

FY 2019/2020 Water Transmission Budget

Overview

The proposed budget for FY 2019/2020 is based on accomplishing a focused set of goals centered around Sonoma Water's Water Supply Strategy Action Plan, including the required elements of the Biological Opinion, continued implementation of hazard mitigation and reliability projects, and maintenance of facilities. Whenever possible, alternative sources of revenue such as federal and state grants, existing fund balances, and bond financing will be used to finance capital projects. Additionally, per agreement with the Water Advisory Committee, a discretionary aqueduct capital charge is included in the budget 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, assumes reasonable deliveries in line with recent years, maintains fund balances within policy for prudent reserve, and provides rate increases that are in line with the Long Range Financial Plan target of 4 to 6 percent.

Deliveries

For purposes of establishing the budget and rates for the next fiscal year, the Restructured Agreement requires that the quantity of water delivered from the aqueducts of the Water Transmission System be the amount of water delivered during the 12 months preceding establishment of rates, or the average annual amount of water delivered during the preceding 36 months, whichever is less. The 12 month actual deliveries through December 2018 were 46,830 acre-feet. Due to the extended drought, the 3 year annual average was 43,870 acre-feet. Accordingly, per the Restructured Agreement, the budget and rates are based on 43,870 acre-feet in deliveries. Budgeted and actual deliveries have averaged 45,000 acre-feet over the past five years. Actual deliveries for FY2019/2020 are projected to be approximately 46,000 acre-feet.

Rates

The resulting rates for 43,870 acre-feet are shown below:

Charge / Aqueduct	Santa Rosa	Petaluma	Sonoma
Deliveries (Acre-Feet)	43,870		
O&M	\$615.20	\$615.20	\$615.20
Water Management Planning	\$1.14	\$1.14	\$1.14
Watershed Planning & Restoration	\$102.96	\$102.96	\$102.96
Recycled Water and Local Supply	\$2.96	\$2.96	\$2.96
Water Conservation	\$46.94	\$46.94	\$46.94
Total O&M	\$769.20	\$769.20	\$769.20
Storage & Common Bond/Loan Charges	\$122.10	\$122.10	\$122.10
Sonoma Aqueduct Bond/Loan Charge			\$130.50
Prime Contractors	\$891.30	\$891.30	\$1,021.80

Charge / Aqueduct	Santa Rosa	Petaluma	Sonoma
<u>Discretionary Charges</u>			
Capital Charges - to build fund balance for future projects	\$27.00	\$27.00	\$27.00
Local Recycled Water Tier 2 Program	\$0.00	\$0.00	\$0.00
<i>Prime Contractors</i>	\$27.00	\$27.00	\$27.00
<i>Total Prime Contractors</i>	\$918.30	\$918.30	\$1,048.80
Total Overall Increase:	4.60%	4.60%	4.77%

Water Transmission System Fund

Revenues

Total revenue of the Water Transmission System Operations and Maintenance Fund is budgeted to increase by 10.24 percent or \$3,860,000 to \$41,550,000. This total revenue is comprised of numerous revenue categories, the biggest of which is water sales. Other revenue sources are grants, power sales, meter service installation charges, revenue bond proceeds, and interest on cash balances.

Water rates and therefore water revenues will not pay for all of the budgeted capital expenses on a “pay-go” basis. Sonoma Water staff proposes to use \$260,000 in budgeted grant funds, \$6,224,326 in fund balance, and \$3,730,000 in budgeted revenue bond proceeds (in excess of the prudent reserve) to make up the difference.

Expenses

Expenses for operations and maintenance, capital improvement projects, and sub-funds are as follows:

	FY 2018/2019	FY 2019/2020	
	Budget (in Millions)	Budget (in Millions)	Change (in Millions)
Operations and Maintenance	\$23.13	\$27.47	\$4.34
Capital Projects	\$5.59	\$10.97	\$5.38
Biological Opinion Compliance, Water Supply Planning, Water Conservation	\$6.51	\$8.48	\$1.97
Debt Service	\$5.39	\$4.84	(\$0.54)
Totals	\$40.62	\$51.76	\$11.15

Grants, Use of Fund Balance, and Bond Proceeds	\$7.44	\$10.21	\$2.77
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During the drought and following the October 2017 fires, Sonoma Water made a conscious effort to maintain lower reasonable rate increases (FY 2018/2019 was 3.67 percent). As a result, some maintenance

and capital projects were deferred. With water deliveries increasing, Sonoma Water is able to not only implement deferred maintenance and capital projects, but also build fund balance to help smooth rates during the next drought.

Operations and Maintenance: Increase due to large non-routine maintenance projects including a) a ten year \$38 million tank maintenance program to maintain Sonoma Water's 18 tanks that store 130 million gallons of potable water with \$3 million budgeted in FY 2019-2020 for tank recoats and maintenance, b) hundreds of valve and meter replacements at the collector wells, c) ongoing work on a regional water supply resiliency study, and d) fire-related water quality studies.

Capital Projects: Increase due to collector well pump replacements and construction of the Sonoma Booster Pump Station Electrical Upgrade and Pumping Reliability project.

Biological Opinion Compliance: Increase due to design and right-of-way expenditures for Dry Creek Habitat Enhancement Phases 4, 5, and 6 in addition to ongoing required biological opinion activities.

Debt Service: Decrease due to bond issuance costs being incurred in FY 2018/2019 and not in FY 2019/2020.

Grants, Use of Fund Balance, and Bond Proceeds: Over the past five years, water contractors have benefitted from more than \$17 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. Some FEMA grant funded projects (Russian River and Mark West Creek Crossing Hazard Mitigation Projects) were budgeted in prior years but will be constructed in FY 2019/2020 and are not reflected in the table above. The majority of the use of fund balance is being expended in the Aqueduct Capital Funds. Water contractors have generated revenue through the water rates to build fund balance over a number of years in the Aqueduct Capital Funds, and are expending those funds on specific aqueduct capital projects (Santa Rosa Creek Crossing Hazard Mitigation Project, Ely Booster Pump Station Flood Mitigation Project, Caltrans Petaluma Aqueduct Relocation Project).

Capital Projects

Project	Category	Amount
Ely BPS Flood Control & Electrical Upgrade	Petaluma AQ	266,000
MSN Segment C2 - HOV Lane - Lakeville to Old Redwood Hwy.	Petaluma AQ	1,600,000
LHMP - Program Design (for Future FEMA Funds)	Sonoma AQ	30,000
SBS Electrical Upgrade and Pumping Reliability	Sonoma AQ	4,100,000
Mainline Valve Replacement (Vinehill Ranch)	Common	356,000
Mirabel Dam Bladder Replacement	Common	1,580,000
MW Creek Crossing	Common	70,000
Pump Replacement	Common	
Wohler 4, 11	Common	1,200,000
RDS Pump and Motor Replacement	Common	150,000
RR Crossing	Common	165,000
Warm Springs Dam Hydroturbine Retrofit	Common	1,400,000
Wohler Plant Access Rd. Retaining Wall	Common	34,000
WTS Equipment Building	Common	20,000
	TOTAL	10,971,000
	Petaluma AQ	1,866,000
	Sonoma AQ	4,130,000
	Common	4,975,000
		10,971,000