SAN DIEGO LAFCO

COMMISSION MEETING
MARCH 2, 2026

SAN DIEGO LAFCO

Agenda Item No. 6a

Proposed Draft Workplan & Budget

3/2/2026

SAN DIEGO COUNTY

Local Agency Formation Commission

Proposed Draft Workplan & Budget

FISCAL YEAR 2026-2027

Commission Meeting | March 2, 2026 | Agenda Item 6a

KEY THEMES

Status quos with targeted enhancements

Workplan continues with 30 special projects:

- Most are active projects getting rolled forward and taking higher priority placement
- The rest are new projects taking up mostly medium and lower priority placements

Operating budget maintains + builds with 3.4%, or $90k, increase:

- Increase largely ties to adding new FTE (analyst) + preapproved COLA
- Savings in consultant usage helping to absorb cost increase

Apportionments up 18.7%, or $408k:

- Absorbing 3.4% increase in operating costs, or $91k
- Absorbing elimination of unassigned reserves as offsetting revenues, totals $317k

WORKPLAN STRUCTURE

HIGH PRIORITY

10

Projects

7 MSRs

1 Proposal-Specific (La Jolla)

1 Organizational (Recruitment)

1 White Paper (City Reservoirs)

MEDIUM PRIORITY

10

Projects

2 MSRs

2 Legislative Proposals

1 Special Study (OSCHD)

5 Administrative Projects

LOW PRIORITY

10

Projects

9 Administrative Projects

1 Special Study (Esco-Rincon)

BULLPEN: 30 additional projects queued for telegraphing purposes…

HIGH PRIORITY PROJECTS

#1 MSR

Wholesale Water Service Providers

Hearings:
May thru Oct 26

#2 MSR

SD County Healthcare Districts

Hearings:
Oct 26 through Dec 26

#3 MSR

SANDAG

Hearings:
Aug through Nov 26

#4 Proposal

La Jolla CFA

Full FY span

#5 Org

Recruit + Onboard New Analyst I

Summer-Fall 26

#6 MSR

San Marcos Region

Hearings:
Feb through April 27

#7 MSR

Vista Region

Hearings:
April through June 27

#8 Org

LAFCO Website Refresh + Rebrand

Complete by EOY

#9 MSR

Solana Beach + Del Mar Region

Resume Aug '26

#10 MSR

SD Port District

Hearings:
Jun 27

BUDGET OVERVIEW

Total Proposed Budget

$2,904,063

(8.2%) decrease from FY2026 – driven by grant winddown

OPERATING BUDGET

$2,771,063

+3.4% | +$90,379

Day-to-day operations

NON-OPERATING BUDGET

$133,000

($350,000) | Grant winddown

Grant activities + OPEB debt service

OPERATING EXPENSES

SALARIES & BENEFITS

$1,719,566

+$130,899 | +8.2%

Substantive Changes

Salaries & Per Diems	$1,144,898	+16.1%
Retirement (SDCERA)	$316,454	-17.7%
Group Insurance	$164,931	+22.7%

SERVICES & SUPPLIES

$1,051,497

($40,521) | –3.7%

Substantive Changes

PS: Consultants	$415,000	-26.8%
PS: Commission Counsel (new)	$80,000	new
Office Lease	$166,959	+5.2%
Memberships	$48,893	+40.5%

REVENUES & APPORTIONMENTS

Total Apportionments

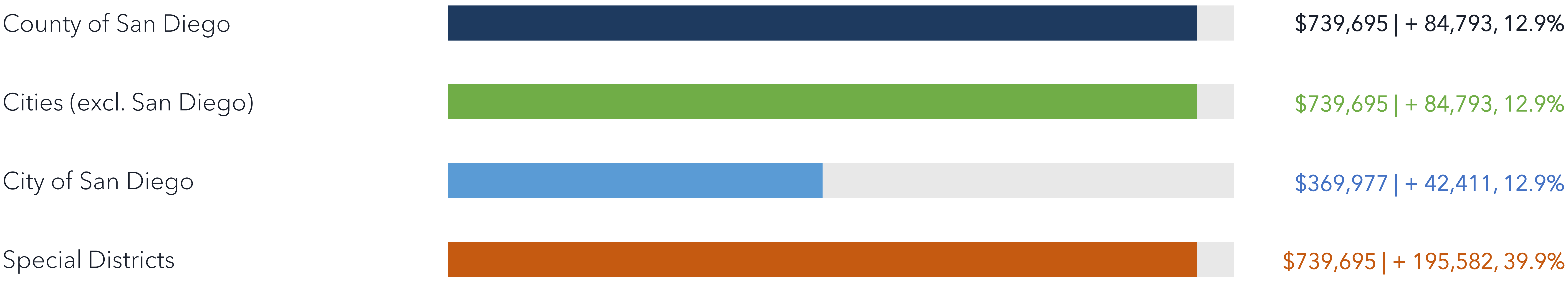
$2,589,063

+18.7% | +$407,580 over FY2026

WHY 18.7%?

Only 3.4% reflects operating growth.
The remaining 15.3% ($317K) eliminates
unassigned reserves used as offsetting revenue in FY26

APPORTIONMENT SHARES



RESERVE POLICY

LAFCO Policy F-101:

First Priority is to Meet Unassigned Thresholds:

- Maintain no less than four months (33.3%) and no more than six months (50.0%) in unassigned monies in reserves relative to budgeted operating costs

Second Priority is to Committed Designations (Opportunity or Stabilization):

- Opportunity applies to long-term efficiencies and costs-savings
- Stabilization apply to absorbing unexpected costs or shortfalls
- Practice of the Commission to designate no less than $650k since policy adoption

If Available, Assigned Monies to EO:

- No more than $125k to cover fee waivers or special costs for high-priority projects

RESERVE POSITION

Two Structural Dynamics are Converging:

1 The Reserve Floor Keeps Rising

LAFCO operating budget has increased on average by 4.4% between 2018 + 2026, and in doing so raising the 4-month min reserve threshold with it…

FY	Operating Budget	4-Month Floor
2018	$1.986m	$661k
2019	$1.906m	$634k
2020	$1.916m	$638k
2021	$1.916m	$638k
2022	$1.941m	$646k
2023	$2.045m	$682k
2024	$2.260m	$753k
2025	$2.428m	$809k
2026	$2.681m	$894k
2027	$2.771m	$924k

2 Reserves Used to Offset Costs

LAFCO has budgeted unassigned reserves each year between 2020 + 2026 to lessen agency contributions, and in doing so lowering reserve totals…

FY	Total Reserves	Committed Assigned	Unassigned	*% to Op Budget*
2020	$1.318m	$675k	$642m	*33.5%*
2021	$1.691m	$675k	$1.016m	*53.0%*
2022	$1.637m	$875k	$762k	*39.3%*
2023	$1.548m	$813k	$735k	*35.9%*
2024	$1.637m	$875k	$762k	*33.7%*
2025	$1.732m	$850k	$882k	*36.3%*
2026	$1.672m	$750k	$921k	*34.4%*
*2027	$1.362m	$438k	$924k	*33.3%*

** Assume $0 use of reserves in FY27 **

RECOMMENDATION

Adopt the Resolution

1. Approve the proposed draft workplan (Exhibit A) and budget (Exhibit B) for FY27
2. Incorporate any desired changes from the Commission
3. Direct staff to circulate for public review and comment to all funding agencies
4. Final versions return for Commission consideration in May 2026

March 2	March–April	May 2026	July 1
Approve Draft	Public Review	Final Adoption	FY2027 Begins

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Comments/Questions?

3/2/2026

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COMMISSION MEETING
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Agenda Item No. 6b

Request to Continue to April 6, 2026

Draft Municipal Service Review on City of Carlsbad

3/2/2026

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Agenda Item No. 6b

Comments/Questions?

3/2/2026

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COMMISSION MEETING
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Agenda Item No. 7a

Quarterly Update on 2025-2026 Workplan

3/2/2026

Figure 1 - Strategic Action Plan Summary

LAFCO-Specific Tools

Tool 4D: Expand agriculture analysis in local gov't planning documents (MSRs) to recognize the economic contribution of the local agricultural industry

Tool 4E: Develop an implementation plan/strategy and present an annual report on the progress and status of the Strategic Actions to the LAFCO Commission and stakeholders

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Agenda Item No. 7a
Comments/Questions?

3/2/2026

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COMMISSION MEETING
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Agenda Item No. 7b

Draft Water Rates Comparator Study

3/2/2026

SDAC water rates Ad-Hoc committee approach

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Goal

- Produce information that can help the public and the commission understand why water rates vary

Constraints

- We will not define any rates as “good” or “bad”
- We are working with publicly available data
- We chose metrics that are easy to understand for the public and the commission

Caveats

- Not all data is prepared for this use – this is derivative work that will contain errors
- The metrics are not exact – these are relative comparisons
- We only looked at a few of myriad possible metrics

How do we evaluate water rates?

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- Are there “good” rates or “bad” rates?
    - Short answer: No
    - Rate structures that have fixed revenues that are closer to fixed costs are “better”
- Water rates are **very** agency specific
    - No two agencies are identical
    - All have different cost drivers
- Water rate setting is tightly controlled
    - Cost of service principles are mandated by the ca constitution
    - Cottage industry of law firms monitor this closely

Initial group of metrics

- **System Density**
  - Higher density systems have more accounts to spread fixed costs across which tends to lower rate impacts – measured in connections per mile of pipeline
- **System topography**
  - Systems with large elevation changes have more pumping, tanks, and pressure regulation stations which tends to increase rate impacts – measured in total elevation change in system
- **Local Water Treatment**
  - Most agencies with their own treatment plants produce water at a lower marginal treatment cost than wholesale treatment which lowers rate impacts

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Initial group of metrics

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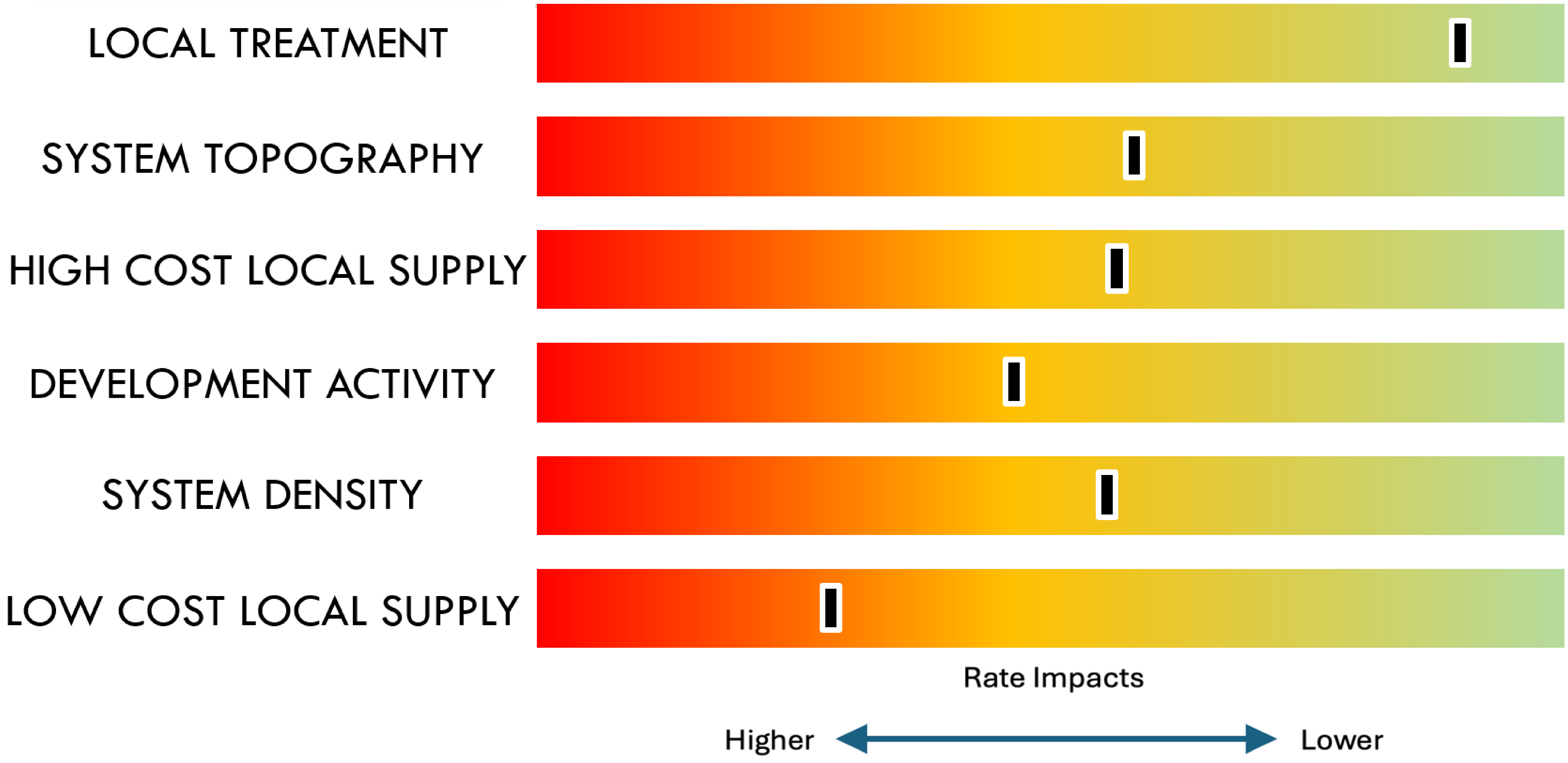
- **Development activity**
  - Agencies with high development activity receive large amounts of capacity fee revenue which lowers need for operating revenue and thus rates
- **High-cost local supply**
  - Agencies with local supplies that require desalination or potable reuse supplies require marginally higher rates to support this local supply
- **Low-cost local supply**
  - Agencies with lower cost local surface or groundwater supplies require marginally lower costs to support this local supply

Initial round of analysis

- Rough data was collected for all agencies, but the north county coastal MSR underway currently provided more data
- Three subject agencies will be reviewed today
  - Olivenhain MWD
  - Carlsbad MWD
  - San Dieguito Water District
- The work product consists of “slider bar” charts

Olivenhain MWD



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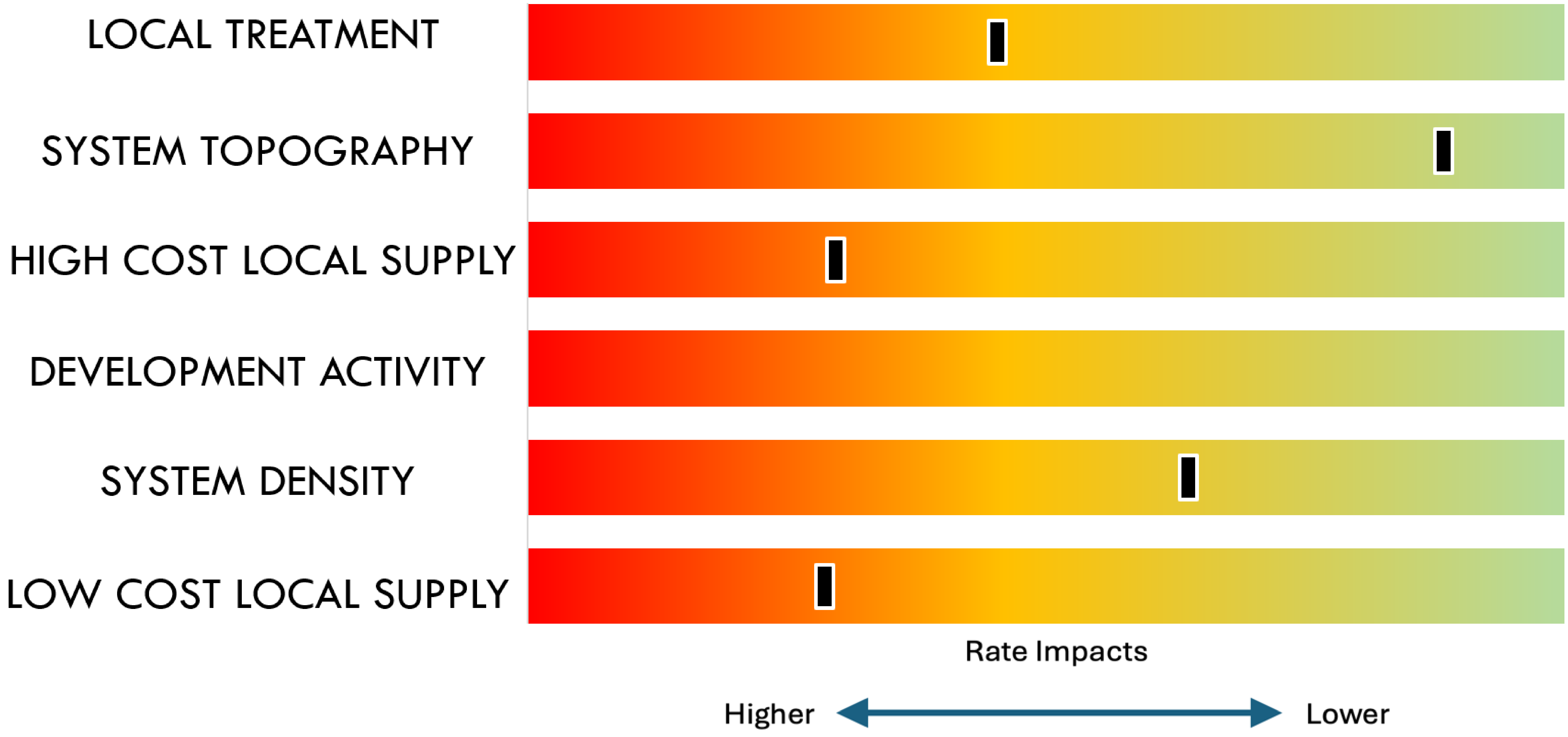
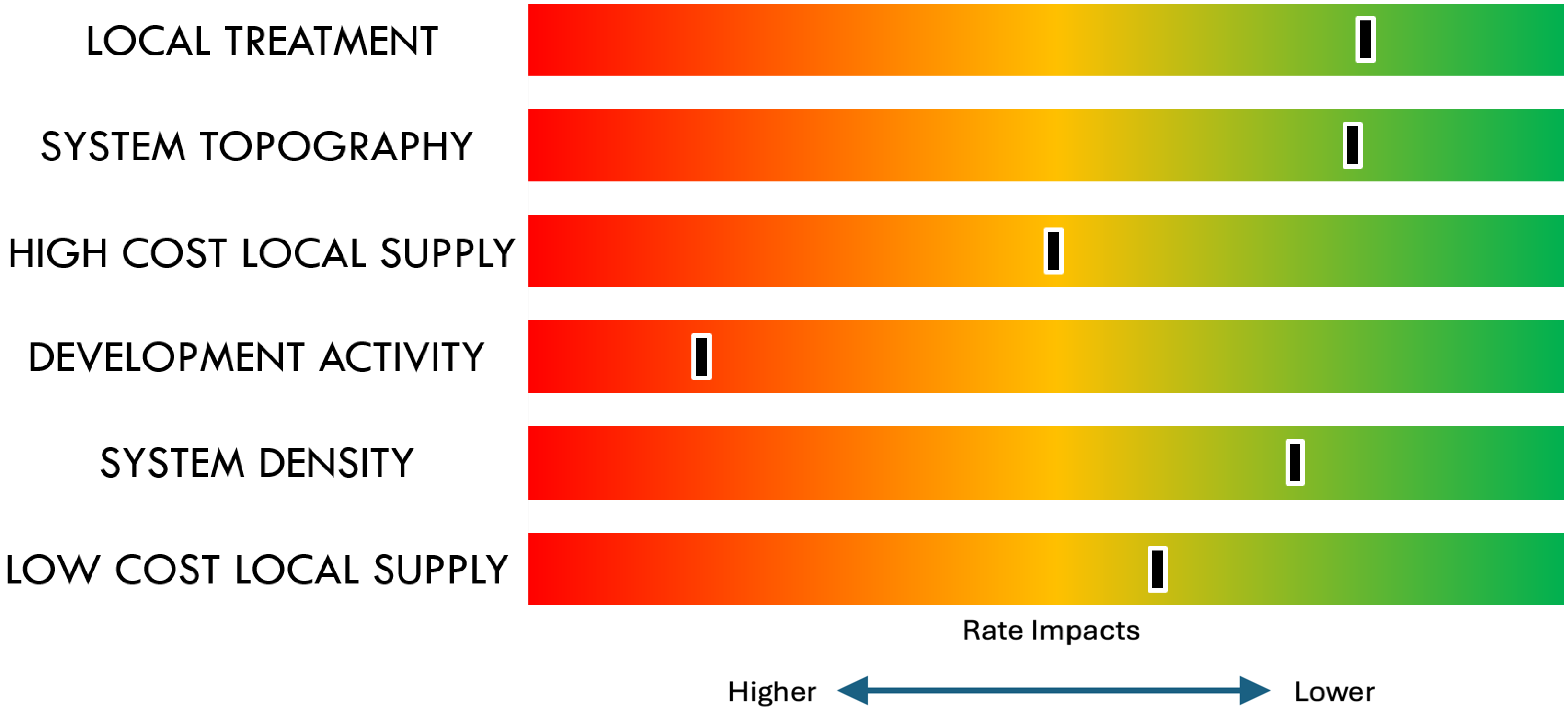
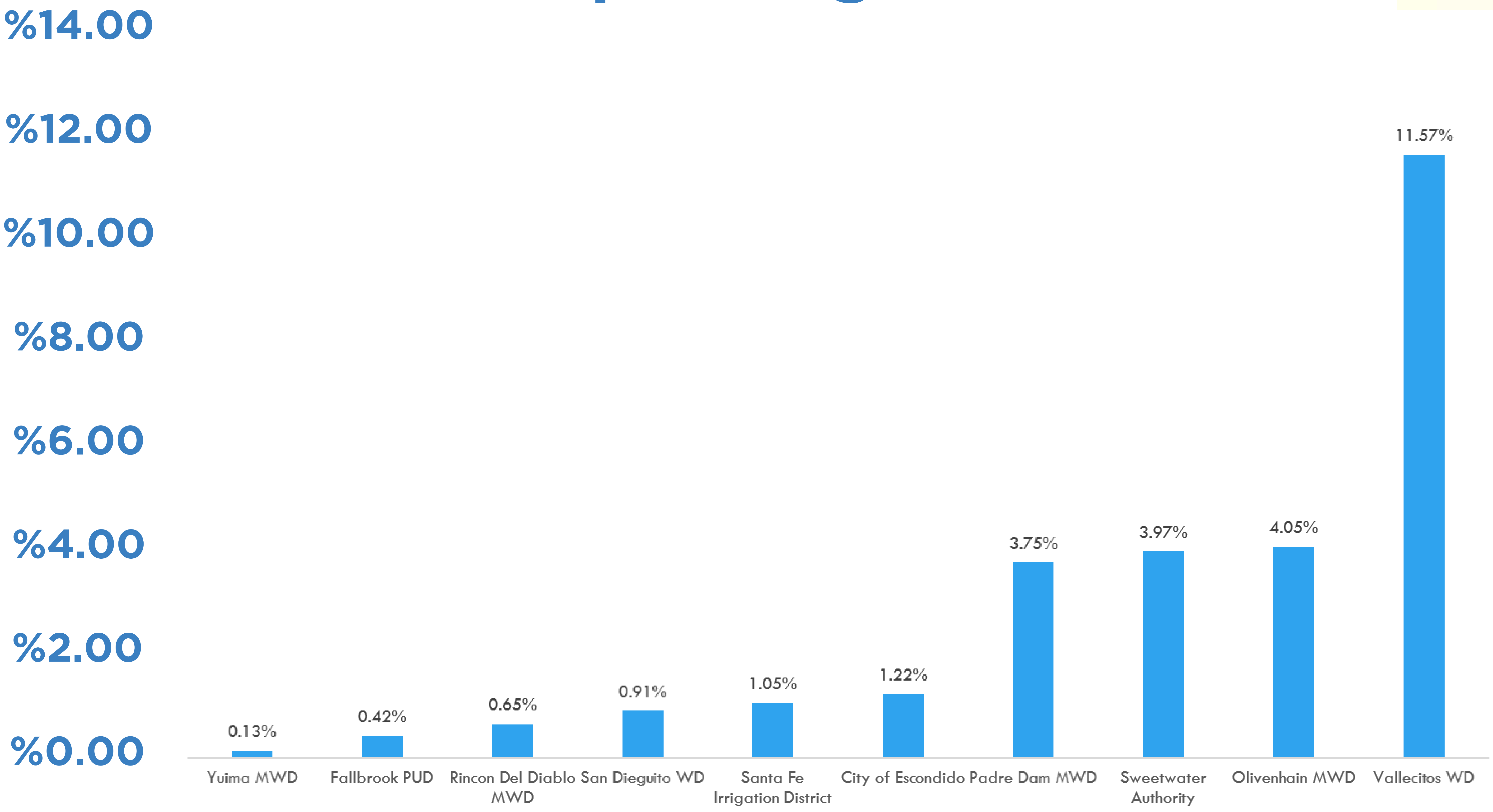
Carlsbad MWD



San Dieguito MWD



Capacity Fees as a Precentage of Operating Fees



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What is the optimal water rate?

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- To ratepayers the optimal rate is the lowest rate
  - Good for short term, not so good in the long term
- For agencies, the optimal rate supports their financial stability
  - Debt service, reserves, etc.
- For lafco the question is more nuanced
  - Will rates support the provision of the assigned municipal service now **AND** for the foreseeable future?

Capital spending and water rates

- The provision of Water/wastewater services is highly dependent on capital assets
  - Pipelines, tanks, treatment plants, etc.
- All assets have fixed life spans and will require rehabilitation or replacement at some point
- Agencies need to continuously reinvest in capital assets to maintain service levels
- ***Appropriate capital spending increases water rates***

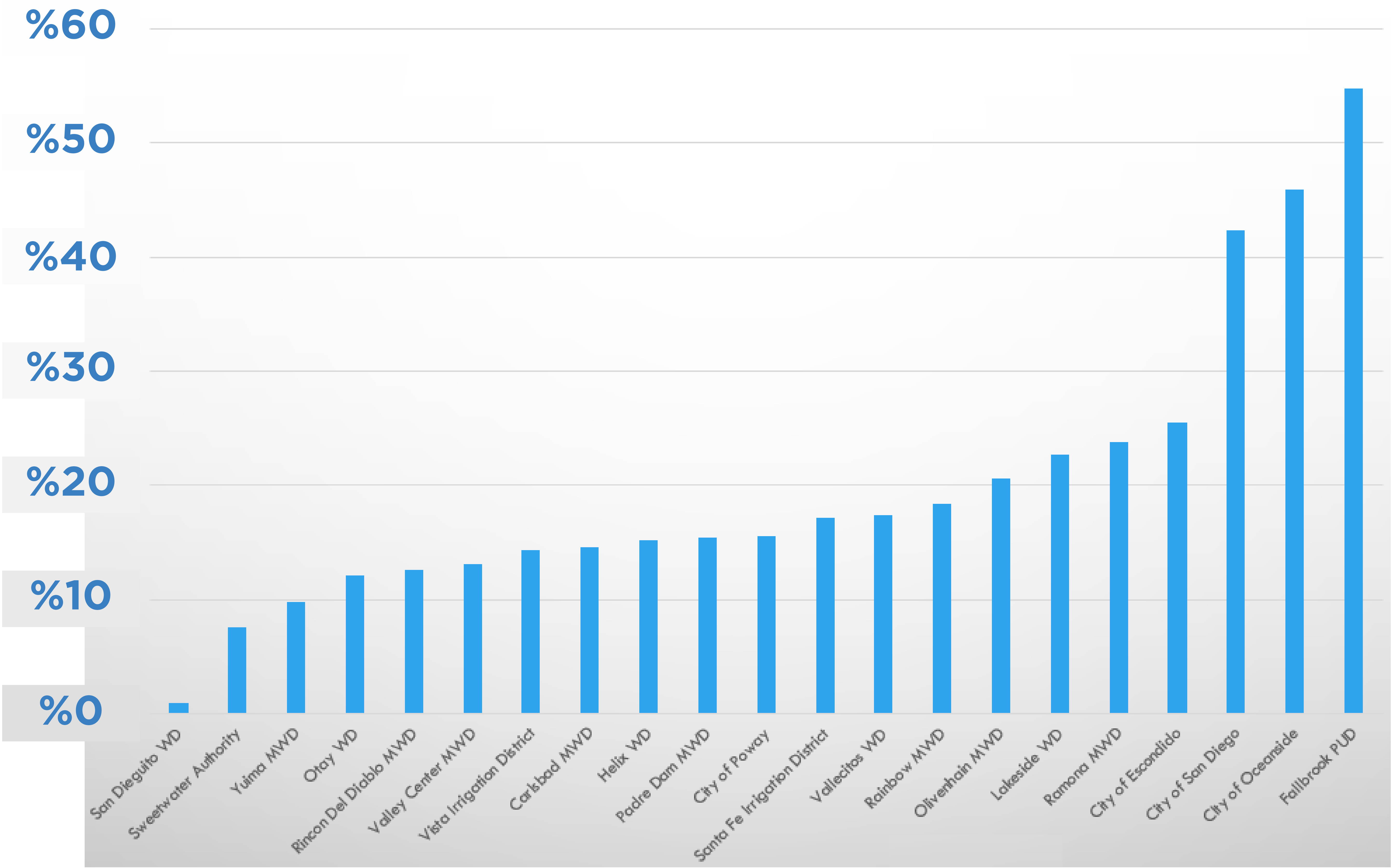
How to assess capital spending?

- There is no simple metric that uses broadly available information
- We looked at two imperfect metrics
  - Capital spending as a percentage of operating expenses
  - Capital spending as a percentage of depreciation expense
- Both have flaws
  - Can’t account for single large projects that distort averages
  - Can’t account for CIP projects not related to asset management (new HQ buildings, etc.)

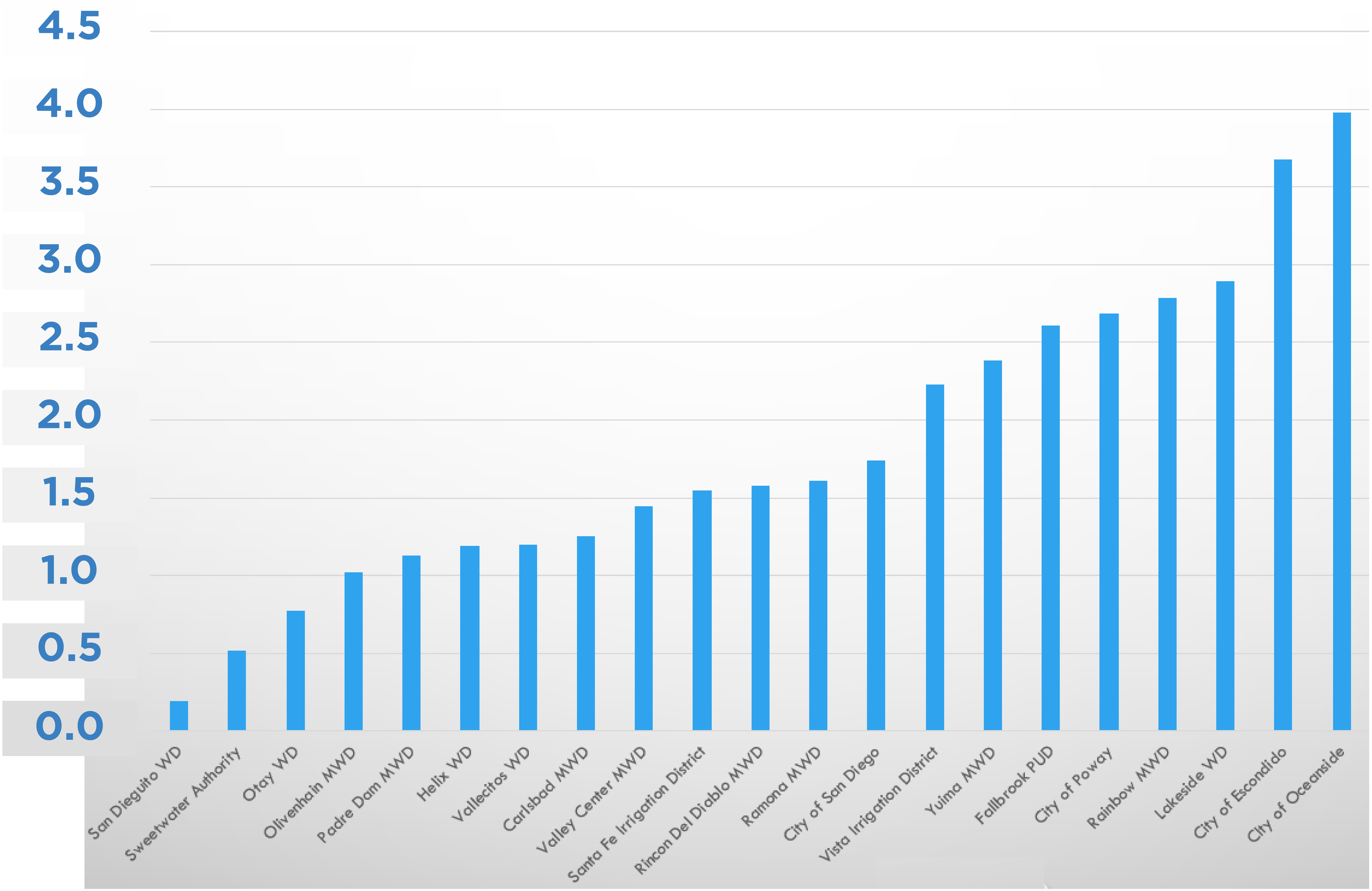
CIP spending analysis

- Looked at 5 years' worth of ACFRs for all agencies
  - 2019-2023 (except for SFID and Rainbow which started in 2020)
  - Sweetwater Authority only had two years' worth of data on website
- Calculated 5-year averages for
  - Operating Expenses
  - Depreciation
  - CIP Expenses
- No evaluation on exactly what the CIP spending was for

5 Year Average Percentage of CIP Spending Compared to Operating Expenses



5 Year Average CIP to Depreciation Ratio



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What do these charts mean?

- They only represent a comparison to other agencies, but some inferences can be drawn
  - If you are spending less than 15% of your operating expenses you are probably spending too little
  - If your ratio of CIP to depreciation is less than 1.0 you are probably spending too little
- San Dieguito stands out here – and they have acknowledged the issue and have made changes since the study period ended.

What do these charts mean?

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- The real takeaway is that from an asset management perspective most agencies have rates that are **TOO LOW**, not too high
  - Budget process "triage" guts capital programs to keep rates down
- Agencies should have comprehensive asset management/pipeline replacement programs in place
  - Detailed asset registry and work orders linked to assets
  - Continuous condition assessment processes
  - Capital spending informed by condition assessment
- If agencies wait until it is too late to perform proactive asset management, the provision of services will be disrupted
  - Gary Arant: "You can replace mains 3 feet at a time or 3 miles at a time." The latter is preferred

Written Draft Report

- The report provides two recommendations
  - Agencies should be actively using or developing advanced asset management practices to ensure that scarce funding has biggest impact on service reliability
    - Ensures long term service provision to communities
  - If possible, some mechanism should be developed by the legislature to allow wholesale agencies to collect their costs directly rather than through the billing systems of retailers
    - Increases accountability for wholesalers and reduces what is often the largest cost component for retail agencies, freeing up funds for asset management

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Agenda Item No. 7b
Comments/Questions?

3/2/2026

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Agenda Item No. 7c

Request to Authorize the Cities Advisory Committee to Conduct Meetings Remotely and Related Findings

3/2/2026

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Agenda Item No. 7c

Comments/Questions?

3/2/2026

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COMMISSION MEETING
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Agenda Item No. 7d

Adoption of a Formal Parliamentary Procedure and Amendment to Article II (Meetings) of the Commission's Rules

3/2/2026

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Agenda Item No. 7d
Comments/Questions?

3/2/2026

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