



# Changing Water Suppliers

From SDCWA to Eastern Municipal Water District

LAFCO MEETING  
June 5, 2023

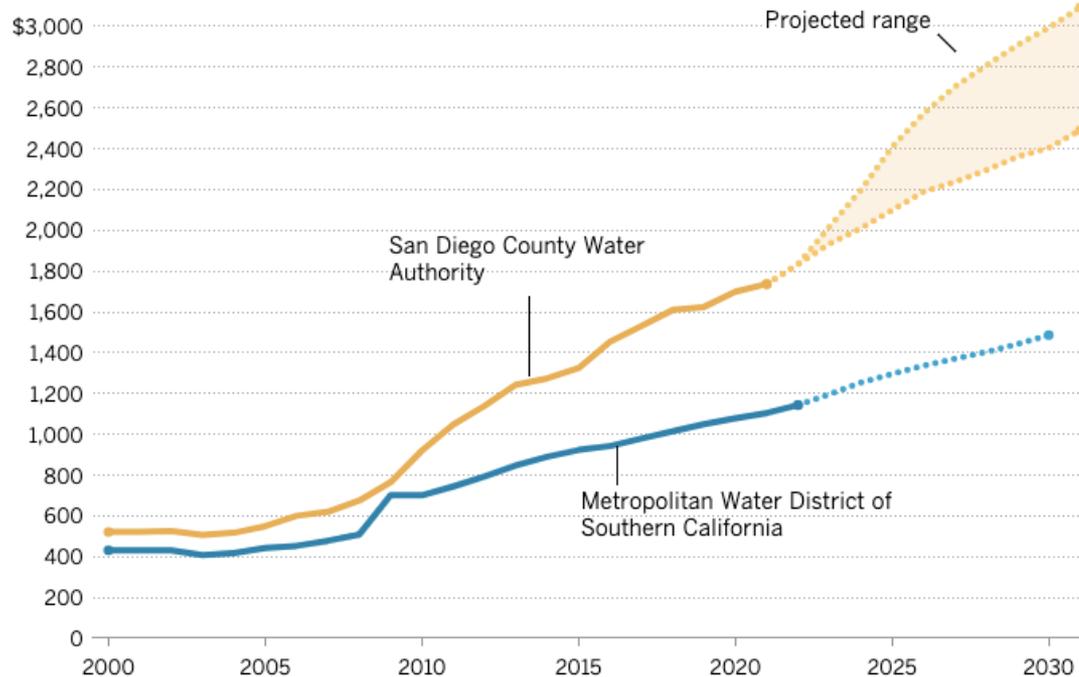
# Why would we want to change wholesale water suppliers?

The San Diego Union-Tribune

## Southern California's rising cost of water

Wholesale rates for treated water are projected to increase largely to cover mounting fixed costs in the face of declining sales.

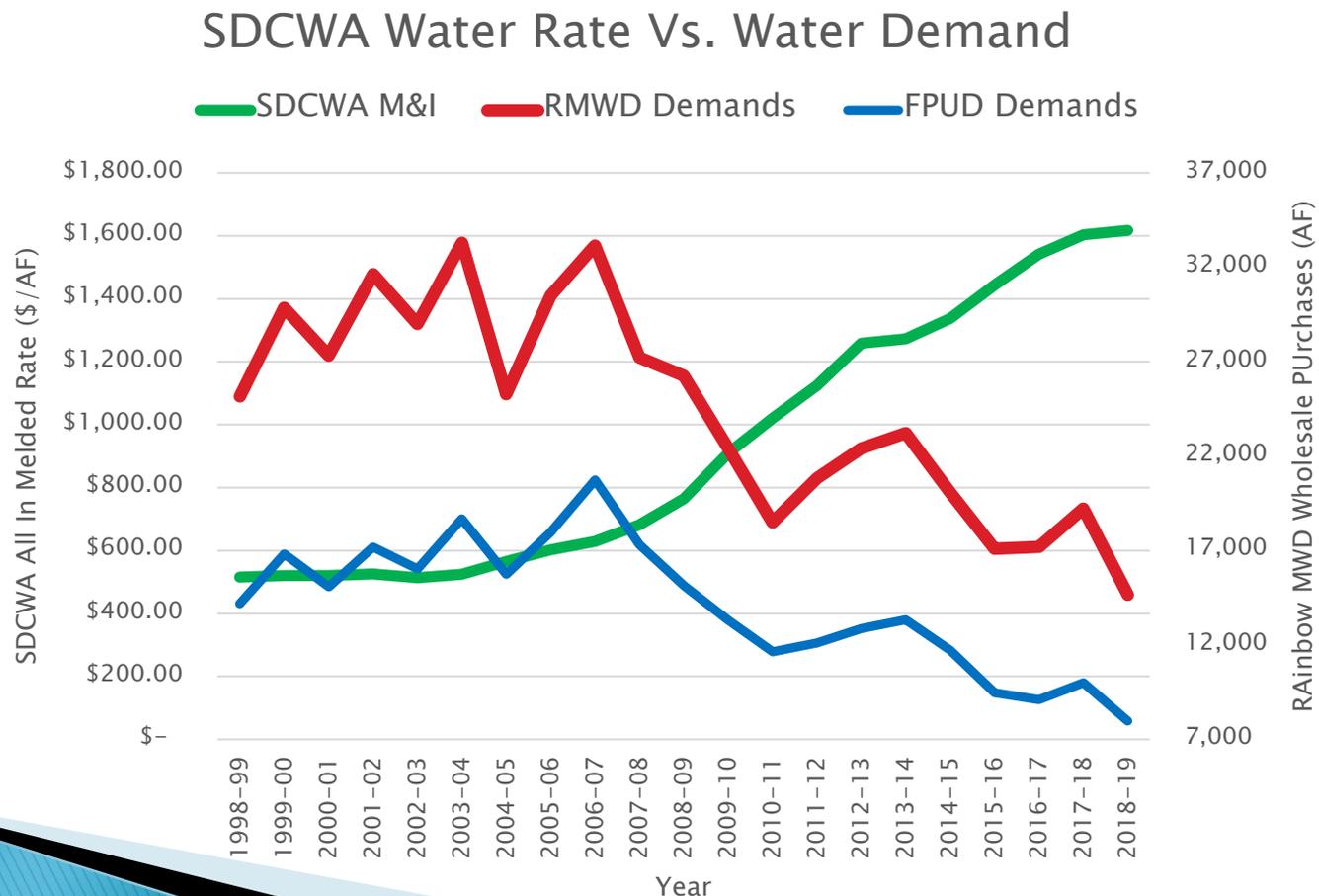
*In dollars per acre foot*



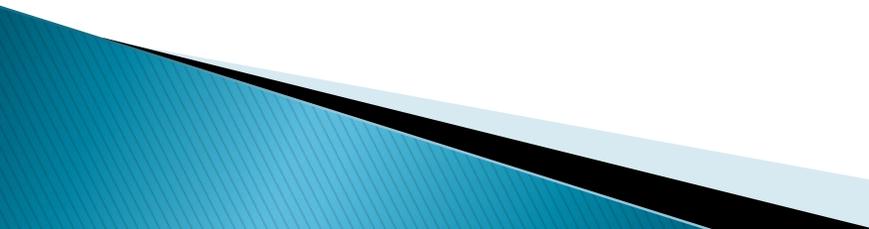
Sources: San Diego County Water Authority; Metropolitan Water District of Southern California  
Karthika Namboothiri / The San Diego-Union Tribune

# Why would we want to change wholesale water suppliers?

Loss of agriculture and outdoor use hits FPUD and RMWD harder



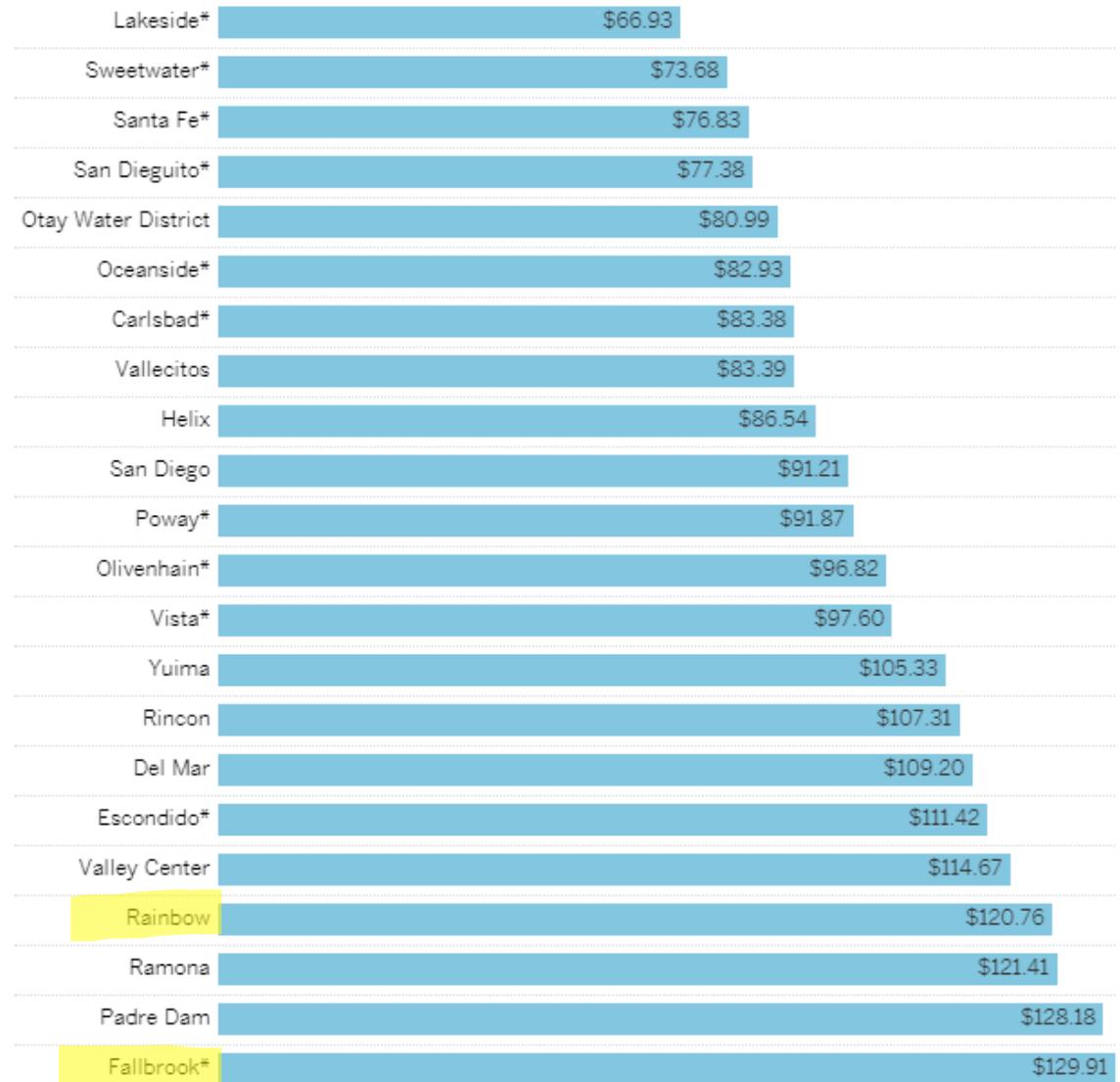
# Why would we want to change wholesale water suppliers?

- ▶ In 1944, the Navy transferred pipelines built for the war effort to MWD and the newly formed SDCWA
  - ▶ The dividing line was set at the midpoint of the pipe – **not** the County line
  - ▶ FPUD and RMWD can serve their customers without using any SDCWA facilities
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## The wide-ranging cost of water in San Diego County

Projected monthly bills by agency for 1,100 cubic feet of water with a 3/4-inch meter, effective calendar year 2022.



Source:

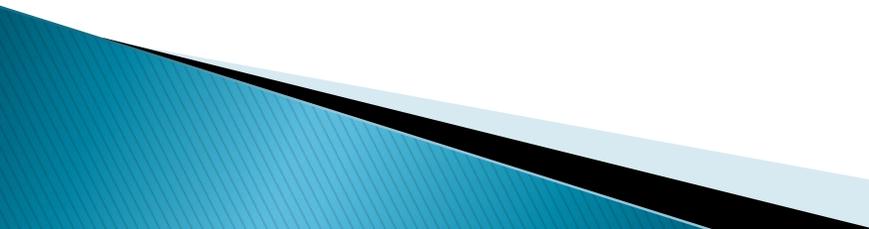
The San Diego  
**Union-Tribune**

\*At the time of the survey in September 2021, the member agency's fiscal year 2022 rate was unavailable. An estimated increase was applied equal to the other districts' average fiscal year 2022 known rate increases.

# What are the Requirements?

- ▶ The County Water Authority Act (CWA Act) sets the rules
  - How to join or annex into SDCWA
  - How to leave SDCWA
- ▶ Section 45-11 of the County Water Authority Act
  - Allows the Governing Board of any member agency to choose to leave SDCWA
  - Also requires that this decision by the Board be confirmed by voters of the detaching agencies only

# Why is the CWA Act Important?

- ▶ The Legislature gave SDCWA control over the annexation process
    - Board approval required
  - ▶ The Legislature *purposefully* gave SDCWA less power when it comes to detachment
    - The power rests with the detaching agency and its voters
    - Ensures local control over membership in SDCWA
    - Allows member agencies to leave if SDCWA is not meeting their needs
  - ▶ That is where we find ourselves today
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# How Does this impact remaining agencies?

## ▶ Key Findings from LAFCO Report

- Financial Impacts to CWA + Ratepayers are material but not significant
  - Exit fee, if required, results in **ZERO** impacts for five years
  - \$12.6 million out of \$928 million annual budget (1.3%)
  - Long term impact can be mitigated
    - MWD and other agencies have expressed interest in purchasing SDCWA supply commitments
    - Could offset both detachment and roll-off impacts (Over \$100 million in cost reduction)
    - SDCWA has not supported moving this process forward.

# Why are SDCWA and some member agencies opposed?

- ▶ SDCWA is a much better arrangement for other members than it is for our ratepayers
  - Our ratepayers pay for infrastructure and water supplies that they do not benefit from.
  - Structure at SDCWA makes it impossible to implement more equitable rates
    - See SANDAG as an example
  - SDCWA told LAFCO there are zero operational cost savings from detachment, yet our agencies pay for SDCWA operating costs
    - **Zero cost savings = Zero service provided**
- ▶ Easier to continue to collect our revenue versus making necessary adjustments to SDCWA

# Why can't we just work it out?

- ▶ First discussions about our concerns were over **four years** ago
- ▶ Our agencies have always been open to discussions and laid out a range of alternatives for both leaving and staying
- ▶ SDCWA repeatedly refused any substantive negotiations, forcing LAFCO through this difficult process
- ▶ SDCWA Past Actions
  - Public Records request, coordinated to initiate CEQA litigation, hired an attorney for over \$1 million, initiated a “Stronger Together” campaign, coordinated on new legislation to bypass LAFCO

# What is SDCWA going to tell you?

- ▶ We have an “obligation” to pay SDCWA debt
  - ▶ Exit Fee from LAFCO is not enough
  - ▶ LAFCO must initiate a CEQA process to evaluate the impacts on the Bay Delta
  - ▶ Detachment will have a massive impact on rates in remaining member agencies
  - ▶ Loss of MWD voting rights will harm SDCWA
  - ▶ Regional planning by SANDAG will be affected
  - ▶ Detachment will impact SDCWA’s debt rating
  - ▶ Detachment will create supply risks
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# SDCWA Debt “Obligation”

- ▶ SDCWA’s claims here are false
- ▶ Every time SDCWA issues debt, the SDCWA Board adopts a resolution that, in part, states that:
  - No member agency has any specific obligation to pay any amount of the debt
  - No member agency must purchase any amount of water
- ▶ Absent these provisions, the City of San Diego would likely not approve any debt at SDCWA

# SDCWA Debt “Obligation”

The obligation of the Water Authority to make the 2022 Installment Payments is a limited obligation payable solely from a pledge of Net Water Revenues. Neither the full faith and credit nor the taxing power of the Water Authority, the State or any of its political subdivisions or any local agency or other entity thereof is pledged to make the 2022 Installment Payments. The obligation to make the 2022 Installment Payments does not constitute a pledge, charge, lien or encumbrance upon any of the Water Authority’s property or the income, receipts or revenues on such property, except for amounts constituting the Net Water Revenues.

The obligation of the Water Authority to make the 2022 Installment Sale Payments is a special obligation of the Water Authority payable solely from the Net Water Revenues, and does not constitute a debt of the Water Authority or of the State of California or of any political subdivision thereof within the meaning of any constitutional or statutory debt limitation or restriction.

order water from the Water Authority in a given year. Except as set forth in the next sentence, the Water Authority’s member agencies are not contractually or otherwise required to order and pay for any set amounts of water from the Water Authority. Two of the Water Authority’s member agencies, the Carlsbad Municipal Water District and Vallecitos Water District, have entered into contracts with the Water Authority to purchase 2,500 and 3,500 acre-feet per year (“AFY”) of treated water from the Claude “Bud” Lewis Carlsbad Desalination Plant (the “Desalination

# The “Exit Fee” is not Enough?

- ▶ Most SDCWA debt is for the Emergency Storage Project
  - RMWD and FPUD have paid >\$30M for this since 1998 and still don't have service
- ▶ If detachment is approved, SDCWA will save over \$40M
  - *“If the Water Authority did not have to construct this infrastructure, it would save about \$40 million in planned costs”* (from SDCWA Sept 2020 letter)
- ▶ Staff's credit is actually far too low
- ▶ Our ratepayers already pay the highest rates in the County

# The “Exit Fee” is not Enough?

- ▶ FPUD and RMWD have paid for nearly \$250M in assets that we will leave behind
  - To be enjoyed by remaining member agencies
- ▶ FPUD and RMWD have given ~6% of all SDCWA cash reserves
  - Nearly \$20M in cash benefit to remaining member agencies
- ▶ FPUD and RMWD have paid for water that will remain in SDCWA storage
  - Wholesale value of ~\$10.5M that will be enjoyed by remaining member agencies

# CEQA

- ▶ Both FPUD and RMWD evaluated the impacts of detachment and made valid CEQA findings
- ▶ We analyzed the impact on the Bay Delta and found there were no impacts
  - We will get the same supply mix with EMWD
- ▶ Otay Water District sued both agencies on this matter
  - The result was a confirmation that the Districts' respective CEQA Findings and Notices of Exemption were valid

# CEQA

- ▶ From MWD response to LAFCO 9/17/2020

## **B. No Bay Delta Impacts by Metropolitan**

Because identical water will continue to be delivered from Metropolitan's service connections to Rainbow and Fallbrook's service areas regardless of which Metropolitan member agency serves them, there is no increased reliance on the Delta and no implications on state policy for Delta issues. **It is simply not true that the proposed reorganization would result in any increased reliance on Bay Delta supplies or violate state law.**

- ▶ The amount of water MWD uses from the Bay Delta will not change

# Rate Impacts to Other Agencies

- ▶ With Option 2, there are ZERO rate impacts for five years
  - ▶ After that, the impacts are minimal - <2% net revenue loss
  - ▶ SDCWA has been aware of detachment since May 2019 – over four years ago
  - ▶ By the time the process completes, SDCWA will have had ~10 years to prepare
  - ▶ If SDCWA cannot make a <2% adjustment in 10 years, the problem is not detachment
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# Rate Impacts to Other Agencies

- ▶ SDCWA's own rate increases dwarf the impact of detachment
    - Rates have gone up >100% over the last ten years
  - ▶ The City of Oceanside calculated the impact of detachment compared to the impact of SDCWA's proposed CY2024 rate increase
  - ▶ Their calculation shows the proposed rate increase in one year is **OVER SEVEN TIMES** the impact of detachment
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# Loss of MWD Voting Rights

- ▶ SDCWA has ~18% of the vote at MWD
- ▶ Detachment will reduce that by less than 0.3%
- ▶ LAFCO staff has reviewed ALL MWD votes over the last ten years, assuming EMWD voted against SDCWA in every vote (~85% of votes are unanimous)
- ▶ Only THREE of almost 1000 votes would have changed
  - Two were procedural votes
- ▶ Big water supply decisions are never decided by these margins

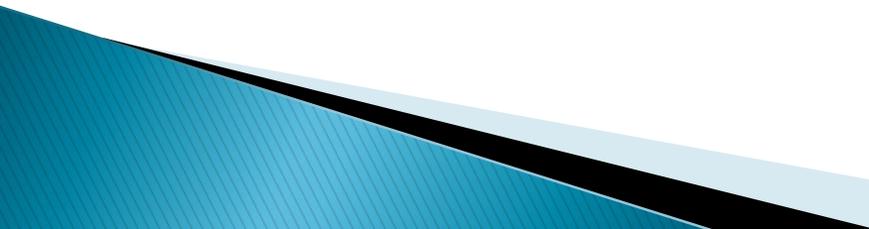
# Regional Planning Impacts

- ▶ In short, there are none
- ▶ SANDAG was asked to weigh in on the matter repeatedly
  - No specific response
- ▶ FPUD and RMWD will remain in SD County and all other jurisdictional matters remain unchanged
  - We are simply buying water from a different agency

# Impacts to SDCWA Debt Rating

- ▶ Detachment issues have been included in the financial disclosures on all debt in the last 4 years
  - ▶ SDCWA has proudly announced the great ratings received during this time
  - ▶ LAFCO staff has reviewed the debt ratings impacts and found that detachment has had no impact
  - ▶ To say otherwise is simply using detachment as a diversionary tactic
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# Supply Risks

- ▶ Multiple studies have been done on supply reliability
    - FPUD/RMWD
    - EMWD
    - MWD
    - Dr. Hanemann
  - ▶ ALL concluded that EMWD has sufficient reliability to meet the needs of our customers
  - ▶ FPUD and RMWD have ample local storage and FPUD's local supply can serve RMWD in an emergency
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# Supply Risks

- ▶ Is SDCWA's supply "more reliable" than MWD?
  - Perhaps, but at what cost?
- ▶ 2019-2022 were the three driest years ever
  - Cutbacks from SDCWA = 0%
  - Cutbacks if we were at EMWD = 0%
- ▶ But what about an earthquake on the Elsinore Fault?
  - Last recorded quake of any size was in 1910 – no surface rupture
  - USGS/CalTech – no historical record of surface rupture
- ▶ FPUD and RMWD have local supply/storage
- ▶ Ask a farmer – supply reliability means nothing if the cost of water puts you out of business

“The Water Authority has repeatedly overestimated demand since 1995 — initially predicting regionwide water use would reach 970,000 acre feet by 2020. Today, the region is using about half that...”

- San Diego Union-Tribune 2/12/22

“Growers harvested 14,458 acres last year, down from more than 26,000 acres in 2007. During the timeframe, the wholesale cost of water has roughly tripled.”

-San Diego Union-Tribune 10/6/22

“Value of avocado crops shrank by 46 percent in 2021, from roughly \$153 million to \$82.8 million, according to county crop report.”

- San Diego Union-Tribune 10/6/22

“The SDCWA recently announced that local water agencies should brace for a 14 percent spike on the cost of wholesale deliveries next year.”

-San Diego Union-Tribune 3/17/23

# Summary

- ▶ FPUD and RMWD agricultural customers cannot wait
  - ▶ LAFCO has spent over \$500K studying this issue
    - Paid for by FPUD and RMWD
    - Over 12,000 pages of documents produced
  - ▶ LAFCO found that the reorganization would benefit agriculture
  - ▶ Eastern MWD can meet our potable water needs
  - ▶ Near-term and long-term rate impacts can be mitigated
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# Summary

- ▶ Option 1 is what the legislature intended in the CWA Act
    - This is our preferred alternative
  - ▶ We could support Staff's recommendation of Option 2, although it will harm agriculture in our region
  - ▶ Option 3 has a number of issues
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# Issues with Option 3

- ▶ SDCWA is making an 11<sup>th</sup> hour effort to change the rules
  - Trying to bypass the LAFCO process
- ▶ Delays in detachment will mean more groves will be lost
  - This is a certainty – ask the folks here today
- ▶ Should the Commission choose Option 3, it should be modified:
  - Provide additional credit against Exit Fee for net revenues received during MSR period
  - Establish the region for elections now, not later

# LAFCO Agriculture Policies

- ▶ CKH is specific in this regard (GC Sec 56668):
  - “...maintaining the **physical and economic integrity** of agricultural lands...”
- ▶ San Diego LAFCO Policy L-101
  - Preservation of Open Space and Agricultural Lands
- ▶ Staff Report concludes these policies require special consideration be given to preservation of agriculture as a “unique and or protected group”
- ▶ Denial, or delay of approval, of applications will harm agriculture in our region, the SD County economy, and will cost jobs

**QUESTIONS?**

