Dear Mr. Simonds:

I am submitting a public comment for the July 6th meeting of the Ad Hoc Advisory Committee pursuant to Public Comment item of the meeting’s agenda.

I support the Ad Hoc Advisory Committee managing a comprehensive analysis of the merits and consequences of Rainbow’s and Fallbrook’s proposal. I share my perspective on what analysis would be helpful in reaching a conclusion about Rainbow and Fallbrook’s proposal.

I moved to Fallbrook last September and became aware of the Rainbow MWD and Fallbrook PUD plans to detach from the San Diego County Water Authority. As a new homeowner, I am concerned about the future water supply reliability of water service and hitching my water bill to the Metropolitan Water District of Southern California.

I am an expert in water resource matters, including the Colorado River, the State Water Project and Southern California water agencies. My expertise includes water supply reliability, water economics and strategic planning, with four decades of experience on behalf of public and private sector clients. For more information, visit my firm’s website (www.stratwater.com) and my blog (www.hydrowonk.com).

The public information I have reviewed is incomplete at best and insufficient for disciplined decision-making. Below, I summarize the key points that I have previously made last October before San Diego LAFCO, last December before the Rainbow MWD board, and last March in a letter to the editor of Village News, all of which are attached for your convenience.

From the perspective of a Fallbrook resident, my objective is that decisions are made with thorough and publicly vetted professional analysis of the future water supply reliability and water rates of the Metropolitan Water District of Southern California versus the San Diego County Water Authority.

As I shared last October with San Diego LAFCO, the reliability of water service will be a key driver of property values. At a minimum, disclosures by real estate developers going forward will need to address the consequences of decisions by governmental agencies, including San Diego LAFCO on the future market value of real estate in their service areas. I urge the Ad Hoc Committee to assess the water supply reliability inherent in the Rainbow and Fallbrook proposals.

Since 2003, Metropolitan’s Colorado River water supplies have fallen by 400,000 acre-feet per year. Metropolitan’s other major water source, the State Water Project, has been in free
fall for over a decade. It will be another decade at least before we will know whether Governor Newsom’s new attempt of resurrecting an improved the State Water Project proves successful.

In comparison, San Diego’s Colorado River water supplies secured through its long-term agreement with the Imperial Irrigation District (whom I represented in negotiations) and related Quantification Settlement Agreement are senior to Metropolitan’s Colorado River water supplies. Where Metropolitan’s non-Colorado River water supplies are claims on a deteriorating hydrologic lottery (the State Water Project), San Diego’s non-Colorado River water supplies are the drought-proof desalinated water supply from the Carlsbad Desalination Plant.

By leaving the Water Authority, Fallbrook and Rainbow would be trading senior water rights for junior water rights. Would a responsible provider of municipal water service make this trade?

None of these factors are considered in the Weinberg Water Consulting report on water supply reliability. Instead, he calculates that detachment will result in Rainbow municipal water users facing greater cutbacks in municipal water service when Metropolitan water supplies prove inadequate to meet customer demands. The Weinberg study does not include quantitative risk assessments like that undertaken by the Bureau of Reclamation for Colorado River water supplies and by the California Department of Water Resources for State Water Project supplies. I trust the Ad Hoc Committee will do better.

The existing analysis of future water rates is no better. As I told the Rainbow board last December,

“What matters is how water rates will evolve in the future. Capital markets are aware of Metropolitan’s water rate history: its rates and charges have increased substantially faster than inflation since the 1960s. The experience over the last ten years is no exception. A comparative analysis requires addressing the fundamentals of Metropolitan’s future versus the Water Authority. Where Metropolitan is still seeking new water supplies, the Water Authority has secured its investments in Colorado River water and desalinated seawater. Going forward, the ‘stubborn dynamics’ of Metropolitan rates must be compared with the Water Authority’s contractual provisions for its Colorado River water supplies and Carlsbad desalinated water.”

One cannot find any of this in Rainbow’s materials.

What should the Ad Hoc Committee do? In my letter to the Valley News, I asked which local non-profit will step up and sponsor townhalls to better understand the proposal and “kick the tires hard to assure ourselves that the detachment proposal will not become a ‘Fallbrook Folly.’” The Ad Hoc Committee can develop the analysis and materials to serve that civic function.

I conclude with two points that I have made on previous occasions. COVID-19 threatens to up-end the water industry’s economic model and requires “kicking up a notch” the industry’s
strategic planning, risk assessment and learning.\textsuperscript{1} How the world looks today may be different than how it looked on New Year’s Eve. Therefore, the Ad Hoc Committee’s assessment of the future must consider the new challenges facing the water industry from COVID-19.

Second, the Ad Hoc Committee will best serve the public interest by a disciplined and timely process. Develop up front a written scope of work and assignment of responsibilities acceptable to the public agencies that includes a timeline for key milestones to assure that the analysis is conducted within a defined time period. I recommend an expeditious schedule measured in months because (1) I believe it should be feasible, (2) provides enforceable incentives for the parties, and (3) avoids a protracted dispute among the parties.

Regarding the latter point, as a former resident of the City of Claremont in Los Angeles County, I have witnessed personally and professionally how poorly thought out proposals can divide a community politically and, at least in the case of Claremont, the ultimate failure of an ill-conceived venture cost city taxpayers $10 million spent on lawyers and consultants advocating the condemnation and a multi-million liability to the local water utility (whom I have represented) after the city lost in superior court.

Please feel free to contact me if you have questions or seek further input. I stand ready to help that, whatever the ultimate outcome, the full consequences of the proposals are fully and properly understood.

Sincerely,

Rodney T. Smith

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