

LAFCO-

Thank you for taking the time to look into this important matter. As you know, I have been following this issue for more than 4 years and can appreciate the complexity of the issue.

I was able to attend the Murrieta presentation last month and at that time voiced some thoughts that I will repeat here:

The City of Murrieta is understandably eager to develop the southern part of Western's Murrieta Service Area and looks forward to the jobs it will provide. However, in looking over the analyses contained in this study I repeatedly noticed that none of the ownership scenarios truly followed through with the promise made by Stephen Dopudja and the water districts in April, 2019 that "growth pays for growth". (Several of my public comments submitted on the LAFCO website provided specifics on these concerns but unfortunately, they have not yet been addressed.) In all cases current customers pay for some portion of additional infrastructure (pipes and/or storage) that aren't needed to serve the current customers. While this is most obviously true for RCWD (where the ad valorem and/or water rate surcharge "... are also used to pay for water system infrastructure") both EMWD and WMWD will charge existing customers for some of the additional capacity that needs to be built. In all cases the additional capacity is for FUTURE customers, especially those that the City is so eagerly courting in the south part of the Murrieta Service Area.

Putting so much of the cost for water infrastructure for this new development (which benefits the City as whole – over 100,000 residents) onto 3,000 current customers is unfair. Given the importance that the City sees in this development I would like to once again encourage the City to find an alternate source of funding that does not put a disproportionate burden on less than 3.5% of the city's total population.

Finally, I was able to review the September 20, 2021 letter from RCWD's General Manager Robert Grantham, that was posted on the LAFCO website yesterday, as well as the alternative analysis provided by RCWD on March 1, 2021. Although they discuss O&M savings having a large impact on their competitiveness to serve Murrieta, I am far from being convinced of this. A few key items that I noted in RCWD's alternate "corrected" ownership scenario are:

1. RCWD assumed water rates would DROP significantly for WMWD's Murrieta Service Area customers.
  - a. starting last year (-10%)
  - b. followed by 2 years without any increase
  - c. then a huge -25% decrease and
  - d. another 2 years with no increase.

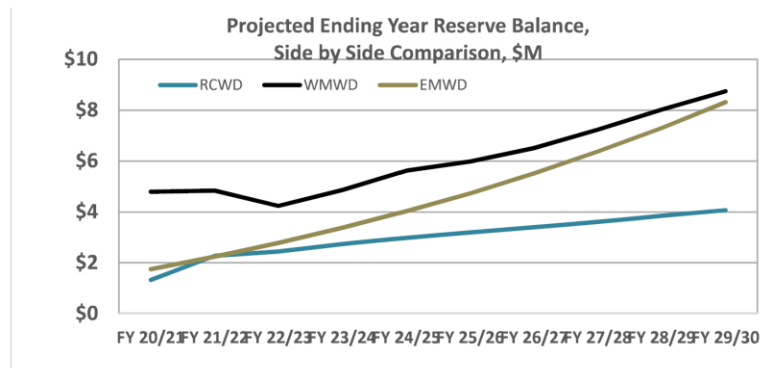
We would go SIX years with no increases (in fact – over 30% decrease in rates!!) Yet just a few months later (in July 2021) Rancho RAISED rates on their current customers for each of the next few years. This casts serious doubt about how realistic RCWD's "corrected" projections actually are.

These lower water rates in turn reduced the total water rate revenue that RCWD would earn from the Murrieta Service Area so if they implemented a water rate surcharge (instead of the ad valorem) then that surcharge would be even MORE than in the original analysis to earn the

same amount of revenue that Rancho needs to pay off their debt. The surcharge would increase to nearly 57% by Rancho's calculation, and with recent significant property value increases it would be even more (since the revenue it replaces is the ad valorem tax, tied to property/land values).

2. RCWD has a much leaner approach to reserves in this "corrected" version than they had previously. This is especially noteworthy because they already had leaner reserves than either EMWD or WMWD.

From the "corrected" projection:



Note that in the original Study RCWD's reserves at the end of 29/30 were \$5.8m. They revised this DOWN to just \$4.07m (a hair over RCWD minimum but well BELOW the minimum of the other 2 agencies). As the chart shows WMWD and EMWD both desire > \$8m in reserves at the 10 year mark. That is TWO times Rancho's reserve level, and the difference equates to an additional \$12 paid by every customer, every month, for 10 years to WMWD or EMWD to have what they deem to be proper reserve levels. This change alone took Rancho from being more expensive than Eastern to being less expensive than Eastern. Why is Rancho's reserve level now so low? And why did it drop so much in this "corrected" version?

Those are 2 key items that I noticed in my review of RCWD's "corrected" projections. I am sure that professionals in this area would notice things that I have not, were this subjected to the same scrutiny that the original scenarios of all 3 agencies were. While I understand that RCWD was disappointed in how they "stacked up" in the original analysis it is important that everyone who looks at this understands that this is much more complicated than RCWD O&M costing less than WMWD. RCWD wants to use Murrieta customers to pay off debt associated with expensive water infrastructure that is currently underutilized. While this would benefit current Rancho customers it is not in the best interest of Western's Murrieta customers.

Thank you again for your time,

Kathryn Elliott