



November 5, 2021

Dear Chair Atwater,

The Fallbrook Public Utility District (FPUD) and Rainbow Municipal Water District (RMWD) are submitting this letter relative to the item on the November 8, 2020 Metropolitan Water District (MWD) Water Planning and Stewardship Committee (Committee) agenda regarding our reorganization applications, which is before the San Diego Local Agency Formation Commission. We appreciate the role MWD and the Committee play in ensuring we have a cost-effective reliable water supply and maintaining programs that benefit the region such as the Local Resources Program (LRP). FPUD has just initiated production of a local groundwater plant made possible, in part, by the LRP Program.

In regards to our proposed reorganization, we understand that this issue was placed on the Committee agenda based on questions raised by Director Ortega, who represents San Fernando. While we appreciate the interest by MWD in our organizations, we do not see any impact of this reorganization process on MWD. Since our MWD representation has not provided us any information about why this item would be on the agenda at MWD, we thought it was important to ensure the FPUD and RMWD perspective on the reorganization is provided to the committee. To provide some background on our Districts, FPUD and RMWD are small rural agricultural water District's in northern San Diego county that only serve a combined population of roughly 55,000 people in the unincorporated communities of Rainbow, Fallbrook and Bonsall.

We do not expect that MWD would play a role in either support or opposition on either side of the reorganization before San Diego LAFCO. The proposed reorganizations are a result of a unique circumstance in which our two agencies, due to their physical location, can purchase water directly off MWD infrastructure as an Eastern Municipal Water District (EMWD) member agency at a much lower cost than purchasing the same water from SDCWA. There is no net impact on MWD as we will either be purchasing the same blend of imported water from SDCWA or EMWD. There is also no stranded physical infrastructure that was constructed to serve FPUD or RMWD by SDCWA.

There is language included in the County Water Authority Act that describes how this process should be conducted. Ultimately San Diego LAFCO and then FPUD and

RMWD ratepayers would get to vote on the reorganization. Each MWD member agency likely has their own principal acts that have their own requirements as set by the state legislature. Similarly, Section 109-455 of Metropolitan Water District Act includes procedures for inclusion of territory into an agency already within the boundaries of a metropolitan water District, such as the contemplated potential annexation of FPUD into Eastern. Section 109-455 provides:

Whenever two or more member public agencies of [MWD] are subject to a reorganization of their boundaries under applicable provisions of law which would result in an exchange, but not an overlapping, of territory that is entirely within [MWD], the boundaries of such agencies within [MWD], upon completion of such reorganization and the filing with the secretary of [MWD] of certificates thereof, shall constitute the boundaries of such member public agencies for all [MWD] purposes, without action by the board, and shall be so shown on any certificates relating to [MWD] boundaries thereafter filed under this part or applicable provisions of law. If such exchange includes territory subject to special conditions and tax levies pursuant to terms of annexation at the time such territory became a part of [MWD], such territory shall continue subject to such conditions and to be taxable by [MWD] for such levies.

(§ 109-455.) Based on this, we feel that there are two roles that MWD would take in this process. First, we would anticipate that MWD provide factual information to San Diego LAFCO and correct the public record when incorrect information about MWD is put in the record by any party involved in the process. Second, should either or both of the reorganization be approved, MWD will need to be involved in simply changing the way water deliveries on the affected turnouts is billed – changing the billing from SDCWA to EMWD. This matter has been reviewed by MWD staff and no issues were identified related to such a change.

Although SDCWA has in the past accused both MWD and EMWD of being behind the decision to file our applications for reorganization, we want to be clear that the decision was 100% initiated by the FPUD and RMWD governing Boards due to the impact of rising water costs on our rural agricultural communities. Our effort is driven by our need to ensure the long-term viability of our local agriculturally based economies as well as the affordability impacts high water costs presents for our residential ratepayers. Due to the current inequity in cost versus benefits received by our ratepayers, our locally elected governing Boards have determined that our communities are better positioned with EMWD as our wholesale water provider instead of SDCWA.

As part of this process, MWD has sent letters to San Diego LAFCO to correct some previous statements made by SDCWA about MWD. Some of the past statements made by SDCWA are repeated below and links to the full documents are included:

Statements from the January 6, 2021 SDCWA submission to San Diego LAFCO
<https://www.sdlafco.org/home/showpublisheddocument/5440/63745540195613000>

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“As to LAFCO Policy L-109, the standard is not just an “adequate” water supply, but also a “reliable” one, and one that is “diversified where possible.” As the Water Authority points out in its Response, MWD’s supply has not always been reliable”.

“Fallbrook and Rainbow complain about 9% annual Water Authority rate increases for the last decade, but they do not tell LAFCO or the public where those rate increases came from. Most of them are the result of MWD rate increases, which the Water Authority passes through to its member agencies and which Fallbrook and Rainbow would still pay even if they became part of Eastern. Also, as explained in the Water Authority Response (pp. 100-102), MWD’s rates will soon be increasing dramatically, because it plans to spend tens of billions of dollars on major water supply projects such as a Bay-Delta tunnel. Attached as Exhibits C, D, and E are recent MWD documents showing the expected MWD costs for these projects. These costs will fall most heavily on agencies which rely solely on MWD for water, such as Fallbrook and Rainbow are planning to do.”

“Our state has struggled with the south’s reliance on the north for decades. Southern California’s water demands stress the local economies and ecosystems in the north. The Fallbrook and Rainbow detachment proposal would intensify the conflict, reduce the reliability of water service of Fallbrook and Rainbow water customers, and increase their exposure to Metropolitan’s record of rapidly increasing water rates historically that may be expected to accelerate in the future.”

Statements from the March 9, 2021 SDCWA Letter to San Diego LAFCO
<https://www.sdlafco.org/home/showpublisheddocument/5572/63750981614980000>

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“In actuality MWD management is seeking to poach customers from one of MWD’s own member agencies, and there is a clear and immediate financial benefit to MWD in doing so. (underline in original).”

“Though Eastern and MWD management constantly posture that they have “no skin in the game,” they are clearly seeking to facilitate the reorganization so as to undermine the Water Authority”

“The above recent litigation developments show that it is premature for Fallbrook and Rainbow to be making any assertions about MWD water being “cheaper” than that of the Water Authority. Once MWD has had to pay the bills for past unlawful charges, for future fixes in the Bay-Delta and to repair California Aqueduct subsidence, and once it may no longer overcharge the Water Authority for Exchange Agreement water, then one may more easily predict and calculate impacts on water rates.”

As noted above, MWD did previously send a letter to address some of these comments that were made by SDCWA. Since that time, San Diego LAFCO has retained a consultant (Dr. Hanemann) to produce a draft report to support the process. For anyone interested, the full copy of the draft report can be found at:

<https://www.sdlafco.org/resources/major-proposals/fallbrook-pud-rainbow-mwd-wholesaler-reorganization-2020>

MWD did not provide any comments to the draft report, but it appears there may be some statements that MWD may want to correct in the public record. For example, the following text (both question and answer are by Dr. Hanemann) is included in the draft report:

“Q. Will Water Fix raise the cost to SDCWA to convey QSA water from the Colorado River to SDCWA’s service area?

A. The Sacramento Valley’s SWP and the Colorado River are two different sources of water. From an economic perspective, there would be no legitimate reason to comingle the cost of conveying SWP water through the Delta and over the Tehachapi Mountains with the cost of conveying QSA water from the Colorado River to the SDCWA service area. From an economic perspective, it could be seen as a form of predatory pricing if that were to occur.”

We believe it helps ensure the public record is accurate for this process when MWD identifies and provides corrections to any factually inaccurate statements. The description of MWD’s allocation of SWP costs, which has been affirmed by the courts, as “predatory pricing” appears to be inaccurate.

We also understand MWD has much higher priorities than involving itself in matters related to member agency jurisdictional boundary adjustments. Given all the higher priorities at MWD, we understand if monitoring and correcting the record in this process is not a high MWD priority, but we wanted to be sure MWD was at least aware of some of the statements being made in this process, so it can consider providing any necessary clarifications.

We will attend the meeting on November 8th and would be more than happy to address any questions you may have.

Sincerely,

A handwritten signature in black ink, appearing to read "Tom Kennedy", with a long horizontal flourish extending to the right.

Tom Kennedy
General Manager
Rainbow Municipal Water District

A handwritten signature in black ink, appearing to read "Jack Bebee", with a long horizontal flourish extending to the right.

Jack Bebee
General Manager
Fallbrook Public Utility District

transmitted via email MWD Board Secretary rcaastro@mwdh2o.com