



Our Region's Trusted Water Leader
San Diego County Water Authority

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News Release

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May 23, 2019

Water Authority Recommends \$1.7 Billion Two-Year Budget

Agency staff proposes water rate increases to cover increasing costs of supply reliability

The San Diego County Water Authority's Acting General Manager today recommended to the Board of Directors a \$1.7 billion budget for fiscal years 2020 and 2021, up 5 percent from the current two-year budget, due largely to increasing costs for water supply, supply reliability and infrastructure improvements.

Water Authority staff also proposed increasing rates and charges for member agencies by 4.3 percent for treated water and 4.8 percent for untreated water in calendar year 2020, attributable to rate increases by the Metropolitan Water District of Southern California, continued investments in supply reliability, and reduced water sales that lower demand and mean fixed costs must be spread over fewer gallons.

Although the Water Authority's budget spans two fiscal years, the agency sets rates annually to more effectively manage changing conditions. The Board is expected to vote on rates for next year and the two-year budget at its regular meeting on June 27, following budget workshops on June 11 and 13.

“As we approach our 75th anniversary in June, our budget and rate proposals highlight the Water Authority's historic commitment to innovation and leadership locally, statewide and across the Southwest,” said Acting General Manager Sandra Kerl. “We are well-positioned to make strategic, cost-effective investments that will both maintain our existing assets and allow us to prepare for new challenges tomorrow will bring.”

Water Authority Budget & Rates Schedule

- May 23: Presentation to the Board of the recommended budget for fiscal years 2020 and 2021 along with proposed 2020 rates and charges
- June 11 & 13: Board budget workshops
- June 27: Public hearing on rates; Board considers adoption of budget and rates

For more information about the Water Authority's recommended 2020 and 2021 budget, and proposed 2020 rates, go to pages 40 and 120 of the May Board packet at

www.sdcwa.org/meetings-and-documents.

As usual, more than 92 percent of the Water Authority’s recommended budget is associated with purchasing and treating water or building and financing infrastructure, a result of the agency’s highly successful long-term strategy to invest in supply reliability to meet current and future needs for 3.3 million people and a \$231 billion regional economy.

The biggest driver of the recommended budget is an increase of \$48.92 million, or 5 percent, for the purchase and treatment of water. The increase reflects continuing investments in the San Diego region’s water supply reliability portfolio – in line with Gov. Gavin Newsom’s recent executive order on water resilience – and the costs of transporting water from the Colorado River and to purchase water from MWD.

About 6 percent of the recommended budget is for the Water Authority’s Operating Departments. Spending for those departments would rise by 5 percent compared to the current budget, primarily due to the Water Authority’s increasing maintenance costs at shared facilities at Lake Hodges and San Vicente Reservoir.

Key initiatives the Water Authority plans to pursue during the next two-year budget cycle include:

- **Long-Term Planning** – The Water Authority’s 2020 Urban Water Management Plan, Climate Action Plan, 2020 Long-Range Financing Plan, and Water Shortage Contingency Plan will be drafted, updated or completed.
- **Strategic Studies** – Research will continue into important new or developing opportunities – including a potential San Vicente Energy Storage Facility. In addition, staff will update condition assessments of the agency’s infrastructure, using expanded criteria and technical analysis to prioritize projects and establish new long-term projections for future budgets in light of rising construction costs nationwide.
- **Capital Improvements** – Several smaller-scale capital projects will be developed, including new seawater intake-discharge facilities at the Claude “Bud” Lewis Carlsbad Desalination Plant, to meet state requirements. In addition, the agency will continue to renovate the First Aqueduct to improve operations of its first two large-diameter pipelines for decades to come.
- **Visionary Initiatives** – Developing water storage capacity in Lake Mead to provide additional drought resilience for San Diego and other parts of the Colorado River Basin will be a priority as part of the agency’s “Solutions for San Diego and the Southwest” initiative. In addition, staff will assess the costs and benefits of a potential new pipeline-tunnel system to move the Water Authority’s independent Colorado River supplies from the Imperial Valley to San Diego County.

To support the recommended budget, the Water Authority developed its 2020 rate proposal in conjunction with an independent cost-of-service study to ensure rates and charges comply with state law, legal requirements, cost-of-service standards and Board policies. The Water Authority also worked closely with its member agencies to keep the proposed rates and charges at the low end of earlier projections.

In 2020, the Water Authority proposes charging its 24 member agencies an all-in rate of \$1,406 per acre-foot for untreated water, or \$65 more per acre-foot than they currently pay. Charges would be \$1,686 per acre-foot for treated water, or \$69 more per acre-foot than in 2019.

Actual figures will vary by member agency, and each member agency will incorporate costs from the Water Authority into the retail rates it charges to residents, businesses and institutions. (Note: An acre-foot is about 325,900 gallons, enough to serve the annual needs of 2.5 typical four-person households in San Diego County.)

The Water Authority's overall rate increase is driven by multiple factors, including rising costs from MWD, which increased its base supply rates and charges and the amount it charges to transport the Water Authority's independent Colorado River supplies.

"Thanks to prudent financial planning and debt management, we are able to keep the proposed rates at the low end of our projections," said Water Authority Finance Director Lisa Marie Harris. "We've worked hard to control rate increases while maintaining a complex water production, treatment and delivery system that will continue to support the region's economy and quality of life for generations."

The Water Authority will purchase an additional 32,500 acre-feet of water in 2020 via its long-term water conservation-and-transfer agreement with the Imperial Irrigation District. Those independent Colorado River supplies are more reliable and less expensive than MWD supplies, which have been reduced by drought conditions in years past and are subject to cutbacks.

The Water Authority also faces increased costs for its highly reliable, high-quality water supplies from the Claude "Bud" Lewis Carlsbad Desalination Plant, due to costs related to the transition to new seawater intake-discharge facilities that comply with updated environmental standards.

To reduce 2020 rate increases by approximately \$90 per acre-foot, the Water Authority plans to draw \$38 million from the agency's Rate Stabilization Fund. The fund was created in 1990 to help avoid rate spikes, especially those driven by reduced water sales. Water sales in the region are currently 10 percent below initial projections for fiscal year 2019.

The 2020 rate proposal ensures debt-coverage ratios that maintain the Water Authority's strong credit ratings and minimize the cost of borrowing money for construction projects, an approach that saves ratepayers money over the long run. The Water Authority has senior lien credit ratings of AAA from Standard & Poor's, AA+ from Fitch ratings and Aa2 from Moody's. All three ratings agencies rated the Water Authority's credit outlook as stable.

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The San Diego County Water Authority sustains a \$231 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.



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