



San Diego County Water Authority

And Its 24 Member Agencies

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News Release

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Water Authority Board Holds Public Hearing on 2024 Wholesale Water Rates

Board plans to vote on rates and budget after June 22 hearing

June 19, 2023 – On June 22, the San Diego County Water Authority Board of Directors will hold a public hearing about proposed wholesale water rates for 2024, followed by votes on the rate proposal and the recommended budget for the next two fiscal years.

The Water Authority Board is seeking to manage cost increases created by extraordinary inflationary pressures and depressed water sales, while at the same time protecting ratepayers, ensuring water reliability, and maintaining the Water Authority's strong credit ratings that reduce the life-cycle cost of infrastructure. Due to its long-term commitment to strategic financial management, the Water Authority has senior lien credit ratings of AAA from Standard & Poor's, AA+ from Fitch ratings and Aa2 from Moody's.

The public hearing is scheduled to start when the Administrative and Finance Committee meets at 9 a.m. June 22, at 4677 Overland Avenue in San Diego. The hearing will also be livestreamed at www.sdcwa.org/about-us/board-of-directors/meetings/. Public comments will be accepted in person; via Zoom at <https://us06web.zoom.us/j/83333513511?pwd=SW9VU0NQaDd3aHlsMIN4ajluUkp4dz09#success> with passcode 576222; or by phone at 669-444-9171 using meeting ID 833 3351 3511# and passcode *576222# as prompted.

The Board has considered several alternatives to balance immediate and long-term rate impacts. At its May 25 meeting, the Board directed staff to prepare a package of rates and charges that would increase wholesale water costs for the region's retail water agencies by an average of 8.2% next year, while also falling outside key financial policies set by the Board.

After reviewing additional analysis associated with the long-term financial impacts of rate alternatives, the Water Authority's Finance Planning Work Group recommended another approach -- an effective rate increase of 9.5% that would allow the agency to meet the Board's financial policies. (Note: The actual rate impact will vary by agency based on their use of the

Water Authority's system and actual water purchases. Water rates paid by residents and businesses will also vary, based on factors unique to each retail agency.)

Both rate proposals are significantly below initial forecasts due to extensive efforts by the Board to reduce expenditures, including spending on capital projects. In addition, the Board prioritized immediate ratepayer relief with a planned withdrawal of nearly \$35 million from the Rate Stabilization Fund by July 2024, which would bring the fund to its lowest level in more than a decade. The Rate Stabilization Fund was created in 1990 to help avoid rate spikes, especially those driven by reduced water sales following abnormally wet weather or mandatory cutbacks.

Public water agencies do not make a profit; all revenues are invested in protecting and providing safe and reliable water. Because the Water Authority is a wholesale water agency that sells only to retail water agencies – not the general public – there is not a one-to-one correlation between Water Authority's rates and water bills for homes and businesses.

While the Water Authority currently sets rates annually to address changing conditions, the agency's budgets span two fiscal years. The recommended \$1.8 billion budget for fiscal years 2024 and 2025 is up 5% from the current two-year budget due to higher costs for water, treatment and infrastructure maintenance. Similar scenarios are playing out across the state and nation as water suppliers struggle to balance rapidly increasing costs with highly variable demands and dwindling supplies.

“This is the most challenging budget cycle I've seen in more than three decades of public service leadership,” said Water Authority General Manager Sandra L. Kerl. “The headwinds were strong from the start, and they only got stronger over the past three months, with unexpectedly large energy bills driving up costs and the persistence of highly unusual wet weather that has depressed water sales.”

Kerl said the financial challenges are the result of several complex factors.

“Decades of Board decisions to ensure water security for our region, including during this most recent dry period, have come at a cost,” said Kerl. “The value of water reliability for our region has never been higher, but at the same time we must pay the bills as they come due. Those costs have combined with significant negative forces that are out of our control – specifically extreme inflation that is driving up the cost of everything, including energy, steel, chemicals and other materials.”

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

Approximately 90% of the Water Authority's recommended budget is for buying and treating and delivering water, combined with debt service and infrastructure projects to ensure water is available when and where it's needed. This reflects the Water Authority's long-term strategy to invest in supply reliability to meet current and future needs of the San Diego region – a strategy that paid significant dividends during the recent three-year drought. It's also necessary to ensure

a reliable water supply for the long-term, as a hotter, drier climate impacts much of California and the Southwest.

As in past years, the Water Authority’s Operating Departments – including all agency staff and day-to-day work functions – account for about 7% of the budget. The recommended budget proposes increasing spending by those departments by 1%, or \$1.5 million, compared to the current two-year budget.

For more information about the Water Authority’s recommended 2024 water rates go to page 67 of the June Board packet, and for information on the proposed budget for fiscal years 2024 and 2025 go to page 152. The Board packet is at www.sdcwa.org/wp-content/uploads/2022/10/2023_06_22FormalBoardPacketRS.pdf.

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

