

FY 2026/2027 Water Transmission Budget

Executive Summary

Overview

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. The three aqueducts include discretionary aqueduct capital 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, 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.

Water Sales are the largest source of revenue 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 the shortfall is \$9.2 million with the majority of that occurring in Fiscal Year 2022/2023, our lowest water sales in at least 30 years, which significantly reduced 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.

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 10 years have averaged 6.3%. Sonoma Water's overall rates 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. 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 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 42,284 acre-feet. The quantity of water delivered during the preceding 12 months was 41,776 acre-feet. For comparison, average water deliveries over the past two decades have been roughly 47,716 acre-feet. The water rates calculated for Fiscal Year 2026/2027 utilizes 41,776 acre-feet as a delivery estimate. This represents a 1.5% decrease over Fiscal Year 2025/2026.

Rates

The resulting rates for 41,776 acre-feet are shown below:

Charge / Aqueduct	Santa Rosa	Petaluma	Sonoma
Deliveries (Acre-Feet)	41,776		
O&M	\$1,106.05	\$1,106.05	\$1,106.05
Water Management Planning	\$2.63	\$2.63	\$2.63
Watershed Planning & Restoration	\$95.41	\$95.41	\$95.41
Recycled Water and Local Supply	\$0.00	\$0.00	\$0.00
Water Conservation	\$72.13	\$72.13	\$72.13
Total O&M	\$1,276.22	\$1,276.22	\$1,276.22
Storage & Common Bond/Loan Charges	\$228.65	\$228.65	\$228.65
Petaluma Aqueduct Bond/Loan Charge		\$27.55	
Sonoma Aqueduct Bond/Loan Charge			\$166.46
Prime Contractors	\$1,504.87	\$1,532.42	\$1,671.33
Discretionary Charges			
Capital Charges - to build fund balance for future projects	\$11.00	\$10.00	\$34.90
Total Prime Contractors	\$1,515.87	\$1,542.42	\$1,706.23
Total Overall Increase:	8.21%	8.97%	8.72%

Other Rates	Rate per AF	Rate Increase
North Marin Water District	\$1,611.15	9.42%
Marin Municipal Water District	\$1,886.15	7.68%

Water Transmission System

Revenues and Use of Fund Balance

Total budgeted revenue of the Water Transmission System and use of fund balance are decreasing 1.77% percent or by \$1.49 million to \$82.50 million. This total revenue budget is comprised of numerous revenue categories, the biggest of which is \$65.42 million in water sales. Other revenue sources are \$0.03 million in grants, \$.30 million on power revenue, \$2.13 million in meter service installation charges, interest and investment income, and water contractor contributions for Sonoma Water support of their water use efficiency programs. Revenue also includes \$12.51 million in use of bond proceeds and \$2.10 million in use of fund balance.

Expenditures

Expenditures of the Water Transmission System are as follows:

	FY25-26	FY26-27	
	Budget (in Millions)	Budget (in Millions)	Change (in Millions)
Operations and Maintenance	\$45.87	\$48.75	\$2.88
Capital Projects	\$18.28	\$10.90	(\$7.38)
Biological Opinion Compliance, Water Supply Planning, Water Conservation	\$8.80	\$10.09	\$1.29
Debt Service	\$9.07	\$8.67	(\$0.41)
Totals	\$82.02	\$78.41	(\$3.62)

Grants, Use of Fund Balance, and Bond Proceeds	\$21.22	\$14.64	(\$6.58)
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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, emergency inventory procurement, Hydropower Relicensing, regional water supply resilience implementation, tank maintenance program, tank rehabilitation program, SCADA upgrades), studies (DeMuth property hydrogeologic investigation, natural hazard reliability studies, transmission system condition assessments, water system comprehensive master plan, water quality studies), and other expenditures including increases in chemicals, permitting, laboratory supplies, labor, utilities, and equipment and supplies expenses.

Capital Projects: Decrease is not a reflection of level of work, but is rather tied to the multi-year nature capital projects and the fact that funding is secured prior to issuing construction contracts. Several large multi-year construction contracts were budgeted in the prior fiscal year so they could be awarded prior to June 30th, and work will continue into FY 2026/2027. Construction will occur in FY 2026/2027 for several high priority hazard mitigation projects and reliability projects including Wilfred Booster Station, River Diversion Structure Upgrade, Warm Springs Dam Hydropower Retrofit, Seismic Retrofits on multiple storage tanks, SR Plains Wells, and the Wohler Road Storage Facility. Designs for additional priority hazard mitigation and other reliability projects will also occur.

Biological Opinion Compliance: Budget includes ongoing costs for implementation and maintenance of the Dry Creek Habitat Enhancement phases (cost share provided by U.S. Army Corp) required under the 2008 Biological Opinion, as well as new requirements mandated by the 2025 Biological Opinion issued in April of that year. Increase in expenditures is a result of new efforts for estuary management & monitoring, small scale restoration projects in Dry Creek, hydrologic index work, upper river steelhead migration studies, and coordination with a new 2025 BO reservoir operations working group.

Debt Service: Total Debt service is decreasing by \$.41M or 4.52%. Note that a planned issuance of \$32.96M in 2026 Water Revenue Bonds to fund critical infrastructure projects in Petaluma Aqueduct, Storage Facilities, and Common Facilities capital funds is scheduled for May 2026. Debt service calculations will be refined after the terms of the competitive bond sale occur.

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 the funds have been for hazard mitigation and water supply reliability projects. There is minimal grant revenue in the FY26/27 budget as we have not secured new awards. We have multiple pending application for funds that are under review by CalOES and FEMA that may be successful at securing offsetting revenue and will be incorporated if awarded in the year they are secured.

Water sales have come in under budget by approximately \$9.2 million over the past three years due to lower deliveries. This has eroded available fund balance to help offset rate increases. In FY26/27, approximately \$2.1M in fund balance is being used compared to \$7.9 million in the prior year, accounting for the vast majority of the decrease shown in the table above.

A planned issuance of \$32.96M in 2026 Water Revenue Bonds to fund critical infrastructure projects in Petaluma Aqueduct, Storage Facilities, and Common Facilities capital funds is scheduled for May 2026. The amount of Bond proceeds used for capital projects is roughly the same as in the prior year.

Capital Projects

Please refer to the next page for a table of FY 2026/2027 proposed capital projects and project status.

Water Transmission Budget		FY26-27	
Capital Projects Summary			
Project	Category	Amount	Status
Wilfred Booster Station	Petaluma AQ	548,910	Equipment prepurchase and fabrication underway; construction contract awarded Dec 2025.
Bennett Valley Fault Crossing	Sonoma AQ	50,220	90% design in progress; final design and construction on hold pending possible FEMA funding.
Kawana-Ralphine SBS Pipeline	Storage	267,136	Design agreement for Ph 1 (Ralphine to SBS) approved June 2025; multi-year design effort underway.
Seismic Retrofit of Storage Tanks-Sonoma 1	Storage	648,360	Design in progress; include with Sonoma 1 recoat project scheduled to advertise March 2026.
Seismic Retrofit of Storage Tanks-Sonoma 2	Storage	480,600	Finalizing geotech report; assessing seismic design needs for larger recoat project (design to begin Spring 2026).
Seismic Retrofit of Storage Tanks-Ralphine 1	Storage	13,100	Design in progress; include with Ralphine 1 recoat project scheduled to advertise Jan 2026.
Seismic Retrofit of Storage Tanks-Ralphine 2	Storage	453,100	Finalizing geotech report; assessing seismic design needs for larger recoat project (design to begin Spring 2026).
Seismic Retrofit of Storage Tanks Design - Other Tanks	Storage	752,940	Comprehensive tank program geotech; seismic design for Eldridge 2 and Kawana 1 to commence FY26/27.
Wohler Road Storage Facility	Common	4,600,995	Public Draft CEQA March 2026 with Board adoption in June 2026; advertisement anticipated December 2026.
River Diversion Structure (RDS) Upgrade Project	Common	598,625	Design at 99%; anticipated to advertise Feb 2026.
Warm Springs Dam Hydropower Retrofit	Common	178,054	90% design; construction advertisement expected June 2026.
Water Treatment System Modernization - Shone Farm & FBS	Common	1,273,640	ROW ongoing and geotech completed; 50% design submitted in Dec 2025 with advertise target of Dec 2026.
Water Treatment System Modernization - Wohler Facility	Common	1,037,700	Design agreement to be executed in FY26/27.
	TOTAL	10,903,380	
	Santa Rosa AQ	-	
	Petaluma AQ	548,910	
	Sonoma AQ	50,220	
	Storage	2,615,236	
	Common	7,689,014	
		10,903,380	