

March 24, 2022

Keene Simonds
Executive Officer
San Diego County Local Agency Formation Commission
9335 Hazard Way, Suite 200
San Diego, CA 92123

SENT VIA EMAIL (Keene.simonds@sdcounty.ca.gov)

Dear Mr. Simonds,

The City of San Diego is actively monitoring the ongoing discussions related to the proposal by Rainbow Municipal Water District (Rainbow) and Fallbrook Public Utility District (Fallbrook) to detach from the San Diego County Water Authority (SDCWA).

The economic analysis of the detachment proposal by Dr. Hanemann and related discussions at the February 17 and March 7, 2022 LAFCO Advisory Committee meetings were valuable and provided critical insight and perspective on detachment and related complex issues.

Based on the information and discussions, the City of San Diego would like to add input into the process for LAFCO consideration:

The Value of Recycled Water – “One Water”

The City agrees that costs related to a reliable water supply must remain an element of consideration. That consideration, however, must be more inclusive of the full impact of different supply sources. Specifically, Dr. Hanemann asserts that recycling treated wastewater “is also not a solution to the high cost of water supply.” Dr. Hanemann identifies that many factors will influence costs of recycling treated wastewater; however, some of these factors also impact producing water via desalination, including location and processing. Additionally, his analysis about the benefits of recycling treated wastewater fails to point out the reliability value of an additional drought-resistant water supply.

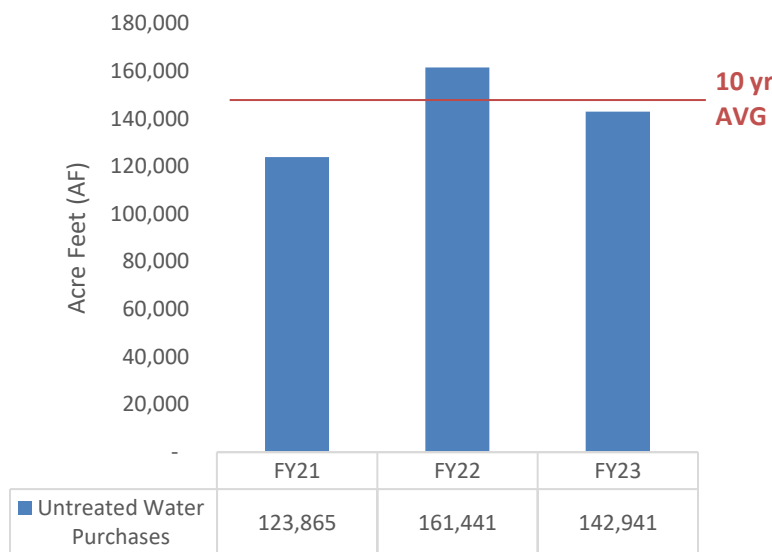
Further, Dr. Hanemann’s report does not acknowledge the potential financial benefit to wastewater systems. For many SDCWA member agencies, the cost avoidance of secondary wastewater treatment at the Point Loma Wastewater Treatment Plant has significant financial benefits while improving environmental protection through the reduction in treated wastewater discharges. While the industry shifts to a “one water” approach to water and wastewater management, the total lifecycle cost of water must be taken into consideration and warrants further analysis and valuation of the reliability and costs avoidance (for wastewater treatment) with recycled water.

Defining the Differences of Detachment and Roll-Off

The discussion of whether agencies rolling off the SDCWA is meaningfully different from agencies detaching is incomplete. Dr. Hanneman stated roll-off and detachment are “practically not different, but legally different.” The SDCWA has emphasized the practical difference between the two and stated they have been planning for the City’s roll-off for several years. The City plans to significantly reduce water purchases from the SDCWA once Pure Water Phase 1 is operational.

Beyond the planned roll-off, the City currently has the ability to utilize local water to mitigate our need to purchase water from the SDCWA. On occasion, the fluctuations in the City’s reduction in water purchased from the SDCWA is greater than water purchases from Rainbow or Fallbrook. For instance, the City’s projected water purchases for Fiscal Year 2023 will be 18,500 acre-feet less than the City’s purchases in the current fiscal year. These operationally-driven fluctuations can have a more significant impact on water sales than detachment from either Rainbow or Fallbrook. (As a reference, in Fiscal Year 2021 Rainbow purchased 17,000 acre-feet and Fallbrook purchased nearly 9,000 acre-feet.)

City of San Diego Water Purchases



The SDCWA’s determination that detachment of agencies is meaningfully different from a large agency’s operationally-driven water use fluctuations of similar amounts warrants additional analysis.

Dr. Hanemann’s report identifies that the SDCWA has “two underlying problems: a problematic fiscal model and a problematic governance model.” With the problematic fiscal model identified by Dr. Hanemann, the impact on the financial viability of agencies either rolling-off or detaching from the SDCWA requires significant consideration for ratepayers throughout the region. The City of San Diego believes the solution for solving the financial

viability associated with roll-off versus detachment is the responsibility of the SDCWA member agencies.

Addressing Organizational Obstacles

Also related to the detachment versus roll off discussion, is the other underlying problem identified in the report for the SDCWA, “a problematic governance model.”

In his report, Dr. Hanemann notes similar governance issues between MWD and SDCWA when he quoted the 1993 Blue Ribbon Task Force report about MWD, “MWD can no longer afford to build major facilities and *hope that member agencies will buy enough water to pay for them over several years.*” (Emphasis added) Although referencing MWD, Dr. Hanemann notes that SDCWA’s “governance model is not particularly different.” The City believes that reviewing the governance issue of SDCWA does warrant consideration by LAFCO.

Verifying Voting Rights Impacts

Finally, although the issue of agency voting rights was not within the scope of Dr. Hanemann’s work, the City requests additional analysis on how this issue would be addressed in roll-off and detachment scenarios. This analysis should include, for example, consideration of whether an agency’s departure fee would be considered a financial contribution and thus allow an agency to remain a voting member of the SDCWA while the agency is also a member of another wholesaler, as well as the potential impacts to the SDCWA’s voting rights at MWD.

On behalf of its ratepayers, the City of San Diego remains interested in all aspects of the ongoing discussions related to the requested detachment of Rainbow and Fallbrook from the SDCWA, and the related local water governance issues that are emerging through the process. The City will continue to share its questions, concerns, and perspective to help inform the consideration of decision-makers and welcomes opportunities for discussion.

Sincerely,



Juan Guerreiro
Interim Director, Public Utilities Department

cc: Nick Serrano, Deputy Chief of Staff, City of San Diego
Matthew Vespi, Chief Financial Officer, City of San Diego
Alia Khouri, Deputy Chief Operating Officer, City of San Diego
Lisa Celaya, Interim Executive Assistant Director, Public Utilities Department