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Contact: Boni Brewer

925-454-5015

Zone 7 Board Approves 5% Rate Increase

Action Helps to Preserve Critical Reserves During Continuing Economic Downturn While Assuring Funding For Needed Water-System Infrastructure Maintenance and Improvements

In efforts to ensure levels of service reliability and establish funding for infrastructure investments to address future water quality improvements, the Zone 7 Water Agency Board of Directors on Wednesday approved a 5% increase in wholesale water rates for Calendar Year 2012.

The 5% increase will add \$1.88 to the monthly water bill for the typical household, if fully passed on to customers by water retailers serving Pleasanton, Livermore, Dublin and the Dougherty Valley portion of San Ramon.

Board members said the increase will help the agency reduce the need for large rate spikes later by (1) extending use of cash reserves through the projected period of economic recovery, continuing to use them to minimize rate increases for customers, as has been the board's position since the economic downturn started in 2008; (2) doing the kind of system-wide upkeep that preserves infrastructure, minimizing service disruptions and large repair costs in the future; and (3) setting aside funds for future water-quality improvements such as taste- and odor-control projects and demineralization to reduce hardness. System-Wide Improvements and Renewal/Replacement projects are all included in the Zone's Asset Management Plan, which was updated and adopted by the Board in June 2011.

"In this period of tight budgets, Zone 7 continues to maintain a high level of service while achieving cost-efficiencies in operations and maintenance," Board President Sandy Figuers said.

Zone 7's mission is to provide reliable, safe and high-quality water supplies to the people it serves and to do so in a fiscally-responsible way. Zone 7, a public agency that takes a conservative businesslike approach to financing, avoids borrowing money because borrowing adds interest to future costs, ultimately adding to costs paid by ratepayers.

The board had considered rate increase options of up to 10%, but said it was trying to minimize hardships for ratepayers in these difficult economic times. All of the board members emphasized that nobody likes a rate increase but a minimal level is necessary to avoid a spike next year when all projections suggest that the economy may not be completely recovered yet. A 5% rate increase can be achieved by taking another \$2.5 million from cash reserves this fiscal year, and yet another \$1.7 million in Fiscal Year (FY) 2012-13, to cover operating costs and contributions to Zone 7's much-needed Asset Management Program.

A key component of the rate increase involves the need to properly maintain and protect the approximately 40 miles of transmission pipeline, nine municipal wells, three water treatment plants and a groundwater demineralization facility that comprise the framework of Zone 7's wholesale water system.

Many of these facilities were built more than 40 years ago. While Zone 7 has steadily maintained them, some require significant refurbishment or replacement. In recent years, as part of a larger effort to reduce costs during the economic downturn, Zone 7 has deferred many equipment replacement and improvement projects. But some can no longer wait.

Through its newly updated Asset Management Plan, adopted by the Board on June 15, 2011, the agency has identified the need to increase the annual contribution from water rates to replace equipment as necessary to maintain reliability and prevent both system breakdowns and service disruptions. This financially responsible, proactive approach to asset management, which also includes setting aside funds for planned water quality and other system-wide improvements, requires increasing the contribution from water rates by \$1.6 million for FY 2012-13.

Continued cost-efficiency measures are helping to hold down the 2012 rate. Operating budgets for this fiscal year and for FY 2012-13 are \$2.2 million and \$2.5 million, respectively, less than for FY 2010-11. Efficiency measures include a soft hiring freeze, employee benefit and cost-of-living wage concessions, lowered costs of outside contracts by maximizing the use of in-house

resources, reduced chemical costs by participating in the Bay Area Chemical Consortium (BACC), a group of Bay Area water agencies that purchase common treatment chemicals and achieve lower pricing by seeking bids for the higher volumes used by the whole group.

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