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November 29, 2022

Priscilla Mumpower  
Analyst II  
San Diego Local Agency Formation Commission  
2550 Fifth Avenue, Suite 725  
San Diego, CA 92103

Via U.S. Mail and email to priscilla.mumpower@sdcounty.ca.gov

***Re: Comments on the proposed reorganizations of Fallbrook Public Utility District and Rainbow Municipal Water District***

Dear Ms. Mumpower:

Vista Irrigation District (District) appreciates the opportunity to provide comments on the proposed reorganizations of the Fallbrook Public Utility District (Fallbrook) and Rainbow Municipal Water District (Rainbow), which seek to transfer wholesale water service from the San Diego County Water Authority (Water Authority) to Eastern Municipal Water District (Eastern). As San Diego Local Agency Formation Commission (LAFCO) staff is aware, the decisions made by the LAFCO Commission on this matter affect, not only the Water Authority, but also its member agencies and their ratepayers. The District is concerned about the negative impacts to our agency and ratepayers should the LAFCO Commission approve the reorganization based on the tentative conclusions on key policy decisions presented in the October 2022 prospectus on the proposed reorganizations prepared by LAFCO staff.

At its November 16, 2022 meeting, the District's Board of Directors reviewed the prospectus as well as other documents that have been submitted in response to the proposed reorganizations. Based on its review and discussion of the matter, the Board of Directors directed staff to submit comments on the proposed reorganizations, focusing on the tentative conclusions presented in the prospectus and the impact on the District and its ratepayers. The following comments are being submitted on behalf of the District and its Board of Directors for LAFCO's consideration.

1. ***Water Authority member agencies' ratepayers will see cost increases.*** The conclusion that other Water Authority member agencies' ratepayers will have to pay higher rates (if Fallbrook and Rainbow detach and no exit fee is assessed; if an assessed exit fee does not equal the Water Authority's revenue loss associated detachment; or after the term of an assessed exit fee terminates) is correct. However, the impacts are understated when the estimated figures shown in the Hanemann report are adjusted to actual figures shown in the table included with the Water Authority's June 9, 2022 letter to LAFCO. Additionally, the Water Authority's pass-through rate increase associated with the proposed reorganization would be in addition to any other rate adjustments made by the Water Authority to address member agency roll-offs, MWD rate increases, etc. as well as the member agencies own rate and charge increases.

*A public agency serving the city of Vista and portions of San Marcos, Escondido, Oceanside and San Diego County*

Based on figures shown in the Advisory Committee on the Rainbow-Fallbrook Reorganizations Workgroup Summary and in the table included with the Water Authority's June 9, 2022 letter to LAFCO, the District would see its costs increase anywhere from \$339,660 to \$475,000 annually if an exit fee is not assessed (or after an exit fee terminates, if one is assessed). The District would need to increase its commodity rates by an estimated five cents to seven cents per billing unit to cover those higher costs from the Water Authority. This translates to the District's typical customer (3/4" water meter using 24 billing units) being charged an additional \$1.20 to \$1.68 every two months. The impacts to all Water Authority member agencies' ratepayers should be calculated and disclosed to inform the LAFCO Commissioners rather than just providing the impacts to three agencies.

2. ***Approval of the Proposals is reasonable only if conditioned on an appropriate exit fee.*** The conclusion that it would be appropriate to require an exit fee equal to the estimated revenue loss for the Water Authority should Fallbrook and Rainbow detach is reasonable.
3. ***Five years is not an appropriate length of time for an exit fee.*** The prospectus notes that the purpose of the exit fee is to provide the 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 the Fallbrook and Rainbow detachments. The tentative conclusion by LAFCO staff that five years is an appropriate standard to apply an annual exit fee is not supported. The Hanemann reports notes that in the water industry, 10 years would typically be considered short term for planning purposes. Therefore, 10 years would be the shortest standard to apply. However, even 10 years is too short under the circumstances given the substantial investments/obligations that have been incurred by the Water Authority in order to supply water to its member agencies, including Rainbow and Fallbrook. The appropriate length of time for the exit fee should be tied to longer-term financial commitments made to construct major infrastructure (e.g. the largest debt burden through 2039 as shown in the Hanneman report) or to secure water supplies such as Imperial Irrigation District transfer water (which has commitments through at least 2047).
4. ***Offsetting the exit fee to reflect ancillary Water Authority savings associated with not proceeding with the Emergency Storage Project (ESP) North County Pump Station is not reasonable.*** The prospectus' statement that the Water Authority would save money should Fallbrook and Rainbow detach that would otherwise be expended on proceeding with the ESP North County Pump Station lacks support. In its August 31, 2022 letter to LAFCO, the Water Authority states that only "de minimus amounts" have been spent on initial planning for this project, no debt has been issued for this project and no project costs have been included in its rates and charges or budget. Given those statements, a firm commitment to fund and construct the project has not been made by the Water Authority; therefore, there are no savings to be realized and the offset would be zero.
5. ***Loss of voting Rights at MWD is a valid concern.*** LAFCO staff is correct that voting rights at the Metropolitan Water District of Southern California (MWD) are valuable, especially when voting on important decisions that have a lasting impact on San Diego region's ratepayers; the loss of any voting rights is of the utmost concern. However, LAFCO staff's proposed solution relating to the Water Authority retaining their voting apportionment associated with Fallbrook and Rainbow for five years after detachment appears to violate California law, more specifically the Metropolitan Water District Act.

6. ***Fallbrook and Rainbow ratepayers will not see cost savings equal to the amount shown if an exit fee is assessed.*** LAFCO published estimates that the average monthly household savings for Fallbrook and Rainbow ratepayers is estimated to be \$20.21 and \$26.79 respectively if the proposed reorganizations are approved. However, as acknowledged during the October 26, 2022 Special District Advisory Committee meeting, those estimated savings figures do not take into consideration the payment of an exit fee to the Water Authority; by not including this cost, the estimated savings figures are overstated. Additionally, it is not clear whether the estimated cost savings take into consideration MWD rate increases associated with their efforts to secure sustainable water supplies, such as the development of the Pure Water Southern California project, and the launch of other capital improvement projects. Cost savings figures (at a minimum) should take into account the assessment of an exit fee to fully inform those voting on whether to approve the proposed reorganizations, including Fallbrook and Rainbow ratepayers and LAFCO Commissioners.
7. ***Further exploration regarding calling an election to include all registered voters within the Water Authority member agencies' boundaries is warranted.*** The Water Authority has requested that LAFCO condition approval of the reorganization proposals on expanding the “affected territory” for the purposes of calling an election to include all registered voters within its member agencies’ boundaries. While it was stated that LAFCO legal counsel does not believe this option is available to the LAFCO Commission, no analysis or authorities were provided. Given the financial impact that the reorganizations would have on the Water Authority as well as its member agencies and their ratepayers, the Water Authority’s request seems reasonable and warrants further exploration by LAFCO’s legal counsel and disclosure to the public.
8. ***Eastern’s supplies are not as reliable at the Water Authority’s supplies.*** The statement that Eastern’s water supply from MWD is “adequate and can reasonably accommodate demands now and going forward for both Fallbrook and Rainbow” is not entirely accurate given current conditions on the Colorado River and in northern California, nor does it consider MWD’s current available water supplies. MWD has acknowledged that it is now in the process of preparing to allocate its available water supplies as soon as January 2023. If MWD uses the same model that it did in earlier droughts, agricultural water use could be reduced by as much as 90% or be completely prohibited under the Human Health and Safety formula MWD is currently using in other parts of its service area. Additionally, Fallbrook and Rainbow are growing and will continue to grow into the future; therefore, the need for long-term water supply reliability is an important consideration when determining whether to approve the proposed reorganizations.
9. ***Class 20 California Environmental Quality Act (CEQA) exemptions may not be appropriate.*** The Fallbrook and Rainbow reorganizations will change the geographical areas in which the Water Authority exercises its powers; therefore, it appears that the Class 20 exemption does not apply and further environmental review of the reorganization, including its potential to increase reliance on imported water from the Bay-Delta, is warranted.

Thank you for the opportunity to comment on the proposed reorganizations of Fallbrook and Rainbow. If you have any questions regarding our comments, please feel free to contact me at (760) 597-3117 or via email at [bhodgkiss@vidwater.org](mailto:bhodgkiss@vidwater.org).

Sincerely,



Brett Hodgkiss  
General Manager