



COUNTY OF SONOMA

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

SUMMARY REPORT

Agenda Date: 4/16/2019

To: Board of Directors Sonoma County Water Agency

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

Staff Name and Phone Number: Michael Thompson, 521-1863; Lynne Rosselli, 524-3771

Vote Requirement: Majority

Supervisory District(s): All

Title:

Water Rates for Fiscal Year 2019/2020

Recommended Actions:

Adopt a Resolution establishing Rates and Charges for the Sonoma County Water Agency's Water Transmission System for Fiscal Year 2019/2020.

Executive Summary:

The Restructured Agreement for Water Supply (Restructured Agreement) between the Sonoma County Water Agency (Sonoma Water) and its eight Water Contractors, executed in 2006, requires that water rates be sufficient to cover the projected operation and maintenance expenses, and debt service requirements for the next fiscal year. To meet these requirements, staff recommend a budget that results in a 4.6 percent rate increase for Santa Rosa and Petaluma Aqueduct customers, and a 4.77 percent increase for Sonoma Aqueduct customers. During the drought and following the October 2017 fires, Sonoma Water made a conscious effort to maintain lower rate increases. The Fiscal Year 2018/2019 rate increase was 3.67 percent. As a result, maintenance and capital projects were deferred. With water deliveries now rising, the Fiscal Year 2019/2020 rate increase allows Sonoma Water to not only implement deferred maintenance and capital projects, but also build fund balance to help smooth rates during the next drought. Sonoma Water continues to work to control expenditures and minimize the level of increases. Sonoma Aqueduct customers pay a higher rate due to the debt service charge for the Eldridge-Madrone pipeline project, and due to debt service on proposed Fiscal Year 2018/2019 Water Revenue Bonds for the Sonoma Booster Pump Station Upgrade Project.

The rates will result in a 1 to 2 percent increase for households and businesses served by Sonoma Water's contractors. Sonoma Water's wholesale water rates are only a portion of the retailers' overall costs, which include their own cost of operations and maintenance of their system.

Discussion:

The prolonged drought had a dramatic impact on water demand. Deliveries since Fiscal Year 2013/2014 have decreased 27% and resulted in a significant reduction in water sales revenue. Over the past several years, Sonoma Water has taken proactive steps to mitigate the impact of declining revenues by prioritizing projects, relying on fund balance

accumulated in years leading up to the drought, and utilizing long range financial planning to not only spread the costs of large projects over a number of years, but also to optimize the use of bond proceeds and grant funds.

The Fiscal Year 2019/2020 budget provides appropriations to operate and maintain the Water Transmission System, implement projects required by the Russian River Biological Opinion, construct critical hazard mitigation infrastructure projects, pay debt service on outstanding bonds, and maintain a prudent reserve. Using proactive mitigation measures, 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.

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 average annual amount of water delivered during the preceding 36 months, whichever is less. The quantity of water delivered during the preceding 12 months was 46,830 acre-feet. The water rates calculated for Fiscal Year 2019/2020 utilize 43,870 acre-feet as a delivery estimate. This is the three-year annual average deliveries and represents a 5% increase over Fiscal Year 2018/2019.

An Executive Summary of the Water Transmission Budget, including projected revenues, expenses, rates and capital projects, is provided in Attachment A1 - 'Water Transmission Budget Executive Summary'. The recommended increase in total charges from the current fiscal year are identified in Attachment A2. Budget summaries are included in Attachment A3, including the projected Operations and Maintenance Fund revenues and expenses for Fiscal Year 2019/2020, and projected Fiscal Year 2019/2020 ending fund balances for various other funds ("Water Rate Calculations and Budget Summaries").

Attachment A4 - 'Fiscal Year 2019/2020 Revenue Summary Chart' delineates projected water use and rate changes by Sonoma Water customers. The Water Transmission System Operation and Maintenance charge, and charges for water management planning, watershed management and planning activities, recycled water/local supply projects, and water conservation/water use efficiency projects, and proposed rate increases are as follows:

Funds	Fiscal Year 2019/2020 Rate in Dollars per Acre-Foot	Increase (Decrease) from Fiscal Year 2018/2019 in Dollars	Percent Change	Description

Operations and Maintenance	\$615.20	\$36.35	6.3%	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.
Water Management Planning	\$1.14	\$0.14	14.0%	Fiscal Year 2018-2019 rate is \$1.00. Fund is for Urban Water Management Plan updates. Past rate increases have accumulated sufficient fund balance for Fiscal Year 2021 Urban Water Management Plan. Budget increase of \$25,000 is for responding to water contractor requests related to the Urban Water Management Plan and coordinating with climate adaption strategic planning efforts.
Watershed Planning and Restoration	\$102.96	\$11.89	13.1%	Fiscal Year 2018-2019 rate is \$91.07. Rate increase for design and right-of-way expenditures for Dry Creek Habitat Enhancement phases 4, 5, and 6. Fund balance will be used in subsequent years for construction costs to smooth impact of future rates.
Recycled Water and Local Supply	\$2.96	\$0.04	1.5%	Fiscal Year 2018-2019 rate is \$2.92. Increase is to fund Groundwater Management in FY 2019/2020 for Groundwater Sustainability activities.
Water Conservation	\$46.94	\$1.78	3.9%	Fiscal Year 2018-2019 rate is \$45.16. Rate increase for program needs. Fiscal Year 2018-2019 use of \$290,000 in fund balance reduced rate increase.

Storage Bond/Loan Charge	\$31.22	(\$9.82)	-23.9%	Fiscal Year 2018-2019 rate is \$41.04. Rate is based on revenue requirement for debt service divided by water deliveries. Flat debt service with increase in water deliveries results in rate decrease. Also, rate decrease is greater than in the 2015 Common Bond Fund because in FY2018-2019, 2015 Storage Bond proceeds were reallocated to Common Facilities to offset higher capital expenditures in Common Facilities.
Common Bond/Loan Charge	\$90.88	(\$7.46)	-7.6%	Fiscal Year 2018-2019 rate is \$98.34. Rate is based on revenue requirement for debt service divided by water deliveries. Flat debt service with increase in water deliveries results in rate decrease. Also, rate decrease is less than in the 2015 Storage Bond Fund because in FY2018-2019, 2015 Storage Bond proceeds were reallocated to the 2015 Common Bonds Fund to offset higher capital expenditures in Common Facilities. 2019 bond issuance costs are being incurred in FY 2018/2019 and not in FY 2019/2020.
Sonoma Aqueduct Bond/Loan Charge	\$130.50	(\$12.18)	-8.5%	Fiscal Year 2018-2019 rate is \$142.68. Sonoma Aqueduct pays an additional revenue bond charge for the bonds associated with the Eldridge-Madrone Pipeline Project. Rate is based on revenue requirement for debt service divided by water deliveries. Flat debt service with increase in water deliveries results in rate decrease. 2019 bond issuance costs are being incurred in FY 2018/2019 and not in FY 2019/2020.
Santa Rosa Aqueduct Capital Fund	\$27.00	7.5	38.5%	Fiscal Year 2018-2019 rate \$19.50. Increase is for building fund balance for future aqueduct projects. Sonoma Water recommends using decrease in Bond Fund rates to increase Aqueduct Capital Fund balance for aging aqueduct infrastructure. Recommend increasing contribution to pre-drought levels.

Petaluma Aqueduct Capital Fund	\$27.00	7.5	38.5%	Fiscal Year 2018-2019 rate \$19.50. Increase is for building fund balance for future aqueduct projects. Sonoma Water recommends using decrease in Bond Fund rates to increase Aqueduct Capital Fund balance for aging aqueduct infrastructure. Recommend increasing contribution to pre-drought levels.
Sonoma Aqueduct Capital Fund	\$27.00	27	N/A	Fiscal Year 2018-2019 rate is \$0 due to additional bond funding for the Sonoma Booster Pump Station Project. Increase is for building fund balance for future aqueduct projects. Sonoma Water recommends using decrease in Bond Fund rates to increase Aqueduct Capital Fund balance for aging aqueduct infrastructure. Recommend increasing contribution to pre-drought levels.

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. Two Federal Emergency Management Agency (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. Revenue has been generated through the water rates to build fund balance over a number of years in the Aqueduct Capital Funds, and those funds will be expended on specific aqueduct capital projects (Santa Rosa Creek Crossing Hazard Mitigation Project, Ely Booster Pump Station Flood Mitigation Project, Caltrans Petaluma Aqueduct Relocation Project).

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 2019/2020 was sent to the Water Contractors on January 20, 2019. Sonoma Water met twice with Water Contractor staff to develop working drafts of the budget, and on March 4, 2019, the Water Contractor's Technical Advisory Committee recommended approval of the draft budget. In March 2019, Sonoma Water staff made budget presentations and answered questions for many of the Water Contractor's elected bodies. On April 8, 2019, the Water Contractor's Water Advisory Committee unanimously 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.

The Fiscal Year 2019/2020 bond and loan charges are summarized in Attachment 5.

Other Restructured Agreement charges included in the Water Rates Resolution are as follows:

Wholesale Water Used for Municipal Purposes, Town of Windsor Charge, Surplus (Irrigation) Water Charge, and Marin Municipal Water District Charges. These charges are calculated as a percentage of the rates shown in the

table above. □

Russian River Conservation and Projects Charges. North Marin and Marin Municipal Water Districts pay these charges which are in lieu of property taxes and include expenses for Warm Springs Dam and Coyote Valley Dam operations and maintenance. □ The charges are \$102.09 and \$8.34 per Acre Foot respectively, each with an approximate eight percent decrease over Fiscal Year 2018/2019. They are based in part on property taxes divided by water deliveries, and are decreasing due to the October 2017 Fires which resulted in water delivery increases exceeding property tax increases. □

North Marin Water District Revenue Bond Charge. North Marin pays debt service on revenue bonds for capital projects in the Common Facilities Fund. This charge is decreasing by approximately 7% because North Marin opted to pay cash in lieu of debt service for the 2019 Water Revenue Bonds.

Meter, Fire Service, □ and Hydrant Charges remain flat and are charged to non-prime water contractors. Monthly meter charges vary by meter size and range from \$24 to \$224, and Fire Service and Hydrant annual charges are \$300 and \$64, respectively.

Prior Board Actions:

4/17/18: Board established water rates and charges for Sonoma Water's water transmission system for Fiscal Year 2018/2019

FISCAL SUMMARY

Expenditures	FY 18-19 Adopted	FY19-20 Projected	FY 20-21 Projected
Budgeted Expenses		\$51,760,000	
Additional Appropriation Requested			
Total Expenditures		\$51,760,000	
Funding Sources			
General Fund/WA GF			
State/Federal		\$260,000	
Fees/Other		\$45,280,000	
Use of Fund Balance		\$6,220,000	
Contingencies			
Total Sources		\$51,760,000	

Narrative Explanation of Fiscal Impacts:

There is no fiscal impact in Fiscal Year 2018/2019 as the proposed rates become effective in Fiscal Year 2019/2020. Revenues from these charges pay for operations and maintenance of the water transmission system. Sonoma Water anticipates revenues from water sales of \$41.6 million, \$3.73 million in 2019 Water Revenue Bond Proceeds, \$260,000 in grant funds, and \$6.22 million in use of fund balance. Revenue and expenditures for Fiscal Year 2020/2021 will be determined based on water deliveries in calendar year 2019.

Staffing Impacts:

Agenda Date: 4/16/2019

Position Title (Payroll)	Monthly Salary Range (A - I Step)	Additions (number)	Deletions (number)
N/A			

Narrative Explanation of Staffing Impacts (If Required):

N/A

Attachments:

Resolution

Attachment 1 FY 19/20 Water Transmission Budget

Attachment 2 FY 19/20 Water Charges Per Acre-Foot

Attachment 3 FY 19/20 Water Rates Calculation and Budget Summaries

Attachment 4 FY 19/20 Revenue Summary

Attachment 5 FY 19/20 Debt Service Charges

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

N/A