



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

February 26, 2021

Via Electronic Delivery

Gary Thompson
Executive Officer
Riverside Local Agency Formation Commission
6216 Brockton Avenue, Suite 111-B
Riverside, CA 92506

Focused Municipal Service Review for the Murrieta Service Area (LAFCO 2019-11-3)

Dear Mr. Thompson:

The Metropolitan Water District of Southern California (“Metropolitan”) reviewed the Focused Municipal Service Review for the Murrieta Service Area, dated December 10, 2020 (“Murrieta Focused MSR” or “the report”). Metropolitan is pleased to submit comments for consideration by the Riverside Local Agency Formation Commission (“Riverside LAFCO”) during the public comment period for the report. Metropolitan’s interest in the Murrieta Focused MSR arises from its prior annexation of over three-quarters of the Murrieta Study Area, located in the City of Murrieta, that is the main subject of the report.

BACKGROUND

As a regional water wholesaler, Metropolitan delivers water to 26 member agencies (including 14 cities, 11 municipal water districts, and one county water authority) that in turn, directly or through their sub-agencies, provide water to approximately 19 million people in six counties in Southern California, including Riverside County. Metropolitan’s mission is to provide its service area with adequate and reliable supplies of high-quality water to meet present and future needs in an environmentally and economically responsible way.

Annexation is the formal process by which Metropolitan is able to expand water delivery to places outside its existing service area. Annexation has been an integral part of Metropolitan’s history since the state enacted the Metropolitan Water District Act in 1927. The Act authorized Metropolitan to annex the corporate area of any public agency upon terms and conditions fixed by Metropolitan’s Board of Directors, including the assessment of ad valorem taxes and standby charges. Metropolitan annexation policies advance the orderly extension of water delivery to its

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member agencies, who provide water service in support of planned development, improved water quality, and avoidance of “window areas” or service gaps within their service boundaries.

Metropolitan charges a one-time annexation fee and a per-acre annexation charge. Charges shall be paid in full prior to completion of the annexation except where the Metropolitan Board of Directors approves payments over time or security which will guarantee payment. The completion of any annexation is conditioned upon the approval of the LAFCO within whose jurisdiction the proposed annexation lies. Accordingly, Metropolitan routinely coordinates with each of the six county LAFCOs within its service area, including Riverside LAFCO, which approved the aforementioned Murrieta annexation into Metropolitan in 2000. Metropolitan has only approved a few agreements to pay annexation fees over time, and the one applicable to the Murrieta Service Area is the only outstanding one and the only done in the past 30 years.

On December 14, 1999, Metropolitan’s Board of Directors approved the annexation of the area coinciding with boundaries of the Murrieta County Water District (“MCWD”). The area covers approximately 5.8 square miles, encompasses approximately 1,153 parcels, and is commonly referred to as the “Murrieta Window Area.” The Murrieta Window Area was concurrently annexed into our member agencies, Western Municipal Water District (“WMWD”) and Eastern Municipal Water District (“EMWD”). WMWD’s section is referred to as the 41st Fringe Area and EMWD’s section is the 65th Fringe Area. Notably, the Murrieta Focused MSR analyzes ownership scenarios under each of these water districts. The purpose of the annexation was to close a window area in Riverside County. In addition, because the area was a groundwater dependent, older rural community undergoing rapid growth and development, the annexation was also widely viewed as a hedge against potential water quality degradation.

Metropolitan entered into the annexation agreement with WMWD, EMWD, and the subsequently-dissolved MCWD. The key terms and conditions of the annexation agreement were as follows:

- (1) Charged a one-time annexation processing fee of \$5,000 for the entire Murrieta Window Area;
- (2) Allowed for parcels, over the term of the agreement, to pay the then-current per-acre annexation charge in order to become eligible to be physically connected to receive water service;
- (3) Assessed the existing ad valorem tax;

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- (4) Created a ministerial, administrative staff level approval mechanism thus allowing for efficient inclusion of parcels into Metropolitan upon payment of the per-acre annexation charge;
- (5) Provided that if all parcels had not paid and connected to the system at the expiration of the agreement, December 14, 2024, Metropolitan would pursue the detachment of unpaid parcels; and
- (6) Requires the parties to commence negotiations five years out from expiration of the agreement or December 14, 2019, to attempt to resolve the status of the unpaid parcels.

As of the date of this letter, approximately 2.9 square miles, encompassing approximately 585 parcels, have yet to pay or connect to receive water service. A map of the unconnected parcels is shown in Attachment 1.

Metropolitan's most recent per annexation charge is for 2021 and is set at \$6,155 per acre.

Metropolitan and WMWD began informal discussions on the reconciliation of the unpaid parcels in late 2019 and intend to continue these discussions going forward.

THE MURRIETA FOCUSED MSR

The City of Murrieta initiated the request to Riverside LAFCO to prepare the Murrieta Focused MSR. The report was jointly funded by the City of Murrieta, WMWD, EMWD, and Rancho California Water District (RCWD). Riverside LAFCO hired engineering consultants West Yost Associates to prepare the report. The report was completed and submitted on December 10, 2020.

The purpose of the report is to provide a fact-based analysis of service delivery, infrastructure capacity and financial requirements, and reliable water service necessary to support existing and future customers. The report analyzes future ownership scenarios under each of the three participating water districts, WMWD, EMWD, and RCWD, including the financial impacts on rate payers, residents on private wells, and the development community over the next ten years, through 2030.

The report examines the retail water component of WMWD's Murrieta Service Area, which includes future residential and commercial connections and includes the portion of the City of Murrieta currently receiving water from WMWD. The Murrieta Study Area is 6.5 square miles and fully encompasses the Murrieta Window Area.

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The report makes certain assumptions relevant to Metropolitan. It makes a critical assumption about the Murrieta Window Area regarding annexation, that developed parcels farther than 1,000 feet from a water connection are never likely to annex. It makes boundary assumptions based on information provided by the three participating water districts. It assumes the need for some future development to entirely close the Murrieta Window Area.

MURRIETA ANNEXATION SECTION 2.2.2

The report at Section 2.2.2. characterizes the annexation of the Murrieta Window Area into Metropolitan. To provide a clearer understanding of its role as a water supplier and as a party to the Murrieta Window Annexation agreement, Metropolitan offers the following comments for your consideration.

Metropolitan is a regional wholesaler supplier to its member agencies who in turn provide retail water service to their customers. As such, Metropolitan provides water to WMWD and EMWD. It does not directly serve their residential, commercial, or industrial water customers.

Metropolitan requires an annexation processing fee and a per-acre annexation charge, as stated previously. The annexation fee is a one-time processing fee currently set at \$5,000. The per-acre annexation charge is separate and is set annually by Metropolitan's Board of Directors. The Murrieta Focused MSR correctly states the 2020 was set at \$6,151 per acre. The distinction between annexation fees and per-acre charges is important to understand the financial aspects of the Murrieta Window Annexation agreement. As stated earlier, it only required one annexation processing fee for the entire annexation, for the approximately 1,153 parcels.

The Murrieta Focused MSR concludes that the annexation per-acre charge balance is approximately \$12 million. It is not clear how this figure was calculated, and Metropolitan requests an explanation of it.

Metropolitan also prepared more detailed comments set forth in Attachment 2.

FIGURES AND MAPS

Metropolitan houses a professional Geodetics and Mapping team within its Engineering and Services group. This team closely monitors and tracks all boundary changes and the annexation and detachment of parcels throughout Metropolitan's entire 5,181 square mile service area. In

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January 2020, at Riverside LAFCOs' request, Metropolitan provided a GIS map and associated parcel data of the Murrieta Study Area prepared by the mapping team.

Accordingly, Metropolitan would like to offer its observations with regards to the boundaries and the status of annexed parcels within the Murrieta Window Area as presented in the report.

Figure 1-1 is labeled "Murrieta, Rainbow & Rock Mountain Study Areas." The boundaries and areas within the Murrieta Study Area showing water service by WMWD and EMWD differ from the boundaries and areas of the 41st and 65th Fringe Areas. These boundaries and areas should be reconciled.

Figure 2-1 is labeled "Study Area Water System Facilities" and appears to exhibit similar inconsistencies as Figure 1-1 and should be similarly reconciled.

Figure 2-3 is labeled "MWD Annexation Fee Payment Map" and purports to show parcels that have paid Metropolitan's per-acre annexation charge. Although the accompanying text attributes the map to WMWD, the title might confuse decision makers and the public that the map originated with Metropolitan. It did not and it is therefore suggested the name of Figure 2-3 should be changed. Data gaps in Figure 2-3 are illustrated in gray. Metropolitan attached its map of the Murrieta Window Area showing the parcels that remain to become eligible to be physically connected. See Attachment 1. There appear to be discrepancies between the Figure 2-3 and Metropolitan's map. Again, these discrepancies should be reconciled.

We appreciate the opportunity to comment and look forward to working with you and Metropolitan's member agencies to address the gaps in Murrieta Window Area. Please feel free to contact Ethel Young at (213) 217- 7677 or eyoung@mw dh2o.com with any questions, or contact our Real Property mainline at (213) 217-7750 or Annexations@mw dh2o.com.

Sincerely,



Lilly L. Shraibati
Group Manager
Real Property Group

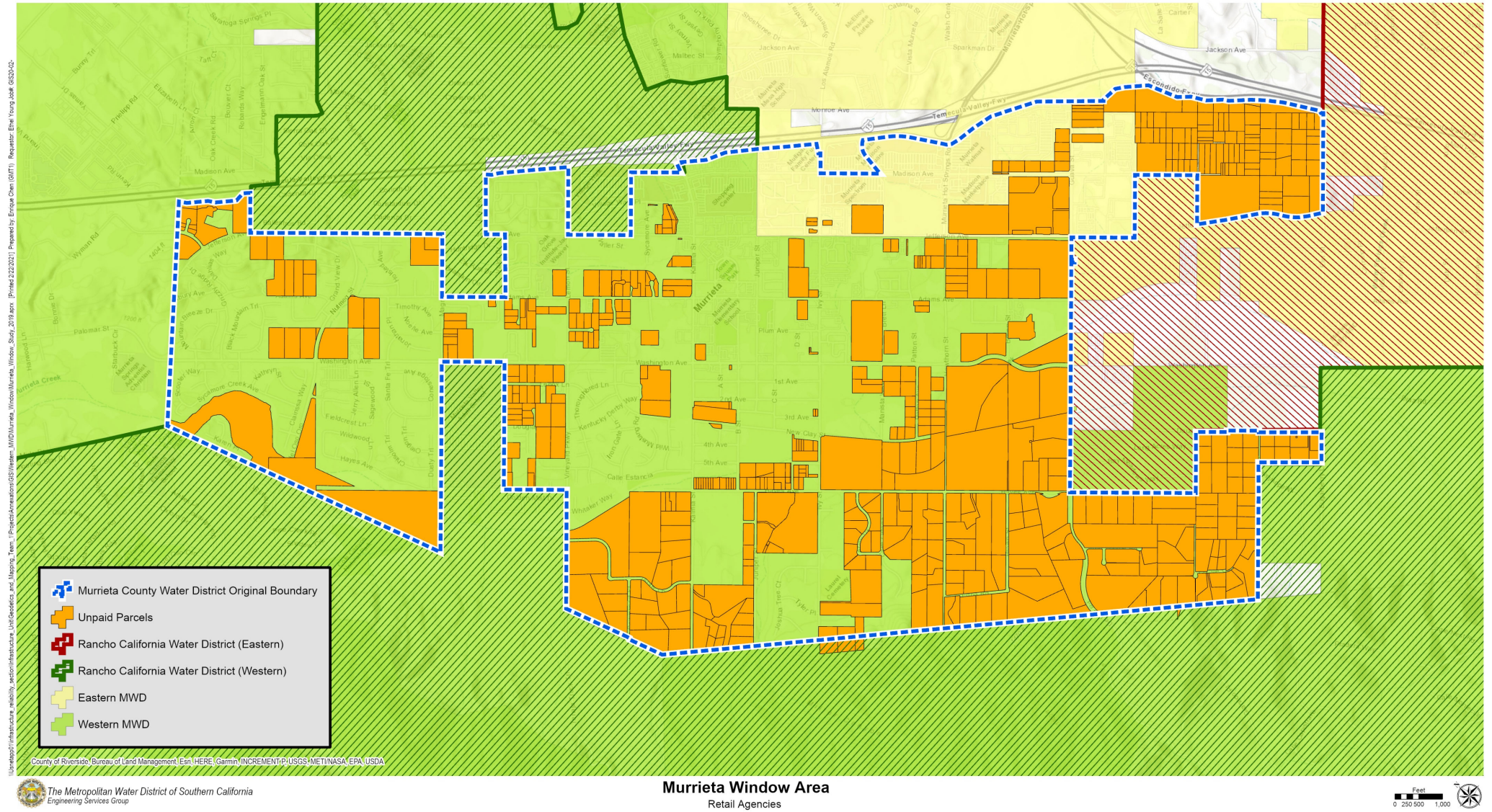
Attachments:

1. Map of unpaid parcels
2. Detailed Comments

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cc: Derek Kawaii, WMWD
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Chris Teague, EMWD
teaguech@emwd.org



Attachment 2

MWD LAFCO FMSR Comment Letter - Detailed Comments

Set forth below are Metropolitan's proposed detailed revisions to Section 2.2.2 of the Murrieta Focused MSR starting at page 22, both redlined and clean versions. Metropolitan respectfully requests that Riverside LAFCO incorporate these suggestions in the report and record.

Redline Revision

Imported water supply ~~from~~ to the Study Area is purchased wholesale from Metropolitan Water District (MWD) and delivered via ~~through~~ EMWD, at the Los Alamos Interconnection Point. ~~Service areas receiving~~ Areas annexing into MWD are annexed on behalf of one of MWD's 26 member agencies and must pay a MWD annexation fee of \$5,000 and an MWD Per-Acre Annexation Charge. The 2020 MWD Per-Acre Annexation Charge is \$6,151 per acre.

~~For most MWD customers, the Annexation Charge is paid in full aggregate for the entire service area, regardless of connection status. That is, when a service area is annexed into the MWD service area, parcels with existing water service connections pay the MWD Annexation Charge, and undeveloped parcels without water service also pay the MWD Annexation Charge.~~

The annexation policy of MWD requires an annexation processing fee and an annexation per-acre charge to be paid in full in advance for the entire area being annexed. However, MWD may waive with terms and conditions these fees and charges to prevent or to close a service "window" in an existing member public agency service area. The Murrieta Study Area largely consists of such a window area within two of MWD's member agencies, WMWD and EMWD.

~~With WMWD, the situation is different. In December 1999, an annexation agreement between MWD, EMWD, and WMWD, and the Murrieta County Water District and MWD was executed. This agreement specified that the Murrieta window area consisting of the entirety of the Murrieta County Water District, approximately 5.8 square miles, would be annexed into the MWD service area but only the portion of the Murrieta County Water District that has by charging a one-time annexation processing fee and allowing, over the twenty-five year term of the agreement, for unconnected parcels to pay the MWD Per-Acre Annexation Charge could in order to become eligible to be physically connected to receive imported water. from MWD.~~

~~As a result, there are portions~~ Approximately 2.9 square miles of the Study Area ~~that~~ have not yet paid the MWD Per-Acre Annexation Charge. In Figure 2-3, obtained from WMWD, portions of the Study Area that have not paid the MWD Annexation Per-Acre Charge are shown in yellow.

Section 11 of the 1999 Agreement states that the agreement shall be binding to successors, so for the purposes of this analysis, it is assumed that the 1999 Agreement would be assignable to either RCWD or EMWD. The need for some future development to pay the MWD Annexation Per-Acre Charges is the same under all Ownership Scenarios described in this report, and as a result, is not included in the quantitative financial analysis.

The 1999 agreement terminates in December 2024. ~~It is also assumed that regardless of the ownership scenario, the future owner will be able to extend the agreement.~~ The current outstanding Annexation Per-Acre Charge balance is approximately \$12M. ~~If the agreement is not extended, it is possible that MWD~~

~~would require the outstanding balance to be paid by the owner of the water system or~~ Under the agreement, if the balance has not been paid or other provisions for payment have not been made, for example, extension of the agreement, then MWD may pursue ~~de-annex~~ the detachment of unpaid parcels through LAFCO that haven't paid the Annexation Charge, regardless of which agency owned the water system.

The current number of service connections in the Study Area, summarized by meter size, can be seen in Table 2-1. The majority of the meters currently in the Study Area are ¾-inch meters that serve single family residential connections.

A large number of parcels in the Study Area are currently served by private wells. Therefore, land within the study area is classified as Developed-Served, if it currently has imported water service from the distribution system, Developed-Unserved, if it currently developed but provided service by private well, or Vacant, if the land is undeveloped and available for development in the future.

Clean Revision

Imported water supply to the Study Area is purchased wholesale from Metropolitan Water District (MWD) and delivered via EMWD, at the Los Alamos Interconnection Point. Areas annexing into MWD are annexed on behalf of one of MWD's 26 member agencies and must pay a MWD annexation fee of \$5,000 and a MWD Per-Acre Annexation Charge. The 2020 MWD Per-Acre Annexation Charge is \$6,151 per acre.

The annexation policy of MWD requires an annexation processing fee and an annexation per-acre charge to be paid in full in advance for the entire area being annexed. However, MWD may waive with terms and conditions these fees and charges to prevent or to close a service "window" in an existing member public agency service area. The Murrieta Study Area largely consists of such a window area within two of MWD's member agencies, WMWD and EMWD.

In December 1999, an annexation agreement between MWD, EMWD, WMWD, and the Murrieta County Water District was executed. This agreement specified that the Murrieta window area consisting of the entirety of the Murrieta County Water District, approximately 5.8 square miles, would be annexed into the MWD service area by charging a one-time annexation processing fee and allowing, over the twenty-five year term of the agreement, for unconnected parcels to pay the MWD Per-Acre Annexation Charge in order to become eligible to be physically connected to receive imported water.

Approximately 2.9 square miles of the Study Area have not yet paid the MWD Per-Acre Annexation Charge. In Figure 2-3, obtained from WMWD, portions of the Study Area that have not paid the MWD Annexation Per-Acre Charge are shown in yellow.

Section 11 of the 1999 Agreement states that the agreement shall be binding to successors, so for the purposes of this analysis, it is assumed that the 1999 Agreement would be assignable to either RCWD or EMWD. The need for some future development to pay the MWD Annexation Per-Acre Charges is the same under all Ownership Scenarios described in this report, and as a result, is not included in the quantitative financial analysis.

The 1999 agreement terminates in December 2024. The current outstanding Annexation Per-Acre Charge balance is approximately \$12M. Under the agreement, if the balance has not been paid or other provisions for payment have not been made, for example, extension of the agreement, then MWD may pursue the

detachment of unpaid parcels through LAFCO that haven't paid the Annexation Charge, regardless of which agency owned the water system.

The current number of service connections in the Study Area, summarized by meter size, can be seen in Table 2-1. The majority of the meters currently in the Study Area are $\frac{3}{4}$ -inch meters that serve single family residential connections.

A large number of parcels in the Study Area are currently served by private wells. Therefore, land within the study area is classified as Developed-Served, if it currently has imported water service from the distribution system, Developed-Unserved, if it currently developed but provided service by private well, or Vacant, if the land is undeveloped and available for development in the future.