



# Proposed Reorganizations

## FALLBROOK PUD + RAINBOW MWD

PROSPECTUS

REPORT SUMMARY | October 2022



### OVERVIEW

This prospectus covers San Diego LAFCO's current administrative review of two related proposals filed by Fallbrook Public Utility District (PUD) and Rainbow Municipal Water District (MWD) that have been administratively combined by the Executive Officer. The combined proposal affects – directly or indirectly – a sizable portion of San Diego County residents and is expected to be presented to the Commission for formal deliberations as early as February 2023. This prospectus summarizes key policy issues underlying the proposals to date and tentative conclusions reached by LAFCO staff. The role of the prospectus is to help communicate these policy issues and facilitate early input from all interested parties – public or private – before LAFCO staff completes the administrative reviews.

### PROPOSAL FILINGS: What Fallbrook PUD and Rainbow MWD are Asking to Do...

Fallbrook PUD and Rainbow MWD via separate filings in March 2020 are requesting LAFCO approval to transfer wholesale water service responsibilities within their combined 124 square mile jurisdictional boundaries from the San Diego County Water Authority to Eastern MWD in Riverside County. The requested transfer necessitates multiple jurisdictional changes and related approvals by LAFCO and headlined by concurrently (a) detaching the affected territory from the County Water Authority and (b) annexing into Eastern MWD. The stated purpose of the proposals is to achieve cost-savings with Fallbrook and Rainbow estimating the per acre-foot wholesale charge would decrease by (25%) from \$1,608 with the County Water Authority to \$1,195 with Eastern MWD with the latter secured by a MOU.

## PROPOSAL FILINGS: What the County Water Authority is Asking in Response...

The County Water Authority is on record via resolution stating they will oppose the proposals unless:

- Rainbow and Fallbrook guarantee all obligations as promised to their own ratepayers are met.
- Detachments will not increase reliance on the Bay-Delta
- Detachments will not adversely affect other County Water Authority member agencies and San Diego County as a region financially or environmentally.
- Detachments will not diminish the County Water Authority's voting power at MET.

### Fallbrook PUD and Rainbow MWD

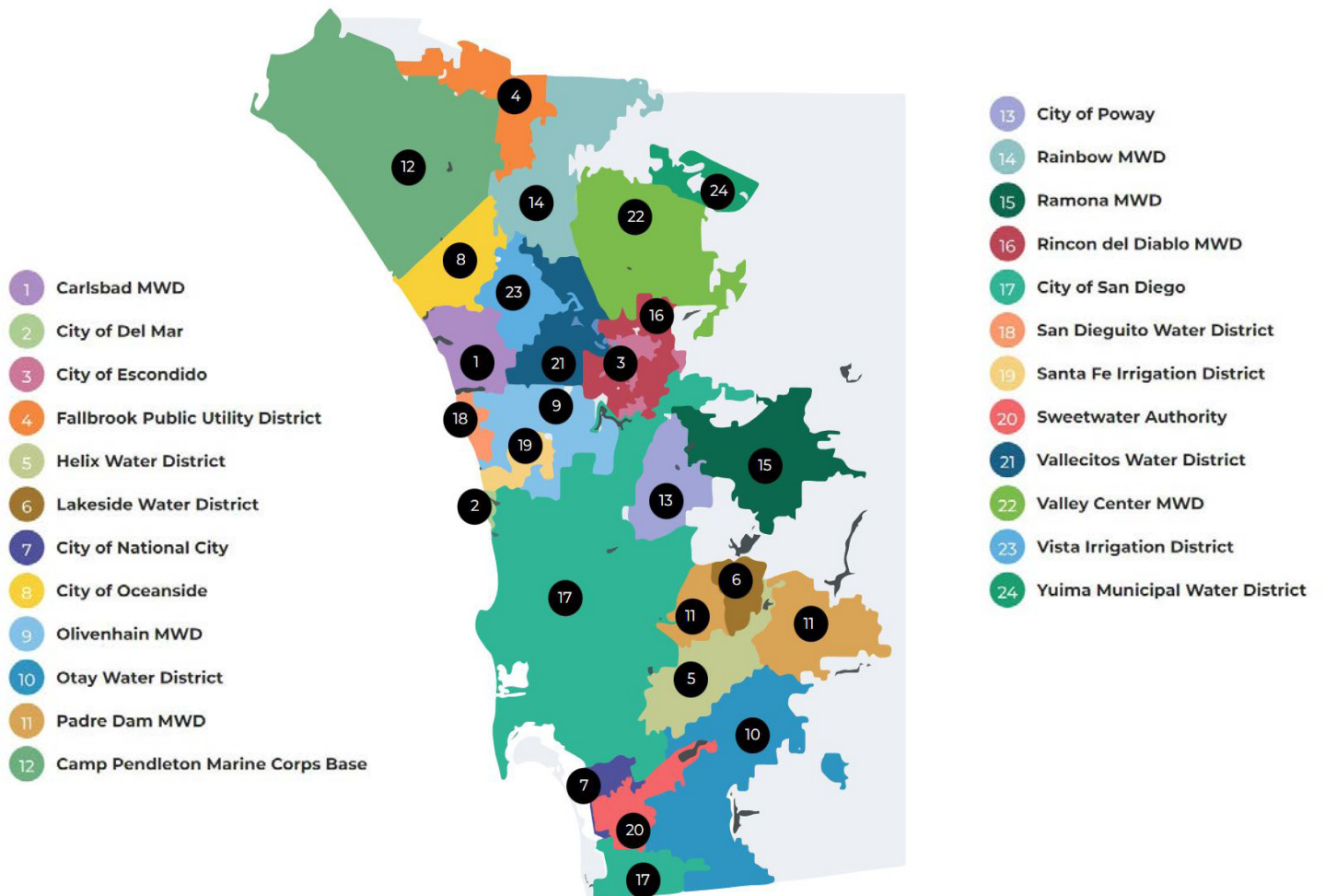
#### Fallbrook PUD

General Manager Tom Kennedy  
 Formed in 1922  
 Estimated Population is 33,986  
 Avg Annual Water Demand is 9,161 AF  
 6% of Customers are Ag  
 38% of Water Demand is Ag



#### Rainbow MWD

General Manager Jack Bebee  
 Formed in 1953  
 Estimated Population is 22,130  
 Avg Annual Water Demand is 16,976 AF  
 29% of Customers are Ag  
 67% of Water Demand is Ag





## ADMINISTRATIVE REVIEW What's Been Done to Date...

### Approval of MOU with Riverside LAFCO

In response to the proposal filings, San Diego and Riverside LAFCOs have entered into a memorandum of understanding (MOU) to establish tasks and responsibilities. The MOU designates San Diego as lead in preparing all related analysis and this includes completing a municipal service review on Eastern MWD to inform a conforming sphere of influence action to accommodate any annexation approvals. The MOU specifies San Diego shall actively consult with Riverside in processing the reorganizations and related studies. All approvals are delegated to San Diego.

### Approval of Alternative Conducting Authority Proceedings

As allowed under statute, San Diego LAFCO has approved a request from the County Water Authority to apply alternative conducting authority proceedings should the Commission approve Fallbrook PUD and/or Rainbow MWD's proposals. This means – markedly – any proposal approval will bypass standard protest proceedings and directly proceed to a confirmation election of registered voters.

### Establishment of an Advisory Committee & Technical Expertise from Dr. Michael Hanemann

Given the complexities and associated jurisdictional disputes underlying the proposals, San Diego LAFCO has created a 10-member Ad Hoc Committee to advise the Executive Officer through the administrative review process. The Ad Hoc includes representatives from all four subject agencies plus at-large members. The Ad Hoc has held 12 meetings to date with the majority focusing on three specific topics involving water supply reliability, ratepayer impacts, and possible true-up costs (exit fees) with technical analysis provided by Dr. Michael Hanemann with Arizona State University. The work of the Ad Hoc is expected to conclude shortly.

### Property Tax Exchange Process

As required for all proposed jurisdictional changes, a property tax exchange analysis has been prepared for the Fallbrook PUD and Rainbow MWD proposals through the County of San Diego. This analysis concludes an existing tax exchange resolution previously adopted by the Board of Supervisors applies to the proposals and means if approved all property tax revenues (AB8 and unitary) currently allocated to the County Water Authority would transfer to Eastern MWD – which totals \$388,216 in 2022-2023. The analysis also concludes that the County Water Authority's existing fixed charges collected on the tax roll within Fallbrook and Rainbow – which presently totals \$723,604 – would be eliminated. The property tax exchange is considered complete, though it can be revisited if needed.



Solar panels facilitate well pumping in Fallbrook, California.



## » Administrative Review

### **Fallbrook Region Municipal Service Review (MSR)**

As a prerequisite to considering the proposed jurisdictional changes, San Diego LAFCO has prepared and completed a municipal service review on the Fallbrook region and the local agencies operating therein subject to the Commission's oversight – including Fallbrook PUD and Rainbow MWD. The final report outlines nine central conclusions relative to LAFCO's growth management tasks and interests based on data collected and analyzed between 2016 and 2020. This includes concluding Fallbrook PUD and Rainbow MWD have experienced clear and measurable financial stresses during the report period and reflected in substantive declines in their liquidity, capital, and margin levels.

### **Addendum to MSR on Eastern MWD**

As a separate prerequisite to considering the proposed jurisdictional changes, San Diego LAFCO is preparing an addendum to Riverside LAFCO's most recent MSR on Eastern MWD. The addendum provides gap analysis in bringing data current with respect to Eastern MWD's potable water functions (wholesale and retail) and finances. The addendum is presently under administrative review by Riverside LAFCO and will be forwarded to the Commission in step with presenting both proposals.



## TENTATIVE LAFCO STAFF CONCLUSIONS Where Staff's Analysis to Date is Going...

The following conclusions are purposefully premised as “tentative” and directly informed by analysis performed to date with the key qualifier, the administrative review remains active. Some tentative conclusions, nonetheless, are more firm than others. LAFCO staff welcomes the public’s review and comment on these tentative conclusions.

### **LAFCO Statute Governs**

LAFCO statute – and not the County Water Authority Act – governs consideration of the proposals. Among other pertinent outcomes this means LAFCO has broad authority to condition any proposal approvals using the Commission’s quasi-legislative powers.

### **Eastern MWD’s Supplies are Reliable**

Although the County Water Authority’s potable supply portfolio is superior given its diversification, Eastern MWD’s own supply via MET is adequate and can reasonably accommodate demands now and going forward for both Fallbrook PUD and Rainbow MWD.

### **Eastern MWD’s Finances are Healthy**

Standard measurements used to assess the Eastern MWD’s financial standing shows it trended positively over the last five fiscal years with respect to liquidity, capital, and margin levels. The latter is highlighted by Eastern MWD finishing with positive total margins in four of the five years with an overall average of 4.5%

### **Fallbrook PUD and Rainbow MWD’s Ratepayers Will See Cost-Savings**

LAFCO estimates the average monthly household impact for Fallbrook and Rainbow ratepayers is \$20.21 and \$26.79, respectively assuming full pass-through to ratepayers.

### **County Water Authority Member Agencies’ Ratepayers Will See Cost-Increases**

LAFCO estimates through the help of an Ad Hoc Working Group the average monthly household impact for the remaining members agencies of the County Water Authority is \$2.20 assuming full pass-through to ratepayers. The City of San Diego impact (largest CWA customer) is estimated at \$1.05 per month/per household.

### **Approval of the Proposals is Reasonable if Conditioned on an Exit Fee**

It would be appropriate to condition approval to require an annual true-up – or exit fee – equal to the estimated revenue loss (water sales, property taxes, available fees) for the County Water Authority should both Fallbrook PUD and Rainbow MWD detach. The purpose of the exit fee is to provide the County Water Authority a period of adjustment. This annual amount has been estimated by Dr. Hanemann in the short run at \$12.6 million.



### **Five Years is an Appropriate Length for an Exit Fee**

As referenced, the purpose of an exit fee is to provide the County Water Authority and its remaining member agencies a level of financial protection in the short run while they adjust to the changed financial situation associated with Fallbrook PUD and Rainbow MWD detaching. Five years appears to be an appropriate standard to apply an annual exit fee.

### **Offsetting the Exit Fee to Reflect Ancillary County Water Authority Savings is Reasonable**

The County Water Authority would save money should Fallbrook PUD and Rainbow MWD detach that would otherwise be expended on proceeding with the previously planned construction of the ESP North County Pump Station. The value of the associated savings – however – remains a topic of ongoing analysis.



## » TENTATIVE LAFCO STAFF CONCLUSIONS

### Loss of Voting Rights at MET is a Valid Concern with a Possible Solution

Should Fallbrook PUD and Rainbow MWD detach from the County Water Authority and annex into Eastern MWD a proportional change in voting rights at MET would follow. The estimated value of voting rights – though relatively small – is substantive given it falls within the margin of a recent key vote at MET involving the selection of their new general manager. One possible and otherwise merited solution would involve applying a separate condition to require a MOU between Eastern MWD and County Water Authority to retain the voting apportionment associated with Fallbrook and Rainbow for at least the first five years.

### Class 20 CEQA Exemptions Are Appropriate

Consistent with the findings made by Fallbrook PUD and Rainbow MWD in their resolutions of application, Class 20 exemptions appropriately apply to both proposals. These exemptions appropriately apply given the underlying action involves the transfer of existing municipal service functions within the same area with no additional powers or expansions.

### Other Terms and/or Measures May Also Be Appropriate Based on Commission Preferences

#### Possible examples:

- A LAFCO prescribed “roll-out” requiring Fallbrook PUD and Rainbow MWD to remain member agencies with County Water Authority for a specified period of time before allowing the detachments to formally proceed.
- Requiring the completion of a municipal service review on the County Water Authority.

### Other Terms and/or Measures Raised by Others Appear Problematic

#### Example:

- The County Water Authority is on record requesting San Diego LAFCO condition any proposal approvals on expanding the “affected territory” for purposes of calling an election to include all registered voters within its member agencies’ boundaries. Commission Counsel does not believe this option is available to the Commission.



## ADMINISTRATIVE REVIEW What Remains to be Done...

### Complete Staff Report & Address all Statutory and Local Policy Factors

San Diego LAFCO staff is currently preparing a report on the Fallbrook PUD and Rainbow MWD proposals with recommendations that includes addressing all review factors required under State law as well as local policy. The former is headlined by considering all of the factors required under Government Code Section 56668 and ranges in scope from addressing the proposals' conformance growth and development objectives to relationship to environmental justice. The latter is marked by L-107 and consideration of options in addressing known jurisdictional disputes.

### Scheduling a Public Hearing

San Diego LAFCO staff anticipates scheduling a public hearing for the Commission to begin its deliberations on the Fallbrook PUD and Rainbow MWD proposal as part of a combined item in February 2023. Notice will be provided to all subject and affected agencies and published in the UT no less than 21 days in advance.

### Additional Information

Additional information on the combined proposals is available online. This includes pertinent documents, including but not limited to, applications submitted by both Fallbrook PUD and Rainbow MWD, agenda materials for all Ad-Hoc Committee meetings, as well as all correspondence received to-date.

### Receive Written Comments

The public is invited to provide comments on this prospectus and the combined proposal as part of the administrative review process.

Written comments received by Wednesday, November 30, 2022, will be incorporated into preparing a draft document to be presented at a future meeting and tentatively scheduled for February 6, 2023. Comments and questions should be directed to Priscilla Mumpower, Analyst II by e-mail at [priscilla.mumpower@sdcounty.ca.gov](mailto:priscilla.mumpower@sdcounty.ca.gov) or by telephone at **619.321.3380**.

Separate public review and comment period will be noticed and ahead of presenting a final staff report to the Commission.