



San Diego County
Local Agency Formation Commission
 Regional Service Planning | Subdivision of the State of California

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AGENDA REPORT
 Business | Action

September 18, 2025

TO: Cities Advisory Committee

FROM: Priscilla Mumpower, Assistant Executive Officer

SUBJECT: **Update on High Priority Project |
 Municipal Service Review on Wholesale Water Agencies in San Diego County**

SUMMARY

The Cities Advisory Committee (“Committee”) will receive an update on LAFCO's scheduled municipal service review of wholesale water agencies in San Diego County – one of 10 high-priority projects in the approved work plan. This project includes a comprehensive review of the San Diego County Water Authority (CWA) and a proportional review of the Metropolitan Water District of Southern California (MET). The item is presented for feedback consistent with earlier Committee requests for regular briefings on high-priority municipal service review projects and is intended to ensure members can provide input on behalf of all cities regarding the document's preparation. The item also provides the Committee with an opportunity to consider establishing a subcommittee to offer more focused input on the document's development, including the formulation of specific recommendations.

BACKGROUND

San Diego LAFCO's current fiscal year work plan includes 30 projects with assigned priorities. A scheduled municipal service review of the two wholesale water agencies operating in San Diego County has been carried over from the prior work plan and designated by the Commission as the highest priority as indicated by its placement as No. 1a. This project stems from the confluence of two factors: (a) LAFCO's directive from the Legislature to regularly perform municipal service reviews covering all cities and special districts and (b) Commission

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questions generated in its deliberations over two recent reorganization proposals in north county seeking detachment from CWA in favor of joining Eastern MWD in Riverside County.

LAFCO retains discretion in determining the appropriate scope of each municipal service review and currently does so through policy delegation to the Executive Officer. Nonetheless, all municipal service reviews must meaningfully address the following statutory factors:

- Growth and Population Projections
- Present and Planned Infrastructure and Service Capacities
- Adequacy of Services Relative to Community Needs
- Financial Standing to Provide Services
- Opportunities for Shared Facilities
- Accountability of Governmental Structure and Alternatives
- Any Other Factors Required by Local Policy
 - Environmental Justice (local policy)

DISCUSSION

The Committee will receive an update on San Diego LAFCO's highest work plan priority in 2025-2026 – a municipal service review of wholesale water service providers: CWA and MET. This project represents the first dedicated municipal service review prepared for the two wholesale water service providers with LAFCO staff being assisted by Dr. Michael Haneman with Arizona State University. The project's scope of work generally follows LAFCO's standard municipal service review format with the notable exception of extending the standard five-year timeline to 15 years. A summary of pending work to be completed on the project follows along with emerging topics of interest to the Committee.

MSR Progress + Emerging Themes

LAFCO staff, in collaboration with Dr. Michael Hanemann, is nearing completion of the municipal service review. The analysis focuses on the agency's wholesale water service function and evaluates governance, financial condition, and service delivery performance over a fifteen-year review period spanning Fiscal Years 2009 through 2023. The review also draws on input from the subject agencies' and their member agencies to capture emerging themes around long-term challenges and opportunities.

Water Supply Portfolio and Service Demands

An assessment of CWA's role in supplying roughly 80% of regional water needs through a diverse portfolio that includes imported water (via MWD and the Quantification Settlement Agreement), Colorado River transfers, and desalinated water from Carlsbad.

- The addition of desalination and San Luis Rey transfers has strengthened supply resiliency.

- Despite population growth, water demand continues to decline due to conservation and other factors.
- This decline has also resulted in excess treatment capacity, particularly at the Twin Oaks Valley Water Treatment Plant, generating operational costs without corresponding revenues.

Long-Term Planning Considerations

A review of how declining water demand intersects with local investments in potable reuse projects and other conservation measures.

- Water deliveries are projected to decline another 30% between 2025 and 2030.
- By 2035, potable reuse projects are expected to permanently reduce imported water sales by 115,000 acre-feet annually.

Financial Condition and Revenue Trends

An analysis of CWA's fiscal position shows pressures tied to declining sales, rising rates, and structural imbalances.

- In 2023, water sales fell 30%, producing a \$74 million revenue shortfall—the lowest sales volume since 1983.
- Rates have escalated sharply: untreated water increased from \$520/AF to \$1,579/AF while treated water increased from \$684/AF to \$1,929/AF from 2008 to 2023.

Structural Imbalance and Reserves

A closer look at CWA's revenue structure and reserve position.

- Fixed costs account for approximately 87% of the budget, while fixed revenues represent approximately 28.5%.
- Heavy reliance on the Rate Stabilization Fund from 2019–2023 has reduced reserves to near the Board's minimum policy threshold.¹
- The settlement agreement with MWD—tying conveyance charges to inflation and authorizing resale of conserved QSA water—is expected to provide new financial flexibility.

Governance and Representation

An examination of CWA's Board structure and equity considerations.

- Board voting power is based on historical financial contributions.
- As purchases decline, some agencies retain disproportionate voting influence relative to their present financial participation.
- The City of San Diego maintains roughly 42% of the voting power, reflecting its historical investments but raising equity concerns across the region.

¹ The CWA has a 150-day reserve policy.

Staff anticipate delivering a complete administrative draft report for CWA and MWD's internal review as early as October 2025. A complete draft for public circulation is expected to be ready as early as March 2026.

ANALYSIS

None.

RECOMMENDATION

This item is presented to the Committee for information and feedback with the opportunity to establish a sub-committee to review and provide feedback on the CWA-MWD document as it transitions towards a complete administrative draft.

ALTERNATIVES FOR ACTION

Alternative One (recommended):

Establish a sub-committee of no more than eight members to review the CWA-MWD MSR and provide feedback after a first administrative draft is delivered to the agencies.

Alternative Two:

Proceed without the establishment of a sub-committee.

PROCEDURES FOR CONSIDERATION

This item has been placed on the Committee's agenda for action as part of the business calendar. The following procedures are recommended:

- 1) Receive verbal presentation from staff unless waived.
- 2) Committee discussion and invite comments from interested audience members if any.
- 3) Consider the staff recommendation.

On behalf of the Executive Officer,



Priscilla Mumpower
Assistant Executive Officer