San Diego County
Local Agency Formation Commission
Regional Service Planning | Subdivision of the State of California

6a

AGENDA REPORT
Public Hearing | Discussion

May 4, 2026

TO: Chair Becker and Commissioners

FROM: Priscilla Mumpower, Assistant Executive Officer

SUBJECT: **Draft Report | Municipal Service Review on Wholesale Water Service Providers, Part I: San Diego County Water Authority**

SUMMARY

The San Diego County Local Agency Formation Commission (LAFCO) will hold a public hearing on a draft municipal service review covering the San Diego County Water Authority (CWA). The study represents Part I of a broader regional municipal service review evaluating the two primary wholesale water service providers serving San Diego County — the CWA and the Metropolitan Water District of Southern California (MWD) — and is being advanced as part of the Commission's adopted workplan.

The report independently assesses CWA's role to plan, fund and deliver wholesale water service to its 22 local member agencies (cities, special districts, and military base) over a 15-year reporting period spanning fiscal years 2009 through 2023. This includes written determinations addressing the factors required under statute and local policy as part of the municipal service review process. The draft report incorporates CWA comments following the completion of the 60-day administrative review period. A companion memorandum summarizing CWA comments and staff's responses is provided as an attachment.

This public hearing is presented for Commission discussion and feedback on the scope and content of the draft report. Staff requests direction on whether to (a) proceed with a formal 45-day public review and comment period ahead of preparing a final version for future consideration, or (b) return with an updated draft before going any further.

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BACKGROUND

Municipal Service Reviews

State law directs San Diego LAFCO to regularly prepare municipal service reviews in conjunction with updating each local agency's sphere of influence. The legislative intent of the municipal service review and its five-year cycle requirement is to proactively inform the Commission – and by extension the general public – regarding the availability and sufficiency of governmental services relative to current and future community needs. Municipal service reviews are statutorily required to inform required sphere of influence updates, and may also lead the Commission to take other actions under its authority, such as forming, consolidating, or dissolving one or more special districts. These documents also serve as an opportunity for the Commission to telegraph and encourage community discussion and/or action on future jurisdictional changes.

Adopted Workplan | Municipal Service Review on the Wholesale Water Service Providers: Parts I and II

San Diego LAFCO's FY 2025–2026 workplan was adopted at a noticed hearing in May 2025 and outlines 30 specific projects for the fiscal year, set in priority order. The Commission's top-ranked project in the adopted workplan involves preparing a municipal service review for the two principal wholesale water service providers serving most of the urbanized area of San Diego County: CWA and MWD.

Given the scale and complexity of the review, staff has structured the municipal service review (MSR) into two parts:

- **Part I** focuses on CWA; and
- **Part II** will focus on MWD as it relates to wholesale water service in San Diego County.

Preparation and 60-Day Administrative Review

The draft report before San Diego LAFCO covering CWA has been prepared by LAFCO staff with targeted assistance from outside consultants. This includes intergovernmental coordination provided by Patrick Bouteller and Adam Wilson and technical expertise provided by Dr. Michael Hanemann (wholesale water) and Christine O'Rourke (environmental planning). The report evaluates CWA using a 15-year reporting period spanning fiscal years 2009 through 2023. This timeframe was intentionally selected to capture long-term trends across water sales, rate setting, reserves, debt, governance, and infrastructure management.

An administrative draft of the MSR was provided to the CWA for review with a 60-day comment period concluding on March 23, 2026. CWA submitted a written comment letter that generally acknowledged several of the report's baseline observations while highlighting recent operational changes at the agency. CWA's requested changes generally fall into four principal areas: (1) more express recognition of post-reporting-period developments, (2)

technical clarifications to certain findings and supporting narrative, (3) additional context regarding the report's discussion of potential future governance and reorganization alternatives, and (4) reconsideration of the recommended timing for LAFCO's next assessment of CWA, specifically requesting a return to the standard five-year cycle in lieu of the proposed two-year addendum. Staff's responses are provided in a companion memorandum — included as Attachment Two — and reflected, where appropriate, in the revised draft. A public draft document was published and made available on the LAFCO website on April 16, 2026.

DISCUSSION

This item is for San Diego LAFCO to hold a public hearing on the draft municipal service review covering the San Diego CWA. This also includes considering CWA's written comments on the administrative draft and staff's responses. The hearing provides an opportunity for the Commission and the public to offer early input on the scope, analysis, and draft determinations, including any additional areas of interest identified by the Commission. Should the Commission conclude the document meets expectations with respect to scope and content, staff will proceed with initiating a formal 45-day public review and comment period and return with a final version for formal action as early as August 2026. Should the Commission conclude additional work is needed, staff will revise the document accordingly and return with an updated draft at a future meeting.

ANALYSIS

See Executive Summary within the draft MSR provided as Attachment One.

RECOMMENDATION

It is recommended that San Diego LAFCO hold a public hearing on the draft municipal service review covering CWA and provide direction on the draft's scope and content.

Should the Commission conclude the draft meets expectations, staff will initiate a formal 45-day public review and comment period and return with a final version for Commission action as early as August 2026.

ALTERNATIVES FOR ACTION

This item is being presented to San Diego LAFCO for discussion and feedback only.

PROCEDURES

This item has been placed on San Diego LAFCO's agenda as part of a public hearing. The following procedures are recommended in consideration of this item:

1) Disclose any material ex-parte communications.
2) Receive verbal presentation from staff unless waived.
3) Open the hearing and invite public testimony.
4) Discuss item and provide feedback as requested.

On behalf of the Executive Officer,



Priscilla Mumpower
Assistant Executive Officer

Attachment:

1) Draft MSR on Wholesale Water Service Providers (Part I): CWA
2) Memorandum | Staff Responses to CWA Comment Letter

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SAN DIEGO COUNTY
LOCAL AGENCY FORMATION COMMISSION



MUNICIPAL SERVICE REVIEW
WHOLESALE WATER PROVIDERS

PART ONE
San Diego County Water Authority

PUBLIC DRAFT
April 2026

PREPARED BY:
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ACKNOWLEDGEMENTS

San Diego LAFCO gratefully acknowledges the time and effort of officials and staff from the San Diego County Water Authority for providing information in support of this report's preparation. This includes – but is not limited to – the following individuals:

General Manager, Dan Denham
Chief Operating Officer, Tish Berge
Assistant General Manager, Jaymie Bradford

LAFCO also extends its sincere appreciation to Chris Cate, LAFCO's former Government Relations Consultant, for his direct contributions to the development of this report and leadership in facilitating meetings of the Ad Hoc Committee specific to this review.

Lastly, LAFCO expresses its appreciation to the members of the Ad Hoc Committee for providing valuable guidance and perspective throughout this review. This includes representatives from the following member agencies:

City of Oceanside
City of San Diego
Helix Water District
Olivenhain Municipal Water District
Otay Water District
Padre Dam Municipal Water District
Ramona Municipal Water District
San Diego County Water Authority
Santa Fe Irrigation District
Valley Center Municipal Water District
Yuima Municipal Water District

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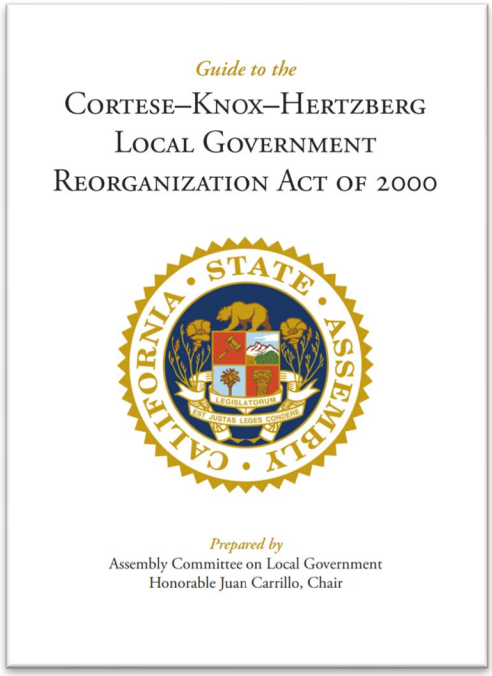
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CHAPTER ONE
INTRODUCTION

1.0 LOCAL AGENCY FORMATION COMMISSIONS

1.1 Authority and Objectives

Local Agency Formation Commissions (LAFCOs) are political subdivisions of the State of California responsible for providing regional growth management services in all 58 counties. LAFCOs exercise regulatory and planning authority delegated by the Legislature to coordinate the establishment, expansion, and reorganization of cities, towns, and special districts – including their municipal service areas. Each LAFCO is comprised of locally elected and appointed officials who apply powers currently codified under the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 ("CKH") with principal oversight provided by the Assembly Committee on Local Government. Governor Edmund "Pat" Brown Sr. established LAFCOs during his administration (1959-1967) to address the needs of California's rapidly growing and diversifying population. The underlying goal was straightforward: promote governmental efficiency by coordinating how local agencies form and evolve across the state.



LAFCOs' regulatory and planning powers are guided by specific purposes and objectives that collectively define the Legislature's regional growth management priorities, as outlined in Government Code Section 56301. This foundational statute establishes two complementary mandates for LAFCOs.

First, LAFCOs must pursue core policy goals through regulatory and planning powers:

> *"Among the purposes of the commission are discouraging urban sprawl, preserving open space and prime agricultural lands, efficiently providing governmental services, and encouraging the orderly formation and development of local agencies based upon local conditions.*

Second, LAFCOs serve an analytical and advisory function:

> *One of the objects of the commission is to make studies and furnish information to contribute to the logical and reasonable development of local agencies and to shape the development of local agencies so as to advantageously provide for the present and future needs of each county and its communities."*

LAFCO decisions are legislative in nature and therefore not subject to an outside appeal process – only courts can overturn LAFCO actions. This legislative authority extends to broad conditioning powers: LAFCOs may attach terms and requirements to their regulatory and planning approvals, provided those conditions do not directly impact land use density or intensity, property development, or subdivision requirements.

1.2 Regulatory Responsibilities

LAFCOs' principal regulatory responsibility involves approving or disapproving jurisdictional changes affecting the establishment, expansion, and reorganization of cities, towns, and most special districts in California.[1] Beyond boundary decisions, LAFCOs oversee the approval process when these agencies seek to provide new or extended services beyond their jurisdictional boundaries through contracts or agreements. LAFCOs also regulate special district actions to activate new service functions and service classes or divest existing services.

Overseeing Local Governments' Boundaries + Municipal Service Areas…

LAFCOs have been responsible since 1963 to oversee formation, expansion, reorganization, and dissolution actions involving cities, towns, and most special districts in California with limited exceptions.

LAFCOs generally exercise their regulatory authority in response to applications submitted by affected agencies, landowners, or registered voters. Recent amendments to CKH have expanded this role, authorizing LAFCOs to independently initiate certain jurisdictional changes – including the formation, consolidation, and dissolution of special districts – when consistent with community needs.

[1] CKH defines "special district" to mean any state agency formed under general law or special act for the local performance of governmental or proprietary functions within limited boundaries. All special districts are subject to LAFCO jurisdiction except: school districts, community college districts, assessment districts, improvement districts, community facilities districts, and air pollution control districts.

1.3 Planning Responsibilities

LAFCOs inform their regulatory actions through two central planning responsibilities: sphere of influence determinations and municipal service reviews. Sphere of influence ("sphere") determinations have been a core LAFCO function since 1971, serving as the Legislature's version of urban growth boundaries by delineating the appropriate interface between urban and non-urban uses within each county. Municipal service reviews, by contrast, represent a relatively new planning tool enacted as part of CKH in 2000 to inform – among other activities – sphere determinations as well as any associated jurisdictional changes.

Informing + Telegraphing Boundary and Service Changes...

LAFCOs are tasked with planning the location of future urban uses through two interrelated activities: (a) establish and update spheres of influence as gatekeepers to future jurisdictional changes and (b) prepare municipal service reviews to independently evaluate community needs.

The Legislature has established a structured relationship between these two planning tools and now requires spheres be reviewed and updated by LAFCOs every five years as appropriate and done so only after preparing new municipal service reviews covering the region or affected agencies. This framework, in effect since 2008, helps ensure LAFCOs effectively align governmental services with current and anticipated community needs. The function and role of each planning responsibility is detailed below.

Spheres of Influence

LAFCOs establish, amend, and update spheres for all cities, towns, and most special districts in California to designate territory representing the appropriate and probable future service areas and jurisdictional boundaries of each agency. Importantly, all jurisdictional changes – such as annexations and detachments – must be consistent with the affected agencies' spheres with limited statutory exceptions.[2] Spheres also play an increasingly important role in regional planning, as regional councils of governments consider them when allocating housing need assignments for counties, towns, and cities.

Gatekeeping Boundaries + Municipal Services...

Spheres serve as the Legislature's version of urban growth boundaries and – among other items – delineate where local agencies may seek future annexations or outside service approvals with LAFCOs.

[2] Exceptions, where jurisdictional boundary changes do not require consistency with the affected agencies' spheres, include annexations of State correctional facilities or annexations to cities involving city-owned lands used for municipal purposes.

All sphere determinations – whether self-initiated as part of the five-year update cycle or in response to individual applicants – require LAFCOs to prepare written statements addressing five specific planning factors listed under Government Code Section 56425. These mandatory factors range from evaluating current and future land uses to assessing the existence of pertinent communities of interest. The written statements are intended to orient LAFCOs toward the core principles underlying the orderly development of local agencies consistent with the needs of affected communities both now and in the future. The five mandated planning factors are summarized below.

1. Present and planned land uses, including agricultural and open space.

2. Present and probable need for public facilities and services in the area.

3. Present capacity of public facilities and adequacy of public services the agency provides or is authorized to provide.

4. Existence of any social or economic communities of interest in the area.

5. If the city or special district provides water, wastewater, or fire protection, the need for those services in any disadvantaged unincorporated communities in the sphere.

Municipal Service Reviews

Municipal service reviews serve as a centerpiece to CKH's enactment in 2001 and represent comprehensive studies on the level, range, and performance of governmental services provided within defined geographic areas. LAFCOs generally prepare municipal service reviews to explicitly inform subsequent sphere determinations. LAFCOs also prepare municipal service reviews irrespective of making any specific sphere determinations to obtain and furnish information to contribute to the overall orderly development of local communities.

State-Required Check-Ins…

Municipal service reviews fulfill the Legislature's interests in LAFCOs regularly assessing the adequacy and performance of local governmental services in order to inform potential future actions ranging from sphere determinations to reorganizations.

LAFCOs' municipal service reviews vary in scope and can focus on a particular agency or governmental service. LAFCOs may use the information generated from municipal service reviews to initiate other actions under their authority, such as forming, consolidating, or

dissolving one or more local agencies. Advisory guidelines on the preparation of municipal service reviews were published by the Governor's Office of Planning and Research in 2003 and remain the lone statewide document advising LAFCOs in fulfilling this mandate. All municipal service reviews – regardless of their intended purpose – culminate with LAFCOs preparing written statements addressing specific service factors listed under G.C. Section 56430. This includes infrastructure needs or deficiencies, growth and population trends, and financial standing. The mandated service factors are summarized below in short form with additional details footnoted.[3]

1. Growth and population projections for the affected area.
2. Location and characteristics of any disadvantaged unincorporated communities within or contiguous to affected spheres of influence.
3. Present and planned capacity of public facilities, adequacy of public services, and infrastructure needs or deficiencies.
4. Financial ability of agencies to provide services.
5. Status and opportunities for shared facilities.
6. Local accountability for community service needs, including structure and operational efficiencies.
7. Matters relating to effective or efficient service delivery, as required by policy.

1.4 LAFCO Decision-Making

LAFCOs are generally governed by an 11-member appointed board comprising three county supervisors, three city council members, three independent special district members, and two representatives of the general public. Some larger LAFCOs – including San Diego – have additional board seats dedicated to specific cities through special legislation. All members serve four-year terms and are divided between "regular" and "alternate" designations. Appointments are made locally within

Appointments + Duties...

State law prescribes the appointment process for LAFCOs with county, city, and district members all appointed from among their elected ranks. Public members are appointed by the other appointed officials serving on LAFCOs. All members are tasked to independently discharge their responsibilities for the good of the region.

[3] Determination No. 2 was added to the municipal service review process by Senate Bill 244 effective January 1, 2012. The definition of "disadvantaged unincorporated community" is defined under G.C. Section 56330.5 to mean inhabited territory that constitutes all or a portion of an area with an annual median household income that is less than 80 percent of the *statewide* annual median household income; the latter amount currently totaling $53,735 (*emphasis*).

each membership category. Members are statutorily directed to exercise their independent judgment on behalf of the interests of residents, landowners, and the public as a whole. LAFCO commissioners are subject to standard disclosure requirements and must file annual statements of economic interests.

LAFCOs have sole authority in administering their legislative responsibilities and decisions are not subject to an outside appeal process. All LAFCOs are independent of local government with the majority employing their own staff; an increasingly smaller portion of LAFCOs, however, choose to contract with their local county government for staff support services. All LAFCOs, nevertheless, must appoint their own Executive Officers to manage agency activities and provide written recommendations on all regulatory and planning actions before the membership. All LAFCOs must also appoint their own legal counsel.

1.5 Prescriptive Funding

CKH requires local agencies to fully fund LAFCOs' annual operating costs through a prescribed funding structure. This funding arrangement stems from early negotiations during LAFCO's creation, ensuring that local officials – rather than the Legislature – retain decision-making authority over commission operations. Counties are generally responsible for one-third of LAFCO's annual operating costs, with the remaining two-thirds divided equally between cities and independent special districts. Allocations to cities and special districts are calculated using a standard formula based on total revenues as reported by the State Controller's Office, unless an alternative method has been approved by a majority of the affected local agencies. Funding proportions may differ when LAFCOs have additional representation through special legislation.

2.0 SAN DIEGO LAFCO

2.1 Adopted Policies and Procedures

San Diego LAFCO's existing policies and procedures were largely established in the 1970s and subsequently updated in the 2000s following CKH's enactment. These policies and procedures collectively guide the Commission in implementing LAFCO law in San Diego County consistent with local regional growth management priorities. The Commission has also established specific policies and procedures for preparing sphere updates and municipal service reviews. This includes Policy L-106, which directs the Executive Officer to regularly prepare municipal service reviews of appropriate scope and detail to inform the Commission's sphere updates at approximate five-year intervals.

2.2 Commission Information

San Diego LAFCO is governed by a 13-member "Commission" comprised of county, city, special district, and public members. The Commission is further distinguished between eight regular or voting members and five alternates. All Commissioners are appointed elected officials, except for the two public members. The Commission holds regular meetings on the first Monday of each month at the County of San Diego Administration Center located at 1600 Pacific Highway in San Diego, California. Meetings start at 8:15 A.M. in Room 302 and live streamed at www.sdlafco.org. Video recordings of past meetings are also online.

The Commission roster as of May 2026.



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Chair
City of Solana Beach



Baron Willis
Vice Chair
Alpine Fire Protection



Stephen Whitburn
Past Chair
City of San Diego



Joel Anderson
Commissioner
County of San Diego



Paloma Aguirre
Commissioner
County of San Diego



Jo MacKenzie
Commissioner
Vista Irrigation



Dane White
Commissioner
City of Escondido



Bridgette Browning
Commissioner
Public Member



Eileen Delaney
Alternate
Public Member



David Drake
Alternate
Rincon Del Diablo



John McCann
Alternate
City of Chula Vista



Monica Montgomery-Steppe
Alternate
County of San Diego



Marni von Wilpert
Alternate
City of San Diego

2.3 Administration Information

San Diego LAFCO's administrative office is located in the Bankers Hill area of San Diego at 2550 Fifth Avenue, Suite 725. Street parking is readily available. While LAFCO is open to the public Monday through Friday during normal business hours (8:00 A.M. to 5:00 P.M.), appointments to discuss proposals, studies, or other matters are encouraged to ensure staff availability and can be scheduled ahead by calling 619.321.3380. Communication by e-mail is also welcome and should be directed to lafco@sdcounty.ca.gov. Additional information regarding San Diego LAFCO's programs and activities is also available online at www.sdlafco.org. LAFCO is also available on most social media platforms.

CHAPTER TWO
EXECUTIVE SUMMARY

1.0 OVERVIEW

This report represents the first of two parts comprising San Diego LAFCO's scheduled municipal service review covering public wholesale water services in San Diego County. It has been prepared by LAFCO staff, with technical assistance from outside consultants as well as an ad hoc committee comprising senior staff from several local public retail water agencies.[4] The review has been conducted in accordance with the Commission's adopted workplan and the scope of work approved by the Executive Officer pursuant to delegations established under adopted policy.[5] Consistent with this delegation, the Executive Officer has administratively organized the two parts with separate processing timelines to allow the Commission and public to give each agency's findings the focused attention they warrant, given their distinct governance and service relationships. This first part focuses on the San Diego County Water Authority (CWA). The second part will be presented separately and will cover the Metropolitan Water District of Southern California (MWD).

Wholesale Water MSR: Part I: County Water Authority...

This report represents the first of two parts of the Commission's scheduled municipal service review covering public wholesale water service providers in San Diego County and covers the San Diego County Water Authority.

The report's central purpose is to independently assess how CWA plans, funds, and delivers wholesale water services to member agencies in San Diego County, and its relationship to current and future community needs. The assessment applies statutory review factors and locally adopted policy criteria, framed within LAFCO's prescribed growth management responsibilities under state law. This report marks the first of its kind for the Commission, reflecting a recognition of the increasing importance of wholesale water service operations in San Diego County and a deliberate decision to commit resources to evaluating these agencies in a stand-alone municipal service review – something that has not been done before. LAFCO will use this report in several ways. First, it satisfies

Why This Report...

This report marks the first stand-alone municipal service review of wholesale water services in San Diego LAFCO's history – its origins tracing directly to insights gained during the Commission's recent review of the Fallbrook and Rainbow communities' detachment proposals, which exposed structural challenges facing wholesale providers that the Commission had not previously encountered.

[4] Ad hoc member agencies are listed on page 3 of this report.
[5] Reference to LAFCO Policy L-106.

LAFCO's legislative mandate to independently prepare municipal service reviews on a regular basis to "advantageously inform" the public and local decision-makers through an objective and distinct analytical lens.[6] Second, the report is expected to inform – and potentially telegraph – jurisdictional changes the Commission believes merit consideration over the next five to ten years, providing the subject agencies and stakeholders advance notice of LAFCO's assessment and direction. Third, should circumstances warrant, the Commission may use this report as initiating authority under statute to propose one or more reorganizations affecting the subject agencies and/or their service areas – including forming new special districts, consolidating existing special districts, and/or dissolving and merging special districts into successor agencies.

1.1 Key Premises, Assumptions + Benchmarks

The Executive Officer has designed this two-part report to serve as a foundational document to be periodically drawn on, and expanded upon, by LAFCO in preparing future municipal service reviews. This foundational aspect involves devoting attention to documenting CWA and MWD historical evolution and creating a relatively extensive catalog of demographic, service, and financial information. It is expected LAFCO will revisit the report and its key assumptions and benchmarks in full approximately every five to ten years, consistent with the timetable established by the Legislature and reflected in local policy. This periodic review will enable the Commission to assess the accuracy of earlier projections and adjust its approach accordingly. Key premises, assumptions, and benchmarks underlying the report follow.

Defining Scope

Subject Agencies Covered

The report explicitly evaluates the two affected local agencies that primarily provide public wholesale water service in San Diego County and fall under the Commission's oversight: CWA and MWD. These two wholesale providers collectively serve 22 local government agencies across the urbanized footprint of San Diego County, including 17 of the region's 18 cities. Eastern MWD and the City of San Diego are the only other public wholesalers in the county, with the former

Who's Covered...

The report's scope is specific to reviewing two of the four wholesale water service providers that covering the majority of residents in San Diego County: CWA (Part I) and MWD (Part II). The other two public wholesalers – Eastern MWD and the City of San Diego – have been or will be evaluated by LAFCO in separate municipal service reviews.

[6] Reference to Government Code Section 56301.

supplying Fallbrook PUD and Rainbow MWD and the latter supplying California American Water Company for service to the City of Coronado – the only city not directly served by CWA or MWD.

Defining Scale

Extent of Municipal Services Covered

The report is scaled to review the primary active municipal service function provided by the two affected agencies – CWA and MWD – specific to wholesale water service. (Both agencies also provide hydroelectric power generation through their water conveyance systems; this function is largely omitted from the review other than incorporating its relatively modest influence on financial standing.) The review of CWA in Part I is comprehensive and includes a relatively full accounting of the agency's operations. The review of MWD in Part II is abbreviated and largely limited to the agency's operations and related footprint within San Diego County.

What's Covered...

This report focuses on wholesale water service – the primary municipal function of both CWA and MWD. The review of CWA is comprehensive; the review of MWD is limited to its operations within San Diego County. LAFCO recommends a joint municipal service review prepared in collaboration among the LAFCOs of Los Angeles, Orange, Riverside, San Bernardino, and Ventura counties to more comprehensively evaluate MWD across its full Southern California service footprint.

Looking Back

Determining Reporting Period

The reporting period for data collection has been set to cover an expanded fifteen-year fiscal period from 2009 to 2023, with limited exceptions. This represents a meaningful departure from LAFCO's typical five-year data collection window – a deliberate choice driven by the nature of wholesale water infrastructure and the significant investments made by the two subject agencies during this expanded period, most notably CWA's transition from water transporter to independent water supplier. The 2023 end date reflects the most recently completed audited fiscal year for both agencies at the time the study was initiated. The resulting data trends inform the Commission's core

Informing Years...

This report departs from LAFCO's typical five-year data window, extending to fifteen years to capture the significant investments – particularly CWA's transition to independent supplier – that now define the region's wholesale water landscape.

analysis and projections on demographics, service capacities and demands, and financial standing with particular attention to patterns most relevant for near-term forecasting.

Looking Forward

Reporting Timeframe + Coverage of Future Actions

The reporting timeframe has been oriented to cover the next five-year period through 2031, with five years serving as the analysis anchor contemplated under state law. This timeframe is consistent with the five-year cycle prescribed for municipal service reviews and will directly inform all related sphere of influence, boundary, and out-of-agency service actions affecting the two affected agencies over the next 60 months. Any sphere, boundary, or out-of-agency proposals during the reporting timeframe deemed inconsistent with the analysis provided in this report will be disfavored unless supported by additional analysis—whether in the form of an addendum or new report.

2031 Benchmark...

This report directly informs all jurisdictional actions affecting CWA and MWD through 2031. Proposals deemed inconsistent with its analysis will be disfavored unless supported by an addendum or new report.

Demographics

Calculating Population, Housing + More

Recent and current residential population and housing estimates in the report draw on data generated by Esri and its mapping analyses of census tracts overlaying the two affected agencies in San Diego County. This approach is consistent with recent LAFCO practice in preparing municipal service reviews given Esri's mapping software's ability to readily synchronize with both city and special district boundaries. Related projections over the succeeding five-year reporting timeframe are made by LAFCO and generally – unless noted otherwise – apply the estimated growth trend over the preceding fifteen years.

Data Source...

This report uses Esri demographic data – which sources its data from the American Community Survey (Census) – rather than individual agency estimates or SANDAG projections for one key reason: Esri's mapping software readily aligns with both city and district boundaries and ensures demographic consistency across all jurisdictions under LAFCO review.

Macro-Level
Systemwide Focus

The report focuses on central service outputs with respect to quantifying the availability, demand, and adequacy of the municipal functions provided by the two affected agencies within San Diego County. A prominent example involves focusing on annual system-wide demands generated during the 15-year reporting period as opposed to demands by specific member agencies or subregions. This approach informs macro-level determinations; when applicable, the report notes the need for more micro-level analysis as part of separate addendums or future reviews.

30,000 Foot View…

The analysis in this report evaluates performance at the system level – total annual demands and not specific service zones or communities. This bird's-eye approach reveals regional patterns while flagging areas where a deeper, micro-level analysis may be warranted.

Benchmarking
Infrastructure Needs + Deficiencies

Similar to the preceding factor, the report and its analysis focus on average system demands generated by the two affected agencies during the reporting period when benchmarking infrastructure needs or deficiencies. This broader focus on averages provides a more reasonable account of system demands and helps control for one-year outliers in analyzing overall relationships with capacities. Exceptions where final-year demands are prioritized are noted accordingly.

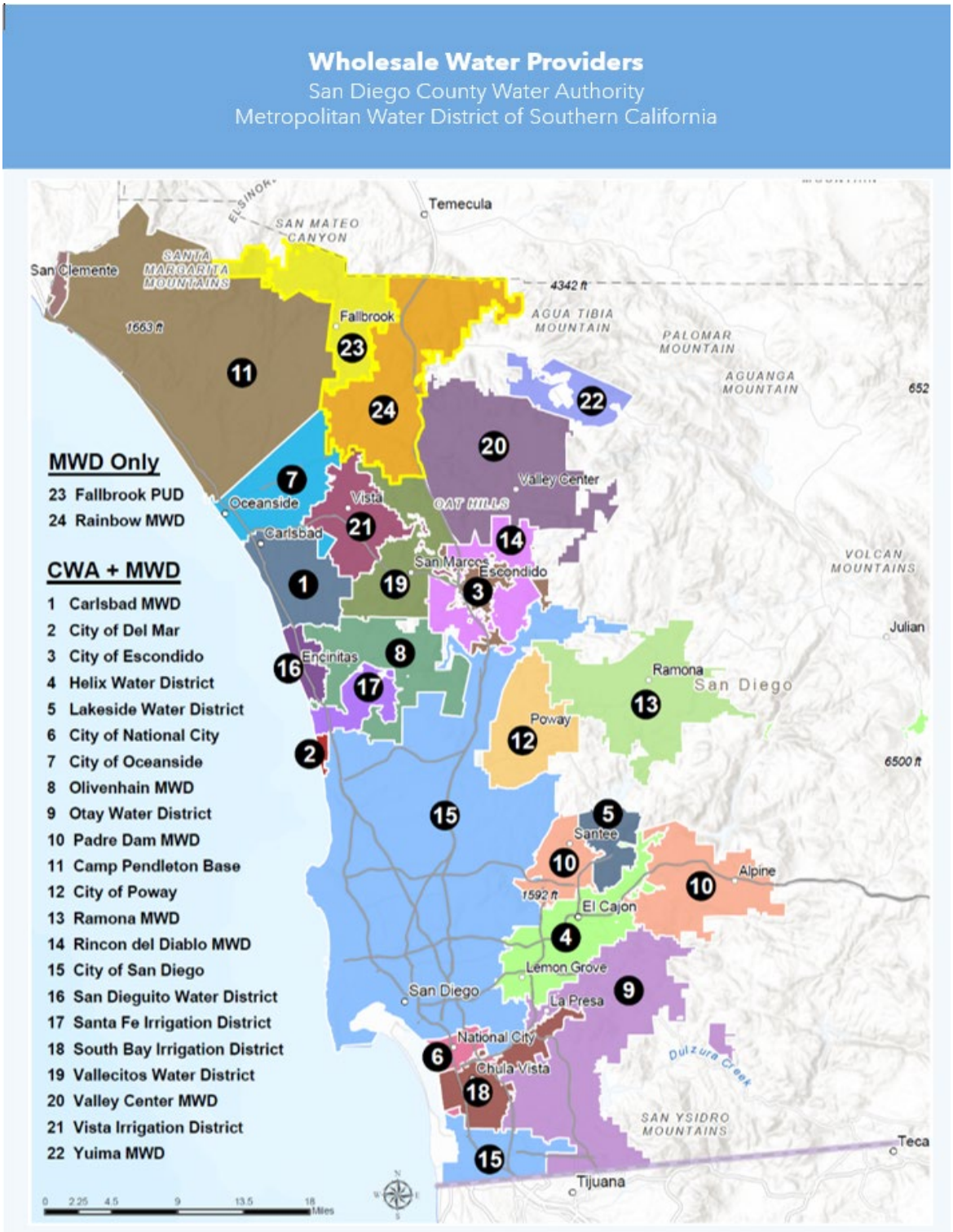
Protecting Against Outliers…

The report benchmarks infrastructure needs against average system demands over 15 years, with limited exceptions, to help control for one-year outliers. Trends are also considered with the caveat that extreme variances in the start or end period – and their effect on results – are noted accordingly.

Benchmarking
Financial Standing

Several diagnostic tools are used to assess and make related determinations in the report regarding the financial standing of the two affected agencies. This includes an emphasis on using audited financial statements whenever practical in analyzing liquidity, capital, margin, and capital asset management– with attention to both overall trends and final-year standing. This also includes drawing on industry standards in assigning value (i.e., good, fair, or otherwise).

Map No. ES-1


Wholesale Water Providers
San Diego County Water Authority
Metropolitan Water District of Southern California
MWD Only
23 Fallbrook PUD
24 Rainbow MWD
CWA + MWD
1 Carlsbad MWD
2 City of Del Mar
3 City of Escondido
4 Helix Water District
5 Lakeside Water District
6 City of National City
7 City of Oceanside
8 Olivenhain MWD
9 Otay Water District
10 Padre Dam MWD
11 Camp Pendleton Base
12 City of Poway
13 Ramona MWD
14 Rincon del Diablo MWD
15 City of San Diego
16 San Dieguito Water District
17 Santa Fe Irrigation District
18 South Bay Irrigation District
19 Vallecitos Water District
20 Valley Center MWD
21 Vista Irrigation District
22 Yuima MWD
Temecula
San Clemente
Fallbrook
Oceanside
Vista
Carlsbad
San Marcos
Escondido
Valley Center
Encinitas
Ramona
San Diego
Poway
Santee
El Cajon
Alpine
Lemon Grove
La Presa
National City
Chula Vista
Julian
Tijuana
Teca
SAN MATEO CANYON
SANTA MARGARITA MOUNTAINS
AGUA TIBIA MOUNTAIN
PALOMAR MOUNTAIN
AGUANGA MOUNTAIN
OAT HILLS
VOLCAN MOUNTAINS
SAN YSIDRO MOUNTAINS
Dulzura Creek
4342 ft
1663 ft
1592 ft
6500 ft
652
0 2.25 4.5 9 13.5 18 Miles

2.0 REPORT ORGANIZATION

The report is organized into three chapters. The preceding chapter – Chapter One – introduces LAFCO's authority, planning responsibilities, and the San Diego Commission. This chapter – Chapter Two – serves as the Executive Summary, outlining key conclusions and recommendations drawn from the report's analysis and is specific to CWA. The next chapter – Chapter Three – details CWA's profile, which combines narrative descriptions of the agency's background and service area development with quantitative analysis of demographic trends, service capacities, and financial standing. Determinations addressing the mandatory service and governance factors required by the Legislature and under local policy are included at the close of the profile.

3.0 GEOGRAPHIC AREA

State law requires LAFCO to formally designate the geographic area covered by a municipal service review. This report encompasses approximately 1,331 square miles and the spheres of influence of 24 local member agencies. Of these, 22 are served by both CWA and MWD, while Fallbrook PUD and Rainbow MWD are served exclusively by MET. A map showing the geographic area is provided on the preceding page.

4.0 CONCLUSIONS + RECOMMENDATIONS

4.1 Central Themes and Conclusions

This municipal service review covers CWA at a pivotal point in its 80-year history, with the agency facing acute structural challenges that may ultimately require intervention beyond internal reforms. These challenges trace most prominently to CWA's decision in the early 1990s — engendered by drought and supply reliability concerns — to expand beyond its original role of owning and operating a countywide conveyance and storage network delivering supplies purchased from MWD. The expansion added a new function: independently secure water sources to supplement MWD supplies. While the transformation has produced supply diversity and security, it also has created a rigid cost structure with fixed obligations now exceeding 80% of total expenses – contrasting sharply with revenues that remain largely variable and dependent on water sales. This mismatch significantly strains the agency's finances and, by extension, its governance.

The consequences flow downstream. CWA's 22 member agencies collectively serve more than 3.1 million full-time residents across the San Diego region — residents who, through wholesale rates passed on in their retail water bills, are now absorbing the cost of decisions proven shortsighted from a financial perspective, intentions aside. The same member agencies that supported CWA's transformation in the 1990s now find themselves in a precarious position. In seeking to insulate the region from supply disruption through investment in more reliable alternative supplies, CWA has introduced a different vulnerability: water insecurity measured not in availability but in affordability.

Overarching Theme: Scarcity to Affordability…

In seeking to insulate the region from supply disruption through investment in more reliable alternative supplies, CWA has introduced a different vulnerability: water insecurity measured not in availability but in affordability. The resulting strain on the agency's finances, and by extension, its governance, is the central theme of this review.

CWA's take-or-pay agreements with Imperial Irrigation District and Channelside Water Resources, the Carlsbad desalination plant operator (previously Poseidon Resources) have anchored the agency's transformation into a wholesale supplier; they have also directly contributed to the rates to member agencies increasing by more than 150% during the 15-year reporting period ending in 2023, more than triple regional inflation. (Comparatively, MWD's rates have increased 87% over the same period.) Current projections show CWA's annual deliveries falling below its take-or-pay commitment as early as 2027, meaning downstream ratepayers could begin paying for water they do not use – or potentially cannot readily remarket. The projected declines in sales appear driven by two factors above all: reduced demands from state-mandated conservation requirements and, more significantly, local supply development by CWA's own member agencies – including the City of San Diego.

The financial pressure on CWA is already producing political consequences. Two members – Fallbrook PUD and Rainbow MWD – recently exited CWA after a lengthy and contested detachment process. The City of San Diego — the largest member agency with 42% of Board voting power — followed more recently by declining to authorize an extended retail rate increase structure in October 2025, instead approving a limited two-year rate increase to allow time to evaluate CWA's actions to mitigate future rate pressures and potential effects on its potable reuse project. Other member agencies have expressed similar sentiments through their CWA Board representatives, urging pursuit of cost reductions and other measures to stabilize and moderate future rate increases.

Recent changes in CWA leadership provide measured optimism. These changes began in earnest during the tail end of the Fallbrook-Rainbow detachment proceedings in 2023 and have continued to the agency's credit. Leadership has ended decades of litigation with MWD, opening pathways for collaboration that were previously foreclosed – including the ability to remarket CWA's excess supplies to willing buyers. Relatedly, leadership's public acknowledgment that the take-or-pay agreements – particularly with Channelside – carry unfavorable terms, reflects a willingness to move beyond past defensive posturing and toward solutions. Whether these internal reforms prove sufficient remains to be seen; the structural imbalance persists, member agency roll-off to potable reuse will accelerate, and – absent a course redirection – the supply itself will become increasingly unaffordable to ratepayers across the region.

Consistent with delegated growth management responsibilities under state law, LAFCO's assessment is that change is needed – either through continued internal reform or more fundamental organizational restructuring. With respect to the latter, three reorganization concepts are identified that may warrant a full evaluation should circumstances require:

- Reorganize and dissolve CWA into subregional wholesale agencies.
- Reorganize and reset CWA to a regional conveyance, treatment, and storage role and return supply responsibilities to MWD.
- Reorganize and expand CWA to consolidate retail operations regionwide.

Each of these three alternatives presents distinct tradeoffs – between cost savings, local control, and regional coordination – with potentially significant financial, operational, and legal implications. They are not raised lightly, but the affordability trajectory facing CWA's member agencies and their ratepayers is itself disruptive, and the Commission's responsibility to identify and evaluate structural options is commensurate with the scale of the challenge. Given recent positive changes – new leadership, implementation of a Business Model Review Process, the MWD settlement, emerging water transfer and remarketing opportunities – LAFCO believes it is appropriate to allow internal

Why Reorganization Alternatives are on the Table…

LAFCO does not raise organizational alternatives lightly and recognizes any change would be challenging. These alternatives are raised because the affordability trajectory facing the region's ratepayers demands a response commensurate with the scale of the challenge.

reforms time to demonstrate effectiveness before considering these or other organizational alternatives that may emerge through additional analyses.

CWA's recent course corrections have earned a measured pause. LAFCO should prepare an addendum within 24 months to assess whether internal reforms are producing measurable results or whether a full evaluation of organizational restructuring is warranted. This timeline aligns with the City of San Diego's two-year rate authorization limitation, acknowledging that the region's largest retail provider and most powerful CWA Board member is signaling dissatisfaction with the status quo. This said, events may outpace this timeline. The City Council has also proposed capping future payments to CWA – a move that, if implemented, would trigger fundamental restructuring of water supply and conveyance services throughout San Diego County, forcing the reorganization question outright and well ahead of any deliberative addendum process. This 24-month window also provides CWA with both time and incentive to deliver measurable progress on the Business Model Review Process it has initiated, as well as to demonstrate the scale, durability, and revenue performance of its emerging water exchange strategy.

Key conclusions follow.

1. 1990s Decision to Change Business Model is Not Aging Well

CWA's transition in the early 1990s from owning and operating a countywide water conveyance and storage system delivering MWD supplies to becoming an independent wholesale supplier with its own treatment facilities was a strategic choice – one that prioritized drought-proofing over long-term affordability and has proven questionable. The take-or-pay agreements with Imperial Irrigation District and Channelside Water Resources have locked in supply commitments totaling 322,000 acre-feet annually for decades – volumes that now exceed projected demand – passing premium costs approaching $150 million annually to ratepayers at the close of the 15-year reporting period. The pursuit of supply independence has also set a precedent now repeating at smaller scale: CWA's own member agencies are rolling off to develop local supply alternatives, eroding CWA's customer base and mirroring the very strategy CWA employed against MWD.

2. Structural Strain: Financial

CWA is financially stable but structurally strained. The fixed portion of the agency's expenses has jumped nearly 30 percentage points over the 15-year reporting period, now accounting for more than four-fifths of all costs – driven primarily by take-or-pay supply agreements that do not flex with falling demand. The combination of obligations to purchase more expensive – albeit more reliable – supplies and declining demand has produced cascading effects, most obviously with CWA's wholesale rate for untreated water increasing 164% over the same period – more than triple the rate of inflation and nearly double the change in MWD's rates. Less obvious is the significant drop in liquidity, with CWA's days' cash falling from nearly 19 months of operating reserves at the period's start to five months at its close, while rate reserves were cut in half over just the last few years to help soften rate impacts. Debt service has consumed more than $1.7 billion during this period, but only 30% has gone to principal – reflecting a continued focus on interest-heavy payments. Looking ahead, CWA projects deliveries may fall below the 322,000 acre-foot take-or-pay floor by 2027, triggering payments for water not used unless remarketed to third parties outside the San Diego region. Member agency potable reuse projects – led by the City of San Diego – are separately expected to permanently reduce CWA sales by an estimated one-third, or 111,000 acre-feet annually, by 2035, compounding revenue pressure further still.

3. Structural Strain: Governance

CWA's weighted voting structure, based on cumulative financial contributions, works when all member agencies are equally invested in the agency's trajectory – it does not work well otherwise. Weighted voting is becoming increasingly strained as roll-offs accelerate, widening the gap between decision-making authority and the member agencies bearing financial consequences - particularly smaller agencies with fewer alternatives that typically serve more economically constrained communities. Rate-setting, debt management, and capital improvement prioritization are most vulnerable to short-term maneuvering. The City of San Diego now holds 42% of Board voting power and has historically served as CWA's anchor member and de facto north star – including supporting and advocating for the take-or-pay agreements with Imperial Irrigation District and Channelside Water Resources. This dynamic is changing. The City's October 2025 decision to limit its rate authorization to two years signals a divergence in priorities – and potentially the beginning of an adversarial posture with CWA. This opens CWA to uncharted governance territory: the agency

cannot easily achieve the quorum necessary for closed session if the City of San Diego is the opposing party, directly or indirectly, complicating its ability to navigate disputes with its dominant member.

4. Tipping Point

CWA's financial model — and by extension its supporting governance system — is approaching an important and potentially breaking point. CWA's entire rate structure has been premised on selling enough water to member agencies to cover contractual commitments. Notwithstanding actions by new leadership to remarket take-or-pay supplies, renegotiate contractual commitments, or implement other mitigating measures, this assumption is projected to come undone beginning in 2027 when CWA begins paying for water it cannot sell. Under this scenario, every unsold acre-foot below the 322,000 take-or-pay floor represents unrecoverable financial loss that must be recovered through higher rates on remaining sales — which presumably accelerates member agency roll-off to local supply alternatives. The spiral is self-reinforcing, and the math becomes increasingly unfavorable, as evident in the lopsided rate-increase-to-sales-decline ratio of 4-to-1 over the reporting period (meaning for every 1% decline in volume, rates increased 4% to break even). Applying this ratio to the expected loss of 111,000 acre-feet from planned potable reuse alone, CWA's rates are positioned to increase by another 133% between 2023 and 2035 — the equivalent of an 11% average annual increase passed on to member agencies, who add their own cost increases before billing ratepayers.

5. Alignment Tension: City 10 + City Council

The City of San Diego's CWA representatives – the City 10 – have not consistently aligned with the priorities of the City Council, whether directly or indirectly through the Council's governing role over the City's Public Utilities Department. This misalignment has most notably surfaced on rate-setting and the Pure Water program, where the City 10 and the City Council have taken opposing positions. The disconnect contributes to governance that is fragmented and less predictable for CWA as a whole to navigate, while leaving City Councilmembers to answer to ratepayers for decisions they did not make. This fragmentation is further complicated by the City 10's own voting practice: if six or more representatives vote in a particular direction, the City's entire 42% voting share at CWA is cast accordingly – meaning six appointees can effectively shape regional water policy for 3.1 million residents, potentially over the objections of the elected officials they ostensibly represent.

6. Positive Leadership Changes

CWA's leadership changes beginning at the close of the 15-year reporting period in 2023 have been clearly positive, reflecting a purposeful shift toward greater accountability and rigor. Some changes have drawn understandable public attention, marked by a more transparent and collaborative approach with regional partners after years of adversarial positioning. Others have been less publicly prominent but equally important – most notably CWA's recent decision to discontinue the use of outside consulting services under legal privilege to advise Board members serving on MWD, an important step that removes the appearance of outsized influence by external interests in favor of improved transparency. These and other developments detailed in this report suggest the new leadership team is moving with purpose to the benefit of the region.

7. Agency in Transition

Three years separate the close of this review's 15-year reporting period from its anticipated finalization – a period characterized by meaningful changes that merit the Commission's attention. Since the end of the reporting period in 2023, through new leadership, CWA has experienced a succession of material developments – some long anticipated, others newly forged – that collectively show an agency in active transition. These developments are not reflected in the financial analysis and written determinations that follow, which are properly anchored to the reporting period. They are, however, material and directly relevant to how LAFCO interprets the analysis and what it concludes about the appropriate next steps. The most significant developments since the close of the reporting period follow:

- Membership Changes
  Fallbrook PUD formally detached from CWA in January 2024, followed by Rainbow MWD in November 2024 – completing a contested exit process that had been underway during the reporting period and reshaping CWA's member agency composition and revenue base.

- MWD Settlement
  CWA and MWD reached a settlement in June 2025, resolving fifteen years of active litigation over water rates and exchange terms. The settlement reopens pathways for regional collaboration that had been foreclosed throughout the reporting

period and establishes a clearer framework for remarketing CWA's surplus QSA supplies.

- Water Exchange Agreements
  CWA executed two separate 21-year water exchange agreements in March and April 2026, respectively, with Western MWD and Eastern MWD in Riverside County. The Western agreement commits 10,000 acre-feet annually at $1,304 per acre-foot – a price that exceeds CWA's own QSA supply cost of $1,050 per acre-foot and escalates at 4.0% annually. The agreement also includes an upfront pre-purchase of 30,000 acre-feet generating approximately $39.1 million in near-term revenue. The Eastern agreement, similarly, ramps up to a commitment of 10,000 acre-feet annually over 21 years at $1,350 per acre-foot and includes an advance purchase of approximately 30,000 acre-feet for roughly $19 million, with total revenue estimated at approximately $74 million over the first five years. Additional exchange agreements are reportedly in negotiation. Taken together, these transactions represent the first concrete showing of CWA's ability to convert surplus QSA obligations – costs that would otherwise be absorbed as ratepayer losses – into a net revenue stream. Whether the exchange program can be executed at sufficient scale to meaningfully offset the structural imbalance documented in this review remains an open question.

- Bureau of Reclamation MOU
  CWA's Board approved a Memorandum of Understanding in February 2026 with the United States Bureau of Reclamation and other Colorado River parties to explore an interstate exchange framework that could deliver CWA's desalinated supplies to Arizona and Nevada – potentially opening new long-term revenue markets beyond Southern California.

- Business Model Review Process
  CWA initiated a structured Business Model Review Process in early 2026 involving its management team and member agency general managers, focused on evaluating financial, governance, and cost allocation reforms. The process is in its early stages with no final recommendations to date.

8. Change is Needed

CWA's structural challenges – fiscal and governance – warrant potential consideration of restructuring options ranging from internal reforms to more fundamental organizational changes. Relative to its oversight role, LAFCO believes three reorganization concepts have sufficient merit to warrant full evaluation should circumstances require. These concepts would include an analysis of cost, legal, operational, equity, and affordability impacts, and assess whether restructuring can address CWA's and the region's wholesale water service challenges, improve service, and reduce costs. The concepts and their potential benefits are summarized below with complementary context footnoted.[7]

- Evolve to Subregions | Dissolve CWA and concurrently form two or more new subregional wholesale agencies as designated successors that proportionally assume CWA's assets and liabilities. This option recognizes CWA encompasses communities with divergent water supply profiles that could benefit from tailored supply portfolios and rate structures – including debt service – matched to common member needs rather than blending across dissimilar service conditions.

- Reset to Regional Conveyance Role | Dissolve CWA and concurrently form a new regional water conveyance special district with treatment and storage duties as a limited successor agency to hold MWD membership, billing duties, and maintenance responsibilities; MWD would assume lead successor role for CWA's assets and liabilities. This option effectively reverses CWA's post-1991 transformation from pass-through agency to independent supplier, returning wholesale supply decisions to MWD.

- Enhance CWA to Assume Retail Operations | Reorganize and expand CWA to operate as both wholesaler and retailer, allowing the agency to assume – gradually or otherwise – full control of potable water management across the region. This option consolidates the fragmented retail landscape under unified regional management, eliminating duplicative administrative costs, optimizing treatment and distribution infrastructure regionwide, and better aligning rate structures.

[7] LAFCO may initiate changes to a special district – including formation, dissolution, consolidation, or merger – under statute. However, initiating a special district dissolution and subsequent reorganization, as described in the three concepts above, must be supported by the recommendations of a municipal service review. Actual LAFCO approval of a self-initiated action must address certain factors under Government Code Section 56881, including whether public services can be provided more efficiently and at less cost.

9. Measured Pause

   Given the magnitude and positivity of recent changes – new leadership, MWD settlement, and CWA's execution of long-term water transfer agreements – it is appropriate to allow current internal reforms time to demonstrate effectiveness before committing resources to explore fundamental organizational alternatives. LAFCO should prepare an addendum to this municipal service review within 24 months to update the Commission on CWA's progress and assess whether proceeding with a full evaluation of organizational restructuring may be warranted – which may ultimately include initiating actions as authorized by the Legislature and subject to voter confirmation.

4.2 Recommendations

The following recommendations identify priority actions and policy directions for San Diego LAFCO, CWA, and/or its member agencies. Recommendations for LAFCO action are dependent on subsequent directives from the Commission through the annually adopted work plan.

1. It is recommended CWA explore reforms with its member agencies to better align its weighted voting structure with current financial responsibilities, particularly as roll-offs widen the gap between decision-making authority and the agencies bearing financial consequences.

2. It is recommended CWA explore support among its member agencies to propose a special property tax to provide supplemental fixed revenues, helping ease pressures on all ratepayers while also creating capacity for rate relief programs.

   a. CWA is almost entirely reliant on local water rate increases to fund continually increasing costs. Several water districts in Southern California have an Ad Valorem Property tax to pay for costs associated with the State Water Project, and some districts, including MWD, utilize property taxes to repay their own general obligation bonds. CWA is limited in its revenue sources, increasing reliance on variable ratepayer revenue and preventing CWA from providing special rates for agriculture and/or disadvantaged communities.

3. Recent public representations by CWA officials have suggested the City of San Diego revisit and defer full implementation of its Pure Water Program. LAFCO does not share this view. It is recommended CWA support the full implementation of both Phase I and Phase II, recognizing the program's significant public benefits for regional water resilience and long-term affordability.

    a. Potable reuse advances San Diego's commitment to treating wastewater to the highest practicable standard before it reaches the Pacific Ocean – an obligation underscored by the ongoing public health and environmental crisis in the Tijuana River watershed. Whatever its cross-border origins, that crisis illustrates the costs borne by coastal communities when wastewater treatment falls short. The lesson argues for greater ambition in San Diego's own program, not less.

4. It is recommended CWA and MWD proactively explore partnership opportunities to advance long-term water reliability, financial stability, and operational efficiency for the benefit of the Southern California region specific to potable reuse.

5. It is recommended the City of San Diego review its appointment and governance practices for its ten CWA Board representatives to better align their actions with the policy direction of the Mayor and City Council.

    a. Unlike other CWA member agencies – where board representatives also govern their own water districts and bear direct accountability for CWA decisions affecting their ratepayers – San Diego's representatives operate without a comparable alignment structure. This has led to misalignment with the City's Public Utilities Department and its governing body (the City Council) on rates, infrastructure costs, and key policy direction throughout and post the 15-year reporting period. This is not without precedent: the City of Los Angeles maintains a separately appointed board overseeing its Department of Water and Power, whose members also represent the City at MWD. A comparable structure in San Diego would address the existing misalignment and improve governance predictability for both the City and CWA as a whole.

    b. Further exacerbating this disconnect is the City's current bloc-voting policy. Under this policy, six of ten representatives can commit the City's entire 42% voting share – concentrating significant regional decision-making authority in appointees who, on multiple occasions, have taken positions at odds with the stated position of the City of San Diego's Public Utilities Department they

represent, its governing board (the City Council), and the Mayor. This includes key issues affecting the City's largest infrastructure project (Pure Water), its relationship with MWD, and rate-setting.

6. LAFCO should prepare an addendum to this municipal service review within 24 months to update the Commission on CWA's progress and assess whether proceeding with a full evaluation of organizational restructuring is warranted – which may ultimately include initiating actions as authorized by the Legislature.

7. Notwithstanding other recommendations, LAFCO should proceed with a sphere of influence update affirming CWA's existing designation with no changes.

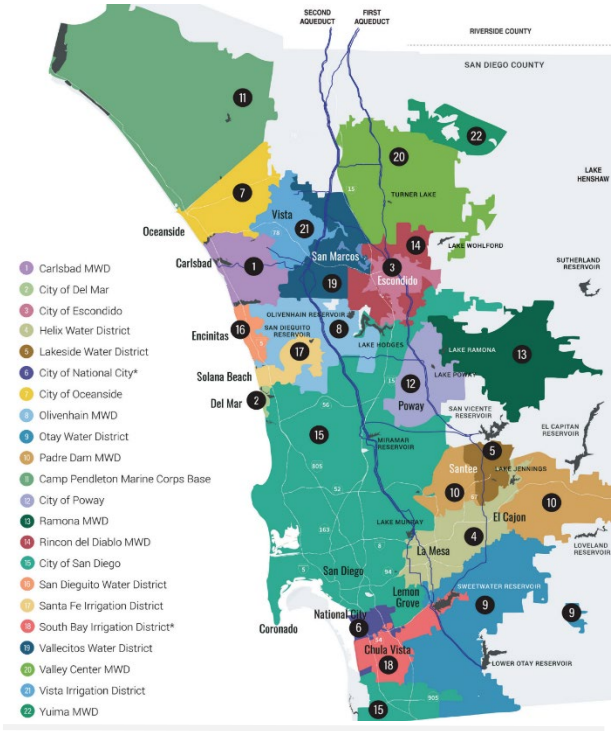
CHAPTER THREE | AGENCY PROFILE

A. SAN DIEGO COUNTY WATER AUTHORITY

1.0 OVERVIEW

The San Diego County Water Authority (CWA) is an independent district created under special legislation and approved by San Diego voters in June 1944. CWA was established to support the region's growing population and expanding military installations with the original expectation of administering the region's previously established water rights to the Colorado River and construct the infrastructure needed to import supplies to San Diego County. However, in lieu of constructing its own infrastructure, CWA negotiated an agreement to access the Colorado River as a member of the Metropolitan Water District (MWD) of Southern California. The agreement became effective in December 1946 with San Diego voters approving the annexation into MWD.

CWA Member Agencies



Map Provided by CWA

Operations at CWA remained relatively steady for its first 40 years as an explicit pass-through arm of MWD. However, a prolonged drought from the late 1980s into the early 1990s, coupled with concerns about worsening supply cuts to the San Diego region, prompted the CWA Board to fundamentally reshape the agency's business model. Most notably, the Board directed CWA's transformation into an independent supply agency – a strategic pivot that sparked ongoing litigation between CWA and MET throughout the 15-year reporting period (2009-2023).

CWA's transition into a water supply agency is marked by two consequential investments: a 2003 agreement with Imperial Irrigation District and a 2012 agreement with Channelside Water Resources (previously Poseidon Resources). These take-or-pay agreements collectively provide – and commit CWA to – 322,000 acre-feet of annual wholesale supplies for the next several decades.

During the reporting period closing in 2023, approximately 66% of CWA's wholesale water supplies tie directly to its take-or-pay contract with Imperial Irrigation District, which accesses grandfathered rights to the Colorado River via the Quantification Settlement Agreement (QSA). Another 11% of CWA's wholesale supplies during the period tie to its take-or-pay contract with Channelside Water Resources for the Carlsbad Desalination Plant. The remaining 23% of wholesale supplies tie to MWD and involve the Colorado River and Sacramento-San Joaquin Delta.[8] Overall, CWA has directly supplied slightly more than 82% of all water used by the member agencies during the period with local agency sources (runoff, groundwater, etc.) covering the remaining 18%.

Water Footprint…

Over the 15-year reporting period ending in 2023, CWA has been responsible for supplying slightly more than 82 out of every 100 gallons of water retailed by its member agencies.

Decision-making at CWA is delegated to a 34-member board of directors comprising appointees from all 22 local member agencies – six cities, five water districts, three irrigation districts, seven municipal water districts, and a military base (Camp Pendleton Marine Corps Base).[9] Appointees to the board serve two-year terms commencing on October 1st of each even-numbered year. Over the reporting period, CWA's day-to-day activities and its two active service functions – water (wholesale class) and hydroelectric power (wholesale class) – have been overseen by three General Managers: Maureen Stapleton through 2022, Sandra Kerl through 2023, and Dan Denham. Budgeted staffing has decreased by (15.1%) – or 44 – from 294 to 249 full-time positions over the same period.

Governance + Service Functions…

CWA is governed by a 34-member Board of Directors representing all 22 of its member agencies. The City of San Diego has the largest share of Board seats at 10, colloquially known as the "City 10." CWA is authorized to provide two municipal functions: water (wholesale (class) and hydrologic power (wholesale class)

[8] The Quantification Settlement Agreement (QSA) is a 2003 agreement between the State of California, the Imperial Irrigation District, and other water agencies that allocates Colorado River water and outlines conservation, transfer, and compensation measures to support regional water supply reliability in San Diego County.

[9] In 2023, the CWA's composition was adjusted following LAFCO's approval of the detachments of Fallbrook Public Utility District and Rainbow Municipal Water District, reducing the Board from 36 to 34 seats and the number of agencies from 24 to 22.

CWA uses a two-year budget process. Adopted expenses covering all activities – operations, debt service, and capital improvements – for the final two years of the reporting period (2022 and 2023) total $1.695 billion, or approximately $847 million annually. Actual expenses finished slightly under budget at $1.688 billion. Overall, actual total expenses through the reporting period have increased 20.0%, or approximately $281 million. This increase over the 15-year timeframe notably includes absorbing a much larger rise in water purchases, with these biennial actuals increasing from $532.8 million to $1.094 billion – a jump of $560.7 million, or 105.2%. The increase to CWA in water purchases has been passed on to member agencies with CWA using reserves to help smooth and soften rate increases. The cumulative result is rates for untreated water increasing from $598 to $1,579 per acre-foot between the start and close of the reporting period – a 164.0% increase.

CWA's Water Costs...

Water purchases represent CWA's largest budget commitment, accounting for two-thirds of total actual expenses during the 2022/2023 budget period – up from slightly more than one-third at the start of the 15-year reporting period. As a result, member agencies are paying $1,163 more per acre-foot of water than 15 years earlier.

The full-time population in CWA at the close of the reporting period is independently estimated by LAFCO at 3.151 million and includes 17 of the 18 incorporated cities; only Coronado is excluded. The 17 cities within CWA receive service either as direct member or through special district member agencies. The estimated change in population mirrors countywide trends with an overall increase of 217,133 full-time residents – or 15,510 annually and 42.5 daily – with a resulting annual growth rate of 0.53%. The estimated population is supported by 1.186 million housing units at period's end, translating to a housing-to-resident ratio of 1.0 unit for every 2.66 persons.

Population Footprint...

LAFCO estimates CWA's population at the end of the 15-year reporting period in 2023 has increased by 7% to 3.151 million – an amount equal to 96% of the entire estimated San Diego County population.

With respect to other material demographic features, the median household income across all CWA residents is estimated at $103,267 based on the current five-year period average. This estimate represents a sizeable increase of 31.0% over the starting period's five-year average, while also finishing well above the countywide average of $88,240. It is estimated CWA households spend approximately 28.0% of income just on rent or

mortgage payments at period's close. The estimated housing cost – rent or mortgage plus utilities – is adjusted by LAFCO to equal 30.0% of household income.[10] A recent countywide analysis – conducted by the Policy & Innovation Center on behalf of the County of San Diego's Land Use and Environment Group – further shows substantial variation in retail water costs, with single-person households paying between roughly $27 and $89 per month depending on their service provider.[11]

2.0 BOUNDARIES + RELATED CONSIDERATIONS

2.1 Jurisdictional Boundary

CWA's current jurisdictional boundary spans approximately 1,331 square miles across 852,171 acres. This equals 31.3% of all of San Diego County. Approximately one-third of the CWA's jurisdictional boundary is within incorporated territory (all cities except Coronado) and with the remaining overlaying unincorporated lands that are largely associated with establish census designated communities and headlined in size by Spring Valley, Rancho San Diego, and Lakeside.

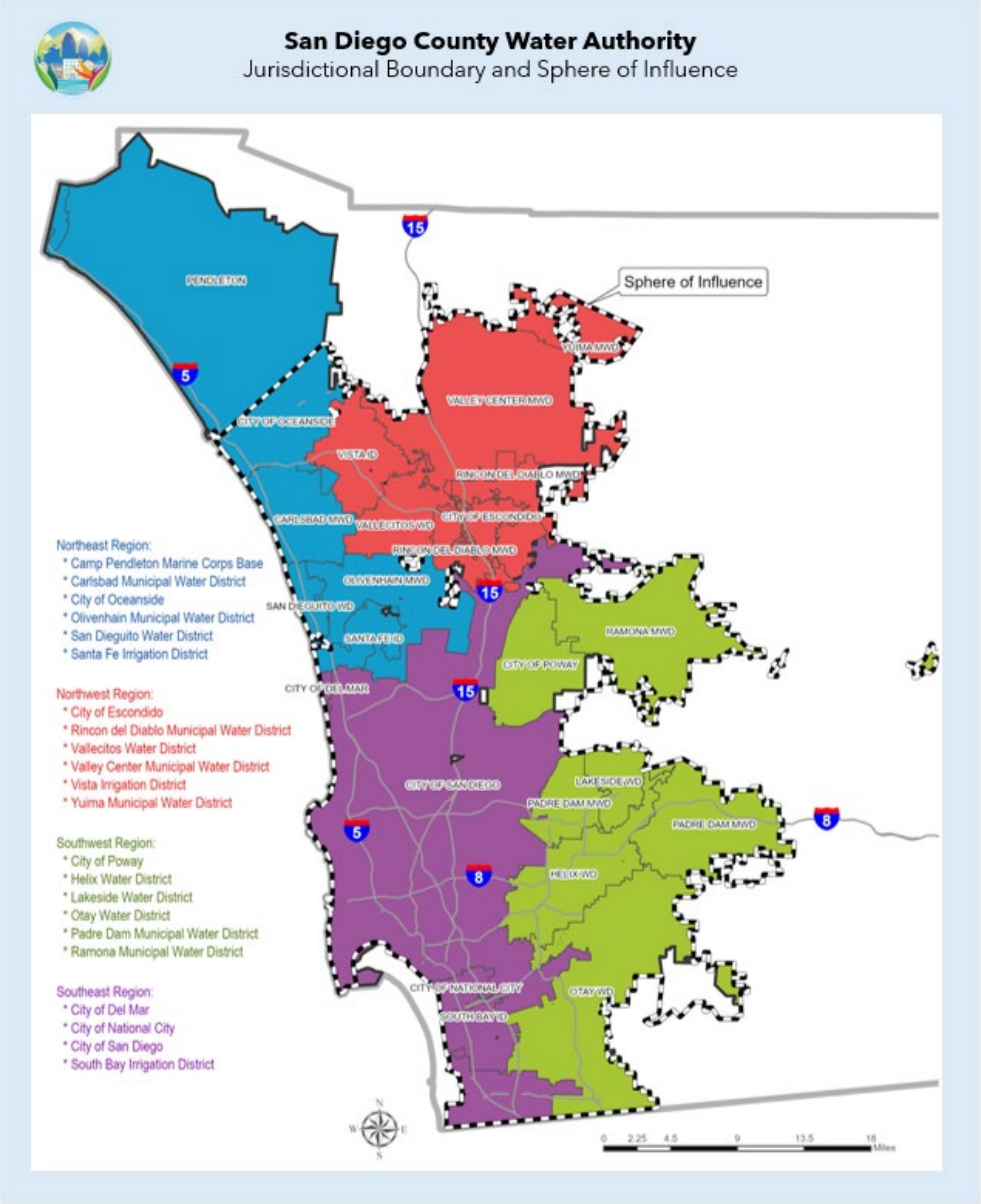
CWA's Physical Reach...
The jurisdictional boundary covers 1,330.7 square miles, or 852,171 acres – 31%. Roughly one-third of the boundary is within one of the 18 cities with the rest extending into unincorporated lands.

It is estimated CWA's jurisdictional boundary has expanded nearly nine-fold since its formation in 1944, growing from approximately 94,706 acres across nine original member agencies to 852,171 acres across 22 member agencies, with significant changes in membership over the years. This includes a recent 2023 detachment to remove close to 80,000 acres involving the jurisdictional boundaries of the Fallbrook Public Utility District and Rainbow Municipal Water District.

The total assessed value (land and structure) within the CWA has doubled during the 15-year report period from $347.9 billion to $698.8 billion. CWA's share of the 1.0% property tax collected is approximately 0.25% – or 25 cents for every $100 – and generated $15.7 million in 2023. A map showing the jurisdictional boundary follows.

Assessed Values' Doubling...
Assessed property values in the CWA have doubled during the 15-year report period ending in 2023. CWA's share of the 1% property tax (AB8) is .25% and generated $15.7 million in 2023.

[10] Utility costs are calculated by LAFCO based on multiplying the median monthly household income by 7.5%.
[11] Policy & Innovation Center (PIC).: PIC_Water-Affordability-in-San-Diego-County-1.pdf



CWA's jurisdictional boundary is currently divided into 1,012,773 assessor parcels spanning 777,301 acres. Approximately two-thirds – 67% – of the parcel acreage is within the unincorporated area.[12] Nearly all – 98.4% – of the parcel acreage within CWA falls under private ownership with most of this portion – 91% - having already been developed or improved to date based on Assessor Office records, albeit not necessarily at the highest

91% Developed...

More than nine-tenths of all privately owned acreage in the CWA's jurisdiction has been developed to date – though not necessarily at the highest density. The remaining 9% of private acreage remains undeveloped and totals 134,877 acres.

[12] The remaining 777,301 jurisdictional acres within the CWA consists of public rights-of-way and waterways.

density as allowed under local zoning. The remaining private acreage in CWA is undeveloped and consists of 93,164 vacant parcels that collectively total 134,877 acres. A summary of key boundary characteristics underlying the jurisdictional boundary follows.

San Diego CWA
Jurisdictional Boundary Characteristics
Table A – 2.1 | Source: County of San Diego + SD LAFCO

Total Jurisdictional Size	852,171 acres
Total Jurisdictional Parcels and Acreage	1,012,773 parcels totaling 777,301 acres
… Publicly Owned Parcels and Acreage	15,930 parcels totaling 183,167 acres
… Privately Owned Parcels and Acreage	996,843 parcels totaling 594,134 acres
… Undeveloped Privately-Owned Parcels and Acreage	109,094 parcels totaling 316,044 acres
Total Number of Registered Voters	1,851,910
Total Assessed Value (Land and Structures)	$698.4 billion

2.2 Sphere of Influence

CWA's sphere of influence was establishe d by LAFCO in May 2005 with a generally coterminous designation to match the spheres of the then-24 member agencies, except for Camp Pendleton. The sphere has been subsequently reviewed and affirmed by LAFCO in 2007 and 2013 as part of scheduled updates. Amendments to the sphere have separately been approved by LAFCO in coordination with enacting boundary changes involving CWA's member agencies. Most notably, this latter practice applied to a 2023 amendment to remove nearly 80,000 acres from the CWA sphere as part of a LAFCO-approved reorganization to detach the jurisdictional boundaries of Fallbrook PUD and Rainbow MWD. Other distinguishing features follow.

General Alignment with the Member Agencies…

LAFCO established CWA's sphere in May 2005 to match the member agency sphere designations except for U.S.M.C. Camp Pendleton. This orientation has held through subsequent updates and amendments – including the recent removal of Fallbrook and Rainbow communities in North County.

- No special study areas are assigned by LAFCO to the CWA sphere.
- Almost one-fifth - 17.2% - of the CWA sphere comprises lands qualifying under LAFCO adopted policy as disadvantaged unincorporated communities.

2.3 Relationship to Local General Plans

CWA's jurisdictional boundary covers 280,603 acres across 17 of the 18 incorporated cities with the remaining 571,568 acres within unincorporated San Diego County. (Only the City of Coronado lies outside the CWA boundary.) Each city, along with the County, has adopted a General Plan to guide land use within its jurisdiction. Consistent with State law, the General Plans serve as the core policy document for each land use authority, to guide and support their long-term growth and development vision. Milestone dates for each of the subject land use authorities follow.

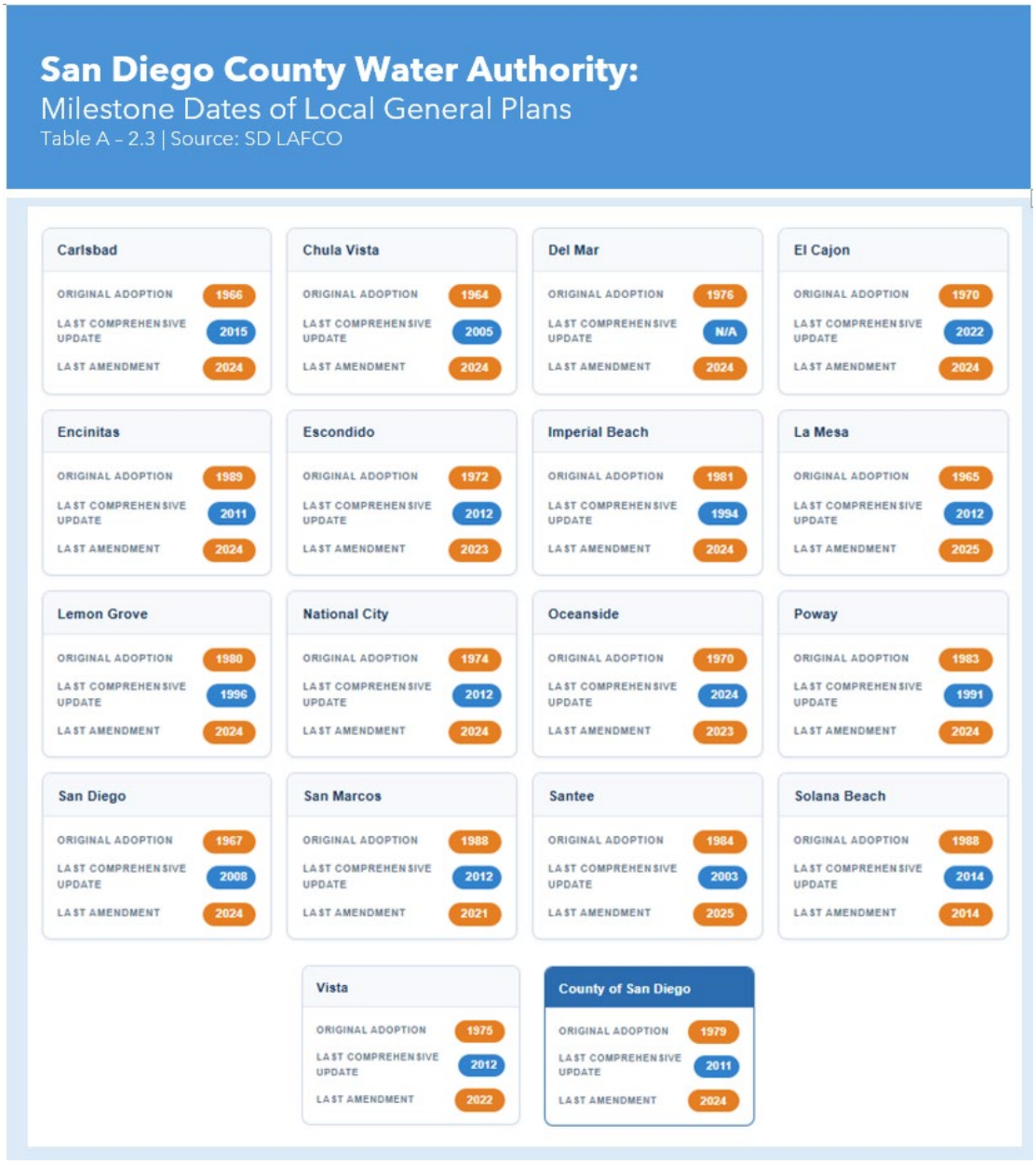


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2.4 College and School Districts within Boundaries

CWA's jurisdictional boundary and sphere of influence lie within the following 40 college and school districts divided by LAFCO into four geographic subregions: northwest, northeast, southwest, and southeast. (A summary of key characteristics for each of these districts is deferred to the individual Municipal Service Reviews of the member agencies.)

San Diego County Water Authority:
Local School and College Districts
Table A 2.4 | Source: SD LAFCO



3.0 DEMOGRAPHICS

3.1 Population and Housing

15k+ New Residents Yearly…

LAFCO estimates 3.151 million residents in CWA's jurisdictional boundary at the end of the 15-year reporting period in 2023. The period average annual gain is 15,510 new residents *despite* minimal gains over last few years (emphasis).

The total full-time resident population within CWA's jurisdictional boundary is independently estimated by LAFCO at 3.151 million at the end of the 15-year report period in 2023. This figure represents 95.5% of the countywide population total. The full-time population within CWA's jurisdiction is also estimated to have risen overall by approximately 7.4% from 2.933 million in 2009 – an average net annual gain of 15,510 residents or 0.53%. CWA's growth rate closely parallels the overall countywide average of 0.52%. Within this period, growth patterns show a significant separation between the two census periods: the years following 2010 grew at 0.65% annually while post-2020 growth effectively flatlined with the most recent annual change showing a net gain of only 157 residents (2022 to 2023).

As referenced in the preceding section and shown in the table below, LAFCO has organized CWA's jurisdictional boundary and the 22 member agencies into four subregions – northwest, northeast, southeast, and southwest. This application largely tracks with countywide practices to divide San Diego County into geographic quads based on unifying social and economic ties. These distinctions are evident in population and growth patterns over the 15-year reporting period shown and summarized below.

San Diego County Water Authority:
Population Estimates + Subregion Breakdowns
Table A - 3.1a | Source: Esri and San Diego LAFCO

Subregion	2009	2013	2018	2023	Net	Growth	Avg Annual 2009-2020	Avg Annual 2020-2023
Southwest	1,485,368	1,519,507	1,562,181	1,579,877	+94,509	6.4%	0.52%	0.01%
Southeast	653,354	676,697	705,876	716,925	+63,571	9.7%	0.80%	-0.03%
Northeast	391,231	403,280	418,342	426,989	+35,758	9.1%	0.69%	0.21%
Northwest	403,452	412,707	424,277	426,735	+23,283	5.8%	0.47%	-0.17%
CWA Total	2,933,389	3,012,175	3,110,658	3,150,522	+217,133	7.4%	0.62%	0.01%

Notes:
Southwest: City of San Diego, City of National City, City of Del Mar, + South Bay ID
Southeast: City of Poway, Otay WD, Helix WD, Padre Dam MWD, Lakeside WD, + Ramona MWD
Northeast: City of Escondido, Vista ID, Vallecitos WD, Valley Center MWD, Rincon del Diablo MWD, + Yuima MWD
Northwest: City of Oceanside, Carlsbad MWD, Olivenhain MWD, San Dieguito WD, Santa Fe ID, + Camp Pendleton

Illustration Done with Anthropic AI

- Southwest Subregion:
  City of Del Mar, City of San Diego, City of National City, + South Bay WD

  This subregion accounts for slightly more than one-half of CWA's estimated population at the end of the reporting period in 2023 at 1,579,877, or 50.2%. This subregion also added the most residents in absolute terms over the period at 94,509, though its 6.4% overall growth rate lagged behind the eastern regions. Post-2020 growth has been essentially flat.

- Southeast Subregion:
  City of Poway, Otay WD, Helix WD, Padre MWD, Lakeside WD, + Ramona MWD

  This subregion accounts for the second highest share within CWA with an estimated population at the end of the reporting period of 716,925, or 22.3%. This subregion experienced the largest overall growth rate at 9.7% with an overall net of 63,571 despite slightly negative year-to-year trends post-2020.

- Northeast Subregion:
  City of Escondido, Vista ID, Vallecitos WD, Valley Center MWD,
  Rincon del Diablo MWD, + Yuima MWD

  This subregion accounts for the third highest share within CWA with an estimated population at the end of the reporting period of 426,989, or 13.6%. This subregion experienced the second largest overall growth rate at 9.1% with an overall net of 35,758 and notably maintained the healthiest post-2020 trajectory – continuing to grow at 0.21% annually while others stagnated or declined.

- Northwest Subregion:
  City of Oceanside, Carlsbad MWD, Olivenhain MWD, San Dieguito WD,
  Santa Fe ID, + USMC Camp Pendleton

  This subregion accounts for the smallest share in CWA with an estimated population at the end of the reporting period of 426,735, or 13.5%. This subregion experienced the slowest overall growth rate at 5.8% with an overall net of 23,283. It also is the only showing post-2020 decline at (0.17%) annually.

Looking forward, should the growth rate track with the entirety of the 15-year reporting period, the full-time population within CWA is projected to reach 3.272 million by 2030 – a net addition of approximately 121,000 residents. Should the population stay consistent

with post 2020 estimates, the CWA population is projected to stay relatively flat and increase only to 3.153 million – a net addition of about 2,200 residents.

LAFCO estimates there are 1.186 million residential housing units throughout CWA's jurisdictional boundary in 2023, representing 95.2% of the countywide total. Volume of housing within CWA have increased by 87,395 units – an 8.0% net gain since 2009 – translating to an average annual increase of 6,243 units, or 0.57%. The overall resident-to-housing ratio at the period's close is 2.66-to-1. The average ratio during the reporting period is lower at 2.49-to-1, reflecting a 6.9% improvement in housing production relative to population growth. Other distinguishing features follow.

Housing Stock Improving, Relatively…

Housing production within CWA outpaced population growth during the 15-year reporting period ending in 2023 with a resident-to-housing ratio of 2.49-to-1 – a 7% improvement over the overall ratio of 2.66-to-1.

- Slightly more than one-half – 50.1% – of all housing units within CWA's jurisdiction are owner-occupied at the reporting period's close in 2023 with the balance comprising renter-occupied at 44.2% and vacant at 5.7%.

- Among occupied housing units within CWA, the average household size is 2.96 based on a five-year average at the close of the reporting period – a (1.6%) decrease from the start of the period, likely reflecting smaller households, aging in place, and housing affordability pressures.

- The mean housing cost for monthly mortgage and rent payments within CWA's jurisdiction is $2,410 based on a five-year average covering the close of the reporting period. This figure represents a 19.8% increase over the five-year average covering the start of the reporting period.

- Households in CWA's jurisdictional boundary are spending 28.0% of their income solely on rent or mortgage payments based on a five-year average covering the close of the reporting period. Adjusting for ancillary expenses (e.g., utilities), households' real housing costs are projected to equal 30.0% of monthly income.

A breakdown of housing units within CWA's four LAFCO-organized subregions follows.

San Diego County Water Authority:
Housing Unit Estimates + Subregion Breakdowns

Table A - 3.1b | Source: Esri and San Diego LAFCO

Subregion	2009	2013	2018	2023	Net	Growth	Avg Annual 2009-2020	Avg Annual 2020-2023
Southwest	575,916	589,621	606,752	624,561	+48,645	8.4%	0.59%	0.60%
Southeast	232,298	237,129	243,169	248,542	+16,244	7.0%	0.52%	0.40%
Northeast	134,179	137,630	141,943	146,429	+12,250	9.1%	0.64%	0.64%
Northwest	156,369	159,624	163,692	166,625	+10,256	6.6%	0.52%	0.26%
CWA Total	1,098,763	1,124,005	1,155,558	1,186,158	+87,395	8.0%	0.57%	0.51%

Notes:
Southwest: City of San Diego, City of National City, City of Del Mar, + South Bay ID
Southeast: City of Poway, Otay WD, Helix WD, Padre Dam MWD, Lakeside WD, + Ramona MWD
Northeast: City of Escondido, Vista ID, Vallecitos WD, Valley Center MWD, Rincon del Diablo MWD, + Yuima MWD
Northwest: City of Oceanside, Carlsbad MWD, Olivenhain MWD, San Dieguito WD, Santa Fe ID, + Camp Pendleton

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- Southwest Subregion:
  City of Del Mar, City of San Diego, City of National City, + South Bay WD

  This subregion accounts for more than one-half – 52.7% - of all housing units within CWA at the end of the reporting period in 2023 at 624,561. The subregion added the most units in absolute terms over the 15-year period at 48,645, and its 8.5% overall growth rate outpaced its corresponding population growth of 6.4%. It is the only subregion experiencing an increase in annual growth post-2020.

- Southeast Subregion:
  City of Poway, Otay WD, Helix WD, Padre MWD, Lakeside WD, + Ramona MWD

  This subregion accounts for the second highest share of housing units within CWA with 248,542 – 21.0% - at the end of the reporting period. The subregion added 16,244 units with an overall growth rate of 7.0%, which falls under its corresponding population growth rate of 9.7%. The subregion also experienced a substantive drop-off in the annual rate of new housing units post-2020.

- Northeast Subregion:
  City of Escondido, Vista ID, Vallecitos WD, Valley Center MWD, Rincon del Diablo MWD, + Yuima MWD

  This subregion accounts for the third highest share of housing units within CWA with 146,429 – 12.3% – at the end of the reporting period. The subregion experienced the strongest housing growth rate at 9.1% with an overall net of 12,250 units: an amount matching its corresponding population growth. The subregion maintained the same growth rate pre- and post-2020.

- Northwest Subregion:
  City of Oceanside, Carlsbad MWD, Olivenhain MWD, San Dieguito WD, Santa Fe ID, + Camp Pendleton

  This subregion accounts for the smallest share of housing units in CWA with 166,625 units – 14.0% - at the end of the reporting period. The subregion experienced the slowest overall growth rate of the four at 6.6%, producing a net addition of 10,256 new units. The subregion also experienced the sharpest falloff in new units post-2020, although it remained in positive territory unlike population.

3.2 Age Distribution

The median age of residents within CWA's jurisdictional boundary is 37.3 based on a five-year average covering the close of the reporting period. This jurisdictional-wide amount reflects an increase of 4.8% from 35.6 over the five-year average covering the start of the reporting period. Residents in the prime working age group defined as ages 25 to 64 – and the primary tax-generating income group – make up nearly one-half of CWA's population at 48.6% and has generally held throughout the reporting period. Within the four subregions, the southwest has experienced the sharpest aging trend by rising 6.5% while the northwest remains the youngest by far at 30.3. The northwest also distinguishes itself with its percentage of prime working age residents at 37.9% while the other three are all above 51.4%.

Greying Continues, Albeit Unevenly…

The median age within CWA is 37.3 based on a five-year average covering the end of the reporting period – a 5% increase from the starting period. All four subregions experienced increases in median age, though a notable east-west divergence persists: the western subregions (northwest at 30.3, southwest at 37.1) remain substantively younger than their eastern counterparts (northeast and southeast both at 41.6).

San Diego County Water Authority:
Median Age + Prime Working Age
Table A - 3.2a | Source: Esri and San Diego LAFCO

Median Age					
Period	**Northwest**	**Northeast**	**Southeast**	**Southwest**	**CWA Total**
2007-2011 Avg	28.7	40.1	40.2	34.8	**35.6**
2012-2016 Avg	29.6	40.5	41.8	35.8	**36.6**
2017-2021 Avg	30.3	41.6	41.6	37.1	**37.3**
Trend	+5.4%	+3.7%	+3.5%	+6.5%	**+4.7%**

Prime Working Age (25-64) as % of Population					
Period	**Northwest**	**Northeast**	**Southeast**	**Southwest**	**CWA Total**
2007-2011 Avg	37.4%	53.5%	54.4%	51.0%	**48.8%**
2012-2016 Avg	37.2%	52.6%	53.8%	50.8%	**48.3%**
2017-2021 Avg	37.9%	52.7%	53.6%	51.4%	**48.6%**
Trend	+1.4%	-1.7%	-1.5%	+0.7%	**-0.5%**

Notes:
Southwest: City of San Diego, City of National City, City of Del Mar, + South Bay ID
Southeast: City of Poway, Otay WD, Helix WD, Padre Dam MWD, Lakeside WD, + Ramona MWD
Northeast: City of Escondido, Vista ID, Vallecitos WD, Valley Center MWD, Rincon del Diablo MWD, + Yuima MWD
Northwest: City of Oceanside, Carlsbad MWD, Olivenhain MWD, San Dieguito WD, Santa Fe ID, + Camp Pendleton

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3.3 Income Characteristics

The median household income within CWA's jurisdictional boundary is $103,267 based on a five-year average covering the close of the reporting period – a 31.0% increase compared to the starting period. This amount is separately higher than the countywide average of $88,240. Income gains have also outpaced housing cost increases, which have risen 21.3% to $2,410, though both measures fall short of regional inflation at 49.4%.[13] The poverty rate is also trending positively across CWA by falling (14.7%) over the period. Within the four subregions, the southeast leads with the highest median income at $113,047 and lowest poverty rate at 7.1%. Northwest – despite strong income gains of 33.0% – remains lowest at $88,561 with the second

Outpacing the Average, Trailing Inflation…

Median household income within CWA has increased over the 15-year reporting period by 31% to $103,267 – exceeding the countywide average of $88,240) and outpacing housing cost increases at 21.3%. However, gains still fall short of regional inflation at 49% over the same period

[13] The inflation rate for the San Diego region, based on the Consumer Price Index, was 49.4% between 2008 (CPI: 242.31) and 2023 (CPI: 362.02). This equates to an average annual inflation rate of approximately 2.73% over the 15-year period.

highest poverty rate (8.7%). Southwest showed the most improvement in poverty reduction by dropping 20.2% to 8.9%.

San Diego County Water Authority:
Median Income + Poverty Rates
Table A - 3.3a | Source: Esri and San Diego LAFCO

Median Household Income					
Period	**Northwest**	**Northeast**	**Southeast**	**Southwest**	**CWA Total**
2007-2011 Avg	$66,580	$74,039	$89,861	$83,205	**$78,838**
2012-2016 Avg	$64,828	$76,531	$90,446	$86,042	**$79,781**
2017-2021 Avg	$88,561	$103,446	$113,047	$107,870	**$103,267**
Trend	+33.0%	+39.7%	+25.8%	+29.6%	**+31.0%**

Poverty Rate (%)					
Period	**Northwest**	**Northeast**	**Southeast**	**Southwest**	**CWA Total**
2007-2011 Avg	10.6%	9.5%	7.4%	11.1%	**9.7%**
2012-2016 Avg	9.2%	9.4%	8.4%	10.4%	**9.9%**
2017-2021 Avg	8.7%	8.4%	7.1%	8.9%	**8.3%**
Trend	-17.8%	-11.7%	-4.3%	-20.2%	**-14.7%**

Notes:
Southwest: City of San Diego, City of National City, City of Del Mar, + South Bay ID
Southeast: City of Poway, Otay WD, Helix WD, Padre Dam MWD, Lakeside WD, + Ramona MWD
Northeast: City of Escondido, Vista ID, Vallecitos WD, Valley Center MWD, Rincon del Diablo MWD, + Yuima MWD
Northwest: City of Oceanside, Carlsbad MWD, Olivenhain MWD, San Dieguito WD, Santa Fe ID, + Camp Pendleton

Illustration Done with Anthropic AI

3.4 Others: Unemployment and More

Other material socioeconomic indicators show unemployment within CWA's jurisdctional boundary is 7.4% based on a five-year average covering the close of the reporting period. This figure reflects a 60.9% increase from the five-year average covering the start of the period and triple the rate of increase for all of San Diego County; the county as a whole finished lower at 6.6%. A similarly notable shift involves the share of residents in CWA collecting retirement income, which rose 37.3% and in doing so closing an earlier gap to now match the countywide rate of 21%. Within the subregions, a pronounced east–west divide shows. The two eastern subregions report higher

Uneven Returns…
Unemployment within CWA rose 61% through the 15-year reporting period – more than triple the countywide acceleration. The increase appears largely driven by a regional outlier: unemployment in the Northwest jumped 261% while the next highest subregion increased just 44%.

proportions of retirement-income households – 27% to 28% – paired with comparatively lower college attainment levels of 34% to 35%. In contrast, the southwest subregion leads in educational attainment at 48.6%. Northwest's unemployment increase of 260.9% warrants particular attention.

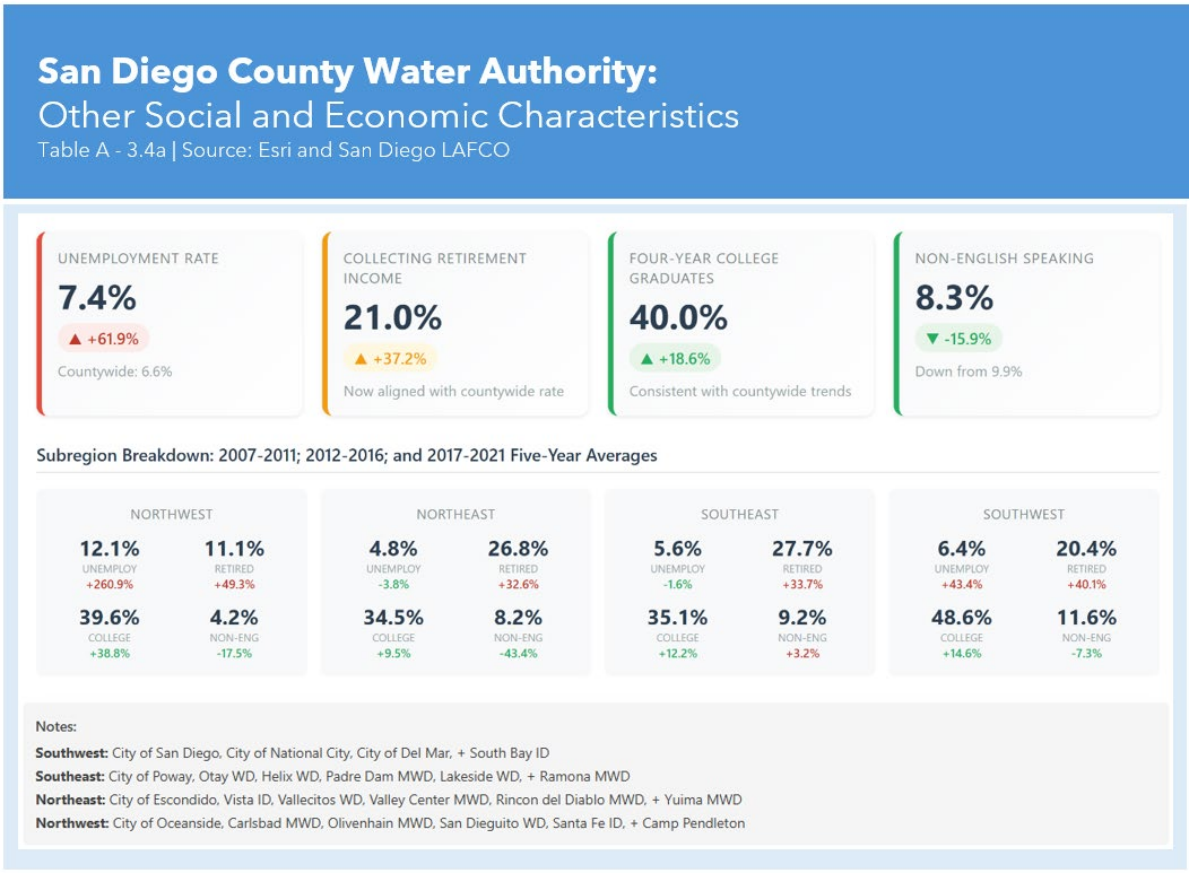


Illustration Done with Anthropic AI

3.5 Unhoused Demographics

All 17 cities within the CWA jurisdictional boundary actively participate in the annual point-in-time count of individuals experiencing homelessness, administered by the region's Continuum of Care (CoC) provider – the San Diego Regional Task Force on Homelessness (RTFH). Counts performed during the 15-year reporting period cover 2011 to 2023. These counts show an average year homeless count of about 8,800 individuals. (Earlier counts are not available.) The total number of counted homeless at

Homeless Rates Outpacing Population Growth…

Homelessness within San Diego County's core urban areas – and by extension in the CWA boundary – has grown at nearly twice the rate of overall population growth, reaching 10,264 individuals in 2023.

the end of the period in 2023 is 10,264 and reflects a rise of 13.8% since 2011 – or an average annual increase of 1.1% and double the pace of overall population growth. The 2023 count shows half – or 5,171 – of homeless are unsheltered and residing in cars, public places, or the street. The remaining 5,093 reside in some type of managed setting, such as an emergency shelter, homeless shelter, or transitional housing.

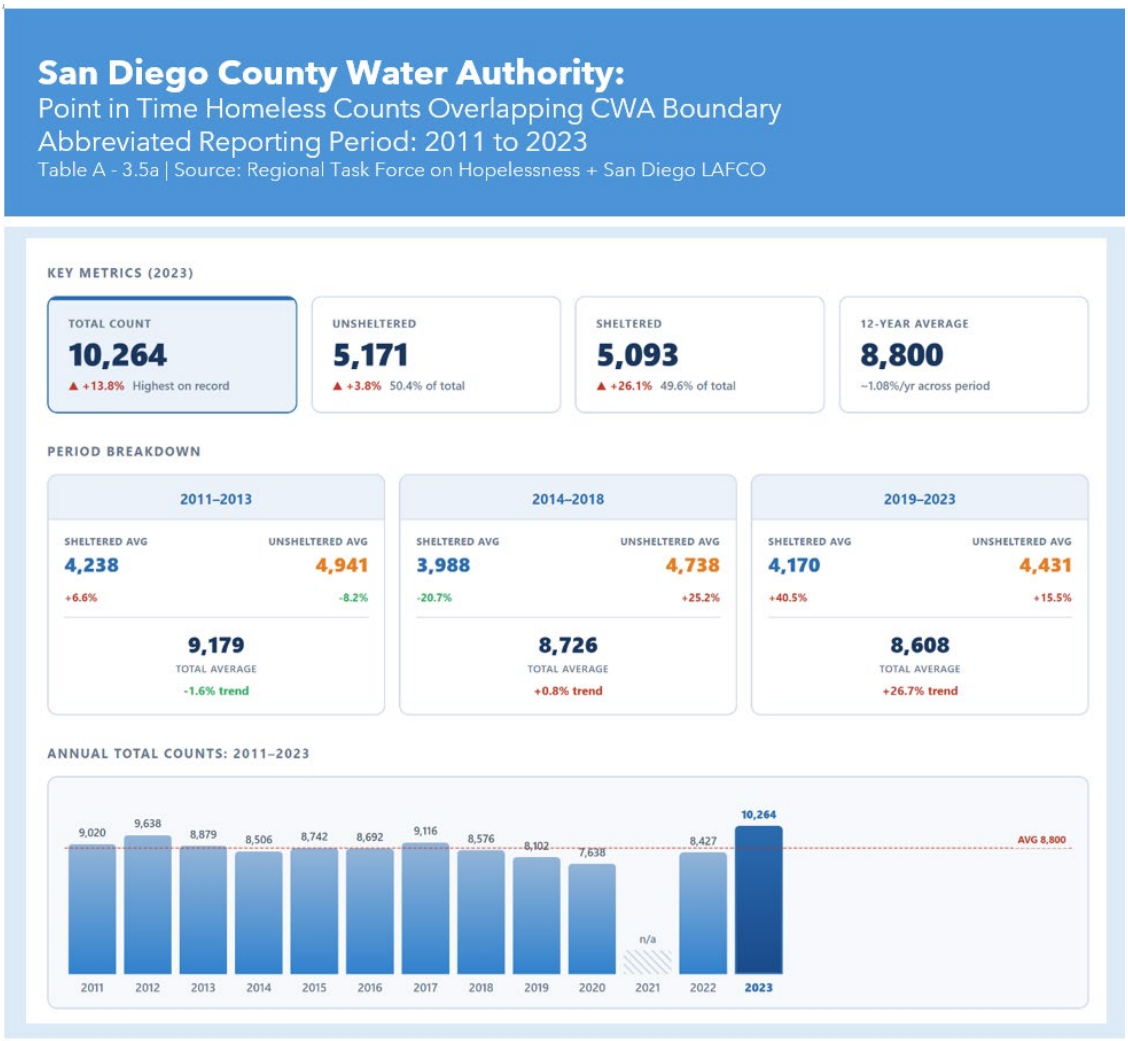


Illustration Done with Anthropic AI

Within CWA's jurisdctional boundary, the city member agencies collaborate with local nonprofit organizations that deliver a range of homeless support services within their respective incorporated limits. These services commonly include emergency shelter as well as supplemental support such as

More Capacity than Need...

At the end of the reporting period in 2023, there is a surplus of more than 8,00 beds relative to the number of counted homeless individuals in the CWA service area.

substance use treatment, mental health care, and family crisis counseling.[14] At the close of the reporting period in 2023, the region reports 18,268 shelter beds – including emergency, transitional, and safe-haven facilities – exceeding the total number of individuals experiencing homelessness by 8,004 beds. A more focused review of homeless counts and related capacity issues is deferred to a planned white paper.

3.6 Environmental Justice

State law directs LAFCO to address several factors whenever the Commission considers jurisdictional changes, including environmental justice. This factor was added to statute beginning January 1, 2008 and is defined to mean "the fair treatment of people of all races, cultures, and incomes with respect to the location of public facilities and the provision of public services." LAFCO adopted a local policy in 2022 to formally guide its consideration of environmental justice, which includes proactively incorporating the topic – and specifically pollution burdens and their economic impacts – into the municipal service review program as a placeholder for additional analysis as needed.

As part of a macro-level assessment, consideration of environmental justice factors within CWA and its four LAFCO-organized subregion draws on staff analyzing data available from the California Environmental Protection Agency through its online assessment tool (CalEnviroScreen 4.0).[15] Two percentile rankings are generated within this analysis and based on developing a weighted calculation involving census tracts covering CWA as well as overlapping adjacent areas. These rankings focus on two core dimensions: pollution burdens, which capture exposures and environmental effects, and at-risk population characteristics, which capture sensitive groups and socioeconomic factors.

Measuring EJ: State's Two-Factor Test…

LAFCO's consideration of environmental justice factors draws from the California EPA and includes percentile rankings within CWA and its four LAFCO-organized subregions relative to all jurisdictions in California. These rankings address two core dimensions: (a) pollution burdens and (b) at-risk population characteristics.

[14] State law requires all municipalities allow for the operation of emergency shelters.
[15] *The full CalEnviroScreen 4.0 report is available at:* https://oehha.ca.gov/calenviroscreen/report/calenviroscreen-40

With respect to analyzing the scores and assigning value, CalEnviroScreen combines multiple indicators into an overall percentile score, where higher scores reflect greater pollution and vulnerability. Census tracts scoring at or above the 75th percentile are considered "disadvantaged communities" under State law and receive priority for environmental justice programs, policies, and funding.

75th Percentile Threshold…

Census tracts scoring at or above the 75th percentile are considered "disadvantaged communities" under State law and receive priority for environmental justice programs, policies, and funding

CWA's overall weighted scores place its jurisdictional boundary in the 38th percentile for pollution burdens and the 25th percentile for at-risk population characteristics, indicating residents as a whole face lower-than-average environmental justice concerns relative to California statewide. The highest individual indicator for CWA is impaired water bodies with a population burden percentile of 57; all other pollution burden indicators and at-risk population characteristics fall below the 50th percentile.

San Diego County Water Authority:
Overall Pollution Burden + At-Risk Population Characteristics
Table A - 3.6a | Source: CalEnviroScreen 4.0 + San Diego LAFCO



Illustration Done with Anthropic AI

While the composite scores reflect favorable conditions across the CWA jurisdiction as a whole, a closer examination of LAFCO's four-organized subregions reveals localized census tracts where pollution burdens and population vulnerabilities concentrate at levels warranting focused attention. Most notably, 50 census tracts within CWA fall at or above the 75 percentile and meet the disadvantaged community threshold, including areas in the cities of San Diego, Chula Vista, El Cajon, Lemon Grove, and National City. A summary of composite percentile rankings for pollution burdens and at-risk population characteristics within each subregion follows.

Northwest (Estimated Population: 426,735)

CWA Agencies: Camp Pendelton, City of Oceanside, Carlsbad MWD, San Dieguito WD, Olivenhain MWD, and Santa Fe ID

The northwest's composite pollution burden and at-risk population rankings fall at 39 and 19 percentiles, respectively, respectively, relative to the entire state. None of the 81 census tracts in the subregion have composite scores of 75 or higher. The two highest composite scoring tracts are in Oceanside with percentile scores of 71. Composite scores aside, the subregion shows localized pollution concerns within 31 individual tracts related to surface water quality, hazardous waste, and groundwater contamination risks. Information on these tracts follow.

- Nineteen (19) census tracts score at or above the 90th percentile for impaired water bodies in Carlsbad, Encinitas, Oceanside, Vista, and adjacent unincorporated areas.[16]

- Nine census tracts score at or above the 90th percentile for hazardous waste facilities or generators in Carlsbad, Oceanside, Vista, and adjacent unincorporated areas.[17]

- Three census tracts score at or above the 90th percentile for groundwater threats in Oceanside, Encinitas, and adjacent unincorporated areas.

[16] Six of the census tracts are also included in the Northeast region.
[17] Three of the census tracts are also included in the Northeast region.

Northeast (Estimated Population: 426,989)

CWA Agencies: Yuima MWD, Valley Center MWD, Vista ID, Vallecitos WD, City of Escondido, and Rincon del Diablo MWD

The northeast's composite pollution burden and at-risk population rankings fall at 32 and 34 percentiles, respectively, compared to the entire state. None of the 83 census tracts in the subregion have composite scores of 75 or higher. The two highest scoring census tracts are in Escondido with overall percentile scores of 61 and 65. Composite scores aside, the subregion faces localized concerns within 40 individual tracts related to surface water quality, pesticide exposure, drinking water safety, and hazardous waste activity. Information on these tracts follow.

- Twenty nine (29) census tracts score at or above the 90th percentile in Escondido, Vista, Carlsbad, and unincorporated areas for impaired water bodies.[18]

- Four census tracts score at or above the 90th percentile in Carlsbad and adjacent unincorporated areas in pesticide use, reflecting exposure risks in communities near agricultural fields. [19]

- Two census tracts score at or above the 90th percentile in Valley Center and Pala for drinking water contaminants.

- Five census tracts score at or above the 90th percentile in Vista, Oceanside, Carlsbad, and adjacent unincorporated areas for hazardous waste facilities and generators. [20]

Southwest (Estimated Population: 1,5789,877)

CWA Agencies: Cities of Del Mar, San Diego, and National City, + South Bay WD

The southwest's composite pollution burden and sensitive population rankings fall at 41 and 19 percentiles, respectively, relative to the entire state. Forty-four (44) of the 352 census tracts have composite scores of 75 or higher and are considered disadvantaged communities. These are located in San Diego (28), National City (8), and Chula Vista (8). The disadvantaged tracts generally rank high in diesel particulate matter, traffic impacts, children's lead risk from housing, hazardous waste facilities and generators, and impaired water bodies, as well as in asthma rates, unemployment,

[18] Six of these census tracts are also included in the Northwest region.
[19] One of the census tracts is also included in the Northwest region.
[20] Three of these census tracts are also included in the Northwest region.

poverty, housing-burdened households, and lower levels of educational attainment. Composite scores aside, the subregion faces more localized concerns within 198 individual tracts related to air pollution, water quality, and hazardous waste exposure. Information on these tracts follow.

- 109 tracts, primarily in San Diego, with additional tracts in National City (2), Poway (1), and unincorporated areas (4), score at or above the 90th percentile for impaired water bodies. [21]

- Forty-nine (49) tracts, mostly in San Diego with some in National City and Chula Vista, score at or above the 90th percentile for diesel particulate matter. [22]

- Forty (40) tracts, predominantly in San Diego with some in Chula Vista, National City, and Coronado, score at or above the 90th percentile for hazardous waste facilities and generators.

Southeast (Estimated Population: 716,925)

CWA Member Agencies: Otay WD, Helix WD, Padre Dam MWD, Lakeside WD, Ramona MWD, and City of Poway

The southeast's composite pollution burden and sensitive population rankings fall at 33 and 37 percentiles, respectively, relative to the entire state. Eight (8) of the 154 census tracts have composite scores of 75 or higher and are considered disadvantaged communities. These are located in El Cajon (4), Lemon Grove (2), Chula Vista (1), and San Diego (1). These tracts generally rank high for diesel particulate matter, groundwater threats, and hazardous waste facilities, and show elevated rates of low birth weight, unemployment, poverty, and housing burden.[23] Composite scores aside, the subregion faces more localized concerns within 39 individual tracts related to surface water quality, solid waste, and groundwater contamination. Information on these tracts follow.

- Nineteen (19) tracts in San Diego, Lemon Grove, Poway, and unincorporated areas score at or above the 90th percentile for impaired water bodies. [24]

[21] Eight of these census tracts are also included in the Southeast region.
[22] One of these census tracts is also included in the Southeast region.
[23] One tract in Chula Vista and one in San Diego also overlap with the Southwest region.
[24] Eight of these census tracts are also included in the Southwest region.

- Fourteen (14) tracts in Chula Vista, El Cajon, Lemon Grove, San Diego, and unincorporated areas score at or above the 90th percentile for solid waste sites/facilities. [25]

- Six tracts in Lemon Grove, Chula Vista, El Cajon, and La Mesa score at or above the 90th percentile for groundwater threats.

A summary comparison of composite pollution and at-risk population burden rankings in the four subregions follow with more detailed information provided as an appendix.

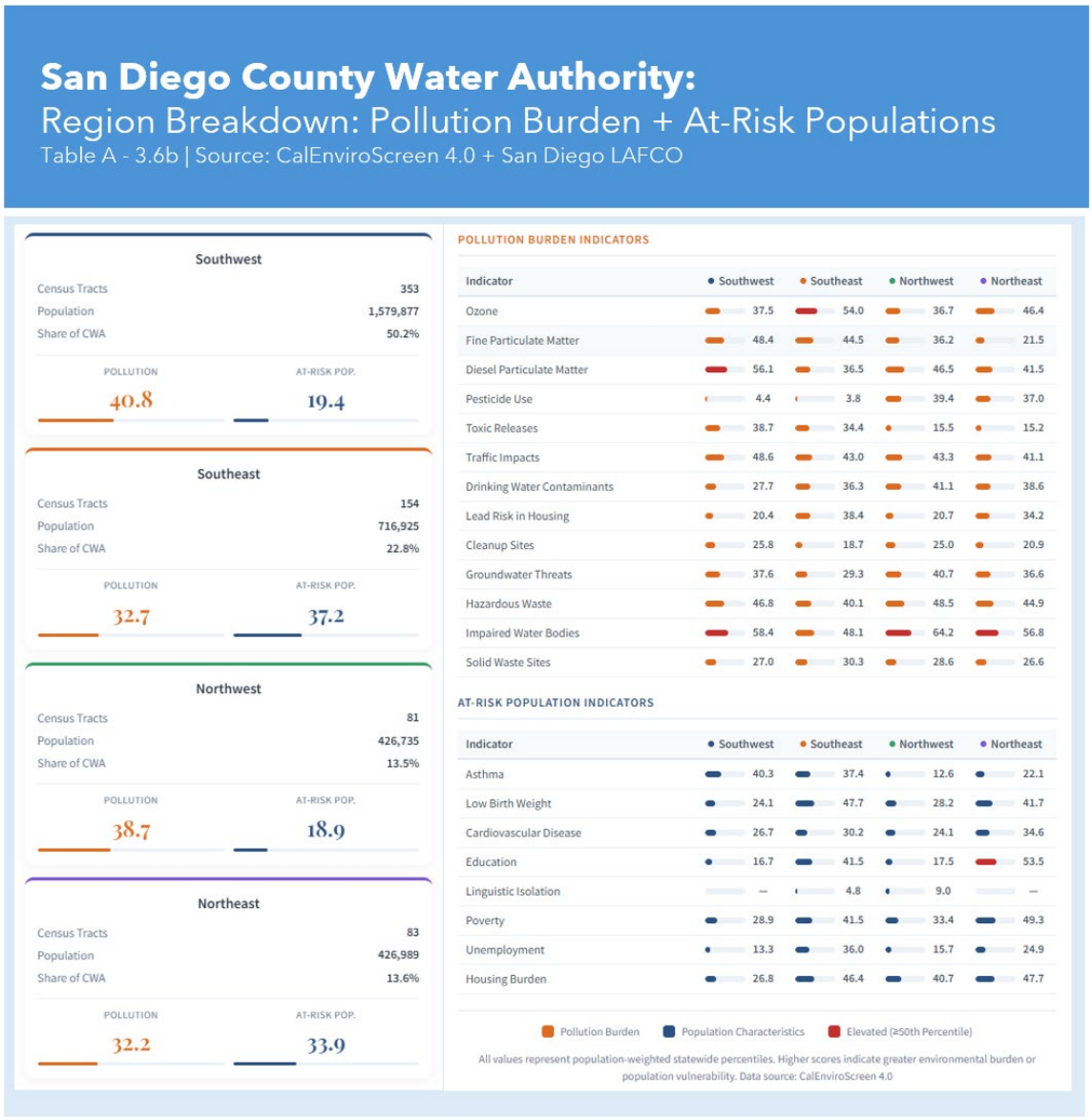


Illustration Done with Anthropic AI

[25] Five of these census tracts are also included in the Southwest region.

As noted above, five cities – Chula Vista, El Cajon, Lemon Grove, National City, and San Diego – within CWA's jurisdictional boundary contain disadvantaged communities as defined by CalEnviroScreen 4.0. Most, but not all, of the cities have adopted environmental justice elements as summarized below.[26]

- Chula Vista – Adopted an Environmental Chapter within its General Plan addressing environmental justice concerns in December 2005. The Element includes policies related to equitable land use planning, distribution of public facilities and services, overconcentration of industrial uses, and promotion of transit-oriented development.

- El Cajon – Adopted an Environmental Justice Element in July 2021. The Element identifies two CalEnviroScreen-designated and nine additional low-income communities. It includes health indicator analysis and establishes policies to reduce disproportionate impacts, ensure equitable siting of public facilities, and promote environmental justice principles.

- Lemon Grove – Its 1996 General Plan does not address environmental justice.

- National City – Adopted a Health and Environmental Justice Element as part of its General Plan in January 2012. The Element identifies public health risks and environmental justice concerns and establishes policies to improve air quality, promote physical activity, expand access to healthy food and health care, eliminate health risks from contaminants such as lead paint, facilitate meaningful public involvement, and integrate environmental justice into land and facility planning.

- San Diego – Adopted a comprehensive Environmental Justice Element in July 2024. The Element identifies environmental justice communities using four datasets, including CalEnviroScreen 4.0, and establishes goals, policies, and actions related to inclusive public engagement, pollution exposure and air quality, active recreation, healthy food access, safe and healthy housing, climate change and resilience, and equitable public facilities and infrastructure.

Additional considerations of environmental justice factors can be found by analyzing elements from the Climate Action Plan's (CAP) of the jurisdictions that overlap the CWA

[26] Local governments with disadvantaged communities are required to include environmental justice elements in their general plans. These elements must include policies to reduce pollution exposure, improve access to public facilities and healthy housing, promote civic engagement, and prioritize programs addressing the needs of disadvantaged communities.

jurisdictional boundary. A CAP serves as a jurisdictions roadmap to reducing greenhouse gas (GHG) emissions and generally include the following three components.

- A baseline GHG emissions inventory and projected future emissions
- Future GHG emissions targets
- A set of strategies to meet the selected targets.

Among the 17 cities within CWA's jurisdictional boundary, 15 have adopted CAPs. with the exceptions being El Cajon and Poway. The County has also adopted a CAP. While the structure and content of CAPs vary by jurisdiction, they typically include strategies in the following key areas: energy and buildings, water and wastewater, solid waste, transportation and land use, and agriculture and forestry. Most acknowledge climate change can disproportionally harm disadvantaged, low-income, and vulnerable communities. As shown below, most CAPs also contain measures that address environmental justice.

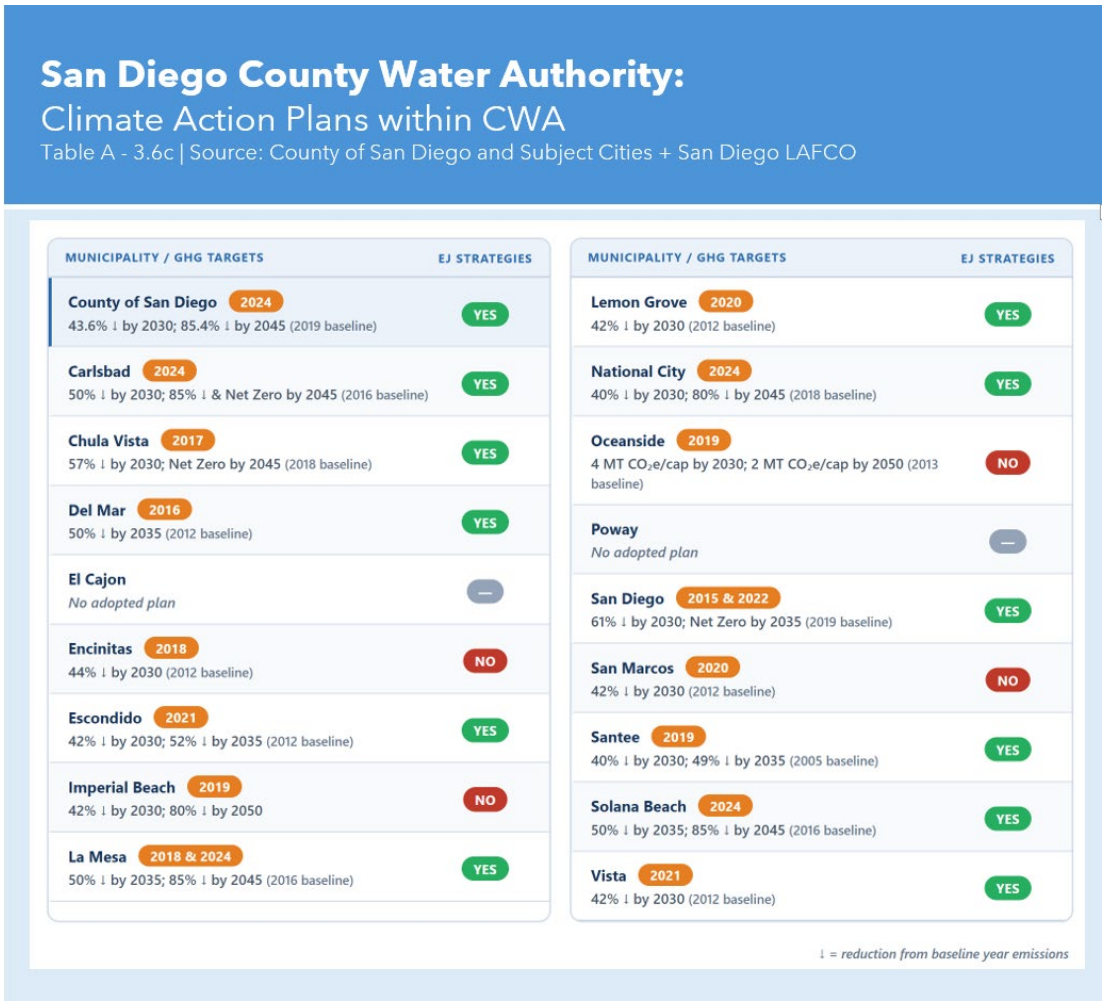


Illustration Done with Anthropic AI

CWA adopted its own CAP in June 2020, establishing a greenhouse gas reduction target consistent with the statewide goal of 40% below 1990 levels by 2030. The CAP outlines strategies to reduce the agency's operational emissions through:

- Electricity emissions – increasing the use of renewable energy sources.
- Vehicle emissions – improving efficiency of Water Authority fleet vehicles and reducing carbon intensity of employee and fleet transportation.
- Customer water demand – expanding water conservation programs to lower overall water-related emissions.

4.0 ORGANIZATION

4.1 Board of Directors

CWA was formed as an independent special district with powers established under special legislation – the "CWA Act" – and confirmed by voters in June 1944. CWA's nine charter members included the Cities of Chula Vista, Coronado, National City, Oceanside, and San Diego as well as the Fallbrook Public Utility District, Lakeside Irrigation District, Ramona Irrigation District, and the La Mesa, Lemon Grove, and Spring Valley Irrigation Districts. Initial governance expectations for CWA focused on overseeing operations to secure access to Colorado River water rights held by the County of San Diego and the City of San Diego to support the region's growing population and expanding military installations. However, rather than constructing its own conveyance infrastructure, CWA negotiated an agreement to access Colorado River supplies as a member of MWD beginning in 1946. This arrangement – and its associated governance implications – remained in place until the 1990s, when CWA transitioned away from its role as an exclusive MWD transportation agent and began developing its own water supply portfolio, as further detailed in Section 5.0.

CWA is currently authorized under both its special legislation and LAFCO statute to provide two active municipal functions – water service (wholesale class only) and hydroelectric power generation (wholesale class only). Governance is vested in a 34-member Board of Directors, consisting of at least one director from each of the 22 current agencies. A 35th non-voting member is also part of the governance structure and represents the County of San Diego.

Decision-Making at CWA…

Governance is provided by a 34-member Board of Directors, including at least one director from each of the 22 member agencies. The Board establishes policies, with decision-making authority distributed among agencies based on their financial contributions. A 23rd agency – County of San Diego – is a non-voting member.

CWA's 34-member Board establishes and administers policies, while an appointed General Manager oversees day-to-day operations in support of the Board's policies and Strategic Plan. Board representation is based on assessed property valuation with each member agency entitled to one seat for every 5% share of the total valuation in the CWA jurisdictional boundary. Voting is done on a weighted system and based on each member agency's cumulative financial contributions to CWA since its formation.[27] Under this system, each Director receives one vote for every $5 million (or major fraction) contributed to date, with totals recalculated annually on January 1 based on the previous fiscal year. At the end of the 15-year reporting period in 2023, the City of San Diego has the largest vote share at CWA with 39.9% following by Helix WD at 6.6%.

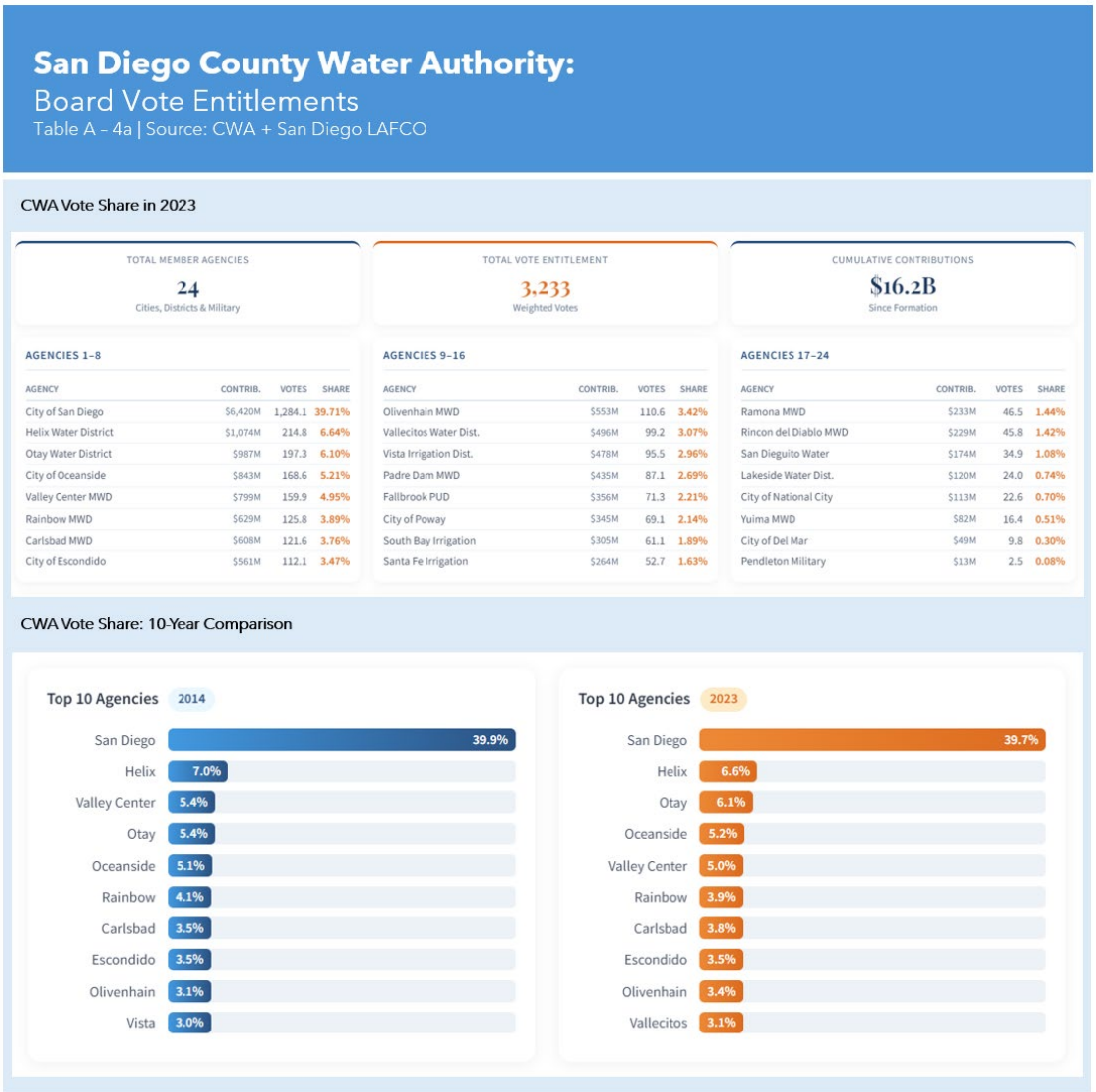


Illustration Done with Anthropic AI

[27] "Total financial contribution" includes all taxes, assessments, fees, and charges paid to the authority for property within member agency boundaries, as determined by the Board at the end of each fiscal year. It also includes amounts paid to the Metropolitan Water District of Southern California for property within member agency boundaries, excluding treatment costs.

Note | Subsequent to the close of the 2023 reporting period, the redistribution of voting entitlements resulting from the detachments of Fallbrook PUD and Rainbow MWD led – among other effects – to an increase in the City of San Diego's voting share to 42.9 percent.

CWA's Board of Directors hold regular meetings typically on the fourth Thursday of each month, with the exception of November and December. Meetings are conducted in the Board Room of the CWA Headquarters Building, located at 4677 Overland Avenue in San Diego (Kearny Mesa). Board meetings are streamed live and may be accessed through CWA's website (sdcwa.org). Board members do not receive compensation – whether in the form of per diems, stipends, or other payments – from CWA; instead, members may receive compensation from their respective appointing authorities. The table below presents the current CWA roster and summarizes their respective backgrounds.

San Diego County Water Authority:
Current Board of Director Roster
Table A – 4b | Source: CWA + San Diego LAFCO

34 BOARD MEMBERS	23 MEMBER AGENCIES	4.6 AVG. YEARS SERVED
Nick Serrano, Chair City of San Diego *Deputy Chief of Staff* — 4	**Frank Hilliker, Vice Chair** Lakeside WD *Agricultural Producer* — 18	**Joy Lyndes, Secretary** San Dieguito WD *Landscape Architect* — 3
Burt Williams Camp Pendleton *Engineer & Veteran* — <1	**Teresa Acosta** Carlsbad MWD *Small Business Owner* — 2	**Amanda Flesse** Carlsbad MWD *Civil Engineer* — 1
Mel Katz City of Del Mar *Business Owner* — 7	**Rick Paul** City of Escondido *Businessman* — 1	**Ditas Yamane** City of National City *Real Estate Broker* — 3
Lindsay Leahy City of Oceanside *Professional Engineer* — 3	**Eric Heidemann** City of Poway *Public Works Director* — 5	**Ismahan Abdullahi** City of San Diego *Community Affairs Dir.* — 5
Jimmy Ayala City of San Diego *Non-Profit Director* — 1	**Jerry Butkiewicz** City of San Diego *Labor Union Rep.* — 9	**Lois Fong-Sakai** City of San Diego *Civil Engineer* — 11
Valentine Macedo Jr. City of San Diego *Labor Union Rep.* — 3	**Jim Madaffer** City of San Diego *Policy & Agriculture* — 13	**Venus Molina** City of San Diego *Chief of Staff* — 1
Stephen Whitburn City of San Diego *Councilmember* — 2	Vacant City of San Diego — —	**Kathleen Hedberg** Helix WD *Civil Engineer* — 1
Joel Scalzitti Helix WD *Business Owner* — 8	**Neal Meyers** Olivenhain MWD *Attorney* — 2	**Francisco Rivera** Otay WD *Retired Fire Chief* — <1
Mark Robak Otay WD *Commercial Broker* — 1	**Rocky Qualin** Padre Dam MWD *Banking/Insurance Exec.* — 1	**Princess Norman** Ramona MWD *Retired IT Program Mgr.* — 1
Evan Wahl Rincon MWD *Military + Pharma* — 1	**Dana Friehauf** Santa Fe ID *Civil Engineer* — 1	**Steve Castaneda** South Bay Water *Land Use Consulting* — 3
Jennifer Kerschbaum Vallecitos WD *Civil Engineer* — <1	**Gary Arant** Valley Center MWD *District General Mgr.* — 20	**Marty Miller** Vista ID *Business Owner* — 14
Amy Reeh Yuima MWD *District General Mgr.* — 6		

Leadership Board Member Years shown indicate tenure on CWA Board

Illustration Done with Anthropic AI

4.2 Board Committees

CWA utilizes six standing committees to help inform decision-making on topics of elevated interest to the agency. Each Committee receives its appointments from the Chair with consultation from the other two Board officers – Vice-Chair and Secretary. Each committee is assigned 14 regular voting members with the exception of the Audit Committee which is limited to five members.

The Administrative & Finance Committee has been the most active of CWA's standing committees, convening 207 meetings during the 15-year reporting period ending in 2023. The next most active committees – Water Planning and Engineering & Operations – each have held approximately 200 meetings. Two additional committees, Imported Water and Legislation & Public Outreach, convened at least 188 meetings each during the period.[28]

Most Active Committees…

CWA's Administrative & Finance Committee has been the most active standing committee by holding an average of 14 meetings annually during the 15-year report period. The next two most active committees – Water Planning and Engineering & Operations – both met an average of 13 times a year.

Standing Committees

Administrative & Finance Committee | Provides advisory recommendations to the Board on administrative, finance, and general business operation matters – including rates, fees, charges, and human resources. This Committee has held 207 meetings during the review period for an annual average of 14 meetings a year.

Audit Committee | Provides advisory recommendations to the Board on the selection of the independent auditor, the audit contract, annual or supplemental audits, and on any recommendations or communications made by the outside auditor. This Committee has held a total of 49 meetings during the review period for an annual average of 3 meetings a year.

Engineering & Operations Committee | Provides advisory recommendations to the Board on matters related to design, construction, replacement, maintenance and operation of facilities, property and equipment including the CWA's Capital Improvement Program (CIP). This Committee has held a total of 198 meetings during the review period for an annual average of 13 meetings a year.

[28] Additional details on each standing committees' rules and responsibilities are available within the CWA's Administrative Code (Sections 2.00.060 and 2.00.066).

Imported Water Committee | Provides advisory recommendations to the Board on navigating matters related to imported water supply, including issues with MET, the Colorado River, QSA Water, and other concerns involving water sourced outside the San Diego region. This Committee has held a total of 195 meetings during the review period for an annual average of 13 meetings a year.

Legislation & Public Outreach Committee | Provides advisory recommendations to the Board on community and governmental affairs including legislation, community relations, media relations, and outreach programs. This Committee has held a total of 188 meetings during the review period for an annual average of 13 meetings a year.

Water Planning & Environmental Committee | Provides advisory recommendations to the Board on matters related to local water supply and development efforts, including shortage allocation, water supply forecasting, seawater desalination, water reclamation and conservation, environmental management, and urban water management plans. This Committee has held a total of 201 meetings during the review period for an annual average of 13 meetings a year.

4.3 Administration

The CWA Board of Directors makes two at-will appointments to oversee agency activities: General Manager and General Counsel.

- The current General Manager – Dan Denham – was appointed in late 2023 and previously served as the Deputy General Manager. During the fifteen-year review period ending in 2023, the CWA has had two other individuals serve as General Managers: Maureen Stapleton (1995–2019) and Sandra L. Kerl (2019-2023).

- The current General Counsel – David J. Edwards – was appointed in late 2022 and previously served with a public agency in the Los Angeles region. Two others have served in the position during the reporting period: Dan Hentschke (1998-2015) and Mark Hattam (2016 to 2022).[29]

CWA's organizational structure is divided into 10 departments: Administrative Services Engineering, Finance, General Manager's Office, General Counsel's Office, Human Resources, Imported Water, Operations and Maintenance, Public Affairs, and Water

[29] Annual salary compensation for the General Manager and General Counsel at the end of the reporting period in 2023 is $345,000 and $315,000, respectively (source: Transparent California).

Resources. All heads report to the General Manager except for the General Counsel. CWA's total number of budgeted positions at the end of the report period in 2023 is 249.5 full-time equivalent employees – the lowest tally over the preceding 15-year span. The overall change in budgeted positions across the period has been (15.1%).

San Diego County Water Authority:
Budgeted Staffing Levels
Table A – 4.3a | Source: CWA + San Diego LAFCO

FY 2009 STAFFING	FY 2023 STAFFING	TOTAL CHANGE	PERCENT CHANGE
294.0	249.5	-44.5	-15.1%

Metric	FY 2009	FY 2023	Change
Budgeted Staffing (FTE)	294.0	249.5	-44.5 (-15.1%)
Staffing Per 1,000 Residents	0.26	0.26	0.00 (0.0%)



Illustration Done with Anthropic AI

5.0 MUNICIPAL SERVICE FUNCTIONS

CWA currently provides two active municipal functions as defined by LAFCO – water (wholesale class only) and hydroelectric power, gas, and electric generation (wholesale class). This report and its analysis focuses only on CWA's water service function consistent with the scope of work authorized by the Executive Officer. A brief summary of CWA's hydroelectric energy services is footnoted with a more complete evaluation deferred to future study.[30]

Two Active Service Functions...

This MSR focuses on the CWA's primary municipal function – water service, and provided as Appendix A. Its second municipal function – hydroelectric power, gas, and electric generation - is excluded in the analysis and will be deferred and evaluated as part of a future study.

5.1 Water Service

A detailed analysis of CWA's wholesale water service function is provided as an appendix. The analysis has been prepared by the Commission's contracted consultant and water economist, Dr. Michael Hanemann.

6.0 FINANCES

6.1 Budget and Implementation

CWA's average two-year adopted budget total covering all operating and non-operating expenses during the 15-year reporting period ending in 2023 is $1.568 billion – or $784 million split between the two years. The closing-year budget covering the last two years (2022 and 2023) totals $1.694 billion and 8.0% above the period average and reflects an overall change of 14.8%. Throughout the reporting period, the single largest budgeted expense category has been water supply purchases and treatment for subsequent resale by CWA's member agencies. This

Game Planning Expenses...

CWA's average two-year adopted budget covering both operating and non-operating activities during the 15-year reporting period has been $1.568 billion. The largest planned expense has been water purchases, which accounts for slightly more than half allocations over the period and up to two-thirds at the period's close.

[30] CWA began selling electricity in 1985 with the construction of its first two hydroelectric facilities. Since that time, the District has constructed two additional hydroelectric facilities and received a Boulder Canyon Project (Hoover Dam) federal power allocation. With these hydroelectric resources, the CWA sold electricity at wholesale to private corporations and provided electricity to San Diego Gas & Electric through the Renewable Energy Self-Generation Bill Credit Transfer tariff. CWD currently sells electricity at wholesale on the California Independent System Operator (CAISO) market and to Clean Energy Alliance, one of San Diego County's Community Choice Aggregators. CWA's electricity sales methods have evolved over the years to maximize revenue and cost savings opportunities while minimizing contracting risk and water operation impacts.

largely fixed cost – driven by take-or-pay agreements with Imperial Irrigation District and Channelside Water – accounts for 55.3% of total planned expenditures over the period, rising to 65.5% by the close. The next largest category involves capital improvement projects, accounting for 18.7% of all planned expenditures, falling to 10.1% by the close.

A breakdown of total budgeted biennial costs over the reporting period follows.

San Diego County Water Authority:
Total Budgeted Expenses
Table A – 6.1a | Source: CWA + San Diego LAFCO

Fund Category	FY08-09	FY10-11	FY12-13	FY14-15	FY16-17	FY18-19	FY20-21	FY22-23	Avg.	Trend
Water Purchases	539,934	747,082	688,013	816,339	933,515	1,029,543	1,078,463	1,110,422	867,914	105.7%
CIP Expenditures	618,639	555,700	321,129	259,602	136,825	118,618	162,222	170,381	292,890	(72.5%)
Debt Service	200,836	240,008	280,394	281,531	282,804	280,945	297,432	256,064	265,002	27.5%
QSA Mitigation	24,893	22,792	12,461	16,417	24,011	18,829	4,711	5,891	16,251	(76.3%)
Operating Departments	84,909	94,451	87,715	92,570	94,143	103,202	108,503	113,407	97,363	33.6%
Hodges Pump Storage	-	-	6,052	4,133	4,204	-	-	-	3,597	-
Equipment Replacement	3,616	3,805	1,220	3,103	4,219	4,855	6,024	4,907	3,969	35.7%
Grant Expenditures	-	-	-	-	18,108	27,135	26,323	29,003	25,142	60.2%
Other Expenditures	2,287	30,646	20,449	20,900	1,000	1,000	3,888	3,423	10,449	49.7%
Total ($ Billions)	1.475	1.695	1.417	1.495	1.499	1.584	1.688	1.694	1.568	14.8%

Illustration Done with Anthropic AI

Note | Figures reflect CWA's Multi-Year Budgets.

Transitioning towards implementation, CWA's average actual two-year expense covering all operating and non-operating activities during the reporting period has been $1.439 billion – or $719.5 million split between the two years. The closing-year actual covering the last two years (2022 and 2023) totals $1.688 billion and 17.4% above the period average and reflects an overall change of 20.0%. Overall, CWA's actuals have produced a favorable average period annual variance of 8.3% and translates to an biennial

Expense Outcomes: 8.3% Favorable Variance Rate…

CWA's average actual biennial expenditures for operating and non-operating activities over the 15-year reporting period is $1.439 billion, reflecting a favorable variance of 8.3% relative to adopted allocations. Actuals have come in under budget every single period – often by substantial margins – with CIP deferrals representing the most consistent and significant source of savings.

budget savings of $129.7 million. The variance gap, however, has been increasingly narrowing – most notably within operating departments where the average variance rate has dropped from 7.2% during the first half of the reporting period to just 1.0% in the second half, reflecting a significant reduction in budgetary cushion.

A breakdown of actual biennial costs over the reporting period follows.

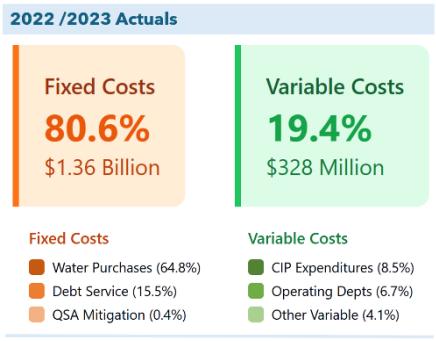
San Diego County Water Authority:
Total Actual Expenses
Table A - 6.1b | Source: CWA + San Diego LAFCO

Fund Category	FY08-09	FY10-11	FY12-13	FY14-15	FY16-17	FY18-19	FY20-21	FY22-23	Avg.	Trend
Water Purchases	532,769	566,485	683,705	833,738	889,767	892,553	964,147	1,093,504	807,084	105.2%
CIP Expenditures	556,634	350,701	241,118	187,131	146,661	131,713	108,603	144,346	233,363	(74.1%)
Debt Service	197,861	220,750	265,395	270,743	271,561	292,624	266,846	261,554	255,917	32.2%
QSA Mitigation	24,336	22,792	12,461	16,417	24,011	18,829	4,711	5,933	16,186	(75.6%)
Operating Departments	79,602	80,774	82,042	91,095	94,396	96,277	111,956	112,727	93,609	41.6%
Hodges Pump Storage	-	-	1,716	-	-	-	-	-	429	-
Equipment Replacement	3,282	2,820	1,189	2,987	4,029	3,775	3,089	3,022	3,024	(7.9%)
Grant Expenditures	-	-	-	11,671	20,712	19,485	16,556	15,261	13,948	30.8%
Other Expenditures	12,020	9,463	10,050	-	11,079	3,830	50,769	52,103	18,664	333.5%
Total ($ Billions)	**1.407**	**1.254**	**1.298**	**1.414**	**1.462**	**1.459**	**1.527**	**1.688**	**1.439**	**20.0%**

Illustration Done with Anthropic AI

Note | Figures reflect CWA's Multi-Year Budgets.

An analysis of CWA's actual expenses by cost type shows a pronounced 27-percentage-point swing during the reporting period to the detriment of budget flexibility. Fixed costs have increased from 53.7% to 80.6% of actual expenditures, with water purchases under take-or-pay agreements driving the rise – increasing on their own by 105.2%. Variable expenses have concurrently decreased from 46.3% to 19.4% with capital improvement projects declining on their own (74.1%).



CWA's budgeted revenues covering all operating and non-operating resources have aligned with expense totals throughout the 15-year reporting period, averaging $1.568 billion biennially and reaching $1.694 billion at the close (2022/2023). Water sales to member agencies account for the largest share of biennial budgeted revenues with an average of $1.105 billion, or 70.4% of total sources, with the period closing are CWA's infrastructure access charges, which has averaged $63.1 million biennially – 4.0% of total – and reached $95.0 million at the period's close. Reserve withdrawals constitute the primary balancing mechanism, averaging $250.3 million – or 16.0% of total sources – and enable CWA to adopt balanced budgets throughout the 15-year period. A breakdown of budgeted biennial revenues over the reporting period follows.

Game Planning Revenues...

CWA's adopted revenues have matched expenses throughout the 15-year reporting period ending in 2023 with a biennial average of $1.568 billion. Reserve withdrawals serve as a primary balancing tool – averaging $250.3 million – or 16.0% - of total planned resources.

San Diego County Water Authority:
Total Budgeted Revenues
Table A – 6.1c | Source: CWA + San Diego LAFCO

Revenue Category	FY08-09	FY10-11	FY12-13	FY14-15	FY16-17	FY18-19	FY20-21	FY22-23	Avg.	Trend
Gross Water Sales	706,753	964,292	943,802	1,106,664	1,162,792	1,302,329	1,306,919	1,343,494	1,104,631	90.1%
Infrastructure Access Charge	37,614	45,551	56,978	59,054	61,295	67,991	81,656	94,955	63,137	152.4%
Property Taxes & In-Lieu	17,702	20,846	21,078	22,320	23,400	25,361	28,304	32,361	23,922	82.8%
Investment Income	57,334	26,876	13,002	12,715	9,233	10,422	11,501	5,652	18,342	(90.1%)
Hydroelectric Revenue	4,348	2,613	1,800	5,440	7,000	7,106	7,350	5,772	5,179	32.8%
Grant Reimbursement	-	-	-	-	16,708	26,635	27,327	28,717	24,847	71.9%
Build America Bond Subsidy	-	-	-	-	20,978	22,606	21,104	21,317	21,501	1.6%
Other	3,203	30,867	43,609	43,506	523	985	2,528	3,658	16,110	14.2%
Capacity Charges	69,038	12,400	21,365	29,784	30,500	33,424	33,220	34,186	32,990	(50.5%)
Water Standby Charges	22,344	22,245	22,233	22,549	22,500	22,245	22,221	22,400	22,342	0.3%
Contributions in Aid of CIP	9,138	22,143	8,220	15,860	3,668	1,683	1,855	1,612	8,022	(82.4%)
Subtotal Revenues	927,474	1,147,833	1,132,087	1,317,892	1,358,597	1,520,787	1,543,985	1,594,124	1,317,847	71.9%
Fund Balance Withdrawals	547,640	546,651	285,347	176,703	140,231	63,341	143,581	99,372	250,358	(81.9%)
Total ($ Billions)	1.475	1.694	1.417	1.495	1.499	1.584	1.688	1.694	1.568	14.8%

Illustration Done with Anthropic AI

Note | Figures reflect CWA's Two-Year Budgets.

CWA's average actual biennial revenue covering all operating and non-operating activities during the reporting period matches expenses at $1.439 billion – or $719.5 million split between the two years. Excluding reserve withdrawals, actual revenues have increased 79.4% from $907.8 million to $1.629 billion, aided directly by continual rate increases to member agencies. Water sales closed the period accounting for $0.79 of every $1.00 in collected revenues (less reserve withdrawals), reflecting a period increase of 83.9% – from $703.4 million to $1.293 billion. Water sales also involve the lone notable variance during the period relative to budgeted amounts by generating a persistent shortfall – biennial averages of (5.3%) and ($58.4 million).

As Goes Water Sales...

Approximately 70% of CWA's actual revenue during the 15-year reporting period has come from a single source: water sales to member agencies – rising to 80% by the close of the period. Water sales also involve the lone notable variance during the period with actuals falling short of budgeted amounts in six of eight biennial budgets cycles.

A breakdown of actual biennial revenues over the reporting period follows.

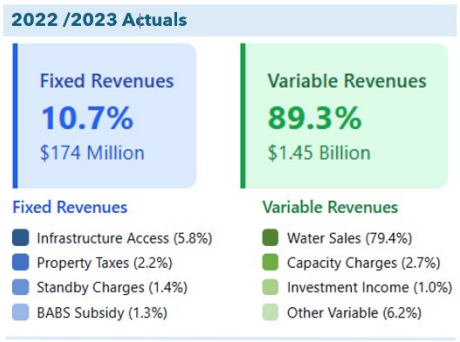
San Diego County Water Authority:
Total Actual Revenues
Table A – 6.1d | Source: CWA + San Diego LAFCO

Revenue Category	FY08-09	FY10-11	FY12-13	FY14-15	FY16-17	FY18-19	FY20-21	FY22-23	Avg.	Trend
Gross Water Sales	703,407	770,793	966,803	1,177,868	1,103,992	1,171,415	1,182,217	1,293,359	1,046,232	83.9%
Infrastructure Access Charge	36,848	45,749	56,376	59,101	61,579	65,685	80,864	94,703	62,613	157.0%
Property Taxes & In-Lieu	20,771	18,938	20,679	22,618	24,981	28,420	31,759	35,637	25,475	71.6%
Investment Income	39,217	18,225	8,432	8,596	8,223	12,615	11,746	16,079	15,392	(59.0%)
Hydroelectric Revenue	2,009	1,745	3,868	7,547	6,368	7,786	6,432	3,846	4,950	91.4%
Grant Reimbursement	-	-	-	16,465	18,508	17,441	16,482	14,572	16,694	(11.5%)
Build America Bond Subsidy	-	-	-	20,745	21,071	21,133	21,276	21,317	21,108	2.8%
Other	16,838	28,322	29,780	3,978	9,060	14,122	50,797	65,713	27,326	290.3%
System Capacity Charges	37,149	20,620	28,808	36,375	36,919	47,963	36,698	43,157	35,961	16.2%
Water Standby Charges	22,568	22,496	22,388	2,244	22,180	22,257	22,333	22,358	19,853	(0.9%)
Contributions in Aid of CIP	29,014	5,000	11,943	7,128	1,011	16	4,150	18,007	9,534	(37.9%)
Subtotal Revenues	907,821	931,888	1,149,077	1,362,665	1,313,892	1,408,853	1,464,754	1,628,748	1,270,962	79.4%
Fund Balance Withdrawals	498,684	321,899	148,599	51,115	148,325	50,234	61,925	59,702	167,560	(88.0%)
Total ($ Billions)	1.407	1.254	1.298	1.414	1.462	1.459	1.527	1.688	1.439	20.0%

Illustration Done with Anthropic AI

Note | Figures reflect CWA's Multi-Year Budgets.

An analysis of CWA's actual revenues by type shows – unlike expenses – consistency throughout the reporting period, albeit favoring less certainty. Fixed revenues remain in the minority although increasing from 8.8% to 10.7% during the period. Infrastructure access charges account for more than half of the closing amount of fixed revenue with property taxes representing another quarter. Variable revenues – headlined by water sales – are the majority and finished the period at 89.3% of all actuals.



6.2 Water Sales and Water Rates

As referenced, more than four-fifths of CWA's total revenues collected during the 15-year reporting period ending in 2023 tie directly to water sales collected from member agencies. And while water sale revenue has increased by nearly double during the reporting period, it is not the result of more water being sold.[31] Instead, the increase in water sale revenue ties to repreated increases in water rates.

Demands Down, Rates Up...

CWA's water sales have steadily fallen nearly 40% during the 15-year reporting period ending in 2023. Ongoing rate increases throughout the period have covered declining volume and contributes to actual water sale revenues almost doubling from $703 million to $1.3 billion.

CWA's all-in water rate reflects the total blended cost per acre-foot charged to member agencies for wholesale water, covering commodity charges, fixed charges, and pass-through costs for supplies from the Imperial Irrigation District, Posidon (Carlsbad Desalination Plant), and MWD. Both untreated and treated all-in rates have increased each year during the 15-year reporting period. The untreated all-in rate has more than doubled, rising from $598 per acre-foot in 2009 to $1,579 per acre-foot in 2023 – an increase of 164.5%. The treated all-in rate has increaesd by slightly less over the same period, going from $766 to $1,929 per acre-foot – an increase of 151.8%.

[31] As detailed in this report, CWA's water sales volume has fallen 39.9% during the period from 555,787 acre-feet in 2009 to 333,792 acre-feet in 2023. The magnitude of this decline is further amplified by the final-year amount falling 20.0% short of the 15-year average of 437,278 acre-feet

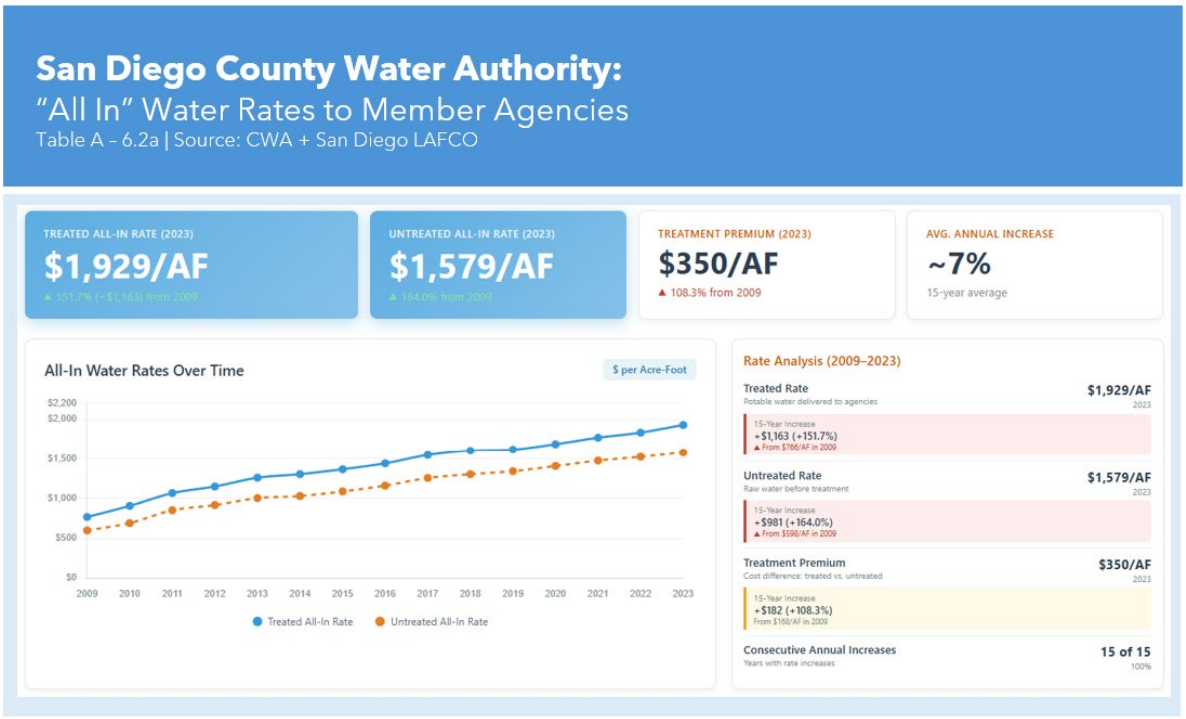


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6.3 Reserves

CWA maintains seven financial reserve funds collectively totaling $414.7 million at the end of the 15-year reporting period in 2023. The monies are divided between restricted and unrestricted funds with a period-ending split of 40-to-60 percent. Restricted funds total $173.5 million and cover debt service, capital improvements, and pay-as-you-go construction. Unrestricted funds total $241.2 million and cover operating reserves, rate stabilization, equipment replacement, and canal maintenance. Nearly all of the unrestricted portion at period's close is committed to the operating and rate stabilization funds with additional details below.

Restricted + Unrestricted…

CWA's total reserves equal $414.7 million in 2023, an overall change of (21%) over the 15-year reporting period and largely attributed to completing several construction projects. The unrestricted portion accounts for the majority of the ending balance at $241.2 million.

Operating Fund | Provides working capital and emergency funding. The fund is anchored by two policy prescriptions: a $5.0 million emergency reserve and a maximum balance of 45 days of average annual operating expenditures less Board authorization. The balance at period's close is $160.9 million – equivalent to 97 days

of operating expenses while separately providing for the emergency reserve. The fund has increased $108.2 million – 205.2% - overall, with most growth occurring after the period low of $8.2 million in 2015.[32]

Rate Stabilization Fund | Provides mitigation against burdensome rate increases and supports debt service coverage. The fund captures excess net revenues when water sales exceed expenditures or when coverage exceeds the Board's 1.5x debt service target. CWA sets target and maximum balances equal to 2.5 years (target) and 3.5 years (maximum) of wet weather or mandatory drought restrictions – currently assuming a 15% reduction in water sales. The balance at period's close is $78.5 million, an overall increase of $35.2 million or 81.2%. However, the fund has absorbed a sizeable rise-and-fall by climbing steadily to a peak of $157.7 million in 2019 before falling every subsequent year – losing half its value in just four years.

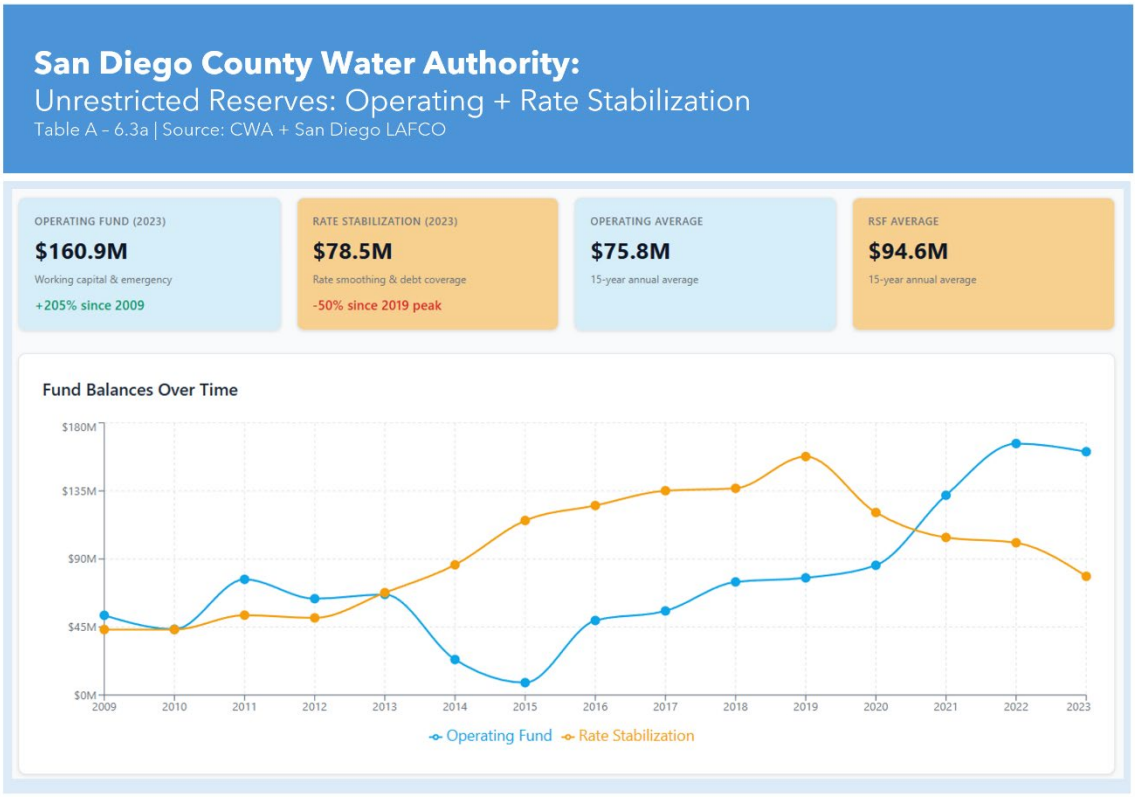


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[32] CWA's total operating expense in 2023 is $586.5 million.

6.4 Financial Statements

CWA engages independent accounting firms to externally audit its financial statements under governmental accounting standards to attest to their credability. Outside audits prepared during the 15-year reporting period ending in 2023 have been performed by three auditor firms: Lance, Soll, and Lunghard, LLP (Irvine) from 2009 to 2011, Macias, Gini, & O'Connell LLP (San Diego) from 2012 to 2016, and Davis Farr, LLP (Irvine) from 2017 to 2023. The audited statements for the final year in 2023 show CWA's overall accumulated net position at $1.564 billion. Adjusting to pre GASB 68 and GASB 75 reporting standards and the listing of agencies' proportionate share of pension and other post-employment benefit liabilities, CWA's overall net position increases to $1.645 billion.[33] The accompanying letter to the Board of Directors did not identify any material weaknesses or significant deficiencies. A detailing of year-end totals and trends during the report period follows with respect to assets, liabilities, and net position.

Agency Assets

CWA's assets at the end of the reporting period in 2023 total $4.009 billion. This closing amount is slightly above the period yearly average of $3.940 billion and reflects an overall change of 24.7% - or $794.2 million – since 2009. CWA's asset holdings peaked in 2014 at $4.174 billion and, following an immediate drop and partial recovery, largely flatlined through the end of the period. Assets classified as current with the expectation they can be liquidated within a year make up a tenth of the total at $438.9 million, or 11.0%, and have declined (26.3%). The decline in current assets is largely attributable to a sharp drop in combined cash and investments as bond proceeds have been expended on capital projects. In contrast, assets classified as noncurrent and not readily liquid make up nine-tenths of the total at $3.570 billion and have increased 36.3%. This increase includes adding $823.0 million in net capital assets during the period with more than half of the gain involving the $440.0 million project to raise San

Assets: Maintaining + Adding...

CWA's assets have increased by $794 million - or 24.7% - to $4.01 billion over the 15-year period ending in 2023, driven largely by long-term infrastructure investments and marked by completing the raising of the San Vicente Dam.

[33] The adjustment to the net position is calculated by LAFCO and not part of the audited financial statements.

Vicente Dam and create approximately 157,000 acre-feet of emergency water supply. Overall, the 24.7% increase in CWA's total assets favorably outpaces per capita asset growth of 16.4% over the period – from $1,096 to $1,272.

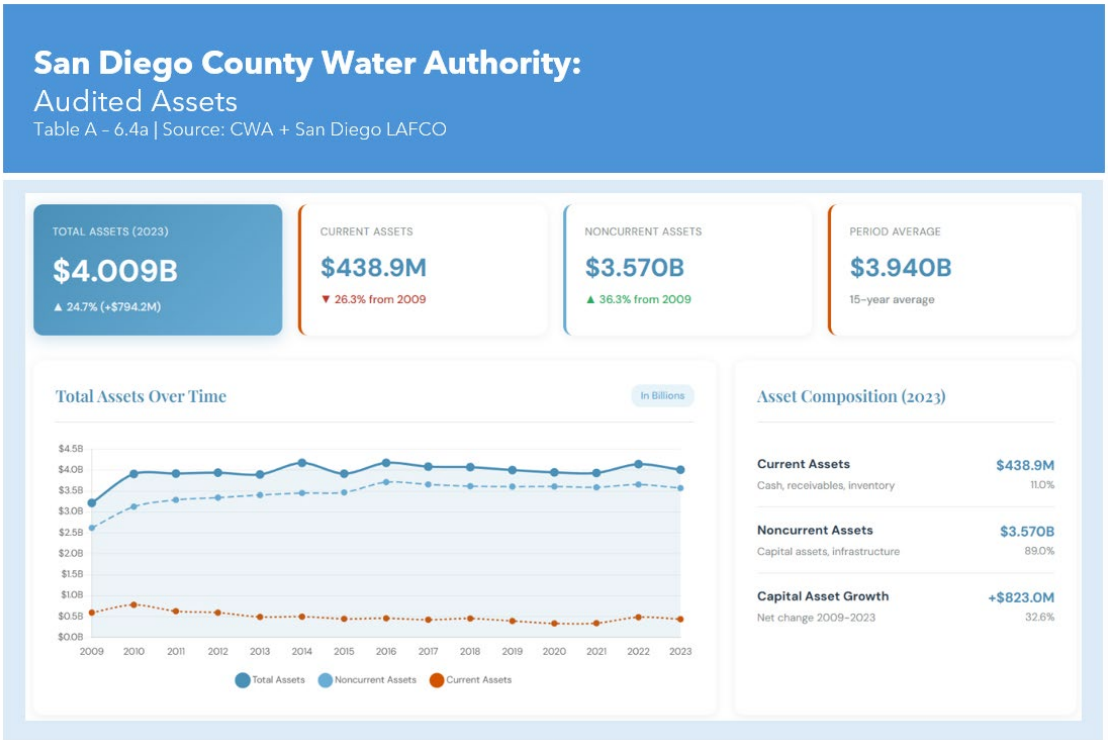


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Agency Liabilities

CWA's liabilities at the end of the reporting period in 2023 total $2.472 billion. This closing amount is slightly below the average year sum of $2.509 billion with an overall period change of 18.4% – or $384.3 million – since 2009. CWA's liabilities peaked in 2016 at $2.721 billion and declined somewhat steadily to a low of $2.361 billion in 2021 before rising to the closing amount in step with new bond issuances as well as refinancing existing bonds. Liabilities classified as current with the expectation they are due within a year make up almost one-fifth of the total at $427.9 million while also adjusting downward (24.1%) over the period. The drop in short-term debts largely ties to CWA reducing the

Liabilities : Adding + Paying Down ...

CWA's liabilities have increased $384.3 million – or 18.4% – to $2.47 billion over the 15-year period ending in 2023, driven primarily by now booking pension obligations and issuing new bonds totaling $696.1 million. CWA has helped offset these additions by reducing short-term debt (commercial paper) by $215 million and paying down long-term debt (bond principal) by over $440 million.

amount of bridge financing (commercial paper lending) from a period start of $460.0 million to a closing sum of $245.0 million. Liabilities as noncurrent representing long-term debts make up the majority of the total at $2.044 billion and have increased 34.1% largely due to two factors: booking pension liability starting in 2015 and issuing new bonds in 2010 and 2022 totaling $696.1 million – most notably to fund the raising of the San Vicente Dam. Overall, the 18.4% increase in CWA's total liabilities outpaces per-capita liability growth of 10.2% over the period – from $712 to $785. This gap indicates that while CWA increased its overall obligations to support system needs, it did so without materially increasing the per-resident share of that burden.

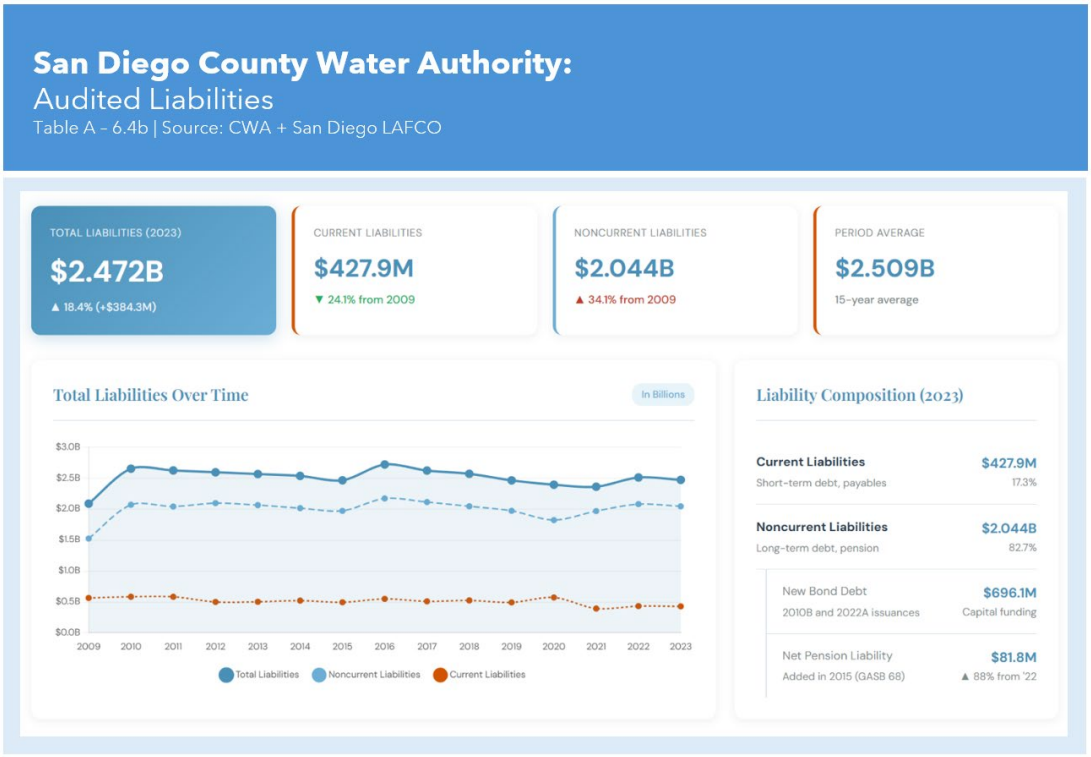


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Net Position

CWA's overall audited net position at the end of the reporting period in 2023 totals $1.564 billion and reflects the agency's assets minus liabilities with accounting adjustments for pension-related deferred inflows and outflows. The closing net position is 6.1% higher than the average year ending of $1.471 billion generated over the 15-year reporting period and contributes to the overall

Streak Comes to an End...

CWA's net position has increased by 29.5% over the 15-year reporting period ending in 2023, closing at $1.564 billion. While up overall, the net position dropped $46.4 million over the final year and marks the first decline over the 15-year review period.

period change of 29.5%. Close to four-fifths of the net position – $1.228 billion – involves capital assets, which has experienced the largest increase in absolute terms by growing $264.2 million over the reporting period, a change of 27.4%. The remaining balance of the net position is split between restricted funds totaling $23.6 million and unrestricted funds totaling $311.6 million. The restricted portion has declined from a 2014 peak of $202.2 million with an overall period change of (70.7%) and reflects a drawdown in bond proceeds and other dedicated reserves in step with CWA completing several major infrastructure projects. The unrestricted portion, in contrast, has increased 91.4% – nearly doubling from $162.7 million to $311.6 million. This growth coincides with the completion of CWA's major infrastructure projects and the associated release of construction reserves as well as proceeding with refinancing bonded debt most recently in 2015, 2016 and 2020. Overall, the 29.5% increase in CWA's net position outpaces per-capita growth of 18.2% over the period – from $412 to $496. This gap helps explain the improvement in CWA's net position extends beyond population growth and is proportionally more capital-driven.

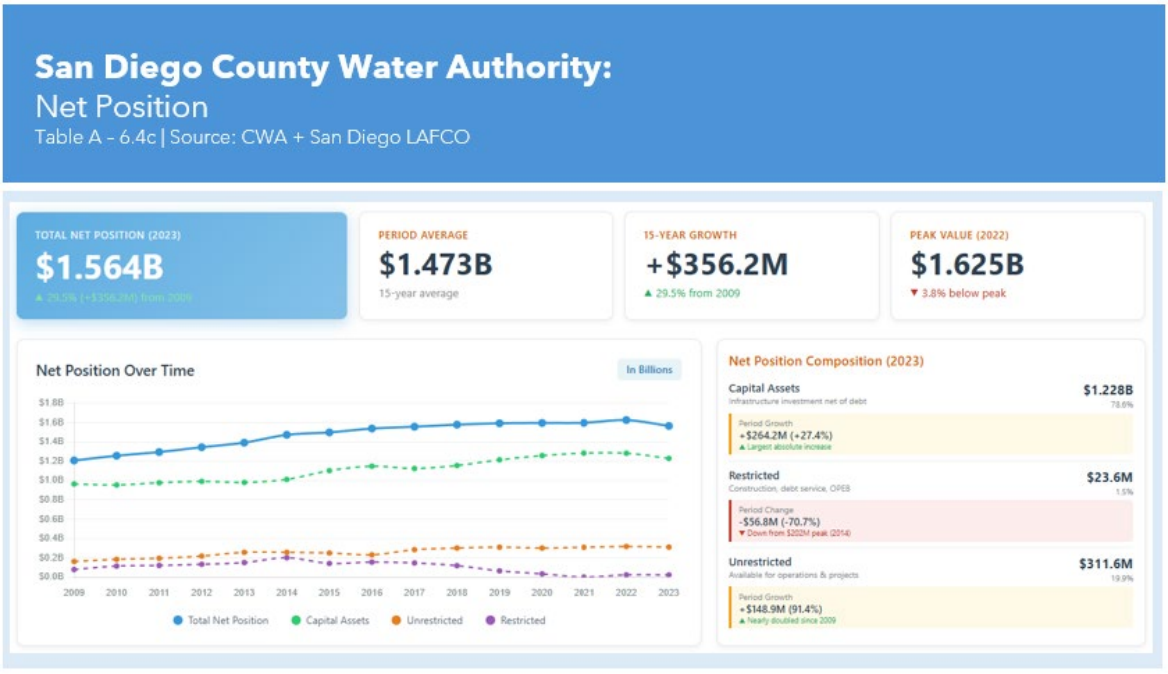


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6.5 Long Term Debt

Balancing Cash and Debt to Fund CIP with Interest Top of Mind…

CWA funds capital projects through a mix of PAYGO and debt proceeds. It has paid more than $1.7 billion in debt service over the 15-year reporting period ending in 2023 with 70% directed toward interest. This reflects, in part, CWA's continued interest-only payments on certain long-term obligations and marked by the 2010 Build America Bonds, which remain at their original principal amount.

CWA funds capital improvement projects (CIP) through a combination of cash and debt, targeting a long-term mix of 65% pay-as-you-go (PAYGO) and 35% debt proceeds. Since the start of the 15-year reporting period, average annual senior lien debt service payments have been $107.7 million, and totaling over $1.7 billion – approximately 70% of which, or $1.2 billion, has gone toward interest. Since 2015, CWA has issued $1.5 billion in long-term debt, with $1.8 billion currently outstanding across multiple series. CWA's latest maturities extend to 2052. The longest-standing obligation – the 2010 Build America Bond – remains at its original principal amount of $526,135,000 as of 2023, reflecting CWA has made interest-only payments on this debt since issuance. The bond's structure includes a federal subsidy covering 35% of interest costs – worth approximately $150 million to CWA over the reporting period – which substantively reduces what member agencies and their ratepayers would otherwise owe, and reflects a deliberate strategy of preserving the principal balance to maximize federal cost-sharing over the life of the bond.

San Diego County Water Authority:
Long Term Debt Issuances
Table A – 6.5a | Source: CWA + San Diego LAFCO

Revenue Bonds	Issue Date	Final Maturity Date	Original Amount	Balance Outstanding June 30, 2023
Build America Series 2010A	2010	2027	$98,495,000	--
Build America Series 2010B	2010	2049	$526,135,000	$526,135,000
Series 2015A	2015	2029	$184,795,000	$114,800,000
Series 2016B	2016	2027	$197,395,000	$17,865,000
Series 2019	2019	2046	$183,155,000	$180,600,000
Series 2020A	2020	2034	$283,470,000	$283,470,000
Series 2021A	2021	2031	$117,690,000	$102,965,000
Series 2021S-1	2021	2028	$146,490,000	$146,490,000
Series 2021B	2021	2038	$271,455,000	$271,455,000
Series 2022A	2022	2052	$170,000,000	$167,370,000
Long Term Debt Totals			**$2,179,080,000**	**$1,811,150,000**

Illustration Done with Anthropic AI

CWA anticipates issuing $165.0 million in new debt in Fiscal Year 2027. A key driver in setting water rates is the debt service coverage ratio – defined as annual net revenues (excluding operating expenses) divided by annual debt service. While CWA is contractually required to maintain a minimum 1.20x coverage on senior lien debt, the Board sets rates to meet a higher internal target of 1.50x. Rates are established to ensure sufficient annual revenue to meet these targets, factoring in potential use of reserves.

6.6 Fiscal Indicators | Measuring Liquidity, Capital, Margin + Asset Management

LAFCO's review of CWA's audited financial statements covering the 15-year reporting period ending in 2023 across liquidity, capital, margin, and asset management measurements presents a mixed picture. CWA's liquidity levels have fallen sharply and are reflected in the agency's days' cash measurement going from nearly 19 months to five months of coverage. Capital levels have been comparatively stable, though without paying down and reducing long-term debt. Margins remain positive but increasingly compressed and attributable to interest expenses. CWA's assets are relatively young in accounting age overall, but reinvestment has slowed considerably. These trends collectively suggest an agency transitioning from expansion mode to holding pattern. Summaries on all four measurements follow.

Liquidity (Short-Term Outlook)

CWA's average year-ending current ratio during the reporting period has been 1-to-1, meaning the agency has exactly $1.00 in available assets (cash, investments, and receivables) for every $1.00 in near-term debts or liabilities. The final year ratio of 1.03-to-1 marks an overall period decline of (3.0%) and sits well below the standard 2-to-1 benchmark for public agencies. The cash ratio – which excludes less liquid assets like receivables – has a period average of 0.6-to-1, reflecting CWA's dependency to convert non-cash assets to cover near-term debts. Days' cash magnifies CWA's loss of liquidity during the period. The agency began with 567 days of operating cash in 2019 before hitting a period low of 78 days in 2021. While the period-end amount improved to 150 days in 2023, the overall decline is (73.4%).

Narrowing Cash Buffer...

CWA has experienced sharp declines in standard liquidity measurements during the 15-year reporting period ending in 2023. This decline is most visible in CWA's days' cash ratio with the agency holding nearly 19 months of operating cash in reserves at the start of the period and finishing with five.

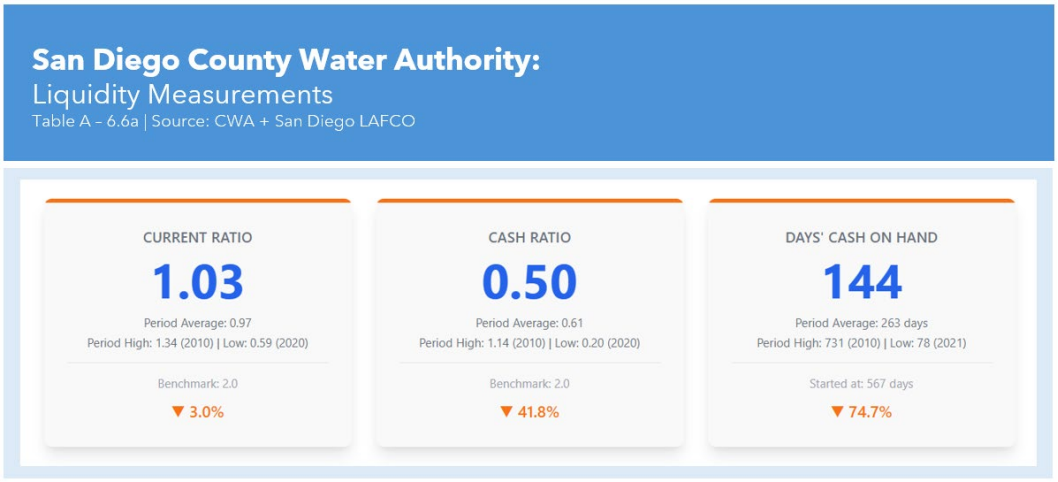


Illustration Done with Anthropic AI

The current ratio provides a macro measurement of near-term financial health by comparing current assets against current liabilities on a dollar-to-dollar basis. A higher ratio indicates stronger liquidity and greater capacity to meet short-term obligations with a standard minimum benchmark for municipalities of 2.0 to 1.0. The cash ratio is similar to current ratio but excludes receivables. The days cash metric is a micro-level measure of near-term financial health that compares an agency's available cash and cash equivalents to its average daily operating expenses, excluding depreciation. A higher value indicates stronger liquidity and greater capacity to sustain operations without new revenue with a standard minimum benchmark for municipalities of 90 days.

Capital (Long-Term Outlook)

CWA's average annual **debt-to-net position** during the 15-year reporting period equals 136.1%. This measurement shows CWA's average year-ending net worth has been exceeded – specifically by 36.1% – by its long-term debts. The final year figure in 2023 is 131.2%, reflecting an overall period increase of 3.9%. A separate capital measurement shows CWA's average annual **debt ratio** over the reporting period at 63.1%. This measurment has adjusted from 65.0% in 2009 to 61.3% in 2023, a modest 5.6% improvement largely the result of assuming no significant new long-term debt since the 2010 bond series while making scheduled payments focused on interest more than principal reduction. Both measurements show only slight adjustments over the 15-year period and suggest CWA's capital structure has remained largely unchanged with debt levels staying the course without either significant new capital investment

Holding Pattern...

CWA's debt-to-net position closes the 15-year reporting period in 2023 at 131%, meaning long-term liabilities exceed total net worth by nearly one-third. The debt ratio closes at 61% - a financed-to-equity split of assets at 60-to-40. Both metrics have held steady for 15 years – but whether this consistency reflects stability or inertia requires additional analysis.

or substantive debt paydowns. This leads to CWA's capital structure being both stable and stagnant. As detailed in Section 6.5, approximately 70% of the CWA's debt service payments since 2009 have gone toward interest, reflecting reliance on long-term borrowing.

San Diego County Water Authority:
Capital Measurements
Table A – 6.6b | Source: CWA + San Diego LAFCO

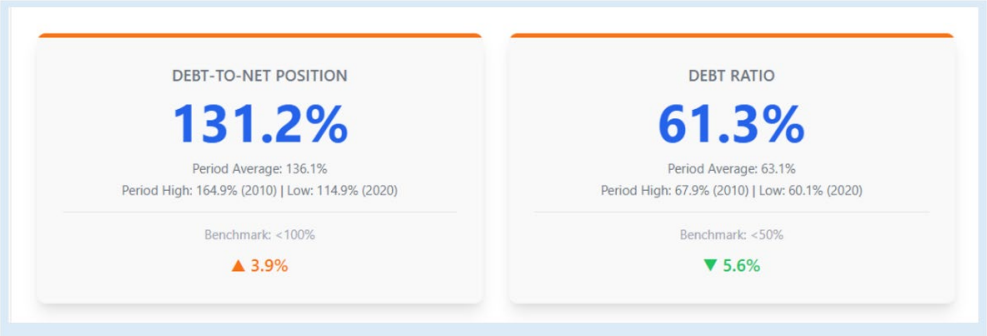


Illustration Done with Anthropic AI

The debt ratio is a macro-level measure of long-term financial health that shows the percentage of an agency's assets financed by debt. A lower ratio indicates stronger solvency with 70% commonly cited as a cautionary threshold for public utilities. The debt-to-net position ratio is a more micro-level measure of long-term financial health that expresses an agency's debt obligations relative to its net position. A lower ratio reflects greater financial flexibility, with 50% commonly used as a cautionary threshold.

Margin (Net Income)

CWA's average annual **operating margin** over the 15-year reporting period has been 9.5% with positive totals generated each year. This measurement is also improving going from 5.8% in 2009 to 6.3% in 2023, a change of 8.9%. This measurement indicates CWA's core water delivery activtiy is structurally sound and provides cost recovery with modest surpluses. Broadening the lens, CWA's average annual **total margin** falls lower by half at 4.4%; it also has been declining with an overall period change of (67.0%) from a start of 6.4% to a close of 2.1%. This difference between operating and total margin is attributable to a widening gap where non-operating revenues have

Stable Operations, Weakening Bottom Line…

CWA posted a positive operating margin every year over the 15-year period ending in 2023, averaging 9.5%. Total margin, however, has averaged less than half at 4.4% and helps spotlight the magnitude of non-operating costs on CWA – most notably interest expenses (namely debt serve) – which have increased from $41 million to $81 million.

grown 84% over the reporting period while non-operating expenses – predominantly debt service – have increased at nearly double the rate at 156%. These measurements collectively indicate CWA is optimizing internal efficiencies while being increasingly challenged by legacy debt decisions.

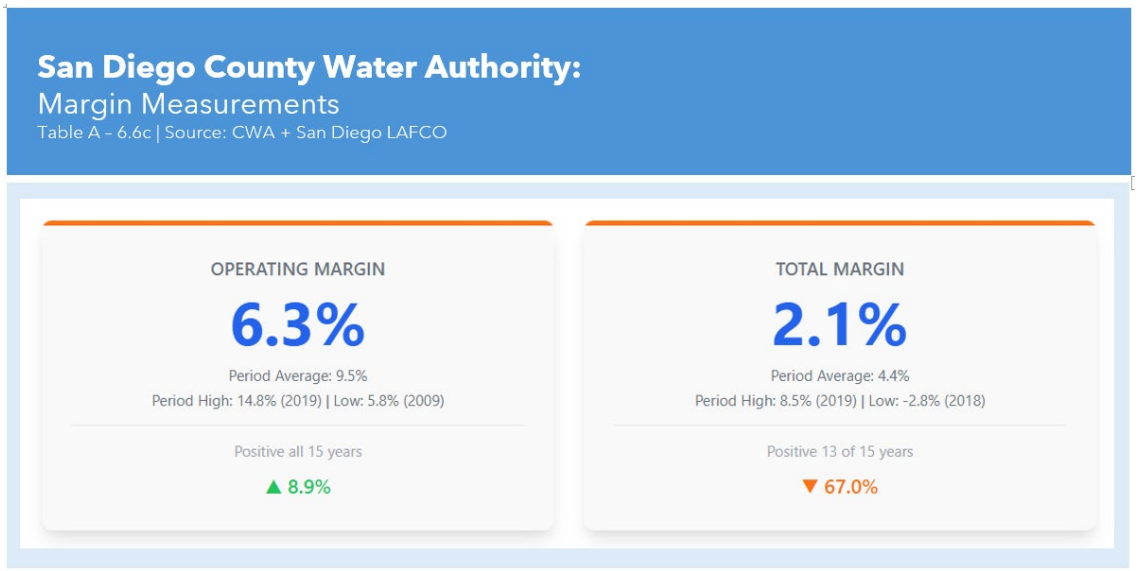


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The operating margin measures fiscal sustainability by identifying the proportion of ratepayer revenues that remain after covering day-to-day costs. A higher percentage is favorable with an industry benchmark of no less than 5%. The total margin measures the share of all revenues – including user charges and non-operating sources such as property taxes – that remain after covering all expenses. A higher percentage is favorable with an industry benchmark of no less than 10%.

Asset Management

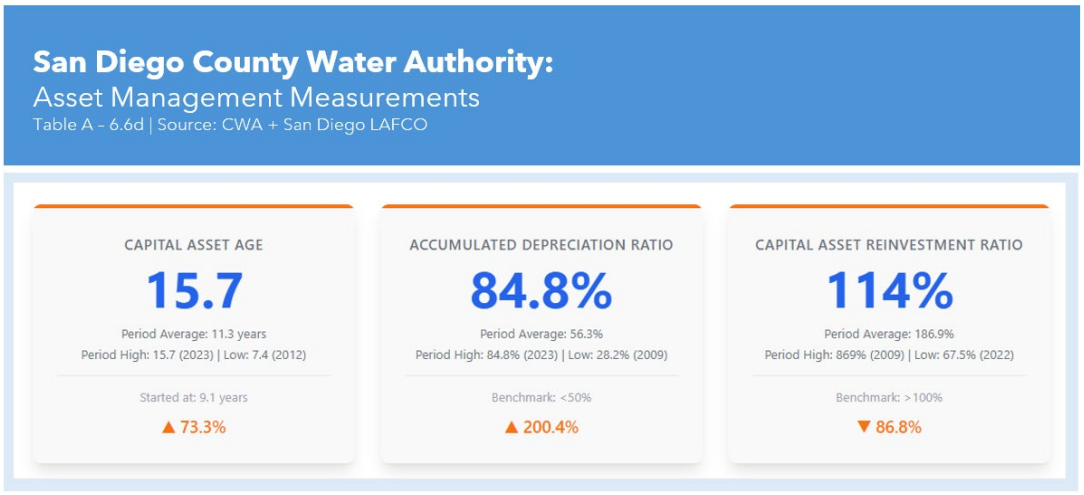
CWA's average **capital assets' age** during the 15-year reporting period is 11.3 years.[34] This accounting measure of asset age – including pipelines, dams, buildings, facilities, machinery and equipment – has increased from 9.1 years in 2009 to 15.7 years in 2023, representing a 73.3% increase. The **accumulated depreciation ratio** reinforces this aging trend, moving from 28.2% to 84.8% – a 200.4% increase that indicates CWA's assets overall are approaching the end of their useful life based on scheduled depreciation.

Young but Aging...

CWA's infrastructure is relatively young in accounting terms at 15.7 years at the close of the 15-year reporting period in 2023, but the underlying trends suggest accelerating age ahead – especially for short-lived assets. Annual depreciation has more than doubled while reinvestment has fallen sharply - a widening gap that, if sustained, will push the asset base toward the end of its useful life faster than the current age implies.

[34] The CWA's capital assets comprise both non-depreciable and depreciable categories. Non-depreciable assets include land,

Underlying these indicators, the capital asset reinvestment ratio has declined sharply from 869.2% to 114.3%, an (86.8%) reduction. This shift reflects a transition from proactive system expansion toward a greater – though not exclusive – emphasis on maintaining existing assets. Annual depreciation expense influences all three measures by having more than doubled over the reporting period from $30.0 million to $66.3 million.



The capital assets' age provides a macro-level indicator of the average age of an agency's depreciable facilities, equipment, buildings, and infrastructure relative to their replacement schedule. A range between 40 and 60 years is generally considered manageable and reflects infrastructure at a mature stage – neither new or approaching the end of its useful life. The accumulated depreciation ratio offers additional context by measuring the proportion of useful life already consumed for these same assets. Ratios above 100% are considered cautionary and signals an aging asset given accumulated depreciation now exceeds the current book value of assets. The capital asset reinvestment ratio measures how much an agency is spending on renewing or replacing its infrastructure compared to the amount it is depreciating each year and shows whether it is keeping pace with the aging of its system. Ratios below 100% mean the system is aging faster than it is being renewed.

Illustration Done with Anthropic AI

6.7 Employee Pension Obligations

CWA provides a defined pension benefit to its employees through an investment risk-pool contract with the California Public Employees Retirement System (CalPERS). This pension contract provides employees with specified retirement benefits based on the date of hire and number of service years. Additional pension details based on actuarial valuations issued by CalPERS during the reporting period ending in 2023 with respect to formulas, enrollees, contributions, and funded status follows.

easements, mitigation bank credits, and construction in progress. Depreciable assets include pipelines and dams; buildings and other facilities; machinery and equipment; right-to-use lease assets; software; and intangibles such as mitigation improvements, participation and capacity rights, and water-storage rights. The CWA monitors and maintains these assets to ensure reliable service and implements replacement on established schedules—or sooner if conditions warrant.

Pension Enrollees and Funding Formulas

CalPERS reports 729 total participants in CWA's pension program as of its 2023 annual valuation. Since 2020, the program has added 42 new enrollees, reflecting a four-year increase of 6.1% – approximately 1.5% annually. (Information prior to 2020 has not been reviewed.) Enrollees are classified by status: active, separated or transferred, or retired. As of the 2023 valuation close, CWA's ratio of active employees to retirees stands at 0.70-to-1.00. This measurment has also fallen (15.7%) during the four-years of available information from 0.83-to-1.00 in 2020.

Active Enrollees + Contribution Pressures...

At the end of the 15-year reporting period in 2023, CWA has 729 total enrollees in its CalPERS program. CWA's ratio of active employees to retirees at the reporting period's close stands at 0.70-to-1.00, which means the agency has fewer workers contributing to the pension system than drawing retirees.

San Diego County Water Authority
Pension Enrollee Information
Table A – 6.7a | Source: CalPERS and SD LAFCO

	2019	2020	2021	2022	2023	Average	Trend
Active	--	242	233	232	235	236	(2.9%)
Transferred or Separated	--	154	145	118	158	144	2.6%
Retired	--	291	312	324	336	316	15.5%
Total Enrollees	--	687	690	674	729	695	6.1%
Active to Retiree Ratio	--	.83	.75	.72	.70	.75	(15.7%)

CWA employees hired prior to January 1, 2013, and any employees hired on or after this date who are not considered "New Members" within the meaning of the Public Employees' Pension Reform Act of 2013 (PEPRA) are Tier 1 members or "Classic Members." Tier II members are employees hired on or after January 1, 2013 and are considered "New Members" as defined by PEPRA. Additional details on pension benefit formulas during the report period follows.

San Diego County Water Authority
Employer Pension Benefit Formula Comparison
Table A – 6.7b | Source: CalPERS and SD LAFCO

Category	Classic Members Hired *Prior to* 1-1-2013	PEPRA Members Hired *On or After* 1-1-13
Benefit Formula	2.5% @ 55	2% @ 62
Benefit Vesting Schedule	5 Years of Service	5 Years of Service
Required *Employee* Contribution Rates	8.00%	6.75%
Required *Employer* Contribution Rates	32.22%	32.22%

Annual Contributions

CWA's total annual pension contribution at the end of the reporting period in 2023 is nearly $10.0 million. This latest contribution amount represents 31.1% of the payroll total. The most recent pension contribution also reflects an increase of 120.9% over the 15-year report period and contrasts with payroll concurrently increasing by 12.7%. This latter distinction means CWA's pension costs are rising nearly 10 times faster than payroll. In the last three years reviewed, CWA made additional contributions above the Actuarially Determined Contribution to help reduce overall unfunded liability and potentially reduce future pension payments.

Climbing Pension Costs...

CWA's total contributions have increased by 121% over the 15-year reporting period ending in 2023 at $10 million, equal to 31% of the agency's payroll. Pension contributions have also increased almost 10 times faster than payroll.

San Diego County Water Authority:
Employer Pension Contributions
Table A – 6.7c | Source: CalPERS + San Diego LAFCO

CONTRIBUTION GROWTH	PAYROLL GROWTH	BURDEN INCREASE
120.9%	12.7%	96.8%
$4.53M → $10.00M	$28.58M → $32.19M	15.8% → 31.1%

YEAR	CONTRIB.	PAYROLL	% PAYROLL
2009	$4.53	$28.58	15.8%
2010	$4.77	$28.92	16.5%
2011	$4.68	$28.01	16.7%
2012	$5.19	$25.58	20.3%
2013	$5.18	$24.96	20.8%
2014	$5.27	$26.83	19.7%
2015	$5.77	$26.98	21.4%
2016	$6.20	$26.69	23.2%
2017	$6.58	$26.81	24.5%
2018	$5.97	$27.64	21.6%
2019	$6.62	$27.36	24.2%
2020	$7.51	$28.38	26.5%
2021	$8.29	$30.11	27.5%
2022	$9.05	$29.99	30.2%
2023	$10.00	$32.19	31.1%
AVG	$6.38	$27.94	22.8%
15-YR	↑ 120.9%	↑ 12.7%	96.8%

Contribution and payroll figures in millions

Illustration Done with Anthropic AI

Funding Status

CWA's total composite unfunded liability at the end of the 2023 reporting period totals ($103.432) million. This amount represents accrued pension obligations owed to agency employees (current and past) that are not covered by the market value of existing plan assets. Based on this shortfall, CWA's composite funded ratio stands at 70.2%. Overall, CWA's funded ratio – defined as the proportion of market assets relative to projected pension liabilities – has improved over the prior 11 years from 67.7% in 2013 , based on the earliest comparable data available from CalPERS within the 15-year reporting period. This improvement, however, has not been generated through steady gains; instead the funded ratio has swung from a low of 65.9% in 2016 to a high of 83.2% in 2021.

Pension Coverage Improving, Funding Gap Expanding…

CWA's pension funded ratio – i.e., the pension coverage percentage – has statistically improved from 67.7% in 2013 to 70.2% in 2023. (This covers the last 11 of 15 years of this reporting period; information for 2009 to 2012 is not available from CalPERS at this time.) The coverage percentage aside, the gap in CWA's unfunded accrued liability has jumped 79% over the same period from $57.8 million to $103.4 million.

San Diego County Water Authority:
Pension Funded Ratio
Table A – 6.7d | Source: CalPERS + San Diego LAFCO

CLOSING	HIGH	LOW
70.2%	83.2%	65.9%
6/30/2023	6/30/2021	6/30/2016

DATE	ACCRUED LIAB.	ASSETS	UAL	FUNDED
6/30/2013	$179.2M	$121.4M	$57.8M	67.7%
6/30/2014	$199.5M	$144.7M	$54.8M	72.6%
6/30/2015	$212.9M	$148.9M	$64.0M	70.0%
6/30/2016	$227.0M	$149.7M	$77.3M	65.9%
6/30/2017	$239.8M	$175.9M	$63.9M	73.4%
6/30/2018	$259.0M	$190.5M	$68.5M	73.6%
6/30/2019	$274.5M	$201.8M	$72.7M	73.5%
6/30/2020	$290.2M	$208.7M	$81.5M	71.9%
6/30/2021	$305.4M	$254.2M	$51.2M	83.2%
6/30/2022	$325.1M	$231.9M	$93.2M	71.3%
6/30/2023	$346.5M	$243.1M	$103.4M	70.2%
11-YR	↑ 93.4%	↑ 100.2%	↑ 78.9%	↑ 2.5 pts

All dollar figures in millions

Illustration Done with Anthropic AI

6.8 Other Post-Employment Benefit Obligations

Analysis pending.

7.0 WRITTEN DETERMINATIONS

LAFCO is required to prepare written determinations addressing the governance factors enumerated under Government Code Section 56430 as part of its municipal service review of wholesale water agencies in San Diego County. The determinations that follow are specific to CWA and represent independent statements drawn from information collected, analyzed, and presented in this report and the associated technical appendix prepared by Dr. Michael Hanemann. Collectively, they provide a succinct and sequential account of the organization, delivery, and funding of CWA's municipal services – framed within LAFCO's growth management responsibilities and interests under state law.

Legislative Mandate...

These written determinations address factors required by the Legislature in municipal service reviews. They reflect factual statements and reasonable deductions based on LAFCO's analysis of the 15-year reporting period ending in 2023, and where appropriate, inform recommendations included in the Executive Summary.

7.1 Growth Projections & Related Demographics

(a) Population growth within CWA has continued throughout the 15-year reporting period ending in 2023, expanding by more than 7% – albeit with a noticeable slowdown after 2020.

(1) LAFCO estimates CWA's jurisdictional boundary has added 217,133 full-time residents over the reporting period, bringing the total to 3,150,522 – an average net increase of 15,510 each year, or almost 43 per day.

(2) Population growth within CWA's jurisdictional boundary has decelerated sharply, with 2020 marking a clear inflection point. Annual growth averaged 0.6% between 2009 and 2020; since then, it has stagnated at 0.01%

(b) LAFCO projects near-term population growth will continue relatively flat and align with post-2020 trends at approximately 0.01% annually.

(1) Under this projection, the full-time population in CWA is expected to increase modestly to 3,151,939 by 2028 and 3,152,570 by 2030 – a net increase of just 2,048 residents from 2023.

(c) LAFCO acknowledges an unknown volume of non-fulltime residents – including tourists, students, and seasonal workers – are not captured in the population estimates but generate significant demand on CWA infrastructure.

(1) LAFCO should consider developing a methodology to estimate transient populations in future municipal service reviews.

(d) Housing construction has outpaced population growth within CWA in proportional terms over the 15-year reporting period ending in 2023.

(1) LAFCO estimates a net increase of 87,395 housing units within CWA during the reporting period, representing an 8% expansion in supply and bringing the total housing inventory to 1,186,158 units. This growth equates to an average annual addition of 6,243 units – or 17 per day.

(2) Housing availability has improved modestly over the reporting period. The resident-to-housing ratio within CWA has decreased from 2.66-to-1 (historical) to 2.49-to-1 (reporting period) – a 7% improvement.

(e) Housing costs – absolute and proportional - are escalating with owner-occupied units comprising a slight majority.

(1) Mean housing cost in CWA is $2,410, based on a five-year average covering the close of the reporting period – representing a 20% increase over the five-year average at the start.

(2) Housing consumes approximately 30% of household income. LAFCO estimates the average monthly housing cost – mortgage or rent plus utilities – equals 30.0% of typical household income at the reporting period close.

(3) Owner-occupied units account for exactly 50% of CWA's housing inventory at the close of the reporting period. The balance is divided between renter-occupied units at 44% and vacant units at 6%.

7.2 Location and Characteristics of Any Disadvantaged Unincorporated Communities (DUCs) and Relevant Information on Potable Water, Wastewater, and Fire Protection

(a) A fifth of CWA's jurisdictional boundary qualifies as a DUC under LAFCO policy, meaning the median household income within the affected census tract is less than 80 percent of the statewide median income threshold.

(1) Three-fifths of all DUC-designated areas within CWA are located within Camp Pendleton. Potable water, wastewater, and fire protection services in this area are provided internally by Marine Corps operations. The availability and adequacy of these services are not evaluated in this report.

(2) The remaining two-fifths of DUC-designated areas within CWA are distributed across all four subregions. Assessment of potable water, wastewater, and fire protection services for these areas are best addressed in municipal service reviews covering CWA's member agencies.

7.3 Capacity of Public Facilities and Infrastructure Needs and Deficiencies + Related Topics

(a) LAFCO's evaluation of CWA's municipal services is limited to its potable water function – which is classified as wholesale only and includes both pre-treated and treated classes.

(1) CWA's wholesale water function extends throughout its jurisdictional boundary. CWA self-attests that it does not provide out-of-agency service at the end of the 15-year reporting period in 2023.

(2) CWA's wholesale supplies have been generated from three distinct source providers during the reporting period ending in 2023: Imperial Irrigation District via the Quantification Settlement Agreement (QSA), Carlsbad Desalination Plant via agreement with Poseidon Water, and MWD.

(3) Approximately two-thirds of CWA's wholesale water supplies provided to its member agencies during the reporting period involve QSA water from the Imperial Irrigation District. The remaining one-third is split between MWD at 23% and Carlsbad Desalination Plant at 11%.

(A) The portion of CWA's water purchases from MWD has fallen pointedly over the reporting period, from representing 88% of all supplies in 2009 to 19% of all supplies in 2023.

(4) Costs to CWA vary significantly among its three sources, with MWD being the most cost-effective at the close of the reporting period.

(A) MWD water costs CWA $942 per acre-foot.

(B) QSA water costs CWA $1,050 per acre-foot – a $108 per unit premium, or 11.5% compared to MWD. With contractual commitments to purchase 280,000 acre-feet annually through 2048, this represents approximately $30.2 million in additional annual costs.

(B) Carlsbad water costs CWA $3,110 per acre-foot – a $2,168 per unit premium, or 230%. With contractual commitments to purchase 42,000 acre-feet annually through 2042, this represents approximately $91.1 million in additional annual costs.

(5) Member agencies remain dependent on CWA for imported water, with CWA accounting for 82% of all supplies retailed during the reporting period.

(6) CWA's water sales have fallen 40% during the reporting period – from 555,787 acre-feet in 2009 to 333,792 acre-feet in 2023 – and expected to continue to decrease for the foreseeable future.

(A) Potable reuse projects among member agencies are expected to permanently displace 115,000 acre-feet of CWA supplies by 2035 – cutting water sales by more than one-third compared to 2023.

(B) Conservation and land use changes are expected to further diminish water sales beyond potable reuse impacts given lowering per capita trends and regional shifts toward higher-density housing.

(7) CWA's distribution system has substantial unused capacity.

(A) Average potable water demand during the reporting period is estimated at 12% of CWA's maximum available supplies based on infrastructure capacities. This estimate rises to 22% when applying average peak-day demands.

(B) It is reasonable to assume CWA's distribution system will have adequate near-term capacity, as per capita water demand declined by approximately 31% (from 168 to 116 gallons) during the reporting period, more than offsetting a 7% increase in population.

(8) CWA's storage supplies are relatively tight.

(A) It is estimated CWA's available potable water storage capacity can accommodate up to 2.6 days of normal usage based on average demands generated over the reporting period without requiring recharge. This amount falls below the industry standard of maintaining no less than 3.0 days of potable supply. However, the significance of this condition is moderated by broader regional operating conditions, including interconnected system operations and emergency preparedness expectations applicable to member agencies, which includes maintaining additional local storage.

(b) Additional information is needed to determine the number of mutual water companies and associated infrastructure conditions in the region as prompted under LAFCO statute and their potential connectivity to CWA's wholesale activities. The Commission defers this analysis to a future informational report.

(c) LAFCO defers evaluation of CWA's other active municipal function – hydroelectric power – to a future municipal service review.

7.4 Financial Ability to Provide Services

(a) CWA is financially stable but structurally strained.

(1) The combination of continuing rate increases, drawing on reserves, and deferring capital improvements has provided operational stability for CWA during the 15-year reporting period ending in 2023.

(A) CWA's average actual biennial expense for operating and non-operating activities over the reporting period is $1.439 billion. The closing amount is $1.688 billion, reflecting a 20% overall increase.

(B) CWA's average actual biennial revenue – excluding reserve withdraws – for operating and non-operating activities over the reporting period is $1.271 billion. The closing amount is $1.629 billion, reflecting a 79% overall increase.

(C) Reserves have been budgeted and used each year during the reporting period at an average yearly amount of $167.6 million – equal to 12% of total actual expenses.

(D) CWA is almost entirely reliant on local water rate increases to fund continually increasing costs. Several water districts in Southern California have an Ad Valorum Property tax to pay for costs associated with the State Water Project, and some districts, including Metropolitan Water District, utilize property taxes to repay their own General Obligation Bonds. CWA is limited in its revenue sources, increasing reliance on ratepayer revenue and preventing CWA from providing special rates for Agriculture and/or disadvantaged communities. LAFCO would encourage looking into the prospect of alternative revenue sources to ease the burden on ratepayers.

(E) CWA management has actively assessed and controlled expenses over the reporting period to stay within the adopted budget.

i) CWA's actual overall expenses have consistently finished below budget amounts, generating an average biennial favorable variance of 8.3% – translating to $129.7 million in average savings.

ii) Half of the favorable variance generated during the reporting period is attributable to underspending in the Capital Improvement Program (CIP), with biennial actuals averaging $233.4 million compared to $292.9 million in average budgeted appropriations.

(2) CWA's financial strain is reflected in its unrestricted reserves.

(A) CWA's Rate Stabilization Fund has experienced significant swings during the 15-year reporting period, peaking at $157.7 million in 2019 before dropping to $78.5 million by 2023 – a 50% decline.

(B) The drawdown in the Rate Stabilization Fund is magnified when juxtaposed with CWA's rate increases over the reporting period – 165% for untreated water and 152% for treated water.

(3) CWA's financial strain is rooted in its two take-or-pay agreements.

(A) Fixed costs have grown from 53% to 81% of total expenses during the 15-year reporting period ending in 2023, while fixed revenues have remained flat at 9% to 11%.

(B) The structural imbalance between fixed costs (high) and revenues (low) leaves CWA with limited ability to reduce expenditures in response to declining water sales – the agency must pay for contracted water whether or not member agencies purchase it.

(b) CWA's balance sheet has improved during the 15-year reporting period ending in 2023, marked by an expanding net position – but underlying trends reveal mounting pressures, especially involving liquidity.

(1) CWA's audited net position has increased during the reporting period by $356.2 million – or 30% – from $1.207 billion in 2009 to $1.564 billion in 2023 with four-fifths involving capital assets.

(A) Total assets have increased by $794 million – or 25% – to $4.01 billion, driven largely by long-term infrastructure investments and marked by completing the raising of the San Vicente Dam.

(B) Total liabilities have increased $384.3 million – or 18% – to $2.47 billion, driven primarily by the recognition of pension obligations and the issuance of new bonds totaling $696.1 million.

(C) While up overall, the net position declined by $46.4 million over the final year, marking the first drop during the reporting period. Four-fifths of this one-year decline is attributable to CWA writing off $36.5 million in storage rights at Lake Hodges Reservoir after state regulators restricted water levels due to dam safety concerns.

(2) CWA has experienced sharp declines in standard liquidity measurements during the reporting period.

(A) Liquidity declines are most visible in CWA's days' cash ratio, with the agency holding nearly 19 months of operating cash in reserves at the reporting period start and finishing with five months – a 74% decline.

(3) CWA's capital levels and ability to service debt have held during the reporting period – but in doing so reveal a focus on interest-only payments.

(A) CWA closes the reporting period with a debt-to-net position ratio of 131%, meaning long-term liabilities exceed net worth by nearly one-third. The debt ratio stands at 61%, reflecting a financed-to-equity asset split of approximately three-to-two. Both metrics have held steady for 15 years and – pertinently – reflect a holding pattern consistent with a focus on interest-only payments on long-term debt.

(B) CWA has paid over $1.7 billion in debt service during the reporting period, 70% of it toward interest. This reflects continued interest-only payments on certain obligations – most notably the 2010 Build America Bond series, which carries a federal subsidy covering 35% of interest costs, and has incentivized CWA to preserve the full principal balance accordingly. While this approach generates substantive federal cost-sharing benefits during the life of the bond, the original principal of $526.1 million remains fully intact at the close of the period and will ultimately be borne by member agencies and their ratepayers.

(4) CWA posted a positive operating margin every year over the reporting period ending in 2023, averaging 9.5%. Total margin, however, has averaged less than half at 4.4% and helps spotlight the magnitude of non-operating costs on CWA – most notably interest expenses (i.e., debt service) – which have increased from $41 million to $81 million.

(5) CWA's infrastructure is relatively young in accounting terms at 15.7 years overall at the close of the reporting period in 2023, but underlying trends suggest accelerating aging ahead – especially for short-lived assets.

(A) Annual depreciation has more than doubled while reinvestment has fallen sharply - a widening gap that, if sustained, will push the asset base toward the end of its useful life faster than the current age implies.

(c) CWA's pension obligations reflect a growing pressure with the unfunded liability increasing despite the agency more than doubling its contributions.

(1) CWA's annual contributions to its employee pension program under CalPERS have more than doubled over the 15-year reporting period from $4.5 million in 2009 to $10.0 million in 2023.

(2) The employee pension program's status in proportional terms has improved with the funded ratio increasing from 67.7% in 2013 to 70.2% in 2023. (Data for the preceding four years in the period is not available.)

(3) The employee pension program's status in absolute terms has declined with the total unfunded accrued liability increasing from 57.8 million in 2013 to 103.4 million in 2023. (Data for the preceding four years in the period is not available.)

(4) The ratio of active employees to retirees at the reporting period's close stands at 0.70-to-1.00, meaning CWA has fewer workers contributing to the pension system than drawing retirees.

(d) Additional analysis is pending with respect to CWA's other post-employment benefits (medical) and related costs to the agency.

7.5 Status and Opportunities for Shared Facilities and Resources

(a) CWA maintains an important and mutually beneficial relationship with MWD to access and deliver wholesale water supplies from the Colorado River and State Water Project sources.

(1) This relationship allows CWA to rely on a regional conveyance system rather than construct duplicative infrastructure that would otherwise be borne by local ratepayers, while also providing MWD with a broader customer base to spread fixed costs for the benefit of Southern California as a whole.

(2) CWA has relied on MWD's regional conveyance system to access 90% of its wholesale water supplies over the 15-year reporting period ending in 2023.

(b) Since the early 1990s, CWA has invested a substantial amount of financial and administrative resources into reshaping its relationship with MWD and reduce reliance on MWD's governance, supplies, and infrastructure – transitioning from a water transporter to a water supplier.

(1) These investments have achieved independence on two of three fronts: CWA now controls its supply portfolio and is no longer bound by MWD Board allocation decisions.

(2) The third front remains unchanged: CWA continues to depend on MWD's regional conveyance system to access QSA supplies as well as MWD's regional system for supplemental and emergency deliveries.

(c) CWA's new leadership has signaled a willingness to collaborate with MWD that stands in contrast to earlier administrations marked by deflection, litigation, and public disputes.

(1) The positive change in CWA leadership opens opportunities to partner with MWD on several mutually beneficial projects involving the regional conveyance system – like MWD's Local Supply Exchange Program and potential East-West Conveyance improvements.

(d) Potable reuse poses a strategic challenge for CWA from below and above with high stakes for the agency to pivot into opportunity through collaboration to best manage risks and the potential for destabilization.

(1) From below, CWA's largest member agencies are developing potable reuse projects that will reduce their purchases from CWA by an estimated one-third by 2035, mirroring the independence strategy CWA itself pursued with MWD beginning in the 1990s.

(2) From above, MWD's planned Pure Water Southern California project will add billions in costs – directly and indirectly – that will be recovered through higher rates spread among its member agencies, including CWA.

(e) CWA and MWD share a mutual interest in managing the disruptive potential of uncoordinated potable reuse development. While these projects offer clear environmental and community benefits and are encouraged, independent deployment will undermine both agencies' sales bases and leave fixed infrastructure costs stranded – a lose-lose outcome.

(1) A potential path forward with greater regional value would be a joint CWA–MWD investment to integrate local potable reuse projects into the broader network – avoiding fragmented decision-making – and deliver supplies to support agricultural users in Southern California, where water remains a core cost constraint and fallowing pressures threaten rural economies.

(f) CWA has negotiated allowances with MWD to sell up to 50,000 acre-feet annually of its QSA water to MWD and/or other MWD member agencies, enabling surplus supplies to be redirected to communities in need while mitigating ratepayer cost burdens associated with the take-or-pay agreement.

(g) CWA's recent exploration of constructing a new aqueduct to connect the San Diego region to the Colorado River was a curious joint-use project that has been appropriately shelved due to an engineering and economic feasibility evaluation of the project.

(1) In 2019, CWA began investing several million dollars to study a new aqueduct through San Diego County's backcountry – bypassing MWD to connect directly with Imperial Irrigation District for QSA deliveries. Outside consultants concluded the approximate $5.0 billion project was feasible and could yield ratepayer savings by 2075, contingent on several assumptions, including outside partnerships. The project advanced on a split Board vote to a second phase but has since been removed from the CWA's project list and budget.

7.6 Local Accountability and Government Restructure Options

(a) CWA's leadership changes beginning at the close of the 15-year reporting period in 2023 have been clearly positive, reflecting a purposeful shift toward greater accountability and rigor.

(1) Leadership's acknowledgment the take-or-pay agreements with the Imperial Irrigation District and – to a greater extent – Channelside Water Resources are unfavorable represents a meaningful departure from prior public positions. This acknowledgement contributes to improved transparency and public trust by aligning agency messaging more closely with observed outcomes.

(2) The June 2025 settlement with MWD concludes decades of costly litigation prior CWA leadership chose to continue without sufficient public justification – most notably persisting after former San Diego Mayor Kevin Faulconer publicly called on the Board to accept a proposed settlement in December 2019. The prolonged litigation foreclosed opportunities for earlier resolution, contributed to public perception of misaligned priorities, and raised questions about outside influence on agency decision-making.

(3) The July 2025 decision to discontinue the use of outside consulting services under legal privilege to advise Board members serving on MWD marks an important and corrective step in CWA's post-litigation posture. It helps avoid the appearance of overusing attorney-client privilege to circumvent otherwise expected and reasonable levels of public transparency.

(4) CWA's engagement during this municipal service review has been constructive. Leadership provided requested information transparently, engaged substantively with LAFCO's analytical assessment – including those identifying financial and structural concerns – and participated in good-faith dialogue.

(5) CWA has indicated its most recent financial analysis and rate model are intended to position the agency for a more sustainable future than the 2024 financial model evaluated in this MSR. LAFCO's approach is to trust but verify – acknowledging the financials as they currently stand while recognizing leadership has already begun taking steps in the right direction.

(6) CWA has initiated a Business Model Review process involving its management team and the general managers of its member agencies. An initial workshop was held in February 2026 to establish a foundational understanding of CWA's current business model and frame subsequent discussions regarding issues and challenges warranting further evaluation, along with potential solutions aligned with the regional service objectives of CWA and its member agencies. Resulting recommendations are expected to be presented to the CWA Board and the governing bodies of its member agencies for consideration.

(b) CWA's decades-long pursuit of supply independence prioritized drought proofing over affordability, and as a result has produced a secure water supply with a burdensome cost structure borne by downstream ratepayers across the San Diego region that current leadership cannot readily reverse.

(1) The take-or-pay supply agreement with the Imperial Irrigation District for QSA water carries a cost of $1,050 per acre-foot compared to $942 per acre-foot for equivalent MWD supplies – an 11.5% premium. With contractual commitments to purchase 280,000 acre-feet annually through 2048, this translates into approximately $30.2 million in additional annual costs.

(2) The take-or-pay supply agreement with Channelside Water Resources for desalinated water from the Claude "Bud" Lewis Carlsbad Desalination Plant carries a cost of $3,110 per acre-foot – a 230% premium over equivalent MWD supplies. With contractual commitments to purchase 42,000 acre-feet annually through 2045, this translates into approximately $91.1 million in additional annual costs.

(3) Over the 15-year reporting period ending in 2023, CWA's wholesale rate for untreated water has increased by 165%, while the rate for treated water has increased by 152%. Both increases materially exceed San Diego regional inflation of approximately 49% over the same period.

(c) CWA's decades-long pursuit of supply independence has materially complicated MWD's responsibility to provide effective regional coordination of imported water supplies benefiting all ratepayers in Southern California.

(1) MWD was established to represent the collective interests of Southern California and achieve economies of scale in purchasing and delivering imported water through shared investment and benefit across the region.

(2) CWA's decision to secure independent supplies established a precedent for MWD member agencies to prioritize individual supply security over regional coordination – a scenario now repeating at smaller scale as CWA's own members pursue local alternatives that erode CWA's customer base.

(d) CWA is approaching a critical tipping point under its two take-or-pay agreements as annual demand trends toward – and increasingly below – the combined contractual obligation of 322,000 acre-feet per year, requiring member agencies and their ratepayers to pay for unused water supplies.

(1) Current CWA leadership has publicly acknowledged that beginning in 2027, CWA will deliver less water annually than required under its two take-or-pay agreements – a significant departure from prior assurances.

(e) CWA's weighted voting structure, based on cumulative financial contributions, works when all member agencies are equally invested in the agency's trajectory.

(f) Weighted voting at CWA is becoming increasingly challenging in the era of roll-offs, creating a growing misalignment between decision-making authorities and the member agencies incurring the financial consequences.

(1) Member agencies with access to newer and lower-cost supply alternatives – most notably potable reuse – are positioned to retain outsized influence over decision-making despite declining reliance on CWA supplies.

(2) Rate-setting, capital investment, and debt management decisions are most vulnerable to short-term decision-making, with agencies holding voting control less incentivized to pursue holistic approaches that best serve the San Diego region.

(g) Further compounding the weighted-vote dynamic at CWA is a City of San Diego policy prescribing its ten board representatives to vote as a bloc based on a majority vote. As a result, six of the ten City representatives can determine how

all ten City votes are cast, effectively enabling six board members to control approximately 42% of the total voting power of the CWA.

(h) A disconnect exists between the City of San Diego's representatives on the CWA board and the City's public utilities governance structure (the Mayor and City Council), resulting in regional governance that is fragmented and less predictable. This is evidenced by City representatives publicly opposing the City's own Pure Water program, diverging from Mayoral and Council direction on the 2019 settlement with the Metropolitan Water District, and supporting water rate increases that have been met with significant concern – and deemed unacceptable – by the City Council. This dynamic is distinct from other member agencies, where the CWA board representatives are also responsible for governance of their own water districts, resulting in more closely aligned priorities and objectives.

(h) CWA's structural challenges — take-or-pay commitments exceeding projected demand, expense-revenue imbalance, and governance constraints — warrant consideration of restructuring options ranging from internal reforms to more fundamental organizational changes.

(1) Internal reforms are currently underway by CWA and focus on realigning the agency's revenue and cost structures, expanding financial flexibility through water transfer opportunities, and rebuilding cooperative relationships with MWD following the June 2025 settlement.

(2) A preliminary assessment of available organizational changes identifies three concepts LAFCO believes have sufficient merit to warrant a full comprehensive evaluation – including an analysis of potential cost, legal, operational, equity, and affordability impacts – should the Commission determine it appropriate. These concepts are summarized below.

- Evolve to Subregions | Dissolve CWA and concurrently form two or more new subregional wholesale agencies as designated successors that proportionally assume CWA's assets and liabilities. This option recognizes CWA encompasses communities with divergent water supply profiles that could benefit from tailored supply portfolios and rate structures — including debt service — matched to common member needs rather than blending across dissimilar service conditions.

- Reset to Regional Conveyance Role | Dissolve CWA and concurrently form a new regional water conveyance special district with treatment and storage duties as a limited successor agency to hold MWD membership, billing duties, and maintenance responsibilities; MWD would assume lead successor role for CWA's assets and liabilities. This option effectively reverses CWA's post-1991 transformation from pass-through agency to independent supplier, returning wholesale supply decisions to MWD.

- Enhance CWA to Assume Retail Operations. Reorganize and expand CWA to operate as both wholesaler and retailer, allowing the agency to assume – gradually or otherwise – full control of potable water management across the region. This option consolidates the fragmented retail landscape under unified regional management, eliminating duplicative administrative costs, optimizing treatment and distribution infrastructure regionwide, and better aligning rate structures.

(i) Given the magnitude and positivity of recent changes – new leadership, MWD settlement, water transfer opportunities, and CWA's recent execution of two new long-term water transfer agreements – it would be appropriate to allow current internal reforms time to demonstrate effectiveness before committing resources to explore fundamental organizational changes.

(j) LAFCO should prepare an addendum to this municipal service review within 24 months to update the Commission on progress made by CWA in its internal reforms and whether it is appropriate to proceed with fully exploring fundamental organizational changes, which may include ultimately initiating actions as authorized by the Legislature and subject to voter confirmation.

(1) The two-year addendum timeline purposefully aligns with the City of San Diego's recent action to limit authorization of future retail increase associated with CWA's wholesale pass-through costs to two years with concurrent direction to City staff to maximize rate relief efforts.

(2) A two-year period would also provide CWA with both time and incentive to deliver measurable progress on the Business Model Review Process it has initiated, as well as to demonstrate the scale, durability, and revenue performance of its emerging water exchange strategy.

(3) Separately, the two-year window preserves LAFCO's ability – consistent with its oversight responsibility – to revisit CWA's fiscal and operational trajectory before a more significant structural inflection point may occur.

7.7 Environmental Justice (Adopted Policy)

(a) LAFCO should prioritize future proposals within CWA that promote environmental justice and provide benefits - direct and indirect – to marginalized communities on a case-by-case basis.

(b) The following determinations apply to CWA, drawing from climate action plans (CAPs) that collectively cover the agency's jurisdictional boundary, and address the cascading effects of greenhouse gas (GHG) emissions and outline strategies to mitigate related environmental and social impacts.

(1) 16 of the 18 land use authorities overlapping CWA have adopted CAPs, with most targeting 40–61% GHG reductions by 2030 and 80–100% or net zero by 2045. The City of San Diego sets the most ambitious near-term goal – 61% by 2030 and carbon neutrality by 2035 – while recent plan updates in Carlsbad, Solana Beach, and the County of San Diego align closely with statewide climate targets. El Cajon and Poway have yet to adopt CAPs.

(2) CWA proactively adopted its own CAP in June 2020, establishing a GHG reduction target consistent with the statewide goal of achieving a 40% reduction below 1990 levels by 2030. The plan focuses on reducing operational emissions through three primary strategies: (1) increasing the use of renewable energy to lower electricity-related emissions, (2) improving the efficiency and carbon performance of the CWA's fleet and employee transportation, and (3) expanding water conservation programs to reduce customer demand and associated water-related emissions.

(c) Future LAFCO reports should revisit and expand analyses on CWA policy efforts to reduce greenhouse gas emissions and related efforts to address and promote environmental justice.

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Appendix A
Background Information

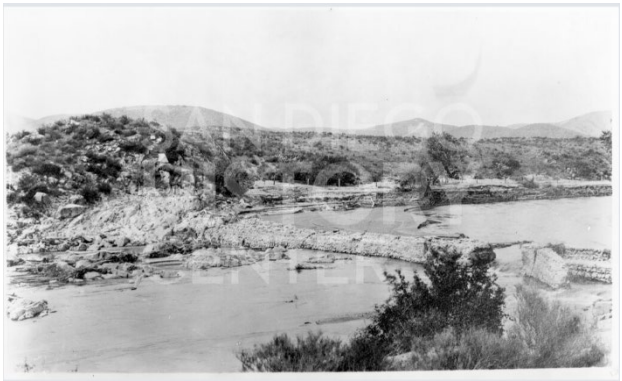
Community Development

The development of the CWA's present-day jurisdictional boundary and its role in providing water supplies to the San Diego County region dates back thousands of years to the Kumeyaay people who stewarded the lands and waters across contemporary San Diego and northern Baja California. The Kumeyaay established permanent villages and seasonal camps, relying on rivers, streams, and coastal resources to sustain their communities and practicing sophisticated land- and water-management techniques that shaped the region's ecology. By the late 1700s, other indigenous groups such as the Payomkawichum people, also known as the Luiseños by Spanish settlers, also established permanent villages along the Santa Margarita and San Luis Rey Rivers.

It was during the late 1700s Spanish settlement began in the area with the founding of California's first mission, Mission San Diego de Alcalá, on July 16, 1769 by Franciscan priest Saint Junípero Serra, becoming the Mother of the Missions. Originally situated on a hill overlooking the bay, the mission was relocated near the San Diego River in 1774 due to a drought that necessitated access to more reliable water for agricultural purposes. This mission was the first in a series of 21 missions built along a 600-mile stretch of road – known as El Camino Real – in California, ending in Sonoma at San Francisco Solano.

Mission San Diego de Alcalá led to the construction of the Old Mission Dam – or Padre Dam – in 1803 to strengthen its water supply for the Mission and irrigation. The dam was completed in 1813 in the Misson Gorge area with its ruins preserved as part of the Mission Trails Regional Park. A round this same time, families from the San Diego Presidio began to settle in what would become Old Town San Diego, bringing the population to over six hundred. Notably, in 1824, Pio Pico, who would later become the Governor of California in 1832, completed his adobe home in the area.

Old Mission Dam
Mission Gorge Area: San Diego, California -- (C 1900)



Credit: San Diego History Center

In 1835, San Diego held its first election as a pueblo, with Juan Osuna elected as its first alcalde – or mayor – defeating Pio Pico. Over the next century, significant events unfolded, including Mexico's independence from Spain, which resulted in the mission being granted to Santiago Arguello. The U.S.-Mexican War followed, culminating in the Treaty of Guadalupe Hidalgo in 1848, which ceded control of the area to the United States. The military occupied the mission and surrounding lands until 1857. By 1863, the region was heavily impacted by floods and followed by a "Great Drought", which severely affected California's cattle industry.

In 1868, the Kimball Brothers acquired 26,400 acres of Rancho de la Nación, now known as National City. By 1888, the Kimball Brothers' San Diego Land and Town Company completed the construction of Sweetwater Dam, the first major dam in the county, which stood at 98 feet. This development provided a reliable water source, fueling the growth of their newly acquired land, which includes what are now Chula Vista and National City. The San Diego Flume Co. was not far behind and completed the Cuyamaca Dam in 1888 which continues to be a key part of the San Diego water supply system via the Helix WD.

Sweetwater Dam
William Dickinson and Frank A. Kimball -- (C 1888)



Credit: San Diego History Center

Similar water supply efforts took place in northern San Diego, as agricultural canals were being constructed to divert flows from the San Dieguito River System to San Pasqual Valley. This also included construction of the Escondido Canal which began diverting flows from the San Luis Rey River to serve farms in Escondido and Vista. While these projects advanced agriculture, they also reduced river flows through Luiseño reservations such as Pala, Pauma, Rincon, and La Jolla, creating disputes over tribal water rights.

By 1900, San Diego County's population had reached 35,090, a 43-fold increase from the 798 residents in 1850. By 1930, the population surged to approximately 209,659. As the population continued to grow and the region's military presence expanded during World War II, securing a reliable water supply became a critical concern, leading to the formation of the CWA. In 1944, at the direction of President Franklin D. Roosevelt, the federal government ordered the construction of the first barrel of the San Diego Aqueduct to link San Diego with the MWD's Colorado River Aqueduct. The federal government also recommended CWA pursue annexation negotiations with MWD. These discussions initiated shortly after and culminated in the CWA's annexation into MWD in 1946.

First Pipeline to the Colorado River
San Diego, California -- (C 1940)



Credit: San Diego County Water Authority

2.2 Formation Proceedings

CWA was created under special legislation in response to a growing need for a reliable water supply in San Diego County, particularly as the region's population increased and its military presence expanded during World War II. The State Legislature sought to create an option for voters to form a public agency responsible for administering pre-established water rights to the Colorado River.

CWA was comprised of nine charter members that had all taken action to consent to their participation subject to voter approval: Cities of Chula Vista, Coronado, Oceanside, San Diego, and National City, as well as Fallbrook Public Utility District, Lakeside Irrigation District, La Mesa, Lemon Grove & Spring Valley Irrigation Districts, and Ramona Irrigation District. A special election was held on May 16, 1944, with voters approving formation by more than 90%.



THE TRIBUNE-SUN

Cassino Totters as Allies Storm Adolf Hitler Line

ABBEY GAINING; SHELL, ROBBINS, AUSTIN LEAD

Voters Insure Water Rights

Authority Backed 53,712 to 3824

2.3 Notable Post-Formation Activities + Events

A summary of notable activities or events following CWA's formation involving the community or CWA government follows.

1940s

The United States Navy declares a wartime emergency in late 1944 and begins constructing an aqueduct, built by the Bureau of Reclamation, to transport Colorado River water to the San Diego region.

The U.S.-Mexico Water Treaty goes into effect on November 8, 1945, allocating a portion of Colorado River water to Mexico, with provisions for the use of the Colorado and Tijuana Rivers, and the Rio Grande.

San Diego assumes responsibility for financing the completion of the San Diego Aqueduct, with voters approving $2 million in water bonds and the annexation of the CWA to the MWD in 1946. San Diego's 112,000-acre-foot share of Colorado River water is transferred to MWD; a negotiated allocation dating back to a 1933 contract with the U.S. Department of the Interior, which granted San Diego fifth-priority water rights from the Colorado river.
The San Diego Aqueduct opens in 1947, delivering Colorado River water into San Vicente Reservoir at a capacity of 65,000 acre-feet per year.

1950s

The United States' census count in 1950 estimates 556,808 residents in San Diego County, and a drought raises concerns about water shortages, compounded by growing population and the limitations of Pipeline 1.

The second pipeline to the First Aqueduct is completed in 1954, doubling delivery capacity, but still insufficient to meet demand. The CWA expands to 18 member agencies and serves an area four times larger than initially.

1960s

California voters approve a bond measure in 1960 to fund the State Water Project, including the California Aqueduct, to transport water from Northern to Southern California, including San Diego. By this time, the CWA had tripled its water deliveries to 156,858 acre-feet and doubled its infrastructure to meet the needs of San Diego County's 1.03 million residents (U.S. Census).

Pipeline 3 is completed in 1961 and boosts the Second Aqueduct's capacity by 80%, increasing annual delivery by 170,000 acre-feet and ensuring stable supply for 95% of the county's residents.

In 1964, The U.S. Supreme Court ruled that California and Arizona must equally divide surplus Colorado River water, with California permitted to use more than its share, provided Arizona had no immediate need. This decision would impact San Diego's water supply in 1985, when Arizona completed its Central Arizona Project and began exercising its claim to the surplus water.

1970s

Pipeline 4 in the Second Aqueduct is completed in 1973, doubling the CWA's delivery capacity to match the first three pipelines, addressing rising demand from a population exceeding 1.3 million (per the U.S. Census).

Water from the Sacramento-San Joaquin Delta reaches San Diego via the State Water Project in 1978, further diversifying the region's water resources.

1980s

The United States' census count in 1980 estimates nearly 1.9 million residents in San Diego County. Water deliveries approximate 310,000 acre-feet across 210 miles of infrastructure. The CWA has expanded to 24 member agencies, including Marine Corps Base Camp Pendleton.
The completion of Pipeline 5 in the Second Aqueduct in 1982 increases the water delivery capacity to one million acre-feet per year, marking the fifth and last pipeline built in the system.

1990s

The MWD imposes a 31% supply cut in 1991—20% for urban and 50% for agricultural users. In response, the CWA explores reducing reliance on MWD. CWA also sponsors state legislation requiring low-flow toilets for conservation.

CWA and IID sign an agreement in 1998 to transfer up to 300,000 acre-feet of water annually, a result of negotiations that began in 1995.

2000s

California amends the CWA Act in 2000, expanding the Water Authority's powers to include the construction of electric and natural gas facilities.

The Olivenhain Dam, completed in 2003, was the first major dam constructed in the county in over 50 years and serves as a cornerstone of the Emergency Storage Project, enhancing regional drought and emergency preparedness.

The Quantification Settlement Agreement (QSA) is signed in 2003, establishing the largest water conservation and transfer deal in U.S. history. It secures additional water from lining the All-American and Coachella canals, meeting over half of the region's demand by 2023. The Coachella Canal lining is completed in 2007, followed by the All-American Canal in 2010.

The Delta Reform Act of 2009 is enacted by the State of California to ensure a more reliable water supply while protecting the Bay-Delta ecosystem. The act also focuses on reducing dependence on the Bay-Delta and boosting regional self-sufficiency—goals the CWA had been pursuing through its water supply diversification strategy.

2010s

The CWA signs a 30-year Water Purchase Agreement with Poseidon Water, owner of the Claude "Bud" Lewis Carlsbad Desalination Plant, in 2012; for up to 56,000 acre-feet of desalinated seawater annually, covering approximately 10% of the region's water demand. At the end of the 30-year term, the CWA has the option to acquire the plant for $1.

The San Vicente Dam Raise is completed in 2014, doubling storage capacity to 154,000 acre-feet, from its previous 90,000 acre-feet.

The Claude "Bud" Lewis Carlsbad Desalination Plant, the largest desalination plant in the United States, begins operations in 2015, adding further diversity to the CWA's water supply portfolio.

2020s

CWA challenged MWD's rate structure in 2021 via a ratepayer protection lawsuit, arguing it unfairly burdened local ratepayers. This resulted in the CWA securing a $90 million settlement, which was returned to its member agencies.

CWA is awarded a patent for its pipeline inspection system in 2022 delivering nearly 400,000 acre-feet of water through 310 miles of pipeline to over 3.3 million residents.

Assembly Bill (AB) 530, introduced by Assemblymember Boerner, is gutted and amended to revise the CWA Act in May 2023. The revision mandates a confirming vote from the entire electorate of the CWA if any member agency is approved by LAFCO to detach. The amended bill was sponsored by the City of San Diego and renumbered as AB 399.

While outside of the reporting period, a notable event took place, before the draft report published, on June 2, 2025 when the CWA and MWD settled 15 years of litigation over QSA water transport fees. The new agreement replaces variable charges with a fixed fee, adjusted annually for inflation based on the Consumer Price Index.

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APPENDIX B

INDEPENDENT TECHNICAL ASSESSMENT OF THE SAN DIEGO COUNTY WATER AUTHORITY:

WHOLESALE WATER SERVICE FUNCTION

Prepared for:

San Diego County Local Agency Formation Commission

Prepared by:

Dr. Michael Hanemann
Water Economist

As part of:

Municipal Service Review on the San Diego County Water Authority

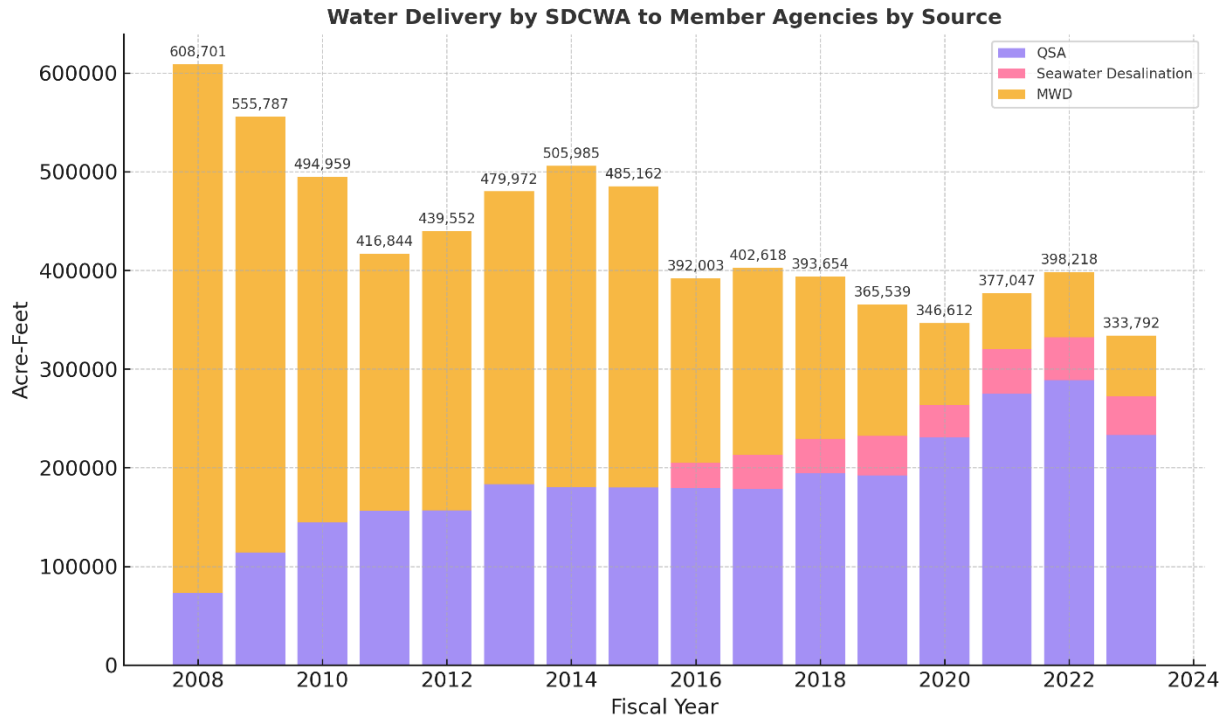
July 2025

SAN DIEGO COUNTY WATER AUTHORITY (SDCWA) SUPPLY

SDCWA was founded in June of 1944 to bring water from the Metropolitan Water District of Southern California (MWD) to San Diego County to supply the needs of an urban population that had mushroomed during World War II. At that time, MWD's sole source of supply was Colorado River water delivered through its Colorado River Aqueduct. In 1960, MWD contracted to purchase water from the new California State Water Project (SWP) bringing water from the Feather River, a tributary of the Sacramento River in Northern California. Delivery of this water to MWD via SWP's California Aqueduct commenced in 1973. From then on MWD delivered to its member agencies, including SDCWA, a blend of SWP water and Colorado River water. Unlike most other MWD member agencies which had some other sources of supply, SDCWA relied on MWD for about 95% of its water. SDCWA was thus the most vulnerable member agency when MWD was forced – for the first time ever -- to reduce water deliveries during the severe drought in 1990 and 1991. In March 1991, MWD cut deliveries at short notice to all member agencies by 20% for urban uses and by 50% for agricultural use, for an overall cut of 31%. MWD then announced additional cuts of 50% for urban use and 90% for agricultural use. However, unexpected heavy rainfall later that month ended MWD's need for water supply cutbacks. in the aftermath of those events, SDCWA sought to become less dependent on MWD for its water supply. It accomplished this in two ways, by contracting for its own water from the Colorado River and by constructing an ocean water desalination plant.

In 1998, SDCWA initiated an agreement with Imperial Irrigation District (IID) to purchase water that IID diverted under a senior water right from the Colorado River. The purchase agreement was completed in October 2003 as part of a larger settlement defining the rights of Southern California water agencies to a portion of Colorado River water (the Quantification Settlement Agreement, or QSA). It included additional Colorado River water obtained by SDCWA after paying to line the All-American and Coachella Canals that deliver Colorado River water to IID so as to reduce canal seepage. Under the canal lining agreement, the SDCWA is to receive 80,000 acre-feet (AF) of conserved water a year for 110 years in exchange for an annual payment that would rise over time. Separately, IID agreed to conserve and transfer water from the Colorado River for up to 45 years with an optional 30-year extension in an amount that ramped up to 200,000 AF/yr by 2021. In exchange, SDCWA makes payments per acre foot that are scheduled to rise over time. To move the IID and canal lining water to San Diego County, SDCWA reached a Water Exchange Agreement with MWD to use MWD's Colorado River Aqueduct, running through 2048, in exchange for annual payments per acre foot that would rise over time.

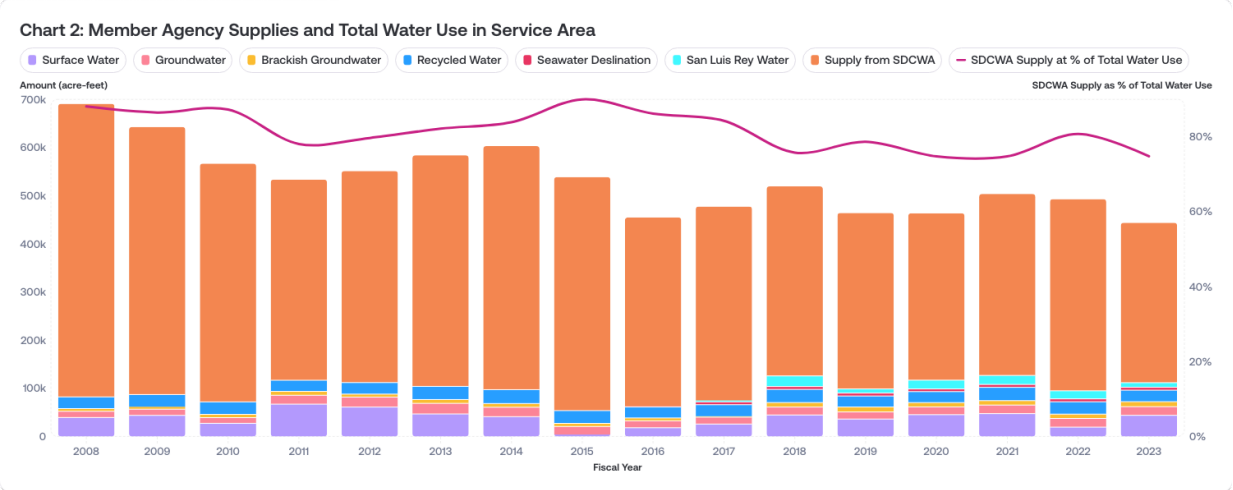
In 2002, SDCWA initiated negotiations with Poseidon Water, a water infrastructure development company, to construct a desalination facility along the coast in Carlsbad. An agreement was signed in 2012 and the Carlsbad Desal facility began delivering water in 2015. Under the agreement, SDCWA buys 48,000 AF annually from the plant for 30-years in exchange for annual payments that rise over time. SDCWA has the option to purchase an additional 8,000 AF/year at a lower rate. After 30 years, SDCWA has the option to buy the plant for $1. SDCWA subsequently contracted with two member agencies, Carlsbad Municipal Water District and Vallecitos Water District, for direct purchase 6,000 AF of the Water Authority's annual commitment of 48,000 AF at full cost recovery to the Water Authority. Given these purchase commitments, each year SDCWA takes the committed net quantities of QSA water and desalinated water from the Carlsbad facility amounting to 322,000 AF. To the extent that its member agencies require more water, SDCWA buys the additional water as a member agency of MWD, paying MWD's fixed and variable charges like any other member agency. Chart 1 shows the amounts of water supplied annually by SDCWA since 2008, broken down by water source. The share of water received by SDCWA from MWD (excluding QSA water) fell from 88% in 2008 to 18.5% in 2023.



LOCAL MEMBER AGENCY SUPPLIES

Many SDCWA member agencies own some sources of water that they supply along with water purchased from SDCWA. These sources are primarily local groundwater and local surface water. A third source is treated and disinfected wastewater from municipal wastewater treatment plants which either member agencies operate themselves or with which member agencies contract. The recycled water is used for non-drinking purposes such as for ponds and ornamental fountains; to irrigate parks, campgrounds, golf courses, freeway medians, athletic fields, food crops and nursery stock; and to control dust at construction sites.

Some member agencies also have more specialized sources of supply. Two member agencies, Oceanside and Sweetwater, operate desalination facilities with which they treat brackish local groundwater to potable water standards. Two member agencies, Vallecitos Water District and Carlsbad Municipal Water District, entered into contracts with SDCWA to purchase desalinated water from the Carlsbad facility. Finally, two member agencies, the City of Escondido and Vista Irrigation District, receive wheeled water deliveries from the San Luis Rey Indian Water Authority as part of a settlement with several Indian Bands to resolve water disputes on the San Luis Rey River. Chart 2 shows the breakdown of these member agency supplies.

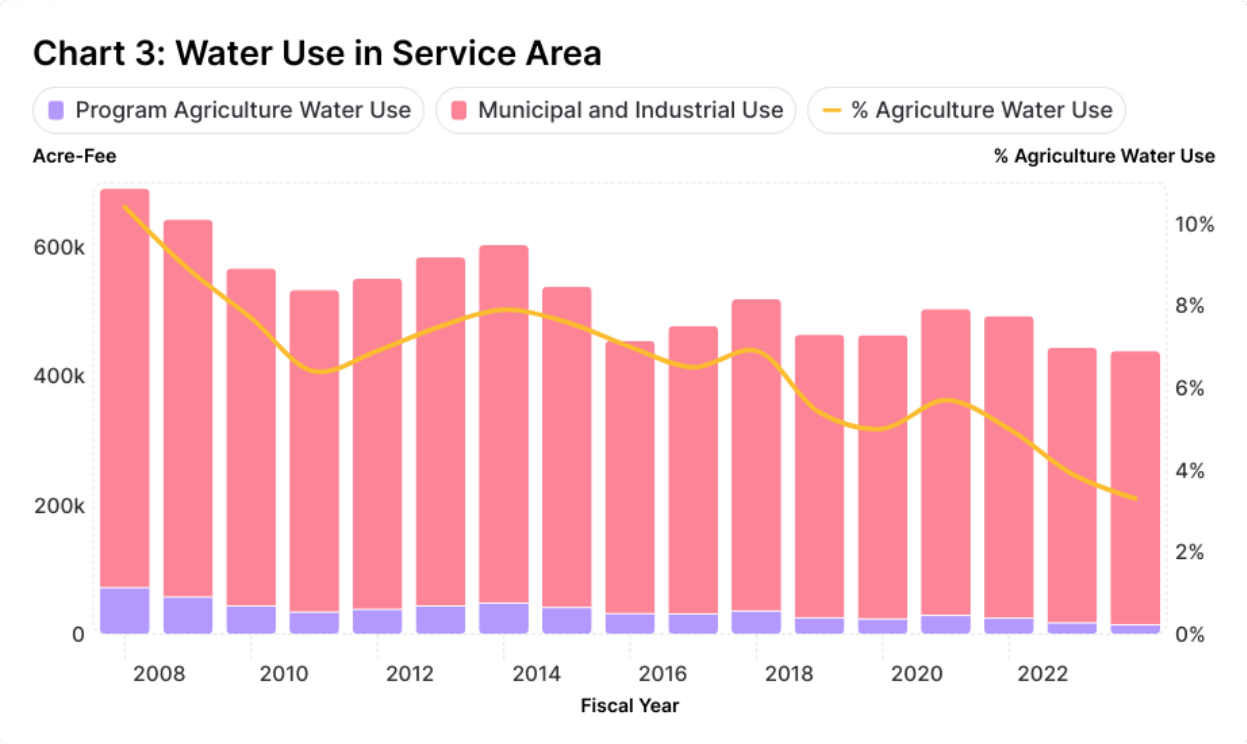


Like SDCWA's surface water supplies, member agencies' local surface water supply is not resilient against drought. Member agency local surface water supply hit its lowest levels in 2015 and 2022, two major drought years. On the other hand, the growing share of local supply from recycled water, desalinated brackish groundwater and desalinated ocean water is considered highly resilient to drought. Over the entire

period, 2008 to 2023, member agency local supply accounted for about 18% of total water use in the SDCWA service, while SDCWA supply accounted for about 82%. The SDCWA share peaked at 90% in the drought year of 2015.

DEMAND

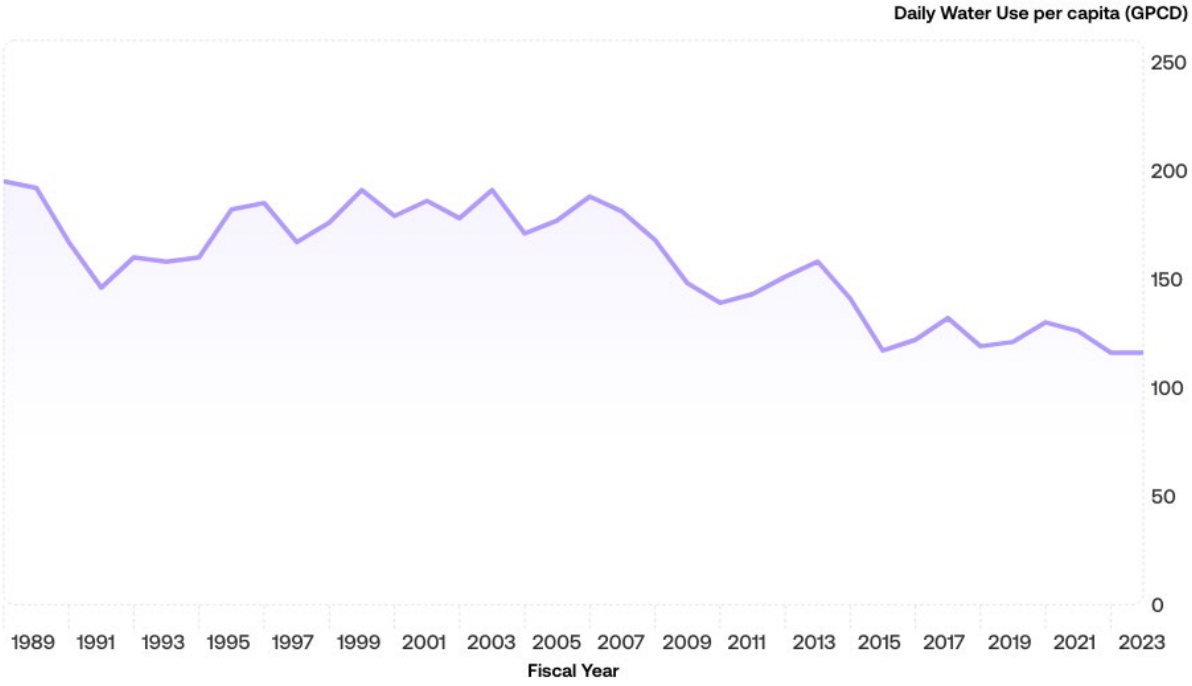
The population served by SDCWA grew from about 3 million in 2008 to just under 3.3 million in 2024. Total water use from local sources plus SDCWA water fell by about 36.5%, from 690,850 AF n 2008 to 438,888 in 2024. The share of agricultural use in total water use fell from 10.4% in 2008 to 5% in 2022 and to 3.3% in 2024 after the detachment of Fallbrook PUD and Rainbow MWD. Daily per capita municipal and industrial (M&I) water use fell by 36% from 181 gallons per capita per day (gpcd) in 2008 to 116 gpcd in 2023 (Chart 4).



The reduction in water use is especially striking when seen from a historical perspective. Chart 4 shows the long-term evolution of per capita water use in the SDCWA service area between 1989 and 2024. Water use had been rising in the late 1980s but dropped by 24% during the 1991 drought. By 1996, however, water use had recovered to about 90% of its level in 1990. It fluctuated around that level through 2007 before starting a steep decline. The decline may have been triggered by drought in

2008 and 2009 but, unlike the past, water use did not subsequently return toward the pre-drought level. Instead, it declined further through the drought in 2014 - 2016 and beyond, becoming stabilized around a new low level. The reduction in water use post-2009 was certainly due in part to conservation efforts by SDCWA member agencies in response to California's 20 by 2020 Urban Water Conservation Program, established under Senate Bill X7-7 in 2009. The legislation set the goal of reducing per capita urban water use in California by 20% by the year 2020. Events since 2009 seem to have overtaken the legislation, leading SDCWA's service area to greatly exceed that conservation goal.

Chart 4: Per Capita Water Use in SDCWA Service Area



WATER RATES

SDCWA receives revenue both from charges paid by SDCWA member agencies and from charges levied on the properties within the SDCWA service area. Ad valorem taxes on property are billed and collected annually by the County of San Diego; a portion of the tax on properties in its service area is remitted to SDCWA by the County. Ad valorem taxes were the SDCWA's major source of revenue until about the 1960s. Properties in the SDCWA service area are also assessed an annual Standby Availability Charge. Property tax and the Standby Availability Charge are both examples of what economists call *fixed* charges since the amount billed does not vary with the amount

of water delivered to the property. In addition, new properties in the service area pay a one-time System Capacity Charge and a one-time Treatment Capacity Charge. These charges vary with the size of the meter and are designed to recover the cost for the conveyance, storage and treatment facilities necessary to operate the water delivery system.

Until 2002, SDCWA collected two main charges from member agencies: a uniform volumetric water rate for raw and untreated water ($95 per acre foot in 2002) and an Infrastructure Access Charge (IAC), a fixed monthly charge per meter served by the member agency, a measure of the agency's potential to take water from SDCWA ($1 per meter per month in 2002). The IAC, introduced in 1998, was designed to provide a revenue stream independent of fluctuations in water sales which, when added to the SDCWA's Standby Availability Charge and property tax revenues, covers at least 25% of the Authority's estimated annual fixed costs.

Beginning 2003, the volumetric rate was unbundled (MWD unbundled its wholesale rates at the same time). Four new rate categories were created, two volumetric rates and two fixed annual charges. The Water Supply Rate is a volumetric charge per acre foot delivered to the member agency that recovers the full cost of water supply incurred by SDCWA – originally the cost of purchasing water from MWD and subsequently also the cost of water from IID and the canal lining projects, the cost of MWD wheeling the Colorado River water, and costs related to the Carlsbad Desalination Plant. The Transportation Rate is a volumetric charge set to recover capital, operating, and maintenance costs of SDCWA's water delivery facilities.

The new fixed charges were a Customer Service Charge and a Storage Charge. The Customer Service charge is set to recover costs that are necessary to support the functions of the SDCWA, develop policies and implement system-wide programs. The Storage Charge is set to recover costs associated with SDCWA's Emergency Storage Program (ESP) and Carryover Storage Program (CSP), systems of reservoirs, interconnected pipelines and pumping stations designed to make water available in the San Diego region in the event of an interruption in imported water deliveries and, in the case of CSP, provide operational flexibility and drought protection. Each year, a fixed amount of money is set to be recovered through the Customer Service Charge and another amount through the Storage Charge. Individual member agencies are each assigned a share of those totals proportional to their three-year rolling average share in total water deliveries to all member agencies. These fixed charges serve to

reduce the vulnerability of SDCWA revenues to fluctuations in the amount of water delivered annually to member agencies.

Some – but not all -- of the water that SDCWA receives as a member of MWD is treated to drinking water quality. Other water that SDCWA supplies is delivered untreated and is treated in drinking water treatment plants owned by the member agencies or by other local agencies. In 2008, SDCWA opened its own Twin Oaks Valley Water Treatment plant.[1] In anticipation of this, in 2006, the Water Supply Rate became the rate for untreated water and a Treatment Rate was introduced and charged per acre-foot of treated water supplied to member agencies, to cover SDCWA's costs of water treatment.[2]

In 2016, SDCWA added another fixed annual charge to member agencies, the Supply Reliability Charge. This is designed to recover a portion of the Carlsbad Desalination Plant and the IID transfer water costs. The total amount to be recovered each year is set equal to 25% of the difference between the supply cost of those two sources, regarded as the most reliable supplies available to SDCWA, and a like amount of water purchased at the MWD Tier 1 rate. This total is apportioned among member agencies according to their five-year rolling average share in total water deliveries to all member agencies.

In 2002, there had also been a reduced Special Agricultural Supply water rate when SDCWA delivered water to a member agency for agricultural use (set at $80/AF instead of $95/AF in 2002). That rate ended in 2003 when the new set of rates and charges was introduced. A Temporary Special Agricultural Water Rate (TSAWR) was re-introduced in 2013 and made permanent in 2021.[3] Under this rate, an agricultural user served by a member agency pays the MWD Tier 1 rate instead of SDCWA's usual Water Supply rate. SAWR use is also excluded in calculating the member agency's Supply Reliability Charge and its Storage Charge. However, In exchange for receiving the lower supply rate, SAWR customers are subject to the same percentage supply cutback in the event of shortage as that imposed by MWD on SDCWA over the same period of time: SAWR customers do not benefit from or pay for SDCWA's access to the more reliable supply of storage, QSA and Carlsbad Desal water.

[1] In FY 2023, 36% of the water delivered by SDCWA was treated, either by the Authority itself or by MWD.
[2] SDCWA also added to the System Capacity Charge a Treatment Capacity Charge paid when a new property is connected to a member agency.
[3] The permanent agricultural water rate is referred to as PSAWR.

Table 1 shows the rates and charges imposed by SDCWA for calendar 2023.[4]

Table 1: SDCWA Calendar Year 2023 Rates			
Type of Charge	**Year Introduced**	**Unit Charge**	**Total Allocated ($ Million)**
VOLUMETRIC COMMODITY RATES ($/AF)			
M&I Water Supply Rate Untreated	2003	$1,085	
Transportation Rate	2003	$173	
Treatment Rate	2006	$350	
Special Agricultural Water Supply Rate Untreated	2013	$855	
SERVICE CHARGE ON ROLLING AVERAGE OF PURCHASES			
Customer Service Charge (3-year average)	2003		$26.0
Storage Charge (3-year average)	2003		$60.0
Supply Reliability Charge (5-year average)	2016		$40.9
CHARGE PER METER EQUIVALENT			
Infrastructure Access Charge (per ME)	1998	$4.24	
ALL-IN RATE FOR UNTREATED WATER ($/AF)		$1,579	
ANNUAL CHARGE ON EXISTING PROPERTIES			
Ad Valorem Property Tax		varies	
Standby Availability Charge	1990	$10	
CHARGE ON NEW PROPERTIES			
System Capacity Charge	1997	$5,700	
Treatment Capacity Charge	2006	$159	

In addition to these various rates, SDCWA publishes an "all-in" water rate for untreated water which combines the volumetric untreated supply rate and transportation rate together with a rough equivalent per-acre-foot version of the customer service charge, storage charge and supply reliability charge and fixed charges.[5] The all-in rate in 2023 was projected at $1,579 per AF for untreated water. The 2023 Treatment Rate ($350/AF) is added to this figure for an all-in treated water rate of $1,929/AF.

Besides SDCWA's charges to member agencies, there are two charges imposed on SDCWA by MWD which SDCWA simply passes on to its member agencies: an MWD

[4] SDCWA and MWD both set rates by the calendar year, although they budget by the fiscal year.

[5] This all-in rate is not a rate charged by SDCWA: it is an amalgam of the volumetric and fixed charges levied converted to a rough equivalent per acre-foot volumetric rate.

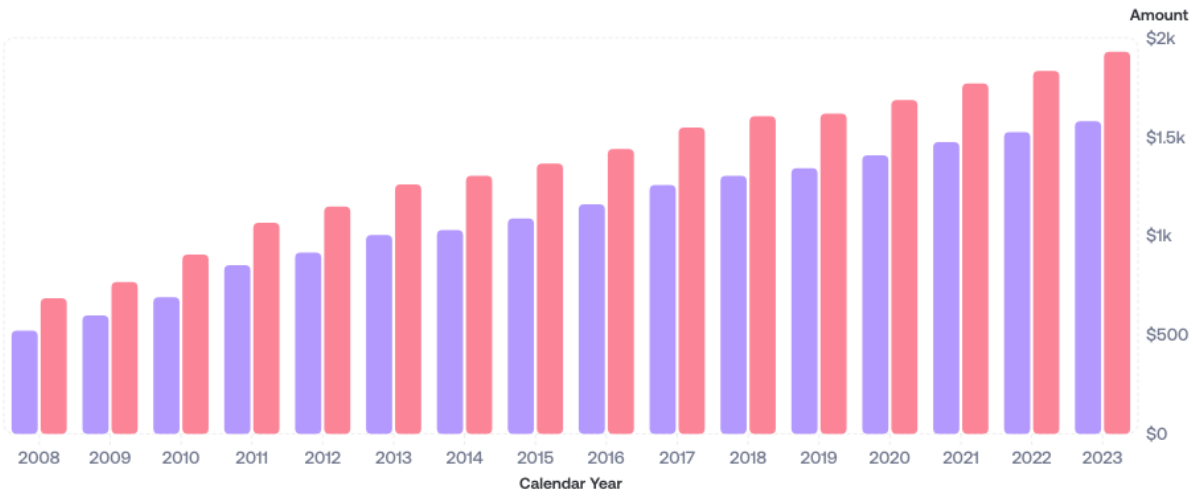
Capacity Charge and an MWD Readiness to Serve (RTS) Charge. The MWD Capacity Charge is a charge designed to recover costs incurred by MWD to provide peaking capacity within its water distribution system and is based on the member agency's maximum day flow (in cubic feet per second). The RTS charge recovers MWD's costs of providing emergency storage capacity and available capacity to meet outages and hydrologic variability. It is a fixed charge allocated among MWD agencies based on each agency's proportional share of a ten-year rolling average of MWD deliveries. The Capacity Charge applies to all water delivered by MWD to SDCWA including QSA water (this does not apply to Carlsbad Desal water). The RTS charge applies only to MWD water received by SDCWA as a member agency, thus excluding QSA water. These charges are not shown as separate items in Table 1. They are passed through to SDCWA member agencies based on the amounts of MWD water they receive from SDCWA, excluding QSA and Carlsbad Desal water.

WATER SUPPLY COST

Chart 5 shows SDCWA's all-in rates for untreated and treated water 2008-2023. The difference between the two rates is SDCWA's treatment rate. SDCWA's untreated all-in rate tripled, rising from $520 per acre-foot in 2008 to $1,579 per acre-foot in 2023. SDCWA's treatment rate slightly more than doubled over the period.

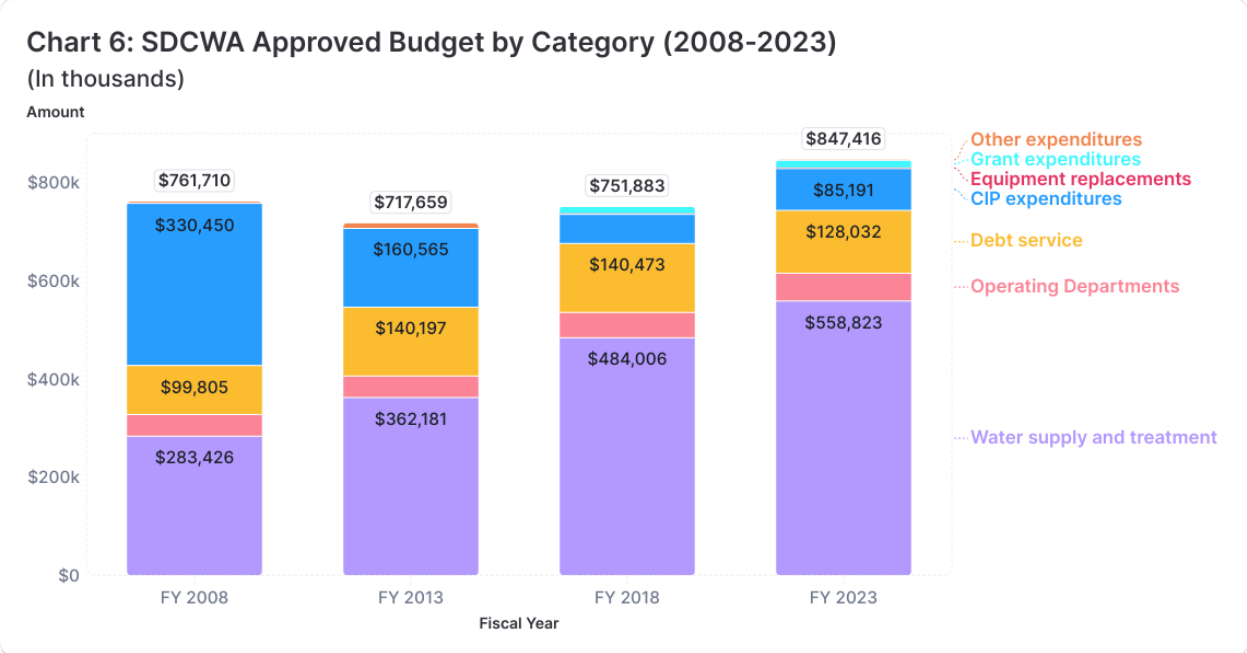
Chart 5: SDCWA All-In Water Rates

$/Acre-Foot



All-In Rates are NOT Board Adopted nor are they assessed to any member agency.
They are designed to be illustrative of potential rate impacts and vary based on budgeted sales.

The increase in SDCWA's rates over this period was driven by two factors: (i) cost inflation, especially in the cost of water supply, and (ii) declining water sales. To understand the roles of these drivers, it is necessary to examine SDCWA's cost structure. Chart 6 shows SDCWA's adopted budgets for FY 2008, 2013, 2018 and 2023, broken down by major expenditure categories.[6] Between 2008 and 2023, the annual adopted budget increased by just 11%. The expenditures for operating departments rose by 28%; their share of total expenses rose slightly from 5.8% to 6.7%. Debt service also rose by 28%. Expenditures on capital improvement programs (CIP) actually fell by 74%. Taken together the capital component of annual budgeted expenditures (debt service plus CIP) fell from 56.5% to 25.2%. The main increase was in the cost of water supply and treatment, which rose by 97% between 2008 and 2023, going from 37.2% of total budgeted expenditures to 66%.



The increasing cost of water supply is attributable to: (a) SDCWA's changing portfolio of water sources as between QSA water, desalinated water from the Carlsbad facility, and water purchased from MWD as a member agency; and (b) the increasing cost of each of these sources individually.

Chart 1 showed the change in the amount of water delivered to CWA. In 2008, 88% of the imported water delivered by SDCWA was MWD water and 12% was QSA water. In

[6] The Adopted Budgets are used because these provide more detail on the cost of water supply and treatment than the Comprehensive Annual Financial Reports, the ex-post accounting of expenditures actually made. The adopted budget breaks down the details of water supply and treatment costs by individual fiscal year; the figures in the other rows in Chart 6 were obtained by dividing the two-fiscal year budget allocation in half.

2023, 66% of the water delivered by SDCWA was QSA water, 23% was MWD water, and 11% was Carlsbad Desal water.

Table 2: SDCWA Water Cost by Source, 2008-2023 ($/Acre-Foot)							
Calendar Year	QSA WATER			MWD All-In Untreated Rate	Carlsbad Cost	MWD Treatment Rate	SDCWA Treatment Rate
	QSA All-In Rate	MWD Exchange	QSA Total Cost				
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
2008	$188	$278	$466	$400	$0	$157	$164
2009	$152	$314	$466	$474	$0	$184	$168
2010	$190	$314	$504	$475	$0	$217	$215
2011	$201	$372	$573	$535	$0	$217	$215
2012	$284	$396	$680	$578	$0	$234	$233
2013	$304	$453	$757	$637	$0	$254	$256
2014	$335	$445	$780	$679	$0	$297	$274
2015	$353	$424	$777	$663	$2,340	$341	$278
2016	$360	$438	$798	$683	$2,365	$348	$280
2017	$363	$465	$828	$766	$2,495	$313	$290
2018	$411	$431	$842	$778	$2,551	$320	$300
2019	$453	$453	$906	$813	$2,729	$319	$276
2020	$482	$482	$964	$842	$2,768	$323	$280
2021	$494	$534	$1,028	$864	$2,947	$327	$295
2022	$526	$556	$1,082	$886	$3,102	$344	$310
2023	$516	$534	$1,050	$942	$3,732	$354	$350

Table 2 shows the unit costs of each of these three supplies over the period of 2008 – 2023.[7] Columns (a) – (c) cover the cost of QSA water. With QSA water, SDCWA faces various annual charges to acquire the water, some from the Canal lining projects but most from IID. There are also some other QSA related costs including mitigation expenses. Although not all of these QSA costs occur on a per acre-foot basis (for example, mitigation expenses), they are amalgamated into an equivalent "all-in" volumetric rate, shown in column (a). In addition, SDCWA pays MWD under an Exchange Agreement to transport the QSA water using its Colorado River Aqueduct. This volumetric wheeling charge is shown in column (b).[8] Column (c) shows the overall

[7] This listing shows the actual "all-in-rate" during the reporting period applied specific to CWA and comprises three components: (1) Tier 1 Charge - base price every MET agency pays; (2) Capacity Charge – agency specific annual fee applied by MET based on their peak summer water use over the past 3 years; and (3) Readiness to Serve Charge – agency-specific annual fee applied by met based on their share of total deliveries over a 10-year average.

[8] SDCWA has been in litigation with MWD since 2010 over the size of this charge.

cost of QSA water. Column (d) gives the cost of water that the Authority obtains from MWD as a member agency. This involves a mix of volumetric rates and fixed charges, which the Water Authority used to convert into an equivalent "all-in" volumetric rate. It stopped making that conversion in 2020. Column (d) includes the MWD all-in untreated rate for 2021, 2022 and 2023 based on how that used to be calculated by SDCWA before 2020 in order to focus here specifically on how much MWD rates changed over the over period 2008 – 2023. The other factor at play – the combined impact of MWD's fixed charges and the Authority's declining take of MWD water on the per acre-foot cost to the Authority of MWD water – is covered in the next section. Column (e) shows the cost of water from the Carlsbad Desalination Facility, under the contract SDCWA negotiated with Poseidon in 2012.

Some SDCWA water is delivered untreated to member agencies, who arrange for treatment themselves. SDCWA water delivered treated to member agencies is treated by either MWD or SDCWA. The chart also shows the rates charged for treatment by MWD and SDCWA.

QSA water is more expensive for SDCWA than water obtained as a member agency of MWD. In 2023, QSA was 11.5% more expensive. Between 2008 and 2023 overall, QSA was about 15% more expensive. The primary reason why QSA costs more than water obtained as a member agency of MWD is MWD's wheeling charge. Carlsbad Desal water is now approaching three times more expensive than MWD water or QSA water.[9] But it is more resilient against drought-induced reductions in streamflow than those sources.[10] In 2023, Carlsbad Desal water accounted for only 11% of SDCWA's total water supply; for the period 2015 – 2023 overall, it accounted for just under 10% of SDCWA's supply.

With regard to water supply cost inflation over time, the unit cost of QSA water rose by 125% over the period 2008-2023, while the unit cost of MWD water rose by 136% over that period. MWD's treatment rate rose by 125% and SDCWA's treatment rate rose by 134%. Thus, SDCWA's unit cost of QSA water and MWD water overall rose by about 130% between 2008 and 2023. Given SDCWA's mix of QSA water and MWD water in 2008, its average treated water supply cost then amounted to about $568 per acre-foot. With its current mix of QSA water, MWD water, and Carlsbad water in 2023, its

[9] It in making this comparison, it should be noted that QSA water and MWD water need to be treated, whereas Carlsbad Desal water does not require treatment.

[10] In the 2015-2016 drought, the Carlsbad Desal water was certified by MWD as drought-resilient, which lowered SDCWA's mandated water use reduction from 36% to 28%.

average treated water supply cost amounted to $1,633 per acre-foot.[11] If SDCWA had continued to use some combination of QSA water and MWD water in 2023, but no Carlsbad water, its average treated water supply cost would have been about $1,365 per acre-foot. Thus, about 75% of the increase in SDCWA's overall average water supply cost per acre-foot was due to inflation in the cost of QSA and MWD water, and about 25% was due to the introduction of Carlsbad Desal water.

FIXED COSTS AND THE IMPACT OF A SALES DECLINE

Besides the increase in SDCWA's water supply costs, the other factor at play was the substantial reduction in the amount of water it delivered. In 2023, SDCWA delivered and charged for almost 42% less water than in 2008 (Chart I). This forced an increase in SDCWA's water rates because of the nature of its cost structure: when it delivers less water, its operating cost declines by *less than* the reduction in the amount of water delivered. Therefore, its operating cost per acre-foot delivered must rise, even with no change at all in the cost of its water sources. This is due to what economists call *fixed costs*: these are the operating costs that do *not* vary when SDCWA delivers more or less water: they are independent of the amount of water delivered in a particular year.

Most of the expenditure categories identified in Chart 6 fall into the category of fixed costs. Debt Service and CIP expenditures vary with the amount of water delivered by SDCWA in the long run – over a period of decades, it cannot deliver more water without having more storage capacity, more treatment capacity and more distribution capacity. But debt service and CIP expenditures are not affected in the short-run by changes in the amount of water delivered from one year to the next. Similarly, most of the cost of its operating departments are fixed costs, as are equipment replacements, grant expenditures and other expenditures.

A significant portion of SDCWA's water supply costs and treatment costs are also fixed costs. This is because SDCWA has purchase contracts which commit it to buying – or paying for – fixed quantities of QSA water and Carlsbad Desal water. Therefore, the costs associated with obtaining and treating that water are fixed costs for SDCWA under present circumstances. Most of what SDCWA pays to buy water from MWD as a member agency is a variable cost, but some of what it pays as a member agency is a fixed cost, namely MWD's Readiness to Serve Charge and Capacity Charge.[12] Table 3

[11] This calculation accounts for fact that Carlsbad Desal water does not require treatment.

[12] MWD's Readiness to Serve Charge recovers the costs of providing emergency storage capacity; it is fixed charge that is allocated annually among member agencies based on each agency's proportional share of a ten-fiscal year rolling average of all firm demands. MWD's Capacity Charge recovers costs incurred to provide peaking capacity

focuses on SDCWA's operating costs, defined as the costs of water supply and treatment plus the cost of the operating departments, and breaks these down in terms of fixed costs versus variable costs.[13] The variable costs amounted to only $80.1 million out of SDCWA's total budgeted operating cost of $615.5 million for 2023, or 13.0%.

Table 3: SDCWA 2023 Operating Budgeted Costs

Item	Expenditure Amount	Type of Cost
MWD Supplies		
Full Service Untreated Water	$30,654,399	**Variable cost**
Untreated PSAWR	$31,365,881	**Variable cost**
Readiness to Serve Charge	$10,544,166	**Fixed cost**
Capacity Charge	$10,432,403	**Fixed cost**
Subtotal MWD	$82,996,849	
QSA Supplies		
IID	$144,115,048	**Fixed cost**
All-American & Coachella Canals	$1,306,027	**Fixed cost**
QSA Mitigation		**Fixed cost**
Subtotal QSA	$145,421,075	**Fixed cost**
MWD Wheeling Cost	$168,583,880	**Fixed cost**
Carlsbad Desal Plant	$99,330,000	**Fixed cost**
TOTAL SUPPLY	$496,331,804	
Treatment		
MWD	$18,051,614	**Variable cost**
SDCWA	$11,116,257	**Fixed cost**
Helix	$2,136,782	**Fixed cost**
Carlsbad Desal Plant	$13,419,000	**Fixed cost**
Subtotal Treatment	$44,723,653	
Adjustments		
PSAWR Supply Credit	$7,692,542	**Fixed cost**
Groundwater Storage Facility Costs	$520,522	**Fixed cost**
Reclamation Credits SDCWA	$5,126,491	**Fixed cost**
Evaporation & Seepage	$2,259,875	**Fixed cost**
Other	$2,168,399	**Fixed cost**
Subtotal Adjustments	$17,767,829	**Fixed cost**
Water Supply Expenses	$558,823,286	
Operating Departments	$56,703,352	**Fixed cost**
TOTAL	**$615,526,638**	

within its distribution system; each member agency pays a charge based on a three-year trailing maximum peak day flow. Neither of these payments varies significantly in the short run if SDCWA takes less MWD water from one year to the next.

[13] The analysis uses SDCWA adopted budget rather than its actual, ex-post expenses because only the adopted budget provides the required detail on individual water supply cost items. It should be noted that Carlsbad Desal water is not a fixed cost in the sense that, if the facility produces less than the contracted 42,000 AF for SDCWA, the Authority pays correspondingly less than the contracted amount to the project operator. But, if the facility produces the full 42,000 AF, SDCWA is required to make the full payment regardless of whether it actually needs 42,000 AF that year.

Table 4 summarizes the results when the same analysis is applied to the breakdown of SDCWA's operating cost for 2008, 2013, and 2018. The fixed cost component of SDCWA's total operating cost rose from 34.3% in 2008 to 87.0% in 2023, driven by the fixed-cost commitments to purchase QSA and Carlsbad Desal water.[14]

Table 4: SDCWA Fixed Cost Share, 2008-2023

	2008	2013	2018	2023
Approved Total Operating Cost ($)	$327,621,138	$406,038,307	$535,606,673	$615,526,638
Variable Cost Share (%)	65.7%	47.5%	27.5%	13.0%
Fixed Cost Share (%)	34.3%	52.5%	72.5%	87.0%
Total Water Delivery (AF)	635,900	465,956	431,353	398,979

Table 5 provides a rough estimate of the economic impact resulting from the combination of a decline in SDCWA's water sales together with its growing share of fixed costs, broken down as between 2008-2013, 2013-2018 and 2018-2023. The first row outlines the reduction in projected water delivery. For the second row, the variable cost share for the period is taken from Chart 9 as the simple average of the variable cost shares at the two period endpoints. Between 2008-2013, for example, that average amounted to 56.6%. The reduction in total operating cost (third row) is calculated as the variable cost share multiplied by the percentage reduction in quantity delivered (the first row). The last row is obtained as the percentage reduction in operating cost divided by the percentage reduction in volume delivered. Since the amount of water delivered falls by more than the total operating cost, the operating cost per acre-foot delivered rises. Thus, the decline in SDCWA's sales between 2008 and 2013 combined with its rising share of fixed costs would have caused it to raise water rates overall by almost 16% even if there had been no change in the costs of its water sources or its water operations, just by virtue of spreading its fixed costs of water supply over fewer acre-feet delivered.

[14] It is important to note that SDCWA's member agencies do not have the same high share of fixed costs in their total operating cost. This is because, while the Authority itself faces high fixed costs, it translates most of those costs into variable costs for member agencies. In a given year, most of what a member agency pays SDCWA takes the form of fees that vary with the quantity of water delivered by the Authority that year. Taking an example at random, 83% of what Valley Center MWD paid SDCWA for water in FY 2023 was paid through volumetric rates. Of course, member agencies have other costs that are fixed costs, especially the cost of their operating departments. Thus, 57% of Valley Center's total operating cost in FY 2023 was variable cost, compared with only 13% of SDCWA's total operating cost.

Table 5: Impact of Sales Reduction on SDCWA Unit Cost				
	2008-2013	**2013-2018**	**2018-2023**	**2008-2023**
Reduction in delivery quantity (%)	26.7%	7.4%	7.5%	
Variable cost share (%)	56.6%	37.5%	20.3%	
Reduction in total operating cost (%)	15.1%	2.8%	1.5%	
Rise in cost per acre-foot delivered (%)	15.8%	5.0%	6.5%	29.5%

The final column of Table 5 chains the three periods together to yield an estimate of the increment in unit operating cost caused by the decline in sales over the period as a whole, which amounts to a cost increase of 29.5%. This estimate is only an approximation because it uses projected deliveries and projected costs. To the extent that the percentage reduction in actual delivery (Table 1) was larger than in projected deliveries, the percentage increase in SDCWA's cost per acre-foot delivered due to sales decline would be larger.

There is also an issue of excess capacity for drinking water treatment. By 2010, there were a dozen water treatment plants in San Diego County, SDCWA's Twin Oaks Valley facility being one of the more recent ones, with the others operated by SDCWA member agencies or other local agencies. The recent county-wide reduction in per capita urban water usage has left some of these treatment plants with excess capacity.[15] For drinking water treatment as for water supply, most of the cost of operation is a fixed cost, so that the cost per acre-foot treated rises when the plant operates at lower capacity. This has become a concern for SDCWA.

SUMMARY: WHAT CAUSED SDCWA'S WATER RATES TO INCREASE?

Table 6 summarizes the change in SDCWA water operations expenditure between 2008 and 2023. Compared to FY 2008, the budget approved for FY 2023 was almost 11% higher in nominal terms. The budget increase was driven primarily by the increase in SDCWA's expenditure on water supply and water treatment, which almost doubled (an increase of 97%). The cost of running SDCWA's operating departments rose by 28%. The Authority's other expenditures, especially CIP expenditures, declined in the aggregate by about 47%. The other key factor was the decline in water deliveries to SDCWA member agencies: budgeted sales declined by 37% between 2008 and 2023;

[15] It was said that, in 2016, the combined water treatment capacity in San Diego County amounted to 830 mgd, while the actual volume being treated was only about 530 mgd (*Voice of San Diego,* April 27, 2016). With the decline in urban water use per capita since then, the volume of water being treated would now be even lower.

actual sales declined even more, by 56% (Chart 1). The increase in SDCWA's water costs combined with the reduction in its volume of sales caused its water operating cost per acre-foot delivered to triple (Table 6); this aligns with the tripling in SDCWA's all-in water rate (Chart 5).

Table 6: Overview of Cost Increases Approved Budget 2008 vs 2023 (in thousands)

Cost Category	2008	2023	% Change
Water supply and treatment	$283,425.6	$558,823.3	97.2%
Operating departments	$44,196.0	$56,703.5	28.3%
Subtotal: Water operating cost	$327,621.6	$615,526.8	87.9%
Other expenses (CIP, Debt service, etc.)	$436,578.4	$231,889.0	-46.9%
Total Budget	$764,200.0	$847,415.8	10.9%
Projected Water Delivery (AF)	635,900	398,979	-37.3%
Water operating cost per AF	$515	$1,543	199.4%

The tripling in SDCWA's cost per acre-foot delivered occurred through the interaction of two factors. One factor was cost inflation which came about for two reasons: the rising cost of MWD water and QSA water (primarily) and the addition of Carlsbad Desal water to SDCWA's supply portfolio. As noted above, SDCWA's cost per-unit of using QSA water and MWD water increased by around 130% between 2008 and 2023. However, SDCWA also sold fewer units of water, and, with its high proportion of fixed costs, that amplified the effect of the increase in SDCWA's procurement costs. If the overall per-unit cost of procuring water rose by about 130% (new cost per unit = 2.30 *old cost per unit) and the decline in sales added an extra ~30% increase in unit cost (new cost per unit = 1.3 * old cost per unit), the combined effect of both changes would be a tripling of unit cost (new cost = 1.3*2.30 = 2.99*old cost per unit), in line with what actually happened.

REVENUE STRUCTURE vs COST STRUCTURE

Table 4 shows that only about 13% of SDCWA's total operating costs in FY 2023 were variable costs, defined as costs that fall (or rise) when the total amount of water delivered by SDCWA to its member agencies falls (or rises) from one year to the next; the rest were fixed costs that stay constant in the short run when the amount of water delivered changes. Table 7 shows the similar breakdown of SDWA's water-related revenues, consisting of revenue from rates and charges for water supply levied by SDCWA on member agencies plus charges for water supply levied on properties within SDCWA's service area. Variable revenues are defined as revenues that fall (or rise) when the total amount of water delivered by SDCWA to its member agencies falls (or

rises) from one year to the next; fixed revenues are revenues that stay constant in the short run when the amount of water delivered changes. Table 7 shows that SDCWA's fixed revenue share rose slightly between 2008 and 2023 from about 27% to about 29%. This share was boosted by the introduction of a new fixed charge in 2016, the Supply Reliability Charge. The small change in the fixed/variable balance of revenue contrasts with the very large change on the cost side between fixed and variable costs over the period 2008 – 2023.

The stark difference between the fixed/variable share of SDCWA's water revenues and the fixed/variable share of water operating costs indicates a structural imbalance in SDCWA's financing model. The imbalance is not unique to SDCWA – it is experienced by other wholesale water agencies including MWD. Nevertheless, it is worrisome. In 2023, 87% of SDCWA's costs were fixed compared with only 28.5% of its revenues. Such an imbalance is beneficial for an agency whose sales are rising – selling more water raises revenue more than it raises costs when revenues have a larger variable component than their costs. However, it is harmful for an agency whose sales are declining, as has been the case with SDCWA (and also with MWD). With a downward sales trend, revenue falls by more than costs, causing net revenue to drop. It is important, therefore, that SDCWA finds ways to bring the fixed/variable share of its revenues more closely in line with that of its costs.

Table 7: SDCWA Approved Budget - 2008-2023 Fixed vs Variable Revenue

Type of Charge	2008	2013	2018	2023	Revenue Type
Charged to Member Agencies					
Commodity Rates	$304,672,394	$398,245,967	$469,273,567	$538,958,040	**Variable**
Customer Service Charge	$14,700,000	$28,350,000	$26,400,000	$25,600,000	**Fixed**
Storage Charge	$19,950,000	$59,650,000	$65,000,000	$60,000,000	**Fixed**
Supply Reliability Charge			$26,700,000	$37,775,000	**Fixed**
Infrastructure Access Charge	$17,796,000	$28,489,000	$33,995,500	$47,477,500	**Fixed**
Subtotal (a)	$357,118,394	$514,734,967	$621,369,067	$709,810,540	
Charged to properties					
Ad Valorem Property Tax	$8,593,000	$10,539,000	$12,680,500	$16,180,500	**Fixed**
Standby Availability Charge	$11,135,000	$11,116,500	$11,122,500	$11,200,000	**Fixed**
Capacity charges	$34,262,000	$10,682,500	$16,712,000	$17,093,000	**Fixed**
Subtotal (b)	$53,990,000	$32,338,000	$40,515,000	$44,473,500	
Water related revenue	$411,108,394	$547,072,967	$661,884,067	$754,284,040	
Fixed revenue as % of (a)	14.7%	22.6%	24.5%	24.1%	
Fixed revenue as % of (b)	25.9%	27.2%	29.1%	28.5%	

THE CURRENT FINANCIAL SITUATION

Over the last several years, SDCWA has faced significant challenges, including both increases in water operations costs and also declining water demand. Chart 1 documents the decline in member agencies' demand for SDCWA water. Between October 1, 2022 and March 21, 2023, a series of atmospheric rivers delivered 146% above normal rainfall in San Diego County. The precipitation not only refilled local reservoirs but also caused SDCWA's sales to fall. CY 2023 sales at 291,400 AF were the lowest annual sales recorded by SDCWA since 1983. They were 30% lower than CY 2022 sales and 10% lower than SDCWA's purchase commitment of 322,000 AF for QSA water and Carlsbad Desal water. Because of the fiscal imbalance noted above, the sales decline in CY 2023 reduced SDCWA's revenues far more than its costs, generating $74M less net revenue than had been projected for CY 2023 in the 2023 Cost of Service Report.

During the Spring of 2023, SDCWA staff were working on the FY 2024 – FY 2025 budget as well as the CY 2024 water rates. Their initial proposal was for a 14% increase in water rates for CY 2024, which would have been the largest rate increase since 2010.[16] In the end, the planned budget was reduced in part through a 10% cut in expected 2024-2025 capital investment and by drawing $30 million from the Authority's Rate Stabilization Fund (RSF), limiting the rate increase to 9.5%. The RSF had been created in 1990 to stabilize water revenues against unexpected fluctuations in sales in the event of about 2.5 years of unusually wet weather. In 2018, the SDCWA Board had re-set the maximum and minimum limits for the RSF keyed to a potential 15% reduction in sales. From 2019 through 2023 SDCWA had drawn repeatedly on the RSF to provide rate relief during COVID, the accompanying economic contraction, and the following period of high inflation. By the end of 2023, $79 million had been taken from the RSF; [17] it was at its lowest level in more than a decade, and close to its prescribed minimum.

The sales decline continued into 2024. Water sales in the first three months of CY 2024 fell 36% below what had been projected in the 2024 Cost of Service Report. When the CY 2024 rates had been set in 2023, it had been assumed that, with those rates in place, the RSF would not need to be used during 2024. However, because of the shortfall in sales, the detachment of Fallbrook Public Utility District and Rainbow Municipal Water

[16] There was a 20% rate increase in CY 2011. Since then, the annual rate increases had ranged from 5% to 10%. The rate increase for CY 2023 was 5%.
[17] Overall, the Authority had used $201 million in reserves for rate relief between 2019 and 2023.

District, and continuing water cost pressures, there was concern that it might be necessary to make a further draw on the RSF, reducing it below the policy minimum.

By the end of March 2024, with planning under way for CY 2025 water rates, SDCWA faced a serious situation, with staff projecting a 20-22% increase in rates for CY 2025. Also, at that point, SDCWA's reserves were below the Board's target of having 150 days of cash on hand. The SDWCA Board was torn between moderating prospective increases in 2025 rates versus meeting key financial metrics.

In June 2024, the rating agency S&P changed its credit outlook for SDCWA from Stable to Negative based on the decline in SDCWA water sales, its increasing contractual costs for water, and its weakened financial metrics, At the same time, the rating agency Moody's announced an unprecedented in-depth review of SDCWA's credit rating of Aa2 stable, to be scheduled for August.

In July, the Board adopted a 14% increase for CY 2025 rates, by making a one-year delay in $7 million of capital investment and a $2 million cut in the operating budget, thereby avoiding the need for a $9 million draw on the RSF, and also taking advantage of $19.4 million in federal funds granted for environmental repairs to the Carlsbad facility. The Board also modified the CY 2025 rates by replacing the volumetric Transportation rate with a combination of fixed charge and a volumetric rate for Transportation, thereby increasing the share of fixed revenue and reducing that of variable revenue.[18] The adopted CY 2025 rates were a compromise. They still left the Authority's cash reserves below the 150-day policy, putting the Authority out of compliance with the full requirements for an AA+ credit rating. However, the Board expected to make a 16.4% rate increase for CY 2026 and a 5.6% increase for 2027, for a cumulative increase of 40.1% over three years, to avoid an immediate reduction in the Authority's credit rating.

In October, Moody's released its updated credit analysis for SDWCA re-affirming its Aa2 stable rating reflecting "the expectation that the Authority's satisfactory operating performance will remain stable, supported by strong management practices despite challenges associated with variable precipitation and demand levels, rising costs and required capital investments. The outlook also incorporates the likelihood that the

[18] It also introduced a new pilot program allowing member agencies to trim 1.5 percentage points from their CY 2025 water bill if they prepay SDCWA fixed charges. That lowers their 2025 rate increase for member agencies that choose to prepay.

Authority will continue its practice of raising rates as necessary to meet debt service coverage and adopted reserve targets."

At the same time, SDCWA was taking steps to rebalance its supply portfolio and lighten its financial commitments for QSA water and Carlsbad Desal water. In December 2023, SDCWA had negotiated a one-time deal with IID, MWD, and the US Department of Interior for the Department of Interior to purchase 50,000 AF of its QSA water to store in Lake Mead to raise the lake elevation behind Hoover Dam. SDWCA would meet any water needs through purchases of MWD water, with a net saving anticipated at about $15 – 20 million. In December 2024, SDCWA arranged to repeat that deal for 2025.

In March 2024, SDCWA signed a Memorandum of Understanding (MOU) to explore the potential indirect transfer of Carlsbad Desal water to Moulton Niguel Water District (MNWD) in South Orange County. The transfer could be effectuated by having MNWD take a portion of SDCWA's allocation of MWD water while SDCWA uses more Carlsbad Desal water. By doing this, MWND could benefit from more efficient water distribution without the need for new infrastructure, could gain access to emergency water during drought, and could mitigate the impact of increasing MWD water rates in the future. Under the MOU, SDCWA and MNWD have a three-year window to evaluate options for such an arrangement.

SDCWA is continuing to explore other opportunities to make water transfers.

Despite SDCWA's success in overcoming the immediate financial challenges that emerged in the summer of 2024, significant vulnerability to a shortfall in water sales and revenue remains. As of November, SDCWA's CY 2024 sales are running about 18% below what had been projected when the 2024 rates were set.

The new CY 2025 Transportation fixed charge shifts 40% of Transportation's revenue requirement away from a volumetric rate to a fixed charge allocated to the member agencies based on a 7-year rolling average of total deliveries. Over the following two years, if the Board approves this, the Transportation fixed charge will be raised to cover 60% of the Transportation revenue requirement, leaving only 40% to be covered by the volumetric rate. The change is expected to raise the fixed share of SDCWA revenues by about three percentage points. While that is a step in the right direction, with the share of fixed costs at around 86% while that of fixed revenues rises to around 32% there will still be a huge imbalance in the structure of SDCWA's of costs and revenues. SDCWA will continue to remain financially vulnerable to a downturn in sales.

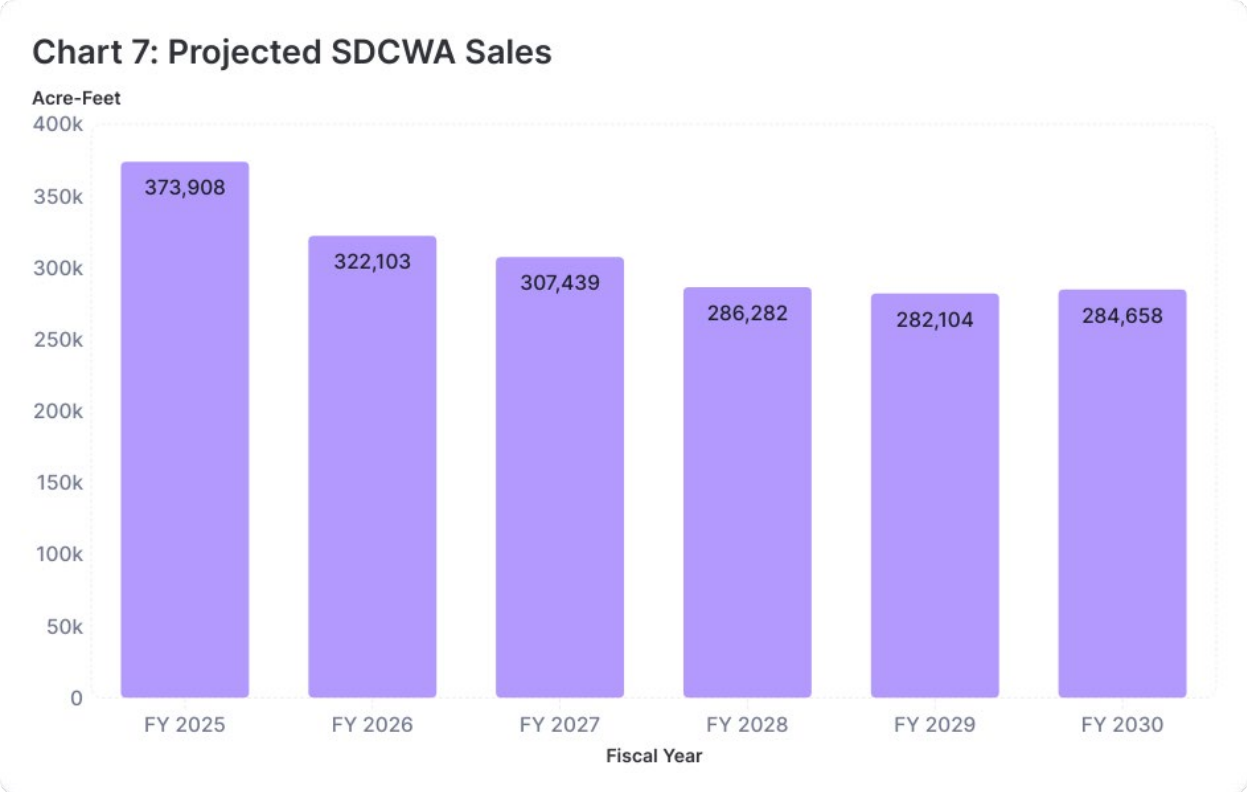
However, an important breakthrough occurred on June 2, 2025 when the Water Authority and MWD announced a settlement to 15 years of litigation over the amount that MWD charges the Water Authority to transport QSA water under the Exchange Agreement. Under the new agreement, the charge paid by the Water Authority will no longer be tied to MWD's annual water rates, which was the issue contested in the litigation. Instead, the Water Authority will now pay MWD a fixed price for transportation, with a simple annual adjustment for inflation based on the consumer price index.[19] In addition, the Water Authority will now be able to sell QSA water to other MWD member agencies or to MWD itself (which, if it chose, could sell the water elsewhere outside its service area).[20] This settlement provides the Water Authority with financial flexibility, since its payment for QSA water and its payment to MWD for conveyance of that water change from being fixed costs to variable costs. The QSA water becomes a potential variable revenue source. The agreement generally opens the way to a more harmonious and productive cooperation with MWD going forward. This is an extremely significant development for both the Water Authority and Southern California overall.

PROJECTED FUTURE SALES

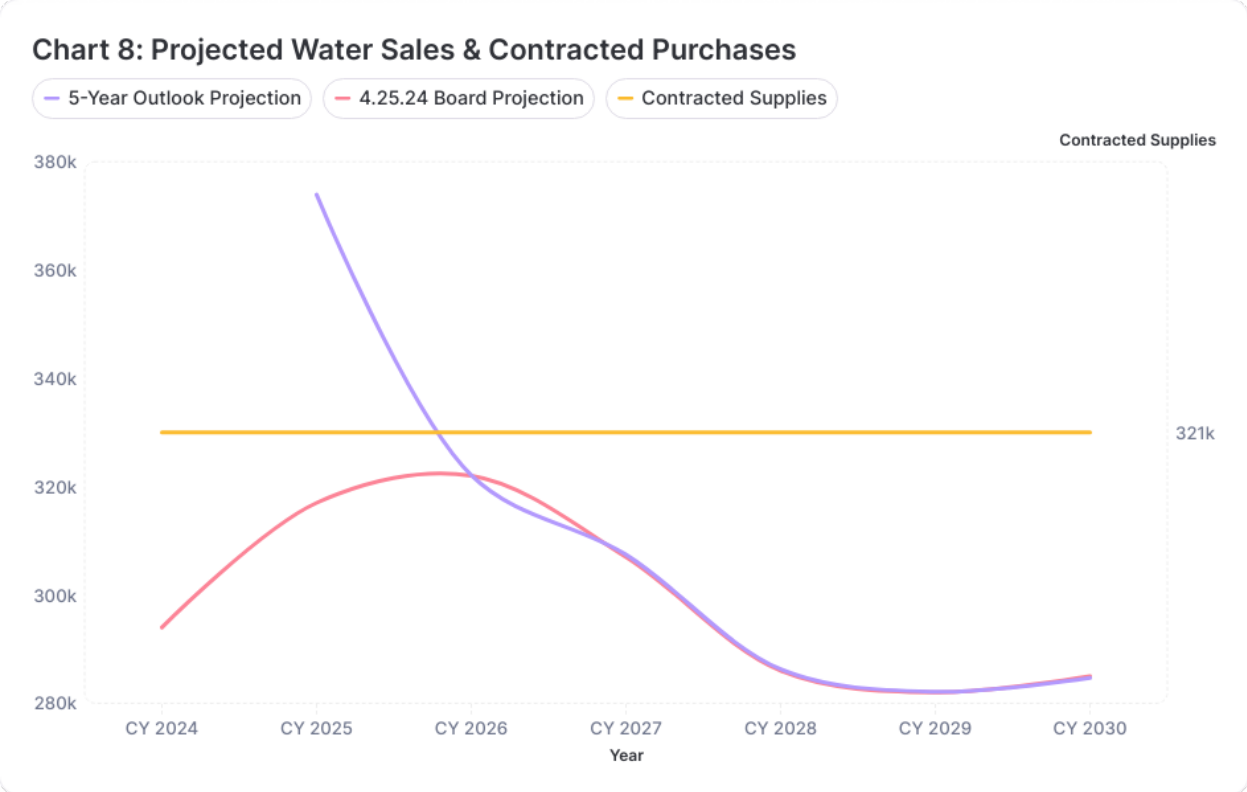
In November, SDCWA released its FY 2025 Five-year Financial Forecast for FY 2025 – FY 2030 ("the Forecast"). This is separate from SDCWA's Long-Range Financial Financing Plan (LRFP) – the current LRFP was issued in 2021 and a new LRFP is expected to be developed in fall 2025. The Forecast is not a substitute for the FLRP. It is intended as a financial planning tool taking into consideration the recent economic and climate conditions and challenges facing the Authority. It forecasts SDCWA's sales, revenues and expenditure for FYs 2026 – 2030. The Forecasts predicts a substantial drop in SDCWA deliveries to member agencies below the level currently predicted for 2025, as shown in Chart 7. The projection is that, between 2025 and 2030, SDCWA deliveries to member agencies will drop by about 90,000 AF in round terms, or roughly 30%. This implies that, from July 2026 onward, SDCWA will be delivering less water annually to member agencies than the 322,000 AF that it is committed to take in QSA water and Carlsbad Desal water.

[19] This protects the Water Authority in the event that MWD goes ahead with major new investments in water supply or conveyance.

[20] MWD and the Water Authority will meet every five years to discuss ongoing implementation of the Exchange Agreement.



For CY 2025, there is a discrepancy in projected water sales between a projection provided to the SDCWA Board of Directors in April 2024 and the recently released Five-Year Outlook projection. The Five-Year Outlook projects sales of 373,908 AF while the April projection expects sales of 317,000 AF. These projections align beginning in CY 2026, with both expecting sales to fall below the contractually obligated purchases of 321,000 beginning in FY 2027.



The main reason for the sales decline is a new factor in San Diego County water (and in California water, generally): potable reuse of treated wastewater. As Chart 2 showed, over the period 2008 – 2023 member agencies generated around 24,000 – 29,000 AF annually in local supplies almost entirely from the use of treated wastewater used for non-potable purposes. The situation is now changing quite dramatically with the advent of potable reuse water supply. Potable reuse is recycled water that has been subjected to advanced treatment which makes it safe for drinking either when directly introduced into the drinking water supply system (direct potable reuse) or when added to an untreated water supply, usually a surface water reservoir or a groundwater aquifer, where it remains for a period of time and blends with the untreated water before this water is extracted and treated to drinking water quality (indirect potable reuse).

Direct and indirect potable reuse recently became legal in California. In 2014, the California Department of Public Health (DPH) adopted regulations for groundwater indirect potable reuse projects. In 2018, the State Water Resources Control Board, which had taken over administration of the state's Drinking Water Program from DPH in July 2014, adopted regulations for indirect potable reuse via surface water augmentation, and in 2024 SWRCB adopted regulations governing direct potable reuse.

SDCWA member agencies are statewide leaders in indirect potable reuse. In 2022, Oceanside initiated indirect potable reuse with 4.5 MGD (5,055 AF/yr) of fully treated advanced recycled water that is recharged to the Mission Basin aquifer. This is being expanded to a minimum production capacity of 6.0 MGD. The East County Advance Water Purification Program is a project between San Diego County and SDCWA member agencies Padre Dam Municipal Water District and Helix Water District to produce 11.5 MGD (12,890 AF/yr) of fully treated advanced recycled water that will be released into Lake Jennings to meet up to 30% of the East County's drinking water needs. Construction began in 2021 and is expected to be completed by 2026. Finally, the City of San Diego is completing an indirect potable reuse project with a capacity of 34 MGD (38,110 AF/yr) which will augment its Miramar Reservoir. The project will be completed around 2027. The City will then move on to a Phase 2 project, to be completed around 2035, which will supply an additional 53 MGD (59,407 AF/yr) of potable recycled wastewater. It will then be supplying nearly half of the City's water.

These projects clearly benefit the region not only by making its water supply more local and more resilient but also by reducing overloading of its wastewater collection and treatment systems. However, they will generate a permanent reduction in SDCWA's sales amounting to more than 115,000 AF/yr by 2035. Without a more significant change in the Authority's cost and revenue structures, this has the potential to create some serious financial difficulties.

WATER SUPPLY INFRASTRUCTURE

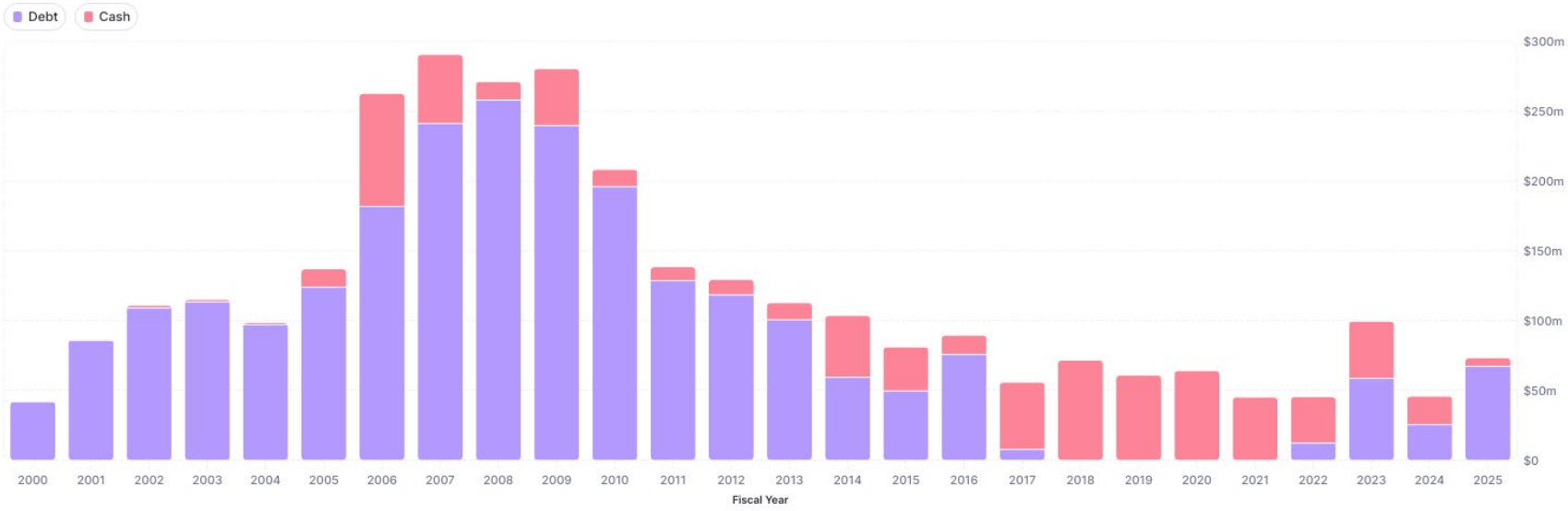
Much of the Water Authority's capital investment over the past 25 years arose from the Authority's response to the 1991 drought and its recognition of the County's heavy dependence on water imported by MWD. The drought highlighted the need for both some independent source of supply and also local water storage to protect against earthquake disruption of pipelines and other potential system failures as well as to deal with drought. The focus on local storage was initiated in 1993 when the SDWCA Board of Directors authorized studies and planning for what became the Emergency & Carryover Storage Project (ESP). Initial phases of the ESP were approved in 1996. In 1998, the Authority adopted a long-range Capital Improvement Plan (CIP). Construction of the ESP began in 1999. The ESP had three main components: constructing the 318-foot Olivenhain Dam and Reservoir with a storage capacity of 24,000 AF; adding infrastructure to connect the City of San Diego's Lake Hodges Dam to SDCWA's network, providing emergency storage of 20,000 AF; and raising the City of San Diego's San Vicente Dam by 117 feet to store an additional 152,000 AF of

emergency water for use by SDCWA. It also comprised new pipeline interconnects and pumping stations. The total cost of the ESP was approximately $1.5 billion, funded through bonds issued by SDCWA to be paid off through water charges and rates.

Construction of Olivenhain Dam commenced in 2000 and was completed in 2003; the pipeline connecting Olivenhain Reservoir to the Authority's Second Aqueduct was completed in 2002, and a water transfer pump station was completed in 2005. Construction of a pipeline connecting Olivenhain Reservoir to Hodges Reservoir, thereby providing access to 20,000 AF of emergency water in Hodges Reservoir, was completed in 2007; the electrical substation and line to deliver power locally was completed in 2008; the pump station to move water between Hodges and Olivenhain reservoirs was completed in 2012. Construction of an 11-mile pipeline to connect San Vicente Reservoir to the Authority's Second Aqueduct was completed in 2011; the pump station and surge control facility to move water from San Vicente Reservoir to the Authority's Second Aqueduct was completed in 2010; the raising of the San Vicente Dam, creating 52,000 AF of water storage capacity for emergency use and over 105,000 AF of carry-over storage capacity, was completed in 2014.

During this period, two other major projects were completed. One was the construction of the Authority's Pressure Control and Hydroelectric Facility in the Mira Mesa area at a cost of $27 million, which both generates electricity and allows the Authority to transport water either north or south using water stored at San Vicente Reservoir; this was completed in 2007. The other was the construction of the Twin Oaks Valley Water Treatment Plant at a cost of $157 million, completed in 2008. One component of the original ESP remains unfinished, the North County Pumps Project, which was to extend emergency water supply service to the northernmost portions of the Authority's service area with two new pump stations, two flow control facilities and related interconnecting pipelines. Most of the preliminary planning for the project was completed by 2017. However, it is now on hold, following the detachment of Fallbrook and Rainbow. Chart 9 details SDCWA annual expenditure on CIP over the period FY 2000 through FY 2025. As this shows, annual CIP peaked between 2006 and 2010 and has been reduced since the completion of the San Vicente Dam Raise Project in 2015. CIP is financed in two ways. One way is by borrowing (debt). The other way is using revenue – including contributions in aid of capital construction from private sources plus federal and state construction grants -- that remains after covering the cost of water operations ("cash etc"). Except for FYs 2017 – 2021, SDCWA relied primarily on debt to finance CIP.

Chart 9: SDCWA Annual CIP Expenditures



Fiscal Year 2025 expenditures are through January 2, 2025 only.

In the period since 2015, the focus of CIP shifted from constructing new infrastructure to optimizing the existing delivery system and managing existing assets, including rehabilitation of aging infrastructure and pipeline relining and replacement. The framework for the new CIP era had been set in 2013, when the Authority's 2003 LRWFMP was updated with a new time horizon through 2035. The 2013 LRWFMP identified a set of near-term projects to be considered for implementation prior to 2025 together with a set of long-term projects to be considered for implementation beyond the 2025 timeframe. The near-term projects were needed to alleviate near-term constraints or assure timely completion of needed system improvements in the existing CIP. The near-term projects also included initiatives that would evaluate potential system vulnerabilities, water quality concerns, and the potential for new hydroelectric development. The LRWFMP priorities are implemented, or amended, through the Authority's biennial budget process. In each iteration of the Authority's two-year budget cycle, the adopted budget reviews which of the CIP projects chosen for the previous budget cycle CIP have been completed, identifies which of the others may have changed, including projected cost increases, and adds new CIP projects to be implemented during the coming budget cycle.

After about five years of relatively modest investment expenditure, the FY 2022-FY 2023 Budget initiated a shift to a higher level of CIP expenditure focused primarily on infrastructure and pipeline rehabilitation. The higher level of CIP spending and the primary focus on asset management was to be continued in the next FY 2024-FY 2025 Budget. However, the financial pressure arising from the sales decline and consequent revenue loss in 2023 intervened, and what had been expected to be a $204 million CIP budget for the two-year budget cycle for FY 2024-FY 2025 was reduced by $20 million to $184 million. In April 2024, SDCWA staff reported that CIP during FY 2024 was on track to come out at an actual cost of $204 million. To stay within the Board adopted a CIP total of $184 million, seven projects would need to be deferred including a critical project, the First Aqueduct Treated Water Bifurcation Structures, and the Hubbard Hill Vent Rehabilitation project.

The tension between ensuring the affordability of the Authority's wholesale water rates versus maintaining and rehabilitating the Water Authority's water delivery infrastructure, including upgrading earthquake protection, will remain a challenge in future budget cycles. Resolving this tension was a major concern in the development of the 2024 Water Facilities Master Plan which the Board adopted in April 2025. The Master Plan was developed through extensive engagement with the Member Agency Technical group. The Plan recommends a set of policies, studies and infrastructure

improvement projects. It provides a roadmap for asset management, system optimization and infrastructure development through the Water Authority's 2045 planning horizon. The Plan recommendations will be integrated into the CIP projects proposed for the 2026-2027 budget, currently under consideration by the Authority, as well as future budgets.

CONCERNS OF GOVERNANCE

The SDCWA board faces governance concerns stemming from its weighted vote structure, which allocates voting power based on each member agency's total financial contribution over the Water Authority's history. Table 8 outlines the vote entitlement to each member agency for CY 2025.

TABLE 8: CY 2025 Vote Entitlement

Member Agency	Total Cumulative Financial Contribution[21]	Vote Entitlement[22]	Percent
Carlsbad MWD	$ 675,494,406	135.099	4.087%
City of Del Mar	$ 53,883,192	10.777	0.326%
City of Escondido	$ 598,792,714	119.759	3.623%
Helix WD	$ 1,146,426,919	229.285	6.937%
Lakeside WD	$ 132,003,557	26.401	0.799%
City of National City	$ 118,927,348	23.785	0.720%
City of Oceanside	$ 922,051,894	184.410	5.579%
Olivenhain MWD	$ 616,015,297	123.203	3.728%
Otay WD	$ 1,098,638,748	219.728	6.648%
Padre Dam MWD	$ 473,777,856	94.756	2.867%
Pendleton Military Reservation	$ 12,729,447	2.546	0.077%
City of Poway	$ 379,985,037	75.997	2.299%
Ramona MWD	$ 248,450,028	49.690	1.503%
Rincon del Diablo MWD	$ 249,119,619	49.824	1.507%
City of San Diego	$ 6,984,001,856	1,396.800	42.260%
San Dieguito WD	$ 193,062,553	38.613	1.168%
Santa Fe Irrigation District	$ 291,492,704	58.299	1.764%
South Bay Irrigation District	$ 321,072,578	64.215	1.943%
Vallecitos WD	$ 561,036,644	112.207	3.395%
Valley Center MWD	$ 844,727,692	168.946	5.111%
Vista Irrigation District	$ 512,621,210	102.524	3.102%
Yuima MWD	$ 91,843,021	18.369	0.557%
Total	$ 16,526,154,320	3,305.233	100.000%

[21] Total Cumulative Financial Contribution equals Total Cumulative Financial Contribution as of June 30, 2023 plus total Member Agency Financial Contribution for fiscal year ended June 30, 2024.

[22] Vote Entitlement amount is calculated as a Member Agency's Total Cumulative Financial Contribution divided by $5,000,000.

Due to the detachment of Fallbrook and Rainbow, each member agency experienced an increase in the vote entitlement, with the City of San Diego receiving the largest increase to 42.26% of the total vote. Previously, four member agencies needed to vote in the affirmative to receive a 55% majority to approve an item.[23] Today, only 3 agencies are needed to approve an item by reaching the 55% majority threshold. Looking the other way, the City of San Diego only needs one of 9 other agencies to deny an item, while 16 of the other 22 member agencies, other than the City of San Diego, are needed to approve a vote.

This way of weighting Board voting power based on cumulative financial contribution is not uncommon for public wholesale water agencies. The MWD Board follows a similar procedure. However, it can create an imbalance of power, potentially marginalizing smaller member agencies and their constituents while allowing larger agencies to dominate the decision-making process. Moreover, it is a backward-looking approach rather than a forward-looking one. It focuses on the relative purchases of agency water in the past rather than who will be paying for agency water in the future. When combined with a large variable component in the structure of agency revenue (about 68% for SDCWA with the new Transportation charge), the backward-looking vote allocation has the potential to generate a gap between which member agencies make investment decisions and set rates (those that bought most of the water supplied in the past) and which member agencies will be paying for water and for new capital investments going forward. This will become increasingly problematic at SDCWA as member agencies begin to roll-off and reduce their water purchases: their vote share will remain relatively constant over the long term despite their reduced contribution to ongoing SDCWA finances.

[23] Section 1.00.040 (e) of the SDCWA Administrative Code states, "Except as otherwise required by law, ordinances and resolutions shall be adopted by the affirmative votes of members of the Board representing more than fifty percent of the number of votes of all member public agencies, except that if the public agency member having the largest total financial contribution to the Authority has more than thirty-eight percent of the total financial contribution to the Authority, the affirmative votes of members representing more than fifty-five percent of the number of votes of all member public agencies shall be necessary."

Attachment 1

Chart 1 Data

Water Delivery by SDCWA to Member Agencies by Source (Acre-Feet)				
Fiscal Year	**QSA**	**Seawater Desalination**	**MWD**	**Total Delivery**
2008	73,125	-	535,576	608,701
2009	114,244	-	441,543	555,787
2010	144,626	-	350,333	494,959
2011	156,507	-	260,337	416,844
2012	156,604	-	282,948	439,552
2013	183,500	-	296,472	479,972
2014	180,256	-	325,729	505,985
2015	180,123	-	305,039	485,162
2016	179,347	25,599	187,057	392,003
2017	178,278	34,421	189,919	402,618
2018	194,326	34,907	164,421	393,654
2019	192,000	40,036	133,503	365,539
2020	230,430	33,157	83,025	346,612
2021	274,703	45,530	56,814	377,047
2022	288,777	43,322	66,119	398,218
2023	233,164	38,919	61,709	333,792

Chart 2 Data

Member Agency Supplies and Total Water Use in Service Area (Acre-Feet)										
Fiscal Year	**Surface Water**	**Groundwater**	**Brackish Groundwater**	**Recycled Water**	**Seawater Desalination**	**San Luis Rey Water Transfers**	**Total**	**Supply from SDCWA**	**Total Water Use**	**SDCWA Supply as % of Total Use**
2008	39,339	12,900	5,576	24,334	-	-	82,149	608,701	690,850	88.1%
2009	43,757	12,892	5,109	25,258	-	-	87,016	555,787	642,803	86.5%
2010	27,336	11,666	6,908	25,944	-	-	71,854	494,959	566,813	87.3%
2011	67,111	18,463	8,039	23,094	-	-	116,707	416,843	533,550	78.1%
2012	61,018	20,631	6,278	23,988	-	-	111,915	439,552	551,466	79.7%
2013	46,714	22,039	7,937	27,391	-	-	104,081	479,972	584,052	82.2%
2014	41,099	19,501	7,757	28,828	-	-	97,185	505,985	603,170	83.9%
2015	4,071	16,633	6,479	26,485	-	-	53,668	485,162	538,830	90.0%
2016	18,021	14,453	5,918	22,732	1,750	-	62,874	392,003	454,877	86.2%
2017	25,747	14,271	1,926	23,974	6,000	2,992	74,910	402,618	477,528	84.3%
2018	44,596	16,418	9,401	27,290	6,000	22,027	125,732	393,654	519,385	75.8%
2019	36,156	14,757	10,253	22,892	6,000	8,636	98,694	365,539	464,233	78.7%
2020	45,234	16,108	9,003	22,804	5,500	18,226	116,875	346,612	463,487	74.8%
2021	47,387	17,826	9,157	27,644	6,000	18,713	126,727	377,047	503,774	74.8%
2022	19,336	18,045	9,006	25,673	6,000	16,704	94,764	398,218	492,983	80.8%
2023	43,854	18,045	10,344	23,865	6,000	9,559	111,667	332,316	443,983	74.8%

Chart 3 Data

Water Use in Service Area					
Fiscal Year	**Service Area Population**	**Total Water Use (AF)[1]**	**Program Agriculture Water Use[2]**	**Municipal and Industrial Use [3]**	**% Agriculture Water Use**
2008	3,054,819	690,850	71,925	618,926	10.4%
2009	3,102,625	642,803	57,301	585,502	8.9%
2010	3,167,171	566,813	43,515	523,298	7.7%
2011	3,205,550	533,550	34,021	499,529	6.4%
2012	3,201,714	551,466	38,267	513,199	6.9%
2013	3,190,789	584,052	43,610	540,442	7.5%
2014	3,140,181	603,170	47,941	555,229	7.9%
2015	3,146,771	538,830	41,055	497,775	7.6%
2016	3,220,948	454,877	31,696	423,181	7.0%
2017	3,257,912	477,528	31,254	446,274	6.5%
2018	3,278,139	519,385	35,696	483,689	6.9%
2019	3,281,849	464,233	25,118	439,115	5.4%
2020	3,254,441	463,487	23,370	440,117	5.0%
2021	3,270,161	503,774	28,831	474,943	5.7%
2022	3,319,181	492,983	24,516	468,467	5.0%
2023	3,287,981	443,983	17,314	426,669	3.9%
2024	3,262,429	438,888	14,358	424,530	3.3%

[1] Fallbrook PUD detached starting from January 1, 2024, and Rainbow MWD starting from November 1, 2024

[2] Program Agriculture is certified program agriculture or Water Authority water used for agricultural practices. Program water includes Interim Agricultural Water Program (IAWP), Transitional Special Agricultural Rate (TSAWR), Permanent Agricultural Water Rates (PSAWR) programs water uses. Member agencies have additional agricultural customers that did not/do not participate in the programs.

[3] Water use is categorized into two class of service - Municipal & Industrial (M&I) and Program Agricultural water use sectors

Chart 4 Data

Per Capita Water Use in SDCWA Service Area	
Fiscal Year	**Daily Water Use per capita (gpd)**
1989	195
1990	192
1991	167
1992	146
1993	160
1994	158
1995	160
1996	182
1997	185
1998	167
1999	176
2000	191
2001	179
2002	186
2003	178
2004	191
2005	171
2006	177
2007	188
2008	181
2009	168
2010	148
2011	139
2012	143
2013	151
2014	158
2015	141
2016	117
2017	122
2018	132
2019	119
2020	121
2021	130
2022	126
2023	116
2024	116

Chart 5 Data

SDCWA All-In Water Rates		
Calendar Year	**Untreated All-In Rate**	**Treated All-In Rate**
2008	$520	$684
2009	$598	$766
2010	$690	$905
2011	$851	$1,066
2012	$915	$1,148
2013	$1,003	$1,259
2014	$1,029	$1,303
2015	$1,087	$1,365
2016	$1,159	$1,439
2017	$1,256	$1,546
2018	$1,303	$1,603
2019	$1,341	$1,617
2020	$1,406	$1,686
2021	$1,474	$1,769
2022	$1,523	$1,833
2023	$1,579	$1,929

Chart 6 Data

SDCWA Approved Budget by Category, 2008-2023 (in thousands)				
Expenditure Category	**FY 2008**	**FY 2013**	**FY 2018**	**FY 2023**
Water supply and treatment	$283,425.6	$362,180.6	$484,005.6	$558,823.3
Operating Departments	$44,195.5	$43,857.5	$51,601.0	$56,703.5
Debt service	$99,805.0	$140,197.0	$140,472.5	$128,032.0
CIP expenditures	$330,450.0	$160,564.5	$59,309.0	$85,190.5
Equipment replacements	$1,781.0	$610.0	$2,427.5	$2,453.5
Grant expenditures	$0.0	$0.0	$13,567.5	$14,501.5
Other expenditures	$2,053.0	$10,249.5	$500.0	$1,711.5

Chart 7 Data

Projected SDCWA Sales	
Fiscal Year	**Amount (AF)**
2025	373,908
2026	322,103
2027	307,439
2028	286,282
2029	282,104
2030	284,658

Chart 8 Data

Projected Water Sales & Contracted Purchases (Acre-Feet)							
Year	**CY 2024**	**CY 2025**	**CY 2026**	**CY 2027**	**CY 2028**	**CY 2029**	**CY 2030**
5-Year Outlook Projection		373,908	322,103	307,439	286,282	282,104	284,658
4.25.24 Board Projection	294,000	317,000	322,000	307,000	286,000	282,000	285,000
Contracted Supplies	321,000	321,000	321,000	321,000	321,000	321,000	321,000

Chart 9 Data

SDCWA Annual CIP Expenditures				
Fiscal Year	**Debt**	**Cash**	**Total****	**% Debt**
2000	$41,814,360	$109,817	$41,924,176	99.7%
2001	$85,754,535	$451,503	$86,206,037	99.5%
2002	$109,015,479	$1,715,786	$110,731,265	98.5%
2003	$113,386,669	$1,519,758	$114,906,427	98.7%
2004	$96,991,074	$1,248,540	$98,239,614	98.7%
2005	$123,854,424	$12,877,631	$136,732,055	90.6%
2006	$181,767,576	$80,898,024	$262,665,600	69.2%
2007	$241,224,284	$49,308,436	$290,532,720	83.0%
2008	$258,017,555	$13,016,938	$271,034,493	95.2%
2009	$239,676,826	$40,694,442	$280,371,269	85.5%
2010	$195,893,014	$12,198,946	$208,091,960	94.1%
2011	$128,541,265	$9,794,906	$138,336,171	92.9%
2012	$118,287,437	$10,951,680	$129,239,117	91.5%
2013	$100,504,403	$12,071,065	$112,575,468	89.3%
2014	$59,216,785	$44,214,375	$103,431,160	57.3%
2015	$49,524,046	$31,398,426	$80,922,473	61.2%
2016	$75,630,958	$13,729,351	$89,360,309	84.6%
2017	$7,519,443	$48,043,496	$55,562,939	13.5%
2018	$0	$71,376,019	$71,376,019	0.0%
2019	$0	$60,716,060	$60,716,060	0.0%
2020	$0	$63,927,130	$63,927,130	0.0%
2021	$0	$44,941,514	$44,941,514	0.0%
2022	$12,165,062	$32,903,949	$45,069,012	27.0%
2023	$58,470,740	$40,805,762	$99,276,502	58.9%
2024	$25,280,002	$20,309,178	$45,589,180	55.5%
2025*	$67,117,660	$6,017,456	$73,135,116	91.8%
*Fiscal Year 2025 expenditures are through January 2, 2025, only.				
** Totals may not match annual ACFR expenditures on CIP due to rounding and adjustments.				

MEMORANDUM

DATE: April 16, 2026

TO: Chair Becker and Commissioners

FROM: Priscilla Mumpower, Assistant Executive Officer

SUBJECT: **Comment Letter From CWA and Staff Reponses | Wholesale Water Service Agencies Municipal Service Review – Part One: San Diego County Water Authority**

This memorandum summarizes the principal written comments received from the San Diego County Water Authority (CWA) during the 60-day review process for the administrative draft of the Wholesale Water Service Agencies Municipal Service Review – Part One: San Diego County Water Authority and identifies the corresponding revisions made by staff in preparing the public draft report for the Commission's consideration.

CWA submitted a comment letter dated March 23, 2026, at the close of the 60-day administrative review period. Staff has reviewed the letter in full and made several targeted revisions to the final report to improve clarity, incorporate additional context, and acknowledge certain material developments occurring after the close of the report's 15-year data collection period in 2023. In other instances, staff determined no substantive revision was warranted and has retained the report's original analysis and conclusions.

CWA's March 23, 2026 comment letter is provided as Attachment One.

The principal comment topics raised by CWA, along with staff's corresponding response and any revisions made to the public draft report, are summarized below.

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1. Dated Material and Post-Reporting Period Developments

CWA commented that several material developments occurring after the close of the report's 15-year reporting period in 2023 were not sufficiently reflected in the public draft and have direct implications on the report's conclusions and recommendations.

Staff Response: Agrees in part.
Staff revised the final report to more fully acknowledge several material post-2023 developments identified by CWA. Most notably, staff added a new headlining conclusion titled "Agency in Transition" in the Executive Summary to expressly recognize that significant developments have occurred since the close of the reporting period and that these developments are relevant to how LAFCO interprets the appropriate next steps. These additions include discussion of: (a) the completed detachments of Fallbrook PUD and Rainbow MWD, (b) the June 2025 settlement with the Metropolitan Water District of Southern California (MWD), (c) recent long-term water exchange agreements, (d) the Bureau of Reclamation memorandum of understanding, and (e) the ongoing Business Model Review Process (BMRP).

As part of this refinement, staff also revised Conclusion No. 6 "Reasons for Measured Optimism" conclusion to better focus on leadership-related and governance-related improvements, while relocating broader post-reporting-period developments to the new "Agency in Transition" Conclusion No. 7 to improve organization and reduce redundancy.

Staff did not retroactively incorporate these developments into the report's core financial analysis or written determinations, which remain intentionally anchored to the adopted 2009–2023 reporting period.

2. Reorganization and Dissolution Alternatives

CWA commented that the report's discussion of potential future restructuring concepts should more fully acknowledge the legal, operational, financial, and governance complexities associated with such alternatives.

Staff Response: Agrees in part.
The three reorganization concepts that are identified in the MSR are presented as conditional frameworks for potential future study — not recommendations for immediate action. The document explicitly acknowledges that recent positive developments at CWA warrant allowing internal reforms time to demonstrate effectiveness before any organizational alternatives are considered and calendared. Should the Commission determine following the two-year addendum that a formal governance study is merited, a full evaluation would include the legal, operational, financial, and governance considerations CWA flags in the comment letter. This said, CWA's characterization of the governance alternatives as carrying significant complexity and risk merits response.

LAFCO agrees — each of the three reorganization concepts would presumably generate substantial legal, operational, and financial challenges as suggested by CWA. However, the alternatives are identified precisely because the situation warrants their consideration. The rate increases member agencies have absorbed over the 15-year reporting period — more than 150% for wholesale water, more than triple the rate of inflation – poses risks. LAFCO's identification of the three reorganization concepts is not intended as a provocation; it is an acknowledgment of the seriousness of baseline conditions and the full range of governance responses those conditions may require.

Staff retained the discussion of these conceptual alternatives as appropriate under LAFCO's statutory planning role.

3. Recommended 24-Month Addendum

CWA commented that the draft report's recommendation for a 24-month addendum is too short and that a standard five-year cycle would be more appropriate given the scale of reforms already underway. CWA requested LAFCO delay revisiting the agency until the next 5-year review cycle.

Staff Response: Disagrees.
Staff retained the recommendation that LAFCO prepare an addendum to the municipal service review within 24 months. This timing is deliberate and appropriate given: (a) the City of San Diego's recent action to limit authorization of future retail rate increases associated with CWA's wholesale pass-through costs to a two-year period, (b) the early-stage status of CWA's Business Model Review Period, and (c) the seriousness of the situation, marked by the financial and governance strain documented in the report.

Staff views the two-year addendum as measured and constructive, providing CWA time to demonstrate whether current reforms are producing meaningful results while preserving the Commission's ability to reassess the CWA's trajectory in a timely manner.

4. Conclusion No. 5 "Tipping Point" / Continued Member Roll-Off Risk

CWA commented that the report's reference to a possible "tipping point" and the potential for accelerating member agency roll-off relies on speculation and is inconsistent with current demand projections.

Staff Response: Disagrees.
Staff retained this comment given it is not speculative — it is anchored to a documented (40%) decline in CWA water sales over the 15-year reporting period that finished 2023 at 334,000 acre-feet, which is slightly above the take-or-pay via QSA and Carlsbad Desalination breaking point of 322,000 acre-feet. The comment is further substantiated given the structural changes underlying CWA's potable sales with three independent potable reuse projects coming online that are expected to permanently reduce more

than 100,000 acre-feet in demand that would otherwise be covered by CWA. The Western and Eastern Municipal Water District exchange agreements are an encouraging development, but at 20,000 acre-feet annually it addresses a fraction of the projected demand loss from potable reuse alone. Nonetheless, the two-year addendum provides LAFCO an opportunity to assess whether exchange agreements are making up for gradual decreases in demand via efficiencies as well as the arrival of potable reuse.

5. Pure Water San Diego / Tijuana River Watershed Reference

CWA commented that language in the draft report incorrectly implied the City of San Diego's Pure Water Program addresses the ongoing wastewater and public health crisis in the Tijuana River watershed.

Staff Response: Disagrees, but further clarified the text.
Staff does not agree that the administrative draft suggested the City of San Diego's Pure Water Program is designed to resolve the cross-border wastewater discharges affecting the Tijuana River watershed. Rather, the reference was intended to underscore a broader policy point regarding the public health and environmental consequences when governments fail to adequately manage wastewater.

That said, staff revised the final report to further clarify the intended point and avoid any potential misreading. The revised language continues to support the City of San Diego's implementation of the Pure Water Program, while more precisely distinguishing between: (a) local benefits of potable reuse and advanced wastewater treatment in San Diego, and (b) the separate cross-border wastewater crisis affecting the Tijuana River watershed. Staff believes the revision improves clarity without changing the underlying policy conclusion.

6. Carlsbad Desalination Plant Unit Cost

CWA commented that the draft report's use of a $3,732 per acre-foot figure for Carlsbad Desalination Plant water in FY 2023 was overstated and that the more accurate figure, based on total plant production of 48,000 acre-feet, is approximately $3,110 per acre-foot.

Staff Response: Agrees.
Staff revised the final report to reflect the FY 2023 unit cost of approximately $3,110 per acre-foot using the full 48,000 acre-foot plant production basis identified by CWA.

7. Treated Water Storage / System Operations

CWA commented that the draft's discussion of treated water storage should more clearly acknowledge the regional nature of storage planning, including CWA's administrative requirement that member agencies maintain ten days of storage.

Staff Response: Agrees in part.
Staff revised the final report to provide additional context that CWA's available treated water storage at the wholesale level falls below the commonly cited three-day benchmark when measured independently, while also acknowledging the broader regional framework in which member agency storage requirements help mitigate this concern. Staff retained the wholesale-level storage figure as a relevant data point.

8. Alternative to the Colorado River Aqueduct Reference

CWA commented that the report's reference to a previously studied pipeline concept for direct delivery of Quantification Settlement Agreement (QSA) supplies to San Diego referenced an outdated concept that has since been set aside.

Staff Response: Agrees in part.
Staff revised the final report to better clarify the status of the concept is no longer active – the Board removed it from the CWA project list and budget following engineering and economical review. Staff has retained the reference, however, as an illustrative example of capital planning decisions that raise broader questions in the context of CWA's recent history. The decision to ultimately set the project aside is appropriate and reflects the more disciplined posture under current leadership.

9. Fixed Versus Variable Costs and Revenues

CWA commented that the report's classification of fixed versus variable costs and revenues was overstated and inconsistent with the analysis in Dr. Hanemann's analysis (provided as an Appendix), particularly with respect to the treatment of water purchases as fixed costs.

Staff Response: Disagrees.
Staff retained the fixed-versus-variable framework used in the administrative draft. Staff believes the method is reasonable and appropriately grounded in CWA's adopted budget documents and service obligations. The classification of fixed versus variable costs is reasonable — meaning the closing period figures of 80.6% fixed costs versus 10.7% fixed revenues are real. This includes us treating "water purchases" as a fixed cost, which is sound given CWA is prioritizing purchases from its QSA and Carlsbad commitments, which together total 322,000 acre-feet annually. As documented in the MSR, CWA delivered approximately 334k acre-feet in 2023 — an amount just barely above the combined 322k acre-foot take-or-pay floor. At current delivery levels as of 2023, virtually the entire water purchases line at the close of the reporting period is a fixed cost, and the variability of MWD purchases — which are volumetric as CWA cites — is largely academic.

No revision to the fixed/variable classification is therefore warranted.

10. Financial Metrics, Liquidity, and Related Indicators

CWA commented that the draft report's treatment of liquidity and other fiscal indicators omitted relevant context and did not apply standard financial metrics in a sufficiently nuanced manner.

Staff Response: Disagrees.
LAFCO assesses agency liquidity using three standard diagnostic measurements — current ratio, cash ratio, and days' cash on hand — with each evaluated against an established benchmark and the 15-year period average to establish direction. This approach shows CWA's liquidity has declined against established benchmarks across all three measurements:

- The **current ratio** — measuring available assets against near-term liabilities — carries a standard benchmark of 2.0 for public agencies. CWA's 15-year period average of 0.97-to-1 and closing figure of 1.03-to-1 both fall short of that benchmark, reflecting an agency that has carried fewer liquid assets than the prudent standard throughout the entirely of the reporting period.

- The **cash ratio** — which excludes less liquid assets like receivables — averaged 0.61-to-1 over the 15-year period and finished at 0.50-to-1 in 2023, (41.8%) below the report period average.

- **Days' cash on hand** started at 567 days at the period's open and finished at 144 days at the close — (45.2%) below the 15-year period average of 263 days.

11. Build America Bond

11.1 Agency Profile Discussion

CWA commented that the draft report's discussion of the 2010 Build America Bond was incomplete because it noted the bond remains at its original principal balance while omitting the federal subsidy structure that offsets 35% of interest costs.

Staff Response: Agrees.
Staff revised the agency profile discussion in the final report to expressly acknowledge that the 2010 Build America Bond includes a federal subsidy covering 35% of interest costs. The revised text further notes that this structure has generated substantial cost-sharing benefits during the life of the obligation and provides context for CWA's strategy in preserving the principal balance over the life of the bond.

11.2 Written Determination

CWA commented that the related written determination addressing debt service similarly omitted the federal subsidy context and, in doing so, overstated the negative implication of the interest-only structure.

Staff Response: Agrees in part.
Staff revised the written determination to acknowledge that the 2010 Build America Bond carries a federal subsidy covering 35% of interest costs and that this feature has incentivized preserving the full principal balance during the life of the bond. At the same time, staff retained the core analytical point that the original principal remains fully intact at the close of the reporting period and remains an obligation ultimately borne by member agencies and their ratepayers.

Appendices:

A) Breakdown of Fixed/Variable Costs and Revenues
B) Liquidity Measurements

Attachment:

1) CWA Written Comment Letter Dated March 23, 2026 with Margin Markings

Appendix A
CWA Fixed/Variable Costs and Revenues

CWA: Fixed v. Variable COSTS + REVENUES

Source: Biennial CWA Budget Documents, FY2009 to FY 2023

Category	FY08-09	FY10-11	FY12-13	FY14-15	FY16-17	FY18-19	FY20-21	FY22-23	Avg.	Trend	% of Total
EXPENSES ($ Thousands)											
Fixed Costs											
Water Purchases	532,769	566,485	683,705	833,738	889,767	892,553	964,147	1,093,504	807,084	105.2%	74.79%
Debt Service	197,861	220,750	265,395	270,743	271,561	292,624	266,846	261,554	255,917	32.2%	23.71%
QSA Mitigation	24,336	22,792	12,461	16,417	24,011	18,829	4,711	5,933	16,186	-75.6%	1.50%
Subtotal Fixed Costs....	**754,966**	**810,027**	**961,561**	**1,120,898**	**1,185,339**	**1,204,006**	**1,235,704**	**1,360,991** 0	**1,079,187**	**80.3%**	**100%**
Variable Costs											
CIP Expenditures	556,634	350,701	241,118	187,131	146,661	131,713	108,603	144,346	233,363	-74.1%	64.93%
Operating Departments	79,602	80,774	82,042	91,095	94,396	96,277	111,956	112,727	93,609	41.6%	26.05%
Other Variable	15,302	12,283	12,955	14,658	35,820	27,090	70,414	70,815	32,417	362.8%	9.02%
Subtotal Variable Costs...	**651,538**	**443,758**	**336,115**	**292,884**	**276,877**	**255,080**	**290,973**	**327,888** 0	**359,389**	**-49.7%**	**100%**
TOTAL COSTS	**1,406,504**	**1,253,785**	**1,297,676**	**1,413,782**	**1,462,216**	**1,459,086**	**1,526,677**	**1,688,879**	**1,438,576**	**20.1%**	
Fixed Costs as % of Total	53.68%	64.61%	74.10%	79.28%	81.06%	82.52%	80.94%	80.59%	74.6%	50.1%	
Variable Costs as % of Total	46.32%	35.39%	25.90%	20.72%	18.94%	17.48%	19.06%	19.41%	25.4%	-58.1%	
REVENUES ($ Thousands)											
Fixed Revenues											
Infrastructure Access Charges	36,848	45,749	56,376	59,101	61,579	65,685	80,864	94,703	62,613	157.0%	51.69%
Property Taxes & In-Lieu	20,771	18,938	20,679	22,618	24,981	28,420	31,759	35,637	25,475	71.6%	21.03%
Water Standby Charges	22,568	22,496	22,388	2,244	22,180	22,257	22,333	22,358	19,853	-0.9%	16.39%
Build America Bond Subsidy	0	0	0	20,745	21,071	21,133	21,276	21,317	13,193	n/a	10.89%
Subtotal Fixed Revenues	**80,187**	**87,183**	**99,443**	**104,708**	**129,811**	**137,495**	**156,232**	**174,015**	**121,134**	**117.0%**	**100.00%**
Variable Revenues											
Gross Water Sales	703,407	770,793	966,803	1,177,868	1,103,992	1,171,415	1,182,217	1,293,359	1,046,232	83.9%	91.00%
System Capacity Charges	37,149	20,620	28,808	36,375	36,919	47,963	36,698	43,157	35,961	16.2%	3.13%
Other Variable	87,078	53,292	54,023	43,014	43,270	51,980	89,607	118,202	67,558	35.7%	5.88%
Subtotal Variable Revenues	**827,634**	**844,705**	**1,049,634**	**1,257,257**	**1,184,181**	**1,271,358**	**1,308,522**	**1,454,718** 0	**1,149,751**	**75.8%**	**100.00%**
TOTAL REVENUES	**907,821**	**931,888**	**1,149,077**	**1,361,965**	**1,313,992**	**1,408,853**	**1,464,754**	**1,628,733** 0	**1,270,885**	**79.4%**	**100.0%**
Fixed Revenues as % of Total	8.83%	9.36%	8.65%	7.69%	9.88%	9.76%	10.67%	10.68%	9.53%	21.0%	
Variable Revenues as % of Total	91.17%	90.64%	91.35%	92.31%	90.12%	90.24%	89.33%	89.32%	90.47%	-2.0%	
TRUE-UP											
Fixed Costs %	53.68%	64.61%	74.10%	79.28%	81.06%	82.52%	80.94%	80.59%	74.6%		
Fixed Revenues %	8.83%	9.36%	8.65%	7.69%	9.88%	9.76%	10.67%	10.68%	9.53%		
Gap (percentage points)	**44.84%**	**55.25%**	**65.44%**	**71.60%**	**71.19%**	**72.76%**	**70.27%**	**69.90%**	**65.07%**		

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Appendix B
Liquidity Measurements on CWA

LIQUIDITY	2009	2010	2011	2012	2013	2014	2015
Current Ratio							
... Current Assets	595,737,124	781,860,240	629,513,361	595,263,796	492,921,589	499,138,671	447,262,088
... Current Liabilities	563,525,850	582,833,021	582,946,098	498,521,921	502,399,232	521,451,352	493,802,199
	1.057	**1.341**	**1.080**	**1.194**	**0.981**	**0.957**	**0.906**
Quick Ratio							
... Cash	485,336,970	662,525,397	530,439,340	471,517,009	357,026,638	338,676,061	282,003,468
... Recievables	77,583,709	89,320,769	73,740,045	100,004,409	115,175,524	128,235,113	108,193,183
... Current Liabilities	563,525,850	582,833,021	582,946,098	498,521,921	502,399,232	521,451,352	493,802,199
	0.999	1.290	1.036	1.146	0.940	0.895	0.790
Cash Ratio (Right Here/Now...)							
... Cash	485,336,970	662,525,397	530,439,340	471,517,009	357,026,638	338,676,061	282,003,468
... Current Liabilities	563,525,850	582,833,021	582,946,098	498,521,921	502,399,232	521,451,352	493,802,199
	0.861	1.137	0.910	0.946	0.711	0.649	0.571
Cash Flow from Operations Percent							
... Operating Revenues	363,559,972	392,836,278	383,556,608	444,867,027	526,033,898	537,630,595	588,740,124
... Total Revenues	417,321,314	436,366,629	443,929,911	503,939,050	581,989,056	662,918,385	651,984,497
	87.1%	90.0%	86.4%	88.3%	90.4%	90.2%	90.3%
Days' Cash							
... Cash + Equilvents * 365	177,147,994,050	241,821,769,905	193,610,359,100	172,103,708,285	130,314,722,870	123,616,762,265	102,931,265,820
... Operating Expenses	342,597,766	361,437,481	352,033,776	401,662,275	465,094,285	518,592,276	513,686,584
... Depreciation Expense	30,038,388	30,657,250	37,364,821	51,705,749	52,259,977	56,589,618	57,751,284
	566.77	**731.06**	**615.28**	**491.79**	**315.66**	**267.57**	**225.76**

LIQUIDITY	2016	2017	2018	2019	2020	2021	2022	2023	15-Yr Avg	Trend
Current Ratio										
... Current Assets	460,480,101	425,988,030	454,606,259	395,663,736	338,064,151	343,585,351	485,609,852	438,868,156	492,304,167	
... Current Liabilities	549,351,301	508,639,776	524,224,902	491,906,446	571,693,515	393,283,664	431,714,788	427,860,796	509,610,324	
	0.838	**0.838**	**0.867**	**0.804**	**0.591**	**0.874**	**1.125**	**1.026**	**0.966**	**-3.0%**
Quick Ratio										
... Cash	238,166,371	205,967,312	224,667,018	183,657,425	111,422,721	108,797,440	263,721,987	214,563,208	311,899,224	
... Recievables	117,047,749	118,397,317	128,955,127	106,245,563	118,564,087	126,432,664	138,649,425	122,338,605	111,258,886	
... Current Liabilities	549,351,301	508,639,776	524,224,902	491,906,446	571,693,515	393,283,664	431,714,788	427,860,796	509,610,324	
	0.647	0.638	0.675	0.589	0.402	0.598	0.932	0.787	0.830	-21.2%
Cash Ratio (Right Here/Now...)										
... Cash	238,166,371	205,967,312	224,667,018	183,657,425	111,422,721	108,797,440	263,721,987	214,563,208	311,899,224	
... Current Liabilities	549,351,301	508,639,776	524,224,902	491,906,446	571,693,515	393,283,664	431,714,788	427,860,796	509,610,324	
	0.434	0.405	0.429	0.373	0.195	0.277	0.611	0.501	0.612	-41.8%
Cash Flow from Operations Percent										
... Operating Revenues	528,174,649	582,784,360	595,862,501	584,171,430	569,099,481	619,966,447	673,405,554	625,791,436	538,432,024	
... Total Revenues	602,567,570	651,941,264	676,491,525	666,713,713	654,879,936	747,968,180	805,886,215	724,864,297	615,317,436	
	87.7%	89.4%	88.1%	87.6%	86.9%	82.9%	83.6%	86.3%	87.5%	-0.9%
Days' Cash										
... Cash + Equilvents * 365	36,930,725,415	75,178,068,880	82,003,461,570	67,034,960,125	40,669,293,165	39,711,065,600	96,258,525,255	78,315,570,920	113,843,216,882	
... Operating Expenses	487,739,351	540,273,126	555,525,673	497,570,741	505,131,860	570,874,280	611,866,743	611,866,743	489,063,531	
... Depreciation Expense	64,023,664	67,086,517	62,842,596	62,719,586	64,041,389	64,408,571	64,893,002	66,333,231	55,514,376	
	205.16	**158.88**	**166.44**	**154.16**	**92.20**	**78.41**	**175.98**	**143.56**	**262.6**	**-74.7%**

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San Diego County Water Authority
Comments on Preliminary Draft LAFCO Municipal Service Review (MSR)
March 23, 2026

1. Introduction

Thank you for the opportunity to review and comment on the Administrative Draft Municipal Service Review (MSR) regarding wholesale water services in San Diego County. We appreciate your care compiling the draft and the constructive intent behind the MSR process to strengthen regional water service delivery and public trust in the San Diego County Water Authority (Water Authority).

We recognize the statutory role of the San Diego Local Agency Formation Commission (LAFCO) in conducting MSRs pursuant to Government Code §56430 and the importance of periodic, impartial assessments of public agencies to inform governance, financial stewardship, and service reliability. We also acknowledge the considerable effort over the past few years by Executive Officer Keene Simonds, Assistant Executive Officer Priscilla Mumpower, Dr. Michael Hanemann, Patrick Bouteller, and LAFCO staff in developing the current administrative draft.

Our goal with this response is to advance a collaborative dialogue and to contribute updated information and context that can support LAFCO in finalizing a thorough, balanced MSR and public record. Our comments are intended to be positive, respectful, and constructive. Specifically, we aim to assist LAFCO in ensuring the accuracy and completeness of the information contained in the MSR, including its key findings and conclusions, and to provide timely updates on recent actions and initiatives by the Water Authority that materially affect those conclusions and better reflect current and anticipated future conditions.

Three overarching observations guide our input.

Comment No. 1 First, several sections of the draft rely on outdated or conflicting information and erroneous assumptions, and these issues are compounded by a misalignment between the data presented and the conclusions drawn. Including updated information regarding the Water Authority's recent rate restructuring actions, financial stabilization strategies, and supply portfolio management actions will materially improve the accuracy of the final report and its usefulness to decision-makers. Important examples of this include the Water Authority's recent execution of an agreement with the federal government to develop a system for interstate water transfers, as well as approval of a long-term water supply agreement with Western Municipal Water District and ongoing negotiations with two other Southern California water agencies, all of which are expected to generate hundreds of millions of dollars in new revenues for the agency over the next two decades. These actions will directly and materially mitigate the financial impacts of the Water Authority's existing water supply contracts, which are repeatedly referenced in the draft MSR and underpin several of its findings and conclusions. More broadly, these emerging partnerships reflect a new paradigm of regional collaboration at the Water Authority. As a result, the Water Authority as portrayed in the MSR does not reflect the current and future realities of an

agency that has made material changes in its rate structure, revenue generation and strategic supply management.

Comment No. 2 Second, we recommend a more thorough and balanced discussion of the three potential reorganization alternatives identified in the MSR to ensure the report identifies the full range of cost implications, legal constraints, operational risk considerations, and equity and affordability impacts on the retail water suppliers in the region. At present, the MSR only identifies potential benefits of these alternatives, and provides no analysis, critical assessment or discussion of unintended consequences, or the identification of the significant downsides and uncertainties associated with each. This leaves the reader with an incomplete understanding of the viability and desirability of considering these reorganization alternatives in the future.

Comment No. 3 Third, in recognition of the many reforms that are well underway at the Water Authority and progress that has been made on several of the key issues identified in the draft MSR, we respectfully request that the recommendation in the draft MSR for a two-year review be revised to put the Water Authority on a standard five-year track for its next MSR review. In addition to the progress made in several key areas described above and later in this letter, the Water Authority has initiated a full Business Model Review Process among its management team and member agency general managers. This Business Model Review Process is designed as a consensus-based initiative with a goal of providing specific financial, operational and decision-making structural recommendations for consideration by both the Water Authority's Board and the governing bodies of the member agencies. A five-year review period allows time for further progress to be made on existing reforms and initiatives, while also providing a more realistic timeline for recommendations developed through the Business Model Review Process to be successfully implemented.

2. Areas of Agreement

At the outset, it is important to affirm that the MSR identifies several foundational strengths that underpin the Water Authority's role as the region's wholesale water provider. We appreciate the report's recognition of the Water Authority as the backbone of San Diego County's regional water infrastructure – an integrated system that, when combined with the member agencies, has supported one of the nation's largest economies for decades in a region with very few natural water resources.

The MSR's acknowledgment of the Water Authority's investments in supply reliability further reinforces this point. Over three decades, the Water Authority has deliberately diversified and fortified its water supply portfolio to protect the region from hydrologic volatility and statewide system constraints; an effort complemented by a governance model that provides direct member agency representation. We also appreciate the MSR's recognition of the Water

Authority's financial stability, which reflects deliberate planning, disciplined Board policies, and ongoing financial management.

In addition, we value the MSR's recognition of the Water Authority's recent changes in leadership that have established a new way of doing business. While there is more work to be done, the report appropriately highlights how leadership actions in the past three years have strengthened alignment, transparency, and collaboration. External interagency relationships have improved, bringing with them opportunities for collaboration and regional benefits. The Water Authority's successful settlement with the Metropolitan Water District of Southern California (MWD) in 2025 marks a major turning point – one that resolves longstanding challenges, provides financial benefits to ratepayers, and opens new avenues for cooperative regional water management. The settlement also has created significant new opportunities to "exchange" water outside the Water Authority's service area, generating new revenues and better balancing our water supplies. These positive developments and several others reflect a meaningful shift towards constructive problem-solving and partnerships.

We also agree with the MSR's identification of industry-wide challenges, including declining water sales, evolving demand patterns, inflationary pressures, climate change, and the fluctuating mix of regional and local supplies. These pressures are not unique to San Diego County. In fact, the Water Authority has been ahead of the investment curve in water reliability. Today, similar challenges are facing MWD, which has announced 9.5% rate increases for the next two years even as it weighs additional multi-billion-dollar investments that will accelerate its costs. We appreciate that the MSR recognizes these broader dynamics that are shaping the water sector.

Importantly, the MSR acknowledges the Water Authority's awareness of these issues and the methodical, proactive steps already underway. For instance, our newly adopted 2026 Long-Range Financing Plan and financial stabilization efforts continue to guide prudent fiscal decision-making and ensure long-term resilience. The results of this work are evident in the most recent Moody's Ratings credit opinion that reaffirmed our stable outlook, citing "robust planning" and "strong management practices despite challenges associated with variable precipitation and demand levels, rising costs, and required capital investments." This confirmation is particularly important as we prepare to enter the debt market this year, reinforcing our ability to manage costs for ratepayers.

Looking ahead, our supply portfolio management strategy includes leveraging opportunities associated with the MWD settlement and exchange arrangements. It positions the San Diego region to take full advantage of existing assets in a way that is unique in the arid West. The MSR notes new board policies and other initiatives that reflect our commitment to continuous improvement and regional benefit. Together, these and additional initiatives such as the Business Model Review Process demonstrate that the Water Authority is not only aware of emerging challenges but is actively and collaboratively addressing them.

3. Water Authority Business Model Review Process

One of the primary ways the Water Authority is addressing emerging challenges is through the implementation of a comprehensive Business Model Review Process (BMRP) involving the Water Authority's management team and the General Managers of the Authority's member agencies. While mentioned briefly earlier in this letter, this section provides additional detail on the BMRP, which directly addresses many of the core issues identified in the MSR, and its inclusion in the final MSR will provide relevant context on regional efforts underway to address these issues.

The BMRP was initiated by the Water Authority executive management team and began in early 2026. Through this process, the Water Authority and its member agencies are collaboratively evaluating financial, governance, service delivery, and cost allocation topics which correspond directly with issues raised in the MSR. These include long-term financial stability, the alignment between fixed and variable cost structure and water sales, the allocation of costs and risks among the Water Authority and its member agencies, governance and decision-making considerations, and the role of the Water Authority in maintaining imported water service as member agencies continue to develop additional local water supplies. The BMRP provides a structured process through which member agencies and the Water Authority are working together to systematically address these issues and evaluate potential improvements to the Water Authority's business model.

The BMRP follows a structured, multi-step framework that was introduced to member agency managers during the initial workshop on February 11, 2026. The early stages of the process focus on developing a shared understanding of the Water Authority's current business model and defining the role and value of the Water Authority as a regional wholesale agency. Participants examine several core elements of the current business model, including the Water Authority's value proposition to the region, the services provided to member agencies, the methods used to recover costs for those services, and the manner in which financial and operational risks are allocated among the Water Authority and its member agencies. These discussions are intended to establish a foundational understanding before addressing specific issues and potential solutions.

The next steps in the process focus on identifying the full range of issues and challenges associated with the current business model, including financial pressures resulting from changing demand patterns, the relationship between fixed contractual obligations and variable revenues, governance and decision-making dynamics, and the evolving balance between regional imported supplies and increasing local supply development. These topics correspond closely with several of the MSR's central themes related to financial structure, decision making, and long-term service delivery.

Subsequent workshops will prioritize the most significant issues requiring further evaluation and develop an overarching objective statement and associated goals for wholesale water service

in the region. This work is intended to ensure that as issues are addressed and refinements to the Water Authority's business model are developed, proposed solutions align with the regional service objectives defined by the Water Authority and its member agencies.

The final stages of the process will involve developing and refining potential changes to Water Authority's business model and preparing related recommendations. These may include adjustments to financial policies, rate structure and fixed revenue sources, service delivery approaches, and governance practices. Concepts will be discussed and evaluated with supporting technical analyses to determine whether they effectively address identified challenges.

The BMRP is structured as a consensus-based effort among the Water Authority and its member agencies, with participants working toward recommendations that can be broadly supported and implemented. As the process continues through 2026 and into early 2027, the resulting recommendations are intended to be presented to both the Water Authority Board and the member agencies' governing bodies for consideration.

4. Technical and Factual Clarifications to Improve Accuracy of the MSR

Comment No. 1 (cont.)

LAFCO initiated its current MSR in Fiscal Year (FY) 2023-24. This review covers a 15-year study period (FY 2009-2023) to analyze infrastructure, financial, and governance frameworks. However, several sections of the MSR rely on or present outdated or conflicting information. Updating the document with the Water Authority's financial stabilization efforts and current water portfolio management actions will significantly improve the report's accuracy and usefulness. This section outlines some specific areas where technical and factual clarifications would improve the accuracy of the MSR.

LAFCO's use of 2023 as the end date of its analysis creates a substantial gap in the Draft MSR's financial assessment. Consequently, key data are now outdated, inconsistent, or inaccurate. Given the importance of the financial issues raised in the MSR, the Water Authority believes updating this data will help strengthen the technical accuracy and factual foundation of the document. Since 2023, the Water Authority has implemented several significant financial and rate adjustments – many of which directly address core financial themes in the MSR. These material developments are not reflected in the current draft.

The Water Authority's intent is not to conduct a line-by-line correction, but rather to clarify several potential fundamental misunderstandings about how the agency's revenues and costs are structured which materially affect many of the MSR's core conclusions. One key example is the MSR's assertion that more than 80% of the Authority's expenses are fixed while revenues remain primarily variable. This conclusion is inconsistent with LAFCO's own analysis in Appendix B1 and is based on misclassified expenditure data.

The Authority's financial structure is complex, and a more nuanced analysis is necessary for an accurate and balanced evaluation. Across revenues, costs, reserves, and debt, the MSR often relies on generalized statements, omits important context, or does not apply standard financial metrics. Basing recommendations on the draft MSR would not provide a reliable foundation for policy decisions.

We have provided detailed information and clarification below for consideration, specifically in the following areas:

- Continued Roll-Off
- Local Supply Development
- Desalination Plant
- System Operation and Storage
- Colorado River Aqueduct
- Fixed Versus Variable Costs and Revenues
- Financial Metrics and Indicators
- Debt Portfolio
- Extended Review Period

Comment No. 4 *Continued Roll-Off (Conclusion 5. Tipping Point, page 25)* –The MSR makes a statement that the financial strain created by the region's contracted supply will, "presumably accelerate member agency roll-off to local supply alternatives". This is speculative. It wouldn't make sense for member agencies to pursue local supply projects that are significantly more expensive than the Water Authority's supply rate. There are no "cheap" new water supply options in the region. In addition, current demand projections provided by the member agencies do not show that contracted supplies will fall below member agency demands in 2027 as stated in the MSR. The MSR should base its conclusions on current information.

Comment No. 5 *Local Supply Development (Recommendation 4, page 28)* – "LAFCO expressly supports the City's continued pursuit of both Phase I and Phase II, recognizing the program's significant public benefits for regional water resilience and long-term affordability." This statement would appear to contradict one of LAFCO's key underlying arguments in the MSR. In terms of water supply resilience, the MSR consistently states the San Diego region is over-subscribed, with contracted supplies that exceed regional demand. The MSR presents "reliability" as a driver for additional local supply development, even though regional reliability has largely been achieved. The long-term affordability benefit would also appear to be misstated, in that the cost for new local supply projects exceeds what member agencies pay for Water Authority supplies. Also of note, language in the MSR referencing the Tijuana River watershed implies that a benefit of the Pure Water San Diego project is to stop the discharge of raw sewage. That is inaccurate. The Tijuana River watershed problem is the result of a direct discharge of raw sewage from Mexico, which is not the condition the City is addressing with its Pure Water San Diego project.

Comment No. 6 *Desalination Plant (Sections 7.3(a)(4)(B) and 7.6(b)(2), pages 84 and 92)* –The MSR reports the cost of water produced by the Carlsbad Desal Plant as $3,732/AF for FY 2023. It is unclear how this unit rate was derived. The average rate for FY2023 was approximately $3,110/AF. It appears that the analysis in the MSR uses operating budgeted cost information from the Water Authority's Adopted Budget and divides that number by the regional production quantity of 42,000 AF. The actual unit costs, as reported in the Water Authority's Adopted Budget, are for the entire plant production of 48,000 AF, resulting in a $3,110/AF unit cost. This more accurate unit cost should be used throughout the MSR.

Comment No. 7 *System Operation and Storage (Section 7.3(a)(8)(A), page 85)* –The MSR makes a determination that the Water Authority lacks sufficient treated water storage. Storage capacity in the region should be viewed regionally, not solely at the wholesale level. The Water Authority's Administrative Code requires member agencies to maintain ten days of storage to provide sufficient capability to meet demands should treated water supply sources become unavailable. This administrative code requirement acknowledges the regional nature of the treated water system and is intended to avoid overinvestment at the wholesale level by considering aggregate storage at a regional level that is comprised of wholesale and retail storage. The fact that the Water Authority has three distinct treated water sources - the Carlsbad Desalination Plant, Twin Oaks Valley Water Treatment Plant, and treated water deliveries from MWD - further insulates the region from the risk of not having enough treated water.

Comment No. 8 *Colorado River Aqueduct (Section 7.5(g), page 91)* –The MSR's reference to the Water Authority's 2019 study of a new pipeline to deliver QSA supply directly to San Diego as a potential way to reduce costs is a reference to an outdated item. The pipeline project was removed from the Water Authority's project list and budget based on an engineering and economic feasibility evaluation of the project. As a result, it does not warrant inclusion in the MSR except insofar as it illustrates the Water Authority's thorough evaluation of innovative concepts and willingness to set them aside when such concepts are not economically justified.

Comment No. 9 *Fixed Versus Variable Costs and Revenues* – Both the Draft MSR and Appendix B1 include derivations of fixed versus variable costs and revenues, but present differing results. The Draft MSR reports that 80.6% of expenditures are fixed, based largely on the assumption that water purchases are fixed costs. Much of the Water Authority's water purchases, particularly those from MWD, occur on a variable, volumetric basis. Likewise, the MSR's estimate that fixed revenues are only 10.7% is both inaccurate and inconsistent with the analysis in Appendix B1. While the Authority does not fully agree with the fixed versus variable cost classifications in Appendix B1, as discussed in more detail below, the values presented in the appendix more closely reflect actual conditions than those in the Draft MSR.

In Appendix B1, however, certain costs are misclassified as fixed, such as MWD wheeling charges and portions of the costs for the Carlsbad Desal Plant, when these costs are partially or fully volumetric. When correctly classified, water purchases are approximately 52% fixed and 48% variable, a difference of roughly $550 million. Applied to the full budget, fixed costs represent about 49.5% of expenditures - far less than the 80.6% stated in the MSR.

Similar issues appear on the revenue side. The MSR's statement that fixed revenues are 10.7% and "…have remained flat…" conflicts with Appendix B1, which identifies fixed revenues at 28.5% and acknowledges that the Authority's recent rate design changes have increased fixed revenues from 14.7% to 24.1%.

Taken together, these items significantly affect the MSR's primary conclusion that the Authority faces a pronounced imbalance between fixed costs and variable revenues. When analyzed with more detailed and accurate classifications, fixed revenues and fixed costs are 28.5% and 52%, respectively – a far more balanced picture

Comment No. 10 *Financial Metrics and Indicators* – The MSR presents conflicting and incomplete assessments of the Water Authority's financial indicators. For instance, it describes a "…narrowing cash buffer…" while unrestricted reserves (i.e., "cash") actually increased from $106.8 million in FY 2009 to $241.2 million in FY 2023, a 126% increase. Much of the cited decline in total cash relates to planned spending of debt proceeds on capital projects, which are not included in standard liquidity (i.e., "cash") metrics. Including debt proceeds in liquidity calculations, as the MSR does, departs from industry standards and inaccurately portrays the Water Authority's financial position. When measured using industry standards, the Water Authority ended FY 2023 with stronger liquidity than at the start of the review period.

Debt Portfolio –Similarly, the MSR's characterization of the Water Authority's debt portfolio does not fully align with industry assessments. The MSR references a "…focus on interest only payments…" yet acknowledges that the Water Authority paid more than $1.7 billion in debt service, including $510 million in principal. Moody's January 2025 rating report further notes that the Water Authority's amortization rate is only slightly below average.

Comment No. 11 While the Water Authority does, at times, utilize some interest-only financing during periods, the MSR does not fully reflect the corresponding financial benefits associated with this approach. For example, the Build America Bonds (BABs) includes a unique funding provision where the Water Authority receives a subsidy payment from the US Treasury equal to 35% of the interest payable. This detail is omitted in the MSR, but it translates to revenue of roughly $150 million over the MSR review period. Additionally, using interest-only debt can be a positive financial strategy under specific, controlled circumstances. Specifically, it is beneficial for improving short-term cash flow, maximizing investment capital, and managing temporary revenue fluctuations, all of which support the Water Authority's ability to maintain relatively smooth and predictable rate increases.

Comment No. 1 (cont.)

Extended Review Period – To improve the accuracy of the MSR, the 15-year review period used in the financial analysis should be adjusted to account for inflation, onetime events, non-operating items, and investment and debt cycles. Without these adjustments, the resulting financial insights do not fully reflect a complete and accurate picture. Additionally, the selected timeframe excludes much of the Authority's most significant capital investment, which occurred from 2001 to 2008, during which outstanding debt increased by 225% compared to 7% during the review period, and therefore does not capture the full context or long-term value of those investments.

Finally, relying on 2023 period end data for a report that will be finalized in mid-2026 results in the MSR's conclusions being materially misaligned with current circumstances. Since the close of FY 2023 (June 2023), the Authority has experienced several significant and material events: (1) the detachment of Fallbrook Municipal Utilities District (Jan 2024) and the Rainbow Municipal Water District (Nov 2024), (2) execution of a multi-year landmark water exchange designed to boost water levels in Lake Mead (selling 100,000 AF and saving over $40 million for the Authority), (3) settlement of a 15-year legal dispute with MWD over rates and the price and terms of the exchange agreement with a corresponding savings of $138 million compared to MWD's most recent 10-year rate forecast, and (4) negotiations with multiple MWD member agencies on long-term purchase agreements offering to sell up to 50,000 AF, including finalization and approval of an agreement with Western Municipal Water District in Riverside County that will generate $13.5 million in annual revenue for the Authority, provide nearly $40 million in upfront cash beginning in April 2026 and in total produce a net present value savings of $330 million over the first term of the agreement. These developments significantly influence the Water Authority's financial outlook and should be reflected in the final draft and conclusions of the MSR. As additional water transactions are completed prior to the conclusion of the MSR process, the Water Authority will communicate these updates to LAFCO accordingly.

5. Response to Reorganization and Dissolution Alternatives

Comment No. 2 (cont.)

The draft MSR includes in the Wholesale Water Services section a discussion of potential reorganization and dissolution alternatives that may be considered by LAFCO in the future should the Authority not address key regional wholesale water issues identified in the report. These alternatives appear in the Executive Summary (page 26) and in Section 7.6 – Local Accountability and Government Restructure Options (pages 94–95). This section provides comments and recommended revisions intended to offer more relevant and balanced information in the MSR regarding the reorganization and dissolution alternatives. Preparing MSRs is one of the core statutory responsibilities of LAFCO. Although the MSR itself is not self-executing, it can provide information and useful context for considering potential future organizational changes. Because MSRs may be referenced by LAFCO and other interested parties as part of the

analytical foundation for considering reorganization or dissolution alternatives, it is critical that the MSR provide information on these alternatives that is well-supported and balanced.

Specifically, the final MSR should present both the potential advantages and the significant legal, operational, financial, and governance risks associated with the alternatives identified. Presenting only potential advantages, without a corresponding discussion of the complexities and risks, creates an incomplete record for determining the need or desirability of considering such alternatives in the future. The comments provided below are intended to help ensure the final MSR provides a more comprehensive and balanced analysis of the implications of the three concepts identified for potential future study.

LAFCO Authority and Legal Requirements for Organizational Changes

To provide important legal context for readers of the MSR, it would be helpful to add clarifying language regarding LAFCO's authority under the Cortese-Knox-Hertzberg Local Government Reorganization Act (CKH) to evaluate alternative governance structures and potential organizational changes as part of the MSR process in order to assess opportunities for improving the efficiency and affordability of infrastructure and service delivery (Gov. Code, § 56430). In this regard, and as noted earlier, the MSR itself principally serves as an informational and analytical document.

Any LAFCO-initiated proposal involving dissolution or major reorganization of a special district must ultimately satisfy specific statutory findings under Government Code § 56881. Under that statute, LAFCO must determine that a proposed reorganization would reduce service costs, improve service efficiency, and promote the public interest, and that no alternative actions could achieve the same objectives more effectively. These findings require substantial evidence demonstrating that a dissolution or reorganization would result in improved service delivery relative to existing institutional arrangements.

Accordingly, the MSR should clearly acknowledge that the identification of potential restructuring concepts for future study does not, by itself, establish the basis for LAFCO to initiate dissolution or reorganization proceedings. Providing additional discussion of the operational, legal, and financial considerations associated with the alternatives would help provide context for evaluating whether the statutory findings could reasonably be supported in the future.

The section of the MSR discussing potential reorganization alternatives should also acknowledge relevant requirements of the County Water Authority Act (CWA Act), under which the voters of San Diego County approved the formation of the Authority in 1944. The CWA Act establishes the Authority's governance framework and provides that the Authority shall "…[h]ave perpetual succession…" (Wat. Code, App. § 45-5). The Act also includes detailed

procedures governing annexation and the exclusion of territory from the Authority, including specified voting requirements (see, e.g., Wat. Code, App. §§ 45-10.1–10.3, 45-11).

Given this statutory framework, it would be helpful for the MSR's discussion of potential alternatives to include how those alternatives align with the provisions and intent of the CWA's Act, particularly with respect to the processes established for changes in the Water Authority's 's jurisdiction and organizational structure.

Comment No. 2 (cont.)

Overview of Alternatives Identified in the Administrative Draft MSR

The draft MSR identifies three conceptual alternatives that could be evaluated in the future if internal reforms at the Water Authority were deemed insufficient to address regional wholesale water issues identified in the report. These alternatives include:

1. Dissolving the Water Authority and forming subregional wholesale water agencies ("Evolve to Subregions").
2. Restructuring the Water Authority as a conveyance-only agency ("Reset to Regional Conveyance Role").
3. Expanding the Water Authority to assume regional retail water service responsibilities ("Enhance CWA to Assume Retail Operations").

The MSR notes "potential benefits" associated with each concept. However, because the alternatives represent significant changes to the existing regional water management framework, additional discussion of potential disadvantages, risks, and implementation challenges would help ensure the MSR provides a balanced and more complete description.

Option 1 - Evolve to Subregions

The concept of dissolving the Water Authority and forming multiple subregional wholesale agencies presents particularly significant legal, operational, and financial challenges that warrant additional discussion in the final MSR.

The Water Authority currently operates a highly integrated regional water supply and conveyance system that combines imported water from MWD and the Colorado River conserved transfer supplies under the QSA, desalinated water, treatment facilities, aqueducts, pump stations, and regional storage reservoirs into a single coordinated system. Dividing this system among multiple successor agencies would introduce complex challenges related to infrastructure ownership, operational coordination, and supply portfolio management, as discussed below.

Fragmentation of an Integrated Regional Water System - The current regional system integrates multiple supply sources, including MWD supplies, Colorado River supplies, and desalinated water, with a coordinated conveyance and storage network. Fragmenting this

integrated system among multiple wholesale agencies could reduce operational flexibility and complicate drought response planning. Each successor agency would likely need to independently manage supply portfolios, contract obligations, and operational decisions. This fragmentation could lead to inconsistent reliability standards, inequitable access to supplies, or duplication of infrastructure investments across the region.

Infrastructure Ownership and Capacity Allocation - Dissolving the Water Authority would require the allocation of a substantial portfolio of regional infrastructure assets, and liabilities, among multiple successor agencies. These include aqueducts, reservoirs, treatment facilities, and associated assets, equipment and staff resources. Determining equitable ownership shares and capacity rights, and allocation of staff, equipment and resources, would require complex negotiations involving historical investments, operational requirements, legal agreements, and future service needs. If the history of water in the West is any indication, these determinations would be contentious and time consuming, resulting in lengthy disputes and litigation regarding asset valuation, capacity allocations, debt, and operational control. In the meantime, management of the region's most valuable natural resource would likely become even more fractured and political, undermining the very goals that LAFCO presumably aims to promote.

Contractual and Supply Agreement Risks – The Water Authority maintains a number of long-term water supply agreements and infrastructure financing arrangements. Dissolution could raise significant questions regarding the ability to assign or transfer these contracts to successor agencies. Both the Exchange Agreement with MWD and the Water Authority's QSA supplies are are governed by contracts and thus legally non-transferable to a third party. This reality results in higher costs, reduced supply flexibility, and a loss of favorable contractual terms that currently benefit the entire region. The Water Purchase Agreement (WPA) with Channelside follows similar legal pathways. While the WPA states that an assignment of rights may occur with another "Governmental Body", such a body must be "legally capable of discharging" all Water Authority obligations. The Water Authority, however, exists by virtue of California law and no other governmental body exists which can assume Water Authority legal and fiscal obligations, absent statutory amendments.

Financial and Debt Allocation Challenges – The Water Authority currently holds outstanding long-term debt associated with regional infrastructure investments that totals $1.7 billion at the close of FY 2025. Dissolution would require allocating this debt among successor agencies or creating a mechanism for continued repayment via mechanisms based on population or assessed valuation of property within a new service area. Additionally, the Water Authority has a current net pension liability of $93.2 million. This obligation would become the burden of a successor agency with a smaller rate-base than that of the Water Authority, which would further serve to exacerbate the infeasibility of transferring financial obligations of a wholesaler to that of a smaller successor agency. Such restructuring could negatively affect credit ratings, borrowing capacity, and financing costs for successor agencies. Smaller successor entities may

face higher borrowing costs or reduced financial flexibility relative to the current regional agency.

Operational and Administrative Cost Impacts – Creating multiple wholesale agencies would likely require duplicating administrative, governance, and operational functions that are currently consolidated within the Water Authority. Separate agencies would require independent executive leadership, governance, financial systems, legal support, regulatory compliance programs, and operational staff. The loss of economies of scale could materially increase overall regional costs for wholesale water service delivery.

MWD Representation Considerations – The Water Authority currently provides unified representation for San Diego County within the governance structure of the MWD. Dissolution could create multiple entities with independent or varying interests at MWD, thus fragmenting the region's representation and reducing the effectiveness of coordinated regional advocacy. The MWD Act does not provide an automatic mechanism for successor entities to inherit membership. Each entity would need to apply for membership and obtain approval from the MWD Board, and it is unclear whether MWD would support the addition of new member agencies.

Option 2 – Reset to Regional Conveyance Role

Another concept discussed in the MSR would involve restructuring the Water Authority into a conveyance-only agency responsible for operating regional aqueducts, treatment facilities, and storage assets while supply procurement and other regional responsibilities shift elsewhere.

While this structure could simplify certain aspects of the agency's role, it would fundamentally alter the integrated planning framework that currently links supply acquisition, storage management, and transmission system operations. In addition, this alternative could significantly diminish the high level of supply reliability the Water Authority has established by reverting to a structure in which water supplies, and the allocation of those supplies during shortages, would be controlled by third parties. This would be a step backward for the region.

As previously noted, the Water Authority's long-term water supply and financing agreements may not be readily assignable and could require renegotiation with third parties, potentially increasing costs, reducing supply flexibility, or eliminating favorable contractual terms that currently benefit the region. There is also significant uncertainty under this option whether another entity such as MWD, or multiple entities such as the Water Authority's member agencies, would be willing to assume such contractual assignments.

Option 3 – Enhance the Water Authority to Assume Retail Operations

A third alternative identified in the MSR would involve expanding the Water Authority's responsibilities to include retail water service throughout the region. While consolidation of wholesale and retail operations could theoretically reduce administrative duplication in some areas, it would represent an extreme restructuring of local governance and water service delivery in San Diego County.

This alternative would require the consolidation of numerous independent retail water providers into a single regional entity, raising significant governance, financial, logistical, legal, and operational challenges. Local agencies currently provide retail services tailored to the needs of their communities as directed by leaders elected by their community, and consolidating these functions could reduce local responsiveness and require extensive regulatory and legal restructuring. It would also require cities and water districts throughout the county to transfer their systems, assets, and retail customer service responsibilities to the Water Authority, which would likely face significant political and institutional resistance, not to mention the complications of an agency incorporating hundreds of thousands of new customer accounts to manage, service and bill.

In summary, it is important that the final MSR expand the discussion of the alternatives identified on page 26 and pages 94-95 to include both the potential advantages and the significant legal, operational, financial, and governance considerations associated with these concepts, as described above. The existing Water Authority structure provides important regional benefits including coordinated infrastructure planning, integrated supply portfolio management, unified regional representation, and countywide water supply and system reliability. Given the complexity and risks associated with the reorganization options identified in the MSR, the document should also acknowledge that governance and policy reforms within the existing institutional framework will likely be a more practical approach to addressing current challenges than reorganization.

6. Update on Financial Planning and Exchange Opportunities

Since the inception of the MSR, there have been several important actions regarding the Water Authority's water supply exchange program that will result in material benefits to the Authority's finances and potentially alter some of the findings and conclusions contained in the draft MSR. The actions described in this section should be considered for inclusion in the MSR and reflected in its relevant findings and conclusions.

In June 2025, the Water Authority executed an Amended and Restated Exchange Agreement with MWD (Exchange Agreement), resolving a longstanding dispute over water rates and

establishing an improved operational framework for conducting water transfers with agencies throughout Southern California. The agreement significantly enhances the Water Authority's flexibility to pursue regional transfer opportunities, optimize the timing and deployment of stored supplies, and market surplus water when financially advantageous. The Water Authority now operates under a clear and durable legal structure governing water transfers with both MWD and its member agencies.

Following the adoption of the Exchange Agreement, the Water Authority notified MWD's member agencies in October 2025 that up to 50,000 acre-feet of water could be available for transfer. Consistent with its obligation to comprehensively explore regional opportunities, the Water Authority conducted an extensive outreach effort between October 2025 and March 2026. During this period, staff met with 17 MWD member agencies and subagencies across approximately 45 meetings to assess the potential for mutually beneficial exchanges.

In March 2026, this outreach resulted in the approval of an Exchange Water Delivery Agreement between the Water Authority and Western Municipal Water District (Western), a wholesale and retail water provider in Riverside County. Under this agreement, Western will receive 10,000 AF of exchange water annually for a 21-year term, with options for extension. The pricing structure reflects the Water Authority's QSA supply costs and includes upfront payments for pre-purchased water, totaling approximately $40 million. In addition to the annual delivery commitment, Western has agreed to backstop any excess Water Authority supplies at a reduced rate. While this backstop mechanism is not expected to be used as a first resort option, it meaningfully reduces financial risk in a worse-case supply and demand imbalance scenario.

Importantly, the agreement with Western demonstrates a practical, market validated proof of concept for the Water Authority's exchange program. It also reflects broader recognition of the long-term value of the Water Authority's highly reliable supplies, even during a period in which MWD maintains historically high storage reserves. The agreement further signifies a notable shift in the Water Authority's position and standing within the MWD member agency community.

In addition, the Water Authority is actively advancing additional transfer agreements, with a high likelihood of securing at least one additional arrangement in the near term that would have comparable operational and financial benefits. Together, with the Western agreement and additional ongoing water management actions, the Water Authority anticipates minimal risk of surplus supplies in the next two years. Nevertheless, the agency recognizes the sustained importance of developing additional exchange capacity and flexibility to support long-term supply and demand balance.

In parallel, the Water Authority has been pursuing expanded exchange opportunities with the federal government and other states that are reliant solely on the Colorado River. In February 2026, the Water Authority's Board approved a Memorandum of Understanding (MOU) with the United States Bureau of Reclamation and other potential Colorado River parties to explore the

development of an exchange framework that could facilitate the delivery of Water Authority desalinated supplies to the states of Arizona and Nevada. Such a framework would enhance regional operational flexibility, enable optimized use of existing investments, and potentially create access to new interstate markets.

While the MOU represents an important step toward expanded supply flexibility, it also marks a significant advancement in the Water Authority's relationship with MWD. Specifically, MWD's decision to join the MOU in March 2026 demonstrates a shared commitment by both agencies to proactively explore collaborative opportunities that support long-term reliability, financial sustainability, and operational efficiency.

7. Closing

The Water Authority appreciates LAFCO's careful review and the constructive spirit in which the MSR is being developed and its ultimate conclusion that no action is required at this time. We reaffirm our commitment to working collaboratively with the commission given our shared interest in strengthening regional water governance. As we continue advancing significant organizational, financial, and operational reforms, we remain fully committed to transparency, accountability, and continuous improvement. These principles are essential to building trust, ensuring sound stewardship of public resources, and delivering long-term value to the communities we collectively serve.

At the same time, we reaffirm the long-term value and success of the Water Authority's regional structure. For more than eight decades, the collaborative investment of our member agencies has created one of the most resilient, diverse, and strategically managed water supply portfolios in the West. That regional framework remains fundamental to ensuring long-term reliability and affordability for all ratepayers. Recent successes mean that the Water Authority has taken on additional responsibility as a keystone player in next-generation water supply management in Southern California and the arid Southwest.

We also reaffirm our commitment to continued, meaningful engagement with our member agencies. Their leadership in the BMRP, financial planning discussions, and ongoing operational coordination is critical to shaping the next generation of regional water solutions. We look forward to deepening that partnership in the months and years ahead.

To improve the MSR, we respectfully request that LAFCO substantially revise its draft MSR to account for or acknowledge the fact that several sections rely on outdated and conflicting information. Specifically, updating the document with financial stabilization efforts and current water portfolio management actions will significantly improve the report's accuracy and usefulness. This is more than window-dressing; so much has changed since LAFCO's initial collection of data that the Water Authority is in many ways a different agency than what LAFCO set out to study.

It's also critical that the three alternatives presented in the draft receive more rigorous analysis before they are given any public credence. As written, they create a risk that readers will misinterpret them as viable options despite their substantial uncertainties and the significant potential for unintended consequences. A more thorough vetting before publicly presenting these options will help ensure that any discussion of additional structural changes reflects both opportunities and true costs, supporting informed and balanced decision-making for the region.

Finally, in recognition of the substantial reforms already underway, we request that LAFCO allow sufficient time for these efforts to be fully developed, implemented, and demonstrated. The ongoing member agency led BMRP is actively addressing cost allocation, supply management, governance, and long-term financial strategies, while new initiatives, including out of region water transfers and updated financial policies, are expected to strengthen revenues and improve rate stability. Given the scale and timing of these changes, revisiting the MSR in five years, consistent with the standard review cycle, would allow these reforms to mature and provide a more accurate and complete assessment of regional water governance and service delivery.

We appreciate LAFCO's attention to these issues and remain dedicated to supporting a final MSR that reflects current realities, acknowledges ongoing reforms, and helps guide thoughtful, evidence-based governance for the region's future.