From: Eileen Delaney <eileen.fallbrook@gmail.com>
Sent: Tuesday, June 13, 2023 4:46 PM
To: Mumpower, Priscilla <Priscilla.Mumpower@sdcounty.ca.gov>; Simonds,Keene <Keene.Simonds@sdcounty.ca.gov>
Subject: [External] Special Meeting

Mr. Simonds,

I am unable to attend the special meeting tomorrow. Could you please enter this into the record?

On behalf of the Fallbrook Planning Group, we support LAFCO having a meeting on July 10 to address the Fallbrook and Rainbow detachment proposals.

Thank you.

Best regards,

Eileen Delaney, Chair
Fallbrook Planning Group
Fallbrook Design Review Board
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CALIFORNIA ASSOCIATION OF
LOCAL AGENCY FORMATION COMMISSIONS

CALAFCO

June 14, 2023

The Honorable Jim Desmond, Chair
San Diego Local Agency Formation Commission
c/o Keene Simonds, Executive Officer
Via email to: keene.simonds@sdcounty.ca.gov

RE: **AB 530 (Boerner) – County Water Authority Act: exclusion of territory: procedure**

Dear Chair Desmond and Commissioners,

This is in response to a request from Keene Simonds seeking feedback regarding CALAFCO's position on ***AB 530***. As a late breaking gut and amend, ***AB 530*** will not be considered by the CALAFCO Legislative Committee until Friday, June 16, 2023. However, at that time, I plan to recommend an Oppose position.

That recommendation will be based primarily on the fact that the County Water Authority Act is an arcane, uncodified statute dating back to 1943. While that statute may still exist it was, for all practical purposes, supplanted by the implementation of the statutes that created Local Agency Formation Commissions (LAFCos) in 1963.

As an uncodified statute, the County Water Authority Act is an esoteric piece of legislation that is not readily known and which cannot be readily accessed by the public – the latter being severely at odds with the transparency that is now expected from our state regulations. However, more important to this discussion is the fact that it severely conflicts with the **Cortese – Knox – Hertzberg Local Government Reorganization Act of 2000,** as your situation in San Diego clearly illustrates.

LAFCos, as we all know, were established to elevate decision-making regarding local resources and services. The result was consistent, orderly, logical, and data-based determinations which provided the basis for today's equitable and sustainable infrastructure. In my opinion, leaning on the unknown statutes from 1943 that caused the initial problems is inviting a return to the pandemonium of those disastrous early days. While I cannot speak for the CALAFCO Legislative Committee at this time, I will be recommending a position of opposition on ***AB 530*** as it would be in the best interests of the public as well as all 58 LAFCos.

Please feel free to reach out to me should you have any questions.

Sincerely,

René LaRoche
Executive Director

1020 12th Street, Suite 222, Sacramento, CA 95814
Voice 916-442-6536
www.calafco.org

June 14, 2023

Local Agency Formation Commission (LAFCO), San Diego

Re: June 14, 2023 LAFCO meeting Agenda Item No. 7
a) Recommendation to Oppose Assembly Bill 530 or any Related Legislation
b) Request to Re-Calendar Date of Continued Public Hearing Item
Sent via email to erica.sellen@sdcounty.ca.gov

Honorable Chair Desmond and Commissioners:

The California Avocado Commission (Commission) is established in state law and authorized to represent California's 3,000 commercial growers who produce avocados on about 50,000 acres. California produces 90% of total U.S. avocado production and 100% of domestic Hass production, with an average annual farmgate value of more than $400 million.

One out of five California avocado growers farm within the Rainbow Municipal Water District and Fallbrook Public Utility District. In these two districts, approximately 600 growers produce about ten percent of the state's crop on about 5,300 acres.

In the Commission's letter to LAFCO dated June 5, 2023, we stated: "The Commission will oppose any legislative effort that attempts to circumvent the will of our growers."

When Fallbrook and Rainbow began the detachment process the law was clear that only a vote of their respective service areas would be required. After more than three years, AB530 is an attempt to change this process and thereby disenfranchise the voters from these two districts.

Accordingly, the Commission calls on LAFCO to oppose AB530 and any related legislation.

In addition, as stated in the Commission's July 5 letter: "The Commission remains hopeful this process will be completed in accordance with existing law and in a timely manner."

This detachment process initiated in April 2020 will result in water pricing stability for growers who are facing increasing costs and import volumes leaving them to reckon with their ability to stay in business. To have the detachment process further delayed is not workable for our growers. Time is of the essence.

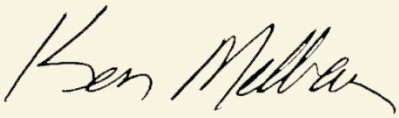
Accordingly, the Commission strongly supports LAFCO returning to the original schedule and "advance the continued hearing from August 7, 2023 to July 10, 2023,"

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CaliforniaAvocado.com

Thank you for your thoughtful consideration of the foregoing.

Respectfully submitted,



Ken Melban
Vice President, Industry Affairs & Operations

Cc: Rob Grether, Chair
Jeff Oberman, President
Michael Perricone, District #1 Board Member
Jessica Hunter, District #1 Board Member
Ohannes Karaoghlanian, District #2 Board Member
John Cornell, District #2 Board Member
Robert Jackson, District #1 Board Alternate
Charley Wolk, District #2 Board Alternate

Keene Simonds, Executive
San Diego LAFCO Commissioners
San Diego County Local Agency Formation Commission
2550 Fifth Avenue, Suite 725
San Diego, CA 92103
(keene.simonds@sdcounty.ca.gov)

06/14/2023

Re: MWD Committee Action on LAFCO-Related Issues

Dear LAFCO Commissioners and Mr. Simonds,

Yesterday at Metropolitan Water District of Southern California ("MWD") its Finance, Audit, Insurance and Real Property Committee (the "Committee") met to discuss MWD's Annexation policies and procedures (Item 7b). This letter serves as a courtesy report to you by the Water Authority of the meeting, as it is germane to your discussions today.

After a robust board discussion with different points of view expressed, the Committee endorsed a recommendation to the MWD Board Chair by the MWD Director representing Eastern Municipal Water District to establish an ad hoc committee to address the relevant issues as discussed, including:

- Impact on MWD's State Water Project Dependent Area of new demands on MWD that must be met entirely with imported water, since the agencies that wish to detach will not be sharing in the water supply portfolio of either impacted MWD member agency;

- Changed circumstances since MWD's former General Manager communicated with San Diego LAFCO in 2020, including water supply and governance issues;

- Legal analysis of the authority of LAFCO or any third party other than the MWD board of directors to change boundaries within the MWD service area;

- Impact on MWD's position of a precedent that would allow member agencies to avoid paying for water supplies and related investments made and being used to serve them, including after enrolling in any MWD incentive program;

- Impact on MWD's financial position if its member agencies are weakened as a result of forced detachments by third parties such as LAFCO that do not have expertise in the water industry, and/or deliberately ignore MWD's long term planning initiatives;

- What say voters should have on proposed detachments;

- Impact on MWD's ability to implement affordability strategies;

- How the potential precedent may impact on ability to implement MWD's climate action planning now underway;

- First of a kind transfer between MWD member agencies that is not being sponsored by either the detaching (Water Authority) or annexing (Eastern) agency (in every prior exchange, the two impacted MWD member agencies requested and sponsored the change);

- First of a kind transfer between two MWD member agencies located in different counties; and

- First of a kind transfer to be imposed by any LAFCO or other third party.

The MWD board representative from Eastern MWD agreed that there is a need for policy discussion and that it is not well understood how the provisions of the MWD Act apply to the applications of Fallbrook and Rainbow. He requested that the MWD board's review occur as soon as possible so that it might be prepared to give input to San Diego LAFCO prior to its next scheduled August 7 meeting.

The LAFCO staff has aptly noted in its final report that the input from MWD has been "materially divergent." In his remarks in committee, Board Chair Ortega said that he met with San Diego LAFCO's Executive Officer and sent follow up communications in the hope that San Diego LAFCO will pay attention to MWD's planning processes and that there is a risk associated with any San Diego LAFCO outcomes due to the unprecedented nature of these applications that have not been endorsed by its member agencies.

Thank you for your consideration of these important matters.



Sincerely,
Sandra L. Kerl
General Manager

cc via email:

Adán Ortega, Chair, and MWD Board of Directors
Mel Katz, Chair, and Water Authority Board of Directors
Adel Hagekhalil, General Manager, MWD
Tom Kennedy, General Manager, Rainbow MWD and Rainbow Board of Directors
Jack Bebee, General Manager, Fallbrook PUD and Fallbrook Board of Directors
Joe Mouawad, General Manager, Eastern MWD and Eastern Board of Directors
Holly Whatley, LAFCO General Counsel
Adam Wilson, Ad Hoc Committee Moderator

June 14, 2023

Keene Simonds, Executives
San Diego LAFCO Commissioners
San Diego County LAFCO
2550 Fifth Avenue, Suite 725
San Diego, CA 92103

Subject: Reiterating EMWD's Position of Neutrality, Readiness to Serve, and Support of the LAFCO Process

Dear Mr. Simonds and LAFCO Commissioners:

We are writing to clarify and to reiterate Eastern Municipal Water District's (EMWD) position on the LAFCO proceedings related to Rainbow Municipal Water District (Rainbow) and Fallbrook Public Utilities District (Fallbrook). Recent correspondences have inferred that EMWD's position on this LAFCO process have changed, which is inaccurate. EMWD's position has not changed.

In addition, EMWD's neutrality on the outcome of this LAFCO process has been mischaracterized as opposition, which is also not accurate.

Due to these recent misstatements, we wanted to clearly reiterate EMWD's position on this matter:

1) EMWD supports the San Diego LAFCO process moving forward;
2) EMWD remains neutral on the outcome of this LAFCO process; and
3) EMWD stands ready to fulfill its commitment to serve Rainbow and Fallbrook if that is the determination made by San Diego LAFCO.

In addition, at the Metropolitan Water District ("MWD") Finance, Audit, Insurance, and Real Property (FAIRP) Committee meeting on June 14, 2023, the committee was clear that it would not weigh in on this particular LAFCO proceeding. However, the committee members, including Director Armstrong,

Board of Directors
Philip E. Paule, *President* Stephen J. Corona, *Vice President* Jeff Armstrong Randy A. Record David J. Slawson

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communicated interest in exploring whether a policy addressing internal boundary changes among MWD member agencies is necessary for the future. Please see attached FAIRP Committee discussion transcript.

We encourage San Diego LAFCO to move forward expeditiously with its process, especially now that the MWD FAIRP Committee communicated that MWD will not be weighing in on this LAFCO proceeding. The public has already invested over four years of time and resources into this process, and we believe that it is in everyone's best interest for San Diego LAFCO to make its final determination as soon as possible. As such, EMWD has no concerns or objections with LAFCO staff's recommendation to re-calendar the next LAFCO Commission hearing from August 7th to July 10th.

Thank you for your prompt consideration of this correspondence.

Sincerely,



Philip E. Paule
Board President



Jeff Armstrong
Board of Director
EMWD's Representative
on the MWD Board of Directors



Joe Mouawad, P.E.
General Manager

Attached: Transcript of MWD's FAIRP Committee Meeting, June 13, 2023

CC: Adán Ortega, Chair, and MWD Board of Directors
Mel Katz, Chair, and Water Authority Board of Director
Adel Hagekhalil, General Manager, MWD
Tom Kennedy, General Manager, Rainbow MWD and Rainbow Board of Directors
Jack Bebee, General Manager, Fallbrook PUD and Fallbrook Board of Directors
Holly Whatley, LAFCO General Counsel
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FINANCE, AUDIT, INSURANCE, AND REAL PROPERTY COMMITTEE

June 13, 2023

Item 1: Public comment

Tom Kennedy: My name is Tom Kennedy. I'm the General Manager at Rainbow Municipal Water District. I'm also a member of the San Diego County Water Authority Board. I'm here to talk to you about your item, I believe it's 7b regarding annexations. And I just want to give a little background for this committee so you have the full picture. Rainbow's a small rural agency in Northern San Diego County. We're home to the Avocado Festival, and used to have the largest avocado growing region in the state, but we've lost over a million trees in the last 15 years due to the cost of water. And we've been struggling with how to protect our region's only economic infrastructure and the workers that supports many of whom are low income and we have in the Fallbrook area, is in the highest rates of poverty in San Diego County.

And so we've tried to work within the structure at the Water Authority to affect rates that are equitable for our region as opposed to those that meet the needs of the urban areas down south. But as some of you come from smaller agencies within this Board, it's difficult when you're the minority vote structure and you are unable to affect policies that impact your region. And so we initiated a process over four years ago to commence detachment from the Water Authority and annexation Eastern Municipal Water District. And the MWD Act is clear. We're a little puzzled now by the Chair's involvement in this matter because the law is clear, and I'm sure you've heard from your legal counsel about what the law says about this and that we're surprised by the last minute introduction of, what we believe is, inaccurate information into the LAFCO process.

We've been, our application at LAFCO have been processed for over three and a half years with extensive input from all parties. And here at the 11th hour, we've got some concerns being brought up that, that we don't believe are politically accurate, or legally accurate. People tell me that, oh, this is just political payback for the Chair, helping out those people who helped got him elected. But I don't think so. I hope not. And I hope the Chair can make time to meet with some of us agents, our agencies, Fallbrook and Rainbow, so that we can figure it out better where he's coming from and he can understand what we're doing. I think that there's important for this Board to understand that there won't be any impacts to Metropolitan or regional planning efforts with regard to the detachment.

We're gonna use the same amount of water we do from the Skinner service area, whether it gets invoiced through the San Diego County Water Authority or it gets invoiced to Eastern Municipal Water District, it's not gonna change the source of water, it's not gonna change the treatment plant, pipelines, turnouts or anything. So it's hard for us to understand that there's gonna be an impact. There's also the fact that there's a considerable departure fee being levied by LAFCO, $64 million we're gonna have to pay to get out. Now we're gonna get some credits for savings the Water Authority has, but that's what the staff has determined. So there's no impacts to the Water Authority. They're only gonna be held whole for at least five years, and considering they've already had four years to plan for it, by the time we're done, there'll be a 10 year offering [?] period.

So, in closing, I just wanted to come up here and inform you folks of where we are down in Rainbow and encourage the Chair, should he have any further concerns, to reach out to us. We'd be happy to meet at the time and place of his choosing so that we can all understand each other's positions a little more clearly. Thank you.

Item 7b: Annexation Policies within Metropolitan's Current Boundaries

Chair Smith: All right. Moving on to item 7B is the annexation policies with Metropolitan's current boundary. I will ask Mr. Chapman to please introduce the presenter.

Shane Chapman: Thank you, Chair Smith. This will be a two-part presentation and Ethel Young, a resource specialist in the Real Property Group with over 30 years of experience here at Metropolitan, principally administering the Board's policy on annexations will take us through the first part. And then Cathy Stites from the Legal Department will then take over and will walk us through the language in the MWD Act as it relates to annexation. So Ethel, please.

Ethel Young: Thank you, Shane. Good morning, Chair Smith and committee members. This is an informational presentation regarding Metropolitan's annexation policy and processes. I will start with going over the history formation of Metropolitan service area and our process for discretionary annexation, which are the most common processes staff handles. Staff counsel, Cathy Stites, who will conclude the presentation with the review of the law relevant to Metropolitan's annexation process, including the MWD Act and LAFCO.

Annexation is the growth of Metropolitan service area, which currently exercises and reports to the Finance, Audit, Insurance, and Real Property Committee and to Metropolitan's Board at the request of the member agency.

Metropolitan was formed in the late 1920s by the original cities of the coastal plain of Southern California. Between 1942 and 1954, 14 additional member agencies joined Metropolitan with the addition of the Municipal Water Districts and County Water Authority.

Between 1960 and 1971, Ventura County, with Upper San Gabriel and Las Virgenes MWDs joined. In 1971, the city of San Fernando joined after the earthquake. And in 1997, Coastal MWD consolidated with MWDOC, which leaves the current total of 26 member agencies.

Metropolitan's current service area is approximately 5,181 square miles. The MWD Act authorizes Board approval or discretionary annexations and automatic annexations, which do not require Board approval. Cathy will further discuss automatic annexations later in the presentation.

Metropolitan's most common process is the approval of discretionary annexations of new territory governed by the procedures set forth in the Administrative Code section 3100 through 3108. The annexation process begins as a member agency request to annex property into Metropolitan's service area. Staff reviews the required materials submitted by the member agency, included for example, legal description and map, acreage, and parcel information, land use existing and proposed, water use efficiency plan and CEQA compliance documents, meeting the Administrative Code requirements within section 3100.

Committee and Board set the terms and conditions for the annexation and approve the member agency request. Subject to water service regulations, no direct or indirect benefit of area outside the District, no obligation for additional facilities, water availability, annexation criteria, terms and conditions.

Member agency approval of the annex Metropolitan's resolution, LAFCO board approval, which includes public hearing and then recording at the county recorder's office completed.

Metropolitan's annexation fee is section 3300 of Metropolitan's Administrative Code and is either the back tax computation or the per an acre charge, whichever is greater. The per an acre charge is typically used to calculate the annexation charges. This year's rate is $6,875 per a net acres. Once parcels are annexed, Metropolitan's ad valorem tax is applied and for agencies who request

it, the standby charge is applied. All but four member agencies request that MWD levy the standby charge. They are Los Angeles, Santa Monica, Beverly Hills, and West Basin.

This chart shows the per an acre annexation charge over the past 10 years. Over the past 10 years, Metropolitan's Board approved annexations for Calleguas, Western, Eastern and San Diego County Water Authority.

This chart shows the relationship of the acres of territory annexed and the acre feet of water supply added to the area annexed to Metropolitan over the past 10 years by these member agencies.

In total, during the past decade, Metropolitan annexed approximately 1,433 acres with a new water demand of 886 acre feet per year.

Metropolitan's authority to annex rise out of the MWD Act, the MWD Administrative Code and the MWD Policy Principles. The only annexation specific policy adopted recently was done in 2016 as a response to legislation providing LAFCOs with the authority to do forced annexations, and making it clear Metropolitan opposes such efforts unless the new territory is subject to all the terms and conditions applicable to all the other rate paying customers.

At this time, I'd like to call up Cathy Stites, who will continue the presentation with review of the laws relevant to Metropolitan's annexation process, including MWD Act and LAFCO. Cathy.

Cathy Stites: Thanks Ethel. We were asked to address LAFCOs authority over Metropolitan and also to go through the sections of the MWD Act as they relate to annexations.

So in addition to our Act, and Administrative Code, and the policies that this Board adopts, the LAFCO laws were adopted in 1963 and with their adoption, the legislature gave the authority to change public agency boundaries to the LAFCO commissions in each county. It was intended to address the rapid growth following World War II and to ensure the public agency obligations didn't overlap or duplicate one another.

However, based on the MWD Act and limited exemptions in the LAFCO laws, Metropolitan determines its own boundary changes and annexations, and LAFCOs may not force Metropolitan to take on new territory involuntarily, nor alter our boundaries from that of our member agencies.

However, LAFCOs do have to approve any final boundary changes to Metropolitan and its member agency's boundaries. It's essentially a ministerial function recording a certificate of completion on the property that makes the boundary change official, and allows Metropolitan to assess its special levies, including its ad valorem tax and when requested, the standby charge.

However, the LAFCOs are also required to do a municipal service review and determine a sphere of influence for all public agencies within each county. There is no exception from that requirement on LAFCO for Metropolitan Water District. And so in five of the counties that Metropolitan resides in, those LAFCOs have deemed Metropolitan's sphere of influence co-terminus with its member agencies in that county.

Los Angeles County has not done that to date. And ironically, the law contemplates that for multi-county agencies like Metropolitan, it is the county with the most assessed value that should do the MSR and sphere of influence. But to date, LA has elected not to do that.

So I was asked to also go through the MWD Act as it applies to annexation, and a few of the relevant sections. The annexation laws in our Act are in part 7, sections 350 to 455.

Chapter 1 governs annexation of new territory to a Metropolitan Water District. Articles 1, 3 and 4 provide authority for discretionary or Board-approved annexations of new territory that require Board approval. This is distinct from automatic annexations under articles 2 and 5 that do not require Board approval. These were limited to the original cities within Metropolitan and the cities within the County Water Authority pursuant to provisions in both acts, basically grandfathering in the original cities in their right to annex, and largely the automatic annexations have been exhausted. There are some pockets of areas that could still be automatically annexed, but it's limited and it doesn't happen that frequently.

Chapter 2, deals with the exclusion of territory or what they call detachment. Basically, chapter 2 just confirms that when area is detached from a Metropolitan member agency, it should be concurrently detached from Metropolitan unless it's absorbed into another member agency, consolidated, merged, dissolved, whatever that is.

And chapter 3 of the Act applies when there is an exchange or reorganization of territory between two member agencies. Board approval has not been required

for these changes. Historically, we viewed them simply as internal reorganizations amongst member public agencies.

So I was asked to provide a few sections of the Act. These are all, our Act is on our website if you want to see the entire section. But section 350 deals with discretionary or Board-approved annexations. You can see it allows territory to be annexed to a Metropolitan Water District upon terms and conditions fixed by our Board.

Section 450 deals with detachments and it states that areas excluded from a member public agency shall be excluded from Metropolitan. This is to ensure that if they are detached, water's not served outside the service area.

Section 455 addresses exclusions, or excuse me, exchanges or what we call reorganizations that are internal to Metropolitan's boundaries. Section 455 was added to Metropolitan's Act in 1969 in the amendments that were done at that time. To clarify the boundary changes between Metropolitan member agencies did not require its Board's approval. This was on the heels of Western obtaining the Lake Matthew area from Eastern, and it was part of a packet of amendments done at that time.

So that concludes what I was asked to address, and I'd be willing to take any questions.

Chair Smith: Thank you, Ethel and Cathy for the presentations. So we may have questions or a statement here. We'll start with our Chair, Chair Ortega.

Chair Ortega: Thank you very much, Chair Smith, and thank you very much to Real Property and the legal team for giving us this thorough statutory review of what governs annexations and detachments within our service area. I have never challenged the interpretation of the law. What I have done is to defend the Board's policy prerogative on these issues. The reason I thought that this was important is that it involves two separate counties. The issues in San Diego are not member agency-sponsored by either party that would be impacted. Thirdly, it would be imposed by a third party, and it's based on the issue of affordability. And finally, it coincides with our planning process. And I think it's important for the Board to understand that as affordability gains more traction in the public discourse, that we may not be in charge of our own destiny, based on the precedent that would be taken if this annexation and detachment takes place.

Now in my communications with San Diego LAFCO, I have never told them not to approve it. What I have asked them to do is to consider it in the context of our

planning. As you know, they've used the rationalization that a letter was submitted by our General Manager, our then-General Manager in 2020. And I don't think any of us would dispute that our water supply conditions and our governance have dramatically changed over this period. We went through, last year, a dramatic issue with respect to the State Water Project in the State Water Project-dependent areas. I think the Board deserves to weigh if such impacts translate into an annexation that would be fully dependent on imported water, not sharing in the supply portfolio that either member agency of Metropolitan has developed.

I think the other implication here with respect to policy considerations that the Board ought to make is what other third parties feel that they have the ability to change the boundaries of our member agencies, and what impacts could that have?

I think as we're planning for the next 25 years, we need to have our eyes open. Just yesterday, for example, we distributed a new report by the grand jury in Orange County that is basically saying, I read it, it said that number one, Metropolitan and our member agency in Orange County has failed to develop alternative water supply resources fast enough. And so now they're suggesting the creation of yet another entity that would be superimposed to plan and expedite projects. I think they too should be paying attention to our planning process. I think Metropolitan, in its history, has shown incredible foresight, and just because the methods of communication have shifted and people are not interested in the boring work that we do, doesn't mean that things are not happening.

We have a process in place right now to plan for the next 25 years, and the integrity of that process is going to weigh on how we deal with outside sources. Yesterday, for example, I addressed a forum of cities that have been gathered by the Sonora Institute in Arizona for cities to have a more coherent way of weighing in on water policy. And one of the things I did is I talked about our climate adaptation master planning process and that they ought to pay attention to that process because it's going to impact, I think, water planning in Southern California in a very fundamental way. And so I have nothing against the entities in San Diego County that are looking for more affordable water. I think they share that with many other communities in California and in Southern California in particular. But if we're going to start moving our member agency boundaries to assure the lowest cost for water based on what our member agencies have done to price their water, then it's the Wild West, and I don't know how we manage that. And the Board ought to be able to have a policy discussion and weigh its options as we're moving forward with our plans.

And so with that, I hope that the Board will opine its direction to the staff in terms of any follow up that might need to be done on this front. But again, I'm not suggesting that we go out and oppose what's going on with LAFCO in San Diego. I hope that LAFCO would pay more attention to our planning process, as I do the grand jury in Orange County. And then I hope that the Board, as we move forward with our planning, understands that this is a risk because of its unprecedented nature. So thank you very much.

Chair Smith: Yeah, thank you for those introductory remarks. Looking for any members of the committee or other members that would like to make comments on this issue. Director Armstrong.

Director Armstrong: Thank you, Chair. No, I think this was really informative and I appreciate it, and I think this all really does bring to light a need for a policy discussion on this. I'm not clear actually how all of this applies to this current effort going on within the Water Authority in Fallbrook and Rainbow, I'm not sure how all of these act provisions apply to that. So a request I would have would be to help us understand more on that and especially going forward.

I want to just also kind of reiterate, I represent Eastern, but Eastern, our position is very neutral on this. We're not advocating for it or the opposite either, we're just neutral on this. But I do think this is important and I think it's important that we get, if there is going to be some direction or some action from Metropolitan, that it happens very quickly too, because I know the LAFCO commission is meeting again I think in early August, and I think we should, if we're going to have some resolution to something, we should work to have that done before that point in time. But anyways, I think this is important going forward, and I would think it brings to light the need for further policy discussion. I just would hope if it's going to impact this, we do it really quickly so that we can keep things moving and not stall their process. Thank you.

Chair Smith: Great. Director Camacho.

Director Camacho: Yeah, I'm not on the committee.

Chair Smith: Oh, it's okay, you're up next.

Director Camacho: In trying to go through all of this and have it all make sense to me as well because it is a little bit confusing, I just had a few things. One, I wanted to get a better understanding of what you meant by the Wild West, if you have examples of what that means, could potentially mean for MWD and the family. And to Director Armstrong's point for better and further clarification, we may even

want to put together or ask you to consider putting together maybe a ad hoc committee that could get a outside third party legal opinion, that will look at things and kind of get us that definition of what exactly this all means and how it should take place.

I also understand that there is legislation working through the process right now, to deal with annexation such as this, and maybe the folks of San Diego should be deciding some of their own fate. So those are my three comments, but I did have, of the three, that one question, I just want to better understand what the Chairman meant by the Wild West, if there's examples of what that means? Thank you.

Chair Ortega: Thank you, Director Camacho. Thank you, Chairman Smith. Well, to put it simply, I spent the early part of my career in water as the assistant general manager of Western Central Basin. They took different approaches to funding their local projects. West Basin put the cost of their water recycling project under the leadership of Director Rich Atwater, who's our colleague on this Board on the volumetric rate. Central Basin placed their cost on a standby charge. There's a area in a investor-owned utility where a UCLA study about a year ago found that the poorest people are paying the highest water rates, and the reason is that under the Public Utilities Commission, their rate is weighted on the cost of imported water from West Basin. So it was suggested to me that maybe a way to get this severely disadvantaged area that's paying the highest water rates in the county some relief is by redrawing the boundaries so that this investor-owned utility would rest fully within the Central Basin Municipal Water District.

Well, knowing full well what was involved in financing the West Basin Recycling Project and the bond covenants, of course I indicated that it wouldn't be a good idea. And I think that from that, I took seriously the fact that there is a basic burden here that has to be addressed. But if we're going to start redrawing boundaries as a way of providing that relief, the Wild West means that we won't be able to predict on a year to year basis, or our member agencies won't be able to predict, what may change within their boundaries and in their assurances to the bond market in order to pay the debt for the resiliency projects that they are building. It's a very fundamental issue.

And so if that starts happening everywhere, because this unprecedented action in two counties, I mean, there's a lot simpler lines that we could redraw than those that are taking place right now between San Diego and Riverside Counties. And so the Wild West means greater unpredictability and uncertainty for our member agencies on how they pay for their projects. Now, I have great

sympathy for agriculture. I'm a graduate of the California Agricultural Leadership Program, and I know full well, and I've looked at what's happening in San Diego, and while there are issues that have been explained today, a lot of the burden could be shifted to other portions of agriculture in San Diego County. San Diego, just for everybody's knowledge, I chaired the Water Committee for the State Board of Food and Agriculture for seven years. And one fact that few people know about San Diego County is that it has the largest number of family farms in California. You would never guess it. And so, it's a huge issue there. And I think the desire would be to help all of agriculture in San Diego County, not just some, and to do it in a way that's orderly and that guarantees, ultimately, that they're going to get the outcome that they want. And my fear right now is that there may be expectations of an outcome that we may frustrate with our planning process because at the end of our planning process, guess what we're going to talk about? Rates and rate structures.

And so, I believe that everybody should have their eyes open and I would be the first to welcome their input into our planning process, which I've been pushing for. I've been asking the General Manager, to the degree that we can, that we need to be involving people that will be impacted by our policies. And so it's with that, that I'm answering Director Camacho's question, and I'm sorry to be a little long-winded. But I will seriously consider putting together an ad hoc committee to address the policy issues and hopefully it can be informed by the guidance of the law, by our General Counsel as we contemplate policies that may help us cope with uncertainty that we're facing on this front. Thank you.

Chair Smith: And Director Camacho, the way I see the Wild West is money and water. So that's what we're in the business for. So for the water aspect, having agencies leave completely undermines all of the water planning of the agency. How can you plan for water use when you don't know who's going to use your water? And money is when we have CIP projects and we have 30-year bonds. If an agency leaves and they don't pay their mortgage, then you've just lost out on all of the money. So, when we've talked about the Wild West, that's kind of what I boiled it down to in the most simplest terms. So, yeah, and I think I agree with our Chair about creating some sort of annexation policy, ad hoc committee. Director from Eastern is involved and of course the Water Authority is involved. And it's something that's happening very quickly in August. And if that committee could get into the details, there's a lot of information. I mean you know me, I read everything with this agency and I think I've read a thousand pages on this issue. So, I'd be happy to entertain that direction. Yep, Director Quinn, is that you down there?

Director Quinn: Thank you for the opportunity to speak on this, and I feel much better educated and more well-rounded on this issue thanks to Chair Ortega's comments. I also have sympathy and am quite sensitive to the affordability issues raised by, I believe, it was Tom Kennedy in public comment. And I think that that's worthwhile having additional conversations and I know that this Board is doing so. But I would also be interested in a discussion around when these annexations or when these types of changes are going to impact the source of supply as well if you're going from a predominantly Colorado River to a predominantly State Water Project area or such. We ran into a similar issue just last month with our vote on Rubidoux and we had mentioned having a policy discussion. So I support the Chair's recommendation to form an ad hoc committee to look at some of these issues. And that's it. Thanks.

Chair Smith: Thank you. Any others?

Katano Kasaine: Director Peterson.

Chair Smith: Director Peterson? Yep.

Director Peterson: Thank you, Mr. Chairman. Nothing's more fundamental in this country than self-determination. I mean, we became a country because we weren't being represented by a king. And it's the same way with agencies. We had a letter that was written by our General Manager; there was no objection to that letter. The letter said, "We're neutral, we're not going to get involved in this." We didn't get involved in the Valley secession at all. There was no discussion at Met, and I think that was appropriate. We never got involved when Las Virgenes conceded quite a bit of land. We were forced to take all of LA County and yet we knew we'd never service them and they're paying taxes, they're voting in our elections, and you provide them all the services in L.A. So, it made no sense. And so, we decided to deannex. Met didn't get involved in that at all.

I think the most prudent thing for Met to do is stay out of this. And if you try to tie it into some climate action plan, that will mean it will never end or end at a long, long time from now, not in August. And to me, I think that self-determination is very important in this country. It's fundamental. I don't see any difference in sales from Met, same source of water's going to be going to San Diego and going to Eastern. And I just think, to me, that the issue of self-determination is very, very important. And I've appreciated Met's not getting involved in the Valley secession and of the secession of parts of my district to LA. And if the whole issue comes down to the votes, how about annexing Coronado Island? You get all those votes right back, they're taking water and they're not paying for it. They're not paying for that $6,000 an acre. You can get all those

votes back right then and there. So, if you have annex Coronado, I think the pot would be right.

Chair Smith: All right. Any other commenters? Director De Jesus? Oh, I've got this here. Go ahead.

Director De Jesus: Yeah. Well, I just want to thank the Directors for their comments and I think what it says is that this issue, as simple as some of us may think it should be, is very complicated. And so I appreciate putting together a committee. I'm not so sure if ad hoc, sub or a full Board is really what we're looking for of we're all having to eventually vote on it. I think we should be asked to attend such meetings so we can listen to some of these questions and ask some of the questions. I'm not an expert at this by no means, certainly, and I think that's the reason why I'm making the appeal that this be more transparent and allow us to at least hear and listen to some of these issues.

My knee-jerk reaction to all this, if I may share, is that perhaps I feel that Metropolitan, not to be naive, but that Metropolitan may be meddling in areas that we probably should not get involved in. And right away I think of the risk factor. I mean, are we looking for a lawsuit here as a result of us getting involved to some degree that is not in agreement with others? Those are the kind of things I think that need to be considered. If it doesn't impact Metropolitan and its mission, if you will, relative to I think, Chair Smith, you mentioned water and dollars, if you will, then I need to be more convinced or at least understanding, educated as to why we would want to be so concerned about an agency's ability to plan, if you will.

That's not our business. I don't think we want to get into that, into that deep in the weeds, if you will, on how others have to figure out how to manage their allocations, if you will. But I understand those other impacts that it has on some of the things that you said, for example, the long-term financial plans and the future of those particular agencies. But I would have to believe taking a step back that those agencies are considering those impacts. And if they had any objections to that, that they would be making it to the LAFCO, if you will, or even going public with it or you know what? Suing. I mean, some of these agencies, that's all they like to do is just file lawsuits. And so, to the extent something like that would impact them, then do it to others, if you will, as well. Thank you.

Chair Smith: Yeah. Chair Ortega.

Chair Ortega: Well, thank you very much. When I look back at the minutes of the past annexation issues, one of them was mentioned here with respect to Eastern and

Western. Two things happened. The two member agencies were engaged, and they were talking to each other and there was consent. Secondly, they came to the Metropolitan Board. I mean, read the minutes. It kind of goes through the whole process of what happened. The issue that we're addressing here, and I would not set up an ad hoc committee to get involved in the San Diego detachment issue. That would not be the purpose of a subcommittee or of a ad hoc committee. The purpose would be to look at the precedent and determine the policy implications for Metropolitan and its member agencies, particularly, as we're dealing with the issue of affordability because that issue is gaining steam, and it's something that we have to take seriously. I know we went through this exercise at a workshop just a few weeks ago to talk about our definition of affordability and how we deal with it. I had a meeting yesterday with the president of the Western Municipal Water District Board and Director Dennstedt, who had a very innovative way of dealing with affordability issues.

But going forward, we need to understand what we're dealing with here. And if there's third parties that could come in and redraw your boundaries in order to make water less expensive, here's another term, it's a race to the bottom. Who else is going to take that cue? Who else is going to jump in and say, "Hey, I have the authority to do this." You've got land use planning entities like SCAG and SANDAG and others. The grand juries or others that are out there. Everybody assumes the legislature could always jump in, but we need to understand that category of risk and the challenge that it presents to us in our ability to do long-term planning. And so, that would be the nature of such a discussion. It would not be to get involved in this detachment issue. They can evaluate our actions and then determine whether it's in their interest, given what's happening in planning, whether to proceed or not. But I would not ask this Board to take an official position on what's going on in San Diego.

Chair Smith: I have a couple more speakers on the queue. And a reminder, you can push your button. So, Director Miller?

Director Miller: I agree with what's being said here. This is a very complex issue. This is not something that gets done every day. If it's not unprecedented, it's nearly unprecedented on what's happening here. The San Diego Water agencies, agencies, the vast majority, if not all of them, are against this. I liken it to sitting down with 20 people and agreeing to spend money on projects and just as soon as the projects gets done, five agencies decide they don't want to pay for it because their costs are driven up. We all make 30, 40, 50 year plans and they all come with costs and they all come with foresight and planning, and you can't really plan on anything when you can have people decide they want to exit it at

any moment, when they decide, well, I can get something cheaper over here than I can here.

This is a direct shift of costs from a couple of agencies to a bunch of other agencies and those bunch of other...we talk about self-determination. I don't get a vote on whether I want to accept those added costs. The person that's going to get the cheaper cost gets to vote. I'd like to vote that Tim Smith pays my property taxes. So if I'm the only one that gets allowed to vote, I'm going to vote, "Yeah." So that's what we're looking at here. And I don't think the San Water Authority has been unreasonable in making their requests of an exit fee and what have you. I worry about my rate payers just as every water agency out there should worry about your rate payers. I'm going to be charging my rate payers more money and they're not going to get better water, more water or actually anything for their money. They're just going to get to pay the bill.

And I think this is a far-reaching decision that's going to be made down there. And I agree with the Chair, and an ad hoc committee to make sure that the Met is in the right position with the right policy on this issue, has a value to us, because as the Chair said, another agency down the road can use this as a precedent to get off. Maybe one agency wants to merge with another agency because they can get water for $10 an acre foot, cheaper. Because in the ultimate game here, using the numbers that have been proposed down there, we're talking about two agencies paying $25 a month less for their water and everybody else paying more. And that's a precedent, when people start chasing $20 an acre foot or $20 a month, man, it doesn't take much to find another agency that might be able to, that you could hook onto and get a, who has wells like Orange County, and you can get cheaper water. So I think an ad hoc committee to make sure that the Met is in the proper position and has the proper policy is a good idea. Thank you.

Chair Smith: Thank you Director Miller. I have Director Dennstedt and then Director Kurtz.

Director Dennstedt: Thank you, Mr. Chair. And thank you for all the comments and I appreciate legal counsel's presentation on the articles and what is being followed, and I appreciate the Chair bringing up the fact that Eastern and Western had an MSR review here recently. It took many, many, many, many years to go through that, but I really think that Metropolitan did not take a position on that. They didn't get involved in it. It really came down to the will of the people and what the people of Murrieta in that annexation area wanted and what they were vocalizing, and how they wanted to have their agencies, their water bills, maintained and issued. So I am not a fan of lawsuits and getting in the middle of creating more. We talk about affordability. Well, let's talk about the

affordability of the legal counsel and no offense to the sharks in the room, but there are condos in Maui.

So I don't think that's the area that we need to go and to get involved in some unnecessary litigation that costs all of our customers additional monies that they're all having to pay for that, when we enter into those things. I think it really comes down to local control and what those agencies want to manage for themselves. And the exchange of water is still the exchange of water within the Met family and the overlying territories. So I appreciate all the comments and I think it's best left between San Diego and Fallbrook and that LAFCO agency to make those determinations, and ultimately the voters who will be, have the ability to be able to protest on that or not to make that change actually happen. So those are my comments. Thank you.

Chair Smith: Okay. Thank you. Director Kurtz.

Director Kurtz: I'm not a member of the committee, so thank you, Mr. Chair, for allowing me just take a moment. I do agree with the Chair of our Board that there may be better ways to handle affordability than searching for the cheapest water within the same area, but I feel equally as strong that making a policy specific to a certain decision makes bad policy. Cities, by law, are prevented from changing the rules in the middle of the process, and I think that's a good thing. It's always on a going forward basis. You also make bad policy when you try to do it too fast because you've got a deadline, so you have to just deal with the box and that doesn't make good policy.

The legislation was mentioned, and it is my understanding, and please correct me if I have this wrong, but the legislature believes that as well, and any policy they may adopt would be on a going forward basis and would not affect any annexation that is in the process at this current time. So I'd just ask that as we go forward, we might consider that ourselves. This is something we need to talk about, there are different perspectives on it. I hope it's not the beginning of the Wild Wild West and we're going to see these multiply, but water affordability is an issue. This is one way people are dealing with it. I think we ought to have that discussion, but that any policy change would apply to the next request, not in the middle of the discussion that is underway in San Diego right now. Thank you.

Chair Smith: Okay. I'm not sure about that legislation one, Cynthia, I don't know if there's someone that could address whether it's going forward or current.

Cathy Stites: Well, I think you're referring to AB 530.

Chair Smith: Yep.

Cathy Stites: Just coming out of San Diego, and my understanding is that they're looking for a procedural exception to allow it to go forward.

But right now it would be a change to the County Water Authority Act that would require a vote of all residents within a County Water Authority on a detachment to approve it, a majority, versus just the area that is being detached. So right now, under existing law, it's only the detached area and the voters there that would vote for it and a majority has to vote to approve it. This would extend it to the 1.9 million voters within the entire Authority. And there is only one Authority, just like one Metropolitan Water District. And my understanding is that it would apply. So it could potentially, if it goes forward and if the legislature enacts it, it could apply to the current proposed detachment. That's just my understanding. The legislature could change that. It's still in its initial format, so amendments could be made, but yes.

Chair Smith: Yeah, and that was my understanding too. I wanted to make sure, Director Kurtz, you got that information.

Director Kurtz: Thank you.

Chair Smith: So Chair Ortega, I guess it's up to you for the creation of the committee. I'll leave that up to your prerogative. It sounds like there's some consensus here to get a better understanding. Even people who may not want to get involved, still want to understand the facts. We all don't have the time to get into all of the information, so thank you for suggesting that. I don't…

Director Dick? [off mic]: Clarification on what kind of committee, sir?

Chair Smith: Yeah, so there was a clarification question about what type of committee, but I think I'll leave that up to the Chair, whether it's ad hoc, is it intended to be a temporary committee.

[off mic] [inaudible]

Chair Ortega: Well, I think that an ad hoc committee can vet the issues and set up a Board workshop that could involve everybody, but I think that an ad hoc committee can take the deep dive and then consider some of these issues that, for example, Director Kurtz raised about respecting ongoing processes and things of that sort.

Chair Smith: Great. All right. Well, I don't see any more hands. Thank you. Oh. I know you by first name. Go ahead.

Director Garza: It's all good.

Chair Smith: Director Garza. Yeah.

Director Garza: Thank you Chair for the opportunity. I'll make my remarks brief because I sense that we're about to tie it up here.

First of all, just, I hope that my comments are of value either now or later as we undergo this process. Everything I've heard this morning, frankly, has been healthy. There really isn't anything that I've heard that's wrong. I think everyone's points really are valid in terms of what our current policy guidance allows us, but I think it also shows that there are some gaps within our policies, and I'm really encouraged by our commitment to establish some sort of body. I think the recommendation from our Director from Eastern is valid on this. So I'm looking forward to that.

My comments, again, really aren't in any way to have a position either for or against Fallbrook or Rainbow or Eastern on this issue. But I think that what I'm hoping that we'll do is when we get to the next stage is that we'll remember that sometimes the lenses that we look at for policy aren't just exclusively legal. There are other lenses that we have to look at things through. There are processes that depend on certainty, and if we have processes that allow for fluid tactics and instruments within our policy guidance, I think that starts undermining our agency at that point. Because again, these instruments, whether if it's insurance or financing or rates, things that are our agency still depends on our demand and it requires that certainty.

So I'm definitely concerned about pitting agencies against agencies in the future. If somebody wants to start negotiating on rates, one against another, and for me the question is where does it stop, right? I really do think that it can become, it's a cautionary tale of us just going to the bottom of the barrel. So I'm looking forward to what next steps are and I appreciate the opportunity to make comments. Thank you.

Chair Smith: Great. Thank you, Director Garza. So I think we have a direction that we're going to be going forward with the next steps, and I will go back to my agenda.