

CITY OF SANTA ROSA
BOARD OF PUBLIC UTILITIES

TO: CHAIR AND BOARD MEMBERS
FROM: NICK HARVEY, DEPUTY DIRECTOR - ADMINISTRATION
SUBJECT: FY 2025/26 WATER, LOCAL WASTEWATER AND STORM
WATER AND CREEKS OPERATING AND MAINTENANCE,
CAPITAL IMPROVEMENT, AND DEBT SERVICE BUDGETS –
RECOMMENDATION TO CITY COUNCIL

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Board of Public Utilities Budget Subcommittee and Santa Rosa Water that the Board, by resolution, recommend that the City Council approve the 2025/26 Water, Local Wastewater and Storm Water and Creeks fund Operations and Maintenance and capital expenditure appropriation requests.

EXECUTIVE SUMMARY

Santa Rosa Water manages the City of Santa Rosa's water and wastewater enterprise funds under the general policy authority and direction of the Board of Public Utilities (BPU) pursuant to the City Charter. The BPU annually recommends a proposed fiscal year water, wastewater, and storm water and creeks budget to the City Council to be included in the annual City budget adoption. The water and wastewater funds are primarily financed by Santa Rosa ratepayers in the form of user fees and charges. Approved user rates include a 6% water usage and fixed charge increase and a 5% wastewater usage and fixed charge increase for FY 2025/26. The proposed budgets include increases to uncontrollable expenditure categories including IT allocations, E&R fleet charges and insurance premiums. The proposed budget also includes an 8.68% increase to the cost of purchasing water wholesale from Sonoma Water. The Storm Water and Creeks funds O&M budgets are primarily financed by an annual parcel assessment in addition to a small amount of general fund transfer. The proposed budgets include increases in vehicle charges, utilities, and IT. There is sufficient revenue from the parcel assessment and general fund to cover the proposed Operations and Maintenance budget of \$3,283,695 and proposed CIP budget of \$3,373,265, for a total proposed budget of \$6,656,960.

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This fiscal year cycle SRW is requesting one position re-classification in the Local Wastewater Enterprise, which has been included in the Local Wastewater operations and maintenance budget, at an estimated additional cost of \$109,000 to the fund.

BACKGROUND

The Operations and Maintenance (O&M) budget and the Capital Improvement Program (CIP) budgets were reviewed by the Budget Review Subcommittee in March 2025, and by the BPU in Study Session on April 3, 2025. If the BPU recommends these budget requests to the City Council, Council will review the expenditure request in Study Sessions on May 6th and 7th, 2025 and would approve the final budget after a public hearing on June 17th.

PRIOR BOARD OF PUBLIC UTILITIES REVIEW

The Board of Public Utilities reviewed the proposed budget at its study session on April 3, 2025.

ANALYSIS

The water and wastewater funds support City-wide shared costs, Santa Rosa Water's allocation of the City's Information Technology Internal Service Fund, and Departmental shared costs.

SANTA ROSA WATER – ADMINISTRATION FUND

Santa Rosa Water (SRW) internal overhead is accounted for in the 'Administration' fund (Administration, Water Use Efficiency, Asset Management, Support Services, Engineering Services and Safety and Training) and the budget is distributed to the Water, Wastewater, Regional Water Reuse, and Storm Water Funds based on various factors. The Administration Fund is increasing by 8.5% for the 2025/26 budget request. The main drivers of the increase are increased salary & benefits costs, professional services costs, and operational supplies. PG&E rate increases in the amount of 6% and an increase in subsidies funded by the Help to Others (H2O) program are also included.

SANTA ROSA WATER – WATER FUND

The Water O&M Fund budget is increasing by 3.8% including the purchase of wholesale water. This budget includes Water's share of internal Administration and City Overhead. The largest expenditure increases in the fund are water billing services and utilities at 16.6% and 36.2%, respectively. Water billing services are increasing as a function of the increased salary and benefits budgets for water billing staff, and utilities are increasing based on anticipated increased electricity consumption when the well at a Place to Play park comes online in the coming months. In addition, there is a 9.7% increase for the purchase of wholesale water resulting from an 8.68% increase in the cost of purchasing water from Sonoma Water in addition to the 1.1% increase

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attributable to growth that has been incorporated into Santa Rosa Water's long-range financial plan. The Water CIP budget is set to come back up to \$15.5 million in the budget proposal.

SANTA ROSA WATER – WASTEWATER FUND

The Wastewater O&M Fund budget is increasing 11.9% for FY 2025/26. This increase is largely attributable to liability and property insurance premiums increasing by 75%. Insurance premiums, assigned by Risk, are uncontrollable at the department level. Other contributing categories to the increase include 17% for miscellaneous expenditures and \$100k in capital outlay expenditures. These increases are directly attributable to the West College Diversion facility. The pumps at the facility are now out of warranty, therefore budget for potential repair or rental costs should a pump fail during the year has been included. The capital outlay budget will fund work to get the facility on-line with SCADA telemetry for remote monitoring capabilities.

The Wastewater CIP budget, which was cut to \$3.3 million in FY 2024/25 in order to balance the budget, will be appropriating \$14.3 million to capital projects with the budget proposal.

STORM WATER AND CREEKS FUND

The Storm water and Creeks O&M Fund budget is increasing by only 1%. The increase is primarily due to vehicle replacement and maintenance costs as well as small increases to the overhead and IT cost categories, which are uncontrollable. The Storm water CIP budget, which varies year over year based on available funding, will be approximately \$3.4 million, appropriated to various storm water and creeks projects.

RESERVES

There are multiple reserves in the Water and the Wastewater funds, including operations and maintenance, catastrophic, rate stabilization and debt service reserves. These reserves are set at levels determined by policy. In addition, when there is excess revenue and unexpended budget the undesignated reserve builds, these funds are eligible to be applied to future expenditures, which has been utilized, as needed, in several years. For the fiscal year ended June 30, 2024, the most recently completed fiscal year, the undesignated fund balances in the local enterprises saw increases. The Water fund added \$470,000 to undesignated reserves, resulting in an ending balance of \$15.3 million. The Local Wastewater fund added approximately \$1.1 million to undesignated reserves, bringing the total balance to \$14.8 million. In order to responsibly manage undesignated reserve balances, and to mitigate impacts to our ratepayers, Santa Rosa Water is proposing the adoption of deficit budgets in the amount of \$5.1 million and \$6.9 million for Water and Local Wastewater, respectively.

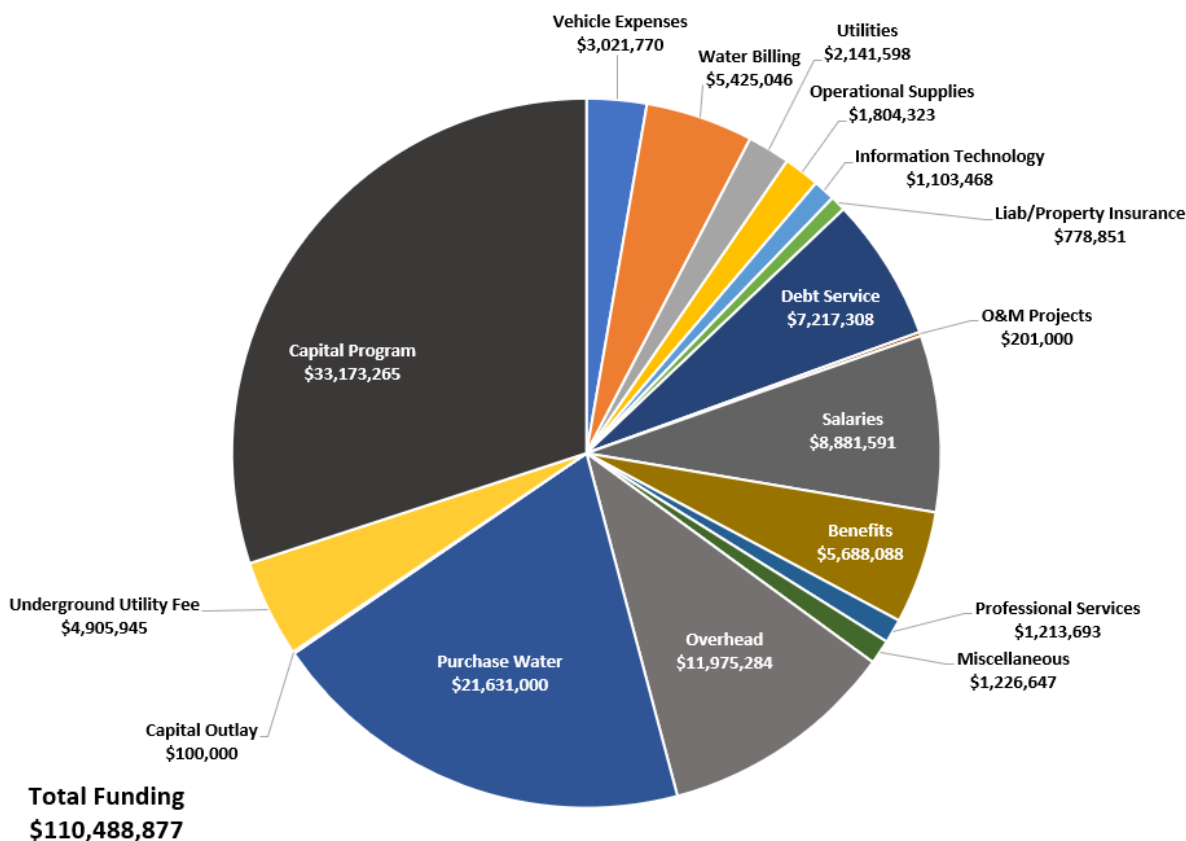
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The Storm water and Creeks funds do not carry multiple reserves since they don't have the same legal requirements as our Water enterprise funds. As such, the only reserves in the funds are undesignated, and carry balances of \$738,000 in Storm Water and \$1.4 million in Creeks as of June 30, 2024, respectively.

ASSUMPTIONS

Staff assumes water use will increase 1.1% from FY2024/25 deliveries, based on growth, and that water and wastewater billings will increase based on our rate proposals, set to take effect July 1, 2025. Staff also assumes demand fee revenues will remain stable. The Storm water and Creeks parcel assessment revenues will increase by the consumer price index.

The total Water, Local Wastewater and Storm Water and Creeks budgets expenditures by category are depicted below:



FISCAL IMPACT

We are proposing deficit budgets for Fiscal Year 2025/26. Between the managed consumption of some undesignated reserve balance in each of the enterprises, as well

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as our rate increases set to take effect each July 1, 2025-2029, Santa Rosa Water's Water and Local Wastewater enterprises are poised to maintain current service levels and deliver planned CIP appropriations in the coming years.

The Storm Water and Creeks enterprises, however, do raise some ongoing concerns as upward cost pressures and the limited ability to raise revenues are consuming reserves, and affecting the ability to deliver capital projects. Santa Rosa Water staff are proactively working towards long-term solutions moving forward.

ENVIRONMENTAL IMPACT

Pursuant to CEQA Guidelines Section 15378, the proposed action is not a "project" subject to the California Environmental Quality Act (CEQA) because it does not have a potential for resulting in either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment. In the alternative, the proposed action is exempt from CEQA pursuant to CEQA Guidelines Section 15061(b)(3) because it can be seen with certainty that there is no possibility that the project may have a significant effect on the environment.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

The proposed Water, Wastewater and Storm water and Creeks budgets were reviewed and recommended for approval on March 26, 2025 by the Budget Review Subcommittee.

NOTIFICATION

Not Applicable

ATTACHMENTS

- Resolution

PRESENTER

Nick Harvey, Deputy Director - Administration