



CITY OF POWAY

13325 Civic Center Drive | Poway, CA | 92064

May 22, 2023

Honorable Chair Desmond and Members of the Local Agency Formation Commission
San Diego Local Agency Formation Commission
2550 Fifth Avenue, Suite 725
San Diego, CA 92103

RE: City of Poway Comments on Proposed "Rainbow Municipal Water District and Fallbrook Public Utility District Reorganizations Wholesale Water Services" | Concurrent Annexations to Eastern Municipal Water District and Detachments from San Diego County Water Authority with Related Actions (RO20-05 & RO20-04)

Honorable Chair Desmond and Members of the Local Agency Formation Commission:

The City of Poway is submitting our formal comments on the Proposed Rainbow Municipal Water District (MWD) and Fallbrook Public Utility District (PUD) Reorganization the Commission will be considering on June 5, 2023. The City previously submitted a letter to LAFCO Staff on November 30, 2022 citing our concerns with the proposed reorganizations. Candidly, we are disappointed to see the proposal going forward to the Commission fails to address our concerns on behalf of our 14,220 water customers. As is clearly explained in the agenda report summary, the purpose of the detachments is to achieve cost-savings for Rainbow MWD and Fallbrook PUD ratepayers. Unfortunately, that cost savings comes at the expense of every water customer in Poway, and throughout region. We find it concerning that LAFCO Staff's reports to the advisory committees and now the Commission consistently minimize the financial impacts to all remaining agencies served by the County Water Authority (Water Authority) should the detachments be approved.

The City of Poway adamantly opposes allowing the agencies to detach and therefore supports Option 4 (disapprove without prejudice). With regard to the concept of an exit fee, Dr. Hanemann's report, suggested that should Fallbrook PUD and Rainbow MWD detach, it would be appropriate for an exit fee to be paid annually to the Water Authority for a period between three and ten years. For reasons that have not been well explained, Staff's recommendation in the Fall and again in the June report concludes five years "appears to be an appropriate standard." Appropriate for who? This works well for the agencies seeking to detach, but not the agencies (and really all our customers) who will bear the financial burden of the agencies detaching for decades. The Water Authority has spent many years investing in projects and infrastructure to improve the reliability of the region's water supply. This has been done with the understanding that all member agencies will share in the short and long-term costs of these projects. Those costs are incorporated into all our water rates. During the Cities Advisory Committee meeting held on October 27, 2022, it was stated by LAFCO Counsel that as they read the law, should Fallbrook PUD and Rainbow MWD detach, they have no long-term financial

Steve Vaus
Mayor

Barry Leonard
Deputy Mayor

Peter De Hoff
Councilmember

Caylin Frank
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Brian Pepin
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obligation to pay toward debt service on projects the Water Authority has undertaken to improve water reliability for all member agencies simply because the debt service is not on the property tax rolls. How can this be? Should the Commission approve the detachment, the City of Poway would advocate the exit fee be paid for at least the ten year term identified in Dr. Hanemann's report and incorporate both agencies proportionate costs for the Water Authority projects. One substantial change from earlier versions of LAFCO Staff recommendations is that in previous proposals LAFCO Staff had largely followed Dr. Hanemann's conclusions that an appropriate exit fee would be approximately \$13M annually for both agencies. The prospectus presented to the Cities Advisory Committee in October 2022 showed an exit for five years of \$12.5M annually. We see in the final Staff recommendations in the June 5, 2023 report, they are proposing a "discount" of \$24M for a capital project they say the Water Authority will not have to construct if the two agencies detach. While that may be true, that project is not currently a part of the Water Authority's Capital Improvement Program (CIP) and no debt has yet been issued for it. So, the two agencies are receiving a substantial discount in the five-year exit fee for a project that does yet even exist in terms of the Water Authority's financial obligations. We strongly disagree with the validity of this "discount".

Regarding the loss of the Water Authority's voting rights at Metropolitan Water District (MET), again LAFCO Staff seems to write this off as an inconsequential component of approval of the detachments. Prior to consideration of the proposed detachments, LAFCO had little to no expertise in the area of water operations. Even to evaluate the detachment proposals they brought outside experts in the this extremely complex area of public policy. For Staff to make the assumption/assertion that the loss of voting rights at MET is an inconsequential detail reflects ignorance to the relationship between the Water Authority and MET and the importance of the Water Authority maintaining every voting right it currently has to best represent the interests of all the constituents in every member agency in San Diego County.

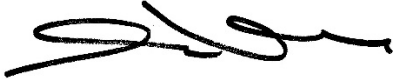
During the Cities Advisory Committee meeting, on October 27, 2022 the Water Authority's suggestion that the issue of detachment should be put to a vote of all registered voters in San Diego was dismissed as something LAFCO Counsel "does not believe is an option available to the Commission." The June 5, 2023 agenda report makes very clear that should the Commission approve the detachments, Rainbow MWD and Fallbrook PUD customers would have the opportunity to vote whether or not they want to detach. It seems wholly unfair the ratepayers who would benefit from detachment and save money get to vote, whereas every other water customer in San Diego County who would absorb these costs does not get to vote.

As has been stated multiple times throughout this letter, the City of Poway opposes allowing Fallbrook PUD and Rainbow MWD to detach from the Water Authority. It is fundamentally unfair that two agencies can detach to save their own customers money, at the expense of every other water customer in San Diego County. Should the Commission allow the agencies to detach, the City of Poway would strongly advocate Fallbrook PUD and Rainbow PWD be required at a minimum to pay the maximum exit fee, with no discount, for the maximum period of time supported by Dr. Hanemann's findings. The LAFCO Staff recommendations inexplicably appear to financially support two agencies, at the expense of every other water agency and water customer in San Diego County. These water

City of Poway
Letter to LAFCO
Page 3 of 3

customers are Poway's constituents and constituents of every city, special district, and unincorporated area that you as the Commission represent.

Sincerely,

A handwritten signature in black ink, appearing to read 'Steve Vaus', with a stylized, cursive script.

Steve Vaus
Mayor

CC: Deputy Mayor Barry Leonard
Councilmember Peter De Hoff
Councilmember Caylin Frank
Councilmember Brian Pepin
City Manager, Chris Hazeltine
Wendy Kaserman, Assistant City Manager
Eric Heidemann, Public Works Director