

**San Diego County Water Authority  
Fiscal Years 2024 and 2025  
Draft Recommended Budget**

**March 2023**

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## Message from the General Manager

To: Board of Directors  
From: Sandra L. Kerl, General Manager  
Date: March 9, 2023  
Re: Fiscal Years 2024 and 2025 budget-setting process

The Fiscal Years 2024 and 2025 budget-setting process is unlike any other in the Water Authority's history, balancing the complex demands of maintaining reliability in 310-miles of pipelines with inflationary pressures that we haven't seen in decades and numerous other factors. In response to Board direction, this budget process is starting two months earlier than normal, adding uncertainty to the initial projections.

That said, the draft recommended budget aligns with Board policies and best practices, with the goal of providing safe and reliable water at an affordable cost across the San Diego region. This is no insignificant feat in the era of climate change that is stressing water resources across the arid West and pushing up costs. The value of our long-term strategy was on full display last year, when millions of Southern Californians barely had enough water to get by, and our supplies remained intact.

Staff across the Water Authority have contributed to the budget development process over the past several months, resulting in an initial budget for 2024-2025 that is 5% larger than the previous two-year budget at \$1.8 billion. Approximately 90% of the budget is for purchasing, treating, and delivering water, combined with debt service and the Capital Improvement Program to ensure water is available when and where it's needed. As in years past, the Operating Departments account for about 7% of the budget.

As the Board starts to review the budget information, a few key points of context are critical. For starters, the Water Authority has taken aggressive budget- and rate-control measures for the past several years, leaving fewer options this year. These 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. Our mitigation efforts also have included draws from the Rate Stabilization Fund, so that reserve is near the bottom of the Board's range and not as available as it used to be. In addition, the Water Authority has secured tens of millions of dollars for residents to pay their water bills, and we have distributed \$90 million to member agencies from the rate case litigation – money that otherwise could have defrayed Water Authority costs.

It's also important to realize that costs to execute our water reliability mission are rising due to factors beyond the Water Authority's control, like they are for retail member agencies and almost everyone else across the economy. 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 than this year. We expect these factors to continue for the foreseeable future; indeed, the cost of unfunded mandates at the Carlsbad Desalination Plant will significantly increase costs in following budget cycles.

Today, inflation is most notably hitting the Capital Improvement Program (CIP), which is up by 5% in the draft recommended budget due to higher costs for existing projects and a reprioritization of projects to minimize risk.

The draft recommendation on the CIP incorporates a 10% reduction in appropriation for spending in Fiscal Years 2024 and 2025. CIP cost increases highlight what I see as the single most important issue for the Board of Directors this budget cycle: Balancing the cost of maintenance and capital projects today with the risk of health and safety problems later. Put differently, what is the right level of investment in 2024 and 2025 to reduce the risk of emergency breakdowns in the water treatment and delivery system that are far more costly than proactive upgrades? Part of that equation is related to personnel; this budget includes eight new positions – four to manage CIP projects and four to sustain Operations and Maintenance crews who are stretched too thin on the front lines. For the CIP program to advance, it will take additional staff resources to manage and coordinate increased work. Likewise, for the Water Authority to maintain its level of service to member agencies, the O&M team needs reinforcements.

A final note: Like all of you, Water Authority staff is aware 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 on member agencies and the public. Those efforts include advocating for state and federal funds, assessing potential new revenue streams, and rethinking how rates are set. But we are also aware of that water reliability is among the foundational elements of life in the arid Southwest and not something we can function without. We look to provide that fundamental resource not just for the next two years but for generations. Because San Diego County's economy and quality of life depend on safe and reliable water supplies, along with the infrastructure and employees to ensure the water continues to flow.

### Purpose of Draft Recommended Budget

In February 2022, the Board of Directors adopted a Budget Policy outlining the timeline and engagement for budget development. In accordance with the Budget Policy, the draft budget is presented to the Board in March during budget development years. The Water Authority's Fiscal Years 2024 and 2025 Draft Recommended Budget represents the initial budget and incorporates draft rates and charges information in addition to a conservative water sales forecast. The draft recommendation is used to solicit feedback and input from the Board and the public prior to developing the preliminary recommendations for the April public budget workshops.

The Water Authority's 2023 Five-Year Financial Forecast (Forecast) was used as a base for developing the draft recommended budget for Fiscal Years 2024 and 2025. Revenues and expenditures have been updated from the Forecast to ensure they align with the Water Authority's priorities and commitments and incorporate current themes and impacts. The draft recommended budget incorporates goals and objectives of the 2023-2027 Business Plan. The draft recommended budget is considered an additional planning tool during budget development to assist in decisions that will impact future fiscal years.

The Water Authority will prepare a preliminary recommended budget for Fiscal Years 2024 and 2025 to be presented and discussed at the public budget workshops on April 11 and 13, 2023. Projected revenues and expenditures in this draft recommendation may not correspond exactly to those in future recommended budgets or financial reports.

### Budget Drivers and Unknown Variables

Throughout the process of developing the draft recommended budget each category was evaluated for unknown variables that could significantly impact the projections. Delivering budget information in March comes with the risk of future uncertainty. Below are the major categories of budget drivers that have unknown variables that could impact the future recommended budget as the Water Authority continues the development and presentation of the Fiscal Years 2024 and 2025 budget.

The vast majority, over 90%, of the Water Authority's budget is a product of water purchases and treatment or continued and historical investment in infrastructure. Only 7% of the Water Authority's budget is discretionary and under the immediate influence of the Board. The draft recommended budget reflects inputs and assumptions derived over two months earlier than normally produced. The result of earlier forecasting is a greater degree of uncertainty and need for pragmatic financial conservatism – be those assumptions of water purchases, water sales, member agency system utilization (treated/untreated/local storage), energy costs, inflation, or eventual Capital Improvement Program (CIP) needs.

### Water Sales and Rates

While this draft recommended budget presents rates that are significantly higher, much like the overall budget, the majority of the forecasted rate needs are non-discretionary. Based on current estimates, the cost of water (purchases from the Metropolitan Water District (MWD), the Quantification Settlement Agreement (QSA), and Desalination) results in an "all-in" rate adjustment of 5%-6%. The Water Authority expects to see this level of increases required through 2028. As these costs are 100% outside the control of the Water Authority, these costs are considered pass-through in nature. Changing conditions to the Water Authority's system also impact current forecasts, for example, as demands are expected to decrease in 2024, following a wet 2023, resulting in a 4% rate

impact. Another example is the Division of Safety of Dams (DSOD) water level restrictions on the City of San Diego's Hodges Reservoir resulting in the loss of all hydroelectric revenues from that facility. While these impacts are not a "pass through" they are outside the Board's ability to negate.

### *Capital Improvement Program*

The Capital Improvement Program (CIP) is expected to increase in Fiscal Years 2024 and 2025. The draft CIP budget has been developed based on three primary scenarios. Each scenario has been evaluated for cost and level of risk to the water delivery system. Conducting a thorough review allows the Water Authority to be responsive to changing conditions, particularly with respect to changes in demand, projects, and the needs of member agencies. Water Authority staff has been working with the Finance Planning Work Group (FPWG) to assess and recommend the best course of action for the CIP in the upcoming fiscal years. The draft CIP recommendations included in this document reflect the lowest risk scenario, however, the lowest risk scenario also reflects the highest cost to the Water Authority, as a result, the projections for the CIP for Fiscal Years 2024 and 2025 are \$206.2 million.

The Water Authority recognizes the need to appropriately fund and execute the CIP. There are potential impacts to the CIP appropriation execution efforts. Some factors that could impact the overall spending on the CIP are the bidding climate and economic influences; shifting of planned work to unexpected emergency repairs; schedule adjustments to projects including permitting delays, supply chain issues, scope changes, or weather-related delays. As we continue to develop and refine the CIP and gather input from the Board and the FPWG, we have reduced the CIP draft two-year appropriation by 10% to reflect a 90% execution rate on the CIP, for a total appropriation of \$185.6 million.

### *Capacity Charges*

The County Water Authority Act permits the Water Authority to fix and impose capacity charges on each of its member agencies or upon ultimate users of water delivered by the Water Authority to member agencies. Capacity Charges are a one-time payment for new or upsized meters to fund the cost to construct capacity to serve that meter. Because the charge is a one-time payment for new or upsized meters the income is tied to construction and development in the region, in times of increased new construction activity, the income from capacity charges could also see an increase.

### *Debt Service*

The Water Authority's Statement of Debt Management and Disclosure Policy sets forth comprehensive guidelines for the issuance and management of the Water Authority's debt. Debt service is increasing by \$45.8 million, or 18%, in Fiscal Years 2024 and 2025. During the COVID-19 pandemic, the Water Authority took advantage of favorable market conditions to refund and restructure outstanding debt. At the direction of the Board, the savings realized from the refundings were primarily applied to calendar years 2022 and 2023 therefore eliminating the application of any debt service savings during this budget cycle. Debt service is expected to remain at elevated levels through Fiscal Year 2034 before dropping by \$30 million in 2035 and another \$40 million in Fiscal Year 2039. The Water Authority has limited new money needs in the near term and does not expect any significant increase in debt service in the next several years.

### *Investment Income*

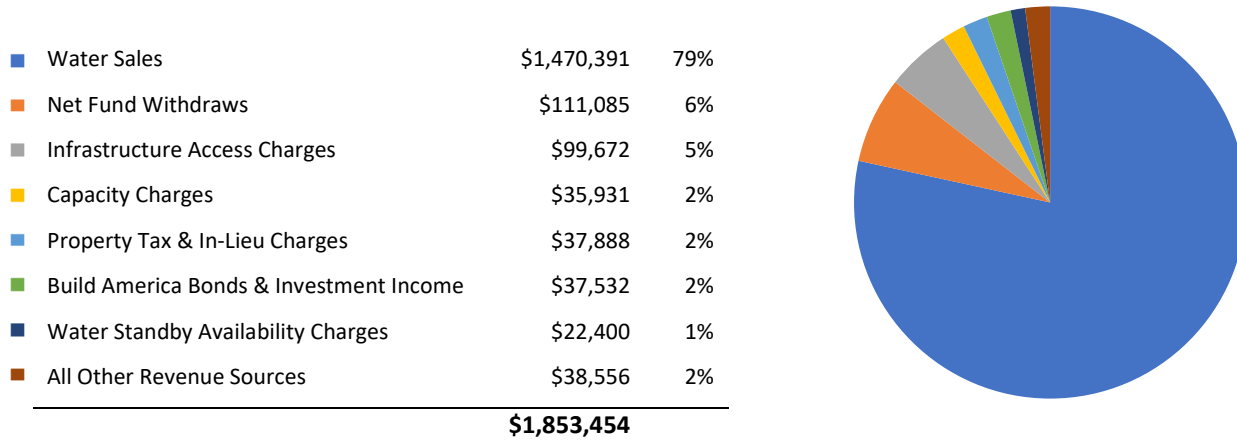
The Water Authority's investment income is revenue received by the Water Authority from investing its cash balances. Investment income on the cash balances in the Operating Fund, Rate Stabilization Fund, and Debt Service Reserve Fund is available for general Water Authority operating expenditures. The 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. Investment income is tied directly to the Water Authority's current investments and future investments. Currently, the projections assume an increase in investment income due to the rising interest rate environment. Investment income is subject to changes in market conditions in addition to the amount of cash available for investing or reinvesting as funds mature. The Federal Reserve raised its benchmark fund rate eight times in the past year, the Federal Reserve continues to evaluate the benchmark fund rate with their next meeting on March 21 and 22, 2023. If interest rates continue to rise, the projected investment income could continue to increase. On the opposite side, if interest rates fall, the projected investment income could decrease.

## Financial Summaries

The Water Authority’s Fiscal Years 2024 and 2025 Draft Recommended Budget is \$1.8 billion. This section provides a summary of the total Sources and Uses of Funds for the draft recommended budget.

The draft recommended sources of funds (revenues) for Fiscal Years 2024 and 2025 are shown in Figure 1. Water Sales is the largest source of revenue at \$1.5 billion, reflecting 79% of total revenue to the Water Authority.

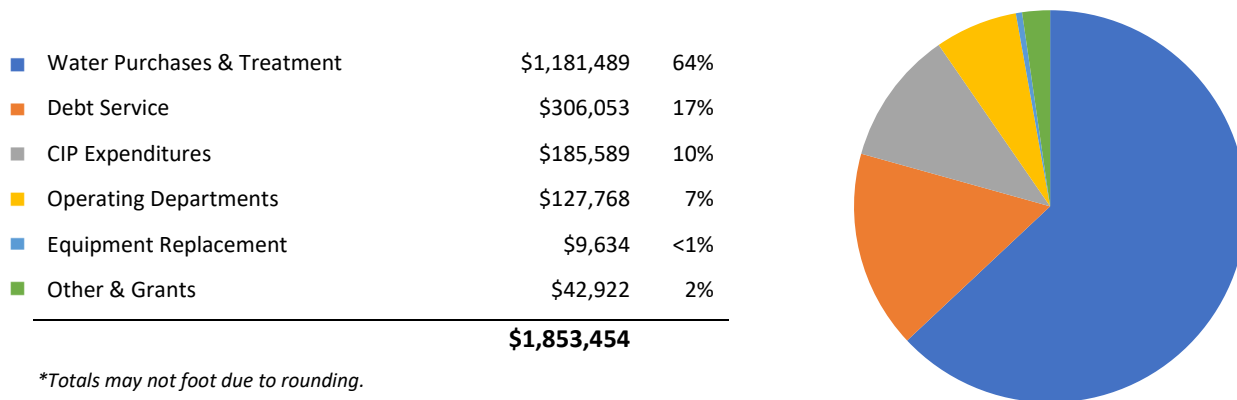
Figure 1: Draft Recommended Sources of Funds (\$ Thousands)\*



\*Totals may not foot due to rounding.

The draft recommended uses of funds (expenditures) for Fiscal Years 2024 and 2025 are shown in Figure 2. Three expenditure categories, Water Purchases and Treatment, Debt Service, and the Capital Improvement Program (CIP) combined equate to 90% of the total budget.

Figure 2: Draft Recommended Uses of Funds (\$ Thousands)\*



\*Totals may not foot due to rounding.



Table 1 provides the breakdown of draft recommended sources (revenue) and uses (expenditures) of funds for the two-year budget period and previous budget periods, for comparative purposes. The biggest drivers of the draft recommended budget are water demands, the cost to purchase and treat water, and the increases to the Capital Improvement Program and Debt Service. The Water Authority’s Debt Service is scheduled to increase based on the payment schedules and a result of front-loading Debt Service savings in the prior budget period. Additional details on the individual revenue and expenditure line items are provided throughout this document.

**Table 1: Draft Fiscal Years 2024 and 2025 Budgeted Sources & Uses of Funds (\$ Thousands)**

	FYs 20&21 Actual	FYs 22&23 Amended	FYs 22&23 Estimate	FYs 24&25 Draft Recommended	Variance Draft Recommended to Budget		Variance Draft Recommended to Estimate	
<b>Revenues &amp; Other Income</b>								
Water Sales	1,182,217	1,351,010	1,360,901	1,470,391	119,382	9%	109,490	8%
Infrastructure Access Charges	80,864	94,685	94,685	99,672	4,986	5%	4,986	5%
Property Taxes & In-Lieu Charges	31,759	32,361	34,695	37,888	5,527	17%	3,193	9%
Investment Income	11,746	12,698	9,907	16,214	3,517	28%	6,308	64%
BABs Interest Rate Subsidy	21,276	21,317	21,317	21,317	0	0%	0	0%
Hydroelectric Revenue	6,432	5,772	6,176	306	(5,466)	-95%	(5,870)	-95%
Grant Revenue	16,482	28,481	28,246	37,156	8,674	30%	8,909	32%
Other Income	50,797	55,129	58,981	998	(54,131)	-98%	(57,983)	-98%
<b>Capital Contributions:</b>								
Capacity Charges	36,698	34,186	39,360	35,931	1,745	5%	(3,429)	-9%
Water Standby Avail. Charges	22,333	22,400	22,342	22,400	0	0%	58	0%
Contributions in Aid of CIP	4,150	19,612	18,814	95	(19,517)	-100%	(18,718)	-99%
<b>Total Revenues &amp; Other Income</b>	<b>\$1,464,753</b>	<b>\$1,677,652</b>	<b>\$1,695,424</b>	<b>\$1,742,369</b>	<b>\$64,717</b>	<b>4%</b>	<b>\$46,945</b>	<b>3%</b>
Net Fund Withdraws	61,925	91,250	72,660	111,085	\$19,835	22%	\$38,426	53%
<b>TOTAL SOURCES OF FUNDS</b>	<b>\$1,526,678</b>	<b>\$1,768,902</b>	<b>\$1,768,084</b>	<b>\$1,853,454</b>	<b>\$84,552</b>	<b>5%</b>	<b>\$85,370</b>	<b>5%</b>
<b>Expenditures</b>								
Water Purchases & Treatment	964,147	1,117,120	1,132,211	1,181,489	64,369	6%	49,278	4%
CIP Expenditures	108,603	177,555	167,197	185,589	8,034	5%	18,392	11%
Debt Service <sup>1</sup>	266,846	260,244	261,191	306,053	45,809	18%	44,861	17%
QSA Mitigation <sup>2</sup>	4,711	5,891	5,893	4,490	(1,401)	-24%	(1,403)	-24%
Operating Departments	111,956	124,760	120,365	127,768	3,008	2%	7,403	6%
Equipment Replacement	3,089	4,733	3,175	9,634	4,901	104%	6,459	203%
Grant Expenditures	16,556	27,846	27,206	36,234	8,388	30%	9,027	33%
Other Expenditures	50,769	50,754	50,846	2,198	(48,556)	-96%	(48,648)	-96%
<b>TOTAL USES OF FUNDS</b>	<b>\$1,526,678</b>	<b>\$1,768,902</b>	<b>\$1,768,084</b>	<b>\$1,853,454</b>	<b>\$84,552</b>	<b>5%</b>	<b>\$85,370</b>	<b>5%</b>

1. Debt Service for Fiscal Years 2020 and 2021 includes \$19,990,110 in defeased Water Revenue Refunding Bonds Series 2005A COP, Series 2011A and 2011B.

2. QSA Mitigation includes QSA JPA contributions, environmental mitigation, Lower Colorado River Multi-species Conservation Program, and payments for Socioeconomic Mitigation Settlement.

Totals may not foot due to rounding.

## Rates and Charges

Tables 2 and 3 communicate the draft rates and charges for Calendar Year 2024 by category and compares these to the current adopted and previous years' rates. Overall, draft rates and charges are proposed to increase by 14% on Municipal and Industrial (M&I) treated water effective January 1, 2024. In addition, for budgetary purposes, the Water Authority develops water sales projections based on estimates for Calendar Year 2024 that incorporate current known factors and are consistent with the updated demand forecast and 2020 Urban Water Management Plan.

**Table 2: Water Authority Water Rate on a Per Acre-Foot Basis**

	CY 20 Rates	CY 21 Rates	CY 22 Rates	CY 23 Rates	CY 24 Draft Rates	Variance (CY24 to CY23) \$	Variance (CY24 to CY23) %
Melded Supply Rate	\$ 925	\$ 940	\$ 1,009	\$ 1,085	\$ 1,225	\$ 140	13%
Melded Treatment Rate	280	295	310	350	410	60	17%
Transportation	132	150	173	173	197	24	14%
Storage <sup>1</sup>	181	189	167	154	170	16	10%
Customer Service <sup>1</sup>	64	73	65	63	72	9	14%
Supply Reliability <sup>1</sup>	104	122	109	105	121	16	15%
<b>Total Cost of Treated Water</b>	<b>\$ 1,686</b>	<b>\$ 1,769</b>	<b>\$ 1,833</b>	<b>\$ 1,929</b>	<b>\$ 2,194</b>	<b>\$ 265</b>	<b>14%</b>
<b>Total Cost of Untreated Water</b>	<b>\$ 1,406</b>	<b>\$ 1,474</b>	<b>\$ 1,523</b>	<b>\$ 1,579</b>	<b>\$ 1,784</b>	<b>\$ 205</b>	<b>13%</b>

1. Fixed charges converted to per acre-foot basis.

**Table 3: Water Authority Rates**

	CY 20 Rates	CY 21 Rates	CY 22 Rates	CY 23 Rates	CY 24 Draft Rates
<b>Variable Rates (\$/Acre-Foot)</b>					
Melded M&I Supply Rate	\$ 925	\$ 940	\$ 1,009	\$ 1,085	\$ 1,225
Melded M&I Treatment Rate	280	295	310	350	410
Transportation	132	150	173	173	197
<b>Fixed Charges (\$ Millions)</b>					
Storage	\$ 65	\$ 60	\$ 60	\$ 60	\$ 60
Customer Service Charge	25.6	25.6	25.6	26.0	27.0
Supply Reliability	37.4	38.9	39.3	40.4	42.7
<b>Other Rates &amp; Charges</b>					
Untreated Special Agricultural Rate	\$ 755	\$ 777	\$ 799	\$ 855	\$ 903
Treated Special Agricultural Rate	1,035	1,072	1,109	1,205	1,313
Infrastructure Access Charge (IAC) <sup>1</sup>	3.66/ME	4.24/ME	4.24/ME	4.24/ME	4.32/ME
Water Standby Availability Charge	10	10	10	10	10

1. Meter Equivalent (ME).

## Water Sales and Purchases

Tables 4a and 4b depict the various sources of revenue generated from water sales and the categories of expenses that comprise the cost to purchase or treat water. Water Sales revenues are generated through rates and charges from the Water Authority (both fixed and commodity based), pass-through of Metropolitan Water District's (MWD) rates and charges, and other adjustments. The Water Authority's rate periods differ from the budget. Rates are set on a calendar year basis; whereas the budget is set on a fiscal year basis, commencing July 1.

**Table 4a: Draft Recommended Water Sales and Purchases**

	Volume (AF)			Dollars		
	FY 2024	FY2025	Total	FY 2024	FY 2025	Total
<b>Commodity</b>						
Melded Supply	361,268	338,820	700,088	411,517,604	428,932,224	840,449,828
Melded Treatment	143,711	143,507	287,219	53,599,060	59,997,364	113,596,424
Transportation	364,308	341,315	705,623	66,323,930	67,784,370	134,108,301
Permanent Special Agricultural Water Rate (PSAWR)	22,520	22,491	45,011	19,625,307	20,840,678	40,465,985
<b>Subtotal Commodity</b>				<b>\$ 551,065,901</b>	<b>\$ 577,554,636</b>	<b>\$ 1,128,620,537</b>
<b>Fixed</b>						
Supply Reliability Charge	361,268	338,820	700,088	41,755,000	44,020,000	85,775,000
Customer Service Charge	383,788	361,311	745,099	26,500,000	27,250,000	53,750,000
Storage Charge	361,268	338,820	700,088	60,000,000	60,000,000	120,000,000
<b>Subtotal Fixed</b>				<b>\$ 128,255,000</b>	<b>\$ 131,270,000</b>	<b>\$ 259,525,000</b>
<b>Subtotal Water Authority</b>				<b>\$ 679,320,901</b>	<b>\$ 708,824,636</b>	<b>\$ 1,388,145,537</b>
<b>Pass-throughs</b>						
<i>MWD</i>						
Readiness-to-Serve (RTS) Charge				11,204,515	10,632,710	21,837,224
Capacity Charge				7,885,060	8,753,140	16,638,200
<i>CWA</i>						
Carlsbad and Vallecitos Water Districts Desalinated Water Purchases	6,000	6,000	12,000	19,880,037	20,807,406	40,687,443
<b>Subtotal MWD Pass-throughs</b>				<b>\$ 38,969,612</b>	<b>\$ 40,193,256</b>	<b>\$ 79,162,867</b>
<b>Adjustments</b>						
Reclamation Credits MWD	5,036	2,764	7,800	(1,032,814)	(594,260)	(1,627,074)
SDG&E Pumping Costs	0	0	0	250,000	260,000	510,000
Other				2,100,000	2,100,000	4,200,000
<b>Subtotal Adjustments</b>				<b>\$ 1,317,187</b>	<b>\$ 1,765,740</b>	<b>\$ 3,082,927</b>
<b>TOTAL WATER SALES</b>				<b>\$ 719,607,699</b>	<b>\$ 750,783,631</b>	<b>\$ 1,470,391,330</b>

Totals may not foot due to rounding.

Water Purchases and Treatment (cost of sales) includes water purchases from MWD, Imperial Irrigation District, and the Claude “Bud” Lewis Carlsbad Desalination Plant; the cost to treat water, whether through the Water Authority’s treatment facilities or one of the member agency’s facilities, and other adjustments. There are no planned purchases for dry-year transfers or groundwater storage.

**Table 4b: Draft Recommended Water Sales and Purchases**

	Volume (AF)			Dollars		
	FY 2024	FY2025	Total	FY 2024	FY 2025	Total
<b>Metropolitan Water District (MWD)</b>						
Full Service Untreated Water	41,807	21,173	62,980	35,744,985	19,119,378	54,864,363
Untreated Permanent (PSAWR)	22,520	22,491	45,011	19,625,307	20,840,678	40,465,985
RTS				11,204,515	10,632,710	21,837,224
Capacity Charge				7,885,060	8,753,140	16,638,200
<b>Subtotal MWD</b>	<b>64,327</b>	<b>43,664</b>	<b>107,991</b>	<b>\$74,459,866</b>	<b>\$59,345,906</b>	<b>\$133,805,772</b>
<b>Quantification Settlement Agreement (QSA)</b>						
Imperial Irrigation District (IID)	200,000	200,000	400,000	153,992,577	159,501,625	313,494,202
All-American and Coachella Canals	77,700	77,700	155,400	1,548,561	1,765,733	3,314,294
MWD Wheeling Costs for QSA Transfers	277,700	277,700	555,400	152,725,325	163,000,225	315,725,550
<b>Subtotal QSA</b>	<b>277,700</b>	<b>277,700</b>	<b>555,400</b>	<b>\$308,266,463</b>	<b>\$324,267,582</b>	<b>\$632,534,045</b>
<b>Carlsbad Desalination</b>						
Supply Costs	43,000	42,000	85,000	117,831,061	125,090,361	242,921,422
Direct Purchase for Carlsbad and Vallecitos Water Districts	6,000	6,000	12,000	19,880,037	20,807,406	40,687,443
<b>Subtotal Desalination Supply</b>	<b>49,000</b>	<b>48,000</b>	<b>97,000</b>	<b>\$137,711,098</b>	<b>\$145,897,767</b>	<b>\$283,608,865</b>
<b>Treatment</b>						
Metropolitan Water District (MWD)	59,614	60,469	120,083	21,089,205	21,772,937	42,862,142
San Diego County Water Authority	24,861	25,953	50,814	9,922,122	10,472,655	20,394,777
Helix	16,236	15,085	31,321	2,510,515	2,585,830	5,096,345
Carlsbad Desalination	43,000	42,000	85,000	16,310,000	15,855,000	32,165,000
<b>Subtotal Treatment</b>	<b>143,711</b>	<b>143,507</b>	<b>287,219</b>	<b>\$49,831,842</b>	<b>\$50,686,422</b>	<b>\$100,518,265</b>
<b>Adjustments</b>						
Annual Storage Charge				560,505	585,852	1,146,357
Reclamation Credits SDCWA	9,199	9,199	18,398	1,320,584	1,183,331	2,503,915
Reclamation Credits MWD	5,036	2,764	7,800	(1,032,814)	(594,260)	(1,627,074)
Evaporation & Seepage	12,600	12,600	25,200	11,075,400	11,812,500	22,887,900
SDG&E Pumping Costs				250,000	260,000	510,000
Below 10% MWD charges	145	145	290	178,713	189,080	367,793
Other				2,016,164	3,217,069	5,233,233
<b>Subtotal Adjustments</b>				<b>\$14,368,552</b>	<b>\$16,653,572</b>	<b>\$31,022,123</b>
<b>TOTAL WATER PURCHASES &amp; TREATMENT</b>				<b>\$584,637,821</b>	<b>\$596,851,249</b>	<b>\$1,181,489,070</b>
<b>Net Water Sales</b>				<b>\$134,969,878</b>	<b>\$153,932,383</b>	<b>\$288,902,260</b>

Totals may not foot due to rounding.

## Sources of Funds

### Water Sales Revenue

Water Sales revenue is the largest source of revenue for the Water Authority, accounting for 79% of total revenues for the draft recommended budget for Fiscal Years 2024 and 2025. Water Sales include: the Customer Service Charge, Storage Charge, Metropolitan Water District (MWD) Readiness-To-Serve Charge, MWD Capacity Charge, the 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 draft recommended budget for Water Sales is \$1.5 billion, reflecting a \$119 million, or 9%, increase from the prior two-year budget period.

The primary drivers of Water Sales are the volumes of water the Water Authority expects to sell (projected water demands) and the pass-through of MWD's rates and charges, Quantification Settlement Agreement (QSA), and desalinated water purchases. The projected water demands for this multi-year draft recommended budget period are based upon the updated demand forecast, available local supplies, current economic conditions, and planned operational changed-condition events.

### Infrastructure Access Charges

The Infrastructure Access Charge (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 allocated based on all retail water meters within the Water Authority's service area. The IAC shall be set at an amount which, when added to the Water Standby Availability, Property Tax and In-Lieu revenues, will provide funding for at least 25% of the Water Authority's estimated fixed annual costs. Fixed costs include, but are not limited to, annual debt service payments, Pay-As-You-GO (PAYGO) capital, and 80% of annual Operations and Maintenance (O&M) expenditures. The IAC's fixed revenues are not prone to volatility in water sales and provide baseline revenue. The IAC revenues have the added benefit of enabling greater flexibility in using reserves as potential revenue shortfalls are limited.

The IAC revenue draft recommended budget for Fiscal Years 2024 and 2025 is \$99.7 million, an increase of \$5.0 million, or 5%. This change in revenue reflects the change in the monthly per meter equivalent (ME) charge from \$4.24 for Calendar Year 2023 and \$4.32 in Calendar Year 2024 and includes a slight increase in the total number of MEs to which the charge is applied.

### Property Taxes and In-Lieu Charges

The Water Authority is authorized under the County Water Authority Act (Act) to levy taxes on all taxable property within its boundaries for the purpose of carrying on its operations and paying its obligations, subject to certain limitations in the Act, the Revenue and Taxation Code, and the California Constitution.

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, the Water Authority collects an In-Lieu Charge from the City of San Diego. Revenue from Property Tax and In-Lieu Charges is estimated to be \$37.9 million reflecting a 9% growth rate over estimated receipts in Fiscal Years 2022 and 2023.

### Investment Income

The Water Authority receives revenue from investing its cash balances. Investment Income received on the cash balances in the Operating Fund, Rate Stabilization Fund, and Debt Service Reserve Fund is available for general Water Authority operating expenditures. Investment Income received in the PAYGO Fund is restricted to pay for capital expenditures or debt service. Similarly, investment income received for the Construction Fund is used for construction expenditures.

The Investment Income is estimated to be \$16.2 million, an increase of \$3.5 million, or 28%, from the previous two-year budget. Primarily, the increase is due to the rising interest rate environment. The Federal Reserve hiked interest rates throughout 2022 and continues into 2023 to combat inflation and promote economic growth. As a result of Fed tightening, interest rates have risen sharply to the highest yield levels in over a decade. At this point, the increases in investment income are offsetting the increases to debt service.

### Hydroelectric Revenue

The Water Authority owns and operates the 4.5-megawatt (MW) Rancho Peñasquitos Hydro-generation and Pressure Control Facility (Rancho Hydro), and the 40 MW Lake Hodges Pumped Storage Facility (Hodges Hydro). The Water Authority's Hydroelectric Revenue for Fiscal Years 2024 and 2025 is expected to decrease significantly. The Water Authority has an agreement to operate the Hodges Hydro in coordination with San Diego Gas and Electric (SDG&E) and receives revenue based on facility availability. Currently the Hodges Hydro facility is non-operational due to water level restrictions by the Division of Safety of Dams, which are insufficient to operate the facility, resulting in the loss of all hydroelectric revenues from the facility.

The Rancho Hydro facility is a source of clean energy for San Diego and offsets energy costs at the Claude "Bud" Lewis Desalination Plant through SDG&E's Renewable Energy Self-Generation Bill Credit Transfer (RES-BCT) Program tariff. The generation credit is shown on the Desalination Plant's SDG&E monthly bills. As alternative revenue options become apparent, the Rancho Hydro revenue reporting structure may be revised in the future.

### Grant Reimbursements

The Water Authority has actively pursued and been successful at obtaining grant funding to leverage ratepayer investments in its programs and services. Grant Reimbursements include funds from various sources including State grant programs, local project sponsors, and may contain pass-through funding for other government agencies and/or non-profit organizations. The draft recommended 2024 and 2025 budget is \$37.2 million, an increase of \$8.7 million, or 30%, from the previous two-year budget. More reimbursements are expected this fiscal year as project implementation is forecasted to ramp-up in the next two years and several grant programs are expected to be completed. This budget also includes funding for the second implementation round of the Proposition 1 Grant Program.

### Build America Bonds Subsidy

The Build America Bonds Subsidy represents the subsidy from the U.S. Treasury for the Build America Bonds, which is projected to be \$21.3 million for the upcoming two-year budget, unchanged from the estimated receipts in Fiscal Years 2022 and 2023. The sequestration by the Federal Government was reduced to 5.7% on October 1, 2020, and is scheduled to remain at this level through September 2030.

## Other Income

The Other Income draft recommended budget for Fiscal Years 2024 and 2025 is \$1.0 million. The Water Authority may receive income from annexations, easements, gains/losses on the sale of assets, delinquency fees, and plan-check reimbursements. The Fiscal Years 2022 and 2023 estimates for Other Income includes the receipt of the \$50.9 million from successful rate case litigation against Metropolitan Water District in addition to \$44.3 million received in Fiscal Years 2020 and 2021. In total, \$90.0 million was distributed to member agencies at the direction of the Board over the past few years.

## Capital Contributions

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. Capital Contributions are made up of Capacity Charges (System and Treatment), Water Standby Availability Charges, and Contributions in Aid of CIP (CIAC).

### Capacity Charges

Capacity Charges include System Capacity Charges and Treatment Capacity Charges. For the draft recommended budget for Fiscal Years 2024 and 2025, the System and Treatment Capacity Charges revenues is \$35.9 million, which reflects an increase of 5%, over the previous two-year budget. Between comprehensive reviews, last performed in 2018, the Water Authority Board approved a recommendation to adjust the System and Treatment Capacity Charges annually to reflect the Engineering News Record Construction Cost Index.

- 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.

### 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. The Water Standby Availability Charges revenue for the draft recommended budget for Fiscal Years 2024 and 2025 is \$22.4 million. This revenue source remains steady due to the nature of the charge.

### Contributions in Aid of CIP (CIAC)

This revenue source 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. For the draft recommended budget for Fiscal Years 2024 and 2025, the CIAC revenues are \$95,410.

### Net Fund Withdraws

Net Fund Withdraws provides another source of funds for the Water Authority. The primary source of fund withdraws is bond proceeds to provide funding for CIP projects, other capital restricted monies from the PAYGO Fund, and purchases of water to be stored in the San Vicente Reservoir. For the draft recommended Fiscal Years 2024 and 2025 budget, fund withdraws are projected to be \$111.1 million, an increase of 22% primarily due to the overall increase in expenditures.



## Uses of Funds

### 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 (LWSD), and Local Resources Program (LRP) are applied against the cost of water purchased. The primary components of the Water Purchases and Treatment budget are broken down as follows: MWD supplies and Quantification Settlement Agreement (QSA) supplies, Carlsbad Desalination, and Treatment.

The Water Authority purchases supplies from MWD and includes the variable costs for full-service untreated water and MWD's fixed costs for Readiness-to-Serve (RTS) and Capacity Charges. The Water Authority is budgeting significantly less for supplies from MWD as a result of water supplies from the Claude "Bud" Lewis Carlsbad Desalination Plant and increased water transfer deliveries from the Imperial Irrigation District (IID).

The 2003 QSA provides for the large-scale water transfer between IID and the Water Authority, and enabled the lining of portions of the All-American and Coachella Canals. Based on the terms of the take-or-pay water transfer contract, if water is conserved, the Water Authority was required to purchase 202,500 acre-feet from IID in Calendar Year 2022 and is required to purchase 200,000 acre-feet in Calendar Year 2023. The Water Authority is also entitled to approximately 80,000 acre-feet annually as a result of the canal lining projects. These volumes are an increase from Calendar Years 2020 and 2021; the annual transfer volume will remain at 200,000 acre-feet per year for the remainder of the agreement.

The Claude "Bud" Lewis Carlsbad Desalination Plant began commercial operations in December 2015. Approved by the Board in November 2012, the Water Purchase Agreement (WPA) sets forth the price of water dependent on how much is purchased annually:

- The first 48,000 acre-feet of water purchased each year will pay the fixed costs of the project and the variable costs of water production.
- The Water Authority has the option to purchase an additional 8,000 acre-feet per year at a lower rate that reflects only the variable costs of incremental water production.

Carlsbad Municipal Water District and Vallecitos Water District have contracted with the Water Authority to purchase 6,000 acre-feet of the Water Authority's minimum annual demand commitment to Poseidon Water of 48,000 acre-feet at full cost recovery to the Water Authority. If the Water Authority purchases the additional 8,000 acre-feet, Carlsbad Municipal Water District and Vallecitos Water District will be eligible to purchase up to 1,000 acre-feet per year between the two agencies at the lower rate reflecting the variable costs of incremental water.

The Water Authority incurs costs to purchase treated water directly from MWD and costs for treating water at Twin Oaks Valley Water Treatment Plant (Water Authority owned facility) or the Levy Plant (Helix Water District owned facility). In addition, as approved by the Board, the incidental treatment benefit is assigned as a treatment cost at the existing Water Authority melded treatment rate. This results from the fact that the desalinated water produced at the Claude "Bud" Lewis Carlsbad Desalination Plant meets all state and federal drinking water regulations.

Water Purchases and Treatment draft recommended budget for Fiscal Years 2024 and 2025 is \$1.2 billion, representing \$133.8 million for supplies from MWD, \$632.5 million for QSA water, \$283.6 million for Carlsbad Desalination Plant water, \$100.5 million for treatment, and \$31.0 million for other adjustments. The increase of \$64.4 million, or 6%, reflects the increased costs of transporting QSA water, purchasing desalinated water, and treatment.

### Debt Service

The Water Authority uses debt to fund improvements to existing facilities and new CIP projects, or to refund previous debt (long-term debt only). The draft recommended budget for Fiscal Years 2024 and 2025 is \$306.1 million, an increase of 18%. During the COVID-19 pandemic, the Water Authority took advantage of favorable market conditions to refund and restructure outstanding debt. At the direction of the Board, the savings realized from the refundings were primarily applied to calendar years 2022 and 2023 therefore eliminating the application of any debt service savings during this budget cycle. Debt service is expected to remain at elevated levels through Fiscal Year 2034 before dropping by \$30 million in 2035 and another \$40 million in Fiscal Year 2039. Table 5 identifies the principal and interest payments for short-term and long-term debt, in addition to the fees associated with debt service.

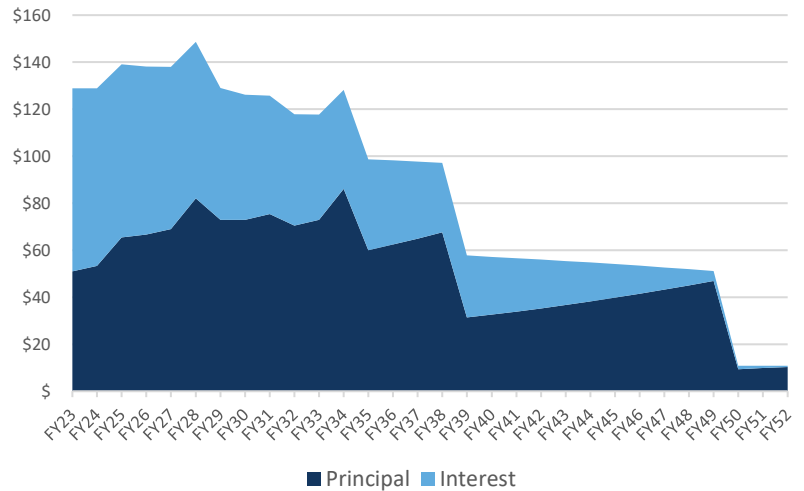
**Table 5: Water Authority Debt Service (\$ Thousands)**

	<b>FYs 22&amp;23 Amended</b>	<b>FYs 24&amp;25 Draft Recommended</b>	<b>Variance Budget to Budget</b>	
<b>Long-term Debt Service</b>				
<b>Water Revenue Certificates of Participation</b>				
Series 1998A	\$ 1,110	\$ 1,110	\$ -	-
Series 2005	7,446	-	(7,446)	-100%
<b>Water Revenue Bonds</b>				
Series 2010B	64,588	66,323	1,735	3%
Series 2013A	18,732	-	(18,732)	-100%
Series 2015A	54,100	59,093	4,994	9%
Series 2016B	1,786	1,787	1	0%
Series 2020A	8,010	50,964	42,954	536%
Series 2021A	26,135	29,301	3,166	12%
Series 2021B	23,162	23,098	(64)	0%
Series 2022A	12,361	21,667	9,306	75%
<b>Subtotal</b>	<b>\$ 217,429</b>	<b>\$ 253,342</b>	<b>\$ 35,913</b>	<b>17%</b>
<b>Water Furnishing Revenue Bonds</b>				
Series 2019 <sup>1</sup>	\$ 20,146	\$ 21,132	\$ 986	5%
<b>Subtotal</b>	<b>\$ 20,146</b>	<b>\$ 21,132</b>	<b>\$ 986</b>	<b>5%</b>
<b>Short-term Debt Service</b>				
Commercial Paper (Series 9 and 10)	\$ 5,828	\$ 15,313	\$ 9,485	163%
Subordinate Lien Bond, Series 2021S-1	15,158	14,649	(509)	-3%
Fees on Debt	1,683	1,617	(66)	-4%
<b>Subtotal</b>	<b>\$ 22,669</b>	<b>\$ 31,579</b>	<b>\$ 8,910</b>	<b>39%</b>
<b>TOTAL</b>	<b>\$ 260,244</b>	<b>\$ 306,053</b>	<b>\$ 45,809</b>	<b>18%</b>

1. The Water Furnishing Revenue Desalination Pipeline Bonds Series 2019 are subordinate to the pledge of Net Water Revenues for payment of Water Revenue Bonds and Certificates of Participation, Contracts, Reimbursement Obligations and Subordinate Obligations.

The Water Authority’s draft recommendation for Fiscal Years 2024 and 2025 includes the obligation for senior lien debt service of \$268 million. Current debt service expenditures include outstanding payments on Certificates of Participation (COPs) issuances, Water Revenue Refunding Bonds issuances, Build America Bonds (BABs) issuance, Subordinate Lien Water Revenue Refunding Bonds issuance, and Subordinate Water Furnishing Revenue Desalination Pipeline Bonds. Figure 3 depicts the existing short-term and long-term debt payments for the Water Authority, which are projected to decrease starting in Fiscal Year 2029.

Figure 3: Debt Service Payment Schedule



Long-term debt service expenditures include outstanding payments on Water Revenue COPs issuance, Series 1998A, Water Revenue Refunding Bonds issuances, Series 2015A, Series 2016B, Series 2020A, Series 2021A, Series 2021B, Water Revenue Bond, Series 2022A, and Build America Bonds (BABs) issuance, Series 2010B. Table 6, on the next page, provides a breakdown of principal and interest payments on the long-term debt service payments by fiscal year.

### Quantification Settlement Agreement Mitigation

This category reflects scheduled payments to the QSA Joint Powers Agreement (JPA) for environmental mitigation pursuant to the QSA JPA Creation and Funding Agreement and expenses for the Lower Colorado River Multi-Species Conservation Program. The draft recommended budget for Fiscal Years 2024 and 2025 is \$4.5 million, which reflects a 24% decrease from Fiscal Years 2022 and 2023, largely due to the planned ending of mitigation payments per the agreement. The Water Authority plans to pre-pay the final payments in Fiscal Year 2024.

**Table 6: Debt Service on Existing Long-Term Debt<sup>1</sup>**

<b>Fiscal Year</b>	<b>Total Principal</b>	<b>Total Interest</b>	<b>Total Debt Service</b>
2023	50,945,000	77,918,366	128,865,389
2024	53,340,000	75,521,566	128,861,566
2025	65,425,000	73,704,521	139,129,521
2026	66,695,000	71,483,524	138,178,524
2027	68,950,000	69,098,076	138,048,076
2028 <sup>2</sup>	82,085,000	66,555,774	148,640,774
2029	72,920,000	56,028,396	128,948,396
2030	72,855,000	53,238,349	126,093,349
2031	75,375,000	50,434,986	125,809,986
2032	70,405,000	47,470,655	117,875,655
2033	72,945,000	44,701,700	117,646,700
2034	86,070,000	42,079,715	128,149,715
2035	59,945,000	38,724,086	98,669,086
2036	62,385,000	35,809,688	98,194,688
2037	64,935,000	32,776,582	97,711,582
2038	67,570,000	29,619,464	97,189,464
2039	31,355,000	26,388,899	57,743,899
2040	32,605,000	24,585,874	57,190,874
2041	33,915,000	22,710,935	56,625,935
2042	35,265,000	20,760,720	56,025,720
2043	36,670,000	18,732,879	55,402,879
2044	38,205,000	16,557,751	54,762,751
2045	39,795,000	14,292,218	54,087,218
2046	41,460,000	11,933,016	53,393,016
2047	43,195,000	9,475,827	52,670,827
2048	45,000,000	6,916,526	51,916,526
2049	46,880,000	4,251,042	51,131,042
2050	9,360,000	1,475,000	10,835,000
2051	9,825,000	1,007,000	10,832,000
2052	10,315,000	515,750	10,830,750
	<b>\$ 1,546,690,000</b>	<b>\$ 1,044,768,886</b>	<b>\$ 2,591,460,909</b>

1. Excludes the Series 2019 Desalination Pipeline Bonds, which are held by Poseidon Water.

2. Assumes \$146,490,000 in principal related to the Series 2021S-1 in Fiscal Year 2028 will be refunded with short-term debt.

## Operating Departments

The Operating Departments budget funds the day-to-day operations of the Water Authority and makes up 7% of the Water Authority’s total expenditures. The draft recommended budget for Fiscal Years 2024 and 2025 of \$127.8 million reflects an increase of \$3.0 million or 2%. The draft recommended budget includes the addition of 8.0 full-time equivalent (FTE) positions and the elimination of 1.0 FTE. Non-personnel costs in the Operating Departments have increased by \$1.1 million, or 2%. Table 7 communicates the breakdown of the draft recommended budget by expenditure type and compares it to the previous two-year budget period. Figure 4 depicts this information graphically.

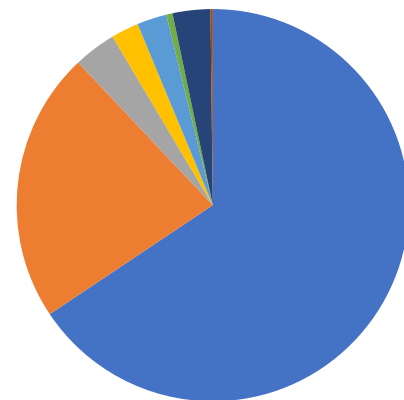
**Table 7: Draft Recommended Operating Budget by Expenditure Type**

	FYs 22&23 Amended	FYs 22&23 Estimate	FYs 24&25 Draft Recommended	Variance Draft to Budget	Variance Draft to Estimate
Labor	\$67,725,964	\$61,298,673	70,084,704	2,358,740	3%
Benefits	37,614,621	32,241,858	40,794,406	3,179,785	8%
<b>Labor &amp; Benefits Total</b>	<b>105,340,585</b>	<b>\$93,540,531</b>	<b>\$110,879,110</b>	<b>5,538,525</b>	<b>5%</b>
Direct Charges to CIP/Grants	(18,231,960)	(12,593,666)	(20,496,929)	(2,264,969)	12%
<b>Operating Labor &amp; Benefits</b>	<b>\$87,108,625</b>	<b>\$80,946,865</b>	<b>\$90,382,181</b>	<b>3,273,556</b>	<b>4%</b>
Services	32,849,980	29,368,946	30,764,792	(2,085,188)	-6%
Supplies	3,727,699	3,883,453	4,815,063	1,087,364	29%
Utilities	3,071,403	2,872,373	3,140,990	69,587	2%
Insurance	2,380,656	2,576,642	3,364,931	984,275	41%
Lease/Rents	763,875	561,117	714,594	(49,281)	-6%
Other	3,158,321	3,056,422	4,283,324	1,125,003	36%
Fixed Assets	322,722	321,898	262,000	(60,722)	-19%
<b>Non Personnel Total</b>	<b>\$46,274,656</b>	<b>\$42,640,851</b>	<b>\$47,345,694</b>	<b>1,071,038</b>	<b>2%</b>
<b>Total</b>	<b>133,383,281</b>	<b>123,587,716</b>	<b>137,727,875</b>	<b>4,344,594</b>	<b>3%</b>
Capitalized Overhead	(8,623,145)	(8,542,564)	(9,960,205)	(1,337,060)	16%
<b>GRAND TOTAL</b>	<b>\$124,760,136</b>	<b>\$115,045,152</b>	<b>\$127,767,670</b>	<b>\$3,007,534</b>	<b>2%</b>

Totals may not foot due to rounding.

*Figure 4: Operating Departments Budget by Expenditure Type (excluding capitalized overhead) (\$ Thousands)*

Operating Labor & Benefits	\$90,382	66%
Services	\$30,765	22%
Supplies	\$4,815	3%
Utilities	\$3,141	2%
Insurance	\$3,365	2%
Leases & Rent	\$715	1%
Other	\$4,283	3%
Fixed Asset	\$262	<1%
<b>\$ 137,728</b>		



*Labor and Benefits*

The draft recommend two-year budget for Labor and Benefits will increase by approximately 5% overall in comparison with the previous budget period. This includes the proposed addition of 8.0 full-time equivalent (FTE) positions and the elimination of an existing FTE beginning in Fiscal Year 2024.

In total, Labor and Benefits are projected to be \$110.9 million, an increase of \$5.5 million in comparison with the prior two-year budget. 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. Of the total draft recommended budget for Labor and Benefits for Operating Departments is \$90.4 million, or 82%, of the overall labor and benefits and \$20.5 million, or 18%, will be directly charged to CIP or grants.

In accordance with the memoranda of understanding, the draft recommended budget for Labor reflects the full CPI-U (less medical) increases for Fiscal Years 2022 and 2023. The cost impact of estimated increases for Fiscal Years 2024 and 2025 salaries is included in the overall Water Authority draft recommended budget. Department budgets may be amended at mid-term based on actual CPI-U (less medical).

<b>Table 8: Draft Distribution of Labor and Benefits by Fund</b>							
	<b>FYs 22&amp;23 Amended</b>	<b>FYs 22&amp;23 Estimate</b>	<b>FYs 24&amp;25 Draft Recommended</b>	<b>Variance Draft to Budget</b>		<b>Variance Draft to Estimate</b>	
Operating	\$87,108,626	\$80,946,865	\$90,382,181	\$3,273,555	4%	\$9,435,316	12%
Direct Charges to CIP/Grants	18,231,960	12,593,666	20,496,929	2,264,969	12%	7,903,263	63%
<b>Total</b>	<b>\$105,340,586</b>	<b>\$93,540,351</b>	<b>\$110,879,110</b>	<b>\$5,538,524</b>	<b>5%</b>	<b>\$17,338,759</b>	<b>19%</b>

Table 9 below shows the average distribution of full-time equivalent positions by fund.

<b>Table 9: Average Distribution of Full-Time Equivalents by Fund</b>			
	<b>FYs 22&amp;23 Amended</b>	<b>FYs 24&amp;25 Draft Recommended</b>	<b>Variance</b>
Operating	203.0	210.9	7.9
Direct Charges to CIP/Grants	47.5	49.6	2.1
<b>Total</b>	<b>250.5</b>	<b>260.5</b>	<b>10.0</b>

*Addition of 8.00 Full-Time Equivalents:*

The draft recommended budget includes the recommendation to add 8.00 FTE positions and eliminate an existing FTE effective Fiscal Year 2024. These positions are outlined below.

- Asset Management Specialist I (1.00 FTE): Reinstatement of this position will reduce the existing workflow shortfall of approximately 2,196 hours per year and support effective delivery of core team functions.
- Engineer I/II, Project Scheduler I/II, and Senior Manager (3.00 FTEs): To better align with organizational goals/priorities and effectively execute the CIP. These positions will be primarily funded by the CIP.
- SCADA Technician (1.00 FTE): The growing number of new and re-engineered facilities continues to increase the complexity of the SCADA system.

- Maintenance Worker I/II (2.00 FTEs): Reinstatement of these positions will provide for increased unscheduled maintenance due to aging infrastructure and reduce the existing workflow shortfall of approximately 6,306 hours per year and support the ability to effectively perform core department functions.
- Water Resources Specialist (Environmental) (1.00 FTE): To better align with organizational goals and priorities, eliminate one Senior Office Assistant position and add one Limited Duration Employee (LDE) Water Resources Specialist position to support the environmental group with CIP projects. The term of the new LDE position will be for three years and primarily funded by CIP.

FTEs are based on the percentage of a fiscal year (represented by 2,080 working hours) the position will be funded.

Table 10 below shows the budgeted FTEs from Fiscal Year 2016 to 2023 along with the draft recommendations for Fiscal Years 2024 and 2025. In Fiscal Year 2023, the Board of Directors authorized the reinstatement of one position and the addition of 2.00 regular FTEs and 1.00 limited duration FTE, for a total of 4.00 FTEs. Three positions were for implementation and ongoing maintenance of financial third-party reviews, one LDE was added for the implementation and administration of the approved Project Labor Agreement.

**Table 10: Draft Budgeted Full-Time Equivalents**

	FY 16	FY 17	FY 18*	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25
Regular Employees	247.40	247.40	254.50	254.50	255.50	255.50	248.50	251.50	257.50	257.50
Limited Duration Employees (LDE)	1.00	1.00	1.00	1.00	1.00	1.00	1.00	2.00	3.00	3.00
<b>Total</b>	<b>248.40</b>	<b>248.40</b>	<b>255.50</b>	<b>255.50</b>	<b>256.50</b>	<b>256.50</b>	<b>249.50</b>	<b>253.50</b>	<b>260.50</b>	<b>260.50</b>

Difference from Prior Fiscal Year

Cumulative Change from FY 16

\*In Fiscal Year 2018 one Management Analyst LDE was reclassified to a regular Management Analyst and one Management Analyst LDE was added. In addition, 6.00 FTEs were added to Operations and Maintenance for system security and operations.

### Services

Services expenditures include professional, technical, legal, and financial services. The Services line-item draft recommended budget is \$30.8 million, or 22%, of the Operating Departments excluding capitalized overhead. Expenditures for Services are expected to decrease by \$2.1 million, or 6%, primarily due to a decrease in legal services. Services includes new contracts to support updating the State mandate planning documents including the Urban Water Management Plan (UWMP), the Water Shortage Contingency Plan, as well as outreach with Mexico on Colorado River issues.

### Supplies

Supplies expenditures include necessary supplies, fuel, and minor equipment for operating and maintaining our facilities. The Supplies category is \$4.8 million, or 3%, of the Operating Departments excluding capitalized overhead. This \$1.1 million increase is due to increased costs related to supply chain issues, inflationary pressures, and increased fuel costs.

### *Utilities*

Utilities expenditures include costs for gas, electricity, water, sewer, and telephone charges. The Utilities category is \$3.1 million, or 2%, of the Operating Departments budget excluding capitalized overhead. It is anticipated that Utilities will increase slightly by \$69,587, or 2%, in the upcoming period. Gas and electricity costs are expected to increase; however, these projected increases are offset by decreases in other areas of the Utilities expenditures.

### *Insurance*

Insurance expenditures include premium costs associated with property and workers' compensation insurance, as well as costs incurred for unemployment claims. The Insurance category is \$3.4 million, or 2%, of the Operating Departments excluding capitalized overhead. In comparison with the previous two-year budget period, Insurance is projecting an increase of \$1.0 million or 41%. This increase reflects predicted increases in premiums for the Water Authority's package of property, liability, and workers' compensation coverage due to extreme volatility currently being seen across California, in addition to inflationary pressures.

### *Leases and Rent*

Leases and Rent expenditures include office, facility, and equipment rentals. The Leases and Rent category is \$714,594, or less than 1%, of the Operating Departments excluding capitalized overhead. Expenditures for Leases and Rent are expected to decrease by \$49,281, or 6%, primarily associated with reductions in facility leases and equipment rentals.

### *Other*

Other expenditures include costs for travel, training, memberships, sponsorships, permits, and licenses. This expenditure category is \$4.3 million, or 3%, of the Operating Departments excluding capitalized overhead. Overall, there is \$1.1 million, or 36%, increase from the prior two-year budget which is primarily due to increased costs for travel, training, and membership expenses. The main driver for this increase is related to increased training and travel after a two-year hiatus of typical spending due to the COVID-19 pandemic.

### *Fixed Asset*

Fixed Asset expenditures include the purchase of assets, not associated with the CIP. These expenses are one-time in nature. The Water Authority is projecting a decrease of \$60,722, or 19%, compared to the prior two-year period. Fixed Asset purchases in Fiscal Years 2022 and 2023 included large expenses for telemeter/aqueduct control equipment and building improvements.

### **Equipment Replacement**

In conjunction with the Water Authority's budget development process, departments evaluate and recommend 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). The Equipment Replacement Fund (ERF) program focuses on long-range planning for equipment replacement, helps moderate the fund balance, and smooths the impact of replacing expensive equipment such as vehicles or software. The draft recommended two-year budget for ERF of \$9.6 million is a \$4.9 million increase from the previous budget period and includes updates to the Supervisory Control and Data Acquisition (SCADA) system, computers and servers, and critical vehicle and equipment replacements. The increase in expenditures for



Fiscal Years 2024 and 2025 includes \$1.5 million that was budgeted in Fiscal Year 2023 and is being carried forward for the purchase of two valve service trucks and two welding trucks that have been backordered due to supply chain issues. Additionally, 13 vehicles, totaling \$995,000 are being recommended for early replacement in Fiscal Year 2025 to ensure proper replacements are available. Other increased costs are related to planned software for the Water Authority's Document Management (OnBase) and Asset Management (Maximo) programs, and asset replacement costs including the replacement for a 22-year-old hydraulic excavator.

### Grant Expenditures

Grant Expenditures include expenses from the Integrated Regional Water Management (IRWM) Program, United States Bureau of Reclamation (USBR), MWD Member Agency Administered Program (MAAP), and the County of San Diego. The recommended draft budget encompasses expenses for regional programs for over 30 multi-benefit projects sponsored by the Water Authority, its member agencies, non-profit organizations, and tribal partners funded under various state grants through the IRWM Program. This includes projects supported by funds from Proposition 84, the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Act (2006), Proposition 1, the Water Quality, Supply, and Infrastructure Improvement Act (2014) and the State of California Budget Act of 2021 Urban and Multi Benefit Drought Relief. The draft recommended budget also includes expenses for Water Authority regional water-use efficiency programs that will be reimbursed by USBR, MWD, and the County of San Diego.

### Other Expenditures

Other Expenditures include all miscellaneous expenditures that are not reflected in the above expenditure categories. The draft recommended budget for Fiscal Years 2024 and 2025 is \$2.2 million, or a 96% decrease from Fiscal Years 2022 and 2023. The draft budget is significantly lower than Fiscal Years 2022 and 2023 due to funds distributed to the member agencies in Fiscal Years 2022 and 2023 as the result of successful rate case litigation against Metropolitan Water District.

## Capital Improvement Program

The Water Authority has a long history of planning and executing large and complex capital projects. The 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 the results of continuous system analyses (including acoustic fiber optic information, code changes (safety), seismic analyses, hydraulics (flow changes/damaging conditions), age, service life, and physical inspections) and responding to requests from member agencies. This close monitoring of the CIP and assets enables the Water Authority to base its Five-Year Forecast and its LRFP on timely and accurate data. The principal drivers of the current CIP program are the Regional Water Facilities Master Plan, Asset Management, and Energy Initiatives. The Water Authority's draft recommended CIP appropriation for Fiscal Years 2024 and 2025 is \$185.6 million.

### Regional Water Facilities Master Plan

In June 1997, the Board approved a Regional Water Facilities Master Plan (Master Plan) project. The purpose of this project was to assess future water demands and supplies through the year 2030 and recommend the best facilities' solution to meet the region's needs. The Master Plan is reviewed and updated on a regular basis. As part of the 2013 Master Plan Update, the Water Authority conducted a comprehensive evaluation of future infrastructure needs based on a plausible range of projected supplies and demands through 2035. Over the next few years, staff will continue working to complete construction of projects identified in the 2013 Master Plan update.

A new 2023 Facilities Master Plan is being prepared and will identify system optimization opportunities, review seismic preparedness and resilience, and account for changing conditions such as climate change, lower aqueduct flows, and water quality challenges. The 2023 Facilities Master Plan is anticipated to be presented to the Board in 2024 and will likely impact the current five-year forecast for the CIP.

### Asset Management

Replacing and/or rehabilitating the Water Authority's existing aging assets will drive the majority of CIP spending for the foreseeable future. The Asset Management Program is comprised of several projects, the largest of which are Infrastructure Rehabilitation and the Relining and Pipe Replacement Program. Not only is risk considered, but asset repair, replacement, and rehabilitation projects are also defined and prioritized considering available resources, economic factors, customer rate and delivery impacts, timing, and other issues.

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 work on them due to changes in the operation of our system or are at risk of failure due to seismic or some other issue. As part of the Asset Management Program, detailed seismic and hydraulic/cavitation analyses of several flow control facilities will be performed in addition to routine condition inspections, with a view to maximizing the lifespan of facilities while optimizing resources. In addition, comprehensive pipeline condition assessments will be conducted to ensure work is being 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.

**Table 11: Draft CIP Project Summary Table (\$ Thousands)**

Project Name	FYs 22&23 Amended Multiyear Plan	FYs 24&25 Draft Multiyear Plan	Variance Draft-Amended	Multiyear Expenditures through 6/30/22	FY 23 Estimated	FY 24 Draft Projections	FY25 Draft Projections	FY 26 Draft Projections	FY 27 Draft Projections	FY 28 Draft Projections	Beyond FY 29 Draft Projections
<b>Asset Management</b>											
Abandonment of the La Mesa Sweetwater Extension to Sweetwater	4,180	4,180	0	133	0	0	0	0	0	0	4,047
Aqueduct Communication System	4,337	4,337	0	144	0	0	0	0	0	1,305	2,888
Additional Aqueduct Right of Way Width	5,787	5,787	0	5,129	0	0	0	0	0	0	658
Facilities Improvement and Equipment Replacement	15,852	35,852	20,000	286	1,001	2,659	4,038	2,658	3,982	740	20,489
Infrastructure Rehabilitation	455,295	455,295	0	36,382	39,615	28,229	38,167	46,493	44,731	39,654	182,023
Lake Hodges Dam Rehabilitation/Replacement	138,220	138,220	0	136	407	1,843	1,405	3,025	2,778	2,786	125,840
Lake Hodges Hydroelectric Facility's Downstream Piping System	2,000	2,000	0	0	500	1,500	0	0	0	0	0
Line Road Improvements	888	888	0	183	65	149	145	0	0	0	347
Operations and Maintenance Department Facility	35,000	60,000	25,000	78	143	12,000	0	1,500	1,500	22,443	22,336
Relining and Pipe Replacement Program	455,319	455,319	0	7,126	23,756	4,750	78,271	30,737	60,818	28,340	221,521
Second Aqueduct Diversion Complex Improvements	12,324	21,324	9,000	0	0	915	1,362	11,424	5,776	414	1,432
<b>Total Asset Management</b>	<b>1,129,203</b>	<b>1,183,203</b>	<b>54,000</b>	<b>49,598</b>	<b>65,487</b>	<b>52,046</b>	<b>123,388</b>	<b>95,838</b>	<b>119,585</b>	<b>95,681</b>	<b>581,580</b>
<b>Emergency Storage Program</b>											
ESP - North County Pump Station	45,464	45,464	0	2,750	12,859	128	52	2,344	22,241	1,375	3,715
ESP - Owner Controlled Insurance Program Closeout	76	76	0	12	4	8	5	0	0	0	47
ESP - Post Construction Activities	9,153	9,153	0	573	57	659	1,956	430	5	13	5,460
<b>Total Emergency Storage Program</b>	<b>54,694</b>	<b>54,694</b>	<b>0</b>	<b>3,335</b>	<b>12,921</b>	<b>795</b>	<b>2,013</b>	<b>2,774</b>	<b>22,246</b>	<b>1,387</b>	<b>9,222</b>
<b>Environmental Mitigation</b>											
Colorado River Canal Linings - Post Construction Mitigation Monitoring	28,125	28,125	0	16,786	220	505	504	3,809	4,045	1,600	656
Mitigation Program	21,555	21,555	0	7,699	289	396	4,371	2,431	940	2,147	3,281
Post-Construction Mitigation Management	5,478	5,978	500	2,086	1,325	792	290	267	188	26	1,004
<b>Total Environmental Mitigation</b>	<b>55,158</b>	<b>55,658</b>	<b>500</b>	<b>26,570</b>	<b>1,834</b>	<b>1,692</b>	<b>5,166</b>	<b>6,507</b>	<b>5,174</b>	<b>3,773</b>	<b>4,941</b>
<b>Master Planning and Studies</b>											
2023 Facilities Master Plan	6,392	6,392	0	587	2,150	2,722	211	0	0	0	722
Energy Resiliency Project	700	9,700	9,000	237	35	509	1,154	3,023	3,405	211	1,126
ESP - San Vicente 3rd Pump Drive & Power	8,044	8,044	0	258	0	0	0	0	0	0	7,786
Inline Hydroelectric Energy Generation Facilities	521	521	0	213	0	0	0	0	0	0	307
Pipeline 3/Pipeline 4 Conversion	1,014	1,014	0	0	0	0	0	0	0	0	1,014
Regional Conveyance System Study	3,900	3,900	0	2,346	0	1,554	0	0	0	0	0
San Vicente Energy Storage Facility	20,806	31,206	10,400	1,884	11,101	7,700	6,152	3,893	0	0	476
System Isolation Valves	522	522	0	228	0	0	0	0	0	0	294
<b>Total Master Planning and Studies</b>	<b>41,899</b>	<b>61,299</b>	<b>19,400</b>	<b>5,753</b>	<b>13,286</b>	<b>12,485</b>	<b>7,518</b>	<b>6,916</b>	<b>3,405</b>	<b>211</b>	<b>11,726</b>
<b>Member Agency Requested Projects</b>											
Carlsbad 5 Flow Control Facility and Pressure Reducing Valve	1,014	1,014	0	338	8	0	0	0	0	0	668
Poway 5 Flow Control Facility	820	820	0	9	132	8	87	116	250	10	207
<b>Total Member Agency Requested Projects</b>	<b>1,834</b>	<b>1,834</b>	<b>0</b>	<b>347</b>	<b>140</b>	<b>8</b>	<b>87</b>	<b>116</b>	<b>250</b>	<b>10</b>	<b>875</b>
<b>Other</b>											
Carlsbad Desalination Project	5,590	5,890	300	4,042	1,029	271	125	0	0	0	423
Hauck Mesa Storage Reservoir	22,916	22,916	0	15,919	3,749	0	278	0	0	0	2,969
Mission Trails Flow Regulatory Structure (FRS) II/Lake Murray Control Valve	48,702	48,702	0	42,069	4,844	338	0	0	0	0	1,450
<b>Total Other</b>	<b>77,208</b>	<b>77,508</b>	<b>300</b>	<b>62,031</b>	<b>9,623</b>	<b>610</b>	<b>403</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>4,842</b>
<b>Grand Total for Active Projects</b>	<b>\$1,359,995</b>	<b>\$1,434,195</b>	<b>\$74,200</b>	<b>\$147,633</b>	<b>\$103,292</b>	<b>\$67,636</b>	<b>\$138,575</b>	<b>\$112,151</b>	<b>\$150,660</b>	<b>\$101,063</b>	<b>\$613,186</b>
Total Completed and Removed Projects	16,418										
Total Completed Projects with Active Rollups	149,276										
<b>Total Multiyear Plan</b>	<b>\$1,525,690</b>	<b>\$1,434,195</b>	<b>-\$91,495</b>								
						<b>FY 24&amp;25 Total appropriation</b>	<b>\$206,210</b>				
						<b>FY 24&amp;25 Total appropriation with 10% reduction</b>	<b>\$185,589</b>				

**Table 12: Draft CIP Completed and Removed Projects (\$ Thousands)**

Project Name	FYs 22&23 Amended Multiyear Plan	FYs 24&25 Draft Multiyear Plan	Variance Draft-Amended	Multiyear Expenditures through 6/30/22	FY 23 Estimated	FY 24 Draft Projections	FY25 Draft Projections	FY 26 Draft Projections	FY 27 Draft Projections	FY 28 Draft Projections	Beyond FY 29 Draft Projections
Alvarado Hydroelectric Facility Rehabilitation	8,425	4,891	-3,534	4,888	3	0	0	0	0	0	0
Board Room Modifications	1,654	42	-1,612	42	0	0	0	0	0	0	0
Coachella Mid-Canal Storage Project	5,000	0	-5,000	0	0	0	0	0	0	0	0
System Vulnerability Assessment	1,339	1,198	-141	1,149	49	0	0	0	0	0	0
<b>Total - Recommended Completed/Removed Projects</b>	<b>\$16,418</b>	<b>\$6,132</b>	<b>-\$10,287</b>	<b>\$6,080</b>	<b>\$52</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

**Table 13: Draft CIP Completed Projects with Active Rollups (\$ Thousands)**

Project Name	FYs 22&23 Amended Multiyear Plan	FYs 24&25 Draft Multiyear Plan	Variance Draft-Amended	Multiyear Expenditures through 6/30/22	FY 23 Estimated	FY 24 Draft Projections	FY25 Draft Projections	FY 26 Draft Projections	FY 27 Draft Projections	FY 28 Draft Projections	Beyond FY 29 Draft Projections
ESP - Post Construction Activities	2,753	2,753	0	2,751	1	0	0	0	0	0	0
Facilities Improvement and Equipment Replacement	248	248	0	0	248	0	0	0	0	0	0
Infrastructure Rehabilitation	67,448	67,448	0	66,293	1,156	0	0	0	0	0	0
Mitigation Program	628	628	0	628	0	0	0	0	0	0	0
Post-Construction Mitigation Management	1,061	1,061	0	1,061	0	0	0	0	0	0	0
Relining and Pipe Replacement Program	68,791	68,791	0	68,765	26	0	0	0	0	0	0
San Vicente Pumped Storage Study	7,887	7,887	0	7,887	0	0	0	0	0	0	0
Second Aqueduct Diversion Complex Improvements	460	460	0	460	0	0	0	0	0	0	0
<b>Total - Completed Projects with Active Rollups</b>	<b>\$149,276</b>	<b>\$149,276</b>	<b>\$0</b>	<b>\$147,846</b>	<b>\$1,431</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>

## Conclusion

The development and presentation of the draft recommended budget is two months earlier than the previous year's budget process. An early budget timeline means less certainty and information that will require further refinement and additional changes throughout the process.

There are several drivers and unknown variables that can impact the future recommendations throughout this process. Over 90% of the Water Authority's draft recommended budget is due to the purchase and treatment of water, debt service, and the Capital Improvement Program (CIP). Water sales, purchases and treatment, member agency needs, energy costs, and inflation can all impact the projections. The Water Authority will continue to refine the projections while working with the Board, the Finance Planning Work Group, and the public during Public Budget Workshops.

The Board of Directors will consider and discuss the drivers and policy priorities of the upcoming budget over the next few months. This input will be incorporated into the development of the Preliminary Recommended Budget document that will be presented to the Board in early April for the Public Budget Workshops, which are scheduled for April 11 and 13, 2023. Input provided during the Public Budget Workshops will be incorporated into an updated Recommended Budget that will be presented to the Board in early May for consideration and discussion at the May Public Budget Workshops, which are scheduled for May 9 and 11, 2023.

The draft recommended budget is intended to provide the Board with draft budget information for Fiscal Years 2024 and 2025. The April Preliminary Recommended Budget and May Recommended Budget documents will include updated and more comprehensive information on the Fiscal Years 2024 and 2025 budget. The documents will include the General Manager's Budget Message, Financial Summaries, Sources and Uses, details on all Operating Departments and the Capital Improvement Program and each project. Appendices including positions by department, capitalized overhead, and information on the energy program will also be provided.