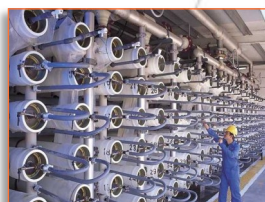
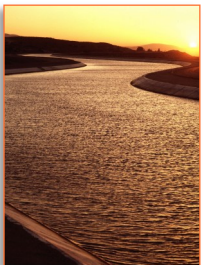
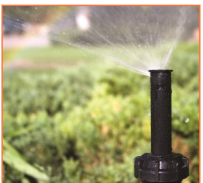


**BROUGHT  
TO YOU  
BY WATER...**

EVERYTHING IN SAN DIEGO COUNTY



Our Region's Trusted Water Leader  
**San Diego County Water Authority**

# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2018**



# **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**



Our Region's Trusted Water Leader  
**San Diego County Water Authority**

San Diego, California 92123  
Prepared by the Finance Department

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# Introductory Section







October 26, 2018

**MEMBER AGENCIES**

Carlsbad  
Municipal Water District  
City of Del Mar  
City of Escondido  
City of National City  
City of Oceanside  
City of Poway  
City of San Diego  
Fallbrook  
Public Utility District  
Helix Water District  
Lakeside Water District  
Olivenhain  
Municipal Water District  
Otay Water District  
Padre Dam  
Municipal Water District  
Camp Pendleton  
Marine Corps Base  
Rainbow  
Municipal Water District  
Ramona  
Municipal Water District  
Rincon del Diablo  
Municipal Water District  
San Dieguito Water District  
Santa Fe Irrigation District  
South Bay Irrigation District  
Vallecitos Water District  
Valley Center  
Municipal Water District  
Vista Irrigation District  
Yuima  
Municipal Water District

**OTHER  
REPRESENTATIVE**

County of San Diego

The Honorable Board of Directors  
San Diego County Water Authority  
4677 Overland Avenue  
San Diego, CA 92123

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) for the San Diego County Water Authority (Water Authority) for the fiscal year ended June 30, 2018 in accordance with Section 25253 of the California Government Code. The purpose of this report is to provide the Board of Directors (Board), member agencies, investors, the public, and other interested parties with reliable financial information about the Water Authority.

Management assumes full responsibility for the completeness and reliability of the information contained in the CAFR, which is based upon a comprehensive framework of internal controls that were established for this purpose. Because the costs of internal controls should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Water Authority policy requires that an independent certified public accounting firm, selected by the Board, audit the financial statements on an annual basis. Davis Farr, LLP, has issued an unmodified (or clean) opinion on the Water Authority's financial statements for the fiscal year ended June 30, 2018. The independent auditor's report is presented as the first component of the Financial Section of this report.

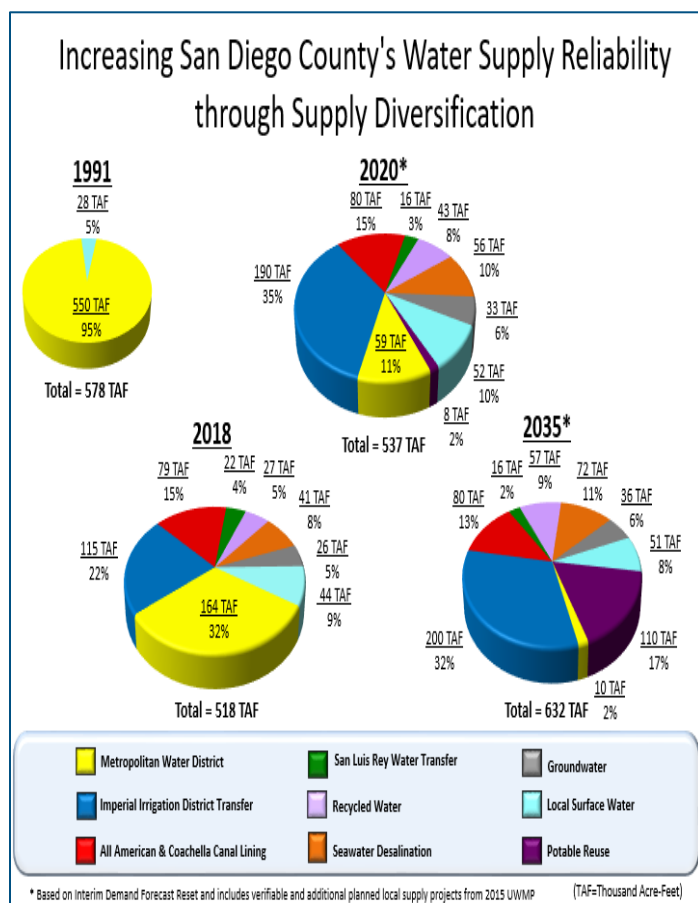
Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report in the Financial Section and provides an overview, summary, and analysis of the financial statements. The MD&A complements this Letter of Transmittal and should be read in conjunction with it.

According to Generally Accepted Accounting Principles (GAAP) enterprise funds are not legally required to adopt and adhere to a budget, nor present budgetary comparison information. However, the Board has chosen to adopt a two-year budget as a management tool for estimating and planning Water Authority revenues and expenses which is used to identify unusual or unanticipated trends. The Water Authority adopted a multi-year budget for fiscal years 2018 and 2019, and a Budgetary Comparison Schedule for the fiscal year ended June 30, 2018 can be found in the Supplemental Section of this report.

## Water Authority Profile

The Water Authority was organized on June 9, 1944 under the County Water Authority Act for the primary purpose of providing a safe and reliable supply of imported water to its member agencies for domestic, municipal, and

agricultural uses. The Water Authority's service area encompasses roughly the western one-third of San Diego County or approximately 1,490 square miles. As a semi-arid region, local surface water and groundwater supplies met only 14 percent of regional demand in Fiscal Year 2018. Thirteen percent of regional supply was generated from the use of recycled water, and desalinated water. The remaining 73 percent of the region's water supply is from Water Authority and member agency sources outside of the region. (Starting in 2017, the City of Escondido and Vista Irrigation District began receiving San Luis Rey water transfers.) As noted in the pie charts to the left, the Water Authority is continuing to diversify its sources of water. Additionally, as a wholesale entity, the Water Authority has no retail customers; it serves only its 24 member agencies, which deliver water to approximately 97 percent of San Diego County's 3.3 million residents. These member agencies include six cities, five water districts, three irrigation districts, eight municipal water districts, one public utility district, and one federal agency. The Water Authority is a member agency of, and obtains water from the Metropolitan Water District of Southern California (MWD), which derives its supply from the Colorado River and the California State



Water Project. The Water Authority also obtains water under long-term agreements from the Imperial Irrigation District (IID), which derives its supply from the Colorado River, and through a water purchase agreement for water produced at the Claude "Bud" Lewis Carlsbad Desalination Plant.

## Board of Directors

A 36-member board governs the Water Authority, with each of the 24 member agencies having at least one voting representative on the Board. Member agencies may also designate and appoint one additional representative for each full five percent of Water Authority assessed value within the member agency service area. Currently, the City of San Diego has 10 directors; Carlsbad, Helix, and Otay Water District have two directors each; and the remaining member agencies have one director each. Directors are appointed to six-year terms by the chief executive officers of the respective member agencies, subject to approval by the member agencies' governing bodies. The voting rights of member agencies are weighted and based upon each agency's total historical financial contribution to the Water Authority. Currently, all Board actions require an affirmative vote constituting at least 55 percent of the total weighted vote of the member agencies. In addition to the 36 voting members, the County of San Diego has one representative who may participate in certain Board deliberations and committee actions, but has no voting rights on Board actions. Officers of the Board begin two-year terms on October 1<sup>st</sup> of each even-numbered year.

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## Committees and Organizational Structure

To facilitate matters, most business coming before the Water Authority's Board is first considered by one of its five standing committees, described below, which then makes recommendations to the full Board for formal action:

**The Administrative and Finance Committee** is responsible for administrative and finance matters, including: rates, fees, charges, and other sources of revenue; budget; investments; human resources; employer-employee relations; information technology; insurance; risk management; and other matters of general business operations.

**The Engineering and Operations Committee** is responsible for matters of design, construction, replacement, maintenance and operation of the Water Authority's facilities, property and equipment, including: administration of the Capital Improvement Program; administration of the Aqueduct Protection Program; right of way acquisition and management; system and facility security; water quality; and other matters relating to facility operations.

**The Imported Water Committee** is responsible for imported water supply matters, including: activities and issues as a member agency of MWD; administration of the Colorado River Quantification Settlement Agreement and related agreements; Colorado River Board; State Water Project; California WaterFix; and other matters relating to water supplies from sources outside San Diego County.

**The Legislation and Public Outreach Committee** is responsible for community and governmental outreach matters, including: legislation, lobbying, and intergovernmental relations; community relations; media relations; social media; online communication; capital project outreach; and small-business contracting outreach.

**The Water Planning Committee** is responsible for water supply planning and supporting local supply development, including: water supply and demand forecasting and reporting; shortage allocation planning and administration; seawater desalination; water recycling and potable reuse; groundwater and conjunctive use; local surface water; environmental management; regulatory compliance and policy; Urban Water Management Plans; water use efficiency programs; and other planning matters.

In addition, the Water Authority has one special purpose Board committee that is responsible for oversight of the audit and Comprehensive Annual Financial Report (CAFR) as follows:

**The Audit Committee** is responsible for independent oversight of the annual financial reporting process, including the selection of, and communication with the Water Authority's outside audit firms. The Audit Committee was established in 2009 driven by the Board's desire to separate oversight responsibilities for the audit function from the Administrative and Finance Committee.

The Water Authority's organizational structure as of June 30, 2018 can be found on page 15. The General Manager reports directly to the Board and manages the Water Authority's day-to-day operations. The General Counsel also reports directly to the Board. Reporting directly to the General Manager is a Deputy General Manager, two Assistant General Managers and the Human Resources Manager. The remainder of the executive team consists of nine department and program directors, responsible for managing the Administrative Services, Engineering, Finance, Operations and Maintenance, Public Outreach and Conservation, and Water Resources Departments, and the MWD Program, Colorado River Program and Government Relations Program.



## Economic Conditions and Outlook

San Diego labor market fundamentals remain strong in 2018 with continuing job growth. According to the San Diego Regional Economic Development Corporation's June Snapshot, the region added 32,500 jobs year-over-year, a 2.2 percent increase in total employment since 2017. The PST Services (professional, scientific and technical) sector experienced the largest growth in employment at 6.8 percent, followed closely by construction at 6.6 percent. The unemployment rate trended lower to 2.9 percent, which is the lowest since January 2000. San Diego County's median home price reached \$575,000 in June, its highest point in a decade and a 5.5 percent increase in a year, as reported by real estate tracker CoreLogic. In spite of the increase in prices, residential development was up compared to last year with the number of new residential building permits increasing by 64 percent with 6,953 residential building permits pulled in the first six months of 2018, as reported by the Construction Industry Research Board. Multifamily construction, condominiums and apartments led building in the county comprising 4,948 multifamily permits.

Stable economic conditions coupled with being further removed from statewide emergency water use reductions that terminated in April 2017, culminated in a second consecutive year-over-year increase in total water use. San Diego area water use for fiscal year ending June 30, 2018 totaled approximately 518,000 acre-feet, an increase of roughly 9 percent over 2017 consumptive use levels. The modest upward trend in water use is projected to continue as water demands recover from extraordinary conservation measures taken during the recent drought emergency. Additionally, continued implementation of long-term water use efficiency measures in the San Diego region and the Water Authority's investments in highly reliable supplies (such as Colorado River transfers, local seawater desalination, and in-region carryover storage) will help to buffer San Diego's exposure to supply shortages and support sustained growth in our local economy.

## Long-Range Planning

The Government Finance Officers Association (GFOA) recommends that all governmental entities use some form of strategic planning to provide a long-term perspective for service delivery and budgeting. The Water Authority has developed a comprehensive Long-Range Financing Plan (LRFP) that is monitored and reviewed frequently to adapt to the ever-changing environment. The current LRFP was developed with member agency involvement and approved by the Board of Directors in January 2016. The LRFP codifies certain enhanced financial policies relating to debt service coverage, reserve levels, and financial risks. The current LRFP highlights the transition to an operations and asset management-focused agency from a construction-oriented agency. The LRFP also addresses the near-term financial impacts of statewide demand regulations and provides additional information regarding key assumptions, sensitivity analysis, and non-bonded liabilities. More information about the LRFP can be found at: [http://www.sdcwa.org/sites/default/files/files/finance-investor/FINAL\\_LRFP2015.pdf](http://www.sdcwa.org/sites/default/files/files/finance-investor/FINAL_LRFP2015.pdf)

## Financial Policies

The Water Authority has adopted a comprehensive set of financial policies. During the current year, four of these policies were of most significance.

### Debt

The Water Authority has a Debt Management and Disclosure Policy that sets forth comprehensive guidelines for the issuance and management of the Water Authority's debt. Compliance with the policy is essential to ensure that the Water Authority maintains a sound debt position and that it protects the credit quality of its debt obligations. The Water Authority's policy establishes

guidelines for its disclosure obligations and refinancing debt to achieve savings levels based on a call option pricing model.

### **Investments**

Annually, the Board adopts an investment policy that is in compliance with California Government Code Section 53600 et seq. The investment of idle funds is delegated by the Board to the Water Authority's Treasurer, who assumes full responsibility for the transactions of the investment program, which includes the investment of bond proceeds and debt service reserves. The objectives of the investment policy are safety, liquidity, yield, and public trust. The Water Authority's investments are in compliance with the adopted investment policy. Refer to Note 2 in the Notes to the Financial Statements for detailed investment information and the Continuing Disclosure Section for a more detailed overview of the policy.

### **Funds**

The Board has an adopted policy that governs the Rate Stabilization Fund's (RSF) balances. The policy established a minimum target balance and maximum target balance. The minimum RSF target balance is equal to the financial impact of 2.5 years of wet weather and the maximum target balance (cash reserve) is set equal to the financial impact of 3.5 years of wet weather. As a general rule, the Water Authority will transfer portions of its net water revenues exceeding its debt service coverage requirement into the RSF. From time to time, as needed, the Water Authority will transfer amounts from the RSF into water revenues to meet debt service coverage requirements, or to help provide adequate working capital to the Operating Fund.

### **Budget**

In addition to the financial statements, the Water Authority includes a schedule in the Other Supplementary Information Section that compares the final budget to the actual amounts for fiscal year ended June 30, 2018. The schedule includes a reconciliation of adjustments from the budgetary basis to the Generally Accepted Accounting Principles (GAAP) basis.

This report also contains a Statistical Section, which provides both financial and non-financial trend data about the Water Authority and its operations, and a Continuing Disclosure Section, which provides both financial and non-financial information in compliance with the Water Authority's Continuing Disclosure requirements.

## **Highlights of the Capital Improvement Program**

The major Capital Improvement Program (CIP) activities include the following:

### **Asset Management Program**

The Water Authority continues to invest in its critical water conveyance infrastructure through the Asset Management Program. The overall goal of the program is to manage infrastructure assets by analyzing a broad spectrum of risks and optimizing the timing of infrastructure rehabilitation spending.

All infrastructure assets are evaluated for performance and integrity and the methodology is guided by a rolling five-year Condition Assessment Plan. The plan also schedules assessments over the medium and long term.

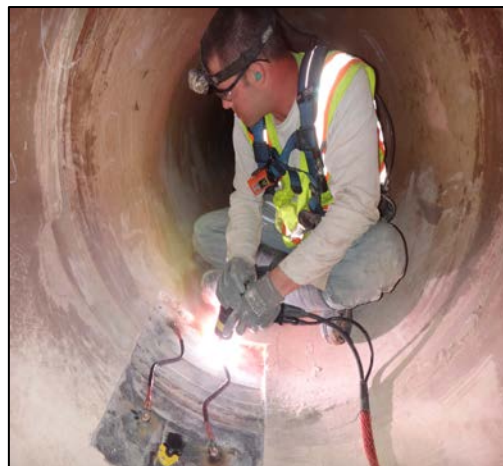


*Remote Field Technology*

A dedicated team of staff delivering the Asset Management Program uses the latest technological tools to perform comprehensive condition assessments of pipelines and associated facilities.

An important part of the program is the evaluation of the condition data in relation to operational risk. Performing a system-wide risk assessment every two-year budget cycle, staff ensures that probability of failure and consequence of failure are evaluated in the process of developing priority projects that are designed to extend the service life of the most critical assets.

These projects then roll into the upcoming fiscal period for implementation. Currently 12 priority projects are being implemented in the FY2018/FY2019 budget cycle and the team is developing recommended projects for the FY2020/2021 budget cycle.



*Ramona Pin Brazing*

This year the program was recognized by the American Water Works Association (AWWA) for leading business practices in asset management and Government Technology and the AT&T Special Districts Program for pipeline risk visualization. The Water Authority constantly scrutinizes its methodology through industry-specific peer review at an international level, and by self-monitoring its progress through its five-year Scorecard evaluation. This ensures key areas of asset management are resourced, managed, and continually evaluated at an appropriate level.



*Technology Innovation Award*

Over the past year, the asset management program has completed the electromagnetic scanning and evaluation of five miles of a pipeline that was rehabilitated in the early 1980s, completed corrosion protection (interior joint bonding) on one mile of concrete pressure pipe, and visually inspected over 20 miles of pipelines throughout the system.

More information about the Asset Management Program and Relining and Pipe Replacement Program can be found at the project web pages at: <http://www.sdcwa.org/asset-management> and <http://www.sdcwa.org/pipeline-relining>

## Capital Assets

The Water Authority also has a significant investment in capital assets approximating \$3.5 billion to ensure the safe and reliable delivery of water to the San Diego region. The capital assets are comprised of non-depreciable assets such as land, easements, mitigation bank credits and construction in progress. Depreciable assets include pipelines and dams, buildings and facilities, machinery and equipment, and intangible assets such as software and mitigation improvements, participation and capacity rights and water storage rights. These assets are monitored and maintained to ensure continuous performance and then replaced according to set schedules or as needed. Supporting this practice is the Equipment Replacement Fund created to receive monies designated for replacing machinery, equipment and rolling stock when needed.

As part of the budget adoption process, the Board authorizes monies to be deposited into this Fund where it will accrue over time to correspond back to the replacement cost of the individual asset lives. Footnotes 1(f) and 6-9 in the Notes to the Financial Statements provides further information on the Water Authority's Capital Assets.

## Major Initiatives

### Energy Program

Energy is a significant cost in treating and delivering water to our member agencies. The Energy Program was created to oversee agency-wide planning, regulatory, and operational energy-related issues regarding energy usage and production. The following initiatives are examples of the Energy Program's pursuit of opportunities to reduce energy demands and costs, stabilize water rates, and reduce greenhouse gas emissions by leveraging existing water infrastructure.

The Water Authority received a \$1 million incentive from the California Public Utilities Commission to build and deploy an intelligent 1 megawatt/2 megawatt-hours commercial-sized battery system that will save ratepayers money and stretch the energy output potential of solar panels already installed at the Water Authority's Twin Oaks Valley Water Treatment Plant. The storage system, through a public-private-partnership agreement and no capital cost investment to the Water Authority, is expected to save the Water Authority nearly \$100,000 annually in energy costs by storing low-cost energy for use during high energy demand periods when energy costs are higher, avoiding peak demand charges.

The 4.5-megawatt Rancho Peñasquitos Hydro-generation and Pressure Control Facility (Rancho Hydro) Power Purchase Agreement with San Diego Gas & Electric expired in January 2017. The Water Authority is instead selling the power generated from Rancho Hydro into the California Independent System Operator (CAISO) wholesale energy market. Additionally, the Renewable Energy Credits (RECs) associated with the facility are being sold to a third party to help offset the third party's greenhouse gases. Revenue from selling both the energy and RECs is estimated to be over \$300,000 annually.

The Water Authority applied for and received approximately 1.6 megawatts of federal preference Boulder Canyon power from the Western Area Power Administration. This clean source of power from hydroelectricity will help to diversify the agency's energy supply portfolio and lessen its impact on greenhouse gases.

The Water Authority and City of San Diego (Owners) are exploring a potential 500-megawatt energy storage facility located at the San Vicente Reservoir, which is owned by the City and where the Owners share water storage. The facility would consist of a closed-loop pumping system between the existing lower reservoir and a new, smaller reservoir located uphill. It would pump water uphill when renewable energy is plentiful to a new upper reservoir to create a bank of stored hydroelectric energy that would be released to the lower reservoir by gravity at times when renewable energy supplies are unavailable and energy demand and costs are higher. This potential project could lessen upward pressure on water rates and also increase opportunities for renewable energy penetration throughout the region.

Energy supply diversification, energy regulatory engagement, and public-private partnerships constitute a multifaceted strategy for effective energy management. Combined, this approach provides additional revenue and cost savings to the Water Authority that translates to savings for our member agencies and supports energy reliability, which is crucial to fulfilling our water supply driven mission.



---

## **Innovation Program**

The Water Authority's Innovation Program provides structure and processes to identify creative ideas, which assist the Water Authority in meeting our goals. The goal of the Water Authority's Innovation Program, which began in November 2015, is to create a work environment that supports the identification and implementation of ideas, from optimizing existing business practices (core innovation) to implementing game-changing (transformative) innovation. The innovation process includes efforts across four focus areas: Culture, Capability, Creativity and Collaboration. Since its inception, the Innovation Program collected 142 "Bright Ideas". Of those, 55 projects have been implemented and 22 projects are currently in the piloting or concept phase. Our innovation efforts are aligned with our strategic direction, mission and vision, and will evolve over the next few years as we respond to challenges at the Water Authority and in our industry.

## **Prudent Financial Management**

### **Adopted Calendar Year 2019 Rates and Charges**

In June 2018 the Water Authority Board approved adjustments to rates and charges for Calendar Year 2019. These adjustments amount to an increase of \$14/acre foot (AF) or 0.9 percent for treated water and \$38/AF or 2.9 percent for untreated water. The increases are among the smallest in the past 15 years due to financial benefits secured through litigation against the Los Angeles-based Metropolitan Water District of Southern California and the Water Authority's planned use of its Rate Stabilization Fund.

### **Adopted Debt Management and Disclosure Policy**

The most significant change in the Debt Policy adopted by the Board in January 2018 was the addition of a disclosure section and an update to the title of the Policy now stated as the Debt Management and Disclosure Policy. As a result of the 2017 Security Exchange Commission amendments to Rule 15c2-12, under the Securities Exchange Act of 1934 that would add 1) the incurrence of material financial obligations, or any agreement to certain covenants, events of default, remedies, priority rights or other terms that could affect securities holders; and 2) report of an occurrence of such financial obligations impacting policies and practices of issuers and obligors of municipal securities. As such, the Water Authority's new debt policy reflects those changes. Topics addressed include guidelines involving public statements made by Water Authority officials, initial market disclosure involved with securities offerings, and compliance with continuing disclosure. The Policy also includes additions/changes to arbitrage management and post-issuance tax compliance, as well as additions under Section IX.

### **Adopted Statement of Investment Policy and Long-Term Investment Strategy**

In December 2017, the Water Authority Board approved the Annual Statement of Investment Policy for Calendar Year 2018. Annual statements of investment policy to the legislative body are optional per California Government Code section 53646. The Policy and permitted investments are consistent with California Government Code. The Policy allows for portfolio performance enhancement through diversification of investment types. The annual review and adoption of the Policy, along with the submission of the monthly Treasurer's Report to the Board, is central to a transparent portfolio management process. With the approval of the 2018 Investment Policy, as interest rates increased, the Water Authority has moved toward a structure to safely enhance earnings and long-term capital appreciation through investments in high quality, longer-maturity investments. Taking full advantage of the investment types permitted by California Government Code can increase overall diversification and safety for the portfolio, while providing additional opportunities to enhance long-term return and value to the Water Authority's investment program.

---

## Adopted Updated Rate Stabilization Fund Policy

In June 2018, the Water Authority Board formally adopted a change in the Rate Stabilization Fund (RSF) Policy. Since 2006 the RSF was calculated based on 2.5 years (3.5 years max) of wet weather, and the projection that the Water Authority would experience a 25 percent reduction in water sales. However, wet weather events in 2005 and 2011 demonstrated a reduction of water demand in wet years of just 14-15 percent. The Water Authority revised the reserve policy down to a 20 percent reduction in water sales effective January 1, 2019, and to a 15 percent reduction in water sales effective January 1, 2021.

## Metropolitan Water District (MWD) Litigation

The Water Authority has sued MWD in various related cases, mainly pertaining to alleged rate overcharges by MWD. The Water Authority has been paying the disputed MWD rates over the years, so the cases generally relate to potential damages to be awarded to the Water Authority, not additional new payments or damages to MWD. The general status of these cases:

### 2010/2012 Rate Cases:

The Water Authority won a trial court award of \$234,932,782 from MWD on rate overcharges, interest, and attorney's fees for years 2011-2014. On June 21, 2017, the First District Court of Appeal issued its decision in the MWD appeal of that trial award. The Court of Appeal decision may be found at 12 Cal.App.5th 1124. The Court of Appeal sided with the Water Authority on most issues, but allowed MWD to charge the Water Authority certain State Water Project costs for water being transported under an exchange agreement, thereby potentially significantly reducing the ultimate monetary award to the Water Authority. That Court of Appeal decision was subject to a Petition for Review to the California Supreme Court, which was filed by the Water Authority on July 31, 2017. The Supreme Court, however, denied review on September 27, 2017. The Court of Appeal opinion therefore becomes final, and the case has returned to the trial court for further proceedings consistent with the Court of Appeal's ruling.

### 2014 Rate Case:

This case challenges MWD's rates adopted in 2014 for 2015 and 2016, was transferred to San Francisco Superior Court, and currently remains stayed. However, the stay may be lifted in the future, given the above result in the 2010/2012 cases.

### 2016 Rate Case:

This case challenges MWD's rates adopted in 2016 for 2017 and 2018, and was transferred to San Francisco Superior Court. The Water Authority, MWD, and the eight MWD member agencies who answered the 2016 complaint entered into a stipulation (1) allowing the Water Authority to amend the 2016 complaint to add claims under the Exchange Agreement and for monetary damages; and (2) staying the 2016 case pending the outcome of the appeal in the 2010 and 2012 cases. On November 14, 2016, the Water Authority filed its amended complaint, and the 2016 case remains stayed. However, the stay may be lifted in the future, given the above result in the 2010/2012 cases.

### 2017 Rate Case:

This case challenges MWD's rates adopted in 2017 for 2018 and has been transferred to San Francisco Superior Court. It may be allowed to proceed, given the above result in the 2010/2012 cases.

### **2018 Rate Case:**

This case challenges MWD's rates adopted in 2018 for 2019/2020 and is currently in the process of being transferred to San Francisco Superior Court. It may be allowed to proceed, given the above result in the 2010/2012 cases.

For detailed information on the Water Authority's rate litigation, visit: <http://www.sdcwa.org/mwdrate-challenge>. For any other information, contact the General Counsel's office, 4677 Overland Ave., San Diego, CA 92123, (858) 522-6790.

## **California Weather and Supply**

Following a dry start to Water Year (WY) 2018, hydrologic conditions improved in California with a shift to wetter weather beginning in early March 2018 and continuing through April 2018. Despite improved weather conditions in March and April, precipitation for WY 2018 remained below average – with the Northern Sierra 8-Station Index accumulated precipitation for October 2017 through July 2018, totaling just under 41 inches, or 81 percent of normal. When coupled with below average snowpack, the unimpaired statewide runoff through the spring of 2018 was at 75 percent of average. These conditions prompted the Department of Water Resources to set State Water Project contractors' Table A allocation for 2018 at 35 percent of requested supplies - less than half of the previous year's Table A allocation of 85 percent of requested supplies. Water Authority staff continues to closely monitor seasonal weather patterns and evolving hydrologic conditions to assess potential impacts on the San Diego region's water supplies.

## **Drought Cessation and Continuing Water Use Efficiency**

In April 2017, Governor Brown issued Executive Order B-40-17, which lifted the statewide drought emergency in all California counties except Fresno, Kings, Tulare, and Tuolumne. The action ended the emergency drought proclamation put in place by the Governor in January 2014. Through establishment of its drought awareness effort, the Water Authority continued its messaging and outreach to residents and businesses to ensure an ongoing community commitment to advance water-use efficiency across the region during Fiscal Year 2018.

Two significant bills related to long-term water use efficiency (SB 606 and AB 1668) were the subject of much discussion and deliberation in the state Legislature during Fiscal Year 2018. The Water Authority and its member agencies were engaged in the associated stakeholder process to represent San Diego regional interests. On May 31, 2018, the two bills were signed into law by Governor Jerry Brown. The laws are intended to help the state better prepare for droughts and climate change through various provisions, including the creation of water-use objectives for retail water agencies (not individual households or businesses). As a wholesale water supplier, the Water Authority is not subject to the water-use objective provision of the law. However, there are other provisions of the law that address water supply planning that do apply to the Water Authority.

The new water-use objectives for retail water agencies will be calculated based on aggregated standards for indoor and outdoor use, system water loss, variances, and potable reuse credit. The state has initiated work on developing the standards, which must be adopted by the State Water Resources Control Board by June 2022. Retail water suppliers will report compliance beginning in November 2023, and by November 1 every year thereafter. Starting in 2027, fines could be issued to retail water agencies that do not meet their water-use objectives. The fines would be levied on retail water suppliers and not individual households or businesses. The laws also establish new planning and submittal requirements for agricultural water management and urban water management plans.



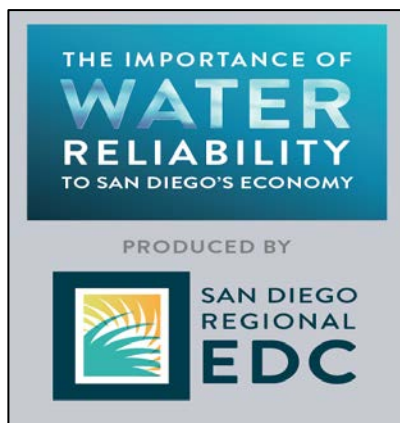
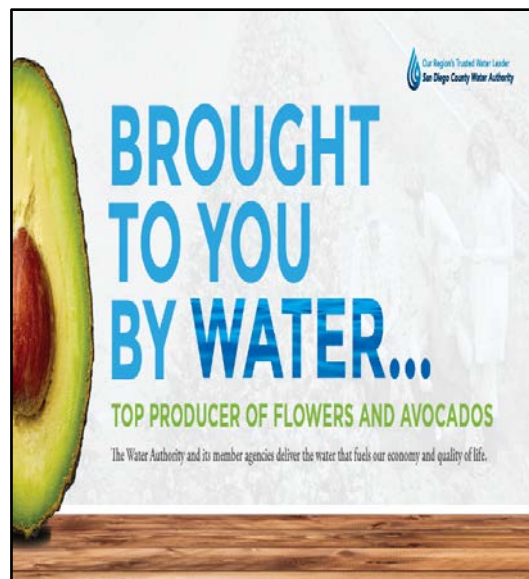
Water Authority staff will work closely with local retail water agencies and remain engaged in the State's implementation of the long-term framework water-use objectives and reporting requirements.

## Public Outreach and Conservation

The Water Authority has a decades-long track record of successfully managing a comprehensive and increasingly sophisticated public outreach and education program that evolves to address changing circumstances such as supply conditions, member agency needs and state mandates.

With sufficient water supplies for the foreseeable future, the Water Authority currently promotes the efficient use of water resources through its comprehensive Water Smart platform, which includes a website, landscaping makeover classes, social media, promotional items and events. In Fiscal Year 2018, the Water Authority also encouraged the adoption of sustainable landscape practices and turf conversions through a grant-funded incentive program and training/certification programs for landscape professionals. Those efforts have contributed to regional water-use levels that remain far below the state's 2013 baseline levels and State-mandated targets for 2020.

In addition, the Water Authority has collaborated with its member agencies for decades to educate the public about the importance of a safe and reliable water supply during both drought and non-drought periods in collaboration with its Joint Public Information Council. In February, the Water Authority Board approved an enhanced communications program to boost appreciation for the ratepayer investments necessary to support the region's \$220 billion economy and its 3.3 million residents. The program, called "Brought to You by Water," highlights iconic San Diego industries, connecting the importance of water reliability to business attraction and expansion. The program is supported with a focused website, digital and social media advertisements, television advertisements and extensive community outreach. The program website is located at <https://b2ubyh2o.org/>



Also, in Fiscal Year 2018, in partnership with the San Diego Regional Economic Development Corporation, a study was completed quantifying the economic impact of the Water Authority's \$2.4 billion investment in regional infrastructure. The study found that these projects have generated \$4.8 billion in total economic impact, supporting an average of 1,475 jobs annually over two decades and creating more than \$1.8 billion in local wages and salaries. Water Authority investments over the past 20 years support \$482 million in total regional sales per day and support nearly 140,000 jobs. The full report can be found at: [www.sdcwa.org/sites/default/files/EDC-WATERSTUDY-F-SEP.pdf](http://www.sdcwa.org/sites/default/files/EDC-WATERSTUDY-F-SEP.pdf)

The Water Authority also has raised the region's water IQ through its groundbreaking and award-winning Citizens Water Academy, which now boasts more than 500 civically engaged alumni. Further, the Water Authority is an active leader in the region's civic affairs through engagement with numerous chambers of commerce, economic development councils and other stakeholders. As part of this effort, staff organizes an active, countywide speaker's bureau, which coordinated nearly 70 presentations last fiscal year to inform groups about the Water Authority's diversification strategy and timely water policy issues.

## Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Water Authority for its CAFR for the fiscal year ended June 30, 2017. This is the eighteenth consecutive year that the Water Authority has received this prestigious award. In order to be awarded a Certificate of Achievement, the Water Authority had to publish an easily readable and efficiently organized CAFR that satisfies both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year. We believe the current CAFR continues to meet the Certificate of Achievement Program requirements and are submitting it to GFOA to determine its eligibility for another certificate.

We would like to thank the Board for its continued leadership in excellence in financial management. Additionally, this report could not have been accomplished without the hard work and dedication of the entire Finance Department with recognition to the Accounting Division. Special appreciation is extended to: Christopher W. Woidzik, Controller; Geena Balistreri and Yollie Cerezo, Accounting Supervisors, Jocelyn Matsuo and Holly Judy, Senior Accountants; Monika Wojcik and Melody Parker, Management Analysts; and Nicole Spriggs, Administrative Assistant. We also wish to express our appreciation to all departments that assisted and contributed to the preparation of this report.

Respectfully submitted,



Maureen A. Stapleton  
General Manager



Lisa Marie Harris  
Director of Finance/Treasurer





Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**San Diego County Water Authority  
California**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2017**

*Christopher P. Morrell*

Executive Director/CEO

## San Diego County Water Authority Board of Directors

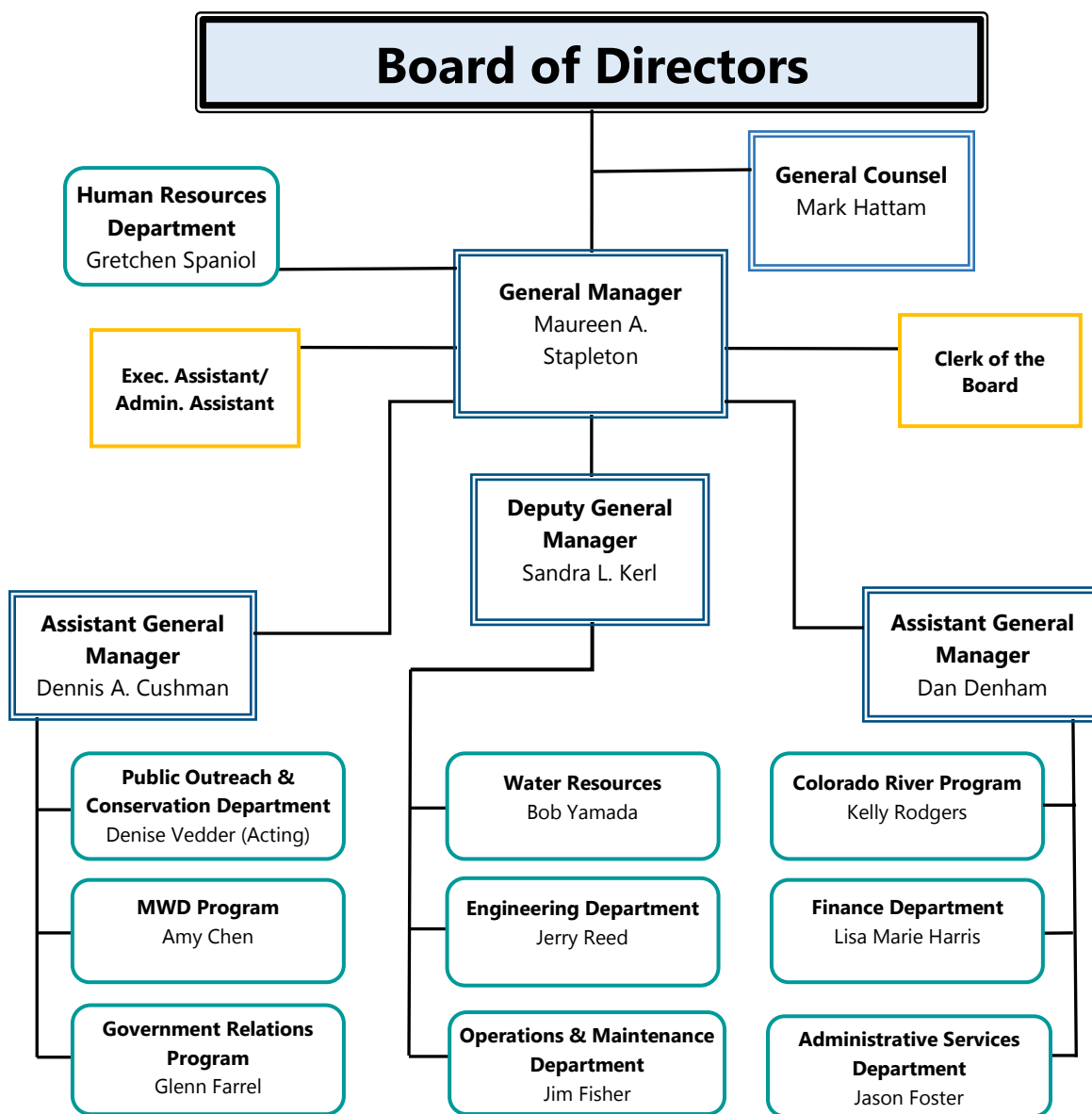
Mark Muir, **Chair**, San Dieguito Water District

Jim Madaffer, **Vice Chair**, City of San Diego

Gary Croucher, **Secretary**, Otay Water District

Gary Arant.....	Valley Center Municipal Water District
Jimmy Ayala .....	City of San Diego
David Barnum .....	Ramona Municipal Water District
Jack Bebee .....	Fallbrook Public Utility District
Vic Bienes .....	City of San Diego
Brian Boyle .....	City of Oceanside
Jerry Butkiewicz.....	City of San Diego
Chris Cate .....	City of San Diego
David Cherashore.....	City of San Diego
Kathleen Coates Hedberg .....	Helix Water District
Betty Evans .....	Vallecitos Water District
Lois Fong-Sakai .....	City of San Diego
Ed Gallo.....	City of Escondido
Christy Guerin .....	Olivenhain Municipal Water District
Matt Hall.....	Carlsbad Municipal Water District
Tony Heinrichs .....	City of San Diego
Frank Hilliker .....	Lakeside Water District
Michael T. Hogan.....	Santa Fe Irrigation District
Mel Katz .....	City of Del Mar
Tom Kennedy .....	Rainbow Municipal Water District
Keith Lewinger.....	Carlsbad Municipal Water District
Marty Miller .....	Vista Irrigation District
Ron Morrison .....	City of National City
James Murtland .....	Rincon Del Diablo Municipal Water District
Jose Preciado .....	South Bay Irrigation District
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Joel Scalzitti .....	Helix Water District
John Simpson .....	Pendleton Military Reservation
Tim Smith.....	Otay Water District
Fern Steiner .....	City of San Diego
Ron Watkins .....	Yuima Municipal Water District
Mark Weston .....	City of Poway
Doug Wilson.....	Padre Dam Municipal Water District
Ron Roberts (Representative).....	County of San Diego

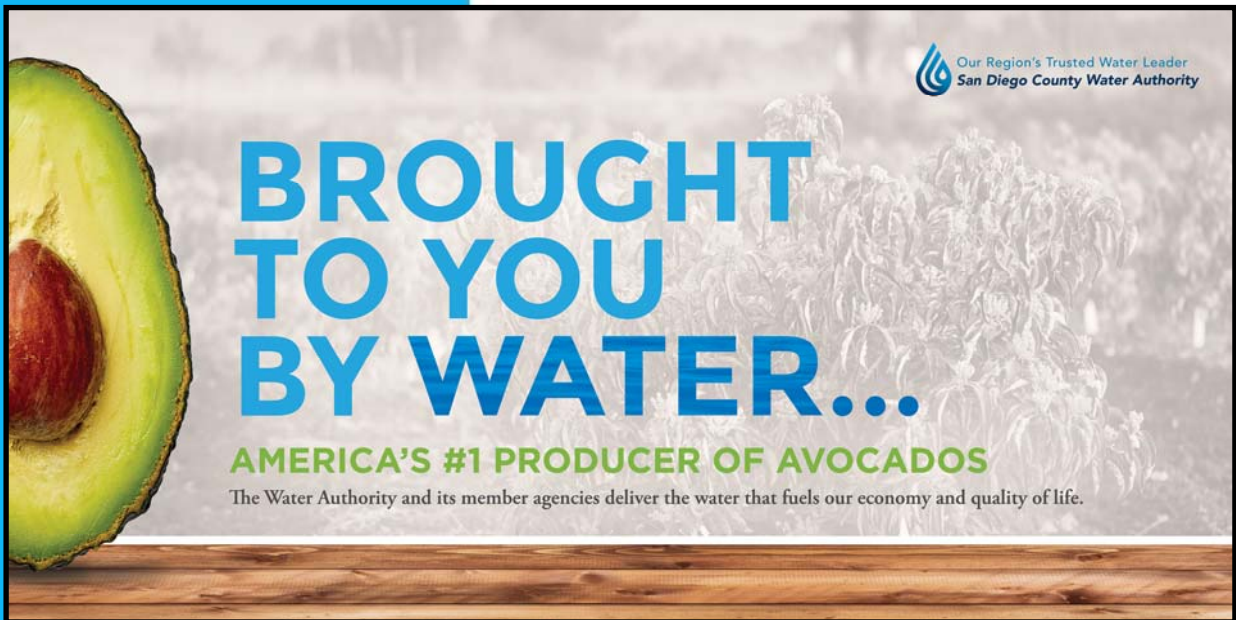
## San Diego County Water Authority Organizational Structure



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# Financial Section







Board of Directors  
San Diego County Water Authority  
San Diego, California

## **Independent Auditor's Report**

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the San Diego County Water Authority (the "Water Authority") as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Water Authority's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Water Authority, as of June 30, 2018, and the changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As described further in Note 1 to the financial statements, during the year ended June 30, 2018, the Water Authority implemented Governmental Accounting Standards Board (GASB) Statement No. 89. The Water Authority also reported a prior period adjustment as described further in Note 18 to the financial statements. Our opinion is not modified with respect to these matters.

## **Report on Summarized Comparative Information**

We previously audited the Water Authority's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 27, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the *management's discussion and analysis*, the *defined benefit pension schedules*, and the *other post-employment benefits schedules* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Water Authority's basic financial statements. The *budgetary comparison schedule*, *introductory section*, *statistical section*, and *continuing disclosure section* are presented for purposes of additional analysis and are not a required part of the basic financial statements. The *budgetary comparison schedule* is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying

accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the *budgetary comparison schedule* is fairly stated, in all material respects, in relation to the basic financial statements as a whole. The *introductory section*, *statistical section*, and *continuing disclosure section* have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

#### **Other Reporting Required by *Government Auditing Standards***

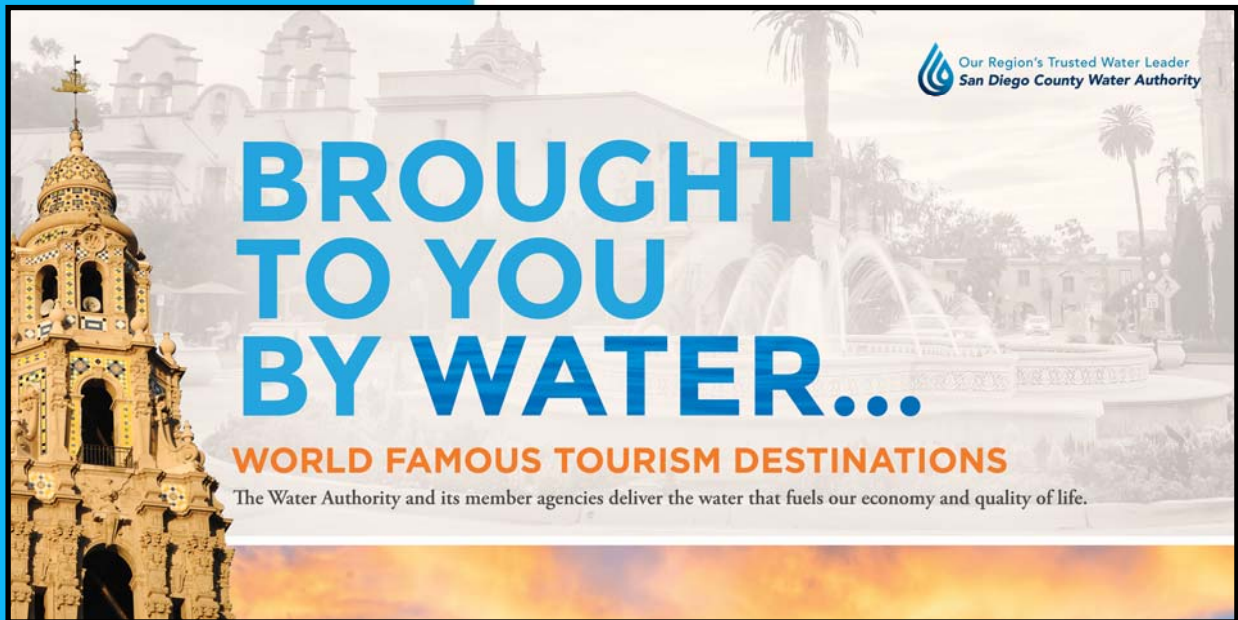
In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2018 on our consideration of the Water Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Water Authority's internal control over financial reporting and compliance.

A handwritten signature in blue ink that reads "Davis Fan" followed by a stylized flourish.

Irvine, California  
October 26, 2018

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# Management 's Discussion and Analysis







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## Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) provides a narrative overview and analysis of the financial performance of the San Diego County Water Authority (Water Authority) during the fiscal year ended June 30, 2018. Please read it in conjunction with the Letter of Transmittal located in the Introductory Section, and the Water Authority's Basic Financial Statements and accompanying Notes to the Financial Statements (Notes), which follow this section. All amounts, unless otherwise indicated, are expressed in millions of dollars.

### Overview of the Financial Statements

The basic financial statements report information about the Water Authority's financial position and changes in financial position using the accrual basis of accounting, similar to methods used by private sector companies. They are designed to provide readers with a broad overview of the finances, and also present changes in cash balances and information about both short-term and long-term activities. There are three required components to these statements: the MD&A, the Financial Statements, and the Notes.

**The Statement of Net Position** presents information on all of the Water Authority's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Water Authority is improving or deteriorating.

**The Statement of Revenues, Expenses, and Changes in Net Position** presents information on how the Water Authority's net position changed during the fiscal year. All changes in net position are reported on the accrual basis of accounting, recognizing all revenues when earned and all expenses when incurred.

**The Statement of Cash Flows** reports cash receipts, cash payments, and net changes in cash resulting from operating activities, noncapital financing activities, capital and related financing activities, and investing activities for the fiscal year.

**The Notes** provide additional information essential for a full understanding of the data provided in the Financial Statements. The Notes are located immediately following the Financial Statements.

### Other Information

The Financial Statements include the accounts of the San Diego County Water Authority Financing Corporation, a separate legal entity established in December 1997, and the San Diego County Water Authority Financing Agency, a Joint Powers Authority (JPA), established in December 2009. The accounts of these entities are blended into the Water Authority's Financial Statements in accordance with Governmental Accounting Standards. See Note 1(a) of the Notes for further information regarding these entities.

## Financial Analysis of the Water Authority

### San Diego County Water Authority Condensed Statement of Net Position, in Millions (\$)

	June 30,	
	2018	2017
<b>Assets:</b>		
Capital assets	\$ 3,464.6	\$ 3,477.2
Other assets	606.4	606.0
<b>Total assets</b>	<b>4,071.0</b>	<b>4,083.2</b>
<b>Deferred outflows of resources</b>	<b>78.5</b>	<b>97.6</b>
<b>Liabilities:</b>		
Long-term liabilities	2,029.3	2,099.2
Other liabilities	540.1	522.7
<b>Total liabilities</b>	<b>2,569.4</b>	<b>2,621.9</b>
<b>Deferred inflows of resources</b>	<b>3.1</b>	<b>2.6</b>
<b>Net position:</b>		
Net investment in capital assets	1,154.7	1,123.9
Restricted	120.4	147.6
Unrestricted	301.9	284.8
<b>Total net position</b>	<b>\$ 1,577.0</b>	<b>\$ 1,556.3</b>

### Net Position

Over time net position may serve as a useful indicator of an entity's financial position. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,577.0 million and \$1,556.3 million as of June 30, 2018 and 2017, respectively. Of these amounts, \$301.9 million and \$284.8 million in unrestricted net position as of June 30, 2018 and June 30, 2017, respectively, were available for current approved services and construction projects, and for new programs for the region's citizenry. During Fiscal Year 2018, total net position increased by \$20.7 million, or 1.3 percent. The largest portion of the Water Authority's net position, 73.2 percent, reflected the investment in capital assets less any related outstanding debt and deferred outflows of resources used to acquire those assets.

## Capital Assets

### San Diego County Water Authority Capital Assets

(Net of Accumulated Depreciation and Amortization), in Millions (\$)

	June 30,	
	2018	2017
Capital Assets - Non-Depreciable	\$ 118.3	\$ 152.0
Capital Assets - Depreciable, net	3,346.3	3,325.2
<b>Total</b>	<b>\$ 3,464.6</b>	<b>\$ 3,477.2</b>

Capital assets are classified into two categories: non-depreciable and depreciable capital assets. Non-depreciable capital assets include land, easements, mitigation bank credits, and construction in progress. Depreciable capital assets include pipelines and dams, buildings and facilities, equipment, computer systems software, participation and capacity rights, and storage rights, net of accumulated depreciation and amortization. In accordance with the Water Authority's capitalization policy, capital assets under construction are capitalized to construction in progress and when a project is substantially complete and has been issued a notice of operational acceptance or has been placed in service, it is reclassified to the appropriate depreciable category. Additional information regarding capital assets can be found in the Notes 6 – 9 of the Notes to the Financial Statements.

During Fiscal Years 2018 and 2017, total capital asset additions were \$75.0 million and \$65.1 million, respectively. Of those amounts, \$69.5 million and \$60.3 million were additions to construction in progress, a non-depreciable category of capital assets, for the Fiscal Years ended June 30, 2018 and 2017, respectively. Other non-depreciable additions consisting of land and easements additions in Fiscal Years 2018 and 2017 were \$1.1 million and \$0.1 million, respectively. Depreciable capital asset additions in Fiscal Years 2018 and 2017 relating to buildings and facilities, machinery and equipment, participation and capacity rights and intangible software additions were \$4.5 million and \$4.7 million, respectively.

There were no material commitments under construction contracts existing at June 30, 2018. The following projects accounted for the majority of the 90 capital projects expenditures incurred during Fiscal Year 2018:

Pipeline 3 Lake Murray to Sweetwater Reservoir	\$32.4 million
Carlsbad 6 Flow Control Facility	\$2.2 million
San Vicente Pumped Storage	\$1.5 million
First Aqueduct Structure & Lining Rehab Hubbard Hill North	\$1.4 million
Condition Assessment of Pipeline 3 PCCP Steel Liners	\$1.1 million

## Debt Administration

### Short-Term Debt

#### San Diego County Water Authority Outstanding Short-Term Debt, in Millions (\$)

	June 30,	
	2018	2017
Tax-Exempt Commercial Paper Program	\$ 245.0	\$ 245.0
Extendable Commercial Paper Program	100.0	100.0
<b>Total</b>	<b>\$ 345.0</b>	<b>\$ 345.0</b>

The Water Authority has a short-term Tax-Exempt Commercial Paper (TECP) program and an Extendable Commercial Paper (ECP) program to provide financing for the capital improvement programs. More detailed information on short-term debt is presented in Note 10 of the Notes.

There was no change to the outstanding amount in the short-term debt program for Fiscal Year 2018. During the year the Water Authority extended the Series 9 Tax-Exempt Commercial Paper Notes to July 2020. The Series 8 Tax-Exempt Commercial Paper Notes expire in June 2019 and the non-tax exempt Extendable Commercial Paper Notes, Series 1 do not expire. The Water Authority has a practice of extending its short-term debt borrowings to service its capital improvement program requirements.

### Long-Term Debt

#### San Diego County Water Authority Outstanding Long-Term Debt, in Millions (\$)

	June 30,	
	2018	2017
Revenue Bonds	\$ 1,793.7	\$ 1,808.9
Certificates of Participation	42.6	74.6
<b>Total</b>	<b>\$ 1,836.3</b>	<b>\$ 1,883.5</b>

Long-term debt consists of revenue bonds and certificates of participation used to fund the capital improvement program. The Water Authority continues to hold long-term senior lien credit ratings of AAA, AA+, and Aa2 from Standard & Poor's, Fitch and Moody's, respectively. Long-term subordinate lien credit ratings are usually rated one level below the senior lien credit ratings of the same issuer. Accordingly, credit ratings of long-term Water Authority subordinate lien debt are inferred to be at AA+, AA, and Aa3 by Standard & Poor's, Fitch, and Moody's, respectively. More detailed information on long-term debt is presented in Note 11 of the Notes.

As of June 30, 2018, the Water Authority had \$1.8 billion in long-term debt outstanding, a 2.5 percent decrease compared to Fiscal Year 2017. As of June 30, 2018 and 2017, the total Revenue Bonds outstanding approximated \$1.8 billion for both years. The total Certificates of Participation outstanding as of June 30, 2018 and 2017 was \$42.6 million and \$74.6 million, respectively. During Fiscal Year 2018, \$15.2 million of revenue bond principal payments and \$32.0 million of certificates of participation principal payments were made.

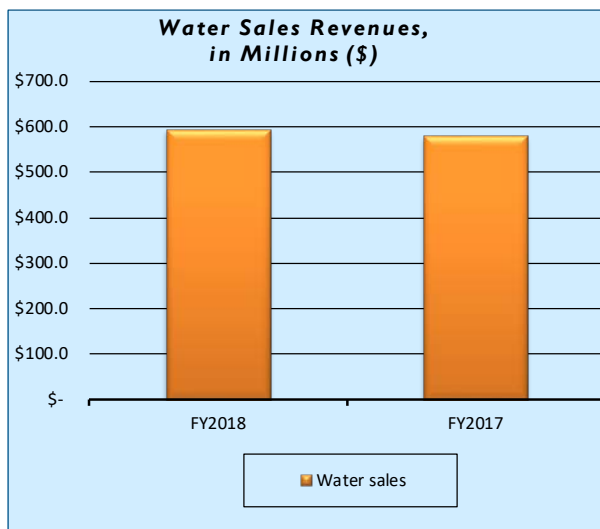
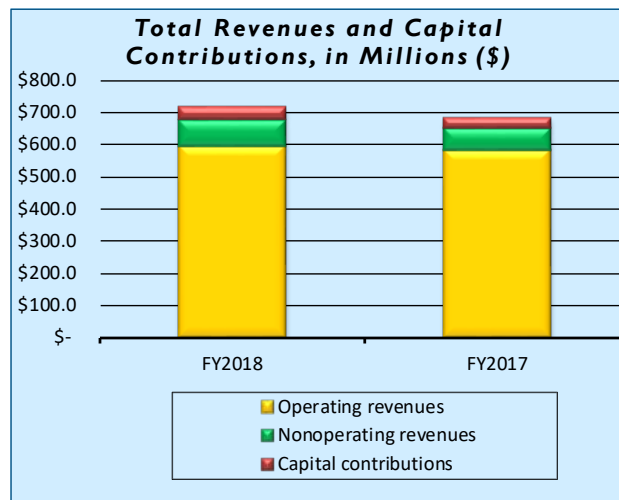
**San Diego County Water Authority**

**Statement of Revenues, Expenses and Changes in Net Position, in Millions (\$)**

	June 30,	
	2018	2017
<b>Operating revenues:</b>		
Water sales	\$ 591.8	\$ 579.1
Other revenues	4.1	3.7
<b>Total operating revenues</b>	<b>595.9</b>	<b>582.8</b>
<b>Nonoperating revenues:</b>		
Property taxes and in-lieu charges	13.8	12.9
Infrastructure access charges	32.5	31.1
Investment income	4.3	2.2
Other income	19.2	11.4
Intergovernmental	10.7	11.5
Gain on sale/retirement of capital assets	0.1	-
<b>Total nonoperating revenues</b>	<b>80.6</b>	<b>69.1</b>
<b>Total revenues</b>	<b>676.5</b>	<b>651.9</b>
<b>Operating expenses:</b>		
Cost of sales	442.4	430.6
Operations and maintenance	24.2	19.1
Planning	9.2	9.0
General and administrative	16.9	14.5
Depreciation and amortization	62.8	67.1
<b>Total operating expenses</b>	<b>555.5</b>	<b>540.3</b>
<b>Nonoperating expenses:</b>		
Interest expense	99.9	95.5
Debt issuance costs	0.2	0.4
Other expenses	39.5	17.1
Loss on sale/retirement of capital assets	-	0.7
<b>Total nonoperating expenses</b>	<b>139.6</b>	<b>113.7</b>
<b>Total expenses</b>	<b>695.1</b>	<b>654.0</b>
<b>Income before capital contributions</b>	<b>(18.6)</b>	<b>(2.1)</b>
<b>Capital contributions:</b>		
Capacity charges	28.2	21.1
Water standby availability charges	11.1	11.1
Contributions in aid of capital assets	-	0.2
<b>Total capital contributions</b>	<b>39.3</b>	<b>32.4</b>
<b>Changes in net position</b>	<b>20.7</b>	<b>30.3</b>
<b>Net position, beginning of year, as restated (Note 18)</b>	<b>1,556.3</b>	<b>1,526.0</b>
<b>Net position, end of year</b>	<b>\$ 1,577.0</b>	<b>\$ 1,556.3</b>

## Revenues by Source

Total revenues (operating and nonoperating) and capital contributions for the Fiscal Years 2018 and 2017 were \$715.8 million and \$684.3 million, respectively. Operating revenues consist primarily of water sales. Nonoperating revenues include property taxes and in-lieu charges, infrastructure access charges (IAC), investment income, intergovernmental revenue, gain on sale/retirement of capital assets, and other income. Capital contributions include capacity charges, water standby availability charges, and contributions in aid of capital assets. For Fiscal Year 2018, water sales and other operating revenues, nonoperating revenues, and capital contributions accounted for 83.3 percent, 11.2 percent and 5.5 percent, respectively, of the total revenues and capital contributions.



## Operating Revenues

Water sales revenue is the principal source of revenue and totaled \$591.8 million for Fiscal Year 2018, an increase of \$12.7 million or 2.2 percent over the Fiscal Year 2017 total of \$579.1 million. This increase in water sales revenue was attributable largely to the increase in rates for treated and untreated water as well as the increase associated with the treated water surcharge. Overall in Fiscal Year 2018, total water deliveries decreased by 4.9 percent to 399,826 acre-feet (AF) from 420,271 AF in Fiscal Year 2017. The decrease resulted from (1) commencement of deliveries through the Indian Water Authority to the City of Escondido and Vista Irrigation District that directly offset budgeted sales to those agencies and (2) greater than projected member agency use of

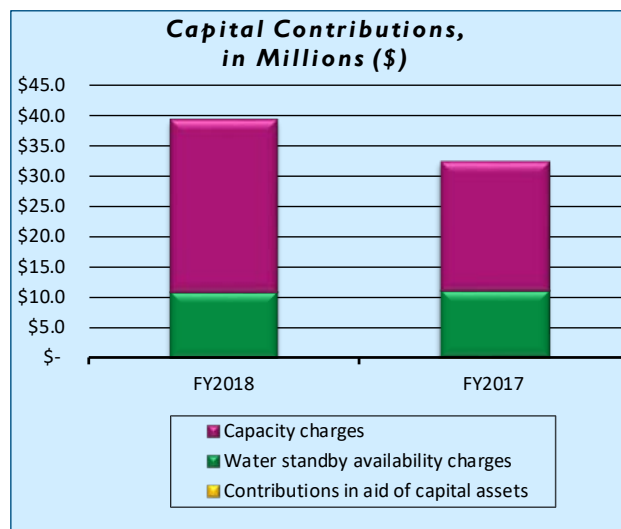
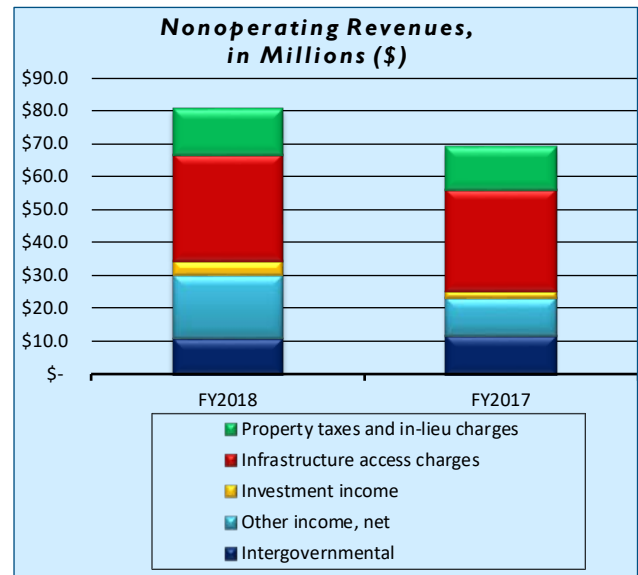
local surface water supplies. Other revenues increased by \$0.4 million compared to Fiscal Year 2017 primarily due to the Water Authority leasing some of its capacity in the Semitropic Water Storage District's underground basin in Kern County to another agency. Hydroelectric revenues were minimally higher in Fiscal Year 2018 due to increases at Hodges Hydro and new revenues from Boulder Canyon, but much of this was offset by lower revenues related to Rancho Hydro operations.



## Revenues by Source (continued)

### Nonoperating Revenues

Nonoperating revenues were \$11.5 million higher in Fiscal Year 2018 compared to Fiscal Year 2017. Other income was \$7.8 million higher due to the \$7.2 million shortfall revenue payment related to the Claude "Bud" Lewis Carlsbad Desalination Plant and \$600 thousand of additional miscellaneous income. Investment income increased by \$2.1 million benefitting from (1) higher interest rates, (2) the favorable change in fair market value of investments and (3) the shift in investment strategy to longer-term investments as a response to the changing interest rate environment. The other nonoperating revenues categories experienced modest changes during the year comprising the remaining \$2.2 million increase.

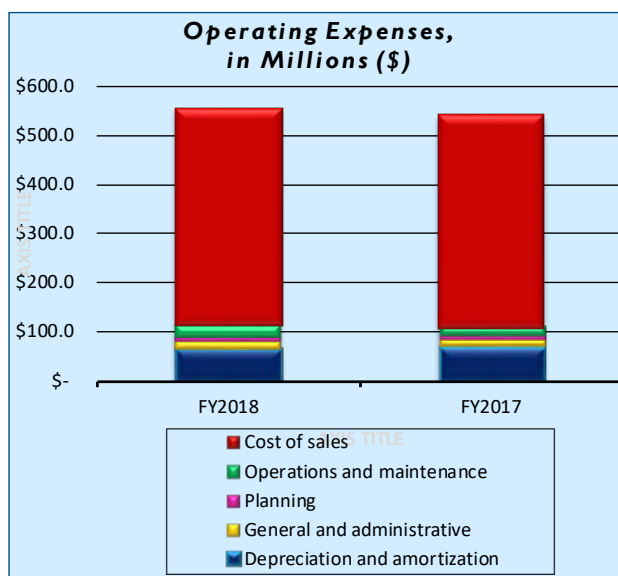
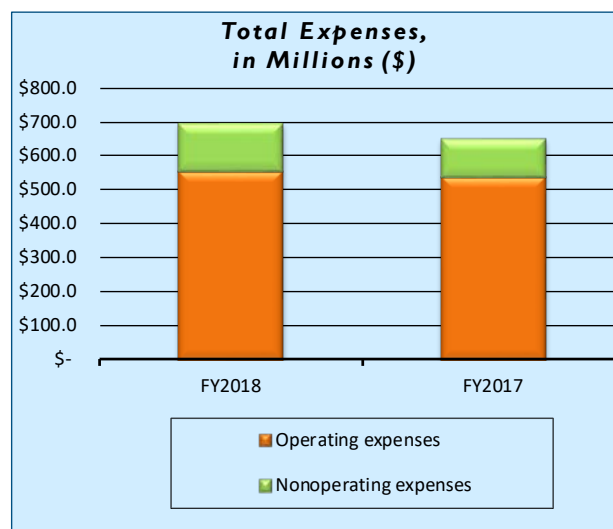


### Capital Contributions

Capital contributions increased by \$6.9 million in Fiscal Year 2018 compared to Fiscal Year 2017. The change was the result of a \$7.1 million increase in capacity charges revenue resulting from an increase in building permits primarily related to residential housing construction that was offset by a \$0.2 million decrease in contributions in aid of capital assets due to project delays. In Fiscal Year 2018, the Water Authority planned for contributions related to the Carlsbad 5 Flow Control Facility project being completed but this was delayed by the City of Carlsbad, and the Camp Pendleton Desalination Project could not be pursued further.

## Expenses by Function

Total expenses for Fiscal Years 2018 and 2017 were \$695.1 million and \$654.0 million, respectively. Operating expenses include the cost of water sales, operating department/program expenses, and depreciation and amortization expenses. Operating expenses were \$555.5 million and \$540.3 million for Fiscal Years 2018 and 2017, respectively. Nonoperating expenses, consist of interest, debt issuance costs, loss on sale/retirement of capital assets and other expenses. Total nonoperating expenses were \$139.6 million and \$113.7 million for Fiscal Years 2018 and 2017, respectively. Interest expense for Fiscal Year 2018 was \$99.9 million and \$95.5 million, net of capitalized interest, for Fiscal Year 2017.



### Operating Expenses

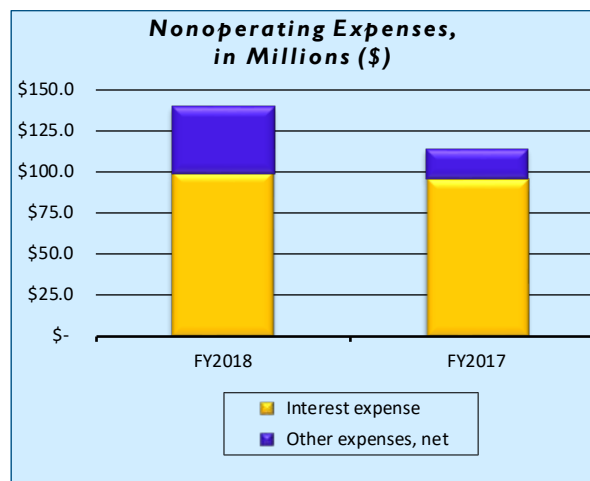
Total operating expenses increased by \$15.2 million in Fiscal Year 2018 compared to Fiscal Year 2017. The 2.8 percent increase in operating expenses in Fiscal Year 2018 was due to a \$11.8 million increase in the cost of water sales due to increased water purchasing costs as well as treatment costs. The Water Authority is obligated to purchase increased amounts of water from IID which includes a related transfer charge as being the main contributor for the increase. Total operating department expenses increased by \$7.7 million in Fiscal Year 2018 compared to Fiscal Year 2017 primarily due to \$6.7 million in higher pension costs resulting from the effects of updated CalPERS pension assumptions. The remaining \$1 million increase is attributable to increased operations and maintenance costs at various facilities.

Depreciation and amortization expense decreased by \$4.3 million from Fiscal Year 2017 due to (1) the IID Socioeconomic Participation Rights becoming fully amortized in Fiscal Year 2017 along with (2) the impact of a catch-up amortization adjustment in Fiscal Year 2017 due to a change in useful life assessment connected to the IID base contract price settlement participation right.

## Expenses by Function (continued)

### Nonoperating Expenses

Total nonoperating expenses, consisting primarily of interest expense, debt issuance costs and other expenses, totaled \$139.6 million and \$113.7 million in Fiscal Years 2018 and 2017, respectively. Interest costs remain similar to the prior year with \$99.9 million recorded in Fiscal Year 2018 and \$95.5 million, net of \$4.9 million in capitalized interest, recorded in Fiscal Year 2017. The Water Authority adopted GASB 89 in Fiscal Year 2018 thereby no longer permitting interest costs to be capitalized to projects during construction, so it is now all expensed. Interest costs remain a significant part of nonoperating expenses and will continue to do so until long-term debt principal begins to be paid down according to the set payoff schedules. Debt issuance costs were lower and amounted to \$0.2 million in Fiscal Year 2018 compared to \$0.4 million in Fiscal Year 2017. Costs in both years primarily related to completing extensions on the short-term debt issues while continuing to keep the same amount of short-term debt outstanding. Other expenses increased by a net \$22.4 million in Fiscal Year 2018 compared to Fiscal Year 2017 primarily due to the write-off of several projects in construction in progress that were not going to be completed, as well as increased maintenance costs associated with the Mission Trails Chlorine Injection project and Skinner Plant project.



## Currently Known Facts, Conditions, or Decisions

### GASB Statement No. 89 Implementation

The Water Authority implemented GASB Statement No. 89, *Accounting for Interest Costs Incurred Before the End of the Construction Period* for the fiscal year ending June 30, 2018. The Statement becomes effective in Fiscal Year 2019, but the Water Authority early adopted this fiscal year. Statement No. 89 discontinues the practice of capitalizing interest costs during construction for enterprise funds and, accordingly, higher interest expense will be reported in the financial statements this fiscal year and going forward. The adoption of this Statement will bring uniformity and comparability to financial reporting with other governmental entities as non-enterprise fund governmental entities previously could not capitalize such costs.

### Contacting the Water Authority's Finance Department

This financial report is designed to provide the Board of Directors, the Water Authority's member agencies, taxpayers, creditors, and investors with a general overview of the Water Authority's accountability for the financial resources it manages. If you have questions about this report or need additional financial information, contact Christopher W. Woidzik, CPA, Controller in the Finance Department at the San Diego County Water Authority, 4677 Overland Avenue, San Diego, California 92123, via email at [cwoidzik@sdewa.org](mailto:cwoidzik@sdewa.org), or 858-522-6670.

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# Financial Statements







**San Diego County Water Authority**  
**Statement of Net Position**  
**June 30, 2018**  
**(with comparative data as of June 30, 2017)**

	2018	2017
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash and investments (Note 2)	\$ 104,682,066	\$ 56,840,335
Restricted cash and investments (Note 2)	119,984,952	149,126,977
Water receivables	106,982,874	102,593,505
Interest receivable	1,112,444	918,016
Taxes receivable	1,026,196	1,153,812
Other receivables	19,833,613	13,731,984
Inventories (Note 3)	96,334,231	96,983,153
Prepaid expenses (Note 4)	4,649,883	4,640,248
<b>Total current assets</b>	<u>454,606,259</u>	<u>425,988,030</u>
<b>Noncurrent assets:</b>		
Cash and investments (Note 2)	107,746,039	135,072,833
Restricted cash and investments (Note 2)	22,665,917	23,411,934
Advances to other agencies	217,594	650,477
Retention receivable	1,245,470	823,942
Long-term loan receivables (Note 5)	19,174,304	20,000,000
Net OPEB asset (Note 13)	795,852	-
Capital assets (Note 6):		
Non-Depreciable	118,295,114	151,945,443
Depreciable, net	3,346,284,374	3,325,243,161
<b>Total noncurrent assets</b>	<u>3,616,424,664</u>	<u>3,657,147,790</u>
<b>Total assets</b>	<u>4,071,030,923</u>	<u>4,083,135,820</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred loss on refunding	61,113,716	72,294,728
Pension contributions subsequent to measurement date (Note 12)	4,240,681	16,163,814
OPEB contributions subsequent to measurement date (Note 13)	366,591	324,982
Deferred actuarial amounts related to pensions (Note 12)	12,733,072	8,560,959
Deferred actuarial amounts related to OPEB (Note 13)	84,422	275,965
<b>Total deferred outflows of resources</b>	<u>78,538,482</u>	<u>97,620,448</u>
<b>LIABILITIES</b>		
<b>Current liabilities:</b>		
Accounts payable and other liabilities	104,266,238	85,111,259
Interest payable	20,430,541	20,806,003
Construction deposits	362,845	429,144
Short-term liabilities (Note 10)	345,000,000	345,000,000
Current portion of long-term liabilities (Note 11)	54,165,278	57,293,370
<b>Total current liabilities</b>	<u>524,224,902</u>	<u>508,639,776</u>
<b>Noncurrent liabilities:</b>		
Long-term liabilities (Note 11)	1,975,170,555	2,041,933,667
Net pension liability (Note 12)	70,106,317	71,135,027
Net OPEB liability (Note 13)	-	170,141
<b>Total noncurrent liabilities</b>	<u>2,045,276,872</u>	<u>2,113,238,835</u>
<b>Total liabilities</b>	<u>2,569,501,774</u>	<u>2,621,878,611</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred actuarial amounts related to pensions (Note 12)	2,528,360	2,561,555
Deferred actuarial amounts related to OPEB (Note 13)	581,562	-
<b>Total deferred inflows of resources</b>	<u>3,109,922</u>	<u>2,561,555</u>
<b>NET POSITION</b>		
Net investment in capital assets	1,154,718,703	1,123,928,892
Restricted for construction projects	119,984,952	147,352,064
Restricted for debt service	377,929	235,337
Unrestricted	301,876,125	284,799,809
<b>Total net position</b>	<u>\$1,576,957,709</u>	<u>\$1,556,316,102</u>

See accompanying notes to the financial statements.

**San Diego County Water Authority**  
**Statement of Revenues, Expenses, and Changes in Net Position**  
**For the Fiscal Year Ended June 30, 2018**  
**(with comparative data for the Fiscal Year Ended June 30, 2017)**

	2018	2017
<b>OPERATING REVENUES:</b>		
Water sales	\$ 591,809,280	\$ 579,057,028
Other revenues	4,053,221	3,727,332
<b>Total operating revenues</b>	<u>595,862,501</u>	<u>582,784,360</u>
<b>OPERATING EXPENSES:</b>		
Cost of sales	442,369,171	430,560,992
Operations and maintenance	24,219,304	19,097,518
Planning	9,179,960	9,040,200
General and administrative	16,914,642	14,487,899
Depreciation and amortization	62,842,596	67,086,517
<b>Total operating expenses</b>	<u>555,525,673</u>	<u>540,273,126</u>
<b>Operating income</b>	<u>40,336,828</u>	<u>42,511,234</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Property taxes and in-lieu charges	13,753,714	12,913,313
Infrastructure access charges	32,482,290	31,144,704
Investment income	4,342,461	2,237,947
Other income	19,253,393	11,408,632
Intergovernmental	10,665,858	11,452,308
Gain (Loss) on sale/retirement of capital assets	131,308	(727,294)
Interest expense	(99,915,662)	(95,533,730)
Debt issuance costs	(227,212)	(352,544)
Other expenses	(39,453,750)	(17,143,705)
<b>Total nonoperating revenues (expenses)</b>	<u>(58,967,600)</u>	<u>(44,600,369)</u>
<b>Income before capital contributions</b>	<u>(18,630,772)</u>	<u>(2,089,135)</u>
<b>CAPITAL CONTRIBUTIONS:</b>		
Capacity charges	28,153,768	21,080,540
Water standby availability charges	11,102,611	11,091,285
Contributions in aid of capital assets	16,000	219,325
<b>Total capital contributions</b>	<u>39,272,379</u>	<u>32,391,150</u>
<b>Changes in net position</b>	<u>20,641,607</u>	<u>30,302,015</u>
<b>NET POSITION AT BEGINNING OF YEAR, AS RESTATED (Note 18)</b>	1,556,316,102	1,526,014,087
<b>NET POSITION AT END OF YEAR</b>	<u><u>\$ 1,576,957,709</u></u>	<u><u>\$ 1,556,316,102</u></u>

See accompanying notes to the financial statements.

**San Diego County Water Authority**  
**Statement of Cash Flows**  
**For the Fiscal Year Ended June 30, 2018**  
**(with comparative data for the Fiscal Year Ended June 30, 2017)**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 637,794,300	\$ 626,401,750
Payments to suppliers for purchases of water	(434,619,711)	(438,012,010)
Payments to suppliers for goods and services	(17,483,304)	(17,846,859)
Payments to employees for services	(42,295,487)	(50,800,832)
<b>Net cash provided by operating activities</b>	<u>143,395,798</u>	<u>119,742,049</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Property taxes and in-lieu charges received	13,881,330	12,958,384
Intergovernmental	10,665,858	11,452,308
<b>Net cash provided by noncapital financing activities</b>	<u>24,547,188</u>	<u>24,410,692</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition and construction of capital assets	(61,801,353)	(92,757,402)
Contributions and capital related revenues received from other governments	38,585,265	29,795,740
Proceeds from disposition of capital assets	1,118,207	159,134
Cost of debt issuance	(227,212)	(352,544)
Principal paid on long-term debt	(55,798,383)	(52,477,816)
Interest paid on debt	(103,340,648)	(102,106,617)
<b>Net cash used for capital and related financing activities</b>	<u>(181,464,124)</u>	<u>(217,739,505)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of investments	(92,138,325)	(107,913,747)
Proceeds from sale of investments	125,240,959	145,358,522
Interest received on investments	5,739,312	4,275,322
<b>Net cash provided by investing activities</b>	<u>38,841,946</u>	<u>41,720,097</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>25,320,808</u>	<u>(31,866,667)</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>87,769,261</u>	<u>119,635,928</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><u>\$ 113,090,069</u></u>	<u><u>\$ 87,769,261</u></u>
<b>Reconciliation of cash and cash equivalents at end of year to the Statement of Net Position:</b>		
Current assets:		
Cash and investments	\$ 104,682,066	\$ 56,840,335
Restricted cash and investments	119,984,952	149,126,977
Noncurrent assets:		
Cash and investments	107,746,039	135,072,833
Restricted cash and investments	22,665,917	23,411,934
Less Investments not meeting the definition of cash equivalents	(241,988,905)	(276,682,818)
<b>Cash and cash equivalents at end of year</b>	<u><u>\$ 113,090,069</u></u>	<u><u>\$ 87,769,261</u></u>

See accompanying notes to the financial statements.

**San Diego County Water Authority**  
**Statement of Cash Flows (continued)**  
**For the Fiscal Year Ended June 30, 2018**  
**(with comparative data for the Fiscal Year Ended June 30, 2017)**

	2018	2017
<b>Reconciliation of operating income to net cash provided by operating activities:</b>		
Operating income	\$ 40,336,828	\$ 42,511,234
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	62,842,596	67,086,517
Infrastructure access charges	32,482,290	31,144,704
Other expenses	(15,637,172)	(15,373,886)
Other income	19,253,393	11,408,632
(Increase) Decrease in assets:		
Water receivables	(4,389,369)	(2,634,446)
Other receivables	(5,414,515)	3,698,500
Inventories	648,922	3,647,099
Prepaid expenses	(9,635)	(4,519)
Retention receivable	(421,528)	1,489,422
Long-term loan receivables	825,696	-
Net OPEB asset	(795,852)	92,104
(Increase) Decrease in deferred outflows of resources:		
Pension contributions subsequent to measurement date	11,923,133	(9,965,672)
OPEB contributions subsequent to measurement date	(41,609)	(45,973)
Deferred actuarial amounts related to pensions	(4,172,113)	(8,560,959)
Deferred actuarial amounts related to OPEB	191,543	(275,965)
Increase (Decrease) in liabilities:		
Accounts payable and other liabilities	6,352,258	(10,841,052)
Construction deposits	(66,299)	(4,890)
Compensated absences	137,715	230,511
Net pension liability	(1,028,710)	8,587,438
Net OPEB liability	(170,141)	170,141
Increase (Decrease) in deferred inflows of resources:		
Deferred actuarial amounts related to pensions	(33,195)	(2,616,891)
Deferred actuarial amounts related to OPEB	581,562	-
<b>Total adjustments</b>	<b>103,058,970</b>	<b>77,230,815</b>
<b>Net cash provided by operating activities</b>	<b>\$ 143,395,798</b>	<b>\$ 119,742,049</b>
<b>Noncash investing activities:</b>		
Change in fair value of investments	\$ (1,591,279)	\$ (1,900,658)

See accompanying notes to the financial statements.

# Notes to the Financial Statements



**BROUGHT  
TO YOU  
BY WATER...**

**110,000 MANUFACTURING JOBS**

The Water Authority and its member agencies deliver the water that fuels our economy and quality of life.

 Our Region's Trusted Water Leader  
San Diego County Water Authority





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## 1. Nature of Business and Summary of Significant Accounting Policies

### (a) Nature of Business

The San Diego County Water Authority (Water Authority) was organized on June 9, 1944 under the County Water Authority Act (Act). The Water Authority's primary purpose is providing wholesale water to its member agencies for domestic, municipal, and agricultural uses. The Water Authority consists of 24 member public agencies that are each represented by at least one person on the Water Authority's Board of Directors (Board). The Water Authority is also a member of the Metropolitan Water District of Southern California (MWD). Historically, the Water Authority purchased all the water it required from MWD to meet the demands of the member agencies.

The Water Authority has been in the process of diversifying its supply and adopted a Regional Water Facilities Master Plan in 2003 to identify capital facilities necessary to store, treat, and deliver a reliable water supply. Pursuant to the Colorado River Quantification Settlement Agreement (QSA), signed on October 10, 2003, and its related contracts, the Water Authority is obtaining conserved water from the Imperial Irrigation District (IID) and receives water conserved by lining of the All-American and Coachella Canals. On December 20, 2012, the Water Authority entered into a 30-year Water Purchase Agreement to purchase potable water from the Claude "Bud" Lewis Carlsbad Desalination Plant. The plant became operational in December 2015 (see Note 17).

The MWD Act provides a preferential right for the purchase of water by each of its constituent agencies. This preferential right is calculated using a formula. Based on the formula, the Water Authority has a statutory preferential right to approximately 24.22 percent of MWD's total supply as of June 30, 2018. MWD has represented that it will provide reliable water supplies notwithstanding preferential rights.

The San Diego County Water Authority Financing Corporation (SDCWAFC) was incorporated on December 29, 1997. The SDCWAFC is a California non-profit public benefit corporation formed to assist the Water Authority as a financing entity and is administered by a governing board, which consists of five members as follows: the Chair of the Board of Directors of the Water Authority, the Chair of the Administrative and Finance Committee of the Board, the General Manager of the Water Authority, the Director of Finance/Treasurer of the Water Authority, and the General Counsel of the Water Authority. The Water Authority does not issue separate financial statements for the SDCWAFC because its activities are blended with those of the Water Authority for financial reporting purposes.

The San Diego County Water Authority Financing Agency (SDCWAF) was established on December 17, 2009 to facilitate financing and refinancing of capital improvement projects of the Water Authority. The SDCWAF is a Joint Powers Authority (JPA) with statutory authority to issue revenue bonds and was formed by an agreement between the Water Authority and the California Municipal Finance Authority (CMFA). The CMFA itself is a JPA that was created in 2004 by various local agencies to facilitate tax-exempt financing. The CMFA has entered into such JPA agreements. Under the JPA agreement, the Water Authority has control over all finance matters.

The SDCWAF's sole purpose is to be a financing entity for the Water Authority and is administered by a governing board, which consists of five members as follows: the Chair of the Board of Directors of the Water Authority, the Chair of the Administrative and Finance Committee of the Board, the General Manager of the Water Authority, the Director of Finance/Treasurer of the Water Authority, and the General Counsel of the Water Authority. The Water Authority does not issue separate financial statements for the SDCWAF because its activities are blended with those of the Water Authority for financial reporting purposes.

## 1. Nature of Business and Summary of Significant Accounting Policies (continued)

### (b) Basis of Accounting

The Water Authority is accounted for as an enterprise fund (proprietary fund type). A fund is an accounting entity with a self-balancing set of accounts established to record the financial position and changes in financial position of a specific governmental activity. The activities of enterprise funds closely resemble those of private-sector businesses in which the purpose is to conserve and add to basic resources while meeting operating expenses from current revenues. Enterprise funds account for operations that provide services on a continuous basis and are substantially financed by revenues derived from user charges.

The Water Authority utilizes the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized as they are incurred. The Water Authority's financial statements apply all effective pronouncements of the Governmental Accounting Standards Board (GASB).

### (c) Cash and Investments

The Water Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, investments in money market mutual funds, pooled funds, and short-term investments with original maturities of three months or less from the date of acquisition. For financial statement presentation purposes, cash and cash equivalents includes both restricted and unrestricted cash and investments.

The Water Authority has the following legally restricted funds: Construction, Debt Service Reserve, and Pay-As-You-Go (PAYGO). The Construction Fund includes the proceeds from long-term and short-term debt and is restricted for use on capital project expenses. The Debt Service Reserve Fund holds the required amount for Water Authority debt issues. The Debt Service Reserve Fund is held for the purpose of making an issue's annual debt service payments in the event that the Water Authority should be unable to make such payments. The PAYGO Fund consists of Capacity Charges and Water Standby Availability Charges and is restricted per Board adopted ordinances for the Capital Improvement Program (CIP). The funds are dedicated for capital project outlays, as well as debt service.

Changes in fair value that occur during the fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments. Note 2 contains additional information on permissible investments per the Water Authority's Investment Policy.

### *Fair Value Measurements*

The Water Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the investments. The three levels of the fair value hierarchy are as follows:

**LEVEL 1:** Inputs are unadjusted quoted prices in active markets for identical assets or liabilities.

**LEVEL 2:** Inputs are significant other observable inputs for the asset or liability.

**LEVEL 3:** Inputs are significant unobservable inputs for the asset or liability.

## 1. Nature of Business and Summary of Significant Accounting Policies (continued)

### (c) Cash and Investments (continued)

#### *Fair Value Measurements (continued)*

The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is measured as an exit price for financial investments.

The Water Authority utilizes valuation techniques consistent with market, cost, or income approaches to determine fair value. The most appropriate technique is utilized to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Water Authority owns investments utilizing a stable one dollar per share value. These investment assets are exempt from reporting under the fair value measurement levels. There are no redemption restrictions for the investments reported at a value of one dollar per share.

### (d) Inventories and Prepaid Expenses

The Water Authority's inventories consist of water, valves, and materials in storage and are valued using the average cost method. Prepaid expenses represent benefits prepayments and purchases of prepaid water stored in Northern California outside the Water Authority's service area, and in a long-term groundwater storage facility. Both inventory and prepaid items use the consumption method whereby they are reported as an asset and expensed as they are consumed.

### (e) Reserves

The Water Authority established other designated funds in alignment with best practice guidance:

**Rate Stabilization Fund (RSF)** - The RSF was established for the purpose of collecting the excess amount of net revenues in years when operating revenues exceeded operating expenses. These monies are to be used to mitigate "rate shock" in years of weak water sales and/or to manage debt service coverage ensuring coverage ratios remain above the legally required minimum.

**Equipment Replacement Fund** - The Equipment Replacement Fund was established to ensure monies were available to replace equipment that has reached the end of its useful life including small capital equipment purchases such as computers, vehicles, the Supervisory Control and Data Acquisition (SCADA) system, etc. It is funded through scheduled draws from the Operating Fund per the Board approved budget.

**Stored Water Fund** - The Stored Water Fund was established to support the purchase of water to fill the various Water Authority reservoirs. The majority of the monies have been used to fill San Vicente Reservoir for the Emergency and Carryover Storage projects.

## 1. Nature of Business and Summary of Significant Accounting Policies (continued)

### (f) Capital Assets

Capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are reported at acquisition value. The Water Authority capitalizes all assets with a historical cost of at least \$5,000 and a useful life of at least three years as the Water Authority does not have any capital assets with less than a three-year useful life. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Non-depreciable capital assets include Land, Easements, Mitigation Bank Credits, and Construction in Progress. Depreciable capital assets include Pipelines and Dams, Facilities, Equipment, Computer Systems Software, Mitigation Improvements, Participation and Capacity Rights, and Storage Rights.

Depreciation and amortization is computed utilizing the straight-line method over the following estimated useful lives:

Pipelines and Dams	60 to 100 years
Buildings and Facilities	5 to 50 years
Machinery and Equipment	3 to 8 years
Computer Systems Software	4 years
Mitigation Improvements	30 to 55 years
Participation and Capacity Rights	10 to 110 years
Storage Rights	10 to 100 years

### Intangible Assets

In addition to computer systems software intangible assets, the Water Authority also participates in various storage and water management programs or builds capital assets that by agreement entitle it to permanent storage rights as participation and capacity rights that are included in capital assets as intangible assets. Some projects also require payments for on-going maintenance, which are charged to expense as incurred. Amortization is computed utilizing the straight-line method over the estimated useful life for storage and participation and capacity rights, software, and mitigation improvements. Amortization of participation rights is computed over the life of the agreement.

### (g) Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and will not be recognized as an outflow of resources (expense) until that time. The Water Authority has the following items that qualify for reporting in this category:

- Deferred loss on refunding
- Employer contributions subsequent to measurement date for pensions and other post-employment benefits
- Deferred actuarial amounts related to pensions and other post-employment benefits

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The Water Authority has the following item that qualifies for reporting in this category:

- Deferred actuarial amounts related to pensions and other post-employment benefits



## 1. Nature of Business and Summary of Significant Accounting Policies (continued)

### (h) Compensated Absences

It is the Water Authority's policy to permit employees to accumulate earned, but unused vacation benefits up to a maximum of 50 days (75 days for management). Sick leave hours accrue at the rate of one day per month. The sick leave policy restricts unused sick leave conversion to vacation at a 50 percent hourly conversion rate for employees with more than 1,000 hours of accrued sick leave. Employees that terminated employment prior to retirement or death are paid zero percent of the unused sick leave. Employees that attained the age of 55, were vested with five years of service, and terminated employment due to retirement, layoff, or death, are paid 100 percent of unused vacation and 100 percent of unused sick leave (up to 1,000 hours), and 50 percent of any amount over 1,000 hours. A Terminal Pay Plan (TPP) was established requiring retirees, or those separating due to death, to transfer 100 percent of all accrued but unused vacation leave and up to 1,000 hours of sick leave (50 percent of any amount over 1,000 hours) into the TPP after completing five years of service and reaching the age of 55. Those who voluntarily separate (or are discharged) with five years of service and have reached the age of 55, are able to use the TPP for payout of accrued vacation hours only.

All accumulated and unused vacation and sick leave pay is recorded as an expense and as compensated absences liability at the time the benefit is earned. At the end of each fiscal year, the Water Authority conducts an analysis of historical annual leave payouts. Based on this analysis, the Water Authority recognizes 66 percent of the accrued but unused leave balances at June 30 as a current liability with the remaining 34 percent of the balance recorded as a long-term liability.

### (i) Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

#### Net investment in capital assets

This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding, net of unspent proceeds related to the acquisition, construction, or improvement of those assets, and deferred outflows and inflows of resources related to debt.

#### Restricted for construction projects

This component of net position consists of external constraints placed on net position use imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation, less outstanding debt associated with restricted assets.

#### Restricted for debt service

This component of net position consists of amounts required by bond covenants to be set aside in reserve to be used to pay debt service in the event pledged revenues are insufficient to cover the debt service requirements, less outstanding debt associated with restricted assets.

#### Unrestricted

This component of net position consists of net position that does not meet the definition of net investment in capital assets, restricted for construction projects, or restricted for debt service.

When both restricted and unrestricted resources are available, it is the Water Authority's policy to use restricted resources first followed by unrestricted resources as they are needed.

## **1. Nature of Business and Summary of Significant Accounting Policies (continued)**

### **(j) Infrastructure Access Charges**

In June 1998, the Infrastructure Access Charge (IAC) was adopted by the Board as an additional source of fixed revenue to provide better coverage of the Water Authority's projected fixed expenses. The IAC is levied on each Water Authority member agency based on the number and size of retail water meters within the agencies and the Water Authority's service area. The fixed charge levied against each member agency together with the water standby charge and property tax revenue all combine for the purpose of maintaining a minimum ratio of projected fixed revenue to projected fixed expenses of at least 25 percent. The IAC is adjusted each calendar year as part of the regular rate-setting process and was \$3.01 per meter equivalent per month for Calendar Year 2018.

### **(k) Property Taxes**

The Water Authority is authorized under the Act to levy taxes on all taxable property within its boundaries for the purposes of carrying on its operations and paying its obligations subject to certain limitations in the Act, the Revenue and Taxation Code, and the California Constitution. Property taxes are billed and collected by the County of San Diego and are remitted to the Water Authority throughout the year. The tax rate is based upon the San Diego County Assessor's valuation of taxable property within the Water Authority's service area. In addition, the Water Authority collects an in-lieu charge from the City of San Diego.

### **(l) In-Lieu Charges**

Member agencies of the Water Authority may elect to pay in-lieu charges instead of the tax levy. Presently, only the City of San Diego pays the in-lieu charge directly to the Water Authority.

### **(m) Classification of Revenues**

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services, and producing and delivering goods in connection with an enterprise fund's principal operations. The principal operating revenues of the Water Authority consist of sales of water. Nonoperating revenues consist of property taxes, in-lieu charges, IAC, investment income, intergovernmental, and other miscellaneous income.

### **(n) Capital Contributions**

Capital contributions include capacity charges, water standby availability charges, and contributions in aid of capital assets that are reflected in the accompanying Statement of Revenues, Expenses, and Changes in Net Position. Capital contributions consist of contributed capital assets and special charges that are legally restricted for capital expenses by state law or by the Board action that established those charges.

The Water Authority has two separate revenue sources to fund the Capital Improvement Program. A water standby availability charge was put into effect in Fiscal Year 1990 and is intended to recover some of the capital costs associated with maintaining the system. In Fiscal Year 1991, a capacity charge on all new or larger retail water meters installed within the boundaries of the Water Authority was implemented. This charge, based on meter size, is designed to recover a proportionate share of the capital costs associated with providing services to new connections.

Federal, state, and private grants used for capital purposes are included in contributions in aid of capital assets. These grants are typically of a reimbursable nature, that is the Water Authority first pays for the project and then the granting agency reimburses the Water Authority for its eligible expenses.

## 1. Nature of Business and Summary of Significant Accounting Policies (continued)

### (o) Classification of Expenses

Operating expenses for the Water Authority include the cost of sales, operations and maintenance, planning, general and administrative expenses, depreciation on capital assets, and amortization of intangible assets. Expenses not meeting this definition are reported as nonoperating expenses and include interest expense, debt issuance costs, amortization of bond premiums, amortization of deferred loss on refunding, and other miscellaneous expenses.

### (p) Estimates

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from estimates. Management believes that all estimates in the financial statements are reasonable.

### (q) Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Water Authority's plan (Plan), which is administered by the California Public Employees' Retirement System (CalPERS), and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

### (r) Other Post-Employment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Water Authority's plan (OPEB Plan), the assets of which are held by the California Employers' Retiree Benefit Trust (CERBT), and additions to/deductions from the OPEB Plan's fiduciary net position have been determined by an independent actuary. For this purpose, benefit payments are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date	June 30, 2017
Measurement Date	June 30, 2017
Measurement Period	July 1, 2016 to June 30, 2017

## 1. Nature of Business and Summary of Significant Accounting Policies (continued)

### (s) Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Water Authority's prior year financial statements, from which this selected financial data was derived.

### (t) New Accounting Pronouncements

#### *Early Implementation*

The Water Authority early implemented the following GASB Statement for the fiscal year ended June 30, 2018, which did impact the Water Authority's financial statements:

- **GASB Statement No. 89** – *Accounting for Interest Cost Incurred Before the End of The Construction Period*, effective for periods beginning after December 15, 2018.

#### *Current Year Standards*

The following GASB Statements were implemented for the fiscal year ended June 30, 2018, as required, impacting the Water Authority's financial statements:

- **GASB Statement No. 85** – *Omnibus 2017*, effective for periods beginning after June 15, 2017.

The following GASB Statements were implemented for the fiscal year ended June 30, 2018, as required, and did not impact the Water Authority's financial statements:

- **GASB Statement No. 81** – *Irrevocable Split-Interest Agreements*, effective for periods beginning after December 15, 2016.
- **GASB Statement No. 86** – *Certain Debt Extinguishment Issues*, effective for periods beginning after June 15, 2017.

#### *Pending Accounting Standards*

The following GASB Statements have been issued which may impact the Water Authority's financial reporting requirements in the future:

- **GASB Statement No. 83** – *Certain Asset Retirement Obligations*, effective for periods beginning after June 15, 2018.
- **GASB Statement No. 84** – *Fiduciary Activities*, effective for periods beginning after December 15, 2018.
- **GASB Statement No. 87** – *Leases*, effective for periods beginning after December 15, 2019.
- **GASB Statement No. 88** – *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, effective for periods beginning after June 15, 2018.

## 2. Cash and Investments

Cash and investments are classified in the accompanying Statement of Net Position at June 30, 2018 as follows:

<b>Current assets:</b>	
Cash and investments	\$ 104,682,066
Restricted cash and investments	119,984,952
<b>Total current assets</b>	<b>224,667,018</b>
<b>Noncurrent assets:</b>	
Cash and investments	107,746,039
Restricted cash and investments	22,665,917
<b>Total noncurrent assets</b>	<b>130,411,956</b>
<b>Total cash and investments</b>	<b>\$ 355,078,974</b>

The carrying value of cash and investments held by the Water Authority at June 30, 2018 consisted of the following:

Petty cash	\$ 2,500
Deposits	4,119,779
Investments	350,956,695
<b>Total cash and investments</b>	<b>\$ 355,078,974</b>

### (a) Investments Authorized by the California Government Code and the Water Authority's Investment Policy

The following table identifies the investment types that are authorized for the Water Authority by the California Government Code (Gov't. Code) and the Water Authority's Investment Policy (Inv. Policy). The table also identifies certain provisions of the California Government Code (or the Water Authority's Investment Policy, if more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the Water Authority rather than the general provisions of the California Government Code Sections 53600 et seq. or the Water Authority's Investment Policy.

## 2. Cash and Investments (continued)

### (a) Investments Authorized by the California Government Code and the Water Authority's Investment Policy (continued)

	Maximum Maturity		Maximum Percentage of Portfolio		Maximum Investment in One Issuer		Minimum Rating	
	Gov't. Code	Inv. Policy	Gov't. Code	Inv. Policy	Gov't. Code	Inv. Policy	Gov't. Code	Inv. Policy
Local agency bonds	5 years	5 years	None	20%	None	5%	None	A
U.S. Treasury securities	5 years	5 years	None	None	None	None	None	None
Federal agency securities	5 years	5 years	None	None	None	None	None	None
Bankers' acceptances	180 days	180 days	40%	40%	30%	5%	None	A1/P1/F1
Commercial paper	270 days	270 days	25%	25%	10%	5%	A1/P1/F1	A1/P1/F1
Certificates of deposit	5 years	5 years	30%	20%	None	None	None	None
Placement service deposits	5 years	5 years	30% <sup>(4)</sup>	30% <sup>(5)</sup>	None	None	None	None
Negotiable certificates of deposit	5 years	5 years	30% <sup>(4)</sup>	30% <sup>(5)</sup>	None	5% <sup>(6)</sup>	None	A <sup>(7)</sup>
Repurchase agreements	1 year	1 year	None	20%	None	None	None	A
Reverse repurchase agreements	92 days	92 days	20% of portfolio base value	20% of portfolio base value	None	None	None	None
Medium-term notes	5 years	5 years	30%	30%	None	5%	A	A <sup>(7)</sup>
Mutual funds	n/a	n/a	20%	20%	10%	10%	AAA	AAA
Money market mutual funds	n/a	n/a	20%	20%	None	20%	AAA	AAA
Mortgage pass-through securities	5 years	5 years	20%	20%	None	5%	AA	AA
County pooled investment funds <sup>(1)</sup>	n/a	<sup>(3)</sup>	None	<sup>(3)</sup>	None	<sup>(3)</sup>	None	<sup>(3)</sup>
JPA pools (other investment pools)	n/a	n/a	None	25%	None	None	None	AAA
Supranationals <sup>(8)</sup>	5 years	5 years	30%	10%	None	5%	AA	AA
Local agency investment fund (LAIF) <sup>(2)</sup>	n/a	n/a	None	<sup>(9)</sup>	None	None	None	None

Notes:

<sup>(1)</sup> Authorized by Government Code Section 53684 (a).

<sup>(2)</sup> Authorized by Government Code Section 16429.1

<sup>(3)</sup> These investments are not authorized by the Investment Policy.

<sup>(4)</sup> The Government Code maximum portfolio exposure to placement service certificates of deposit and negotiable certificates of deposit is 30 percent each.

<sup>(5)</sup> The combined Investment Policy maximum portfolio exposure to certificates of deposit, placement service certificates of deposit and negotiable certificates of deposit is 30 percent.

<sup>(6)</sup> The Investment Policy maximum investment in one issuer for negotiable certificates of deposit is 5 percent.

<sup>(7)</sup> Must have a minimum rating of "A" by all three credit rating agencies.

<sup>(8)</sup> Authorized by Government Code Section 53601 (q).

<sup>(9)</sup> The Investment Policy's maximum permitted investment amount is governed by current State Law.



## 2. Cash and Investments (continued)

### (b) Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements rather than the general provisions of the California Government Code or the Water Authority's Investment Policy. In addition to the investments authorized in the previous table, debt proceeds held by bond trustees may be invested in guaranteed investment contracts with a maximum maturity that is limited to the final maturity of the bonds being issued.

### (c) Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk where changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity its fair value is to changes in market interest rates. One of the ways that the Water Authority manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or approaching maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Water Authority's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that show the distribution of the Water Authority's investments by terms to maturity for Fiscal Year 2018.

Investment Type	June 30, 2018	Remaining Term to Maturity			
		12 months or less	13 to 36 months	37 to 60 months	More than 60 months
U.S. Treasury securities	\$ 66,508,631	\$ 36,771,755	\$ 25,752,056	\$ 3,984,820	\$ -
Federal agency securities	95,741,843	50,583,123	45,158,720	-	-
Medium-term notes	32,950,096	5,929,781	13,832,920	13,187,395	-
Supranationals	5,786,420	-	-	5,786,420	-
Commercial paper	12,855,022	12,855,022	-	-	-
LAIF	48,368,629	48,368,629	-	-	-
JPA pools	55,582,146	55,582,146	-	-	-
Money market mutual funds	4,926,244	4,926,244	-	-	-
<b>Held by bond trustees:</b>					
Guaranteed investment contract	12,240,775	-	-	-	12,240,775
Money market mutual funds	5,571,750	5,571,750	-	-	-
JPA pools	10,425,139	10,425,139	-	-	-
<b>Total</b>	<b>\$ 350,956,695</b>	<b>\$ 231,013,589</b>	<b>\$ 84,743,696</b>	<b>\$ 22,958,635</b>	<b>\$ 12,240,775</b>

## 2. Cash and Investments (continued)

### (d) Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented in the following table for Fiscal Year 2018 is the minimum rating required (where applicable) by the California Government Code, the Water Authority's Investment Policy, or debt agreements, and the actual rating as of year-end for each investment type.

Investment Type	June 30, 2018	Minimum Rating	Exempt from Disclosure	Rating as of Fiscal Year Ended June 30, 2018			
				AAA/AA-	A	A1	Not Rated
U.S. Treasury securities	\$ 66,508,631	n/a	\$ 66,508,631	\$ -	\$ -	\$ -	\$ -
Federal agency securities	95,741,843	n/a	-	95,741,843	-	-	-
Medium-term notes	32,950,096	A	-	21,706,521	11,243,575	-	-
Supranationals	5,786,420	AA	-	5,786,420	-	-	-
Commercial paper	12,855,022	A1	-	-	-	12,855,022	-
LAIF	48,368,629	n/a	-	-	-	-	48,368,629
JPA pools	55,582,146	AAAm	-	55,582,146	-	-	-
Money market mutual funds	4,926,244	AAAm	-	4,926,244	-	-	-
<b>Held by bond trustees:</b>							
Guaranteed investment contract	12,240,775	n/a	-	-	-	-	12,240,775
Money market mutual funds	5,571,750	AAAm	-	5,571,750	-	-	-
JPA pools	10,425,139	AAAm	-	10,425,139	-	-	-
<b>Total</b>	<b>\$ 350,956,695</b>		<b>\$ 66,508,631</b>	<b>\$ 199,740,063</b>	<b>\$ 11,243,575</b>	<b>\$ 12,855,022</b>	<b>\$ 60,609,404</b>

### (e) Concentration of Credit Risk

Investments in any one issuer (other than U.S. Treasury securities, money market mutual funds, and external investment pools) that represent five percent or more of total Water Authority investments for Fiscal Year 2018 are as follows:

Issuer	Investment Type	Reported Amount	% of Total Investments
Federal Home Loan Mortgage Corporation	Federal agency securities	\$ 51,833,915	14.8%
Federal National Mortgage Association	Federal agency securities	\$ 28,663,561	8.2%

### (f) Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (for example, broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Water Authority's Investment Policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments other than the following provision for deposits: the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

## 2. Cash and Investments (continued)

### (g) Investment Value Measurement

The Water Authority categorizes certain assets and liabilities within the fair value hierarchy established by generally accepted accounting principles. The following is a summary of Water Authority investments based on the method for measuring value as of June 30, 2018:

	Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	June 30, 2018
Investments by fair value level				
U.S. Treasury securities	\$ -	\$ 66,508,631	\$ -	\$ 66,508,631
Federal agency securities	-	95,741,843	-	95,741,843
Medium-term notes	-	32,950,096	-	32,950,096
Supranationals	-	5,786,420	-	5,786,420
Commercial paper	-	12,855,022	-	12,855,022
Total investments by fair value level	\$ -	\$ 213,842,012	\$ -	\$ 213,842,012
Investments measured at cost				
Guaranteed investment contract				12,240,775
Money market mutual funds <sup>(1)</sup>				10,497,994
LAIF <sup>(2)</sup>				48,368,629
JPA pools <sup>(3)</sup>				66,007,285
Total investments measured at cost				137,114,683
Total investments				\$ 350,956,695

Notes:

<sup>(1)</sup> Reported as a stable one-dollar value per share.

<sup>(2)</sup> Reported based on the application of a fair value factor to each one-dollar share.

<sup>(3)</sup> Measured at amortized cost.

### (h) Investment in State Investment Pool

The Water Authority is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429.1 under the oversight of the Treasurer of the State of California. The value of the Water Authority's investment in the pool is reported in the accompanying financial statements at amounts based upon a fair value factor applied to each one-dollar share.

### (i) JPA Pools

The Water Authority is a voluntary participant in the California Asset Management Program (CAMP), a California Joint Powers Authority that falls under California Government Code Section 53601(p), which is directed by a Board of Trustees that is made up of experienced local government finance directors and treasurers.

### 3. Inventories

Components of inventories at June 30, 2018 are as follows:

Water in storage	\$ 95,502,264
Valves in storage	680,050
Materials in storage	151,917
<b>Total inventories</b>	<b>\$ 96,334,231</b>

<b>Water in storage:</b>	<b>Value</b>	<b>Acre-Feet</b>
San Vicente	\$ 79,748,519	132,562.5
Olivenhain	12,258,259	20,287.0
Lake Hodges	2,247,630	3,739.2
Sweetwater	1,085,845	1,806.7
Otay	162,011	232.6
<b>Total water in storage</b>	<b>\$ 95,502,264</b>	<b>158,628.0</b>

### 4. Prepaid Expenses

In March 2008, the Water Authority purchased 10,006 and 13,071 acre-feet of transfer water from the Butte Water District and Sutter Extension Water District, respectively, for a total of 23,077 acre-feet. As part of the transfer, the Water Authority incurred a Delta carriage loss of 20 percent, a conveyance loss of three percent and evaporative and aquifer losses of ten percent. After the adjustments, the total acre-feet for Butte Water District and Sutter Extension Water District are 6,930 and 9,187, respectively, a total of 16,117 acre-feet. This water is currently stored outside the Water Authority's service area pursuant to a long-term groundwater storage agreement as outlined in Note 8(d). As such, it is classified as prepaid expenses on the Statement of Net Position in the amount of \$4,620,500 as of June 30, 2018. Other prepaid expenses were \$29,383 as of June 30, 2018, which includes payments to the Water Authority's benefits administrator and payments for financing application fee in the amount of \$24,383 and \$5,000, respectively. The total prepaid expenses balance as of June 30, 2018 was \$4,649,883.

### 5. Long-Term Loan Receivables

#### Imperial Irrigation District (IID)

In October 2003, the Water Authority amended its Transfer Agreement with IID. As part of this amendment, the Water Authority made initial socioeconomic impact payments totaling \$10.0 million (the "Loan").

These funds will be used to pay for the initial administrative costs and estimated and annual cumulative socioeconomic impact costs. Beginning in Calendar Year 2018, the Water Authority began receiving credits from IID to be applied against any payments due and shall continue until Calendar Year 2047 or until the agreement is terminated, whichever comes first. If the agreement terminates before Calendar Year 2047, IID is under no obligation to pay the Water Authority the remaining balance of the loan.

Under the terms of the amended agreement, in December 2007, the Water Authority paid IID \$10.0 million for future deliveries of water. Interest on the prepayment shall begin to accrue on December 31, 2018 using the Water Authority's weighted average cost of funds for its short-term and long-term debt outstanding as shown in the Water Authority's annual financial report for each fiscal year ending June 30. If not repaid sooner, beginning on December 31, 2018 through December 31, 2033, IID shall credit the Water Authority's monthly invoice for conserved water in 180 equal monthly installments of \$55,556 plus accrued interest.

As of June 30, 2018, the total outstanding balance due from IID is \$19,779,287, of which \$604,983 is expected to be collected within the next year, and the \$19,174,304 balance collected according to a payment schedule.

## 6. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	Balance at June 30, 2017, as Restated	Additions	Deletions	Transfers	Balance at June 30, 2018
<b>Non-depreciable capital assets:</b>					
Land	\$ 24,490,954	\$ 130,072	\$ -	\$ -	\$ 24,621,026
Easements	11,915,888	927,875	-	-	12,843,763
Mitigation bank credits	5,329,998	-	(6,880)	-	5,323,118
Construction in progress	110,208,603	69,525,191	(23,809,698) <sup>(2)</sup>	(80,416,889)	75,507,207
<b>Total non-depreciable capital assets</b>	<b>151,945,443</b>	<b>70,583,138</b>	<b>(23,816,578)</b>	<b>(80,416,889)</b>	<b>118,295,114</b>
<b>Depreciable capital assets:</b>					
Pipelines and dams	2,160,923,351	-	(5,518)	39,777,526	2,200,695,359
Buildings and Facilities	789,443,884	517,887	(392,403)	8,702,771	798,272,139
Machinery and Equipment	32,025,782	1,571,382	(999,816)	373,634	32,970,982
Intangible software and mitigation imp.	5,306,323	-	-	1,293,054	6,599,377
Participation and capacity rights	517,686,553	2,364,550	-	-	520,051,103
Storage rights	489,681,404 <sup>(1)</sup>	-	(899,049) <sup>(3)</sup>	30,269,904	519,052,259
<b>Total depreciable capital assets</b>	<b>3,995,067,297</b>	<b>4,453,819</b>	<b>(2,296,786)</b>	<b>80,416,889</b>	<b>4,077,641,219</b>
<b>Less accumulated depreciation and amortization for:</b>					
Pipelines and dams	(344,217,046)	(25,724,843)	-	-	(369,941,889)
Facilities	(190,626,418)	(21,877,479)	310,071	-	(212,193,826)
Equipment	(28,029,449)	(1,108,746)	999,816	-	(28,138,379)
Intangible software and mitigation	(1,859,994)	(481,398)	-	-	(2,341,392)
Participation and capacity rights	(89,670,600)	(8,280,857)	-	-	(97,951,457)
Storage rights	(15,420,629) <sup>(1)</sup>	(5,369,273)	-	-	(20,789,902)
<b>Total accumulated depreciation and amortization</b>	<b>(669,824,136)</b>	<b>(62,842,596)</b>	<b>1,309,887</b>	<b>-</b>	<b>(731,356,845)</b>
<b>Total depreciable capital assets, net</b>	<b>3,325,243,161</b>	<b>(58,388,777)</b>	<b>(986,899)</b>	<b>80,416,889</b>	<b>3,346,284,374</b>
<b>Total capital assets, net</b>	<b>\$ 3,477,188,604</b>	<b>\$ 12,194,361</b>	<b>\$ (24,803,477)</b>	<b>\$ -</b>	<b>\$ 3,464,579,488</b>

Notes:

- (1) The June 30, 2017 ending balance of Storage Rights in the amount of \$485,570,349 was reclassified from non-depreciable to depreciable. Additionally, Storage Rights related costs previously included in Participation and Capacity Rights of \$4,111,055 were reclassified to the new depreciable Storage Rights category. See Footnote 18 for related accumulated amortization.
- (2) Construction in progress deletions pertain to write-offs of accumulated project costs for Pipeline 6, Camp Pendleton Desal, Pipeline 3 Scripps Ranch to SR-52 and certain no longer applicable Water Facilities Master Plan and right of way costs, and demolition expenses for the Lake Murray, Otay 3 and Otay 9 projects.
- (3) The Water Authority received an \$899,049 insurance refund related to the San Vicente Emergency Storage Project.

## 7. Mitigation Bank

The Mitigation Bank contains purchased rights to designate the future use of land in which title is held by another entity. This acreage includes wetland, stream, or other open space areas that have been restored, established, enhanced, or preserved for the purpose of providing compensation to the public for unavoidable impacts to the environment permitted under Section 404 of the Federal Clean Water Act or other state or local regulation. The Water Authority transfers a proportionate share of the cost of the Mitigation Bank to the capital project at the time the acreage is identified to mitigate the impacts from a specific project. These costs are then amortized over the estimated useful life of the related asset. As of June 30, 2018, the value of acreage remaining was \$5,323,118.

Mitigation Sites	Acres		Value
	Total	Remaining	
Crestridge Habitat Management Area (HMA)	258.45	16.93	\$ 148,840
San Miguel Conservation	820.85	819.76	5,174,278
<b>Total Mitigation Bank</b>	<b>1,079.30</b>	<b>836.69</b>	<b>\$ 5,323,118</b>

## 8. Participation and Capacity Rights

The Water Authority builds capital assets that, by agreement, entitle it to certain participation and capacity rights. The total participation and capacity rights, net of amortization, were \$422,099,646 as of June 30, 2018.

<b>Participation Rights:</b>		
Colorado River Water Delivery Settlement, All-American Canal (a)	\$	263,029,552
Quantification Settlement Agreement Joint Powers Authority (b)		77,675,325
Imperial Irrigation District Water Transfer (c)		46,423,262
Semitropic-Rosamond Water Bank (d)		9,603,658
Vidler Water Company (d)		7,477,209
Rancho Canada Permit for Endangered Species (e)		5,171,092
<b>Total Participation Rights</b>		<b>409,380,098</b>
<b>Capacity Rights:</b>		
Helix Water District Levy Plant (f)		10,616,488
Los Coches Pump Station (g)		1,078,154
Helix Flume Pipeline (g)		964,558
Moreno-Lakeside Pipeline (h)		60,348
<b>Total Capacity Rights</b>		<b>12,719,548</b>
<b>Total Participation and Capacity Rights, net of amortization</b>	<b>\$</b>	<b>422,099,646</b>



## **8. Participation and Capacity Rights (continued)**

### **(a) Canal Lining Participation Rights**

On October 10, 2003, the Water Authority assumed MWD's rights and obligations for the All-American Canal and Coachella Canal Lining Projects under Article 4A of the Colorado River Water Delivery Settlement Allocation agreement between the United States, MWD, IID, CVWD, and the San Luis Rey Indian Water Authority (SLR). The agreement, net of amortization, required payment of \$3,471,329 as of June 30, 2018 to IID for MWD's outstanding obligations.

The agreement specifically assigned the project of lining the Coachella Canal, which is a branch of the All-American Canal from the Colorado River and is owned by the U.S. Bureau of Reclamation (BOR), to the Water Authority. The lining of the canal prevents and conserves water seepage through the previous unlined canal. The Coachella Canal now provides a firm supply of 21,500 acre-feet per year to the Water Authority. The cost of the project was offset by a funding agreement with the Department of Water Resources for \$79,447,974. Participation rights for this project, net of amortization, totaled \$116,943,883 as of June 30, 2018 and are amortized utilizing the straight-line method over the life of the agreement, which is 110 years.

The agreement executed January 13, 2006 between BOR, IID, and the Water Authority for the construction of the All-American Canal Lining Project provides for the construction of the canal by IID with oversight by the Water Authority and the BOR. The All-American Canal provides 56,200 acre-feet per year to the Water Authority annually for 110 years. The Department of Water Resources funded \$135.7 million for construction of the All-American Canal Lining Project, and the Water Authority funded the amount over the state subsidy. Participation rights for this project, net of amortization, totaled \$142,614,340 as of June 30, 2018 and are amortized utilizing the straight-line method over the life of the agreement of 110 years.

### **(b) Quantification Settlement Agreement Joint Powers Authority Participation Rights**

Pursuant to the Quantification Settlement Agreement Joint Powers Authority (QSA JPA) Creation and Funding Agreement (Agreement), the Water Authority agreed with IID, Coachella Valley Water District (CVWD), and the State of California, to accept responsibility for certain environmental mitigation requirements.

Under Article IX of the Agreement, the environmental mitigation contribution required by the Water Authority net of amortization was \$47,902,914 as of June 30, 2018. Amortization is computed using the acre-feet assigned per calendar year over the 75-year life of the Agreement.

In addition, the Agreement required the Water Authority to pay, net of amortization, \$7,918,200 as of June 30, 2018 as a contribution to the Salton Sea Restoration Fund. Amortization is computed utilizing the straight-line method over the 75-year life of the Agreement.

Legal expenses associated with the right to purchase water were capitalized in Fiscal Year 2011 due to litigation finalized in that fiscal year with MWD, in relation to the QSA JPA projects. These costs are being amortized utilizing the straight-line method over the life of the 75-year Agreement, and totaled, net of amortization, \$21,854,211 for fiscal year ended June 30, 2018. The QSA JPA is not a named party to separate ongoing Water Authority litigation challenging MWD's rate structure, as discussed in Note 17.

## 8. Participation and Capacity Rights (continued)

### (c) IID Water Transfer - Base Contract Price Settlement Participation Rights

IID and the Water Authority executed an agreement that settled all disputes related to the Base Contract Price and the Water Authority/IID Conserved Water Transfer Agreement as stated in the Fifth Amendment to the agreement. Participation rights for this agreement, net of amortization, totaled \$46,423,262 as of June 30, 2018 and are being amortized utilizing the straight-line method over the 75-year life of the agreement.

### (d) Vidler and Semitropic Participation Rights

In July 2008, the Water Authority entered into agreements with Vidler Water Company (Vidler) and Semitropic-Rosamond Water Bank (Semitropic) that entitles the Water Authority to storage, withdrawal, and exchange rights within the Semitropic Water Banking and Exchange Program, the Semitropic Water Bank Recovery Unit, and the Antelope Valley Water Bank.

The Water Authority bought Vidler's 30,000 acre-feet of storage and recovery rights in the Semitropic Water Storage District's underground basin in Kern County. The Water Authority also invested in Semitropic, which will provide a total of 40,000 acre-feet of storage rights, for a total amount of 70,000 acre-feet. Storage and recovery rights for this program totaled, net of amortization, \$9,603,658 for Semitropic and \$7,477,209 for Vidler as of June 30, 2018. These rights are amortized using the straight-line method over the life of the agreements, which end in 2035.

### (e) Rancho Canada Permit for Endangered Species

The Water Authority contributed to property acquisition for conservation measures under this permit in an amount net of amortization of \$5,171,092 as of June 30, 2018. The property is owned and managed by the Department of Fish and Wildlife consistent with mitigation requirements associated with the Emergency Storage Project (ESP) and Carryover Storage Project (CSP), Federal Endangered Species Act (Section 7), Clean Water Act, Porter-Cologne Act, California Fish and Game Code 1602 permits and the CSP California Environmental Quality Act (CEQA) mitigation measures, and the Natural Community Conservation Plan/Habitat Conservation Plan, a 55-year multi-species take permit issued pursuant to the Federal Endangered Species Act (Section 10) and Natural Community Conservation Planning Act (NCCPA). Any acreage not applied as mitigation to ESP or CSP, constitutes the Water Authority's commitment towards regional multi-species conservation pursuant to provisions of the NCCPA, and allowed for the issuance of the 55-year multi-species take permit, which streamlines endangered species permitting for the Water Authority's current and future CIP projects and operation and maintenance activities.

### (f) Levy Treatment Plant Capacity Rights

In April 1997, the Water Authority entered into a capacity agreement with Helix Water District (Helix) for installation of an untreated water transmission pipeline, a flow control facility, and expansion of the R.M. Levy Water Treatment Plant (Levy Plant). Helix owns, operates, and maintains the Levy Plant and agreed to its phased expansion to 106 million gallons per day (mgd). In accordance with the April 1997 agreement, the Water Authority has capacity rights of 26 mgd. In April 2006, a third amendment to the agreement with Helix transferred to the Water Authority an additional 10 mgd capacity in the Levy Plant, for total capacity rights of 36 mgd. The Water Authority paid \$10.6 million to Helix for 10 mgd of additional capacity in the Levy Plant, \$300,000 to Helix for 4 mgd of additional capacity in the 54-inch transmission main (for Lakeside Water District), \$1.5 million to Helix for 8 mgd of additional capacity in Helix Flume Pipeline (for Otay Water District), and \$600,000 to Helix for 12 mgd of additional capacity in Helix Flume Pipeline (for Padre Dam Municipal Water District). Capacity rights for Levy Plant Capacity Purchases, net of amortization, totaled \$10,616,488 as of June 30, 2018 and are being amortized using the straight-line method over 35 years.

## 8. Participation and Capacity Rights (continued)

### (g) Los Coches Pump Station and Helix Flume Pipeline Capacity Rights

In April 2006, the Water Authority entered into an agreement with Helix regarding implementation of the East County Regional Treated Water Improvement Program (ECRTWIP). The purpose of the ECRTWIP is to significantly improve the regional water treatment capacity in East County by maximizing utilization of the Levy Plant to provide additional capacity to serve Otay Water District, Lakeside Water District, and Padre Dam Municipal Water District. The Los Coches Pump Station, which pumps into the Helix Flume Pipeline, was increased from 22 mgd to 64 mgd, with the Water Authority having capacity rights to 24 mgd. A section of the Helix Flume Pipeline had to be replaced with a new 48-inch steel pipe to withstand the increased pressure, with the Water Authority having capacity rights to an additional 12 mgd. Capacity rights for Los Coches Pump Station, net of amortization, totaled \$1,078,154 as of June 30, 2018 and for Helix Flume Pipeline, net of amortization, totaled \$964,558 as of June 30, 2018 and are being amortized using the straight-line method over ten years.

### (h) Moreno-Lakeside Pipeline Capacity Rights

In June 2001, the Water Authority and Helix executed the first amendment to the 1997 Capacity Agreement. Capacity rights for this project have been fully amortized as of June 30, 2018. Otay Water District constructed a new pipeline from the Otay 14 Flow Control Facility location to the regulatory reservoirs in the Otay System. The Water Authority reimbursed Otay Water District for the new pipeline and Otay Water District agreed to purchase at least 10,000 acre-feet of water per calendar year from the Water Authority. The capacity rights added to the Moreno-Lakeside Pipeline, net of amortization, totaled \$60,348 as of June 30, 2018 and are being amortized using the straight-line method over ten years.

## 9. Storage Rights

In 1995, the Water Authority entered into agreements with the City of San Diego (City) to acquire permanent water storage rights in the City's Hodges and San Vicente reservoirs as part of the Water Authority's Emergency Storage Project (ESP) program. The ESP consists of a system of reservoirs, interconnected pipelines, and pumping stations designed to make water available to the San Diego region in the event of an interruption in imported water deliveries.

The Lake Hodges Projects connected the City's Hodges Reservoir, also called Lake Hodges, to the Water Authority's Olivenhain Reservoir. The Water Authority constructed the Tailrace Tunnel and Inlet/Outlet components to permit water movement between the reservoirs and to store 20,000 acre-feet of water for emergency use in the Hodges Reservoir. The related improvements for the storage rights, net of amortization, totaled \$38,589,579, as of June 30, 2018 and are amortized utilizing the straight-line method over 100 years. Separately, the Water Authority completed two related subprojects that are being amortized over twenty years and ten years that have a net unamortized balance of \$2,715,239. All of the corresponding improvements have been turned over to the City and SDG&E in exchange for the Water Authority receiving permanent storage rights.

The San Vicente Dam Raise Project raised the San Vicente Dam by 117 feet, more than doubling the capacity of the reservoir, and adding 157,000 acre-feet of water for emergency use by the Water Authority in San Vicente Reservoir. Storage rights for this project, net of amortization, totaled \$456,957,539 as of June 30, 2018 and are amortized utilizing the straight-line method over 100 years. The corresponding improvements have been turned over to the City in exchange for the Water Authority receiving permanent storage rights.

## 10. Short-Term Liabilities

The Water Authority has a Tax-Exempt Commercial Paper (TECP) program through which it can borrow funds on a tax-exempt basis for periods up to 270 days to provide financing for the Water Authority's CIP. The Water Authority also has an Extendable Commercial Paper (ECP) program to provide financing for the Water Authority's CIP. ECP offers a lower cost of funds than TECP but is only available to highly rated agencies like the Water Authority. The Water Authority has the ability to access the capital markets and redeem the notes before the end of the 150-day extension period. ECP maturities are limited to between 1 and 120 days to allow a 150-day extension period and maintain a maximum maturity of 270 days. The total amount of short-term revenue certificates (TECP and ECP Notes) authorized at any time to be outstanding is \$460,000,000.

The TECP and ECP notes are secured and payable on a parity basis solely from net water revenues and are subordinate to the Water Revenue Certificates of Participation (COP), Water Revenue Bonds, and Water Revenue Refunding Bonds. At June 30, 2018, the Water Authority had short-term debt outstanding of \$345,000,000.

Short-term liabilities activity for the fiscal year ended June 30, 2018 are as follows:

	Original Issue	Interest Rate	Balance at June 30, 2017	Additions	Deletions	Balance at June 30, 2018
Commercial Paper Notes, Series 8	2014	1.40%	\$ 110,000,000	\$ -	\$ -	\$ 110,000,000
Commercial Paper Notes, Series 9	2016	1.45%	135,000,000	-	-	135,000,000
Extendable Commercial Paper Notes, Series 1	2014	1.35%	100,000,000	-	-	100,000,000
<b>Total short-term liabilities</b>			<b>\$ 345,000,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 345,000,000</b>

## 11. Long-Term Liabilities

### (a) Changes in Long-Term Liabilities

Long-term liabilities activity for the fiscal year ended June 30, 2018 are as follows:

	Balance at June 30, 2017	Additions	Deletions	Balance at June 30, 2018	Due Within One Year
Revenue Bonds	\$ 1,808,910,000	\$ -	\$ (15,220,000)	\$ 1,793,690,000	\$ 34,075,000
Certificates of Participation	74,635,000	-	(32,010,000)	42,625,000	8,315,000
<b>Total long-term debt</b>	<b>1,883,545,000</b>	<b>-</b>	<b>(47,230,000)</b>	<b>1,836,315,000</b>	<b>42,390,000</b>
Unamortized bond premiums	181,348,352	-	(14,230,536)	167,117,816	-
<b>Total long-term debt, net</b>	<b>2,064,893,352</b>	<b>-</b>	<b>(61,460,536)</b>	<b>2,003,432,816</b>	<b>42,390,000</b>
Contributions payable	27,513,571	-	(8,568,383)	18,945,188	7,579,399
Compensated absences	6,219,677	3,763,961	(3,626,246)	6,357,392	4,195,879
Arbitrage rebate	600,437	-	-	600,437	-
<b>Total long-term liabilities, net</b>	<b>\$ 2,099,227,037</b>	<b>\$ 3,763,961</b>	<b>\$ (73,655,165)</b>	<b>\$ 2,029,335,833</b>	<b>\$ 54,165,278</b>

## 11. Long-Term Liabilities (continued)

### (b) Long-Term Debt Outstanding

The following schedule summarizes the major terms of outstanding long-term debt at June 30, 2018:

	Issue Date	Interest Rates to Maturity	Final Maturity Fiscal Year	Original Amount	Balance Outstanding June 30, 2018
<b>Revenue Bonds:</b>					
Water Revenue Bonds, Series 2010A (Non-AMT Tax-Exempt)	2010	4.00-5.25%	2020	\$ 98,495,000	\$ 9,165,000
Water Revenue Bonds, Series 2010B (Taxable Build America Bonds) <sup>(1)</sup>	2010	6.138%	2049	526,135,000	526,135,000
Water Revenue Refunding Bonds, Series 2011A	2011	0.45-5.00%	2027	139,945,000	95,320,000
Water Revenue Refunding Bonds, Series 2011B	2011	3.00-5.00%	2031	94,540,000	94,540,000
Water Furnishing Revenue Bonds, Series 2012 (Pipeline Bonds)	2012	5.00%	2046	203,215,000	200,605,000
Water Revenue Refunding Bonds, Series 2013A	2013	3.00-5.00%	2034	299,105,000	299,105,000
Water Revenue Refunding Bonds, Series 2015A	2015	2.00-5.00%	2029	184,795,000	184,795,000
Subordinate Lien Water Revenue Refunding Bonds, Series 2016S-1	2016	3.00-5.00%	2021	87,685,000	87,685,000
Water Revenue Refunding Bonds, Series 2016A	2016	5.00%	2033	98,945,000	98,945,000
Water Revenue Refunding Bonds, Series 2016B	2016	5.00%	2038	197,395,000	197,395,000
<b>Total Revenue Bonds</b>					<b>\$ 1,793,690,000</b>
<b>Certificates of Participation (COP):</b>					
Water Revenue COP, 1998A	1998	4.50-5.25%	2028	\$180,000,000	\$ 11,685,000
Water Revenue Refunding COP, Series 2005A	2005	5.00-5.25%	2022	107,455,000	13,800,000
Water Revenue COP, Series 2008A	2008	4.00-5.00%	2020	558,015,000	17,140,000
<b>Total COP</b>					<b>\$ 42,625,000</b>
<b>Total long-term debt</b>					<b>\$ 1,836,315,000</b>

Note:

- <sup>(1)</sup> The 2010B Bonds were designated as Taxable Build America Bonds (BABs) under the provisions of the American Recovery and Reinvestment Act of 2009, the interest with respect to which is not excluded from gross income for Federal income tax purposes, but is exempt from State of California personal income taxes. The Water Authority receives semi-annual subsidy payments from the United States Treasury equal to 35 percent of the interest payable on the 2010B Bonds.

## 11. Long-Term Liabilities (continued)

### (c) Debt Service Requirements

The total debt service requirements, including principal and interest payments, are as follows:

Fiscal Year	Revenue Bonds		Certificates of Participation		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 34,075,000	\$ 93,876,785	\$ 8,315,000	\$ 2,136,538	\$ 42,390,000	\$ 96,013,323
2020	36,100,000	92,253,135	8,825,000	1,720,788	44,925,000	93,973,923
2021	130,445,000	90,576,460	6,725,000	1,279,538	137,170,000	91,855,998
2022	45,270,000	84,431,960	7,075,000	926,476	52,345,000	85,358,436
2023	52,550,000	82,260,335	-	555,038	52,550,000	82,815,373
2024-2028	304,260,000	369,890,126	11,685,000	2,775,185	315,945,000	372,665,311
2029-2033	360,025,000	286,290,192	-	-	360,025,000	286,290,192
2034-2038	363,135,000	192,968,538	-	-	363,135,000	192,968,538
2039-2043	200,905,000	113,194,282	-	-	200,905,000	113,194,282
2044-2048	228,960,000	48,805,339	-	-	228,960,000	48,805,339
2049	37,965,000	2,330,292	-	-	37,965,000	2,330,292
<b>Total</b>	<b>\$1,793,690,000</b>	<b>\$1,456,877,444</b>	<b>\$ 42,625,000</b>	<b>\$ 9,393,563</b>	<b>\$1,836,315,000</b>	<b>\$1,466,271,007</b>

### (d) Redemption and Defeasance of Debt

On December 18, 2017, the Water Authority redeemed bonds on the Water Furnishing Revenue Bonds, Series 2012 totaling \$2,610,000 plus accrued interest to the redemption date, and the related liabilities were removed from the financial statements. The funds for the redemption were provided from funds on hand in the Bond Fund established pursuant to the Indenture.

In prior years, the following refunded debts were defeased and the related liabilities were removed from the financial statements. At June 30, 2018, principal amounts payable from escrow funds established for defeased debts are as follows:

Defeased Debt Outstanding	Amount	Redemption Date
<b>2015 Escrow September 22, 2015:</b>		
Water Revenue Bonds, Series 2010A	\$ 52,375,000	11/1/2019
<b>2016 Escrow June 23, 2016:</b>		
Water Revenue Bonds, Series 2010A	20,425,000	11/1/2019
<b>Total defeased debt outstanding</b>	<b>\$ 72,800,000</b>	



## 11. Long-Term Liabilities (continued)

### (e) Long-Term Pledged Liabilities

Long-term pledged liabilities for the fiscal year ended June 30, 2018 are comprised of the following:

Type of Pledged Revenue	Fiscal Year Maturity Date	Pledged Revenue to Maturity	Debt Principal and Interest Paid	Pledged Revenue Recognized
<b>Pledged Net Water Revenue:</b>				
Water Revenue COP, Series 1998A	2028	\$ 17,235,375	\$ 555,038	\$ 555,038
Water Revenue Refunding COP, Series 2005A	2022	16,344,938	16,185,725	16,185,725
Water Revenue COP, Series 2008A	2020	18,438,250	19,043,000	19,043,000
Water Revenue Bonds, Series 2010A (Non-AMT Tax-Exempt)	2020	9,764,100	4,878,100	4,878,100
Water Revenue Bonds, Series 2010B (Taxable Build America Bonds)	2049	1,261,429,344	32,294,166	32,294,166
Water Revenue Refunding Bonds, Series 2011A	2027	119,624,300	13,289,150	13,289,150
Water Revenue Refunding Bonds, Series 2011B	2031	134,860,250	4,707,000	4,707,000
Water Furnishing Revenue Bonds, Series 2012 (Pipeline Bonds)	2046	407,279,250	10,156,037	10,156,037
Water Revenue Refunding Bonds, Series 2013A	2034	439,526,450	13,981,519	13,981,519
Water Revenue Refunding Bonds, Series 2015A	2029	244,128,750	8,909,750	8,909,750
Subordinate Lien Water Revenue Refunding Bonds, Series 2016S-1	2021	99,937,750	4,084,250	4,084,250
Water Revenue Refunding Bonds, Series 2016A	2033	166,566,750	4,947,250	4,947,250
Water Revenue Refunding Bonds, Series 2016B	2038	367,450,500	9,869,750	9,869,750
<b>Total Pledged Net Water Revenue</b>		<b>\$ 3,302,586,007</b>	<b>\$ 142,900,735</b>	<b>\$ 142,900,735</b>

### (f) Contributions Payable

Contributions Payable concern the Water Authority's payment obligation to the QSA JPA for environmental mitigation pursuant to the QSA JPA Creation and Funding Agreement. The outstanding balance of the payment obligation at June 30, 2018 was \$18,945,188. The total contributions payable, including principal and interest payments, are as follows:

Fiscal Year	Contributions Payable		
	Principal	Interest	Total
2019	\$ 7,579,399	\$ 1,085,268	\$ 8,664,667
2020	2,179,549	630,504	2,810,053
2021	1,374,649	526,187	1,900,836
2022	3,332,937	468,695	3,801,632
2023	1,248,878	268,719	1,517,597
2024-2026	3,229,776	385,193	3,614,969
<b>Total</b>	<b>\$ 18,945,188</b>	<b>\$ 3,364,566</b>	<b>\$ 22,309,754</b>

## 11. Long-Term Liabilities (continued)

### (g) Rate Covenants

Under the Water Authority Act, the Board sets water rates and charges that are sufficient to meet its operation expenses and payment obligations. The Board has established that, exclusive of the tax revenue and debt servicing costs associated with voter-approved general obligation bonds and other voter-approved debt, net water revenues will equal or exceed 120 percent of senior lien debt service costs (principal and interest). The Water Authority was in compliance with its rate obligations for Fiscal Year 2018.

## 12. Defined Benefit Pension Plan

### California Public Employees' Retirement System

#### *Plan Description*

All qualified full-time Water Authority employees are required to participate in the Water Authority's Miscellaneous Plan with CalPERS, an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. A menu of benefit provisions as well as other requirements is established by state statutes within the Public Employees' Retirement Law. The Water Authority selects optional benefit provisions from the benefit menu by contract with CalPERS and adopts those benefits through Board approval. Benefit provisions and all other requirements are established by state statute, Water Authority resolution, and contracts with employee bargaining groups.

Effective January 1, 2013, Water Authority new hires who meet the definition of "new employee" and "new member" accrue and receive defined benefit pension plan benefits in accordance with the California Public Employees' Pension Reform Act (PEPRA) of 2013.

Financial statements for the Water Authority's plan are not separately issued. Requests for detailed plan provisions and copies of CalPERS' annual financial report can be obtained from CalPERS Fiscal Services Division, P.O. Box 942703, Sacramento, CA, 94229-2703 or <http://www.calpers.ca.gov>.

#### *Benefits Provided*

CalPERS provides service retirement and disability benefits, annual cost-of-living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 or 52, depending on hire date, with statutorily reduced benefits. All members are eligible for non-duty disability benefits after ten years of service. The death benefit is the Optional Settlement 2W Death Benefit. The cost of living adjustments is applied as specified by the Public Employees' Retirement Law.

## 12. Defined Benefit Pension Plan (continued)

### California Public Employees' Retirement System (continued)

The Plans' provisions and benefits in effect at June 30, 2018, are summarized as follows:

Hire Date	Miscellaneous Plan	
	Prior to January 1, 2013 "Classic Members"	On or after January 1, 2013 "PEPRA Members"
Benefit formula	2.5% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of eligible compensation <sup>(1)</sup>	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	8.00%	6.00%
Required employer contribution rates <sup>(2)</sup>	25.51%	25.51%

Notes:

<sup>(1)</sup> Benefit amounts varies depending on retirement age. Classic members retiring between ages 50-55 receive a benefit of 2% and 2.5% at age 55 or later. PEPRA members retiring between ages 52-62 receive a benefit of 1%, 2% between ages 62-67 and 2.5% thereafter.

<sup>(2)</sup> Employer contribution includes the normal cost percentage plus unfunded actuarially liability percentage.

### Employees Covered

As of the June 30, 2016 actuarial valuation, the following current and former employees were covered by the benefit terms under the Miscellaneous Plan:

Miscellaneous Plan	
Active employees	238
Inactive employees or beneficiaries currently receiving benefits	225
Inactive employees entitled to, but not yet receiving benefits	144
<b>Total</b>	<b>607</b>

### Contributions

Water Authority employees hired prior to January 1, 2013, and any employees hired on or after this date who are not considered "New Members" within the meaning of the Public Employees' Pension Reform Act of 2013 (PEPRA) are Tier 1 members or "Classic Members". Tier II members are employees hired on or after January 1, 2013 and are considered "New Members" as defined by PEPRA. Current Classic Members are required to contribute eight percent of their annual covered salary to fund the Plan. The Water Authority currently pays seven percent of the employees' required member contribution. Employees pay the remaining one percent of the required member contribution. As a cost sharing method, pursuant to Government Code Section 20516 of the California Public Employees' Retirement Law, Classic Members pay seven percent of the Water Authority's required employer contributions.

## 12. Defined Benefit Pension Plan (continued)

### California Public Employees' Retirement System (continued)

#### *Contributions (continued)*

Due to cost sharing, for "classic" employees, effective July 1, 2013, the Technical/Support, Professional/Administrative, Managerial/Supervisory, and Confidential classified employees increased the amount they pay toward CalPERS by 1.25 percent for a total contribution of seven percent, increasing to eight percent by July 2014. Executive and Senior Management employees increased the amount they pay toward CalPERS by 1.75 percent for a total contribution of eight percent as of July 1, 2013.

The terms of PEPRA mandate that a "New Member" contribution rate be the greater of 50 percent of the total normal cost rate for their defined benefit plan or the current contribution rate of similarly situated employees. The current employee contribution rate of new members and similarly situated employees at the Water Authority is six percent.

The Water Authority is required to contribute the remaining amounts, as determined by calculating the required employer contribution rate multiplied by the covered salary, necessary to fund the benefits for its members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants, and adopted by the CalPERS Board of Administration.

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Water Authority is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions.

## 12. Defined Benefit Pension Plan (continued)

### California Public Employees' Retirement System (continued)

#### *Actuarial Methods and Assumptions Used to Determine Total Pension Liability*

The June 30, 2016 valuation was rolled forward to determine the June 30, 2017 total pension liability, based on the following actuarial methods and assumptions:

<b>Actuarial Cost Method:</b>	Entry Age Normal
<b>Actuarial Assumptions:</b>	
Discount Rate	7.15%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.15% net of pension plan investment expenses; includes inflation
Mortality Rate Table <sup>(1)</sup>	Derived using CalPERS' Membership Data for all funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

Note:

<sup>(1)</sup> The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the [2014 Experience Study Report](#).

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study Report may be accessed on the CalPERS website <http://www.calpers.ca.gov> under Forms and Publications.

#### *Change of Assumptions*

In 2017, the Accounting Discount Rate reduced from 7.65 percent to 7.15 percent.

#### *Subsequent Event*

The CalPERS Board of Administration has adopted a new amortization policy effective with the June 30, 2019 actuarial valuation. The new policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with payments computed using a level dollar amount. In addition, the new policy removes the 5-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non-investment gains/losses. The new policy removes the 5-year ramp-down on investment gains/losses. These changes will apply only to new UAL bases established on or after June 30, 2019.

## 12. Defined Benefit Pension Plan (continued)

### California Public Employees' Retirement System (continued)

#### Discount Rate

The discount rate used to measure the total pension liability is 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate, and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees' Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11- 60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The following table reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2014.

Asset Class	Current Target Allocation	Real Return Years 1 - 10 <sup>(1)</sup>	Real Return Years 11 + <sup>(2)</sup>
Global Equity	47.0%	4.90%	5.38%
Global Fixed Income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.36%
Liquidity	2.0%	-0.40%	-0.90%
<b>Total</b>	<b>100%</b>		

Notes:

(1) An expected inflation of 2.5% used for this period.

(2) An expected inflation of 3.0% used for this period.



## 12. Defined Benefit Pension Plan (continued)

### California Public Employees' Retirement System (continued)

#### Net Pension Liability

The Water Authority's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures.

#### Changes in the Net Pension Liability

The changes in the net pension liability for the Plan are as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c) = (a) - (b)
<b>Balance at June 30, 2017</b> <i>(Valuation Date June 30, 2016)</i>	<b>\$ 221,189,315</b>	<b>\$ 150,054,288</b>	<b>\$ 71,135,027</b>
<b>Changes recognized for the measurement period:</b>			
Service cost	5,050,914	-	5,050,914
Interest on total pension liability	16,572,166	-	16,572,166
Changes of assumptions	14,456,305	-	14,456,305
Differences between expected and actual experience	(1,924,464)	-	(1,924,464)
Contributions - employer	-	16,165,772	(16,165,772)
Contributions - employees	-	2,040,297	(2,040,297)
Net investment income	-	17,199,107	(17,199,107)
Benefit payments, including refunds of employee contributions	(8,936,136)	(8,936,136)	-
Administrative expense	-	(221,545)	221,545
<b>Net Changes</b>	<b>25,218,785</b>	<b>26,247,495</b>	<b>(1,028,710)</b>
<b>Balance at June 30, 2018</b> <i>(Measurement Date June 30, 2017)</i>	<b>\$ 246,408,100</b>	<b>\$ 176,301,783</b>	<b>\$ 70,106,317</b>

#### Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Water Authority if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ending June 30, 2017:

	1% Decrease	Current Discount Rate	1% Increase
	6.15%	7.15%	8.15%
<b>Net Pension Liability</b>	<b>\$105,464,426</b>	<b>\$70,106,317</b>	<b>\$41,008,222</b>

## 12. Defined Benefit Pension Plan (continued)

### California Public Employees' Retirement System (continued)

#### *Pension Plan Fiduciary Net Position*

Detailed information about the plan's fiduciary net position is available in the separately issued CalPERS GASB 68 Accounting Valuation report for the Water Authority.

#### *Amortization of Deferred Outflows and Deferred Inflows of Resources*

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on pension plan investments	5-year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lifetime (EARSLS) of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period

#### *Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions*

For the fiscal year ended June 30, 2018, the Water Authority recognized pension expense of \$10,931,754. As of fiscal year ended June 30, 2018, the Water Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 4,240,681	\$ -
Changes of assumptions	10,440,665	(813,617)
Differences between expected and actual experiences	242,345	(1,714,743)
Net difference between projected and actual earnings on pension plan investments	2,050,062	-
<b>Total</b>	<b>\$ 16,973,753</b>	<b>\$ (2,528,360)</b>

## 12. Defined Benefit Pension Plan (continued)

### California Public Employees' Retirement System (continued)

#### *Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (continued)*

The \$4,240,681 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net pension liability during the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense/(income) as follows:

Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2019	\$ 2,457,328
2020	6,005,711
2021	2,972,437
2022	(1,230,764)
Thereafter	-

The CalPERS Board of Administration has adopted a new amortization policy effective with the June 30, 2019 actuarial valuation. The new policy shortens the period over which actuarial gains and losses are amortized from 30 years to 20 years with the payments computed using a level dollar amount. In addition, the new policy removes the 5-year ramp-up and ramp-down on UAL bases attributable to assumption changes and non-investment gain/losses. The new policy removes the 5-year ramp-down on investment gains/losses. These changes will apply only to new UAL bases established on or after June 30, 2019.

For inactive employers the new amortization policy imposes a maximum amortization period of 15 years for all unfunded accrued liabilities effective June 30, 2017. Furthermore, the plan actuary has the ability to shorten the amortization period on any valuation date based on the life expectancy of plan members and projected cash flow needs to the plan. The impact of this has been reflected in the current valuation results.

## 13. Other Post-Employment Benefits (OPEB)

### (a) Terminal Pay Plan

#### *Plan Description*

The Water Authority established a Terminal Pay Plan (TPP), effective December 10, 2007, which is administered by the Water Authority's Controller, who serves as the administrator and trustee. The TPP was established and is governed under the Internal Revenue Code Section 414(d), which provides benefits to participants. The benefit is the accumulated balance of the retiring employee's (or a separated employee due to death) earned but unpaid vacation and sick leave on the date of retirement. Each employee of the Water Authority who is entitled to vacation-leave pay or sick-leave pay (under the applicable rules, regulations, and policies) is required to participate in the TPP if the participant retires, or separates employment due to death, from the Water Authority after reaching the age of 55 and completing five years of service.

GASB states the definition of pensions does not include postemployment healthcare benefits and termination benefits. As such, the TPP liability is related to earned, but unpaid sick and vacation benefits, and is recorded in the financial statements as compensated absences.

Employees may elect benefits be disbursed from the TPP in a lump sum or in monthly installments over a 60-month period (with no interest). As an alternative, an employee has the right to elect that all or a portion of benefits be immediately rolled over or transferred to an individual retirement account (IRA), a tax-sheltered annuity, another tax-qualified retirement plan, or an eligible deferred compensation plan such as a Section 457 deferred compensation plan. A separate financial report is not prepared for the TPP.

### 13. Other Post-Employment Benefits (OPEB) (continued)

#### *Benefits Provided*

Contributions equal to the accumulated balance in the employee's earned but unpaid vacation and sick leave accounts are made by the Water Authority to the TPP for eligible employees who retire, or separate due to death, from the Water Authority after reaching the age of 55 and completing five years of service, and are made as soon as administratively practicable after termination of employment. Amounts held on behalf of participants are fully vested and held in trust at all times. TPP benefits for a participant who retires, or separates due to death, from Water Authority service are fully vested once they are accrued and the value of TPP benefits is the amount of an employee's earned but unpaid vacation and sick leave on the date of retirement. No additional employee contributions are permitted. Benefits earned are accrued as compensated absences.

#### *Distribution*

If the value of benefits is over \$5,000, a distribution will only be made if the employee consents before April 1<sup>st</sup> following the calendar year in which they reach age 70½. If the value of an employee's vested benefit is \$5,000 or less on the date of retirement, or separation due to death, benefits will be distributed in a single lump sum.

#### *Changes or Termination of Plan*

The Water Authority reserves the right to amend the TPP at any time and for any reason. In the event the TPP is terminated, no additional contributions will be made, but the persons affected will continue to be entitled to the entire benefits under the TPP. Benefits under the TPP are not insured by the Pension Benefit Guaranty Corporation or any other government agency.

#### **(b) Retiree Health Benefit**

##### *Plan Description*

The Water Authority has established a Retiree Healthcare Plan (HC Plan), an agent multiple-employer defined benefit retiree healthcare plan. The HC Plan, administered by the Water Authority, provides employees who retire directly from the Water Authority, at a minimum age of 55, with a minimum of five years of service, a cash subsidy for monthly medical insurance premiums up to a cap of \$200 per employee or \$320 for employee plus spouse. Payments cease at age 65 when the retiree or spouse is eligible for Medicare. If applicable, a cash subsidy for the monthly medical premium continues up to a cap of \$160 for a spouse until age 65 is attained. Surviving spouses are also eligible for this benefit.

Employees who retire directly from the Water Authority at a minimum age of 55 with a minimum of five years of CalPERS service are eligible to continue medical coverage as a participant with active employees at a blended premium rate until eligible for Medicare at age 65 as an implied subsidy. A separate financial report is not prepared for the HC Plan.

##### *Employees Covered*

As of the June 30, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms under the HC Plan:

<b>HC Plan</b>	
Active employees	235
Inactive employees or beneficiaries currently receiving benefits	57
Inactive employees entitled to, but not yet receiving benefits	-
<b>Total</b>	<b>292</b>

## 13. Other Post-Employment Benefits (OPEB) (continued)

### (b) Retiree Health Benefit (continued)

#### *Contributions*

The HC Plan and its contribution requirements are established by a Memoranda of Understanding with the applicable employee bargaining units and may be amended by agreements between the Water Authority and the bargaining units. The annual contribution is based on projected pay-as-you-go financing requirements. For the fiscal year ended June 30, 2018, the Water Authority's cash contributions were \$177,727 in current premiums and the estimated implied subsidy was \$188,864 resulting in total payments of \$366,591. In Fiscal Year 2015, the Water Authority made a contribution of \$4,300,000 to fund California Employers' Retiree Benefit Trust (CERBT), an OPEB trust administrator and affiliate program of CalPERS, for the purpose of prefunding obligations for past services.

#### *Actuarial Methods and Assumptions Used to Determine Total OPEB Liability*

The June 30, 2017 valuation was used to determine the June 30, 2017 total OPEB liability, based on the following actuarial methods and assumptions:

<b>Actuarial Cost Method:</b>	Entry Age Normal
<b>Actuarial Assumptions:</b>	
Discount Rate	7.00%
Inflation	2.75%
Salary Increases	3.00% per annum, in aggregate
Investment Rate of Return	7.00%, assuming actuarially determined contributions funded into CERBT Investment Strategy 1
Mortality Rate <sup>(1)</sup>	Derived using CalPERS' Membership Data for all funds
Pre-Retirement Turnover <sup>(2)</sup>	Derived using CalPERS' Membership Data for all funds
Healthcare Trend Rate	6.00% HMO/6.50% PPO decreasing to 4.50% HMO/4.50% PPO

Note:

<sup>(1)</sup> Pre-retirement mortality information was derived from data collected during 1997 to 2011 CalPERS Experience Study dated January 2014 and post-retirement mortality information was derived from the 2007 to 2011 CalPERS Experience Study. The Experience Study Reports may be accessed on the CalPERS website [www.calpers.ca.gov](http://www.calpers.ca.gov) under Forms and Publications.

<sup>(2)</sup> The pre-retirement turnover information was developed based on CalPERS' specific data. For more details, please refer to the 2007 to 2011 Experience Study Report. The Experience Study Report may be accessed on the CalPERS website [www.calpers.ca.gov](http://www.calpers.ca.gov) under Forms and Publications.

### 13. Other Post-Employment Benefits (OPEB) (continued)

#### (b) Retiree Health Benefit (continued)

##### *Discount Rate*

The discount rate used to measure the total OPEB liability was 7.00 percent. The projection of cash flows used to determine the discount rate assumed that Water Authority contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	STRATEGY 1 *	
	Target Allocation	Long-term expected real rate of return
Global Equities	57.0%	5.50%
US Fixed Income	27.0%	2.35%
REITs	8.0%	3.65%
Inflation Assets	5.0%	1.50%
Commodities	3.0%	1.75%
<b>Total</b>	<b>100%</b>	

\* Long-term expected rate of return is 7.00%.

##### *Net OPEB Liability*

The Water Authority's net OPEB liability for the HC Plan is measured as the total pension liability, less the OPEB plan's fiduciary net position. The net OPEB liability of the HC Plan is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016.



### 13. Other Post-Employment Benefits (OPEB) (continued)

#### (b) Retiree Health Benefit (continued)

##### *Changes in the OPEB Liability*

The changes in the net OPEB liability for the HC Plan are as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability/(Asset) (c) = (a) - (b)
<b>Balance at June 30, 2017</b> <i>(Valuation Date June 30, 2017)</i>	<b>\$ 4,579,269</b>	<b>\$ 4,409,128</b>	<b>\$ 170,141</b>
<b>Changes recognized for the measurement period:</b>			
Service cost	200,118	-	200,118
Interest	321,724	-	321,724
Changes of benefit terms	-	-	-
Changes of assumptions	(488,219)	-	(488,219)
Differences between expected and actual experience	(209,656)	-	(209,656)
Contributions - employer	-	324,982	(324,982)
Net investment income	-	467,344	(467,344)
Benefit payments	(324,982)	(324,982)	-
Administrative expense	-	(2,366)	2,366
<b>Net Changes</b>	<b>(501,015)</b>	<b>464,978</b>	<b>(965,993)</b>
<b>Balance at June 30, 2018</b> <i>(Measurement Date June 30, 2017)</i>	<b>\$ 4,078,254</b>	<b>\$ 4,874,106</b>	<b>\$ (795,852)</b>

##### *Sensitivity of the Net OPEB Liability to Changes in the Discount Rate*

The following presents the net OPEB liability of the Water Authority if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ending June 30, 2017:

	1% Decrease	Current Discount Rate	1% Increase
	6.00%	7.00%	8.00%
<b>Net OPEB Liability/(Asset)</b>	<b>(\$544,965)</b>	<b>(\$795,852)</b>	<b>(\$1,026,447)</b>

### 13. Other Post-Employment Benefits (OPEB) (continued)

#### (b) Retiree Health Benefit (continued)

##### *Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates*

The following presents the net OPEB liability of the Water Authority if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ending June 30, 2017:

	1% Decrease (5.00%HMO/5.50%PPO decreasing to 3.50%HMO/3.50%PPO)	Current Healthcare Cost Trend Rates (6.00%HMO/6.50%PPO decreasing to 4.50%HMO/4.50%PPO)	1% Increase (7.00%HMO/7.50%PPO decreasing to 5.50%HMO/5.50%PPO)
<b>Net OPEB Liability/(Asset)</b>	<b>(\$995,265)</b>	<b>(\$795,852)</b>	<b>(\$569,109)</b>

##### *OPEB Plan Fiduciary Net Position*

The HC Plan assets are held by CERBT where they are audited annually and a copy of the financial statements may be obtained by contacting CalPERS's CERBT program at [www.calpers.ca.gov](http://www.calpers.ca.gov). Additional, information about the HC Plan's is available in the separately issued Nyhart Actuary and Employee Benefits GASB 75 Actuarial Valuation report for the Water Authority.

##### *Amortization of Deferred Outflows and Deferred Inflows of Resources*

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time.

The first amortized amounts are recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense.

The amortization period differs depending on the source of the gain or loss:

Net difference between projected and actual earnings on OPEB plan investments	5-year straight-line amortization
All other amounts	Straight-line amortization over the expected average remaining service lifetime (EARSLS) of all members that are provided with benefits (active and retired) as of the beginning of the measurement period

### 13. Other Post-Employment Benefits (OPEB) (continued)

#### (b) Retiree Health Benefit (continued)

##### *OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB*

For the fiscal year ended June 30, 2018, the Water Authority recognized OPEB expense of \$134,779. As of fiscal year ended June 30, 2018, the Water Authority reported deferred outflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 366,591	\$ -
Changes of assumptions	54,191	(406,849)
Differences between expected and actual experiences	-	(174,713)
Net difference between projected and actual earnings on OPEB plan investments	30,231	-
<b>Total</b>	<b>\$ 451,013</b>	<b>\$ (581,562)</b>

The \$366,591 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources related to OPEB will be recognized as OPEB expense as follows:

Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2019	\$ (82,193)
2020	(82,193)
2021	(82,195)
2022	(134,249)
2023	(116,310)
Thereafter	-

## 14. Deferred Compensation Plans and Defined Contribution Plans

The Water Authority Board of Directors has adopted deferred compensation plans and defined contribution plans (the Plans) in accordance with Sections 457(f) and 401(a), respectively, of the Internal Revenue Code. The Water Authority Board of Directors has discretion to amend the Plans. These plans permit all eligible employees to defer, either pre-tax or post-tax, a portion of their salary until future years. The plan administrators for the Water Authority at June 30, 2018 were CREF and ICMA.

Participation in the 457(f) plan is not required and employee contributions may be modified from time to time at the employee's direction. Employees eligible for the 401(a) plan must contribute an irrevocable mandatory minimum of three percent up to a maximum of 20 percent of salary to the plan. The Water Authority makes an annual contribution to the 401(a) plan on behalf of Senior and Executive Managers as specified in the compensation plans. Contributions to the Plans and interest earnings are 100 percent vested immediately. Benefits depend solely on the amounts contributed to the Plans plus investment earnings.

Plan contributions and earnings are not available to employees until termination, retirement, death, disability, or an unforeseeable emergency. All assets and income of the Plans are held in trust for the exclusive benefit of plan participants and their beneficiaries. The Plans are not considered part of the Water Authority's financial reporting entity. Employee contributions to the 457(f) plan were \$1,512,198 for Fiscal Year 2018. Employee contributions to the 401(a) plan were \$451,774 for Fiscal Year 2018. Employer 401(a) matching contributions were \$49,692 for Fiscal Year 2018.

## 15. Insurance

The Water Authority is exposed to various risks of loss related to torts, including theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Water Authority obtains coverage for general liability, errors and omissions, employment practices liability, and crime coverage from the Joint Powers Risk and Insurance Management Authority (JPRIMA) underwritten by Allied World Assurance Company and coverage for auto, property, boiler and machinery from Travelers Property Casualty Company of America (Travelers). Liability coverage is \$46 million per occurrence with a \$75,000 deductible per occurrence. Property coverage is provided with a \$500 million per occurrence and aggregate coverage limit and a sub-limit of \$100 million per occurrence for boiler and machinery coverage. Property and boiler and machinery coverage have a \$25,000 deductible per occurrence. The current property policy limit of \$500 million exceeds the current \$300 million valuation of scheduled property. The Water Authority is a participant in Joint Powers Risk and Insurance Management Authority (JPRIMA) pooled insurance program and obtains workers' compensation coverage through the program underwritten by The Zenith Insurance Company. Workers' compensation coverage is per California statutory limits with \$1 million per occurrence for employer's liability coverage. There is no deductible per occurrence.

The amount of claims settlements did not exceed insurance coverage for the past three fiscal years for all coverage types, individually and collectively.

## 16. Jointly Governed Organization

The Water Authority's payment of specific environmental mitigation costs are being made to the QSA JPA, which reviews and approves actual expenses for required mitigation and environmental costs. The QSA JPA is administered by the Water Authority and is made up of the Water Authority, IID, CVWD, and the State of California's Department of Fish and Game. The QSA JPA board is comprised of one member from each participating entity. See Note 11(f) for the Water Authority's remaining required payments to the QSA JPA.

## 17. Commitments and Contingencies

### (a) Construction Projects

There are no material commitments under construction contracts as of June 30, 2018.

### (b) Water Purchase Agreement

On December 20, 2012, the Water Authority entered into a 30-year Water Purchase Agreement with Poseidon Resources (Channelside) LP (Company) to purchase potable water from the Claude "Bud" Lewis Carlsbad Desalination Plant (Plant) upon commencement of commercial operations, which was achieved December 23, 2015. The Plant is a 54 million gallons per day (mgd) reverse osmosis desalination plant with an approximate ten-mile pipeline (Pipeline) that connects the Plant to the Water Authority's existing distribution system.

The project was developed as a "public-private partnership" between the Water Authority and the Company. The Company owns, operates and maintains the Plant whereas the Water Authority owns, operates and maintains the Pipeline. Pursuant to the Water Purchase Agreement (WPA), the Company sells the potable water produced by the Plant (Product Water) to the Water Authority and the Water Authority is the sole purchaser of the Product Water.

The Water Authority has an annual obligation to purchase or pay (a take-or-pay contract) for 48,000 acre-feet, the minimum annual demand commitment by the Water Authority, of Product Water that meets the requirements of the WPA and may request up to 56,000 acre-feet each year, the maximum annual supply commitment, of Product Water produced by the Company. Prior to each contract year, the Water Authority and the Company schedule the monthly delivery of the Product Water such that the annual total will be between 48,000 acre-feet and 56,000 acre-feet, unless otherwise adjusted in accordance with the terms of the WPA. The monthly payments are based on actual units of Product Water delivered or deliverable according to the delivery schedule. The Water Authority pays a per-acre-foot charge for delivered or deliverable water calculated to be sufficient to pay debt service on the Series 2012 Plant Bonds, an equity return, and variable and fixed Project operating costs. The Water Authority is responsible for paying debt service costs on the Series 2012 Water Furnishing Revenue Pipeline Bonds. The Company is obligated to make shortfall payments to the Water Authority for the failure to deliver Product Water as required under the WPA (Operating Period Shortfall Payments). To secure its performance obligations under the WPA, the Company was required to post a \$5.125 million letter of credit.

The Water Authority has an option to purchase the Plant at any time following the tenth anniversary of the December 23, 2015 Commercial Operation Date for a price sufficient to redeem or defease the Series 2012 Plant Bonds and any additional plant senior debt incurred for the construction and modification of the Plant that constitutes permitted approved debt under the WPA plus a return on equity. The Water Authority will also have an option to purchase the Plant for the same price if financing is unavailable to pay for modifying or reinstating the Plant under those circumstances. The Water Authority may also purchase the Plant for the aggregate outstanding principal and accrued interest on the Series 2012 Plant Bonds and any additional plant senior debt under the Plant Loan Agreement (described in the Project Financing section) incurred for the construction and modification of the Plant and that constitutes permitted approved debt under the WPA upon a termination of the WPA for the Company's default.

## 17. Commitments and Contingencies (continued)

### (c) Litigation

The Water Authority is subject to lawsuits and claims, which arise out of the normal course of business. In the opinion of management, based upon the opinion of legal counsel, the disposition of such actions of which it is aware will not have a material effect on the change in financial position, or liquidity of the Water Authority. For further information, contact the General Counsel's office, 4677 Overland Ave., San Diego, CA 92123, (858) 522-6790. However, here are the more significant current cases:

#### (1) MWD Litigation

The MWD rate cases are described in detail in the MWD Litigation section found in the Letter of Transmittal (see page 9).

#### (2) San Luis Rey Parties Arbitration

The Water Authority is in arbitration with the San Luis Rey Indian Water Authority, the City of Escondido, and the Vista Irrigation District regarding a contractual water delivery start date. The Water Authority asserts about \$2 million in damages, and that is disputed by the other parties. No claims are made against the Water Authority. The matter is being arbitrated by the American Arbitration Association and should be decided in 2018 or early 2019.

#### (3) Kimball Litigation

The Kimball litigation is a real property dispute filed in August 2018, over San Diego County APN numbers 327-110-07, 329-010-04, and 329-023-01. The Kimballs sued the Water Authority to try and reform recorded title documents to allow for a conservation easement over about 160 acres that were purchased as a buffer zone for San Vicente Reservoir. Basically, the core issue in the case is what party will hold mitigation credit rights tied to the property of about \$1 to \$2 million: the Kimballs or the Water Authority. The Water Authority is contesting the action.

#### (4) DWR Validation Action

The Water Authority has answered a validation lawsuit brought in Sacramento Superior Court by the Department of Water Resources over its WaterFix bonds. The Water Authority's Answer seeks to clarify whether WaterFix cost allocations and MWD cost decisions are being attempted to be validated or not. No direct monetary relief is sought by either side.


## 18. Restatement of Net Position

Net Position as of June 30, 2017 was restated by \$14,232,046 to properly amortize intangible assets for Storage Rights that were recategorized from a Non-Depreciable category to a Depreciable category. The resulting adjustment was a decrease in Non-Depreciable Capital Assets, an increase in Depreciable Capital Assets, an increase in accumulated amortization, and a decrease in Net Position.

<b>Net Position as of June 30, 2017, as previously reported</b>	<b>\$ 1,570,548,148</b>
<b>Change in Estimate:</b>	
<b>Accumulated Amortization of Storage Rights</b>	<b>(14,232,046)</b>
<b>Net Position as of June 30, 2017, as restated</b>	<b>\$ 1,556,316,102</b>




# Supplemental Information



**BROUGHT  
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**\$34 BILLION LIFE SCIENCES INDUSTRY**

The Water Authority and its member agencies deliver the water that fuels our economy and way of life.

 Our Region's Trusted Water Leader  
San Diego County Water Authority





**A. Defined Benefit Pension Plan - California Public Employees' Retirement System**

<b>San Diego County Water Authority Miscellaneous Plan SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS for the Measurement Periods Ended June 30</b>				
<i>Measurement Period</i>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b>Total Pension Liability</b>				
Service cost	\$ 5,050,914	4,578,555	4,706,004	4,921,587
Interest on the total pension liability	16,572,166	15,841,721	14,880,474	14,066,260
Actual and expected experience difference	(1,924,464)	527,455	(1,543,047)	-
Changes in assumptions	14,456,305	-	(3,864,680)	-
Changes in benefit terms	-	-	-	-
Benefit payments:				
including refunds of employee contributions	(8,936,136)	(8,045,995)	(6,923,794)	(6,089,127)
<b>Net change in total pension liability</b>	<b>25,218,785</b>	<b>12,901,736</b>	<b>7,254,957</b>	<b>12,898,720</b>
<b>Total pension liability - beginning</b>	<b>221,189,315</b>	<b>208,287,579</b>	<b>201,032,622</b>	<b>188,133,902</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 246,408,100</b>	<b>221,189,315</b>	<b>208,287,579</b>	<b>201,032,622</b>
<b>Plan Fiduciary Net Position</b>				
Contribution - employer	16,165,772	6,198,142	5,766,812	5,273,604
Contribution - employee	2,040,297	2,017,385	2,079,502	2,680,225
Net investment income	17,199,107	829,361	3,400,388	21,444,232
Benefit payments:				
including refunds of employee contributions	(8,936,136)	(8,045,995)	(6,923,794)	(6,089,127)
Administrative expense	(221,545)	(90,897)	(167,895)	-
<b>Net change in plan fiduciary net position</b>	<b>26,247,495</b>	<b>907,996</b>	<b>4,155,013</b>	<b>23,308,934</b>
<b>Plan fiduciary net position - beginning</b>	<b>150,054,288</b>	<b>149,146,292</b>	<b>144,991,279</b>	<b>121,682,345</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 176,301,783</b>	<b>150,054,288</b>	<b>149,146,292</b>	<b>144,991,279</b>
<b>Net pension liability - ending (a)-(b)</b>	<b>\$ 70,106,317</b>	<b>71,135,027</b>	<b>59,141,287</b>	<b>56,041,343</b>
Plan fiduciary net position as a percentage of the total pension liability	71.55%	67.84%	71.61%	72.12%
Covered payroll	\$ 26,809,523	26,692,446	26,977,782	26,830,872
Net pension liability as a percentage of covered payroll	261.50%	266.50%	219.22%	208.87%

**Notes to Schedule:**

**Benefit changes.** The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2016 valuation date.

**Changes in assumptions.** In 2017, the accounting discount rate reduced from 7.65 percent to 7.15 percent. In 2016, there were no changes. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

Future years' information will be displayed up to 10 years as information becomes available.

**A. Defined Benefit Pension Plan - California Public Employees' Retirement System  
(continued)**

San Diego County Water Authority Miscellaneous Plan SCHEDULE OF CONTRIBUTIONS Last Ten Fiscal Years*						
Fiscal Year End		2018	2017	2016	2015	2014
Actuarially Determined Contribution (ADC)	\$	3,157,881	6,583,368	6,198,142	5,766,812	5,273,604
Contributions in relation to the ADC		(4,240,681)	(16,165,772)	(6,198,142)	(5,766,812)	(5,273,604)
Contribution (excess)	\$	<u>(1,082,800)</u>	<u>(9,582,404)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Covered payroll	\$	28,772,094	26,809,523	26,692,446	26,977,782	26,830,872
Contributions as a percentage of covered payroll		14.74%	60.30%	23.22%	21.38%	19.65%

**Notes to Schedule:**

\*Actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Years 2018, 2017, 2016, 2015 and 2014 were from the respective June 30, 2015, 2014, 2013, 2012 and 2011 funding valuation reports.

**Methods and assumptions used to determine contribution rates:**

**San Diego County Water Authority, an agent multiple-employer defined benefit plan**

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	Level percent of payroll over a closed 20-year period
Asset Valuation Method	Fiscal Years 2018 through 2015: Market value Fiscal Year 2014: 15-year smoothed market
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Payroll Growth	3.00%
Investment Rate of Return	Fiscal Year 2017: 7.15%; Prior Years: 7.65% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Retirement Age	The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.
Mortality	The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries.

Future years' information will be displayed up to 10 years as information becomes available.

## B. Other Post-Employment Benefits

San Diego County Water Authority			
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS			
for the Measurement Periods Ended June 30			
<i>Measurement Period</i>		<b>2017</b>	<b>2016</b>
<b>Total OPEB Liability</b>			
Service cost	\$	200,118	187,026
Interest on the total OPEB liability		321,724	314,699
Actual and expected experience difference		(209,656)	-
Changes in assumptions		(488,219)	81,287
Changes in benefit terms		-	-
Benefit payments		(324,982)	(279,009)
<b>Net change in total OPEB liability</b>		<b>(501,015)</b>	<b>304,003</b>
<b>Total OPEB liability - beginning</b>		<b>4,579,269</b>	<b>4,275,266</b>
<b>Total OPEB liability - ending (a)</b>	\$	<b>4,078,254</b>	<b>4,579,269</b>
<b>Plan Fiduciary Net Position</b>			
Contributions - employer		324,982	279,009
Net investment income		467,344	43,839
Benefit payments		(324,982)	(279,009)
Administrative expense		(2,366)	(2,081)
<b>Net change in plan fiduciary net position</b>		<b>464,978</b>	<b>41,758</b>
<b>Plan fiduciary net position - beginning</b>		<b>4,409,128</b>	<b>4,367,370</b>
<b>Plan fiduciary net position - ending (b)</b>	\$	<b>4,874,106</b>	<b>4,409,128</b>
<b>Net OPEB liability - ending (a)-(b)</b>	\$	<b>(795,852)</b>	<b>170,141</b>
Plan fiduciary net position as a percentage of the total OPEB liability		119.51%	96.28%
Covered-employee payroll	\$	26,726,484	24,720,000
Net pension liability as a percentage of covered-employee payroll		2.98%	0.69%

### Notes to Schedule:

**Changes in assumptions.** In 2016, the discount rate was changed from 7.28 percent (net of administrative expense) to 7.00 percent.

Historical information is required only for measurement periods for which GASB 75 is applicable.

Future years' information will be displayed up to 10 years as information becomes available.

## B. Other Post-Employment Benefits (continued)

San Diego County Water Authority SCHEDULE OF CONTRIBUTIONS Last Ten Fiscal Years*				
Fiscal Year End	2018	2017	2016	2015
Actuarially Determined Contribution (ADC)	\$ 366,591	324,982	180,363	627,077
Contributions in relation to the ADC	(366,591)	(324,982)	(279,009)	(4,300,000)
Contribution deficiency (excess)	\$ -	-	(98,646)	(3,672,923)
Covered-employee payroll	\$ 28,772,094	26,726,484	24,720,000	26,977,782
Contributions as a percentage of covered-employee payroll	1.27%	1.22%	1.13%	15.94%

### Notes to Schedule:

\*Actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2018 was from the June 30, 2017 actuarial valuation, Fiscal Years 2017 and 2016 were from the June 30, 2015 actuarial valuation and Fiscal Year 2015 was from the June 30, 2013 actuarial valuation.

### Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method/Period	Level percent of payroll over a closed rolling 15-year period
Asset Valuation Method	Market value
Inflation	2.75%
Payroll Growth	3% per annum, in aggregate
Investment Rate of Return	7.00% per annum. Assumes investing in California Employers' Retiree Benefit Trust asset allocation Strategy 1 with a margin for adverse deviation of 28 bps.
Healthcare Cost-Trend Rates	6.0% HMO and 6.5% PPO initial, 1.0% - 2.0% near-term increase then decreasing 0.5% per year to trend rate that reflects medical price inflation.
Retirement Age	Tier 1 employees - 2.5% @55 and Tier 2 employees - 2.0% @62 The probabilities of retirement are based on the 2014 CalPERS Experience Study for the period from 2007 to 2011.
Mortality	Pre-retirement mortality probability based on CalPERS 1997-2011 Experience Study covering CalPERS participants. Post-retirement mortality probability based on CalPERS Experience Study 2007-2011 covering participants in CalPERS.

Future years' information will be displayed up to 10 years as information becomes available.

## C. San Diego County Water Authority Budgetary Comparison Schedule

### For the Fiscal Year Ended June 30, 2018 – Budgetary Basis

	Final Budget	Actual Amounts <sup>(1)</sup>	Variance with Final Budget Positive (Negative)
<b>Net Water Sales Revenue</b>			
Water Sales	\$ 635,069,193	\$ 591,809,280	\$ (43,259,913)
Water Purchases & Treatment	(495,079,731)	(442,369,171)	52,710,560
<b>Total Net Water Sales Revenue</b>	<b>139,989,462</b>	<b>149,440,109</b>	<b>9,450,647</b>
<b>Revenues and Other Income</b>			
Infrastructure Access Charges	32,477,000	32,482,290	5,290
Property Taxes and In-Lieu Charges	12,555,000	13,753,714	1,198,714
Investment Income	5,175,000	5,739,312	564,312
Hydroelectric Revenue	3,535,000	3,477,680	(57,320)
Grant Reimbursements	15,470,000	10,996,655	(4,473,345)
Build America Bonds Subsidy	11,303,000	10,545,661	(757,339)
Other Income	489,000	9,988,352	9,499,352
Capital Contributions:			
Capacity Charges	16,629,000	28,153,768	11,524,768
Water Standby Availability Charges	11,114,000	11,102,611	(11,389)
Contributions in Aid of Capital Improvement Program (CIP)	1,570,000	16,000	(1,554,000)
<b>Total Revenues and Other Income</b>	<b>110,317,000</b>	<b>126,256,043</b>	<b>15,939,043</b>
<b>Total Revenues</b>	<b>250,306,462</b>	<b>275,696,152</b>	<b>25,389,690</b>
<b>Expenses</b>			
Debt Service	138,577,000	147,674,606	(9,097,606)
QSA Mitigation	10,164,814	10,164,814	-
Equipment Replacement	2,292,000	1,415,579	876,421
Grant Expenses	15,720,000	13,295,199	2,424,801
Other Expenses	500,000	1,101,286	(601,286)
Operating Departments/Programs (Note 4)	51,375,915	52,875,344	(1,499,429)
<b>Total Expenses</b>	<b>218,629,729</b>	<b>226,526,828</b>	<b>(7,897,099)</b>
<b>Net Revenues Before CIP Expenses</b>	<b>31,676,733</b>	<b>49,169,324</b>	<b>17,492,591</b>
<b>CIP Expenses</b>	<b>58,323,000</b>	<b>71,302,001</b>	<b>(12,979,001)</b>
<b>Change in Net Position - Budgetary Basis</b>	<b>(26,646,267)</b>	<b>(22,132,677)</b>	<b>4,513,590</b>
<b>Add Adjustments - Full Accrual (Note 5)</b>	<b>42,774,284</b>	<b>42,774,284</b>	<b>-</b>
<b>Change in Net Position - GAAP Basis</b>	<b>16,128,017</b>	<b>20,641,607</b>	<b>4,513,590</b>
<b>Net Position at Beginning of Year, as Restated</b>	<b>1,556,316,102</b>	<b>1,556,316,102</b>	<b>-</b>
<b>Net Position at End of Year</b>	<b>\$ 1,572,444,119</b>	<b>\$ 1,576,957,709</b>	<b>\$ 4,513,590</b>

Note:

(1) Actual amounts have been adjusted to more accurately compare it to the adopted multi-year budget which is prepared on modified accrual basis.



## 1. General Manager's Adopted Multi-Year Budget

In June 2017, the Board of Directors (Board) adopted a \$1.6 billion budget for the Fiscal Years 2018 and 2019. The Water Authority adheres to the budget policies and budgetary controls adopted by the Board for the Fiscal Years 2018 and 2019. The schedule on the previous page presents the final Adopted Multi-Year Budget amounts, as amended by the Board, and compares them to actual amounts as presented on a modified accrual basis, which are different from the amounts presented in the Statements of Revenues, Expenses, and Changes in Net Position for the Fiscal Year ended June 30, 2018.

## 2. Budgetary Controls

The Board, by resolution, has established budgetary controls and made a total appropriation for expenses consistent with the adopted budget. The total appropriation adopted by the Board establishes the legal spending limit for the Water Authority. The Board, by resolution, has delegated to the General Manager authority to make budget adjustments as necessary within a limit of \$150,000 subject to the total appropriation limit. Budget adjustments in excess of \$150,000 or increases in the total appropriation limit must be approved by the Board.

## 3. Budget Process

The Board adopts a multi-year operating and capital improvement program budget every other fiscal year. The Board approves total budgeted appropriations and any amendments to the appropriations throughout the two-year period. The General Manager views the budget as an essential tool for proper financial management and holds a series of budget hearings through the Administrative and Finance Committee. The budget process includes presentations of key assumptions in the budget development and provides mechanisms for questions and comments from the Board to the Water Authority staff. The Finance Department leads the effort in developing the budget and is responsible for monitoring and reporting to the Board.

## 4. Operating Departments/Programs

	Final Budget <sup>(1)</sup>	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>Operating Departments/Programs</b>			
Administrative Services	\$ 5,848,546	\$ 5,464,987	\$ 383,559
Colorado River Program	1,669,583	1,238,291	431,292
Engineering	3,835,187	3,260,478	574,709
Finance	2,437,485	2,370,247	67,238
General Counsel	3,480,151	2,987,580	492,571
General Manager and Board of Directors	4,519,574	4,178,171	341,403
MWD Program	2,238,155	1,994,055	244,100
Operations and Maintenance	19,642,916	17,989,983	1,652,933
Public Outreach and Conservation	3,937,715	3,354,394	583,321
Water Resources	3,766,603	3,386,471	380,132
Additional Pension Expense	-	6,650,687	(6,650,687)
<b>Total Operating Departments/Programs</b>	<b>\$ 51,375,915</b>	<b>\$ 52,875,344</b>	<b>\$ (1,499,429)</b>

Note:

(1) Included in the budget is the annual pension contribution, however, pension expenses can vary significantly once the CalPERS actuarial report is received. The effect of those additional pension expense amounts is shown as additional pension expense.

## 5. Reconciliation of Adjustments

	Actual Budgetary Basis	Adjustments <sup>(1)</sup>	Actual GAAP Basis
<b>Revenues and Other Income</b>			
Investment Income	\$ 5,739,312	\$ (1,396,851)	\$ 4,342,461
Hydroelectric Revenue	3,477,680	(3,477,680)	-
Grant Reimbursements	10,996,655	(10,996,655)	-
Build America Bonds Subsidy	10,545,661	(10,545,661)	-
Other Income <sup>(2)</sup>	9,988,352	24,115,428	34,103,780
<b>Total Revenues and Other Income</b>	<b>40,747,660</b>	<b>(2,301,419)</b>	<b>38,446,241</b>
<b>Expenses</b>			
Debt Service	147,674,606	(47,758,944)	99,915,662
QSA Mitigation	10,164,814	(10,164,814)	-
Equipment Replacement	1,415,579	(1,415,579)	-
Grant Expenses	13,295,199	(13,295,199)	-
Other Expenses	1,101,286	38,352,464	39,453,750
Operating Departments	52,875,344	(2,561,438)	50,313,906
Depreciation and Amortization	-	62,842,596	62,842,596
Bond Issuance Costs	-	227,212	227,212
<b>Total Expenses</b>	<b>226,526,828</b>	<b>26,226,298</b>	<b>252,753,126</b>
<b>Net Revenues Before CIP Expenses</b>	<b>(185,779,168)</b>	<b>(28,527,717)</b>	<b>(214,306,885)</b>
<b>CIP Expenses</b>	<b>71,302,001</b>	<b>(71,302,001)</b>	<b>-</b>
<b>Change in Net Position</b>	<b>\$ (257,081,169)</b>	<b>\$ 42,774,284</b>	<b>\$ (214,306,885)</b>

Notes:

<sup>(1)</sup> Only includes revenues and expenses with adjustments.

<sup>(2)</sup> Other Income includes operating revenues, other income, intergovernmental, and loss on sale/retirement of capital assets.

## 6. Monthly Financial Reporting

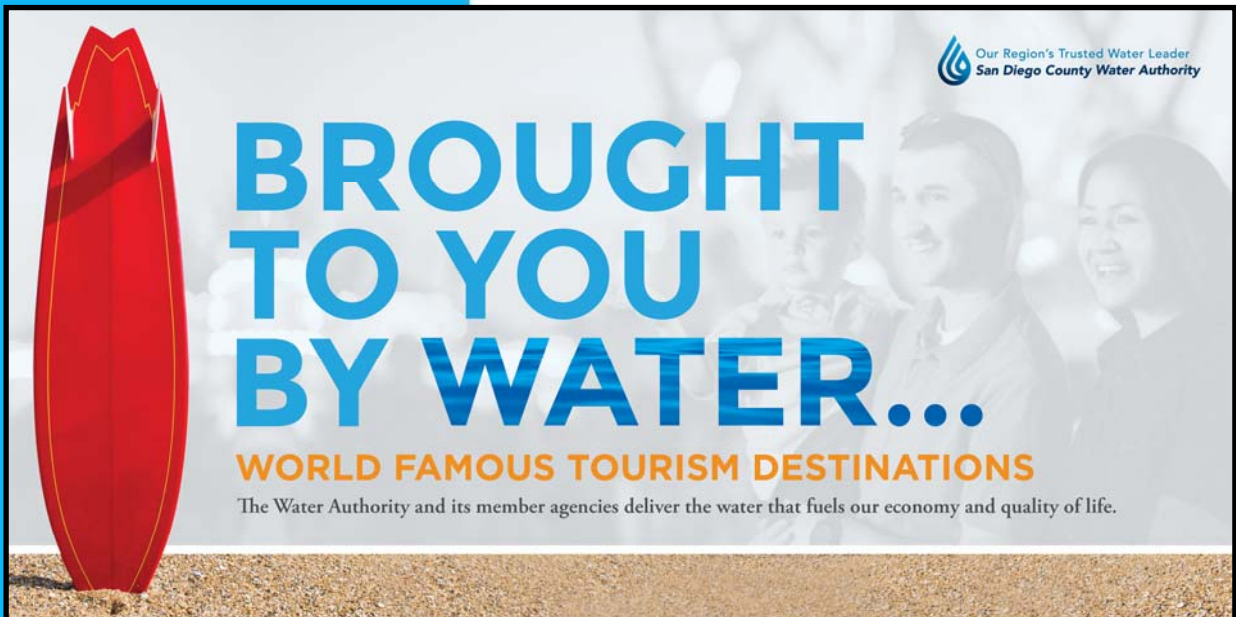
In accordance with best financial management practices, the Finance Department provides monthly financial reports to the Board that include the monitoring of Water Purchases and Water Sales in acre-feet and in dollars, and a narrative and variance analysis. In addition, a schedule prepared on a budgetary basis compares the final adopted budget, as amended by the Board, to actual expenses. These monthly financial reports are prepared to provide timely information on the financial progress of the Water Authority for the Board to consider in the decision-making process.

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## 7. Annual Financial Reporting

The Water Authority elects to present the budgetary schedule, optional for Enterprise Funds, in accordance with best practices recommended by professional accounting organizations and in keeping with the Water Authority's commitment to transparency in financial reporting and disclosure. The schedule prepared on a budgetary basis compares the final two-year adopted budget, as amended by the Board, to actual expenses for the two-year period as presented on the initial schedule in Other Supplementary Information. In addition, a reconciliation of the budgetary schedule and the audited financial statements are presented in Note 5 Reconciliation of Adjustments.

# Statistical Section





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## Statistical Section

This section of the San Diego County Water Authority's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Water Authority's overall financial health.

### **CONTENTS**

### **TABLES**

#### **Financial Trends**

**1-5**

These tables contain trend information to help the reader understand how the Water Authority's financial performance has changed over time.

#### **Revenue Capacity**

**6-10**

These tables contain information to help the reader assess the Water Authority's most significant revenue sources.

#### **Debt Capacity**

**11-13**

These tables present information to help the reader assess the ability of the Water Authority to pay debt service on outstanding debt.

#### **General Information**

**14-15**

These tables contain service and infrastructure data to help the reader understand how information in its financial report relates to Water Authority provided services and activities.

#### **Demographic and Economic Information**

**16-17**

These tables offer demographic and economic indicators to help the reader understand the environment in which the Water Authority's financial activities take place.

#### **Note:**

Unless otherwise noted, the information in these schedules is derived from the Water Authority's comprehensive annual financial reports of the relevant year.

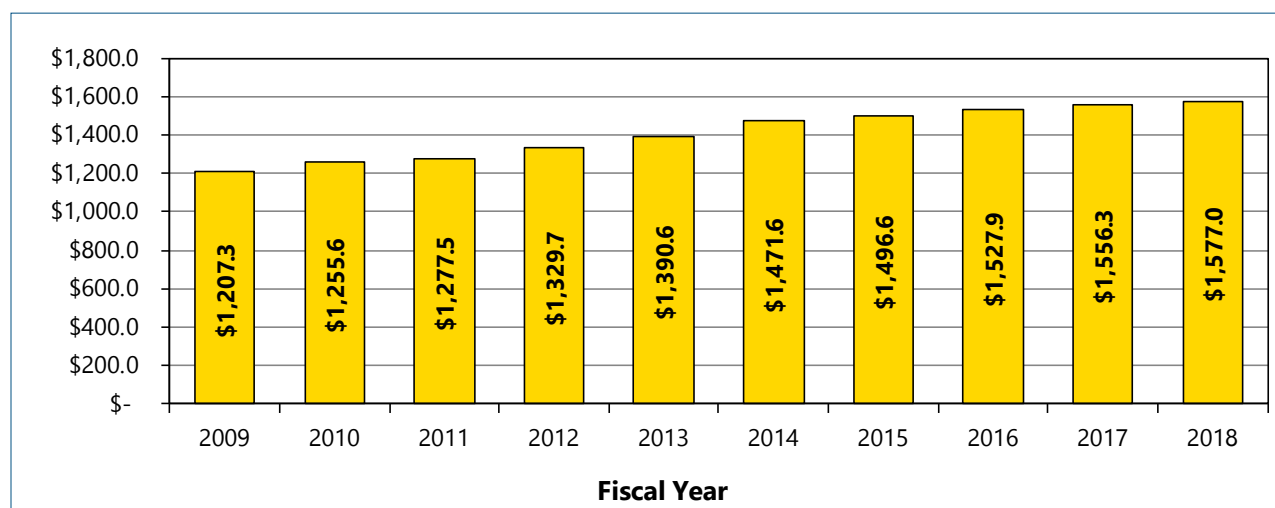


## Net Position Last Ten Fiscal Years

**Table 1**

Fiscal Year	Net Investment in Capital Assets	Restricted for Construction Projects	Restricted for Debt Service	Unrestricted	TOTAL NET POSITION	Changes in Net Position
2018	\$ 1,154,718,703	\$ 119,984,952	\$ 377,929	\$ 301,876,125	<b>\$ 1,576,957,709</b>	\$20,641,607
2017	1,123,928,892	147,352,064	235,337	284,799,809	<b>1,556,316,102</b>	<sup>(1)</sup> 30,302,015
2016	1,138,995,458	156,718,296	158,377	232,035,734	<b>1,527,907,865</b>	<sup>(1)</sup> 35,965,133
2015	1,102,128,289	143,366,311	113,537	250,964,563	<b>1,496,572,700</b>	<sup>(2)</sup> 86,143,313
2014	1,011,397,033	201,696,008	549,186	257,965,113	<b>1,471,607,340</b>	81,003,310
2013	980,446,318	151,728,963	540,932	257,887,817	<b>1,390,604,030</b>	60,895,729
2012	976,837,047	133,157,019	675,910	219,038,325	<b>1,329,708,301</b>	<sup>(3)</sup> 52,228,329
2011	959,638,557	121,172,255	586,217	196,082,943	<b>1,277,479,972</b>	<sup>(3)</sup> 39,160,773
2010	954,037,294	115,506,824	597,315	185,460,362	<b>1,255,601,795</b>	48,261,746
2009	964,225,706	79,790,128	614,622	162,709,593	<b>1,207,340,049</b>	<sup>(4)</sup> 76,296,511

### Total Net Position, in Millions (\$)



**Notes:**

- (1) Net position at June 30, 2017 and 2016 were restated to properly amortize intangible assets for Storage Rights. Beginning net position was restated by a decrease of \$1,893,778 pursuant to GASB Statement No. 75 implemented in Fiscal Year 2017.
- (2) Beginning net position was restated by a decrease of \$61,177,953 pursuant to GASB Statement Nos. 68 and 71 implemented in Fiscal Year 2015.
- (3) Net position at June 30, 2012 and 2011 was restated to reflect the bond issuance costs expensed in the period incurred.
- (4) Net position at June 30, 2009 was restated to reflect the capitalization of project costs.

## Revenues and Capital Contributions by Source Last Ten Fiscal Years

**Table 2.1**

Fiscal Year	Water Sales <sup>(1)</sup>	Other Revenues	TOTAL OPERATING REVENUES
2018	\$ 591,809,280	\$ 4,053,221	\$ 595,862,501
2017	579,057,028	3,727,332	582,784,360
2016	524,934,642	3,240,007	528,174,649
2015	584,172,839	4,567,285	588,740,124
2014	593,695,290	3,935,305	597,630,595
2013	523,455,688	2,578,210	526,033,898
2012	443,347,502	1,519,525	444,867,027
2011	382,922,036	634,572	383,556,608
2010	387,871,218	4,965,060	392,836,278
2009	359,951,622	3,608,350	363,559,972

**Table 2.2**

Fiscal Year	Property Taxes	In-Lieu Charges <sup>(2)</sup>	Infrastructure Access Charges	Investment Income	Other, net	TOTAL NONOPERATING REVENUES
2018	\$ 11,515,329	\$ 2,238,385	\$ 32,482,290	\$ 4,342,461	\$ 30,050,559	\$ 80,629,024
2017	10,816,635	2,096,678	31,144,704	2,237,947	22,860,940	69,156,904
2016	10,066,792	2,000,431	30,434,370	5,985,490	25,905,838	74,392,921
2015	9,577,280	1,898,327	29,895,726	2,905,952	18,967,088	63,244,373
2014	9,387,129	1,754,973	29,205,684	3,674,934	21,265,070	65,287,790
2013	9,202,932	1,593,549	28,675,422	2,936,474	13,546,781	55,955,158
2012	8,240,009	1,642,353	27,700,326	5,211,394	16,277,941	59,072,023
2011	8,071,041	1,583,467	24,507,570	6,960,755	19,250,470	60,373,303
2010	8,341,559 <sup>(3)</sup>	1,630,065	21,241,060	5,217,031	7,100,636	43,530,351
2009	8,760,552	1,706,932	19,389,790	18,507,476	5,396,592	53,761,342

**Notes:**

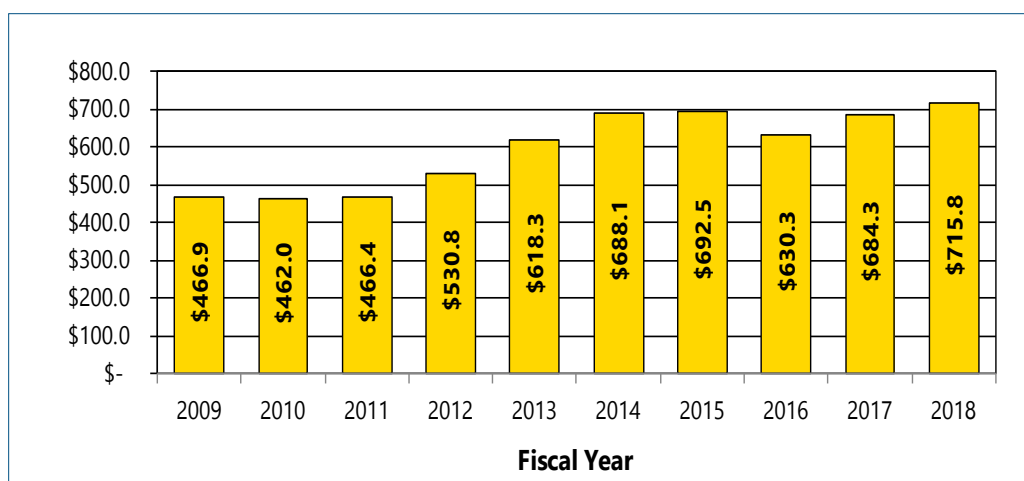
- (1) Includes readiness-to-serve and capacity charges assessed by the Metropolitan Water District (MWD).  
(2) The City of San Diego elects to pay in-lieu charges rather than the tax levy. This calculation is based on prior year assessed valuation.  
(3) Proposition 1A Borrowing by the State of California of \$688,268 in Fiscal Year 2010 was recognized as tax revenues in the fiscal year for which they were levied.

## Revenues and Capital Contributions by Source (continued) Last Ten Fiscal Years

**Table 2.3**

Fiscal Year	Capacity Charges	Water Standby Availability Charges	Contributions in Aid of Capital Assets	TOTAL CAPITAL CONTRIBUTIONS	GRAND TOTAL
2018	\$ 28,153,768	\$ 11,102,611	\$ 16,000	\$ 39,272,379	\$ 715,763,904
2017	21,080,540	11,091,285	219,325	32,391,150	684,332,414
2016	15,838,800	11,088,377	791,486	27,718,663	630,286,233
2015	22,559,844	11,106,743	6,897,528	40,564,115	692,548,612
2014	13,815,194	11,137,248	230,952	25,183,394	688,101,779
2013	17,709,796	11,147,488	7,409,404	36,266,688	618,255,744
2012	11,098,619	11,240,988	4,533,844	26,873,451	530,812,501
2011	10,321,076	11,255,132	913,097	22,489,305	466,419,216
2010	10,298,928	11,240,386	4,087,011	25,626,325	461,992,954
2009	13,265,608	11,311,384	25,027,314	49,604,306	466,925,620

### Total Revenues by Source, in Millions (\$)



## Expenses by Function Last Ten Fiscal Years

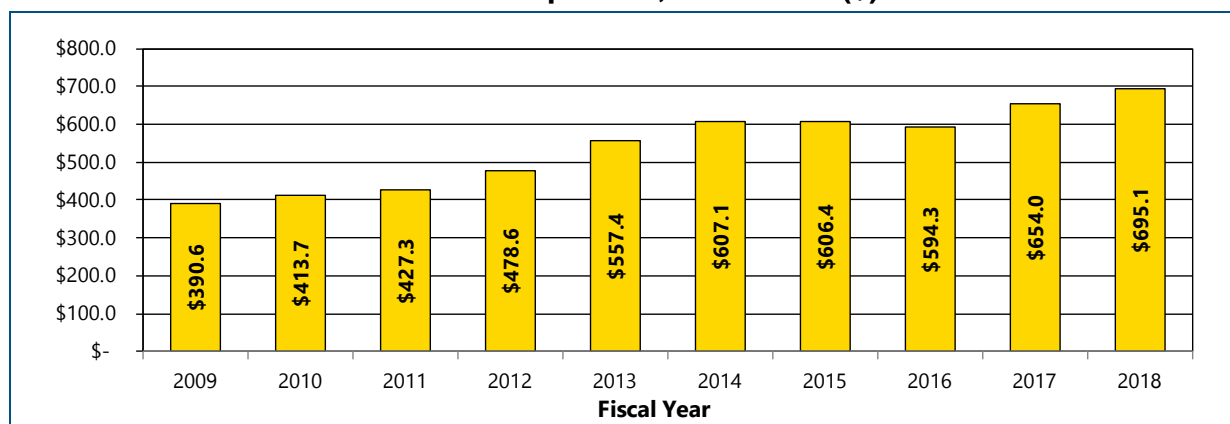
**Table 3.1**

Fiscal Year	Cost of Sales	Operations & Maintenance	Planning	General & Administrative	Depreciation & Amortization	TOTAL OPERATING EXPENSES
2018	\$ 442,369,171	\$ 24,219,304	\$ 9,179,960	\$ 16,914,642	\$ 62,842,596	\$ 555,525,673
2017	430,560,992	19,097,518	9,040,200	14,487,899	67,086,517	540,273,126
2016	387,123,145	18,212,388	8,651,233	14,259,469	64,023,664	492,269,899
2015	411,037,897	22,365,531	8,416,134	14,115,738	57,751,284	513,686,584
2014	422,699,658	18,780,808	6,851,384	13,670,808	56,589,618	518,592,276
2013	371,258,531	19,252,138	9,009,004	13,314,635	52,259,977	465,094,285
2012	312,446,563	16,800,991	7,163,795	13,545,177	51,705,749	401,662,275
2011	275,099,372	16,576,465	9,754,403	13,238,715	37,364,821	352,033,776
2010	291,385,187	15,482,609	8,642,260	15,270,175	30,657,250	361,437,481
2009	269,835,859	17,409,496	10,004,616	15,309,407	30,038,388	342,597,766

**Table 3.2**

Fiscal Year	Interest Expense <sup>(1)</sup>	Other, net	TOTAL NONOPERATING EXPENSES	GRAND TOTAL
2018	\$ 99,915,662 <sup>(3)</sup>	\$ 39,680,962	\$ 139,596,624	\$ 695,122,297
2017	95,533,730	18,223,543	113,757,273	654,030,399
2016	85,112,986	16,938,215	102,051,201	594,321,100
2015	81,792,704	10,926,011	92,718,715	606,405,299
2014	77,791,397	10,714,796	88,506,193	607,098,469
2013	80,738,966	11,526,764	92,265,730	557,360,015
2012	69,076,153 <sup>(2)</sup>	7,845,744 <sup>(2)</sup>	76,921,897	478,584,172
2011	67,209,780 <sup>(2)</sup>	8,014,887 <sup>(2)</sup>	75,224,667	427,258,443
2010	38,982,442	13,311,285	52,293,727	413,731,208
2009	40,828,498	7,202,845	48,031,343	390,629,109

### Total Expenses, in Millions (\$)



**Notes:**

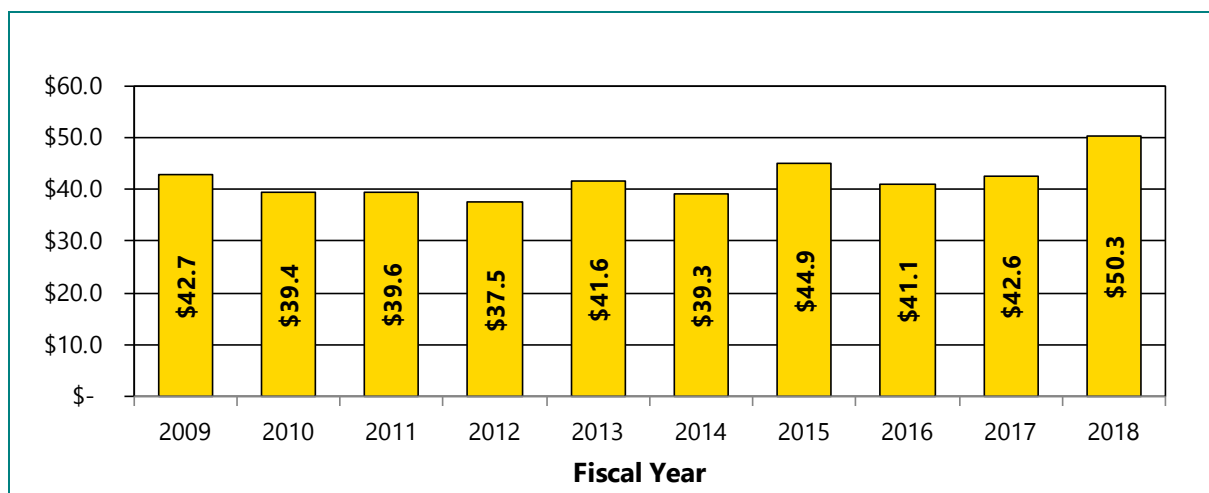
- (1) Net of interest expense incurred during construction, "capitalized interest" Fiscal Years 2009-2017.  
 (2) Fiscal Years 2012 and 2011 expenses were restated for GASB 65 implementation.  
 (3) With the adoption of GASB 89 in Fiscal Year 2018, interest expense is no longer capitalizable.

## Operating Department/Program Expenses by Major Expense Category Last Ten Fiscal Years

**Table 4**

Fiscal Year	Labor & Benefits	Outside Services	Supplies, Utilities, Insurance	Other Expenses	Capitalized Overhead	TOTAL OPERATING DEPARTMENT EXPENSES <sup>(1)</sup>
2018	\$ 39,921,737 <sup>(2)</sup>	\$ 10,153,682	\$ 4,171,046	\$ 1,842,991	\$ (5,775,550)	\$ 50,313,904
2017	30,203,216	13,163,995	3,809,016	2,012,274	(6,562,884)	42,625,617
2016	30,157,924	12,393,149	3,264,804	1,832,617	(6,525,404)	41,123,090
2015	33,547,387	13,244,296	3,324,270	1,713,115	(6,931,665)	44,897,403
2014	29,882,613	13,981,175	3,127,000	1,640,283	(9,328,071)	39,303,000
2013	30,592,860	13,555,169	3,151,622	1,576,776	(7,300,650)	41,575,777
2012	30,342,606	8,759,265	2,584,696	2,270,811	(6,447,415)	37,509,963
2011	30,972,738	9,928,970	3,078,911	1,491,077	(5,902,113)	39,569,583
2010	30,934,843	8,588,898	2,614,997	1,622,306	(4,366,000)	39,395,044
2009	30,579,263	11,880,022	3,491,169	3,733,747	(6,960,682)	42,723,519

### Total Operating Department/Program Expenses, in Millions (\$)



**Notes:**

- (1) Excludes equipment purchases.
- (2) In Fiscal Year 2018, Labor and Benefits expense is higher than prior years due to \$9.6 million supplemental payment to CalPERS to reduce the Unfunded Pension Liability.

## Capital Assets Last Ten Fiscal Years

**Table 5.1**

Fiscal Year	Land	Easements	Mitigation Banks	Construction in Progress	Total Non-Depreciable Capital Assets
2018	\$ 24,621,026	\$ 12,843,763	\$ 5,323,118	\$ 75,507,207	\$ 118,295,114
2017	24,490,954	11,915,888	5,329,998	110,208,603	151,945,443
2016	24,458,404	11,858,791	5,329,998	171,049,357	212,696,550
2015	24,053,307	11,858,791	5,329,998	187,115,515	228,357,611
2014	23,244,672	7,933,369	5,017,023	555,898,353	592,093,417
2013	22,333,982	7,610,124	5,017,023	451,716,143	486,677,272
2012	19,291,657	7,301,686	2,644,029	637,434,621	666,671,993
2011 <sup>(1)</sup>	16,833,637	7,301,686	2,644,029	520,058,635	546,837,987
2010 <sup>(1)</sup>	16,421,418	1,023,887	2,644,029	1,200,331,306	1,220,420,640

**Table 5.2**

Fiscal Year	Pipelines and Dams	Facilities	Equipment	Intangible Software & Mitigation	Participation and Capacity Rights	Storage Rights <sup>(2)</sup>	Total Depreciable Capital Assets
2018	\$ 2,200,695,359	\$798,272,139	\$32,970,982	\$ 6,599,377	\$520,051,103	\$ 519,052,259	\$ 4,077,641,219
2017	2,160,923,351	789,443,884	32,025,782	5,306,323	517,686,553	489,681,404	3,995,067,297
2016	2,131,640,177	780,095,031	37,739,089	8,757,292	510,663,098	418,652,214	3,887,546,901
2015	1,871,305,792	739,777,239	36,341,572	7,917,720	507,821,415	415,862,959	3,579,026,697
2014	1,790,726,715	731,162,857	35,202,142	7,917,720	508,782,992	41,016,383	3,114,808,809
2013	1,786,130,985	744,832,423	34,751,465	7,644,109	503,001,729	41,016,383	3,117,377,094
2012	1,645,493,121	635,616,230	32,307,160	4,995,235	491,565,179	-	2,809,976,925
2011 <sup>(1)</sup>	1,629,816,278	622,504,085	31,694,365	3,253,579	482,042,703	-	2,769,311,010
2010 <sup>(1)</sup>	1,188,379,660	436,476,504	24,800,078	3,253,579	258,678,630	-	1,911,588,451

**Table 5.3**

Fiscal Year	Accumulated Depreciation/Amortization	Depreciable Capital Assets, Net	NET CAPITAL ASSETS
2018	\$ (731,356,845)	\$ 3,346,284,374	\$ 3,464,579,488
2017	(669,824,136)	3,325,243,161	3,477,188,604
2016	(618,428,521)	3,269,118,380	3,481,814,930
2015	(554,725,060)	3,024,301,637	3,252,659,248
2014	(493,889,000)	2,620,919,809	3,213,013,226
2013	(437,057,773)	2,680,319,321	3,166,996,593
2012	(384,901,910)	2,425,075,015	3,091,747,008
2011 <sup>(1)</sup>	(334,288,815)	2,435,022,195	2,981,860,182
2010 <sup>(1)</sup>	(296,923,994)	1,614,664,457	2,835,085,097

**Notes:**

- (1) In Fiscal Year 2012, the categorization of non-depreciable and depreciable capital assets was updated. For comparative purposes, Fiscal Years 2011 and 2010 have been updated.
- (2) Storage Rights were recategorized from non-depreciable to depreciable in Fiscal Year 2018.

## Capital Assets (continued) Last Ten Fiscal Years

**Table 5.4**

Fiscal Year	Land	Construction in Progress	Work in Progress	Total Capital Assets Not Depreciated
2009	\$ 13,128,344	\$ 1,302,928,098	\$ 749,017	\$ 1,316,805,459

**Table 5.5**

Fiscal Year	Olivenhain Dam	Water Transportation Pipelines	Pumping Plants and Facilities	Treatment Plants and Facilities	Automobiles & Miscellaneous Equipment	Intangible Assets
2009	\$ 175,971,199	\$ 994,213,762	\$173,706,256	\$25,620,355	\$ 55,068,680	\$ 135,988,876

**Table 5.6**

Fiscal Year	Total Other Capital Assets	Accumulated Depreciation/Amortization	Depreciable Capital Assets, Net	NET CAPITAL ASSETS
2009	\$1,560,569,128	\$ (272,182,244)	\$ 1,288,386,884	\$ 2,605,192,343



## Schedule of Rates and Charges Last Ten Calendar Years<sup>(1)</sup>

**Table 6.1**

Calendar Year	Metropolitan Water District Supply Charges									
	Full Service Tier 1		Full Service Tier 2		Interim Agricultural Water Program <sup>(3)</sup>		Surface Storage Operating Agreement <sup>(4)</sup>		Replenishment Water Rate <sup>(5)</sup>	
	UTR	TR	UTR	TR	UTR	TR	UTR	TR	UTR	TR
2018	\$ 695	\$1,015	\$ 781	\$1,101	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2017	666	979	760	1,073	-	-	-	-	-	-
2016	594	942	728	1,076	-	-	-	-	-	-
2015	582	923	714	1,055	-	-	-	-	-	-
2014	593	890	735	1,032	-	-	-	-	-	-
2013	593	847	743	997	-	-	-	-	-	-
2012	560	794	686	920	537	765	-	-	442	651
2011	527	744	652	869	482	687	-	-	409	601
2010	484	701	594	811	416	615	-	-	366	558
2009 <sup>(2)</sup>	484	701	564	781	394	587	-	-	366	558
2009	412	579	528	695	322	465	-	-	294	436

**Notes:**

- (1) All rates are calendar year except for the water standby charge, which is fiscal year and Surface Storage Operating Agreement (SSOA) rates, which apply from October 1 through April 30.
- (2) Reflects a mid-year rate increase effective September 1, 2009 to match MWD's mid-year rate increase.
- (3) Reflects MWD treated Interim Agricultural Water Program (IAWP) rate and Water Authority charges prior to January 1, 2003. The IAWP was discontinued after 2012.
- (4) This schedule represents the contractual seasonal storage rate. Noncontractual participants pay a higher rate. Effective January 1, 2003, MWD instituted a SSOA offering a discount of \$70/acre-foot for "scheduled" water placed into reservoirs by member agencies. An increased discount rate of \$105/acre-foot is offered for "call" water, which is withdrawn from reservoirs per MWD's usage needs. SSOA was not renewed in 2009.
- (5) MWD's Replenishment Rate is a discounted rate for surplus system supplies available for the purpose of replenishing local supplies.

UTR = untreated acre foot  
TR = treated acre foot

## Schedule of Rates and Charges (continued) Last Ten Calendar Years<sup>(1)</sup>

**Table 6.2**

Calendar Year	San Diego County Water Authority										
	Melded Supply Rate <sup>(3)</sup>		Special Agricultural Water Rate <sup>(4)</sup>		Transportation Rate <sup>(5)</sup>	Customer Service	Storage	Supply Reliability Charge <sup>(6)</sup>	Standby Charge <sup>(7)</sup>	Capacity Charge <sup>(8)</sup>	Infrastructure Access Charge <sup>(9)</sup>
	UTR	TR	UTR	TR							
2018	\$894	\$1,194	\$ 695	\$ 995	\$ 115	\$26,400,000	\$ 65,000,000	\$28,600,000	\$ 10	\$ 5,240	\$ 3.01
2017	855	1,145	666	956	110	26,400,000	65,000,000	24,800,000	10	5,157	2.87
2016	780	1,060	594	874	105	26,400,000	63,200,000	26,000,000	10	4,963	2.76
2015	764	1,042	582	860	101	26,400,000	63,200,000	-	10	4,800	2.76
2014	732	1,006	593	867	97	26,400,000	63,200,000	-	10	4,800	2.68
2013	714	970	593	849	93	26,400,000	60,200,000	-	10	4,492	2.65
2012	638	872	560	794	85	26,400,000	54,200,000	-	10	4,492	2.60
2011	597	812	527	742	75	23,200,000	44,300,000	-	10	4,492	2.49
2010	532	747	484	699	67	18,000,000	34,000,000	-	10	4,492	2.02
2009 <sup>(2)</sup>	532	747	484	699	67	16,000,000	23,000,000	-	10	4,492	1.90
2009	463	631	412	580	64	16,000,000	23,000,000	-	10	4,492	1.90

**Notes:**

- (1) All rates are calendar year except for the water standby charge, which is fiscal year and Surface Storage Operating Agreement (SSOA) rates, which apply from October 1 through April 30.
- (2) Reflects a mid-year rate increase effective September 1, 2009 to match MWD's mid-year rate increase.
- (3) The Water Authority's Melded Supply Rate includes MWD's Full Service Tier 1 charge, as well as other supply and treatment charges.
- (4) A new transitional rate was adopted on December 10, 2008 for customers opting out of MWD's IAWP. Customers participating in the Special Agricultural Water Rate (SAWR) program are considered M&I customers by MWD.
- (5) Per acre-foot of water.
- (6) The Supply Reliability charge is a fixed charge that went into effect on January 1, 2016 and recovers costs associated with desalinated and transfer water.
- (7) Per parcel or acre, whichever is greater.
- (8) Per equivalent meter (less than one inch) and includes system and treatment capacity charges.
- (9) Per equivalent meter.

UTR = untreated acre foot

TR = treated acre foot

## Water Sales by Customer Fiscal Years Ended June 30, 2018 and 2009<sup>(1)</sup>

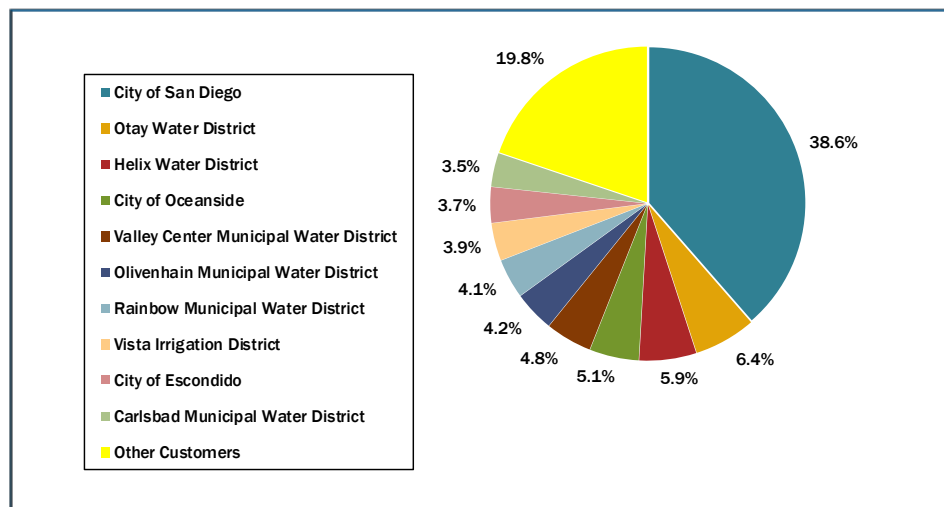
**Table 7**

Fiscal Year Ended June 30, 2018			Fiscal Year Ended June 30, 2009		
Member Agency	Sales (acre-feet)	Percent of Water Sold	Member Agency	Sales (acre-feet)	Percent of Water Sold
City of San Diego	155,923	39.0%	City of San Diego	202,232	36.3%
Otay Water District	29,638	7.4%	Helix Water District	37,485	6.7%
Helix Water District	25,913	6.5%	Otay Water District	34,971	6.3%
City of Oceanside	22,510	5.6%	Valley Center Municipal Water District	34,781	6.2%
Valley Center Municipal Water District	22,526	5.6%	City of Oceanside	30,397	5.5%
Olivenhain Municipal Water District	19,432	4.9%	Rainbow Municipal Water District	26,251	4.7%
Rainbow Municipal Water District	19,227	4.8%	Olivenhain Municipal Water District	23,056	4.1%
Vista Irrigation District	2,530	0.6%	City of Escondido	21,351	3.8%
City of Escondido	7,869	2.0%	Carlsbad Municipal Water District	19,867	3.6%
Carlsbad Municipal Water District	16,032	4.0%	Vallecitos Water District	19,107	3.4%
<b>Total Top Ten Customers</b>	<b>321,600</b>	<b>80.4%</b>	<b>Total Top Ten Customers</b>	<b>449,498</b>	<b>80.6%</b>
Vallecitos Water District	16,168	4.0%	Vista Irrigation District	15,668	2.8%
Sweetwater Authority <sup>(2)</sup>	1,735	0.4%	Fallbrook Public Utilities District	15,367	2.8%
Padre Dam Municipal Water District	10,332	2.6%	Padre Dam Municipal Water District	14,653	2.6%
Fallbrook Public Utilities District	10,267	2.6%	City of Poway	14,382	2.6%
City of Poway	10,316	2.6%	Ramona Municipal Water District	8,233	1.5%
Santa Fe Irrigation District	5,818	1.5%	Sweetwater Authority <sup>(2)</sup>	13,058	2.3%
Rincon del Diablo Municipal Water District	5,468	1.4%	Santa Fe Irrigation District	8,084	1.5%
Ramona Municipal Water District	5,379	1.4%	Rincon del Diablo Municipal Water District	7,471	1.3%
Yuima Municipal Water District	6,088	1.5%	Lakeside Water District	3,883	0.7%
San Dieguito Water District	2,660	0.7%	San Dieguito Water District	3,837	0.7%
Lakeside Water District	2,836	0.7%	Yuima Municipal Water District	2,345	0.4%
City of Del Mar	1,078	0.3%	City of Del Mar	1,200	0.2%
Camp Pendleton Marine Corps Base	84	0.0%	Camp Pendleton Marine Corps Base	83	0.0%
<b>Other Customers</b>	<b>78,229</b>	<b>19.6%</b>	<b>Other Customers</b>	<b>108,264</b>	<b>19.4%</b>
<b>Total Water Sales</b>	<b>399,829</b>	<b>100%</b>	<b>Total Water Sales</b>	<b>557,762</b>	<b>100.0%</b>

<sup>(1)</sup> Represents gross water delivery net of water exchanges.

<sup>(2)</sup> Sweetwater Authority includes National City and South Bay Irrigation District.

## Water Sales by Customer for Fiscal Year Ended June 30, 2018



## Total Treated and Untreated Water Sales Last Ten Fiscal Years

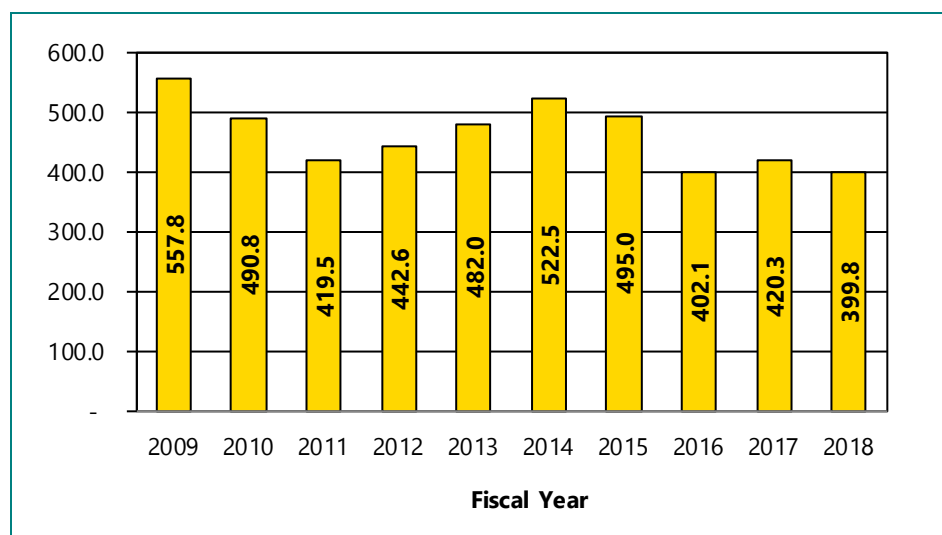
**Table 8**

Fiscal Year	Treated Water		Untreated Water		Total			
	Acre-Feet	Sales	Acre-Feet	Sales	Acre-Feet	Change in Acre-Feet	Sales <sup>(1)</sup>	Change in Sales
2018	164,636	\$ 209,395,264	235,190	\$ 238,530,680	<b>399,826</b>	(20,446)	\$ 447,925,944	\$ 14,248,821
2017	157,126	185,939,681	263,146	247,737,442	<b>420,272</b>	18,207	433,677,123	41,553,006
2016	146,112	159,173,709	255,953	232,950,408	<b>402,065</b>	(92,918)	392,124,117	(68,001,573)
2015	173,204	181,907,967	321,779	278,217,723	<b>494,983</b>	(27,470)	460,125,690	(13,560,973)
2014	198,397	199,785,961	324,056	273,900,702	<b>522,453</b>	40,440	473,686,663	64,636,999
2013	199,257	186,241,667	282,756	222,807,997	<b>482,013</b>	39,370	409,049,664	75,184,306
2012	181,445	150,884,055	261,198	182,981,303	<b>442,643</b>	23,132	333,865,358	38,485,802
2011	177,098	138,798,942	242,413	156,580,614	<b>419,511</b>	(71,318)	295,379,556	(23,150,056)
2010	195,937	147,719,098	294,892	170,810,514	<b>490,829</b>	(66,933)	318,529,612	16,455,644
2009	240,808	145,040,752	316,954	157,033,216	<b>557,762</b>	(55,333)	302,073,968	11,852,147

Notes:

<sup>(1)</sup> Total water sales do not include MWD's readiness-to-serve and capacity charges; and are CWA fixed charges, agriculture, and reclamation credits passed on to member agencies.

## Total Treated and Untreated Water Sales Total Acre-Feet (in Thousands)



## Assessed Valuation of Taxable Property Last Ten Fiscal Years

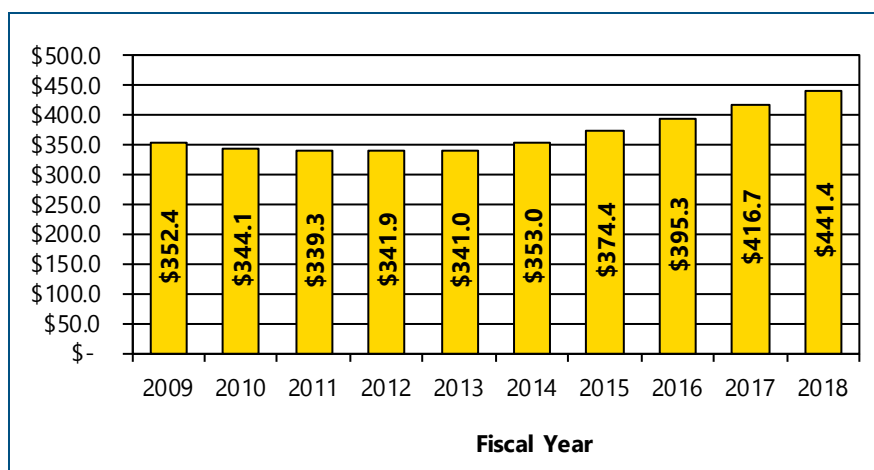
**Table 9**

Fiscal Year	Local Secured Property	State Secured Property	Redevelopment and Homeowners Exemptions	Net Secured Assessed Value	Net Unsecured Assessed Value	TOTAL ASSESSED VALUE
2018	\$479,613,217,379	\$1,046,310,773	\$ 53,266,338,749	\$427,393,189,403	\$ 13,988,486,909	<b>\$441,381,676,312</b>
2017	451,344,411,144	947,193,625	48,943,478,320	403,348,126,449	13,343,942,403	<b>416,692,068,852</b>
2016	427,427,915,780	798,410,621	45,982,840,513	382,243,485,888	13,084,323,381	<b>395,327,809,269</b>
2015	404,011,617,061	730,338,926	43,257,822,190	361,484,133,797	12,871,635,577	<b>374,355,769,374</b>
2014	380,636,482,118	808,778,971	40,786,610,505	340,658,650,584	12,314,446,187	<b>352,973,096,771</b>
2013	367,697,518,087	934,170,553	39,467,366,837	329,164,321,803	11,813,249,531	<b>340,977,571,334</b>
2012	368,513,444,797	948,639,459	39,371,348,044	330,090,736,212	11,762,281,838	<b>341,853,018,050</b>
2011	366,269,868,285	987,948,775	39,929,289,823	327,328,527,237	11,965,058,478	<b>339,293,585,715</b>
2010	371,808,214,146	747,943,167	40,999,711,071	331,556,446,242	12,538,322,810	<b>344,094,769,052</b>
2009	381,979,733,503	589,927,644	42,074,337,530	340,495,323,617	11,869,245,103	<b>352,364,568,720</b>

Source:

County of San Diego's Office of the Auditor & Controller

### Total Assessed Valuation in Billions (\$)



## Levies and Collections Last Ten Fiscal Years

**Table 10**

Fiscal Year	Property Taxes	Special Assessments <sup>(1)</sup>	Total Levy	Total Collections	Net Delinquent	% of Delinquent/Total Levy
2018	\$ 11,188,782	\$ 11,867,058	\$ 23,055,840	\$ 22,231,133	\$ 824,707	3.58%
2017	10,602,193	11,912,245	22,514,438	21,531,426	983,012	4.37%
2016	10,057,779	11,913,896	21,971,675	20,939,584	1,032,091	4.70%
2015	9,642,868	12,045,616	21,688,484	20,644,160	1,044,324	4.82%
2014	9,175,527	12,260,070	21,435,597	20,236,442	1,199,155	5.59%
2013	8,831,152	12,319,533	21,150,685	19,747,352	1,403,333	6.63%
2012	8,769,573	12,331,193	21,100,766	19,603,936	1,496,830	7.09%
2011	8,885,757	12,443,203	21,328,960	19,878,227	1,450,733	6.80%
2010	9,103,831	12,370,600	21,474,431	19,788,939	1,685,492	7.85%
2009	9,445,331	12,261,787	21,707,118	20,046,360	1,660,758	7.65%
2008	9,186,799	12,014,079	21,200,878	19,674,672	1,526,206	7.20%

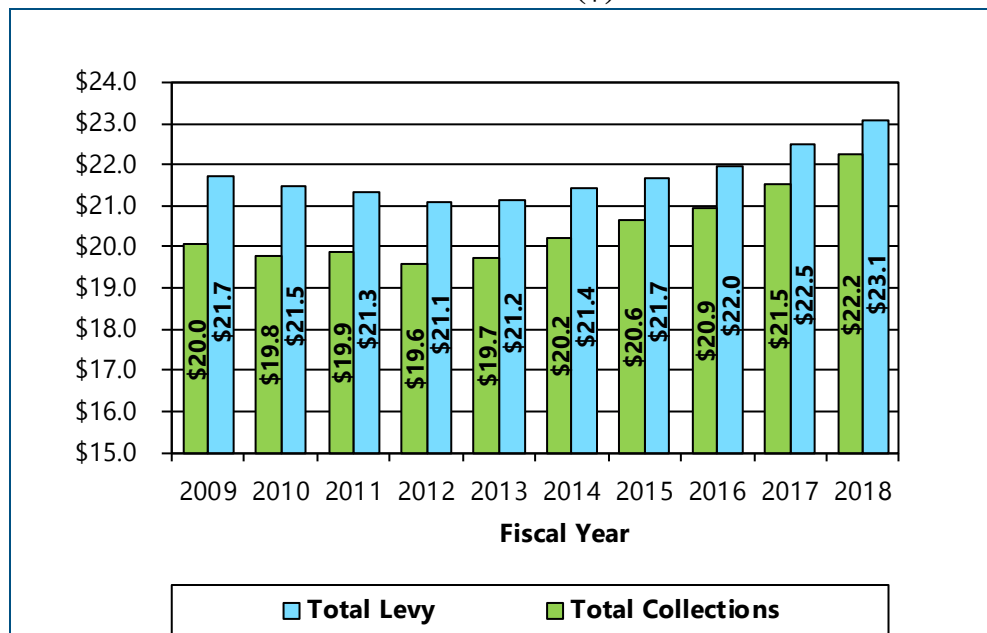
Notes:

<sup>(1)</sup> Represents the tax levy for the Water Authority's Water Standby Availability Charge.

Source:

County of San Diego's Office of the Auditor & Controller and the San Diego County Water Authority

### Total Levy and Collections in Millions (\$)



## Revenue Debt Service Coverage Last Ten Fiscal Years

**Table 11**

				Senior Lien Debt Service <sup>(3)</sup>			
Fiscal Year	Revenues for Purpose of Calculation <sup>(1)</sup>	Operating Expenses <sup>(2)</sup>	Net Revenue Available for Debt Service	Principal	Interest	Total	Coverage Factor
2018	\$ 671,386,019	\$ 478,929,363	\$ 192,456,656	\$ 44,620,000	\$ 83,683,510	\$ 128,303,510	150%
2017	650,240,212	460,273,296	189,966,916	41,560,000	85,044,572	126,604,572	150%
2016	589,264,060	416,179,012	173,085,048	26,550,000	88,662,002	115,212,002	150%
2015	636,915,844	444,459,693	192,456,151	34,615,000	93,550,901	128,165,901	150%
2014	643,791,434	450,860,556	192,930,878	31,940,000	96,311,875	128,251,875	150%
2013	584,848,831	402,037,827	182,811,004	28,175,000	93,543,288	121,718,288	150%
2012	502,859,753	340,074,164	162,785,589	26,585,000	84,026,291	110,611,291	147%
2011	446,399,335	305,014,447	141,384,888	24,120,000	79,942,971	104,062,971	136%
2010	439,639,107	320,808,607	118,830,500	6,365,000 <sup>(4)</sup>	73,067,368 <sup>(5)</sup>	79,432,368	150%
2009	412,709,321	302,091,894	110,617,427	19,820,000	53,242,022 <sup>(6)</sup>	73,062,022	151%

**Notes:**

<sup>(1)</sup> Includes amounts transferred to and from the Rate Stabilization Fund, and excludes interest on debt proceeds, property tax receipts, contributions in aid of capital assets, and Capital Improvement Program (CIP) grant reimbursements.

<sup>(2)</sup> Excludes depreciation and amortization expenses; net of applicable property tax receipts.

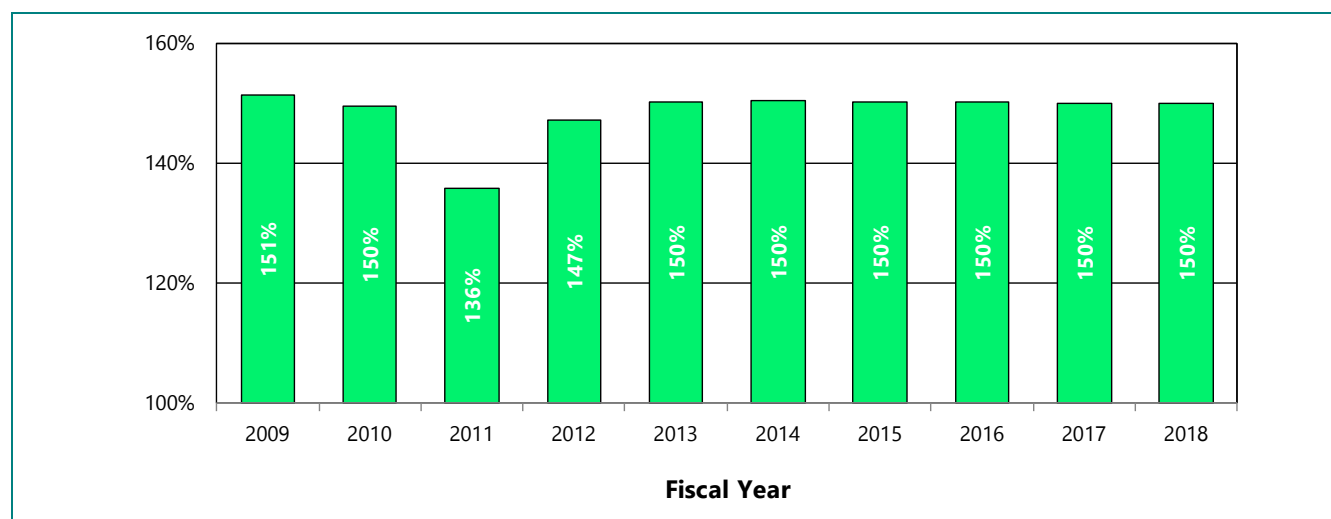
<sup>(3)</sup> Excludes commercial paper.

<sup>(4)</sup> Excludes \$51,005,000 principal payment on the 1998A COPs which was paid from debt proceeds.

<sup>(5)</sup> Excludes \$1,500,000 interest payment on the 2008A COPs and \$9,530,000 interest payment on the 2010A and B Bonds, which was paid from debt proceeds.

<sup>(6)</sup> Excludes \$18,023,409 interest payment on the 2008A COPs which was paid from debt proceeds.

## Senior Lien Debt Service Coverage in Percentages (%)





## Long-term Debt Outstanding Last Ten Fiscal Years (in Thousands)

**Table 12.1**

	Certificates of Participation							
Fiscal Year	1993A	1997A	1998A	2002A	2004A	2005A	2008A	Total
2018	\$ -	\$ -	\$ 11,685	\$ -	\$ -	\$ 13,800	\$ 17,140	\$ 42,625
2017	-	-	11,685	-	-	28,490	34,460	74,635
2016	-	-	11,685	-	-	43,495	48,965 <sup>(6)</sup>	104,145
2015	-	-	11,685	-	- <sup>(2)</sup>	57,375	512,650 <sup>(7)</sup>	581,710
2014	-	-	11,685	-	43,925	70,885	536,110	662,605
2013	-	-	11,685	- <sup>(1)</sup>	43,925 <sup>(3)</sup>	83,490	547,030	686,130
2012	-	-	11,685	17,510	388,710	95,730	556,150	1,069,785
2011	-	6,110	11,685	236,750	425,000	107,455	558,015	1,345,015
2010	-	23,610	11,685	243,370	425,000	107,455	558,015	1,369,135
2009	-	23,610	62,690	249,735	425,000	107,455	558,015	1,426,505
<b>Original Par Amount</b>	\$ 135,650	\$ 162,315	\$ 180,000	\$ 300,000	\$ 425,000	\$ 107,455	\$ 558,015	
<b>Debt Service Reserve Funds</b>	\$ -	\$ -	\$ 12,241	\$ - <sup>(1)</sup>	\$ - <sup>(4)</sup>	\$ 10,746 <sup>(5)</sup>	\$ 23,671 <sup>(5)</sup>	\$ 46,658
<b>Final Maturity</b>	2009	2012	2028	2013	2015	2022	2020	

**Notes:**

- (1) \$18,385,750 of proceeds were released from the debt service reserve fund to defease the balance of \$17,510,000 on the 2002A COPs in February 2013.
- (2) \$43,925,000 was defeased on the 2004A COPs in February 2015.
- (3) \$344,785,000 of the 2004A COPs was refunded by the 2013A Bonds in March 2013.
- (4) \$4,052,362 of proceeds were released from the debt service reserve fund to defease part of the 2004A COPs in February 2015.
- (5) Balance satisfied with surety bond.
- (6) \$142,445,000 of the 2008A COPs was refunded by the 2015A Bonds in September 2015; \$114,895,000 and \$205,195,000 of the 2008A COPs was refunded by the 2016A and 2016B Bonds, respectively, in June 2016.
- (7) \$12,100,000 was defeased on the 2008A COPs in February 2015.
- (8) \$52,375,000 of the 2010A Bonds was refunded by the 2015A Bonds in September 2015; \$20,425,000 of the 2010A Bonds was refunded by the 2016B Bonds in June 2016.
- (9) \$86,630,000 of the 2011S-1 Bonds was refunded by the Series 9 Notes in May 2016.
- (10) See Table 16 for personal income and population data.

## Long-term Debt Outstanding (continued) Last Ten Fiscal Years (in Thousands)

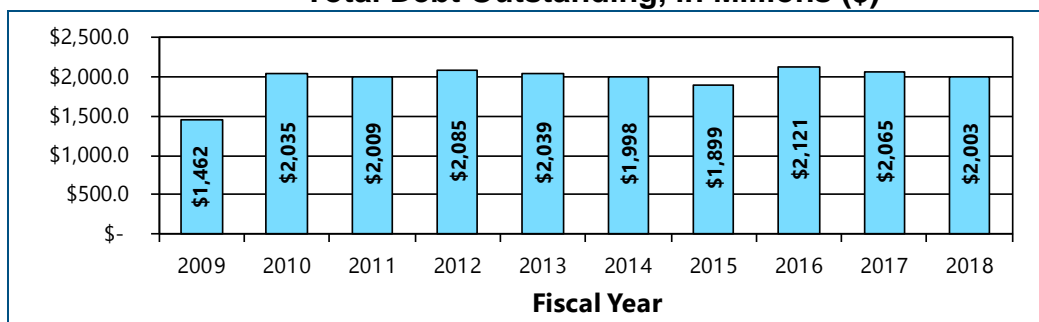
**Table 12.2**

Revenue Bonds											
2010A	2010B	2011S-1	2011A	2011B	2012	2013A	2015A	2016S-1	2016A	2016B	Total
\$ 9,165	\$ 526,135	\$ -	\$ 95,320	\$ 94,540	\$ 200,605	\$ 299,105	\$ 184,795	\$ 87,685	\$ 98,945	\$ 197,395	\$ 1,793,690
13,460	526,135	-	103,635	94,540	203,215	299,105	184,795	87,685	98,945	197,395	1,808,910
17,590 <sup>(8)</sup>	526,135	- <sup>(9)</sup>	111,555	94,540	203,215	299,105	184,795	87,685	98,945	197,395	1,820,960
94,365	526,135	86,630	119,100	94,540	-	299,105	-	-	-	-	1,219,875
96,925	526,135	86,630	126,285	94,540	-	299,105	-	-	-	-	1,229,620
98,495	526,135	86,630	133,130	94,540	-	299,105	-	-	-	-	1,238,035
98,495	526,135	86,630	139,945	94,540	-	-	-	-	-	-	945,745
98,495	526,135	-	-	-	-	-	-	-	-	-	624,630
98,495	526,135	-	-	-	-	-	-	-	-	-	624,630
-	-	-	-	-	-	-	-	-	-	-	-
\$ 98,495	\$ 526,135	\$ 86,630	\$ 139,945	\$ 94,540	\$ 203,215	\$ 299,105	\$ 184,795	\$ 87,685	\$ 98,945	\$ 197,395	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,208	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,208
2020	2049	2016	2027	2031	2046	2034	2029	2021	2033	2038	

**Table 12.3**

Fiscal Year	Unamortized Premiums and Discounts	TOTAL DEBT OUTSTANDING (in Thousands)	% of Personal Income <sup>(10)</sup>	Debt Per Capita (in dollars) <sup>(10)</sup>
2018	\$ 167,118	\$ 2,003,433	0.99%	\$ 598
2017	181,348	2,064,893	1.07%	621
2016	195,579	2,120,684	1.16%	639
2015	97,009	1,898,594	1.07%	577
2014	105,863	1,998,088	1.19%	613
2013	114,717	2,038,882	1.29%	634
2012	69,809	2,085,339	1.37%	655
2011	39,402	2,009,047	1.38%	640
2010	41,603	2,035,368	1.49%	656
2009	35,076	1,461,581	1.09%	477

### Total Debt Outstanding, in Millions (\$)



## Direct and Overlapping Debt June 30, 2018

**Table 13**

2017-18 Assessed Valuation: \$479,685,194,457

### DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT

	Total Debt Outstanding June 30, 2018	% Applicable <sup>(1)</sup>	Estimated Share of Overlapping Debt as of June 30, 2018
Metropolitan Water District	60,600,000	17.508%	\$ 10,609,848
Community College Districts	2,730,345,676	79.823-99.954%	2,611,186,344
San Diego Unified School District	3,486,781,892	99.954%	3,485,177,972
Other Unified School Districts	1,087,952,940	Various	1,084,297,879
High School Districts	1,399,661,949	Various	1,364,364,684
School Districts	986,248,148	Various	954,992,291
City of Escondido	58,680,000	99.473%	58,370,756
City of La Mesa	20,760,000	99.983%	20,756,471
City of National City	3,635,000	99.879%	3,630,602
Grossmont Healthcare District	261,328,330	95.932%	250,697,494
Palomar Pomerado Hospital District	436,358,740	98.064%	427,910,835
Otay Water District, I.D. No. 27	3,390,000	100.000%	3,390,000
Community Facilities Districts	1,314,767,490	100.000%	1,314,767,490
1915 Act Bonds (Estimated)	85,657,776	100.000%	85,657,776
<b>TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT</b>			<b>\$ 11,675,810,442</b>
<b>OVERLAPPING GENERAL FUND DEBT</b>			
San Diego County General Fund Obligations	273,220,000	96.719%	\$ 264,255,652
San Diego County Pension Obligation Bonds	558,525,000	96.719%	540,199,795
San Diego Superintendent of Schools Certificates of Participation	10,785,000	96.719%	10,431,144
Community College District Certificates of Participation	4,680,000	79.823-99.954%	4,420,326
Unified School District General Fund Obligations	214,108,326	90.143-99.931%	211,213,754
High School and School District General Fund Obligations	400,890,885	89.666-99.990%	396,801,256
City of San Diego General Fund Obligations	550,774,651	99.948%	550,488,428
Other City General Fund Obligations	375,370,653	99.119-99.997%	374,493,775
San Miguel Consolidated Fire Protection District General Fund Obligations	4,275,000	99.530%	4,254,908
Lakeside Fire General Fund Obligations	5,050,000	95.846%	4,840,223
<b>TOTAL OVERLAPPING GENERAL FUND DEBT</b>			<b>\$ 2,361,399,261</b>
<b>OVERLAPPING TAX INCREMENT DEBT (Successor Agencies)</b>	\$1,194,472,845	1.108-100.0%	\$ 1,155,425,899
<b>TOTAL DIRECT DEBT</b>			<b>\$ 0</b>
<b>TOTAL OVERLAPPING DEBT</b>			<b>\$ 15,192,635,422</b>
<b>COMBINED TOTAL DEBT</b>			<b>\$ 15,192,635,422 <sup>(2)</sup></b>
Ratios to 2017-18 Assessed Valuation			
<b>Direct Debt</b>			<b>0.00%</b>
Total Direct and Overlapping Tax and Assessment Debt			2.43%
Combined Total Debt			3.17%
Ratios to Redevelopment Successor Agencies Incremental Valuation (\$52,361,213,537)			
Total Overlapping Tax Increment Debt			2.21%

Notes:

<sup>(1)</sup> The percentage of overlapping debt applicable to the Water Authority is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the authority divided by the district's total taxable assessed value.

<sup>(2)</sup> Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue bonds and non-bonded capital lease obligations.

## General Information June 30, 2018

**Table 14**

Number of member agencies.....	24
Cities.....	6
Water districts.....	5
Irrigation districts.....	3
Municipal water districts.....	8
Public utility districts.....	1
Federal agency (military base).....	1

## Operating Indicators Last 10 Fiscal Years

**Table 15**

Fiscal Year	Water System Service Area <sup>(1)</sup>	Number of Primary Pipelines	Miles of Pipeline	Miles of Patrol Road Maintained	Number of Service Connections	Treated Water Pipeline Capacity <sup>(2)</sup>	Untreated Water Pipeline Capacity <sup>(2)</sup>	Average Daily Deliveries <sup>(2)</sup>	Total Regular Employees
2018	946,000	5	310	168	96	420	504	350	254.50
2017	946,000	5	310	168	96	420	504	375	247.40
2016	951,000	5	310	168	96	420	504	349	247.40
2015	951,000	5	300	168	96	420	504	442	253.65
2014	946,000	5	300	150	96	420	504	467	252.50
2013	951,000	5	300	150	96	420	504	430	253.00
2012	947,288	5	300	150	106	420	504	395	254.50
2011	951,000	5	300	150	106	420	504	375	267.50
2010	951,000	5	300	150	131	420	504	440	267.50
2009	951,000	5	300	168	121	420	504	496	267.50

Notes:

(1) Acres.

(2) Millions of gallons per day (mgd).

## Demographic and Economic Statistics Last Ten Calendar Years

**Table 16**

Year	County Population	Personal Income		Per Capita Personal Income		Unemployment Rate	(2)
		(1)	(in thousands)	(1)	(in dollars)		
2018	3,352,564 (3)	\$	202,800,000 (3)	\$	57,473 (3)	3.3%	(3)
2017	3,327,564 (3)		192,500,000 (3)		56,437 (3)	4.0%	(3)
2016	3,317,749		183,032,418		55,168	4.7%	
2015	3,290,245		177,551,892		53,963	5.2%	
2014	3,258,856		167,633,842		51,439	6.4%	
2013	3,218,419		157,757,974		49,017	7.8%	
2012	3,181,513		152,723,990		48,004	9.1%	
2011	3,140,692		145,719,165		46,397	10.3%	
2010	3,104,346		136,576,305		43,995	10.8%	
2009	3,061,203		134,139,980		43,819	9.4%	

Notes:

(1) U.S. Department of Commerce, Bureau of Economic Analysis, Regional Data

(2) CALMIS, Employment Development Department (EDD)

(3) California Department of Transportation (estimates)

## Largest Employers in San Diego Fiscal Year 2018 and 2009

**Table 17**

2018 (1)				2009 (2)			
Industry Type	Rank	# of Employees	% of Total Employment	Industry Type	Rank	# of Employees	% of Total Employment
University of California, San Diego	1	34,448	2.32%	Federal Government	1	43,500	3.11%
United States Navy, San Diego	2	34,185	2.30%	United States Navy, San Diego	2	42,000	3.00%
Sharp Healthcare	3	18,364	1.24%	State of California	3	40,900	2.92%
County of San Diego	4	17,413	1.17%	University of California, San Diego	4	26,000	1.86%
Scripps Healthcare	5	14,941	1.01%	County of San Diego	5	20,500	1.46%
San Diego Unified School District	6	13,815	0.93%	City of San Diego	6	19,500	1.39%
Qualcomm	7	11,800	0.79%	San Diego Unified School District	7	15,881	1.13%
City of San Diego	8	11,462	0.77%	Sharp Healthcare	8	14,390	1.03%
Kaiser Foundation Hospital	9	9,606	0.65%	Scripps Health	9	12,700	0.91%
UC San Diego Health	10	8,932	0.60%	Scripps Mercy Hospital	10	11,000	0.79%
<b>Total All Industries</b>		<b>174,966</b>	<b>11.78%</b>	<b>Total All Industries</b>		<b>246,371</b>	<b>17.60%</b>
2018 Total Number employed in San Diego County (3)			<b>1,486,300</b>	2009 Total Number employed in San Diego County (3)			<b>1,399,473</b>
Source:							
(1) San Diego Business Journal							
(2) The Daily Transcript, Sourcebook 2008							
(3) California Employment Development Department							

# Continuing Disclosure







October 26, 2018

Dear friends and interested parties:

**MEMBER AGENCIES**

Carlsbad  
Municipal Water District

City of Del Mar

City of Escondido

City of National City

City of Oceanside

City of Poway

City of San Diego

Fallbrook  
Public Utility District

Helix Water District

Lakeside Water District

Olivenhain  
Municipal Water District

Otay Water District

Padre Dam  
Municipal Water District

Camp Pendleton  
Marine Corps Base

Rainbow  
Municipal Water District

Ramona  
Municipal Water District

Rincon del Diablo  
Municipal Water District

San Dieguito Water District

Santa Fe Irrigation District

South Bay Irrigation District

Vallecitos Water District

Valley Center  
Municipal Water District

Vista Irrigation District

Yuima  
Municipal Water District

**OTHER  
REPRESENTATIVE**

County of San Diego

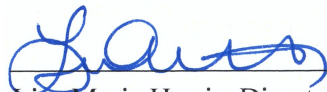
We are pleased to present the Continuing Disclosure Report (Report) for fiscal year ended June 30, 2018 for the San Diego County Water Authority (Water Authority).

The information provided in this Report speaks only as of its date, October 26, 2018 and the financial and operating data included therein is accurate only as of the dates specified therein. The delivery of this Report may not, under any circumstances, create an implication that there has been no other change to the information provided in any final official statement of the Water Authority. Other than as set forth in its Continuing Disclosure Agreements, the Water Authority has not undertaken to disclose financial or operating data or to provide notice of changes to the information in this Report.

This Report is provided solely pursuant to the Water Authority's Continuing Disclosure Agreements. The filing of this Report does not constitute or imply any representation (i) that all of the information provided is material to investors, (ii) regarding any other financial, operating or other information about the Water Authority or the referenced securities, or (iii) that no changes, circumstances, or events have occurred since the end of the fiscal year to which this Report relates (other than as contained in this Report), or any other date specified with respect to any of the information contained in this Report, or that no other information exists, which may have a bearing on the security for the referenced securities, or an investor's decision to buy, sell, or hold the referenced securities. The information contained in this Report has been obtained from sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. No statement in this Report should be construed as a prediction or representation about future financial performance of the Water Authority. Any statements regarding the referenced securities, other than a statement made by the Water Authority in an official release or subsequent notice published in a financial newspaper of general circulation and/or filed with the Municipal Securities Rulemaking Board are not authorized by the Water Authority. The Water Authority shall not be responsible for the accuracy, completeness, or fairness of any such unauthorized statement.

If you have any questions regarding this Report, please contact Lisa Marie Harris, Director of Finance/Treasurer at (858) 522-6671, or by email at [lharris@sdewa.org](mailto:lharris@sdewa.org).

Sincerely,



Lisa Marie Harris, Director of Finance/Treasurer

General Information

SAN DIEGO COUNTY WATER AUTHORITY MANAGEMENT

Maureen A. Stapleton	General Manager
Sandra L. Kerl	Deputy General Manager
Dennis A. Cushman	Assistant General Manager
Dan Denham	Assistant General Manager
Lisa Marie Harris	Director of Finance/Treasurer
Mark Hattam	General Counsel

The Water Authority was organized by nine member agencies in 1944 for the primary purpose of supplying water to San Diego County for distribution to the Water Authority’s member agencies. The Water Authority currently has 24 member agencies. A member of the San Diego County Board of Supervisors serves as a non-voting representative to the Water Authority Board of Directors. As a wholesale entity, the Water Authority serves only its member agencies and has no retail customers. The Water Authority has broad powers related to acquiring, developing, storing, transporting, selling, and delivering water both inside and outside its boundaries. The Water Authority is authorized to fix and collect rates or other charges for the purchase and delivery of water or the use of facilities for service. The Water Authority may borrow money, incur indebtedness, and issue bonds and other evidences of indebtedness.

The Water Authority currently receives a minor amount of revenue from hydroelectric power sales. Legislation enacted in September 2000 expands the Water Authority’s power generation authority to include the purchase, sale, and transmission of energy.

A Guide to the Continuing Disclosure

**Selected Financial Highlights**

Statement of Net Position as of June 30, 2018, and comparative data as of June 30, 2017 can be found in the Financial Statements Section.....31

Statement of Revenues, Expenses, and Changes in Net Position as of June 30, 2018 and comparative data as of June 30, 2017 can be found in the Financial Statements Section.....32

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## Selected Financial Highlights

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position are located in the Financial Section, under the Financial Statements tab, pages 31 and 32, respectively.

The Water Authority's restricted and unrestricted cash and investments balances at June 30, 2018 were \$142.7 million and \$212.4 million respectively. Approximately 59.8 percent of total cash is unrestricted.

**TABLE 1. CASH AND INVESTMENTS, JUNE 30, 2018 AND 2017**

	2018	2017
As of June 30, 2018 and 2017, restricted cash and investments balances were as follows:		
Construction	\$ -	\$ 2,663,522
Debt Service Reserve <sup>(1)</sup>	22,665,917	22,523,325
Pay-As-You-Go	119,984,952	147,352,064
<b>Total</b>	<b>\$ 142,650,869</b>	<b>\$ 172,538,911</b>

As of June 30, 2018 and 2017, unrestricted cash and investments balances were as follows:

Operating	\$ 56,369,103	\$ 55,645,254
Designated for Rate Stabilization	155,139,512	135,072,833
Designated for Equipment Replacement	919,490	1,195,081
<b>Total</b>	<b>\$ 212,428,105</b>	<b>\$ 191,913,168</b>

(1) The Debt Service Reserve balance includes the California Pollution Control Financing Authority (CPCFA) issued 2012 Pipeline Bond reserves.

## Summary of Outstanding Debt

The Water Authority continues to hold long-term senior lien credit ratings of AA+, and Aa2 from Fitch and Moody's, and AAA by Standard & Poor's. Long-term subordinate lien credit ratings are usually rated one level below the senior lien credit ratings of the same issuer. Accordingly, credit ratings of long-term Water Authority subordinate lien debt are inferred to be at AA+, AA, and Aa3 by Standard & Poors, Fitch, and Moody's, respectively.

In January 2018 the Water Authority's Board of Directors adopted the Water Authority's updated Debt Management and Disclosure Policy. The newly added disclosure section of the previous Debt Management Policy is consistent with public finance industry practices and recent developments. Among other things, it includes guidelines involving public statements made by Water Authority officials, initial market disclosure involved with securities offerings, and compliance with continuing disclosure agreements, laws and regulations.

### San Diego County Water Authority Bond Rating <sup>1</sup>

Rating Agency	Senior Lien Ratings <sup>2</sup>	Subordinate Lien Ratings	Outlook
Standard & Poor's	AAA	AA+	Stable
Fitch	AA+	AA	Stable
Moody's	Aa2	Aa3	Stable

(1) This table accurate as of June 30, 2018.

(2) Senior Lien includes the Water Authority's Revenue Bonds and Certificates of Participation.

## LONG-TERM SENIOR LIEN FIXED-RATE DEBT

The table below summarizes the Water Authority's outstanding long-term, fixed-rate debt as of June 30, 2018, which includes final maturities, original par amounts, amounts outstanding, and applicable debt service reserve fund requirements. All reserve requirements are fully funded by either reserves or surety bonds.

**TABLE 2. LONG-TERM, FIXED-RATE DEBT OUTSTANDING, FISCAL YEAR JUNE 30, 2018 \***

Issue Name	Final Maturity	Original Par Amount	Amount Outstanding	Debt Service Reserve Funds <sup>(1)</sup>
<b>Water Revenue Certificates of Participation:</b>				
Series 1998A	2028	\$ 180,000,000	\$ 11,685,000	\$ 12,240,862
Series 2005A	2022	107,455,000	13,800,000	10,745,500 <sup>(2)</sup>
Series 2008A	2020	558,015,000	17,140,000	23,670,625 <sup>(2)</sup>
<b>Water Revenue Bonds:</b>				
Series 2010A	2020	98,495,000	9,165,000	n/a
Series 2010B (Taxable Build America Bonds)	2049	526,135,000	526,135,000	n/a
Series 2011A	2027	139,945,000	95,320,000	n/a
Series 2011B	2031	94,540,000	94,540,000	n/a
Series 2013A	2034	299,105,000	299,105,000	n/a
Series 2015A	2029	184,795,000	184,795,000	n/a
Series 2016A	2033	98,945,000	98,945,000	n/a
Series 2016B	2038	197,395,000	197,395,000	n/a
<b>Total</b>		<b>\$ 2,484,825,000</b>	<b>\$ 1,548,025,000</b>	<b>\$ 46,656,987</b>

\* The CPCFA issued 2012 Pipeline Bond is not shown as it is a super-subordinate bond and therefore not included in debt service coverage calculations.

(1) Amounts stated reflect the minimum balance required.

(2) Balance satisfied with surety bond.

**SHORT-TERM AND SUBORDINATE LIEN FIXED-RATE DEBT**

The Water Authority currently has three forms of short-term debt: five-year fixed-rate bonds, Tax-Exempt Commercial Paper (TECP) and Extendable Commercial Paper (ECP).

The Water Authority issued \$87,685,000 of Subordinate Lien Water Revenue Refunding Bonds, Series 2016S-1 in June 2016. These bonds mature May 1, 2021.

The Water Authority established its TECP Program in 1995. Commercial paper is a form of variable-rate debt, and is issued with maturities of 1 to 270 days. When the commercial paper matures, it is rolled over to new investors by the Water Authority's commercial paper dealers. The Water Authority has authorized the issuance of up to \$460,000,000 of TECP, with \$245,000,000 issued and outstanding. The TECP has been issued in two series – Series 8 (\$110,000,000), and Series 9 (\$135,000,000). Series 8 was issued in 2014 and series 9 was issued in 2016. Each of these series is supported with a bank “revolving credit and term loan agreement”. As of June 30, 2018, no advances have been made under any of the revolving credit and term loan agreements.

The Water Authority has remarketing agreements with seven separate broker-dealers, all of which serve on all series for TECP: Bank of America Securities LLC/Merrill Lynch, Citigroup Global Markets Inc., Goldman Sachs and Co., JP Morgan Securities, LLC, Morgan Stanley and Co. LLC, LOOP Capital Markets, LLC, and RBC Capital Markets, LLC.

The Water Authority established an ECP Program in June 2014. ECP is considered a market access product and therefore does not require bank liquidity to back stop the notes. This allows the Water Authority to save on bank costs for revolving credit and term loan agreements which support the TECP program. ECP is issued with a final maturity between 1 and 120 days. If the notes cannot be remarketed at their maturity date, the notes will be automatically extended to 270 days from the initial issuance and bear interest at a penalty rate until the notes can be remarketed or redeemed. The product's final maturity of 270 days assures that ECP complies with SEC Rule 2a-7, making the notes eligible investments for money market funds. The ECP has been issued as Series 1, for \$100,000,000 par amount.

The Water Authority has remarketing agreements with Bank of America Merrill Lynch, Morgan Stanley & Co. LLC, and JP Morgan Securities, LLC who serve as the dealers for ECP.

**TABLE 3. SUBORDINATE LIEN FIXED-RATE DEBT, FISCAL YEAR JUNE 30, 2018**

<b>Issue Name</b>	<b>Final Maturity</b>	<b>Original Par Amount</b>	<b>Amount Outstanding</b>
Water Revenue Refunding Bonds, Series 2016S-1	2021	\$ 87,685,000	\$ 87,685,000

**TABLE 4. TECP AND ECP PROGRAM SUMMARY, FISCAL YEAR JUNE 30, 2018**

<b>Short-Term Active Debt Debt Instruments</b>	<b>Size</b>	<b>Liquidity Provider</b>	<b>Liquidity Provider Agreement Expiration</b>
Series 1 (ECP)	\$ 100,000,000	n/a	n/a
Series 8	110,000,000	Bank of Tokyo Mitsubishi, UFJ	June 26, 2019 <sup>(1)</sup>
Series 9	135,000,000	Bank of America, N.A.	July 17, 2020 <sup>(2)</sup>
<b>Total</b>	<b>\$ 345,000,000</b>		

(1) The Series 8 Remarketing Agreement was amended in May of 2017 and extended to June 2019.

(2) The Series 9 Remarketing Agreement was amended in October of 2017 and extended to July 2020.

## Member Agency Voting Entitlements

The 24 voting member agencies currently served by the Water Authority consist of six cities, seventeen special districts, and one federal agency. Under the County Water Authority Act (Act), California Statutes 1943, Chapter 545, a member agency's vote is based on its "total financial contribution" to the Water Authority since the Water Authority was organized in 1944. Total financial contribution includes all amounts paid in taxes, assessments, fees, and charges to or on behalf of the Water Authority or the Metropolitan Water District of Southern California (MWD) excluding charges for water treatment. The Act authorizes each member agency to cast one vote for each \$5 million, or major fractional part thereof, of the total financial contribution paid by the member agency.

**TABLE 5. MEMBER AGENCY VOTING ENTITLEMENTS, EFFECTIVE AS OF JANUARY 1, 2018 \***

Member Agency	Total Financial Contribution <sup>(1)</sup>	Vote Entitlement	Percentage
Carlsbad Municipal Water District	\$458,237,841	91.648	3.58%
City of Del Mar	37,902,439	7.580	0.30%
City of Escondido	458,754,357	91.751	3.58%
Fallbrook Public Utility District	296,928,623	59.386	2.32%
Helix Water District	869,449,548	173.890	6.78%
Lakeside Water District	95,353,192	19.071	0.74%
City of National City	97,177,694	19.436	0.76%
City of Oceanside	656,986,846	131.397	5.13%
Olivenhain Municipal Water District	411,603,017	82.321	3.21%
Otay Water District	732,468,042	146.494	5.71%
Padre Dam Municipal Water District	344,526,951	68.905	2.69%
Camp Pendleton Marine Corps Base	12,161,262	2.432	0.09%
City of Poway	271,195,280	54.239	2.12%
Rainbow Municipal Water District	512,677,067	102.535	4.00%
Ramona Municipal Water District	192,701,244	38.540	1.50%
Rincon del Diablo Municipal Water District	186,760,530	37.352	1.46%
City of San Diego	5,101,362,929	1,020.273	39.81%
San Dieguito Water District	137,784,168	27.557	1.07%
Santa Fe Irrigation District	203,480,826	40.696	1.59%
South Bay Irrigation District	263,496,443	52.699	2.06%
Vallecitos Water District	351,400,333	70.280	2.74%
Valley Center Municipal Water District	674,077,947	134.816	5.26%
Vista Irrigation District	397,540,777	79.508	3.10%
Yuima Municipal Water District	51,658,824	10.332	0.40%
<b>Total</b>	<b>\$12,815,686,182</b>	<b>2,563.137</b>	<b>100.00%</b>

\* Numbers may not total due to rounding.

(1) Total Financial Contribution is calculated by adding the total member agency financial contribution for the fiscal year ended June 30, 2017 to the cumulative total member agency financial contribution as of June 30, 2016.



## Water Source and Use

**TABLE 6. MEMBER AGENCY GROSS WATER SALES BY FISCAL YEAR, THOUSANDS OF DOLLARS \* (1)**

	2014	2015	2016 <sup>(2)</sup>	2017	2018
Carlsbad Municipal Water District	\$ 23,942	\$ 23,192	\$ 20,929	\$ 26,133	\$ 29,386
City of Del Mar	1,198	1,140	1,133	1,212	1,393
City of Escondido	23,524	22,427	20,765	20,198	14,611
Fallbrook Public Utility District	15,971	15,480	12,665	12,657	15,093
Helix Water District	35,291	33,721	30,279	32,216	35,110
Lakeside Water District	4,948	4,124	3,758	4,197	4,607
City of Oceanside	29,460	28,676	27,204	29,432	32,012
Olivenhain Municipal Water District	22,755	22,376	20,483	22,868	25,657
Otay Water District	44,691	42,890	39,233	42,722	47,799
Padre Dam Municipal Water District	16,156	14,944	13,427	14,800	16,528
Camp Pendleton Marine Corps Base	72	76	86	82	125
City of Poway	13,851	12,295	10,980	11,179	13,641
Rainbow Municipal Water District	28,093	25,622	23,418	24,513	28,015
Ramona Municipal Water District	8,391	7,672	6,874	6,858	7,909
Rincon del Diablo Municipal Water District	9,132	8,046	7,249	7,870	8,775
City of San Diego	205,769	217,734	194,692	211,989	215,688
San Dieguito Water District	5,308	5,628	4,307	4,928	4,038
Santa Fe Irrigation District	10,691	10,173	7,524	9,512	8,559
Sweetwater Authority <sup>(3)</sup>	13,400	14,117	13,085	15,512	6,274
Vallecitos Water District	23,598	21,639	20,912	25,754	28,925
Valley Center Municipal Water District	35,839	32,816	27,224	28,828	33,042
Vista Irrigation District	20,244	18,100	17,564	22,646	9,822
Yuima Municipal Water District	4,964	5,075	4,367	5,673	8,179
<b>Total</b>	<b>\$ 597,289</b>	<b>\$ 587,964</b>	<b>\$ 528,157</b>	<b>\$ 581,779</b>	<b>\$ 595,188</b>

\* Numbers may not total due to rounding.

(1) Gross water sales represent total water sales invoiced less adjustments for certain items such as agricultural and reclaimed water, treatment credits, and infrastructure access charges. In addition to gross water sales revenues, in some years the Water Authority has also received a minor amount of revenues from adjacent water districts that provide water to customers within the Water Authority's service area under operating agreements. These revenues are not included in this chart.

(2) Numbers have been adjusted to account for the adjustments stated in Note 1.

(3) Represents sales to the city of National City and South Bay Irrigation District for which Sweetwater Authority acts as a purchasing agent.



In Fiscal Year 2018, the Water Authority member agencies' combined imported and local water use totaled 518,397 acre-feet. Imported supplies accounted for 392,871 acre-feet or 76 percent of the total water used, excluding estimated water savings from conservation programs. Approximately 357,175 acre-feet or 91 percent of imported water supplies was used for municipal and industrial (M&I) needs, with the balance going to meet agricultural demands.

**TABLE 7. WATER SOURCE AND USE (IN ACRE-FEET), FISCAL YEARS 2014-2018**

	2014	2015	2016	2017	2018	% of change from previous year
<b>Water Use by Member Agency</b>						
Carlsbad Municipal Water District	22,829	20,609	17,391	18,324	20,527	12.0%
City of Del Mar	1,197	1,097	1,016	1,061	1,195	12.6%
City of Escondido	25,523	22,265	18,518	18,672	22,021	17.9%
Fallbrook Public Utility District	14,125	12,331	10,175	9,863	10,830	9.8%
Helix Water District	35,067	31,145	27,118	28,717	30,258	5.4%
Lakeside Water District	4,311	3,739	3,185	3,380	3,650	8.0%
City of National City	6,692	5,676	5,014	5,210	5,251	0.8%
City of Oceanside	29,638	26,449	22,789	22,723	24,969	9.9%
Olivenhain Municipal Water District	25,020	22,222	18,167	20,007	22,271	11.3%
Otay Water District	38,158	34,485	29,128	30,734	33,794	10.0%
Padre Dam Municipal Water District	12,982	11,322	9,371	10,138	11,053	9.0%
Camp Pendleton Marine Corps Base <sup>(1)</sup>	9,038	8,026	6,277	6,206	7,580	22.1%
City of Poway	13,038	11,127	8,806	9,800	10,898	11.2%
Rainbow Municipal Water District	22,980	20,173	17,050	16,983	19,240	13.3%
Ramona Municipal Water District	6,827	6,142	4,867	5,042	5,580	10.7%
Rincon del Diablo Municipal Water District	9,873	8,882	7,488	7,572	8,212	8.5%
City of San Diego <sup>(2)</sup>	209,876	191,674	164,228	171,883	181,661	5.7%
San Dieguito Water District	7,443	7,110	5,895	6,110	6,872	12.5%
Santa Fe Irrigation District	12,172	11,199	8,482	9,851	11,022	11.9%
South Bay Irrigation District	14,584	13,555	11,987	12,484	12,128	-2.9%
Vallecitos Water District	17,889	15,297	12,985	14,410	16,134	12.0%
Valley Center Municipal Water District	29,997	25,985	20,025	20,606	22,905	11.2%
Vista Irrigation District <sup>(3)</sup>	20,134	17,833	15,812	17,190	18,031	4.9%
Yuima Municipal Water District <sup>(4)</sup>	5,143	4,894	9,191	10,058	12,315	22.4%
<b>Total</b>	<b>594,536</b>	<b>533,238</b>	<b>454,963</b>	<b>477,024</b>	<b>518,397</b>	<b>4.8%</b>
<b>Allocation of Water Use</b>						
Residential	385,559	338,162	296,379	306,757	335,136	9.3%
Commercial & Industrial	83,482	80,311	74,049	80,668	85,553	6.1%
Agricultural <sup>(5)</sup>	51,851	55,360	44,675	45,167	50,323	11.4%
Public & Other	73,644	65,528	39,860	44,432	47,385	6.7%
<b>Total</b>	<b>594,536</b>	<b>539,361</b>	<b>454,963</b>	<b>477,024</b>	<b>518,397</b>	<b>4.9%</b>

(1) Includes Water Authority deliveries via South Coast Water District System.

(2) Excludes City of San Diego local surface water use outside of Water Authority service area.

(3) Excludes land outside of Water Authority service area.

(4) Includes local supplies and demands developed beyond Yuima's master meters beginning in Fiscal Year 2015.

(5) Agricultural use based on member agencies' estimated sector weightings.

**TABLE 8. WATER SOURCE AND USE -  
CURRENT YEAR BREAKOUT, FISCAL YEAR ENDED JUNE 30, 2018**

	Source of Water (Supply) (Acre-feet)			Type of Water Authority Supply (Acre-feet)		Gross Area (Acres)
	Local <sup>(1)</sup>	Water Authority (Imported) <sup>(2)</sup>	Total	Agricultural Use <sup>(3)</sup>	M & I Use	
Carlsbad Municipal Water District	6,747	13,780	20,527	-	13,780	20,682
City of Del Mar	117	1,078	1,195	-	1,078	1,442
City of Escondido	12,495	9,526	22,021	1,897	7,628	18,500
Fallbrook Public Utility District	824	10,006	10,830	2,971	7,035	27,988
Helix Water District	4,545	25,713	30,258	-	25,713	31,350
Lakeside Water District	812	2,838	3,650	-	2,838	11,488
City of National City	5,005	246	5,251	-	246	4,812
City of Oceanside	2,460	22,509	24,969	310	22,199	26,983
Olivenhain Municipal Water District	2,839	19,432	22,271	104	19,328	30,942
Otay Water District	4,156	29,638	33,794	-	29,638	80,320
Padre Dam Municipal Water District	732	10,321	11,053	159	10,162	54,402
Camp Pendleton Marine Corps Base <sup>(4)</sup>	7,392	188	7,580	-	188	134,625
City of Poway	667	10,231	10,898	47	10,184	25,047
Rainbow Municipal Water District	-	19,240	19,240	8,807	10,433	47,670
Ramona Municipal Water District	708	4,872	5,580	1,034	3,838	45,868
Rincon del Diablo Municipal Water District	2,744	5,468	8,212	32	5,437	10,596
City of San Diego <sup>(5)</sup>	29,468	152,193	181,661	152	152,041	213,121
San Dieguito Water District	4,212	2,660	6,872	-	2,660	5,660
Santa Fe Irrigation District	5,203	5,819	11,022	-	5,819	10,359
South Bay Irrigation District	10,418	1,709	12,128	-	1,709	13,837
Vallecitos Water District	3,500	12,634	16,134	901	11,733	28,363
Valley Center Municipal Water District	379	22,526	22,905	14,607	7,919	64,540
Vista Irrigation District	13,875	4,156	18,031	28	4,128	21,152
Yuima Municipal Water District	6,227	6,088	12,315	4,647	1,441	13,460
<b>Total <sup>(6)</sup></b>	<b>125,525</b>	<b>392,872</b>	<b>518,397</b>	<b>35,696</b>	<b>357,175</b>	<b>943,207</b>

(1) Includes surface, recycled, seawater desalination, and groundwater supplies; does not reflect conserved water.

(2) Water use in a given year may differ from Water Authority sales due to utilization of storage.

(3) Includes only amounts certified through the Transitional Special Agricultural Water Program (TSAWR).

(4) Includes Water Authority deliveries via South Coast Water District System.

(5) Excludes City of San Diego local surface water use outside of Water Authority service area.

(6) Numbers may not total due to rounding.

## Operating Results

**TABLE 9. HISTORICAL OPERATING RESULTS BY FISCAL YEAR, THOUSANDS OF DOLLARS \***

	2014	2015	2016	2017	2018
<b>Operating Revenue</b>					
Water Sales <sup>(1)</sup>	\$ 593,695	\$ 584,173	\$ 524,935	\$ 579,057	\$ 591,809
Standby Charges	11,137	11,107	11,088	11,091	11,103
Capacity Charges	13,815	22,560	15,839	21,081	28,154
Infrastructure Access Charges <sup>(2)</sup>	29,206	29,896	30,434	31,145	32,482
<b>Total Operating Revenue</b>	<b>\$ 647,853</b>	<b>\$ 647,736</b>	<b>\$ 582,296</b>	<b>\$ 642,374</b>	<b>\$ 663,548</b>
Plus Withdrawals from or Minus Deposits to the Rate Stabilization Fund	(22,000)	(28,500)	(10,300)	(8,673)	(18,399)
BABs Interest Rate Subsidy <sup>(3)</sup>	10,269	10,476	10,544	10,527	10,546
Nonoperating Revenue <sup>(4)</sup>	7,670	7,204	6,724	6,013	15,691
<b>Total Revenue <sup>(5)</sup></b>	<b>\$ 643,792</b>	<b>\$ 636,916</b>	<b>\$ 589,264</b>	<b>\$ 650,240</b>	<b>\$ 671,386</b>
<b>Operating Expenses <sup>(6)</sup></b>					
Cost of Sales	422,700	411,038	387,123	430,561	442,369
Other Maintenance and Operations Costs <sup>(7)</sup>	39,303	44,898	41,123	42,626	50,314
<b>Total Operating Expense</b>	<b>\$ 462,003</b>	<b>\$ 455,936</b>	<b>\$ 428,246</b>	<b>\$ 473,187</b>	<b>\$ 492,683</b>
Application of Net Tax Receipts	11,142	11,476	12,067	12,913	13,754
<b>Net Operating Expense</b>	<b>\$ 450,861</b>	<b>\$ 444,460</b>	<b>\$ 416,179</b>	<b>\$ 460,273</b>	<b>\$ 478,929</b>
Net Water Revenue Available for Debt Service	\$ 192,931	\$ 192,456	\$ 173,085	\$ 189,967	\$ 192,456

\* Some amounts are prepared on a basis other than generally accepted accounting principles.

(1) Water sales represent accrued sales to member agencies, as well as revenues from treatment of raw water and certain miscellaneous income items.

(2) Infrastructure access charge was implemented January 1999 and is levied on retail water meters within the service area.

(3) Taxable Build America Bonds (BABs) receive a 35 percent subsidy of interest payable from the United States Treasury. In Fiscal Year 2014, due to Congressionally -mandated sequestration, the IRS reduced the subsidy payments to issuers of BABs. The first semi-annual payment was reduced by 8.7 percent and the second semi-annual payment was reduced by 7.2 percent. In Fiscal Year 2015, 2016, and 2017 both semi-annual payments were reduced by 6.8 percent.

(4) Nonoperating revenue consists of interest earnings on Water Authority funds (excluding interest earnings on bond proceeds and the Rate Stabilization Fund) and other revenues (hydroelectric sales, penalties, etc.).

(5) Total revenue includes amounts transferred to and from the Rate Stabilization Fund, and excludes property taxes, contributions in aid of capital assets, and CIP grant reimbursements.

(6) Operating expenses exclude depreciation and amortization expenses.

(7) Includes operations, maintenance, planning, and general and administrative costs; excludes capital equipment purchases.

(8) Includes only debt service on Water Authority indebtedness payable from net water revenues and excludes debt service paid from tax revenues. Senior lien debt service does not include trust fees.

(9) Total debt service excludes the CPCFA issued 2012 Pipeline Bonds.

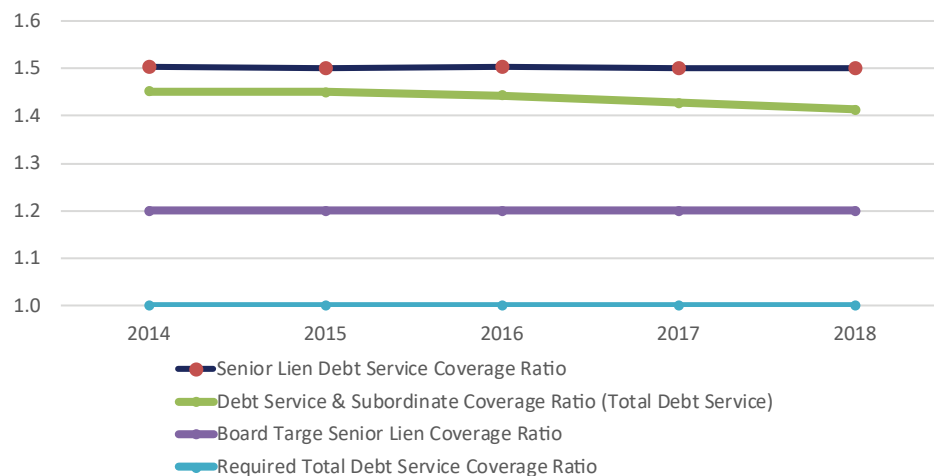
(10) Commercial paper (CP) costs include interest and related program fees.

(11) Coverage ratios do not include program fees.

**TABLE 9. HISTORICAL OPERATING RESULTS BY FISCAL YEAR, THOUSANDS OF DOLLARS\*,  
(CONTINUED)**

	2014	2015	2016	2017	2018
<b>Revenue Supported Debt Service<sup>(8)</sup></b>					
1998 Certificates	\$ 555	\$ 555	\$ 555	\$ 555	\$ 555
2004 Certificates	2,163	1,262	-	-	-
2005 Certificates	16,852	17,113	16,771	17,157	16,057
2008 Certificates	38,181	37,819	19,504	16,832	18,899
2010A&B Bond	38,576	39,497	38,505	37,145	37,143
2011A Bond	13,237	13,232	13,230	13,224	13,234
2011B Bond	4,707	4,707	4,707	4,707	4,707
2013A Bond	13,982	13,982	13,982	13,982	13,982
2015A Bond	-	-	6,905	8,910	8,910
2016A&B Bond	-	-	1,054	14,093	14,817
<b>Total Debt Service<sup>(9)</sup></b>	<b>\$ 28,253</b>	<b>\$ 128,167</b>	<b>\$ 115,213</b>	<b>\$ 126,605</b>	<b>\$ 128,304</b>
<b>Subordinate Obligation Payments</b>					
Commercial Paper <sup>(10)</sup>	2,480	1,708	1,925	3,853	4,944
2011S-1 Bond	4,272	4,272	3,916	-	-
2016S-1 Bond	-	-	290	3,885	4,084
<b>Total Subordinate Obligation Payments</b>	<b>\$ 6,752</b>	<b>\$ 5,980</b>	<b>\$ 6,131</b>	<b>\$ 7,738</b>	<b>\$ 9,028</b>
Balance Available after Debt Service and Subordinate Obligation Payments	<u>\$ 57,926</u>	<u>\$ 58,311</u>	<u>\$ 51,741</u>	<u>\$ 55,625</u>	<u>\$ 55,124</u>
Revenue Supported Debt Service Coverage Ratio	1.50X	1.50X	1.50X	1.50X	1.50X
Debt Service and Subordinate Obligation Coverage Ratio <sup>(11)</sup>	1.45X	1.45X	1.44X	1.43X	1.41X

**Chart 1, Water Authority Debt Service Coverage Ratios by Fiscal Year**



## Summary of Water Rates

Water rates are established by the Board of Directors and are not subject to regulation by the California Public Utilities Commission or by any other local, state, or federal agency. Under the General Resolution, the Water Authority is required to fix rates that are reasonably fair and nondiscriminatory. The Water Authority assesses five different charges for the supply and delivery of water; the fixed Customer Service, Storage, and Supply Reliability Charges, and the variable Transportation Rate and Supply and Treatment Rates. The Customer Service Charge recovers operating and capital costs associated with the overall functioning of the Water Authority, the Storage Charge recovers costs associated with the Emergency and Carryover Storage Program, the Supply Reliability Charge recovers a portion of costs associated with desalinated water and IID transfer water, and the Transportation Rate recovers costs associated with the conveyance of water through the Water Authority's aqueducts.

**TABLE 10. SUMMARY OF WATER RATES, EFFECTIVE JANUARY 1 - DECEMBER 31**

San Diego County Water Authority									Metropolitan Water District <sup>(1)</sup>					
Calendar Year	Melded Supply		TSAWR <sup>(2)</sup>		Transportation Rate	Customer Service	Storage	Supply Reliability	Full Service Tier 2		IAWP <sup>(3)</sup>		Replenishment Water Rate <sup>(4)</sup>	
	UTR	TR	UTR	TR					UTR	TR	UTR	TR	UTR	TR
2012	\$ 638	\$ 872	\$ 560	\$ 794	\$ 85	\$ 26,400,000	\$54,200,000	n/a	\$686	\$ 920	\$ 537	\$ 765	\$ 442	\$ 651
2013	714	970	593	849	93	26,400,000	60,200,000	n/a	743	997	-	-	-	-
2014	732	1,006	593	867	97	26,400,000	63,200,000	n/a	735	1,032	-	-	-	-
2015	764	1,042	582	860	101	26,400,000	63,200,000	n/a	714	1,055	-	-	-	-
2016	780	1,060	594	874	105	26,400,000	63,200,000	26,000,000	728	1,076	-	-	-	-
2017	855	1,145	666	956	110	26,400,000	65,000,000	24,800,000	728	1,073	-	-	-	-
2018	894	1,194	695	995	115	26,400,000	65,000,000	28,600,000	781	1,101	-	-	-	-

UTR=Untreated Water  
TR=Treated Water  
IAWP=Interim Agricultural Water Program  
TSAWR=Transitional Special Agricultural Water Rate

(1) MWD rates are shown as the rates adopted by MWD.

(2) TSAWR was adopted on December 10, 2008 for customers opting out of MWD's IAWP, and continues through December 31, 2020. Customers that are participating in the TSAWR program are considered M&I customers by MWD.

(3) The IAWP was discontinued in 2013.

(4) Discussion on MWD's Replenishment Rate Program is continuing with its member agencies.

## Summary of Investments

TABLE 11. SUMMARY OF INVESTMENTS, FISCAL YEAR ENDED JUNE 30, 2018 <sup>(1)</sup>

Investment Type	Permitted by Board Policy	Maximum Maturity	Maximum Financial Institution Concentration	Actual Percentage	Actual Amount Book Value <sup>(2)</sup>
Local Agency Investment Fund (LAIF)	\$65 Million	n/a	n/a	14.87%	\$ 48,459,400
Treasury Securities	40%	5 years	n/a	20.66%	67,302,152
Agency Securities	100%	5 years	no limit	29.88%	97,360,626
Supranational Securities	10%	5 years	5%	1.78%	5,793,340
Commercial Paper	25%	270 days	5%	3.95%	12,855,022
Medium Term Notes/Corporates	30%	5 years	5%	10.29%	33,528,488
JPA Pools (CAMP)	25%	n/a	n/a	17.06%	55,582,146
Money Market Funds	20%	n/a	n/a	1.51%	4,926,244
				<b>100%</b>	<b>\$ 325,807,418</b>
Accrued Interest (unavailable for investing)					43,708
Checking/Petty Cash/Available Funds (unavailable for investing)					4,119,587
<b>Subtotal for Pooled Funds:</b>					<b>\$ 329,970,713</b>
<b>Debt Service Reserve (DSR) Funds Excluded from Portfolio Percentages<sup>(3)</sup>:</b>					
Trinity Plus - Reserve (GIC) - Series 1998A COPs					12,240,775
<b>Subtotal for Debt Service Reserve Funds (unavailable for CIP expenditures):</b>					<b>\$ 12,240,775</b>
<b>Total Cash and Investments</b>					<b>\$ 342,211,488</b>

## Investment Policy

The Water Authority's investment policy is defined and approved annually. The purpose is to identify various policies and procedures that enhance opportunities for a prudent and systematic investment policy, and to organize and formalize investment-related activities. The Water Authority's Board of Directors has delegated investment responsibility to the Water Authority's Treasurer, who is primarily responsible for implementing the investment policy. The Board and the Treasurer adhere to the guidance provided by the "prudent investor rule." The Treasurer presents an investment report to the Board monthly. The objectives of the investment policy are as follows:

A. Safety: Each investment transaction shall seek to avoid capital losses. Diversification of the portfolio will be used to reduce exposure to principal loss.

B. Liquidity: An adequate percentage of the portfolio will be maintained in liquid, short-term securities that can be converted to cash to meet disbursement requirements. Investment in securities with active secondary markets will be utilized. These securities will have a low sensitivity to market risk.

(1) Includes only investment types with balances at June 30, 2018.

(2) Book value of investments differs from fair market values contained in financial statements. Book value of investments represents cost.

(3) Debt Service Reserve does not include the CPCFA issued 2012 Pipeline Bond.

C. Yield: Yield should become a consideration only after the basic requirements of safety and liquidity have been met.

D. Public Trust: All participants in the investment process shall act as custodians of the public trust. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

The investment portfolio will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions. Portfolio diversification is employed as a way to control risk.

The Water Authority strives to maintain an efficient portfolio by providing for the lowest level of risk for a given level of return. This acceptable level of return has been quantified as a return that is consistent with the two-year U.S. Treasury constant maturity.

The Water Authority is governed by the California Government Code, Sections 53600 et seq. Within the context of these limitations, investments are authorized for the Water Authority's operating and reserve funds as indicated in the Summary of Investments table.

The Water Authority does not invest in derivative instruments. Securities such as yield curve notes, interest only, principal only, range notes, and inverse floaters are prohibited. Callable bonds, step-up bonds, and floating rate securities (with a positive spread) are permitted investments. No security will be purchased that could result in a zero interest accrual if held to maturity. Investments such as common stocks, futures, and the writing of options are prohibited from use in the Water Authority's portfolio. The use of short positions is also prohibited.

## Litigation

### Quantification Settlement Agreement (QSA)

All state and federal court challenges to the validity of the QSA have been resolved and the validity of the QSA has been judicially confirmed. See *In re Quantification Settlement Agreement Cases* (2011) 201 Cal. App. 4th 758; *Quantification Settlement Agreement Cases* (2015) 237 Cal. App. 4th 72; and *California ex rel. Imperial County Air Pollution Control Dist. v. United States*, 767 F. 3d 781 (9th Cir. 2014).

### Construction Dispute

The Water Authority was involved in a construction dispute with Plaintiff Shimmick Construction Company, Inc./Obayashi Corporation, a Joint Venture. This dispute pertains to construction cost disputes for the San Vicente Dam Raise project. The Plaintiff alleged approximately \$60 million in unpaid costs and interest, while the Water Authority disputed all such claims. The Water Authority has also sued the Plaintiff entities for false claims. The trial in the case concluded with an award of approximately \$30 million (net) against the Water Authority of the roughly \$60 million sought. The parties negotiated a final settlement that is confidential (with some exceptions), and the case is now concluded. The matter settled within Water Authority budgeted parameters.

### MWD Litigation

The Water Authority has sued MWD in various related cases, mainly pertaining to alleged rate overcharges by MWD. The Water Authority has been paying the disputed MWD rates over the years, so the cases generally relate to potential damages to be awarded to the Water Authority, not additional new payments or damages to MWD. The general status of these cases:



**2010/2012 Rate Cases:** The Water Authority won a trial court award of \$234,932,782 from MWD on rate overcharges, interest, and attorney's fees for years 2011-2014. On June 21, 2017, the First District Court of Appeal issued its decision in the MWD appeal of that trial award. The Court of Appeal decision may be found at 12 Cal. App.5th 1124. The Court of Appeal sided with the Water Authority on most issues, but allowed MWD to charge the Water Authority certain State Water Project costs for water being transported under an exchange agreement, thereby potentially significantly reducing the ultimate monetary award to the Water Authority. That Court of Appeal decision was subject to a Petition for Review to the California Supreme Court which was filed by the Water Authority on July 31, 2017. The Supreme Court, however, denied review on September 27, 2017. The Court of Appeal opinion therefore becomes final, and the case has returned to the trial court for further proceedings consistent with the Court of Appeal's ruling.

**2014 Rate Case:** This case challenges MWD's rates adopted in 2014 for 2015 and 2016, was transferred to San Francisco Superior Court, and currently remains stayed. However, the stay may be lifted in the future, given the above result in the 2010/2012 cases.

**2016 Rate Case:** This case challenges MWD's rates adopted in 2016 for 2017 and 2018, and was transferred to San Francisco Superior Court. The Water Authority, MWD, and the eight MWD member agencies who answered the 2016 complaint entered into a stipulation (1) allowing the Water Authority to amend the 2016 complaint to add claims under the Exchange Agreement and for monetary damages; and (2) staying the 2016 case pending the outcome of the appeal in the 2010 and 2012 cases. On November 14, 2016, the Water Authority filed its amended complaint, and the 2016 case remains stayed. However, the stay may be lifted in the future, given the above result in the 2010/2012 cases.

**2017 Rate Case:** This case challenges MWD's rates adopted in 2017 for 2018 and has been transferred to San Francisco Superior Court. It may be allowed to proceed, given the above result in the 2010/2012 cases.

**2018 Rate Case:** This case challenges MWD's rates adopted in 2018 for 2019/2020 and is currently in the process of being transferred to San Francisco Superior Court. It may be allowed to proceed, given the above result in the 2010/2012 cases.

For detailed information on the Water Authority's rate litigation, visit: <http://www.sdcwa.org/mwdrate-challenge>.

#### Kimball Litigation

The Kimball litigation is a real property dispute filed in August 2018, over San Diego County assessor parcel numbers 327-110-07-00, 329-010-04-00, and 329-023-01-00. The Kimballs' sued the Water Authority to try and reform recorded title documents to allow for a conservation easement over about 160 acres that were purchased as a buffer zone for San Vicente Reservoir. The core issue in the case is what party will hold mitigation credit rights tied to the property of about \$1 to \$2 million, the Kimballs' or the Water Authority. The Water Authority is contesting the action.

### San Luis Rey Parties Arbitration

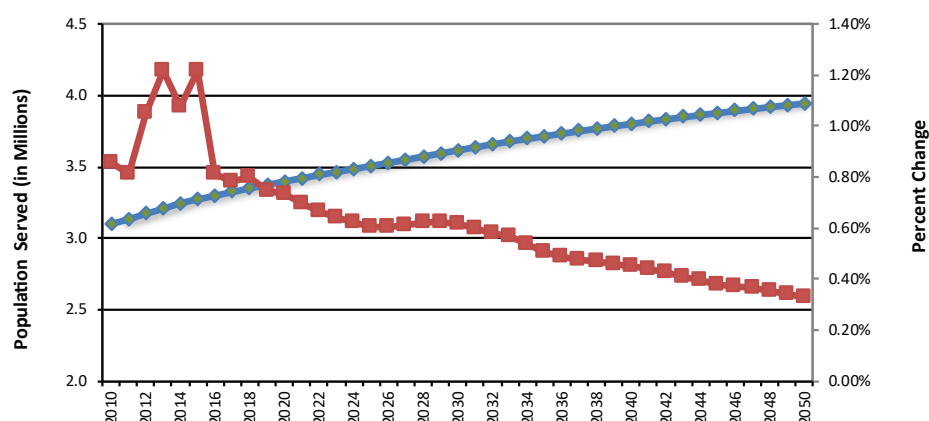
The Water Authority is in arbitration with the San Luis Rey Indian Water Authority, the City of Escondido, and the Vista Irrigation District regarding a contractual water delivery start date. The Water Authority asserts about \$2 million in damages, and that is disputed by the other parties. No claims are made against the Water Authority. The matter is being arbitrated by the American Arbitration Association, and should be decided in 2018 or early 2019.

For further information, contact the General Counsel's office, 4677 Overland Ave., San Diego, CA 92123, (858) 522-6790.

## Economy of San Diego County

Two of the San Diego region's greatest assets are its geography and climate. The average annual rainfall is only ten inches, so the county is highly reliant on imported water. For these reasons, the health of the regional economy is inextricably linked to the long-term success of the San Diego County Water Authority.

**Chart 2, San Diego County Estimated Population Growth and Change in Percentage <sup>(1)</sup>**



San Diego County has an estimated population of just over 3.3 million people; the estimated average growth between 2018 and 2050 is approximately 0.53 percent; the 2017 per capita income is an estimated \$56,473, a 1.8 percent decrease from 2016 estimates; and the per capita income for 2018 is estimated at \$57,473.<sup>(1)</sup> Estimated unemployment for San Diego County as of July 2018 is averaging at 3.3 percent according to CALMIS.

The San Diego region continues to see employment growth in the professional and business services with two back to back year over year gains. One of the fastest growing sectors has been healthcare, indicating continued demand. Industries that continue to underperform are trade, transportation and utilities, and financial activities, including real estate, and rental and leasing. According to the Federal Reserve Bank of St. Louis, Gross Domestic Product (GDP) decreased by 1.3 percent in 2017.

(1) San Diego County Economic Forecast. [http://www.dot.ca.gov/hq/tpp/offices/eab/socio\\_economic\\_files/2017/SanDiego.pdf](http://www.dot.ca.gov/hq/tpp/offices/eab/socio_economic_files/2017/SanDiego.pdf)  
(p.145-148)

Housing prices continue to pose a problem as San Diego continues to remain one of the least affordable housing markets in the nation, second only to San Francisco. Building units authorized for construction have risen with an expectation of continued improvement; and home building is shifting from single family to multi-family housing of five or more units, growing by 21 percent.

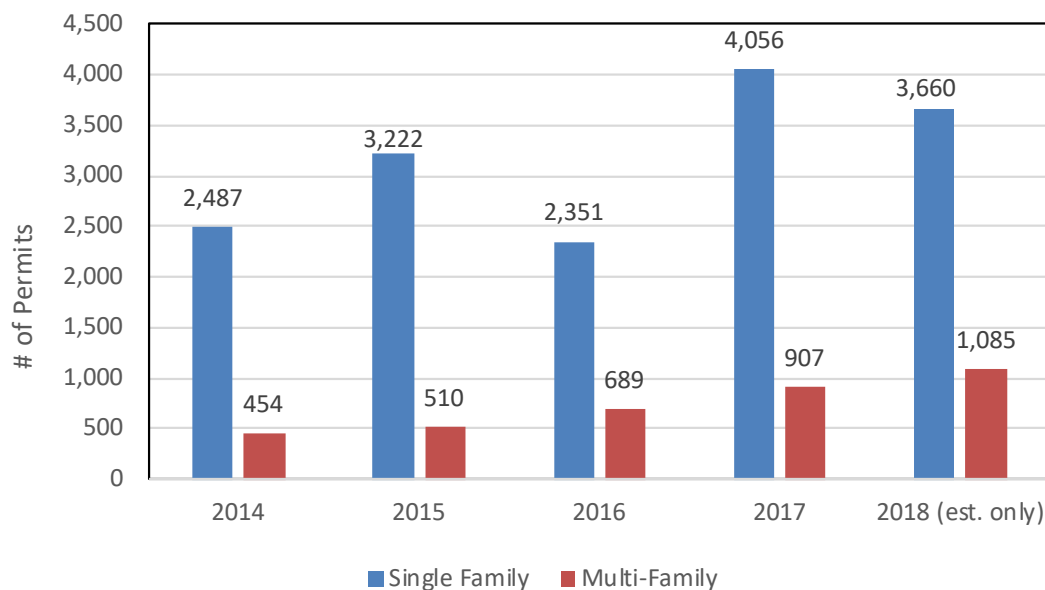
**TABLE 12. SAN DIEGO COUNTY ANNUAL BUILDING PERMIT ACTIVITY, CALENDAR YEAR <sup>(1)</sup>**

	2014	2015	2016	2017	2018 (est)
Single Family	2,487	3,222	2,351	4,056	3,660
Multi-Family	454	510	689	907	1,085
<b>Total</b>	<b>2,941</b>	<b>3,732</b>	<b>3,040</b>	<b>4,963</b>	<b>4,745</b>

2018 year-to-date	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Single Family	421	209	305	263	508	260	245	246
Multi-Family	123	33	96	98	162	97	58	55

**CHART 3. BUILDING PERMIT ACTIVITY, 2014-2018 (EST.), CALENDAR YEAR <sup>(1)</sup>**



(1) Table 12 and Chart 3. Source: U.S. Census Bureau (based on building estimates).

**TABLE 13. LABOR FORCE RATE TRENDS, CALENDAR YEAR**

YEAR	AREA	CIVILIAN LABOR FORCE	EMPLOYMENT	UNEMPLOYMENT	PERCENTAGE of UNEMPLOYMENT
2014	San Diego County	1,544,300	1,445,100	99,200	6.4%
	California	18,758,400	17,351,300	1,407,100	7.5%
	United States	155,922,000	146,305,000	9,617,000	6.2%
2015	San Diego County	1,554,900	1,474,200	80,700	5.2%
	California	18,896,475	17,724,800	1,171,674	6.2%
	United States	157,130,000	148,834,000	8,296,000	5.3%
2016	San Diego County	1,570,300	1,496,200	74,200	4.7%
	California	19,093,600	18,048,800	1,044,800	5.5%
	United States	159,187,000	151,436,000	7,751,000	4.9%
2017	San Diego County	1,584,700	1,521,200	63,500	4.0%
	California	19,312,000	18,393,000	919,000	4.8%
	United States	160,320,000	153,337,000	6,983,000	4.4%
2018 Estimated	San Diego County	1,583,985	1,531,298	52,687	3.3%
	California	19,344,062	18,524,804	819,258	4.2%
	United States	161,771,978	155,355,371	6,416,607	4.0%

Source: State of California, Employment Development Department. United States Department of Labor, Bureau of Labor Statistics. Labor Force Statistics, <https://www.bls.gov/cps/tables.htm#annual>

**TABLE 14. SAN DIEGO COUNTY EMPLOYMENT BY INDUSTRY, CALENDAR YEAR <sup>(1)</sup>**

Industry	2014	2015	2016	2017	2018 <sup>(2)</sup>
Farm Production	9,400	9,100	8,900	8,600	9,100
Mining and Logging	400	300	300	300	400
Construction	63,900	69,900	76,300	79,300	83,600
Manufacturing	102,200	106,200	108,000	109,000	113,900
Trade, Transportation, and Utilities	217,500	221,900	224,800	228,800	226,100
Information	24,800	24,200	24,100	24,400	24,500
Financial Activities	69,400	71,200	72,700	74,100	74,400
Professional and Business Services	221,400	227,200	231,200	233,500	248,600
Educational and Health Services	186,000	192,700	198,700	204,500	209,100
Leisure and Hospitality	177,000	183,900	191,900	196,400	197,500
Other Services	52,000	53,200	54,900	54,900	57,900
Federal Government	45,800	46,000	46,800	46,800	47,000
State and Local Government	186,200	190,200	195,500	201,200	194,200
<b>Total</b>	<b>1,356,000</b>	<b>1,396,000</b>	<b>1,433,600</b>	<b>1,461,800</b>	<b>1,486,300</b>

Notes:

(1) Table uses the North American Industry Classification System (NAICS).

(2) Current year is based on August statistics.

Source: CALMIS