



FIVE-YEAR **FINANCIAL FORECAST**

Fiscal Years 2026-2030



San Diego County
Water Authority



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Executive Summary

The San Diego County Water Authority (Water Authority) sustains a \$268 billion regional economy and quality of life for 3.3 million residents. This is accomplished through a multi-decade water supply diversification plan, major infrastructure investments and forward-thinking policies that promote fiscal and environmental responsibility. As part of the adoption of the 2021 Long-Range Financing Plan (LRFP), the Water Authority Board directed the development of a five-year financial forecast to be used in preparation for the two-year budget. A five-year forecast allows the Water Authority to provide an overview of upcoming needs and focus.

Purpose of Five-Year Financial Forecast

The Water Authority's Fiscal Year 2025 Five-Year Financial Forecast (Forecast) is a financial planning tool forecasting Fiscal Years 2026 through 2030 designed to assist in the development of Calendar Year 2026 rates and charges and the Fiscal Years 2026 and 2027 Budget. The Forecast focuses on the Water Authority's baseline revenues and expenditures with updated forecasts for the revenues and expenditures necessary for the Water Authority to support and maintain long-term fiscal sustainability and water affordability for the region. Projected costs for priorities beyond the baseline are included in the forecast to account for revenues and expenditures that are planned commitments, are new and associated with compliance requirements to meet regulations, or part of commitments, that occur once every few years. Any new expenditures that are assumed in the Forecast for Fiscal Years 2026 and 2027 will be considered during the Fiscal Years 2026 and 2027 budget development process.

This Forecast is a planning tool to assist in budget decisions and development and should not be considered a budget. The Forecast takes into consideration the goals and objectives of the 2023-2027 Business Plan and priorities of the Board of Directors. The Forecast is provided to assist discussions regarding upcoming budget appropriations.

The Water Authority routinely develops ten-year Long-Range Financing Plans, two-year budgets, annual calendar year rates and charges, and Annual Comprehensive Financial Reports (ACFR). The Water Authority plans to develop the next LRFP in fall 2025. The Forecast is not a substitute for the LRFP, budget, rates and charges, or the ACFR. Projected revenues and expenditures in any given year of the Forecast may not correspond exactly to those in future recommended budgets or financial reports. Additional financial information can be found in documents and reports on the Water Authority's website at www.sdcwa.org.



Board of Directors during Calendar Year 2024 rate setting.

The Water Authority's LRFP supports the long-term fiscal sustainability of the Water Authority. Financial policies, targets, and risks are identified in the LRFP that guide the Water Authority's prudent financial management and outline how the Water Authority plans to finance the Capital Improvement Program. The upcoming LRFP will provide details regarding key underlying assumptions and provide updated long-term financial forecasts for Fiscal Years 2027 through 2036.

Affordability

Water affordability has long been an issue of concern for the Water Authority, but attention has increased over the past few years due to several factors pushing rates higher. Those factors include periods of high inflation, increased costs of water supplies, member agency detachment, declining water sales, new local water supplies coming online and the impact of past Water Authority investments on current rates. In response, the Water Authority has redoubled its efforts to contain costs, secure external funding and even sell some of its water supply.

Over the past few years, the Water Authority has:

- Deferred several construction projects
- Cut operational department spending
- Maintained an aggressive program to preserve high credit ratings, lowering the cost of debt
- Managed assets strategically to minimize expensive unplanned repairs
- Refinanced debt to save \$250 million for ratepayers
- Secured more than \$90 million through ratepayer advocacy
- Kept expenses level and optimized staff to remain well below peak levels
- Made strategic use of reserves to minimize rate impacts

In addition, the Water Authority is emerging as a leader in efforts to find multi-faceted solutions to the complex factors that impact affordability. The agency has been vocal in Sacramento, successfully advocating for more than \$100 million statewide in funds to assist water ratepayers with delinquent bills due to the economic impacts of the COVID-19 pandemic. The agency also has been active in Washington, D.C., seeking federal funds for local projects in coordination with its member agencies.

Just as importantly, the Water Authority has become a convenor of leaders dedicated to improving water affordability. For instance, the Water Authority regularly hosts Member Agency General Managers and Finance Officers meetings to address affordability issues, and it is assessing the potential for new rate structures for 2026 and beyond with a focus on how to continue enhancing water affordability. Additionally, the agency established a Financial Strategy Work Group designated by the Board, to address affordability and fiscal sustainability.

Key Assumptions

The Forecast presents the overall projected financial position of the Water Authority. Additional detail on each line item for baseline revenues and expenditures can be found within the corresponding sections of the Forecast. The baseline revenues and expenditures are those that are sufficient for the Water Authority to continue its operations to provide a safe and reliable water supply to the region without expanding operations. During development of the Forecast the Water Authority updated previous assumptions that were considered in the 2021 LRFPP and has incorporated the new assumptions into the Forecast.

The Water Authority has worked closely with its financial advisors and external investment manager to determine key economic assumptions and indicators included in the Forecast. Each category was evaluated for potential future economic impacts in addition to research on historical trends. Key assumptions included in the Forecast are:

- Water Sales revenue and Water Purchases and Treatment expense forecasts have been updated with current assumptions and projections including demand forecasts provided by member agencies.
- The projected revenues and expenditures allow the Water Authority to meet its Debt Service Coverage target of 1.5 times over the five-year period.
- The Capital Improvement Program includes Board approved projects as presented at the mid-term budget approved in July 2024 with factors included for inflation.
- The Water Authority Labor and Benefits include no additional full-time equivalent positions, with conservative increases year over year including increases for the approved adjustments in the Memorandum of Understanding.

An analysis on potential future impacts is included within the Forecast.

Risks

Since 2020, water agencies in general, and the Water Authority in particular have faced a wide range of risks – many of which could not have been predicted at the start of the decade. These include the COVID-19 pandemic, historically high inflation, member agency detachment, drought conditions, and a significant decline in water sales. This Forecast was developed using economic and industry research, available data, and reasonable assumptions. Risks to projections include unknown events that may occur during the forecast period in which the outcomes could be unpredictable or not reasonably quantifiable at the time of preparation or decisions by third parties or the Board. Examples of these risks include continued economic volatility, emergencies such as earthquakes, inflation, drought, state mandates and changing needs for infrastructure operations and the Capital Improvement Program (CIP).

Economic Factors

Since the last Forecast, the economy has shifted slightly. Recent economic data suggests positive but slower growth this year fueled by consumer spending. Second quarter GDP came in higher than expected at 3.0%, but is expected to decelerate in the second half of 2024. While the consumer has been resilient, declining savings rates, growing credit card debt, higher delinquencies, and a moderating labor market pose potential headwinds to future economic growth. Inflationary trends are subsiding with the Consumer Price Index (CPI) for September falling to 2.4% year-over-year, however core levels remain well above the Federal Reserve's 2.0% target. The unemployment rate for September was 4.1%, reflecting more of a balance between supply and demand for workers.

In response to the cooling labor market and moderating inflation, the Federal Open Market Committee (FOMC) kicked off its easing cycle with a large 50 basis point cut at their September 18 meeting. Federal Reserve Chair Jerome Powell reiterated previous statements acknowledging that monetary policy has shifted into a more balanced approach addressing price stability and full employment in tandem.

US Treasury rates have been volatile in 2024, with the 2-year Treasury yield falling from 5.00% earlier in the year down to 3.50% in September as market participants adjusted their outlook for the timing and magnitude of Fed rate cuts and the overall outlook for the U.S. economy. The 2-year Treasury has partially rebounded to around 4.00% and the 10-year Treasury yield is 4.10% as of mid-October, reflecting a normal yield curve after over two years of a yield curve inversion.

The Water Authority has used current economic indicators provided by the agency's external investment manager throughout the Forecast.

Drought

Drought conditions that dominated 2020-2022 gave way to two wet winters in 2023 and 2024. While the near-term forecast is for warmer and drier conditions for the Southwest in the near-term it is unclear what that means for the long-term weather pattern. Regardless, drought conditions are not expected to have a negative impact on the Water Authority given the region has invested heavily in drought-proof water supplies. As usual, the Water Authority will closely monitor winter snowfall and snowmelt to anticipate any significant changes to water availability across Southern California.



Governor Newsom, April 2024 snow survey.

Local Supplies

Local supply sources consist of surface water, groundwater, recycled water, seawater desalination and conserved water. Water Authority imported supplies include independent conserved Colorado River supplies received through a Water Conservation and Transfer Agreement with the Imperial Irrigation District (IID) and the All-American Canal Lining and Coachella Canal Lining Projects which are tied to senior priority rights on the river. Over the last five years, an average of approximately 26% of the water supply within Water Authority’s service area, excluding Fallbrook Public Utility District and Rainbow Municipal Water District, has come from local sources. Two of these local supplies, surface water and groundwater, are cyclical in nature and can be heavily dependent upon annual rainfall.

Chart 1: Projected Water Supplies

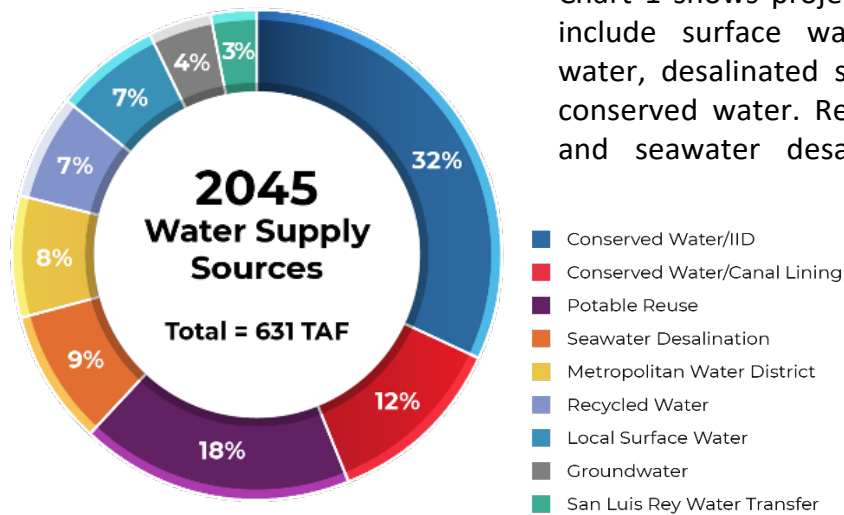


Chart 1 shows projected year 2045 supplies that include surface water, groundwater, recycled water, desalinated seawater, potable reuse and conserved water. Recycled water, potable reuse and seawater desalination projects not only reduce demands for imported water, but also provide agencies with a locally controlled drought-resilient supply.

The Water Authority closely monitors potential water supply challenges and pursues options to

address those challenges. Due to the Water Authority’s diversification strategy, it has reduced its reliance on the Bay-Delta in compliance with state law and policy. By reducing its Bay-Delta reliance, the Water Authority is less susceptible to State Water Project (SWP) supply fluctuations. Prolonged drought on the Colorado River has necessitated additional river management measures, such as the implementation of the 2019 Drought Contingency Plan and other strategies to promote the long-term sustainability of the river. The Forecast for Water Sales includes assumptions for new local supply projects coming online within the five-year period.

Summary of Data and Forecasts

The following table provides a summary of the total Sources and Uses of Funds. Details for each category are provided in the various sections throughout the Forecast.

Table 1: Sources and Uses

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Net Water Sales Revenue						
Water Sales	761,813	802,409	864,607	864,775	897,516	930,583
Water Purchases & Treatment	605,511	603,013	591,367	623,038	629,419	680,738
Total Net Water Sales Revenue	\$156,302	\$199,395	\$273,240	\$241,737	\$268,096	\$249,845
Revenues & Other Income						
Infrastructure Access Charges	50,299	51,096	54,555	58,298	60,938	60,463
Property Taxes & In-Lieu Charges	19,361	16,668	17,501	18,376	19,295	20,260
Investment Income	10,647	9,074	8,106	10,494	11,743	14,244
BABs Interest Rate Subsidy	10,659	10,392	10,132	9,879	9,632	9,391
Hydroelectric Revenue	147	260	87	175	87	235
Grant Revenue	8,778	11,538	5,836	2,504	831	831
Other Income	15,917	1,152	702	452	452	452
Capital Contributions:						
Capacity Charges	18,335	12,065	12,453	12,853	13,267	13,693
Water Standby Availability Charges	11,200	10,500	10,602	10,710	10,710	10,710
Contributions in Aid of CIP	3,554	0	0	0	0	0
Total Revenues & Other Income	\$148,897	\$122,744	\$119,974	\$123,741	\$126,954	\$130,279
Expenditures						
Debt Service*	160,100	171,767	171,900	182,767	175,877	160,062
QSA Mitigation	470	267	203	209	215	221
Operating Departments	68,121	74,816	77,888	83,914	83,304	85,448
Equipment Replacement	3,217	3,115	1,296	2,977	854	1,906
Grant Expenditures	9,185	10,955	5,687	2,463	831	831
Other Expenditures	6,735	505	555	299	452	263
Total Expenditures	\$247,828	\$261,425	\$257,529	\$272,629	\$261,532	\$248,731
Net Revenue before Capital Improvement Program (CIP)	57,370	60,715	135,686	92,849	133,518	131,393
<i>CIP Expenditures</i>	<i>(137,700)</i>	<i>(87,330)</i>	<i>(90,754)</i>	<i>(93,309)</i>	<i>(82,627)</i>	<i>(116,626)</i>
Net Fund Withdraws**	80,330	26,615	(44,932)	460	(50,891)	(14,767)

Note: Totals may not foot due to rounding.

*Assumes Debt Issuance in Fiscal Year 2026.

**Net Fund Withdraws is not the Fund Balance for Water Authority Funds. Current Fund Balances can be found in the monthly Controller's Report.

Rates & Charges

The Water Authority adopted the Calendar Year 2025 rates and charges in July 2024. New to the Calendar Year 2025 rates, was the inclusion of a Fixed Transportation fee that accounts for 40% of Transportation's revenue requirement. While this rate doesn't change the total revenue collected, the adjustment in the rates and charges increases the Water Authority's fixed cost coverage and provides better stability in anticipated revenues. An independent Cost of Service Study for Calendar Year 2025 Rates and Charges was conducted by Carollo Engineers, Inc., finding the rates, while failing to meet certain Board policies (150 days of cash and a Rate Stabilization Fund projection that fell below minimum), are sufficient to meet revenue requirements and meet cost of service principles.

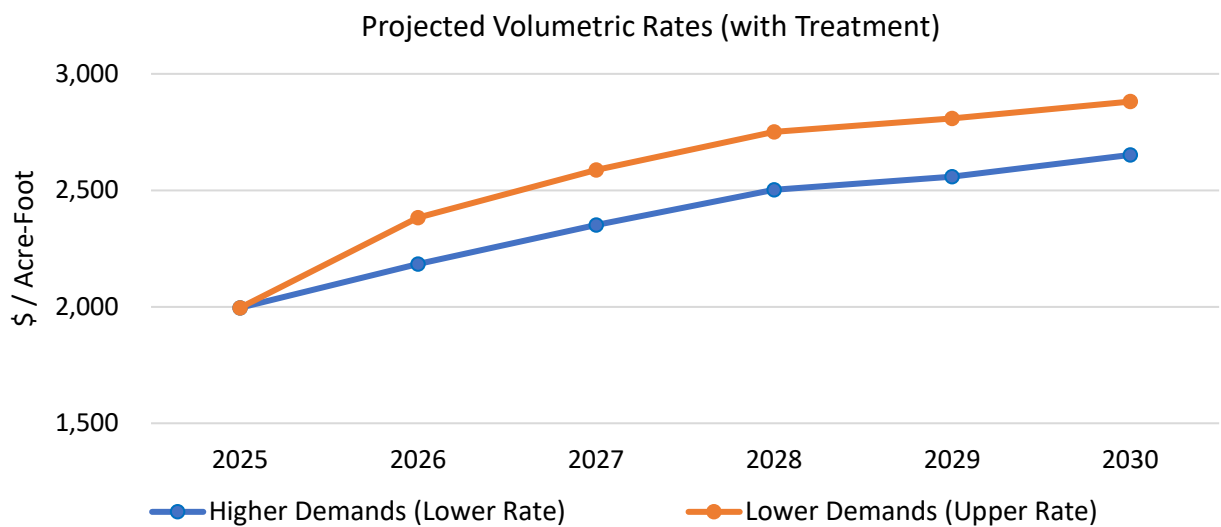
Over the past two years, the Water Authority has been working with the member agency managers and finance officers (called Member Agency Rate Workgroup or MARW) to develop a rate design that increases fixed revenues to more closely reflect the fixed cost of providing reliable water service. In February 2024, the Board adopted MARW's recommendation of creating a Transportation fixed charge to be implemented in Calendar Year 2025, increasing the amount of total fixed revenue the Water Authority receives by approximately 3%. The Transportation fixed charge moves 40% of the fixed revenue requirement associated with Transportation to the Transportation fixed charge while 60% will continue to be collected through the volumetric rate. The recommendation also included a continued two-year phase-in that would further increase the collection of the fixed revenue requirements associated with Transportation by 50% in Calendar Year 2026 and by 60% in Calendar Year 2027, both included within this five-year forecast. The MARW group continues to meet to develop an alternative rate design to increase fixed cost recovery for future Board consideration, that maintains the short- & long-term financial viability of the Water Authority, provides fair and equitable treatment to all member agencies, supports intergenerational equity, and promotes cost-effectiveness & regional water affordability.

Also, within the forecasted rates and charges is the incorporation of the Metropolitan Water District of Southern California's (MWD) ten-year forecast of water rates and charges adopted in April 2024, including initially assumed costs associated with the Pure Water Southern California (PWSC) project. PWSC is assumed to begin construction in Fiscal Years 2026 and 2027 and affect the Calendar Year 2027 to 2034 rates and charges. The forecasted MWD rates do not include any costs associated with other large projects that will be considered in the Climate Adaptation Master Plan for Water process like Sites Reservoir, East-West Conveyance, or the Delta Conveyance Project. The forecasted rates also do not include any potential changes to rates and charges related to settlement agreements.

A range of rates developed for this forecast are anticipated to provide high-level, general guidance on the anticipated rate and charge needs. While the financials shown throughout reflect a set of baseline assumptions, a developed higher-rate projection is based upon a lower than anticipated water sales outlook. Inversely, the lower-rate projection is based upon higher water demands.

For the purposes of this forecast, the Water Authority has rolled up the individual water rates and charges components into two groupings, variable and fixed. The variable rates are charged volumetrically (by acre-feet of water), while the fixed rates are generally apportioned among the member agencies by their respective rolling 7-year average of water purchases from the Water Authority. The variable rates include supply, transportation and treatment. Fixed charges include customer service, storage, supply reliability, transportation fixed, and infrastructure access charges. Both variable and fixed charges are collected by the member agencies monthly. Charts 2 and 3 below illustrate the forecasted high/low variable rates and fixed rates for Calendar Years 2026 through 2030.

Chart 2: Projected Volumetric Rates (with Treatment)

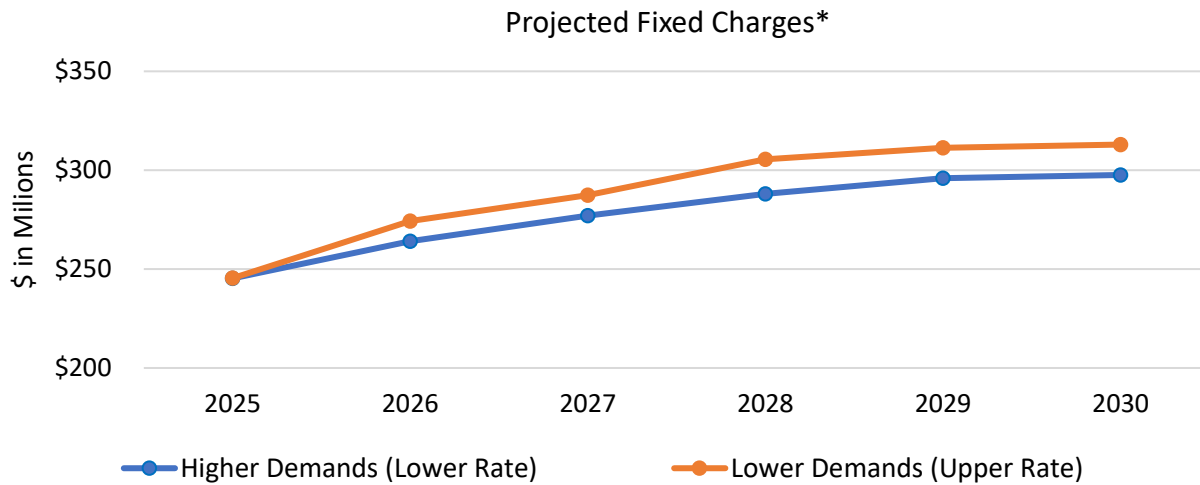


**Includes M&I Supply Rate, Treatment Rate, Transportation Rate.*

Table 2: Projected Volumetric Rates (with Treatment)

\$/Acre-Foot	CY 2025	CY 2026	CY 2027	CY 2028	CY 2029	CY 2030
Higher Demands (Lower Rate)	\$1,996	\$2,184	\$2,351	\$2,502	\$2,558	\$2,652
Lower Demands (Upper Rate)	\$1,996	\$2,383	\$2,588	\$2,751	\$2,809	\$2,881

Chart 3: Projected Fixed Charges



*Includes Customer Service Charge, Transportation Charge, Storage Charge, Supply Reliability Charge, Infrastructure Access Charge, MWD Capacity Reservation Charge, MWD Readiness-to-Serve Charge.

Table 3: Projected Fixed Charges

(\$ in Millions)	CY 2025	CY 2026	CY 2027	CY 2028	CY 2029	CY 2030
Higher Demands (Lower Rate)	\$245	\$264	\$277	\$288	\$296	\$298
Lower Demands (Upper Rate)	\$245	\$274	\$287	\$306	\$311	\$313

It is expected that many, but not all, financial and hydrological ebbs and flows will fall within the identified high/low. As the forecast commences from both record low demands stemming from back-to-back wet years, as well as member agency water demand survey data for Fiscal Years 2024 and 2025 obtained in April 2024, it is anticipated that a higher-demand scenario is more likely. However, the implementation of member agency local water projects limits the Authority’s forecasted sales. Water Sales forecast incorporate the implementation of local water projects coming online such as: Oceanside PURE Water (2025), City of San Diego’s PURE Water (2026) and East County’s Advance Water Purification (2028). Being either exceedingly optimistic or conservative has material impacts. Optimistic assumptions lower forecasted increases and may result in actual increases above and beyond what was “planned.” Inversely, conservative assumptions can artificially spike rates in the near-term, creating equity and affordability concerns. It is worth mentioning that even with a forecast of potential rate increases, the Water Authority’s annual rate setting process is the single greatest forecasting risk mitigation tool.

Revenues

Water Authority revenues are comprised of Water Sales, Infrastructure Access Charges (IAC), Property Taxes and In-lieu Charges, Investment Income, Hydroelectric Revenue, Grant Reimbursements, Capital Contributions, Build America Bond Subsidy (BABs), and Other Income. Table 4 below summarizes the Water Authority's Sources of Funds.

Table 4: Sources of Funds

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Net Water Sales Revenue						
Water Sales	761,813	802,409	864,607	864,775	897,516	930,583
Infrastructure Access Charges	50,299	51,096	54,555	58,298	60,938	60,463
Property Taxes & In-Lieu Charges	19,361	16,668	17,501	18,376	19,295	20,260
Investment Income	10,647	9,074	8,106	10,494	11,743	14,244
BABs Interest Rate Subsidy	10,659	10,392	10,132	9,879	9,632	9,391
Hydroelectric Revenue	147	260	87	175	87	235
Grant Revenue	8,778	11,538	5,836	2,504	831	831
Other Income	15,917	1,152	702	452	452	452
Capital Contributions:						
Capacity Charges	18,335	12,065	12,453	12,853	13,267	13,693
Water Standby Availability Charges	11,200	10,500	10,602	10,710	10,710	10,710
Contributions in Aid of CIP	3,554	0	0	0	0	0
Total Revenues & Other Income	\$910,710	\$925,153	\$984,582	\$988,516	\$1,024,470	\$1,060,862
<i>Net Fund Withdraws/Transfers</i>	80,330	26,615	(44,932)	460	(50,891)	(14,767)
Total Sources of Funds	\$991,040	\$951,768	\$939,650	\$988,976	\$973,578	\$1,046,095

Note: Totals may not foot due to rounding.

Water Sales

Water Sales revenue is the largest source of revenue for the Water Authority, accounting for an average of 86% of forecasted revenue. Water Sales include: the Customer Service Charge, Storage Charge, MWD Readiness-To-Serve Charge, MWD Capacity Charge, Transportation Fixed Charge, Supply Reliability Charge, and revenues generated by Melded Municipal and Industrial (M&I) Supply, Melded M&I Treatment, Transportation, Permanent Special Agricultural Water Rate (PSAWR), and water delivery rates.

The Water Authority collects approximately 28% of revenue from fixed sources, which leaves roughly a 72% exposure to immediate water sales variability. The largest component of variability is the volumetric melded supply rate. This rate creates a weighted cost of sales from the different sources of water that the Water Authority purchases, and recovers through various other costs of supply, such as IID socioeconomic payments, annual costs of

the semitropic groundwater storage agreements, a portion of debt service on the canal lining projects that is not reimbursed by state grants, and a defined portion of department operating expenditures. These fixed costs are components of the entirely volumetric melded M&I supply rate. If sales are lower than projected, rates will under-recover the associated fixed cost components. However, should sales exceed forecast, the Water Authority will generate one-time surplus supply funds.



Water Authority joins Bureau of Reclamation Commissioner Camille Touton to sign Three-Party Water Deal with the Imperial Irrigation District and the Metropolitan Water District of Southern California.

The table below summarizes the forecasted Water Sales and Water Purchases and Treatment for a net total revenue amount.

Table 5: Water Sales / Purchases and Treatment

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Water Sales	761,813	802,409	864,607	864,775	897,516	930,583
Purchases and Treatment	605,511	603,013	591,367	623,038	629,419	680,738
Net Total	\$156,302	\$199,395	\$273,240	\$241,737	\$268,096	\$249,845

The Water Sales Forecasted demand and associated revenue is shown below.

Table 6: Water Sales

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Acre-Feet	373,908	322,103	307,439	286,282	282,104	284,658
Projection (\$ in Thousands)	\$761,813	\$802,409	\$864,607	\$864,775	\$897,516	\$930,583

Infrastructure Access Charges

The Water Authority IAC is a fixed charge to help stabilize the Water Authority's revenues by mitigating water sales revenue volatility from sudden changes in water demand/availability and/or economic cycles. The IAC is a fixed charge that is levied on all retail water meters within the Water Authority's service area. The IAC was adopted in June 1998 by the Board to provide fixed revenue to help stabilize the Water Authority's revenues. The forecasted IAC is included in the projected fixed charges in the Rates and Charges section above. The table below summarizes the IAC charges.

Table 7: Infrastructure Access Charges

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Assumed Change		1.6 %	6.8%	6.9%	4.5%	-0.8%
Projection	\$50,299	\$51,096	\$54,555	\$58,298	\$60,938	\$60,463

Property Taxes and In-Lieu Charges

The Water Authority is empowered under the County Water Authority Act to levy taxes on all taxable property within its boundaries for the purpose of paying its voter-approved general obligation bonds (G.O. Bonds), or for other Water Authority purposes, subject to certain limitations in the Act, the California Revenue and Taxation Code, and the California Constitution. The Water Authority also receives a portion of the 1% ad valorem property tax levied by the County pursuant to Article XIII A of the California Constitution, which it uses for annual operating expenditures and debt service. Property Taxes are collected by the County of San Diego and then remitted to the Water Authority throughout the year. The tax rate is based upon the San Diego County Assessor’s valuation of taxable property within the Water Authority’s service area. In addition to the tax levy within the City of San Diego (City), the City pays the Water Authority an in-lieu charge. The Property Taxes and In-Lieu Charge forecast assumes a 5.0% increase year over year based on historical trends, with the exception of Fiscal Year 2026 which decreases due to detachment.

Table 8: Property Taxes & In-Lieu

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Assumed Change		-13.9%	5.0%	5.0%	5.0%	5.0%
Projection	\$19,361	\$16,668	\$17,501	\$18,376	\$19,295	\$20,260



San Diego County Water Authority “Plant Me” campaign.

Investment Income

Investment Income is revenue received by the Water Authority from investing its cash balances. Investment income on the cash balances in the Operating Fund, Rate Stabilization Fund, and Debt Service Reserve Fund is available for general Water Authority operating expenditures. The PAYGO Fund investment income is restricted to pay for capital expenditures or debt service. Similarly, the Construction Fund investment income is used for construction expenditures. The forecast assumes a reduction in investment income for Fiscal Years 2026 and FY2027 due to the lower cash balances. Investment income increases in Fiscal Year 2028 due to the gradual increase of cash balances over time. The Water Authority’s investment portfolio is guided by the Investment Policy objectives of Safety, Liquidity, Return on Investments, and Public Trust.

Table 9: Investment Income

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Assumed Change		-14.8%	-10.7%	29.5%	11.9%	21.3%
Projection	\$10,647	\$9,074	\$8,106	\$10,494	\$11,743	\$14,244

Hydroelectric Revenue

The Water Authority receives hydroelectric revenue from the sale of Renewable Energy Certificates produced by the Rancho Peñasquitos Pressure Control and Hydroelectric Facility. Energy produced by this facility, in conjunction with the Water Authority’s Boulder Canyon federal preference power allocation from Hoover Dam, are also used to offset the energy consumed by the Claude “Bud” Lewis Desalination Plant (Desal Plant). These offsets are achieved through a Wholesale Market Access Tariff agreement with Clean Energy Alliance, the local Community Choice Aggregator who provides energy generation services to the Desal Plant. The Lake Hodges Pumped Storage Facility (Hodges Hydro) is currently offline while the City of San Diego replaces the Lake Hodges Dam and the revenue has been excluded for this forecast.

Table 10: Hydroelectric Revenue

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Assumed Change		76.9%	-66.5%	101.1%	-50.3%	170.1%
Projection	\$147	\$260	\$87	\$175	\$87	\$235

Grant Revenue

The Water Authority is dedicated to securing grant funding to enhance ratepayer investments in its programs and services. Grant revenue includes funds from various sources, such as state and local grant programs, and may involve pass-through funding for government agencies, tribal entities, and non-profit organizations. The financial forecast incorporates expected reimbursements from the Integrated Regional Water Management (IRWM) program and the Metropolitan Water District’s (MWD) Member Agency Administered Program (MAAP). Over the next five years, these reimbursements will support regional and member agency water-use efficiency programs funded by MAAP, as well as about 10 regional projects sponsored by the Water Authority, its member agencies, non-profit organizations, and tribal partners, through the IRWM Program.

In 2023, the Water Authority secured approximately \$16 million from Proposition 1, Round 2 Program funding six high-priority regional projects addressing critical issues such as water conservation, groundwater quality, stormwater runoff, flooding, and water supply reliability in disadvantaged communities (DACs) in San Diego. Additionally, in 2022, the region was awarded \$5 million grant under the Urban and Multibenefit Drought Relief Grant Program. The expenses and anticipated reimbursements related to these grant programs, along with funding from Proposition 1, Round 1, are included in this budget forecasts as all IRWM programs conclude by 2028. However, with the passage of Proposition 4 in November 2024, additional funding opportunities for the IRWM Program may be available to the San Diego region. Please note that this forecast does not include grants that the Water Authority has not yet been awarded or entered into an agreement.



Water Authority’s Water Use Efficiency program, turf removal project.

Table 11: Grant Reimbursement

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Assumed Change		31.4%	-49.4%	-57.1%	-66.8%	0.0%
Projection	\$8,778	\$11,538	\$5,836	\$2,504	\$831	\$831

Build America Bonds Subsidy

The Water Authority receives interest subsidy payments in connection with the payment by the Water Authority of interest on the 2010B Bonds, which were designed as Taxable Build America Bonds. The Water Authority is unable to predict whether any interest subsidy payments to be received by the Water Authority will at any point be suspended, reduced or terminated. The BABs Subsidy projection is depicted in the table below.

Table 12: Build America Bonds Subsidy

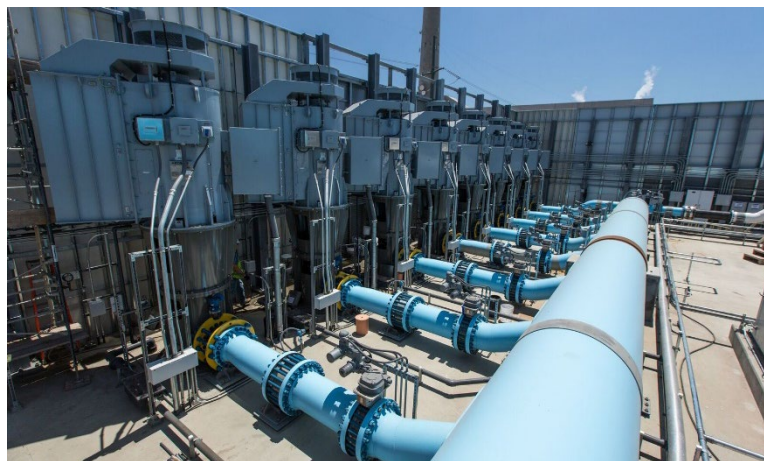
(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Assumed Change		-2.5%	-2.5%	-2.5%	-2.5%	-2.5%
Projection	\$10,659	\$10,392	\$10,132	\$9,879	\$9,632	\$9,391

Other Income

The Water Authority may receive income from annexations, easements, gains/losses on the sale of assets, delinquency fees, and plan-check reimbursements. The forecast for Other Income beyond Fiscal Year 2025 decreases significantly due to the unknown nature of when miscellaneous income will be received.

Table 13: Other Income

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Assumed Change		-92.8%	-39.1%	-35.6%	-0.1%	0.0%
Projection	\$15,917	\$1,152	\$702	\$452	\$452	\$452



Claude "Bud" Lewis Carlsbad Desalination Plant, Poseidon Water.

Capital Contributions

Capital Contributions are made up of Capacity Charges (System and Treatment), Water Standby Availability Charges, and Contributions in Aid of CIP (CIAC). Capital Contributions are independent of water use and intended to fund costs associated with new system capacity/reliability or maintain existing system capacity/reliability. The use of Capital Contributions revenue is restricted to paying for Capital Improvement Program (CIP) projects and is deposited into the PAYGO Fund.

- *Capacity Charges*

Capacity Charges include System Capacity Charges and Treatment Capacity Charges. System Capacity Charges recover a proportionate share of the capital costs associated with providing services to new connections in the Water Authority's service area and is applied to all new or larger retail water meters installed, if certain criteria are met. Treatment Capacity Charges recover a portion of the capital costs from future users of the Water Authority's regional water treatment facility. Because meter size dictates the maximum water demand of a new customer, the Capacity Charges are based upon meter size. The fiscal impact of SB937 (effective January 1, 2025), which delays collection of capacity fees until a final building inspection or occupancy, is being evaluated.

Table 14: Capacity Charges (Capital Contribution)

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Assumed Change		-34.2%	3.2%	3.2%	3.2%	3.2%
Projection	\$18,335	\$12,065	\$12,453	\$12,853	\$13,267	\$13,693

- *Water Standby Availability Charges*

The Water Standby Availability Charge is limited by statute and funds some of the capital costs associated with maintaining the system. This charge is \$10 per acre per year, or \$10 per year for a parcel less than one acre. This revenue source remains steady due to the nature of the charge but is expected to decrease in Fiscal Year 2026 due to the detachment of Fallbrook Public Utility District and Rainbow Municipal Water District.

Table 15: Water Standby Availability Charges (Capital Contribution)

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Assumed Change		-6.3%	1.0%	1.0%	0.0%	0.0%
Projection	\$11,200	\$10,500	\$10,602	\$10,710	\$10,710	\$10,710

- *Contributions in Aid of CIP*

Contributions in Aid of CIP (CIAC) consists of grants or contributions from member agencies for capital projects. In some instances, a member agency may reimburse the Water Authority for improvements to their system as part of a Water Authority project. Typically, these revenues are restricted to specific projects/uses, and because they are tied to capital projects will fluctuate each year. The projected CIAC is based on known upcoming reimbursements or existing agreements. Multiple grant opportunities are being pursued to aid capital projects, including a potential \$15 million FEMA Hazard Mitigation Grant towards the Moosa Canyon Pipeline Replacement and a potential \$3 million WaterSMART Environmental Water Resources Projects grant for the San Luis Rey River Habitat Management Area Restoration Project that could be awarded in early Fiscal Year 2026.

Table 16: Contribution in Aid of CIP (Capital Contribution)

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Assumed Change		-100.0%	0.0%	0.0%	0.0%	0.0%
Projection	\$3,554	\$0	\$0	\$0	\$0	\$0



Claude "Bud" Lewis Carlsbad Desalination Plant intake construction.

Expenditures

The Water Authority's primary uses of funds, or expenditures, include Water Purchases and Treatment, the Capital Improvement Program (CIP), Debt Service, and the Operating Departments. The most significant expense is Water Purchases and Treatment. The table below summarizes the Uses of Funds.

Table 17: Uses of Funds

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Expenditures						
Water Purchases & Treatment	605,511	603,013	591,367	623,038	629,419	680,738
CIP Expenditures	137,700	87,330	90,754	93,309	82,627	116,626
Debt Service*	160,100	171,767	171,900	182,767	175,877	160,062
QSA Mitigation	470	267	203	209	215	221
Operating Departments	68,121	74,816	77,888	83,914	83,304	85,448
Equipment Replacement	3,217	3,115	1,296	2,977	854	1,906
Grant Expenditures	9,185	10,955	5,687	2,463	831	831
Other Expenditures	6,735	505	555	299	452	263
Total Uses of Funds	\$991,040	\$951,768	\$939,650	\$988,976	\$973,578	\$1,046,095

Note: Totals may not foot due to rounding.

*Assumes Debt Issuance in Fiscal Year 2026.

Water Purchases and Treatment

Water Purchases and Treatment include all expenditures made by the Water Authority for purchasing, transporting, and treating water from various sources. In addition, credits received via MWD's Local Water Supply Development and Local Resources Program are applied against the cost of water purchased. The primary components of the Water Purchases and Treatment budget are broken down as follows: MWD and Quantification Settlement Agreement (QSA) supplies, Carlsbad Desalination, and Treatment.

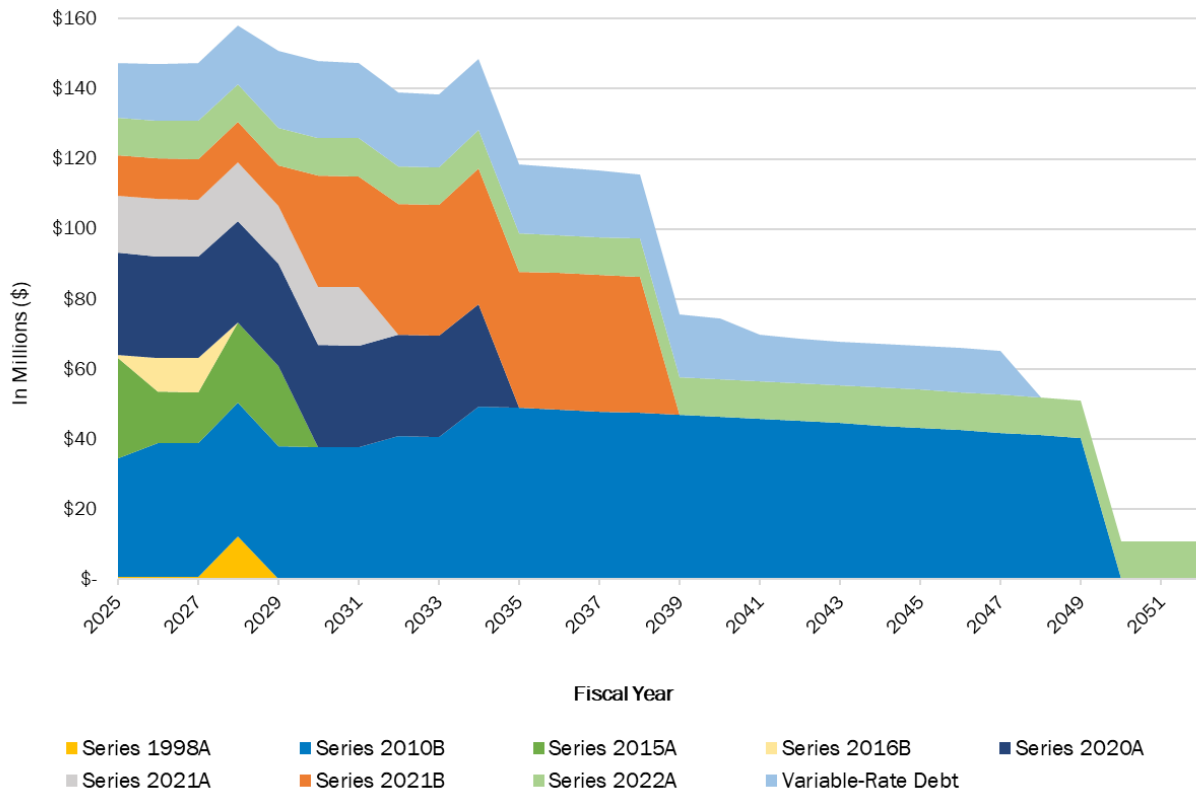
Table 18: Water Purchases and Treatment

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Assumed Change		-3.0%	-1.9%	5.4%	1.0%	8.2%
Projection	\$621,847	\$603,013	\$591,367	\$623,038	\$629,419	\$680,738

Debt Service

The Water Authority uses debt to fund improvements to existing facilities and new CIP projects, or to refund previous debt. Forecasted long-term debt service expenditures include outstanding payments on Certificates of Participation (COP) issuances, Water Revenue Bond issuance, Water Revenue Refunding Bonds issuances, Build America Bonds issuance, Subordinate Lien Water Revenue Refunding Bonds issuance, and Subordinate Water Furnishing Revenue Desalination Pipeline Bonds. Forecasted short-term debt service expenditures include Commercial Paper Notes and Subordinate Obligations. Throughout five-year period, the assumption in the Forecast is that the current Commercial Paper Program will be rolled forward. However, staff in consultation with the Water Authority’s financial advisors, will be strategically evaluating restructuring the short-term debt portfolio including paying down principal and/or fixing out the short-term portfolio while balancing the impact rates and charges.

Chart 4: Water Authority Current Debt Service



*Variable rate debt includes 2021S-1 medium term note and commercial paper.

Future new debt issuance is forecasted to be issued in Fiscal Year 2026 for \$265 million. It should be noted that all fixed-rate debt is expected to be issued on a senior lien basis.

Table 19: Debt Service

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Assumed Change		7.3%	0.1%	6.3%	-3.8%	-9.0%
Projection	\$160,100	\$171,767	\$171,900	\$182,767	\$175,877	\$160,062

Quantification Settlement Agreement Mitigation

In Fiscal Year 2024 the Water Authority paid its remaining financial obligations for environmental mitigation under the Quantification Settlement Agreement (QSA) Joint Powers Agreement (JPA) Creation and Funding Agreement. The Water Authority continues to make annual contributions to the Lower Colorado River Multi-Species Conservation Program.

Table 20: QSA Mitigation

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Assumed Change		-43.2%	-24.0%	3.0%	2.9%	2.8%
Projection	\$470	\$267	\$203	\$209	\$215	\$221



Mid-Canal storage partnership between the Coachella Valley Water District, the San Diego County Water Authority and the San Luis Rey River Indian Water Authority.

Operating Departments

The Water Authority's Operating Departments are generally organized into three categories, Water Supply, Water Facilities, and Business Services and consist of 11 departments. This forecast was developed by staff to ensure the core needs and operations of the organization are met and project key funding necessary for programmatic activities. Table 22 details the breakdown of the forecast by expenditure type by fiscal year. The Water Authority has evaluated various financial metrics, historical trends, and market forecasts provided by its financial advisors to determine key assumptions included in the Forecast. Key assumptions included in the Forecast are listed below by expenditure type.

Table 21: Operating Departments

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Assumed Change		9.8%	4.1%	7.7%	-0.7%	2.6%
Projection	\$68,122	\$74,815	\$77,888	\$83,914	\$83,306	\$85,449

Table 22: Operating Departments by Expense Category

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Labor*	31,674	33,798	34,991	35,992	36,830	37,532
Benefits*	19,929	22,456	23,677	24,648	26,190	26,728
Total Labor & Benefits	\$51,603	\$56,254	\$58,668	\$60,640	\$63,020	\$64,260
Services	13,383	15,256	15,754	19,584	16,326	16,882
Supplies	2,164	2,287	2,245	2,280	2,289	2,327
Utilities	1,604	1,694	1,721	1,747	1,772	1,804
Insurance	1,776	1,807	1,971	2,152	2,351	2,569
Lease/Rents	350	369	370	353	352	365
Other	2,180	2,279	2,399	2,498	2,639	2,768
Fixed Assets	20	75	70	76	82	109
Non-Personnel Total	\$21,477	\$23,767	\$24,530	\$28,690	\$25,811	\$26,824
Total	\$73,080	\$80,021	\$83,198	\$89,330	\$88,831	\$91,084
Capitalized Overhead	4,958	5,206	5,310	5,416	5,525	5,635
Grand Total	\$68,122	\$74,815	\$77,888	\$83,914	\$83,306	\$85,449

Note: Totals may not foot due to rounding.

*Assumes no additional FTE.

Labor and Benefits

The forecast for Labor projects the full CPI-U (less medical) increase of 5.0% for Fiscal Year 2026 per the current Memorandum of Understanding and 2.0% in each of the remaining fiscal years and assumes no additional full-time equivalents (FTEs). The forecast for benefits includes anticipated increases to health care costs ranging from 2.0% - 6.0% and assumes 37.97% - 41.40% for the annual California Public Employees' Retirement System (CalPERS) retirement contribution rate. Labor and Benefits are calculated for the entire Water Authority and then allocated between the Operating Departments and other reimbursable funds, like CIP or grants.

Table 23: Operating Departments - Labor and Benefits

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Assumed Change		9.0%	4.3%	3.4%	3.9%	2.0%
Projection	\$51,603	\$56,254	\$58,668	\$60,640	\$63,020	\$64,260

Services

Services expenditures include professional, technical, legal, and financial services, as well as costs incurred for operational cost sharing agreements. This forecast is based on historical trends, new contracts, reduced and continuing professional service contracts, projections from member agencies, and forecasted inflationary pressures. The increase in planned expenditures in Fiscal year 2028 is attributed to planned operational cost sharing projects at Levy Water Treatment Plant. New contracts include services related to the new O&M facility. Reduced services contracts include reductions within rate redesign services and professional lobbyist efforts and shifting to use of in-house resources. Continuing professional services include support to complete the state-mandated 2025 Urban Water Management Plan and programs to assist the member agencies to meet the regulatory requirements of the long-term water use efficiency standards.

Table 24: Operating Departments - Services

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Assumed Change		14.0%	3.3%	24.3%	-16.6%	3.4%
Projection	\$13,383	\$15,256	\$15,754	\$19,584	\$16,326	\$16,882

Supplies

Supplies expenditures include necessary supplies and minor equipment for operating and maintaining our facilities. This forecast is based on historical trends, forecasted inflationary pressures, and increasing energy costs for gasoline and diesel supplies.

Table 25: Operating Departments - Supplies

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Assumed Change		5.7%	-1.8%	1.6%	0.4%	1.7%
Projection	\$2,164	\$2,287	\$2,245	\$2,280	\$2,289	\$2,327

Utilities

Utilities expenditures include costs for gas, electricity, water, sewer, and telephone charges. This forecast is based on historical trends and inflationary pressures.

Table 26: Operating Departments - Utilities

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Assumed Change		5.6%	1.6%	1.5%	1.4%	1.8%
Projection	\$1,604	\$1,694	\$1,721	\$1,747	\$1,772	\$1,804

Insurance

Insurance expenditures include premium costs associated with property and workers' compensation insurance, as well as costs incurred for unemployment claims. We expect insurance to continuously increase year over year for the foreseeable future. This forecast is based on historical trends and forecasted inflationary pressures.

Table 27: Operating Departments - Insurance

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Assumed Change		1.7%	9.1%	9.2%	9.2%	9.3%
Projection	\$1,776	\$1,807	\$1,971	\$2,152	\$2,351	\$2,569

Leases/Rent

Leases and Rent expenditures include office, facility, and equipment rentals. This forecast is based on historical trends and forecasted inflationary pressures.

Table 28: Operating Departments - Lease/Rents

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Assumed Change		5.4%	0.3%	-4.6%	-0.3%	3.7%
Projection	\$350	\$369	\$370	\$353	\$352	\$365

Other

Other expenditures include costs for travel, training, memberships, sponsorships, permits, and licenses. The main driver for this increase is related to training and travel, with increased costs due to the post-pandemic surge in business travel prices. In addition, the forecast includes anticipated cost increases due to forecasted inflationary pressures.

Table 29: Operating Departments - Other

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Assumed Change		4.5%	5.3%	4.1%	5.6%	4.9%
Projection	\$2,180	\$2,279	\$2,399	\$2,498	\$2,639	\$2,768

Fixed Assets

Fixed Asset expenditures include the purchase of assets, not associated with the CIP. Fixed asset expenses are one-time expenditures evaluated during the budget development process.

Table 30: Operating Departments - Fixed Assets

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Assumed Change		275.0%	-6.7%	8.6%	7.9%	32.9%
Projection	\$20	\$75	\$70	\$76	\$82	\$109

Equipment Replacement

The Equipment Replacement forecast includes projected expenditures in computer hardware, software and server equipment, fleet and vehicle outfitting equipment, and SCADA system components, with the remainder of funds for additional O&M equipment, Survey and Right of Way equipment. Departments evaluated and recommended equipment replacement purchases based on a thorough process in which equipment and vehicles are reviewed to evaluate the necessity to the overall operations; suitability with the function being performed; past repair history; anticipated costs to continue maintaining; and options to cost effectively replace (i.e., lease, rental, and/or used purchases).

Table 31: Equipment Replacement

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Assumed Change		-3.2%	-58.4%	129.6%	-71.3%	123.3%
Projection	\$3,217	\$3,115	\$1,296	\$2,977	\$854	\$1,906



Water Authority pipe provided to the City of Calgary, Alberta to assist in City's catastrophic pipeline failure.

Grant Expenditures

The Water Authority actively pursues and successfully obtains grant funding to optimize ratepayer investments in its programs and services. The majority of Grant Expenditures are associated with the Integrated Regional Water Management (IRWM) and MWD Member Agency Administered Program (MAAP) funding. As previously noted, most grant funds consist of pass-through funding for IRWM projects supported by various government agencies, tribal entities, and non-profit organizations. This pass-through funding is also anticipated to be reflected in our Grant Revenue. The expenses related to the IRWM grant programs are expected to conclude by 2028, however, with the passage of Proposition 4 in November 2024, additional grant funding may be available beyond 2028. The table below depicts the forecasted Grant Expenditures.

Table 32: Grant Expenditures

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Assumed Change		19.3%	-48.1%	-56.7%	-66.3%	0.0%
Projection	\$9,185	\$10,955	\$5,687	\$2,463	\$831	\$831

Other Expenditures

Other Expenditures include all miscellaneous expenditures that are not reflected in the above expenditure categories. The forecast is consistent with prior year miscellaneous expenditures and includes developer deposits and conservation expenses. Other Expenditures are typically one-time occurrences and can vary from year to year. This forecast is based on historical trends.

Table 33: Other Expenditures

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Assumed Change		-92.5%	9.8%	-46.0%	50.9%	-41.8%
Projection	\$6,735	\$505	\$555	\$299	\$452	\$263

Capital Improvement Program

The Water Authority has a long history of planning and executing large and complex capital projects. The Capital Improvement Program (CIP) is reviewed and reprioritized every two years during the budget development process for the next biennium. The biennial review of the CIP allows the program to be responsive to changing conditions, particularly with respect to changes in demand projections and the changing needs of member agencies. This close monitoring of the CIP and assets enables the Water Authority to base its Five-Year Forecast and its Long-Range Financing Plan on timely and accurate data. The principal drivers of the current CIP are the Regional Water Facilities Master Plan, Asset Management, and Energy Initiatives. The Water Authority's forecast for CIP for Fiscal Years 2026 through Fiscal Year 2030 is \$470.6 million.



First Aqueduct Structures Rehabilitation Hubbard Hill South.

Regional Water Facilities Master Plan

The Water Authority implemented a formal master planning process in 1997, resulting in the 2003 Regional Water Facilities Master Plan and the subsequent 2013 Regional Water Facilities Optimization and Master Plan Update. The latest plan, the 2024 Water Facilities Master Plan, includes an extensive evaluation process to develop strategies that serve the region under future conditions and uncertainties through the 2045 planning horizon. Various uncertainties that are evaluated include climate change, hydrologic conditions, local water supply development, regulatory conditions, and unanticipated system disruptions. Additionally, the 2024 Water Facilities Master Plan, anticipated to be approved by the Board in February 2025, explores opportunities to optimize current and planned system improvements to minimize costs.

The evaluation process includes scenario development, baseline performance assessments, solution development, and evaluation of those solutions. The baseline performance assessments identified system deficiencies and vulnerabilities, which informed the needs of

the water delivery system. The team then developed mitigating solutions to address those needs, which were ultimately evaluated based on cost and risk.

A key part of the process involved engagement with the member agencies through the Member Agency Technical Group. The group met eight times and utilized facilitated discussions to focus on scenario modeling, identification of system deficiencies and vulnerabilities, development of optimization opportunities, and cost and risk evaluation. This process yielded a list of ten recommendations in the areas of policy considerations, topics for further study, and new and modified CIP projects that are included in the draft 2024 Water Facilities Master Plan and distributed to member agencies for review in September 2024.

Asset Management

Replacing and/or rehabilitating the Water Authority's existing aging assets will drive the majority of CIP spending over the next five years. The Asset Management Program is comprised of several projects, the largest of which are Infrastructure Rehabilitation and the Relining and Pipe Replacement Program. Asset repair, replacement, and rehabilitation projects are defined and prioritized primarily based on risk in addition to consideration of available resources, economic factors, customer rate and delivery impacts, and service life.

Over the next several years, the CIP will focus on completing the highest priority asset management projects. These projects are rehabilitations or replacements of existing aging infrastructure (pipelines and facilities) that are near the end of their service life or require modifications due to changes in the operation of our system or risk of failure due to a seismic event. As part of the Asset Management Program, a detailed seismic and hydraulic/cavitation analysis of both the aqueduct system and several flow control facilities are performed. In addition, comprehensive pipeline condition assessments continue to be conducted to ensure work is performed on the most critical assets in support of the Water Authority's mission to provide a safe and reliable water supply for the region.



Operations and Maintenance Department Facility.

Energy Initiatives

Energy is a vital component in treating and delivering water to the Water Authority’s member agencies. The Energy Program oversees planning, regulatory, and operational issues related to energy usage and production. In November 2023, the Board adopted the 2023 Energy Management Policy which focuses on implementing energy resilience improvements and evaluating revenue generation sources and energy cost reduction measures to help stabilize water rates. Under the guidance of the Policy, the Energy Program leads a variety of initiatives in planning, regulatory, and operational spaces and involves multiple Water Authority departments.

Energy related projects in the CIP focus on revenue generation or operating cost reduction opportunities. A potential revenue generating project includes evaluating the feasibility of the proposed San Vicente Energy Storage Facility, a 4,000-megawatt hour pumped storage hydroelectric facility, in partnership with the City of San Diego. Over the next five years, it is anticipated this proposed project will complete state and federal environmental review and obtain its Federal Energy Regulatory Commission license. The CIP also includes a project to evaluate reducing energy costs at the Claude “Bud” Lewis Carlsbad Desalination Plant. This project, if deemed feasible, is planned to complete design and move into construction within the next five years. The budget for construction on this project is not included in the CIP Forecast and will be added based on future input and direction from the Board of Directors.

Table 34 summarizes the estimated CIP expenditures for Fiscal Years 2025-2030.

Table 34: Capital Improvement Program

(\$ in Thousands)	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Asset Management	129,248	80,452	78,505	89,676	80,467	115,722
Emergency Storage Program	786	936	91	215	-	550
Environmental Mitigation	1,436	4,422	11,246	2,910	1,981	354
Master Planning and Studies	5,097	1,520	912	508	179	-
Other	1,133	-	-	-	-	-
Grand Total	\$137,700	\$87,330	\$90,754	\$93,309	\$82,627	\$116,626

The projected annual CIP expenditures for all projects over the next five years represents the updated CIP Budget for Fiscal Years 2024 and 2025, and adjusted for inflation as well as what is currently being observed in the construction industry relative to cost increases for raw materials (e.g., steel, sand, and cement). The Water Authority’s Relining and Pipe Replacement Program and the Infrastructure Rehabilitation projects, included in the Asset Management category, represent the majority of projected expenditures.

The Water Authority is projecting to spend approximately \$94 million per year on average (or \$470.6 million in total) over the next five years on CIP projects. The CIP is an ongoing program required to maintain the Water Authority's assets to function in a continuous and reliable manner and will continue beyond this five-year period.



3D Model rendering of New Helix 9 FCF to be completed in 2024.

Other Assumptions/Considerations

The Water Authority's Five-Year Financial Forecast was developed based on information known and available at the time of preparations. Projections were developed using economic projections researched and provided by staff and the Water Authority's financial advisors, available data, and reasonable assumptions based on historical trends. Risks to projections include events that may occur during the forecast period, whose outcomes may be unpredictable and cannot be quantified at this time. Additionally, items not approved by the Board of Directors at the time of preparation are not included in the Forecast. This section provides information on other assumptions and considerations that may impact the five-year period.

Metropolitan Water District

This five-year forecast is based on current MWD water demand forecasts and scheduled MWD rates and charges adopted by MWD in April 2024. Any changes to the adopted MWD schedules or changes including, but not limited to, adjusted rates and charges or settlement agreements between MWD and the member agencies, will alter this forecast.

Future Board Direction for Capital Improvement

The Water Authority's Capital Improvement Program has accommodated supply diversification as well as Emergency and Carryover Storage to address the threat of losing external sources of water for a temporary amount of time. The current Forecast for the CIP focuses on asset management in the next five-years. However, there are operational considerations and decisions that will require input and direction from the Board of Directors. There are potential projects that may fall within the five-year forecast window that will be brought forward in coming years for direction. These projects include asset management and operations of the Twin Oaks Valley Water Treatment Plant; cost sharing of the Lake Hodges Dam and Rehabilitation Project; and the potential San Vicente Energy Storage Facility Project, which would be funded by a third-party developer if determined feasible. Each of these projects, if incorporated into future forecasts or budgets could have material changes to the financials.

Ongoing Drought in the Colorado River Basin

While there is ongoing drought in the Colorado River Basin, a combination of favorable hydrology in 2023 and 2024, combined with conservation efforts largely within the Lower Basin, have stabilized water elevation levels at Lakes Powell and Mead. The Bureau of Reclamation (Reclamation) has declared a Level 1 shortage on the Colorado River for 2025, which means reductions to Arizona, Nevada, and Mexico. As of August 2024, Reclamation's updated five-year projections, intended to provide a long-term look at hydrology and shortage projections, show no chance of mandatory reductions or Drought Contingency Plan contributions for California through 2026. However, negotiations are ongoing among the seven Colorado River Basin states for a new set of operating guidelines to govern the river post 2026 when the current operating guidelines expire, which could result in additional drought-related mandates, which could impact the water demand forecast.



The representatives for each of the seven Colorado River Basin states on a panel at the 2023 Colorado River Water Users Association conference.

Drought Impacts

Near record amounts of snow and precipitation in 2023, resulted in the termination of drought restrictions and actions put into place in 2021. Since then, water supply conditions have improved drastically, reducing the risk of near-term drought significantly. The Water Authority advocates for flexible water management that accounts for both supply and demand at the local-regional level while also encouraging water use efficiency as a way of life during times of drought. The region's investments in other water supplies, water use efficiency and water storage have minimized the impact of MWD cutback during past droughts and will do so in the future. The projections included in the Forecast could be impacted by any future drought mandates or restrictions.

Collective Bargaining Agreements

The current Memorandum of Understanding with the Water Authority bargaining units ends on June 30, 2026. In the absence of a contract outlining negotiated increases, the forecast assumes wage growth commensurate with projected full CPI-U (less medical) increases at 2%. Any future negotiated salary or benefits modifications that deviate from the assumptions will impact future year personnel costs included in the Forecast period.

Conclusion

While the Forecast is not a substitute for the LRFP, it is a financial planning tool forecasting for Fiscal Years 2026 through 2030 taking into consideration recent economic and water supply and demand conditions and challenges facing the Water Authority. The Forecast focuses on Water Authority base revenues and expenditures that are necessary to support and maintain long-term fiscal sustainability and water affordability for the region.

The region has faced uncertainties and challenges stemming from prior year drought conditions, two years of significantly wet weather impacting water demands, and water affordability. Water affordability has long been an issue of concern for the Water Authority and its member agencies, including the financial impact of past Water Authority investments in infrastructure on current rates. The Water Authority continues to take steps to ensure an affordable water supply for the region.

In summary, based on current and forecasted assumptions and economic conditions, the Forecast meets the Water Authority's financial targets and policies.

Other Resources

The following links are provided as other resources for reference.

[San Diego County Water Authority Financial Documents](#)

[San Diego County Water Authority Debt Information](#)

[San Diego County Water Authority 2021 Long-Range Financing Plan](#)

[General Manager's adopted Multi-Year Budget for Fiscal Years 2024 and 2025](#)

[Calendar Year 2025 Rates and Charges, relevant Cost of Service Study](#) (Pages 71-111)

[Annual Comprehensive Financial Report for Fiscal Year Ending June 30, 2023*](#)

**The Fiscal Year 2024 Annual Comprehensive Financial Report not released at time of preparation.*