



Legislation Text

File #: 2021-0272, **Version:** 1

To: Board of Directors Sonoma County Water Agency

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

Staff Name and Phone Number: Lynne Rosselli, 524-3771, Grant Davis 547-1911

Vote Requirement: Majority

Supervisory District(s): Countywide

Title:

Water Rates for Fiscal Year 2021/2022

Recommended Action:

Adopt a Resolution establishing Rates and Charges for the Sonoma County Water Agency's Water Transmission System for Fiscal Year 2021/2022.

Executive Summary:

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. To meet these requirements, staff recommend a budget that results in a 3.47 percent rate increase for Santa Rosa and Petaluma Aqueduct customers, and a 3.43 percent increase for Sonoma Aqueduct customers. Sonoma Aqueduct customers have a lower rate increase but 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 Fiscal Year 2021/2022 rate increase allows Sonoma Water to operate and maintain the Water Transmission System, implement projects required by the Russian River Biological Opinion, construct critical hazard mitigation infrastructure projects, and maintain a prudent reserve. The COVID-19 pandemic has had devastating impacts to many residents and businesses throughout our county and beyond. Sonoma Water is aware of the financial impacts that rising water rates can have during these difficult times and made a conscious effort to maintain lower rate increases to soften those impacts as much as possible while continuing to operate and maintain the water transmission system in a safe and reliable manner.

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 cost of operations and maintenance of their systems.

Discussion:

The Fiscal Year 2021/2022 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. Highlights of the budget include construction of four FEMA-funded hazard mitigation projects and other

essential construction, including the Mirabel Dam Bladder Replacement, Warm Springs Dam Hydroturbine retrofit, and Phase 4 of the Biological Opinion Dry Creek Habitat Enhancement Project. The budget also includes preliminary design of several more hazard mitigation projects, cathodic protection upgrade along the Santa Rosa Aqueduct and Russian River-Cotati Intertie, initiation of a comprehensive storage tank maintenance program, and implementation of a robust water use efficiency program to message the importance of water conservation and address the impacts on water supply from a critically dry year and drought conditions.

Sonoma Water recognizes the profound impact of the COVID-19 pandemic 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 at a minimum while we will continue to keep public safety and system reliability our top priorities. Mitigation measures included using fund balance, bond revenue, and grants to the maximum extent possible, and realizing cost savings of \$1.3 million by deferring noncritical construction projects such as storage buildings, and reducing capital expenditures for the SCADA upgrade project. Using these 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 46,095 acre-feet. The quantity of water delivered during the preceding 12 months was 47,748 acre-feet. The water rates calculated for Fiscal Year 2021/2022 utilizes 46,095 acre-feet as a delivery estimate. This represents a 5.5% increase over Fiscal Year 2020/2021.

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 2021/2022, and projected Fiscal Year 2021/2022 ending fund balances for various other funds ("Water Rate Calculations and Budget Summaries").

Attachment A4 - 'Fiscal Year 2021/2022 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 2021/2022 Rate in Dollars per Acre-Foot	Increase (Decrease) from Fiscal Year 2020/2021 in Dollars	Percent Change	Description
Operations and Management	\$685.92	\$29.41	4.48%	Fiscal Year 2020/2021 rate is \$656.51. Fiscal Year 2021/2022 budget increase is attributable to an increase in maintenance projects to build system resiliency (cathodic protection, pump and valve replacements, chlorine and pH improvement projects), studies (Regional Water Supply Resiliency, Watershed and Riverbank Filtration Water Quality Studies and fire related water quality studies), emergency response planning and training, and to fund pay go capital projects in Common Facilities.
Water Management Planning	\$0.00	(\$0.92)	-99.46%	Fiscal Year 2020/2021 rate is \$0.92. Fiscal Year 2021/2022 budget decrease is due to submittal of the Fiscal Year 2021 Urban Water Management Plan in Fiscal Year 2020/2021.
Watershed Planning and Restoration	\$132.66	\$15.33	13.06%	Fiscal Year 2020/2021 rate is \$117.33. Increase is for design and right-of-way expenditures for Dry Creek Habitat Enhancement phases 5 and 6, construction of phases 4 and 5, and other required biological opinion activities.
Recycled Water and Local Supply	\$0.93	(\$0.01)	-0.76%	Fiscal Year 2020/2021 rate is \$0.94. Expenditures are for Sonoma Water's share of Groundwater Sustainability Agencies' budgets.
Water Conservation	\$44.44	\$1.63	3.81%	Fiscal Year 2020-2021 rate is \$42.81. Rate increase is for program needs including Proposition 1 Bay Area and North Coast grant programs. Increase will be used to implement water use efficiency, outreach and education projects, address drought conditions and ongoing water conservation needs, and pass through grant funds to water contractors and other partners.

Storage Facilities Bonds	\$23.12	(\$1.16)	-4.79%	Fiscal Year 2020/2021 rate is \$24.28. Rate is based on revenue requirement for debt service divided by water deliveries. Rate decrease is due to increase in budgeted water deliveries.
Common Facilities Bonds	\$93.39	(\$3.77)	-3.88%	Fiscal Year 2020/2021 rate is \$97.16. Rate is based on revenue requirement for debt service divided by water deliveries. Rate decrease is due to increase in budgeted water deliveries.
Sonoma Aqueduct Bonds	\$126.72	(\$8.54)	-6.31%	Fiscal Year 2020/2021 rate is \$135.26. 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 decrease is due to increase in budgeted water deliveries.
Santa Rosa Aqueduct Capital Fund	\$20.00	(\$7.00)	-25.93%	Fiscal Year 2020/2021 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. In Fiscal Year 2021/2022, due to the financial impacts of COVID-19, the water contractors on the Santa Rosa Aqueduct elected to lower the charge to reduce the overall rate and rate increase.
Petaluma Aqueduct Capital Fund	\$20.00	(\$7.00)	-25.93%	Fiscal Year 2020/2021 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. In Fiscal Year 2021/2022, due to the financial impacts of COVID-19, the water contractors on the Petaluma Aqueduct elected to lower the charge to reduce the overall rate and rate increase.

Funds	Fiscal Year 2021/2022 Rate in Dollars per Acre-Foot	Increase (Decrease) from Fiscal Year 2020/2021 in Dollars	Percent Change	Description
Sonoma Aqueduct Capital Fund	\$38.00	\$6.00	18.75%	Fiscal Year 2020/2021 rate is \$32. 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. In Fiscal Year 2021/2022, the water contractors on the Sonoma Aqueduct elected to increase the charge to build fund balance for future hazard mitigation projects. Water contractors on the Sonoma Aqueduct have a small customer base and need to continue to generate funds in the Sonoma Aqueduct Capital Fund to avoid rate spikes in future years.

Over the past ten years, Sonoma Water's customers have benefitted from more than \$15 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) had construction costs budgeted in prior years, but will be constructed in FY 2021/2022. The majority of the use of fund balance will be expended in the Common Facilities Capital Fund where construction costs budgeted in prior years have accumulated due to FEMA's environmental review delays.

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 2021/2022 was sent to the water contractors on January 19, 2021. Sonoma Water met twice with Water Contractor staff to develop working drafts of the budget, and on March 1, 2021, the Water Contractor's Technical Advisory Committee recommended approval of the draft budget. In March 2021, Sonoma Water staff made virtual budget presentations and answered questions for some of the Water Contractor's elected bodies. On April 5, 2021, the Water Contractor's Water Advisory Committee members all 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 2021/2022 bond and loan charges are summarized in Attachment 5.

Prior Board Actions:

4/21/20: Board established water rates and charges for Sonoma Water's water transmission system for Fiscal

Year 2020/2021

FISCAL SUMMARY

Expenditures	FY20-21 Adopted	FY 21-22 Projected	FY 22-23 Projected
Budgeted Expenses		\$56,114,000	
Additional Appropriation Requested			
Total Expenditures		\$56,114,000	
Funding Sources			
General Fund/WA GF			
State/Federal		\$668,000	
Fees/Other		\$48,963,000	
Use of Fund Balance		\$6,483,000	
Contingencies			
Total Sources		\$56,114,000	

Narrative Explanation of Fiscal Impacts:

There is no fiscal impact in Fiscal Year 2020/2021 as the proposed rates become effective in Fiscal Year 2021/2022. Revenues from these charges pay for operations and maintenance of the water transmission system. Sonoma Water anticipates revenues from water sales of \$47.3 million, \$1 million in power sales, contributions, and interest and investment income, \$620,000 in bond revenue, \$668,000 in grant funds, and \$6.5 million in use of fund balance and bond revenue. Revenue and expenditures for Fiscal Year 2021/2022 will be determined based on water deliveries in calendar year 2021.

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