$593,750	\$968,750	\$1,017,188	\$1,068,047
4							
5	Untreated Water Service Program Costs						
6	Untreated Water Administration (1002)	All Untreated	\$48,343	\$41,927	\$43,185	\$44,480	\$45,815
7	Water Utility Planning Administration (1005)	Planned Consumption	\$110,214	\$80,427	\$82,840	\$85,325	\$87,885
8	State Water Project Administration (2003)	Planned Consumption	\$23,102	\$23,336	\$24,036	\$24,758	\$25,500
9	Water Storage Administration (3001)	Planned Consumption	\$112	\$112	\$116	\$119	\$123
10	Other Water Supplies (2007)	Planned Consumption	\$16,954	\$17,231	\$17,748	\$18,280	\$18,828
11	Supply Source & Conveyance Administration (2001)	Planned Consumption	\$1,876	\$1,855	\$1,911	\$1,968	\$2,027
12	Semitropic (3005)	Planned Consumption	\$1,610	\$1,614	\$1,663	\$1,712	\$1,764
13	Cawelo (3006)	Planned Consumption	\$1,065	\$1,065	\$1,097	\$1,130	\$1,164
14	Cost of Service Study Consultant Fee	All Untreated	\$3,078	\$22,578	\$0	\$0	\$0
15	Subtotal		\$206,353	\$190,146	\$172,595	\$177,772	\$183,106
16							
17	Sites Program Costs	Planned Consumption	\$0	\$0	\$0	\$133,750	\$203,625
18	Delta Conveyance Costs	Planned Consumption	\$142,045	\$412,500	\$247,500	\$0	\$0
19							
20	Total		\$842,591	\$1,196,396	\$1,388,845	\$1,328,710	\$1,454,777

OVERHEAD EXPENSES

Table 2-5 shows agency-wide direct labor and central administrative costs that support water operations but are not directly attributable to individual water supply or service activities. These costs include administrative salaries, insurance, utilities, property management, and other general support costs. Actual expenses were provided for FY 2026 and budgeted expenses for FY 2027; subsequent years are projected using a 3.0% annual general inflation assumption.

Table 2-5: Agency Wide Overhead Expenses

Line	Overhead Expenses	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
1	Direct Labor Costs					
2	Water Utility Support Services	\$3,479,888	\$4,873,252	\$5,019,450	\$5,170,033	\$5,325,134
3	Supply Source & Conveyance	\$326,576	\$517,052	\$532,564	\$548,541	\$564,997
4	Water Storage	\$1,857,641	\$1,495,084	\$1,539,936	\$1,586,135	\$1,633,719
5	Water Treatment	\$8,090,930	\$7,882,282	\$8,118,750	\$8,362,313	\$8,613,182
6	Water Transmission	\$1,368,913	\$1,375,915	\$1,417,192	\$1,459,708	\$1,503,499
7	Flood Protection	\$1,895,289	\$2,523,279	\$2,598,978	\$2,676,947	\$2,757,255
8	Total	\$17,019,237	\$18,666,864	\$19,226,870	\$19,803,676	\$20,397,786
9						
10	Central Admin Costs	\$9,113,443	\$10,468,680	\$10,782,741	\$11,106,223	\$11,439,409

Table 2-6 shows the central admin cost allocation to each direct labor cost program based on current direct labor cost allocation by program (**Table 2-5**, Lines 2-8). The total central admin cost allocation (Line 7) is equal to total central admin costs (**Table 2-5**, Line 10).

Table 2-6: Central Admin Cost Allocation

Line	Central Admin Cost Allocation	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
1	Water Utility Support Services	\$1,863,407	\$2,732,999	\$2,814,989	\$2,899,438	\$2,986,422
2	Supply Source & Conveyance	\$174,875	\$289,971	\$298,670	\$307,630	\$316,859
3	Water Storage	\$994,728	\$838,467	\$863,621	\$889,530	\$916,216
4	Water Treatment	\$4,332,523	\$4,420,512	\$4,553,127	\$4,689,721	\$4,830,412
5	Water Transmission	\$733,024	\$771,635	\$794,784	\$818,628	\$843,187
6	Flood Protection	\$1,014,887	\$1,415,096	\$1,457,549	\$1,501,275	\$1,546,314
7	Total	\$9,113,443	\$10,468,680	\$10,782,741	\$11,106,223	\$11,439,409

Table 2-7 shows the untreated overhead cost calculation based on the total direct labor costs and central admin costs related to untreated (including water utility support services, supply source & conveyance, and water storage). Total untreated direct labor costs are from **Table 2-5** (sum of Lines 2-4) and total untreated central admin costs are from **Table 2-6** (sum of Lines 1-3). The overhead percentage (Line 3) represents the ratio of central admin costs (Line 2) to direct labor costs (Line 1). Lastly, the overhead costs (Line 5) are calculated by applying the overhead percentage (Line 3) to the total untreated water service program costs (**Table 2-4**, Line 15).

Table 2-7: Untreated Overhead Calculation

Line	Overhead Calculation	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
1	Total Untreated Direct Labor Costs	\$5,664,105	\$6,885,388	\$7,091,950	\$7,304,708	\$7,523,850
2	Total Untreated Central Admin Costs	\$3,033,009	\$3,861,437	\$3,977,281	\$4,096,599	\$4,219,497
3	Overhead Percentage (%)	53.5%	56.1%	56.1%	56.1%	56.1%
4						
5	Calculated Overhead Costs	\$110,498	\$106,637	\$96,794	\$99,698	\$102,689

EXPENSE SUMMARY

Table 2-8 shows the summary of expenses for the study period from **Table 2-4** (Lines 3, 15, 17-18) and **Table 2-7** (Line 5).

Table 2-8: Expenses Summary

Line	Expenses	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
1	Water Supply Costs	\$494,192	\$593,750	\$968,750	\$1,017,188	\$1,068,047
2	Water Service Program Costs	\$206,353	\$190,146	\$172,595	\$177,772	\$183,106
3	Sites Program Costs	\$0	\$0	\$0	\$133,750	\$203,625
4	Delta Conveyance Costs	\$142,045	\$412,500	\$247,500	\$0	\$0
5	Overhead Costs	\$110,498	\$106,637	\$96,794	\$99,698	\$102,689
6	Total	\$953,089	\$1,303,032	\$1,485,638	\$1,428,408	\$1,557,466

2.3 FINANCIAL POLICIES

RESERVE POLICY

As part of the new multi-year rate-setting methodology, WRE worked with Agency staff to develop a new untreated water reserve policy. The reserve policy was presented to the Finance Committee. After discussion, the Finance Committee did not propose changes to the policy. The reserve policy is intended to provide liquidity to absorb differences between projected and actual water supply costs, support the transition away from the annual reconciliation process, and mitigate the need for sudden or significant rate adjustments. The proposed policy establishes minimum, target, and maximum reserve levels as follows:

- **Minimum:** 60 days of annual operating expenses
- **Target:** \$769,909, based on the two-year average of the most recent drought-period deficit from CY 2021 through CY 2022
- **Maximum:** \$1,457,500, based on the four-year average of projected untreated water rate revenues from FY 2027 through FY 2030

Prior to this study, the untreated water enterprise did not maintain a formal reserve policy specifically designed to support the untreated water rate-setting process. The minimum represents the level of liquidity the Agency should maintain to support ongoing operations. The target provides additional capacity to absorb water supply cost variability based on recent drought-period experience. The maximum establishes an upper bound for accumulated untreated water reserves relative to projected rate revenues.

2.4 PROPOSED FINANCIAL PLAN

PROPOSED FINANCIAL PLAN SCENARIO

The proposed financial plan was devised based on input from Agency staff and direction from the Finance Committee. The proposed financial plan includes four years of revenue adjustments as shown in **Table 2-9** starting on 1/1/2027. These adjustments are necessary to cover expenses and meet the minimum reserve target by FY 2030.

Although the proposed rates are established for a four-year period, the Agency will review the rate schedule periodically based on updated actual and projected expenses, revenues, and reserve balances. The periodic review will allow the Agency to determine whether the remaining adopted rate schedule continues to provide adequate cost recovery and reserve funding or whether adjustments should be considered.

Table 2-9: Proposed Financial Plan Scenario

Line	Fiscal Year	Effective Date	Rate Adjustment	Proposed Untreated Rate
1	FY 2026	1/1/2026	N/A	\$255
2	FY 2027	1/1/2027	6.0%	\$271
3	FY 2028	1/1/2028	7.0%	\$290
4	FY 2029	1/1/2029	7.0%	\$311
5	FY 2030	1/1/2030	7.0%	\$333

CURRENT AND PROPOSED UNTREATED WATER RATES

Table 2-10 shows the current and proposed untreated water rates.

The current untreated water rate (Line 3) consists of a calculated rate (Line 1) and a reconciliation charge (Line 2). The calculated rate recovers projected costs for the upcoming year, while the reconciliation charge represents a true-up of prior actual costs. Under the proposed multi-year rate methodology, the reconciliation charge is phased out beginning January 1, 2027. Differences between projected and actual costs will instead be managed through the rate stabilization reserve and periodic rate review process.

Table 2-10: Current and Proposed Untreated Rates

Line	Current & Proposed Untreated Rates	As of 1/1/2026	Effective 1/1/2027	Effective 1/1/2028	Effective 1/1/2029	Effective 1/1/2030
1	Calculated Rate	\$255	\$271	\$290	\$311	\$333
2	Reconciliation Charge / (Credit)	\$32	\$0	\$0	\$0	\$0
3	Total Untreated Water Rate (\$/ AF)	\$287	\$271	\$290	\$311	\$333

EFFECTIVE UNTREATED WATER RATES

Table 2-11 shows the effective untreated water rates used to project fiscal-year revenues. Because the Agency's fiscal year begins July 1 while untreated water rates become effective January 1, each fiscal year includes six months at the rate effective during the prior calendar year and six months at the newly

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effective rate. The effective fiscal-year rates shown below therefore represent the average of the applicable calendar-year rates.

Table 2-11: Effective Untreated Rates

Line	Effective Untreated Rates	FY 2027	FY 2028	FY 2029	FY 2030
1	Calculated Rate	\$263	\$281	\$301	\$322
2	Reconciliation Charge / (Credit)	\$16	\$0	\$0	\$0
3	Total Untreated Water Rate (\$/ AF)	\$279	\$281	\$301	\$322

PROJECTED RATE REVENUES

Table 2-12 shows projected untreated water rate revenues over the rate-setting period assuming annual consumption of 5,000 AF, consistent with Agency staff's FY 2027 budgeted demand. No changes in annual demand are assumed over the rate-setting period based on staff projections. Calculated rate revenues and reconciliation revenues are determined by multiplying the applicable effective fiscal-year rates from **Table 2-11** by projected annual consumption.

Table 2-12: Calculated Rate Revenues

Line	Calculated Rate Revenues	FY 2027	FY 2028	FY 2029	FY 2030
1	Base Rate Revenues	\$1,315,000	\$1,402,500	\$1,502,500	\$1,610,000
2	Reconciliation Charge / (Credit) Revenues	\$80,000	\$0	\$0	\$0
3	Total	\$1,395,000	\$1,402,500	\$1,502,500	\$1,610,000

REVENUE SUMMARY

Table 2-13 summarizes projected untreated water revenues. Rate revenues are from **Table 2-12** (Line 3), except for FY 2026 projected rate revenues, which were provided by Agency staff. One-time water transfer revenue was also provided by staff, and interest income is calculated based on average fund balances and a 2.5% interest rate. Due to uncertainty regarding future water transfer revenue, no additional water transfer revenue is projected over the rate-setting period. If additional water transfer revenue is received, it could provide an additional funding source to the rate stabilization reserve, to help absorb future water supply cost fluctuations.

Table 2-13: Revenue Summary

Line	Revenues	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
1	Rate Revenues (Incl. Reconciliation)	\$1,162,479	\$1,395,000	\$1,402,500	\$1,502,500	\$1,610,000
2	Water Transfers	\$168,865	\$0	\$0	\$0	\$0
3	Interest Income	\$0	\$4,253	\$4,470	\$4,469	\$6,163
4	Total	\$1,331,344	\$1,399,253	\$1,406,970	\$1,506,969	\$1,616,163

PROPOSED CASH FLOW & FUND BALANCE PROJECTIONS

Table 2-14 shows the fund balance and cash flow projections for the proposed financial plan. Revenues (Line 1) are from **Table 2-13** (Line 4) and expenses are from **Table 2-8** (Line 6). The net cash flow (Line 3) is equal to revenues (Line 1) less expenses (Line 2).

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Based on projected sources and uses of funds, the untreated water fund balance increases from a deficit of approximately \$254.1K at the beginning of FY 2026 to approximately \$279.0K at the end of FY 2030. Under the proposed financial plan, the Agency is projected to meet the newly established minimum reserve requirement by the end of the rate-setting period in FY 2030.

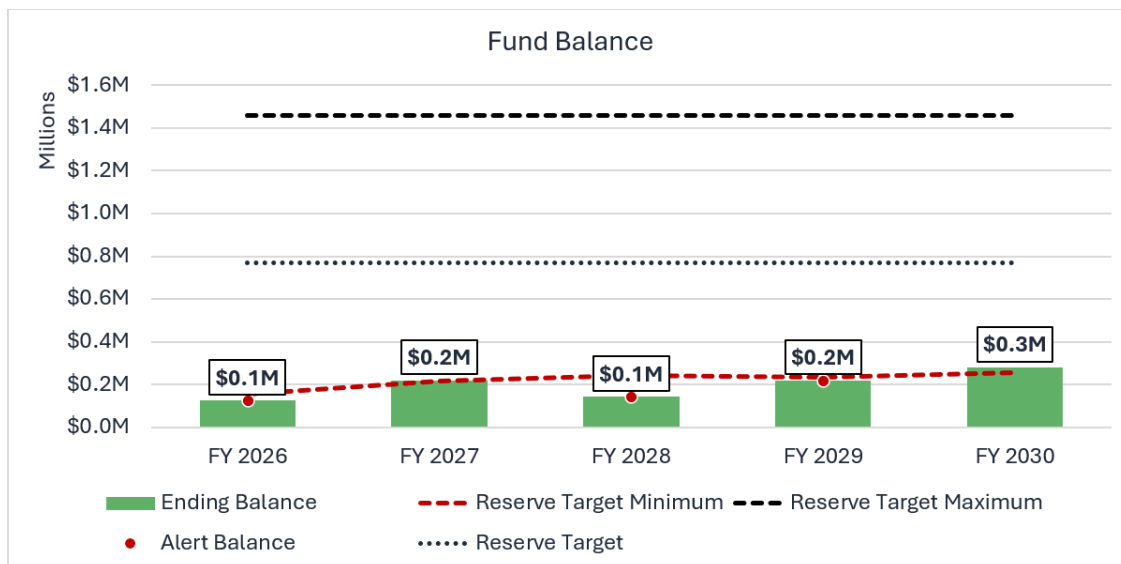
Table 2-14: Projected Cash Flows & Fund Balances

Line	Cash Flow & Fund Balance	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
1	Revenues	\$1,331,344	\$1,399,253	\$1,406,970	\$1,506,969	\$1,616,163
2	Expenses	\$953,089	\$1,303,032	\$1,485,638	\$1,428,408	\$1,557,466
3	Net Cash Flow	\$378,255	\$96,221	(\$78,668)	\$78,561	\$58,697
4						
5	Beginning Fund Balance	(\$254,103)	\$124,152	\$220,373	\$141,705	\$220,266
6	Ending Fund Balance	\$124,152	\$220,373	\$141,705	\$220,266	\$278,963
7						
8	Minimum Reserve	\$156,672	\$214,197	\$244,215	\$234,807	\$256,022
9	Target Reserve	\$769,909	\$769,909	\$769,909	\$769,909	\$769,909
10	Maximum Reserve	\$1,457,500	\$1,457,500	\$1,457,500	\$1,457,500	\$1,457,500
11	Meets Minimum Reserve?	No	Yes	No	No	Yes

Figure 2-1 shows projected fund balances under the proposed financial plan relative to the newly established minimum, target, and maximum reserve levels. Fund balances fluctuate during the rate-setting period as projected water supply costs change and are projected to meet the minimum reserve requirement by FY 2030.

Because projected fund balances fall below the minimum reserve requirement in certain interim years, the periodic review process (with the first review proposed in one year) will provide the Agency with an opportunity to evaluate actual financial performance and determine whether adjustments to the remaining rate schedule are warranted.

Figure 2-1: Projected Fund Balances



3. RATE DEVELOPMENT

3.1 UNTREATED WATER RATE

Table 3-1 shows the current and proposed untreated water rates for the four-year rate-setting period. The proposed rates are based on the multi-year financial plan described in **Section 2** and are designed to recover projected untreated water expenses while building the rate stabilization reserve toward the newly established minimum reserve requirement. Beginning January 1, 2027, the existing reconciliation charge is phased out and differences between projected and actual costs will instead be managed through the rate stabilization reserve and periodic review process.

The proposed four-year rate schedule will be reviewed periodically based on updated actual and projected financial conditions. As a result of this review, adjustments to the remaining rate schedule may be considered if actual costs, demands, revenues, or reserve balances differ materially from study projections.

Table 3-1: Current and Proposed Untreated Water Rates

Line	Current & Proposed Untreated Rates	As of 1/1/2026	Effective 1/1/2027	Effective 1/1/2028	Effective 1/1/2029	Effective 1/1/2030
1	Calculated Rate	\$255	\$271	\$290	\$311	\$333
2	Reconciliation Charge / (Credit)	\$32	\$0	\$0	\$0	\$0
3	Total Untreated Water Rate (\$/ AF)	\$287	\$271	\$290	\$311	\$333

3.2 TEMPORARY UNTREATED WATER RATE

The temporary untreated water rate consists of the regular untreated water rate plus additional temporary water supply costs. No change to the existing methodology for calculating the temporary untreated water rate is proposed as part of this study.

TEMPORARY WATER SUPPLY COST

Table 3-2 shows the calculation of the temporary water supply cost rate per AF. Agency staff provided budgeted agency-wide temporary water supply costs for FY 2027 and FY 2028; subsequent years are projected using a 3.0% annual general inflation assumption (Line 1). Agency-wide costs are allocated to untreated water service based on the projected untreated allocation of 12.5% (Line 2). Because temporary untreated water rates become effective each January, calendar-year costs (Line 3) are calculated as the average of the applicable fiscal-year costs. The temporary supply cost rate per AF (Line 5) is then calculated by dividing calendar-year untreated costs (Line 3) by projected annual usage (Line 4).

Table 3-2: Temporary Water Supply Cost Calculation

Line	Temporary Water Supply Costs	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
1	Agency Wide Costs	\$30,273,000	\$31,533,000	\$32,478,990	\$33,453,360	\$34,456,960
2	Untreated Allocation (12.5%)	\$3,784,125	\$3,941,625	\$4,059,874	\$4,181,670	\$4,307,120
3	Average CY Untreated Costs	\$3,862,875	\$4,000,749	\$4,120,772	\$4,244,395	N/A
4	Projected Usage (AF)	5,000	5,000	5,000	5,000	
5	Temporary Supply Cost Rate (\$/ AF)	\$773	\$801	\$825	\$849	

TEMPORARY UNTREATED WATER RATE

Table 3-3 shows the current and proposed temporary untreated water rates for the four-year rate-setting period. The regular untreated water rate (Line 1) from **Table 3-1** is added to the temporary supply cost rate (Line 2) from **Table 3-2** to calculate the total temporary untreated water rate per AF (Line 3).

Table 3-3: Current and Proposed Temporary Untreated Water Rate

Line	Current and Proposed Temporary Untreated Water Rate	As of 1/1/2026	Effective 1/1/2027	Effective 1/1/2028	Effective 1/1/2029	Effective 1/1/2030
1	Untreated Water Rate (\$/ AF)		\$271	\$290	\$311	\$333
2	Temporary Supply Cost Rate (\$/ AF)		\$773	\$801	\$825	\$849
3	Total Temporary Untreated Water Rate (\$/ AF)	\$1,023	\$1,044	\$1,091	\$1,136	\$1,182

Consistent with the proposed multi-year rate methodology, the Agency will review the untreated water rate schedule periodically based on updated financial conditions. The review will consider actual and projected water supply costs, water demands, revenues, and reserve balances to determine whether the remaining rate schedule continues to provide adequate cost recovery and reserve funding.