



Commission Meeting

June 5, 2023

Agenda Item 6a

Proposed
“Rainbow MWD and Fallbrook
PUD Reorganizations”

Final Report

Agenda Item No. 6a



Rainbow MWD

and Fallbrook PUD

Reorganizations

(RO20-04 & RO 20-05)

–

receive presentation

–

open public hearing

–


discuss item and consider
staff recommendation


Proposal's 101 who | what | why



Applicants | Fallbrook Public Utility District &
Rainbow Municipal Water District

Subject Agencies | San Diego County Water
Authority & Eastern Municipal Water District



Seeking Approval to **Transfer Wholesale
Water Service Responsibilities** from the San
Diego County Water Authority to Eastern
Municipal Water District 



Attaining **Cost-Savings** to the Applicants and
their Retail Ratepayers

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Rainbow MWD

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Reorganizations

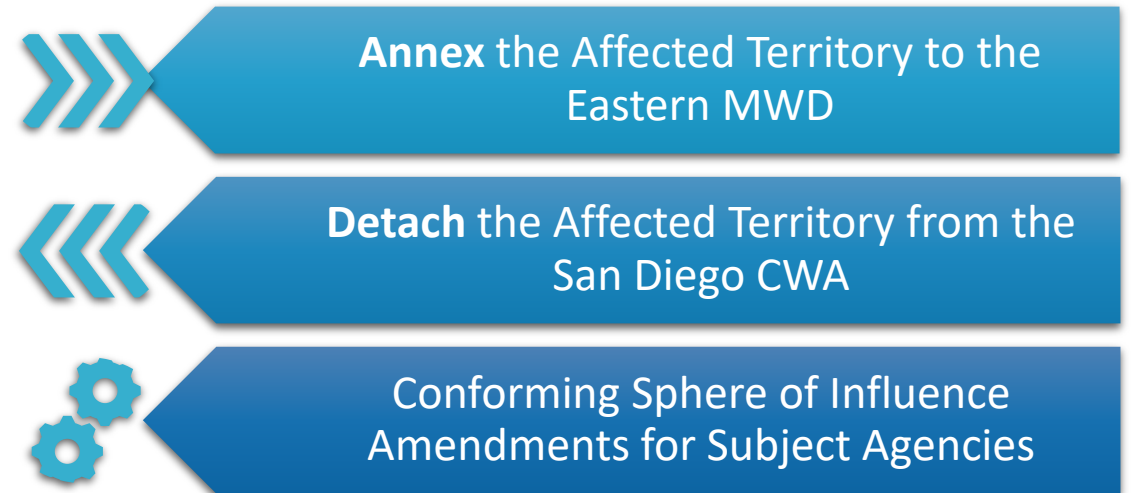
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Proposal's 101

| what |



No Expansion of Affected Territory is Proposed

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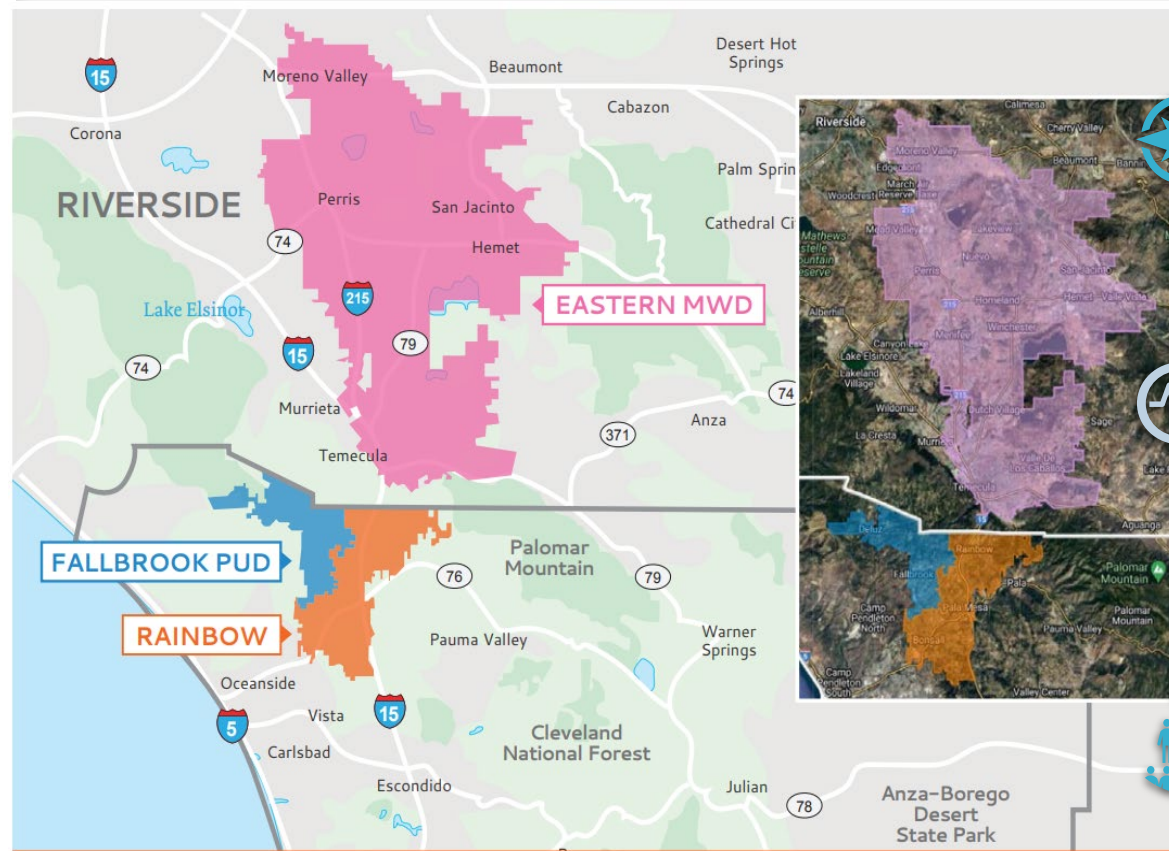


Rainbow MWD and Fallbrook PUD Reorganizations (RO20-04 & RO 20-05)

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Proposal's 101 | where |

Affected Territory



Existing Jurisdictional Boundaries of Fallbrook PUD & Rainbow MWD



Totals 79,050 Acres
- 99% Unincorporated
- Represents 3.4% of San Diego County



Combined Estimated
56,116 Residents &
32,781 Registered Voters

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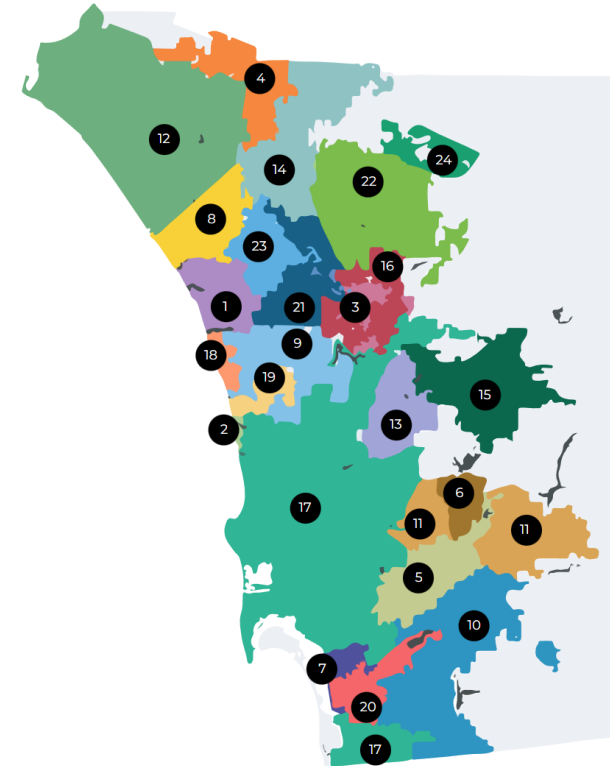
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Proposal's 101 CWA + Member Agencies

- 1 Carlsbad MWD
- 2 City of Del Mar
- 3 City of Escondido
- 4 Fallbrook Public Utility District
- 5 Helix Water District
- 6 Lakeside Water District
- 7 City of National City
- 8 City of Oceanside
- 9 Olivenhain MWD
- 10 Otay Water District
- 11 Padre Dam MWD
- 12 Camp Pendleton Marine Corps Base
- 13 City of Poway
- 14 Rainbow MWD
- 15 Ramona MWD
- 16 Rincon del Diablo MWD
- 17 City of San Diego
- 18 San Dieguito Water District
- 19 Santa Fe Irrigation District
- 20 Sweetwater Authority
- 21 Vallecitos Water District
- 22 Valley Center MWD
- 23 Vista Irrigation District
- 24 Yuima Municipal Water District



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Proposal's 101 alternatives actions + staff recommendation

Option 1

Approve with Only Standard Conditions

Option 2

**Approve with Additional Conditions that Include
Requiring the Applicants to Pay Exit Fees to CWA**

Option 3

Defer Consideration Until the Completion of a
Scheduled MSR on the CWA

Option 4

Disapprove without Prejudice

Option 5

Disapprove

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Important Context san diego county water authority act

§ 45-11. Exclusion of territory Sec. 11. (a) Methods.

(2) Any public agency whose corporate area as a unit has become or is a part of any county water authority may obtain the exclusion of the area therefrom in the following manner:

The governing body of any public agency may submit to the electors thereof at any general or special election the proposition of excluding from the county water authority the corporate area of the public agency. Notice of the

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Important Context memorandum of understanding

Memorandum of Understanding (MOU) Established October 2019

San Diego LAFCO and Riverside LAFCO

Delegates San Diego LAFCO the responsibility in processing
the formal submittals and preparing the related analysis

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Important Context alternative conducting authority proceedings

May 2020

Commission Approves Requests from the County Water Authority to Apply Alternative Conducting Authority Proceedings

Should the Reorganizations Receive Approval the Proposals will
Bypass Standard Protest Proceedings in LAFCO statute

Directly Proceed to a Confirmation Election of Registered Voters
Consistent with the County Water Authority's Principal Act

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Important Context establishment of ad-hoc committee

June 2020

Commission Approves Establishment of an Advisory Committee

Directly assist the Executive Officer in the administrative review of the reorganization proposals

The committee was comprised of 10 members with an overall task of addressing disputes among the subject agencies consistent with the provisions of the Commission's Policy L-107

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Important Context Policy L-107?

Adopted May 2010

Policy Requires Applicant(s):

- Disclose Jurisdictional Disputes Associated with Proposals
- Consult with Opponents to Resolve any Known Issues
- If an agreement is reached, the Commission Shall Consider the Provisions as part of the Application
- If an agreement is not reached, and the Executive Officer Concurrently Determines Good-Faith Efforts have been Satisfied, the Commission Shall Proceed to Consider the Application as Submitted

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Important Context msr on the fallbrook region

Conclusion No. 7 | Stress-Testing is Underway

- FPUD and RMWD have experienced clear and measurable financial stress

Conclusion No. 2 | Slow and Steady Consolidation of Local Government

- Opportunities for additional consolidation
- Community interest appears limited and materially contributed to the Commission rejecting the last proposed consolidation involving FPUD's proposed takeover of RMWD in September 2015



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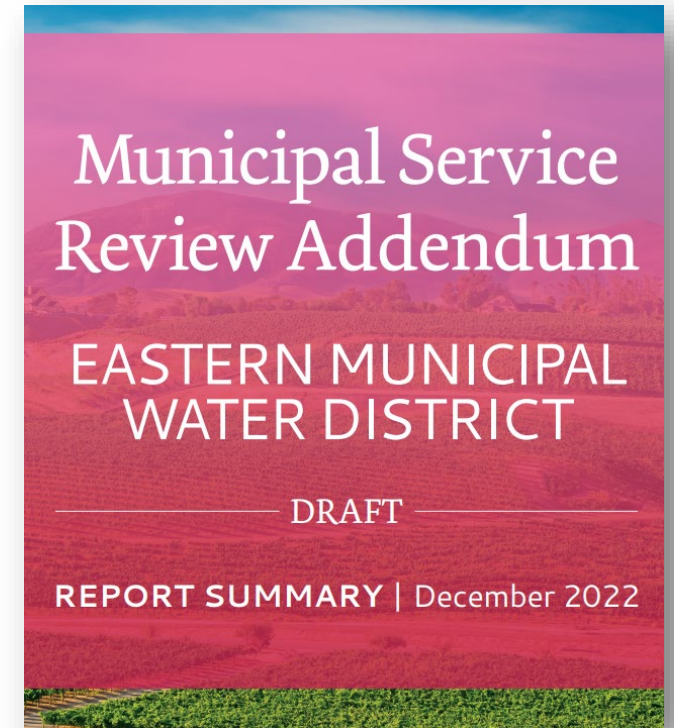
Important Context addendum to msr on eastern mwd

Conclusion No. 6 | Finances Trending Upward

- Financial health with respect to liquidity, capital, margin, and asset management efficiencies shows the District trending positively overall

Conclusion No. 4 | Positive Water Demand-to-Capacity Relationship

- Eastern MWD maintains adequate infrastructure capacities and related administrative controls to meet current and anticipated demands (retail and wholesale)



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Remaining Staff Presentation notable line-up

Priscilla Mumpower | LAFCO Staff Analyst – Project Manager

Adam Wilson | LAFCO Consultant

Dr. Michael Hanemann | LAFCO Consultant & ASU Professor

Chris Cate | LAFCO Consultant

Carol Ieromnimon | LAFCO Staff Analyst

Holly O. Whatley | LAFCO Commission Counsel

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Advisory Committee Process

Adam Wilson | LAFCO Consultant

Focus and Composition of Ad-Hoc Committee

Three Selected Topics

Consultant Selection Process

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Dr. Hanemann's Final Report disclaimer

- I was engaged by the San Diego County Local Agency Formation Commission (LAFCO) to analyze three issues, as follows:
- **Topic One: Water Supply Reliability**
- **Topic Two: Water Rate Impacts**
- **Topic Three: Potential Departure Fees**
- I was engaged to address these topics as an economist. I was not engaged to conduct legal analysis or offer legal advice on the issues I addressed, and I did not offer any legal opinions.

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Dr. Hanemann's Final Report the same water? NO

- It has been suggested that, if FPUD and RMWD detach from SDCWA and instead become wholesale customers of EMWD, they will be receiving the same MWD water as before.
- That is incorrect.
- They will be receiving 100% MWD-water from EMWD rather than a mix of 80% QSA-water and 20% MWD-water from SDCWA.
- Regardless of whether molecules of QSA- and MWD-water are physically indistinguishable, they are legally different with regard to their underlying water right and reliability.



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Dr. Hanemann's Final Report why did SDCWA's wholesale rate rise more than MWDs wholesale rate?

1. Between 2010 and 2021, SDCWA experienced a 40% reduction in member agency demand for water while MWD experienced only a 20% reduction. That difference would have caused the rate differential to widen, given that both agencies have very high fixed costs.
2. SDCWA invested in some major water supply infrastructure projects just before and after 2010. MWD had made major infrastructure investments about 15 years earlier. That would have caused the rate differential to widen.
3. Carlsbad became a factor only after 2015; it accounts for \$215/AF of \$399/AF rate difference between SDCWA and MWD wholesale rates now.

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Dr. Hanemann's Final Report financial exposure to reduction in water sales

	SDCWA	MWD
PERCENT OF EXPENDITURE THAT VARIES WITH AF DELIVERED	15%	16%
PERCENT OF REVENUE THAT VARIES WITH AF DELIVERED	72%	88%

With current rates, I estimate that for every 1,000 AF less that SDCWA delivers to member agencies, its net revenue falls on average by almost \$1M.

This is of some concern given that SDCWA is projected to experience a reduction of about 60,000 AF in deliveries to member agencies by around 2030.

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Dr. Hanemann's Final Report supply reliability

- Since 2020, it is a new ballgame for water supply from both SWP and the Colorado River. The long-standing water availability forecasting models broke down in 2021 and were discarded.
- Riverside County is the fastest growing county in California. EMWD relies on MWD for half of its supply, and on its local supplies for the rest.
- EMWD's growing wholesale service population will have to rely mainly on MWD's supply to EMWD, not on EMWD's local supplies.
 - Most of EMWD's wholesale customers themselves have substantial local supplies. The City of Perris and RMWD will be the only EMWD wholesale customers who are solely dependent on MWD water.
 - MWD faces serious reliability issues with both its SWP and CRA water.
- SDCWA now relies on MWD for less than 20% of its supply. SDCWA's non-MWD supply is QSA water from the Colorado River, which comes under a higher priority water right than most of MWD's Colorado River water, plus water from the Carlsbad Desalination facility which is fully protected against streamflow uncertainty.

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Dr. Hanemann's Final Report supply reliability: conclusion

- In terms of raw water supply, SDCWA's supply is more reliable than that of EMWD given that it involves a higher tier of right to Colorado River water, and the supply accessible to FPUD and RMWD via SDCWA is more diversified (MWD, IID, desal) than the supply accessible via EMWD (MWD).
- MWD has more extensive arrangements for water banking than SWDCWA, which is beneficial during a short drought more than a prolonged drought.
- While I believe that FPUD and RMWD are taking something of a gamble on supply reliability if they switch from SDCWA to EMWD, the gamble ultimately is *not* one of running out of water. It is the risk of ending up having to pay a higher price for water than they had anticipated in order to get by during a drought.

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Dr. Hanemann's Final Report Rate impacts – (i) FPUD, RMWD; (ii) SDCWA member agencies

- As I was completing my analysis during the second half of 2021, the supply situation became considerably more uncertain for both SWP and the Colorado River.
- I became increasingly aware of uncertainties in the future demand situation for SDCWA, given the – to me – striking reduction in urban gpcd since 2009 within SDCWA's service area and the impending explosion in direct and indirect potable re-use.
- Both factors greatly increase my own uncertainty about the future rate structures for not only SDCWA but also MWD.
 - While I had a good idea about what would happen in CY 2022, I was increasingly unsure about the years thereafter.
- I did not feel comfortable performing a multi-year analysis stretching beyond 2022.

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Dr. Hanemann's Final Report Savings for FPUD and RMWD

- The net cost-savings to Fallbrook PUD and Rainbow MWD if they detach and change wholesalers will be \$2.9 million and \$4.8 million each year, respectively, and generate a combined net annual savings of \$7.7 million.
- The individual amounts represent net savings of 35% for Fallbrook and 21% for Rainbow.

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Dr. Hanemann's Final Report

Savings In Water Cost When FPUD & RMWD Switch From SDCWA to EMWD

	EMWD			
	Unit Rate	FPUD	RMWD	FPUD + RMWD
Item	FPUD/RMWD	Expenditure		
	(\$/AF)	(\$)	(\$)	(\$)
WATER DELIVERY (AF)		4,100	14,000	
SDCWA WHOLESALE WATER COST (\$)		\$8,229,108	\$23,034,412	\$31,263,520
EMWD WHOLESALE SUPPLIER				
MWD Full service Tier 1 treated	\$1,143			
MWD RTS charge	\$122			
MWD Capacity charge	\$28			
EMWD Wholesaler "markup"	\$11			
EMWD all-in treated rate	\$1,304			
EMWD WHOLESALE WATER COST (\$)		\$5,346,400	\$18,256,000	\$23,602,400
COST SAVINGS (\$)		\$2,882,708	\$4,778,412	\$7,661,120

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Dr. Hanemann's Final Report Loss of revenue for SDCWA

- The County Water Authority will lose \$4.1 million each year if Fallbrook PUD detaches and \$8.5 million each year if Rainbow MWD detaches.
- The combined annual loss for the County Water Authority should both applicants detach is \$12.6 million and represents a net loss of (2%) for the County Water Authority.

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Dr. Hanemann's Final Report Financial impact of detachment (CY 2022)

Item	FPUD	RMWD	FPUD + RMWD
REDUCTION IN REVENUE			
Without property tax loss	\$8,590,141	\$24,329,127	\$32,919,268
With property tax loss	\$8,750,141	\$24,519,127	\$33,269,268
REDUCTION IN EXPENDITURE			
Short-run	\$4,686,300	\$16,002,000	\$20,688,300
Long-run	\$5,047,100	\$17,234,000	\$22,281,100
CHANGE IN NET REVENUE			
SHORT-RUN			
Without property tax loss	\$3,903,841	\$8,327,127	\$12,230,968
With property tax loss	\$4,063,841	\$8,517,127	\$12,580,968
LONG-RUN			
Without property tax loss	\$3,543,041	\$7,095,127	\$10,638,168
With property tax loss	\$3,703,041	\$7,285,127	\$10,988,168

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Dr. Hanemann's Final Report The issue of an exit fee

- As I understand it, SDCWA's position is that, if they detach, FPUD and RMWD should be liable for around \$1 billion of its indebtedness.
- FPUD and RMWD argue that they should be able to detach without any further financial liability.
- In my own judgment, neither position is reasonable.
- However, LAFCO is the decision-maker here.
- The question for LAFCO is whether two SDCWA member agencies with a distinctive set of needs and situated at a distinctive location should be allowed to walk away scot-free, entirely unencumbered by any of the financial commitments that SDCWA has assumed on behalf of its member agencies.

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Dr. Hanemann's Final Report The issue of an exit fee

- If there is a departure fee, its sole purpose should be to assist SDCWA in covering its financial obligations that are fixed, ongoing and unavoidable for a limited period while it adjusts to the changed financial situation.
- It is a transitional payment.
- It is not intended as payment for water being received; it is payment for obligations incurred *when receiving water in the past*.
- The justification arises from the fact that water supply is highly capital-intensive, requires long-term commitments, and is not operated on a PayGo basis.
 - Until the 1960's water supply infrastructure in Southern California was funded by general obligation bonds backed by property tax revenues. Today it is funded by revenue bonds backed by water sales revenues.
 - The bond debt generates an ongoing financial commitment.

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Dr. Hanemann's Final Report

The issue of an exit fee

- SDCWA is committed to making annual payments that run through 2047 (for IID Transfer water) and 2112 (for canal lining water).
- The annual payments this year for QSA water amount to almost \$285 million.
 - Using FPUD and RMWD's share of all water delivered by SDCWA suggests an annual payment of \$18.5 million.
 - Using their share of M&I water delivered suggests an annual payment of \$13 million.
 - SDCWA's annual loss of net revenue suggests an annual payment of \$12.6 million.
- LAFCO staff opt for \$12.6 million p.a.

	Share	Annual payment
USING THE SHARE OF M&I DELIVERIES		
FPUD	1.9%	\$5,295,156
RMWD	2.7%	\$7,710,209
Total	4.6%	\$13,005,365
USING THE SHARE OF ALL DELIVERIES		
FPUD	2.3%	\$6,402,041
RMWD	4.3%	\$12,107,975
Total	6.5%	\$18,510,016

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Dr. Hanemann's Final Report The issue of an exit fee

Number of years exit fee is paid

- I recommended at least 3 years, and not more than 10 years.
- LAFCO staff recommend 5 years.

Other adjustments

- LAFCO staff recommend discounting the exist fee to reflect cost savings incurred by SDCWA in the event of departure by FPUD and RMWD.
- I did not analyze the potential for cost savings. I believe the staff analysis is reasonable.

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Dr. Hanemann's Final Report Would the analysis be different if done today?

- I do not think my analysis would be materially different if done now rather than 18 months ago.
 - In December 2022, the water supply situation looked even worse than in December 2021.
 - Even with the massive rainfall of 2023 and the Colorado River agreement announced just recently the situation does not look better than it looked in December 2021.
 - Streamflow in the Colorado River and in Northern California will continue to decline below current levels.
 - The agreement among the Lower Basin States is temporary (until 2026) and supported by an infusion of federal funds that is likely to be only temporary.
 - California water agencies for sure face further reductions in their access to Colorado River water.
 - The reduction in urban gpcd and the growth of potable reuse are both likely to continue, thereby causing wholesale water rates to keep rising.

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Dr. Hanemann's Final Report concluding observations

- None of my analysis should be seen as implying criticism of the management of FPUD, RMWD, EMWD, SDCWA or MWD.
- I greatly admire and respect the professionalism, thoughtfulness and devotion of the management of these agencies.
- The current disagreements reflect the sheer difficulty of managing water supply today with conservation, recycling and climate change upending the traditional economics of water supply.
- The underlying economics make this indeed a wicked problem.
- I am in full agreement with how LAFCO staff reviewed, interpreted and cited my analysis.
- I am available to answer any questions after the end of the staff presentation.

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Administrative Review evaluating timing

Three Factors

Addressing Statute

- Service Needs
- Service Availability & Capacity (Access and Source)
- Financial Considerations

Addressing Consistencies with Local Policies

- Headlined by Policy L-107

Addressing Other Local Considerations

- Identified by Staff through Administrative Review

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Administrative Review addressing statute

No. 1 | Service Needs

- Imported Wholesale Water is Necessary
- Overall Limitation on Local Sources
- Increasing Costs for Water Supplies Impacting the Affected Territory

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Administrative Review addressing statute

No. 2 | Service Availability & Capacity (Access and Source)

- Three-Party MOU (FPUD, RMWD, and EMWD)
- New Infrastructure is Not Needed
- Post Reorganization Applicants would Continue Receiving Colorado River and Sacramento Bay-Delta Supplies

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Administrative Review addressing statute

No. 3 | Financial Considerations

- Presently FPUD and RMWD's wholesale water supply costs account for 65% to 79% of their respective retails rates
- Post Reorganization:
 - Applicants would experience an approximate 24% and 22% annual savings in wholesale water supply costs
 - Ratepayers would experience an approximate average monthly cost-savings of \$23.50 per household

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Administrative Review evaluating conforming sphere actions

Justified Under Both Statute & Local Policy

Assumption | No. 1

✓ Commission Determines Municipal Service Review and Associated Addendum on Eastern MWD Adequately Informs Sphere Action

Assumption | No. 2

✓ Commission Determines Affected Territory Shares Relevant Communities of Interests that are Distinct from Adjacent Lands in San Diego County & can be Preserved through Placement in Eastern MWD's Sphere of Influence

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Administrative Review evaluating timing

Evaluating Timing with Respect to Key Local Conditions & Policy L-107 Factors

Chris Cate | Financial Topics

Adam Wilson | Policy Topics



Financial Impact Analysis

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Summary

Summary

- Roll-Off vs. Detachment – Section (c)
- Impact to CWA’s Credit Rating - Section (d)
- Impact to CWA Member Agencies & Ratepayers – Section (e)
- Assessing ”Significance” – Section (f)
- Merits & Options to Impose Exit Fees – Section (g)
- Identifying the Appropriate Length of an Exit Fee – Section (h)
- Discounting Exit Fees – Section (j)
- Impact on Local Reuse Projects – Section (n)

Detachment Proceedings



Financial Impact Analysis

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Roll-Off vs. Detachment –
Section (c)

Roll-Off vs. Detachment – Section (c)

- Working Group Summary
- Planned Re-Use Projects
- Estimated CWA Revenue Loss of Planned Re-Use Projects
- Estimated Impact to CWA Member Agencies



Financial Impact Analysis

—

Roll-Off vs. Detachment –
Section (c)

Roll-Off vs. Detachment (cont'd.)

- Working Group Summary

- Ad Hoc Committee tasked a working group to independently address the topic and specifically key differences between roll-off and detachment

“The elephant in the room is not if detachment and roll off are the same. They are not. The impacts of detachment and roll off are different in that an agency that rolls off will still be a member agency of the SDCWA and will be contributing to future cost increases and rates set by the SDCWA board.”

“If member agencies roll off to the tune of 60,000 acre feet by 2030 through the development of local supplies, (according to Dr. Hanemann) this will reduce the SDCWA net revenue by \$60,000,000. By way of comparison, FY 2022 Net Water Sales Revenue by SDCWA (in its annual budget) is \$108,586,236. A loss of \$60 million in net revenue is more than half of SDCWA’s total current annual net revenue.”



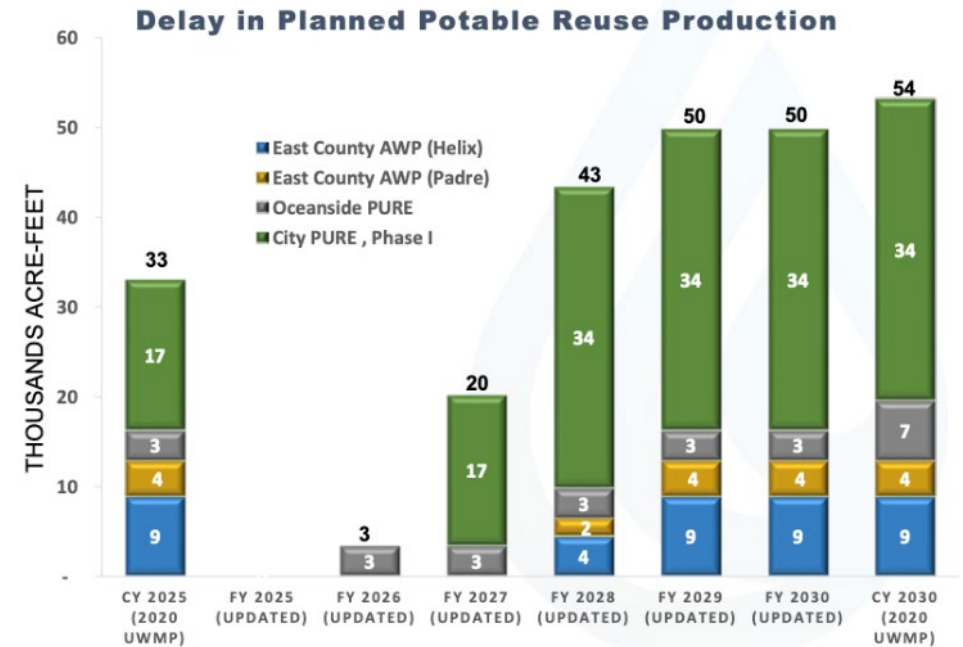
Financial Impact Analysis

–
Roll-Off vs. Detachment –
Section (c)

Roll-Off vs. Detachment (cont'd.)

- Planned Re-Use Projects

- The County Water Authority estimates three projects will collectively generate annual potable reuse supplies starting at 3,000 acre-feet in 2025-2026 and increase to 50,000 acre-feet by 2028-2029.





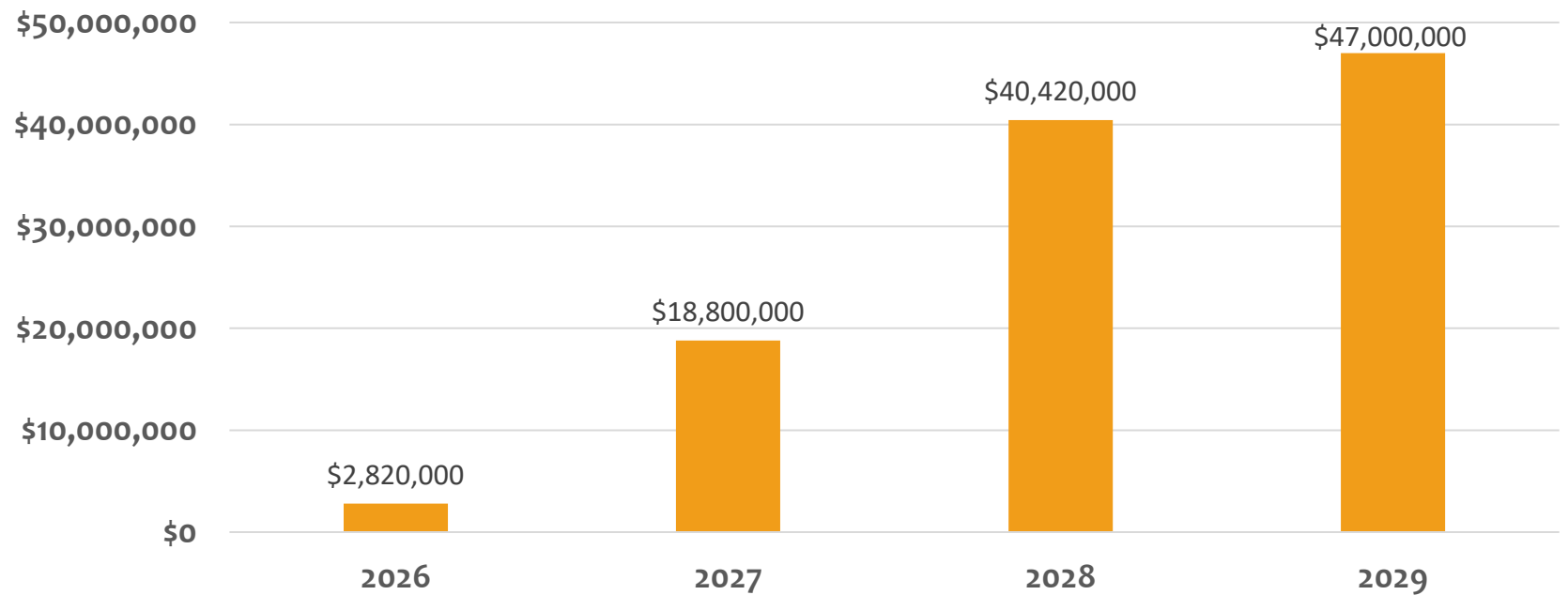
Financial Impact Analysis

–

Roll-Off vs. Detachment –
Section (c)

Roll-Off vs. Detachment (cont'd.)

Estimated CWA Revenue Loss of Planned Re-Use Projects





Financial Impact Analysis

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Estimated Impact to CWA Member Agencies –
Section (e)

Estimated Impact to CWA Member Agencies – Section (e)

TABLE NO. 2
Estimate of Roll-off Impacts to Member Agencies
Involving San Diego, Oceanside, and East County Reuse Projects
(Source: SD LAFCO)

Agency	% of 2022 Revenue Total	Year 2026 3k AF	Year 2027 20k AF	Year 2028 43k AF	Year 2029 50k AF
Carlsbad MWD	4.02%	\$113,434	\$756,227	\$1,625,887	\$1,890,567
City of Del Mar	0.27%	\$7,660	\$51,068	\$109,797	\$127,671
City of Escondido	3.28%	\$92,537	\$616,915	\$1,326,366	\$1,542,286
Fallbrook PUD	0.00%	\$0	\$0	\$0	\$0
Helix WD	6.60%	\$186,198	\$1,241,319	\$2,668,837	\$3,103,298
Lakeside WD	0.99%	\$28,014	\$186,762	\$401,539	\$466,906
City of National City	n/a	n/a	n/a	n/a	n/a
City of Oceanside	5.94%	\$167,425	\$1,116,167	\$2,399,759	\$2,790,417
Olivenhain MWD	4.91%	\$138,467	\$923,112	\$1,984,692	\$2,307,781
Otay WD	9.27%	\$261,475	\$1,743,164	\$3,747,803	\$4,357,911
Padre Dam MWD	3.17%	\$89,490	\$596,602	\$1,282,695	\$1,491,506
Camp Pendleton	0.01%	\$362	\$2,410	\$5,182	\$6,025
City of Poway	2.57%	\$72,468	\$483,121	\$1,038,710	\$1,207,802
Rainbow MWD	0.00%	\$0	\$0	\$0	\$0
Ramona MWD	1.27%	\$35,846	\$238,971	\$513,788	\$597,427
Rincon MWD	1.60%	\$45,154	\$301,030	\$647,214	\$752,575
City of San Diego	39.79%	\$1,122,131	\$7,480,874	\$16,083,880	\$18,702,186
San Dieguito WD	1.07%	\$30,051	\$200,343	\$430,738	\$500,858
Santa Fe ID	1.78%	\$50,260	\$335,069	\$720,398	\$837,672
South Bay ID	1.17%	\$33,039	\$220,263	\$473,565	\$550,657
Vallecitos WD	3.51%	\$98,930	\$659,535	\$1,418,000	\$1,648,838
Valley Center MWD	4.84%	\$136,407	\$909,382	\$1,955,171	\$2,273,454
Vista ID	2.57%	\$72,365	\$482,435	\$1,037,235	\$1,206,088
Yuima MWD	1.32%	\$37,349	\$248,992	\$535,332	\$622,479
Contract Water	0.03%	\$936	\$6,238	\$13,411	\$15,595
	100.00%	\$2,820,000	\$18,800,000	\$40,420,000	\$47,000,000



Financial Impact Analysis

–

Impact to CWA's Credit
Rating – Section (d)

Impact to CWA's Credit Rating – Section (d)

- Assertion proposed detachments would produce detrimental impacts on CWA credit rating
- Ratings by 3 principal reporting agencies steady
- S&P Outlook
- Impact would be less than significant
 1. Reasons other than detachment
 2. Payments and precedent



Financial Impact Analysis

– Impact to Ratepayers Before Exit Fees – Section (e)

Impact to Ratepayers Before Exit Fees – Section (e)

TABLE NO. 3

LAFCO's Estimate of Detachment Impacts to Member Agencies + Ratepayers:
Applies Asset Shares (Water Sales) Between FY2017 and FY2022
(Source: SD LAFCO Staff)

Agency	Annual Agency Impact	Annual Ratepayer Impact	Monthly Ratepayer without Exit Fee	Monthly Ratepayer with Exit Fee
Carlsbad MWD	642,432	17.56	1.46	0.00
City of Del Mar	40,152	16.02	1.34	0.00
City of Escondido	388,136	10.90	0.91	0.00
Helix WD	749,504	11.44	0.95	0.00
Lakeside WD	107,072	13.06	1.09	0.00
City of National City	66,920	n/a	n/a	0.00
City of Oceanside	722,736	12.40	1.03	0.00
Olivenhain MWD	562,128	19.81	1.65	0.00
Otay WD	1,070,721	17.64	1.47	0.00
Padre Dam MWD	374,752	13.86	1.15	0.00
City of Poway	294,448	17.24	1.44	0.00
Ramona MWD	173,992	16.85	1.40	0.00
Rincon MWD	200,760	19.27	1.61	0.00
City of San Diego	4,978,851	12.60	1.05	0.00
San Dieguito WD	133,840	8.71	0.73	0.00
Santa Fe ID	227,528	21.55	1.80	0.00
South Bay ID	187,376	4.33	0.36	0.00
Vallecitos WD	615,664	22.42	1.87	0.00
Valley Center MWD	562,128	38.27	3.19	0.00
Vista ID	347,984	9.65	0.80	0.00
Yuima MWD	133,840	224.56	18.71	0.00
TOTALS	\$12,580,968	\$26.41	\$2.20	0.00



Financial Impact Analysis

–

Assessing Significance – Section (f)

Assessing “Significance” – Section (f)

- LAFCO Staff used two measurements to assess overall significance
 1. Inflation
 - Rely on current one-year inflation rate – 6.4%
 - LAFCO staff focus on two one-year measurements
 1. Annual Net-Revenue Impact (\$12.581M) as share of CWA Gross Water Sales
 - Totals 4.4% - Less than 6.4%
 2. Annual Ratepayer Impact
 - Average annual ratepayer impact of \$26.41
 - Equals 3.6% increase – Less than 6.4%
 2. Past CWA Rate Adjustments
 - Overall rate impact on the remaining member 2.5% less any exit fees
 - Since 2019, CWA average annual rate adjustments at 3.8% for untreated water, 3.9% for treated water



Financial Impact Analysis

–

Merits & Options to
Impose Exit Fees –
Section (g)

Merits & Options to Impose Exit Fees – Section (g)

Merits:

- LAFCO staff believes it is reasonable to require exit fees on the applicants
- Detachments will result in unavoidable financial impacts on CWA in the near term

Options:

- Focus on mitigating annual net revenue losses
- Impractical to assign proportionate share of debt



Financial Impact Analysis

–

Identifying the Appropriate
Length of an Exit Fee –
Section (h)

Identifying the Appropriate Length of an Exit Fee – Section (h)

- Reasonable length of exit fee 3 to 10 years
- Any term beyond 10 years unreasonable
- Rationale for 5 years:
 1. Past rolling averages
 2. Urban Water Management Plans
 3. MSR Cycle



Financial Impact Analysis

–

Discounting Exit Fees – Section (j)

Discounting Exit Fees – Section (j)

- Discounting Exit Fees
 - ESP North County Pump Station
 - Topic evaluated by a working group formed by the Ad Hoc Committee
 - CWA in its adopted budget for FYs 2022 and 2023, identifies the ESP North County Pump Station in their Capital Improvement Program
 - Total project cost associated with Rainbow and Fallbrook at \$38.6 million
 - *“If the Water Authority did not have to construct this infrastructure, it would save about \$40 million in planned costs.”*

Detachment Proceedings



Financial Impact Analysis

–

Net Financial Impact of Detachment – Section (e)

Net Financial Impact of Detachment – Section (e)

TABLE NO. 4

LAFCO's Estimate of Net Detachment Impacts to Member Agencies with Discount:
Based on Actual 2022 Revenues with Cost Escalators
(Source: SD LAFCO Staff)

Agency	2022 Revenue Share	Annual Agency Impact	(a) Annual Impact w/ 7% Cost Escalator	(b) Less ESP Cost Savings	(c) Less ESP 7% Cost Escalator
	100%	\$12,580,968	\$13,461,636	\$4,858,168	\$5,738,836
Carlsbad MWD	4.02%	\$506,067	\$541,492	\$195,419	\$230,844
City of Del Mar	0.27%	\$34,175	\$36,567	\$13,197	\$15,589
City of Escondido	3.28%	\$412,839	\$441,738	\$159,419	\$188,318
Fallbrook PUD	0.00%	\$0	\$0	\$0	\$0
Helix WD	6.60%	\$830,691	\$888,840	\$320,773	\$378,922
Lakeside WD	0.99%	\$124,982	\$133,730	\$48,262	\$57,011
City of National City	n/a	n/a	n/a	n/a	n/a
City of Oceanside	5.94%	\$746,939	\$799,225	\$288,432	\$340,718
Olivenhain MWD	4.91%	\$617,747	\$660,990	\$238,544	\$281,787
Otay WD	9.27%	\$1,166,526	\$1,248,183	\$450,457	\$532,114
Padre Dam MWD	3.17%	\$399,247	\$427,194	\$154,170	\$182,117
Camp Pendleton	0.01%	\$1,613	\$1,726	\$623	\$736
City of Poway	2.57%	\$323,305	\$345,936	\$124,845	\$147,476
Rainbow MWD	0.00%	\$0	\$0	\$0	\$0
Ramona MWD	1.27%	\$159,919	\$171,114	\$61,753	\$72,948
Rincon MWD	1.60%	\$201,449	\$215,551	\$77,790	\$91,892
City of San Diego	39.79%	\$5,006,204	\$5,356,639	\$1,933,157	\$2,283,591
San Dieguito WD	1.07%	\$134,070	\$143,455	\$51,771	\$61,156
Santa Fe ID	1.78%	\$224,228	\$239,924	\$86,586	\$102,282
South Bay ID	1.17%	\$147,400	\$157,718	\$56,919	\$67,237
Vallecitos WD	3.51%	\$441,361	\$472,256	\$170,433	\$201,328
Valley Center MWD	4.84%	\$608,559	\$651,158	\$234,996	\$277,595
Vista ID	2.57%	\$322,846	\$345,445	\$124,668	\$147,267
Yuima MWD	1.32%	\$166,625	\$178,289	\$64,343	\$76,007
Contract Water	0.03%	\$4,174	\$4,467	\$1,612	\$1,904



Financial Impact Analysis

–

Net Financial Impact of
Detachment – Section (e)

Net Financial Impact of Detachment – Section (e)

Breakdown of Exit Fee by Applicant

	Share	Annual Fee	Total Fee
Fallbrook PUD	35%	\$1,701,350	\$8,506,750.00
Rainbow MWD	65%	\$3,159,650	\$15,798,250.00
Total Exit Fee	100%	\$4,861,000	\$24,305,000.00



Financial Impact Analysis

–

Impact on Local Reuse
Projects –
Section (n)

Impact on Local Reuse Projects – Section (n)

- No material direct impact on reuse projects in the region
- Projects intend to resolve wastewater issues
- Delays due to other factors – not attributable to detachment



Policy Topics

–

MET & SANDAG Position on
Detachment –
Section (a & b)

MET and SANDAG positions on detachment (a & b)

- MET Board has taken no formal position
- LAFCO in receipt of two separate letters
 - Sept 2020 – then MET General Manager
 - March 2023 – Board President Adán Ortega
- Both letters are materially different; however, both should be considered in your deliberations.
- SANDAG has provided no official position or comment letters throughout the administrative review.



Policy Topics

–

Detachments' Impact on
CWA's Voting Power at
MET Based on Recent
History –
Section (m)

Detachment Impacts on CWA's Voting Power at MET Based on Recent History (m)

- MET's principal act governs both director and vote entitlement for their member agencies
- If Fallbrook / Rainbow detach, it would shift 1,074 votes from CWA to EMWD, resulting in an overall 0.3% transfer.
- Over the last 900+ votes at MET, there have been only three votes that have come within range of the 0.3% margin shift.



Policy Topics

–

Risk to Applicants in Assuming Greater Reliance on the Sacramento Bay-Delta and Risk to Changes in MET's wholesale rates – Section (K / L)

Risk to Applicants in Assuming Greater Reliance on the Sacramento Bay-Delta and Risk to Changes in MET's wholesale rates – Section (K / L)

- Dr. Hanemann has advised there are potential risks to any increased reliance on Delta.
- However, he concludes that ultimately the challenge rests in paying a higher price for water than anticipated.



Policy Topics

–

Emergency Supplies
Available to the Applicants
During a Catastrophic
Event –
Section (o)

Emergency Supplies Available to the Applicants During a Catastrophic Event – Section (o)

- LAFCO staff believes MET's existing emergency response plan paired with Eastern MWD's ability to provide potable water service in an emergency provides sufficient assurances that risks are reasonably controlled.
- LAFCO separately notes Rainbow and Fallbrook have a combined local water storage of over 2,000 acre-feet and equivalent to accommodating 73-days of average day demands without recharge and provides additional assurances of continued service during an emergency.



Policy Topics

–

LAFCO's Authority to
Require Exit Fees – Section
(i)

LAFCO's Authority to Require Exit Fees – Section (i)

- Both applicants have been consistent in their comments that the CWA act does not contemplate the imposition of exit fees and instead only provides the continued payment of property taxes to cover any remaining debts.
- While LAFCO agrees with this assertion, Staff also does not believe this precludes LAFCO from its authority in statute to condition approval with payment of an exit fee.



Policy Topics

–

Determining the “Affected Territory” for Election Purposes – Section (q)

Determining the “Affected Territory” for Election Purposes – Section (q)

- LAFCO staff maintains that an election within the affected territory may be held, however expanding the election to include all voters within the County Water Authority is not an option given the CWA requesting “non-district” status under CKH and the guidance provided under the CWA’s principal act.
- The Commission, however, may choose to expand the election to include voters within EMWD’s boundaries.



Policy Topics

–

Effect of Stipulated CEQA
Settlements Involving
Applicants on LAFCO –
Section (p)

Effect of Stipulated CEQA Settlements Involving Applicants on LAFCO – Section (p)

- Staff maintains there is no material impact on the Commission's decision-making and related discretion under CEQA given LAFCO is not a party to the stipulated judgements.
- Accordingly, and as advised by Commission Counsel, LAFCO is not bound by the stipulated judgements.



Policy Topics

–

Role of Agriculture in the
Proposals and Influence on
LAFCO decision – Section
(r)

Role of Agriculture in the Proposals and Influence on LAFCO decision – Section (r)

- Central Premise to the detachment proposals is providing economic relief to agriculture customers by securing less expensive water from EMWD.
- LAFCO via statute is encouraged to preserve agricultural and open-space lands
- LAFCO recently updated its own implementing policies adding section to enhance agriculture in San Diego County.

Agenda Item No. 6a



Rainbow MWD
and Fallbrook PUD
Reorganizations
(RO20-04 & RO 20-05)

—
receive presentation

—
open public hearing

—
discuss item and consider
staff recommendation

Administrative Review supplemental report

Topics Addressed in Memorandums

1. Prospectus on Final Report
2. Timeline of Important Dates and/or Milestones
3. Advisory Committees' Deliberations and/or Actions on Draft Report
4. Response to Written Comments on Agenda Report
5. Written Comments Received after May 22nd on Agenda Report
6. Potential Changes to County Water Authority Rate Structure
7. Draft Resolutions of Approval for Agenda Report (Option Two)

Agenda Item No. 6a



Rainbow MWD
and Fallbrook PUD

Reorganizations
(RO20-04 & RO 20-05)

–

receive presentation

–

open public hearing

–

discuss item and consider
staff recommendation

Administrative Review concluding thoughts

Administrative Review

- ✓ 1. Meets all thresholds as required in both statute and local policy
- ✓ 2. Satisfies good-faith efforts required as part of Policy L-107

Impacts

- ✓ 3. On remaining agencies and ratepayers exist however can be mitigated
- ✓ 4. On the applicants and their ratepayers looms significant

Tipping Point

- ✓ 5. Detachment will significantly enhance and protect agriculture given the cost-savings

Agenda Item No. 6a



Rainbow MWD
and Fallbrook PUD
Reorganizations
(RO20-04 & RO 20-05)

-
- receive presentation
-
- open public hearing
-
- discuss item and consider
staff recommendation

Administrative Review alternative actions + staff recommendation

Option 1

Approve with Only Standard Conditions

Option 2

**Approve with Additional Conditions that Include
Requiring the Applicants to Pay Exit Fees to CWA**

Option 3

Defer Consideration Until the Completion of a
Scheduled MSR on the CWA

Option 4

Disapprove without Prejudice

Option 5

Disapprove

