



June 22, 2022

Mr. Adam Wilson
San Diego County LAFCO
adwilson858@yahoo.com

Re: SDCWA Letter Dated June 9, 2022

Dear Mr. Wilson,

We previously promised LAFCO that the Districts would not submit responses to SDCWA letters unless warranted. SDCWA's letter dated June 9, 2022 is one, which in part, warrants a response. We note that this letter does not respond to all items in the SDCWA letter dated June 9, 2022. However, there are a few items that need to be addressed. Our lack of response as to other points covered in the SDCWA letter should not be construed as the Districts' agreement/concurrence as to those points.

1. SDCWA's revenue impact analysis is not using the final values developed by Dr. Hanemann.

SDCWA references a \$13M to \$18.5 million net revenue impact. This was what SDCWA originally provided to Dr. Hanemann and was included by Dr. Hanemann in an early draft version of his report. Dr. Hanemann then performed an independent analysis, and the final report concluded a long-term revenue impact of \$10.6 million with SDCWA still collecting property tax as prescribed in the CWA act, and a short-term impact of \$12.2 million excluding any revenue savings. The numbers provided by SDCWA in its letter need to be adjusted to reflect the final net revenue impact calculated by Dr. Hanemann, and not the SDCWA developed values that were later corrected by Dr. Hanemann.

2. The net revenue impact from savings from the Emergency Storage Project (ESP) Pump Stations has the same financial impact on rates.

SDCWA confirms that there are savings from the ESP Pump Stations of \$30 million, but then implies this amount has a negligible rate impact. SDCWA is incorrect that the estimated savings impact is negligible. First, the estimated cost of this project is likely much higher than \$30 million given the project requirements and the current costs of materials. \$40 million is likely a low estimate for the current project costs and additional pipeline costs for SDCWA. Second, the project was also based on FPUD helping support SDCWA by allowing SDCWA to use FPUD's pipeline at no cost for the Rainbow MWD ESP facilities to function properly. Neither FPUD nor RMWD agreed with this proposal. The project was also proposed by SDCWA to be based on SDCWA reimbursing FPUD and RMWD for the facilities, not SDCWA building its own capital facilities. Further, SDCWA had also previously indicated it would likely cash fund the project since it wasn't going to own it. The end result is there would be no net revenue impact for 3-4 years as

the \$10-\$12 million water sales revenue impact as projected by Dr. Hanemann that would be fully offset by the ESP facilities savings.

3. SDCWA has alternatives to offset the cost impact rather than just increase rates to other member agencies.

As shown in the recent SDCWA Cost of Service Study, SDCWA pays \$163 million a year above the MWD price for Desalination and IID transfer supplies. SDCWA could explore partnerships with MWD or other MWD agencies to transfer some of these supplies and replace it with MWD supplies at a significant savings. Since SDCWA no longer would need to meet the demands of FPUD and RMWD, it could more than offset the \$10 million annual revenue reduction through the transfer of some of the supplies that make up the annual \$163 million water supply premium. This transfer could be executed within the 3-4-year window in which there is no net revenue impact to SDCWA to offset any future revenue impact. In a recent letter to SDCWA from the City of San Diego, Jay Goldstone, (San Diego's Chief Operating Officer) emphasized a need for SDCWA to evaluate its water supply portfolio. This approach by SDCWA is likely going to be necessary with or without detachment given the potential drop in regional demands and the current state requirements for conservation.

4. No SDCWA member agency has committed to purchase any supplies from SDCWA.

SDCWA continues to imply that each member agency has made a commitment to on-going QSA or Desalination purchases. This is untrue; there are no such commitments. In fact, this official SDCWA Board policy was affirmed earlier this year in the Official Statement for its recent financing, and was also included in a debt financing resolution adopted by the SDCWA Board. The reality is that many agencies, such as Padre Dam MWD, Helix MWD, the City of Oceanside, and the City of San Diego, are developing local supplies that will result in significantly larger revenue impacts to SDCWA than detachment. There is no requirement for these agencies to offset their rate impacts to FPUD and RMWD – their payments to SDCWA will simply decline based on SDCWA's approved rate structure. If the recently appointed Detachment Ad-hoc sub-committee is focused on establishing a departure fee in addition to what is required by the CWA Act, then the existing rate structure applying to all member agencies should be considered as an alternative instead of Dr. Hanemann's proposed approach.

We appreciate your efforts to ensure that our applications are processed consistent with the requirements of both CKH and the CWA Act.

Sincerely,



Jack Bebee
General Manager
Fallbrook Public Utility District



Tom Kennedy
General Manager
Rainbow Municipal Water District