



**AGENDA**  
**SPECIAL MEETING OF THE BOARD OF DIRECTORS**  
**MONDAY, MARCH 20, 2023 – 3:00 PM**  
**9300 FANITA PARKWAY, SANTEE, CA 92071**

**NOTICE TO THE PUBLIC**

The meeting will be held at the appointed meeting place, the Board Room at the District’s Customer Service Center, located at 9300 Fanita Parkway in Santee. In addition, pursuant to Government Code 54953 (b) Director Cairns will be attending via teleconference at 2108 John DeWitt Place, Alpine, CA. The public may participate from either location, or virtually, as described below.

The meeting is also being held virtually as a convenience to the public. If a Board Member attends the meeting virtually pursuant to recent amendments to the Brown Act permitting Board Members to virtually attend under certain conditions, the public’s virtual participation will be subject to such Brown Act amendments.

**Register to watch the webinar via the link below:**

[March 20, 2023 Board Meeting](#)

*After registering, you will receive a confirmation with a link to join the webinar.*

**For teleconference dial:**

+1 (646) 568-7788

**Webinar/Meeting ID:**

818 5222 5881#

*Enter # for participant ID*

**PUBLIC COMMENT INSTRUCTIONS**

Members of the public may address the Board on any item on the agenda when the item is considered, or under “Opportunity for Public Comment” regarding items not on the posted agenda that are within the subject matter jurisdiction of the Board. If attending via Zoom, attendees must click the hand raise icon within the meeting platform and will be called on to unmute themselves when it is their turn to speak. If attending in person, fill out a “request to speak” form located near the entrance of the board room and give to the Board Secretary. Public comments are limited to 3 minutes.

Public comments may also be submitted in writing through the [public comment e-form](#) at least a half hour prior to the start of the meeting or mailed to the attention of Amy Pederson, Padre Dam, PO Box 719003, Santee, CA 92072. These public comment procedures supersede the District’s normal public comment policies and procedures to the contrary.

The complete agenda package is available for public review at [www.PadreDam.org](http://www.PadreDam.org). No action may be taken on any item not appearing on the posted agenda, except as provided by Gov. Code Section 54954.2. Any written materials provided to the Board within 72 hours of the meeting regarding any item on this agenda will be available for public inspection on the District’s website. For questions or request for information related to this agenda contact Amy Pederson, Board Secretary, at 619.258.4614 or [apederson@padre.org](mailto:apederson@padre.org).

Upon request, this agenda will be made available in appropriate alternative formats to persons with disabilities, as required by Section 202 of the American with Disabilities Act of 1990. Any person with a disability who requires a modification or accommodation in order to participate in a meeting should contact our ADA Coordinator: Larry Costello at 619.258.4678 or [lcostello@padre.org](mailto:lcostello@padre.org).

## AGENDA

- **CALL TO ORDER**

- **PLEDGE OF ALLEGIANCE**

- **OPPORTUNITY FOR PUBLIC COMMENT**

Opportunity for members of the public to address the Board regarding items not appearing on this agenda and are within the jurisdiction of the Board (Gov. Code 54954.3)

- **ACTION AGENDA**

Items on the Action Agenda call for discussion and action by the Board. All items are placed on the Agenda so that the Board may discuss and take action on the item if the Board is so inclined.

1. **SAN DIEGO COUNTY WATER AUTHORITY'S (CWA) 2024-2025 RATE SETTING PROCESS**

Recommendation:

Review budget process and provide direction as deemed appropriate by the Board.

- **CLOSED SESSION**

At any time during the regular session, the Board may adjourn to closed session to consider litigation, or discuss with Legal Counsel matters within the attorney-client privilege, subject to the appropriate disclosures. Discussion of litigation is within the attorney-client privilege and may be held in closed session. (Govt Code 59956.9)

- **ADJOURNMENT**

### CERTIFICATION OF POSTING

I certify that on March 17, 2023, I posted a copy of the foregoing agenda near the regular meeting place of the Board of Directors of Padre Dam Municipal Water District, said time being at least 24 hours prior to the meeting, in accordance with Gov. Code Section 54956 (a).



Amy Pederson, Board Secretary



**BOARD AGENDA REPORT**

**Meeting Date:** 03-20-2023  
**Dept. Head:** Kyle Swanson  
**Submitted by:** Amy Pederson  
**Department:** Administration  
**Approved by:** Kyle Swanson, CEO/GM

**SUBJECT:** SAN DIEGO COUNTY WATER AUTHORITY'S (CWA) 2024-2025 RATE SETTING PROCESS

**RECOMMENDATION(S):**

Review budget process and provide direction as deemed appropriate by the Board.

**ALTERNATIVE(S):**

Take no action.

**ATTACHMENT(S):**

1. February 16, 2023 CWA Finance Planning Work Group Presentation
2. March 10, 2023 CWA Preliminary Rates and Budget News Release

**FUNDING:**

Requested amount: N/A  
Budgeted amount:  
Are funds available?  Yes  No  
Project cost to date:

**PRIOR BOARD/COMMITTEE CONSIDERATION:**

**STRATEGIC PLAN IMPLEMENTATION:**

This agenda item is consistent with the District's Strategic Business Plan and meets one or more of the following Strategic Objections: Customer Experience; Fiscal Stability; Operational Excellence, Sustainability and Resource Management; Talent Management; Technology and Innovation.

<b>Reviewed by:</b>		<b>Action Required:</b>		<b>Policy Updates:</b>		<b>Action Taken:</b>
Dept Head	<input checked="" type="checkbox"/>	Motion	<input checked="" type="checkbox"/>	Rules & Regulations	<input type="checkbox"/>	As Recommended _____
Finance	<input type="checkbox"/>	Resolution	<input type="checkbox"/>	Standard Practices	<input type="checkbox"/>	Reso/Ord. No. _____
Legal Counsel	<input type="checkbox"/>	Ordinance	<input type="checkbox"/>	& Policies		Other _____
Standard Form	<input type="checkbox"/>	None	<input type="checkbox"/>			



# Finance Planning Work Group

February 16, 2023  
Meeting #1

# Agenda

- Budget and Rates Development Schedule
- Capital Improvement Program
- Fiscal Years 2024 & 2025 Budget Development
- Rates & Charges
- Member Agency Rate Work Group Update

# Budget & Rates Development Schedule

New schedule reflects the Board's desire to more deeply engage

<b>January 26</b>	Discussion on Development of FYs 2024 & 2025 Recommended Budget
<b>February 10</b>	MAM/MAFO Rate Workgroup Meeting
<b>February 16</b>	Finance Planning Workgroup Meeting
<b>February 23</b>	CY 2024 Rates & Charges Overview Presentation to Board
<b>March 9</b>	Deliver Draft Budget & Rate Information to Board
<b>March 23</b>	Presentation of Draft Proposed FYs 2024 & 2025 Budget and High-Low Rate Analysis
<b>April 11 &amp; 13</b>	Special A&F Committee Meeting – Budget Workshops
<b>April 27</b>	Presentation of Recommended Budget & Rate Information
<b>May 9 &amp; 11</b>	Special A&F Committee Meeting – Budget Workshops
<b>May 25</b>	Presentation of Recommended FYs 2024 & 2025 Budget & Proposed CY 2024 Rates & Charges
<b>June 22</b>	Consideration for Adoption of General Manager's Recommended FYs 2024 & 2025 Budget & Adoption of CY 2024 Rates & Charges



*San Diego County*  
**Water Authority**  
And Its 24  
Member Agencies

# **Capital Improvement Program Multi-Year Plan Fiscal Years 2024 & 2025**

# Agenda

- Review CIP Multi-Year Plan Development
- FY2024/2025 CIP Multi-Year Plan Review
- FY2024/2025 Recommended CIP Appropriation
- Resource Needs



# CIP Multi-Year Plan Development

- Risk versus Cost Analysis
- Affordability = lowest life cycle cost
- Higher risk/lower cost and Lower risk/higher cost options examined

# System Analysis

- Acoustic Fiber Optic (AFO) Information
- Code Changes (safety)
- Seismic Analyses
- Hydraulics
  - Flow changes
  - Damaging conditions
- Age/Service Life
  - Physical Inspections

# Goal: Smooth Capital Improvement Program

- Impacts to rates
- Workforce management
- Deferring work is not eliminating work
- Running to failure is least predictable and highest life cycle cost; ergo least affordable

# Cost of Deferring Projects – Relining Example



Typical Relining Project: ~\$4K/LF



Urgent Repair: ~\$76K/LF  
(Lilac Road Urgent Repair)



Emergency Repair: ~\$104K/LF  
(Mission Trails Failure, escalated  
to 2022 dollars)

# Definitions

## CIP Multi-Year Plan:

- The total amount of the CIP; or
- In the case of a particular project, the amount the project is anticipated to cost from its beginning through completion - usually spans several fiscal years.

**CIP Appropriation:** the forecasted spending plan during the two-year biennium based upon the current status of CIP projects.



# **FY2024/2025 CIP Multi-Year Plan Review**

# Current Five-Year CIP Multi-Year Plan

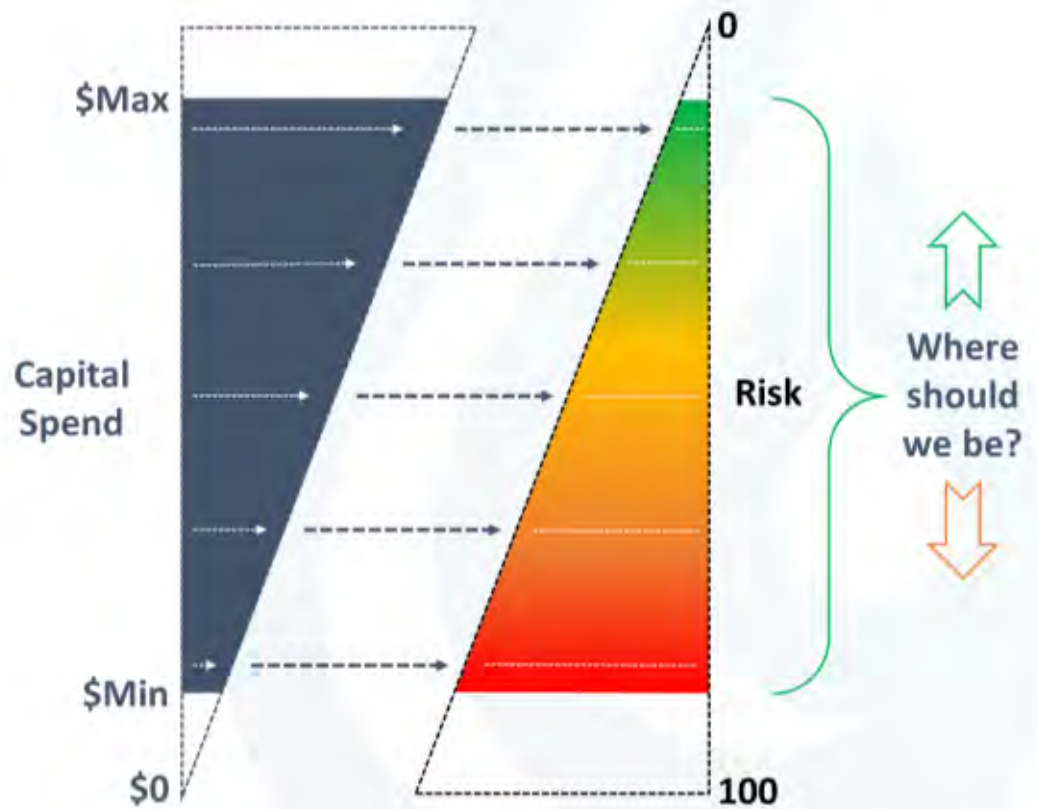
(\$ millions)

	FY2024	FY2025	FY2026	FY2027	FY2028	Ave./FY
Midterm Budget Forecast (June 22)	\$96.8	\$117.5	\$73.1	\$70.3	\$80.8	\$87.7
Current Five-Year Forecast (Nov 22)	\$77.2	\$123.6	\$103.7	\$91.9	\$79.8	\$95.3

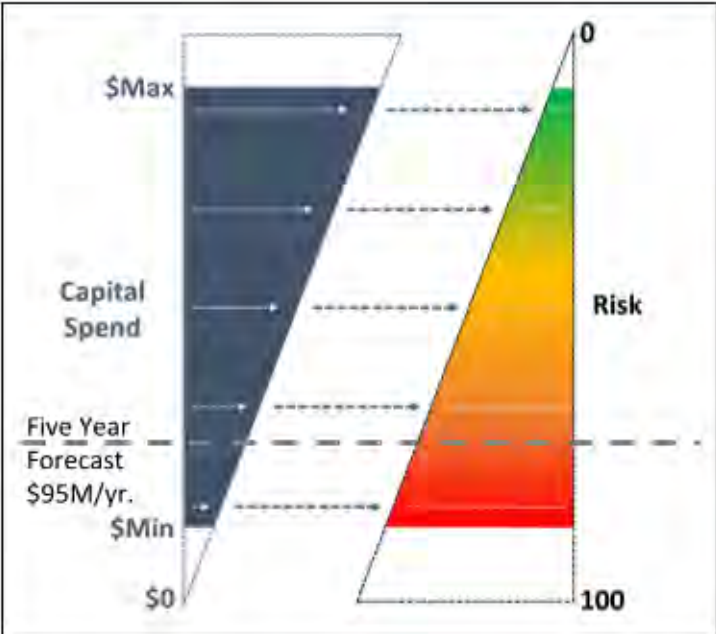
## FY2024/2025 CIP Multi-Year Plan Increases Identified

Project	Increase (millions)
New O&M Facility	\$25.0
Facilities Improvement and Equipment Replacement	\$20.0
San Vicente Energy Storage Facility	\$10.4
Second Aqueduct Diversion Complex Improvements	\$9.0
Energy Resiliency	\$9.0
Post Construction Mitigation Management	\$0.5
Carlsbad Desal Intake Upgrades	<u>\$0.3</u>
<b>Total Increase</b>	<b>\$74.2</b>





# CIP SCENARIO BUILDING



Pipeline Rehabilitation
PCCP Relining
Moosa Canyon
Treated Tunnels
Regional Impacts

Infrastructure Upkeep
Condition Assessments
FCF Cavitation
FCF Roof Replacements
Localized Impacts

Major Initiatives
San V Energy Storage
Energy Resilience
O&M Facility
Regional Impacts

Priority Facility Projects
Rancho Penasquitos
San V Pump Station
Olivenhain PS, Hodges PS
Regional Impacts

Priority Pipeline Projects
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Cathodic Protection
Untreated 1 <sup>st</sup> Aqueduct
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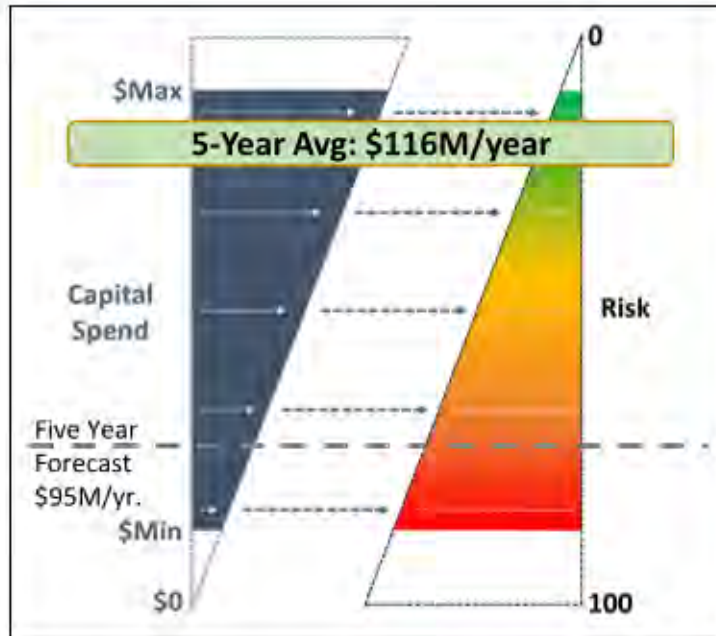
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Mitigation Projects
CEQA Post-Construction
SLR River Restoration
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Master Planning
P3/P4 Switch
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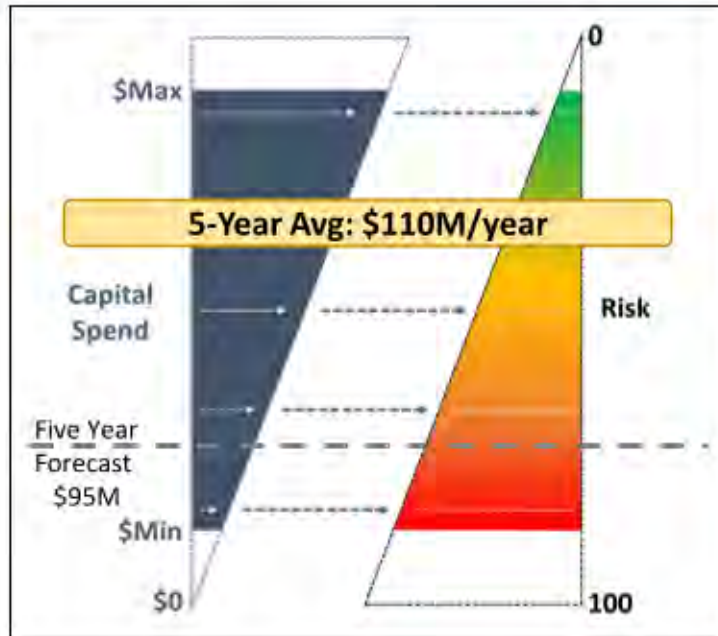
# LOW RISK



- Per Five Year Forecast with changes including:
  - Incorporates identified increases
  - Accelerates one relining project
  - Lake Hodges Dam Emergency Repairs added
  - Updated cost estimates/schedules
- Excludes future Master Planning projects
- Continues deferral of lower priority CIP projects

Lake Hodges Dam Emergency Repairs																			
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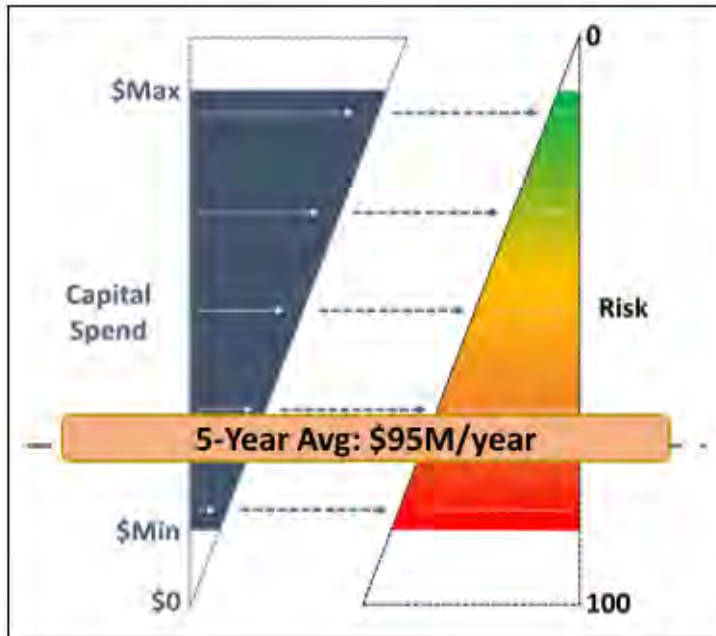
# MODERATE RISK



- **DEFERS** Seismic Preparedness Projects:
  - Bifurcation Structures Rehab
  - Flow Control Facility (FCF) Seismic Upgrades
  - 2<sup>nd</sup> Aqueduct Diversion Complex Improvements (Twin Oaks Weir Structure Rehab.)

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# INCREASED RISK



- Mirrors 5-year forecast (\$95M/year average)
- **DEFERS** Seismic Preparedness Projects, PLUS:
  - **DEFERS** New O&M Facility
  - **DEFERS** Energy Resilience projects
  - **DEFERS** Priority Pipeline projects:
    - Ramona Buried Valves
    - Cathodic Protection Projects
  - **DEFERS** 4 FCF projects
    - Olivenhain 11 FCF
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# Recommended Five-Year CIP Multi-Year Plan

(\$ millions)

	FY2024	FY2025	FY2026	FY2027	FY2028	Ave./FY
Midterm Budget Forecast (June 22)	\$96.8	\$117.5	\$73.1	\$70.3	\$80.8	\$87.7
Current Five-Year Forecast (Nov 22)	\$77.2	\$123.6	\$103.7	\$91.9	\$79.8	\$95.3
<b>Low Risk Forecast (Recommended)</b>	<b>\$68.1</b>	<b>\$139.2</b>	<b>\$113.4</b>	<b>\$153.7</b>	<b>\$103.5</b>	<b>\$115.6</b>

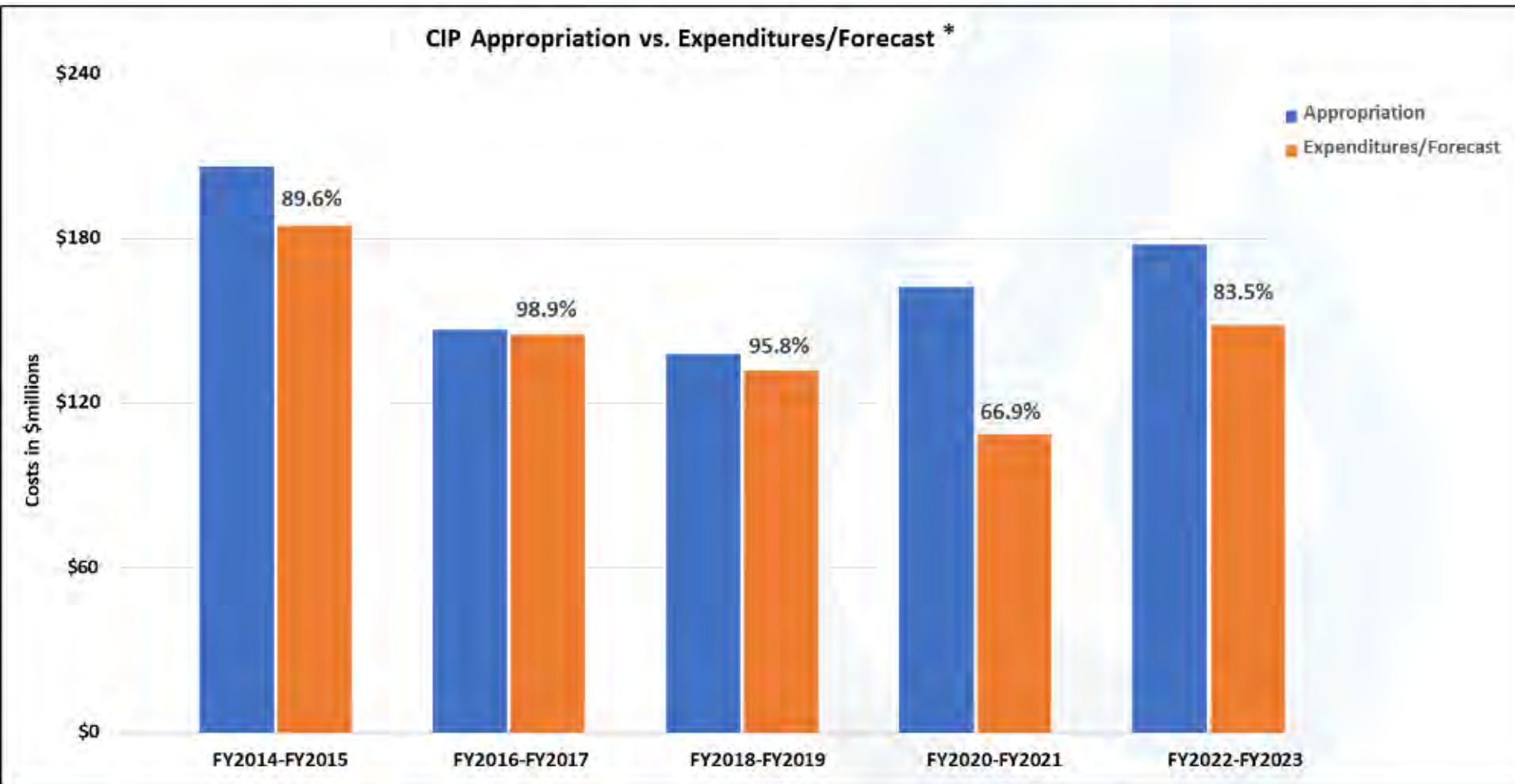
# **FY2024/2025 Recommended CIP Appropriation**

# Potential Impacts to CIP Execution

- **Bids lower than expected**
  - Favorable bidding climate (increased competition)
  - Economic influences
- **Other priorities shifting planned work**
  - Emergency/urgent repairs
- **Project issues causing schedule adjustments**
  - Environmental permitting delays
  - Supply chain issues (e.g., pre-procurement of valves)
  - Increase in scope (e.g., unforeseen site conditions)
  - Other permitting requirements
  - Contractor not executing work as planned
  - Weather related delays during construction
- **Staff vacancies**



# Historical CIP Expenditures (FY2014-2023)



\* Goal for CIP appropriation execution is 90%

# Recommended FY2024/2025 CIP Appropriation

(\$ millions)

	FY2024	FY2025	FY2026	FY2027	FY2028	Avg/FY
Midterm Budget Forecast (June 22)	\$96.8	\$117.5	\$73.1	\$70.3	\$80.8	\$87.7
Current Five-Year Forecast (Nov 22)	\$77.2	\$123.6	\$103.7	\$91.9	\$79.8	\$95.3
Low Risk Forecast	\$68.1	\$139.2	\$113.4	\$153.7	\$103.5	\$115.6
10% Reduced Forecast	\$61.3	\$125.3	\$102.0	\$138.3	\$93.2	\$104.0

Low Risk FY2024/2025 CIP Appropriation: \$207 million

Recommended Low Risk FY2024/2025 CIP Appropriation: \$187 million

# Resource Needs

# Engineering Recruitments – FY2022/2203

Engineering Resources	FY 2021				FY 2022				FY 2023			
	2020		2021		2022				2023		2023	
	Jul - Sep	Oct - Dec	Jan - Mar	Apr - Jun	Jul - Sep	Oct - Dec	Jan - Mar	Apr - Jun	Jul - Sep	Oct - Dec	Jan - Mar	
<b>Right of Way</b>												
ROW Tech Level I	■	■	■	■	■	■	■	■	■	■	■	
ROW Tech Level I											■	
Supervising Land Surveyor												■
<b>Design Group</b>												
Engineering Manager					■	■						
Principal Engineer					■	■	■	■	■	■		
Sr. Engineer												X Vacant
Engineer II										■	■	■
Engineer P.E.										X		Vacant
<b>Construction Group</b>												
Sr Engineer / Sr. CM / CM									■	■	■	■
Sr. Construction Manager / CM				■	■	■	■	■				
Construction Manager											X	Vacant
Sr. Engineering Technician								■	■	■		
<b>Admin Group</b>												
Management Analyst						■	■	■				
Assistant Management Analyst							■	■	■			
Administrative Assistant								■	■	■		
Office Assistant I						■	■	■	■	■	■	
Office Assistant I/II												
Office Assistant II												X Vacant

# CIP Staffing Needs

Position	Current Positions	Additional Positions	Notes
Senior Engineer	2	1	
Engineer I/II	1	1	
Scheduler	3	1	
Water Resources Specialist (Environmental)	2	1	Limited Duration Employee (LDE); primarily dedicated to CIP construction support due to current Water Resources Specialists dedicated to potential San Vicente Energy Storage Facility.
<b>Total Needs</b>		<b>4</b>	



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# **Fiscal Years 2024 & 2025 Budget Development**

# Budget Development Impacts

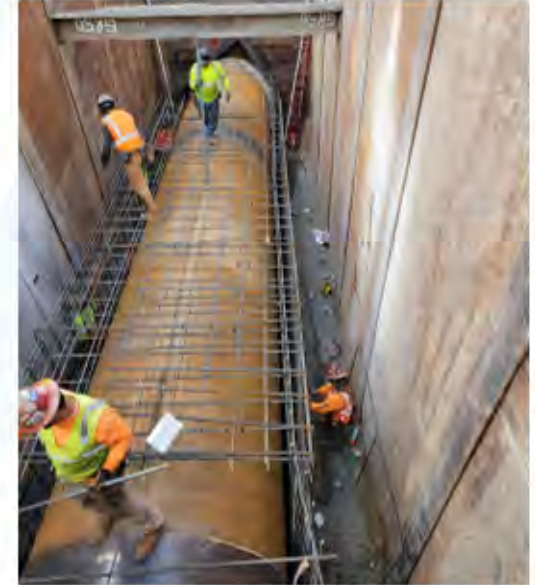
- Inflation
- Rising interest rates
- Rising energy and fuel costs
- Supply chain issues
- Drought and regulations
- MWD rates
- Water sales uncertainty
- Local supply projects



# Fiscal Years 2024 & 2025 Budget Themes

## Organizational Priorities and Management Strategies

- Water System and Energy Management
- System Reliability and Risk Management
- Regulatory Compliance
- Financial Stability, Equity & Affordability
- Outreach and Legislation
- Cybersecurity
- Workforce Management





# Fiscal Years 2024 & 2025 Major Projects

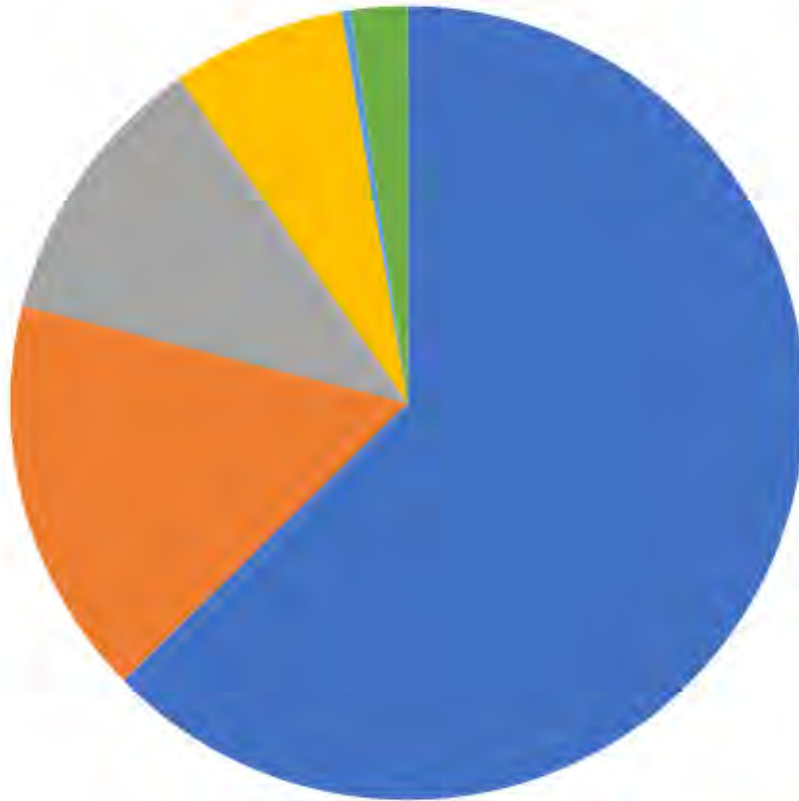
- Urban Water Management Plan
- Facilities Master Plan update
- Capital Improvement Program
- Increasing Regulatory and Legislative efforts to receive grant funding for rate mitigation
- Continuation of Rates and Charges redesign

# Assumptions

- Water Purchases & Treatment
  - Low sales estimate
- Debt Service
  - Existing Debt Service, conservative estimate on Commercial Paper program
- Capital Improvement Program
  - High CIP / Lowest Risk
- Operating Departments
  - Full Labor & Benefits
  - New positions
  - All department requests incorporated

# Fiscal Years 2024 & 2025

## Preliminary Budget



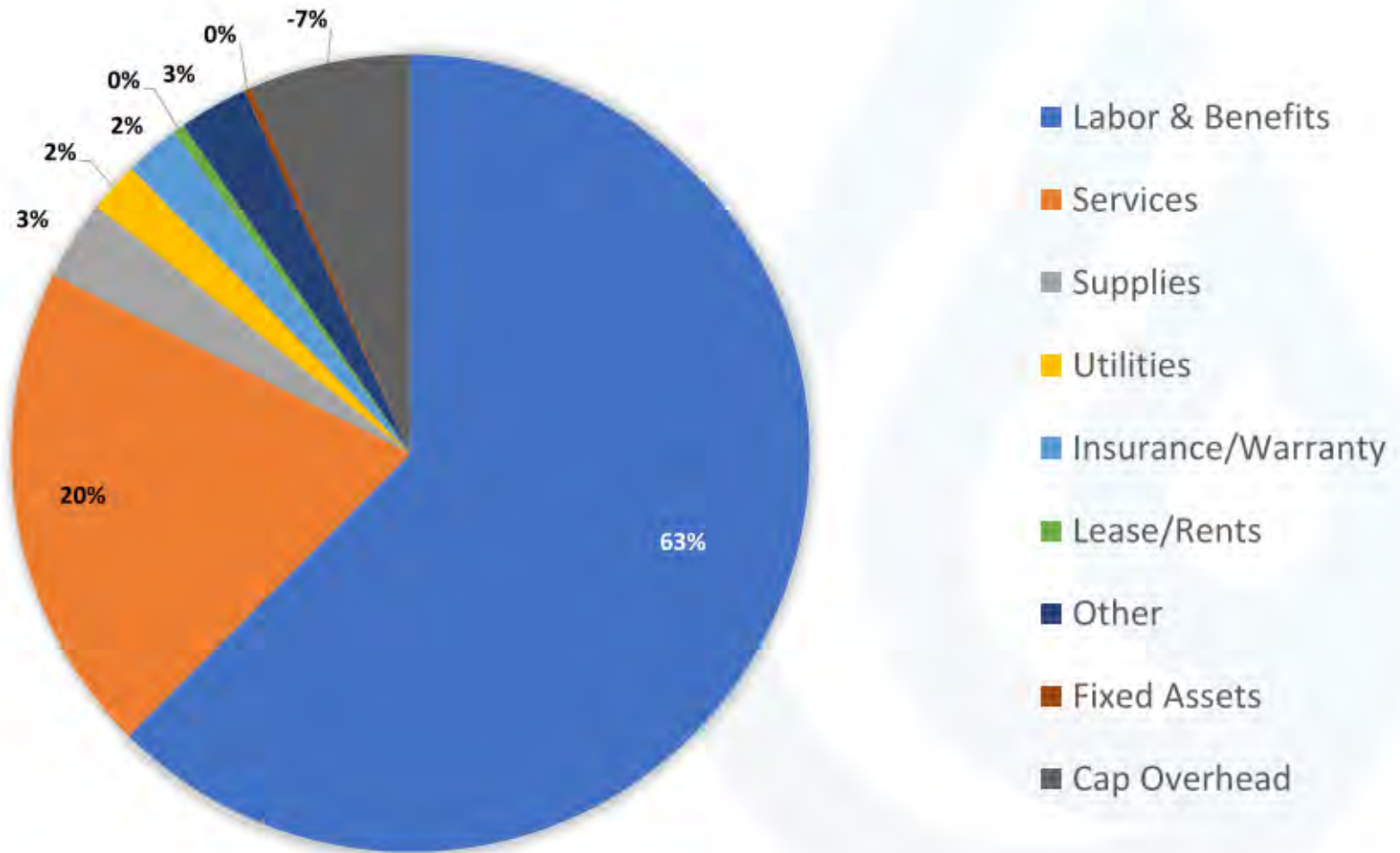
■ Water Purchases & Treatment	\$1,179,654	63%
■ Debt Service	306,053	16%
■ CIP Expenditures	212,509	11%
■ Operating Departments	133,498	7%
■ Equipment Replacement	7,360	<1%
■ Other & Grants	42,922	2%

Total      \$1,881,996      100%



# Operating Departments

## Preliminary Budget





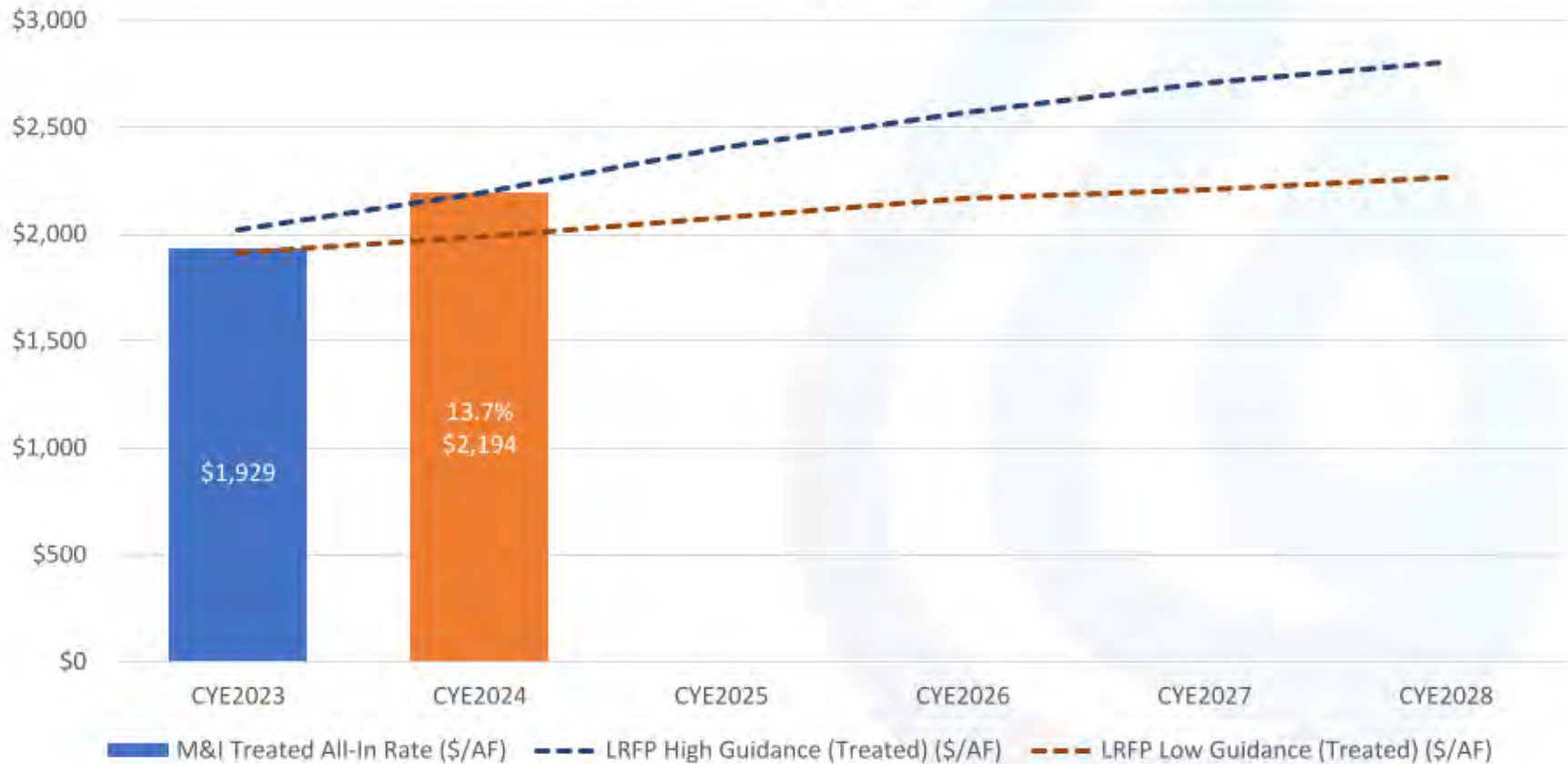
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# **Rates & Charges**

# Significant Headwinds Challenge Rates

Driven largely by non-discretionary rate drivers

All-In Treated Rate Guidance



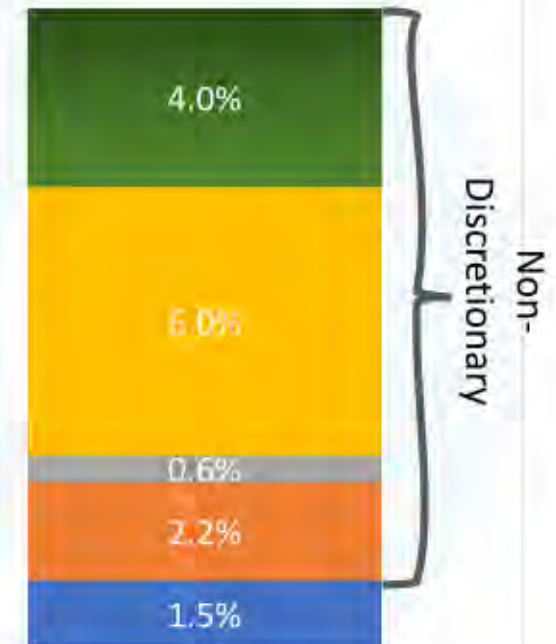
# Rate Drivers Result in 13%-14% Estimated All-In Increase

Rule of Thumb: \$5M = 1% Rate Impact | Rate Impacts can potentially be smoothed, but drivers are persistent

- Conservative Forecast of 360,000 AF, down from 399,000 AF (4% Rate Impact)
  - Customer Service & Storage Equivalent \$/AF increase ~10%, before any financial adjustment
  - Baseline forecast at 380,000 AF
- Cost of Water (5%-6% Rate Impact)
  - \$25M-\$30M annual increase ('24-'28)
- Hodges Hydro Revenue (0.6% Rate Impact)
  - \$2.8M/yr in lost revenue until operational (10+ years)
- Treatment Levels (2.2% Rate Impact)
  - \$11M in increase purchases from MWD, lower utilization of Twin Oaks
- \$68M O&M Budget (1.5% Rate Impact)
  - FY 2024 \$7.5M increase from CY 2023 Rate Model

## RATE DRIVER IMPACTS

- O&M Adjustment
- Treatment Levels
- Lost Hydro Revenue
- Cost of Water
- Sales Adjustment



ALL-IN IMPACT

## Rate Drivers Result in 13%-14% Estimated All-In Increase

CIP funding and Financial Metrics mutually benefit each other at existing levels

Capital Improvement Plan ([Continued Rate and Financial Metric Impact](#))

- Existing 2022 proceeds and cashflow for debt coverage mitigate immediate rate impacts
- Higher CIP impedes ability to build reserves for future PAYGO as previously forecasted
- Results in higher leverage, requiring higher financial metrics

Support of Financial Metrics ([Maintained with appropriate increases to offset impacts](#))

- \$18M Rate Stabilization Fund (RSF) Draw forecasted in FYE 2023
- Lower starting balances than forecasted due to higher costs and lower sales (FY '23)
- RSF Level expected to maintain ~\$90M level and assumes lower RSF volatility



# 35% Increase Forecasted by MWD by 2028

Estimates do not include many anticipated costs or recent inflation

MWD's Forecasted Tier 1 Supply Rate Adjusted



## Additional \$1.5M increase on MWD Fixed Charge Passthrough

### MWD Capacity Charge (3-Year Peak Based)

CY23: \$10,600/CFS x 723.4 CFS = \$ 7,668,040

CY24: \$11,200/CFS x 841.9 CFS = \$ 9,429,280

Change:  6%  16% = \$ 1,761,240  23%

### MWD Readiness-to-Serve Charge (10 Yr Avg % of Total Demand)

CY23: \$154,000,000 x 15.1% (214,362.4 AF) = \$23,269,400

CY24: \$167,000,000 x 13.8% (195,947.8 AF) = \$23,062,700

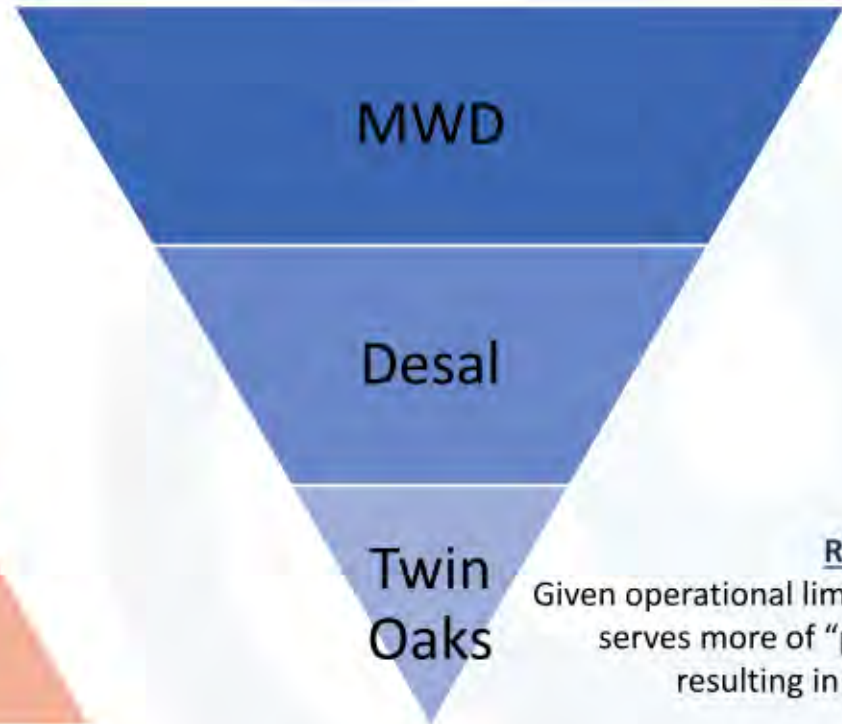
Change:  8%  -9% = \$ (206,700)  1%

# Treatment Quandary

Operational Limitations at TOVWTP complicate budgeting and cost recovery

## Historical Expectation

MWD demands would fall off first, with Twin Oaks providing “Baseload” service



## Recent Reality:

Given operational limits, Twin Oaks serves more of “peaker” plant, resulting in greater MWD utilization

# Mitigation Efforts

## Previous Efforts

- \$4.2 Million in Semi-tropic Water and lease capacity
- \$18 Million for potential San Vicente Energy Storage Facility
- Debt restructuring & refunding (\$130 million net present value)

## Future Efforts

- Selling Semi-tropic Water (0.4% rate reduction, incorporated)
- Future Water Sales Updates – 380,000 AF (2% rate reduction)
- Using stored water
- Monetizing assets
- Federal/State funding for Capital Improvement Program
- Twin Oaks Optimization
- Revision to RSF Methodology (Enables use and maintenance of Board Policy)

# Rate Stabilization Fund Background

Created in 1990 in order to...

- smooth large rate increases
- strengthen the Water Authority's credit rating

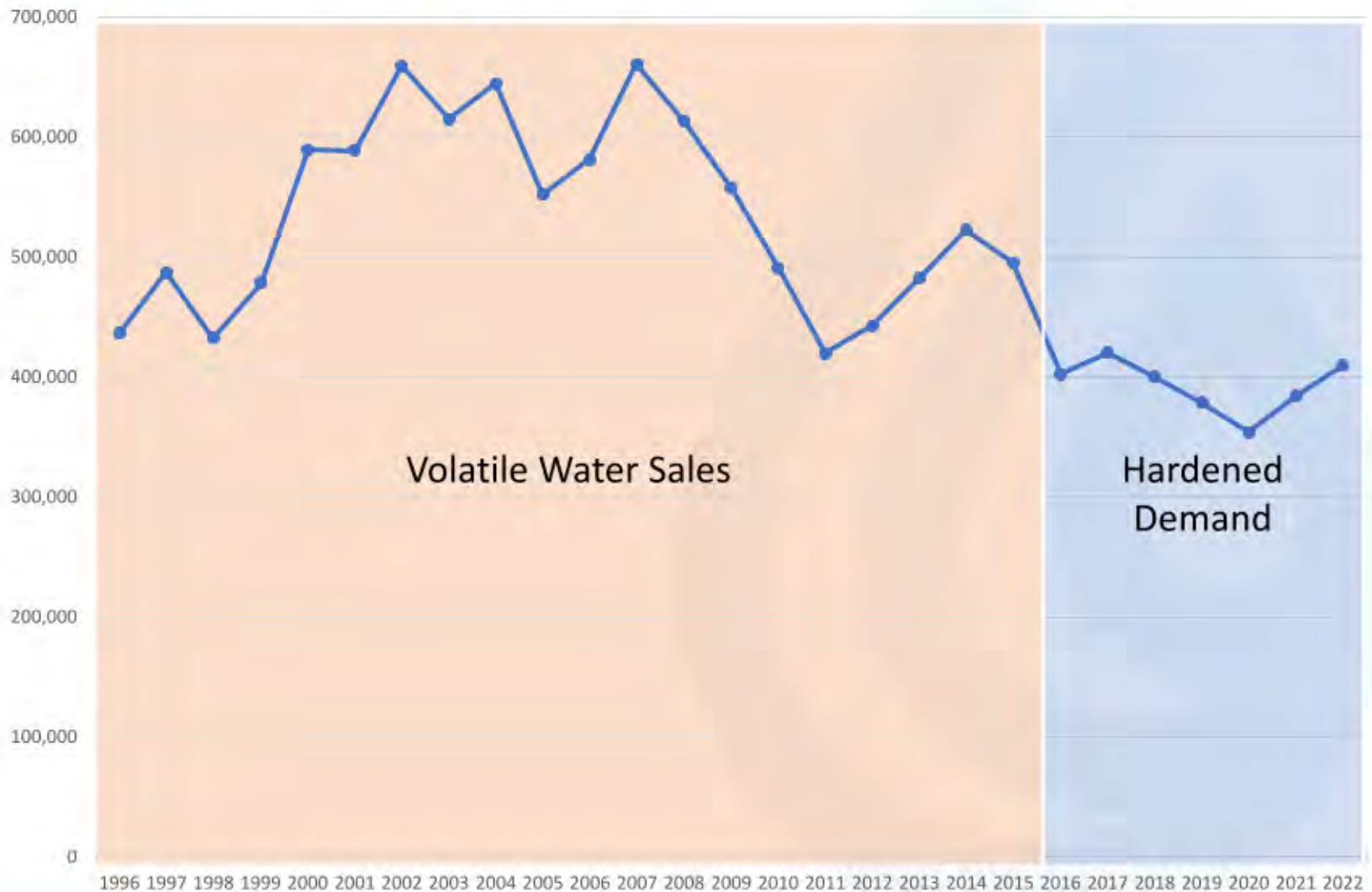
Modified in 2006 to increase reserves

- Water sales fluctuated significantly, which was seen as a great financial threat
- The RSF minimum and target were set at 25% of sales for a 2.5-year, and 3.5-year period respectively

Modified again in 2019 to moderate targets

- Water sales had "hardened" as annual sales remained low
- The RSF minimum and target were changed from 25% to 15% of sales

# Water Sales by Year



# RSF Actuals & Projections

In concert with our financial advisors and rate agencies, staff is reviewing future potential adjustments to limit year-to-year volatility.





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# **Member Agency Rate Workgroup Update**



# Policy Direction

- FPWG Recommendation (*January 2022*)
  - Direct staff to develop an alternative rate design that increases fixed cost recovery for future Board consideration;
  - Direct staff to continue future rate development efforts outside the FPWG, and instead work directly with Member Agency Managers.
- Board Action (*February 2022*)
  - Approved the Rate Design Development with the FPWG being provided with regular monthly updates on the progress of future rate development efforts; and
  - Approved that the FSWG will receive a presentation and provide a recommendation to the Board on the proposed alternative rate design structure after SDCWA staff has worked with Member Agency Manager (and their staff).
- Board Action (*June 2022*)
  - Allow Member Agencies consultants to listen in on Rate Workgroup meetings. However, each agency's GM or Finance Officer will be the main point of contact for one voice at the meeting.

# FWPG Guiding Principles

The Water Authority plays a core role in sustaining the social & economic fabric of the region. Irrespective of local supply development, all member agencies will remain dependent on the Water Authority and have a critical interest in its sustainability.

## Recommendations should:

- Maintain short- & long-term financial viability
- Support the Water Authority's ability to pay for existing commitments made through large capital investments
- Establish fixed charge levels to cover fixed expenses
  - Assure long-term funding to meet operating and fixed expenses
- Support prudent financial management practices
- Support intergenerational equity
- Provide for fair and equitable treatment to all Member Agencies
- Achieve Cost of Service and provide for adequate level of reserves
- Promote cost-effectiveness and regional water affordability

# Three Alternatives Presented to Encourage Participation and Find Common Ground

- HDR Recommendation
  - Use of Rolling Averages or Peaks, over longer periods, to mitigate CWA revenue volatility
  - Limited equity shifts, but no additional fixed based-revenues (e.g., IAC)
- Forecasted Shortfall Proposal (Arant)
  - Focus on defining existing shortfalls present with assumed 3%-5% base increases
  - New fixed based revenue to plug shortfalls
- Higher MEU Based Alternative (Meeting #12 Feedback)
  - Increase to IAC or similar MEU based rate to collect a “truly” fixed revenue
  - Aimed directly at addressing rate/equity impacts related to Local Supply Development

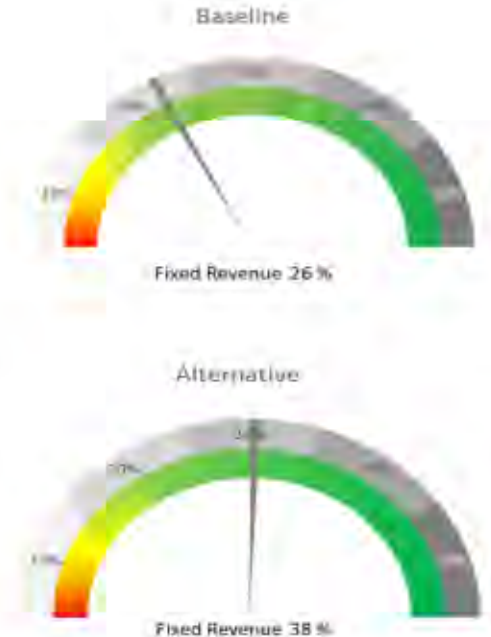
# HDR Recommendations

Bookends on moving to higher fixed revenue

- Transportation = 40%, 5-yr peak
- Treatment = 50%, 5-yr Avg.
- Supply = 50%, 5-yr peak



- Transportation = 80%, 5-yr peak
- Treatment = 100%, 5-yr Avg.
- Supply = 100%, 5-yr peak



Includes Customer Service (5-YR Avg), Supply Reliability Charge (10-YR Peak), and Storage Charge (5-YR Avg) in calculation as 100% fixed cost recovery

# Forecasted Shortfall Proposal

Alternative Method to Define Fixed Percentage Offered by Director Arant

	FYE 2024	FYE 2025	FYE 2026	FYE 2027	FYE 2028	FYE 2029	FYE 2030	FYE 2031
Total Forecasted Revenue	\$809	\$859	\$921	\$974	\$1,005	\$1,034	\$1,067	\$1,095
3% Governed Increase Revenue	\$797	\$821	\$846	\$871	\$897	\$924	\$952	\$980
<b>Created Shortfall (\$M)</b>	<b>\$11</b>	<b>\$38</b>	<b>\$76</b>	<b>\$103</b>	<b>\$108</b>	<b>\$110</b>	<b>\$115</b>	<b>\$114</b>

- Shortfall would be funded with a MEU or other “truly” fixed recovery allocation
- Full methodology would need to consider various challenges, including rate smoothing and shortfall fluctuations.
- Methodology would also need to consider what rates to “limit” versus existing Board adopted rates (IAC and SRC).

# Higher MEU Based Cost Recovery Alternative

- Increases IAC Revenue from \$47.5M to \$137.3M
- Increased IAC offsets costs of other rates:

	Existing	Alternative
M&I	\$1,085/AF	\$1,076/AF
Transportation	\$173/AF	\$88/AF
Storage	\$60M	\$28M
Treatment	\$350/AF	\$322/AF
Supply Reliability	\$40.9M	\$41M
Customer Service	\$26M	\$5M
IAC	\$4.24/MEU	\$12.26/MEU

Infrastructure Access Charge (IAC)	% of Total Cost
Cash/Pay-Go Expense	110% * 25%
Short Term Debt Service & Costs	110% * 25%
Administration & Maintenance	110% * 25%
Local Supply Development Costs	110% * 25%
ESP Evaporation & System Losses	110% * 25%
Desal Pipeline Cost	110% * 25%
<b>Long Term Debt Service</b>	<b>100%</b>



# MARW Summary

- Staff provided two user friendly models
  - Rate Alternative Comparison Tool, with hosted Teams walkthrough
  - 2030 Rate Alternative Comparison Tool, with video walkthrough
- MARW group leaning towards a “true fixed” alternative
  - As opposed to the HDR Proposal of relying on rolling factors
  - However, concerns expressed over potential short and long-term equity shifts
- No consensus of “increased fixed recovery target”
- Reconvene in June with Workgroup following CY 2024 rate setting
- Does the FPWG want to provide additional guidance?



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## San Diego County Water Authority And Its 24 Member Agencies

4677 Overland Avenue, San Diego, CA 92123

### News Release

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(949) 276-1675 cell  
[Ejoyce@sdcwa.org](mailto:Ejoyce@sdcwa.org)

#### **Water Authority Launches Budget-Rate Setting Process for 2024**

*Board looks for ways to control costs and balance risks; public invited to learn more*

March 10, 2023 – The San Diego County Water Authority on Thursday started a months-long public process to refine its next two-year budget and a draft preliminary proposed rate increase for 2024. The average rates charged by the Water Authority are currently projected to rise by approximately 14% next year, though agency staff and board members are assessing strategies to lower the number.

“This budget and rate cycle is unlike any other in the Water Authority’s history because it involves balancing the demands of maintaining water reliability in 310 miles of pipelines with inflationary pressures that we haven’t seen in decades and numerous other factors,” said General Manager Sandra L. Kerl. “We know that the rising cost of water creates downstream impacts, particularly on our most vulnerable populations, and we are leaving no stone unturned in the quest to minimize the cost burden. Those efforts include advocating for state and federal funds, assessing potential new revenue streams, and reassessing how rates are set.”

The draft recommended budget for fiscal years 2024-2025 is 5% larger than the current two-year budget at \$1.8 billion. Approximately 90% of the budget is for purchasing, treating, and delivering water, combined with debt service and Capital Improvement Projects to ensure water is available when and where it’s needed. As in years past, the Operating Departments – including all agency staff and day-to-day work functions – account for about 7% of the budget.

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**“Costs to support our water reliability mission are rising due to factors beyond our control, like they are for retail water agencies and almost everyone else across all sectors of the economy.”**

-- Sandra L. Kerl, General Manager,  
San Diego County Water Authority

At Board direction, the Water Authority's budget-rates process this year started two months earlier than normal, adding uncertainty to the initial projections. The draft recommended budget for 2024 and 2025, including information about next year's preliminary proposed rates, were [posted Thursday on the Water Authority website](#).

Public water agencies don't make a profit; all their revenues are invested in protecting and providing safe and reliable water. Because the Water Authority is a wholesale water agency that sells only to retail water agencies – not the general public – there is not a one-to-one correlation between Water Authority's rates and water bills for homes and businesses. Actual bills will vary based on factors that include Water Authority rates, customers' water use, and factors unique to local retail water agencies.

“Costs to support our water reliability mission are rising due to factors beyond our control, like they are for retail water agencies and almost everyone else across all sectors of the economy,” Kerl said. “Inflation has pushed up the cost of energy, steel, chemicals, and other inputs to levels not seen in a generation – and that has significant impacts on our budget. So do increases on the cost of water from the Metropolitan Water District of Southern California, which is charging us about 7% more next year. Unfortunately, we expect these inflationary factors to continue for the foreseeable future.”

In addition, water sales are down significantly from decades past, which puts upward pressure on rates because large fixed costs must be spread over fewer gallons sold. “In a world where water supplies are both limited and valuable, it's critical that San Diegans continue to do their part to use water as efficiently as possible,” Kerl said. “At the same time, we have to recognize the rate and budget impacts of conservation – not just for us but for all public water suppliers.”

Kerl noted that the Water Authority has taken aggressive budget- and rate-control measures for the past several years, leaving fewer options this year. Those actions have included front-loading savings on debt-refinancings to reduce budget impacts in prior years, which means the impact of that debt will grow in the next two-year cycle.

To mitigate rate increases, Water Authority efforts also have included draws from the Rate Stabilization Fund, which is expected to be near the bottom of the Board's target range in June. In addition, the Water Authority has secured tens of millions of dollars over the past two years to help residents pay their water bills, and it has distributed \$90 million to member agencies from successful rate case litigation – money that otherwise could have defrayed Water Authority costs.

The budget and rate setting process will occur over the next several months and is open to the public. Water Authority staff will present preliminary draft budget and rate information to the Board on March 23, and the Board is planning to host budget workshops on April 11 and 13 at the Water Authority headquarters in Kearny Mesa. Two more budget workshops are planned for May 9 and 11. All workshops are open to the public.

The recommended budget for fiscal years 2024 and 2025 and the proposed rates and charges increase will be formally presented to the Board of Directors on May 25, and they will be

considered by the Board for adoption on June 22. Board meeting schedules are at [\\*\\*\\*.sdcwa.org/about-us/board-of-directors/meetings/](http://***.sdcwa.org/about-us/board-of-directors/meetings/).

###

*The San Diego County Water Authority sustains a \$268 billion regional economy and the quality of life for 3.3 million residents through a multi-decade water supply diversification plan, major infrastructure investments and forward-thinking policies that promote fiscal and environmental responsibility. A public agency created in 1944, the Water Authority delivers wholesale water supplies to 24 retail water providers, including cities, special districts and a military base.*

