

CITY OF SANTA ROSA
BOARD OF PUBLIC UTILITIES

TO: CHAIR AND BOARD MEMBERS
FROM: NICK HARVEY, DEPUTY DIRECTOR - ADMINISTRATION
SUBJECT: FY 2026-27 WATER, LOCAL WASTEWATER, REGIONAL REUSE
AND STORM WATER AND CREEKS OPERATING AND
MAINTENANCE, CAPITAL IMPROVEMENT, AND DEBT
SERVICE BUDGET AND ALLOCATION OF COSTS –
RECOMMENDATION TO CITY COUNCIL

AGENDA ACTION: RESOLUTION

RECOMMENDATION

It is recommended by the Board of Public Utilities Budget Subcommittee, the Subregional Technical Advisory Committee (SubTAC), and Santa Rosa Water that the Board of Public Utilities, by resolution, recommend that the City Council approve the 2026-27 Water, Local Wastewater, Storm Water and Creeks and Regional System fund Operations and Maintenance, capital expenditure, and debt service appropriation requests, and the resulting cost allocations.

EXECUTIVE SUMMARY

Santa Rosa Water manages the City of Santa Rosa's (City) 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 and wastewater budget to the City Council to be included in the annual City budget adoption. The water and wastewater funds, as well as Santa Rosa's cost allocations from the Regional enterprise, are primarily financed by Santa Rosa ratepayers in the form of user fees and charges. Approved user rates for FY 2026-27 include a 6% water fixed charge increase and a 6% water usage charge increase plus the wholesale water rate passthrough and a 5% wastewater usage and fixed charge increase. The proposed budgets include increases to uncontrollable expenditure categories including labor and benefits, IT allocations and overhead. The proposed budget also includes an 8.21% increase to the cost of purchasing wholesale water from Sonoma Water. The proposed Water Operations and Maintenance (O&M) budget is \$49,165,12 and the proposed Capital Improvement Plan (CIP) budget is \$16,000,000. The proposed Local Wastewater O&M budget is \$16,058,647 and proposed CIP budget is \$14,700,00 and the Local Wastewater's Regional Allocation is \$58,005,233.

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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 allocations. There is sufficient revenue from the parcel assessment and general fund to cover the proposed O&M budget of \$3,335,751 and proposed CIP budget of \$1,711,076, for a total proposed budget of \$5,046,827.

The Regional Water Reuse System (Regional), managed by the City pursuant to the Subregional Agreement (Agreement), is a wastewater treatment facility serving five member agencies (cities of Santa Rosa, Rohnert Park, Sebastopol, and Cotati, and the Sonoma County South Park Sanitation District, each hereinafter referred to as “User Agency” or collectively as “User Agencies”). The Agreement requires the City to prepare a Preliminary Budget and cost allocations for the Regional Water Reuse System and notify the User Agencies of these costs annually by May 1, 2026. In addition, the proposed budget and cost allocation must be reviewed by the Subregional Technical Advisory Committee (SubTAC), the BPU and the Santa Rosa City Council prior to noticing the User Agencies of their cost allocations. The Regional O&M Fund budget request is \$54,614,543. The Regional cash-funded CIP budget is \$13,000,000, and the Regional debt service due is \$18,306,469.

City Council will be asked to approve the preliminary Regional budget at their meeting on April 21, 2026 for the purpose of notifying the User Agencies by May 1 2026. Subsequently proposed Water Department budget, along with the citywide budget, will be reviewed by City Council at a study session on May 5 and 6, 2026, and considered for approval at a public hearing on June 16, 2026.

BACKGROUND

The Water Department O&M and CIP budgets were reviewed by the Budget Review Subcommittee in March, by the Subregional Technical Advisory Committee (SubTAC) reviewed the Regional O&M and CIP budgets in March and April, and by the BPU in Study Session on March 19, 2026. If the BPU recommends these budget requests to the City Council, Council will review the expenditure request in Study Session on May 5 and 6, 2026 and will consider approval of the final budget after a public hearing on June 16, 2026.

Each year, the Laguna Treatment Plant (LTP) recycles billions of gallons of treated wastewater from homes, businesses and industries located within the Santa Rosa Regional System, serving the cities of Santa Rosa, Rohnert Park, Sebastopol, and Cotati and the Sonoma County South Park Sanitation District.

Operating costs are allocated to each of the User Agencies based on each User’s share of annual flows into the LTP. The cash funding for CIP, per the Agreement, distributes

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the allocation based on defined capacities for each User Agency. Debt service costs are allocated according to the time the debt was issued and the repayment schedule.

PRIOR BOARD OF PUBLIC UTILITIES REVIEW

The Board of Public Utilities reviewed the proposed FY 2026-27 Water Department budget at a study session on March 19, 2026.

ANALYSIS

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, Local Wastewater, Regional, and Storm Water Funds based on various factors. The Administration Fund 2026-27 budget request is 3.4% less than the 2025-26 budget request. The main driver of the decrease is a large decrease in professional services for our Water Billing section as we changed to a new credit card processing fee model where customers now pay for the credit card fees. Santa Rosa Water projects savings to the fund of over \$600,000 per year in professional services costs.

SANTA ROSA WATER – WATER FUND

The Water O&M Fund is increasing by 6.8% 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 Software as a Service (SaaS) and gasoline and diesel fuel at 77.2% and 21.6%, respectively. SaaS costs are mostly increasing due to the need for Water Quality to purchase and implement new backflow compliance software. Fuel is increasing based on the anticipation of higher fuel demand and fleet budget guidance for next year. In addition, there is a 9.5% increase for the purchase of wholesale water resulting from an 8.21% increase in the cost of purchasing water from Sonoma Water in addition to the 1.1% increase attributable to growth that has been incorporated into Santa Rosa Water’s long-range financial plan. The Water CIP budget request is also increasing to \$16 million in the budget proposal.

SANTA ROSA WATER – LOCAL WASTEWATER FUND

The Local Wastewater O&M Fund budget is increasing by less than 1% for FY 2026-27. This is mostly attributable to liability and property insurance premiums decreasing by 16.6% after seeing a 75% spike in premiums for 2025-26. The 2025-26 adopted budget also has \$100,000 budgeted for vehicle purchases that will not be budgeted for 2026-27. The largest line-item increase in the Local Wastewater fund is a 32% increase in

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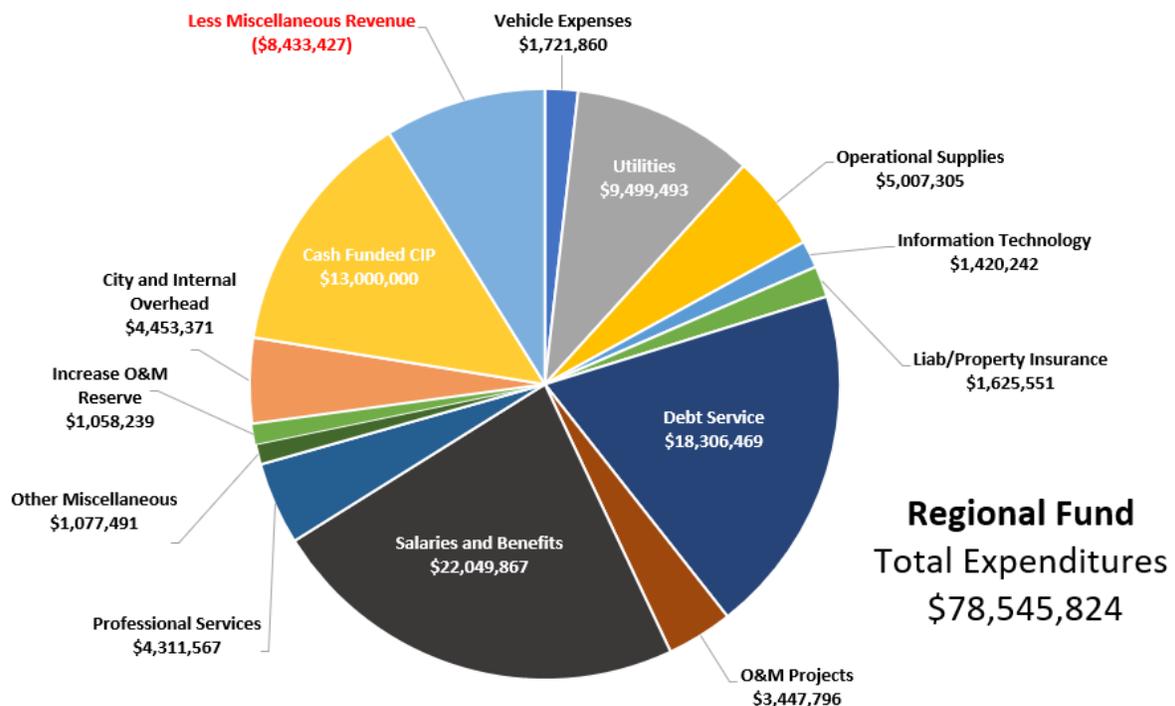
O&M project funding. The O&M projects have been relying largely on carryover budget to fund expenses in recent years, with some projects now needing replenishment. The Local Wastewater CIP budget request is increasing to \$14.7 million for FY 2026-27.

STORM WATER AND CREEKS FUND

The Storm water and Creeks O&M Fund budget is increasing by only 1.6%. The increase is primarily due to a 15% increase in IT costs, which are uncontrollable. The Storm water CIP budget, which varies year over year based on available funding, will be approximately \$1.7 million, appropriated to various storm water and creeks projects.

SANTA ROSA WATER – REGIONAL REUSE

The proposed Regional Water Reuse O&M Fund budget request is \$54,614,543, the Regional cash-funded CIP is \$13,000,000, and the Regional debt service due is \$18,306,469. The budget breakdown is as shown below:



In general, the major cost drivers include:

- Cash funded CIP \$13,000,000 – Increasing \$1 million per agreement with User Agencies.

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- Professional Services up 19.7% - Due to increasing costs for the disposal of biosolids whether used for land application or disposed of at Lystek.
- Fleet costs up 17.6% - Increasing vehicle replacement contributions to fund future vehicle purchases.
- Electricity up 9.4% - Largely driven by reduced usage of the Combined Heat and Power (CHP) engines which offset electricity demand. Also expecting higher energy consumption as the current Ultra Violet (UV) system is requiring higher doses to maintain disinfection standards.
- O&M project budgets are down 32.9%. The Regional system’s O&M project budgets have significant carryover balances, limiting the need to request funding next fiscal year.

O&M expenditures are offset by expected revenues of \$8.4 million for various services and agreements that generate revenues for the Regional fund. Projected revenues are up by nearly 24% from the current fiscal year driven by the success of our trucked-waste program, a contractual escalation in revenues from the Town of Windsor, as well as expected growth in interest revenues generated by cash reserves in the fund.

The total due this fiscal year from each User Agency for operations is based on 2024-25 flows (shown in million gallons):

| Actual Annual Flows | 2024/25 | 2024/25 Percentage |
|----------------------------|-----------------|---------------------------|
| Santa Rosa | 5,637.34 | 73.76% |
| Rohnert Park | 1,344.60 | 17.59% |
| Sebastopol | 180.66 | 2.36% |
| Cotati | 240.83 | 3.15% |
| SPCSD | 238.95 | 3.13% |
| | 7,642.38 | 100.00% |

Cash funded CIP costs are allocated based on each User Agency’s capacity as defined in the Agreement:

| CIP Per Agreement | |
|--------------------------|--------|
| Santa Rosa | 70.76% |
| Rohnert Park | 19.70% |
| Sebastopol | 3.26% |
| Cotati | 2.95% |
| SPCSD | 3.33% |

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Debt service is owed by the Regional system for a variety of bonds and state loans that have financed facility and process improvements over the years. Debt service payments are allocated to each User Agency based on the time the debt was issued and the corresponding debt repayment schedule.

Fiscal Year 2026-27 projected allocations to each User Agency are as follows:

| | Total 2025/26 | 2026/27 Budgeted O&M | 2026/27 CIP Contribution | 2026/27 Debt Service | Total 2026/27 |
|--------------|----------------------|---------------------------------|---------------------------------|-----------------------------|----------------------|
| Santa Rosa | \$57,312,896 | \$34,845,730 | \$9,198,800 | \$13,960,703 | \$58,005,233 |
| Rohnert Park | \$13,682,453 | \$8,311,290 | \$2,561,000 | \$2,842,949 | \$13,715,239 |
| Sebastopol | \$1,953,889 | \$1,116,702 | \$423,800 | \$446,654 | \$1,987,156 |
| Cotati | \$2,559,277 | \$1,488,627 | \$383,500 | \$661,711 | \$2,533,838 |
| SPCSD | \$2,264,173 | \$1,477,006 | \$432,900 | \$394,452 | \$2,304,358 |
| | \$77,772,688 | \$47,239,355 | \$13,000,000 | \$18,306,469 | \$78,545,824 |

RESERVES

There are multiple reserves in the Water, Local Wastewater and Regional Reuse funds, including O&M, 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 for several years. For the fiscal year that ended June 30, 2025, the most recently completed fiscal year, the undesignated fund balances in the local enterprises saw increases. The Water fund added \$5.8 million to undesignated reserves, resulting in an ending balance of \$21.1 million. The Local Wastewater fund added approximately \$4 million to undesignated reserves, bringing the total balance to \$18.8 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 \$6.1 million and \$7 million for Water and Local Wastewater, respectively. The Regional Reuse enterprise generated an increase in the refund reserve of \$7.1 million as a result of FY 2024-25 operations.

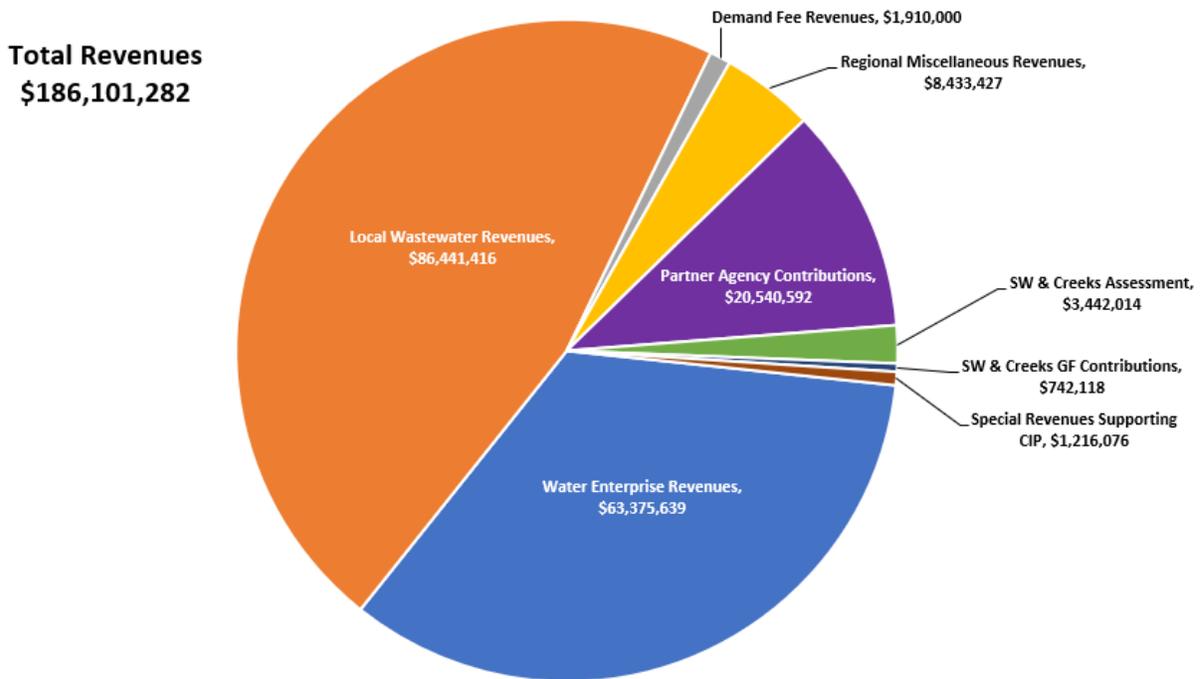
The Storm water and Creeks funds do not carry multiple reserves since they don't have the same legal requirements as Water enterprise funds. As such, the only reserves in the funds are undesignated, and carry balances of \$728 thousand in Storm Water and \$1.3 million in Creeks as of June 30, 2025, respectively.

ASSUMPTIONS

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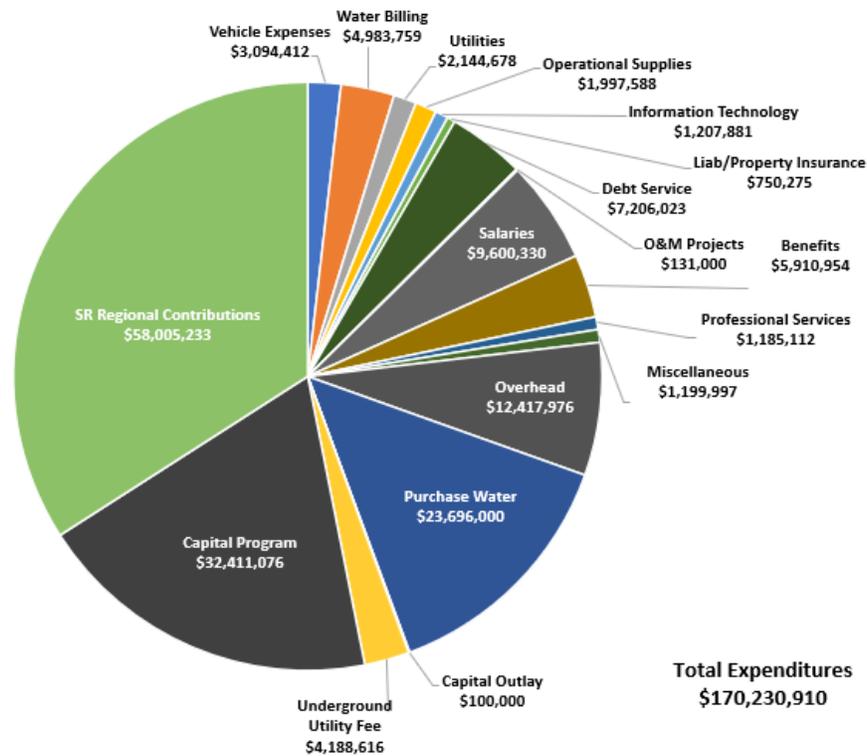
Staff assumes water use will increase 1.1% from FY2025-26 deliveries, based on growth, and that water and wastewater billings will increase based on our rate proposals, set to take effect July 1, 2026. Staff also assumes a decrease in demand fee revenues. The Storm Water and Creeks parcel assessment revenues will increase by the consumer price index.

The total Water, Local Wastewater, Regional Reuse and Storm Water and Creeks budgeted revenues by category are depicted below, including GF contributions and Special Revenue fund contributions, which supplement funding for Storm Water and Creeks O&M and CIP expenditures, respectively:



The total Water, Local Wastewater, Storm Water and Creeks budgets expenditures by category are depicted below, including Santa Rosa Water’s contributions to the Regional Reuse enterprise:

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FISCAL IMPACT

Deficit budgets for Fiscal Year 2026-27 in the Water and Local Wastewater operating funds are being proposed. Between the managed consumption of some undesignated reserve balance in each of the enterprises, as well 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.

Santa Rosa Water’s share of Regional Water Reuse allocated costs are built into the Wastewater Financial Plan and the proposed 5% rate increase for wastewater. There are no additional implications to the proposed 2026-27 Regional budget due to modest increases proposed, and the reserve balances held in the Regional operations fund on behalf of Santa Rosa Water’s Local Wastewater enterprise and the User Agencies.

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ENVIRONMENTAL IMPACT

This action is not a “project” subject to the California Environmental Quality Act (CEQA) pursuant to CEQA Guidelines Section 15378, as it consists of the review and recommendation of annual budgets, capital improvement program funding levels, and cost allocations. The action does not approve any specific construction or physical improvements, and any future projects funded through the budget will be subject to separate CEQA review, as applicable. Therefore, the action does not have the potential to result in a direct or reasonably foreseeable indirect physical change in the environment.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

On March 18, 2026, the Budget Review Subcommittee reviewed the proposed FY 2026-27 Water, Local Wastewater, Regional Reuse and Storm Water and Creeks budgets and recommended approval.

On February 5, 2026, and March 12, 2026 the Subregional TAC reviewed the proposed FY 2026-27 Regional Reuse budget and on April 2, 2026 recommended the proposed budget for adoption.

NOTIFICATION

Not applicable.

ATTACHMENTS

Resolution

PRESENTER

Nick Harvey, Deputy Director - Administration