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November 28, 2022

Via Email Only

Ms. Priscilla Mumpower
Local Government Analyst II
San Diego County LAFCO
2550 Fifth Avenue, Suite 725
San Diego, CA 92103

Re: Prospectus Regarding Proposed Reorganizations for Fallbrook PUD and Rainbow MWD

Dear Ms. Mumpower:

I am submitting this letter to provide comments on the Prospectus developed by LAFCO regarding the proposed reorganizations for Fallbrook PUD and Rainbow MWD. I represent the Vallecitos Water District (VWD), which is located in north San Diego County. As a member agency of the San Diego County Water Authority (SDCWA), the proposed reorganizations would directly impact the ratepayers of VWD, as those costs that would otherwise be assigned to Fallbrook and Rainbow would instead become the burden of the remaining member agencies of SDCWA. I appreciate the opportunity to provide these comments and look forward to a mutually acceptable resolution to the proposed actions.

I will try to keep my comments succinct and to the point. Where possible, I will reference information contained within the Prospectus. Please consider the following:

- Page 3, Property Tax Exchange Process, addresses property tax revenues and SDCWA fixed charges. The final sentence on page 3 states "The property tax exchange is considered complete, though it can be revisited if needed." Could you please clarify what is meant by "The property tax exchange is considered complete"? Given the reorganization issue has yet to be resolved, I fail to see how the tax exchange is considered complete. Was the intent to state that it is LAFCO's position that the property tax would be transferred if/when the reorganization is complete? As stated, it appears LAFCO is presuming the reorganization will occur.
- On page 5, "County Water Authority Member Agencies' Ratepayers Will See Cost-Increases", the Prospectus states the average monthly household impact for the

remaining members agencies of SDCWA is \$2.20. It further states impacts on City of San Diego customers is estimated at \$1.05. Could you please provide the basis of those numbers? On LAFCO's website, there is a table that breaks down the estimated costs by agency, but I wasn't able to locate the analysis that led to those numbers. The average impact doesn't mean much to individual agencies, it's the specific impact that will be of importance to each agency. Inclusion of the specific impacts to City of San Diego customers is seemingly used to minimize/trivialize the impact on the remaining SDCWA member agencies.

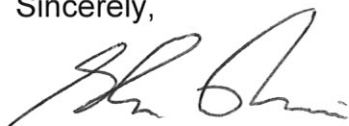
- On page 5, the sections titled "Approval of the Proposals is Reasonable if Conditioned on an Exit Fee" and "Five Years is an Appropriate Length for an Exit Fee" raise several questions/thoughts:
 - VWD is not opposed to Fallbrook and Rainbow reorganizing in concept.
 - VWD agrees a reasonable exit fee should be required as a condition of reorganization.
 - VWD does not agree the exit fee should be equal to the estimated revenue loss over a truncated time period.
 - VWD takes exception to the statement "The purpose of the exit fee is to provide the County Water Authority a period of adjustment." The purpose of the exit fee should be to satisfy the long-term obligations Rainbow and Fallbrook agreed to as part of the SDCWA group. SDCWA, and its member agencies, have made numerous long-term financial commitments to satisfy the demands of its agencies which were members at the time the commitments were made. The level of those commitments, and the financial implications which followed, would have been lesser had SDCWA not been planning to serve Fallbrook and Rainbow on an ongoing basis. A good example is the desalination plant. The decision to procure 42 TAF per year of desal water was part of a larger overall water supply strategy that included satisfying the demands of Fallbrook and Rainbow. Allowing those agencies to detach without satisfying the long-term financial obligation associated with their fair share of the procurement of that water supply is grossly unfair to the remaining member agencies. A period of adjustment is not the appropriate standard.
 - VWD also takes exception to the statements "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." On what basis does LAFCO believe five years is an appropriate standard? As mentioned above, many of the SDCWA financial commitments (construction bonds, IID agreement, desal agreement, etc.) involved decades of time, not five years. Expecting the remaining member agencies to pick up Fallbrook's and Rainbow's shares of these commitments beyond five years is unacceptable.
 - Perhaps a simple example would help. If I purchase an investment property with several partners, and all parties committed to a thirty-year loan, would it be fair to the remaining partners if one of the group decided they no longer wanted to be

part of the group prior to the loan being repaid? All parties agreed to a thirty-year commitment, regardless of the specific circumstances surrounding the party wishing to abandon their responsibility.

- VWD is not suggesting Fallbrook and Rainbow be denied their request to reorganize, nor is VWD suggesting Fallbrook and Rainbow be on the financial hook in perpetuity. We are suggesting they fulfill the financial and contractual obligations that exist at the time of their detachment for the remainder of the term of those commitments.
- On page 6, Loss of Voting Rights at MET is a Valid Concern with a Possible Solution, includes the statement "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." Similar to the comments above, Vallecitos believes the voting apportionment timeline should be similar to the water supply agreement timelines. In addition, it is unclear what MET's role would be in such an arrangement. Could MET unilaterally refuse to honor such a condition?
- Page 6, Other Terms and/or Measures Raised by Others Appear Problematic, references SDCWA's request that LAFCO condition any proposed approvals include all registered voters within its member agencies' boundaries. This section includes the statement "Commission Counsel does not believe this option is available to the Commission." Restricting voting rights only to those agencies who stand to benefit from the action and denying voting privileges to those agencies who will bear the burden of those transferred costs, appears wholly inappropriate. It seems to be the definition of taxation without representation.

Thank you again for this opportunity. Vallecitos will be closely monitoring the detachment process and look forward to the opportunity for continued involvement.

Sincerely,



Glenn Pruim
General Manager