



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

**5b**

**AGENDA REPORT**  
 Business | Discussion

October 17, 2025

**TO:** Special Districts Advisory Committee

**FROM:** Keene Simonds, Executive Officer  
 Priscilla Mumpower, Assistant Executive Officer

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

**SUMMARY**

The Special Districts Advisory Committee (“Committee”) will receive an update on San Diego LAFCO’s municipal service review (MSR) of wholesale water agencies in San Diego County—one of ten high-priority projects in the adopted 2025–2026 workplan. The study 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). This item is presented for discussion, with an opportunity for the Committee to provide input on interests or priorities related to wholesale water service delivery and governance on behalf of special districts in San Diego County.

**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 questions generated in its deliberations over two recent reorganization proposals in north

<b>Administration</b> Keene Simonds, Executive Officer 2550 Fifth Avenue, Suite 725 San Diego, California 92103 T 619.321.3380 E <a href="mailto:lafco@sdcountry.ca.gov">lafco@sdcountry.ca.gov</a> www.sdlafco.org	<b>Paloma Aguirre</b> County of San Diego  <b>Joel Anderson</b> County of San Diego  <b>Monica M. Steppe, Alt.</b> County of San Diego	<b>Kristi Becker</b> City of Solana Beach  <b>Dane White</b> City of Escondido  <b>John McCann Alt.</b> City of Chula Vista	<b>Chair Stephen Whitburn</b> City of San Diego  <b>Marni von Wilpert, Alt.</b> City of San Diego	<b>Vice Chair Barry Willis</b> Alpine Fire Protection  <b>Jo MacKenzie</b> Vista Irrigation  <b>David Drake, Alt.</b> Rincon del Diablo	<b>Brigitte Browning</b> General Public  <b>Eileen Delaney, Alt.</b> General Public
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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

This item provides an update on San Diego LAFCO’s highest-priority workplan project for FY 2025–2026: the comprehensive MSR of wholesale water service providers, CWA and MET. The project represents the first dedicated MSR for these agencies and is being prepared by LAFCO staff in collaboration with Dr. Michael Hanemann of Arizona State University. The study follows LAFCO’s standard MSR framework, extended to cover a 15-year period (FY 2009–2023). Staff anticipate releasing an administrative draft for agency review as early as October 2025, with a public draft targeted for March 2026.

A summary of progress and emerging themes – specific to the CWA – follows.

### MSR Progress + Emerging Themes

#### Transformation Period

The review highlights CWA’s significant progress in diversifying its water supply portfolio to meet approximately 80% of regional demand through a mix of imported water, Colorado River transfers under the Quantification Settlement Agreement (QSA), and desalinated water from the Carlsbad Desalination Plan.

- These investments reduced CWA’s dependence on MET supplies from 88% in 2008 to 19% in 2023.
- However, the benefits came at a steep cost, with member agency water rates tripling over the same period.

#### Structural Imbalance

An evaluation of CWA’s revenue structure and reserve position highlights growing constraint:

- CWA’s budget is heavily weighted toward fixed costs with approximately 87% of costs being fixed, while only about 29% of revenues are fixed.

- Heavy reliance on the Rate Stabilization Fund between FY 2019–2023 reduced reserves to near the Board’s minimum threshold.<sup>1</sup>
- Since 2023, the Board has taken a number of corrective actions, including:
  - o Negotiating a water transfer agreement with the U.S. Department of the Interior.
  - o Reducing capital expenditures.
  - o Settling long-standing litigation with MET, allowing QSA water resale and tying conveyance charges to inflation.
  - o Approving multi-year rate increases.

### **Decline in Water Demand + Challenge Ahead**

Regional water demand continues to decline due to conservation, local supply development, and emerging potable reuse projects and points to challenges ahead.

- By 2035, new reuse projects are projected to reduce imported water sales—already at record lows—by an additional one-third (approximately 115,000 acre-feet per year).

### **LAFCO-Oriented Themes**

- Governance and Accountability  
CWA’s voting structure, based on historical financial contributions, raises emerging equity concerns as water purchases decline. For example, the City of San Diego currently retains roughly 42% of voting power—an imbalance likely to grow as its Pure Water Project expands local supply and reduces CWA dependence.
- Potable Reuse Coordination  
While potable reuse expansion strengthens regional water reliability and environmental sustainability, it creates wholesale-level coordination challenges. Over time, this may signal the need for governance or organizational adjustments to better align local water development with wholesale procurement strategies.
- Defining Service Adequacy  
The MSR considers how LAFCO should define “service adequacy” when water supply reliability is strong but financial sustainability is increasingly uncertain.
- Encouraging Sign  
Recent changes in executive leadership and the resolution of litigation with MET mark a positive turning point for CWA. These developments reflect improved interagency collaboration and a more strategic focus on long-term financial health and governance.

### **ANALYSIS**

None.

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<sup>1</sup> The CWA has a 150-day reserve policy.

## RECOMMENDATION

This item is presented to the Committee for information and feedback.

## ALTERNATIVES FOR ACTION

None.

## PROCEDURES FOR CONSIDERATION

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

- 1) Receive verbal presentation from staff unless waived.
- 2) Invite comments from interested audience members if any.
- 3) Discuss and provide general feedback as needed.

On Behalf of the Executive Officer,



Priscilla Mumpower  
Assistant Executive Officer

### Attachments:

- 1) Summary Handout of Key Emerging Themes
- 2) Letter from Commissioner David Drake, Future Mission of the San Diego CWA



# 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

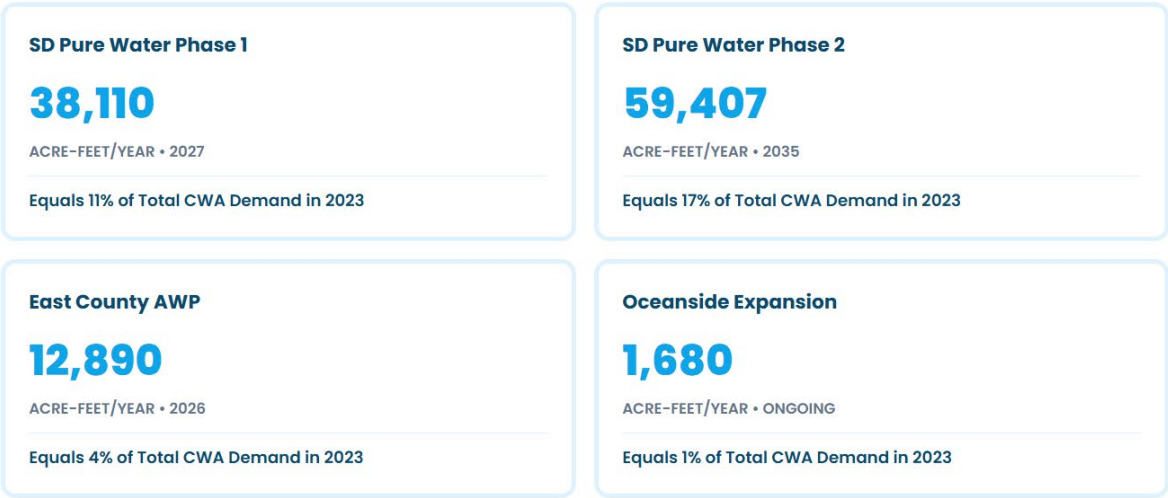
YEAR THREE

**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.

**TO: The San Diego County Local Area Formation Commission**  
**FROM: David Drake, Alternate Commissioner for Special Districts**  
**RE: The future mission of the San Diego County Water Authority**  
**DATE: October 6, 2025**

## **Introduction**

Several serious factors have impacted the current mission of the SDCWA. Among these are; water demand reduction through conservation and local recycling, loss of agricultural use due to high water costs, inaccurate demand forecasting, poor legal guidance concerning take or pay water contracts, over-extended facility fixed costs, member agency anger due to higher water costs, and high staff costs to support previous projects. Item 7c on the October 6, 2025 LAFCO agenda illuminates many of these issues, in support of a needed Municipal Service Review. With apologies to the Fair Political Practices Commission, while trying to avoid a Brown Act violation, I would like to express my opinion before an MSR hearing. This issue has been exacerbated by recent findings that we may face a substantial reduction of access to water from the Colorado River, on an urgent basis. This could impact both MWD and IID water sources. **We must find a strategic and reliable alternative to the Colorado River supply.** We must endeavor to use the investments we have already made to help control costs. There is probably no silver bullet, but we have a quiver of arrows that could be sharpened. Frankly we need a much more comprehensive circular water plan to succeed in San Diego County. If we did not have an SDCWA, we would need to invent one. The issue is **what mission** should the SDCWA have?

## **Current Circumstances**

1. The SDCWA has seen a dramatic improvement in management and quality of decisions. This opens the door to a major improvement in strategic direction and success.
2. Water costs are rising and there is significant pushback from SDCWA member agencies and the public. The SDCWA delivers about 300,000 acre feet per year.
3. The City of San Diego is headed to the opening of the Pure Water Project, which will dramatically reduce water demand at SDCWA, placing financial pressure on all other members. It will deliver about 93,000 acre feet per year, about ½ of city demand. Assume the SDCWA will need to deliver 200,000 acre feet in the future. Currently at a cost of about \$2000/ AF. As has been suggested by Mike Smolens of the UT, an

alternative would be to slow down Phase 2 of Pure Water to lower immediate costs and give the SDCWA breathing room to sell excess water to other parties.

4. Desalinated water from either the Bud Lewis plant or Pure Water is about \$3400/AF.
5. The water community is smack in the middle of evaluation of water rates, with no joy in sight.
6. The SDCWA is bound to “take-or-pay” contracts that require us to pay for water we may not even use. SDCWA management is working hard at finding markets for this water and to obtain the approval to sell it out of our area. They need to be encouraged.
7. The current SDCWA mission is focused on water supply and does not currently intersect with wastewater treatment. Most wastewater treatment is handled by local special districts.

## Opportunities for the SDCWA

1. The existing San Onofre Nuclear Power Station, (SONGS), has about 3 megawatts of heat available from dry cask storage on site. This along with heat and electricity from solar sources, could be used with reverse osmosis at about 8 megawatt hours per acre foot. The wholesale price of power can vary a lot, but at the near lowest rate it can be as low as \$10 per MWH. This is an energy cost of about \$80-100 per acre foot, as we can select when we produce water, with good storage. The SONGS site also has permits for water intake and discharge, it has infrastructure built for both, and additional infrastructure for transportation, natural gas, and dock access. The possibility exists to create desalinated water at near the current price of MWD water. Note that desalinated water made at San Onofre could be piped using a line ten miles long to the east and connect to any of several aqueducts south of Fallbrook. Thus takes full advantage of all existing wholesale distribution assets already built.
2. The north county wastewater agencies discharge about 500 AF per day, of highly treated water. This is close to the target of 200,000 AF/year we need. This discharge could instead be piped to San Onofre at 1500 parts per million of dissolved salts. This contrasts with ocean water at 30,000 parts per million. This vastly reduces the cost of desalination and reduces the ocean discharge. One of the outfalls has been estimated to need \$800 million in repairs, which could be avoided. An alternative might be to convert one or more of these wastewater treatment plants to direct potable reuse. Then, similar to the Bud Lewis plant, pipe the water inland, probably to the Twin Oaks plant for distribution.
3. The Twin Oaks plant, which has been seriously underutilized, could be part of a blending and storage system.
4. The San Vicente Dam pumped storage project could be completed and used to store daytime solar power for electrical dispatch to any of several desalination facilities.
5. From a strategic planning standpoint, no water processing project should be proposed or built without renewable energy as a part of the construction and financial costs. All

existing facilities should be destined to employ renewable resources and not to depend upon investor-owned facilities.

6. Existing RO facilities can be made more efficient by heating the feed water to about 85 to 90 degrees F, reducing viscosity and enhancing membrane flow. This could be done using direct solar heating, without using electric power. This makes current investments more productive and valuable. The SDCWA could be a partner in this process.
7. How did the City of Escondido pay for its expansion of wastewater treatment in the early 90's without issuing bonds? They pre-sold wastewater hookups to developers guaranteeing a fixed price for the hookups. These hookup licenses gained in value before use and could be resold. This program was highly successful and won an award from the state for creativity. The SDCWA could form a captive corporation, like a captive insurance company, to sell water hookups at a rate of about 10,000 units per year. These would include fees for both the SDCWA and local water agencies. These funds could cover all of the above expenses, assuming strict adherence to the rules for municipal enterprise accounts. (i.e. no embezzlement allowed...)

### **Disclaimer**

Probably at least half of the above is felony wrong. It needs a clearer goal and sharper minds to bring to ground. The new mission for the SDCWA is to craft and operate a countywide circular water system that reuses every drop of water, reduces ocean discharge by 90%, reduces dependence on the Colorado River by 90% over current values, and makes affordable water by clever use of existing infrastructure, use of renewable energy, and a strong focus on better forecasting. **The San Diego County Water Authority (SDCWA) becomes the San Diego County Circular Water Authority (SDCCWA).**