

## **ZONE 7 BOARD OF DIRECTORS FINANCE COMMITTEE**

DATE: Thursday, September 12, 2024  
TIME: 11:00 a.m.  
LOCATION: Zone 7 Administration Building  
100 North Canyons Parkway, Livermore

Director Benson  
Director Brown  
Director Narum

### **AGENDA**

1. Call Meeting to Order
2. Public Comment on Items Not on Agenda
3. Calendar Year 2025 Preliminary Untreated Water Rate
4. Proposed Municipal & Industrial Water Connection Fees for CY 2025
5. FY 2023-24 Unaudited Fourth Quarter Revenue and Expenditure Report
6. Adjournment

**DATE:** September 12, 2024

**TO:** Finance Committee

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

**SUBJECT:** Calendar Year 2025 Preliminary Untreated Water Rate

**SUMMARY:**

- The proposed action is in support of Strategic Plan Goal G – Fiscal Responsibility: Operate the Agency in a fiscally responsible manner and Strategic Initiative No. 24 – continue to effectively manage financial resources. This rate review is consistent with the Board policy guidelines for untreated water rates adopted via Resolution No. 21-77 on October 20, 2021.
- The Agency sets untreated water rates on an annual basis. Rates are typically adopted by the Board each October and become effective the following January.
- Each year, prior to the annual untreated rate setting process, staff provides the Untreated Customers with an overview of the upcoming rate setting process to ensure they are aware of specific Committee and Board meetings that may be of interest. As part of this correspondence, staff encourages customers to attend and participate throughout the process to facilitate open communication and transparency.
- The calendar year (CY) 2025 preliminary untreated water rate calculation has been completed. Based on the policy guidelines for untreated water rates, the CY 2025 calculated untreated water rate is \$239 per acre foot (\$239/AF).
- The scheduled reconciliation charge for the second year of the five-year implementation schedule is \$42/AF. Applying this charge to the calculated rate brings the CY 2025 preliminary untreated water rate to \$281/AF. The table below compares the current rate to the CY 2025 preliminary rate.

	<b>CY 2024</b>	<b>CY 2025 (Preliminary)</b>
Calculated Rate	\$220	\$239
Reconciliation Charge	\$43	\$42
<b>Total Untreated Rate</b>	<b>\$263</b>	<b>\$281</b>

- As part of the CY 2025 untreated rate setting process, staff completed and presented the results of the CY 2023 reconciliation at the August 8, 2024, Finance Committee meeting. Based on the results, a credit of \$304,392 was applied to the outstanding reconciliation balance, reducing it to (\$1,108,165).

- The five-year implementation schedule to collect the outstanding reconciliation balance beginning in CY 2024, was selected and approved by the Board via Resolution No. 23-77, dated October 18, 2023. The Board selected the five-year option over the 10-year option to mitigate the following risks:
  - › *Impact on Treated Customers* – risk of impact on treated water rates due to treated customers carrying the cost burden of the untreated reconciliation balance for a prolonged period.
  - › *Impact on Future Untreated Customers* – Prolonged phase-in presents the risk of future untreated customers paying costs they did not incur.
- Consistent with past practice, staff will present the CY 2025 preliminary untreated water rate at the September 12, 2024, Finance Committee meeting. Staff will seek the Committee’s recommendation regarding the CY 2025 preliminary untreated water rate to forward to the Board for formal adoption in October.

**DISCUSSION:**

- In October 2021, following an extensive untreated water stakeholder outreach process, the Board provided policy guidelines regarding the untreated water rate components. The approved components include:
  - *Water Supply Costs:* Water supply costs make up approximately 85-90% of the untreated water rate and have proven to be very volatile due to declining water supply reliability, climate change, and weather whiplash. In dry years, expensive water transfers may be needed to meet current demands. In extremely wet years, the Agency incurs costs associated with storing water, which is essential to meet demands during future dry years. Given the uncertainty, the Agency uses the five-year historical average of water supply costs and water deliveries for rate setting purposes. The five-year historical average captures the highs and lows of hydrology and associated costs and helps mitigate major rate volatility from year to year. The reconciliation process captures any under or over collection of revenues.
  - *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. These water service costs are relatively stable year-to-year and are projected based on hours worked and hourly rate of pay.
  - *Overhead:* Overhead costs are the ongoing costs of running the Agency that are not directly tied to water delivery or water service. These include expenses like property management and utilities at North Canyons, Board and administration salaries, IT, and insurance. The customers pay for a portion of the overhead costs through the water rate, ensuring the Agency can maintain operations and continue to deliver water.

- The untreated water rate calculation has resulted in a CY 2025 untreated water rate of \$239/AF and a preliminary temporary untreated water rate is \$954/AF. Table 1 provides a breakdown of both calculations.

Table 1: Untreated Water Rate Calculation<sup>1</sup>

Untreated Water Rate Calculation	Total Untreated	Untreated Deliveries (AF)	Unit Rate (\$/AF)
Water Service Costs	\$104,684	5,275	\$20
Overhead Costs	\$50,074	5,275	\$9
Water Supply Costs	1,105,612	5,275	\$210
<b>Total Untreated Water Rate</b>	<b>\$1,260,370</b>		<b>\$239</b>
Untreated Water Costs	\$1,260,370	5,275	\$239
Temporary Water Supply Costs <sup>2</sup>	\$3,770,091	5,275	\$715
<b>Total Temporary Untreated Water Rate</b>	<b>\$5,030,461</b>		<b>\$954</b>

- In October 2023, the Board approved the five-year implementation schedule via Resolution No. 23-77, dated October 18, 2023, for the outstanding reconciliation balance as shown below in Table 2. Per the schedule, a reconciliation charge of \$42/AF is planned to be applied to the CY 2025 untreated water rate.

Table 2: Approved Implementation Schedule

	Year 1 CY 2024	Year 2 CY 2025	Year 3 CY 2026	Year 4 CY 2027	Year 5 CY 2028
5-Year Phase-in	\$43	\$42	\$42	\$41	\$41

- Table 3 shows the impact of applying the scheduled CY 2025 reconciliation charge to the CY 2025 calculated untreated water rate and compares the CY 2025 preliminary untreated rate to the current rate.

Table 3: Year 2 Implementation Impact on CY 2025 Preliminary Untreated Water Rate

Phase-in Options	CY 2025 Reconciliation Charge	CY 2025 Calculated Rate	CY 2025 Preliminary Untreated Rate	Current Untreated Rate <sup>3</sup>	Change (\$)
5-Year Phase-in	\$42	\$239	<b>\$281</b>	\$263	+\$18

- The draft report for the CY 2025 Untreated Water Rate Update can be found in Attachment A.
- Staff is seeking the Committee’s recommendation on the CY 2025 preliminary untreated water rate. Staff will incorporate the Finance Committee’s recommendation into the Draft CY 2025 Untreated Water Rate Update Report and bring the CY 2025 preliminary

<sup>1</sup> Values may not add due to rounding.

<sup>2</sup> Temporary costs include the State Water Project fixed costs collected through the property tax override.

<sup>3</sup> Current rate includes a \$43 reconciliation charge.

untreated water rate to the full Board for adoption at the October 16, 2024, regular Board meeting. If approved, the CY 2025 untreated water rate will take effect January 1, 2025.

**FUNDING:**

N/A

**RECOMMENDED ACTION:**

Discuss and provide a recommendation for the CY 2025 preliminary untreated water rate.

**ATTACHMENTS:**

Attachment A – Draft CY 2025 Untreated Water Rate Update Report

Attachment B – Historical Untreated Water Rates



**WATER  
AGENCY**



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# Executive Summary

## 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”).

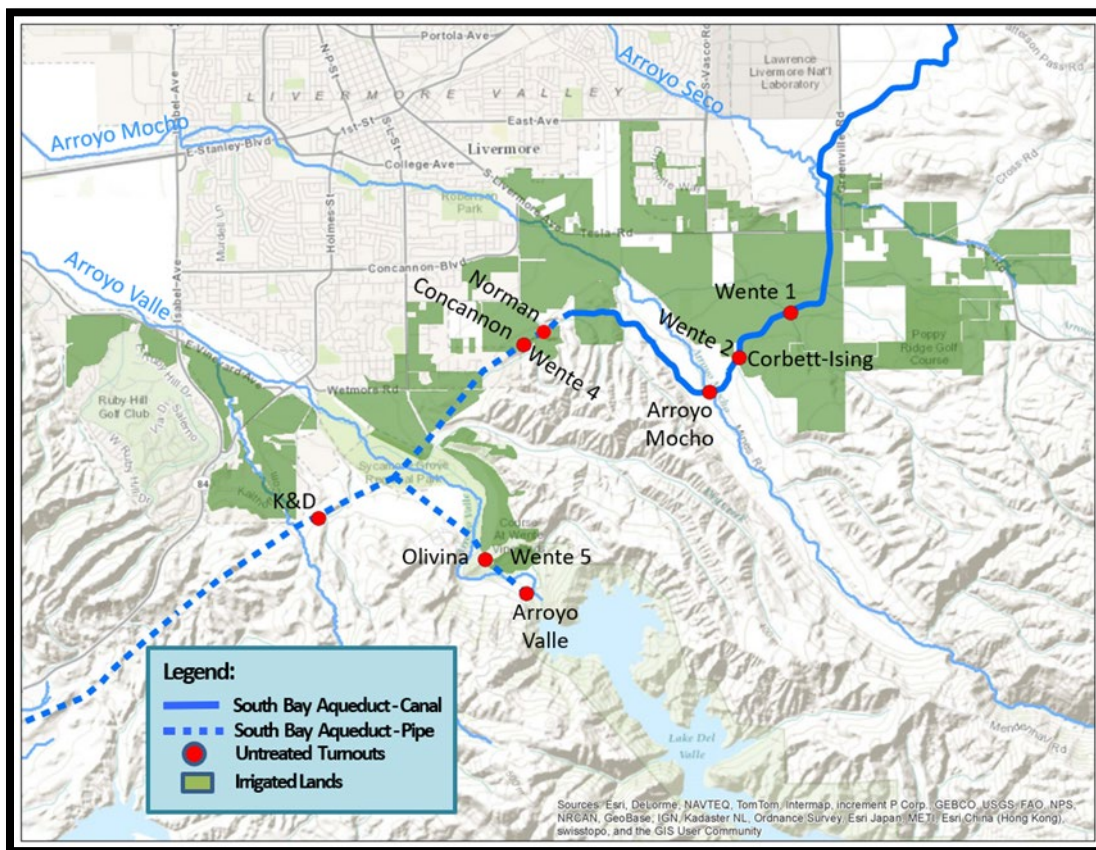
The Agency’s water resources include imported water from the SWP, local groundwater storage, surface water captured in the Del Valle Reservoir, and offsite groundwater banking in Kern County. Historically, most of the Agency’s water demand has been met by imported water from the SWP; approximately 70 percent of the current water demand is met through SWP water.

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 87 untreated water users that may collectively request water deliveries of up to 8,104 acre-feet (AF) per year. However, only seven of these contractors receive water from the Agency directly from a SBA turnout. These seven water users are referred to as “turnout water users.” The remaining 80 “remote water users” receive their water deliveries through the turnout water users’ respective conveyance facilities. The Agency’s current practice is to invoice the seven 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 the 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 reflect 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 delivery via the SBA.

Figure 1: Map of Untreated Water Turnouts



## 2024 Untreated Water Rate Update Background

The 2024 Untreated Water Rate Update (the “2024 Update”) updated the untreated water rates for calendar year (CY) 2025 based on the Board principles for untreated water rates adopted via Resolution No. 21-77, dated October 20, 2021.

The major objectives of the 2024 Update include:

- » Ensure financial sufficiency for the untreated water enterprise to meet water supply and program costs
- » Develop untreated and temporary untreated water rates consistent with approved Board principles
- » Maintain fairness and equitability of rates while minimizing customer impacts

## General Report Assumptions

The 2024 Update acknowledges the volatility of water supply costs from year to year and the challenge of accurately predicting future water supply by smoothing projected water supply costs using a five-year historical average. This method helps avoid major rate shock to

untreated water customers when extreme weather patterns are anticipated. The following assumptions reflect five-year historical averages:

- » Planned Water Deliveries
- » Planned Water Supply 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 (CY 2024), which the Agency adopted on October 18, 2023, via Resolution No. 23-77.

**Table 1: Current Untreated Water Rates (CY 2024)**

Current Untreated Water Rates (\$/AF)	CY 2024
Untreated Water Rate	\$263 <sup>1</sup>
Temporary Untreated Water Rate	\$916

## Planned Water Deliveries

**Table 2** shows the planned water deliveries for untreated and treated water customers in CY 2025, and the percent of total deliveries for each service. As mentioned above, planned untreated and treated water deliveries are based on the five-year historical average.

**Table 2: Planned Water Deliveries (CY 2025)**

Planned Water Deliveries	Total AF	% of Total
Untreated Water	5,275	13.14%
Treated Water	34,876	86.86%
<b>Total</b>	<b>40,151</b>	<b>100.0%</b>

## Calculated Untreated Water Rates

**Table 3** shows the calculated untreated water rate and the temporary untreated water rate for CY 2025. The calculated rate excludes any reconciliation charge or credit.

**Table 3: Calculated Untreated Water Rates (CY 2025)**

Calculated Untreated Water Rates (\$/AF)	CY 2025
Untreated Water Rate	\$239
Temporary Untreated Water Rate	\$954

<sup>1</sup>Current rate includes a \$43 reconciliation charge.

# Water Service

This section outlines the Agency's water service costs and the associated costs & descriptions of the various staff programs that make up the water service costs.

## Agency Staff Programs

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. These water service costs are calculated on actual hours worked by Agency staff and an hourly rate of pay.

The following section describes the various staff programs and their roles in the untreated water system. All the following Agency staff programs, except for the Untreated Water Program, serve both treated and untreated water customers. All other 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.

### **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 Planning**

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 Banked 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.

## Water Service Costs

Agency staff provided estimated water service costs for each of the programs, which include projected hourly pay and hours worked per role for CY 2025. The detailed water service costs by program are included in the **Technical Appendix**.

**Table 4** shows the water service cost summary for all Agency staff programs that serve the Untreated Water Customers and the allocation to the untreated water system. Untreated Water Program costs are only distributed to the untreated water system, while the remaining staff programs benefit both treated and untreated customers. The percent of costs allocated to untreated water customers (except for Untreated Water Program costs) is based on the proportion of planned water deliveries for CY 2025 from **Table 2**.

**Table 4: Water Service Cost Summary (CY 2025)<sup>2</sup>**

<b>Water Service Costs Summary</b>	<b>Total Agency</b>	<b>% To Untreated</b>	<b>Total Untreated</b>
State Water Project Program	\$98,564	13.14%	\$12,949
Untreated Water Program	\$32,018	100.0%	\$32,018
Water Supply and Storage Planning	\$417,049	13.14%	\$54,792
Cawelo Banked Water Program	\$20,797	13.14%	\$2,732
Semitropic Banked Water Program	\$16,685	13.14%	\$2,192
<b>Total - Water Service Costs</b>	<b>\$585,113</b>	<b>17.89%</b>	<b>\$104,684</b>

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<sup>2</sup> Values may not add due to rounding.

# Agency Overhead

This section outlines the Agency’s overhead costs and calculation. The resulting overhead percentage, determined in **Table 7**, is applied to the water service costs derived in the previous section.

## Overhead Costs and Calculation

Overhead costs are the ongoing costs of running the Agency that are not directly tied to water production or water service. These include expenses like property management and utilities at headquarters, Board and administration salaries, information technology, and insurance. The Agency needs to cover these costs to stay operational, so the customer indirectly pays for a portion of the overhead through the rate, ensuring the Agency can maintain operations and continue to deliver water.

For this report, these costs are referred to as Central Administration costs, or indirect costs and are shared across all Agency departments. Detailed central administration costs are included in the **Technical Appendix** at the end of this report.

The overhead calculation uses both direct labor costs and indirect costs for all Agency programs. Direct labor costs are Agency staff hours charged directly to the following programs: Water Utility Support Services, Supply Source and Conveyance, Water Storage, Water Treatment, Water Transmission, and Flood Protection. Indirect costs are charged to the Central Administration program. **Table 5** shows the total direct labor and indirect costs to each program.

**Table 5: Agency Direct Labor and Indirect Costs (CY 2025)<sup>3</sup>**

Programs	Direct Labor	Indirect Costs
Water Utility Support Services	\$3,310,479	\$0
Supply Source & Conveyance	\$290,248	\$0
Water Storage	\$1,760,057	\$0
Water Treatment	\$7,231,061	\$0
Water Transmission	\$1,116,937	\$0
Central Administration	\$0	\$7,342,557
Flood Protection	\$1,641,345	\$0
<b>Total - Programs</b>	<b>\$15,350,127</b>	<b>\$7,342,557</b>

**Table 6** takes the total direct labor and indirect costs from **Table 5** and adds the allocation of indirect costs to each program based on the proportion of direct labor costs. For example, the following equation is used to calculate the allocated Central Administration indirect costs for the Water Utility Support Services program:

<sup>3</sup> Values may not add due to rounding.

$\$7,342,557$  total Central Administration costs x ( $\$3,310,479$  Water Utility Support Services direct labor costs /  $\$15,350,127$  total direct labor costs) =  $\$1,583,529$

**Table 6: Agency-wide Overhead Cost Allocations (CY 2025)<sup>4</sup>**

Programs	Direct Costs	Indirect Costs (Central Admin)	Central Admin Allocation
Water Utility Support Services	\$3,310,479	\$0	\$1,583,529
Supply Source & Conveyance	\$290,248	\$0	\$138,837
Water Storage	\$1,760,057	\$0	\$841,903
Water Treatment	\$7,231,061	\$0	\$3,458,895
Water Transmission	\$1,116,937	\$0	\$534,274
Central Administration	\$0	\$7,342,557	\$0
Flood Protection	\$1,641,345	\$0	\$785,119
<b>Total - Programs</b>	<b>\$15,350,127</b>	<b>\$7,342,557</b>	<b>\$7,342,557</b>

The relevant programs, applicable to the untreated water system, include Water Utility Support Services, Supply Source and Conveyance, and Water Storage (highlighted in light blue). **All other program costs do not directly apply to the untreated water system and are not included in the calculation.**

**Table 7** shows the calculation of the untreated water overhead percentage. The Agency-wide overhead allocation is represented by the indirect costs associated with each dollar of direct labor costs. To calculate the untreated water overhead percentage, the central administration costs for the Water Utility Support Services, Supply Source and Conveyance, and Water Storage Programs are divided by the total direct labor costs for the same three programs. The resulting percentage of 47.8 percent represents approximately 48 cents of indirect costs for each dollar of applicable direct labor costs allocated to untreated water.

**Table 7: Untreated Water Overhead Percentage Calculation (CY 2025)<sup>4</sup>**

Untreated Water Programs	Direct Labor	Central Admin
Water Utility Support Services	\$3,310,479	\$1,583,529
Supply Source & Conveyance	\$290,248	\$138,837
Water Storage	\$1,760,057	\$841,903
<b>Total - Untreated Water Programs</b>	<b>\$5,360,783</b>	<b>\$2,564,269</b>
Overhead Percentage		47.8%

**Table 8** shows the untreated water program’s portion of overhead, which is calculated by multiplying the overhead percentage in **Table 7** by the planned untreated water service costs for CY 2025 in **Table 4**.

<sup>4</sup> Values may not add due to rounding.

**Table 8: Untreated Water Overhead Costs (CY 2025)<sup>5</sup>**

<b>Overhead Costs</b>	<b>Total Untreated</b>
Untreated Water Service Costs	\$104,684
Overhead Percentage	47.8%
<b>Untreated Water Overhead Costs</b>	<b>\$50,074</b>

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<sup>5</sup> Values may not add due to rounding.



# Water Supply

This section of the report outlines the Agency's water supply sources and planned water supply costs for CY 2025. Water supply costs make up approximately 85-90% of the untreated water rate and historically have been very volatile and challenging to predict.

## Water Supply Portfolio

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. When available, excess surface water supplies are placed into storage locally or remotely for future use. Total 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.

- » **Excess Supplies**

This is officially referred to as "Article 21" water and is surplus water that is made available, in addition to Table A water, when the San Luis Reservoir is full. It is water that would otherwise flow to the Bay.

- » **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 that could bypass the South Delta when it is unusable. The project has been developed by the Department of Water Resources 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.

### Water Transfers/Exchanges

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 approximately 1 percent of available water.

» **Dry Year Transfer Program**

During dry years, the State Water Contractors negotiate water purchases north of the Delta, which makes additional water available to interested SWP 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.

**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). Recovered water is delivered via exchange through the South Bay Aqueduct as surface water is conveyed through the Delta.

**Water Supply Costs**

Water supply costs are challenging to predict due to climate change and declining water supply reliability. In addition, anticipated water supply costs and the SWP’s final allocation for CY 2025 is not available until mid-2025. Because of these challenges, the CY 2025 planned water supply costs are based on the five-year historical average of allocable water supply costs. This method generates projected water supply costs of \$8,415,354 for CY 2025.

**Table 9** shows five years of historical water supply costs. The water supply breakdown can be found in the **Technical Appendix**.

**Table 9: Five-Year Historical Water Supply Costs<sup>6</sup>**

	<b>Total Water Supply Costs</b>
FY 2019-20	\$3,916,962
FY 2020-21	\$5,672,701
FY 2021-22	\$15,912,409
FY 2022-23	\$9,107,429
FY 2023-24 (Unaudited)	\$7,467,271
<b>5-Year Average</b>	<b>\$8,415,354</b>

**Table 10** shows the water supply cost summary and the allocation to the untreated water program. The percent of costs allocated to untreated water customers is based on the proportion of planned water deliveries in CY 2025 from **Table 2**.

**Table 10: Planned Water Supply Cost Summary (CY 2025)<sup>6</sup>**

<b>Planned Water Supply Cost Summary</b>	<b>Total Agency</b>	<b>% To Untreated</b>	<b>Total Untreated</b>
Water Supply Costs	\$8,415,354	13.14%	\$1,105,612
Temporary Water Supply Costs	\$28,696,000	13.14%	\$3,770,091

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<sup>6</sup> Values may not add due to rounding.

# Water Reconciliation Charge

This section of the report outlines the framework and calculations for the water reconciliation charge.

## Reconciliation Framework

As part of the 2021 Untreated Water Rate Study, Raftelis Financial Consultants, Inc. collaborated with Agency staff to develop the following framework for calculating the annual water reconciliation charge, which is detailed in this subsection of the report. The proposed water reconciliation charge framework meets the Agency's objectives for the following reasons:

- » Truing up water supply and water service costs from prior years will ensure that the Agency is collecting sufficient revenues to meet its costs.
- » The water reconciliation charge, which can be an additional charge or a credit, ensures the Agency is not over- or under-collecting revenues from its untreated water customers.
- » The water reconciliation charge also establishes equity between treated and untreated water customers by ensuring that untreated water customers are paying for their fair share of costs.

### **Step 1: Determine the implementation schedule for the water reconciliation charge.**

Actual calendar year cost information is available to the Agency six months after the year ends. Therefore, the water reconciliation charge true up costs at least two years prior to the year that it is implemented. For example, actual costs for CY 2023 are available in mid-2024; the water reconciliation charge, which is calculated to true up CY 2023 costs, is then implemented in the CY 2025 untreated water rate. The Agency's Board can determine the number of years to phase-in the reconciliation charge based on relevant policy objectives, such as minimizing customer impacts. Generally, the water reconciliation charge is applied to the next year's rate. However, if the true-up of costs in a particular year are significantly higher than planned, the Board can opt to phase-in the water reconciliation charge over multiple years to minimize impacts to customers.

### **Step 2: Allocate actual costs for the entire Agency between treated and untreated water based on planned or actual deliveries.**

Agency costs include water supply costs, water service costs, and overhead for both treated and untreated water customers. Once actual costs are available for the reconciliation year, the proposed framework allocates each cost category based on the following:

- » Water supply costs are allocated between treated and untreated customers based on each user group's proportion of actual deliveries. Since most water supply costs are variable (meaning that the more water delivered, the higher the costs), it is most equitable to allocate these costs between the two customer types based on the amount of actual water delivered to each.

- » Untreated water program costs are allocated entirely to untreated water customers.
- » The remaining water service costs are allocated between treated and untreated customers based on each user group's proportion of planned deliveries. Since water service costs are fixed (meaning that these costs are incurred regardless of how much water is delivered), it is most equitable to allocate these costs based on the planned deliveries that were used to calculate that year's rate.
- » Overhead costs are determined by multiplying the planned overhead percentage for that year's rate by the water service costs allocated to untreated water customers.
- » It is important to note that all costs included in the original untreated water rate should be included in the reconciliation, and vice versa.

**Step 3: Calculate the reconciliation amount using a cash flow analysis.**

Historically, untreated water usage has been relatively steady year-to-year. However, in years where actual untreated water usage exceeds planned untreated water usage (which is used to determine the rate), increased revenue is received from the untreated water program. The cash flow analysis not only incorporates the actual costs incurred by the Agency but also isolates the untreated water customers' economies of scale generated from increased water usage. The cash flow analysis to determine the amount that is reconciled includes two components:

- » Actual untreated water rate revenues for the reconciliation year
- » Actual untreated water costs for the reconciliation year.

Actual untreated water rate revenues are compiled for the reconciliation year and actual untreated water costs were determined in Step 2. The cash flow analysis is equal to the actual untreated water rate revenues less actual untreated water costs.

If a reconciliation balance is outstanding, the credit/charge resulting from the cash flow analysis will be applied to the outstanding reconciliation balance.

**Step 4: Determine the water reconciliation charge.**

To determine the reconciliation charge, the reconciliation amount, calculated in Step 3, is divided by the planned deliveries for the implementation year. The reconciliation charge is then divided by the number of phase-in years determined in Step 1. The resulting number is the reconciliation charge to apply to each future year.

**Step 5: Repeat the same process for future years.**

This framework can be used to determine the water reconciliation charge for any future year. The Agency's Board can elect to phase-in the water reconciliation charge as determined in Step 1. However, the reconciliation charge implementation schedule determined in Step 1, must be incorporated each year to ensure Agency staff can fully understand the financial impacts of the implemented rates, especially rates that are lower than what is necessary to fully reconcile all costs and revenues for the untreated water system.

## CY 2023 Reconciliation Calculation

This subsection will detail the calculation for the CY 2023 water reconciliation amount following the steps outlined in the framework.

### Step 1: Determine the implementation schedule for the water reconciliation charge.

As a result of the CY 2022 reconciliation calculation, the Board approved a five-year implementation schedule of the outstanding reconciliation balance (Resolution No. 23-77, dated October 18, 2023). The first year of the phase-in was applied to the CY 2024 untreated water rate.

### Step 2: Allocate actual costs for the entire Agency between treated and untreated water based on planned or actual deliveries.

**Table 11** shows the planned and actual water deliveries between untreated and treated water in CY 2023. The planned deliveries for CY 2023 are the same as those used to calculate the CY 2023 untreated water rate. The resulting percentage allocations are then used to divide actual water supply and water service costs to untreated water customers.

**Table 11: Water Deliveries and Allocations (CY 2023)**

Water Deliveries	Untreated Water	Treated Water	Total
Planned Deliveries (AF)	6,000	36,361	<b>42,361</b>
Percent Allocation	14.16%	85.84%	<b>100%</b>
Actual Deliveries (AF)	4,726	33,850	<b>38,576</b>
Percent Allocation	12.25%	87.75%	<b>100%</b>

**Table 12** shows the CY 2023 actual costs allocated to untreated water. Water supply costs are allocated based on the percent of actual deliveries, untreated water program costs are allocated entirely to untreated water and the remaining water service costs are allocated based on the percent of planned deliveries from **Table 11**. Untreated overhead costs are allocated based on the planned overhead allocation from **Table 7**.

**Table 12: Actual Untreated Water Supply and Service Costs (CY 2023)<sup>7</sup>**

<b>Actual Costs (CY 2023)</b>	<b>Agency Total</b>	<b>Allocation Method</b>	<b>% to Untreated</b>	<b>Total Untreated</b>
<b>Water Supply Costs<sup>8</sup></b>				
Delta Conveyance Project	\$2,375,000	Actual Deliveries	12.25%	\$290,965
SWP Transportation <sup>9</sup>	\$2,683,975	Actual Deliveries	12.25%	\$328,818
Yuba Accord	\$0	Actual Deliveries	12.25%	\$0
Dry Year Transfer Program	\$0	Actual Deliveries	12.25%	\$0
Other Water Transfers	\$0	Actual Deliveries	12.25%	\$0
Semitropic Banked Water	\$442,492	Actual Deliveries	12.25%	\$54,210
Semitropic Banked Water O&M	\$547,300	Actual Deliveries	12.25%	\$67,050
Cawelo Banked Water	\$0	Actual Deliveries	12.25%	\$0
<b>Total - Water Supply Costs</b>	<b>\$6,048,767</b>			<b>\$741,043</b>
<b>Water Service Costs</b>				
State Water Project Administration	\$92,090	Planned Deliveries	14.16%	\$13,044
Untreated Water Administration	\$19,308	Untreated Water	100%	\$19,308
Water Supply and Storage Planning	\$535,085	Planned Deliveries	14.16%	\$75,789
Water Banking Programs	\$22,942	Planned Deliveries	14.16%	\$3,249
<b>Total - Water Supply Management Staff Costs</b>	<b>\$669,425</b>			<b>\$111,390</b>
<b>Overhead</b>				
<b>Total Overhead Costs</b>	N/A	Planned	43.37%	<b>\$48,305</b>
<b>Total Costs</b>	<b>\$6,718,192</b>			<b>\$900,738</b>

**Step 3: Calculate the reconciliation amount using a cash flow analysis.**

The cash flow analysis calculates whether the untreated water sales revenue, collected in CY 2023, was sufficient to cover the actual untreated water program costs. Where revenues exceed costs, a credit is applied to the reconciliation balance. Where costs exceed revenue, a charge is applied.

<sup>7</sup> Values may not add due to rounding.

<sup>8</sup> CY 2023 water supply costs reflect a State Water Project Allocation of 100%.

<sup>9</sup> SWP Transportation costs exclude 7,900 AF of SWP water conveyed to recharge the groundwater basin and 842 AF of Article 21 (SWP surplus water) sold directly to customers.

**Table 13** shows the cash flow analysis used to determine whether CY 2023 resulted in a credit or charge against the untreated water program reconciliation balance.

**Table 13: Cash Flow Analysis (CY 2023)**

<b>Water Reconciliation Charge</b>	<b>CY 2023</b>
Actual Untreated Water Rate Revenue <sup>10</sup>	\$1,205,130
(Less) Actual Untreated Water Costs <sup>11</sup>	\$900,738
<b>CY 2023 Reconciliation Amount (Credit)</b>	<b>\$304,392</b>

The CY 2023 credit of \$304,392 was a result of the following:

- \$36/AF reconciliation charge applied to the rate generating approximately \$170K of revenue.
- Approximately \$134K of water supply cost savings due to a 100% State Water Project allocation.

**Step 4: Determine the water reconciliation charge.**

The CY 2023 reconciliation resulted in a credit which has been applied to the outstanding reconciliation balance. Per Resolution No. 23-77, dated October 18, 2023, the remaining outstanding reconciliation balance will be collected over the succeeding four years. Based on the Board approved five-year phase-in, a reconciliation charge of \$42/AF is scheduled to be applied to the CY 2025 untreated water rate.

## Outstanding Reconciliation Balance

The outstanding reconciliation amount as of December 2023 is (\$1,108,165).

<sup>10</sup> Excludes revenue generated from the sale of 842 AF of Article 21 (SWP surplus water) in May and June 2023.

<sup>11</sup> SWP Transportation costs exclude 7,900 AF of SWP water conveyed to recharge the groundwater basin and 842 AF of Article 21 (SWP surplus water) sold directly to customers.



# Preliminary Untreated Water Rates

This section of the report combines the water service costs, overhead costs, and water supply costs to calculate the preliminary untreated water rates and incorporates year two of the five-year implementation schedule in **Table 16**.

## Untreated Water Rate Calculation

**Table 14** shows the preliminary untreated water rate calculation for CY 2025. The preliminary untreated water rate includes the untreated water system’s portion of water service costs (from **Table 4**), overhead costs (from **Table 8**), and water supply costs (from **Table 10**). The temporary untreated water rate includes all untreated water costs and the temporary water supply costs (from **Table 10**). The reconciliation charge is not applied to the temporary untreated water rate. The untreated costs are divided by the planned untreated water deliveries for CY 2025 (from **Table 2**) to derive the rate per AF of water.

**Table 14: Preliminary Untreated Water Rates Calculation (CY 2025)<sup>12</sup>**

Untreated Water Rate Calculation	Total Untreated	Untreated Deliveries (AF)	Unit Rate (\$/AF)
Water Service Costs	\$104,684	5,275	\$20
Overhead Costs	\$50,074	5,275	\$9
Water Supply Costs	1,105,612	5,275	\$210
<b>Total Untreated Water Rate</b>	<b>\$1,260,370</b>		<b>\$239</b>
Untreated Water Costs	\$1,260,370	5,275	\$239
Temporary Water Supply Costs <sup>13</sup>	\$3,770,091	5,275	\$715
<b>Total Temporary Untreated Water Rate</b>	<b>\$5,030,461</b>		<b>\$954</b>

## Board Approved Reconciliation Implementation Schedule

**Table 15** shows the Board approved five-year implementation schedule. The reconciliation charge for CY 2025 is scheduled to be \$42/AF.

<sup>12</sup> Values may not add due to rounding.

<sup>13</sup> Temporary costs include the State Water Project fixed costs collected through the property tax override.

**Table 15: Board Approved Five-Year Implementation Schedule**

	CY 2024	CY 2025	CY 2026	CY 2027	CY 2028
5-Year Phase-in	\$43 <sup>14</sup>	\$42	\$42	\$41	\$41

**Table 16** shows the impacts of incorporating \$42/AF to the calculated CY 2025 untreated water rate.

**Table 16: Reconciliation Charge Impact on CY 2025 Calculated Untreated Water Rate**

	Reconciliation Charge	CY 2025 Calculated Rate	Preliminary CY 2025 Untreated Rate + Charge	Current Untreated Rate	Change (\$)
CY 2025	\$42	\$239	<b>\$281</b>	\$263	+\$18

<sup>14</sup> Reconciliation charge of \$43/AF has been applied to the CY 2024 untreated water rate. Revenue generated from this charge will be analyzed as part of the CY 2024 reconciliation process and applied to the outstanding reconciliation balance.

# Technical Appendix

Table 17: Water Service Cost Detail<sup>15</sup>

Water Service Costs	Hourly Pay (\$/hr) <sup>16</sup>	Hours Worked	Total Cost
<b>Untreated Water Administration</b>			
Finance Analyst	\$149.00	85	\$12,665
Senior Planner	\$150.00	8	\$1,200
Associate Engineer	\$170.00	95	\$16,150
Associate Planner	\$140.00	4	\$560
Assistant Planner	\$111.00	13	\$1,443
<b>Total- Untreated Water Administration</b>			<b>\$32,018</b>
<b>Water Utility Planning Administration</b>			
Water Resources Manager	\$190.00	9	\$1,710
Water Resources Tech II	\$122.00	35	\$4,270
Engineering Manager	\$197.00	30	\$5,910
Associate Engineer	\$170.00	234	\$39,780
Senior Planner	\$150.00	7	\$1,050
Assistant Engineer	\$147.00	862	\$126,714
Senior Planner	\$140.00	54	\$7,560
Principal Engineer	\$188.00	65	\$12,220
Assistant Planner	\$111.00	815	\$90,465
Assistant Engineer	\$130.00	9	\$1,170
Assistant Engineer	\$122.00	488	\$59,536
<b>Total - Water Utility Planning Administration</b>			<b>\$350,385</b>
<b>State Water Project Administration</b>			
Associate Engineer	\$170.00	285	\$48,450
Assistant Planner	\$111.00	400	\$44,400
Finance Analyst	\$163.00	8	\$1,304
Assistant Engineer	\$147.00	30	\$4,410
<b>Total - State Water Project Administration</b>			<b>\$98,564</b>
<b>Water Storage Administration</b>			
Water Resources Manager	\$190.00	9	\$1,710
Associate Engineer	\$170.00	4	\$680
<b>Total - Water Storage Administration</b>			<b>\$2,390</b>
<b>Other Water Supplies</b>			
Associate Engineer	\$170.00	138	\$23,460
Senior Planner	\$140.00	1	\$140

<sup>15</sup> Values may not add due to rounding.

<sup>16</sup> Includes salaries, wages, and benefits.

Assistant Planner	\$111.00	114	\$12,654
<b>Total - Other Water Supplies</b>			<b>\$36,254</b>
<b>Supply Source &amp; Conveyance Administration</b>			
Water Resources Manager	\$190.00	81	\$15,390
Associate Engineer	\$170.00	71	\$12,070
Senior Planner	\$140.00	4	\$560
<b>Total - Supply Source &amp; Conveyance Administration</b>			<b>\$28,020</b>
<b>Semitropic</b>			
Intern	\$39.00	7	\$273
Associate Engineer	\$170.00	43	\$7,310
Associate Planner	\$111.00	82	\$9,102
<b>Total - Semitropic</b>			<b>\$16,685</b>
<b>Cawelo</b>			
Associate Engineer	\$170.00	59	\$10,030
Assistant Planner	\$111.00	97	\$10,767
<b>Total - Cawelo</b>			<b>\$20,797</b>

**Table 18: Central Administration (Indirect Cost) Detail (CY 2025)<sup>17</sup>**

Account Description - Central Administration	Total Indirect Costs	Flood Protection Operations	Water Operations	
			Treated Water Customers	Untreated Water Customers <sup>18</sup>
Salaries and Wages (Board of Directors, OGM, Finance, HR and Admin)	\$3,489,584	\$373,131	\$3,092,655	\$23,798
Professional and Technical Services (Website, Communication, North Canyons (NC) Property Management, etc)	\$1,258,907	\$134,611	\$1,115,710	\$8,585
County Services (Payroll and Vendor checks etc.)	\$1,236,970	\$132,266	\$1,096,268	\$8,436
Insurance Services (Property & liability)	\$597,518	\$63,891	\$529,552	\$4,075
Gas and Electricity for North Canyons	\$138,400	\$14,799	\$122,658	\$944
Sewer Discharge Fees	\$569	\$61	\$504	\$4
Water Service for NC	\$5,218	\$558	\$4,624	\$36
Communications (Telecommunication services for NC)	\$55,812	\$5,968	\$49,464	\$381
Garbage Disposal Services for NC	\$11,384	\$1,217	\$10,089	\$78
Janitorial Services/Supplies for NC	\$457	\$49	\$405	\$3
Repairs/Service of Equipment (Back up Generator repairs etc)	\$9,071	\$970	\$8,039	\$62
Repairs/Service of Buildings & Property (Commercial property Mgmt., ADT security services etc.)	\$198,736	\$21,250	\$176,131	\$1,355
Maintenance Parts & Supplies (Irrigation parts, electrical parts and misc. supplies)	\$3,763	\$402	\$3,335	\$26
Rents & Leases - Equipment (Copier machine, postage meter etc.)	\$20,216	\$2,162	\$17,916	\$138
General Office Supplies & Expenses (IT services, software, paper, pens, files etc)	\$194,197	\$20,765	\$172,108	\$1,324
Reproduction and Printing (Budget book etc)	\$3,401	\$364	\$3,014	\$23
Subscriptions (News papers, CA Dept of Fish and Wildlife)	\$1,225	\$131	\$1,085	\$8
Postage, Delivery & Shipping (Payments to US Postal Services, FedEx etc.)	\$4,037	\$432	\$3,578	\$28
Organization Memberships (Membership for Board Members, GM, Admin Staff etc.)	\$6,715	\$718	\$5,951	\$46
Support and Program Participation (Sponsorships - Association of Bay Area Governments (ABAG))	\$5,000	\$535	\$4,431	\$34
Advertising and Legal Notices (Job postings)	\$7,831	\$838	\$6,940	\$53
State and Local Fees (City of Livermore Tri-Valley Tech Park CFD No. 99-1 Series 2015 Bonds)	\$31,689	\$3,389	\$28,084	\$216
Emergency & Safety Supplies & Services	\$7,522	\$804	\$6,667	\$51
Training Materials and Services (ACWA Training, Water Education, CSMFO and GFOA)	\$40,220	\$4,301	\$35,645	\$274
Educational Stipend - Zone 7	\$8,085	\$865	\$7,165	\$55
Travel/Transportation (Board Members travel expense reimbursement)	\$2,728	\$292	\$2,417	\$19
Mileage	\$3,302	\$353	\$2,926	\$23
<b>Total</b>	<b>\$7,342,557</b>	<b>\$785,119</b>	<b>\$6,507,364</b>	<b>\$50,074</b>

<sup>17</sup> Values may not add due to rounding.

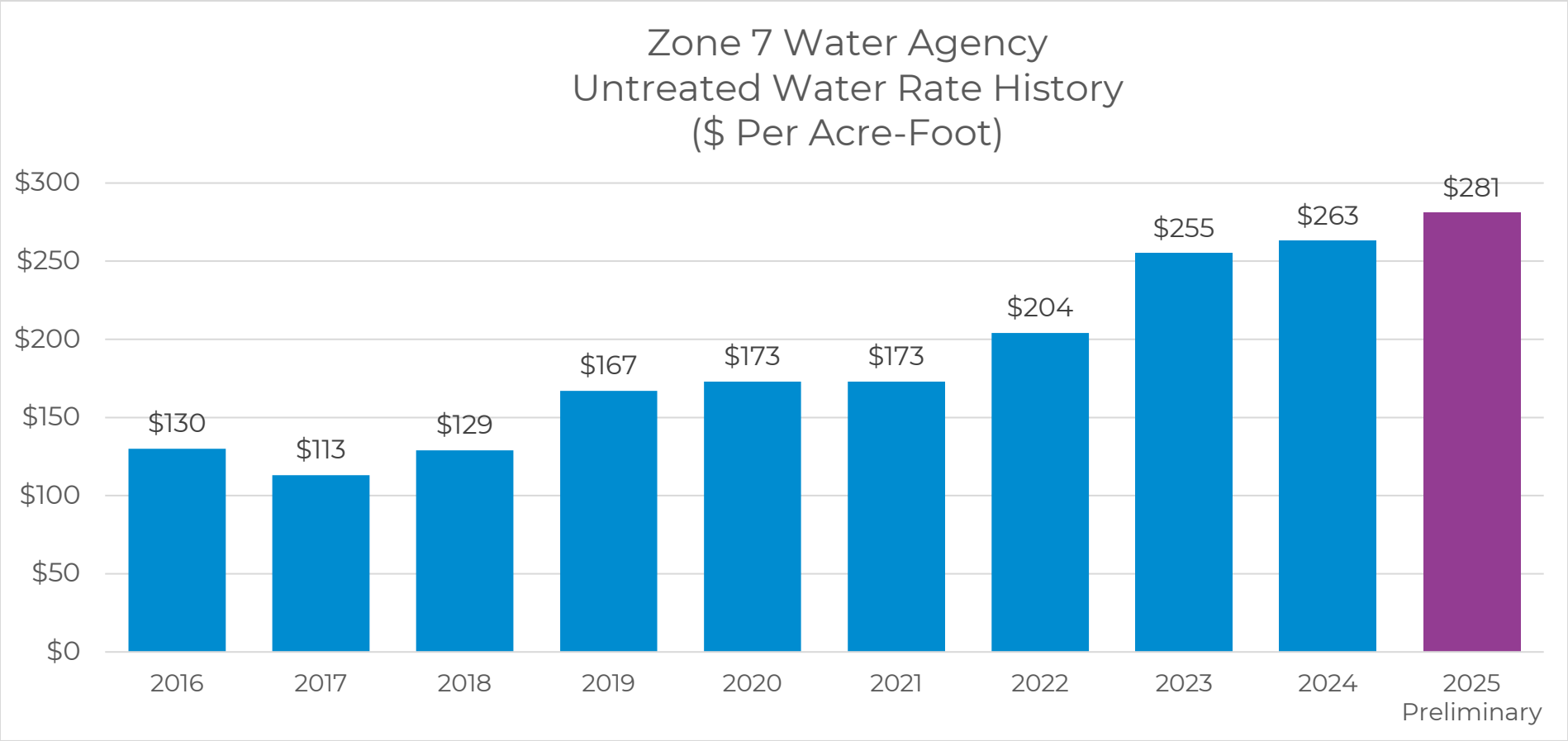
<sup>18</sup> Untreated Customers pay approximately 0.68% of total Agency overhead.

**Table 19: Water Supply Breakdown (CY 2025)<sup>19</sup>**

<b>Water Supply Cost Breakdown</b>	<b>FY 2019-20</b>	<b>FY 2020-21</b>	<b>FY 2021-22</b>	<b>FY 2022-23</b>	<b>FY 2023-24 (Unaudited)</b>	<b>5-Year Average</b>
State Water Project	\$2,547,436	\$1,643,971	\$2,040,223	\$1,114,630	\$3,779,334	\$2,225,119
Water Transfers/Exchanges	90,000	2,153,562	8,192,572	3,880,464	128,000	2,888,920
Banked Water Programs	1,279,526	1,179,750	4,305,743	2,246,378	1,184,937	2,039,266
Delta Conveyance Project	-	695,418	1,373,871	1,865,957	2,375,000	1,262,049
<b>Total Water Supply Costs</b>	<b>\$3,916,962</b>	<b>\$5,672,701</b>	<b>\$15,912,409</b>	<b>\$9,107,429</b>	<b>\$7,467,271</b>	<b>\$8,415,354</b>

<sup>19</sup> Values may not add due to rounding.

Attachment B  
Historical Untreated Water Rates



**DATE:** September 12, 2024

**TO:** Finance Committee

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

**SUBJECT:** Proposed Municipal & Industrial Water Connection Fees for Calendar Year 2025

**SUMMARY:**

- The proposed action is in support of Strategic Plan Goal G – Fiscal Responsibility: Operate the Agency in a fiscally responsible manner. In carrying out these fiscal responsibilities, the Agency sets rates and fees to recover the cost of service.
- Zone 7 established the Municipal & Industrial (M&I) Connection Fee Program in 1972 to assess water connection fees to new development to fund water system expansion projects required to serve additional water demands from new development.
- The last comprehensive connection fee study was performed in FY 2016-17 by a financial consulting firm, NBS (2017 Study). The 2017 Study found that fees are compliant with the State of California Mitigation Fee Act (Government Code 66000, et seq.) which requires a rational nexus between the fees and program costs. Since 2017, fees have been adjusted annually by an inflationary index, consistent with the 2017 Study's recommendation and past Board actions.
- The Board resolved, with the adoption of the 2002 Connection Fee (Resolution No. 02-2450), that the basic fee be updated annually based on the Engineering News Record Construction Cost Index (ENR CCI), or as warranted to keep current with current plans and projections based on periodic reviews. In 2013, the Board adopted Resolution No. 14-4316 which changed the maximum update interval for comprehensively evaluating the connection fee from every three years to every five years.
- **Connection Fee Study:** A Connection Fee Study update is planned for completion by Spring 2025. Information from the 2020 Tri-Valley Municipal & Industrial Water Demand Study, 2020 Urban Water Management Plan Update, 2022 Water Supply Evaluation Update, and upcoming Ten-Year Water System Capital Improvement Plan (CIP) will inform the Connection Fee Study. Results of the 2022 Water Supply Evaluation Update indicate that the overall mix of projects (i.e., Sites Reservoir, Los Vaqueros Reservoir, Reliability Intertie, Potable Reuse, new wells, etc.) required to serve additional water demands will be similar to those included in the 2017 Study.



- In June 2023, the Board adopted the FY 2024-25 Five-Year Water System CIP (Resolution No. 23-50). The Five-Year Expansion CIP totals \$191M, which will be funded by water connection fee revenue. More information on the CIP can be found in the [FY 2024-25 Five-Year Water System CIP Report](#).
- For the CY 2025 connection fees, staff recommends adjusting the current fees by the change in the ENR CCI from September 2023 to September 2024 which is +1.1%. The new fees will be effective January 1, 2025. The resulting fees per Dwelling Unit Equivalent (standard 5/8" meter) are in the following table:

	<b>Current Fee</b>	<b>Proposed Fee</b>
Alameda County	\$34,530	\$34,910
Dougherty Valley	\$33,130	\$33,490

- Dublin San Ramon Service District has advised staff that no more connections should be expected from the Dougherty Valley Service area; however, staff recommends continuing to set the fee as a matter of course.

**CONNECTION FEE SURVEY:**

The table below shows a connection fee survey of other water agencies. All agencies surveyed review connections at regular intervals ranging from every 3 to 10 years and update the fees annually for inflation.

<b>District</b>	<b>Meter Size</b>	<b>Fee</b>
Alameda County Water District	3/4"	\$11,157
Contra Costa Water District	5/8"	\$30,985
East Bay Municipal Utility District - Zone 3 <sup>1</sup>	3/4"	\$39,058
Marin Municipal Water District	per acre-foot of estimated water demand	\$44,098
Zone 7 Water Agency (proposed)	5/8"	\$34,910

<sup>1</sup>EBMUD Zone 3 includes the cities of Danville and San Ramon

- Upon the Finance Committee’s concurrence, this item will be presented at the October 16, 2024, Board Meeting for adoption.

**FUNDING:** Water connection fee revenue accrues to Fund 130 – Water Enterprise Capital Expansion Fund.

**RECOMMENDED ACTION:** Discuss and provide direction.

**ATTACHMENT:** Attachment A - Fund 130 – Water Enterprise Capital Expansion Fund Details

## Attachment A

### Fund 130 – Water Enterprise Capital Expansion Fund Details

The purpose of this fund is to ensure that Zone 7 is able to meet future needs for water demands. It pays for new facilities and water supplies for new development. Funding for this program comes from connection fees in conformance with the Board’s stated policy that new development pays its own way.

Table 1 shows the history of water connection fees since 2017. Table 2 shows the FY 2024-25 and FY 2025-26 Adopted Budget by project.

<b>Table 1 - Water Connection Fee History</b>			
<b>Effective Date</b>	<b>Alameda County</b>	<b>Dougherty Valley</b>	<b>% Change</b>
January 1, 2020	\$29,440	\$28,250	1%
January 1, 2021	\$29,440	\$28,250	-
January 1, 2022	\$31,910	\$30,620	8.4%
January 1, 2023	\$33,730	\$32,360	5.7%
January 1, 2024	\$34,530	\$33,130	2%

<b>Table 2 - Fund 130 – Water Enterprise Capital Expansion Adopted Two-Year Capital Budget by Project<sup>1</sup></b>		
<b>Project</b>	<b>FY 2024-25</b>	<b>FY 2025-26</b>
Capital Improvement Program Management	\$100,000	\$160,000
Cawelo Groundwater Banking Program Debt Service	1,092,000	1,100,000
Chain of Lakes Conveyance System	460,000	1,560,000
City Reach Pipeline Mitigation Planning	-	410,000
Contingency	500,000	500,000
Fourth Contractor's Share of South Bay Aqueduct – Payment to DWR	3,000,000	3,000,000
Groundwater Contaminant Mobilization Follow-up Study	100,000	-
Los Vaqueros Reservoir Expansion	85,000	170,000
North Canyons Renewal/Replacement and Improvements	2,000	2,000
Regional Project Feasibility Study	900,000	-
Sites Reservoir	450,000	1,000,000
South Bay Aqueduct Enlargement Project - Payment to DWR	13,790,000	14,400,000
Well Master Plan	300,000	525,000
<b>Total</b>	<b>\$20,779,000</b>	<b>\$22,827,000</b>

<sup>1</sup>The FY 2024-26 Two-Year Budget was adopted by the Board on June 11, 2024.

Table 3 shows a three-year history of Fund 130 project expenses and actual revenue.

<b>Table 3 - Fund 130 – Water Enterprise Capital Expansion Three-Year History</b>			
<b>Project</b>	<b>FY 2021-22 Audited Actual</b>	<b>FY 2022-23 Audited Actual</b>	<b>FY 2023-24 Unaudited Actual</b>
South Bay Aqueduct Enlargement Debt Service	\$13,205,000	\$13,459,000	\$13,604,000
PPWTP Upgrades	8,399,000	1,794,000	335,000
PPWTP Ozonation	4,128,000	802,000	204,000
Future Contractors Share of the SBA	3,000,000	3,000,000	3,000,000
Debt Service Costs <sup>1</sup>	314,000	304,000	1,073,000
CIP Management/Expansion Program Planning	246,000	61,000	55,000
Chain of Lakes (COL) Pipeline	143,000	26,000	65,000
Sites Reservoir - Phase I <sup>2</sup>	54,000	40,000	1,620,000
Water Supply Planning and Projects	-	25,000	-
2020 Tri-Valley Municipal and Industrial Water Demand Study	2,000	-	-
Los Vaqueros Reservoir Expansion Project Planning <sup>2</sup>	24,000	247,000	287,000
NC Administration Building HVAC System Replacement	43,000	1,500	-
Efficient Washer Rebate Program	9,000	-	-
Water Conservation - General	15,000	-	-
Water Quality Management Implementation Plan	-	-	-
Misc Expansion Program Costs	-	44,500	427,000
<b>Total Expenses</b>	<b>\$29,582,000</b>	<b>\$19,804,000</b>	<b>\$20,670,000</b>
<b>Total Revenue</b>	<b>\$24,389,000</b>	<b>\$22,470,000</b>	<b>\$20,260,000</b>
<b>Revenue over Expenses (use of reserves)</b>	<b>(\$5,193,000)</b>	<b>\$2,666,000</b>	<b>(\$410,000)</b>

<sup>1</sup>FY 2023-24 amounts are unaudited and reported on a budgetary basis.

<sup>2</sup>Project expenses adjusted for trust transfers.

Amounts are rounded to the nearest thousand.



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

**DATE:** September 12, 2024  
**TO:** Finance Committee  
**FROM:** Osborn Solitei, Treasurer/Assistant General Manager - Finance  
**SUBJECT:** FY 2023-24 Unaudited Fourth Quarter Revenue and Expenditure Report

### SUMMARY:

The proposed action is in support of Strategic Plan Goal G – Fiscal Responsibility: Operate the Agency in a fiscally responsible manner, and Strategic Plan Initiative No. 24 – 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 and explanations of any major variances through the fourth quarter (Q4) of fiscal year (FY) 2023-24 (July 1, 2023 – June 30, 2024) 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 (DIF)
- › Fund 300 – Water Facilities Fund

Highlights of this report include:

- › **Water Sales** – Q4 unaudited water sales per acre-foot (AF) are summarized in the table below:

	Budget	Actual
Treated Water Sales (AF)	36,000	34,800
Untreated Water Sales (AF)	5,000	4,830
<b>Total Water Sales</b>	<b>41,000</b>	<b>39,630</b>

Water sales are slightly less than budget likely due to above-average rainfall in the spring. Water sales also include 8,000 AF of water transfer sales to Westside Water Districts. The Agency entered into an agreement with Westside Water Districts to sell up to 12,000 AF of water through transfers (Resolution No. 23-63, dated August 16, 2023). These additional water transfers were not planned for in the budget.

- › **Water Connection Fees** – The Agency collected \$11.9M in water connection fees in FY 2023-24, a 70% decline in revenue since FY 2018-19, signaling a continued slowdown in development. Water connection fee revenue currently funds:
  - › Agency’s water expansion projects
  - › SBA Expansion project annual debt service
  - › Agency’s share of the Sites Reservoir Project
  - › Portion of the Agency’s share of the Los Vaqueros Reservoir Expansion Project

A connection fee study is underway. The study will evaluate the number of future connections in the service area and the allocation of capital projects to the Water Expansion Fund.

- › **Grant Award for Stoneridge PFAS Project** – The Agency was formally awarded \$16 million for the Stoneridge PFAS Treatment Facility project in September 2023. DWR and the Agency signed the Grant Agreement on April 4, 2024. Funds are expected to be received in FY 2024-25.
- › **Pension Liability Trust Fund Contribution** – On March 20, 2024, following the Finance Committee’s recommendation, the Board authorized a \$250K contribution to the pension trust fund (Resolution No. 24-11), comprised of:
  - a) a contribution of \$183,380, in accordance with the Policy guidelines for annual contribution amounts; and
  - b) an additional contribution of \$66,620 because of the \$1.9M unallocated fund balance in Fund 100 at the end of FY 2022-23.

## **ANALYSIS:**

The Agency maintains several funds; these fund balances are grouped into two categories – Unrestricted Fund Balances and Restricted Fund Balances.

## **UNRESTRICTED FUNDS**

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**Unrestricted Fund Balance:** This describes the portion of fund balance that is not restricted to use. To facilitate the discussion of reserve funds, this report will categorize the various funds as “Unrestricted Reserves” and “Restricted Reserves.” In general, Board policy can most affect Unrestricted Reserves.

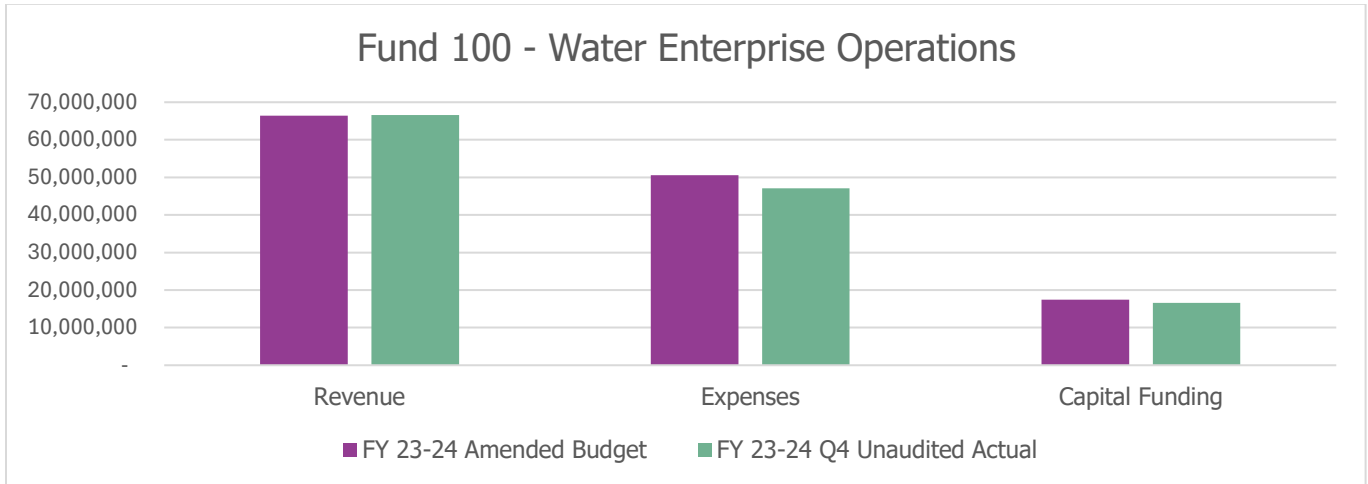
### **Fund 100 – Water Enterprise Operations Fund**

*Primary Funding Source: Water Rates*

The purpose of this 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 (drinking) water, distribution of untreated agricultural/irrigation water, and management of surface water and groundwater. Water distributed is a combination of locally stored and imported water from the SWP. Activities include water treatment, water quality analysis, water resource management, groundwater

recharge and protection, general administration, maintenance, out-of-area water banking infrastructure, and water supply planning and engineering.

The following graph shows the FY 2023-24 Amended Budget and Q4 unaudited actual revenues, expenditures, and capital funding.



## Details of Revenue and Expenses for Fund 100

Fund 100 – Water Enterprise Operations	FY 23-24 Amended Budget	FY 23-24 Q4 Unaudited Actual	Year-End Over / (Under) Budget
<b>Audited Beg. Fund Balance</b>	<b>\$29,266,000</b>	<b>\$29,369,000</b>	<b>\$103,000</b>
<b>Revenue</b>			
Water Sales <sup>1</sup>	65,763,000	65,070,000	(693,000)
Investment Earnings <sup>2</sup>	300,000	934,000	634,000
Other Revenue	332,000	552,000	220,000
<b>Total Revenue</b>	<b>66,395,000</b>	<b>66,556,000</b>	<b>161,000</b>
<b>Expenses</b>			
Labor <sup>3</sup>	17,005,000	19,525,000	2,520,000
Professional Services <sup>4</sup>	4,098,000	2,523,000	(1,575,000)
Legal Services	340,000	318,000	(22,000)
County Services <sup>4</sup>	1,909,000	2,241,000	332,000
Insurance Services	735,000	755,000	20,000
Water <sup>5</sup>	10,520,000	7,598,000	(2,922,000)
Chemicals <sup>5</sup>	4,140,000	3,453,000	(687,000)
Utilities	2,509,000	2,343,000	(166,000)
Repairs and Maintenance <sup>6</sup>	2,251,000	2,416,000	165,000
Rental Services <sup>7</sup>	104,000	319,000	215,000
General/Other Supplies	941,000	654,000	(287,000)
Other Services (Rebates, Outreach) <sup>8</sup>	950,000	622,000	(328,000)
LVR Expansion Participation <sup>9</sup>	992,000	992,000	-
Debt Service <sup>10</sup>	4,127,000	3,342,000	(785,000)
<b>Total Operating Expenses</b>	<b>50,621,000</b>	<b>47,101,000</b>	<b>(3,520,000)</b>
Capital Funding <sup>11</sup>	17,424,000	16,634,000	(790,000)
<b>Total Expenses</b>	<b>68,045,000</b>	<b>63,735,000</b>	<b>(4,310,000)</b>
Estimated Revenue over Expenses	(1,650,000)	2,821,000	4,471,000
<b>Ending Fund Balance</b>	<b>\$27,616,000</b>	<b>\$32,190,000</b>	<b>4,574,000</b>

### Revenue

**1. Water Sales:** Q4 unaudited actual water sales revenue includes 34,800 AF of treated water sales and 4,380 AF of untreated water sales through June 30, 2024. Water sales were slightly less than budget, likely due to above-average rainfall in the spring. Q4 unaudited actual water sales also include 8,000 AF of water transfer sales to Westside Water Districts. These additional water transfers were not planned for in the budget.

The following water rate increases went into effect January 1, 2024.

- › Approved 5.5% increase in treated water rates for CY 2024 (Resolution No. 22-93, dated November 16, 2022)
- › Approved increase in untreated water rate to \$263/AF (Resolution No. 23-77, dated October 18, 2023)

**2. Investment Earnings:** Q4 unaudited interest earnings exceed budget and reflect current favorable market conditions.

## Expenditures

**3. Labor:** Q4 unaudited actual labor includes payroll through June 30, 2024. A 5% cost of living adjustment took effect June 25, 2023. As of June 30, 2024, the Agency had a 11.8% vacancy rate, whereas the budget planned for a vacancy rate of 15%.

**4. Professional Services:** Includes professional services related to water enterprise operations. Q4 unaudited actuals are less than budget because of multi-year and as-needed services, including:

- › water supply model (~\$220K)
- › groundwater model update (~\$150K)
- › groundwater studies (~\$150K)
- › energy master plan (~\$50K)
- › as-needed services (~\$300K)
- › contingency (~\$250K)

**County Services:** Q4 unaudited actuals includes \$800K for the March 2024 Zone 7 Board of Directors election expense, which exceeded the budget by \$300K. The election expense is difficult to estimate because it is based on voter turnout.

**5. Water production costs:** Includes Water, Chemicals, and Utilities.

*Water:* The Agency's SWP final allocation in CY 2023 was 100% and is currently 40% in CY 2024. Q4 unaudited actual expenses are primarily made up of the SWP conveyance costs, including costs to send and store approximately 5,962 AF of water to Semitropic through the banking program, and the Agency's Delta Conveyance Project participation costs. The budget planned for conveying and storing water with the Semitropic and Cawelo banking programs. Q4 unaudited actuals are less than budget primarily because the Agency was unable to send water to Cawelo due to significant damage to Cawelo's banking infrastructure from the 2023 storms. In addition, SWP conveyance costs were less than budget due to lower transportation charge unit rates.

*Chemicals:* Q4 unaudited actual expenses are less than budget due to the abundance of high-quality surface water, reducing the amount of chemicals needed to treat the water.

**6. Repairs and Maintenance:** Q4 unaudited actual repairs and maintenance expenses exceed the budget by \$165K due to the unexpected purchase of power supply units and increased HVAC system maintenance. DVWTP and PPTWP HVAC systems are in the adopted two-year budget for replacement in FY 2025-26.

**7. Rental Services:** Q4 unaudited actuals includes rents and leases on equipment and buildings, and leases on software and licenses. Q4 unaudited actuals are more than budget because of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* rule which provides guidance on the accounting and financial reporting for subscription-based information technology arrangements. This is the first year leases for software and licenses have been included in this account classification.



- 8. Other Services:** This category includes organizational memberships, rebates, communication services, and public outreach. Q4 unaudited actuals are less than budget primarily because of lower demand for conservation rebates.
- 9. Los Vaqueros Reservoir Expansion (LVE) Project Participation:** This category includes the Agency's participation costs in the development phase of the LVE project. Per Resolution No. 23-55, dated July 19, 2023, the Board approved Multiparty Agreement No. 5, committing \$1.239 million in funding to the project through June 30, 2024. The funding is split 80/20 between Funds 100 and 130.
- 10. Debt Service:** Includes annual debt service payments for the following Agency issued Livermore Valley Water Financing Water Revenue Bonds:
- › 2018 Series A, \$64,010,000 for Ozone projects and Cawelo prepayment.
  - › 2023 Series A, \$28,795,000 for Chain of Lakes PFAS treatment facility project.
- The Q4 unaudited actual is less than budget because the actual January 1, 2024, interest payment on the 2023 Series A Bonds is less than budget, as it is based on the actual sale of bonds in October 2023.
- 11. Capital Funding:** Q4 unaudited actual capital funding is less than budget as the budget assumes a 6% annual adjustment, and the actual Engineering News Record Construction Cost Index (ENRCCI) adjustment from June 2022 to June 2023 was 0.1%.

### **Water Supply Conditions**

The SWP's final allocation for CY 2024 is 40% (see the Monthly Water Inventory and Water Budget Update in the August 21, 2024, Board Agenda packet). The [United States Drought Monitor](#) indicates no drought in most of California.

### **Reserves**

Per Strategic Plan Initiative No. 24, the Agency shall maintain target levels of reserves. As of June 30, 2024, Fund 100 reserves are fully funded at the target level. The Q4 unaudited actual unallocated fund balance is about \$3.9M. FY 2024-26 Adopted Budget plans to use \$1.5M of the unallocated fund balance to balance the budget.

At the February 15, 2024, Finance Committee Meeting, staff were given direction on the Committee's preferred use of unallocated fund balance. These options included:

- Offsetting future rate increases,
- Funding the annual contribution to the IRS Section 115 Pension Trust per the adopted Board policy,
- Funding for water supply reliability projects.

The table below compares Minimum, Target, and Maximum reserves to Q4 unaudited actual fiscal year-end reserves.

Fund 100 Reserves	Minimum	Target	Maximum	FY 23-24 Q4 Unaudited Actual	Actual Above / (Below) Target
Operating Reserves <sup>1</sup>	\$8,601,000	\$12,902,000	\$17,202,000	\$12,902,000	-
Emergency Reserves <sup>2</sup>	6,705,000	8,381,000	10,058,000	8,381,000	-
Reserve for Economic Uncertainties <sup>3</sup>	3,532,000	5,298,000	7,065,000	5,298,000	-
<b>Subtotal</b>	<b>\$18,838,000</b>	<b>\$26,581,000</b>	<b>\$34,325,000</b>	<b>\$26,581,000</b>	-
Pension Trust Fund				1,667,000	-
Unallocated Fund Balance				3,942,000	3,942,000
<b>Total Reserves</b>	<b>\$18,838,000</b>	<b>\$26,581,000</b>	<b>\$34,325,000</b>	<b>\$32,190,000</b>	<b>\$3,942,000</b>

Note: Values are rounded to the thousands and may not add due to rounding.

<sup>1</sup>The FY 23-24 Q4 unaudited actual Operating Reserve is funded at the target level of 90 days of operating expenses.

<sup>2</sup>The FY 23-24 Q4 unaudited actual Emergency Reserve is funded at the target level of 2.5% of Water Enterprise assets.

<sup>3</sup>The FY 23-24 Q4 unaudited actual Reserve for Economic Uncertainties is funded at 15% of FY 2024-25 budgeted volume-based water sales revenue.

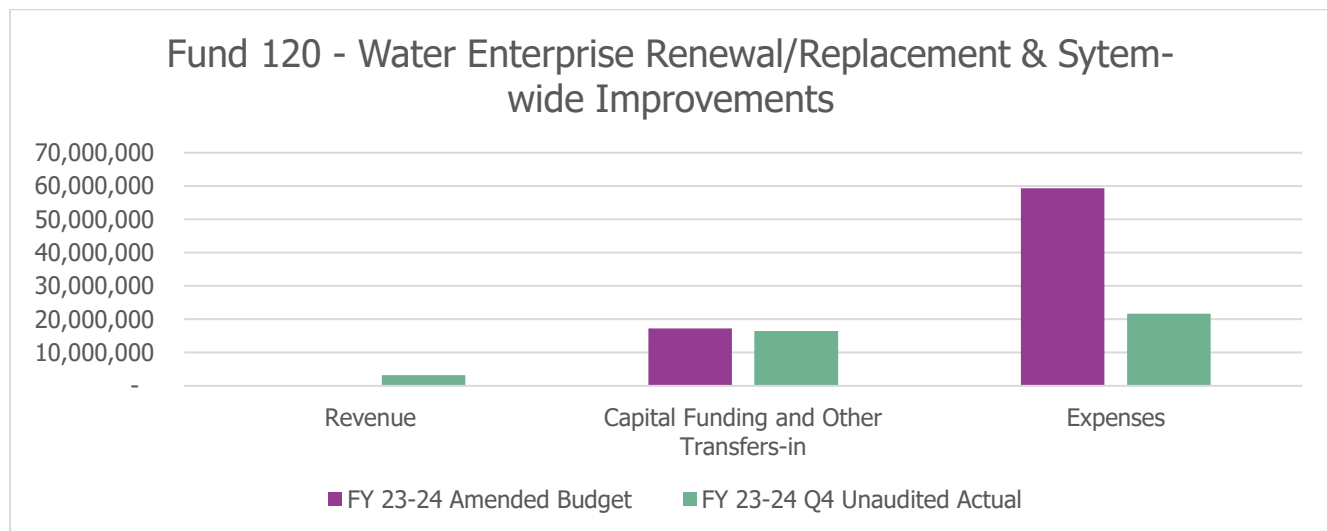
## Fund 120 – Water Renewal/Replacement & System-Wide Improvements

*This is a sub-fund of the Fund 100 – Water Enterprise Operations Fund*

*Primary Funding Source: Water Rates via a transfer from Fund 100*

The purpose of this fund is to ensure funding is available for capital renewal, replacement, and system-wide improvement investments 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.

The following graph shows the FY 2023-24 Amended Budget and Q4 unaudited actual revenue, capital funding, and expenditures.



Note: When expenses exceed revenue, capital reserves (working capital) are being expended.

## Details of Revenue and Expenses for Fund 120

Fund 120 - Water Enterprise Renewal/Replacement & Systemwide Improvements	FY 23-24 Amended Budget	FY 23-24 Q4 Unaudited Actual	Year-End Over/(Under) Budget
<b>Audited Beginning Fund Balance</b>	<b>\$44,990,000</b>	<b>\$45,119,000</b>	<b>129,000</b>
2023 Water Revenue Bond Proceeds	29,665,000	29,665,000	
<b>Adjusted Beginning Fund Balance</b>	<b>74,655,000</b>	<b>74,784,000</b>	<b>129,000</b>
<b>Revenue</b>			
Investment Earnings <sup>1</sup>	100,000	3,207,000	3,107,000
Other Revenue	2,000	48,000	46,000
<b>Total Revenue</b>	<b>102,000</b>	<b>3,255,000</b>	<b>3,153,000</b>
<b>Other Financing Sources</b>			
Capital Funding <sup>2</sup>	17,214,000	16,441,000	(773,000)
<b>Total Other Financing Sources</b>	<b>17,214,000</b>	<b>16,441,000</b>	<b>(773,000)</b>
<b>Expenses</b>			
Labor <sup>3</sup>	1,706,000	1,302,000	(404,000)
Capital Projects <sup>4</sup>	57,579,000	20,355,000	(37,224,000)
<b>Total Expenses</b>	<b>59,285,000</b>	<b>21,657,000</b>	<b>(37,628,000)</b>
Estimated Revenue/Other Financing Sources over Expenses	(41,969,000)	(1,961,000)	40,008,000
<b>Ending Fund Balance</b>	<b>\$32,686,000</b>	<b>\$72,823,000</b>	<b>\$40,137,000</b>

Note: Values are rounded to the thousands and may not add due to rounding.

### Revenue

- Investment Earnings:** Q4 unaudited actual interest earnings reflect favorable market conditions.
- Capital Funding:** Q4 unaudited actual capital funding is less than budget as the budget assumes a 6% annual adjustment, and the actual ENRCCI adjustment from June 2022 to June 2023 was 0.1%.

### Expenses

- Labor costs:** Q4 unaudited actual labor includes payroll through June 30, 2024. Actuals are lower than budget due to the timing of budgeted projects.
- Capital Projects:** Q4 unaudited actual capital projects reflect expenditures for projects currently in the construction phase or nearing completion including:
  - › Stoneridge PFAS Treatment Facility
  - › Chain of Lakes PFAS Treatment Facility
  - › Wells & MGDP Electrical Upgrades/Replacement Project
  - › MGDP Concentrate Conditioning

Q4 unaudited actuals are less than budget due to the multi-year nature of capital projects; unspent capital budgets (~\$36.2M) will be spent in subsequent fiscal years.

## Reserves

The table below compares the FY 2023-24 Amended Budget ending reserve balances to the Q4 unaudited actual ending reserve balances.

Fund 120 Reserves	FY 23-24 Amended Budget FYE	FY 23-24 Q4 Unaudited Actual
Debt Service Rate Stabilization Reserve	\$6,300,000	\$6,300,000
Pension Trust	46,000	39,000
Designated for Capital Projects Reserve <sup>1</sup>	26,340,000	66,484,000
<b>Total Reserve</b>	<b>\$32,686,000</b>	<b>\$72,823,000</b>

<sup>1</sup>This reserve is designated for capital projects to fund the Fund 120 CIP projects the Agency has committed to over the next five years. The Zone 7 Board adopted the Five-Year Water System CIP on June 21, 2023 (Resolution No. 23-50).

Below is a summary of the major projects in progress. For more information on capital projects, see the Capital Projects Status Report in the August 21, 2024, Board meeting agenda packet.

Project	Total Estimated Cost	Fund 120 Share	Fund 120 Cash Financed	Fund 120 Bond Financing	Status	In-Service
Asset Management Program and Ten-Year CIP Update	\$1.15M	\$902K	\$902K	\$-	Planning	Feb. 2025
DVWTP Roadway/Parking Lot Repairs and Post Ozone Project	\$2.75M	\$2.75M	\$2.75M	\$-	Complete	June 2024
DVWTP Polymer Mixing System Replacement Project	\$785K	\$785K	\$785K	\$-	Complete	June 2024
Pipeline Inspection Study	\$250K	\$250K	\$250K	\$-	Study In-process	Summer 2024
MGDP Concentrate Conditioning	\$7.8M	\$7.8M	\$7.8M	\$-	Construction	Fall 2024
Chain of Lakes PFAS Treatment Facility Project <sup>1</sup>	\$24.4M	\$24.4M	\$2.4M	\$22M <sup>1</sup>	Construction	Winter 2024
Stoneridge Well PFAS Project	\$16.3M	\$16.3M	\$16.3M	\$-	Functional completion September 2023	Closeout June 2024
Wells & MGDP Electrical Upgrades/Replacement Project	\$7.3M	\$7.3M	\$7.3M	\$-	Construction	Winter 2024
Electric Vehicle Chargers	\$651K	\$651K	\$651K	\$-	Design	Spring 2025
PLC Modernization at DVWTP, MGDP, and PPWTP	\$550K	\$550K	\$550K	\$-	In-service	Summer 2024

SCADA Core Switch Replacement	\$400K	\$400K	\$400K	\$-	In-process	Fall 2024
DVWTP Booster Pump Station VFD and Underdrain Pump Station Replacement	\$1.25M	1.25M	\$1.25M	\$-	Planning / Design	Spring 2026
MGDP and Mocho Wellfield PFAS Compliance Conceptual Design	\$500K	\$500K	\$500K	\$-	Planning	Winter 2024
Risk and Resilience Assessment and Emergency Response Plan	\$200K	\$200K	\$200K	\$-	Planning	Fall 2025
<b>Total</b>	<b>\$64.3M</b>	<b>\$64.0M</b>	<b>\$42.0M</b>	<b>\$22.0M</b>		

<sup>1</sup>The remaining ~\$8M in bond proceeds are eligible to be used for other water system improvements.

### Other Unrestricted Funds

Fund 300 - Water Facilities Fund was originally used for Chain of Lakes mitigation and planning reserve, quarry discharge exports, miscellaneous fees and deposits, and permit inspection deposits.

Fund	FY 2023-24 Beginning Audited Fund Balance	FY 2023-24 Q4 Unaudited Actual Interest Income & Misc. Deposits	FY 23-24 Q4 Unaudited Actual	FY 23-24 Q4 Unaudited Actual Ending Fund Balance
Fund 300 - Water Facilities Fund	1,117,000	-	(1,117,000)	-

Fund 300 has been subsequently authorized by the Board for the Sites Reservoir Project and is expected to have a balance of \$0 by June 30, 2024:

- Per Resolution No. 22-05 dated January 19, 2022, the Board authorized the Third Amendment to the 2019 Sites Reservoir Project Agreement at 10,000 acre-feet of participation in an amount not-to-exceed \$4M through 2024.

### RESTRICTED FUNDS ANALYSIS

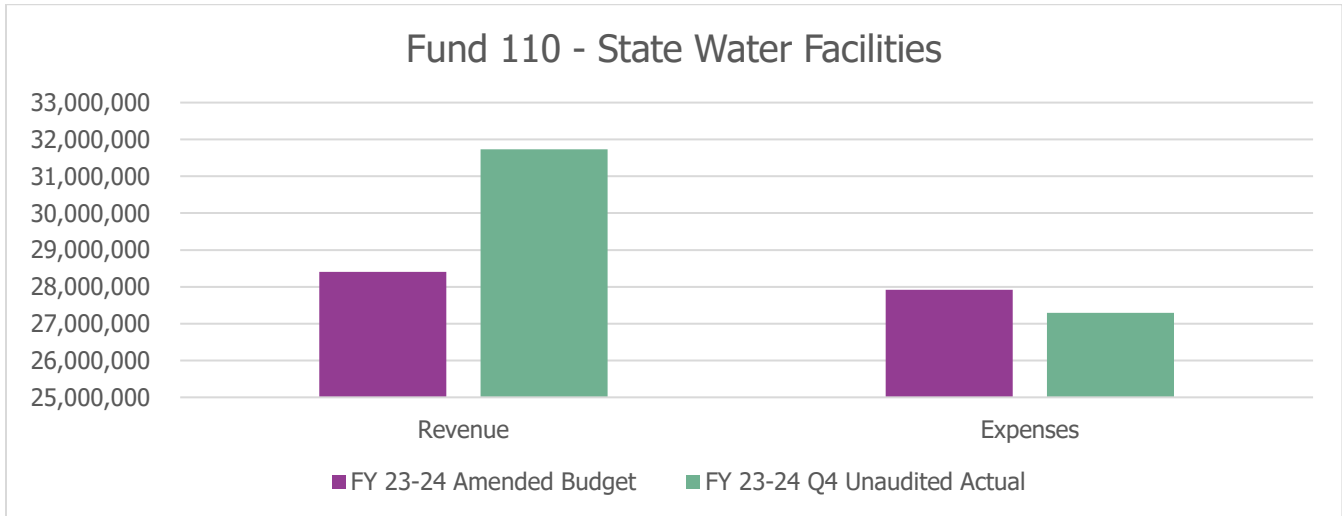
**Restricted Fund Balance:** Includes the portion of the fund balance that can only be spent for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers. It also includes a legally enforceable requirement that the resources can only be used for specific purposes enumerated in the law. The restricted funds are not available to serve as operating or emergency reserves and include property taxes, connection and developer fees received for capital projects, debt service requirements, and fees charged for the provision of future water resources.

## Fund 110 – State Water Facilities Fund

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

Fund 110 funds the fixed cost payment to DWR to import water to the Agency including repayment of voter-approved, state-incurred, long-term debt.

The following graph shows the FY 2023-24 Amended Budget and Q4 unaudited actual revenue and expenditures.



Note: When expenses exceed revenue, operating reserves (working capital) are being expended.

## Details of Revenue and Expenses for Fund 110

Fund 110 - State Water Facilities	FY 23-24 Amended Budget	FY 23-24 Q4 Unaudited Actual	Year-End Over / (Under) Budget
<b>Audited Beg. Fund Balance</b>	<b>\$47,489,000</b>	<b>\$48,613,000</b>	<b>\$1,124,000</b>
<b>Revenue</b>			
Dougherty Valley Surcharge	2,350,000	2,568,000	218,000
Property Taxes <sup>1</sup>	22,201,000	24,125,000	1,924,000
DWR Refunds	3,675,000	2,716,000	(959,000)
Investment Earnings <sup>2</sup>	180,000	2,321,000	2,141,000
<b>Total Revenue</b>	<b>28,406,000</b>	<b>31,730,000</b>	<b>3,324,000</b>
<b>Expenses<sup>3</sup></b>	<b>27,923,000</b>	<b>27,291,000</b>	<b>(632,000)</b>
Estimated Revenue over Expenses	483,000	4,439,000	3,956,000
<b>Ending Fund Balance</b>	<b>\$47,972,000</b>	<b>\$53,052,000</b>	<b>5,080,000</b>

Note: Values are rounded to the thousands.

## Revenue

This is a pass-through fund for fixed charges associated with the SWP, assessed as a property tax override. The Agency budgets for the SWP fixed costs annually based on an estimated SWP Statement of Charges and requests the County collect that amount.

- 1. Property Taxes:** Q4 unaudited actual revenue includes the first and second installment of the property tax override.
- 2. Investment Earnings:** Q4 unaudited actual interest earnings reflect favorable market conditions.

## Expenses

- 3. Expenditures:** Q4 unaudited actuals are \$27.3M. These expenditures include DWR fixed costs and the improvement portion of the SBA Improvement and Enlargement Project debt service payments.

## Reserves

The following table compares the FY 2023-24 Amended Budget ending reserve balance to the Q4 unaudited actual ending reserve balance and maximum reserve. Although the year-end reserve balance exceeds the reserve maximum, SWP costs are highly volatile and unpredictable. Based on the SWP Budget Report for CYs 2024 and 2025, the total capital need for the next 12 years is estimated to be \$6.0 billion, of which the Agency would be responsible for its proportional share.

Fund 110 Reserves	FY 23-24 Amended Budget FYE	FY 23-24 Q4 Unaudited Actual <sup>1</sup>	Reserve Maximum
Total Reserve Balance	\$47,972,000	\$53,052,000	\$28,712,000

Note: Values are rounded to the thousands.

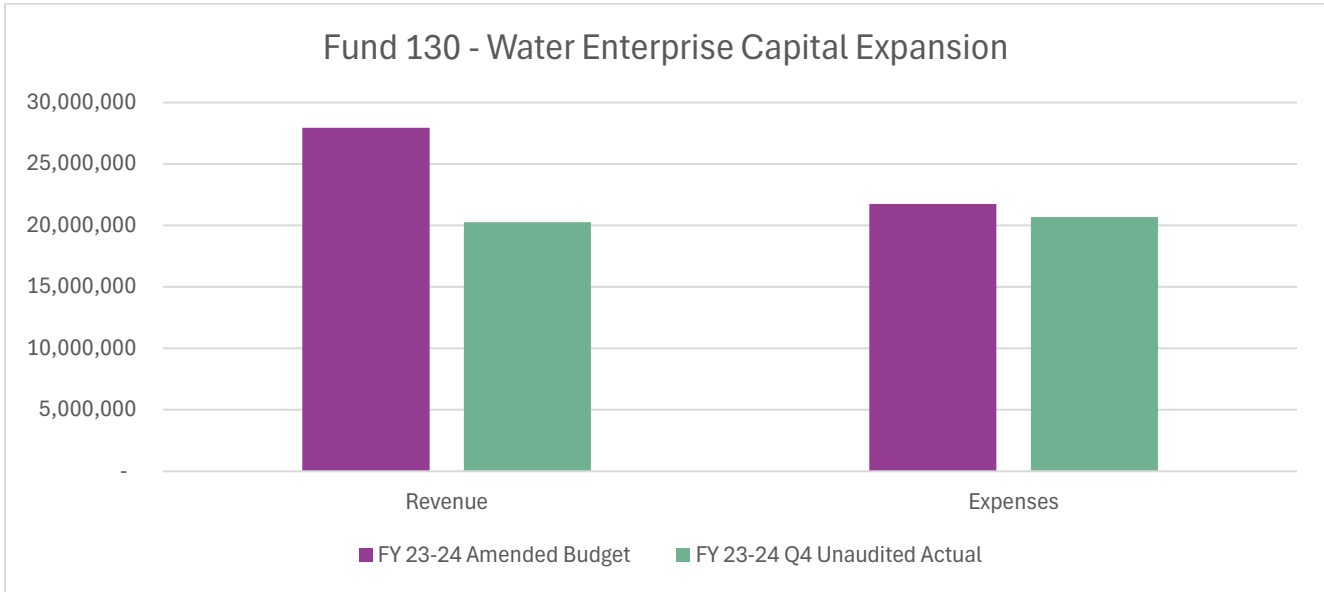
<sup>1</sup>SWP costs are highly volatile and are expected to increase significantly. Any reserve balance above the reserve maximum may be used to offset future cost increases.

## 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 the additional capacity requirements of 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.

The following graph shows the FY 2023-24 Amended Budget and Q4 unaudited actual revenue and expenditures.



Note: When expenses exceed revenue, operating reserves (working capital) are being expended.

### Details of Revenue and Expenses for Fund 130

Fund 130 - Water Enterprise Capital Expansion	FY 23-24 Adopted Budget	FY 23-24 Q4 Unaudited Actual	Year-End Over/(Under) Budget
<b>Audited Beg. Fund Balance</b>	<b>\$70,933,000</b>	<b>\$70,387,000</b>	<b>(\$546,000)</b>
<b>Revenue</b>			
Connection Fees <sup>1</sup>	24,812,000	11,860,000	(12,952,000)
Investment Earnings <sup>2</sup>	140,000	4,329,000	4,189,000
DWR Refunds	3,000,000	3,021,000	21,000
Other Revenue <sup>3</sup>	-	1,050,000	1,050,000
<b>Total Revenue</b>	<b>27,952,000</b>	<b>20,260,000</b>	<b>(7,692,000)</b>
<b>Expenses</b>			
Labor <sup>4</sup>	349,000	201,000	(148,000)
Professional Services	48,000	528,000	480,000
Water <sup>5</sup>	16,850,000	16,604,000	(246,000)
Capital Projects <sup>6</sup>	3,403,000	2,248,000	(1,155,000)
Debt Service	1,089,000	1,089,000	-
<b>Total Expenses</b>	<b>21,739,000</b>	<b>20,670,000</b>	<b>(1,069,000)</b>
Estimated Revenue over Expenses	6,213,000	(410,000)	(6,623,000)
<b>Ending Fund Balance</b>	<b>\$77,146,000</b>	<b>\$69,977,000</b>	<b>(7,169,000)</b>

Note: Values are rounded to the thousands and may not add due to rounding.

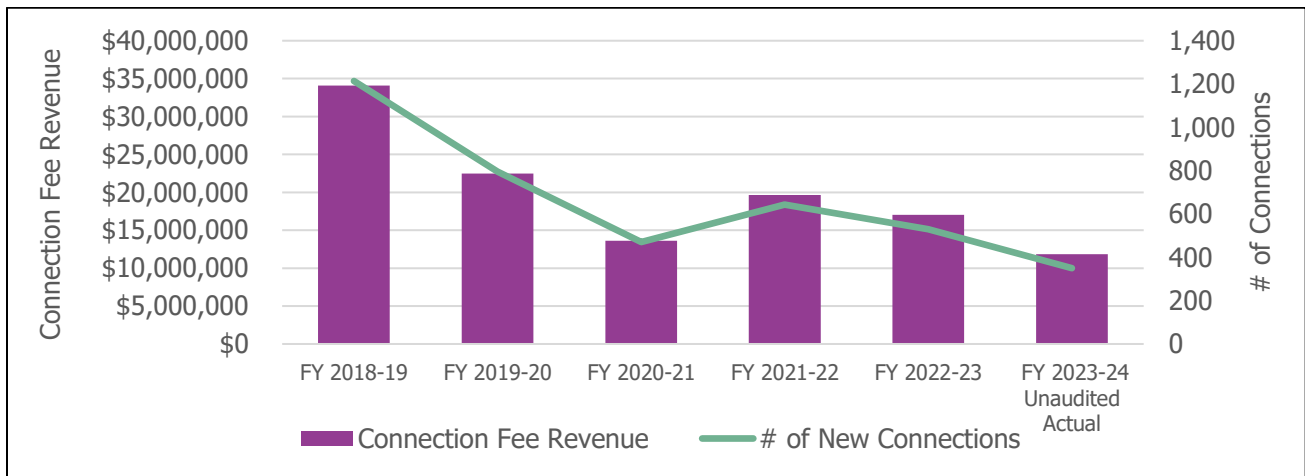


## Revenue

The primary source of revenue is connection fees.

- 1. Connection Fees:** Q4 unaudited actual revenue is approximately \$13M less than budget and comprised of approximately 354 new connections, primarily from the Dublin San Ramon Services District service area.

A connection fee study is currently underway. The study will evaluate the number of future connections in the service area and the allocation of capital projects to the Water Expansion Fund. It's important to note that connection fee revenue has declined since 2019. Staff continue to monitor the revenue source closely as most expenses in this fund are fixed. The following graph and table illustrate the declining trend in connection fee revenue and new connections since FY 2018-19.



	FY 2018-19	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24 Unaudited Actual
Connection Fee Revenue	\$34,068,092	\$22,461,926	\$13,609,527	\$19,669,510	\$17,023,627	\$11,860,000
# of New Connections	1,214	796	470	643	530	354

- 2. Investment Earnings:** Q4 unaudited actual revenue reflects a higher-than-expected rate of return based on current favorable market conditions.
- 3. Other Revenue:** Q4 unaudited actuals include Board approved transfer from Fund 300 – Water Facilities Fund for continued participation in the Sites Reservoir Project.

## Expenses

- 4. Labor:** Q4 unaudited actual labor includes payroll through June 30, 2024, for water expansion projects.

**5. Water:** Q4 unaudited actual expenses are comprised of both installments of the SBA debt service payments (paid in September and March).

**6. Capital Projects:** Q4 unaudited actuals reflect projects currently in the planning phase or nearing completion, including:

- › CIP Update
- › PPWTP Upgrades and Ozone Project
- › COL Conveyance System
- › Los Vaqueros Reservoir Expansion
- › Sites Reservoir Project

**Reserves**

The table below compares the FY 2023-24 Amended Budget ending reserve balances to the Q4 unaudited actual ending reserve balances.

Fund 130 Reserves	FY 23-24 Amended Budget FYE	FY 23-24 Q4 Unaudited Actual
Sinking Funds <sup>1</sup>	\$26,933,000	\$26,933,000
Debt Service Rate Stabilization Reserve	2,300,000	2,300,000
Designated for Capital Projects Reserve <sup>2</sup>	47,897,000	40,731,000
Pension Trust Fund	16,000	13,000
<b>Total Reserves</b>	<b>\$77,146,000</b>	<b>\$69,977,000</b>

<sup>1</sup>This reserve was established by the Board to fund debt service payments that continue after build-out.

<sup>2</sup> This reserve is designated for capital projects to fund the Fund 120 CIP projects the Agency has committed to over the next five years. The Zone 7 Board adopted the Five-Year Water System CIP on June 21, 2023 (Resolution No. 23-50).

Below is a summary of the Agency’s major projects in progress.

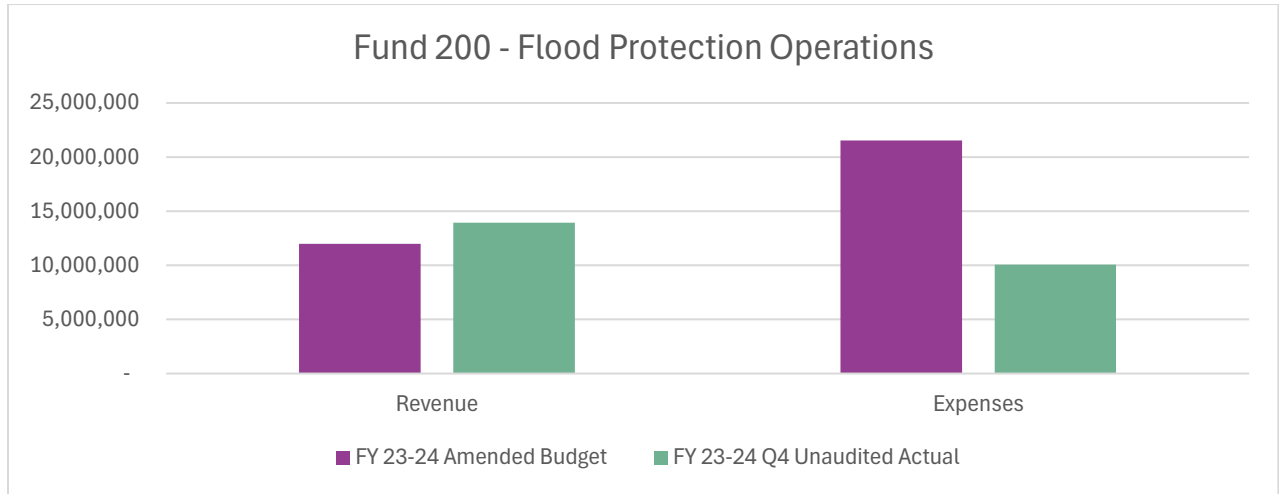
Project	Total Cost	Fund 130 Share	Status	In-service
Ten-Year CIP Update	\$1.15M	\$250K	Planning	Feb. 2025
Non-discretionary obligations	~\$18M annually	~\$18M	n/a	Payments through 2035

**Fund 200 – Flood Protection Operations**

*Primary Funding Source: 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 uses 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. Approximately 37 miles of flood control channels and regional drainage facilities are owned and maintained by the Agency. This fund finances 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 pays for renewal/replacement and improvement projects for the existing flood protection system.

The following graph shows FY 2023-24 Amended Budget and Q4 unaudited actual revenue and expenditures.



Note: When expenses exceed revenue, operating reserves (working capital) are being expended.

### Details of Revenue and Expenses for Fund 200

Fund 200 - Flood Protection Operations	FY 23-24 Amended Budget	FY 23-24 Q4 Unaudited Actual	Year-End Over/(Under) Budget
<b>Audited Beg. Fund Balance</b>	<b>\$23,923,000</b>	<b>\$23,917,000</b>	<b>(6,000)</b>
<b>Revenue</b>			
Property Taxes <sup>1</sup>	11,344,000	12,276,000	932,000
Investment Earnings <sup>2</sup>	215,000	871,000	656,000
Other Revenue <sup>3</sup>	436,000	795,000	359,000
<b>Total Revenue</b>	<b>11,995,000</b>	<b>13,942,000</b>	<b>1,947,000</b>
<b>Expenses</b>			
Labor <sup>4</sup>	3,075,000	2,502,000	(573,000)
Professional Services <sup>5</sup>	5,450,000	2,723,000	(2,727,000)
Repairs and Maintenance <sup>6</sup>	11,876,000	4,067,000	(7,809,000)
Rental Services	50,000	4,000	(46,000)
Other Services/ Supplies	1,095,000	773,000	(322,000)
<b>Total Expenses</b>	<b>21,546,000</b>	<b>10,069,000</b>	<b>(11,477,000)</b>
Estimated Revenue over Expenses	(9,551,000)	3,873,000	13,424,000
<b>Ending Fund Balance</b>	<b>\$14,372,000</b>	<b>\$27,790,000</b>	<b>13,418,000</b>

Note: Values are rounded to the thousands and may not add due to rounding.

## Revenue

The primary source of revenue for this fund is property taxes.

- 1. Property Tax:** Q4 unaudited actuals include the first and second installments of property tax revenue. Revenue is higher than budget due to increased assessed value.
- 2. Investment Earnings:** Q4 unaudited actual reflects a higher-than-expected rate of return based on current favorable market conditions.
- 3. Other Revenue:** Q4 unaudited actual is primarily made up of funds received from DWR for the Stanley Reach improvements to satisfy DWR's project mitigation.

## Expenses

Per Resolution No. 23-06, dated February 1, 2023, the Board declared a local state of flood emergency within its service area. Subsequent Resolutions (No. 23-07, No. 23-08, No. 23-09 and 23-80) were passed to fund emergency repair work and a need assessment in the amount of \$3.7M. Construction will begin in Spring 2025, and in-channel work will be completed by the end of October 2025.

- 4. Labor:** Includes this fund's share of payroll through June 30, 2024.
- 5. Professional Services:** Q4 unaudited actual expenses are less than budget due to multi-year services such as the Alamo Creek Project planning, design services to repair damages to flood protection facilities, as-needed services, and contingency.
- 6. Repairs and Maintenance:** Includes flood engineering repair services and additional flood emergency projects. The Q4 unaudited actual is less than budget due to multi-year projects such as the Alamo Creek Project and upcoming emergency flood repairs. Unspent budgets will be spent in subsequent fiscal years.

## Reserves

The table below compares the FY 2023-24 Amended Budget ending reserve balance to the Q4 unaudited actual balance.

Fund 200 Reserves	FY 23-24 Amended Budget	FY 23-24 Q4 Unaudited Actual
Operating Reserves	\$1,800,000	\$11,854,000
Designated for Capital Projects Reserve	12,390,000	15,753,000
Section 115 Pension Trust	182,000	183,000
<b>Total Reserves</b>	<b>\$14,372,000</b>	<b>\$27,790,000</b>

The Agency is in the process of developing and implementing a Flood Management Plan to direct the Agency's future flood maintenance activities and capital projects. Per Resolution No. 22-73, dated August 17, 2022, the Board adopted the Flood Management Plan Phase 1. Flood Management Plan Phase 2A professional and project management services were approved at the February 15, 2023, Board meeting.

The following table lists major projects that are in progress.

Project	Total Cost	Fund 200 Share	Status	In-service
Alamo Creek Bank Stabilization Pilot Project <sup>1</sup>	\$6.1M	\$1.5M	Design	Winter 2025
2022-23 Storm Damage High Priority Repairs (construction phase)	\$1.7M	\$1.7M	Design	Fall 2024
2023 Storm Damage Repairs – Phase 1 <sup>2</sup>	\$8.1M	\$8.1M	Design / Permitting	Winter 2025

<sup>1</sup>DWR has awarded up to \$4.6M in grants through the Floodplain Management, Protection, and Risk Awareness (FMPRA) Grant program.

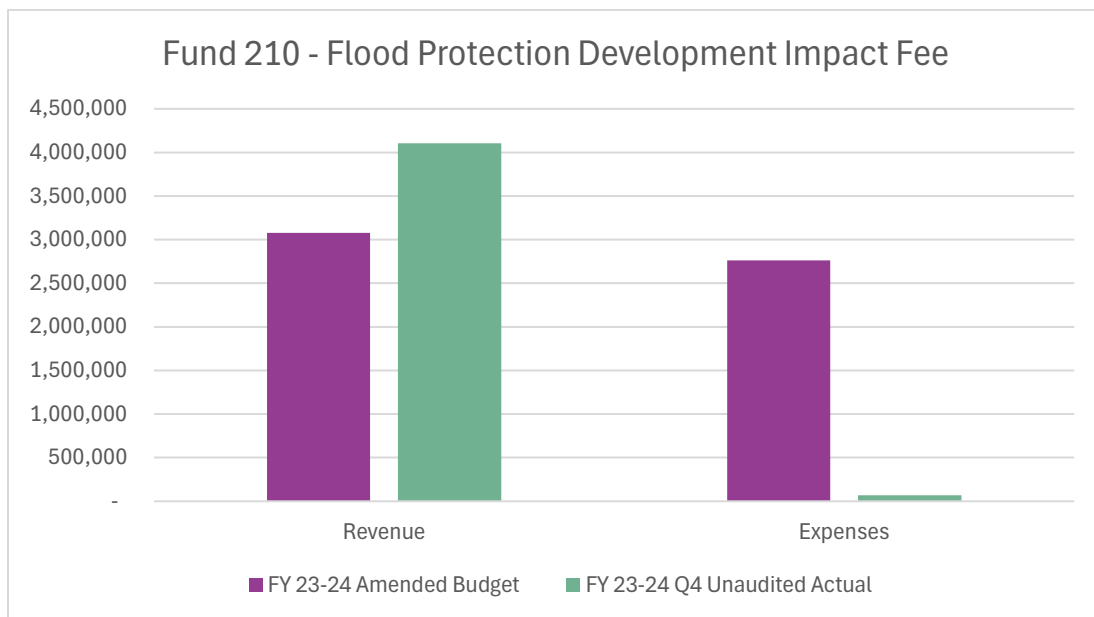
<sup>2</sup>The Agency is seeking a Federal grant for design and construction costs.

### Fund 210 – Flood Protection Development Impact Fee Fund

*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, lands and right of way acquisition, environmental review, permitting, and construction for drainage projects.

The following graph shows the FY 2023-24 Amended Budget and Q4 unaudited actual revenue and expenditures.



Note: When expenses exceed revenue, operating reserves (working capital) are being expended.

## Details of Revenue and Expenses for Fund 210

Fund 210 - Flood Protection DIF Fund	FY 23-24 Amended Budget	FY 23-24 Q4 Unaudited Actual	Year-End Over/(Under) Budget
<b>Audited Beg. Fund Balance</b>	<b>\$75,211,000</b>	<b>\$75,845,000</b>	<b>\$634,000</b>
<b>Revenue</b>			
Development Fees <sup>1</sup>	2,500,000	1,519,000	(981,000)
Investment Earnings <sup>2</sup>	553,000	2,461,000	1,908,000
Other Revenue	25,000	126,000	101,000
<b>Total Revenue</b>	<b>3,078,000</b>	<b>4,106,000</b>	<b>1,028,000</b>
<b>Expenses</b>			
Labor <sup>3</sup>	275,000	11,000	(264,000)
Capital Projects <sup>4</sup>	2,488,000	57,000	(2,431,000)
<b>Total Expenses</b>	<b>2,763,000</b>	<b>68,000</b>	<b>(2,695,000)</b>
Revenue over Expenses	315,000	4,038,000	3,723,000
<b>Estimated Ending Fund Balance</b>	<b>\$75,526,000</b>	<b>\$79,883,000</b>	<b>4,357,000</b>

Note: Values are rounded to the thousands and may not add due to rounding.

### Revenue

- 1. Development Impact Fees:** Q4 unaudited actual revenue is mostly from new development within the DSRSD service area.
- 2. Investment Earnings:** Q4 unaudited actual revenue reflects a higher-than-expected rate of return based on current favorable market conditions.

### Expenses

- 3. Labor:** Q4 unaudited actual revenue includes staff labor through June 30, 2024.
- 4. Capital Projects:** Q4 unaudited actuals include multi-year projects such as the Flood Management Plan Phase 2. Unaudited actuals are less than budget mainly due to the timing of flood planning efforts and unused contingency.

### Reserves

The following table and chart compare the FY 2023-24 Amended Budget ending reserve balance to the Q4 unaudited actual ending reserve balance.

Fund 210 Reserves	FY 23-24 Amended Budget FYE	FY 23-24 Q4 Unaudited Actual
Capital Projects Reserve	\$75,526,000	\$79,883,000

The Agency is in the process of developing and implementing a Flood Management Plan to direct the Agency's future flood maintenance activities and capital projects. Per Resolution No. 22-73, dated August 17, 2022, the Board adopted the Flood Management Plan Phase 1. Flood Management Plan Phase 2A professional and project management services were approved at the Board meeting on February 15, 2023. This effort includes developing a Flood Protection Capital Improvement Plan, which will identify flood expansion projects to be paid from this fund.