

CITY OF SANTA ROSA
BOARD OF PUBLIC UTILITIES

TO: BOARD OF PUBLIC UTILITIES
FROM: NICK HARVEY, BUDGET AND FINANCIAL ANALYSIS
MANAGER, SANTA ROSA WATER

SUBJECT: SONOMA COUNTY WATER AGENCY 2023/24 WATER
TRANSMISSION BUDGET AND RATE INCREASE

AGENDA ACTION: MOTION

RECOMMENDATION

It is recommended by the Water Department that the Board of Public Utilities consider Sonoma Water's proposed 2023/24 Water Transmission Budget and rate increase and, by motion, make a recommendation to the City Council regarding Council's direction to its Water Advisory Committee (WAC) representative for the April 3, 2023 WAC vote on the proposed 2023/24 Water Transmission Budget and rate increase.

EXECUTIVE SUMMARY

The City of Santa Rosa (City) purchases approximately 95% of its potable water supply from Sonoma Water, the region's water wholesaler. Sonoma Water is proposing to raise the wholesale rate for water by 10.56% from \$1,061.04 to \$1,173.09 per acre foot. The WAC,) to the Sonoma Water Board of Directors which includes elected officials from each of the eight prime contractors that purchase water from Sonoma Water. The Technical Advisory Committee (TAC), which includes technical staff from each of the eight prime water contractors, advises the WAC. On March 6, 2023, the TAC voted to recommend approval of Sonoma Water's proposed 2023/24 water transmission budget and rate increase, with Santa Rosa's TAC representative voting against approval.

The Board of Public Utilities (Board) may make a recommendation to the City Council (Council), which will subsequently advise Council's WAC representative prior to the April 3, 2023 WAC vote on Sonoma Water's proposed 2023/24 water transmission budget and rate increase. Ultimately, the Sonoma Water Board of Directors retains final authority to approve the proposed budget and rate increase.

SONOMA COUNTY WATER AGENCY 2023/24 WATER TRANSMISSION BUDGET
AND RATE INCREASE
PAGE 2 OF 4

BACKGROUND

The WAC is comprised of an elected official (and an alternate) from each of the eight prime contractors that purchase water from Sonoma Water, plus a non-voting representative from Marin Water. The WAC is an advisory committee to the Sonoma Water Board of Directors. The City's WAC Representative is Mayor Natalie Rogers.

The Technical Advisory Committee (TAC) consists of technical staff from each of the eight prime contractors that purchase water from Sonoma Water, plus a non-voting representative from Marin Water.. The City's TAC representative is the Santa Rosa Water Director. The TAC provides technical analysis and recommendations to the WAC. Each year, the TAC forms its budget subcommittee to conduct an in-depth review and analysis of Sonoma Water's proposed water transmission system budget and rates.

Sonoma Water staff presented the proposed 2023/24 Water Transmission System budget and rate increase to the TAC budget subcommittee over a series of meetings in February. Working with the TAC budget subcommittee, Sonoma Water staff adjusted the budget resulting in the proposed rate increase. Ultimately, the TAC budget subcommittee did not recommend approval of the proposed 2023/24 Water Transmission System budget and rate increase to the TAC. On March 6, 2023, the TAC voted to recommend approval of Sonoma Water's proposed 2023/24 water transmission budget and rate increase, with Santa Rosa's TAC representative voting against approval.

The Board's recommendation regarding Council's potential direction to its WAC member on Sonoma Water's proposed 2023/24 water transmission budget and rate increase is scheduled to be presented to Council at its meeting on March 28, 2023.

ANALYSIS

Prior to this proposed budget and rate increase, Sonoma Water had projected 4-6% annual rate increases based on their long-term financial model. Sonoma Water proposes to increase rates for wholesale water on the Santa Rosa Aqueduct by 10.56% from \$1,061.04 to \$1173.09 per acre foot. Significant factors driving the 2023/24 Sonoma Water water transmission system budget and rate increase are as follows:

1. Pursuant to the Restructured Agreement, estimated water deliveries for 2023/24 are 41,847 acre feet – this number is the lower of the previous 12 months or the average of the past three years of water deliveries.
2. Sonoma Water's revenue is 100% volumetric and therefore the decreased deliveries due to the drought results in an increase in the cost per acre foot to maintain sufficient revenues to cover operations.
3. The majority of the increase is due to the need to complete deferred water system projects. Over several years, capital and maintenance projects have

SONOMA COUNTY WATER AGENCY 2023/24 WATER TRANSMISSION BUDGET
AND RATE INCREASE
PAGE 3 OF 4

been deferred to reduce the rate to contractors. Sonoma Water is preparing to implement many of the deferred projects.

4. The Santa Rosa Aqueduct Capital Charge, which is classified as a discretionary charge was reduced last year from \$20.00 to \$11.00 an acre foot and will remain flat this year to decrease the rate increase for Santa Rosa Water. This funding is set to accumulate funding for capital projects specific to the Santa Rosa Aqueduct. Santa Rosa and Windsor pay into the Santa Rosa Aqueduct Capital Charge.

The WAC is scheduled to vote on whether or not to recommend Sonoma Water's proposed 2023/24 water transmission budget and rate increase for approval to the Sonoma Water Board of Directors on April 3, 2023. The Sonoma Water Board of Directors is scheduled to consider the proposed 2023/24 water transmission budget and rate increase at its Board meeting on April 18, 2023.

FISCAL IMPACT

The proposed wholesale water rate increase is \$112.05 per acre foot or 10.56%. Santa Rosa's estimated water use for next year is 15,200 acre feet, a 5% increase from last year due to drought restrictions being lifted, and would result in a total charge of \$17.8m. This is an increase of \$2.5m from FY2022/23 budget of \$15.3m.

Santa Rosa Water's current rate structure was developed to cover a 6% rate increase from Sonoma Water. The increased cost will be covered by retail water usage and fixed charges to Santa Rosa Water customers as well as application of undesignated fund balances. The additional expenditure will come from reserves.

ENVIRONMENTAL IMPACT

This action is exempt from the California Environmental Quality Act (CEQA) because it is not a project which has a potential for resulting in either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, pursuant to CEQA Guidelines Section 15378.

BOARD/COMMISSION/COMMITTEE REVIEW AND RECOMMENDATIONS

On March 6, 2023, the TAC voted to recommend approval of Sonoma Water's proposed FY2023/24 water transmission system budget and rate increase to the Water Advisory Committee.

NOTIFICATION

Not Applicable.

SONOMA COUNTY WATER AGENCY 2023/24 WATER TRANSMISSION BUDGET
AND RATE INCREASE
PAGE 4 OF 4

ATTACHMENTS

- Attachment 1 – Sonoma Water Transmission FY 2023/24 Draft Budget and Rates

PRESENTER

Nick Harvey, Budget and Financial Analysis Manager, nharvey@srcity.org