



Sonoma Water

PENNGROVE SANITATION ZONE FY 2026/2027 WRITTEN BASIS OF SEWER SERVICE CHARGE

DATE: March 2026

TO: Sonoma Water Management

FROM: Jake Spaulding, Financial Services Division Manager

SUBJECT: PENNGROVE SANITATION ZONE FY 2026-2027 WRITTEN BASIS OF SEWER SERVICE CHARGE

The purpose of this Memorandum is to provide a written basis for the sewer service charges and update current and projected costs and cost-of-service based rates. Key guiding principles include developing rates that are fair and equitable to all customer classes, distributing costs equally among ratepayers, and complying with the legal requirements of Proposition 218 and other California laws. Figure 1 below demonstrates the challenge that the Zone faces in recovering the costs of providing service, and generating adequate funding for operations, maintenance, and capital infrastructure upgrades due to its small customer base.

This memorandum provides the basis for a 7.8% rate increase in FY 2026-2027. Revenue from sewer service charges comprises approximately 63% of the total revenue needed to provide service.

Costs are projected to increase over the planning period shown in Figure 1 below. The increased costs are for projects to address aging infrastructure including Force Main Replacement, Collection System Rehabilitation and Repair, and other projects. Estimated costs for the Force Main Replacement Project are \$7.5 million over the next three years. The Force Main Replacement Project was initially planned to begin in FY 23-24 but due to the increased scope and cost of the project, the start has been delayed to allow time to build reserves and apply for grant funding. The 7.8% rate increase is needed to build reserves to fund design of the Force Main Replacement Project. Offsetting revenue from a future grant application is necessary to fund construction of the Project in FY 2027/2028.

The Zone faces an ongoing operations deficit and has a critical need for infrastructure improvements and upgrades. Sonoma Water General Fund subsidies to the Zone over the past five years have been approximately \$1 million, and \$2.0 million is projected for the next three years making up 16 percent of the total estimated revenue for the Zone. Stewarding financially sound utilities and providing safe, high quality wastewater service that will protect the community and the environment requires that rates

keep pace with rising costs. Figure 1 and Table 1 below provide documentation in support of the proposed 7.8% rate increases.

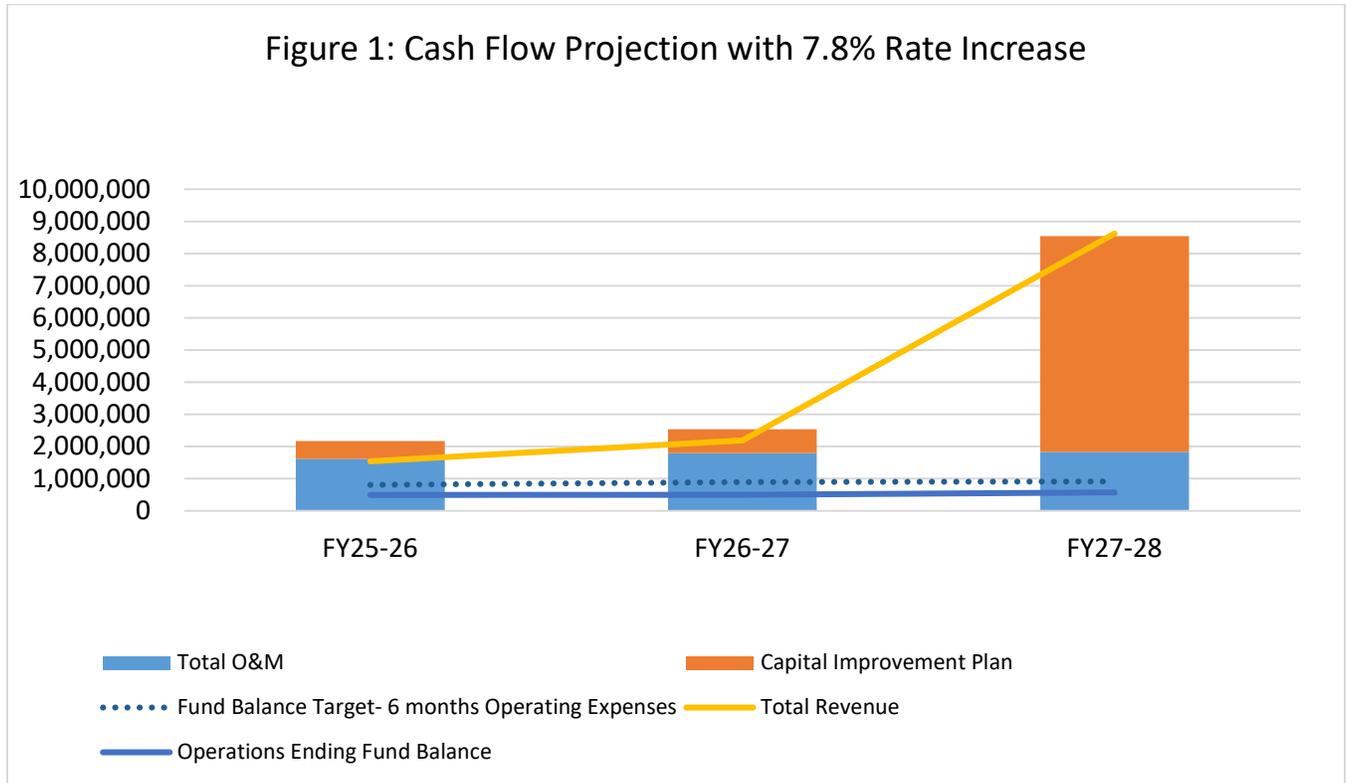


Table 1: Cash Flow Projection and Revenue Requirement

Fiscal Year	Estimated FY25-26	Projected FY26-27	Projected FY27-28
Rate Increase	7.8%	7.8%	7.8%
Rate	2,298	2,476	2,670
Equivalent Single Family Dwellings	556	565	564
BEGINNING FUND BALANCE	1,478,888	828,546	482,794
<u>REVENUE</u>			
Sanitation Charges	1,106,800	1,378,200	1,467,600
Interest on Pooled Cash	28,740	17,233	14,500
Transfers from General Fund	390,000	780,000	750,000
Capital Contribution	0	15,000	6,389,801
Total Revenue	1,525,540	2,190,433	8,621,901
<u>EXPENDITURES</u>			
Total O&M	1,619,182	1,791,899	1,831,850
Capital Improvement Plan	556,700	744,285	6,714,575
Total Expenditures	2,175,882	2,536,184	8,546,425
Net Revenue	(650,342)	(345,752)	75,476
Ending Fund Balance - Proposed Rate Increase	828,546	482,794	558,270
Operations Ending Fund Balance	472,509	480,670	555,520
<i>Fund Balance Target- 6 months Operating Expenses</i>	<i>807,972</i>	<i>894,950</i>	<i>914,925</i>

The proposed rate increase for the Equivalent Single Family Dwelling (ESD) value relies upon the Zone obtaining additional revenues from other sources of funding such as loans and grants. The total expenditures budget divided by ESDs, the total expenditures budget minus grant/loan revenue divided by ESDs, and the proposed ESD rate are shown in the table below. The proposed rate is the lowest the rate can be set given the structural deficit of the Zone, the need to maintain reserves, and the risks and uncertainties associated with receiving other sources of funding.

	Projected FY25-26	Projected FY26-27	Projected FY27-28
Fiscal Year			
Total Expenditures Divided by ESDs	3,913	4,498	15,164
Expenditures budget minus grant/loan revenue divided by ESDs	3,913	4,471	3,826
Proposed ESD Rate	2,298	2,476	2,670

Proportionality of costs for users is maintained by using the Equivalent Single Family Dwelling (ESD) methodology. A standard single-family home constitutes one ESD. Parcels with other uses (for example, apartments and commercial buildings) are assigned a number of ESDs using standard equivalency factors that estimate the probable quantity and quality of sewage effluent normally generated by such uses in comparison to a single-family home. The assigned cost per ratepayer is the ESD cost multiplied by the number of ESDs assigned to the parcel. The ESDs are assigned in Exhibit A of the proposed rate ordinance, which is attached to this memorandum.