The City of SAN DIEGO

PUBLIC UTILITIES DEPARTMENT
FISCAL YEAR 2027-2031
FIVE-YEAR FINANCIAL OUTLOOK

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MISSION STATEMENT

To provide reliable water utility services that protect the health of our communities and the environment

VISION STATEMENT

A world-class water utility for a world-class city

EXECUTIVE SUMMARY

The Public Utilities Department (PUD or Department) Fiscal Year 2027-2031 Five-Year Financial Outlook (PUD Outlook) is provided to guide long-range planning and serve as the framework for the development of the Fiscal Year (FY) 2027 Proposed Budget for the Water and Wastewater Funds. The purpose of this report is to provide an overview of the Department's long-range needs and to guide programmatic decisions.

The PUD Outlook focuses on the overall fiscal condition of the Water and Wastewater Funds and assesses impacts to revenues and expenditures from regional water and wastewater demands. It also explores a funding strategy to finance major capital investments in Water and Wastewater System infrastructure and the Pure Water Program construction. The PUD Outlook quantifies new costs that are critical to accomplishing the Department's strategic goals over the next five-year period. These costs for system reliability are weighted against affordability of rates to our retail customers and the financial resources needed to successfully achieve the utilities goals. These goals include:

Goal 1: Water Supply/Environmental Stewardship

- Water supply and conservation
- Carbon footprint and energy management

Goal 2: Organization Excellence

- Rate structure optimization
- Safety
- Training and development
- Culture of accountability

Goal 3: Community Engagement

- Stakeholder understanding and support
- Customer service strategies

Goal 4: Infrastructure Management

- Asset management
- Infrastructure investment

The PUD Outlook is not a budget, nor does it set rates, and projected revenues and expenditures in any given year of the PUD Outlook may not correspond exactly to those in future Proposed Budgets. Nevertheless, the PUD Outlook can serve as a planning tool to assist in budget decisions and the allocation of resources to meet PUD's strategic goals that are critical to providing the community with a reliable and high-quality water and wastewater service. The PUD Outlook also provides the City Council, key stakeholders, and the public with information to facilitate discussions during the development of the FY 2027 Budget.

As enterprise funds, the Water and Wastewater Funds differ from the General Fund in that their services are supported with revenue derived from rates charged to customers. These rates are determined through a process prescribed by state law, which requires a cost of service analysis and Council approval of any rate adjustments at a public hearing.

Recently, the City Council adopted adjustments to the water and wastewater rates and charges based on the cost-of-service studies that were released simultaneously with the prior year's outlook. The approved increases reflect the maximum authority of revenue available for the Water System through FY 2027 and the Wastewater System through FY 2029.

The PUD Outlook accounts for the CIP delays that were presented to the City Council during the rate-setting discussions, along with PUD's strategy to utilize one-time reductions to offset rising costs. At that time, the CIP delay was projected at two years under a four-year water rate proposal; however, with the revised two-year increase approved by Council, the CIP will be delayed by three years while PUD awaits future Council consideration of additional rate adjustments. All strategies will be revisited annually in conjunction with future outlooks to ensure alignment with updated financial conditions and operational needs.

As such, the PUD Outlook will need to identify how PUD will remain within the level of revenue approved by Council, recognizing that new or higher expenditures may emerge beyond those reflected in the prior outlook and cost of service study.

SUMMARY OF KEY FINANCIAL DATA

This section presents a summary of the PUD Outlook, and the overall fiscal condition of the Water and Wastewater Systems. Tables 1.1 and 1.3 summarize revenues projected to support operations and key financial metrics for the Water and Wastewater Systems, respectively. Further details on CIP expenses and revenue sources for those expenses is also provided.

Additional detail on each line item in these summaries can be found in the corresponding sections of this report. Baseline operating expenditures are those expenditures that are sufficient to allow PUD to continue providing its existing level of service without expanding any operational programs. Critical operating expenditures identified in the prior outlook, which included expenditures associated with Pure Water Phase 1 operations and regulatory compliance, are now reflected in baseline operating expenditures. Although this deviates from the practice of past outlooks, inclusion of prior critical expenditures in the baseline is warranted because the approved cost of service studies assume these expenditures will be funded by projected rate revenues, even without budgets finalized for those years. No additional critical operating expenditures are forecasted at this point.

CIP expenditure projections are also detailed in Tables 1.2 and 1.4 and are split into Pure Water CIP expenditures, which are associated with the Pure Water Program, and Baseline CIP expenditures, which consist of capital expenditures on all non-Pure Water related capital improvements, which includes pipelines, pump stations and storage infrastructure. As described in the Executive Summary, the Department has prioritized capital projects due to criticality and has delayed a subset of projects in order to stay within the total financial commitment projected in the cost of service study. The PUD Outlook's revenue projections include the forecasted revenue that will be required to adequately cover operating and CIP expenses and to meet financial metrics necessary to operate the systems.

Water and Wastewater Systems

Overall, the PUD Outlook for both the Water and Wastewater Systems forecasts baseline operating expenditures to grow over the next five years. For the fiscal years covered by the recently approved rate case (through FY 2027 for Water and FY 2029 for Wastewater), expenditures align with assumptions utilized; delays and deferrals in expenditures that were assumed are now reflected to occur in the outer years of the PUD Outlook. As anticipated, CIP expenditures for Pure Water Phase 1 have peaked and will diminish until Phase 2 construction begins. For the Water System, CIP expenditures show the impact from a three-year delay but these expenditures are assumed to occur thereafter, as reflected in FY 2029. For the Wastewater System, the PUD Outlook depicts the decline associated with Pure Water Phase 1 construction and a shift in expenditures to address critical pump stations and treatment plants.

The City's network of nine dams is expected to become another core expenditure program with expenditures ramping up in the PUD Outlook period and continuing for the next 20+ years. This will impact both the operating and capital budget. This PUD Outlook builds on earlier budget additions proposed by the Mayor and approved by City Council in what is expected to over a billion dollar plus program. As expected in prior outlooks, new data has and will continue to influence the size and scope of the portfolio of dam projects included in this PUD Outlook, which is expected to increase as more projects are identified and completed.

The City's Wastewater System operates 74 small pump stations and seven large pump stations (Pumpstation 1, 2, Grove Avenue, Otay River, 64, 65 and Penasquitos) which are responsible for conveying wastewater for treatment at one of the city's three treatment plants. The City over the last two decades has focused on its horizontal assets (i.e. pipelines) but has seen over the last five years a shift in priorities to vertical assets (i.e. pump stations and treatment plants) that are a significant risk to operations and have been the site of several large sewer spills during more frequent atmospheric river storms.

For the Water System, with Pure Water Phase 1 coming online, the volumes of water purchased are expected to decline but price per acre foot is forecasted to increase during the PUD Outlook period. These drivers are explored in depth in the "Other Assumptions and Considerations" section of the report.

Revenues for both the Water and Wastewater Systems are projected to increase over the next five years, primarily due to an increase in forecasted rates to fund the expenditures and financial metrics as forecasted in the PUD Outlook period. Sales are projected at the historical averages across the PUD Outlook period but will likely vary from year to year. The PUD Outlook also anticipates the transfer of funds to and from the Rate Stabilization Fund for each system to smooth revenue needs through the PUD Outlook period, which would otherwise require additional rate increases. Both systems expect to deviate from target levels of rate stabilization reserves levels, which would be brought back to target levels with future rate adjustments, if Council approves. The use of rate stabilization funds, deviation from target fund balances, and relaxing of financial metrics were fundamental assumptions used in the setting of rates and continue to be assumed in the PUD Outlook periods covered by authorized rates.

PUD continues to project the use of financing to fund the CIP, including the Pure Water Program, as illustrated in Tables 1.2 and 1.4.

Table 1.1 - Water System Fiscal Year 2027-2031 Financial Outlook ($ in Millions)	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Water Sales	$821.7	$944.9	$1,072.7	$1,193.9	$1,325.2	$1,429.0
Capacity Charges	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0
Revenue from Use of Property	$6.9	$6.9	$6.9	$6.9	$6.9	$6.9
Other Revenue	$32.9	$23.9	$25.2	$26.3	$28.0	$28.5
TOTAL SYSTEM REVENUES	**$876.5**	**$990.8**	**$1,119.8**	**$1,242.1**	**$1,375.2**	**$1,479.4**
Salaries & Wages	$93.3	$98.2	$102.4	$105.7	$108.9	$112.1
Fringe Benefits	$56.0	$57.2	$58.3	$59.5	$59.8	$60.1
Water Purchases	$337.7	$398.0	$401.6	$430.7	$450.4	$485.1
Other Non-Personnel Expenditures	$196.7	$252.0	$304.8	$308.5	$318.4	$327.6
BASELINE OPERATING EXPENDITURES	**$683.7**	**$805.4**	**$867.1**	**$904.3**	**$937.5**	**$984.9**
CRITICAL OPERATING EXPENDITURES	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Contribution to CIP	$110.6	($74.9)	$14.2	$239.2	$162.8	$151.9
Debt Service	$140.1	$172.0	$190.0	$196.6	$211.6	$226.2
(Use of) / Contribution to Reserves	$9.0	($9.1)	$18.3	$48.3	$40.8	$4.5
NON-OPERATING EXPENDITURES	**$259.8**	**$87.9**	**$222.6**	**$484.1**	**$415.2**	**$382.6**
TOTAL EXPENDITURES	**$943.4**	**$893.3**	**$1,089.7**	**$1,388.4**	**$1,352.6**	**$1,367.5**
Impact to Fund Balance	($66.9)	$97.5	$30.1	($146.3)	$22.6	$111.8
Debt Service Coverage Ratio	**1.27x**	**1.18x**	**1.29x**	**1.48x**	**1.89x**	**2.18x**
Assumed Rate Increase[1]	**14.7%**	**14.5%**	**11.5%**	**11.0%**	**11.0%**	**5.0%**

[1] City Council has approved maximum rate levels for water through January 1, 2027. Revenues in the PUD Outlook reflect the impact of those increases from the effective date in that fiscal year.

Table 1.2 - Water System Fiscal Year 2027-2031 Financial Outlook Summary of Capital Improvements Program Key Financial Data ($ in Millions)						
	FY 2026	**FY 2027**	**FY 2028**	**FY 2029**	**FY 2030**	**FY 2031**
Baseline CIP	$314.7	$372.9	$305.5	$433.6	$397.1	$325.2
Pure Water CIP	$164.9	$65.4	$28.2	$32.5	$33.2	$35.8
TOTAL CIP EXPENDITURES	**$479.6**	**$438.3**	**$333.7**	**$466.0**	**$430.2**	**$361.0**
Sources of Funds						
City Financing	$240.0	$400.0	$170.0	$125.0	$150.0	$120.0
State Revolving Funds	$59.9	$100.9	$148.7	$101.8	$117.4	$89.1
WIFIA	$69.1	$12.4	$0.7	$0	$0	$0
Grants	$0	$0	$0	$0	$0	$0
Cash	$110.6	($74.9)	$14.2	$239.2	$162.8	$151.9
REVENUE SOURCES	**$479.6**	**$438.3**	**$333.7**	**$466.0**	**$430.2**	**$361.0**

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Table 1.3 - Wastewater System Fiscal Year 2027-2031 Financial Outlook ($ in Millions)						
	FY 2026	**FY 2027**	**FY 2028**	**FY 2029**	**FY 2030**	**FY 2031**
Sewer Service Charges	$351.3	$359.7	$385.6	$417.3	$451.8	$486.8
Capacity Charges	$33.0	$34.0	$35.0	$36.1	$37.1	$37.1
Grants	$0	$0	$0	$0	$0	$0
Other Revenue	$153.5	$121.5	$192.8	$140.7	$163.6	$162.6
TOTAL SYSTEM REVENUES	**$537.8**	**$515.1**	**$613.4**	**$594.1**	**$652.5**	**$686.6**
Salaries & Wages	$84.3	$88.1	$91.0	$93.8	$96.6	$99.5
Fringe Benefits	$44.5	$45.4	$46.3	$47.2	$47.5	$47.5
Other Non-Personnel Expenditures	$232.6	$250.6	$260.1	$268.4	$277.1	$285.1
BASELINE OPERATING EXPENDITURES	**$361.4**	**$384.1**	**$397.4**	**$409.4**	**$421.2**	**$432.1**
CRITICAL OPERATING EXPENDITURES	**$0**	**$0**	**$0**	**$0**	**$0**	**$0**
Contribution to CIP	$9.5	($38.3)	$358.6	($248.1)	$262.2	($60.1)
Debt Service	$103.6	$139.7	$123.1	$165.4	$153.6	$173.6
(Use of) / Contribution to Reserves	$26.32	($64.6)	$30.5	($20.7)	$22.3	$2.1
NON-OPERATING EXPENDITURES	**$139.3**	**$36.8**	**$512.3**	**($103.4)**	**$438.0**	**$115.5**
TOTAL EXPENDITURES	**$500.8**	**$420.9**	**$909.6**	**$306.0**	**$859.2**	**$547.6**
Impact to Fund Balance	**$37.0**	**$94.2**	**($296.2)**	**$288.1**	**($206.6)**	**$139.0**
Debt Service Coverage Ratio	**1.47x**	**1.41x**	**1.52x**	**1.25x**	**1.37x**	**1.47x**
Assumed Rate Increase[2]	**6.0%**	**6.0%**	**8.0%**	**8.0%**	**8.0%**	**7.0%**

[2] City Council has approved maximum rate levels for wastewater through January 1, 2029. Revenues in the PUD Outlook reflect the impact of those increases from the effective date in that fiscal year.

Table 1.4 - Wastewater System Fiscal Year 2027-2031 Financial Outlook Summary of Capital Improvements Program Key Financial Data ($ in Millions)						
	FY 2026	**FY 2027**	**FY 2028**	**FY 2029**	**FY 2030**	**FY 2031**
Baseline CIP	$301.2	$354.3	$402.7	$310.3	$287.6	$260.9
Pure Water CIP	$105.6	$42.1	$15.4	$17.5	$15.1	$16.2
TOTAL CIP EXPENDITURES	**$406.8**	**$396.5**	**$418.1**	**$327.8**	**$302.7**	**$277.0**
Sources of Funds						
City Financing	$240.0	$360.0	$0	$520.0	$0	$300.0
State Revolving Funds	$124.4	$40.8	$24.5	$19.8	$3.4	$0
Grants	$0	$0	$0	$0	$0	$0
Cash	$42.5	($4.3)	$393.6	($212.0)	$299.3	($23.0)
REVENUE SOURCES	**$406.8**	**$396.5**	**$418.1**	**$327.8**	**$302.7**	**$277.0**

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REPORT OUTLINE

The PUD Outlook is organized into two main sections: Water System and Wastewater System. The Water System is comprised of the Water Utility Fund and the Wastewater System is comprised of the Metropolitan and Municipal Sewer Funds, collectively known as the Sewer Revenue Funds.

Similar to the organization of the Five-Year Financial Outlook for the General Fund, the PUD Outlook provides a brief overview of the Water and Wastewater Systems and the impacts of the Pure Water Program, as well as a discussion of projected operating and capital expenditures, projected revenues, and potential rate adjustments. This PUD Outlook also reflects the impacts of the commissioning of Phase 1 of the Pure Water Program which factors in the cost competitive, reliable, and sustainable increase in local water supplies as well as the debt service for the project. The PUD Outlook is presented in a different order than the General Fund Outlook; expenditures are discussed first, followed by a discussion of revenue. This is due to the nature of rate forecasts, which are driven by the need to support operations and achieve key financial metrics.

The Water System and Wastewater System sections of the PUD Outlook include additional details on the projections for the next five years of ongoing revenues and expenditures that were displayed in Table 1.1 – Water System Fiscal Year 2027-2031 Financial Outlook, and Table 1.3 – Wastewater System Fiscal Year 2027-2031 Financial Outlook, respectively. Each section begins with a discussion of operating expenditures. 'Baseline' projections for operating expenditures represent those necessary to support current service levels provided by PUD. Unaudited Expenditures[3] for FY 2025 are presented for context but FY 2026 projections are the starting point for personnel and non-personnel baseline expenditures unless otherwise noted. As noted earlier, the PUD Outlook projections in any given year may not correspond exactly to the revenues and expenditures in future Proposed Budgets.

For this PUD Outlook, the prior year's Critical Operating Expenditures associated with implementing the Pure Water Program, maintaining regulatory compliance, street preservation, and dam safety have been integrated into baseline expenditures. This is a new approach for the PUD Outlook and reflects the inclusion of these costs into each system's rates and charges assumptions in the recently approved cost of service studies. While each year's budget increase still needs to be approved by the City Council, the PUD Outlook assumes these are now "run the business" expenses. No new Critical Operating Expenditures were identified as part of the current PUD Outlook and baseline expenses have been updated and adjusted to ensure expenses are within the expected revenues being generated by the approved rates. Consistent with prior outlooks, expenses for years included in rate setting authority are covered by approved rate revenue. For later years or when no rate increases have been approved, potential rate increases and financial assumptions are projected. These rates require City Council approval and will be adjusted in future outlooks.

Projections for CIP expenditures and funding sources are also provided, with Pure Water CIP expenses and funding sources broken out from the Department's baseline capital program of pump stations, treatment plants, pipelines, and reservoirs, among other capital infrastructure. These expenses reflect

[3] The City's Annual Comprehensive Financial Report (ACFR) includes the financial statements of all funds of the City, is prepared in accordance with Generally Accepted Accounting Principles, including those standards established by the Governmental Accounting Standards Board and portions of it at audited by an independent audit. The financial activity presented in this report was prepared in advance of the 2025 ACFR.

updated cost estimates from the City's Engineering and Capital Projects Department but also reflects specific delays, particularly in the Water System, to ensure expenses are within the approved revenue authority. The Department's original water rate proposal assumed a four-year rate increase and included a two-year deferral of the CIP program. Since Council approved only the first two years and future rate levels remain uncertain, the Department will extend the CIP deferral to three years to ensure adequate revenue for all needs identified in this PUD Outlook. This was necessary to ensure that projected cashflow can support increased costs on high priority projects (regulatory requirements, public safety/health) and avoid delays in active construction projects. Additional details on project deferrals can be found in the Capital Improvements Program section for each utility.

Finally, each section includes revenue projections and a discussion of the projected water and wastewater rates that are assumed in those revenue projections. Rates adjustments are determined through a process prescribed by state law and require a cost of service analysis and City Council approval at a public hearing.

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OVERVIEW OF THE WATER AND WASTEWATER SYSTEMS

The City of San Diego is a major metropolis, ranked as the eighth largest city by population in the United States and the second largest city in California. The City's total population is over 1.4 million. The City's climate is semiarid with cycles of multi-year droughts. Average rainfall does not provide adequate local water supplies for the City and is supplemented with water imported from outside the region.

The City's Water and Wastewater Systems are maintained and operated by the City of San Diego (City) Public Utilities Department (Department). The Department provides water to the City of San Diego as well as to the cities of Del Mar, Coronado and Imperial Beach, primarily from two water sources: (1) local supplies, which provide on average 10 - 30% of water needs, and (2) the San Diego County Water Authority (SDCWA), which provides 70 - 90% of water needs. The City's Water System extends over 404 square miles, with average potable water deliveries of approximately 161,000 acre-feet (AF) per year. PUD's extensive raw water system includes nine reservoirs, which capture rain and local runoff from rainfall and store purchased imported water. The water is then sent to PUD's three water treatment plants for treatment and distribution. While PUD expects water conservation efforts to continue, it also expects the demand for potable water to follow changes in population and the single largest variable for yearly water demands is the weather patterns each fiscal year.

The City's Wastewater System owns and operates wastewater treatment plants that serve the City as well as other agencies of other cities and districts outside San Diego City boundaries (Participating Agencies). The Wastewater System serves over 2.3 million regional customers by providing wastewater collection, treatment, and disposal services. The Wastewater System is comprised of two sub-systems, the Municipal Sub-System and the Metropolitan ("Metro") Sub-System. The Municipal Sub-System is a sewage collection system for the City's customers and consists of all elements required for the collection and conveyance of wastewater generated by the service area, which currently consists of more than 275,000 accounts. The Metropolitan Sub-System is a regional sewage treatment and disposal system that serves the City and twelve other Participating Agencies near the City. The Wastewater System covers approximately 450 square miles, including most of the City, and stretches from Del Mar and Poway to the north, Alpine and Lakeside to the east, and San Ysidro to the south. The communities and agencies served by the PUD Wastewater System form the third largest metropolitan area in the State, surpassed only by the Los Angeles and San Francisco metropolitan areas. The Point Loma Wastewater Treatment Plant serves as a regional treatment facility handling sanitary waste from both Municipal Sub-System and Metropolitan Sub-System customers. Additionally, the Wastewater System operates and maintains two water reclamation plants (North City and South Bay), and a solids management facility (Metropolitan Biosolids Center).

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Regional Water Supply

In any given year, the City uses local water supplies to meet 10 - 15% of demand and relies on imported water from the SDCWA to meet the other 85 - 90% of demand. The SDCWA is a wholesale water agency that provided approximately 323,781 AF of imported and desalinated water to its member agencies in FY 2025, including 125,643 AF supplied to PUD. SDCWA currently acquires the majority of its water from three main sources: conserved water from the Imperial Irrigation District, water from the Metropolitan Water District (MWD), and desalinated water. MWD obtains its water from the Colorado River through the United States Bureau of Reclamation, and from northern California via the State Water Project through the California Department of Water Resources (DWR). MWD is one of 29 public water agencies that have long-term contracts for water service from DWR, and it is the largest agency in terms of the number of people its water serves (approximately 19 million).

Both SDCWA and MWD are actively engaged in developing strategies for enhancing long-term water supply reliability in the face of challenges related to drought and decreased reliance on Colorado River water. These strategies encompass storage initiatives and the pursuit of supplementary water sources, such as water transfers, with the aim of reducing dependence on imported water. These efforts gain significance in light of the dwindling water resources from both the State Water Project, responsible for transporting water from Northern California to Southern California, and the Colorado River, which provides water to the basin states of Arizona, California, Colorado, New Mexico, Nevada, Utah, and Wyoming. Furthermore, there is a looming threat of unilateral cuts to Colorado River allocations by the Federal government if the basin states fail to take decisive actions to curtail water consumption.

In response to the ongoing water challenges in California, the Governor unveiled a long-term strategy aimed at bolstering the state's water supply resilience. This multifaceted plan entails the expansion of reservoir storage capacity and a significant upscaling of water recycling efforts throughout the state, all designed to augment the long-term viability of California's water resources.

PUD operates a recycled water system that supplies a portion of the San Diego region, with non-potable recycled water. Recycled water is wastewater treated to a level that makes it safe for a variety of uses including irrigation, dust suppression and soil compaction at construction sites, in cooling towers, in ornamental fountains, and office building toilet and urinal flushing; that system is supplied by two water reclamation plants – the North City Water Reclamation Plant (NCWRP) and South Bay Water Reclamation Plant (SBWRP). The City supplies recycled water to retail customers and three wholesale customers: the City of Poway, the Olivenhain Municipal Water District, and the Otay Water District. Recycled water is a joint venture between the Water (for distribution) and Wastewater (for treatment) Systems. Volumetric sales of recycled water revenue benefit the wastewater system, while fixed meter charges go to the water system, based on the responsibilities borne by each system.

Participating Agencies

Pursuant to the Regional Wastewater Disposal Agreement, the Metropolitan Sub-System provides "wholesale" treatment and disposal services, including some sewage transportation, to the cities of Chula Vista, Coronado, Del Mar, El Cajon, Imperial Beach, La Mesa, National City and Poway, the Lemon Grove Sanitation District, the Otay Water District, the Padre Dam Municipal Water District, and the County of San Diego (on behalf of Winter Gardens Sewer Maintenance District and the Alpine Lakeside

and Spring Valley Sanitation Districts). These cities and districts are collectively referred to as the Participating Agencies.

The Regional Wastewater Disposal Agreement requires the Participating Agencies to pay their respective share of planning, design, and construction of Metropolitan Sub-System facilities, as well as costs related to the operation and maintenance of the Metropolitan Sub-System. Since FY 2011, the Participating Agencies have constituted approximately 33% of the total Metropolitan Sub-System costs. Recently, the City of El Cajon, San Diego County and the Padre Dam Municipal Water District, formed the East County Advanced Water Purification Joint Powers Authority, which is expected to divert up to 25% of the Participating Agencies flow away from the Metropolitan Sub-System when the Advanced Water Purification Project goes live during the PUD Outlook period. The City and the Metropolitan Joint Powers Authority (Metro JPA) have negotiated a revised agreement that is currently pending approval by all 12 Metro JPA member agencies and the City of San Diego. It contains changes that will change how the systems costs are billed now and when the East County Advanced Water Purification comes online, ensuring that costs are still proportionately charges based on the benefit received from the system. The Department will update projections once all parties have approved the new agreement and it is implemented.

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Pure Water Program

Background

The Pure Water Program will provide a safe, secure, cost competitive, and sustainable local drinking water supply for San Diego. Advanced water purification technology will be used to produce a potable water source from recycled water. The City and its regional partners face significant issues with water supply and wastewater treatment primarily due to the increasing cost of imported water and the increasingly stringent regulations on wastewater treatment and disposal. The region's reliance on imported water causes the water supply to be vulnerable to shortages and susceptible to price increases beyond the direct control of the City.

The Pure Water Program is a 20-year (2015-2035) multi-phased water and wastewater capital improvements program that is expected, upon full implementation by the end of Calendar Year (CY) 2035, to create up to 83 million gallons per day (mgd) of locally controlled water, which will provide nearly half of the City's total potable water needs. The Pure Water Program will divert treated wastewater from the Point Loma Wastewater Treatment Plant's (PLWTP) ocean outfall and recycle a valuable and limited resource that is currently discharged to the ocean.

In 2014, the City entered into an agreement with environmental stakeholders to support the implementation of potable reuse and secondary equivalency at Point Loma Wastewater Treatment Plant. This agreement obligates the City to achieve secondary equivalency standards for wastewater by implementing an 83 MGD potable reuse program (i.e., the Pure Water San Diego Program) by 2035. The requirements identified in the agreement are incorporated into the City's Modified Permit to operate the Point Loma Wastewater Treatment plant. The City submitted its renewal application on March 24, 2022, 180 days prior to the expiration of the current permit, which is jointly issued by the EPA and the San Diego Regional Water Quality Control Board. The modified permit was administratively extended by the EPA on September 27, 2022. Administrative extension of NPDES permits by the State of California (through the San Diego Regional Water Quality Control Board) are automatic upon expiration (and upon submittal of a timely renewal application) prior to adoption of a subsequent permit. The updated permit was released for public comment in September 2025, and the City expects final adoption by the RWQCB and the EPA in February 2026. Once adopted, the permit will cover a period of five years from the effective date. It is anticipated that continuation of the Pure Water Program will be reflected in future permits, which will eliminate the need for the City to make at least $1.8 billion in upgrades to the PLWTP that would otherwise be necessary, based on the City's 2018 cost estimate.

Phase 1 of the Pure Water Program is estimated to cost approximately $1.76 billion. The Water and Wastewater Funds will share in these expenditures according to allocating cost based on completed design and engineering studies. Approximately $1.07 billion (60.8%) is allocated to the Water Utility Fund and approximately $690 million (39.2%) is allocated to the Sewer Revenue Fund. Total cost allocations will continue to be adjusted as any potential change orders are issued for the project. Final cost allocation will be done in the fiscal year following substantial completion of the project.

Project Update

Pure Water Phase 1 is the largest construction effort the City has ever taken on and significant progress has been made towards completion. Each of the eleven construction contracts (early site work contract has been completed) have been awarded and construction is currently estimated to be over 80% through construction. Although Phase 1 is being constructed through ten individual construction contracts via eight independent prime contractors and numerous subcontractors; it is one interconnected project. Relative to the schedule, construction is progressing as planned to meet the major program milestones:

- Begin commissioning of the Phase 1 system, which includes the North City Water Reclamation Plant, North City Pure Water Facility, as well as the Pure Water Pipeline: Mid/Late 2026
- Complete construction of all Phase 1 projects: June 2027
- Begin operation of the entire Phase 1 system to produce 30 mgd of Pure Water: December 31, 2027

As construction activities approach completion, the projects and program are transitioning into the commissioning phase. Commissioning a program of this magnitude is a significant effort that starts with commissioning activities at the individual projects, then culminates in the system-wide commissioning of the combination of projects that make up Pure Water Phase 1. This ensures that influent wastewater can be conveyed and treated effectively at both the North City Water Reclamation Plant and North City Pure Water Facility in sequence, and then successfully conveyed to Miramar Reservoir as purified water.

Phase 2 Planning

The City is continuing to prepare for Phase 2 of the Pure Water Program. The construction of a small-scale facility is nearing completion, and testing will begin soon to demonstrate appropriate treatment options, including for a potential direct potable reuse application, as well as reassessing the facilities needed for Phase 2 of the program.

The original Phase 2 plan was conceived during the development of the 2012 Recycled Water Study. Since that time, several important factors have changed to an extent that it merits re-examination of the plan. These factors include water supply and demand, wastewater flows and availability, water supply dam conditions, climate change and sea level rise, regulatory developments, and affordability for customers. The City is reassessing these factors, updating future projections, evaluating various Phase 2 options, and meeting with key stakeholders to prepare a plan that recognizes changing conditions and manages constraints and opportunities. This planning effort is expected to be finalized by the end of Calendar Year 2026 and any changes to Phase 2 will be incorporated into future outlooks.

Cost of Service Analysis

Pursuant to State law, the Department uses a cost of service process to determine how to set its rates to ensure they meet PUD's overall revenue requirements. Cost of service studies detail projected expenditures determine the total revenue required to cover those expenditures and allocate those

revenue needs based on the demands each customer class places on the Department's systems. Revenue requirements not only support operating and capital costs but are set to ensure appropriate reserve and debt service coverage ratios.

The City's last cost of service study and rate case for the water and wastewater systems was published in September 2024 and included proposed rate adjustments for FY 2026 through FY 2029. In October 2025, the City Council approved the proposed wastewater rates for four years and approved the first two years of water rate adjustments.

The City Council's approval provides a maximum authority for rate increases through FY 2027 for the Water System and FY 2029 for the Wastewater System. This PUD Outlook has updated the assumptions for baseline expenses and revenues and continues to demonstrate increasing costs to operate, maintain, and investment in the utility's systems. As such additional capital expenses and operating expenses will need to be delayed in order to remain within authorized utility rates. Although projects and services were deferred to mitigate higher-than-assumed costs, they remain essential for system operations, and the PUD Outlook anticipates their return in later years, driving future rate increases subject to Council approval.

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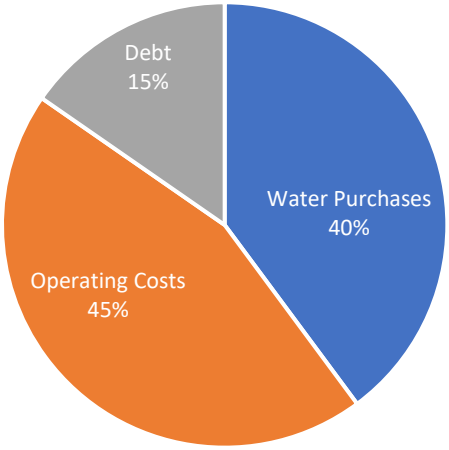
WATER SYSTEM

This section discusses baseline expenditure projections and projected capital improvements program needs and financing options for the next five years for the Water Utility Fund. An overview of Water System revenue projections is also included.

Water System Expenditures

Water Utility Fund expenditures are comprised of both personnel and non-personnel expenditures including debt service and other non-discretionary payments. The largest single expenditure of the Water Utility Fund is for water purchases, representing approximately 40% of FY 2026 operating expenditures, as show in Figure 1.5.

Figure 1.5 Fiscal Year 2026 Water Operations and Maintenance Expenses



The following sections discuss in detail each expenditure category and include a description of the category, projected growth rates, and a discussion of any key expenditures. Strategic critical expenditures identified in prior outlooks are now included in baseline expenditures for this PUD Outlook. As such, positions and other expenses associated with Pure Water Phase 1 operations and regulatory compliance, are now reflected in baseline operating expenditures.

Water Purchases

The City currently imports approximately 70-90% of its water through the SDCWA. Water purchases contribute to the largest expense in the Water Utility Fund and make up approximately 40% of the Water Utility Fund's operating budget. SDCWA charges a volumetric rate that includes both a commodity rate and a transportation rate. In addition to the rate charged by acre foot, SDCWA and MWD also levy fixed charges on their member agencies.

Table 2.1 – Water Purchases - Baseline Expenditures ($ in Millions)							
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Projections	$287.4	$337.7	$398.0	$401.6	$430.7	$450.4	$485.1
Acre Feet	133,735	131,786	153,233	134,742	132,351	127,762	128,174

Table 2.1 presents projected costs for purchasing water from SDCWA, which is driven by both the rates charged by the SDCWA and the volumes of water the City has to purchase in any given year based on customer demands. The City has used most of the water retained from significant rain events that occurred in Fiscal Year 2023 and Fiscal Year 2024, the PUD Outlook assumes a spike in volumes purchased in Fiscal Year 2027, but then forecasts a decline in Fiscal Year 2028 as Phase 1 of the Pure Water Program is expected to be substantially complete. From a financial perspective, the PUD Outlook assumes a conservative approach for forecasting the impact from Pure Water being operational. If water from Pure Water is delivered earlier, the costs for water purchases will be reduced. While the City's total volumes of imported water are expected to go down, the cost per acre foot is expected to continue rising.

During the forecast period, the Department is forecasting to spend $398.0M to $485.1M per year to buy water from the SDCWA and is dependent on the rate increases projected by the SDCWA. Further details into the SDCWA rate projections and the risks associated with utilizing this data can be found in the "Other Assumptions and Considerations" section of the report.

Personnel Expenditures

Personnel expenditures include salaries, wages, and fringe benefits. Salaries and wages are comprised of regular salaries and wages, hourly wages, special pay, overtime, and pay in lieu of annual leave. Fringe benefits include pension payment or Actuarially Determined Contribution (ADC), flexible benefits, retiree health or Other Post-Employment Benefits (OPEB), workers' compensation, Supplemental Pension Savings Plan (SPSP), and other fringe benefits. Projected FY 2026 Water Utility Fund salaries, wages, and fringe benefits are $149.3 million and include 1,048.9 full-time equivalent (FTE) positions. Table 2.2 displays unaudited actuals for FY 2025 and projections through FY 2031 for Water System personnel expenditures.

Table 2.2 –Baseline Personnel Expenditures ($ in Millions)							
	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Salary and Wages	$92.1	$93.3	$98.2	$102.4	$105.7	$108.9	$112.15
Fringe	$50.4	$56.0	$57.2	$58.3	$59.5	$59.8	$60.1

The salary and wages category start with those expenditures associated with staff included in the FY 2026 Adopted Budget. Baseline programmatic adds from prior Outlooks are added for future years to complete the baseline number of positions The PUD Outlook assumes 3.00-3.76 percent salary increase for pending MOU negotiations in future years, which is slightly higher than the General Fund Outlook to account for potential special salary and certification increases. Any future negotiated general wage increases that deviate from the assumptions will impact future year personnel costs included in the PUD Outlook period and increase the rate revenue requirement. Baseline expenditures include funding needs for the Pure Water Program for the operation and maintenance of new and expanded Pure Water facilities, staffing needed to comply with new and updated discharge regulations and dedicated in house street trench repair crews in compliance with the City's Street Preservation Ordinance.

The Fiscal Year 2026 budget assumes a roughly 10% vacancy rate, which is expected to continue during the PUD Outlook period. This reflects a reduction from prior years' vacancy savings, limiting our ability to use vacancy savings to offset other operational needs.

The Department's fringe budget has been increased based on its past proportional relationship between it and Salary and Wages category.

Supplies

The Supplies category includes costs for chemicals, water meters, pipe fittings, asphalt road materials, machine parts, and low value assets. Table 2.3 displays the FY 2025 unaudited actuals and projections through FY 2031 for the Supplies category.

Table 2.3 - Baseline Supplies ($ in Millions)

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
YOY Growth	N/A	7.4%	45.3%	9.3%	2.8%	2.8%	2.8%
Projection[1]	$29.4	$31.6	$45.9	$50.2	$51.6	$53.0	$54.4

[1]Figure excludes expenditures associated with water purchases

The Supplies category includes various components. The baseline projection for Supplies includes an adjustment for anticipated cost growth over the PUD Outlook period. The spike in FY 2027 is from the baseline expenses associated with Pure Water as facilities come online, and includes chemical costs, consumables, pumps, and other materials necessary for operation and maintenance of facilities and equipment.

Contracts

Contracts are a non-personnel expense category that include the cost of contractual services, professional consultant fees, general government services billing, City services billings, fleet vehicle usage and assignment fees, rental expenses, security services, and other contractual expenses. Table 2.4 displays the FY 2025 unaudited actuals and projections through FY 2031 for the Contracts category.

Table 2.4 - Baseline Contracts ($ in Millions)

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
YOY Growth	N/A	(16.4%)	1.8%	31.7%	(0.8%)	2.7%	2.7%
Projection[1]	$149.5	$125.0	$127.2	$167.5	$166.3	$170.8	$175.5

[1]Figure excludes expenditures associated with water purchases.

The Contracts baseline projection is increased by long-term CPI trends of between 2.7 and 3.2 percent each year. Adjustments are based on known and anticipated events, including prior critical strategic expenditures and prior spending levels. The growth rate will ultimately be dependent on actual level of expenditures.

As mentioned in other sections of the PUD Outlook, in order to stay within the fixed rate revenue approved by City Council, the Department will consider strategic reductions as needed to ensure the utility can deliver safe, reliable drinking water. During the PUD Outlook period, over $16 million of expenses is expected to be delayed from both Fiscal Year 2026 and 2027. As a result, impacts in minor construction projects, condition assessments, and other as needed engineering services are expected to be delayed. Since these deferrals remain necessary, the PUD Outlook forecasts these expenses to shift into Fiscal Year 2028. These assumptions will be revisited during the budget process and in future outlooks to ensure the utility stays within the revenue allotment authorized by City Council.

Information Technology

The Information Technology category includes both discretionary expenses and non-discretionary allocations to the Water Utility Fund. The Information Technology category includes costs related to hardware and software maintenance, help desk support, and other information technology (IT) services. Table 2.5 displays the FY 2025 unaudited actuals and projections through FY 2031 for the Information Technology category.

Table 2.5 - Baseline Information Technology ($ in Millions)

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
YOY Growth	N/A	30.0%	4.3%	31.6%	2.7%	2.7%	2.8%
Projection	$12.3	$16.0	$16.7	$21.9	$22.5	$23.2	$23.8

The projections include estimates of IT costs and systems critical to treatment plant and distribution system operations. The baseline discretionary costs are then increased by the forecasted cost growth over the PUD Outlook period.

Like the expense projections in the Contract category of the Water Utility, the IT increase in Fiscal Year 2028 reflects the shifting in planned IT discretionary expenses, such as software licenses, system upgrades, and as-needed software development that were previously planned to occur in Fiscal Year 2026 and 2027.

Energy & Utilities

The Energy & Utilities category includes the Water Utility Fund's costs for electricity, water services, fuel, and other utility and energy expenses. Table 2.6 displays the FY 2025 unaudited actuals and projections through FY 2031 for the Energy & Utilities category.

Table 2.6 - Baseline Energy & Utilities ($ in Millions)

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
YOY Growth	N/A	22.5%	199.5%	4.9%	5.0%	5.2%	3.5%
Projection	$15.5	$19.0	$56.9	$59.7	$62.7	$65.9	$68.2

The Energy & Utilities category includes various costs including prior critical strategic expenditures, primarily increased energy and utility expenditures associated with the Pure Water Program. These expenditures are necessary as new and expanding Pure Water facilities come online in Calendar Year 2026 and include increased electricity, water, and natural gas expenditures necessary for daily facility operation. After the Pure Water Program comes online, projected expenses in this category assume annual rate increases ranging from 3.5 to 5.2%.

Other Expenditures

Expenses included in the Other Expenditures category are transfers to other funds, capital expenses, taxes, and other miscellaneous expenditures. Debt service obligations, including payments for bonds, commercial paper, State Revolving Fund (SRF) loans and WIFIA payments, are excluded from this category and are discussed in the Water System Capital Improvements Program section of this report. The remaining expenses include taxes paid on real estate owned outside of the City, transportation allowances, revegetation expenses that are not capital in nature, and citywide preservations of benefit expenses. These expenses change year to year based on actual bills but are generally budgeted at stable levels. Table 2.7 displays the FY 2025 unaudited actuals and projections through FY 2031 for the Other Expenditures category.

Table 2.7 - Baseline Other Expenditures ($ in Millions)

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
YOY Growth	N/A	30.6%	0%	0%	0%	0%	0%
Projection	$2.4	$3.2	$3.2	$3.2	$3.2	$3.2	$3.2

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Reserves Contributions

The City has established accounts within the Water Utility Fund for four reserve funds: The Emergency Operating Reserve (Operating Reserve), the Secondary Purchase Reserve, the Rate Stabilization Fund Reserve (Rate Stabilization Fund), and the Emergency Capital Reserve (Capital Reserve). The Department maintains these reserve funds in accordance with the City's Reserves Policy (the City Reserves Policy).

Table 2.8 details reserve targets and projected funding levels. Reserves are projected to be fully funded throughout the PUD Outlook period, except for the Rate Stabilization Fund.

Table 2.8 - Reserve Targets and Estimated Funding Levels ($ in Millions)

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Operating Reserve Target ($)	$67.5	$78.1	$89.3	$90.8	$93.4	$95.9
Operating Reserve Level ($)	$69.9	$78.1	$89.3	$90.8	$93.4	$95.9
Secondary Purchase Reserve Target ($)	$20.3	$23.9	$24.1	$25.8	$27.0	$29.1
Secondary Purchase Reserve Level ($)	$20.3	$23.9	$24.1	$25.8	$27.0	$29.1
Rate Stabilization Fund Target ($)	$35.9	$42.0	$48.1	$54.5	$60.6	$67.1
Rate Stabilization Fund Level ($)	$21.7	$0.7	$7.7	$52.7	$89.7	$89.7
Capital Reserve Target ($)	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0
Capital Reserve Level ($)	$5.0	$5.0	$5.0	$5.0	$5.0	$5.0

The Rate Stabilization Reserve Fund is funded below targeted levels until Fiscal Year 2030 to balance rate affordability during times of rapidly increasing water purchase costs. Saving one-time revenue for use in a reserve is a financial best practice so that the funds can be used to provide one-time operating revenue to offset or mitigate the need for sudden or dramatic rate increases in the future. The PUD Outlook projects use of the Rate Stabilization Reserve Fund in FY 2026 through FY 2027. The use of the reserves allows for a more gradual increase in rate increases than would otherwise be required to meet financial targets. In accordance with the reserve policy, the expected increases to return to target levels will be submitted in the next water cost of service study.

Water System Capital Improvements Program

The Water System Capital Improvement Program (CIP) addresses the City's critical infrastructure needs and ensures the continuous availability of safe drinking water to all customers. Focusing on sustainability, reliability, aging infrastructure, cost efficiency, and regulatory compliance, the program involves more than 275 projects across planning, design, and construction phases in this five-year period.

These projects aim to extend the life of aging assets, reduce service interruptions, ensure water quality, and strengthen overall system performance. Over the next five years, the CIP will include substantial completion of Pure Water Phase 1, upgrades to treatment facilities, and pipeline replacements.

As described in the "Report Outline" section of the report, the PUD Outlook further delays projects that were previously identified in last cost of service study, by an additional year. These additional deferrals primarily impact small diameter pipelines that are spread out across the city. Each of these delays were evaluated against a list of factors that included construction status, health and safety concerns, regulatory requirements, and contractual obligations. The projects were scored and reviewed by the operations and engineering and small distributions pipelines, in general, were determined to be the least impactful. This included looking at the consequences of failure of any one part of the system due to delays in rehabilitating or replacing specific assets. If a small distribution line fails, temporary bypasses can be done to continue water service, while if a pumpstation goes offline, water services is suspended to entire sections of the city. As part of this PUD Outlook additional projects were proposed for delay, primarily pipeline projects but now including larger diameters pipelines that provide redundancy in water delivery, as well as some smaller pumpstations and non-dam reservoirs improvements. These projects had higher risks of failure consequences but were the next best alternatives to reduce costs. Even with these adjustments the expected costs of executing the Utilities capital program continues in increase.

Key Program Highlights

- **Storage Facilities (Reservoirs and Dams):** Water storage facilities are essential for maintaining a stable and reliable water supply. Reservoirs, dams, and storage tanks hold treated water to provide reliable sources for drinking, irrigation, and fire suppression. These facilities also maintain pressure and flow throughout the water system. Planned projects focus on dam safety, regulatory compliance, and reservoir improvements, including projects associated with Hodges, Murray, and El Capitan to address structural concerns. The Department expects that Reservoirs and Dams will continue to grow and take up a larger share of capital expenses moving forward.
- **Pure Water Program (Water & Wastewater CIP):** As noted in the Pure Water Program section of the PUD Outlook, commissioning of the Phase 1 system, which includes the North City Water Reclamation Plant, North City Pure Water Facility, and Pure Water Pipeline is expected to begin in Calendar Year 2026 with completion of all Phase 1 projects in Fiscal Year 2027. The Department expects that Pure Water Phase 1 expenses will decline in the beginning

of the PUD Outlook period while design and planning costs for Pure Water Phase 2 increase in later years.

- **Transmission Pipelines:** Transmission pipelines (16 inches in diameter and larger) convey water between treatment plants, potable water reservoirs, pump stations, pressure zones, and the distribution system to customers. Key projects include the Alvarado 2nd Extension Pipeline, Lakeside Valve Station Replacement, Montezuma Mid-City Pipeline Phase 2, San Carlos Interconnect Trans Pipeline, and El Monte Transmission Pipeline.
- **Distribution Pipelines:** Distribution pipelines carry water to consumers and are sized to meet pressure criteria, fire flow, and maximum demand. Projects include replacing or rehabilitating smaller-diameter pipelines to extend service life, reduce leaks, and ensure reliable drinking water delivery. Water and sewer pipeline projects are combined to minimize community disruptions, with major improvements planned in areas such as Bay Ho, Clairemont Mesa, Rolando, La Jolla, and the Midway District. Based on the prioritization discussed in the opening of the PUD Outlook, distribution pipelines were the most impacted by the three-year CIP delay. As such, expenses for this project category are projected to decrease in FY 2027 and FY2028 and increase in the later years of the PUD Outlook.
- **Water Treatment Plants:** Treatment facilities help remove contaminants through processes including filtration, sedimentation, and disinfection, making water clean and safe to drink. The City has three water treatment facilities: Miramar (144 MGD capacity), Alvarado (120 MGD), and Otay (34 MGD). Each treatment plant is located downstream of a surface reservoir and contains clear wells for the storage of treated water. Planned upgrades will ensure compliance with regulatory standards and permits, increase reliability, and improve safety. Projects will modernize chemical dosing systems and upgrade infrastructure.
- **Pump Stations:** The City's 49 pump stations are critical in transporting water from lower elevation areas to higher points within the water system. They maintain a reliable water supply for residential, industrial, and commercial uses by overcoming differences in elevation, pressure, or distance. Upgrades to 11 pump stations throughout the City will improve energy efficiency and ensure reliable water delivery through pipelines from reservoirs and treatment plants to the distribution system.
- **Miscellaneous Projects:** Initiatives such SCADA system upgrades, pressure-reducing station replacements, and solar energy installations support the modernization of water infrastructure. These projects improve operational efficiency and system resilience while aligning with the City's Climate Action Plan and sustainability goals.

Table 3.1 shows categories of projects with the estimated cost of expenditures contained in the CIP for the period of FY 2027 through FY 2031. The City's Adopted Budget includes multi-year project pages for non-routine and large projects. The PUD Outlook includes a high-level summary of the CIP to understand the financial impact on the Water System; the City's Five-Year Capital Infrastructure Planning Outlook provides additional information on the capital infrastructure needs for the entire city.

Table 3.1 - Summary of Projected CIP Projects Fiscal Year 2027-2031 ($ in Millions)								
Water CIP Projects	**FY 2025**	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**	**FY 2030**	**FY 2031**	**Outlook Total**
Pure Water Program	$178.7	$164.9	$65.4	$28.2	$32.5	$33.2	$35.8	**$195.1**
Transmission Pipelines	$47.4	$120.4	$171.3	$124.2	$93.6	$50.7	$51.1	**$490.8**
Pipelines	$118.6	$158.3	$104.9	$71.0	$201.8	$190.5	$143.9	**$712.1**
Storage Facilities	$9.5	$13.7	$30.7	$27.7	$31.6	$41.0	$62.0	**$192.9**
Water Treatment Plants	$3.9	$5.8	$10.6	$14.9	$18.0	$27.3	$14.6	**$85.5**
Pump Stations	$2.9	$5.5	$11.8	$13.3	$20.4	$18.6	$8.8	**$72.8**
Miscellaneous Projects	$5.2	$11.0	$26.0	$36.8	$50.7	$51.4	$27.3	**$192.2**
Total	**$366.1**	**$479.6**	**$420.7**	**$ 316.2**	**$448.4**	**$412.7**	**$343.4**	**$1,941.4**

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Capital Improvements Program (CIP) Financing Plan

Table 3.2 describes the projected sources of funds to finance the Water System CIP during the PUD Outlook period for FY 2027 through FY 2031; FY 2025 and FY 2026 activity are provided for reference and are not a part of the PUD Outlook period.

The Department anticipates incurring approximately $1.5 Billion of additional debt obligations for the Baseline Water System CIP and $13.1 million of additional obligations for the Pure Water CIP over the PUD Outlook period. The City is projecting an increase in borrowing rates, related to the Federal Reserve's attempts to combat inflation, and the increase in federal borrowing costs for risk-free treasury offerings. Capacity fees and cash are anticipated to fund an additional $493.3 million.

Although grant funding is currently not reflected during the PUD Outlook period, the Department is actively applying for additional grant funding and continually searching for new grant opportunities. Any grant funding awarded will be used to offset cash funding. The City has identified many grant opportunities in recent federal bills but would note that a large portion of funding has been restricted to specific agencies, for smaller jurisdictions or capping the value of the grants at relatively low dollar values. Fiscal years that show the use of negative cash reflect reimbursement of prior cash expenditures from grant, bonds, or loans.

Table 3.2 - Sources of Funds for the Water Capital Improvement Program ($ in Millions)

Source of Funds	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	Outlook Total
Pure Water CIP								
Commercial Paper/ Bonds	$0	$0	$0	$0	$0	$0	$0	**$0**
WIFIA Loans	$152.8	$69.1	$12.4	$0.7	$0	$0	$0	**$13.1**
SRF Loans	$0	$0	$0	$0	$0	$0	$0	**$0**
Grants	$0	$0	$0	$0	$0	$0	$0	**$0**
Cash	$25.9	$95.8	$53.1	$27.5	$32.5	$33.2	$35.8	**$182.0**
Total	**$ 178.7**	**$ 164.9**	**$ 65.4**	**$28.2**	**$32.5**	**$33.2**	**$35.8**	**$195.1**
Baseline CIP								
Revenue Bonds/ Commercial Paper	$127.3	$240.0	$400.0	$170.0	$125.0	$150.0	$120.0	**$965.0**
SRF Loans	$8.9	$59.9	$100.9	$148.7	$101.8	$117.4	$89.1	**$557.9**
Grants	$0	$0	$0	$0	$0	$0	$0	**$0**
Capacity Fees/Cash	$51.4	$14.8	($128.0)	($13.3)	$206.8	$129.7	$116.1	**$311.3**
Total	**$187.6**	**$ 314.7**	**$372.9**	**$305.5**	**$ 433.6**	**$397.1**	**$325.2**	**$1,834.2**
Total Funding	**$366.2**	**$479.6**	**$438.3**	**$333.7**	**$466.0**	**$430.2**	**$361.0**	**$2,029.3**

The City expects several large projects to be financed over the PUD Outlook period, including Phase 1 and 2 of the Pure Water Program and the am Safety Program. The City has secured financing of up to

$733.5 million for the Water System's share of the Pure Water Program Phase 1 through the EPA's Water Infrastructure Finance and Innovation Act (WIFIA) Loan Program which will provide funding through FY 2027. The Department has assumed that similar to Phase 1 of Pure Water, Pure Water Phase 2 and the Dam Safety Program will initially be cash-funded with the potential to be reimbursed through loans and grants. The Public Utilities department is currently working with the Department of Finance and the Army Corp of Engineers to secure initial financing for a string of dam improvements projects across the Public Utilities Department service area. The Public Utilities Department expects to create additional financing plan in conjunction with the Department of Finance Debt Management team during the PUD Outlook period, which will be incorporated into future outlooks for other large capital projects.

For the Water System's baseline CIP, the Department anticipates financing the costs of certain projects in the amount of $249.5 million through SRF loans the City has already secured or for which it plans to apply. The proceeds from additional SRF loans are assumed to provide funding in FY 2027 through FY 2031. SRF loans are one of the least expensive sources of financing available to the City. This PUD Outlook reflects a lower level of assumed SRF funding due to limited funding at the State level for the program and unprecedented demand for funding. The City has increased the amount of non-SRF funding during this period, which has resulted in higher debt service expenses than in past outlooks.

Debt Service Coverage Ratios

As the Water System makes use of various financing instruments to fund its CIP, it is important to maintain good financial metrics to ensure its creditworthiness and ability to issue debt at advantageous terms. One of the key components to measuring the Water System's credit quality is its debt service coverage ratio (DSCR). The DSCR is a measure of a system's ability to make payments on existing and projected debt service and compares the system's net operating revenues against its debt service payments. This is one of the most important financial metrics used to determine the City's borrowing risk; a lower Debt Service Coverage Ratio means less cash is being generated that can be utilized to pay debt in the event of financial distress. A higher debt service coverage ratio however increases the amount of funds being generated each year, which contributes to higher rates. These two impacts must be considered in tandem.

While variations in revenues and expenditures will result in varying DSCRs in given years, the Department generally targets a DSCR of 1.5x, a financial target that gives the Department the ability to maintain high credit quality leading to continued low borrowing rates. Additionally, the Department's bond covenants require it to maintain a DSCR of 1.2x for its senior debt and 1.1x for its aggregate debt. The projected DSCRs over the PUD Outlook period are displayed in Table 3.3. This decrease in the early part of the PUD Outlook was instrumental for the Department to keep rates lower in the earlier years of the approved rate adjustment. The 2.18x coverage ratio in Fiscal Year 2031 is expected to decrease, all else being equal, when the Pure Water Phase 2 and Dam Safety Program financing plans are complete, since they will likely result in additional long-term debt being issued. While the ratio is increasing in the PUD Outlook, it is not expected to continue at these levels but the revenue it is generating is needed to return to a level of liquidity during PUD Outlook timeframe.

Table 3.3 - Projected Debt Service Coverage Ratios ($ in Millions)						
	FY 2026	**FY 2027**	**FY 2028**	**FY 2029**	**FY 2030**	**FY 2031**
Net Systems Revenues	$177.6	$202.7	$245.5	$291.0	$399.5	$492.3
Debt Service	$140.1	$172.0	$190.0	$196.6	$211.6	$226.2
Debt Service Coverage Ratio	**1.27x**	**1.18x**	**1.29x**	**1.48x**	**1.89x**	**2.18x**

Water System Revenues

The primary revenue sources of the Water Utility Fund are generated from water sales, capacity fees, interest earnings, and rental income. This section discusses each revenue category, and includes a description of revenue sources, projected growth rates, and a discussion of future revenue streams and how they impact the Water Utility Fund.

Water Sales

Background. The majority of Water Utility Fund revenue is generated from water sales which makes up over 90% of the Water Utility Fund's total revenue. City utility bills include water and sewer charges and storm drain fees, but only receipts from water charges are revenues to the Water Utility Fund. The water charge is comprised of two parts: a fixed monthly service charge and a commodity charge that is based on the volume of water used. The fixed service charge is based on the size of a customer's meter, which provides an approximation of the amount of water the customer could have delivered to the customer's property.

The commodity charge is determined using a set rate based upon each hundred cubic feet (HCF), or approximately 750 gallons, of water consumed. The City currently has a tiered commodity charge structure for single family residential (SFR) customers that is broken down by water usage within each rate block. The remaining retail customers – Multi-Family Residential (MFR), Non-Residential, Temporary Construction and Irrigation – are billed under a uniform commodity charge for their respective customer classification. Please see the "Other Assumptions and Considerations" section for more information around how current litigation will impact this moving forward.

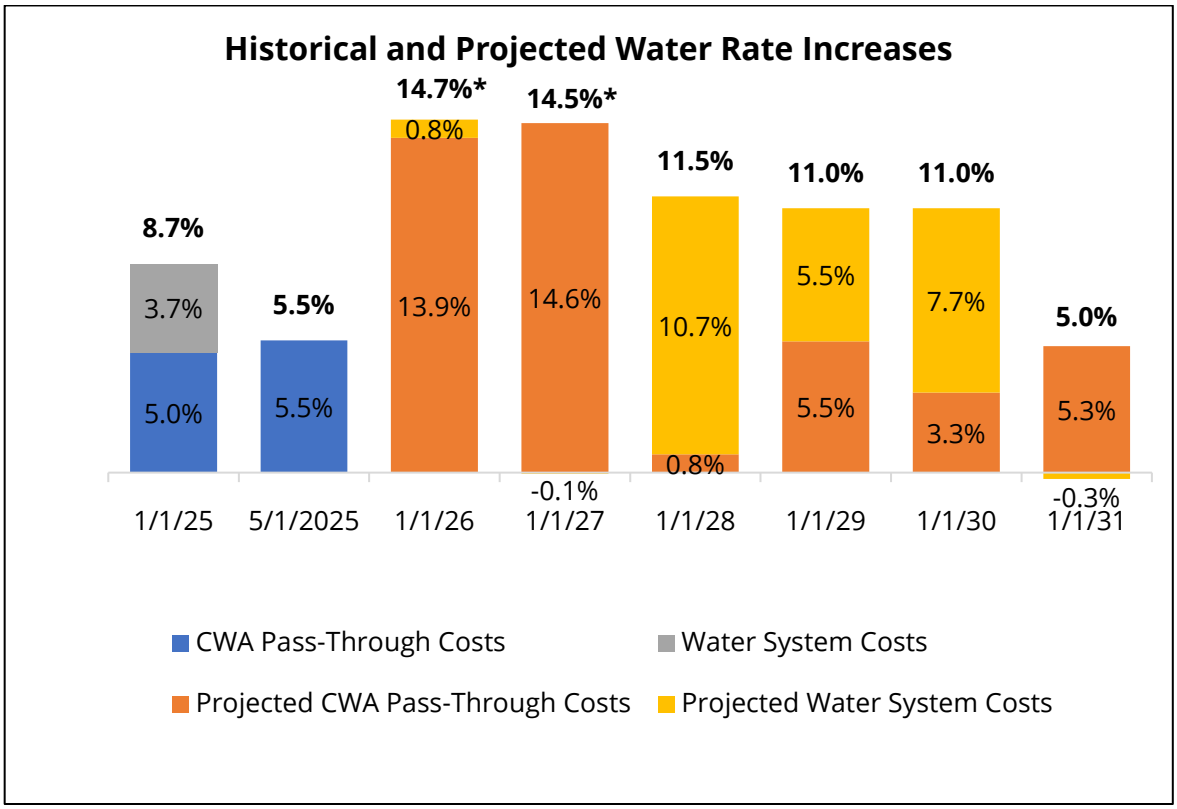
Water Service Charge Rate Increases The Department last released a Water System cost of service study in 2024, which produced a four-year rate case (the 2024 Rate Case). The 2024 Rate Case was based on comprehensive forecasted annual operations and maintenance costs, capital cost expenditures and purchased water costs that increase every January 1 from SDCWA. The 2024 Rate Case covered FY 2026 through FY 2029. The first two years of the 2024 Rate Case were approved by the City Council in October 2025. Council approved a maximum authority of rate increases of 14.7% January 1, 2026 and 14.5% January 1, 2027.

Based on the revenue required to support projected expenditures, fund reserves appropriately, and achieve the target financial metrics, this PUD Outlook includes projected water rate revenue

adjustments on a system-wide basis. Actual rate increases and the individual customer class impact will be subject to finalization of the cost of service study for future rate periods and City Council consideration of rates effective Fiscal Year 2028 and beyond. Further details into the SDCWA rate projections and the risks associated with utilizing this data can be found in the "Other Assumptions and Considerations" section of the report

Historically, roughly one half to one third of these rate adjustments are necessary to pay for increased SDCWA water rates. However, in Fiscal Years 2026 and 2027, almost 100% of the increases are to meet the costs and expected volumes needed for water purchases. The level of increase drops in Fiscal Year 2028 as the Pure Water Program produces its maximum capacity. The "Other Assumptions and Considerations" section of the PUD Outlook dives into the assumptions used for water purchase rates.

Figure 4.1 – Water Service Charge Rate Increases



*Rate reflects approved Maximum Authority

Forecast. Table 4.2 presents forecasted water sales revenues for FY 2026 through FY 2031. The growth rates reflect overall revenue growth and include revenue impacts of both proposed rate adjustments and revenue from the MWD's Local Resources Program, which provides credits for development of local water supplies and is tied to the Pure Water production timeline. Upon full production, the incentives are expected to be $11.4 million per year for 25 years.

Table 4.2 - Water Sales Revenue Projections ($ in Millions)							
	FY 2025	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**	**FY 2030**	**FY 2031**
Potable Water							
YOY Growth	N/A	17.4%	14.9%	13.2%	11.5%	11.3%	8.1%
Projection	$660.1	$774.6	$889.8	$1,007.1	$1,123.0	$1,249.5	$1,350.8
Other Water Sales							
YOY Growth	N/A	14.1%	17.1%	19.0%	8.1%	6.8%	3.2%
Projection	$41.2	$47.1	$55.1	$65.6	$70.9	$75.7	$78.1

Economic Trends. The demand for water within the City's service area is projected to stay consistent over the long-term. SANDAG projects San Diego's population will peak and begin a slow steady state with some declines in the future. These longer term trends will be expanded upon in the City's Urban Water Management Plan, which is expected to be presented to City Council later this fiscal year.

Sensitivity Analysis. While these projections represent the Department's best estimate of water sales revenues throughout the PUD Outlook period, actual results will depend on the factors discussed in the Water Sales Background and Forecast sections, above. Assuming the above rates, for every 1,000 acre foot reduction in water sales volumes/sales, revenues could decrease by approximately $6 million, which would require an approximately 1% increase in the rates projected in this PUD Outlook.

Water Capacity Charges

Background. Capacity charges are development fees included in permits for new or expanded water connections and are based on an estimate of the increase in water consumption as measured by equivalent dwelling units (EDUs). Capacity charge proceeds are used to construct, improve, and expand the Water System to accommodate the additional business of such added dwellings or commercial or industrial units.

Pursuant to State law, capacity charges can be used only to pay costs associated with capital expansion, bonds, contracts, or other indebtedness of the Water System related to expansion. Because capacity charges are primarily collected on the issuance of new construction permits within the City, revenues obtained from such charges vary based upon construction permitting activity.

In February 2007, the Mayor and City Council approved increasing the water capacity charge by 19.5% to $3,047 per EDU, which was estimated to provide full cost recovery for Water System expansion projects.

AB 2536 (2022) "Development fees: impact fee nexus studies: connection fees and capacity charges" became law on July 19, 2022. This bill increased the requirements for connection and capacity charges effective January 1, 2022, to be in alignment with other development impact fees, which have more specific reporting and project listing requirements than previously required. The City had planned to

include a proposal to increase capacity charges in the COSS, but as a result of these new requirements, adjustments to water capacity fees will be addressed in a future nexus study.

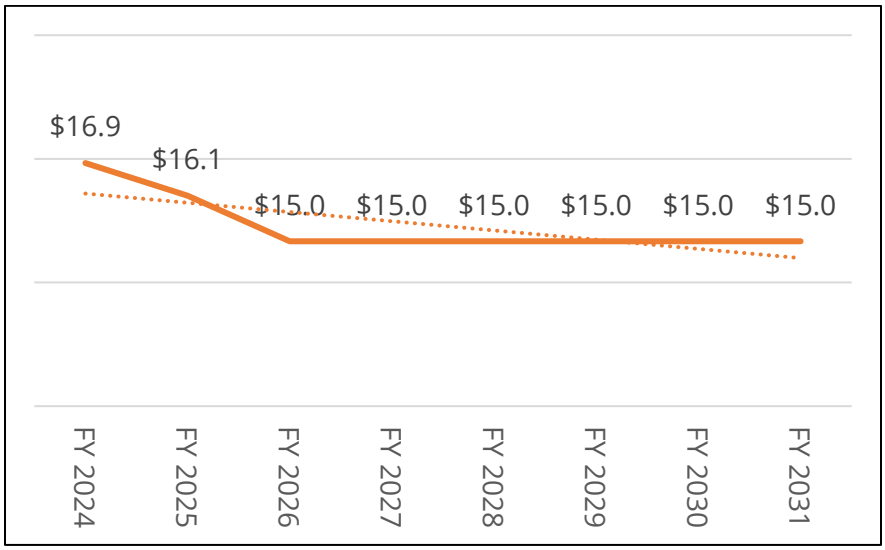
Forecast. Table 4.3 displays the FY 2025 unaudited actuals and projections through FY 2031 for water capacity charges. This revenue source represents less than 2% of the Water System's overall revenue receipts.

Table 4.3 - Capacity Charges ($ in Millions)

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
YOY Growth	N/A	(6.8%)	0%	0%	0%	0%	0%
Projection	$16.1	$15.0	$15.0	$15.0	$15.0	$15.0	$15.0

Projected revenues for capacity charges are determined using conservative estimates, primarily relying on historical spending patterns, as illustrated in Figure 4.4. During the period spanning FY 2015 to FY 2025, the average capacity fee revenue stood at approximately $15.3 million. The projections assume that development activity may slow in FY 2026. It's important to note that this revenue projection follows a distinct trend compared to the wastewater forecast. This distinction arises from the fact that water revenue tends to exhibit greater variability compared to wastewater, mainly due to factors like outdoor water usage. Consequently, changes in capacity revenue have a relatively milder impact on rate adjustments, allowing for a more gradual decline in revenue projections compared to the wastewater forecast.

Figure 4.4 - Water Capacity Charge Revenue Forecast



Economic Trends As previously mentioned, water capacity charges are primarily based on new water connections related to new construction and are directly influenced by population, residential and commercial development. The demand for water within the City's service area is projected to stay consistent over the long-term. SANDAG projects San Diego's population will peak and begin a slow steady state with some declines in the future. These longer term trends will be expanded upon in the City's Urban Water Management Plan, which is expected to be presented to City Council later this fiscal year. As population continues to change in the region, the demand for housing is also expected to change to meet population.

The uncertainty surrounding any recessionary impacts on residential construction contribute to generally flat capacity fee revenue projections over the next five years.

Revenue from Use of Property

Revenue from Use of Property includes revenues from non-agricultural lease of land, such as the San Diego Zoo Safari Park; storage by private companies on utility-owned lands; agricultural leases of land in San Pasqual Valley; and telecom leases for cell towers on utility-owned properties.

Table 4.5 displays the FY 2025 unaudited actuals and projections through FY 2031 for use of property. This revenue source represents less than 1% of the Water System's overall revenue receipts.

Table 4.5 - Revenue from Use of Property ($ in Millions)

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
YOY Growth	N/A	0%	0%	0%	0%	0%	0%
Projection	$6.9	$6.9	$6.9	$6.9	$6.9	$6.9	$6.9

Actual revenues in this category can vary slightly each year as new lease agreements are entered into while other lease agreements expire; however, the projections are kept flat. During the October 2025 rate hearing, the Department was requested to investigate ways to increase non-rate revenue from use of property. This PUD Outlook does not assume any increases in this revenue source, but the Public Utilities Department is working with the Economic Development Department to identify areas for increased revenue from the use of property. The outcome of these efforts will be included in future outlooks upon execution of new or amended lease agreements.

Other Revenue

The Other Revenue category includes refunds or reimbursements from private parties for damages to utility-owned equipment, buildings, or fire hydrants; refunds from vendors; reimbursements from services provided to other City departments/funds; receipts from the sale of recycled materials or equipment (paper, computers, metal); grant revenue; and interest earnings on pooled investments.

Table 4.6 displays the FY 2025 unaudited actuals and projections through FY 2031 for the Other Revenue category. This revenue source traditionally represents 2.0% of the Water System's overall revenue receipts.

Table 4.6 - Other Revenue
($ in Millions)

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
YOY Growth	N/A	(22.8%)	(27.3%)	5.3%	4.4%	6.5%	1.6%
Projection	$42.6	$32.9	$23.9	$25.2	$26.3	$28.0	$28.5

Other Revenue in FY 2026 and FY 2027 is projected to decline due to higher expenses and lower revenues than forecasted in the 2024 Rate Case, resulting in less unrestricted cash yielding less interest earnings. Changes from year to year are largely due to changes to projected interest income, as well as charges for services, including storage and transportation agreements with other local agencies.

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Other Assumptions and Considerations

San Diego County Water Authority (SDCWA) Long Range Financial Plan (LRFP)

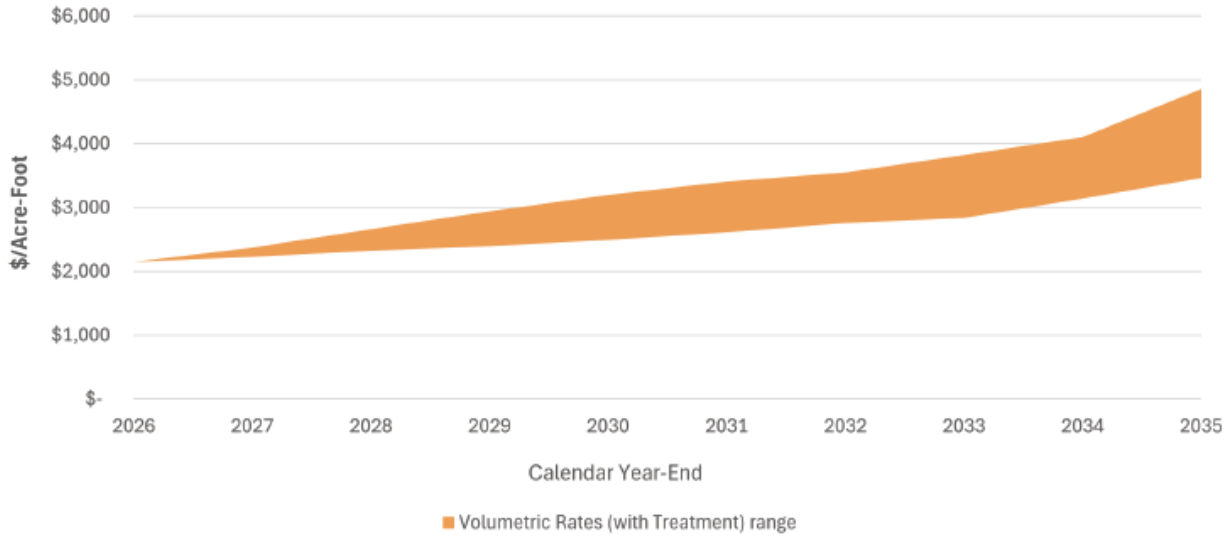
The SDCWA's 2026 LRFP covers a ten-year planning period from Fiscal Years 2026 through 2035. This planning document presents the financial outlook of the Water Authority, addressing elements such as asset management, the scheduled Capital Improvement Program (CIP), financial stability, and affordability. This document is currently awaiting adoption by the SDCWA board but provides the best information for forecasting the cost to purchase water in this PUD Outlook. Due to its importance and limitations, the following identifies key considerations for utilizing this information in the PUD Outlook.

Broad Trends in Cost Escalations

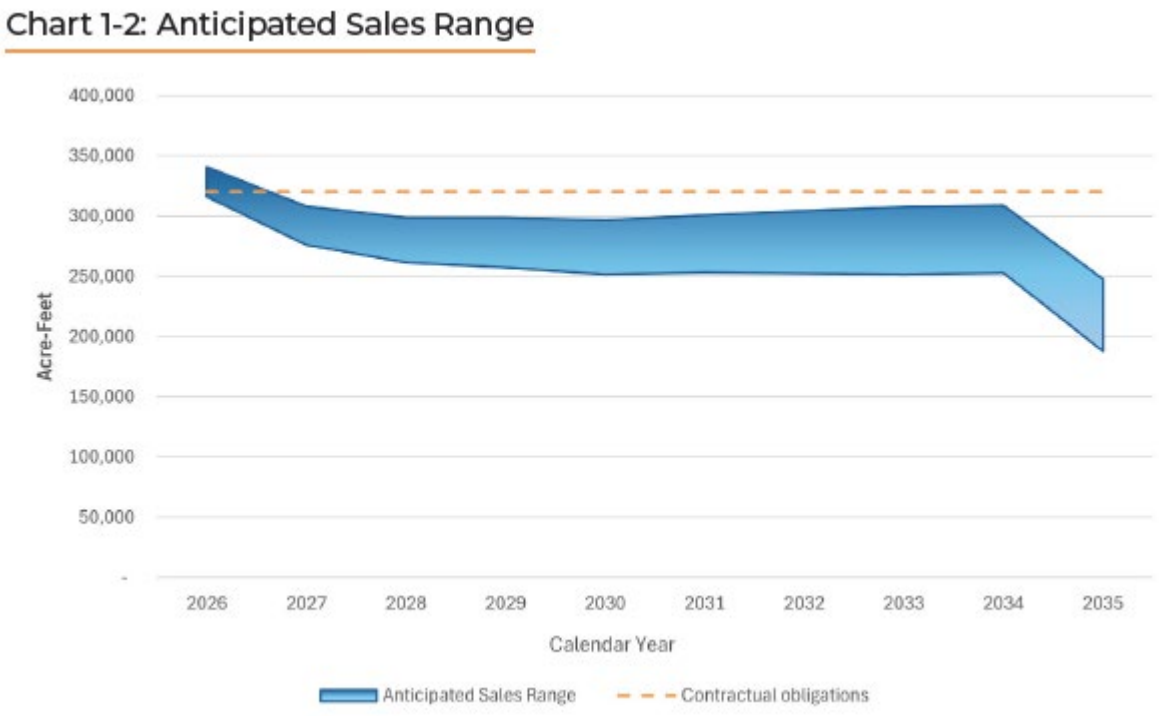
The LRFP indicates that the rate guidance for the SDCWA is primarily influenced by two major factors: projected increases in water purchase costs and the anticipated decline in water demand below existing fixed contract amounts.

Volumetric Rate Escalation: Projected volumetric water rates, which include the M&I Supply Rate, Transportation Rate, and Treatment Rate, are anticipated to increase substantially over the ten-year period (2026–2035). The compounded annual growth rate (CAGR) for volumetric rates is forecasted to range between 5.5% and 9.5% as depicted in Chart 1-8 of the LRFP. The actual volume of future volumetric rates is tied directly to actual water sales.

Chart 1-8: Projected Volumetric Water Rate Range



Water Sales and Supplies: The level of water sales is documented as the single biggest driver of rates. As has been experienced in 2024, the LRFP forecasts that demand will fall below existing contractual obligations during the 2026-2035 period (depicted in the LRFP's Chart 1-2). Because SDCWA has take-or-pay obligations for over 300,000 acre-feet of water annually, if water sales fall below these contracted obligations, the cost per acre-foot for the water sold or stored will increase.



Disclosure on Data Limitations and Necessary Approximations

Because the LRFP provides only high-level, planning-level rate ranges and not the detail needed for a full update, the City must rely on broad assumptions to prepare the PUD Outlook. Key cost drivers such as SDCWA's future rate structure, actual water sales, and final CIP spending levels remain uncertain. As a result, the PUD Outlook's projections may vary significantly from actual future conditions. The Department will continue to monitor and provide updates through future budgets and outlooks.

Litigation

This update details the significant developments concerning the *Patz v. City of San Diego* litigation. The litigation involves the City's tiered water rate structure for single-family residential customers, alleging that these rates violate Article XIIID of the California Constitution (Proposition 218) because they do not accurately reflect the actual cost of providing water service to each specific parcel.

The City has continuously argued that its water rates were strictly based on accepted industry cost of service principles and were compliant with Proposition 218. In September 2021, the trial court ruled against the City, which the City appealed. In July 2025, the Court of Appeals affirmed the trial court's ruling. The appellate decision made clear that while the City acted in good faith and followed

established industry standards, the ruling clarifies that courts now expect a *higher evidentiary standard* when municipal agencies defend tiered water rate structures under Proposition 218.The dissenting opinion from the appellate ruling highlights that the courts require a level of evidentiary proof that "no water agency has yet demonstrated or may be capable of demonstrating". The City thereafter petitioned the Supreme Court, but on October 29, 2025, the Supreme Court of California denied the City's petition for review of the appellate decision in *Patz v. City of San Diego*. As a result of this denial, the Court of Appeals' ruling stands as the final interpretation of Proposition 218's proportionality requirements.

As a result of this ruling, the City will be required to implement unitary/uniform rates across all customer categories. In order to meet this requirement, a public hearing will need to be held by September 2026.

The ruling from September 2021 found in favor of the plaintiffs on the Proposition 218 claim and mandated that the petitioner class be awarded $79.5 million in refunds based on estimated overcharges. The City is also required to accrue interest on the refunds until the rates were brought into compliance. The City's financial statements have included estimates of the liability through 2025 and the PUD Outlook assumes additional liability to accrue interest through the end of Calendar Year 2026 ($6.8 million). The City still needs to return to the district court to determine *how* the judgement needs to be modified to account for legislative changes implemented since 2021 that directly impact monetary damages from Proposition 218 litigation.

In conclusion, the outcome of this case carries statewide implications for public water agencies. Because the Supreme Court denied review, the appellate ruling stands as the controlling interpretation of Proposition 218's proportionality requirements for water rate structures statewide. This means that the stringent, newly established evidentiary standard for proving the cost proportionality of tiered residential water rates must now be met by water agencies across California seeking to implement or defend similar structures. This judicial clarification compels a re-evaluation of rate design methodologies to meet the strict legal interpretation of cost proportionality.

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WASTEWATER SYSTEM

The Wastewater System is comprised of the Metropolitan and Municipal Utility Funds, collectively known as the Sewer Revenue Funds. This section discusses the Wastewater System's baseline expenditure projections and projected capital improvement program needs and financing options for the next five years. Wastewater System revenue projections are also discussed.

Wastewater System Expenditures

The Wastewater System expenditures are comprised of both personnel and non-personnel expenditures including debt service and other non-discretionary payments. The following sections discuss in detail each expenditure category and include a description of the category, projected growth rates, and a discussion of any key expenditures.

Strategic critical expenditures identified in prior outlooks, including expenditures associated with Pure Water Phase 1 operations and regulatory compliance, are now included in the baseline for FYs 2027-2031.

Personnel Expenditures

Personnel expenditures include salaries, wages, and fringe benefits. Salaries and wages are comprised of regular salaries and wages, hourly wages, special pay, overtime, and pay in lieu of annual leave. Fringe benefits include pension payment or Actuarially Determined Contribution (ADC), flexible benefits, retiree health or Other Post-Employment Benefits (OPEB), workers' compensation, Supplemental Pension Savings Plan (SPSP), and other fringe benefits. Projected FY 2026 Sewer Funds salaries, wages, and fringe benefits are anticipated to be $128.8 million and include 972.85 FTEs. Table 5.1 displays the FY 2025 unaudited actuals and projections through FY 2031 for personnel expenditures.

Table 5.1 – Baseline Personnel ($ in Millions)

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Salary and Wages	$82.7	$84.3	$88.1	$91.0	$93.8	$96.6	$99.5
Fringe	$44.5	$44.5	$45.4	$46.3	$47.2	$47.5	$47.5

The salary and wages category incorporates only those expenditures associated with staff included in the FY 2026 Adopted Budget. Position adds identified for FY 2027-2031 to support critical expenditures are discussed below. The PUD Outlook assumes 3.00-3.76 percent salary increase for pending MOU negotiations in future years, which is slightly higher than the General Fund Outlook to account for potential special salary and certification increases. Any future negotiated general wage increases that deviate from the assumptions will impact future year personnel costs included in the PUD Outlook period and increase the rate revenue requirement. Baseline expenditures include funding needs for operations of Morena Pump Station, as part of the Pure Water Program, staffing needed to comply

with new and updated discharge regulations and dedicated in house street trench repair crews in compliance with the City's Street Preservation Ordinance.

The Department's fringe budget has been increased based on its past proportional relationship between it and salaries and wages category.

Supplies

The Supplies category includes costs for chemicals, machine parts, electrical materials, laboratory supplies, and pipe fittings. Table 5.2 displays the FY 2025 unaudited actuals and projections through FY 2031 for the Supplies category.

Table 5.2 - Baseline Supplies ($ in Millions)

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
YOY Growth	N/A	0.2%	3.3%	2.7%	2.7%	2.8%	2.7%
Projection	$49.5	$49.6	$51.3	$52.7	$54.1	$55.6	$57.2

The Supplies category includes various components. The Supplies baseline projection is increased by the forecasted growth used in the General Fund Outlook and included baseline expenses needed for trench restoration and repair and include asphalt/concrete and slurry seal.

Contracts

Contracts are a non-personnel expense category that includes the cost of professional consultant fees, general government services billing, rent, city services billings, fleet vehicle usage and assignment fees, contractual services, and other contractual expenses. Table 5.3 displays the FY 2025 unaudited actuals and projections through FY 2031 for the Contracts category.

Table 5.3 - Baseline Contracts ($ in Millions)

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Growth Rate	N/A	2.0%	1.4%	2.7%	2.8%	2.8%	2.7%
Projection	$122.0	$124.5	$126.2	$129.7	$133.3	$136.9	$140.7

The Contracts baseline projection is increased by long-term CPI trends of between 2.7 and 3.2 percent each year. Adjustments are based on known and anticipated events, including prior critical strategic expenditures and prior spending levels. The growth rate will ultimately be dependent on actual level of expenditures. Baseline expenses include Street Preservation Ordinance contractual repair funding to address trench restoration and repairs.

Information Technology

The Information Technology category includes both discretionary expense and non-discretionary allocations. The Information Technology category includes the costs related to hardware and software maintenance, help desk support, and other information technology (IT) services. Table 5.4 displays the FY 2025 unaudited actuals and projections through FY 2031 for the Information Technology category.

Table 5.4 - Baseline Information Technology ($ in Millions)

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
YOY Growth	N/A	0%	7.2%	2.8%	2.7%	2.7%	2.7%
Projection	$8.6	$8.6	$9.3	$9.5	$9.8	$10.1	$10.3

The projections include estimates of IT costs and systems critical to treatment plant and distribution system operations. The baseline discretionary costs are then increased by the forecasted cost growth over the PUD Outlook period.

Energy & Utilities

The Energy & Utilities category includes costs for electricity, water services, fuel, and other utility and energy expenses. Table 5.5 displays the FY 2025 unaudited actuals and projections through FY 2031 for the Energy & Utilities category.

Table 5.5 - Baseline Energy & Utilities ($ in Millions)

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
YOY Growth	N/A	4.8%	36.7%	7.8%	5.0%	5.2%	3.5%
Projection	$37.1	$38.9	$53.2	$57.4	$60.2	$63.3	$65.6

The Energy & Utilities category includes various costs including prior critical strategic expenditures, primarily associated with the Pure Water Program as reflected in the increase in FY 2027. Expenditures for Pure Water are necessary as new and expanding Pure Water facilities come online and include expenditures for the Morena Pump Station, North City Water Reclamation Plant, and the Metropolitan Biosolids Center. After the Pure Water Program comes online, projected expenses in this category assume annual rate increases ranging from 3.5 to 5.2%.

Other Expenditures

Expenses included in this category are transfers to other funds, capital expenses, and other miscellaneous expenditures. Debt service obligations, including bond and State Revolving Fund (SRF)

loan payments, are excluded from this category and are discussed in detail within the Wastewater System Capital Improvements Program section of this report. Table 5.6 displays the FY 2025 unaudited actuals and projections through FY 2031 for the Other Expenditures category.

Table 5.6 - Baseline Other Expenditures ($ in Millions)

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
YOY Growth	N/A	5.8%	(3.5%)	1.7%	1.7%	1.7%	1.7%
Projection	$10.3	$11.0	$10.6	$10.7	$10.9	$11.1	$11.3

No growth rate was applied to Other Expenditures as the expenses in this category do not typically recur on an annual basis. Due to the small expenses in this category, minor changes under $100,000, such as equipment purchases, can result in large percentage changes. The current forecasts do not consider the additional costs associated with converting the Department's fleet to electric; the Department is currently working on developing that forecast.

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Reserves Contributions

The City has established accounts within the Sewer Revenue Fund for three reserve funds: The Emergency Operating Reserve (Operating Reserve), the Rate Stabilization Fund Reserve (Rate Stabilization Fund), and the Emergency Capital Reserve (Capital Reserve). The Department operates these reserve funds in accordance with the City's reserve policy. Table 5.7 details reserve targets and projected funding levels. Reserves are projected to be fully funded throughout the PUD Outlook period.

The PUD Outlook projects use of the Rate Stabilization Reserve Fund in FY 2027 and FY 2029. The use of the reserves allows for a more gradual increase in rate increases than would otherwise be required to meet financial targets. They also will be used to protect system revenues as the city prepares for the impact of changes in billing in the Metropolitan Wastewater System.

Table 5.7 - Reserve Target Levels and Estimated Funding Levels ($ in Millions)

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Operating Reserve Target ($)	$69.4	$73.8	$76.3	$78.6	$80.8	$82.9
Operating Reserve Level ($)	$69.4	$73.8	$76.3	$78.6	$80.8	$82.9
Rate Stabilization Fund Target ($)	$21.3	$23.6	$22.4	$27.5	$26.6	$29.4
Rate Stabilization Fund Level ($)	$104.3	$35.3	$63.3	$40.3	$60.3	$60.3
Capital Reserve Target ($)	$10.0	$10.0	$10.0	$10.0	$10.0	$10.0
Capital Reserve Level ($)	$10.0	$10.0	$10.0	$10.0	$10.0	$10.0

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Wastewater System Capital Improvements Program

The Wastewater System Capital Improvement Program (CIP) is structured to meet the City's critical wastewater infrastructure needs with a focus on sustainability, cost efficiency, and regulatory compliance. The program consists of more than 250 projects across various stages of planning, design, and construction.

These projects aim to extend the service life of infrastructure, reduce the risk of system failures, and ensure compliance with environmental permits. Over the next five years, the CIP will address current and future system needs by substantially completing Pure Water Phase 1, upgrading sewer treatment facilities, and improving key sewer conveyance systems.

As described in the "Report Outline" section of the report, the PUD Outlook contains revised CIP expenses to account for the additional one year delay to sewer pipeline projects that were planned to be bundled with water pipeline projects.

Key Program Highlights

- **Pure Water Program (Water and Wastewater):** Significant progress continues in Phase 1, with substantial completion of the Morena Boulevard Pump Station and Morena Conveyance Pipelines, along with the upgrade and expansion of the North City Pure Water Reclamation Plant and the Metropolitan Biosolids Center.
- **Metro System Large Sewer Pump Stations:** Major investments are planned for two large Metro System sewer pump stations, which transport significant volumes of wastewater to treatment facilities. Planned projects include mechanical and electrical improvements, new pump installations, the rehabilitation of Pump Station 1, and the modernization of Pump Station 2. These projects are designed to extend facility service life and reduce the likelihood of service disruptions.
- **Trunk Sewers:** Trunk sewers are large-diameter pipelines that convey wastewater from local collection systems to treatment facilities. Planned upgrades will address aging infrastructure by rehabilitating and expanding the capacity of key trunk sewers, such as the Harbor Drive and Tecolote Canyon Projects, to accommodate the growth that has and is likely to occur in these specific areas and to reduce the risk of overflows. While the wastewater system as a whole is seeing reduced flows, increases in density in key parts of the city require resizing of specific trunk sewers.
- **Municipal Pump Stations:** The City's 78 municipal pump stations are critical in transporting wastewater from lower elevation areas to higher points within the city's sewer system, enabling efficient flow to treatment facilities. Upgrades across multiple pump stations will enhance system efficiency by improving energy use, replacing outdated components, and optimizing pump performance. These improvements will help prevent overflows, reduce maintenance needs, and support regulatory compliance.
- **Sewer Pipelines:** Sewer pipeline projects involve the repair, replacement, or rehabilitation of deteriorating pipes to prevent leaks and blockages. The City prioritizes areas with high rates

of maintenance or structural deficiencies. Water and sewer pipeline projects are combined to minimize community disruptions, with major improvements planned citywide.

- **Sewer Treatment Plants:** Upgrades at wastewater treatment plants are essential to meet stringent regulatory requirements and improve overall plant performance. Planned projects include the modernization of treatment processes and equipment upgrades.
- **Miscellaneous Projects:** A range of additional projects are planned to support the wastewater system, including emergency response improvements, the installation of odor control facilities, and the replacement of outdated infrastructure. These projects help ensure continuous, effective wastewater management and address community concerns.

Table 6.1 shows categories of projects with the estimated cost of expenditures contained in the CIP for the period of FY 2027 through FY 2031. The City's Adopted Budget includes multi-year project pages for individual capital projects. The PUD Outlook includes a high-level summary of the CIP to understand the financial impact on the Wastewater System; the City's Five-Year Capital Infrastructure Planning Outlook provides additional information on the capital infrastructure needs for the entire city.

Table 6.1 - Summary of Projected CIP Projects
Fiscal Year 2027-2031
($ in Millions)

Wastewater CIP Projects	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	Outlook Total
Pure Water Program	$143.3	$105.6	$42.1	$15.4	$17.5	$15.1	$16.2	**$106.2**
Trunk Sewers	$22.5	$54.1	$93.4	$68.3	$30.5	$28.1	$15.7	**$235.9**
Municipal Pump Station	$0.2	$0.4	$2.0	$1.2	$3.9	$7.9	$10.5	**$25.5**
Sewer Pipelines	$106.7	$158.6	$139.0	$134.3	$146.0	$163.1	$161.0	**$743.4**
Miscellaneous Projects	$4.5	$10.0	$42.3	$83.1	$67.1	$53.7	$37.4	**$283.5**
Sewer Treatment Plants	$41.2	$22.2	$33.7	$57.9	$42.4	$30.5	$32.5	**$196.9**
Large Sewer Pump Station	$15.8	$58.8	$44.0	$58.0	$20.4	$4.4	$3.8	**$130.6**
Total	**$334.2**	**$406.8**	**$396.5**	**$418.1**	**$327.8**	**$302.7**	**$277.0**	**$1,722.1**

Capital Improvements Program (CIP) Financing Plan

Table 6.2 below describes the projected sources of funds to finance the Water System CIP during the PUD Outlook Period for FY 2027 through FY 2031; FY 2025 and FY 2026 activity are provided for reference and are not a part of the PUD Outlook Period.

The Department anticipates incurring approximately $1.2 billion of additional debt obligations for the Baseline Wastewater System CIP and $38.5 million of additional obligations for the Pure Water CIP over the PUD Outlook period. Additional amounts will be funded with capacity fee revenue and cash. The City is projecting an increase in borrowing rates, due to the Federal Reserve's attempts to combat

inflation and the increase in federal borrowing costs for risk-free treasury offerings. Although grant funding is currently not reflected during the PUD Outlook period, the Department is actively applying for additional grant funding and continually searching for new grant opportunities. Any grant funding awarded will be used to offset cash funding. The City has identified many grant opportunities in recent federal bills but would note a large portion of funding has been restricted to specific agencies, for smaller jurisdictions, or grant awards being capped at relatively low dollar values. Please note fiscal years that show the use of negative cash reflect reimbursement of prior cash expenditures from grant, bonds, or loans.

Table 6.2 - Revenues Sources for the Wastewater Capital Improvement Program ($ in Millions)

Revenue Sources	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	Outlook Total
Pure Water CIP								
SRF Loans	$140.1	$124.4	$25.5	$8.5	$3.8	$0.7	$0	**$38.5**
Grants	$0	$0	$0	$0	$0	$0	$0	**$0**
Capacity Fees/Cash	$3.3	($18.8)	$16.6	$6.9	$13.7	$14.4	$16.2	**$67.8**
Total	**$143.3**	**$105.6**	**$42.1**	**$15.4**	**$17.5**	**$15.1**	**$16.2**	**$106.2**
Baseline CIP								
Revenue Bonds	$278.2	$240.0	$360.0	$0	$520.0	$0	$300.0	**$1,180.0**
SRF Loans	$0	$0	$15.3	$16.0	$16.0	$2.7	$0	**$50.0**
Grants	$0	$0	$0	$0	$0	$0	$0	**$0**
Capacity Fees/Cash	($87.3)	$61.2	($21.0)	$386.7	($225.7)	$284.9	($39.1)	**$385.9**
Total	**$190.9**	**$301.2**	**$354.3**	**$402.7**	**$310.3**	**$287.6**	**$260.9**	**$1,615.9**
Total Funding	**$334.2**	**$406.8**	**$396.5**	**$418.1**	**$327.8**	**$302.7**	**$277.0**	**$1,722.1**

As noted in the discussion of the Water System CIP, SRF loans are one of the least expensive sources of financing available to the City. If the City is not awarded the SRF loans projected over this PUD Outlook period, it will need to seek financing sources that carry higher interest rates.

The City anticipates financing approximately $1.2 billion of the Wastewater System for Baseline CIP through loans and revenue bonds over the PUD Outlook period. It is expected that a total of $385.9 million will come from capacity fees and cash on a pay-as-you-go-basis.

Debt Service Coverage Ratio

Similar to the Water System, as the Wastewater System makes use of various financing instruments to fund its capital program, it is important that it maintain good financial metrics to ensure its creditworthiness and its ability to issue debt at advantageous terms. One of the key components to measuring the Wastewater System's credit quality is its debt service coverage ratio (DSCR). The DSCR is a measure of a system's ability to make payments on its existing and projected debt service and compares the system's net operating revenues against its debt service payments.

While variations in revenues and expenditures will result in varying DSCRs in given years, the Department generally targets a DSCR of 1.5x, a financial target that gives the Wastewater system the ability to maintain high credit quality leading to continued low borrowing rates. Additionally, the Department's bond covenants require it to maintain a DSCR of 1.2x for its senior debt and 1.1x for its aggregate debt. Table 6.3 displays the projections through FY 2031.

Table 6.3 - Estimated Debt Service Coverage Ratios ($ in Millions)

	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Net System Revenues	$149.8	$195.1	$185.0	$205.2	$208.9	$252.1
Debt Service	$102.1	$138.2	$121.6	$163.9	$152.0	$172.0
Debt Service Coverage Ratio	**1.47x**	**1.41x**	**1.52x**	**1.25x**	**1.37x**	**1.47x**

During the PUD Outlook period the debt service peaks in FY 2031 associated with the debt service on Pure Water and bond offerings during the PUD Outlook period. In most years, the DSCR is projected to dip slightly below target levels. The changes in net system revenue are discussed in the expenditures and revenues sections of this report. These dips were intentional and were done to better balance affordability in total customer cost during this period.

Wastewater System Revenue

The following section provides details of revenue projections for the Sewer Revenue Funds. The primary revenue sources of the Wastewater System are generated from wastewater service charges, capacity fees, interest earnings from the investments of available funds, and revenues from the Participating Agencies. This section will discuss in detail each revenue category and will include a description of the revenue source, projected growth rates, and a discussion of future revenue streams and how they impact the Wastewater System.

Sewer Service Charges

Background. The Department manages and operates the Wastewater System with funds derived primarily from service charges that are deposited in the Sewer Revenue Funds and are used for the operation, maintenance and capital improvements of the Metropolitan Sub-System and the Municipal Sub-System.

The City establishes fees based upon the costs incurred by the City to collect, treat and discharge wastewater and cover debt service on capital improvements. Sewer service charges are based on the characteristics of the wastewater discharged by each wastewater user. All wastewater users are charged based upon the amount of flow, and the solids and organic material which they discharge into the Sewer System. As sewage discharge is not metered, water consumption is used to approximate each customer's sewage flow.

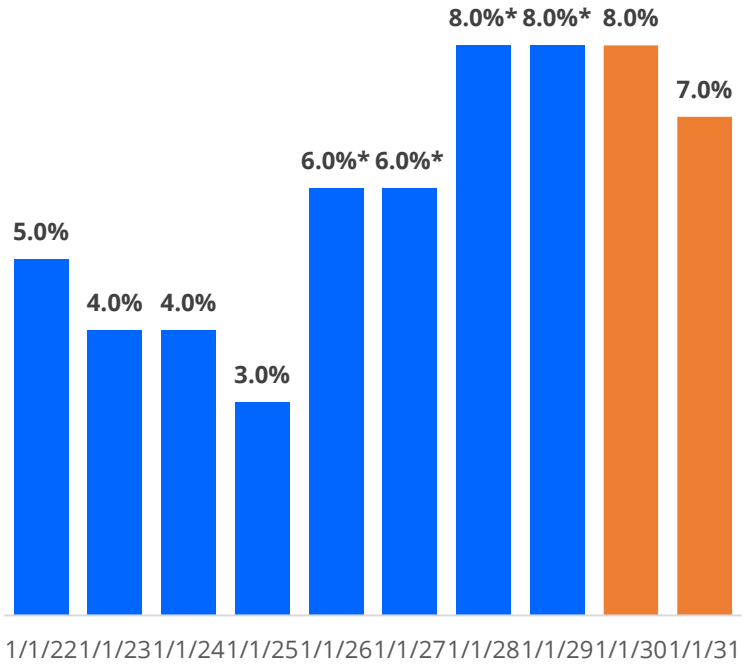
Sewer service charge revenues are comprised of two parts: a base fee and a sewer service charge (flow charge). The base fee is a fixed service fee charged to all customers to recover certain fixed and indirect costs. The flow charge is based on the amount (flow) and strength of the wastewater

discharged to the system and incorporates allowances for system return that differs by customer class. This adjustment factor recognizes that not all water consumed discharges to the Wastewater System. The flow charge for both Single Family Residential (SFR) and Multi-Family Residential (MFR) customers include a 95% return to sewer factor, while Commercial/Industrial (C/I) customers average between a 73% and 79% return to sewer factor, which varies depending on the type of business. Additionally, the flow charge for SFR customers is based on the least amount of water used during the previous winter and includes a water usage cap of 20 HCF.

Wastewater Service Charge Rate Increases. The City Council approved the Department's Wastewater Rate Case in October 2025 (the 2024 Rate Case). The 2024 Rate Case covers increases for four years from January 1, 2026, to January 1, 2029, and was based on a comprehensive forecast of annual operations and maintenance costs and projected capital expenditures. The 2024 Rate Case included a maximum rate increases of 6.0% on January 1, 2026, 6.0% on January 1, 2027, 8.0% on January 1, 2028, and 8.0% on January 1, 2029. The rates are the maximum authority authorized. Each fiscal year, the rates are evaluated during the budget process in spring and final customer rates are included as part of the PUD Outlook in fall.

The figure below shows the maximum rate increases that have been implemented or approved (blue) and proposed (orange). Revenue projections assume each increase will become effective January 1.

Figure 7.1 – Wastewater Rate Increases assumed in the Outlook.



*Rate reflects approved maximum authority

Forecast. Table 7.2 displays the FY 2025 unaudited actuals and projections through FY 2031 for wastewater sewer service charge revenue. This revenue source represents approximately 69% of the Sewer Revenue Funds' overall revenue receipts for the PUD Outlook period. The forecast assumes a 0.25% increase in the number of accounts and reflects rate increases beginning January 1, 2026 and each January thereafter through January 1, 2031, While five years of rate increases are assumed in the PUD Outlook, rate increases assumed in Fiscal Years 2028 through 2031 been not yet been authorized by City Council. The PUD Outlook currently assumes the maximum approved increase is implemented in Fiscal Years 2026 and 2027.

Table 7.2 - Sewer Service Charge Revenue ($ in Millions)

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
YOY Growth	N/A	12.8%	2.4%	7.2%	8.2%	8.3%	7.7%
Projection	$311.3	$351.3	$359.7	$385.6	$417.3	$451.8	$486.8

Economic Trends. Overall demand for sewer services closely tracks with population growth and overall water use. The demand for sewer services within the City's service area is tracked with changes in populations. The average demand over the last five years has not grown significantly, with some small growth in demand largely caused by increases in population. The Wastewater forecasts assumed water reduction shown in the water portion of this report, will primarily come from outdoor water usage, which does not impact expected sewer flows.

Sensitivity Analysis. While these projections represent the Department's best estimate of wastewater revenues throughout the PUD Outlook period, actual results will depend on the factors discussed above. The impact in revenue from potential rate increases ranges from $2 to $4 million for each percent added or subtracted from projected rate increases depending on the year in which sewer service charges are adjusted, for those years outside of the approved rate case through FY 2029.

Wastewater Capacity Charges

Background. Capacity charges are development fees within permits for new or expanded wastewater connections and are based on an estimate of the increase in wastewater discharge as measured by equivalent dwelling units (EDU). Capacity charge proceeds are used to construct, improve and expand the Wastewater System to accommodate the additional impacts of such added dwellings or commercial or industrial units.

As with water capacity charges, wastewater capacity charges can be applied only for the purpose of paying costs associated with capital expansion, bonds, contracts, or other indebtedness of the Wastewater System related to expansion. Because capacity charges are primarily collected on new construction within the City, revenues obtained from such charges vary based upon construction activity.

In September 2021, the City Council approved raising the capacity charge to $5,154 per EDU, which was estimated to provide for full cost recovery for Wastewater System expansion projects. The next rate study will include a proposal to update capacity charges.

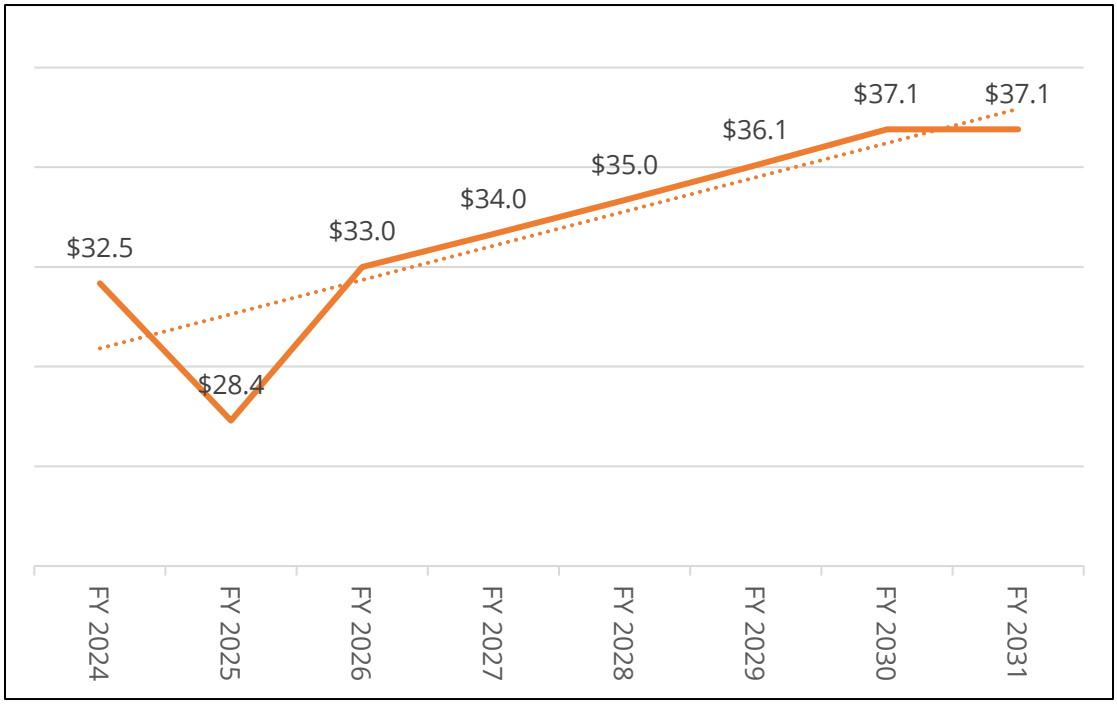
Forecast. Table 7.3 displays the FY 2025 unaudited actuals and projections through FY 2031 for wastewater capacity charge revenue. This revenue source represents approximately 6% of the Wastewater System's overall revenue receipts.

Table 7.3 - Capacity Charge Revenue ($ in Millions)

	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
YOY Growth	N/A	16.3%	3.0%	3.0%	3.0%	3.0%	0%
Projection	$28.4	$33.0	$34.0	$35.0	$36.1	$37.1	$37.1

Projected revenues for wastewater capacity charges use conservative growth estimates, as shown in Figure 7.4.

Figure 7.4 - Wastewater Capacity Charge Revenue Forecast



Economic Trends. As previously mentioned, wastewater capacity charges are primarily based on new wastewater connections related to new construction and are directly influenced by population, residential and commercial development. As discussed in the Water Capacity Charges section of this report, long-term projections are for population to peak and slightly shrink, but the demand for housing and business creation is also expected to change where demands are placed in the system. Long-term projections mirror those of water capacity charges by remaining flat. For a more detailed discussion on population and housing growth, refer to the Water Capacity Charges section of this report.

Other Revenue

The primary component of the Other Revenue category is revenue received from Participating Agencies (PAs) for use of the City's wastewater treatment system. As discussed earlier, PAs are other cities and districts that collect wastewater from their customers and send it to the City's wastewater treatment facilities. Currently, each PA pays for its actual impact on the Wastewater System based on a measurement of the strength and flow of wastewater.

Revenue from the PAs averages $118 million per year over the PUD Outlook period and represents approximately 75% of revenues in the Other Revenue category. This percentage could change as the East County Advanced Water Purification Joint Powers Authority (ECAWP JPA), which includes the City of El Cajon, County of San Diego, and the Padre Dam Municipal Water District, start directing sewer flow to their advanced water purification facility.

The City and the Metropolitan Joint Powers Authority (Metro JPA) have recently completed negotiations on a revised agreement that is currently pending approval by all 12 Metro JPA member agencies and the City of San Diego. It includes adjustments that will change how the Metro system's costs are billed. The Department will update projections once all parties have approved the new agreement and it is implemented.

Recent past experience and future projections show declines in average daily flows (as a result of permanent water conservation measures taken and other local supply projects being developed) but significant increases in peak flows from weather events (atmospheric rivers). Managing and operating a system of the size of the City's and its complexity requires a new billing methodology to reflect these new conditions. As such, the new methodology moves away from a simple calculation of strength and flows that are dependent on averages and introduces fixed charges to address the costs to operate and maintain the system during average, dry weather periods, and those necessary to operate during peak, wet weather events.

The Other Revenue category also includes revenue received for the sale of recycled water, interest on pooled investments, reimbursements from services provided to other City departments/funds, grants revenue, and other miscellaneous revenues.

Table 7.5 displays the FY 2025 unaudited actuals and projections through FY 2031 for the Other Revenue category.

Table 7.5 - Other Revenue Projections ($ in Millions)							
	FY 2025	**FY 2026**	**FY 2027**	**FY 2028**	**FY 2029**	**FY 2030**	**FY 2031**
YOY Growth	N/A	4.2%	(20.9%)	58.7%	(27.0%)	16.3%	(0.6%)
Projection	$147.3	$153.5	$121.5	$192.8	$140.7	$163.6	$162.6

The declines seen in Fiscal Years 2027, 2029, and 2031 forecast the yearly ups and downs in reimbursements between the City and the Metropolitan Joint Powers Agencies based on the specific expenses projected in those years. Trends closely relate to the amount of debt issued in those years for CIP reimbursements.