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May 25, 2023

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**Re: June 5, 2023 Hearing—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 conclusions on key policy decisions presented in the May 2023 prospectus on the proposed reorganizations prepared by LAFCO staff. The following comments are being submitted for LAFCO's consideration in connection with the hearing scheduled for June 5, 2023.

1. **Fallbrook and Rainbow ratepayers may not see a 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 \$23.50 per household if the proposed reorganizations are approved. It is not clearly stated whether the estimated savings figure takes into consideration the payment of an exit fee to the Water Authority; if the figure does not include this cost, the estimated savings figure would be overstated (over time period that the exit fee is in place). The cost savings figure (at a minimum) should take into account the assessment of an exit fee (if it does not already) to fully inform those voting on the proposed reorganizations, including Fallbrook and Rainbow ratepayers and LAFCO Commissioners.
2. **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. Additionally, the Water Authority's pass-through rate increase associated with the proposed reorganizations would be added to any other rate adjustments made by the Water Authority to address member agency roll-offs, Metropolitan Water District of Southern California (MWD) rate increases, etc. as well as the member agencies own rate and charge increases.

Based on figures shown in the “Estimated Detachment Impacts to Member Agencies + Ratepayers” table, the District would see its costs increase \$347,984 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 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 every two months. As previously noted, this increase would be in addition to any other rate adjustments made by the Water Authority and/or the District in futures years.

3. ***Financial Impacts to Water Authority and ratepayers are material and significant when one considers the cumulative impact of the proposed reorganizations and future rate increases.*** LAFCO staff’s conclusion that the financial impacts of the detachments are significant but not material because the annual net revenue loss to the Water Authority (\$12.581 million) equals 4.4% of its gross water sales misses a key factor. The increase is significant and material when one considers that it would be added to any other to any other rate adjustments.
4. ***Approval of the Proposals is reasonable only if conditioned on an appropriate exit fee and duration that it is in place.*** Conditioning the proposed reorganizations’ approval to require an exit fee is reasonable and merited given the financial impacts and need therein for a period of adjustment. This conclusion is correct; however, the exit fee would need to be equal to the estimated revenue loss for the Water Authority and not discounted, and the length of time the exit fee is in place (five years) be appropriate, which it is not.

LAFCO staff’s conclusion that five years (based on the intervals that Urban Water Management Plans are updated and Municipal Service Reviews are conducted) 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).

5. ***Discounting an exit fee to reflect cost savings is not reasonable.*** The prospectus’ statement that the Water Authority would save \$38.6 million should Fallbrook and Rainbow detach that would otherwise be expended on proceeding with the Emergency Storage Project (ESP) North County Pump Station is incorrect; therefore, discounting the exit fee to account for this mythical cost avoidance is unreasonable. Budgeting project is ***not*** the same as actually making an expenditure. As noted in the District’s November 29, 2022 comment letter, the Water Authority has stated 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. 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.
6. ***Near-certain roll-off impacts are measurably higher than detachment impacts; when considered together, they significantly affect the Water Authority, its member agencies and ratepayers.*** LAFCO staff estimates the annual net revenue loss tied to expected roll-offs involving three reuse projects will be \$47.0 million by the end of the decade, translating to a ratepayer impact of 9.4% (compared to a 2.5% ratepayer impact associated with the detachment). This conclusion seems to support LAFCO staff’s alternative action to defer consideration of the proposals until the completion of a scheduled municipal service review on the Water Authority, which includes an evaluation of the financial condition of the agency.

7. ***Loss of voting Rights at MWD is a valid concern.*** LAFCO staff is correct that voting rights at the 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.
8. ***Detachments would not benefit agriculture in the North County.*** LAFCO staff notes that both agencies' proposals center on the premise of providing economic relief to their agricultural customers by securing less expensive water supplies. LAFCO statute and adopted policy address the loss of agriculture with the latter having been recently expanded to now consider actions whenever appropriate to "enhance" agriculture, which allows the Commission to make special accommodations for the affected territory in evaluating the proposals. As noted in the District's November 29, 2022 letter, agricultural water use could be reduced by as much as 90% or be completely prohibited under the Human Health and Safety formula MWD (Eastern's wholesale water supplier) used in parts of its service area during the last drought. The potential for this type of reduction during a drought does not appear to support a policy of enhancing agriculture rather it seems more likely to place agriculture in jeopardy.
9. ***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. LAFCO legal counsel has stated that LAFCO has no statutory authority to grant a vote by all those affected, a position that the Water Authority's legal counsel does not agree with. Assembly Bill 530, which would allow a vote in the Water Authority's service area when agencies seek to detach, may be the answer. Given the financial impact that the reorganizations would have on the Water Authority as well as its member agencies and their ratepayers, a vote by all affected 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