



July 7, 2023

Priscilla Mumpower, Assistant Executive Officer
San Diego County Local Agency Formation Commission
Via email: priscilla.mumpower@sdcounty.ca.gov

Re: FPUD and RMWD Response to July 3, 2023 Correspondence from SDCWA

Dear Ms. Mumpower,

Fallbrook Public Utility District (FPUD) and Rainbow Municipal Water District (RMWD) apologize for having to send a letter to San Diego LAFCO (LAFCO) just a few days before the upcoming hearing, but we feel it is necessary to respond to a number of misleading statements from the San Diego County Water Authority (SDCWA) issued in July 3rd correspondence from its Acting General Manager.

Exit Fee: SDCWA has completed multiple different “analysis” of revenue impacts using inflated numbers throughout the processing and consideration of the FPUD and RMWD reorganization applications. The original correspondence from SDCWA, for example, calculated the revenue impact due to our districts leaving SDCWA at \$40 million annually, which is greater than the amount of total revenue paid by our districts in any given year. Dr. Hanemann reviewed all the information available, including SDCWA’s numerous submissions regarding revenue impacts, and other financial information, when he made a professional independent assessment. While SDCWA feels the calculation is too low, we would argue it is too high as it ignores not only the long-term trends that clearly show declining demands from both FPUD and RMWD, but also the value of assets our districts will leave behind for the benefit of the remaining member agencies. Now at the 11th hour, SDCWA wants to submit new information (again replacing its most recent previous analysis) with an analysis predicated on a single very dry year demand number which is an inaccurate assessment of future demands.

SDCWA also has recently proposed that the credit for the two ESP Pump Stations (ESP PS) is inappropriately calculated, claiming that because the facilities would be debt funded, only the annual debt payment should be included. There are a couple flaws with this approach, of which SDCWA is well aware. First, the ESP PS is planned to be built and owned by FPUD and RMWD and reimbursed by SDCWA. SDCWA cannot debt fund facilities it does not own. Second, even if it could debt fund the facilities, SDCWA’s financial plan is based on a mix of debt and pay as you go (PAYGO) funding. SDCWA could always choose to reallocate the debt funding to another project and use the savings to PAYGO fund another capital project. If our districts detach, SDCWA will save \$40 million that it can utilize to offset the revenue impact of our proposed detachments.

SDCWA has also requested that the numbers should be escalated—but only the numbers that support its position. For example, SDCWA appears to suggest some numbers be escalated (such as escalating water costs due to the recently adopted Calendar year 2024, 12% all in rate increase) but not escalate the ESP PS savings number (which would have also escalated significantly with increased construction costs). We remind the Commission that the delays in moving our applications forward since they were filed have been the result of SDCWA. As indicated in the letter from SDCWA special counsel Mark Hattam, it appears that

SDCWA intends to even further delay this process through litigation.¹ The delays have benefitted SDCWA, as our districts have continued to pay over \$7 million annually of additional revenue to SDCWA over what we would have paid to Eastern Municipal Water District. Accordingly, while we would be against anything to delay the LAFCO proceedings further, the added cost to our rate payers associated with any delay should be considered if there is going to be an updated analysis.

Last, as we have identified previously in detail, we want to reiterate a point we do not want to get lost in the shuffle: if detachment occurs FPUD and RMWD will leave behind substantial assets that will benefit the remaining agencies, including:

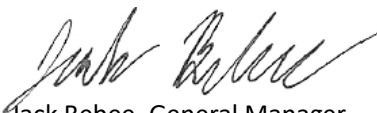
- Over \$250 million in assets we will leave behind
- Approximately \$20 million in our share of cash reserves
- Approximately \$10.5 million in our share of stored water

The value of these assets has not been specifically accounted for, and should there be an updated analysis, we request that it be considered as a means of immediately helping offset revenue impacts to SDCWA.

Infrastructure Costs: SDCWA has claimed there are close to \$4 million dollars of infrastructure modification necessary to support our detachment. As noted above, our Districts are leaving behind for other remaining agencies over \$250 million in past investments in SDCWA infrastructure. This includes over \$30 million our districts have already spent to build SDCWA's Emergency Storage Project, a project we have not had access to. This past expenditure more than off-sets any need for our districts to pay for any SDCWA infrastructure. In addition, as with all estimates prepared by SDCWA during this process, the value developed by SDCWA is grossly over inflated and the suggested modifications to the aqueduct pipelines are unnecessary. The only infrastructure need for SDCWA that arises from our detachment relates to the flow control facilities that our agencies will no longer use. The costs proposed by SDCWA are exaggerated modifications to the flow control facilities that will be abandoned by FPUD and RMWD. SDCWA has multiple unused flow control facilities that have been out of service for decades and has isolated these facilities using a much simpler approach. The facilities can be repurposed as access points and drains with limited costs. FPUD and RMWD could perform any necessary modification to fully isolate the facilities. SDCWA is putting this forward at the last minute as an attempt to further delay or impact the process.

Again, we apologize for having to send LAFCO yet another letter to address misleading communications by SDCWA. We appreciate the work LAFCO has done to date and look forward to the upcoming LAFCO continued hearing on our proposals.

Sincerely,


Jack Bebee, General Manager
Fallbrook Public Utility District


Tom Kennedy, General Manager
Rainbow Municipal Water District

cc: Keene Simonds, LAFCO Executive Officer

¹ FPUD and RMWD disagree with the allegations set forth in Mr. Hattam's July 3, 2023 letter.