

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

DATE: Wednesday, April 9, 2025  
TIME: 3:00 p.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. Discussion on Use of Fund 100 - Water Enterprise Operations Unallocated Fund Balance
4. Adjournment

**DATE:** April 9, 2025

**TO:** Finance Committee

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

**SUBJECT:** Discussion on Use of Fund 100 – Water Enterprise Operations Unallocated Fund Balance

**SUMMARY:**

- The proposed action is in support of Strategic Plan Goal H – Fiscal Responsibility: Operate the Agency in a fiscally responsible manner, and Strategic Plan Initiative No. 21 – Continue to effectively manage financial resources for the Agency.
- Per the Agency’s Reserve Policy, the Water Enterprise Operations Fund has three designated reserve funds. The fund balance remaining after all designated reserve funds have been funded at the target level is considered unallocated fund balance. The table below shows the minimum, target, and maximum levels as defined in the Reserve Policy and the second quarter projected year-end balances for fiscal year (FY) 2024-25.

| <b>Fund 100 Reserves</b>                        | <b>Minimum</b>      | <b>Target</b>       | <b>Maximum</b>      | <b>FY 24-25 Q2 Projected FYE</b> |
|---|---------------------|---------------------|---------------------|----------------------------------|
| Operating Reserves                              | \$8,601,000         | \$12,902,000        | \$17,202,000        | \$12,902,000                     |
| Emergency Reserves                              | 6,803,000           | 8,503,000           | 10,204,000          | 8,503,000                        |
| Reserve for Economic Uncertainties              | 3,532,000           | 5,298,000           | 7,065,000           | 5,298,000                        |
| <b>Designated Reserves Subtotal</b>             | <b>\$18,936,000</b> | <b>\$26,703,000</b> | <b>\$34,471,000</b> | <b>\$26,703,000</b>              |
| Pension Trust Fund                              |                     |                     |                     | 1,920,000                        |
| Projected Unallocated Fund Balance <sup>1</sup> |                     |                     |                     | 7,882,000                        |
| <b>Total Reserves</b>                           | <b>\$18,936,000</b> | <b>\$26,703,000</b> | <b>\$34,471,000</b> | <b>\$36,505,000</b>              |

<sup>1</sup> Approximately \$277K of the balance is planned for use in FY 2025-26 to balance the adopted budget. The balance of the unallocated fund balance is subject to change based on FY 2024-25 actuals.

Note: Values may not add due to rounding.

- As shown in the table above, the unallocated fund balance is projected to be approximately \$7.9M by June 30, 2025. Use of the unallocated fund balance is generally affected by Board policy.
- In recent years, the Board has directed staff to use unallocated fund balance to:
  1. Balance budget - In FY 2021-22, the Agency saw an unprecedented spike in water supply costs due to the prolonged drought. The Board approved the use of unallocated fund balance to purchase essential water transfers as a strategy to avoid water rate increases.

2. Fund Section 115 Pension Trust Fund – Per the Board’s direction, the initial contribution to the Pension Fund was funded by unallocated fund balance. Similarly, the Board authorizes annual contributions when certain criteria are met.
  3. Water Supply Reliability Project Participation – Per Resolution No. 20-66, the Board approved the use of \$2M of unallocated fund balance to participate in the Delta Conveyance project for calendar years 2021 and 2022.
- The Agency remains a partner in supporting a variety of long-term water supply reliability projects. These projects, while critical to address climate change and strengthen diminishing water supply reliability, are expensive and require significant financial investment. The table below provides a summary of the projects the Agency is actively involved in but has not yet formally committed to.

| Water Reliability Project                     | Total Estimated Cost | Zone 7’s Estimated Cost Share | Estimated Construction Start Date | Estimated Full Operations |
|---|----------------------|-------------------------------|-----------------------------------|---------------------------|
| Sites Reservoir <sup>1</sup>                  | \$5B                 | \$211M                        | Mid-2026                          | 2033                      |
| Delta Conveyance <sup>2</sup>                 | \$20B                | \$443M                        | 2029                              | 2045                      |
| Chain of Lakes Conveyance System <sup>3</sup> | \$110M-\$170M        | \$110M-\$170M                 | TBD                               | TBD                       |

<sup>1</sup> Estimated costs reflect future dollars as reported in the Sites Project 2023 Draft Plan of Finance Update. Updated costs are expected from the Authority in April 2025.

<sup>2</sup> Estimates based on the Delta Conveyance 2023 Cost Estimate Update.

<sup>3</sup> Costs range from \$110M-\$170M depending on the selected scope and design of the project.  
 Note: Estimated project costs are subject to change.

- As a participating member, the Agency has been financially supporting the planning, permitting, and preliminary design phases of the Sites Reservoir and Delta Conveyance projects. The Agency is also in the planning phase of the Chain of Lakes Conveyance project. Once these projects move into full design and construction, the required financial investment will increase significantly. Additionally, the Agency will need to commit to these projects by entering into long-term contracts to cover annual debt service and related costs. The first commitment is expected to be the Sites Reservoir project in early 2026. This commitment and other project commitments will likely lead to increases in water rates. To help offset the impact on future water rates, a portion of the unallocated fund balance can be earmarked for these long-term water reliability projects.
- In addition to the upcoming water supply reliability projects, the Agency is currently underway with the following long-term planning tools to inform future capital needs within the Agency’s water system:
  1. Connection Fee Study – Identifies the projected growth in the Agency’s service area and estimates the water system capital expansion investment needed to meet the projected increase in water demand. Based on the outcome of this study, capital investments, originally planned to be funded by connection fees, could shift to water rates.

2. 10-Year Water System Capital Improvement Plan (10-Year CIP) – Identifies the Agency’s water system renewal, replacement, and system-wide improvement projects needed to carry out the Agency’s goals and objectives for the next 10 years. The 10-Year CIP also estimates future project costs to be funded by water rates.
  3. Asset Management Program – Identifies and prioritizes the renewal, replacement, and improvement needs of the Agency’s current assets over the next 40 years and identifies funding strategies for those projects.
- Staff are seeking direction from the Finance Committee on the use of Fund 100 - Water Enterprise Operations unallocated fund balance. To proactively prepare for the substantial financial investments required for the water supply reliability projects, a portion of the unallocated fund balance can be set aside, or a formal reserve fund can be established through an amended Reserve Policy.

**FUNDING:**

N/A

**RECOMMENDED ACTION:**

Discuss and provide direction.