Reducing staff and reclassifying positions to reflect current needs

Refinancing and restructuring capital project debt over the past six years to save about $200 million in the last decade

Streamlining departments, increasing how much employees pay toward their retirement plans, and reassessing fleet operations, energy use and other spending that may yield additional savings

After years of building major facilities to improve supply reliability, the Water Authority is now focusing on maintaining and operating the regional water treatment and delivery system. The capital improvement budget likely will remain flat for the foreseeable future, pending the update of the Water Authority’s Master Plan in 2021.

Significant Victories in Rate Litigation

Landmark litigation initiated by the Water Authority also has produced significant benefits for water ratepayers across the San Diego region:

The court ordered the Metropolitan Water District of Southern California to increase the Water Authority’s right to MWD water by 100,000 acre-feet of additional MWD water annually – about twice the production of the $1 billion Claude “Bud” Lewis Carlsbad Seawater Desalination Plant. The court determined that MWD unlawfully under-calculated the Water Authority’s statutory water right to MWD’s water supply. As a result of the recalculations, the Water Authority’s preferential right to MWD water increased from 18.53 percent to 24.22 percent in fiscal year 2018.

The court also determined that MWD must repay the Water Authority for illegal charges MWD imposed on delivery of the Water Authority’s water under the Exchange Agreement. This ruling is expected to ultimately result in recovery of about $80 million. In addition, San Diego ratepayers have avoided paying more than $80 million from 2018-2022 (when MWD suspended these charges), for a total recovery on this claim of more than $160 million. The improper charges on the Exchange Agreement would have cost local residents more than $500 million over the life of the Water Authority’s water delivery contract.

The court ruled that MWD had illegally barred the Water Authority from receiving money from MWD’s local water supply program, even though the Water Authority was forced to pay for the program. MWD lifted the ban in response to the court’s order, and in late 2019 approved funding for three water supply projects in San Diego County:

$283.6 million for the City of San Diego’s Pure Water Project

$23.6 million for the Fallbrook Groundwater Desalter Project

$42.7 million for the City of Oceanside Pure Water & Recycled Water Expansion Phase I

In recognition of MWD’s actions, the Water Authority’s Board of Directors in February 2020 voted to dismiss certain claims against MWD – a major step toward resolving the litigation.

Looking to the Future

While the region has invested strategically in water supply reliability, the job is not done. In fact, water managers look at trends decades into the future to ensure continued ability to meet demands under a wide variety of scenarios. They also are looking at options that could save ratepayer money and provide other benefits. That’s why the San Diego County Water Authority’s Board of Directors in July 2019 approved a contract to study the viability of a new regional conveyance system that would deliver water from the Colorado River to San Diego County. A regional system to deliver San Diego’s independent Colorado River supplies from the Imperial Valley directly could be more cost-effective than the current system, while also providing multiple benefits for California and the Southwest. The study also will assess the potential for new regional and public-private partnerships and funding opportunities.

Three potential routes for the pipeline will be considered as part of an initial screening of the alternatives during the first phase of the study, which will also consider elements such as permits and environmental regulations, risk and economic factors. With that information, the Board can decide on whether to proceed with Phase II.

The San Diego County Water Authority’s wholesale water rates have increased in recent years, while regional water use has fallen. Many residents understandably ask the question – Why are our water rates continuing to climb if we’re using less water than before?

The answer is increasing costs, along with investments our region needs to ensure we have a safe, reliable water supply to support our 3.3 million residents and $245 billion economy for generations to come.

We live in a semiarid climate, and we rely on sources hundreds of miles away for most of our water. That means it is not cheap to provide our homes, businesses and cities with the water we need to thrive.

There are several reasons why water rates are rising in our region, including the cost of building and financing major regional water supply and infrastructure projects. Over the past decades, the Water Authority has secured more reliable water supplies to help meet growing demands and to protect us from crippling water shortages from any one source. We’ve also built a more robust water system that can meet the region’s water needs after a major emergency such as an earthquake.

The most recent example of the Water Authority’s supply diversification strategy is the Claude “Bud” Lewis Desalination Plant, the largest seawater desalination project in the nation. It produces approximately 50 million gallons of water a day. While it is more expensive than conventional sources, it’s also more reliable and locally controlled.

In addition, the rising cost of water reflects low water sales due to drought conditions statewide and continued low water use after the 2012-2016 drought ended. When water sales fall, it forces fixed costs to be spread over fewer gallons and puts upward pressure on rates.

Rates are also pushed up by rising power costs and requirements for enhanced environmental protections. And, the region is paying more to the Metropolitan Water District of Southern California for water supplies and transportation.

Estimated 2020 Wholesale Costs per Household*
San Diego County’s Water Supply in 1991

<table>
<thead>
<tr>
<th>Project Description</th>
<th>Completion Date</th>
<th>Ratepayer Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Imperial Irrigation District of Southern California</td>
<td>2003</td>
<td>$198 million</td>
</tr>
<tr>
<td>Olivenhain Dam and Reservoir</td>
<td>2005</td>
<td>$198 million</td>
</tr>
<tr>
<td>Olive, Oak &amp; Camp Pendleton</td>
<td>2007</td>
<td>$198 million</td>
</tr>
<tr>
<td>Lake Hodges Pumped Storage and Facilities</td>
<td>2010</td>
<td>$208 million</td>
</tr>
<tr>
<td>San Vicente Dam Raise and Related Facilities</td>
<td>2012</td>
<td>$811 million</td>
</tr>
<tr>
<td>Twin Oaks Valley Water Treatment Plant</td>
<td>2014</td>
<td>$179 million</td>
</tr>
<tr>
<td>Carlsbad Seawater Desalination and Related Facilities</td>
<td>2015</td>
<td>$1 billion</td>
</tr>
</tbody>
</table>

In 1991, imported water was relatively cheap in San Diego County. It also wasn’t very reliable. A major drought led MWD, which supplied 95 percent of our region’s water at the time, to cut San Diego County’s allocation of water supplies by 31 percent. This cutback significantly impacted our region’s economy and quality of life.

Deeper cutbacks of 50 percent were only averted by the 1991 “March Miracle” rains. Business and civic leaders urged the Water Authority to take actions to ensure this never happens again. The community united to support a progressive, bold strategy to enhance the region’s water supply reliability through diversifying our water supply sources and improving water supply infrastructure. Every ratepayer in our region has been an investor in this unparalleled drive to develop regional water reliability programs and projects. These investments are already producing significant benefits that will last for decades. They include hundreds of thousands of acre-feet of new water supplies and billions of dollars in major new water facilities. (An acre-foot is about 325,900 gallons, enough to supply 2.5 typical single-family households for a year.)

These new supplies and facilities are providing our economy with increased protection from supply shortages, as well as the capacity for our region’s economy to continue to grow and thrive. We all pay the mortgage. Much like a homeowner who pays a mortgage, the Water Authority uses debt financ-

I N V E S T M E N T S A N D A C C O M P L I S H M E N T S 2 0 0 3 - 2 0 1 7

Building Water Reliability for San Diego County

The drive for a more secure water supply

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Increasing Water Use Efficiency

Per capita water use declined 39 percent in San Diego County between 1990 and 2015. The Water Authority’s debt payments have risen in recent years to help pay for major capital projects. Those payments are expected to remain relatively flat over the next decade, partly because the Water Authority has aggressively reduced its financing costs.

Protecting Ratepayers

Actions Help Manage Rate Increases

Ratepayers want to make sure their dollars are being spent wisely and prudently. The Water Authority is dedicated to providing a safe and reliable water supply for our region at the least possible cost. To do that, the Water Authority has protected ratepayers by:

The Emergency & Carryover Storage Project

The $1.5 billion E&CSP is a major part of the Water Authority’s $2 billion Capital Improvement Program. This system of reservoirs, pipelines, pump stations, and other facilities provides San Diego County with up to a six-month supply of locally stored water that can be moved around the region in case of a natural disaster, such as an earthquake, or other emergency disrupts imported water deliveries.

Why Wholesale Water Rates Are Rising

FOR SAN DIEGO COUNTY

BUILDING WATER RELIABILITY FOR SAN DIEGO COUNTY

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Now all pay the mortgage

Much like a homeowner who pays a mortgage, the Water Authority uses debt financ-

INVESTMENTS AND ACCOMPLISHMENTS 2003 - 2017

Colorado River Transfer Supplies

Water supplies from long-term canal-lining agreements and a water conservation and transfer agreement with the Imperial Irrigation District are steadily growing to provide 280,000 acre-feet of water for our region annually by 2021. That’s enough water to meet the annual needs of more than half a million families.

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Ratepayer Investment: $179 million

Lake Hodges Pumped Storage and Facilities

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The drive for a more secure water supply

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San Diego County's Water Supply in 2020

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Everyone’s Investment in a Reliable Water Supply

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Estimated 2020 Wholesale Costs per Household*

- MWD Costs: $15.82
- Colorado River Water Transfer & Desalination Costs: $13.11
- Water AuthorityOperations: $3.69
- Water Authority Investment in Facilities: $3.69

Total: $49.33/month

*Based on 0.32 acre-feet of annual consumption and 2019 calendar year rates

On average, a gallon of tap water in the San Diego region costs about three-cents a pound per gallon. When compared with the cost of other products we use every day, tap water is the best deal around.

A Gallon of TAP WATER $0.009*

A Gallon of TAP WATER $23.04
A Gallon of TAP WATER $8.26
A Gallon of TAP WATER $3.52
A Gallon of TAP WATER $3.69

4

February 2020

The San Diego County Water Authority sustains a $245 billion regional economy and the quality of life for 3.3 million residents through a multi-decade water supply diversification plan, major infrastructure improvements, and forward-thinking policies that promote fiscal and environmental responsibility. A public agency created in 1954, the Water Authority delivers wholesale water supplies to 34 retail water providers, including cities, special districts and a military base.

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The Best Deal Around

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sdcwa.org