



San Diego County LAFCO

OCTOBER 2025 UPDATE |
MSR ON WHOLESALE WATER SERVICE PROVIDERS

⚠ Critical Acknowledgment

San Diego County Water Authority—or CWA—has made remarkable progress in diversifying water supply, but these achievements have come at a steep financial cost. The cost structure created over the past 15 years is now colliding with dramatically changing water demand patterns.

1 The Transformation Period: 2008–2023

Major Infrastructure Investments

- ✓ **Quantification Settlement Agreement:** Colorado River water secured via IID transfers and canal lining
- ✓ **Carlsbad Desalination Plant:** Partnership with Poseidon for drought-resilient supply
- ✓ **Emergency Storage Infrastructure:** \$1.5 billion investment in water security

The substantive result...
CWA reduced its dependency on MET supplies from 88% to 19% between 2008 and 2023.

2 The Structural Problem

Critical Financial Imbalance

90%

Fixed costs (don't decline with lower sales)

30%

Fixed revenue (rest is variable)

2023 Tipping Point: New Reality + Impacts on Rates

- ! For the first time, demand fell below take-or-pay commitments with Imperial ID for 322,000 acre feet, forcing CWA to begin paying for water it could not use/sell

40%

Three-Year Rate Increase Approved for 2025–2027

YEAR ONE

14%

2025 rate increase

YEAR TWO

16.4%

2026 rate increase

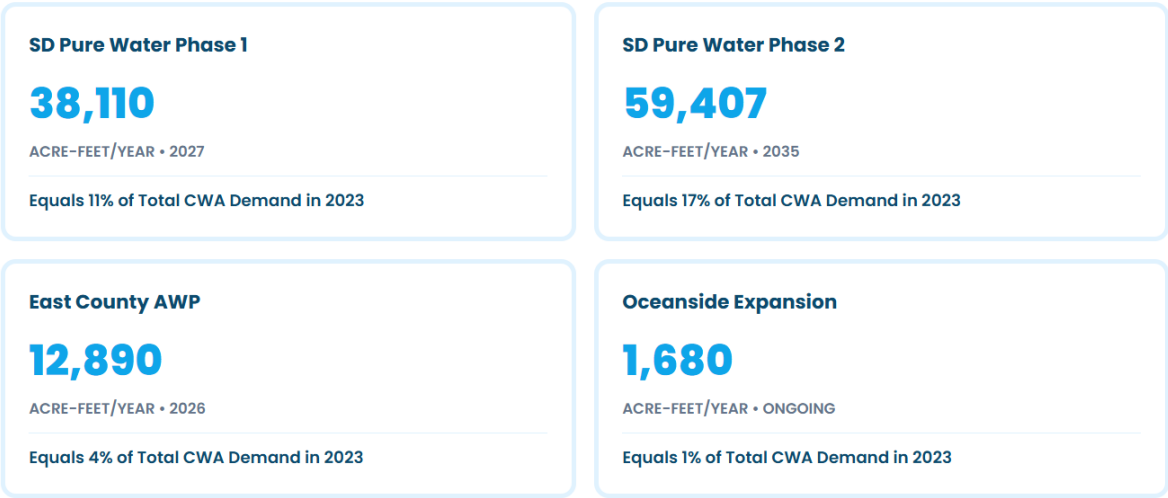
YEAR THREE

9.6%

2027 rate increase

3 Approaching Cliff: 33% Demand Decrease Coming with Reuse

The combined reuse projects already in the queue in San Diego County will take away an estimated 112,000 annual acre-feet in demand by 2035—that is another 33% drop in potable sales.



4 Emerging LAFCO Themes

LAFCO's Balancing Act: Using the MSR as Information Resource v. Using MSR as Initiating Action

THEME ONE
Governance and Accountability
Vote allocation based on historical contributions while 70% of revenue remains volumetric—potential divergence between decision-makers and cost bearers.

THEME TWO
Potable Reuse Coordination
While beneficial for water security, reuse buildout creates wholesale-level coordination challenges that may signal need for fundamental reorganization.

THEME THREE
Defining Service Adequacy
How does LAFCO define "service adequacy" when physical water supply is secure but financial sustainability is increasingly uncertain?

THEME FOUR
Encouraging Sign
Recent changes in leadership on the Board and within executive management are making a positive difference and—among other things—have helped restore organizational focus, punctuated by the long-awaited settlement with MET.