



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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IBA Review of the Public Utilities Department FY 2026-2030 Five-Year Financial Outlook

OVERVIEW

The [Public Utilities Department Fiscal Year 2026-2030 Five-Year Financial Outlook](#) (PUD Outlook) was released on December 4, 2024, concurrent with the release of the General Fund Fiscal Year 2026-2030 Five-Year Financial Outlook (General Fund Outlook). Similar to the General Fund, [Council Policy 000-02: Budget Policies](#) states that the PUD Outlook is intended “to guide long-range planning and serve as the framework for the development of the next year’s Proposed Budget for the Water and Sewer Enterprise Funds.” While the General Fund Outlook has been an annual report since 2006, this is the sixth PUD Outlook and the fifth to be presented at a meeting of the full City Council.¹ In addition to projecting what may be included in future proposed budgets, the PUD Outlook also serves as the basis of needed expenditure projections and potential future revenue needs for the next set of proposed water and wastewater rates. This year, PUD also released a detailed Cost of Service (COS) Study for both the [Water System](#) and [Wastewater System](#) that use the PUD Outlook as the basis for the Financial Plan. Both COS studies will be considered by Council during calendar year 2025.

The Office of the Independent Budget Analyst (IBA) is charged with providing the City Council with review and analysis of all major budget reports including the financial outlooks, quarterly budget monitoring reports, Mayor’s Proposed Budget, Mayor’s May Revision to the Proposed Budget, and Capital Improvements Program (CIP) budget reports. While the City Council cannot change this PUD Outlook, City Council is the ultimate budget authority and can make changes to the Proposed Budget for PUD during its review of the FY 2026 Proposed Budget following its release in April 2025. City Council will also review any proposed water and wastewater rate cases, ultimately having the authority to approve rates following the Proposition 218 process.

¹ The first PUD Outlook was released roughly five years ago, in January 2019, and was only presented to the Budget and Government Efficiency Committee.

FISCAL/POLICY DISUSSION

The Public Utilities Department (PUD) operates two major utility systems, the City’s water system and the City’s wastewater system, and the PUD Outlook has discrete sections for these two major functions. Each function is accounted for and budgeted in separate funds. Water rate revenues must be used to support the activities of providing water, while wastewater rate revenues are used to support the collection, treatment, and disposal of wastewater.² Across both water and wastewater functions, the PUD Outlook projects expenditures of approximately \$2.0 billion in FY 2026 for operations, baseline and Pure Water capital expenditures, debt service, and reserve requirements as summarized in the table below. Expenditure projections are highest in FY 2028, mostly due to the conclusion of major construction activity for Pure Water Phase 1 coupled with increasing operating and debt service costs related to this project.

Summary of Public Utilities FY 2026-2030 Five-Year Financial Outlook Expenditures (in millions)						
	FY 2025 Adopted	FY 2026 Projection	FY 2027 Projection	FY 2028 Projection	FY 2029 Projection	FY 2030 Projection
Water Fund	\$ 1,174.3	\$ 1,211.8	\$ 1,403.5	\$ 1,443.3	\$ 1,464.5	\$ 1,547.2
Wastewater Funds	917.2	802.7	852.2	931.7	798.1	786.7
COMBINED	\$ 2,091.5	\$ 2,014.5	\$ 2,255.7	\$ 2,375.0	\$ 2,262.6	\$ 2,333.9

In contrast to the General Fund Outlook, PUD’s Outlook does not reflect a gap (deficit or surplus) between revenues and expenditures. While the City’s General Fund is constrained by available tax revenues to support expenditures, the water and wastewater systems are supported primarily by rates paid by customers using the systems. The PUD Outlook focuses first on projecting the costs of maintaining and operating the water and wastewater systems, and then estimates any revenue increases needed to fund those expenditures. The Outlook serves as the basis and first step for developing a COS study to determine expenditure projections and revenue needs which are the basis for the next set of water and wastewater rates. The PUD Outlook identifies the overall system needs, whereas the COS analysis further allocates the cost of those needs to different user classes.³

For this review of the PUD Outlook, our Office provides an analysis of the various factors that are driving increased costs, and consequently a need for increased revenue and rates. This analysis also covers the major financial indicators and metrics used to ensure the enterprise funds are sound, and how those indicators are impacted by spending and rate decisions. We also examine changes to revenue and expenditure assumptions, increases in water purchase costs, and increases to the overall CIP program. Finally, we conclude with a discussion on policy matters that the City’s representatives on the San Diego County Water Authority (CWA) should consider when reviewing the CWA’s budget and future CWA rate adjustments.

² Note that the Wastewater System is broken down into separate funds for the (1) collection of wastewater from municipal customers in the City of San Diego (the Muni Fund) and (2) treatment and disposal of wastewater, which is provided for City of San Diego customers as well as other agencies in the region that utilize the City’s wastewater treatment system (the Metro Fund). For the purposes of the PUD Outlook, these two funds have been combined.

³ User classes for the Public Utilities system include Single-Family Domestic Customers, Multi-Family/Other Domestic Customers, Commercial and Industrial Customers, Temporary Construction, and Irrigation Customers.

Rate Increases

Water and wastewater rates are determined through a process prescribed by state law under Proposition 218, which requires a COS analysis, the opportunity for a majority protest by impacted parcels/customers, and approval of the legislative body (the City Council) of rate adjustments at a public hearing.⁴ COS studies provide detail on projected expenditures, determine the total revenue required to cover those expenditures, and allocate those revenue needs based on system functions and the demands each customer class places on the water and wastewater systems.

As summarized in the table below, the PUD Outlook shows the need for rate increases to support the water and wastewater systems over the next five years. These percentages are at the aggregate, summary level for each system and **do not** reflect how costs would be allocated to customer classes. That level of detail is included in the rate design portion of the respective COS study. It is important to note that rates detailed in COS studies may reflect higher percentage increases for some customer classes and lower increases – or even decreases – for others.

Summary of PUD Outlook Water and Wastewater Rate Increases FY 2026-2030							
	FY 2025	FY 2025 Additional	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Water ^a	8.7%	5.5%	13.7%	14.5%	11.5%	11.0%	11.0%
Wastewater ^b	3.0%	N/A	7.0%	6.0%	8.0%	8.0%	8.0%

^a FY 2025 rate represents up-to rate increase approved by Council in September 2023.

^b FY 2025 rate represents up-to rate increase approved by Council in September 2021.

Over the Outlook period (FY 2026-2030), total rate increases are 78.8% for water⁵ and 42.9% for wastewater. With the exception of an additional 5.5% pass-through rate increase for water that is currently under Council consideration, FY 2025 rates for both systems have already been approved by Council and represent the final approved rate increases for both systems.

Wastewater – For the wastewater system, rate increases are projected to be between 6.0% and 8.0% each year for the duration of the PUD Outlook. Rates for FY 2028-2030 are higher than was projected last year, when rate increases were all projected at 6.0%, and higher than the PUD Outlook from 2022 when wastewater rate increases ranged from 4.0% to 5.0%. As will be discussed, the PUD Outlook shows increased costs in the wastewater system – particularly for capital and debt service costs – requiring higher revenues, which when combined with lower overall wastewater flows require higher rates.

Water – For the water system, the PUD Outlook includes rate adjustments to support projected expenditures, reserves, and targeted financial metrics; rate adjustments range from 11.0% to 14.5% a year over the five-year period. These rate increases are higher than what was projected in last year’s Outlook, almost entirely due to increases in projected pass-through costs from the City’s water wholesaler, CWA.

We raise two key points regarding water rates:

⁴ Among other requirements, Proposition 218 requires a majority protest vote and public hearing before approval of proposed rates (Article XIII D, Section 6), and stipulates that rates charged to customers “must not exceed the proportional cost of the service attributable to the parcel or customer.” (Article XIII D, Section 6, Subdivision (b))

⁵ This does not include a 5.5% pass-through rate that PUD is seeking for FY 2025.

- The current PUD Outlook continues to assume substantial increases in water rates, including higher rates than the previous Outlook. As will be discussed, increases are tied both to increased operating expenditures and continued decreases in water demand assumptions, as conservation and local rainfall have continued to result in lower annual water sales.
- Expenditure projections for the water system are heavily impacted by water purchase costs from CWA. Over the PUD Outlook period (FY 2026-2030), the majority of proposed water rate increases are associated with increased CWA water rates. Uncertainties related to CWA's rate increases are discussed in more detail at the end of this report.

Financial Policies and Rate Stabilization

The need for additional rate increases is in part driven by certain financial metrics targeted by each of the enterprise funds. These metrics ensure sufficient cash to fund operations, debt payments, and reserves. The main metrics PUD uses to ensure the enterprise funds have sufficient cash to meet the system's needs are: Debt Service Coverage Ratios, the Rate Stabilization Fund, and days of Cash on Hand. It is important to note that metrics provided in the Outlook assume the rate increases previously discussed will be approved. Any potential change in the assumed rates would result in a change in these metrics.

In some instances, these metrics are currently trending either at or above targets; when metrics are projected below targets, they will quickly be brought back to targeted levels. While there is no single year where either enterprise fund is achieving all targets, when financial metrics are above targets, there could be room to adjust the Financial Plan and overall revenue requirements. Our Office will review these metrics and their levels under future mitigation plans and rate cases and may make associated recommendations during our report on the COS study.

Debt Service Coverage Levels

PUD uses a combination of cash funding and debt financing to support the water and wastewater capital improvement program (CIP).⁶ Debt service coverage ratios (DSCRs)⁷ are an important factor in the Outlook, because they impact the utility's credit rating, and a high credit rating is required to receive low interest rate financing. Existing PUD bond covenants require a minimum DSCR of 1.2x for senior debt and 1.1x for aggregate debt. PUD indicates that it generally targets a DSCR of 1.5x for both the water and wastewater systems to maintain a high credit rating and receive low-cost borrowing. As shown in the table below, the Outlook includes a DSCR ranging from 1.33x to 2.00x for the water system and 1.30x to 1.39x for the wastewater system.

⁶ Debt payment obligations extend well beyond the period covered in the PUD Outlook.

⁷ The DSCR is a fund's revenues net of operating expenses divided by the total debt service owed. A DSCR less than 1.0 would indicate that the organization does not have enough revenues to support its debt payments through annual cash flows and would need to draw from fund balance or reserves or borrow additional funds in order to make debt payments.

Utility System Projected Debt Service Coverage Ratio (in millions)						
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Water						
Net Systems Revenue	\$ 162.3	\$ 194.5	\$ 235.4	\$ 283.9	\$ 365.9	\$ 440.5
Debt Service	\$ 121.8	\$ 145.1	\$ 176.4	\$ 187.1	\$ 214.1	\$ 220.0
Debt service Ratio	1.33 x	1.34 x	1.33 x	1.52 x	1.71 x	2.00 x
Wastewater						
Net Systems Revenue	\$ 156.8	\$ 140.1	\$ 192.6	\$ 187.7	\$ 216.9	\$ 205.8
Debt Service	\$ 113.2	\$ 107.9	\$ 141.0	\$ 138.6	\$ 159.9	\$ 148.0
Debt service Ratio	1.38 x	1.30 x	1.37 x	1.35 x	1.36 x	1.39 x

Each utility has different DSCR metrics during the Outlook period, with the water system moving above the 1.5x target in FY 2028, while the wastewater system remains below the target throughout the Outlook period. For both systems, overall debt service throughout the Outlook period increases, with significant increases for the water utility. Net system revenue is also projected to increase, resulting in improved ratios in the later years for both systems. Notably, DSCRs for the water system are higher in this Outlook than the previous Outlook. *Our Office will continue to analyze the DSCR ratios and systems revenue, in conjunction with the other metrics described below, to determine the appropriateness of these metrics in line with the proposed rate increases.*

Rate Stabilization and Reserve Requirements

Reserve balances and targets are important factors in the PUD Outlook: reserves help ensure stable, reliable operations and are required to meet debt financing requirements. The Department maintains reserve funds in accordance with the City’s Reserves Policy ([Council Policy 100-20: Reserve Policy](#)). There are three reserves for both the Water and Wastewater Utility Funds: an Emergency Operating Fund, an Emergency Capital Reserve Fund, and a Rate Stabilization Reserve Fund. The Water Utility Fund also has a Secondary Purchase Reserve fund intended to mitigate risks associated with rainfall variability and unforeseen emergencies impacting supply. At the end of FY 2025 the Water and Wastewater Utility Funds are estimated to have total reserves of approximately \$117.7 million and \$156.6 million, respectively. Reserves are all projected to be funded at targeted levels throughout the Outlook, *with the exception of the Rate Stabilization Funds (RSFs).*

Council Policy 100-20: Reserve Policy

- Emergency Operating Reserves equivalent to 70 days of operations (for water, this is 70 days of operations less water purchase costs).
- Emergency Capital Reserves of \$5 million each (total \$10 million for Public Utilities) budgeted in the CIP each year.
- Rate Stabilization Fund Reserves equivalent to 5% of prior year’s operating revenue.
- Secondary Purchase Reserve (water only) equivalent to 6% of the annual water purchase budget.

The RSF for the water utility is projected to go below target in FY 2026, and the RSF for the wastewater utility, which is currently carrying a balance roughly four times its targeted level, is expected to be drawn down to well below targeted levels by FY 2029, as shown in the table below.

Rate Stabilization Fund Reserves in PUD Outlook <i>(in millions)</i>						
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Water						
Reserve Target	\$ 30.1	\$ 35.6	\$ 40.3	\$ 46.4	\$ 52.4	\$ 58.2
Estimated Funding Level	35.7	11.7	-	13.0	42.0	79.0
Amount Above Target	\$ 5.6	\$ (23.9)	\$ (40.3)	\$ (33.4)	\$ (10.4)	\$ 20.8
Wastewater						
Reserve Target	19.9	21.5	22.3	23.6	25.1	26.9
Estimated Funding Level	81.3	85.3	44.3	27.3	4.3	24.3
Amount Above Target	\$ 61.4	\$ 63.8	\$ 22.0	\$ 3.7	\$ (20.8)	\$ (2.6)

As shown above, draws from the RSFs for each system are projected in FY 2025, including \$10.0 million from the water RSF and \$14.0 million from the wastewater RSF, but even with these draws both funds would remain above target at the end of FY 2025.

Further use of RSF reserves is also projected. For the water system, there are significant projected draws of \$24.0 million and \$11.7 million in FY 2026 and FY 2027, which would fully deplete the water RSF. The water RSF balance would then be replenished in subsequent years, with the fund returning to above-target levels in FY 2030.

Projections for the wastewater system assume use of the RSF beginning in FY 2027, with subsequent draws in FY 2028 and FY 2029, which would drop the wastewater RSF below target in FY 2029. While there is a projected contribution in FY 2030, the RSF would still be below target at the end of that fiscal year.

Our Office will continue to analyze both the utilization of RSF funds, as well as payback schedules, to determine the appropriateness of this plan in line with proposed rate increases.

Days of Cash on Hand

The final metric that PUD uses to judge the financial health of its enterprise funds is the number of days of Cash on Hand (CoH). This metric is derived from dividing the estimated ending fund balance of each fund (including reserve balances) by the total costs for operations and maintenance expenditures for that year, and then multiplying that by the number of days in a year. The Department strives to maintain 160 days of CoH for each system.

Cash on Hand in PUD Outlook <i>(days of cash)</i>						
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Target	160	160	160	160	160	160
Water						
Days of Cash On Hand	186	121	102	73	119	144
Amount Above Target	26	(39)	(58)	(87)	(41)	(16)
Wastewater						
Days of Cash On Hand	305	356	450	118	221	104
Amount Above Target	145	196	290	(42)	61	(56)

For the Water Utility Fund, the days of CoH fall below the 160-day target in FY 2026, with 121 days of CoH, reaching a low of 73 days in FY 2028 before growing back to near-targeted levels

by FY 2030. For the Wastewater Utility Funds, days of CoH fall below the 160-day target in both FY 2028 and FY 2030 but remain above the targets in the other years. Again, our Office will analyze any potential rate adjustment recommendations along with this metric.

Outlook Comparisons

The PUD Outlook continues to assume the need for increased rates in each of its five years. Water rate increases in this Outlook are higher than last year’s Outlook in each year, and wastewater rates increases are above prior-year projections in FY 2028 through FY 2030. The need for increased rates is mainly driven by the cashflow needs of each utility, as the cash derived from rates is funds everyday operations of both utilities, pays for ongoing and new debt service, and keeps CIP projects moving. The following tables show the total cash expenditures projected in the prior PUD Outlook and the current PUD Outlook across both water and wastewater systems, as well as revenue projections and rate assumptions.

For the water system, total cash expenditures in the current PUD Outlook are generally larger than in the previous Outlook. While FY 2026 is projected to require less cash than previously, mainly due to less cash needs for the CIP, all of the other years require increased cash expenditures due to a combination of higher operating costs, water purchases, and debt service.

Water Expenditures, Revenues, and Rates							
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
FY 2025-2029 Outlook							
Water Purchases	263.1	283.6	331.9	316.8	314.6	331.1	
Operating Expenditures	290.0	311.2	331.6	347.9	356.7	365.2	
Debt Service	101.3	124.7	146.9	153.7	185.5	192.5	
Cash-Funded CIP	(18.1)	(47.7)	211.2	45.4	(22.5)	132.8	
Total Cash Expenditures	636.3	671.8	1,021.6	863.8	834.3	1,021.6	
Water Sales Rate Revenue	609.1	688.9	743.1	819.5	885.0	946.5	
Other Revenue	58.4	60.0	57.1	52.8	55.1	56.9	
Total Cash Revenue	667.5	748.9	800.2	872.3	940.1	1,003.4	
Rate Increase	10.2%	8.7%	11.8%	8.9%	8.2%	7.4%	
FY 2026-2030 Outlook							
Water Purchases	247.0	272.6	311.5	329.8	357.3	383.1	418.5
Operating Expenditures	314.3	312.7	365.1	414.7	423.2	416.4	427.6
Debt Service	100.5	121.8	145.0	176.4	187.1	214.0	219.9
Cash-Funded CIP	32.4	(46.1)	85.7	51.0	148.3	61.9	171.2
Total Cash Expenditures	694.2	661.0	907.3	971.9	1,115.9	1,075.4	1,237.2
Water Sales Rate Revenue	585.3	694.9	789.7	910.5	1,031.0	1,146.5	1,272.7
Other Revenue	43.4	27.7	44.2	43.5	33.0	34.3	37.9
Total Cash Revenue	628.7	722.6	833.9	954.0	1,064.0	1,180.8	1,310.6
Rate Increase	10.2%	14.2%	13.7%	14.5%	11.5%	11.0%	11.0%

In FY 2024 and FY 2025, water revenues are below prior-year projections due to decreased water sales associated with increased rainfall, particularly in FY 2024, as well as a significant decrease in the Other Revenue category. This decrease is made up of a true-up across various revenue line items based on historical actuals and includes significant items such as reimbursements from other agencies, fines and penalties, and other non-operating revenues. Of note, there is an additional

\$10.0 million in revenue in both FY 2026 and FY 2027 within the water funds due to the transfer of anticipated fund balances within PUD’s fleet replacement funds back to the water operating funds. This one-time revenue source is being utilized to offset rate revenue during these two years. Otherwise, revenue increases between the two Outlooks are mostly related to higher rate increases than previously anticipated.

Wastewater Expenditures, Revenues, and Rates							
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
FY 2025-2029 Outlook							
Operating Expenditures	329.1	337.8	351.4	361.7	370.9	381.4	
Debt Service	97.3	111.9	89.3	102.5	113.8	127.2	
Cash-Funded CIP	128.5	(53.2)	67.4	(100.8)	187.8	(80.9)	
Total Cash Expenditures	554.9	396.5	508.1	363.4	672.5	427.7	
Wastewater Rate Revenue	311.8	323.3	340.7	364.8	387.6	411.9	
Other Revenue	126.3	115.6	115.8	117.8	116.5	115.1	
Total Cash Revenue	438.1	438.9	456.5	482.6	504.1	527.0	
Rate Increase	4.0%	3.0%	7.0%	6.0%	6.0%	6.0%	
FY 2026-2030 Outlook							
Operating Expenditures	322.1	340.5	358.4	378.7	389.0	399.3	406.8
Debt Service	96.3	113.2	93.8	106.4	101.0	101.1	89.2
Cash-Funded CIP	66.0	(69.4)	(58.8)	(123.1)	340.2	(116.3)	168.7
Total Cash Expenditures	484.4	384.3	393.4	362.0	830.2	384.1	664.7
Wastewater Rate Revenue	293.2	322.9	335.9	358.8	385.5	418.0	452.6
Other Revenue	144.3	141.0	136.8	141.0	140.8	140.7	143.9
Total Cash Revenue	437.5	463.9	472.7	499.8	526.3	558.7	596.5
Rate Increase	4.0%	3.0%	7.0%	6.0%	8.0%	8.0%	8.0%

For the wastewater system, total cash needs are in line with the projections in the previous Outlook, although there are significant differences in certain years due to changes in the cash needs for the wastewater CIP. Operating expenditures are also higher in the current Outlook, due to increases in employee pay, supplies, and energy costs. Rate revenues are somewhat lower in the current Outlook mostly due to the true up of sewer service charges based on the most recent actuals. However, other revenue has increased due to increased revenue expectations from the Metro JPA participants.

Revenues

Revenue assumptions are a critical part of the PUD Outlook as they consider both rate revenues and other revenue sources. Revenues for each of utility are heavily dependent on units of sale, with water demand determining both water sales revenue and calculated wastewater flows and revenues from direct City customers. Water demand is volatile, subject to large swings due to changing weather conditions and water conservation.

It is important to note that wastewater flows from outside agencies that send their wastewater to the City’s treatment plant will also need to be closely monitored, as development of the East County Water Purification Project is likely to reduce the amount of wastewater flowing into the City through the Metropolitan Wastewater System. As such, what the contributing agencies that are part of the East County Joint Powers Authority (JPA) would be required to pay to the Metropolitan Sewer Fund may be different than projected.

For this Outlook, there are no assumed changes to the flows as a result of the East County JPA project, since it is unclear of when that project will come online and how it will impact the overall strengths and flows of wastewater from those agencies. In the current Outlook, the Metro JPA contributions range from \$102.2 million up to \$115.0 million across the Outlook period (the prior Outlook assumed flat contributions from Metro JPA members of \$85 million per year). Actual revenue from the Metro JPA, and the overall strength and concentrations of their wastewater flows, will bear careful monitoring moving forward.

Water Demand Assumptions

Water demand assumptions impact both projected rate revenues and water purchase costs. Projected water demand is influenced by several factors, including rainfall, population growth, and regional demand. The Outlook states PUD delivered approximately 158,000 acre-feet (AF) of potable water per year for FY 2019-2023, which is a decrease from the previous five-year annual averages of 169,619 AF for FY 2018-2022 and 176,950 AF for FY 2017–2021. Previous annual averages included 180,000 AF from FY 2015-2019, and 200,000 AF from FY 2014-2018.

The City has lowered water demand assumptions in the last several Outlooks. Previously, water demand assumptions were based on the City’s [Urban Water Management Plan](#) (updated 2021), which estimated that total water use would be approximately 172,073 AF in FY 2025 and 179,065 AF in FY 2030. However, since 2021 water use has continued to decline, which the Department attributes to the conservation messaging related to droughts in northern California and the Colorado River Basin. The Department expects this level of conservation to continue. The table below compares the water demand forecasts in the Urban Water Management Plan and the PUD Outlook.

Water Demand Assumptions (AF)			
	FY 2020	FY 2025	FY 2030
Urban Water Management Plan	154,473	172,073	179,065
FY 2026-2030 Outlook	156,261	156,305	157,471
Difference	1,788	(15,768)	(21,594)

While water conservation efforts reduce PUD’s need to purchase water from outside sources, a significant portion of operating expenditures for the water system are fixed costs, which are not directly impacted by actual water demand. For example, personnel, information technology, administrative, and debt service costs do not vary based on the level of water usage. This presents challenges, as a significant portion of water rate revenues are collected based on water usage and decreases in demand have disproportionately large impacts on revenues relative to expenditures.

Additionally, water sales dropped to 149,533 AF in FY 2024 (after only 150,327 AF in sales in FY 2023) due to significantly above-average rainfall during the winters of 2022-2023 and 2023-2024. PUD estimates that demand will rebound to 156,305 AF in FY 2025 due to a return to normal precipitation levels. However, this projection is still below the sales in FY 2022 of 161,588 AF. Sales are only incrementally increased during the remainder of the Outlook period, with increases of about 300 AF per year, and total annual water demand never surpassing FY 2022 actual sales.

This reflects the ongoing impact of conservation, with the assumption that conservation at current levels will be permanent. This is a major driver for rate increases, as without additional sales revenue growth needed to sustain operating costs must come through rate increases and higher

unit-costs charged for water. *Our Office will continue to monitor water sales through the next year in order to determine any appropriate sales adjustments forecast for water and wastewater rates.*

Expenditures

Water Purchase Assumptions

The City provides water from two sources: (1) local supplies from rainfall and runoff that flow into reservoirs, which provide on average 10 – 15% of water needs, and (2) water purchased from its wholesaler, the CWA, which provides 85 – 90% of water needs. Because the City currently imports a significant percentage of its water supply – PUD’s water purchase costs represent \$272.6 million or 41.2% of the Water Utility Fund expenditures in FY 2025 – water purchase assumptions are the most critical single component of the PUD Outlook.

The PUD Outlook projects expenditures for imported water purchases will increase from \$311.5 million to \$418.5 million over the five-year Outlook period. These increases are despite assumptions for increased use of local supplies from rainfall and runoff, particularly during early years. While the previous Outlook assumed a baseline use of 25,000 AF from local supplies, with a one-time increase of up to 35,000 AF in FY 2024 and 43,000 AF in FY 2025 due to increased rainfall, the current Outlook now assumes that 55,000 AF can be used in both FY 2025 and FY 2026, and 43,000 AF in FY 2027, as will be shown in the following table. This is an aggressive use of local supplies, including water in many reservoirs which are currently operating under dam height restrictions such as El Capitan and Lake Hodges. Without these restrictions, the City could potentially have even more water available to mitigate water purchases in the next couple of years.

In addition to captured rainfall and runoff, the Outlook assumes Pure Water Phase 1 is delivering water towards the end of FY 2026, with full capacity being reached in FY 2027. Water purchase volumes and expenses in FY 2027 and FY 2028 are projected to decline due to a shift toward local water supply produced from Pure Water Phase 1 to meet a portion of annual water demands.

Water Purchases Estimated in PUD Outlook							
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Water Requirement (AF)	163,603	171,012	170,692	171,089	171,488	171,887	172,284
Local Water Supply (AF)	35,000	55,000	55,700	65,400	63,600	63,600	58,600
<i>Reservoirs/Storage</i>	<i>35,000</i>	<i>55,000</i>	<i>55,000</i>	<i>43,000</i>	<i>30,000</i>	<i>30,000</i>	<i>25,000</i>
<i>Pure Water Production</i>	<i>-</i>	<i>0</i>	<i>700</i>	<i>22,400</i>	<i>33,600</i>	<i>33,600</i>	<i>33,600</i>
Purchased Supply (AF)	128,603	116,012	114,992	105,689	107,888	108,287	113,687
Estimated Cost (<i>in Millions</i>)	\$ 247.0	\$ 272.6	\$ 311.5	\$ 329.8	\$ 357.3	\$ 383.1	\$ 418.5
<i>Cost Per AF</i>	<i>\$ 1,920</i>	<i>\$ 2,350</i>	<i>\$ 2,709</i>	<i>\$ 3,120</i>	<i>\$ 3,312</i>	<i>\$ 3,538</i>	<i>\$ 3,681</i>

Despite the aggressive increase in use of local supplies, and limited growth in water demand, water purchase costs continue to increase every year of the Outlook, due to assumed future CWA rate increases. These CWA rate increases have been particularly high over the last several years and included a 14.0% increase for calendar year 2025. The Outlook projects CWA’s water rates will increase by 16.4% in CY 2026, and then 7.0% per year through CY 2029. This projection assumes increases in the cost per AF of 56.7% over the PUD Outlook period. However, as will be discussed, continued declines in CWA’s own water sales could require even greater water purchase costs increases than those assumed in the PUD Outlook.

Operating Expenditures

Similar to the General Fund Outlook, the PUD Outlook uses operations and maintenance (O&M costs) in the FY 2025 Adopted Budget as a baseline and then applies a series of inflation factors and other discrete adjustments to develop the Outlook's projections. Many of the inflation factors used in the General Fund Outlook were also applied to the PUD Outlook, including factors for personnel costs, fringe benefits, energy and utilities, and other categories.

Operating costs for most expenditure categories increase slightly in the near term when compared to the prior PUD Outlook. Most of the changes are in FY 2026 and are related to new Critical Operating Expenditures. The PUD Outlook includes critical operating expenses for upcoming new programs, including the addition of staff and related expenses and non-personnel expenses for supplies, contracts, and energy and utilities. Altogether these expenditures include 47.6 new FTEs and a combined total of \$90.3 million across both the water and wastewater systems, as shown in the following table.

As in past years, Pure Water continues to be the largest Critical Strategic Expenditure. While previous expenditure additions for Pure Water were for personnel to run the facility, many of those positions have already been added to PUD's budget and are thus now part of the baseline. However, energy costs projected to run Pure Water have increased over the prior Outlook. While the previous Outlook projected energy costs to be about \$15.5 million to operate Phase 1, the current Outlook projects a need for \$55.0 million. This is based on updated estimates provided to PUD by the Sustainability and Mobility Department, which considers the latest forecast for SDG&E rates as well as updated energy use assessments for the facilities. These energy costs alone account for over half of the anticipated new operating expenditures throughout the Outlook period.

Critical Operating Expenditures Totals					
	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030
Water System					
Personnel					
FTE	14.07	27.89	39.59	40.59	41.59
Expense	\$ 1,344,587	\$ 2,694,033	\$ 3,911,351	\$ 4,104,616	\$ 4,305,682
Nonpersonnel					
Supplies	\$ 5,516,000	\$ 12,432,000	\$ 15,848,000	\$ 15,464,000	\$ 15,464,000
Contracts	\$ 23,938,076	\$ 26,513,076	\$ 22,563,076	\$ 7,613,076	\$ 11,613,076
Energy and Utilities	\$ 10,114,000	\$ 40,456,000	\$ 40,456,000	\$ 40,456,000	\$ 40,456,000
Other	\$ 2,150,000	\$ 1,633,000	\$ 375,000	\$ 62,500	\$ 62,500
Total Non-personnel	\$ 41,718,076	\$ 81,034,076	\$ 79,242,076	\$ 63,595,576	\$ 67,595,576
Total Operating Expenses	\$ 43,062,663	\$ 83,728,109	\$ 83,153,427	\$ 67,700,192	\$ 71,901,258
Wastewater System					
Personnel					
FTE	4.88	6.01	6.01	6.01	6.01
Expense	\$ 1,282,275	\$ 1,963,453	\$ 2,459,503	\$ 2,522,875	\$ 2,588,180
Nonpersonnel					
Supplies	\$ 84,000	\$ 168,000	\$ 252,000	\$ 336,000	\$ 336,000
Contracts	\$ 3,669,557	\$ 1,477,868	\$ 196,882	\$ 546,445	\$ 432,782
Energy and Utilities	\$ 1,786,000	\$ 12,914,368	\$ 14,453,133	\$ 14,837,824	\$ 14,837,824
Other	\$ 600,000	\$ 1,125,000	\$ 375,000	\$ 187,500	\$ 187,500
Total Non-personnel	\$ 6,139,557	\$ 15,685,236	\$ 15,277,015	\$ 15,907,769	\$ 15,794,106
Total Operating Expenses	\$ 7,421,832	\$ 17,648,689	\$ 17,736,518	\$ 18,430,644	\$ 18,382,286
Combined Total	\$ 50,484,495	\$ 101,376,798	\$ 100,889,945	\$ 86,130,836	\$ 90,283,544

The other large increase for new expenditures is for the Dam Safety Program, which includes between \$21.0 million and \$24.7 million during FY 2026-2028. These expenses will cover costs to repair various dams and conduct additional condition assessments in order to better determine the long-term capital needs for these assets.

Capital Improvement Program (CIP)

Capital investments are a key driver of costs and revenue requirements in the PUD Outlook for both the water and wastewater systems and include two key categories of projects: (1) Pure Water (particularly Phase 1 construction costs), and (2) Baseline CIP (ongoing investments in infrastructure repairs, replacements, and improvements). As shown in the following table, Pure Water expenditures significantly decrease following FY 2025 and FY 2026 as Phase 1 construction ends and the facilities go into production.

Total CIP (in millions)							
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	Total
Pure Water							
Water	\$ 291.4	\$ 130.5	\$ 38.6	\$ 12.6	\$ 4.4	\$ 0.3	\$ 186.4
Wastewater	\$ 261.1	\$ 43.6	\$ 20.0	\$ 16.9	\$ 17.2	\$ 15.0	\$ 112.7
Total Pure Water	\$ 552.5	\$ 174.1	\$ 58.6	\$ 29.5	\$ 21.6	\$ 15.3	\$ 299.1
Baseline CIP							
Water	\$ 163.2	\$ 271.9	\$ 445.2	\$ 446.7	\$ 415.9	\$ 440.8	\$ 2,020.5
Wastewater	\$ 215.1	\$ 285.6	\$ 350.0	\$ 398.4	\$ 241.4	\$ 195.7	\$ 1,471.1
Total Baseline CIP	\$ 378.3	\$ 557.5	\$ 795.2	\$ 845.1	\$ 657.3	\$ 636.5	\$3,491.6
Total CIP	\$ 930.8	\$ 731.6	\$ 853.8	\$ 874.6	\$ 678.9	\$ 651.8	\$ 3,790.7

In order to mitigate near term rate needs, particularly for the water system, PUD has begun delaying projects that are not currently ready for construction. This results in lower projections for both FY 2025 and FY 2026 in the current Outlook. However, the following years have significant cost escalation for the Baseline CIP in each enterprise system, due both to the previously delayed projects now being covered and increases in cost estimates for the projects that were included in the previous Outlook. When comparing the same five-year period between each Outlook (FY 2025 through FY 2029), water system expenditures overall have increased by \$346.8 million (24.8%), while wastewater system expenditures have increased by \$594.8 million (66.4%).

Baseline CIP Comparison (in millions)						
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	Total
Water System						
FY 25-29 Outlook	\$ 249.7	\$ 319.8	\$ 304.0	\$ 274.7	\$ 247.9	\$ 1,396.1
FY 26-30 Outlook	\$ 163.2	\$ 271.9	\$ 445.2	\$ 446.7	\$ 415.9	\$ 1,742.9
Difference	\$ (86.5)	\$ (47.9)	\$ 141.2	\$ 172.0	\$ 168.0	\$ 346.8
Wastewater System						
FY 25-29 Outlook	\$ 216.7	\$ 147.7	\$ 191.1	\$ 208.3	\$ 131.9	\$ 895.7
FY 26-30 Outlook	\$ 215.1	\$ 285.6	\$ 350.0	\$ 398.4	\$ 241.4	\$ 1,490.5
Total Baseline CIP	\$ (1.6)	\$ 137.9	\$ 158.9	\$ 190.1	\$ 109.5	\$ 594.8

These increased costs are a major contributor to both higher debt and cash needs for the CIP and higher rates. While the City could consider deferring more PUD CIP projects by one or two years, to mitigate the need for near-term rate increases, deferring projects or cancelling them altogether comes with some risks, including the potential failure of some assets. PUD staff have also conducted numerous condition assessments on their various assets to determine the appropriate course of action on those assets and have already either deferred or delayed the replacement of assets based on those assessments.

Additionally, there are known large capital projects that the City will need to undertake in the coming years, including the replacement of Lake Hodges Dam and Pure Water Phase 2, which will

begin construction in the years immediately following this Outlook period. Deferring currently planned projects into these years would either require higher rate increases during the next COS study or continued deferred maintenance on critical assets. *Our Office will work with our consultant to review what options, if any, there are to lower overall CIP costs for both enterprise systems and include any potential recommendations in our subsequent report.*

Revenues and Sources for CIP Funding

The financing plan for the Baseline CIP is one major driver of cash needs for each of the utility enterprise funds, and impacts important financial metrics, including the DSCR and days of CoH. The table below provides an overview of baseline CIP expenditures and funding sources for the Outlook period. For each system, proposed financing includes a mixture of debt as well as cash and capacity fees, with the water system funded with 74.6% debt financing and the wastewater system with 66.7% debt financing. The mechanisms used to fund needed capital improvements – such as commercial paper/bonds, loans, or cash – should align with the anticipated useful life and expected benefit of each improvement project; debt financing of one-time system upgrades and improvements promotes intergenerational equity by distributing project costs over the life of the new asset. The optimal combination of debt and cash funding can help balance the near- and long-term impacts to ratepayers while meeting PUD’s financial targets and ratings agencies’ benchmarks.

Baseline CIP Expenditures and Revenues (in millions)								
	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	Outlook Total
Water System								
Expenditures	\$ 150.3	\$ 163.2	\$ 271.9	\$ 445.2	\$ 446.7	\$ 415.9	\$ 440.8	\$ 2,020.5
Revenue Sources								
Commercial Paper/Bonds	\$ 122.7	\$ 229.1	\$ 160.0	\$ 340.0	\$ 230.0	\$ 240.0	\$ 150.0	\$ 1,120.0
SRF Loans	\$ -	\$ 24.2	\$ 45.1	\$ 68.4	\$ 66.0	\$ 103.5	\$ 104.8	\$ 387.8
Capacity Fees	\$ 16.9	\$ 15.0	\$ 15.0	\$ 15.0	\$ 15.0	\$ 15.0	\$ 15.0	\$ 75.0
Capacity Fees/Cash	\$ 10.7	\$ (105.1)	\$ 51.8	\$ 21.8	\$ 135.7	\$ 57.4	\$ 171.0	\$ 437.7
Total Revenue	\$ 150.3	\$ 163.2	\$ 271.9	\$ 445.2	\$ 446.7	\$ 415.9	\$ 440.8	\$ 2,020.5
Wastewater System								
Expenditures	\$ 158.7	\$ 215.1	\$ 285.6	\$ 350.1	\$ 398.3	\$ 241.5	\$ 195.8	\$ 1,471.3
Revenue Sources								
Revenue Bonds	\$ 3.9	\$ 300.0	\$ 225.0	\$ 375.0	\$ -	\$ 320.0	\$ -	\$ 920.0
SRF Loans	\$ 2.9	\$ 4.9	\$ 11.0	\$ 17.3	\$ 17.7	\$ 11.7	\$ 3.7	\$ 61.4
Capacity Fees	\$ 32.5	\$ 22.5	\$ 33.0	\$ 34.0	\$ 35.0	\$ 36.1	\$ 37.1	\$ 175.2
Capacity Fees/Cash	\$ 119.4	\$ (112.3)	\$ 16.6	\$ (76.2)	\$ 345.6	\$ (126.3)	\$ 155.0	\$ 314.7
Total Revenue	\$ 158.7	\$ 215.1	\$ 285.6	\$ 350.1	\$ 398.3	\$ 241.5	\$ 195.8	\$ 1,471.3

Compared to the previous Outlook, overall debt financing has increased for both the water and wastewater systems. However, the proportion of debt utilized to cover the costs for the CIP has decreased for both systems (water previously was projected to be funded with 80.4% debt and wastewater with 74.8%). Thus, while overall debt load has increased, it has done so slower than the projected growth in the total cost for the baseline CIP.

The debt issuance schedules for both systems remain similar, though there is an additional wastewater debt issuance assumed for FY 2026 that was not included in the previous Outlook. Having more regular issuances of debt in order to mitigate cash needs for the system was a mitigation strategy that our Office previously discussed.

Finally, SRF loans for water have increased from \$249.6 million to \$387.8 million, and for wastewater from none up to \$61.4 million. This is positive since SRF loans positively impact overall debt service costs as they typically have lower interest rates and do not require payback until projects have completed construction.

Potential Mitigating Actions

The drivers of rate increases shown in the PUD Outlook are mainly increased operations expenditures, water purchase assumptions, and CIP cash needs. In [IBA Report 23-38](#) on the prior PUD Outlook, our Office provided four potential mitigation actions to address rate increases projected in that Outlook. These mitigation actions included rate smoothing, increasing local water usage assumptions, changing the debt issuance schedule for CIP projects, and deferring CIP projects. All of these options came with various pros and cons.

Many of these mitigation measures have been incorporated in the current PUD Outlook, including increasing local water usage assumptions and changing the debt issuance schedule. Moving forward, our Office will review any additional mitigation measures during our review of the COS study alongside our consultant. A subsequent IBA report will include any additional mitigation recommendations from our Office, including any associated impacts to financial metrics, operations, and rate increases.

San Diego County Water Authority (CWA) Rates

The largest single expenditure for PUD – and the largest non-personnel expense for the City – is the purchase of water from CWA. The City’s reliance on imported water leaves it susceptible to rate increases beyond its control. The City of San Diego is also the largest user of CWA water, accounting for about 40% of CWA’s water deliveries. Pure Water Phase 1 entering production will have a significant impact on the total regional demand for CWA water.

CWA sets its rates on a calendar year basis, with rate hearings normally taking place in the summer. Applicable rate and charge categories for the City include four fixed categories (Storage, Customer Service, Supply Reliability, and Infrastructure Access) and a volumetric rate based on the actual volume of water purchased by the City. As previously mentioned, the PUD Outlook assumes that CWA rates will increase by 16.4% for calendar year 2026, and then by 7.0% per year thereafter. As shown in the table below, anywhere from one-third to half of PUD’s projected water rate increases would be needed to pay for increased CWA water rates. Increases in revenue necessary to support PUD water system operations range from 4.6% to 11.2% in each year of the Outlook period.

Projected Water Rate Increases by CWA Pass-through Costs and Water System Costs							
	1/1/2025	5/1/2025	1/1/2026	1/1/2027	1/1/2028	1/1/2029	1/1/2030
CWA Pass-through Costs	5.0%	5.5%	11.2%	4.6%	6.0%	5.1%	6.2%
Water System Costs	3.7%	0.0%	2.5%	9.9%	5.5%	5.9%	4.8%
Total Rate Increase	8.7%	5.5%	13.7%	14.5%	11.5%	11.0%	11.0%

Similar to the City, the CWA’s revenues are also directly tied to the amount of water they sell, while many of their expenses remain fixed. Recent discussions of the CWA Board of Directors have included an evaluation of the CWA’s current rate structure, and in particular have focused on the need for CWA to increase the proportion of revenues that it recovers from fixed charges. This

is in response to projected decreases in demand associated with the City's Pure Water program, as well as efforts by the East County JPA and the City of Oceanside to complete similar projects. Starting with 2025, a portion of CWA's Transportation Rate (30%) has been moved to a fixed basis. It is important to note that **if CWA's fixed charges are increased to recover a greater share of CWA's revenue needs, the City will be impacted substantially more than if CWA instead increased its volumetric rates.** The structural change being contemplated by CWA to recover more of its revenues from fixed costs would *reduce* the City's cost savings associated with shifting a portion its water supply from CWA to Pure Water. This could potentially be even more acute in FY 2035 when the development of Pure Water Phase 2 is contemplated to be completed.

The City, and more directly the ten members of the CWA Board of Directors who represent the City (the City-10), can have a major impact on these potential rate changes. If fixed charges are to be increased, the City's directors should seek to identify ways to bring down the CWA's total operating and capital costs and overall revenue needs. Last year, our Office recommended that City-10 members focus on two specific goals: 1) limiting new capital projects; and 2) right-sizing the CWA's water supplies. We were encouraged that members of the City-10, as well as other directors from other regional water agencies, appeared to understand the need for this right-sizing.

We continue to advocate that the CWA Board focus on limiting new capital projects and right-sizing water supplies; given that this year will include not only a rate setting process, but a full discussion of the agency's two-year budget, we offer two additional recommendations: the City-10 members should also focus on lowering the operating budget for CWA, and beginning the process to offload, rather than swapping, water supplies.

Lowering Operating Costs for CWA

CWA operates on a two-year budget, which requires the Board of Directors to engage in a thorough budget discussion every other year. This summer will include discussion for the next two-year budget, which makes it an opportune time to fully analyze the CWA's operating expenditures. Last year, the Board of Directors required the General Manager to reduce 2% from the operating budget. Since then, staff at CWA have reported back on what measures they have taken, which include approximately \$1.6 million in savings from performing various services in-house, holding positions vacant, and utilizing grant revenues. While this is a promising step, many of these actions only produce one-time savings, when the agency also needs to identify structural and ongoing savings.

Last summer, our Office worked closely with PUD staff CWA staff to attempt to understand CWA's budgets and cost pressures more fully. Through this, it became apparent that in a time of rapidly declining sales many of CWA's past and current practices are not sustainable. MWD recently began updating its official Business Plan in light of these changing conditions; it is critical that this work continue. **The City's representatives should ensure CWA expenditures are directly tied to the delivery of water to the region and should request CWA to prepare an updated business plan in the next year that addresses its long-term financial issues.**

Right Sizing the CWA's Water Supplies

Beyond keeping CWA's water delivery costs reasonable, the City's representatives should also focus on lowering the CWA's own largest expense: water purchases. As with PUD, water

purchases make up the majority of CWA's budget, accounting for 64% of the FY 2024-25 CWA budget. These purchases are primarily made through two agreements: the Quantification Settlement Agreement (QSA) and the agreement to purchase water from the Carlsbad desalination plant. The QSA provides CWA with a minimum of 277,700 AF of water every year, while the Carlsbad desalination plant agreement requires that CWA purchase a minimum of 48,000 AF of water per year. This provides CWA with a total *minimum* of 325,700 AF of water that it must pay for every year.

However, CWA's water sales have been trending downwards and are projected to remain below this minimum number in the coming years. According to the CWA's [Annual Comprehensive Financial Report for FY 2024](#), water sales were only 295,069 AF. CWA also recently released a five-year forecast in November 2024, with water sales projections for FY 2026 at 322,103 AF, with declines to 284,658 AF by FY 2030. If CWA's own projections hold true, CWA will be required to buy water under the QSA and desalination agreements that it does not need. This is the largest driver of their own rate increase needs, as when CWA's water sales drop below its minimum water purchase volumes it increases rates in order to maintain the same amount of revenue.

Notably, these excess water purchases cannot be stored for later use: last year production at the desalination plant was turned off because CWA had no storage capacity to absorb the produced water. While this did result in some savings from reduced operations costs, CWA was still paying for a plant that was not producing water for the region.

We note that CWA has begun to partially address this issue, including through an agreement with the Imperial Irrigation District (IID), MWD, and the federal government to conserve Colorado River water, including supplies that are part of the QSA, by instead purchasing less expensive water from the State Water Project through MWD. This agreement essentially swaps a more expensive water source for a less expensive one, resulting in an estimated \$20 million in savings, and repeats an agreement from the prior year. However, this agreement again only has a one-year term, and more importantly does not address the imbalance between the amount of water that CWA must purchase and the amount of water the region actually demands. Even with the previous agreement in place, CWA still increased their rates by 14%.

CWA has also either entered into agreements to attempt to sell desalinated water to another agency, such as an agency in Orange County, or considered the feasibility of beginning negotiations on swapping the use of desalinated water for the Colorado River water under the QSA. These agreements show some promise, but it is critical that CWA pursue long term agreements and adjustments to minimum purchase. **The City's representatives should focus on right-sizing CWA's water supply and purchasing costs, particularly through selling excess supplies.**

CONCLUSION

This PUD Outlook continues to show a need for additional rate increases. The PUD Outlook also provides the initial basis for expenditure and revenue forecasts for the recently released COS studies, which cover fiscal years 2026-2029 for both enterprise systems.

The need for additional rate capacity continues to be driven by additional costs to utility systems, including increases in CIP expenditures, water purchases, and operating costs due to increases in employee compensation, treatment supply costs, and energy bills. These increasing costs necessitate increased rates to maintain the financial stability of the system, and to improve reliability and performance.

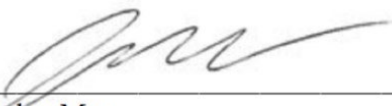
As the Pure Water systems begin to come online, it will be *crucial* for the City's representatives on the CWA Board of Directors to keep the wholesaler's costs in check to ensure the City can realize financial savings from its own renewable source of potable water. **Our Office recommends that the City's representatives should ensure all CWA operations and expenditures are directly tied to the delivery of water to the region, request CWA to prepare an updated business plan in the next year that addresses its long-term financial issues, and focus on right-sizing CWA's water supply and purchasing costs, particularly through selling excess supplies.**

A variety of financial challenges and risks could impact projections contained in the PUD Outlook, including some that are outside of the City's control. Risks and challenges include (but are not limited to):


- CWA rate increases for purchased water, especially given decreases in overall regional demand as Pure Water and similar regional projects come online.
- Changes to water demands from City customers, particularly decreases in demand and the associated impacts on supply costs and sales revenue.
- CIP funding strategies - including the use of cash, debt, capacity fees, and grants - to mitigate potential rate increases, and impacts on the ability to meet long-term DSCR requirements.
- Inflation, cost escalation, and interest rate risks given recent economic trends.

This PUD Outlook includes some mitigations our Office previously identified, and our Office has identified numerous additional areas for further analysis to determine if any additional mitigation actions are feasible or warranted. As in the past, our Office will work with a consultant to conduct an independent review of water and wastewater COS studies and proposed rate increases, and we will include any potential mitigation recommendations in a forthcoming report on the COS studies. This independent review was beneficial to Council and the public in understanding the assumptions and factors that went into the prior rate increases and laid out needed data for future studies.

We would like to thank PUD for responses to questions that went into the development of this report.



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