



COUNTY OF SONOMA

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

SUMMARY REPORT

Agenda Date: 4/21/2020

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

Supervisorial District(s): Countywide

Title:

Water Rates for Fiscal Year 2020/2021

Recommended Action:

Adopt a Resolution establishing Rates and Charges for the Sonoma County Water Agency's Water Transmission System for Fiscal Year 2020/2021.

Executive Summary:

The Restructured Agreement for Water Supply (Restructured Agreement) between the Sonoma County Water Agency (Sonoma Water) and its eight Water Contractors 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 5.3 percent rate increase for Santa Rosa and Petaluma Aqueduct customers, and a 5.57 percent increase for Sonoma Aqueduct customers. The Fiscal Year 2020/2021 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 debt service on Fiscal Year 2019/2020 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 from 2013 to 2015 had a dramatic impact on water demand. Deliveries since Fiscal Year 2013/2014 have decreased 20% and resulted in a significant reduction in water sales revenue. Sonoma Water has taken proactive steps to mitigate the impact of declining revenues by prioritizing projects, relying on fund balance accumulated in the years following the drought when water deliveries exceeded budgeted deliveries, 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.

In June 2019, the Sonoma County Civil Grand Jury issued a report that reviewed Sonoma Water's readiness to continue providing water if faced with a major earthquake. The Grand Jury correctly noted that preparing for earthquakes and other natural hazards is a top priority of Sonoma Water, and that ongoing capital

improvements are being made while Sonoma Water continues to keep rates low compared to other California water agencies. The Grand Jury recommended that Sonoma Water review and establish viable options for accelerating how rapidly the highest-priority mitigation measures are being funded and implemented. While Sonoma Water has expended significant funding to complete several of the highest priority hazard mitigation projects, staff worked closely with the Water Contractors to incorporate options to accelerate more high priority seismic hazard mitigation projects in the Fiscal year 2020/2021 budget in support of the Grand Jury's recommendation.

The Fiscal Year 2020/2021 budget provides appropriations to facilitate accelerating implementation of seismic hazard mitigation projects, and to fund preliminary engineering and conceptual seismic hazard mitigation project development that will better position Sonoma Water to compete for and secure external funds. Three high priority hazard mitigation projects, each having offsetting FEMA grant revenue will be under construction next fiscal year.

Inclusive of funds to construct critical hazard mitigation infrastructure projects, the budget provides appropriations to operate and maintain the Water Transmission System, implement projects required by the Russian River Biological Opinion, 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 three-year annual average deliveries was 44,795 acre-feet. The quantity of water delivered during the preceding 12 months was 43,707 acre-feet. The water rates calculated for Fiscal Year 2020/2021 utilizes 43,707 acre-feet as a delivery estimate. This represents a 0.37% decrease over Fiscal Year 2019/2020.

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 2020/2021, and projected Fiscal Year 2020/2021 ending fund balances for various other funds ("Water Rate Calculations and Budget Summaries").

Attachment A4 - 'Fiscal Year 2020/2021 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 2020/2021 Rate in Dollars per Acre-Foot	Increase (Decrease) from Fiscal Year 2019/2020 in Dollars	Percent Change	Description
Operations and Maintenance	\$656.51	\$41.31	6.7%	Increase due to large non-routine maintenance projects including cathodic protection and tank recoat projects.
Water Management Planning	\$0.92	(\$0.22)	-19.7%	Fiscal Year 2019-2020 rate is \$1.14. Fund is for Urban Water Management Plan updates. Past rate increases have accumulated sufficient fund balance for Fiscal Year 2021 Urban Water Management Plan.
Watershed Planning and Restoration	\$117.33	\$14.37	14.0%	Fiscal Year 2019-2020 rate is \$102.96. Rate increase for design and right-of-way expenditures for Dry Creek Habitat Enhancement phases 4, 5, and 6, and construction of phase 4. Approximately \$3.5M in fund balance is being used for design and construction costs to smooth rate impact
Recycled Water and Local Supply	\$0.94	(\$2.02)	-68.3%	Fiscal Year 2019-2020 rate is \$2.96. Past rate increases have accumulated sufficient fund balance for this fund.
Water Conservation	\$42.81	(\$4.13)	-8.8%	Fiscal Year 2019-2020 rate is \$46.94. Past rate increases have accumulated sufficient fund balance for this fund.
Storage Bond/Loan Charge	\$24.28	(\$6.94)	-22.2%	Fiscal Year 2019-2020 rate is \$31.22. Rate is based on revenue requirement for debt service divided by water deliveries. Rate decrease is due to 2015 Storage Bond proceeds being reallocated to Common Facilities for capital expenditure needs in Common Facilities.

Common Bond/Loan Charge	\$97.16	\$6.28	6.9%	Fiscal Year 2019-2020 rate is \$90.88. Rate is based on revenue requirement for debt service divided by water deliveries. Rate increase due to 2015 Bonds reallocated from Storage to Common, and issuance of 2019 Bonds for capital expenditure needs in Common Facilities.
Sonoma Aqueduct Bond/Loan Charge	\$135.26	\$4.76	3.6%	Fiscal Year 2019-2020 rate is \$130.50. 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. Rate increase due to issuance of 2019 Bonds for capital expenditures in Sonoma Aqueduct Fund.
Santa Rosa Aqueduct Capital Fund	\$27.00	0	0.0%	Fiscal Year 2019-2020 rate is \$27. A discretionary capital charge is added by the water contractors to fund hazard mitigation projects, build fund balance for future aqueduct capital projects, and to provide rate stabilization capacity.
Petaluma Aqueduct Capital Fund	\$27.00	0	0.0%	Fiscal Year 2019-2020 rate is \$27. A discretionary capital charge is added by the water contractors to fund hazard mitigation projects, build fund balance for future aqueduct capital projects, and to provide rate stabilization capacity.
Sonoma Aqueduct Capital Fund	\$32.00	5	270000%	Fiscal Year 2019-2020 rate is \$27. A discretionary capital charge is added by the water contractors to fund hazard mitigation projects, build fund balance for future aqueduct capital projects, and to provide rate stabilization capacity.

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 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. 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 2020/2021 was sent to the Water Contractors on January 17, 2020. Sonoma Water met twice with Water Contractor staff to develop working drafts of the budget, and on March 2, 2020, the Water Contractor's Technical Advisory Committee recommended approval of the draft budget. In March 2020, Sonoma Water staff made budget presentations and answered questions for some of the Water Contractor's elected bodies. Other planned presentations in March were canceled following the Sonoma County Public Health Officer's order to shelter in place due to community spread of COVID-19. On April 6, 2020, the Water Contractor's Water Advisory Committee members all recommended adoption of the proposed budget by Sonoma Water's Board of Directors except City of Santa Rosa which cited budget constraints due to COVID-19 as its reason for not recommending adoption. 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 2020/2021 bond and loan charges are summarized in Attachment 5.

Prior Board Actions:

4/16/19: Board established water rates and charges for Sonoma Water's water transmission system for Fiscal Year 2019/2020

FISCAL SUMMARY

Expenditures	FY 19-20 Adopted	FY20-21 Projected	FY 21-22 Projected
Budgeted Expenses		\$59,030,000	
Additional Appropriation Requested			
Total Expenditures		\$59,030,000	
Funding Sources			
General Fund/WA GF			
State/Federal		\$2,760,000	
Fees/Other		\$45,630,000	
Use of Fund Balance		\$10,640,000	
Contingencies			
Total Sources		\$59,030,000	

Narrative Explanation of Fiscal Impacts:

There is no fiscal impact in Fiscal Year 2019/2020 as the proposed rates become effective in Fiscal Year 2020/2021. Revenues from these charges pay for operations and maintenance of the water transmission system. Sonoma Water anticipates revenues from water sales of \$43.5 million, \$1 million in Water Revenue Bond Proceeds, \$2.76 million in grant funds, \$1.13 million in power sales, contributions, and interest and investment income, and \$10.64 million in use of fund balance. Revenue and expenditures for Fiscal Year 2021/2022 will be determined based on water deliveries in calendar year 2020.

Staffing Impacts:			
Position Title (Payroll Classification)	Monthly Salary Range (A-I Step)	Additions (Number)	Deletions (Number)

Narrative Explanation of Staffing Impacts (If Required):

N/A

Attachments:

- Resolution
- Attachment 1 FY 20/21 Water Transmission Budget
- Attachment 2 FY 20/21 Water Charges Per Acre-Foot
- Attachment 3 FY 20/21 Water Rates Calculation and Budget Summaries
- Attachment 4 FY 20/21 Revenue Summary
- Attachment 5 FY 20/21 Debt Service Charges

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

None