

## **FPUD Detailed Comments on LAFCO Report to Ad Hoc Advisory Committee Date October 11, 2021**

Fallbrook Public Utility District (FPUD) reiterates its overall comments on the Draft Report dated October 11, 2021 (Report), as submitted in its joint letter with RMWD to LAFCO dated October 25, 2021. In addition FPUD submits the following detailed comments on the Report. Due to the manner in which the report is organized (a multitude of unnumbered questions and answers), we struggled with how to organize our comments for everyone's ease of review. We ultimately determined that the best way to lay out our detailed comments was to include, verbatim, text from the Report we wanted to address, followed by our comments. Accordingly, the length of our detailed comments is largely due to restating portions of the Report itself.

### **FPUD OVERALL DETAILED COMMENTS AND COMMENTS ON EXECUTIVE SUMMARY**

1. Provide FPUD (and consequently RMWD) specific information, such as percentage of population, water purchases, SDCWA budget, financial impact etc., in all instances where appropriate. While it is true that the issues presented by the FPUD and RMWD Reorganization Applications are the same, district specific information should be provided since the applications to LAFCO are separate. We also note that at times the Report uses dramatically qualitative terms to describe facts and history, that appear to be that of the author (Dr. Hanemann) as opposed to fact. For example, on Page 15, the Report states that past cutbacks of 30/90% were "devasting [sic]." We believe presenting the facts without qualitative descriptions is appropriate for a report of this kind and we respectfully request that the Report be reviewed and revised as appropriate, with this in mind.

#### **A. FPUD COMMENTS/QUESTIONS ON REPORT SECTION 1 (How San Diego County Gets Its Water):**

##### **1. Consider revising the title of Section 1:**

FPUD requests that the title of Section 1 be revised to "How San Diego County Water Authority and its Members Gets its Water" as this section describes water sources of and within the County Water Authority service area/ boundaries, which **does not** span the entirety of San Diego County and does not include all the public agencies providing water service within the County of San Diego. For example, even within the urban boundary of the county, the City of Coronado is not a SDCWA member and some members like Camp Pendleton have their own local supplies to meet almost all their demands.

##### **2. Report Statement – Page 18:**

**"Q. Will FPUD's local supplies increase in the future?"**

- **FPUD Comments/Questions:**

The information in the second paragraph regarding the Santa Margarita Conjunctive Use Project needs to be updated to 2021 (rather than early 2022). It is a couple weeks away from starting deliveries to the distribution system.

The last paragraph is incorrect. The referenced Lake Skinner project has been in place since 2005 and water has been and continues to be delivered.

##### **3. Report Statement –Page 19:**

**“Q. In its 2020 Urban Water Management Plan, FPUD states that it has historically purchased its water from “our two wholesalers, SDCWA and MWD.” Is that a correct statement?”**

- **FPUD Comments/Questions:**

This statement is taken part of a sentence out of the context in which it was intended. See below for full statements below from the FPUD UWMP.

*FPUD is a water retailer and has historically purchased the majority of its water supplies from our two wholesalers, the San Diego County Water Authority (SDCWA or Water Authority), which is a member agency of the Metropolitan Water District of Southern California (Metropolitan). These wholesalers have addressed regional issues concerning San Diego County and Southern California water supplies in their own 2020 UWMPs. More information on their regional plans can Section 1 of 2020 plan 4 be found in their 2020 UWMPs. Starting in 2022 FPUD will bring online a new local supply project that will provide a substantial amount of local water and diminish the District’s reliance on our wholesale suppliers. The wholesale water supplies received by FPUD are delivered to FPUD by the Water Authority and primarily consist of Colorado River and State Project Water Supplies. Although the Water Authority also has desalinated water as part of its diversification, this water is not delivered to FPUD due to our location at the very North end of their service area. These supplies are discussed in detail in their respective UWMPs.*

*FPUD relies on imported water supplied by the regional wholesaler, the San Diego County Water Authority (SDCWA or Water Authority), which in turn relies, to some extent, on Metropolitan Water District of Southern California (Metropolitan). While in the past the majority of FPUD’s potable water has been supplied by the aforementioned two agencies, starting in 2022, FPUD will begin production of its own local water supply. This new supply will help FPUD transition from being largely dependent on imported water purchases to having a significant portion of its potable water demand met through its own local water supply source, contributing to regional self-reliance. The District will continue to receive imported water to meet part of its supply needs. For more information on wholesale agencies water supply plans for FPUD, please reference the 2020 Urban Water Management Plans for the Water Authority and Metropolitan.*

Similar language has been in the FPUD UWMP since at least 2005 about receiving wholesale supplies from SDCWA and MWD. The way the question and responses is worded it makes it sound like this is new language that hasn’t been used by FPUD for over a decade in its UWMP. In addition, note that the water FPUD receives from SDCWA is solely treated water from Lake Skinner that is the same blend as EMWD receives. Both FPUD and RMWD do receive MWD water directly with MWD as the supplier and SDCWA as the middleman – very similar to what it will be with EMWD serving as wholesale supplier to the Districts should detachment occur. The Permanent Agricultural Water Rate (PSAWR) deliveries are specifically defined by SDCWA as MWD supplies in their Cost of Service Study. Although SDCWA claims an allocation of QSA water to FPUD, that water was not actually delivered it is just a paper allocation of water out of the actual MWD supplies it receives.

Further, our region is part of MWD – we are within their service area and our property owners pay taxes to MWD. Just as the Districts are part of SDCWA, the Districts are also part of MWD.

FPUD is unclear why the report includes not just one, but **three**, sections (questions/ answers) regarding this issue.<sup>1</sup> FPUD fully agrees that SDCWA is FPUD’s sole wholesale water supplier, and that MWD is a wholesaler to SDCWA. With this acknowledgement, FPUD respectfully requests that Dr. Hanemann consider revising or deleting these sections from the Report as they don’t really lead into the main questions being addressed, and misinterpret portions of the FPUD UWMP to make it appear FPUD is unclear who its wholesale supplier is.

**4. Report Statement – Page 21, Table 1 and the sentence immediately following Table 1:**

“In 2021, for the first time, FPUD took delivery of no water from the turnout owned by SDCWA.”

- **FPUD Comments/Questions:**

On August 17, by email from FPUD General Manager Bebee to Adam Wilson indicating the last delivery from the SDCWA turnout was November 2019 – two years ago not 2021. It is unclear where the information in the report came from. The table in the Hanemann report that was provided by SDCWA is FY not CY. Last, it appears in several instances that information provided by FPUD is excluded from the report, while information from SDCWA seems to be copied directly into the report.

**5. Report Statement – Page 22:**

**“Q. Does the fact that MWD owns a turnout from which FPUD or RMWD receives water make MWD a wholesale supplier to FPUD or RMWD?”**

- **FPUD Comments/Questions:**

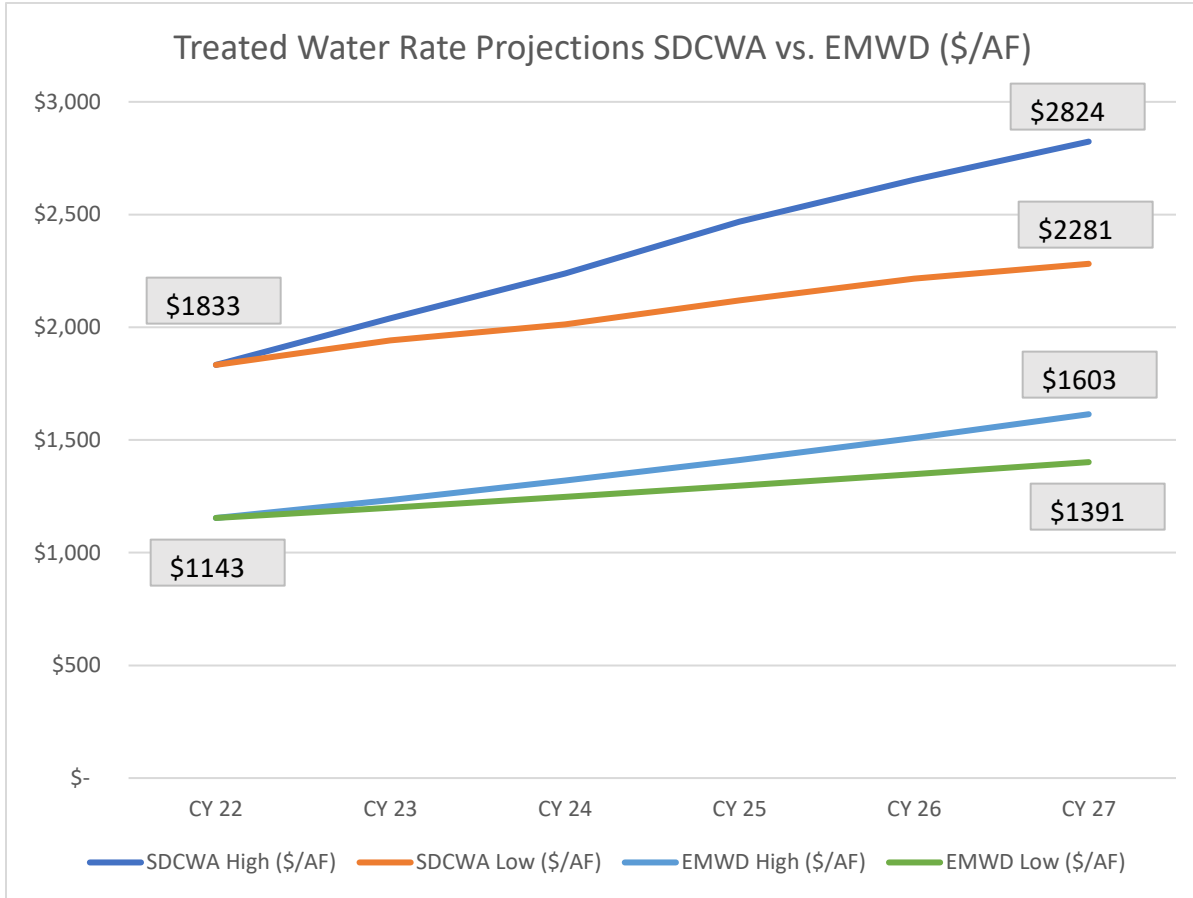
Again, the focus in the report on this issue is confusing. After all, if MWD was the direct wholesale supplier to FPUD and/or RMWD, neither agency would be proposing a detachment. FPUD and RMWD have not claimed MWD is their direct wholesale supplier, they have claimed the supply of water they receive is treated water from MWD and because of their location they have the ability to physically purchase water directly off MWD’s pipeline and EMWD has agreed to provide this water at \$1154/AF (CY 2022 MWD tier 1 rate plus \$11/AF) versus SDCWA rate of \$1833/AF (\$1660 excluding transportation). The future projections based on SDCWA’s own Long Range Financing Plan are shown in Table 1 below.

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<sup>1</sup> The “Questions and Answers” FPUD requests be deleted are as follows:

- Q. In its 2020 Urban Water Management Plan, FPUD states that it has historically purchased its water from “our two wholesalers, SDCWA and MWD.” [ ] Is that a correct statement?
- Q. Why does FPUD claim that MWD is its wholesale supplier?
- Q. Does the fact that MWD owns a turnout from which FPUD or RMWD receives water make MWD a wholesale supplier to FPUD or RMWD?

The table shows the premium between EMWD and SDCWA rates is projected to grow substantially over the next 5 years to between \$890/AF - \$1221/AF.



**6. Report Statement – Page 22:**

“SDCWA, through its Board of Directors, controls the disposition of the water obtained from MWD. The extent to which such water is made available to an SDCWA member agency is decided by SDCWA’s Board of Directors.”

- **FPUD Comments/Questions:**

It is unclear what the statement about the SDCWA determines when to purchase water for each members is intended to mean? SDCWA primary purpose is to acquire and deliver water to its member agencies. Pursuant to the CWA Act:

*Section 45-5, subdivision (11). . . The board of directors, as far as practicable, shall provide each of its member agencies with adequate supplies of water to meet their expanding and increasing needs. If available supplies become inadequate to fully meet the needs of its member agencies, the board shall adopt reasonable rules, regulations, and restrictions so that the available supplies are allocated among its member agencies for the greatest public interest and benefit.*

The Report statement above seems to imply that as a member of SDCWA there is no obligation of SDCWA to supply water. In the case of FPUD and RMWD since we physically primarily receive treated MWD water and can only receive primarily treated water from MWD, SDCWA's main obligation is to provide this supply.

7. **Report Statement – Page 22:**

**“Q. Why will it not be the same water?”**

**A.** It will be water belonging to MWD and supplied by MWD, rather than water belonging to SDCWA and supplied to FPUD and RMWD by SDCWA.”

• **FPUD Comments/Questions:**

The concept described in this statement is inconsistent with other statements about whose water is whose. Since even though both agencies take water directly off MWD pipelines are actually receiving SDCWA water supplies, when the change occurs both agencies will be receiving EMWD supplies. In either case the allocation of water supplies other than MWD supplies is a paper allocation, neither FPUD nor RMWD receive the QSA water directly rather it is a paper allocation through MWD. The QSA agreement was specifically designed as an exchange agreement so that the high salinity QSA water could be mixed with lower salinity SWP supplies. The relationship between MWD member agency and sub agency will be the same with EMWD as with SDCWA – we will receive the same blend of SWP and CRW from Lake Skinner and at a much lower cost.

**B. FPUD COMMENTS/QUESTIONS ON REPORT SECTION 2 (How Did Departure Come to be an Issue):**

1. **Title of Section 2:**

The Section title casts a negative connotation on the desires of FPUD and RMWD in seeking to change wholesale water agencies for the purpose of continuing to purchase reliable water at a lower cost. Further, the content of Section 2 does not discuss the reasons FPUD and RMWD have stated in their respective reorganization application documents—rather it provide an historical summary of the rising costs of SDCWA water and the possible reasons therefor. For example, from a FPUD perspective Section B, could be renamed to “Why Have SDCWA’s Water Rates Increased Significantly Leading, in part, FPUD and RMWD to Seek Detachment.”

2. **Report Statement – Page 28:**

**“Q. What caused SDCWA’s all-in melded water rate to rise significantly?”**

**A.** For any water agency, there is always upward pressure on operating costs, including cost increases from the wholesale supplier, in this case MWD.

Table 3 below shows that MWD rate increases were a major driver of SDCWA rate increase.”

• **FPUD Comments/Questions:**

Is Dr. Hanemann’s conclusion that the rate differential between MWD rates at \$1143/AF and SDCWA rate at \$1833 is being driven by MWD and is not due to SDCWA water supply costs (QSA and Desalination)?

If this is the case what is driving this differential in rates at SDCWA if not water supply costs? Is this differential primarily funding SDCWA infrastructure investments then, but not supplies? If it is driven in part by SDCWA infrastructure costs, can it then be acknowledged that FPUD customers have been paying for infrastructure (pipelines, tanks, treatment plants) they do not have any ability to use as part of this differential? Should this past investment be considered when determining a departure fee?

**3. Report Statement – Page 32 , the sentence following the Table titled “MWD vs. QSA Melded Supply”:**

“Assuming something like this held true over the period since 2010, the arrival of QSA would not explain the increase in SDCWA’s all-in rate to member agencies over this period.”

• **FPUD Comments/Questions:**

This conclusion apparently means that Dr. Hanemann does not believe QSA water supplies are not driving the differential between EMWD and SDCWA rates. If this the assumption, what is the benefit received by FPUD for paying a much higher rate with SDCWA versus a lower rate with EMWD then, if not for access to QSA water – which is actually less expensive?

**4. Report Statement – Page 34:**

“If 10% of SDCWA’s water costs about \$1,700/AF more than the other two sources of water used by SDCWA (MWD water and QSA water), that would raise SDCWA’s cost by only \$170/AF.

Therefore, it does not appear that bringing online water from the Carlsbad Desalination Facility provides a major explanation for the sharp increase in SDCWA’s all-in water rate after 2010.”

• **FPUD Comments/Questions:**

FPUD has paid for desalination supplies since 2016 as part of SDCWA’s rate structure, but has not received directly any of these supplies nor any benefit in terms of protection from drought cutbacks. Can a parallel be drawn to SDCWA’s concern over paying for SWP water they don’t receive but benefits the overall reliability of MWD? Later in the report when discussing the SWP costs, this concept is identified as predatory pricing if costs for supplies that are not received are included in the rates.

**5. Report Statement – Page 35:**

**“Q. Could the reduction in SDCWA sales to member agencies between 2008 and 2020 have had an impact on SDCWA’s all-in water rate over that period?”**

**A. Yes.**

This comes about from the fact that most of SDCWA operating costs are what economists call *fixed costs* – that is, costs that effectively do not change from one year to the next with variation in the volume of water delivered by SDCWA that year to its member agencies.”

• **FPUD Comments/Questions:**

Is a cost that can be transferred reasonably easily a true fixed cost? It is possible for SDCWA to transfer part of the contract and costs to MWD or a MWD member agency with an

agreement. The QSA water is not actually transferred physically through the MWD system, it is exchanged with MWD at Lake Havasu so it could be made available to MWD or any other MWD member agency. Is it common practice in the water industry to allocate a unit price contract with a fixed purchase amount as a fixed cost to its customers regardless of how much they actually purchase?

**6. Report Statement – Page 36:**

“Today, most of the SDCWA’s water supply costs are also fixed costs. Of SDCWA’s three sources of water, QSA water and Carlsbad Desalination water are also fixed costs for SDCWA because it contracted to pay for specified quantities of water from those sources. Only MWD water is a variable cost for SDCWA because it has discretion to purchase more or less MWD water.”

• **FPUD Comments/Questions:**

Is SDCWA obligated to purchase, when available, the amount of MWD water necessary to meet its demands? If a SDCWA member agency requests water during a period of time when there are no water use restrictions is Dr. Hanemann saying it is within the SDCWA Board’s discretion to deny the request? Aren’t the supply costs just replacing MWD costs? With the approach Dr. Hanemann outlines above essentially all SDCWA’s costs could be considered fixed—even MWD costs—or more importantly all SDCWA’s supply costs could be considered variable as long as they purchase the minimum commitment.

**C. FPUD COMMENTS/QUESTIONS ON REPORT SECTION 3 (The Financial Impact of Detachment)<sup>2</sup>:**

**1. Report Statement – Page 41:**

“SDCWA calculated that its revenue would be \$40.0 million lower if FPUD and RMWD both detached, broken down as a \$13.8 million revenue reduction if FPUD detached and a \$26.3 million revenue reduction if RMWD detached. My own analysis, which was necessarily less precise, supported that conclusion: my estimate was a combined revenue reduction of \$39.1 million.”

• **FPUD Comments/Questions:**

It appears Dr. Hanemann recalculated what he presented earlier in the summer to the Ad Hoc Advisory Committee of combined revenue reduction of \$36.8 million. Can Dr. Hanemann explain the change and provide some details on how and why the method of analysis was changed? Is Dr. Hanemann using projected water demands at the time of detachment?

**2. Report Statement – Page 41:**

“We both examined SDCWA’s water-related operating expenses. Here, SDCWA estimated an expenditure reduction of \$27.2 million. My estimate was essentially identical – an expenditure reduction of \$27.5 million.

SDCWA calculated the current-year net effect of detachment at \$16.4 million in reduced net revenue, which would have to be made up in higher payments by the other member agencies.

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<sup>2</sup> FPUD reiterates its overall comment set out at page 1 regarding the need to provide FPUD (and consequently RMWD) specific information—breaking out the Districts’ shares, and impacts.

This was broken down into a net impact of \$5.7 million for FPUD detachment and \$10.7 million for RMWD detachment. Given that my own analysis dovetails with SDCWA’s analysis with respect to the impacts of detachment on SDCWA water-related revenue and on water-related operating expenses, the estimate of \$16.4 million for the current year net impact of detachment seems reasonable.”

- **FPUD Comments/Questions:**

Dr. Hanemann identifies a revenue reduction of \$39.1 million (revised from his June 2021 analysis) and an expense reduction of \$27.5, which results in a net revenue reduction of \$11.6 million. Why does he then state that the \$16.4 million number provided by SDCWA, that he cannot seem to verify, must be right? What is the basis for this recalculation, or if not recalculated, this adoption of SDCWA’s inflated value? There was a discussion about reserves making up the difference, but reserves were previously funded in part by FPUD. In addition eventually an agency must establish rates where revenues equal or exceed expenses and reserves are not required. In their 10 year projection an end to reserve utilization would be included in the forecast – otherwise if the 10 year projections doesn’t include projected rates that stabilize reserves, SDCWA would eventually run out of money.

**3. Report Statement – Page 42**

**“Q. What does a multi-year analysis of the net financial impact of detachment show?”**

**A.** SDCWA also presented a multi-year analysis of the financial impact of detachment as projected over the decade from CY 2022 through CY 2031. For this purpose, SDCWA used its internal projection of member agencies’ annual demands for SDCWA water over this future decade, combined with the internal financial model for planning reserve additions and draw downs.

In that analysis, the annual financial impact of detachment by both FPUD and RMWD varied from year to year, depending on circumstances. The largest annual impact was a reduction of \$45.7 million in net revenue, and the smallest a reduction of \$11.2 million. The median was an annual reduction of \$33.9 million.”

- **FPUD Comments/Questions:**

These numbers are inconsistent with other numbers in the Report. As noted above, Dr. Hanemann just had calculated a reduction of \$11.6 million based on current demands. Given that FPUD’s demands will drop significantly in just a few weeks with the Santa Margarita Conjunctive Use Project coming on line, and that RMWD projects continue decline in demands how does the impact increase to the point of \$33.9 million which is almost the entire total revenue contribution of the Districts? Did Dr. Hanemann verify SDCWA’s calculations and demand projections? The net revenue impact also excludes a major capital savings of \$30-\$40 million to SDCWA and the remaining member agencies by eliminating the need to build the North County ESP Pump Station. If RMWD and FPUD do not detach this project will need to be built by SDCWA in the near term.

We believe this net revenue data provided by SDCWA is fundamentally flawed. Using adopted CY 2022 SDCWA rates, projected sales ranges based on the RMWD and FPUD UWMP and other fixed revenue projections we calculated the projected net revenue impact, the Districts conducted a recalculation. As set out in the chart below, it also

includes the savings from the elimination of the North County ESP Pump Station spread over 10 years. The detailed spreadsheets will also be provided so Dr. Hanemann can verify the approach. A summary of the projected net revenue impact is below:

Year	SDCWA Value	Actual RMWD/FPUD High	Actual RMWD/FPUD Low	FPUD Net Revenue (Low)	FPUD Net Revenue (High)	RMWD Net Revenue (Low)	RMWD Net Revenue (High)
CY 2022	\$ 35,284,140	\$5,743,960	\$4,808,085	\$350,940	\$550,679	\$4,457,146	\$5,193,281
CY 2023	\$ 38,613,447	\$6,151,604	\$5,168,935	\$441,037	\$650,764	\$4,727,899	\$5,500,840
CY 2024	\$ 32,501,811	\$5,792,304	\$4,878,518	\$535,577	\$755,790	\$4,342,941	\$5,036,514
CY 2025	\$ 35,549,084	\$6,453,567	\$5,456,243	\$634,780	\$866,004	\$4,821,463	\$5,587,563
CY 2026	\$ 43,783,416	\$6,893,912	\$5,846,881	\$774,405	\$1,023,459	\$5,072,476	\$5,870,453
CY 2027	\$ 45,748,709	\$7,355,614	\$6,256,399	\$922,719	\$1,190,809	\$5,333,680	\$6,164,805
CY 2028	\$ 28,172,440	\$7,839,721	\$6,685,722	\$1,080,244	\$1,368,651	\$5,605,478	\$6,471,070
CY 2029	\$ 11,197,175	\$8,347,332	\$7,135,818	\$1,247,532	\$1,557,617	\$5,888,285	\$6,789,715
CY 2030	\$ 11,797,175	\$8,879,600	\$7,607,704	\$1,425,167	\$1,758,377	\$6,182,537	\$7,121,223
CY 2031	\$ 12,028,693	\$9,480,748	\$8,139,009	\$1,648,496	\$2,012,496	\$6,490,514	\$7,468,252
<b>Average</b>	<b>\$ 29,467,609</b>	<b>\$7,293,836</b>	<b>\$6,198,331</b>	<b>\$906,090</b>	<b>\$1,173,465</b>	<b>\$5,292,242</b>	<b>\$6,120,372</b>

The average net revenue impact of the departure of FPUD and RMWD is \$6 - \$7 million out of a roughly \$850 million total annual budget or less than 1%.

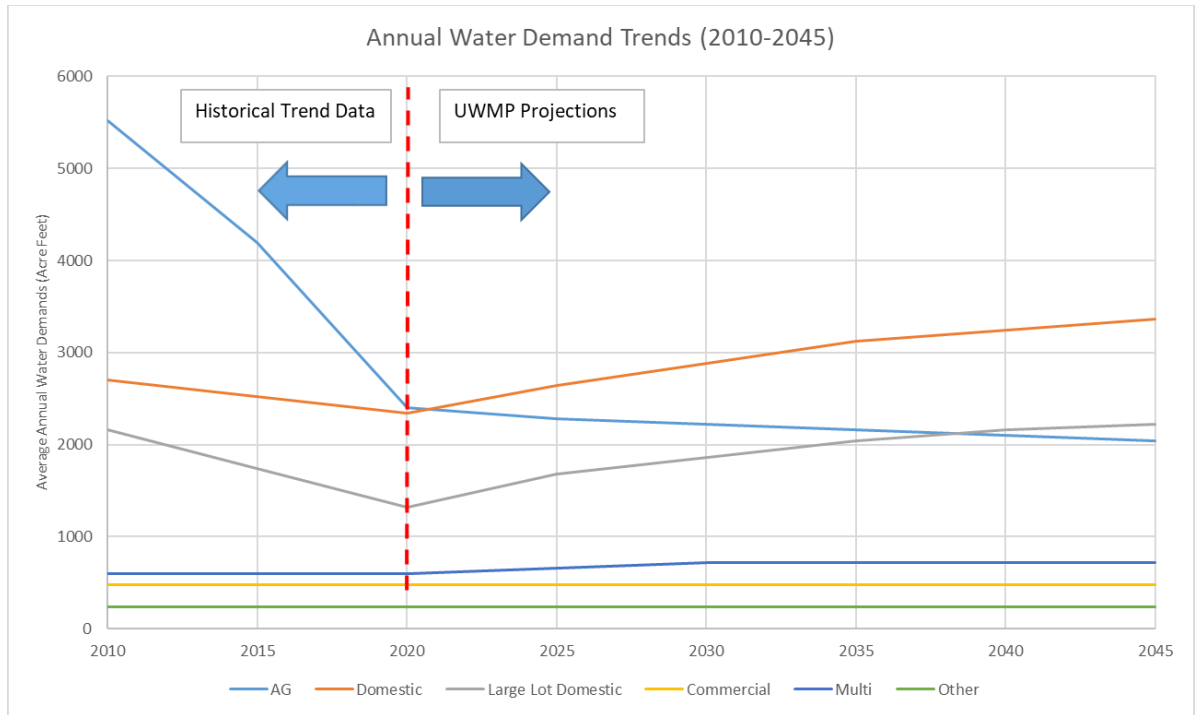
**4. Report Statement – Page 42**

**“Q. How large is this net financial impact in relation to SDCWA’s total water-related revenue and water-related operating expenses?”**

**A.** In FY 2020, SDCWA’s operating revenues and expenses totaled around \$569 million. If one takes the range of \$16.4 million to \$33.9 million as the central estimate for the reduction in annual net revenue, that corresponds to a reduction ranging from 2.9% to 6.0% of annual operating revenue.”

- **FPUD Comments/Questions:**

How does this relate to Dr. Hanemann’s calculations of \$11 million in the report question immediately above this one? Is Dr. Hanemann saying his analysis matches what SDCWA provided him or is he just taking what SDCWA provided at correct? Also we believe Dr. Hanemann is taking the Districts’ total revenue impact and only comparing SDCWA’s operating expenses. The Districts’ total revenue is used to fund both operating and capital expense. The total annual budget is closer to \$850 million. \$11 million divided by \$850 million is 1.3%. Also, the net revenue percentage of FPUD will continue to decline substantially. FPUD will be cutting its purchases roughly in half in the short term. Also FPUD uses a very conservative demand estimate in its UWMP, but it is a high end boundary of future demands. As shown in the figure below given past trends, a continued decline in overall demands is likely and flat or declining estimates are used for our financial planning – not our UWMP estimates. In using just our UWMP numbers our future revenue impact is inflated.



**5. Report Statement – Page 43:**

“The fiscal imbalance for SDCWA is that, if it supplies one less acre-foot to member agencies, it surrenders about \$1,188 in revenue but it lowers its expenses by only about \$253, generating a potential deficit of \$935.”

• **FPUD Comments/Questions:**

In previous presentations, Dr. Hanemann has indicated that detaching or rolling off (developing local supplies or outside supply contracts) have very similar impacts to SDCWA and the member agencies. Why does Dr. Hanemann feel additional payments are required to detach if they are not imposed currently to an agency that rolls off? Did Dr. Hanemann evaluate how these are interrelated--on how the current rate structure is set to provide SDCWA an adjustment roll-off period over 5 years?

Further, this method of analysis has significant technical and factual flaws in that unless and until SDCWA’s demands drop below its contractual supply amounts (which is not forecasted to happen at any time in the SDCWA 2020 UWMP planning horizon), there is no marginal cost to SDCWA as it just buys one less AF from MWD.

**D. FPUD COMMENTS/QUESTIONS ON REPORT SECTION 4 (A Departure Fee):**

**FPUD overall comments on Section 4**

It is FPUD’s position that Section 4 is incomplete as it doesn’t acknowledge or discuss the requirements of County Water Authority Act section 45-11(a)(1). When SDCWA was formed the

same major financial issues existed largely as they do today and all members agreed to specific financial commitments to detach and codified them in the County Water Authority Act—the fact that the Legislature has not substantively revised these requirements indicates the Legislature’s continued intent . There should be some discussion about why Dr. Hanemann determined that the language of the Act is irrelevant when determining what an entities on-going obligations are if they detach

**1. Report Statement – Page 44**

**“Q. Is there a sound economic justification for imposing some financial obligation?”**

**A.** Yes.

Since 2000, SDCWA has made major infrastructure investments and has taken on substantial contractual commitments for a more reliable water supply. The infrastructure investments and supply commitments have benefited all member agencies. These commitments are long-term in nature, and they impose a fixed and ongoing financial burden on SDCWA and its member agencies.”

• **FPUD Comments/Questions:**

The entirety of Section 4 of the Report ignores the provisions of Section 45-11(a)(2) of the County Water Authority Act, which already set out the obligations of a detaching, requiring that the taxable properties within the departing agency “shall continue to be taxable. . . for the purpose of paying the bonded and other indebtedness. . . outstanding or contracted for at the time of the exclusion and until the bonded or other indebtedness has been satisfied.”

The Report further ignores that FPUD and RMWD have made contributions which have for years towards major infrastructure investments/projects that do not directly (and even some that do not indirectly) benefit the Districts.

Last, if, as discussed later by Dr. Hanemann, QSA supplies are going to be drought proof in the future and the supplies are already exchanged through MWD’s infrastructure, doesn’t SDCWA have an opportunity to transfer supplies to MWD or a MWD member agency and adjust its supply commitments that wouldn’t require a decade to implement? It is correct to compare the QSA water supply contract to a fixed nontransferable infrastructure investment? Should the same fee apply to an agency that secured outside supplies similar to the approach SDCWA took with MWD on the QSA supply or when an agency develops local supply sources?

**2. Report Statement – Page 44:**

**“Q. What is the purpose of a financial obligation?”**

**A.** The purpose of imposing financial obligation is to provide an appropriate level of protection for SDCWA and the remaining member agencies in the short run while they adjust to the changed situation of a departure. The purpose is to cover SDCWA’s own financial obligations that are fixed, ongoing and unavoidable after the departure for the duration of a period of adjustment.

The aim is to promote flexibility and efficiency in the management of scarce water resources and in the operation of a supply network that is essential to the wellbeing of the regional economy. It is not appropriate that the departure fee afford such protection in perpetuity. It is important that SDCWA and all its member agencies receive an economic signal about the need for efficient network organization and rationalization. Compensation in perpetuity would work against the objective of promoting the efficient use of the region's water infrastructure assets."

- **FPUD Comments/Questions:**

Since the California Legislature has already determined the purpose of a financial obligation when an agency leaves a county water authority and has already specified how that financial obligation is to be applied (see discussion regarding Section 45-11(a)(2) of the County Water Authority Act, above), we find the Report's response to the question, which ignores existing statutes to be incomplete. Accordingly, we request that the answer to the question of "What is the purpose of a financial obligation?" should at a minimum acknowledge the following was what is codified in the County Water Authority Act, which is what was intended by the member agencies when SDCWA was formed, and what is still the Legislature's intent on this issue:

"The purpose of a financial obligation for a detachment of a member agency from a county water authority is set out in County Water Authority Act Section 450(a)(2), as established and limited by the California Legislature as follows:

*" . . . that the taxable property within the excluded area shall continue to be taxable by the county water authority for the purpose of paying the bonded and other indebtedness of the county water authority outstanding or contracted for at the time of the exclusion and until the bonded or other indebtedness has been satisfied; . . ."*

(County Water Authority Act Section 45-11(a)(2), emphasis added.) Any response that does not acknowledge and consider the law, and is incomplete.

However in response to Dr. Hanemann's original response, that does not attempt to incorporate the requirements of the County Water Authority Act, FPUD offers the following substantive comment to this section of the Report:

- Since SDCWA will save \$30-\$40 million in not having to construct the emergency storage project pump station (ESP) if the District's depart—facilities to just serve FPUD and RMWD—which arguably should have been constructed many years ago, did Dr. Hanemann's approach factor this in? What about the benefits of past investments by FPUD and RMWD in storage, canal lining, etc.? It is inappropriate to calculate only the liabilities but not the assets and other contributions made by FPUD and RMWD as part of this analysis.
- Also SDCWA developed an existing rate structure that has costs that roll off over time to address this concern. Several SDCWA member agencies are pursuing local supply projects and are counting on the reduction in "fixed" costs to make these projects economically viable. If, for example' FPUD and RMWD contracted for

supplies outside SDCWA to meet the demands instead of formally detaching, the cost incurred by RMWD and FPUD, as they roll off by charge through a 10 year period, would be roughly \$29 million.

- In addition, under this scenario SDCWA would still need to build the ESP Pump Station for FPUD and RMWD, at a cost of between \$30-\$40 million, and continue to provide service to both agencies.
- The net payment to SDCWA under the scenario where FPUD and RMWD didn't detach but secured external supplies, which would be a de facto detachment, is as follows:

Current Rate Structure – de facto detachment	
FPUD/RMWD Payments to SDCWA	\$29 million
SDCWA Costs for Construction of ESP PS	(\$35 million)
Net Payment to SDCWA	(\$6 million)

If FPUD and RMWD contracted for external supplies similar to the QSA agreement over the 10 year time period and stopped purchasing water from SDCWA, using the existing rate structure the net impact to SDCWA would be a net financial obligation of \$6 million to FPUD and RMWD.

**3. Report Statement – Page 45:**

**“Q. Over how long a period should FPUD and RMWD bear some financial obligation?”**

**A.** The purpose of the financial obligation is to provide an appropriate level of protection for SDCWA and the remaining member agencies in the short run while they adjust to the changed situation of a departure.

In the water industry, a period of 10 years would typically count as the short run for planning purposes. I therefore suggest that FPUD and RMWD bear a financial obligation for a period of ten years if they depart SDCWA.”

• **FPUD Comments/Questions:**

FPUD requests supporting documentation for Dr. Hanemann’s assertion that 10 years would be the appropriate period of times based on the “water industry.” Further, we believe any continuing obligations need to be paid pursuant to County Water Authority Act 45-11(a)(2). If the County Water Authority Act is not considered, the existing SDCWA rate structure allows for a five year roll-off period to allow for the revenue impact of local supply development, which Dr. Hanemann has previously indicated has a similar impact.

**4. Report Statement – Page 46:**

“In the light of these factors, I recommend that a departure fee target the portion of SDCWA’s outstanding obligations that relates specifically to QSA water.”

- **FPUD Comments/Questions:**

The recommendation appears to be that FPUD and RMWD customers should pay for water for SDCWA that they never receive, but would that would still be delivered to SDCWA so that it could sell it to others. This appears to assign a portion of the QSA Take or Pay contract to both FPUD and RMWD as a “Pay But Don’t Take Contract.” We have a couple of questions around this proposed scenario:

1. Wouldn’t this violate basic cost of service requirements (Proposition 26 and Proposition 218) for FPUD and RMWD to pay for a service (water) and then give it away?
  - A requirement that the Districts pay SDCWA for water they will not have access to, when that same water may be sold by SDCWA to other entities creates a problem under the California Constitution. As you are aware, Proposition 26 defines a tax to include, in part, “any levy, charge, or exaction of any kind imposed by a local government, except the following:

....

2. A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product.

...”

Stated another way, if the charge imposed for a specific government service or product, exceeds the reasonable costs to the local government of providing the service or product, the charge is a tax under Proposition 26. Proposition 218 similarly prohibits fees or charges from exceeding the proportional cost of the service. Accordingly, if SDCWA were to receive payment for water purchased and not used by the Districts, and then sold that same water to its member agencies or others, SDCWA would receive a windfall, and would likely be named in more than a few lawsuits.

As proposed by Dr. Hanemann, the proposed payments from the Districts would also be prohibited under the California constitution, as a gift of public funds.

2. Doesn’t SDCWA plan to use and sell all this water to other member agencies under the planning horizon? Wouldn’t SDCWA have cost of service challenges in selling the same water twice?
3. At the outset of the Report, Dr. Hanemann states that QSA water is actually less expensive than MWD water. (See Executive Summary, p. 8, last paragraph.) Since FPUD and RMWD leaving provides more QSA water versus MWD water for remaining agencies isn’t that a net benefit to SDCWA and the remaining SDCWA member agencies?

4. Why would FPUD and RMWD ratepayers pay for canal water which is significantly less expensive than MWD supplies and they have already contributed millions toward lining the canals? Why wouldn't ownership of the supply that has been paid for by FPUD and RMWD ratepayers transfer with the payment obligation?
5. Is there any example of any other situation in which a water utility has an obligation to buy free water for another agency for a decade because the selection of 10 years appears arbitrary? SDCWA has itself contemplated this situation in their Supply Reliability Charge which rolls off after 5 years. How was the 10 year period determined seeing that there is already a structure for this at SDCWA?
6. What also prevents SDCWA from contracting the sale of some of this water with MWD or a MWD member agency?

5. **Report Statement – Page 45**

“In the water industry, a period of 10 years would typically count as the short run for planning purposes. I therefore suggest that the departure fee be payable annually for a period of 10 years. I suggest that it be the same annual amount for each year during that period.”

• **FPUD Comments/Questions:**

See above comment requesting the basis for the 10 year period. Additionally, based on this recommendation the total payment to SDCWA by FPUD and RMWD would be between \$90 - \$140 million. While less than the \$1.2 billion payment suggested by SDCWA it neglects all investments made by FPUD and RMWD ratepayers in SDCWA infrastructure and the immediate savings of \$30-\$40 million in avoided infrastructure costs. The analysis appears to support that there is no real stranded infrastructure in our departure and we believe that after further consideration Dr. Hanemann will recognize that payment for water we don't receive is not a legally justifiable or fair approach by LAFCO and is inconsistent with how other agencies are treated.

This approach would incentivize agencies to develop external supply contracts to effectuate a de facto detachment and avoid involving LAFCO versus the approach of formally changing boundaries under LAFCO to seek more efficient service given the cost of the process and the potential for unreasonable terms and conditions being imposed at the end of the process.

Also, the selection of a 10 year term when SDCWA's own rates and charges has a maximum of 5 years seems arbitrary. If LAFCO was going to establish a departure fee in addition to what is prescribed in the law it is unclear why it has in no way considered how others are treated that are rolling off SDCWA. The projected cost of FPUD rolling off SDCWA and incurring costs similar to how other agencies are treated that reduce their purchases from SDCWA from local supply development or contracted purchases of non-SDCWA supplies is presented in the table below:

	Roll off Year	1	2	3	4	5
	2022	2023	2024	2025	2026	2027
Customer Service	\$ 561,671	\$ 374,447	\$ 187,224	\$ -	\$ -	\$ -
Storage	\$ 1,052,561	\$ 701,707	\$ 350,854	\$ -	\$ -	\$ -
Supply Reliability	\$ 661,244	\$ 528,995	\$ 396,746	\$ 264,498	\$ 132,249	\$ -
IAC	\$ 604,000	\$ 604,000	\$ 604,000	\$ 604,000	\$ 604,000	
SDCWA Pmt	\$ 2,879,476	\$ 2,209,150	\$ 1,538,824	\$ 868,498	\$ 736,249	\$ -
Roll-Off Period	\$ 8,232,196					

**6. Report Statement – Page 46:**

“Q. What is a fair share of the QSA contracted obligation to assign to FPUD and RMWD?”

- **FPUD Comments/Questions:**

FPUD requests that the response to this question be revised to reference the requirements of County Water Authority Act Section 45-11(a)(2).

**7. Report Statement – Page 47:**

“The amount of the annual departure fee depends on whether one uses the share of all member agencies deliveries received by FPUD and RMWD, or the share of deliveries to member agencies for municipal and industrial use. The resulting calculations are exhibited in Table 8.”

<b>TABLE 8 CALCULATION OF A DEPARTURE FEE</b>		
	<b>Share</b>	<b>Annual payment</b>
<b>USING THE SHARE OF M&amp;I DELIVERIES</b>		
FPUD	0.7%	\$1,931,388
RMWD	2.5%	\$6,985,202
Total	3.1%	\$8,916,590
<b>USING THE SHARE OF TOTAL DELIVERIES</b>		
FPUD	1.2%	\$3,276,017
RMWD	3.9%	\$11,043,689
Total	5.0%	\$14,319,705

- **FPUD/ RMWD Comments/Questions:**

Again, Dr. Hanemann's previous calculation had the Districts' combined net revenue impact to SDCWA at \$11 million dollars, while our calculations show an average impact of \$6-\$7 million. The high end projection using Dr. Hanemann's estimate of \$11 million would still provide SDCWA a net revenue benefit of over \$3 million annually if we detach with them providing no service and savings \$30-\$40 million in immediate capital project costs. This approach would provide SDCWA a financial benefit of over \$50 million in the 10 year period.

To provide some perspective on what the Report proposes, the FPUD FY 22 total operating budget is ~\$27 million for all enterprises and of that budget purchased water is \$11.5 million. The proposed departure fee of \$3.3 million would add a charge at over 10% of the total operating budget and 30% of the water purchase budget or almost \$400 per FPUD customer for them to purchase water for other SDCWA customers. The approach by Dr. Hanneman using a past percentage of purchases appears to assume all M&I water is essentially QSA water by using percentage of M&I deliveries as the total QSA contracted purchases. While it may vary from year to year M&I deliveries are also being met by MWD water.

7. **Report Statement – Page 51**

“Thus, there is a real chance that, if FPUD and RMWD depart, SDCWA could on some occasion face member agency demands that fall short of its commitment to pay for 320,700 AF.”

- **FPUD Comments/Questions:**

We concur that SDCWA needs to develop a plan for supply commitments prior to the QSA price reset in 2035 to ensure they do not pay for supplies they cannot use. This event could occur within the next 10 years as supplies come on-line and conservation efforts continue. The sentence above that links this possibility solely to our detachment would mean that the 3% of M&I demands we represent is what will keep them from exceeding their take or pay obligation. The PSAWR program specifically identifies that water to be MWD water so it would only be the projected M&I deliveries that would use the QSA supplies. If there is a real chance this could occur without FPUD and RMWD it also means there is a real chance it could occur with FPUD and RMWD still with SDCWA (There future water demand prediction ability has not been shown to be 97% accurate). The bottom line is this is a possibility with or without detachment and it should not be directly linked as only possible with detachment.

In fact, at the September SDCWA Board meeting, the City of San Diego proposed and passed amendments to the Long Range Financing plan that directed SDCWA staff to do just that – evaluate the fixed contract water supplies with the intent of reducing them as demands decline. This process is already underway at SDCWA and is unrelated to detachment. It has much more to do with the significant amounts of local supplies that will come on line in

the next decade and the impact of agencies rolling off SDCWA and the affordability challenges resulting from higher cost supply commitments.

**8. Report Statement – Page 52:**

“A. A possible approach would be for FPUD and RMWD to commit to jointly purchase water from SDCWA over the next 10 years, or through 2034, under certain contingencies. For example, the sale commitment could be triggered each year when SDCWA deliveries to member agencies fall short of 320,700 AF. FPUD and RMWD would commit to purchase the amount by which SDCWA deliveries that year to the remaining member agencies fall short of 320,700 AF, up to a joint cap of, say, 17,500 AF.”

- **FPUD Comments/Questions:**

Absent the legal requirements associated with detachment (to which LAFCO is bound), this approach could be further refined and could be the basis for negotiations. However, this approach should tie the purchase commitment to the actual M&I purchases in the year given FPUD’s continued decline in demands. This approach could be based on SDCWA falling below its take or pay obligation or it could involve a transfer of some amount of QSA supply to FPUD and RMWD that they could then potentially transfer to another party. SDCWA is also pursuing storage of QSA supplies so it would be appropriate under this approach, for any future scenario in which SDCWA can store, use or transfer QSA water, to eliminate any water purchase obligation from SDCWA or RMWD.

**E. FPUD COMMENTS/QUESTIONS ON REPORT SECTION 4 (Water Supply Reliability: SDCWA vs. Eastern MWD):**

**1. FPUD Overall Comment on Section E:**

FPUD wants to express its confusion with the continued desire to determine whether one wholesale supplier is or is not more reliable than the other. As stated in our joint letter to the LAFCO dated October 25, 2021, and again stated below, while we concur with Dr. Hanemann’s conclusion that he doesn’t “feel I can say that the difference in supply reliability is material” a reliability determination is not intended to be a competition—rather it is an assessment by LAFCO of the availability of a reliable and adequate long term water supply.

**3. Report Statement – Page 58**

**“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.”

- **FPUD Comments/Questions:**

We suggest this Question and Answer be deleted as the issue was already litigated between SDCWA and MWD and it was found by the Courts that MWD can charge SWP costs as part of its overall transportation rate in much the same way FPUD is charged by SDCWA for Desalination Supplies they do not receive. If it is left in, it would be important to identify any parallels with FPUD being charged the cost for desalination water it cannot physically receive.

**4. Report Statement – Page 62:**

**“Q. Will the water supply situation in the Colorado River get better in the long run?**

A. No.”

- **FPUD Comments/Questions:**

We concur that the reliance on the Colorado River for an agency’s main water supply is not a good long-term bet for supply reliability in Southern California. SDCWA reliability is largely tied to the QSA contract with IID, which has a price reset provision in 2035 and ends in 2047 – It is not a permanent supply. It is also unclear if there is any likelihood for a scenario where IID and SDCWA are immune to cutbacks or water use restrictions under future theoretical severe statewide water shortages. Being a rural agency with high outdoor water use, FPUD sees a very unlikely future in which urban water use throughout the entire west including Southern California is severely restricted due to supply shortages, yet outdoor use is allowed unabated in Fallbrook due to receiving some of its supply from a higher priority contract for Colorado River Water.

**5. Report Statement – Page 64:**

“Without going into details, two points should be noted with regard to EMWD’s analysis:

(1) If MWD’s shortage coincides with a drought during which the Governor of California requires retail water agencies to meet certain conservation mandates, as happened in 2015 and 2016, retail agencies that comply with the Governor’s mandate may have little difficulty in getting by with MWD’s reduced WSAP supply.”

- **FPUD Comments/Questions:**

The cutbacks identified in the EMWD Technical Analysis are not related to the previous Governor’s statewide restrictions, they are the conservation restrictions every agency is required to put in place as part of the required Water Shortage Contingency Plan that must be included in Urban Water Management Plans. For example the governor requested and both MWD and SDCWA are complying with a recent request to activate Level 1, which calls for 10% conservation. In an extended drought, which is when MWD would implement allocations, some additional conservation in addition to level 1 is anticipated with either SDCWA or EMWD. Planning to supply 100% of baseline demands during an extended drought with no conservation is not standard practice for water planning and it does not demonstrate reliability to be able to supply water you don’t project to need. SDCWA is currently pursuing declaration of a 10% voluntary cutback and it is unclear why there is a

conclusion in the report that under the more dire situation described by Dr. Hanemann, there is an expectation that SDCWA will not require or be mandated to implement additional conservation. Based on the discussion in the Report, the situation described by Dr. Hanemann for FPUD and RMWD customers to benefit from the reliability of QSA supplies the following theoretical situation would need to occur:

1. Lake Mead levels have dropped so that tier 2b or 3 is reached. Arizona and Nevada are taking substantial cuts to their allocations. California is taking a 200,000 to 350,000 AFY cut out of its total 4.4 MAF supply. The cut is primarily effecting MWD. IID and SDCWA are not contributing to the cuts.
2. There are no additional conservation restrictions in place by the State of California, MWD or SDCWA as the drought condition persist.
3. The state water project has a dry year or series of dry years or has had a failure.
4. SDCWA member agencies are able to continue outdoor water usage unabated due to their high priority Colorado River supplies from IID so that they need to meet 100% of baseline supply needs.
5. The 2035 QSA price reset has yet to occur or has been successfully negotiated so that SDCWA continues to have access to their IID transfer QSA supplies.
6. MWD's allocation is set at a level that FPUD and RMWD agricultural and residential customers cannot meet the allocation target without drastic cuts. Note that RMWD and FPUD would be able to provide a program similar to PSAWR to provide for price relief for agricultural cutbacks in a drought.
7. EMWD as a whole is not below its MWD allocation due to lack of conservation.
8. MWD does not follow its WSAP and no supplemental water is available from MWD from any storage facilities or from any supply contracts at higher tier prices.

Since the above scenario seems very unlikely to occur, FPUD does not believe there is a substantial difference with either wholesale water supplier to meet our water needs during normal and extended drought conditions. The mix of local supplies, agricultural customers and high outdoor water use allows for an ability for FPUD to make demand adjustments during curtailments. The EMWD Water Supply Reliability Memorandum provides a detailed analysis of how supplies and demands would be allocated using higher projected demands from FPUD and RMWD 2015 UWMP versus the much lower imported water needs in our 2020 UWMP. In the Report, Dr. Hanemann discusses theoretical differences in reliability under a very uncertain future assumptions. FPUD agrees with the statements Dr. Hanemann made on October 4<sup>th</sup> 2021:

*"I cannot quantify the difference at this time. My assessment is that I don't feel I can say that the difference in supply reliability is material. That's both because the hydrology is uncertain, but it's also because water marketing will play a bigger role on the stage, and it may turn out that water supply reliability morphs from being not having enough quantity of water to having to pay more dollars for water."*

We concur with this conclusion reached by Dr. Hanemann and believe this conclusion should be clearly documented in the report.

<b>Summary of Revenue Impact of Dettachment</b>												2033	2034	2035
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032			
<b>SDCWA Net Revenue Estimate<sup>1</sup></b>	\$ 35,284,140	\$ 38,613,447	\$ 32,501,811	\$ 35,549,084	\$ 43,783,416	\$ 45,748,709	\$ 28,172,440	\$ 11,197,175	\$ 11,797,175	\$ 12,028,693				
<b>FPUD/RMWD Calculated Impact</b>														
FPUD Net Revenue (High)	\$550,679	\$650,764	\$755,790	\$866,004	\$1,023,459	\$1,190,809	\$1,368,651	\$1,557,617	\$1,758,377	\$2,012,496	\$4,033,952			
RMWD Net Revenue (High)	\$5,193,281	\$5,500,840	\$5,036,514	\$5,587,563	\$5,870,453	\$6,164,805	\$6,471,070	\$6,789,715	\$7,121,223	\$7,468,252	\$9,579,382			
<b>Total Net Revenue Impact (High)</b>	<b>\$5,743,960</b>	<b>\$6,151,604</b>	<b>\$5,792,304</b>	<b>\$6,453,567</b>	<b>\$6,893,912</b>	<b>\$7,355,614</b>	<b>\$7,839,721</b>	<b>\$8,347,332</b>	<b>\$8,879,600</b>	<b>\$9,480,748</b>	<b>\$13,613,334</b>			
Difference SDCWA "Model" Output and Calculated Number	\$ 29,540,180	\$ 32,461,843	\$ 26,709,507	\$ 29,095,517	\$ 36,889,504	\$ 38,393,095	\$ 20,332,719	\$ 2,849,843	\$ 2,917,575	\$ 2,547,945				
FPUD Net Revenue (Low)	\$350,940	\$441,037	\$535,577	\$634,780	\$774,405	\$922,719	\$1,080,244	\$1,247,532	\$1,425,167	\$1,648,496	\$3,636,915			
RMWD Net Revenue (Low)	\$4,457,146	\$4,727,899	\$4,342,941	\$4,821,463	\$5,072,476	\$5,333,680	\$5,605,478	\$5,888,285	\$6,182,537	\$6,490,514	\$8,561,032			
<b>Total Net Revenue (Low)</b>	<b>\$4,808,085</b>	<b>\$5,168,935</b>	<b>\$4,878,518</b>	<b>\$5,456,243</b>	<b>\$5,846,881</b>	<b>\$6,256,399</b>	<b>\$6,685,722</b>	<b>\$7,135,818</b>	<b>\$7,607,704</b>	<b>\$8,139,009</b>	<b>\$12,197,947</b>			
Difference SDCWA "Model" Output and Calculated Number	\$ 30,476,055	\$ 33,444,512	\$ 27,623,293	\$ 30,092,841	\$ 37,936,535	\$ 39,492,310	\$ 21,486,718	\$ 4,061,357	\$ 4,189,471	\$ 3,889,684				
<b>Total Average Net Revenue Impact</b>	<b>\$ 5,276,023</b>	<b>\$ 5,660,270</b>	<b>\$ 5,335,411</b>	<b>\$ 5,954,905</b>	<b>\$ 6,370,396</b>	<b>\$ 6,806,007</b>	<b>\$ 7,262,722</b>	<b>\$ 7,741,575</b>	<b>\$ 8,243,652</b>	<b>\$ 8,809,879</b>	<b>\$ 12,905,640</b>			
1. Value Based on SDCWA Response to LAFCO Application Dated Sept 18, 2020. Value copied directly into draft LAFCO report dated 10/11/2021. No detailed basis for calculation provided in either document. In report net revenue impact on SDCWA exceeds total revenue recieved by FPUD and RMWD in some years.														
	<b>Year</b>	<b>SDCWA Value</b>	<b>Actual RMWD/ FPUD High</b>	<b>Actual RMWD/ FPUD Low</b>	<b>FPUD Net Revenue (Low)</b>	<b>FPUD Net Revenue (High)</b>	<b>RMWD Net Revenue (Low)</b>	<b>RMWD Net Revenue (High)</b>						
	<b>CY 2022</b>	\$ 35,284,140	\$5,743,960	\$4,808,085	\$350,940	\$550,679	\$4,457,146	\$5,193,281						
	<b>CY 2023</b>	\$ 38,613,447	\$6,151,604	\$5,168,935	\$441,037	\$650,764	\$4,727,899	\$5,500,840						
	<b>CY 2024</b>	\$ 32,501,811	\$5,792,304	\$4,878,518	\$535,577	\$755,790	\$4,342,941	\$5,036,514						
	<b>CY 2025</b>	\$ 35,549,084	\$6,453,567	\$5,456,243	\$634,780	\$866,004	\$4,821,463	\$5,587,563						
	<b>CY 2026</b>	\$ 43,783,416	\$6,893,912	\$5,846,881	\$774,405	\$1,023,459	\$5,072,476	\$5,870,453						
	<b>CY 2027</b>	\$ 45,748,709	\$7,355,614	\$6,256,399	\$922,719	\$1,190,809	\$5,333,680	\$6,164,805						
	<b>CY 2028</b>	\$ 28,172,440	\$7,839,721	\$6,685,722	\$1,080,244	\$1,368,651	\$5,605,478	\$6,471,070						
	<b>CY 2029</b>	\$ 11,197,175	\$8,347,332	\$7,135,818	\$1,247,532	\$1,557,617	\$5,888,285	\$6,789,715						
	<b>CY 2030</b>	\$ 11,797,175	\$8,879,600	\$7,607,704	\$1,425,167	\$1,758,377	\$6,182,537	\$7,121,223						
	<b>CY 2031</b>	\$ 12,028,693	\$9,480,748	\$8,139,009	\$1,648,496	\$2,012,496	\$6,490,514	\$7,468,252						
	<b>Average</b>	<b>\$ 29,467,609</b>	<b>\$7,293,836</b>	<b>\$6,198,331</b>	<b>\$906,090</b>	<b>\$1,173,465</b>	<b>\$5,292,242</b>	<b>\$6,120,372</b>						

Rainbow Revenue Impact of Detachment															
	Escalation	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
<b>Projected Demands and Rates</b>															
Projected RMWD Total Imported Water Demand (High) <sup>1</sup>		13750	13750	13750	13750	13640	13530	13420	13310	13200	13094.4	12988.8	12883.2	12777.6	12672
Ag SDCWA Demand <sup>2</sup>		9227	9227	9227	8537	8468.6	8400.2	8331.8	8263.4	8195	8129.4	8063.8	7998.2	7932.6	7867
PSAWR SDCWA Demand <sup>3</sup>		5997.55	5997.55	5997.55	5549.05	5504.59	5460.13	5415.67	5371.21	5326.75	5284.11	5241.47	5198.83	5156.19	5113.55
M&I SDCWA Demand		7752.45	7752.45	7752.45	8200.95	8135.41	8069.87	8004.33	7938.79	7873.25	7810.29	7747.33	7684.37	7621.41	7558.45
Projected RMWD Total Imported Water Demand (Low) <sup>4</sup>															
PSAWR SDCWA Demand		5097.9175	5097.9175	5097.9175	4716.6925	4678.9015	4641.1105	4603.3195	4565.5285	4527.7375	4491.4935	4455.2495	4419.0055	4382.7615	4346.5175
M&I SDCWA Demand		6589.5825	6589.5825	6589.5825	6970.8075	6915.0985	6859.3895	6803.6805	6747.9715	6692.2625	6638.7465	6585.2305	6531.7145	6478.1985	6424.6825
SDCWA Transportation Demand <sup>5</sup>		30%	30%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
SDCWA All in Treated M&I Rate (\$/AF)	5%	\$ 1,833.00	\$ 1,924.65	\$ 2,020.88											
SDCWA Transportation Rate (\$/AF)	5%	\$ 173.00	\$ 181.65	\$ 190.73											
SDCWA All In Treated SAWR Rate (\$/AF) <sup>5a</sup>	5%	\$ 1,174.00	\$ 1,232.70	\$ 1,294.34											
RMWD All In Treated M&I Rate (\$/AF) <sup>6</sup>	5%	\$1,712	\$1,797	\$1,830	\$ 1,921.66	\$ 2,017.74	\$ 2,118.63	\$ 2,224.56	\$ 2,335.79	\$ 2,452.58	\$ 2,575.20	\$ 2,703.97	\$ 2,839.16	\$ 2,981.12	\$ 3,130.18
RMWD All In Treated Ag Rate (\$/AF)	5%	\$1,226	\$1,287	\$1,294	\$ 1,359.05	\$ 1,427.00	\$ 1,498.35	\$ 1,573.27	\$ 1,651.94	\$ 1,734.53	\$ 1,821.26	\$ 1,912.32	\$ 2,007.94	\$ 2,108.34	\$ 2,213.75
MWD All in Treated Water Rate	5%	\$1,143	\$ 1,200	\$ 1,260	\$ 1,323	\$ 1,389	\$ 1,459	\$ 1,532	\$ 1,608	\$ 1,689	\$ 1,773	\$ 1,862	\$ 1,955	\$ 2,053	\$ 2,155
<b>SDCWA Operating Revenue</b>															
Total SDCWA Water Sales Revenue (High)		\$20,623,816	\$21,655,006	\$21,950,985	\$23,300,863	\$24,270,219	\$25,278,258	\$26,326,426	\$27,416,215	\$28,549,166	\$29,736,831	\$30,971,890	\$32,256,112	\$33,591,327	\$34,979,423
Total SDCWA Water Sales Revenue (Low)		\$17,530,243	\$18,406,756	\$18,658,337	\$19,805,734	\$20,629,686	\$21,486,520	\$22,377,462	\$23,303,783	\$24,266,791	\$25,276,307	\$26,326,106	\$27,417,695	\$28,552,628	\$29,732,509
SDCWA MWD Water Cost (High)		\$15,716,250	\$16,502,063	\$17,327,166	\$18,193,524	\$18,950,375	\$19,737,426	\$20,555,807	\$21,406,683	\$22,291,257	\$23,218,573	\$24,182,893	\$25,185,598	\$26,228,117	\$27,311,923
SDCWA MWD Water Cost (Low)		\$13,358,813	\$14,026,753	\$14,728,091	\$15,464,495	\$16,107,818	\$16,776,812	\$17,472,436	\$18,195,681	\$18,947,568	\$19,735,787	\$20,555,459	\$21,407,758	\$22,293,899	\$23,215,135
Net Water Sales Revenue - SDCWA (High)		\$4,907,566	\$5,152,944	\$4,623,820	\$5,107,339	\$5,319,845	\$5,540,832	\$5,770,619	\$6,009,532	\$6,257,910	\$6,518,258	\$6,788,997	\$7,070,514	\$7,363,210	\$7,667,500
Net Water Sales Revenue - SDCWA (Low)		\$4,171,431	\$4,380,002	\$3,930,247	\$4,341,238	\$4,521,868	\$4,709,707	\$4,905,026	\$5,108,102	\$5,319,223	\$5,540,519	\$5,770,647	\$6,009,937	\$6,258,729	\$6,517,375
Infrastructure Access Charge	5%	751000	\$788,550	\$827,978	\$869,376	\$912,845	\$958,487	\$1,006,412	\$1,056,732	\$1,109,569	\$1,165,047	\$1,223,300	\$1,284,465	\$1,348,688	\$1,416,123
<b>Non Operating Revenue</b>															
Property Tax <sup>7</sup>	5%	185931	\$ 195,228	\$ 204,989	\$ 215,238	\$ 226,000	\$ 237,300	\$ 249,165	\$ 261,624	\$ 274,705	\$ 288,440	\$ 302,862	\$ 318,005	\$ 333,905	\$ 350,601
Standby Charge <sup>8</sup>	0%	463673	463673	463673	463673	463673	463673	463673	463673	463673	463673	463673	463673	463673	463673
Capacity Charges <sup>9</sup>	3%	821042	\$ 845,673	\$ 871,043	\$ 897,175	\$ 924,090	\$ 951,813	\$ 980,367	\$ 1,009,778	\$ 1,040,071	\$ 1,071,274	\$ 1,103,412	\$ 1,136,514	\$ 1,170,610	\$ 1,205,728
Reserve Utilization <sup>10</sup>		0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total Non-Operating Revenue		\$ 1,284,715	\$ 1,309,346	\$ 1,334,716	\$ 1,360,848	\$ 1,387,763	\$ 1,415,486	\$ 1,444,040	\$ 1,473,451	\$ 1,503,744	\$ 1,534,947	\$ 1,567,085	\$ 1,600,187	\$ 1,634,283	\$ 1,669,401
<b>Total Impact</b>															
Total SDCWA Revenue (High)		\$ 22,659,531	\$ 23,752,903	\$ 24,113,679	\$ 25,531,087	\$ 26,570,827	\$ 27,652,231	\$ 28,776,878	\$ 29,946,398	\$ 31,162,480	\$ 32,436,825	\$ 33,762,274	\$ 35,140,764	\$ 36,574,297	\$ 38,064,946
Total SDCWA Revenue (Low)		\$19,565,958	\$20,504,652	\$20,821,031	\$22,035,958	\$22,930,294	\$23,860,493	\$24,827,914	\$25,833,966	\$26,880,105	\$27,976,301	\$29,116,491	\$30,302,347	\$31,535,598	\$32,818,033
Capital Cost Savings <sup>11</sup>		\$ (1,750,000)	\$ (1,750,000)	\$ (1,750,000)	\$ (1,750,000)	\$ (1,750,000)	\$ (1,750,000)	\$ (1,750,000)	\$ (1,750,000)	\$ (1,750,000)	\$ (1,750,000)				
Total SDCWA Net Revenue Impact (High)		\$5,193,281	\$5,500,840	\$5,036,514	\$5,587,563	\$5,870,453	\$6,164,805	\$6,471,070	\$6,789,715	\$7,121,223	\$7,468,252	\$9,579,382	\$9,955,166	\$10,346,181	\$10,753,023
Total SDCWA Net Revenue Impact (Low)		\$4,457,146	\$4,727,899	\$4,342,941	\$4,821,463	\$5,072,476	\$5,333,680	\$5,605,478	\$5,888,285	\$6,182,537	\$6,490,514	\$8,561,032	\$8,894,589	\$9,241,699	\$9,602,898
1. Based on 2020 UWMP. Table 6-9. Projections used are targeted to be high end projection of future sales. Projected 2025 Demands used for 2022-2025. Data interpolated after 2025															
2. Based on 2020 UWMP - Table 4-2															
3. Historically 65% of Ag Demand is on PSAWR program															
4. Historically UWMP Projections have been 15% above actual sales															
5. RMWD is currently operating 70% off MWD connection and facilities will be in place by end of 2023 to be at 0%															
5a. Per Board Adopted CY 2022 Rates. Uses Treated SAWR Rate plus Customer Service Charge converted to \$/AF (\$65/AF)															
6. Per Board Adopted CY 2022 Rates. Includes 30% of Transportation Rate through 2023, then zero after 2023. Assume 5% overall rate escalation for both SDCWA and MWD through 2032															
7. Value Based on SDCWA Response to LAFCO Application Dated Sept 18, 2020. Escalated at 5%. Per CWA Act assumed money remains with SDCWA															
8. Value Based on SDCWA Response to LAFCO Application Dated Sept 18, 2020. Value does not escalate															
9. SDCWA Response to LAFCO Application Dated Sept 18, 2020 used inflated annual value based on several large developments. Used a estimated annual population growth of 2% from UWMP. Escalated of fee based on inflation of 3%															
10. Rates are set over time to adjust for any imbalance in reserves utilization. Projected rates include adjustments to account for reserves. Adding in a amount for what was not actually billed but will be eventually with future rates double counts reserve impact.															
11. SDCWA avoids cost of North County ESP Pump Station. Estimate a \$35 million project (50% FPUD and 50% RMWD). Divide cost over ten year period															
<b>Estimating RMWD Capacity Future Capacity Fees</b>															
		CY 2020	CY 2025	CY 2030	CY 2035										
<b>Population Projection from 2020 UWMP</b>		21841	22678	25862	29614										
Annualized Growth Rate		2%													
People added per year		448													
Average person per house		3													
Houses per year		149													
Capacity Fee/Meter		5500													
Total Annual Capacity Fee <sup>1</sup>		\$ 821,042													
1. May be a valid question on nexus of capacity fee to SDCWA facilities for development in RMWD															

