



COUNTY OF SONOMA

575 ADMINISTRATION
DRIVE, ROOM 102A
SANTA ROSA, CA 95403

SUMMARY REPORT

Agenda Date: 4/22/2025

To: Board of Directors, Sonoma County Water Agency

Department or Agency Name(s): Sonoma County Water Agency

Staff Name and Phone Number: Lynne Rosselli, 707-524-3771, Jake Spaulding 707-524-8373, Grant Davis 707-547-1911

Vote Requirement: Majority

Supervisorial District(s): Countywide

Title:

Water Rates for Fiscal Year 2025/2026

Recommended Action:

Adopt a Resolution establishing Rates and Charges for the Sonoma County Water Agency's Water Transmission System for Fiscal Year 2025/2026.

Executive Summary:

The Restructured Agreement for Water Supply (Restructured Agreement) between the Sonoma County Water Agency (Sonoma Water) and its eight retail water contractors requires that water rates be sufficient to cover the projected operation, maintenance, infrastructure, and debt service requirements for the next fiscal year. To meet these requirements, staff recommend a budget that results in an 8.68 percent rate increase for Santa Rosa Aqueduct customers, 10.76 percent rate increase for Petaluma Aqueduct customers, and a 7.60 percent increase for Sonoma Aqueduct customers.

Sonoma Water, our water retailers, and the industry at-large are facing similar challenges: aging infrastructure, rising operating and maintenance costs, and flat or declining water usage resulting in lower revenues. These challenges drive rate increases which have a financial impact on end users. Sonoma Water is dedicated to serving our communities and securing our future through responsible resource and environmental stewardship, continued technical innovation, investment in critical infrastructure, as well as effective fiscal management. The age of the infrastructure, combined with substantial levels of deferred maintenance underscores the importance of making investments to guarantee a dependable and sustainable water source for the future. This budget is a crucial and essential step in that direction.

The Fiscal Year 2025/2026 rate increase allows Sonoma Water to operate and maintain the Water Transmission System, continue to implement projects required by the Russian River Biological Opinion, construct critical hazard mitigation infrastructure projects, and maintain a prudent reserve. Sonoma Water recognizes the profound impact of natural hazards, and current economic circumstances to many residents, businesses, and our retail water contractors throughout our county and beyond. In response to the far-reaching financial hardships, Sonoma Water made a conscious effort to keep rate increases fair and reasonable while maintaining system reliability and public health and safety. Sonoma Water has been able to keep average rate increases below 6% over the past ten years. Sonoma Water's rates continue to be significantly lower than other water wholesalers in the bay area.

Budgeted water deliveries over the previous 3-, 5-, and 10-year periods have shown negative growth which drives up rate increases due to the fully volumetric rate structure. Multiple critical dry years and drought conditions resulted in a revenue shortfall of roughly \$12.8 million over the previous three fiscal years, with the majority of that occurring in Fiscal Year 2022/2023, our lowest water sales on record, which significantly reduced fund balance reserves.

While the cost of water per household is dependent on water use and is difficult to predict, Sonoma Water conservatively estimates that the proposed wholesale water rates may result in a \$2 to \$4 monthly increase for households served by Sonoma Water's contractors, if the rate were fully passed through by the water retailers which is not always the case. Sonoma Water's wholesale water rates are only a portion of the retailers' overall costs, which include the cost of operations and maintenance of their systems.

Discussion:

In Fiscal Year 2024/2025, Sonoma Water has made significant progress advancing the design and construction of six capital projects including multiple seismic and flood hazard mitigation projects and advancing the Santa Rosa Plain Wells. Two of the three wells will be completed by year end, with the third under construction and scheduled for completion in FY25/26. We continue to make progress implementing a 10-year, \$88 million Tank Maintenance, Recoating, and Rehabilitation program with tank inspections, washouts, repairs on thirteen tanks, completion of two tank recoats, one tank recoat under construction, and design of two tank recoat projects.

The Fiscal Year 2025/2026 budget provides appropriations to continue progress on high priority capital and maintenance projects including construction of ten hazard mitigation, resiliency, and reliability construction projects, advancing designs for five additional projects, and continued maintenance of completed Phases 4 and 5 of the Biological Opinion Dry Creek Habitat Enhancement Project. The budget also includes cathodic protection upgrades along the Santa Rosa Aqueduct and Russian River-Cotati Intertie, continuation of the comprehensive storage tank maintenance and recoat program, including initiating construction for seismic retrofits and recoating on two tanks, emergency inventory procurement, and a robust water use efficiency program to ensure continued implementation of water conservation measures.

Over the past ten years, Sonoma Water's customers have benefitted from more than \$23 million in awarded grant funds including \$12.6 million in FEMA grants to fund numerous hazard mitigation projects, and we will continue to seek federal and state funds for other projects. These grants along with the U.S Army Corps' 65% cost share for the Dry Creek Habitat Enhancement Projects have resulted in significant cost savings for the water contractors.

Multiple years with reduced water deliveries have resulted in associated revenue shortfalls directly related to Sonoma Water's fully volumetric rate structure. The revenue shortfall was \$12.8 million over the past three years, with the majority of that occurring in Fiscal Year 2022/2023, our lowest water sales on record, which significantly reduced fund balance reserves. While drought conditions have dissipated recently, demand has hardened, and current weather patterns have filled water contractor reservoirs and reduced demands from their customers leading to uncertain water sales for Sonoma Water in the current year. Based on deliveries through February, we anticipate meeting our budgeted deliveries for fiscal year 2024/2025, but there is still uncertainty until the close of the current fiscal year.

To lower the rate increases resulting from deliveries below historical averages combined with increasing costs to maintain aging infrastructure, Sonoma Water has deferred \$16.7 million in lower priority maintenance and capital projects from the Fiscal Year 2025/2026 budget. In addition, several additional capital projects have been deferred, reducing the rate increase and the size of the revenue bond needed to fund the capital improvement program over the next three fiscal years. Budgets for transmission system condition assessments, habitat enhancement, water conservation, cathodic protection, the Bennett Valley Fault Crossing Project, Collectors 3 and 5 Liquefaction Mitigation Project, and Phase 2 of the Water Treatment System Modernization Project have been reduced or deferred. The reserve for the tank recoating program intended to smooth future rate increases was also reduced. Sonoma Water further reduced the rate increase by using \$21.22 million in fund balance, bond revenue, and grants.

Staff recommend a budget that results in an 8.68 percent rate increase for Santa Rosa Aqueduct customers, 10.76 percent rate increase for Petaluma Aqueduct customers, and 7.60 percent increase for Sonoma Aqueduct customers. The proposed rate increase is necessary to invest in critical infrastructure improvements and deferred maintenance, implement water reliability projects, and remain prepared for natural hazards. Sonoma Water optimized the use of other sources of revenue to develop a budget that is reasonable, responsible, and fair, and that softens the rate impact to the 600,000 customers Sonoma Water serves.

For purposes of establishing the charges for the next fiscal year, the Restructured Agreement requires Sonoma Water to assume that the quantity of water to be delivered from each aqueduct will be the same amount of water delivered during the 12 months preceding establishment of rates, or the 3-year annual average, whichever is less. The 3-year annual average deliveries were 42,407 acre-feet. The quantity of water delivered during the preceding 12 months was 44,530 acre-feet. The water rates calculated for Fiscal Year 2025/2026 utilizes 42,407 acre-feet as a delivery estimate. This represents a 1.0% decrease over Fiscal Year 2024/2025.

The rate increase is attributable to increasing operations and maintenance costs and critically needed infrastructure improvements, compounded by the fully volumetric rate structure with the continuing effects of water demand below historical averages.

An Executive Summary of the Water Transmission Budget, including projected revenues, expenses, rates and capital projects, is provided in Attachment 1 - 'Water Transmission Budget Executive Summary'. The recommended increase in total charges from the current fiscal year are identified in Attachment 2. Budget summaries are included in Attachment 3, including the projected Operations and Maintenance Fund revenues and expenses for Fiscal Year 2025/2026, and projected Fiscal Year 2025/2026 ending fund balances for various other funds.

Attachment 4 - 'FY25-26 Revenue Summary Chart' delineates projected water use and rate changes by Sonoma Water customers. The Fiscal Year 2025/2026 bond and loan charges are summarized in Attachment 5. Attachment 6 includes the Fiscal Year 2025/2026 Water Transmission System Charges and Proposed Rate Increases by fund.

Per the Restructured Agreement, Other Agency Customers, pay monthly fixed meter charges in addition to their volumetric rate for delivered water. Meter charges cover the cost of new replacement meters, meter calibration and testing, meter maintenance, and meter reading. In order to recover the cost of service,

Sonoma Water has updated the fixed meter charges in the Fiscal Year 2025/2026 resolution as summarized in Attachment 7.

Under the Restructured Agreement, Sonoma Water is required to submit a preliminary water transmission system budget to its Water Contractors by February 1 of each year. The preliminary budget for Fiscal Year 2025/2026 was sent to the water contractors on January 17, 2025. Sonoma Water met two times with Water Contractor staff to develop working drafts of the budget, and on March 3, 2025, the Water Contractor's Technical Advisory Committee unanimously recommended approval of the draft budget. In March 2025, Sonoma Water staff made budget presentations and answered questions for the majority of the Water Contractor's elected bodies. On April 7, 2025, the Water Contractor's Water Advisory Committee members recommended adoption of the proposed budget by Sonoma Water's Board of Directors. Pursuant to Section 4.1 of the Restructured Agreement, the budget must be adopted by Sonoma Water's Board of Directors on or before April 30.

Racial Equity:

Was this item identified as an opportunity to apply the Racial Equity Toolkit?

No

Prior Board Actions:

4/16/24: Board established water rates and charges for Sonoma Water's water transmission system for Fiscal Year 2024/2025.

FISCAL SUMMARY

Expenditures	FY24-25 Adopted	FY25-26 Projected	FY26-27 Projected
Budgeted Expenses		\$82,022,000	
Additional Appropriation Requested			
Total Expenditures		\$82,022,000	
Funding Sources			
General Fund/WA GF			
State/Federal		\$73,000	
Fees/Other		\$74,016,000	
Use of Fund Balance		\$7,933,000	
General Fund Contingencies			
Total Sources		\$82,022,000	

Narrative Explanation of Fiscal Impacts:

There is no fiscal impact in Fiscal Year 2024/2025 as the proposed rates become effective in Fiscal Year 2025/2026. Revenues from these charges pay for operations and maintenance of the water transmission system. Sonoma Water anticipates total revenues of \$74.0 million from water sales, power sales, contributions, interest, and investment income; \$73,000 in grant funds, and \$7.9 million in use of fund balance. Revenue and expenditures for Fiscal Year 2026/2027 will be determined based on water deliveries in

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calendar year 2025.

Staffing Impacts:			
Position Title (Payroll Classification)	Monthly Salary Range (A-I Step)	Additions (Number)	Deletions (Number)

Narrative Explanation of Staffing Impacts (If Required):

None.

Attachments:

- Attachment 1 FY 25/26 Water Transmission Budget Executive Summary
- Attachment 2 FY 25/26 Water Charges Per Acre-Foot
- Attachment 3 FY 25/26 Water Rates Calculation and Budget Summaries
- Attachment 4 FY 25/26 Revenue Summary
- Attachment 5 FY 25/26 Debt Service Charges
- Attachment 6 FY 25/26 Water Transmission System Charges and Proposed Rate Increases
- Attachment 7 FY 25/26 Water Transmission System Monthly Fixed Meter Charges
- Attachment 8 Resolution
- Attachment 9 PowerPoint Presentation

Related Items "On File" with the Clerk of the Board:

None.