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LMA Response to S.D.C.W.A Response to LMA Cost Benefit Analysis

March 2, 2021

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March 2, 2021

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Executive Summary

The purpose of this memo is to address the San Diego County Water Authority ("SDCWA") Response to the London Moeder Advisors Cost Benefit Analysis ("Response"). We wish to clarify certain methodologies cited in the SDCWA Response.

In review, we were tasked to opine on the business principles behind the decision taken by RMWD and FPUD to detach from SDCWA membership. The main issue analyzed is: "Does SDCWA membership make economic and financial sense?" The answer to this question must be rooted in an economic cost/benefit analysis to RMWD and FPUD.

LMA has relied on complete and actual historical data for its analysis. While SDCWA states that LMA has "arbitrarily" chosen data with "presumably desired" results, this is incorrect. Without a completed 10-year forecast by SDCWA on rates, fees and potential costs, the SDCWA arguments against potential increases to RMWD and FPUD fees are factually baseless. Furthermore, the Response has failed to demonstrate how continued increases in fees to fund an ever-growing water delivery network throughout the San Diego region benefit RMWD and FPUD.

In conclusion, the Response aims to disqualify LMA and its methods while failing to prove that RMWD and FPUD have not overpaid or subsidized other member agencies throughout the San Diego region. The SDCWA response is a distraction from the overarching economic and financial points made by LMA, RMWD and FPUD regarding SDCWA membership.

LMA Response to Comments

The following table details LMA's response to SDCWA comments:

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Item	S.D.C.W.A. Comment	LMA Response
1	Page 5 of 14; Paragraph 4 of 5 "LMA's Corporate Profile submitted with its Report demonstrates that it does not have any professional qualifications to opine on public agency water rates."	LMA has not opined on public agency water rates. LMA was contracted to address the economic implications of the business decision taken by Rainbow Municipal Water District ("RMWD") and Fallbrook Public Utilities District ("FPUD") to detach from San Diego County Water Authority membership. LMA was not tasked with creating a new water rate for any public agency that follows industry standards and/or government regulations and legal codes. Rather, LMA's analysis is from the perspective of an economist that evaluates the costs and benefits for RMWD and FPUD. SDCWA has provided a short snapshot of our corporate profile while excluding the capabilities used for the analysis in question. Included in our corporate profile is the following statement regarding our experience: *"Litigation support/expert witness services for real estate* ***and financial related issues, including economic damages/losses, valuations, historic market conditions and due diligence.*** *We have extensive deposition, trial, mediation and arbitration experience."*
2	Page 6 of 14; Paragraph 2 of 4 "The Report was completed in September 2020, at a time when the CY 2020 rates were already in effect for eight months and CY 2021 rates had already been adopted (the footnote on Page 5 of the LMA Report demonstrates that the authors were aware of the actual rates adopted by the Water Authority). However, rather than including these current rates, LMA arbitrarily chose to conduct its analysis using the 2010-2019 time period."	The LMA historical analysis is based on actual and completed data of the previous 10-year period. That is clear in the LMA report, which evaluates the historical costs and benefits over a 10-year period. The LMA analysis was completed in September 2020. Final and actual data for 2020 from SDCWA and its member agencies was not complete. To stay consistent in our sources of data we relied on full and complete historical data. Therefore, the previous 10-year period was in fact 2010 to 2019. This time period was not chosen arbitrarily or with any "(presumably desired)" intent.

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3	Page 6 of 14; Paragraph 3 of 4 "The Report's forecast methodology is flawed because the authors chose arbitrarily to use improper "averages," specifically, the "annual average increase" between 2010 and 2019, rather than projecting and escalating estimates based on updated projections for CY 2020-CY 2029 and current information."	LMA created a forecast analysis based on actual and factual historical data. The resulting annual average increase is what has been experienced by RMWD and FPUD during the 10-year period between 2010 and 2019. If SDCWA has rate forecasts through 2029, which includes anticipated future projects (e.g., Regional Conveyance System), we could consider such data. However, if SDCWA does not have future rate forecasts for the next 10 years, there is no basis, and the forecast would be speculative.
4	Page 7 of 14: Paragraph 1 of 5 "LMA's use of "averaging" obscures relevant data and events that should be reflected in rate-setting including the following: -Funding of San Vicente Dam Raise: The larger increases implemented in 2010 and 2011 (and 2012) were associated with a significant capital improvement program culminating with the San Vicente Dam Raise (completed in 2014). LMA's assumption that the Water Authority will incur a similar project of this magnitude in the projected next eight years is not based on any facts. In actuality, the Water Authority's CIP needs are now in "maintenance mode" with no new significant facilities planned on the near-term horizon.	LMA does not assume that SDCWA will incur a similar project of this magnitude. LMA created a forecast based on historical actual increases in fixed charges. LMA cannot confirm nor deny the possibility of capital improvement project and/or maintenance that may require large sums of funding that will in-turn produce the same results in the future. Therefore, LMA created a forecast based on the previous 10-year period. It is important to note that in June 2019, the Water Authority Board approved $3.9 million in capital budget to conduct a two-phase study of a proposed independent and alternative water delivery system from Colorado River water supplies to San Diego County. The project, known as the Regional Conveyance System, will transport water independently of MWD from the Colorado River to San Diego County in one of three options (3A, 5A and 5C) currently being considered. The estimated total cost to SDCWA and its member agencies is estimated to be $4.2 to $5.3 billion with annual costs of approximately $129.5 million for option 3A, $4.3 to $5.1 billion with annual costs of approximately $132.3 million for option 5A and $4.5 to $5.2 billion with annual costs of approximately $238.9 million for option 5C (Hunter Pacific Group Financial Analysis, May 20, 2020).

5	<u>Page 7 of 14: Paragraph 2 of 5</u> -Creation of a New Fixed Charge: The Water Authority's Supply Reliability Charge was implemented in CY 2016 and set to recover $26 million. As shown in the figure above, the inclusion of this charge caused a spike (2016 blue bar) in the fixed charges that were otherwise flat from 2014. The SRC charge shifts supply costs that would have otherwise been included in the volumetric supply rate component to a Board approved fixed charged based on a 5-year rolling average. In its first year, the SRC shifted $26 million away from the volumetric Supply Charge; this was not $26 million in "new" charges or revenue, but a $26 million shift in how it was collected (i.e., moved from volumetric to fixed). Had LMA adjusted for the creation of the SRC and utilized the most recent 10-year period of 2012-2021, the 8.5% annual growth rate would be reduced to just 2.2%."	The Supply Reliability Charge was implemented to recover $26 million in funds used for facilities projects that RMWD and FPUD allege are of no-to-little benefit to their respective agencies. The following paragraph is derived directly from the SDCWA response report described as an "Overview of Water Authority Rates and Charges" within its Cost of Service Study (Exhibit 1 of the report): *"Supply Reliability Charge (SRC): The SRC is a commodity-based fixed charge established to recover a portion of the Carlsbad Desalination Plant and the IID transfer water costs" (Page 2 of 14 of the SDCWA report).* Additionally, LMA only considered the portion of the Supply Reliability Charge associated with the Carlsbad Desalinization Plant water supplies as "No Benefit" to RMWD and FPUD. This is made clear in LMA footnotes within its report.
6	<u>Page 7 of 14: Paragraph 3 of 5</u> "Had the SRC not been implemented, the Melded Supply Rate would have increased between $57 an acre-foot (AF) and $105 an acre-foot, 7% to 11% respectively."	The argument by SDCWA that the Supply Reliability Charge was a re-allocation of charges that RMWD and FPUD would have had to pay regardless does not invalidate LMA's analysis. As SDCWA states, if the SRC had not been implemented, then the melded supply rate would have increased between 7% and 11%. We take this to mean that RMWD and FPUD would have still needed to fund projects that are not of benefit to their respective agencies. This is in-line with LMA's analysis. Furthermore, a 7% to 11% increase in variable melded supply rate may have resulted in a greater overall payment by RMWD and FPUD depending on usage of water during such periods. As SDCWA states, "Fallbrook and Rainbow have some of the highest (4th and 3rd highest, respectively) water use per meter equivalents in the region" (Page 9 of 14). With high levels of water usage, customers of RMWD and FPUD would have been unfairly burdened with a higher per meter equivalent to fund projects that are of little-to-no benefit to RMWD and FPUD.

7	Page 7 of 14: Paragraph 4 of 5 "As mentioned previously, increases to the IAC (and SRC) result in proportional rate decreases to all other rates and charges. Because the LMA Report does not include all rates and charges, this offsetting benefit is not accounted for."	See response #6.
8	Page 7 of 14: Paragraph 5 of 5 "As the SRC comprises nearly 25% of the fixed charges (CY 2021), LMA's assumption that rates will continue to escalate at these levels has no basis in fact. This alone invalidates all of LMA's forecasted conclusions."	LMA based its forecast of increases to fixed charges based on historical actual data of the previous 10-year period. If SDCWA has rate forecasts through 2029, which includes anticipated future projects (e.g., Regional Conveyance System), we could consider such data. However, if SDCWA does not have future rate forecasts for the next 10 years, there is no basis, and the forecast would be speculative.
9	Page 8 of 14; Paragraph 1 of 6 "Exclusion of Variable Rates: As noted earlier, the analysis excludes all variable rates and charges (those assessed on a per acre-foot of water basis). During the LMA-selected review period (2010 and 2019), these volumetric charges accounted for 75-80% of the Water Authority's rate revenue."	LMA did not focus on volumetric rates and charges due to the fact that payment to SDCWA by RMWD and FPUD are based on water consumption. We excluded these rates and charges from the analysis because our report is not focused on consumption, but rather capital improvement and storage costs. LMA analyzed these costs and benefits of SDCWA membership from an economics perspective. LMA acknowledges that a portion of fixed costs by SDCWA are collected through variable rates allocated to its member agencies. LMA has taken the conservative approach to focus on the fixed fees that are paid by RMWD and FPUD. By excluding the variable rates from this analysis, LMA takes a conservative approach and does not account for additional fees paid by RMWD and FPUD that are of little to no benefit.

10	<u>Page 8 of 14; Paragraph 2 of 6</u> "The Report also excludes two fixed charges assessed by Metropolitan Water District of Southern California (MWD) – Readiness-to-Serve (RTS) and Capacity Charge (CC). These charges are incurred by the Water Authority and allocated to each member agency for cost recovery. Excluding these fixed charges is not only inconsistent with LMA's arbitrary fixed charge methodology, but also skews the overall analysis because these charges are negatively correlated to the SRC (which LMA, without any factual or legal support, claims provides little to no benefit). Simply stated, as the Water Authority developed its own additional water supplies, the cost of the annual purchase of water from MWD has decreased, causing these two MWD charges (notably the RTS) to decrease. Because the RTS charge is based on a 10-year rolling average, the full extent and benefits of the Water Authority's investments are not fully recognized in the Report due to this flaw in LMA's methodology."	LMA's decision to exclude MWD fixed charges from the cost-benefit-analysis was based on the fact that MWD charges will need to be paid by RMWD and FPUD even after detachment from SDCWA. MWD fixed charges are charged by MWD that SDCWA re-allocates to its member agencies. Additionally, the FY 2020 budgeted RTS fixed charge of $492,060 and $310,440 accounts for approximately 1.9% and 2.1% of the total water purchase budget of RMWD and FPUD, respectively. In total, the sum RTS fixed charge of $783,072 accounts for 2.0% of the total water purchase budget of RMWD and FPUD. Therefore, the claim that SDCWA efforts to develop its own additional water supplies and the anticipated reduction in RTS charges are of little value and significance to RMWD and FPUD. As to the argument that SDCWA has its own water supplies that will reduce the MWD charges, RMWD and FPUD are aware of this and will not be requiring SDCWA water supplies following detachment from SDCWA (See response #21).

11	<u>Page 8 of 14; Paragraph 2 of 6</u> "No Consideration of Water Authority Reliance Differentials: The Report improperly uses a cookie-cutter approach assuming that each of the Water Authority's 24 member agencies are equally reliant. As will be discussed in the following section, the contention that Water Authority's benefits can accurately be quantified by a single measure (meter equivalents) completely disregards the fact that there is a significant variation in level of service provided by the Water Authority to each member agency. Since joining the Water Authority, both Fallbrook and Rainbow have been solely dependent on the Water Authority for water service. Conversely, agencies such as Sweetwater Authority can make use of their local investments and resources and thereby have a more limited dependency on the Water Authority. The Water Authority's rate structure properly accounts for multiple factors for this exact reason, ensuring each member agency pays its appropriate and fair share of costs."	LMA chose to use the Meter Equivalent measure to quantify the measure of services based on the number of connections and/or customers serviced by SDCWA through RMWD and FPUD. Using Meter Equivalents allowed LMA's analysis to not be influenced by the volume of water passing through the same number of connections. As SDCWA states, *"The Water Authority does make use of meter equivalents in its IAC and System and Treatment Capacity Charges where <u>MEUs are used to define the potential demand placed on the Water Authority stemming from (new) retail connections.</u> The Capacity Charges <u>ensure that as new customers connect, they are paying their proportionate share of facilities</u> (i.e., growth pays for growth)."* SDCWA has chosen to use MEU's for many of fixed charges rate setting. LMA has taken the same position to quantify the reliability of agencies on SDCWA facilities and maintenance of such facilities.

<table>
<tr>
<td>12</td>
<td><u>Page 8 of 14; Paragraph 6 of 6</u>

"LMA states that Fallbrook and Rainbow "have consistently comprised approximately 2.7% to 2.9% of all meter equivalents;" however, this is factually misleading and significantly skews the subsequent forecast. LMA's own data clearly demonstrates (table on page 6) that Rainbow and Fallbrook's share has consistently increased annually, growing from 2.7% in 2010 to 2.9% in 2019 (a nearly 8% gain in MEU share). This is an important distinction that is improperly applied later in the Report, because the Report does not project continued share increase by Fallbrook and Rainbow, as discussed further below."</td>
<td>LMA took a conservative approach to increases in ME share and stated that this forecast is based on a snapshot of the current share of MEs. While LMA did not account for potential increases in MEs over the forecasted period, LMA did not account for increases in MEs of other SDCWA agencies. This assumption is made clear in the LMA report.

SDCWA has misinterpreted the data by ignoring the RMWD and FPUD capture rate of housing and employment stock in San Diego County. The ME share of RMWD and FPUD is directly related to housing and business capture compared to the county as a whole.

SANDAG projects the RMWD and FPUD capture of housing stock to be 3.15% in 2025. This is comparable to the 2.9% of MEU share used by LMA. Additionally, in 2035, SANDAG forecasts RMWD and FPUD share of housing stock to reach a high of 3.23%. This represents a 0.09% increase in housing capture in the county when compared to 2025. As land use constraints force the increase in dense infill development in urban areas, SANDAG forecasts the RMWD and FPUD share of housing stock to decrease to 3.16% by 2045.

Housing Growth Forecast

<table>
<tr><th></th><th>2025</th><th>2030</th><th>2035</th><th>2040</th><th>2045</th></tr>
<tr><td>Total San Diego County</td><td>1,304,202</td><td>1,390,057</td><td>1,475,912</td><td>1,539,817</td><td>1,581,621</td></tr>
<tr><td>Fallbrook P.U.D. & Rainbow M.W.D.</td><td>41,021</td><td>43,827</td><td>47,696</td><td>49,072</td><td>49,939</td></tr>
<tr><td>Balance of San Diego County</td><td>1,263,181</td><td>1,346,230</td><td>1,428,216</td><td>1,490,745</td><td>1,531,682</td></tr>
<tr><td>Housing Stock Capture</td><td>3.15%</td><td>3.15%</td><td>3.23%</td><td>3.19%</td><td>3.16%</td></tr>
</table>
Source: SANDAG Series 14 (Version 17) Growth Forecast

In addition, to accommodate the growth in housing and employment, the conversion of primarily agricultural land to housing and commercial land will require large capacity meters (accounting for a greater share of MEs) to be converted to smaller residential and commercial meters. This will contribute to a reduction in the share of MEs in RMWD and FPUD.</td>
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13	<u>Page 9 of 14; Paragraph 2 of 3</u> "LMA has again cherry-picked only the lowest of the four bases, ignoring other factors relevant to fair and lawful rate-setting. One of the most important factors ignored in LMA's analysis is that Fallbrook and Rainbow have some of the highest (4th and 3rd highest, respectively) water use per meter equivalents in the region. In other words, each MEU requires and incurs a greater share and use of Water Authority facilities. This greater use is appropriately reflected in their higher allocations of Customer Service, Storage, and Supply Reliability costs – all of which are based on facts of actual use."	Again, LMA was not asked to opine on legal rate setting or to align with industry standards. LMA has taken an economic perspective based on business-decision principles (e.g., cost/benefit analysis). LMA used MEs as a measure of the number of connections (customers) being serviced in each member agency. This method is used by LMA to contextualize the financial costs of SDCWA membership to RMWD and FPUD customers compared to customers throughout other SDCWA member agencies.

14	<u>Page 10 of 14; Paragraph 2 of 4</u>"The LMA Report also does not point out that its arguments are similar to those earlier rejected by the Court of Appeal, which previously upheld the Water Authority's rate- setting. In 2002, a group of Water Authority member agencies located in the northern part of the Water Authority's service area filed a lawsuit challenging the Water Authority's transportation rates, arguing that they used less of the Water Authority's aqueduct system than water districts in the southern part of the County and should therefore pay less. Although Fallbrook and Rainbow were not direct parties to the litigation, they were members of the pre-litigation Economic Study Group (ESG) which hired consultants who argued that, based on an alternative analysis, the ESG agencies should pay 4.2 percent of pipeline capital costs instead of the 14 percent allocated by the Water Authority. The trial court entered summary judgment for the Water Authority and the Court of Appeal affirmed the judgment in Rincon del Diablo Municipal Water Dist. v. San Diego Water Authority 121 Cal.App.4th 813 (2004)."	LMA has not taken a legal position regarding the rate setting of SDCWA and has not been asked to opine on previous court judgements. LMA has opined on the cost to benefit of SDCWA membership by RMWD and FPUD. LMA has provided an economic perspective to the equity of SDCWA membership and proposed detachment.
15	<u>Page 10 of 14; Paragraph 4 of 4</u> LMA's arbitrary substitution of a static assumption in lieu of SANDAG projections is without any factual basis and does not meet the requirements of the MOU with SANDAG, or rational rate-setting parameters. LMA's methodology improperly under-allocates forecasted costs to Fallbrook and Rainbow without any legitimate basis.	See response #11.

16	<u>Page 11 of 14; Paragraph 1 of 4</u> "LMA states that it analyzed the impact of removing Water Authority charges that it finds do not benefit Fallbrook and Rainbow, in order to reach its conclusion that these agencies are subsidizing other Water Authority member agencies in San Diego County. However, LMA's key assumptions are incorrect, which in turn lead to its erroneous conclusions."	SDCWA facilities are unable to serve all of RMWD and FPUD's jurisdiction. An assessment of historical and projected water deliveries using SDCWA facilities was made based on the input of RMWD and FPUD executives. LMA's key assumptions are based on this assessment.
17	<u>Page 11 of 14; Paragraph 3 of 4</u> "First, emergency supplies are not normally the source of supply to member agencies during times of drought or limited supply. Emergency supplies are reserved for use only in the event of an emergency affecting the water supply (such as earthquakes). Drought and limited supply are not normally considered emergencies."	As SDCWA states *"drought and limited supply are not <u>normally</u> considered emergencies" (Page 3 of 4).* Clearly, emergency supplies are indeed intended to potentially be used during times of drought or limited supply. Additionally, SDCWA states, *"The Emergency & Carryover Storage Project (E&CSP) is a system of reservoirs, interconnected pipelines and pumping stations designed to make water available to the San Diego region if imported water deliveries are interrupted. The E&CSP added 90,100 acre-feet of water storage capacity for emergency use, and more than 105,000 acre-feet of carryover storage capacity for use <u>in dry years</u>." (Page 4 of 14)* RMWD and FPUD have invested in independent emergency supply and storage methods. Additionally, RMWD and FPUD allege they cannot physically receive SDCWA water supplies to all of its customers during times drought or emergency water supply interruptions because these districts are at the north end of the SDCWA network.

18	Page 11 of 14; Paragraph 4 of 4 "Next, the Water Authority's highly reliable QSA and desalination supplies, along with water held within storage under the CSP, are available during times of drought and limited supplies and benefit Fallbrook and Rainbow. The CSP is specifically for these types of events and carryover storage water is specially reserved for this purpose. During times of drought or limited supplies from MWD, both Rainbow and Fallbrook actually increase their percentage of Water Authority non-MWD water due to the reduction of available water from MWD and use of the CSP. The Water Authority's highly reliable QSA and desalination supplies, along with water held in storage under the Water Authority's CSP, are the very water supplies that are actually used to serve Fallbrook and Rainbow customers and are available during times of drought and limited supplies (which conditions primarily impact MWD's water supply imported from the Bay Delta). For example, during the 2014-2017 MWD water supply shortage and cutback of 15%, the Water Authority maintained greater than 99% supply availability and delivery to all of its member agencies, including Fallbrook and Rainbow customers. If Fallbrook and Rainbow did not benefit from the Water Authority's portfolio, as claimed by LMA, they would have suffered the 15% MWD cutback."	RMWD and FPUD claim to have independent reliable water supplies and planned capital improvement programs. During the last drought experienced in Southern California (2014-2016), the state mandated a 36% cut back in water usage. Based on the current political and environmental conditions in California, state mandated cuts to water usage will likely continue in the future. These state mandated cuts usurp any locally mandated cutbacks by MWD (15% in 2014-2017). This demonstrates that SDCWA investments into water reliability for RMWD and FPUD are of little to no value.

19	<u>Page 12 of 14; Paragraph 4 of 6</u> "Next, the LMA assumptions about desalinated water having no benefit are in error because portions of Fallbrook and Rainbow's service areas even now can receive desalinated water. The Water Authority is able to move water from the Twin Oaks Valley Water Treatment Plant clearwells into the northern portion of its service territory. This water is a blend of QSA, desalination and MWD waters, and can be delivered to one Fallbrook service connection (FB4) and four Rainbow service connections (RB3, RB6, RB7, and RB11). Additionally, to the extent other agencies use desalinated water that frees up QSA supplies for delivery to Fallbrook and Rainbow."	The argument made by SDCWA that the use of desalinization water is freed up for use of other agencies is irrelevant. RMWD and FPUD claim to have independent investments made for reliable water supplies in addition to the plan to transfer water supply directly from MWD which would free all SDCWA water for other agencies. Additionally, RMWD records show that no desalination water supplies have ever been delivered to any connection north of RMWD 's Connection 6.
20	<u>Page 12 of 14; Paragraph 5 of 6</u> "LMA assumption 4 is predicated on fundamental misdirection. Most of the entire Water Authority's overall supply is delivered via MWD facilities by virtue of the fact that all QSA water and MWD supply purchases are delivered though MWD facilities. Therefore, to say that most of Fallbrook and Rainbow water is "received from" MWD facilities really says nothing meaningful. The MWD facilities are the transportation conduit, but MWD water is not necessarily the supply source. Additionally, all this is Water Authority water, and Rainbow and Fallbrook have regularly received virtually 100% of their water from Water Authority supplies."	This is the basis of RMWD and FPUD detachment from SDCWA. As SDCWA argues, "Most of the entire Water Authority's overall supply is delivered via MWD facilities..." and "The MWD facilities are the transportation conduit." Therefore, LMA has taken the position that RMWD and FPUD are prepared to pay their fair share of facilities maintenance to MWD directly and receive its water supplies directly from MWD. Therefore, LMA based its assumption on the fact that RMWD and FPUD do not benefit directly from the maintenance and expansion of the SDCWA network further south in the county. Additionally, SDCWA goes on to state, "Fallbrook was able to largely, but not entirely, reduce use of the Water Authority's transportation facilities in FY 2020." This proves that Fallbrook has indeed made efforts and has the capability to facilitate its own water supplies.

21	<u>Page 13 of 14; Paragraph 1 of 8</u> "Additionally, Rainbow's historical data (61% water flow usage through Water Authority facilities on average) is nearly double that claimed by LMA (35%). The use of anomalistic data not only ignores reality, but entirely disregards the constant stand-by and operational benefits of regional facilities."	LMA acknowledges that the historical average of water flow usage through SDCWA facilities is nearly 61%. However, the historical average fails to account for recent efforts taken by RMWD and FPUD to avoid growing transportation costs and receive water directly from MWD facilities. As of 2020 RMWD water flow usage through SDCWA facilities had been reduced to approximately 40% of its water deliveries. RMWD is planned to continue these efforts to reach 0% utilization of SDCWA facilities within the next 10-years. Additionally, FPUD has already taken its own efforts to reach 0% water deliveries through SDCWA facilities.
22	<u>Page 13 of 14; Paragraph 4 of 8</u> "In addition to all the previously listed LMA errors, to derive the 12% the LMA Report double dips, claiming both the application of the "adjusted fair share" (improper) MEU allocation methodology and the application of false "conclusions" of system benefit/use. Either the "adjusted fair share" is already "adjusted" or it's not. By applying both "adjusted fair share" and specific "key assumption" carve-outs based on improper and singular data points, LMA significantly undervalues the benefits received."	This comment suggests that the reviewer misinterprets the methodology. There is no double dipping, nor false conclusions in our analysis. To clarify by way of example (page 18 of our PDF report): • The first step is to determine the actual amount RMWD should have paid based on its fair share of ME. In 2010, RMWD had 13,098 ME which represented 1.4% of the County total. We then adjusted the payment amount which results in a pro-rata payment of $1,059,002. This is the amount that should have been paid by RMWD based on a fair share allocation. • However, there are also actual charges that were paid that did not benefit RMWD. This amounted to $650,373 (2010). • By taking the fair share charge, less the actual charges for which there was no benefit, results in an actual fair share benefit of $408,629. This is not double dipping nor a false conclusion. It is a method utilized to determine what the actual benefit is: 1) had the fixed charges been incurred on a ME basis, and 2) based on actual charges that benefit RMWD and/or FPUD.

23	<u>Page 13 of 14; Paragraph 7 of 8</u> "While it is true that if Fallbrook and Rainbow were to detach then other member agencies would pay more, that is not due to a subsidy, but because Fallbrook and Rainbow would no longer be paying their appropriate share of Water Authority obligations that were incurred to meet the planned water demands of their customers."	"Subsidy" vs. "appropriate share" is a matter of semantics and viewpoints. As the LMA analysis concludes, both RMWD and FPUD have paid more relative to the benefit received. When an entity costs exceed the benefit, that is when a subsidy occurs.

Should you have any questions regarding this analysis, please feel free to contact us.

Sincerely,

Gary H. London

Nathan Moeder

london moeder
advisors

Corporate Profile

London Moeder Advisors

REPRESENTATIVE SERVICES

Market and Feasibility Studies	Development Services	Litigation Consulting
Financial Structuring	Fiscal Impact	Workout Projects
Asset Disposition	Strategic Planning	MAI Valuation
Government Processing	Capital Access	Economic Analysis

London Moeder Advisors (formerly The London Group) was formed in 1991 to provide real estate advisory services to a broad range of clientele. The firm principals, Gary London and Nathan Moeder, combine for over 60 years of experience. We have analyzed, packaged and achieved capital for a wide variety of real estate projects. Clients who are actively pursuing, developing and investing in projects have regularly sought our advice and financial analysis capabilities. Our experience ranges from large scale, master planned communities to urban redevelopment projects, spanning all land uses and development issues of all sizes and types. These engagements have been undertaken principally throughout North America and Mexico.

A snapshot of a few of the services we render for both the residential and commercial sectors:

- **Market Analysis** for mixed use, urban and suburban properties. Studies concentrate on market depth for specific products, detailed recommendations for product type, absorption and future competition. It also includes economic overviews and forecasts of the relevant communities.

- **Financial Feasibility Studies** for new projects of multiple types, including condominium, apartment, office, and master-planned communities. Studies incorporate debt and equity needs, sensitivity analyses, rates of return and land valuations.

- **Litigation support/expert witness services** for real estate and financial related issues, including economic damages/losses, valuations, historic market conditions and due diligence. We have extensive deposition, trial, mediation and arbitration experience.

- **Investment studies for firms acquiring or disposing of real estate.** Studies include valuation, repositioning projects and portfolios, economic/real estate forecasts and valuation of partnerships. Often, the commercial studies include the valuation of businesses.

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- **Fiscal Impact, Job Generation and Economic Multiplier Effect Reports**, traditionally prepared for larger commercial projects and in support of Environmental Impact Reports. We have been retained by both developers and municipalities for these reports. The studies typically relate to the tax revenues and employment impacts of new projects.

The London Group also draws upon the experience of professional relationships in the development, legal services, financial placement fields as well as its own staff. Clients who are actively investigating and investing in apartment projects, retail centers, commercial projects, mixed use developments and large master plans have regularly sought our advice and financial analysis capabilities.

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