

# FY 2020/2021 Water Transmission Budget

## Overview

The proposed budget for FY 2020/2021 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 2019 were 43,707 acre-feet. The 3 year annual average was 44,795 acre-feet. Accordingly, per the Restructured Agreement, the budget and rates are based on 43,707 acre-feet in deliveries. Budgeted and actual deliveries have averaged 43,500 acre-feet over the past five years.

## Rates

The resulting rates for 43,707 acre-feet are shown below:

| Charge / Aqueduct   | Santa Rosa      | Petaluma        | Sonoma            |
|---|-----------------|-----------------|-------------------|
| Deliveries (Acre-Feet)                                      | 43,707          |                 |                   |
| O&M   | \$656.51        | \$656.51        | \$656.51          |
| Water Management Planning                                   | \$0.92          | \$0.92          | \$0.92            |
| Watershed Planning & Restoration                            | \$117.33        | \$117.33        | \$117.33          |
| Recycled Water and Local Supply                             | \$0.94          | \$0.94          | \$0.94            |
| Water Conservation  | \$42.81         | \$42.81         | \$42.81           |
| <b>Total O&amp;M</b>  | <b>\$818.51</b> | <b>\$818.51</b> | <b>\$818.51</b>   |
| Storage & Common Bond/Loan Charges                          | \$121.44        | \$121.44        | \$121.44          |
| Sonoma Aqueduct Bond/Loan Charge                            |                 |                 | \$135.26          |
| <b><i>Prime Contractors</i></b>                             | <b>\$939.95</b> | <b>\$939.95</b> | <b>\$1,075.21</b> |
| <b><i>Discretionary Charges</i></b>                         |                 |                 |                   |
| Capital Charges - to build fund balance for future projects | \$27.00         | \$27.00         | \$32.00           |
| <b><i>Total Prime Contractors</i></b>                       | <b>\$966.95</b> | <b>\$966.95</b> | <b>\$1,107.21</b> |
| Total Overall Increase:                                     | 5.30%           | 5.30%           | 5.57%             |

## Water Transmission System Fund

### ▪ Revenues

Total revenue of the Water Transmission System Operations and Maintenance Fund is budgeted to increase by 5.3 percent or \$2,201,000 to \$43,748,000. 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 \$2,758,000 in budgeted grant funds, \$10,640,000 in fund balance, and \$1,000,000 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 2019/2020            | FY 2020/2021            |                         |
|--|-------------------------|-------------------------|-------------------------|
|  | Budget<br>(in Millions) | Budget<br>(in Millions) | Change<br>(in Millions) |
| Operations and Maintenance   | \$27.47                 | \$29.61                 | \$2.14                  |
| Capital Projects   | \$10.97                 | \$12.65                 | \$1.68                  |
| Biological Opinion Compliance, Water Supply Planning, Water Conservation | \$8.48                  | \$11.89                 | \$3.41                  |
| Debt Service   | \$4.84                  | \$4.88                  | \$0.03                  |
| Totals   | \$51.76                 | \$59.03                 | \$7.26                  |

|  |        |         |        |
|--|--------|---------|--------|
| Grants, Use of Fund Balance, and Bond Proceeds | \$7.05 | \$14.44 | \$7.39 |
|--|--------|---------|--------|

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, FY2019/2020 was 4.6 percent). As a result, some maintenance and capital projects were deferred. With accumulated fund balance reserves, Sonoma Water is able to implement deferred maintenance and capital projects.

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 \$3.8 million budgeted in FY 2020-2021 for tank recoats and maintenance, b) cathodic protection maintenance on all aqueducts, c) ongoing work on a regional water supply resiliency study, and d) fire-related water quality studies.

Capital Projects: Increase due to construction of several high priority hazard mitigation projects, preliminary designs for additional priority hazard mitigation projects, and construction of the Sonoma Booster Pump Station Electrical Upgrade and Pumping Reliability Project, Mirabel Dam Bladder Replacement, and the Warm Springs Dam Hydroturbine Retrofit Project.

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

Debt Service: Increase due to issuance of 2019 Bonds for capital expenditure needs.

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 2020/2021 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     |
|--|---------------|------------|
| Santa Rosa Creek Crossing  | Santa Rosa AQ | 9,800,000  |
| Ely BPS Flood Control & Electrical Upgrade                         | Petaluma AQ   | 64,845     |
| LHMP - Program Design  | Sonoma AQ     | 50,000     |
| SBS Electrical Upgrade and Pumping Reliability                     | Sonoma AQ     | 577,000    |
| Sonoma AQ Crossing of Spring Creek & Bennett Valley Fault Crossing | Sonoma AQ     | 50,000     |
| LHMP-Bennet Valley Fault Crossing (Oakmont Pipeline)               | Storage       | 50,000     |
| LHMP-Program Design  | Storage       | 50,000     |
| Ralphine Tanks Flow Thru Conversion                                | Storage       | 50,000     |
| Collector 1 and 2 Chlorine Line replacement                        | Common        | 127,000    |
| LHMP Program Design  | Common        | 125,000    |
| Mirabel Maintenance Building                                       | Common        | 60,000     |
| MW Creek Crossing  | Common        | 327,000    |
| RDS Pump and Motor Control Center Replacement                      | Common        | 121,029    |
| RR Crossing  | Common        | 46,000     |
| Tank Level - Emergency Backup Power                                | Common        | 84,372     |
| Warm Springs Dam Hydroturbine Retrofit                             | Common        | 700,000    |
| Wohler Bridge Fiber Optic Cable                                    | Common        | 150,000    |
| Wohler Plant Access Rd. Retaining Wall                             | Common        | 221,000    |
| SCADA Upgrade  | Common        | 250,000    |
|  |               |            |
|  | TOTAL         | 12,903,246 |
|  |               |            |
|  | Santa Rosa AQ | 9,800,000  |
|  | Petaluma AQ   | 64,845     |
|  | Sonoma AQ     | 677,000    |
|  | Storage       | 150,000    |
|  | Common        | 2,211,401  |
|  |               | 12,903,246 |