



San Diego County Local Agency Formation Commission

Regional Service Planning | Subdivision of the State of California

NOTICE OF PROPOSAL PRELIMINARY STAFF REPORT

Title of Proposal: “Rainbow Municipal Water District – Eastern Municipal Water District Wholesale Water Reorganization” | Proposed Annexation to Eastern Municipal Water District for Wholesale Water Service with concurrent Detachment from San Diego County Water Authority

Reference No.: RO20-04

Affected APNs: Multiple, District-wide

Date Received: March 18, 2020

Applicant: Rainbow Municipal Water District, by Resolution

Subject Agencies: Rainbow Municipal Water District, Eastern Municipal Water District, San Diego County Water Authority

Sphere Amendment: Yes

Project Manager: Robert Barry | robert.barry@sdcounty.ca.gov

I. Proposal Request

The San Diego Local Agency Formation Commission (LAFCO) has received a resolution of application from Rainbow Municipal Water District (MWD) requesting initiation of proceedings to reorganize the MWD’s wholesale imported water provider from the San Diego County Water Authority (CWA) to the Eastern MWD of Riverside County. The affected territory includes all of the present Rainbow MWD’s authorized service area within the unincorporated area of north San Diego County, generally located south of Riverside County, west of SR-79, north of SR-78, and east of Camp Pendleton. A copy of the key proposal materials is attached.

II. Proposal Purpose

Rainbow MWD states the purpose of the proposed reorganization is to replace Rainbow MWD’s present wholesale imported water supplier – the San Diego County Water Authority – with the Eastern MWD of Riverside County because of closer proximity to Eastern MWD wholesale water supply infrastructure and expected cost-savings to ratepayers. The proposed reorganization involves annexation of the Rainbow MWD’s existing retail water service area within San Diego County to the Eastern MWD for wholesale water service, with a concurrent detachment of the affected territory from the San Diego County Water Authority’s wholesale water service area. Establishment of a coterminous sphere of influence for Eastern MWD with a conforming change to the CWA sphere to exclude the affected territory would also be required. No changes are proposed for Rainbow MWD’s existing authorized retail water service area or adopted sphere of influence. As the proposed reorganization would not change the area where existing services are presently authorized and

Administration Keene Simonds, Executive Officer County Operations Center 9335 Hazard Way, Suite 200 San Diego, California 92123 T 858.614.7755 F 858.614.7766 www.sdlafco.org	Jim Desmond County of San Diego Chair Dianne Jacob County of San Diego Greg Cox, Alternate County of San Diego	Mary Casillas Salas City of Chula Vista Bill Wells City of El Cajon Paul McNamara, Alternate City of Escondido	Mark Kersey City of San Diego Chris Cate, Alternate City of San Diego	Jo MacKenzie Vista Irrigation Barry Willis Alpine Fire Protection Erin Lump, Alternate Rincon del Diablo MWD	Vice Chair Andy Vanderlaan General Public Harry Mathis, Alternate General Public
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San Diego LAFCO

June 16, 2020

“Rainbow MWD – Eastern MWD Wholesale Water Reorganization” (RO20-04)

provided, the proposal is expected to be categorically exempt from the California Environmental Quality Act (CEQA) per State CEQA Guidelines Section 15320.

III. LAFCO Considerations

An initial review of the proposal identifies the following pertinent item(s) germane to LAFCO staff’s review and ahead of the Commission’s deliberations:

Reorganization Merit-

The merit of the proposed reorganization serves the primary focus of the analysis given the affected territory presently lies within the San Diego CWA’s wholesale water service boundary and adopted sphere of influence. The LAFCO analysis is prefaced on addressing the factors of review required for consideration when jurisdictional changes are proposed and enumerated under Government Code 56668. The majority of the prescribed review factors for the proposed reorganization will focus on the service and financial capacities of the annexing agency, Eastern MWD. The proposal’s review will also evaluate any potential service or financial effects on the detaching agency, San Diego CWA. The merits of conforming sphere of influence changes will also be considered, including establishment of an Eastern MWD wholesale water service sphere coterminous with the Fallbrook PUD’s existing retail water service area, and exclusion of the affected territory from the CWA wholesale water service sphere.

IV. Proposal Referrals

This proposal notice and preliminary staff report is being provided to all of the following agencies:

- County of San Diego | County Service Area No. 81 (Fallbrook Parks); County Service Area No. 135 (Regional Communications); Department of Planning and Development Services; Auditor/PTS; Assessor/Mapping; San Diego County Flood Control District; San Diego County Street Lighting District; Bonsall, Fallbrook, Pala-Pauma, & Rainbow Community Planning/Sponsor Groups; District 5, Office of Supervisor Desmond
- Fire Protection | North County Fire Protection District, Deer Springs Fire Protection District; San Diego County Fire Authority
- Water District | Rainbow Municipal Water District; San Diego County Water Authority; Eastern Municipal Water District; Metropolitan Water District of Southern California
- Other Agencies | City of Oceanside; Bonsall Unified School District; Fallbrook Union Elementary School District; Valley Center-Pauma Unified School District; Vallecitos General Elementary School District; Oceanside School District; Fallbrook Union High School District; Palomar Community College District; Fallbrook Regional Healthcare District; Palomar Health Healthcare District; Tri-City Healthcare District; Mission Resource Conservation District; Upper San Luis Rey Resource Conservation District; Valley Center Cemetery District

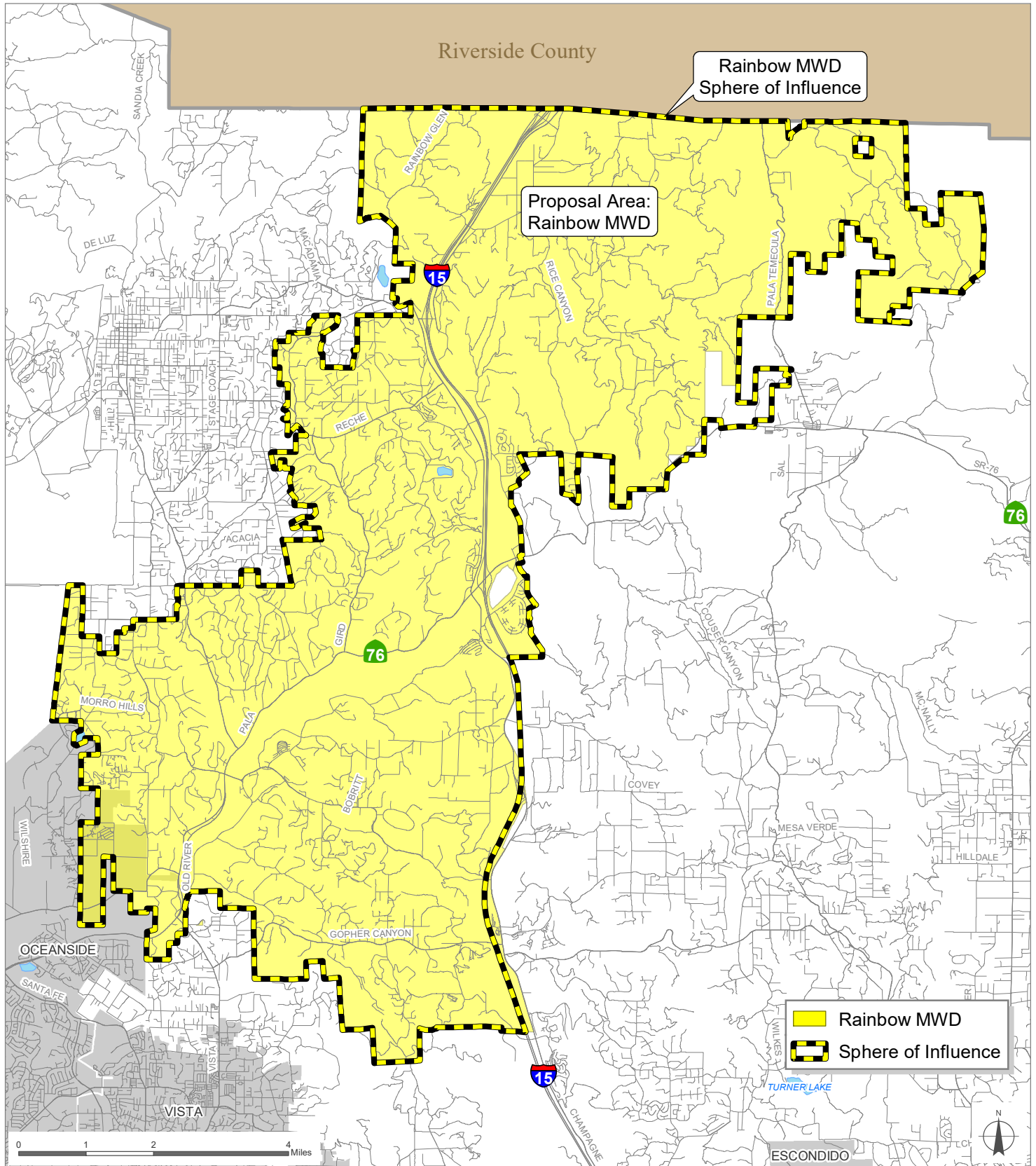
V. Review and Comment

All interested agencies and related stakeholders are invited to review and submit comments on the proposal – including any requested terms – by **Friday, July 10, 2020**. Comments should be directed to LAFCO Chief Analyst Robert Barry at robert.barry@sdcounty.ca.gov.

Attachments:

- 1) Proposed Reorganization Area Vicinity Map
- 2) Proposal Materials – Rainbow MWD Resolution of Application

RO20-04: Rainbow MWD Vicinity Map



San Diego County
Local Agency Formation Commission
 Regional Service Planning | Subdivision of the State of California

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“Rainbow Municipal Water District – Eastern Municipal Water District Wholesale Water Reorganization” | Proposed Annexation to Eastern Municipal Water District for Wholesale Water Service with concurrent Detachment from San Diego County Water Authority (RO20-04)



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RESOLUTION NO. 19-15

RESOLUTION OF THE BOARD OF DIRECTORS OF RAINBOW MUNICIPAL WATER DISTRICT AUTHORIZING THE GENERAL MANAGER TO PREPARE AND SUBMIT AN APPLICATION TO THE SAN DIEGO LOCAL AGENCY FORMATION COMMISSION TO DETACH FROM THE SAN DIEGO COUNTY WATER AUTHORITY AND ANNEX TO EASTERN MUNICIPAL WATER DISTRICT

WHEREAS, Rainbow Municipal Water District was established in 1953 and is organized under Section 71000 of the California Water Code; and

WHEREAS, Rainbow Municipal Water District is a special district that provides – among other services – water to the unincorporated communities of Rainbow, Bonsall, and portions of Vista, Oceanside, and Fallbrook; and

WHEREAS, Rainbow Municipal Water District is a member of the San Diego County Water Authority; and

WHEREAS, over the last 25 years, the San Diego County Water Authority which supplies water to individual water districts in San Diego County, has made major investments in new storage and treatment facilities located well south of the Rainbow Municipal Water District service areas; and

WHEREAS, these investments have increased the cost of water to customers of Rainbow Municipal Water District, adding several hundred dollars per acre foot to the cost of water for the customers of Rainbow Municipal Water District, many of whom are engaged in agricultural activities; and

WHEREAS, while most water districts in San Diego County rely entirely on San Diego County Water Authority pipelines for the water they distribute to their customers, Rainbow Municipal Water District has connections directly to the Metropolitan Water District of Southern California (MWD)'s pipelines; and

WHEREAS, Eastern Municipal Water District located in Riverside County is adjacent to Rainbow Municipal Water District, is a special district that also receives water supplies from Metropolitan Water District and provides retail water service to cities and special districts in Riverside County, and has consented to the possible annexation of Rainbow Municipal Water District; and

WHEREAS, Eastern Municipal Water District was in October of 2019 awarded a \$36.3 million grant from the State Water Resources Control Board which will improve groundwater quality and supplies and reduce its reliance on imported water supplies; and

WHEREAS, since 1954 Rainbow Municipal Water District has contributed over \$500 million to construct assets owned by San Diego County Water Authority, which assets will be retained by the San Diego County Water Authority and used for the benefit of its remaining member agencies; and

WHEREAS, if Rainbow Municipal Water District detaches from the San Diego County Water Authority, the San Diego County Water Authority will not have to spend the \$40 million budgeted to complete construction of the North County EPS pump stations to serve Rainbow Municipal Water District and Fallbrook Public Utility District; and

WHEREAS, Rainbow Municipal Water District's detachment from San Diego County Water Authority will lessen the North County area's demand for expanded water facilities and will permit the remaining member agencies of the San Diego County Water Authority to have increased reliability of supplies from San Diego County Water Authority in times of drought and reductions in imported water supplies; and

WHEREAS, the reliability of supplies from Eastern Municipal Water District to the Rainbow Municipal Water District will be equivalent to the supplies received from the San Diego County Water Authority, and

WHEREAS, the Rainbow Municipal Water District and the Fallbrook Public Utility District have entered into a Memorandum of Understanding which would allow Rainbow Municipal Water District to receive emergency supplies from the Fallbrook Public Utility District's Santa Margarita River Conjunctive Use Project that will serve the residents of Rainbow Municipal Water District in the very unlikely scenario where an earthquake or other emergency condition constricts supplies coming from Metropolitan Water District facilities in Riverside County, and

WHEREAS, the detachment of Rainbow Municipal Water District from the San Diego County Water Authority and annexation to Eastern Municipal Water District will be mutually beneficial in that the ratepayers of Rainbow Municipal Water District will obtain water supplies at a lower rate permitting the continuation of agricultural activities as well as general ratepayer reductions in costs while the remaining member agencies of the San Diego County Water Authority will be relieved of expenses of providing water supplies to the North County and will have greater reliability of water supplies in times of drought; and

WHEREAS, the detachment of Rainbow Municipal Water District from the San Diego County Water Authority is authorized by Section 45-11 of the California County Water Authority Act, the law governing the creation and existence of the San Diego County Water Authority; and

WHEREAS, the commencement of such a proceeding is initiated by an application to a Local Agency Formation Commission in accordance with the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000; and

WHEREAS, the Riverside Local Agency Formation Commission and the San Diego Local Agency Formation Commission have executed a memorandum of understanding dated October 24, 2019 by which San Diego Local Agency Formation Commission will undertake the processing of any application by Rainbow Municipal Water District to proceed with a reorganization involving modifications of spheres of influence, detachment from San Diego County Water Authority and annexation to Eastern Municipal Water District; and

WHEREAS, the process will require the preparation of various documents and the payments of filing fees and subsequent expenses,

NOW, THEREFORE, the Board of Directors resolves as follows:

1. The General Manager is authorized to prepare and submit to the San Diego Local Agency Formation Commission the application for the proposed reorganization and to provide any and all additional or supplemental forms, data, information, plans and documentation as the San Diego Local Agency Formation Commission staff may request and require from time to time during the processing of the application.
2. The General Manager is authorized to pay the filing fee to the San Diego Local Agency Formation Commission and to pay such additional sums as may be invoiced from the San Diego Local Agency Formation Commission for services rendered in the processing of the application.
3. The General Manager is authorized to coordinate his efforts with such resources as may be needed to process the application and to pay the invoices for the resources with whom he coordinates.
4. This proposal is to be made pursuant to Part 3 of the Cortese-Knox-Hertzberg Local Government Reorganization Act.
5. The nature of the proposal is a reorganization to detach Rainbow Municipal Water District from the San Diego County Water Authority and to annex the Rainbow Municipal Water District to Eastern Municipal Water District in Riverside County.
6. All property within the boundaries of the Rainbow Municipal Water District as it now exists shall be included, and the General Manager is to provide a legal description and map to be provided to the Local Agency Formation Commission.
7. The proposal suggests the following terms and conditions:
 - That pursuant to the express provisions of Section 45-11 of the County Water Authority Act which provide for detachments from a county water authority, the matter be submitted to a vote only by those electors residing within the boundaries of Rainbow Municipal Water District.
 - That pursuant to Section 45-11 of the County Water Authority Act that the taxable property within the excluded area shall continue to be taxable by the county water authority for the purpose of paying the bonded and other indebtedness of the county water authority outstanding or contracted for at the time of the exclusion and until the bonded or other indebtedness has been satisfied; provided further, that if the taxable property within the excluded area or any part thereof is, at the time of the exclusion, subject to special taxes levied or to be levied by the county water authority pursuant to the terms and conditions previously fixed under subdivision (c) or (d) of Section 10 for the annexation of the excluded area or part thereof to the county water authority, the taxable property within the excluded area or part thereof so subject to the special taxes shall continue to be taxable by the county water authority for the purpose of raising the aggregate sums to be raised by the levy of special taxes upon taxable property within the respective annexing areas pursuant to the terms and conditions for the annexation or annexations as so fixed and until the aggregate sums have been so raised by the special tax levies.

8. The reasons for the proposal are as follows:

- Rainbow Municipal Water District will be better positioned to provide water supplies to its customers at significantly lower rates;
- Rainbow Municipal Water District will be better positioned to provide water supplies to those within its boundaries who undertake agricultural activities, a major effort in support of the local economy.
- Rainbow Municipal Water District already receives water supplies from Metropolitan Water District which also supplies water to Eastern Municipal Water District as it does to San Diego County Water District.
- The detachment from San Diego County Water Authority will reduce both currently planned and future capital expenditures necessary to provide its water supplies to the North County area.
- The detachment from San Diego County Water Authority will also eliminate the need to share its reduced water supplies in times of drought conditions and permit the remaining member agencies to share the allocation that would otherwise be made to Rainbow Municipal Water District.

PASSED AND ADOPTED at a Regular meeting of the Board of Directors of Rainbow Municipal Water District held on the 3rd day of December 2019 by the following vote, to wit:

AYES: Directors Brazier, Gasca, Hamilton, and Rindfleisch
NOES: None
ABSENT: Director Mack
ABSTAIN: None

ATTEST:


Dawn Washburn, Board Secretary


Helene Brazier, Board President

Rainbow Municipal Water District
Supplemental Information Package for Reorganization
Application

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Introduction

The Board of Director of the Rainbow Municipal Water District (hereafter “RMWD” or “District”) has adopted a resolution approving an application to the San Diego Local Agency Formation Commission (SDLAFCO) for a Change in Organization (Exhibit A). Specifically, the District seeks actions from SDLAFCO to detach from the San Diego County Water Authority (SDCWA) and annex the District into Eastern Municipal Water District (EMWD). This application is being made to SDLAFCO in accordance with a Memorandum of Understanding (MOU) between SDLAFCO and Riverside County LAFCO dated October 24, 2019 that established SDLAFCO as the primary agency for consideration of this Change in Organization (attached as Exhibit B).

This action is sought to provide more efficient water service to the customers of the District due to the unique circumstances regarding the distribution of wholesale water in this part of San Diego County.

Executive Summary

RMWD is one of the last rural agricultural areas of San Diego County. Agriculture is the only significant economic activity in the District with 65% of its water demands serving the needs of growers. In over 80 square miles there are only about a dozen street lights, no Starbucks, no typical grocery store, no 7-11’s – it is a rural place. Agriculture has been hit hard over the last 20 years by ever increasing water costs. Avocado production – the most famous of San Diego County exports – is down tens of thousands of acres. The I-15 is named ‘The Avocado Highway’ but that is at risk due to high water prices.

When the District joined SDCWA nearly 70 years ago, it did so in accordance with the rules contained in the County Water Authority Act. This Act set the terms for both entering and leaving SDCWA. In order to attempt to preserve the main economic activity of this part of the County, the Board of Directors at the District has decided to apply the methods outlined in State Law to detach from SDCWA and annex into the neighboring imported water wholesaler, EMWD.

This application to SDLAFCO is firmly grounded in both the County Water Authority Act and the LAFCO processes contained in the Cortese-Knox-Hertzberg Local Government Reorganization Act (CKH). It seeks the approval of SDLAFCO for RMWD to detach from SDCWA and then annex into EMWD – the water wholesaler that serves the exact same water to neighboring Districts in Southwest Riverside County. As part of this change, our customers will have the exact same water quality and reliability as they do with SDCWA. The water will come from the same treatment plant, through the same pipelines, and be conveyed through to the District just as before. The only change is that the water will cost significantly less.

Under the County Water Authority Act, SDCWA will still have access to certain property tax revenue from properties within the District. The cost impact to other agencies will be minimal – the increase in costs will be about 1% to other agencies. RMWD’s detachment could increase costs per acre-foot about \$16.75. For comparison, the current wholesale cost for water from SDCWA is just under \$1700 per acre foot. At the household level since an acre foot will serve about four typical households for a year so the increased cost per household will be about \$5 per year.

The District has been attempting to engage with SDCWA in meaningful discussions about this proposed detachment since May of 2019. To date, SDCWA has refused to discuss its interpretation of the County Water Authority Act, saying that they would address this through the LAFCO process. While the District would rather have worked out details with SDCWA in advance of filing this application, their stance left no other options than to file now.

Background

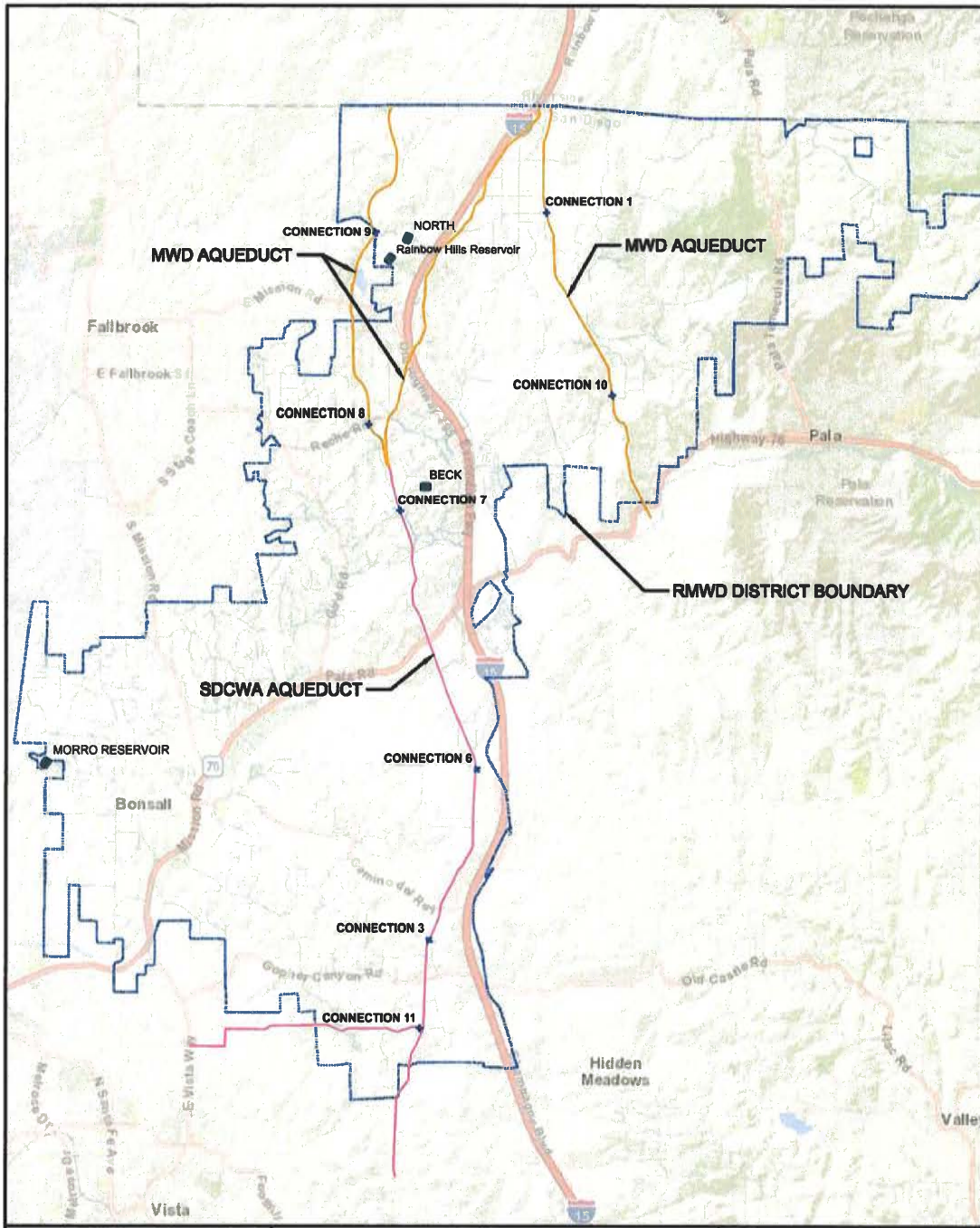
During World War II, the population of San Diego County increased rapidly due to wartime buildup of the Navy and other military bases in San Diego County. As local water supplies were insufficient to support this effort, the Federal Government began the construction of the first pipelines to bring Colorado River water into San Diego County. This pipeline connected to the existing Colorado River Aqueduct owned and operated by the Metropolitan Water District of Southern California (MWD). The first pipeline was connected to MWD's system near San Jacinto, CA and extended to the San Vicente Reservoir just east of San Diego.

MWD is allowed by statute only to sell water to public agencies who are members of MWD, so as part of the process of bringing imported water into San Diego County, the State of California formed SDCWA in 1944 to operate as the MWD member agency for San Diego County. The first water deliveries to the region began in 1947.

In 1952, as RMWD was forming, an application was made to SDCWA to join as a member agency. Over several months there was quite a bit of discussion and some controversy as to whether RMWD should be a member of SDCWA or simply connect directly to MWD as the pipelines were within the RMWD service area. After a series of back and forth actions by both SDCWA and MWD, RMWD was finally admitted to SDCWA in 1954. This history demonstrates that the question who should serve as our water wholesaler has been around since our inception.

The District is Unique in San Diego County

While the original political boundaries of SDCWA followed the County line as a separation, the engineers who designed the pipelines did not use those boundaries. For the first aqueduct, the separation between MWD and SDCWA was set at the halfway point between the connection near San Jacinto and the San Vicente Reservoir. The first aqueduct this separation point is several miles into San Diego County, located roughly where the aqueduct crosses State Highway 76 just east of I-15. MWD owns and operates stretches of the second, third, and fourth aqueducts well into San Diego County with the separation points being shown on the map below.



Both RMWD and the Fallbrook Public Utility District (FPUD) have connections directly to MWD’s pipeline with no use of SDCWA facilities. For FPUD, all but one connection is on MWD’s pipelines. For RMWD, four of the eight connections are on MWD’s pipelines with one of the connections to SDCWA’s pipeline being just 3000 feet from the point of separation.

The Districts are the only SDCWA member agencies who have direct connections to MWD. They are unique in the County – no other SDCWA member agency has now, nor practicably could have in the future, direct connections to MWD’s system. Further, in MWD’s service area SDCWA is the only MWD member agency that operates a large distribution system. In other MWD member agencies, MWD owns and operates the large wholesale pipelines and the member agency simply acts as the water purchasing coordinator.

No Real Benefit to Customers of the District Received from SDCWA Over EMWD

In the years following the construction of the aqueducts water was cheap and the arrangement worked well for all parties. However, over the last 25 years, SDCWA has made significant investments in the Emergency Storage Project (ESP) to construct new storage and treatment facilities located well south of the District. These investments have increased the cost of water significantly – adding several hundred dollars per acre foot to the cost of water.

While these investments may be good for agencies south of the District, RMWD does not receive commensurate benefits from these improvements. Virtually all the water delivered to the District comes from the Skinner Water Treatment Plant, owned and operated by MWD in Southwest Riverside County. The hydraulics of the aqueduct system are such that water flows from north to south, so apart from rare and unusual hydraulic conditions, all the water served to the District comes from an MWD owned treatment plant and is delivered through MWD pipelines into the service area. RMWD is more similar to water retailers in Southwest Riverside County than to other SDCWA member agencies.

Further, the ESP facilities constructed to date cannot properly serve the District. SDCWA has been implementing the ESP since 1996 and had contemplated constructing new pump stations to move water to the north, but those pump stations have not been constructed. SDCWA is still in planning stages for these facilities and no formal design work has commenced for their construction. RMWD ratepayers have paid ~\$25 Million in ESP related fees over the years to construct the ESP and yet can derive no benefit from it other than in a few areas in the southern part of the District.

RMWD and EMWD have performed an analysis of the relative reliability of water supply comparing being a member agency of SDCWA vs being a member agency of EMWD. This analysis shows that the reliability of supply from EMWD is higher than that from SDCWA. A full analysis is included in this application package.

Efficiency and Affordability of Service Would Be Much Higher From EMWD vs SDCWA

Since the District is not strictly reliant on SDCWA facilities and have no access to treatment plants and ESP facilities located to the south, it would be more efficient and affordable for the District to be annexed into EMWD. The Cortese-Knox-Hertzberg Local Government Reorganization Act (CKH) requires LAFCOs to evaluate the relative efficiency and affordability of municipal services when considering how a service is provided in a given geographic area. Should a change from SDCWA to EMWD is approved, customers within the District would see zero changes to the sources, quality, and reliability of the water service they receive from the District.

They would, however, see a significant improvement in efficiency and affordability. For RMWD, continued service from EMWD represents a decrease of approximately 20-25% in wholesale water costs over SDCWA.

The District Has a Pressing Need for Pipeline Rehabilitation

Prior to the establishment of the District in 1953, a good deal of this area was served by several Mutual Water Companies that served agricultural users in the area. Once imported water became available, all of these Mutual Water Companies eventually folded into the Rainbow system and the District assumed ownership of those pipelines. Many of these pipelines predate the District and are now well beyond their useful lifespan. Further, the hilly topography creates extremely high system pressures. These factors have led to a high risk of pipeline failures that needs to be addressed.

The District embarked on a comprehensive Condition Assessment Program that carefully scrutinized pipeline failure history, pipeline materials, system pressure, age, and soil conditions. The result of this analysis conclusively showed that the District needs to make investments of at least \$4 Million per year just to hold the current water main breakage rate steady over time. More money will be needed to lower the break rate. While the break rate is a significant challenge now, with significant impact to customers in terms of property damage and water outages, failure to act will only cause more main breaks, water outages, and property damage.

While the District could just raise its rates, doing so would further damage the already challenged agricultural economy in our area. A sharp increase in rates would put even more farmers out of business and decrease volumetric water sales at the District. This would create a negative feedback loop as rates would need to rise again to offset the lower sales. Needless to say, the Board of Directors at Rainbow MWD are committed to avoiding that cycle.

The savings realized by moving to EMWD will allow the district to more aggressively deal with our ageing infrastructure. Detachment would provide the District the ability to both pass some of these savings on to our customers and allow us to invest in the rehabilitation and replacement of infrastructure at the same time.

Existing Infrastructure Requires Few Changes

With the change from SDCWA to EMWD as the wholesaler, no physical changes are required to provide wholesale water service to RMWD. RMWD has four existing connections to the MWD system and four on the SDCWA system. Due to the decline in agricultural water use related to high imported water costs, the four direct MWD connections now provide adequate capacity to serve the demands of the entire RMWD service area. Each connection to the aqueduct system was paid for by the District at the time of connection and ownership was granted to SDCWA. The only requirement to effect the change is the transfer of the SDCWA ownership of those connections to EMWD.

The remaining challenge is serving a few higher elevation areas in RMWD's southern service area during brief peak summertime demand periods. RMWD has done extensive studies to identify the best methods to serve these areas. The results of these studies determined that improvement projects that are included in previous Water Master Plans and other Capital Improvement Project forecasts would need to be moved up in time should the detachment be approved. These include:

- A new pipeline from the Rice Canyon Tank westerly to the area of new development north of Hwy 76 and east of Interstate 15
- Replacement of seasonal pumping facilities with more robust pump stations at the Moosa, Line P, and Gopher pump station sites
- Replacement of a short section of main (<2000 feet) along Gird Road that was slated for replacement in previous Condition Assessment studies
- Completion of Weese Treatment Plant Interconnect with the City of Oceanside
- Minor expansion or interconnection of a few other key points in the distribution system

There are other options to meet peak summertime demands through demand management. RMWD is currently developing demand management programs that would fund agricultural efficiency projects in the southern zones of the District to shave the peak summertime demands. Demand management can reduce, or eliminate, the need for some of the mentioned capital improvements.

The cost estimates for these projects range from \$10 - \$15 Million. While all of these projects were in the planning stages and slated for construction over the next ten years, detachment would necessitate them to move forward more quickly. During the process of review of this application by LAFCO staff, the District would like to have a discussion on the timing of potential approval, the resulting election, and when the actual detachment would take place so that we can efficiently coordinate project priorities and timing.

Since approval of this application is not guaranteed, the District does not want to use its precious capital on these facilities until the outcome of the proceeding is a bit more certain. As noted above, while these projects have been in the long-term plan for some time, moving them up ahead of other projects only makes sense in the context of the significant imported water cost reduction that would result from detachment. This cost reduction would accelerate other necessary pipeline replacement and rehabilitation projects.

The County Water Authority Act

The County Water Authority Act (Water Code Appendix sections 45-1 et seq.), the law under which SDCWA exists and is organized, provides the organizational framework for county water authorities formed in California. Section 45-11 of the SDCWA Act sets forth certain requirements a member agency must follow in order to annex into or detach from SDCWA. RMWD followed the terms for annexation in 1953 when it joined SDCWA, including the requirement to make a payment as a condition of annexation in accordance with the Act. With respect to detachment, the Act contains provisions for bonded indebtedness that is secured by property taxes as well as a requirement for an election of the electors of the member agency seeking detachment.

The process for detachment/exclusion of the Districts from SDCWA and annexation of the Districts into EMWD, must be brought before the applicable Local Agency Formation Commissions (LAFCO) pursuant of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 (Government Code section 56000 set seq.) (CKH Act). Under the CKH Act, LAFCOs are charged with conducting hearings, making

determinations, and imposing conditions on the approval of proposed changes in certain public agency boundaries within the county in which the LAFCO sits. Here the exclusion from SDCWA, and annexation of RMWD into EMWD, would result in EMWD being located in more than one county (San Diego and Riverside) and therefore proceedings before both San Diego LAFCO and Riverside County LAFCO would be involved. In October 2019, the San Diego and Riverside County LAFCOs entered into a Memorandum of Understanding in which San Diego LAFCO has exclusive jurisdiction over all proceedings related to the detachment of RMWD from SDCWA as well as the sphere of influence changes required for EMWD.

Ultimately, should RMWD's application to San Diego LAFCO for detachment from SDCWA be approved, the reorganization would not take effect until after the electors of RMWD vote in support of the reorganization. If the election is successful, the taxable property within the detaching member agency may still continue to be taxable by SDCWA for the purpose of paying bonded and other indebtedness outstanding or contracted for at the time of the detachment/exclusion. (Water Code Appendix section 41-11(a)(2).) This is separate from any debt obligations of SDCWA that are not secured by property taxes and is limited to SDCWA share of ad-valorem taxes.

Financial Implications of Detachment

The proposed reorganization will have financial impacts to RMWD, EMWD, and SDCWA. RMWD has pursued discussions with SDCWA to discuss how to interpret the County Water Authority Act in meetings that started in May 2019. We held a number of meetings over the summer in an attempt to gain some consensus between RMWD and SDCWA as to how to interpret the act, all to no avail. The last formal meeting with SDCWA was held on October 9, 2019 in which we, once again, were unable to discuss the matter. In fact, in an email that was a follow up to that meeting (dated October 10, 2019), SDCWA General Manager Sandra Kerl stated the following:

"Finally, you said that you wanted to know our Agency's legal interpretation of the applicable law as to why your agencies should pay anything upon detachment. This is an issue that will be addressed in the course of LAFCO proceedings."

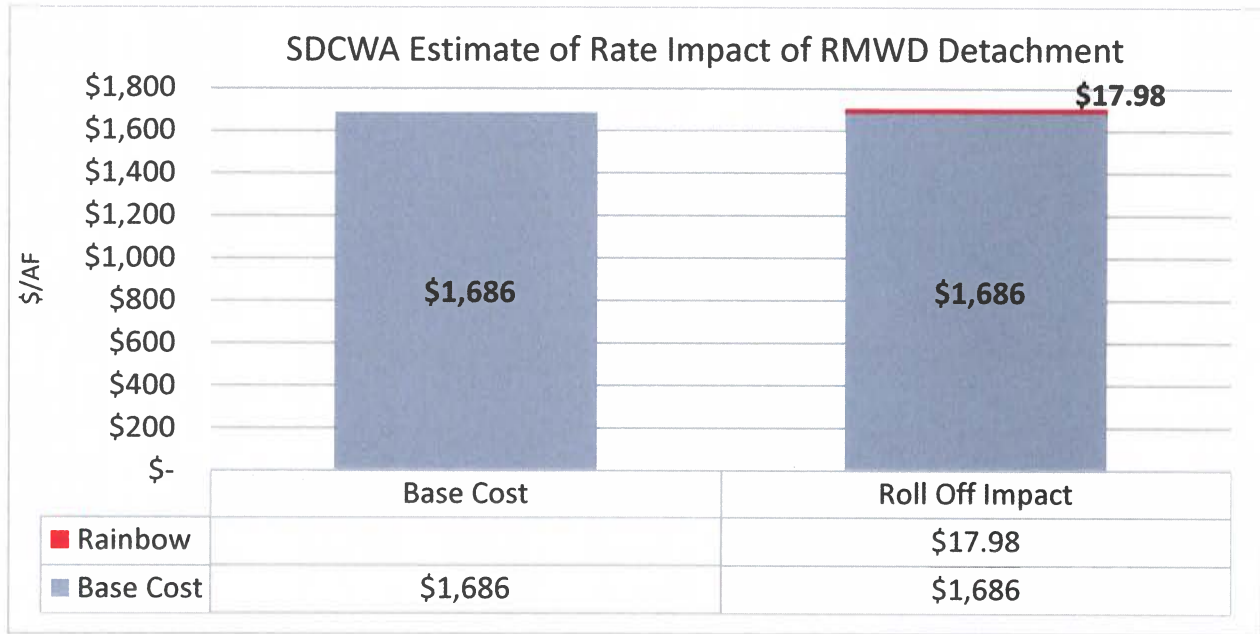
RMWD like to make it clear to LAFCO that we made multiple attempts to come to some sort of common understanding of the requirements of the SDCWA Act with SDCWA, but as Ms. Kerl's email indicates, they would rather address this at the commission level. Further, in her last communication, Ms. Kerl requested that RMWD and FPUD meet with each SDCWA member agency separately to negotiate a solution. While RMWD and FPUD reached out to each member agency and met with many of them and provided potential concepts for a cost structure for detachment, the general consensus from these meetings is the proposed approach to develop a separate agreement with each member agency is unworkable.

In absence of a negotiated agreement, RMWD is proposing that the detachment be consistent with the County Water Authority Act (Water Code Appendix section 45-1 et seq.), the law under which SDCWA exists and is organized. Section 45-11(a)(2) of the SDCWA Act sets forth certain requirements a member agency must follow in order to detach from SDCWA. In accordance with this provision if the detachment is successful taxable property within the detaching member agency may still continue to be taxable by SDCWA for the purpose of paying bonded and other indebtedness outstanding or contracted for at the time of detachment/exclusion.

The amount currently collected annually from RMWD customers is roughly \$175,000. These payments would continue after detachment per the SDCWA Act even though the District will not receive any benefit of any SDCWA facilities.

The remaining member agencies would also benefit from past investments made by RMWD in regional infrastructure. As of June 30, 2019, RMWD has contributed over \$560 million to help build infrastructure in San Diego County. These investments helped fund storage projects, emergency water supply projects and secure lower cost water supplies from canal lining projects. These investments will continue to provide benefits to the remaining agencies and RMWD will not recover any value from these regional investments that support all other member agencies of SDCWA. There is no outstanding SDCWA debt for SDCWA facilities that only serve RMWD and would have no benefit to other remaining agencies after detachment.

There will be a reduction in revenue for SDCWA if RMWD began to purchase its supply of water through EMWD. SDCWA prepared a summary of the anticipated costs based on FY 2018 water demands and CY 2020 rates in August 2019. This analysis results in an estimated revenue reduction to SDCWA of approximately \$17.98/AF on top of the existing rate of \$1686/AF for remaining agencies from detachment of RMWD based on there being no cost reduction in SDCWA operations due to detachment (See Figure 1). It should be noted that there will be operational cost reductions post detachment as SDCWA staff will not have to perform maintenance on some of the most remote facilities in their system.

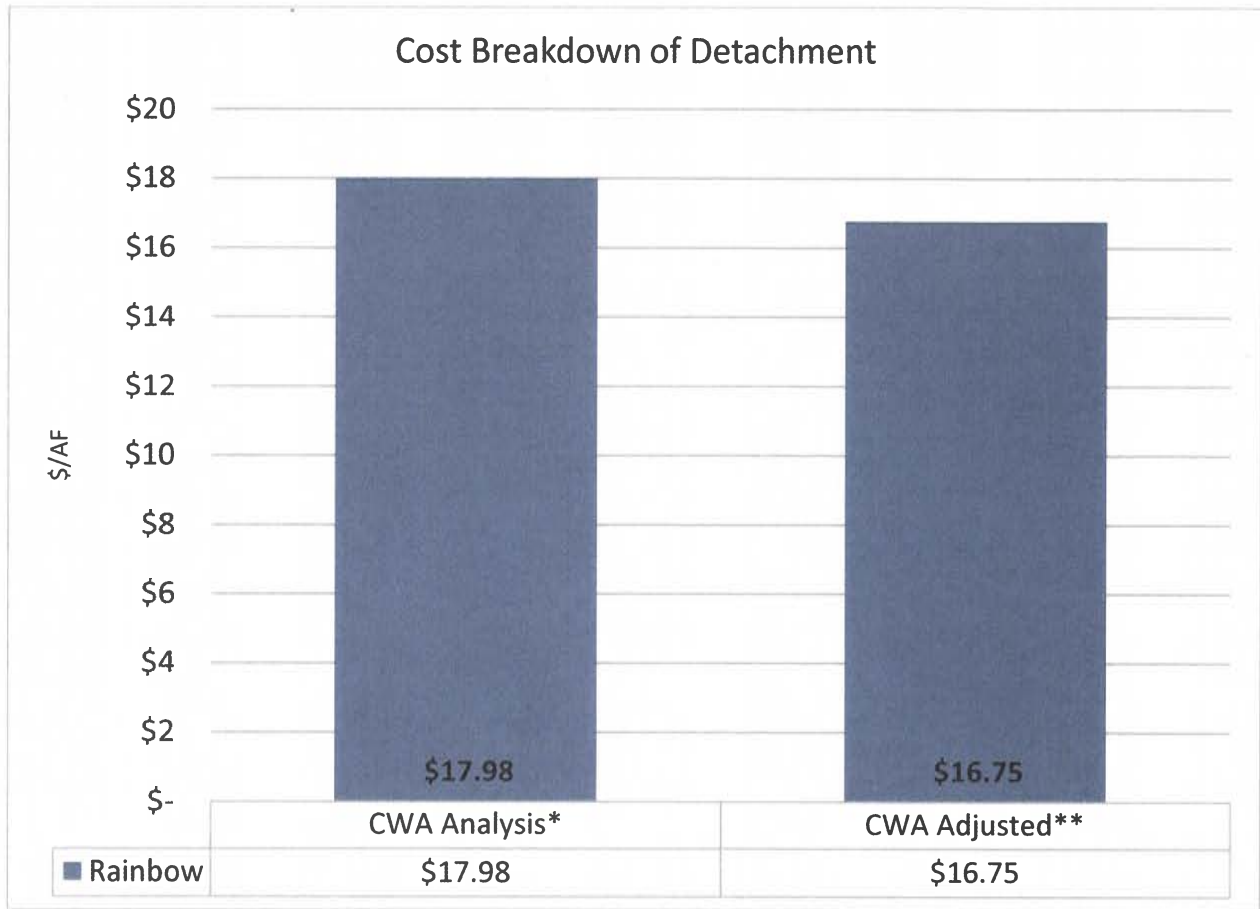


* Based upon SDCWA’s Recommended Calendar Year 2020 Rates and Charges presentation.

** Based upon updated water sales projection for SDCWA of 338,958 AF.

Figure 1 – SDCWA Projected Rate Impact

The SDCWA estimate is higher than the actual projected impact for the simple reason that the FY 2018 flows are higher than current and projected flows largely due to a continued decline in agriculture in the region. This will reduce RMWD’s water demands on SDCWA, which will reduce the cost impact of on SDCWA of detachment. Figure 2 shows the anticipated impact on SDCWA rates based on current RMWD demand projections. As shown in Figure 2, the relative projected impact to SDCWA from RMWD detachment is \$16.75/AF. The current SDCWA rate is approximately \$1686/AF, so this represents an increase of 0.99%. The average annual rate increase experienced by RMWD over the last 10 years from SDCWA is over 8%. Using recent water usage for the City of San Diego of 91 Gallons Per Capita Per Day (GPCD) and a rate impact of \$16.75 per AF for RMWD, the average person from the City of San Diego would see an annual cost impact of approximately \$1.71 per year.



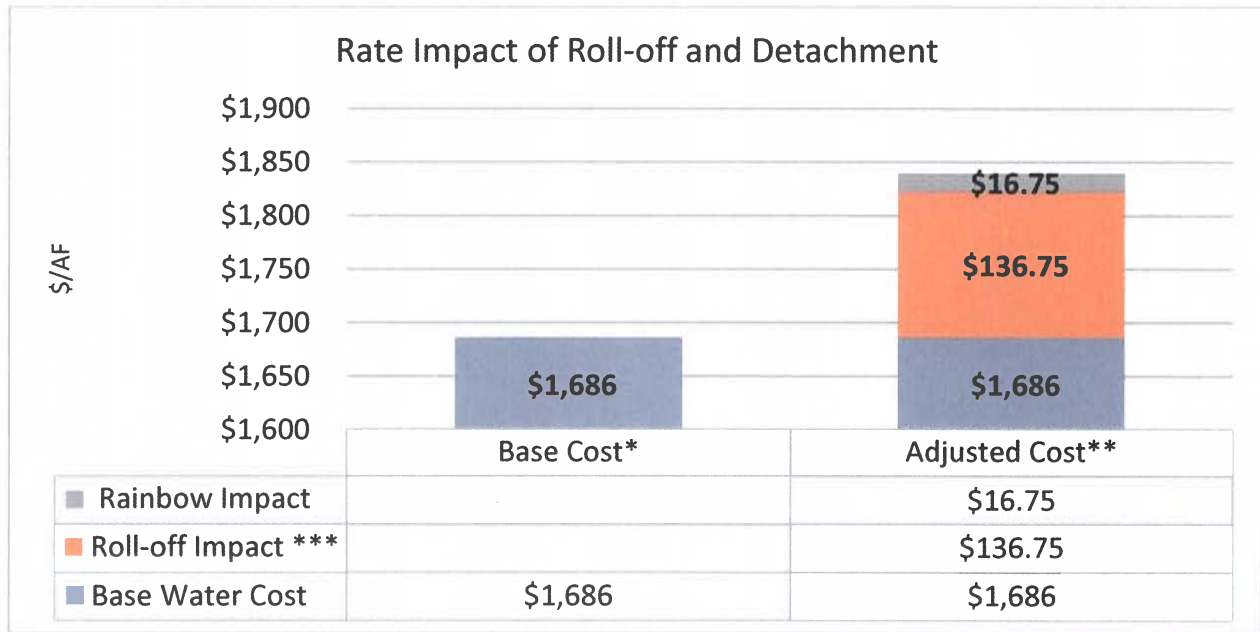
* Based upon SDCWA’s August Preliminary Financial Impact Analysis | De-Annexation.

** Based upon updated water sales projections

Figure 2- Rate Impact of FPUD/RMWD Detachment.

SDCWA has argued that the detaching agency must ensure revenue neutrality for the remaining agencies. Under this concept, RMWD and FPUD would continue to make the same net payment to SDCWA but would receive no services. In turn, SDCWA would use this money to subsidize other member agencies rates to be able to offset the potential <1% rate increase associated with the detachment of RMWD. We feel this concept is flawed at a number of levels:

1. This approach is inconsistent with the SDCWA act and would not have any cost of service basis and would violate proposition 26.
2. Currently member agencies can build local projects and reduce their water demands with a similar effect as detachment. The vast majority of rates allocated to a member agency are based on demands. While some are rolling averages, the costs paid by a District to SDCWA are largely proportional to water demands. Figure 3 shows an example of the rate impacts to other member agencies for three local supply projects that are underway. These projects include Phase I of the City of San Diego Pure Water Program, Pure Water Oceanside and the East County Advanced Purification Facility.



* Based upon SDCWA’s Recommended Calendar Year 2020 Rates and Charges presentation.

** Based upon updated water sales projection for SDCWA of 338,958 AF.

*** Pure Water Phase I, East County AWP, Pure Water Oceanside.

Figure 3 – Rate Impact of Roll-off and Detachment

As shown in Figure 3, the impact of these projects to other remaining member agencies is approximately \$137 per AF or **over 8 times** the projected impact of RMWD detachment. If RMWD was required to make each agency revenue neutral for the impact of their reduced water purchases then the same concept would need to be in place for entities that are rolling off SDCWA and shifting existing SDCWA costs to the remaining agencies, including RMWD, if detachment is not successful. RMWD has a population of approximately 20,000 and currently project to purchase approximately 14,500 AFY of water annually so the cost impact of roll-off at \$137/AF to each person in RMWD is approximately \$100 per year.

RMWD is facing a situation where SDCWA’s rate structure, which encourages roll off, will end up costing our customers about \$100 per year per person per year, while at the same time SDCWA has expressed opposition to our roll off that would only cost remaining member agencies less than \$2 per person per year.

The vast majority of the water used by RMWD is currently delivered from an MWD operated treatment plant through MWD facilities and the District pays SDCWA for this water. Currently, RMWD is charged over \$450/AF on top of the MWD price versus an additional \$11/AF for EMWD (See Figure 4). If RMWD detaches from SDCWA and attaches to EMWD, there is a substantial long-term savings to RMWD customers.

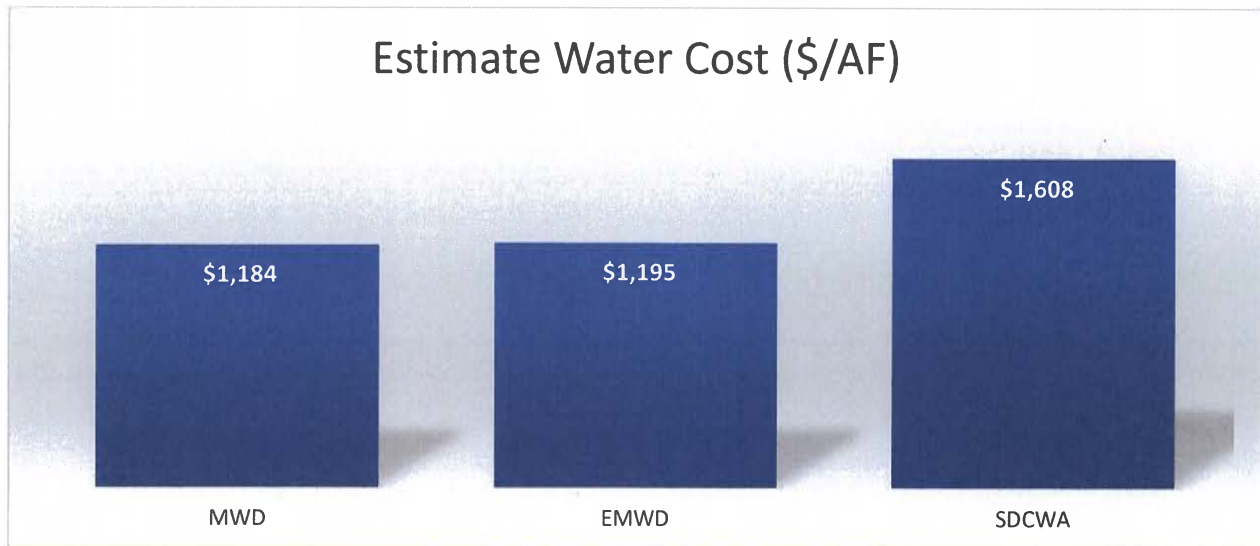


Figure 4 – Wholesale Water Costs

Apart from imported water costs, the largest driver for RMWD rate increases is the generation of revenue to address critical infrastructure that has served well beyond its design lifespan. Well over half of RMWD's distribution system is over 50 years old and many are closer to 70 years old. Pipeline failures are becoming more frequent and unless significant funds are generated to repair and replace these aging pipelines the problem will only get worse.

RMWD has completed a multiyear (and ongoing) condition assessment project that has focused our capital spending on those pipelines that are at the highest risk of failure. This project has highlighted the amount of revenue needed to accomplish the goal of pipeline rehabilitation and those revenue increases, along with imported water costs, drive RMWD rates.

Figure 5 shows the projected water rate increases for RMWD with and without detachment. As shown in Figure 5, without detachment, cumulative rate increases of just under 25% are anticipated over the next three years. With the reorganization it is anticipated that RMWD could actually lower rates slightly and then have no rate increase for several years based on the reduction in the cost of water with ongoing savings in wholesale water costs of over 25%.

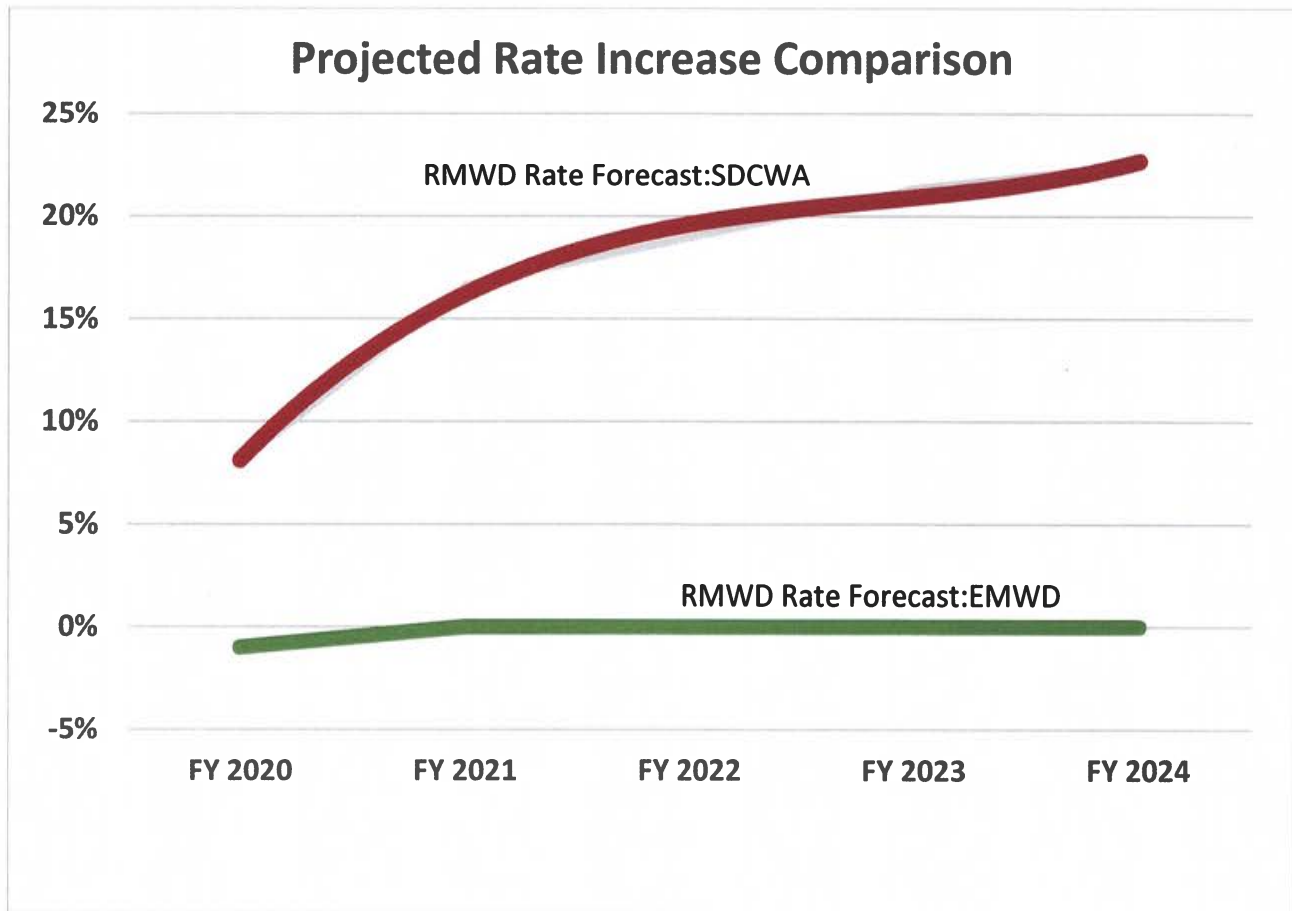


Figure 5 – Projected Rate Impacts of Detachment

RMWD has had to implement significant rate increases over the past decade to address the combined impacts of increased water supply costs, declining sales and aging infrastructure needs. Increasing water rates has had a significant impact on the quality of life in our community due to the loss of agriculture and the increasing impact on water customers in rural areas. Agricultural use consumes 65% of all of the water that RMWD sells, but the increasing cost of water over the years has been very harmful to the agricultural community.

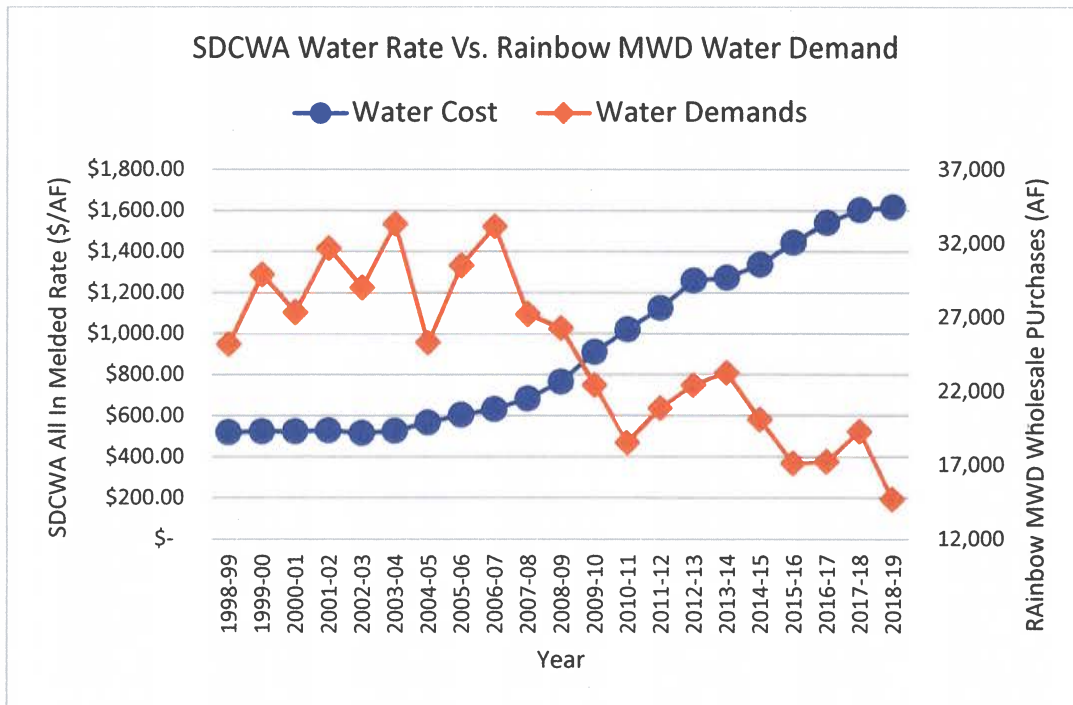


Figure 6: Water Costs and Agricultural Demands

Figure 6 above shows that as the costs related to SDCWA projects that do not benefit our region have increased over the last 15 years, there was a steep drop in agricultural water demand. Thousands of acres of avocado production were lost forever. Many thousands more are on the brink of going under due in large part to water costs. Agriculture is the only real economic activity in the RMWD service area that spans over 80 square miles with only a handful of signalized intersections, no other industry or commercial centers, and very little retail (there is not even a single Starbucks or 7-11 in the entire service area). These trends will continue into the future and further negatively impact our community unless LAFCO supports efforts by RMWD to reduce their water costs through the process of detachment from SDCWA and attachment to EMWD.

“Revenue Neutrality” or “Exit Fee” Concept

In various public statements, SDCWA officials have indicated that RMWD must either maintain “Revenue Neutrality” for SDCWA over time or make some sort of “Exit Fee” payment to SDCWA as a condition of detachment. RMWD has requested on multiple occasions to meet with SDCWA officials to discuss this concept. Each time SDCWA refused to have any specific discussions about what they meant by these terms. Both of these concepts are flawed for a number of reasons:

- The County Water Authority Act has no provisions for either concept. If SDCWA’s debt was secured on the basis of property taxes, those taxes would continue in accordance with the CWA Act. None of SDCWA’s debt is secured by property taxes. The CWA Act has no mention of

“Revenue Neutrality” whatsoever and we could find no other reference to the concept in any LAFCO statute.

- Were RMWD compelled to continue to make payments for infrastructure that it does not use in any way – or have the legal right to use in any way – those payments would be a likely violation of the Proposition 26 Cost of Service principles and thereby illegal under the California Constitution.

Had the State Legislature wanted to have “revenue neutrality” or an “exit fee” be part of the detachment process, it would have included these in the CWA Act. However, those terms are nowhere to be found. What is included in the CWA Act are very clear and detailed provisions for dealing with the financial matters of detachment. We respectfully request that those provisions be followed in this application.

Benefits to Remaining SDCWA Member Agencies

While most of the discussion of impacts to member agencies has centered on presumed negative financial impacts, there are a number of positive impacts for the remaining member agencies of SDCWA after an RMWD detachment is completed. These impacts are wide ranging and include operational and financial benefits:

- While most of San Diego County already has the full benefit of SDCWA’s Emergency Storage Project (ESP), there is one final component of the project that remains incomplete. The project has been under design and construction since 1996 with all other major facilities completed well over ten years ago, but the north county pump stations have not yet reached the design stage. These pump stations are required to move water stored in the ESP reservoirs to the south up into the Fallbrook and RMWD service areas. These northerly regions currently cannot receive the benefit of the ESP – despite the fact that RMWD ratepayers have contributed approximately \$25 Million (Through SDCWA’s Storage Fee and other charges) to the project over the years.

Should RMWD and FPUd detach from SDCWA, these pump station projects can be cancelled. The current budgeted cost of these stations is \$40 Million, so a detachment would save each agency their pro-rata share of \$40 million immediately.

- There will be operational savings as well when the most remote water metering structures in the SDCWA system are transferred to EMWD for day to day operations. These facilities were paid for by RMWD when they were built and a key part of the reorganization will be to transfer control of these facilities to EMWD. SDCWA staff will be able to reduce the number of water metering stations by about 15% with the combined RMWD and FPUd connections no longer requiring their attention.
- Each and every remaining member agency will receive an immediate increase in the amount of available water supply from the ESP once RMWD’s (and FPUd’s) demands are removed from the allocation pool. Valuing this type of reliability is tricky, but if you consider that the Carlsbad desal plant cost about \$1 Billion to produce ~50,000 AF per year, when RMWD’s ~14,000 AF per year is made available to other agencies to use, relative to the desal plant, that water has a

“value” of about \$280 Million. Note that this is not intended to be a one to one type of comparison as water supply values are based on a melded average of all sources of supply, but the desal plant is a benchmark of what SDCWA felt was a prudent investment to generate 50,000 AF per year of water.

- Per SDCWA record keeping, Rainbow MWD has contributed approximately 4% of the total financial contributions SDCWA has received over its history. This means that the customers at Rainbow MWD have paid for 4% of everything SDCWA has on its asset sheet. In their Comprehensive Annual Financial Report, SDCWA shows that the agency has current net assets of \$4.071 Billion and liabilities of \$2.569 Billion which results in a net position of \$1.577 Billion. RMWD ratepayers have contributed over \$560 Million to SDCWA over the years and that money paid for the RMWD “share” of the assets. With the detachment, the assets (pipelines, tanks, treatment plants, etc) that RMWD ratepayers paid for will be left behind to benefit those agencies that remain. 4% of the net position of SDCWA equates to just over \$62 Million in current net asset value that will be redistributed among the other member agencies. This will increase each other agency’s “share” of SDCWA assets and will increase their voting rights percentage at the agency as well.

Water Supply Reliability Analysis

During the course of the analysis leading up to this application to LAFCO, RMWD has conducted a series of studies to validate that the supply reliability from EMWD is equal to or greater than the supply reliability from SDCWA. The first studies were performed by Ken Weinberg, a nationally recognized expert in water resources and the former Director of Water Resources at SDCWA. Ken’s initial work demonstrated that there was no discernable difference in water supply reliability between EMWD and SDCWA as a wholesale supplier to RMWD.

Subsequent to Ken’s work, EMWD performed a comprehensive analysis of water supply reliability for their service area in order to ensure that the inclusion of RMWD (and FPUD) would provide proper supply reliability to their new, larger service area. This report (attached as Exhibit C) also demonstrates that under any potential supply condition, EMWD has ample supply resources to serve the demands of all of its wholesale and retail customers.

Compliance with SDLAFCO Policy L-107

SDLAFCO Policy L-107 directs agencies who contemplate these sorts of reorganizations to reach out to affected agencies as well as interested parties in advance of filing an application. SDLAFCO’s goal is for these parties to come to some sort of agreement related to the process and details surrounding the

detachment prior to coming to SDLAFCO. To be clear here, the only affected agency is SDCWA – all SDCWA member agencies may be interested parties, but the District does not seek detachment from those agencies, only SDCWA.

The District, in accordance with SDLAFCO Policy L-107, began its outreach with the primary affected agency, SDCWA, on May 21, 2019. On that day, RMWD General Manager Tom Kennedy met with Sandra Kerl, Acting General Manager of SDCWA and later in the day with SDCWA Board Chairman Jim Madaffer and Vice Chairman Gary Croucher. In these meetings, the District indicated that it was exploring this process and requested that we meet formally to discuss the County Water Authority Act's provisions related to detachment. At the conclusion of the meeting with SDCWA Chair and Vice Chair, we agreed to meet in a few weeks to discuss the matter.

Prior to that meeting, SDCWA served RMWD with a Public Records Act request for information, communications or other documents related to our exploration of the detachment. The meeting that was discussed in May was never set as SDCWA wanted to review the PRA information prior to holding a meeting. Those documents were produced to SDCWA in June 2019. The following is a chronology of the Districts efforts to comply with SDLAFCO Policy L-107:

- June 27, 2019 – at the Regular SDCWA Board meeting, both Jack Bebee (GM at FPUD) and Rainbow GM Tom Kennedy notified all SDCWA Board Members in open session about our desire to meet with any of them to discuss this matter.
- July/August 2019 – both Jack Bebee and RMWD GM Tom Kennedy met with several SDCWA member agencies to discuss the matter. There were also discussions at the SDCWA Member Agency Manager meeting that is attended by nearly every agency.
- July 30, 2019 – Representatives from staff and legal counsel from SDCWA, FPUD, and RMWD met at the SDCWA offices to discuss the potential detachment. While FPUD and RMWD came prepared to discuss the provisions of the County Water Authority Act, SDCWA staff and counsel deferred from any such discussion, indicating that they were not up to speed on the Act.
- August 22, 2019 – SDCWA held a closed session meeting on the detachment discussion and excludes both RMWD and FPUD from the discussion on the grounds of “risk of litigation”. To be clear, neither FPUD nor RMWD has any basis for litigating anything with SDCWA, so our exclusion was questionable. RMWD and FPUD were allowed to make a statement, but each was only afforded three minutes to address the Board from the lectern where public comments are received. In his comments, RMWD GM Kennedy reiterated his willingness to discuss the detachment with any interested party. At this closed session, the SDCWA Board authorized a contract for \$1 Million for legal services related to the detachment.
- September 16, 2019 – RMWD GM Kennedy and FPUD GM Bebee met at FPUD's offices with Sandra Kerl, SDCWA Acting GM and consultant Juanita Hayes to discuss detachment issues without their respective legal counsels present. This was a productive meeting at which we all agreed to meet again with our finance staff present to talk about specific details as to how the detachment would impact financial issues with the goal of finding a common ground.
- September 26, 2019 – At the SDCWA regular Board meeting, FPUD's Bebee again informed the entire SDCWA Board in open session that both FPUD and RMWD would like to meet with any interested party to discuss the matter.
- October 9, 2019 – FPUD GM Bebee and RMWD Gm Kennedy, along with FPUD CFO Shank, met with Sandra Kerl and Juanita Hayes at the SDCWA offices. This meeting was the follow up from

the September 16, 2019 meeting and was intended to dig into the details of financial matters. At this meeting, when no SDCWA finance staff was present, SDCWA's Kerl indicated that we would not be having the discussion we had all agreed to a few weeks before. Ms. Kerl indicated that instead of discussions with SDCWA directly, their position was that we needed to meet with the other 22 member agencies. This outcome was memorialized in an email from Ms. Kerl to GM's Kennedy and Bebee on October 10, 2019.

- October 16, 2019 – in an email communication to SDCWA and all member agencies, RMWD GM Kennedy again invited any interested party to meet with the District to discuss the detachment matter. As of the beginning of February 2020, RMWD and FPUD have met with at least 12 member agencies directly with more meetings still scheduled.
- November 6, 2019 – RMWD sent out formal letters to SDCWA and all member agencies notifying them of the District's intent to consider a Resolution of Application at RMWD's December 3, 2019 Board meeting. This letter fulfilled the requirement to provide at least 21 day's written notice in advance of the meeting.

There were a great deal more informal communications regarding the detachment between the District and affected agencies at various meetings over the months, but this summary demonstrates that the District has greatly exceeded the minimum requirements of SDLAFCO Policy L-107.

The Otay Lawsuit

The Rainbow Municipal Water District was sued in San Diego Superior Court by Otay Water District related to the CEQA exemption that the Rainbow board lawfully processed at its meeting where the Resolution of Application was approved. Otay's suit is based on an illogical and unsustainable claim that despite all facts and evidence the change in organization will result in potentially significant impacts on the San Juaquin/Sacramento River Delta and to the environment at large. Otay's petition does not identify or attach any evidence in support of these allegations. Otay also did not raise the legal and factual grounds for its suit at any time prior to the Board's action approving the Resolution of Application. The CEQA exemption is supported by substantial evidence that the Board reviewed and considered before it approved the Resolution of Application. This baseless suit is strongly opposed by both all factual evidence and the Rainbow Board. Settlement discussions are underway at this time. Beyond filing a petition and complaint, Otay has taken no further steps to advance its case toward trial.

Application Documents Attached

Included with this application are a series of Exhibits:

- A- RMWD Resolution of Application
- B- SDLAFCO and RCLAFCO MOU regarding inter-county reorganization
- C- EMWD Supply Reliability Analysis
- D- Subject Agency Supplemental Information Form from EMWD
- E- RMWD Plan for Service
- F- SDLAFCO Form L-107
- G- EMWD Resolution 2019-130 Supporting Proposed Reorganization
- H- Rainbow MWD Boundary Description