

SWEETWATER AUTHORITY

Finance and Administration Committee

April 1, 2025



Review of the Draft FY 2025-26 Five-year Financial Plan Assumptions

RECOMMENDATION

Staff recommends that the Governing Board review the FY 2025-26 Five-year Financial Plan Assumptions and provide input for staff to incorporate into the Draft FY 2025-26 Five-year Financial Plan.

OVERVIEW

The Draft FY 2025-26 Five-year Financial Plan (Draft Financial Plan) is scheduled for presentation to the Board on April 23, 2025. Subsequently, the Draft FY 2025-26 Budget, which includes the Draft Financial Plan, will be presented to the Board at a Budget Workshop scheduled for a Special Meeting on May 21, 2025. The purpose of this memo is to present the major assumptions that will form the framework for the Draft Financial Plan. Additionally, comments on future major capital projects is included below for an initial discussion with the Board.

Financial Plan Assumptions

The Draft FY 2025-26 Five-year Financial Plan Assumptions (Attachment 1) outline the estimated changes to the major revenues and expenditures used to develop the Draft Financial Plan. The assumptions are associated with significant cost drivers that are generally non-discretionary. The notable assumptions are discussed below:

- Based on current demands, twelve-months of water supply will be available in the Sweetwater Reservoir for use in FY 2025-26. All three local water production sources will be utilized to best manage the water quality in the distribution system. For planning purposes, 1,300-acre feet of wholesale water purchases are budgeted from the San Diego County Water Authority (SDCWA) to assist in the management of water quality. This is the same volume included in the FY 2024-25 Budget.
- SDCWA's Fiscal Years 2026 & 2027 Draft Recommended Budget, presented to SDCWA's Board on March 27, 2025, includes a 21.6 percent increase in the cost to purchase water in calendar year 2026. This equates to an approximately \$400,000 increase in the water purchase budget for a total estimated water purchases in FY 2025-26 of \$2,350,000. In addition, the SDCWA Pass-through Rate for fixed charges are estimated to increase by 8.1 percent. A portion of these fixed charges are allocated to member agencies based on a rolling average of water purchases. The Authority's water purchases have been decreasing in recent years and in turn, the decrease in rolling averages will reduce the Authority's allocation of fixed charges and partially offset any rate increase.
- The Authority concluded labor negotiations with all employee labor groups that resulted in contracts for these groups through June 30, 2027. Therefore, the assumptions are used for employee labor and benefit costs estimates for FY 2025-26.

- The fiscal years after June 30, 2027, for all labor groups, a three percent adjustment factor is used to estimate future payroll costs outside of the contract periods for planning purposes only.
- Actuarial data and rates provided by CalPERS were used to estimate future pension costs.
- The Board-adopted Water Rates and Charges for three years on December 6, 2023, with the first two of three rate adjustments implemented on January 1, 2024 and January 1, 2025. The presentation of the Draft Financial Plan on April 23, 2025 will provide preliminary customer bill impacts for the final pre-approve rate adjustment for January 1, 2026. The rate adjustment is based on estimated FY 2025-26 revenue requirements and limited by the rates published in the 2023 Proposition 218 Notice. The Authority will commence with the process to conduct a new water rate study in Spring 2026.

Major Capital Projects

The Draft Financial Plan, to be presented on April 23, 2025, will include the FY 2025-26 Five-Year Capital Investment Projection. In addition to the projects typically included in the projection, five major projects will be presented for discussion at the April 23, 2025 Board meeting to determine funding options. These projects are not yet included in the financial plan because final costs have not been fully developed. More accurate cost estimates are expected in the following year, allowing the Board to consider them with the FY 2026-27 Budget.

These projects require funding beyond what can be covered by water rate revenue within the necessary construction time frame, prompting a discussion on debt financing to determine the projects financial feasibility. The potential projects for consideration include:

- Reservoir Capacity Restoration
- Perdue Clearwell Rehabilitation
- Nitrate Removal System at Desalination Facility
- PFAS Treatment Program
- Sweetwater Dam and South Dike Improvements

FISCAL IMPACT

The fiscal impact of the FY 2025-26 Five-year Financial Plan will be presented at the April 23, 2025 Regular Board meeting.

NEXT STEPS

1. Review the FY 2025-26 Five-year Financial Plan Assumptions and provide input for staff to incorporate into the Draft FY 2025-26 Five-year Financial Plan.
2. Other action as determined by the Governing Board.

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SUPPORTING INFORMATION

Attachments

- 1. FY 2025-26 Five-year Financial Plan Assumptions and FY 2024-25 Five-year Financial Plan Assumptions for Comparison
- 2. FY 2025-26 Five-year Financial Plan Assumptions Presentation

Strategic Plan

Strategic Plan Goal 3: Financial Viability (FV) – Ensure long-term financial viability of the agency through best practices, operational efficiency, and maximizing assets.

- Objective FV1: Implement short-term (i.e., annual) and long-term (i.e., five-year) financial plans that demonstrate continued financial sustainability for the Authority and cost-effective operations and guide rate setting decision making

Past Board Actions

March 1, 2025	The Governing Board received a presentation from staff at the Strategic Planning Workshop and provided input to staff.
January 22, 2025	The Governing Board reviewed the FY 2025-26 Budget Calendar.
June 12, 2024	The Governing Board adopted Resolution 24-08, Approving the Budget for FY 2024-25, and adopted Resolution 24-09, Approving Updated Financial Policies (Board Policy 517).