



# Proposed Reorganizations

FALLBROOK PUD +  
RAINBOW MWD

PROSPECTUS

STAFF REPORT | May 2023



## OVERVIEW

This prospectus covers San Diego LAFCO's administrative review of two related reorganization proposals filed by Fallbrook Public Utility District (PUD) and Rainbow Municipal Water District (MWD). The proposed reorganizations affect – directly or indirectly – a sizable portion of San Diego County residents and are scheduled to be presented to the Commission for formal deliberations as part of a joint-hearing on June 5, 2023. This prospectus summarizes the proposed reorganizations and key policy issues addressed during the administrative reviews – including jurisdictional disputes and other material topics identified by the Executive Officer – along with outlining staff recommendations.

### PROPOSAL FILINGS: What Fallbrook PUD and Rainbow MWD are Requesting...

Fallbrook PUD and Rainbow MWD via separate proposal 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 for the applicants and by extension their retail ratepayers with additional focus on agricultural users. The savings ties to the applicants' agreement with Eastern MWD for wholesale water supplies at a per acre-foot charge that is (one-third) lower than the charge from the County Water Authority.

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

The County Water Authority is on record opposing the proposals unless:

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

### Regional Setting: Fallbrook PUD and Rainbow MWD

#### Fallbrook PUD

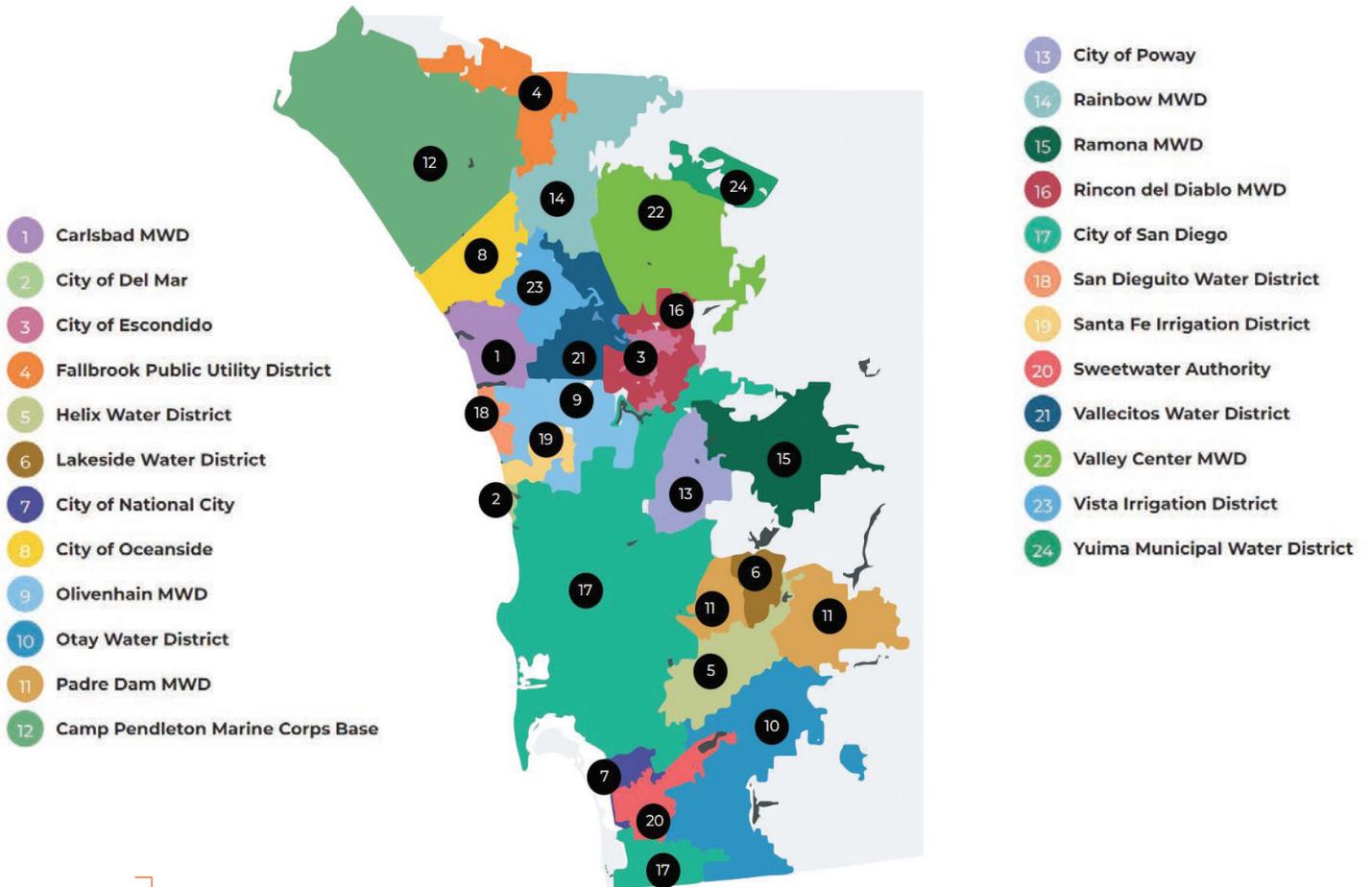
Board President Charley Wolk  
 General Manager Jack Bebee  
 Formed in 1922  
 Estimated Population is 33,986  
 Avg Annual Water Demand is 9,161 AF  
 6% of Customers are Ag  
 38% of Water Demand is Ag

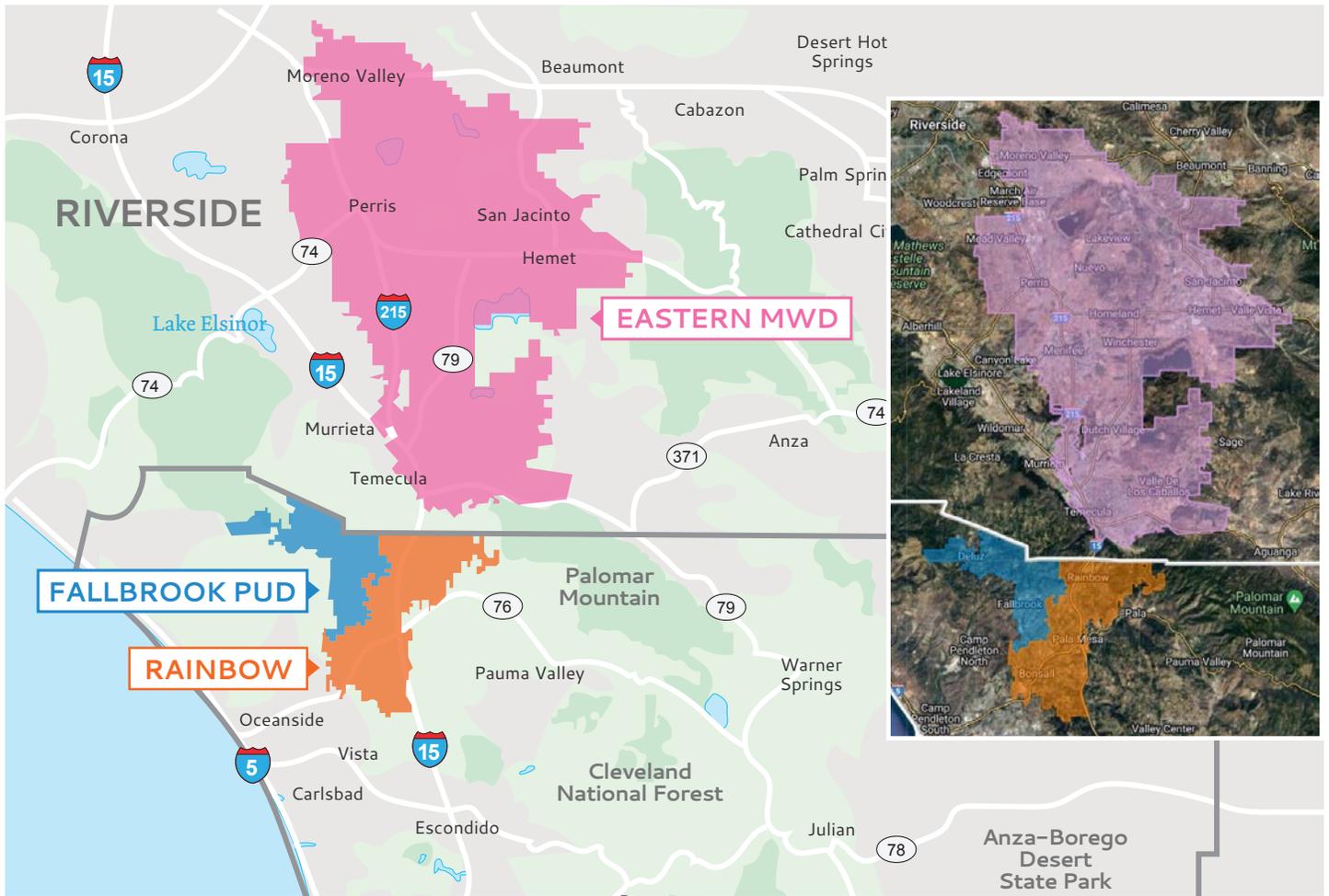


#### Rainbow MWD

Board President Hayden Hamilton  
 General Manager Tom Kennedy  
 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

### San Diego County Water Authority + Member Agencies





## ADMINISTRATIVE REVIEW Informing Preambles...

### Approval of Memorandum of Understanding with Riverside LAFCO

In response to the proposal filings, San Diego and Riverside LAFCOs entered into a memorandum of understanding (MOU) to establish tasks and responsibilities in October 2019. 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, at its May 2020 meeting San Diego LAFCO 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 any proposal approval will bypass standard protest proceedings and directly proceed to a confirmation election of registered voters. An election would be limited to the boundaries of the Fallbrook PUD and Rainbow MWD and may – at the discretion of the Commission – be expanded to include the boundaries of Eastern MWD.



Solar panels facilitate well pumping in Fallbrook, California.

## » Administrative Review

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

Given the complexities and associated jurisdictional disputes underlying the proposals, at its June 2020 meeting San Diego LAFCO 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 and held 13 public meetings between December 2020 and April 2023. Most of these meetings were dedicated to addressing three overlapping topics – (a) water supply reliability, (b) financial impacts, (c) potential exit fees – selected by the Ad Hoc with their related tasking of Dr. Michael Hanemann with Arizona State University to provide expert analysis. Dr. Hanemann’s final report was presented to the Ad Hoc in February 2022.

### 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. This analysis concludes an existing tax exchange resolution previously adopted by the Board of Supervisors applies to the proposals. The application of the County’s adopted master exchange resolution would result in 100% of all AB8 monies (the portion of the 1% in property taxes biannually collected) transferring to Eastern MWD. The total annual value of the property tax transfer is \$0.382 million. All remaining annual revenues collected by the County Water Authority off the property tax roll within the affected territory involves unitary fees and available charges and would immediately cease. These other annual revenues currently total \$0.723 million.

### Municipal Service Review on the Fallbrook Region

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 – approved March 2022 – 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 and reflected in substantive declines in their liquidity, capital, and margin levels over the preceding 60-month period.

### Addendum to Municipal Service Review on Eastern MWD

As a separate prerequisite to considering the proposed jurisdictional changes, San Diego LAFCO has prepared and completed an addendum to Riverside LAFCO’s most recent municipal service review on Eastern MWD. The addendum provides gap analysis on Eastern MWD with specific attention to its potable water function and financial standing through data collected and analyzed between 2017 to 2021. The addendum concludes Eastern MWD maintains adequate infrastructure to meet current and anticipated potable water demands (retail and wholesale) with available capacity to accommodate additional growth. This conclusion is reflected in average annual and daily system demands for Eastern MWD equaling less than one-third of its available capacities (supplies and associated infrastructure) during the 60-month period. The addendum also concludes Eastern MWD is fiscally sound overall and marked by finishing with positive total margins in the last four of the five years covered.



Residential homes near Interstate 15 in Fallbrook, California.

## Timing Considerations: Addressing Jurisdictional Disputes + Other Material Topics ...

The central focus of the administrative review involves analyzing the proposals’ timing relative to three overlapping factors. The first factor involves baseline considerations in statute ranging from disclosing and otherwise addressing compatibility with external policies of other State, regional, and local agencies as well as assessing the ability of Eastern MWD – as the receiving agency – to provide services. The second factor involves addressing consistency with Commission policies and includes L-107 and its provisions to disclose and remedy – if reasonable – known jurisdictional disputes. The third factor expands on addressing jurisdictional disputes and involves evaluating 18 other material topics selected by the Executive Officer that are largely sourced to comments generated during the approximate three-year administrative review. These 18 topics collectively capture the key policy issues underlying consideration of the proposals and include all of the following subjects:

- MET’s Position on the Detachments
- Financial Difference Between “Roll-Offs” and Detachments
- Financial Impacts from Detachments on CWA’s Member Agencies + Ratepayers
- Merits and Options to Impose Exit Fees
- LAFCO’s Authority to Require Exit Fees
- Risk to Applicants in Assuming Greater Reliance on the Sacramento Bay-Delta
- Detachments’ Impact on CWA’s Voting Power at MET Based on Recent History
- Emergency Supplies Available to the Applicants During a Catastrophic Event
- Determining the “Affected Territory” for Election Purposes
- SANDAG’s Position on the Detachments
- Detachments’ Impact on CWA’s Credit Rating and Ratepayers
- Measuring the Significance of the Financial Impacts to CWA + Ratepayers
- Appropriate Length of Any Exit Fees
- Merits to Discount Any Exit Fees
- Risk to Applicants in Changes to MET Wholesale Rates Going Forward
- Detachments’ Effect on Reuse Projects in San Diego County
- Effect of Stipulated CEQA Settlements Involving Applicants on LAFCO
- Role of Agriculture in the Proposals + Influence on LAFCO Decision-Making



## KEY STAFF CONCLUSIONS

The following key conclusions are directly drawn from the administrative review and inform the staff recommendations.

### 1. Fallbrook PUD + Rainbow MWD's Ratepayers Will See Cost-Savings

LAFCO staff estimates the average monthly cost-savings for the applicants' ratepayers is \$23.50 per household. This estimate draws on Dr. Hanemann's macro calculations and assumes full-pass through to ratepayers.

### 2. County Water Authority's Member Agencies' Ratepayers Will See Cost-Increases

LAFCO staff estimates the average monthly cost-increases to the remaining County Water Authority member agencies' ratepayers at \$2.20 per household. This estimate draws on Dr. Hanemann's macro calculations and assumes full-pass through to ratepayers.

### 3. Financial Impacts to CWA + Ratepayers are Material – But Not Significant

LAFCO staff believes the financial impacts of the detachments on the County Water Authority – and by extension its member agencies and retail ratepayers – are material but not significant given standard measurements. This includes showing the annual net-revenue impact on the County Water Authority of \$12.581 million (Dr. Hanemann calculation) equaling 4.4% of its gross water sales and below the one-year inflation rate of 6.4% for San Diego County (emphasis).

### 4. Approval of the Proposals with an Exit Fee is Reasonable

Conditioning any proposals' approvals to require an exit fee to the County Water Authority is reasonable and merited given the financial impacts and need therein for a period of adjustment. LAFCO staff believes mitigating annual net revenue losses appears appropriate in setting exit fees since it is the most concrete and quantifiable impact to the County Water Authority. Dr. Hanemann calculates this impact at \$12.581 million annually. Focusing on mitigating annual net revenue losses also covers long-term debt by helping to keep the County Water Authority whole and its ability to service debt on an annual basis.

### 5. Discounting an Exit Fee to Reflect Cost-Savings is Reasonable

The County Water Authority would save \$38.6 million should Fallbrook PUD and Rainbow MWD detach that would otherwise be expended on proceeding with the planned and budgeted construction of the ESP North County Pump Station. Discounting the exit fee to account for this cost-avoidance to the County Water Authority is reasonable and merited.

### 6. Near-Certain Roll-Off Impacts are Measurably Higher than Detachment Impacts

The estimated annual net-revenue loss tied to expected roll-offs involving three reuse projects (San Diego, Oceanside, and Padre/Helix) on the County Water Authority is \$47.0 million by the end of the decade and translates to a ratepayer impact of 9.4%. Comparatively, the estimated impact of detachments on the County Water Authority's annual net-revenue is \$12.6 million (less any exit fees) and translates to a ratepayer impact of 2.5%.

### 7. Loss of Voting Rights at MET is a Valid Concern

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 totals 0.3% and considered material given the proximity to the recent margin in the successful vote of the new MET General Manager in June 2021. While staff does not believe the proportional change in voting rights associated with the detachments would measurably increase going forward, this topic does merit Commission attention.

### 8. Detachments Would Benefit Agriculture in North County

A central premise to the applicants' proposals involve providing economic relief to their agricultural customers by securing less expensive water supplies from Eastern MWD. The specter of agricultural losses is a prominent consideration under LAFCO statute and adopted policy with the latter having been recently expanded to now consider actions whenever appropriate to "enhance" agriculture. The substantive ties between statute and policy in supporting agriculture provides added allowance for the Commission to make special accommodations for the affected territory in evaluating the proposals.





## STAFF RECOMMENDATIONS + MORE

### Available Alternatives...

Five alternative actions for the proposed reorganizations are available to the Commission. These alternatives are organized linearly as follows:

- **Option One** involves approving the proposals with only standard conditions.
- **Option Two** involves approving the proposal with additional conditions that include requiring the applicants to pay exit fees to County Water Authority.
- **Option Three** involves deferring consideration of the proposals until the completion of a scheduled municipal service review on the County Water Authority.
- **Option Four** involves disapproving the proposals without prejudice.
- **Option Five** involves disapproving the proposals.

### Staff Recommendations...

Staff believes three of the five available alternatives – Options Two, Three, and Four – are readily merited based on the administrative review and distinguished by addressing different and otherwise appropriate Commission policy priorities. Among these three merited alternatives, staff recommends Option Two with special terms to require the applicants pay a combined annual exit fee payment for five years totaling \$24.305 million. This alternative prioritizes the stand-alone merits of the applicants' proposals and concurrent policy enhancement of supporting a viable agriculture economy in North County. Related actions in support of the staff preferred alternative are also recommended and include making exemption findings under the California Environmental Quality Act.

### Public Review + Comment.

Staff's full report and recommendations on the proposed reorganizations are available online at [www.sdlafco.org](http://www.sdlafco.org). The public is encouraged to review the report and consider submitting comments. All written comments received by Monday, May 22, 2023 will be incorporated into the agenda packet provided to the Commission and posted online ahead of the public hearing set for Monday, June 5, 2023. Comments should be emailed to Priscilla Mumpower at [priscilla.mumpower@sdcountry.ca.gov](mailto:priscilla.mumpower@sdcountry.ca.gov). Comments are also welcomed during the hearing.



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