

FY 2025/2026 Water Transmission Budget

Executive Summary

Overview

The draft proposed budget for FY 2025/2026 is based on accomplishing the required elements of the Biological Opinion, 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. The three aqueducts include discretionary aqueduct capital charges to build fund balance for future capital projects and avert rate spikes in subsequent years. This 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, our water retailers, and the industry at-large are facing similar challenges: aging infrastructure, rising operating and maintenance costs, water usage fluctuations resulting in lower revenues, droughts, among others. 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.

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.

Multiple critical dry years and drought conditions have resulted in reduced water deliveries and associated revenue shortfalls directly related to Sonoma Water's fully volumetric rate structure. While drought conditions have dissipated recently, demand has hardened, and current weather patterns have both filled water contractor reservoirs and reduced demands from their customers leading to uncertain water sales for Sonoma Water in the current year.

In FY 2025/2026, deliveries below historical averages combined with increasing costs to maintain aging infrastructure are putting continued pressure on rates. Sonoma Water was able to reduce its initial proposed rate increase of over 40% to around 10% by prioritizing projects and by implementing mitigation measures. Mitigation measures in FY 2025/2026 include using fund balance, bond revenue, and grants to the maximum extent possible, and realizing cost savings of \$16.69 million by deferring construction and maintenance projects from the FY 2025/2026 budget. We were also able to sequence some capital projects in the next two years to bring down anticipated bonding costs that would hit in the budget year.

The proposed rate increase is necessary to invest in critical infrastructure improvements and deferred maintenance, implement drought related and other 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.

Deliveries

For purposes of establishing the charges for the next fiscal year, the Restructured Agreement generally requires Sonoma Water to assume that the quantity of water to be delivered from each aqueduct of the Water Transmission System 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. For comparison, average water deliveries over the past two decades have been roughly 48,800 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.

Rates

The resulting rates for 42,407 acre-feet are shown below:

Charge / Aqueduct	Santa Rosa	Petaluma	Sonoma
Deliveries (Acre-Feet)	42,407		
O&M	\$1,029.16	\$1,029.16	\$1,029.16
Water Management Planning	\$4.57	\$4.57	\$4.57
Watershed Planning & Restoration	\$45.71	\$45.71	\$45.71
Recycled Water and Local Supply	\$0.14	\$0.14	\$0.14
Water Conservation	\$63.83	\$63.83	\$63.83
Total O&M	\$1,143.41	\$1,143.41	\$1,143.41
Storage & Common Bond/Loan Charges	\$246.45	\$246.45	\$246.45
Petaluma Aqueduct Bond/Loan Charge		\$15.66	
Sonoma Aqueduct Bond/Loan Charge			\$144.56
Prime Contractors	\$1,389.86	\$1,405.52	\$1,534.42
<u>Discretionary Charges</u>			
Capital Charges - to build fund balance for future projects	\$11.00	\$10.00	\$34.90
Total Prime Contractors	\$1,400.86	\$1,415.52	\$1,569.32
Total Overall Increase:	8.68%	10.76%	7.6%

Water Transmission System

▪ Revenues and Use of Fund Balance

Total budgeted revenue of the Water Transmission System and use of fund balance are increasing 10.70% percent or \$8.1 million to \$84.1 million. This total revenue budget is comprised of numerous revenue categories, the biggest of which is \$61.1 million in water sales. Other revenue sources are \$0.1 million in grants, \$1.8 million in meter service installation charges, interest and investment income, and water contractor contributions for

Sonoma Water support of their water use efficiency programs. The revenue increase also includes \$13.2 million in use of bond proceeds. The budget includes \$7.9 million in use of fund balance.

▪ Expenditures

Expenditures of the Water Transmission System are as follows:

	FY24-25	FY25-26	
	Budget (in Millions)	Budget (in Millions)	Change (in Millions)
Operations and Maintenance	\$45.41	\$45.87	\$0.46
Capital Projects	\$15.66	\$18.28	\$2.62
Biological Opinion Compliance, Water Supply Planning, Water Conservation	\$7.53	\$8.80	\$1.27
Debt Service	\$5.83	\$9.07	\$3.25
Totals	\$74.43	\$82.02	\$7.60
Grants, Use of Fund Balance, and Bond Proceeds	\$18.13	\$21.22	\$3.09

Sonoma Water has successfully contained costs and 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.

Operations and Maintenance: Increase is attributable to an increases in maintenance projects (asset management, cathodic protection, tank recoats, tank maintenance, pump 9 replacement, regional water supply resilience implementation, SCADA upgrades, emergency inventory procurement), studies (arc flash studies, cathodic protection assesment, transmission system condition assessments, water system comprehensive master plan, water quality studies), and other expenditures including increases in labor, rents and leases , equipment usage charges, power costs, and equipment and supplies expenses.

Capital Projects: Construction will occur in FY 2025/2026 for several high priority hazard mitigation projects and reliability projects including the River Diversion Structure Upgrade, Mirabel Collector Well Pump Hoist Upgrades, Warm Springs Dam Hydropower Retrofit, and the Santa Rosa Plain Wells projects. Designs for additional priority hazard mitigation and other reliability projects will also occur.

Biological Opinion Compliance: Budget includes ongoing costs for maintenance of Dry Creek Habitat Enhancement Phases 4 and 5 and other required biological opinion activities. Increase in expenditures is a result of budgeted construction and maintenance costs for three miles of Dry Creek Habitat

Enhancement (cost share provided by U.S. Army Corp), and increased efforts for Estuary Management & Monitoring, fire fuel reduction, and required efforts for the next biological opinion.

Debt Service: Total Debt service is increasing by \$3.25M resulting from the planned issuance of \$32.96M in 2025 Water Revenue Bonds to fund critical infrastructure projects in Petaluma Aqueduct, Storage Facilities, and Common Facilities capital funds.

Grants, Use of Fund Balance, and Bond Proceeds: Over the past ten years, Sonoma Water's customers have benefitted from more than \$23 million in awarded grant funds that are used to offset expenses. The majority of funds have been for hazard mitigation and water supply reliability projects. Total construction costs for these projects are not reflected in the table above or the table below. The majority of the use of fund balance will be expended in the Common Facilities Capital Fund and the Petaluma Aqueduct Capital Fund where construction costs budgeted in prior years have accumulated due to FEMA environmental review delays and supply chain delays for electrical switchgear.

Capital Projects

Please refer to the next page for a table of FY 2025/2026 proposed capital projects and project status.

Water Transmission Budget		FY25-26	
Capital Projects Summary			
Project	Category	Amount	Status
Santa Rosa Creek Crossing	Santa Rosa AQ	130,247	Funding de-obligated; re-evaluating project design and schedule
Ely BPS Flood Control & Electrical Upgrade	Petaluma AQ	426,440	Awarded Q3 FY21/22; Delayed due to Elec Supply Chain issues; Substantial Completion anticipated Oct 2025
Wilfred Booster Station	Petaluma AQ	2,692,667	90% design; Prepurchase Elec Equip in fabrication; Anticipate Construction Award Q1 FY25/26
Kawana-Ralphine SBS Pipeline	Storage	767,250	Consultant Selection 24/25; multi year design; construction award anticipated FY28/29
Seismic Retrofit of Storage Tanks	Storage	1,057,177	Site specific geotech planned at each tank; seismic upgrades tied to Tank Recoat schedule
Ralphine Tanks Flow Thru Conversion	Storage	280,540	1st tank design underway; flow mixing system upgrades tied to Tank Recoat schedule
Mirabel Collector Wells Pump Hoist Upgrades	Common	2,431,357	Design agrmt anticipated Q3 FY24/25; construction award anticipated Q4 FY25/26
Mirabel/Wohler Storage Building	Common	411,130	Design Advancing; CEQA/permitting commencing Q4 FY24/25; Anticipate award FY26/27
River Diversion Structure (RDS) Upgrade Project	Common	4,000,000	Design Advancing; Anticipate award in FY25/26
Occidental Road Well	Common	920,949	Well drilling contract complete FY23/24; topside design complete FY24/25; construction award in Q4 FY24/25
Sebastopol Road Well	Common	707,215	Construction ongoing; delays in electrical equipment delivery; Substantial Completion anticipated Q4 FY24/25
Todd Rd Well Discharge Connection	Common	597,110	Design and Construction award in 25/26
Warm Springs Dam Hydropower Retrofit	Common	2,322,553	Switchgear pre-purchased in FY24/25. Design being finalized; Anticipate award in Q2 FY25/26
Water Treatment System Modernization - Phase 1	Common	526,880	Design agrmt anticipated Q4 FY24/25; construction award anticipated FY26/27
Water Treatment System Modernization - Phase 3 (River Road)	Common	1,008,905	Land acquisition being explored in FY25/26
	TOTAL	18,280,420	
	Santa Rosa AQ	130,247	
	Petaluma AQ	3,119,107	
	Sonoma AQ	-	
	Storage	2,104,967	
	Common	12,926,099	
		18,280,420	