



VALLEY CENTER MUNICIPAL WATER DISTRICT

A Public Agency Organized July 12, 1954

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May 19, 2023

Keene Simonds, *Executive Director*
San Diego LAFCO
9335 Hazard Way, Suite 200
San Diego, CA 92123

Subject: Fallbrook Public Utility District / Rainbow Municipal Water District Detachment from the San Diego County Water Authority

Dear Keene,

In May 2020, the Valley Center Municipal Water District voted to support all of the conditions of approval for the proposed detachment of Fallbrook Public Utility District and the Rainbow Municipal Water District, as set forth in the San Diego County Water Authority Resolution No. 2020-06 (certified copy attached).

Our position on the proposed detachment is still the same three years later.

As a predominantly agricultural agency in North San Diego County, we understand the negative impact rapidly increasing water rates are having on commercial agriculture as well as the motivation of Fallbrook and Rainbow to seek a lower-cost alternative supply. However, we also understand that as these agencies seek solutions for their customers, water costs will certainly increase for our customers, compounding the problems with which our agency is dealing. These cost increases along with those we anticipate from the impending roll-off of SDCWA Member Agencies having developed significant local supplies, can only hasten the negative financial impact on our local agricultural community.

After over three years in the process, the issue is scheduled to go to the San Diego Local Agency Formation Organization in early June. We must trust in LAFCO, if indeed it does approve the detachments, to conduct a fair and open process to impose terms and conditions which serve to minimize the negative financial impact the detachments will have on the SDCWA and the balance of its member agencies.

Whatever the outcome of the detachment process, it is clear that it is time for the SDCWA to make a serious evaluation of its cost structure and the balance between fixed costs/variable costs and fixed costs/fixed revenues to deal with future negative impacts of agency roll-off on its financial future.

Sincerely;

Gary T. Arant

Valley Center Municipal Water District *General Manager, and*
San Diego County Water Authority *Member Board of Directors*

Attachment: SDCWA Resolution No. 2020-06

RESOLUTION NO. 2020-06

**A RESOLUTION OF THE BOARD OF DIRECTORS OF THE
SAN DIEGO COUNTY WATER AUTHORITY ADDRESSING
POTENTIAL DETACHMENT OF FALLBROOK PUBLIC
UTILITIES DISTRICT AND RAINBOW MUNICIPAL WATER
DISTRICT AND ANNEXATION OF THOSE DISTRICTS INTO
EASTERN MUNICIPAL WATER DISTRICT-06**

The San Diego County Water Authority (“**Water Authority**”) is a county water authority established in 1944 under the County Water Authority Act (“**Act**”), that has provided water to its member agencies throughout San Diego County since World War II.

The Fallbrook Public Utilities District (“**Fallbrook**”) was a founding member agency of the Water Authority in 1944 and Rainbow Municipal Water District (“**Rainbow**”) has been a member agency of the Water Authority since 1954.

In March 2020, Fallbrook and Rainbow filed applications with the San Diego County Local Agency Formation Commission (“**San Diego LAFCO**”) seeking detachment from the Water Authority and annexation into Riverside County’s Eastern Municipal Water District.

The proposed detachment will affect water users and ratepayers in Fallbrook and Rainbow, as well as other member agencies and their ratepayers throughout the County of San Diego.

NOW, THEREFORE, the Board of Directors of the San Diego County Water Authority resolves the following:

1. Given the significant and unprecedented nature of the proposed detachments, and in order to protect ratepayers in Rainbow, Fallbrook, and the remainder of the Water Authority’s service area, the Water Authority recommends that San Diego LAFCO conduct a comprehensive evaluation of the impacts of the detachment proposals, including financial, water supply reliability, governmental, and environmental impacts, and ensure that the public and all affected agencies have a meaningful and balanced opportunity to engage in the evaluation process.

2. Given the Water Authority’s obligation to provide an adequate, reliable, and affordable source of water for all of San Diego County, the Water Authority will oppose detachment by Rainbow and Fallbrook unless:

a. It can be determined by what means Rainbow and Fallbrook can guarantee that all obligations as promised to their own ratepayers are met;

b. It can be demonstrated that detachment will not adversely affect other Water Authority member agencies and San Diego County as a region financially or environmentally;

c. It can demonstrated that detachment and then annexation into Riverside County’s Eastern Municipal Water District will not increase reliance on the Bay-Delta; and

d. It can be demonstrated that detachment will not result in a diminution of the Water Authority's voting power at MWD to represent the interests of all San Diego County ratepayers and property owners.

PASSED, APPROVED, and ADOPTED this 28th day of May, 2020 by the following vote:


AYES:	Unless noted below all Directors voted aye.
NOES:	Bebee and Kennedy.
ABSTAIN:	None.
RECUSAL:	Ayala and Cate.
ABSENT:	Boyle, Simpson, Steiner, and Preciado (P).


Jim Madaffer, Chair

ATTEST:


Christy Guerin, Secretary

I, Melinda Nelson, Clerk of the Board of the San Diego County Water Authority, certify that the vote shown above is correct and this Resolution No. 2020- 06 was duly adopted at the meeting of the Board of Directors on the date stated above.


Melinda Nelson, Clerk of the Board

Preliminary Financial Impact Analysis | De-Annexation

August 2019

Given the potential Rainbow Municipal Water District (RMWD) and Fallbrook Public Utility District (FPUD) de-annexation from the San Diego County Water Authority, Water Authority staff performed a preliminary financial assessment to determine an initial order-of-magnitude financial impact. This high-level analysis calculates the potential net revenue loss and re-allocation of costs to remaining member agencies to meet necessary annual revenue requirements.

To provide a baseline estimate, the preliminary analysis uses a mix of FY 2018 actual data and CY 2020 adopted rates and charges, which reflects the best available data at this time. The values and impacts presented herein reflect a reasonable 1-yr estimate. It is important to note that the estimated impact is likely to fluctuate year-to-year based on updated assumptions, financials, and demands.

Table 1 defines the forecasted financial (revenue and expenditure) impacts related to RMWD and FPUD.

Table 1: Preliminary De-Annexation Net Impact

	Forecasted Impact (\$)
Anticipated Avoided Costs	
Avoided Supply Purchases	\$22,268,000
Avoided Treatment Expense	\$9,526,600
Avoided SDCWA O&M	\$0
Total Avoided Costs	\$31,794,600
Anticipated Revenue Loss	
Supply Reliability Charge	\$1,594,400
Customer Service Charge	\$1,691,700
Storage Charge	\$2,787,700
Infrastructure Access Charge	\$1,165,700
Melded Supply Rate	\$25,391,300
Melded Treatment Rate	\$8,258,300
Transportation Rate	\$1,292,800
Other Revenue (1)	\$2,979,800
Total Anticipated Revenue	\$45,161,700
Net Impact	-\$13,367,100
<i>(Avoided Expense - Revenue Loss)</i>	

(1) Includes Property Tax, Standby Charge, and Capacity Fees (FY 2018)

Table 2 provides a break down of revenues by rate component (fixed, transportation, melded supply, and melded treatment) and reflects the projected revenue loss based on Rainbow and Fallbrook's specific use of the system and benefit of the SAWR program and that not all deliveries are subject to the Water Authority's Transportation Rate. For simplicity, the Melded Treatment Impact was allocated over total deliveries (not just treated).

Table 2: Revenue Impact by Rate Category

Fixed Charge Impact	CY2020
Revenue Loss (from Table 1)	\$7,239,552
Transportation Rate Impact	
Revenue Loss	\$1,292,800
CY 2020 Deliveries (less R&F)	367,819
Rate Impact	\$3.51
Melded Supply Impact	
Revenue Loss (Supply)	\$3,123,300
Revenue Loss (Other Revenues)	\$2,979,800
CY 2020 Deliveries (less R&F)	367,819
Rate Impact	\$16.59
Melded Treatment Impact	
Revenue Loss	(\$1,268,200)
CY 2020 Deliveries (less R&F)	367,819
Rate Impact	(\$3.45)
Variable Rate Impact	
Transportation Rate	\$3.51
Melded Supply Rate	\$16.59
Treatment Rate	(\$3.45)
Total Volumetric Rate Impact	\$16.66

The Net Impact (Table 1) and Total Revenue Recovery (Table 3) do not match, due to the use of different delivery assumptions (CY 2020 vs FY 2018) throughout. In addition, the values presented in Table 3 reflect the use of FY 2018 Actuals for "Other Revenues" rather than an initial staff input. As such, these values are lower by \$37,847 than from delivered impacts (provided on 8/5/2019). Some of the difference also reflects the use of non-rounded values.

Table 3: Estimated Recovery of Net Impact (De-Annexation)

	Supply Reliability Charge	Customer Service Charge	Storage Charge	IAC	Estimated Fixed Charge Impact	FY 2018 Deliveries (AF)	Est. Variable Impact (AF * \$16.66)	Total Estimated Impact (Fixed + Variable)
Carlsbad M.W.D.	\$59,164	\$57,510	\$100,517	\$47,104	\$264,295	16,032	\$267,873	\$531,378
Del Mar, City of	\$3,999	\$4,274	\$7,471	\$3,234	\$18,979	1,078	\$18,012	\$36,938
Escondido, City of	\$69,358	\$78,315	\$120,848	\$45,932	\$314,453	7,869	\$131,480	\$445,545
Fallbrook P.U.D.	\$0	\$0	\$0	\$0	\$0	N/A	\$0	\$0
Helix W.D.	\$114,229	\$111,392	\$194,690	\$84,672	\$504,983	25,913	\$432,971	\$936,678
Lakeside W.D.	\$11,635	\$11,449	\$20,010	\$10,754	\$53,848	2,836	\$47,386	\$101,094
Oceanside, City of	\$88,210	\$93,010	\$160,295	\$74,551	\$416,067	22,510	\$376,112	\$791,070
Olivenhain M.W.D.	\$75,803	\$77,583	\$134,915	\$36,672	\$324,973	19,423	\$324,532	\$648,548
Otay W.D.	\$117,569	\$120,429	\$210,484	\$77,746	\$526,227	29,638	\$495,211	\$1,019,978
Padre Dam M.W.D.	\$39,888	\$41,488	\$71,141	\$34,832	\$187,349	10,332	\$172,634	\$359,474
Pendleton Military Reserve	\$240	\$288	\$502	\$0	\$1,030	84	\$1,404	\$2,429
Poway, City of	\$40,846	\$39,414	\$68,622	\$22,130	\$171,012	10,316	\$172,366	\$342,870
Rainbow M.W.D.	\$0	\$0	\$0	\$0	\$0	N/A	\$0	\$0
Ramona M.W.D.	\$17,832	\$21,982	\$30,389	\$13,341	\$83,544	5,379	\$89,876	\$173,154
Rincon Del Diablo M.W.D.	\$22,211	\$22,251	\$38,696	\$13,098	\$96,257	5,468	\$91,363	\$187,350
San Diego, City of	\$686,275	\$694,117	\$1,211,896	\$510,938	\$3,103,225	155,923	\$2,597,581	\$5,700,807
San Dieguito W.D.	\$17,597	\$15,369	\$26,861	\$19,539	\$79,365	2,660	\$44,445	\$123,679
Santa Fe I.D.	\$32,280	\$28,384	\$49,609	\$13,651	\$123,924	5,818	\$97,211	\$220,848
Sweetwater Authority	\$44,661	\$41,472	\$72,485	\$55,901	\$214,519	1,735	\$28,990	\$243,423
Vallecitos W.D.	\$52,276	\$53,599	\$87,412	\$35,275	\$228,561	16,168	\$270,145	\$497,910
Valley Center M.W.D.	\$31,614	\$91,490	\$56,181	\$19,048	\$198,332	22,526	\$376,379	\$573,601
Vista I.D.	\$64,287	\$66,589	\$116,011	\$46,525	\$293,412	2,530	\$42,273	\$335,560
Yuima M.W.D.	\$3,848	\$20,829	\$8,712	\$784	\$34,172	6,088	\$101,722	\$135,594
South Coast W.D.	\$558	\$466	N/A	N/A	\$1,025	-	\$0	\$1,025
Total	\$1,594,380	\$1,691,700	\$2,787,744	\$1,165,728	\$7,239,552	370,326	\$6,169,404	\$13,408,953