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Keene Simonds, Executive Officer  
Local Agency Formation Commission (LAFCO)  
2550 Fifth Avenue, Suite 725  
San Diego, CA 92103

RE: LAFCO "Prospectus" Report Summary October 2022

This letter's purpose is to provide input on the Prospectus Report which outlines the current thoughts of LAFCO on the Detachment of Rainbow Municipal Water (Rainbow) and Fallbrook Public Utility (Fallbrook) Districts from San Diego County Water Authority (CWA). On behalf of the Otay Water District (District), we want to thank LAFCO for all the work that has gone into the evaluation. We recognize and appreciate the efforts of the Ad Hoc Advisory Committee and the experts involved. The District understands this is a complex and difficult subject that has significant impacts on not just Rainbow and Fallbrook, but on every Otay Water District rate payer as well as every rate payer in the County. We encourage LAFCO to continue this challenging task in hopes that all parties come to resolution.

After review of the recently published Prospectus, the District has identified some items of concern that we feel are of significant importance below.

The District requests that the purpose of the exit fee be evaluated carefully. In the Prospectus, the concept of an adjustment period is put forward as the purpose of the exit fee. Dr. Hanneman's report states that the sole purpose would be to assist in covering fixed, ongoing, and unavoidable financial obligations. CWA has acquired long-term obligations. The long-term nature of these costs is of the utmost significance.

A calculation of unrealized costs, that currently exist, must be paid by any detaching party. There is damage to infrastructure that exists and must be corrected, but has yet to be budgeted or scheduled. An estimate of these costs should also be included in the exit fee to appropriately allocate costs. In the insurance world, this is referred to as the "tail". The prior insurance company must pay tail obligations as they stem from an issue that existed prior to the customer changing insurance companies. Similarly, if Rainbow and Fallbrook detach, there is a tail to be paid. An estimate needs to be made of their share of damage to the system and the cost to repair or replace that infrastructure.

ESP costs that will be removed from the CIP, if the detachment occurs, is a challenging topic. How much funding has been collected from Rainbow and Fallbrook specifically for this purpose? Did CWA have a restricted reserve that can now be refunded or was this project just a general project funded by general rates and charges? The specific funding for this ESP, or any other project for that matter, may actually be funded by future debt and therefore future rates. Budgets and projections change to meet current and future needs. If debt is used in this case, and it may become the case, none of the money collected to

this point would be connected to those ESP costs. No project has a claim on any funds. Even debt funds can be reassigned as projects change. Member agencies do not get to select projects or how they are funded. This is a general cost of membership, not an à la carte system. Upon exiting, one does not get to choose what it has funded and how. There is also the matter of mismatching the costs timeline and the exit fee timeline. The District asks that LAFCO reevaluate the mismatched timelines. As the cost of this long-term CIP may be spread over a prolonged period, so should the exit fee extend over a long period of time.

The Prospectus identifies \$388,216 of 2022-2023 property tax that would shift from CWA to Eastern MWD. The District asks if LAFCO has identified how much of these funds are needed for ongoing fixed CWA costs attributed to Rainbow and Fallbrook? Or how much of the annual CWA fixed charges collected on the tax roll are for ongoing fixed CWA costs attributed by Rainbow and Fallbrook? As the Hanneman Report states, these costs should be incorporated into the exit fee so that Rainbow and Fallbrook pay for the costs they have created.

Currently, CWA is going through an effort to restructure rates as the current model to account for the ongoing changes in water demands. At this time, many fixed costs are collected on a variable charges, which are based on 5, 10, or 15 years' averages. This model has worked historically only due to the stability of water purchases. With a future including multiple significant changes in water purchases, this model is now being reevaluated to address a more variable future of water purchases. The District believes it is incongruent with history and an outgoing model to consider or justify any short term exit fee.

The Prospectus highlights the financial hardships that Rainbow and Fallbrook have experienced. The District ask that any benefit they anticipate be studied and verified. The District also ask that any verifiable benefit not be portrayed as a cure-all to the financial difficulties of those District's since the Prospectus does not identify how detachment would address those challenges in the long term. As mentioned in the Prospectus, the review of Eastern MWD is not complete. The addendum to the review of Eastern MWD, mentioned in the Prospectus, should be completed in order to have a clear understanding of their finances and water functions.

Lost revenues appear to be a removed way to identify and quantify an exit fee. The District ask that LAFCO take a more direct look at the fiscal impact of the detachment by looking at fixed cost obligations, as highlighted in the Hanneman Report. Future costs created by Rainbow and Fallbrook should not fall to other customers. Also, these costs should not fall to other customers no matter how far in the future they must be paid. The focus should be on the fixed CWA costs and not the revenue side of the equation.

Voting power is something that is key to all San Diegans. This right is fundamental to the protections of US citizens in federal matters, state matters, and in this case local matters. This matter should not be dismissed or minimalized in any way and must comply with all laws and statutes. Diluting San Diegan's voting power at Metropolitan Water District (MWD) impacts all of San Diego County and those impacts on San Diegans should be given serious consideration.

The impact to Otay Water District customers is a critical concern. CWA has evaluated these costs and they have shown that each year Otay's customers will pay \$1,323,376 more if the detachment occurs. The District requests that LAFCO reevaluate the costs provided in the Prospectus. There are multiple concerns over the \$20.21 and \$26.79 monthly cost-savings, as well as the \$2.20 and \$1.05 cost increases noted in the Prospectus. The calculations appear high for the savings and low for the cost. We request

LAFCO provide the calculations for each of these numbers for a better review. The District recommends the Prospectus present the actual costs in a way that is more specific than just the monthly individual customer impact. We ask that the overall savings be compared to the overall added costs. This will provide added perspective.

We urge LAFCO to reevaluate the impact the proposed position would have on the requirements of CEQA and the Delta Reform Act of 2009. The added burden on the Delta is real and needs additional thought and consideration.

The water supply of CWA is unquestionably more reliable than MWD water. CWA has significant priority water supply above that of MWD. The considerable drought in California needs to be a part of this evaluation as do the water supply priorities. The Prospectus states that Eastern MWD's water supply, "via Met is adequate and can reasonably accommodate demands now and going forward for both Fallbrook and Rainbow MWD". This statement needs to be reevaluated as it appears to set aside the current shortfalls in the Colorado water basin, the State's severely minimized allocation, and MWD's water supply shortfalls. The differences in the reliability are highlighted in Dr. Hanneman's report and we urge that the LAFCO continue to use this resource as they reevaluate the conclusions on water reliability.

Thank you for your time in reviewing this letter. Please look at these issues and weigh them carefully. The District understands this matter is time consuming, impacts several parties, and it is a significant undertaking to assess all the factors. We appreciate your professionalism and your engagement with this challenging evaluation and all the efforts to find a resolution to this matter that is in the best interests of the public we all serve.

Sincerely,



Jose Martinez  
General Manager