



COUNTY OF SONOMA

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

SUMMARY REPORT

Agenda Date: 4/28/2026

To: Board of Directors, Sonoma County Water Agency

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

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

Vote Requirement: Majority

Supervisorial District(s): Countywide

Title:

Water Rates for Fiscal Year 2026/2027

Recommended Action:

Adopt a Resolution establishing Rates and Charges for the Sonoma County Water Agency's Water Transmission System for Fiscal Year 2026/2027.

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. The draft proposed budget for FY 2026/2027 is based on continuing to implement the required elements of the 2008 and 2025 Biological Opinions, maintenance of facilities, and continued implementation of hazard mitigation and reliability projects. Alternative sources of revenue, including federal and state grants, existing fund balances, and bond financing are programmed to finance projects and offset rate increases. Sonoma Water's three aqueducts include discretionary charges to build fund balance for future capital projects and avert rate spikes in subsequent years. This proposed budget allows Sonoma Water to meet the operations, maintenance, capital, and regulatory demands of the system, and maintains fund balances within policy for 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. Rate increases over the past 5 years and 10 years have averaged 7.7% and 6.3% respectively.

Staff recommend a budget that results in an 8.21% rate increase for Santa Rosa Aqueduct customers, 8.97% rate increase for Petaluma Aqueduct customers, 8.72% increase for Sonoma Aqueduct customers, 9.42% rate increase for North Marin Water District, and 7.68% rate increase for Marin Municipal Water District. With the recommended increases, Sonoma Water's overall rates will continue to be significantly lower than other water wholesalers in the Bay Area. 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 and effective fiscal management. The proposed rate increase is necessary to accomplish these goals.

Discussion:

Sonoma Water, our water retailers, and the industry at-large are facing similar challenges: aging infrastructure, rising operating and maintenance costs, vulnerability to natural hazards, and flat or declining water usage resulting in lower deliveries. A significant portion of our critical infrastructure is approaching the end of its useful lifespan and is in less than acceptable condition. The age of the infrastructure, current condition of assets, combined with substantial levels of deferred maintenance, underscores the importance of making investments to guarantee a reliable water source for more than 600,000 residents in portions of Sonoma and Marin counties. These challenges drive rate increases which have a financial impact on end users but are necessary to upgrade aging infrastructure and ensure reliable service.

In Fiscal Year 2025/2026, Sonoma Water has made significant progress advancing the design and construction of several capital projects, including multiple seismic and flood hazard mitigation projects and advancing the Santa Rosa Plain Wells. We continue to make progress implementing the multiyear Tank Maintenance Program, which performs tank inspections, washouts, and repairs; the multiyear Tank Rehabilitation Program which will result in the recoating of all 18 tanks in the system; and Phase 1 of the Santa Rosa/Cotati Cathodic Protection Project.

The Fiscal Year 2026/2027 budget provides appropriations for routine operations and system maintenance, as well as funds for several large non-routine operating projects, including the continuation of the comprehensive Tank Rehabilitation Program, which entails recoating multiple tanks, SCADA upgrades, and procurement of additional emergency inventory to prepare for emergencies. It includes appropriations for high priority capital projects, including construction of six hazard mitigation, resiliency, and reliability construction projects, and advancing designs for eight additional projects. It also allows implementation of projects required by the Biological Opinion 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.

Water Sales fund the majority of the work in the transmission system and are highly dependent on water deliveries due to our fully volumetric rate structure as is required by the Restructured Agreement. Multiple dry years and drought conditions have resulted in reduced water deliveries and associated revenue shortfalls directly related to this structure. Over the past three years, water sales have come in under budget by approximately \$9.2 million, with the majority of that occurring in Fiscal Year 2022/2023, our lowest water sale year in at least 30 years, significantly reducing fund balance reserves, which can be used to help offset rate increases. While drought conditions have dissipated, demand has hardened and changing weather patterns increase year-to-year variability, highlighting the need to have ample reserves for the next drought. Based on deliveries through February, we anticipate meeting our budgeted deliveries for fiscal year 2025/2026, but there is still uncertainty until the close of the current fiscal year.

Staff recommend a budget that results in an 8.21% rate increase for Santa Rosa Aqueduct customers, 8.97%

rate increase for Petaluma Aqueduct customers, 8.72% increase for Sonoma Aqueduct customers, 9.42% rate increase for North Marin Water District, and 7.68% rate increase for Marin Municipal Water District. The proposed rate increases are 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 42,384 acre-feet. The quantity of water delivered during the preceding 12 months was 41,776 acre-feet. The water rates calculated for Fiscal Year 2026/2027 utilize 41,776 acre-feet as a delivery estimate, which is 1.5% less than Fiscal Year 2025/2026 deliveries.

The rate increases are 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 2026/2027, and projected Fiscal Year 2026/2027 ending fund balances for various other funds.

Attachment 4 - 'FY26-27 Revenue Summary Chart' delineates projected water use and rate changes by Sonoma Water customers. The Fiscal Year 2026/2027 bond and loan charges are summarized in Attachment 5. Attachment 6 includes the Fiscal Year 2026/2027 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 2026/2027 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 2026/2027 was sent to the water contractors on January 22, 2026. Sonoma Water met three times with Water Contractor staff to develop working drafts of the budget, and on March 2, 2026, the Water Contractor's Technical Advisory Committee unanimously recommended approval of the draft budget. In March 2026, Sonoma Water staff made budget presentations and answered questions for the majority of the Water Contractor's elected bodies. On April 6, 2026, 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:

4/22/25: Board established water rates and charges for Sonoma Water’s water transmission system for Fiscal Year 2025/2026.

FISCAL SUMMARY

| Expenditures | FY25-26 Adopted | FY26-27 Projected | FY27-28 Projected |
|------------------------------------|----------------------------|------------------------------|------------------------------|
| Budgeted Expenses | | \$78,409,000 | |
| Additional Appropriation Requested | | | |
| Total Expenditures | | \$78,409,000 | |
| Funding Sources | | | |
| General Fund/WA GF | | | |
| State/Federal | | \$35,000 | |
| Fees/Other | | \$76,277,000 | |
| Use of Fund Balance | | \$2,097,000 | |
| General Fund Contingencies | | | |
| Total Sources | | \$78,409,000 | |

Narrative Explanation of Fiscal Impacts:

There is no fiscal impact in Fiscal Year 2025/2026, as the proposed rates become effective in Fiscal Year 2026/2027. Revenues from these charges pay for operations and maintenance of the water transmission system. Sonoma Water anticipates total revenues of \$76,277,000 from water sales, power sales, contributions, interest, and investment income; \$35,000 in grant funds; and \$2,097,000 in use of fund balance. Revenue and expenditures for Fiscal Year 2027/2028 will be determined based on water deliveries in calendar year 2026.

| 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 26/27 Water Transmission Budget Executive Summary

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Attachment 2 FY 26/27 Water Charges Per Acre-Foot

Attachment 3 FY 26/27 Water Rates Calculation and Budget Summaries

Attachment 4 FY 26/27 Revenue Summary

Attachment 5 FY 26/27 Debt Service Charges

Attachment 6 FY 26/27 Water Transmission System Charges and Proposed Rate Increases

Attachment 7 FY 26/27 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.