

REQUEST FOR INFORMATION: Questions
DUE DATE: July 31, 2015

Proposed
“Fallbrook Public Utility District and Rainbow Municipal Water District Reorganization”
RO14-04; LPE14-04

List of Questions: FPUD and RMWD:

1. Indicate whether the Fallbrook PUD/Rainbow MWD Consolidation Study was adopted or accepted by each of the subject districts. If so, provide the adoption/acceptance date and minutes.

The October 2012 Draft Consolidation Study was a collaborative effort between the general managers and finance managers of the two districts, with assistance of two outside accounting professional (Forbes and Armstrong). The study provided both boards of directors the background and economic data necessary to make the decision to move forward with the formation of the North County Joint Powers Authority (NCJPA) as an interim step toward a formal merger of the two districts. The FPUD Board voted to move forward on February 25, 2013, and the Rainbow Board followed suit on February 26, 2013. Documents requested are attached.

2. Indicate whether the Fallbrook PUD/Rainbow MWD Consolidation Study is complete or missing any sections? Explain your response.

As stated above, the October 2012 Consolidation Study was a draft document developed to provide enough data with which to base a decision to move forward toward consolidation. It still remains a draft document. The main purpose of forming the NCJPA was to validate savings forecasts in the Draft Consolidation Study. The 11-month long JPA operations produced benefits significantly exceeding the draft study forecasts, with documented savings of nearly \$1 million.

3. What positions is Fallbrook PUD proposing to eliminate, if the reorganization is approved?

The reorganized district will initially have 11 duplicate management and administrative positions:

- ***General Manager/General Manager***
- ***Finance Manager/Administrative Services Manager***
- ***HR Manager/HR Administrator***
- ***Executive Assistant/Board Secretary***

- **Safety Administrator/Safety & Risk Administrator**
- **Chief Water System Operator/Water Operations Superintendent**
- **IT Technician/IS Technician**
- **Waste Water Superintendent/Field Supervisor, Collections**
- **Electrician/Electronic Technician**
- **Operation & Maintenance Manager/AGM Construction & Maintenance**
- **District Engineer/AGM Operations & Engineering**

Of the 22 individuals represented by the 11 positions above, within the two districts, one-half are currently eligible for retirement.

In addition, over a two-to-three year period, the following additional reductions are planned based upon economies of scale and improvements in use of technology:

- **Administrative Assistants reduced from 3 to 2**
- **Crew Leaders reduced from 9 to 8**
- **System Operators reduced from 9 to 8**
- **Customer Service Staff reduced from 8 to 7**
- **Drought Coordinator eliminated**

The total number of positions described above is 16. The original 2012 Draft Consolidation Study estimated a 20 position reduction. During the JPA operational phase, from April 2013 to March 2014, four positions were vacated and not replaced:

- **AGM/Chief Engineer (RMWD)**
- **CAD/CAM Technician (RMWD)**
- **Utility Worker (FPUD)**
- **Welding Technician (FPUD)**

4. Disclose and provide an explanation for any positions that have been added, eliminated, or in any other way, impacted as a result of the initiation of the proposed reorganization or in anticipation of the proposed reorganization for fiscal years beginning in 2013, 2014, 2015. Indicate the classification and number of positions, if applicable.

For FPUD:

2013-14: Eliminated the only Welding Technician position after incumbent retired. Analysis revealed that there was no need for a stand-alone Welding Technician. The welding duties were incorporated into Utility Worker and Utility Tech positions.

2014-15: Did not fill the Operations Manager position after incumbent retired, but it is still an open position. Eliminated one Accountant (lead)

position and added Accounting Supervisor with responsibility for Accounting/Customer Service Assistant, Customer Service Specialist, and Customer Service Representatives. Eliminated one Utility Worker in the System Service Department. Eliminated one Plant Operator position and added a Mechanical Technician position to provide specific mechanical responsibilities for the rehabilitated wastewater treatment plant. Added flexibility to the number of Customer Service Specialists and Customer Service Representatives for retention purposes. Budgeted for the unfilled position of Drought Management Coordinator.

2015-16: Filled Drought Management Coordinator position.

5. Explain the impact the reorganized district and associated staffing changes will have on service reliability and overall service provision.

Reductions in service personnel (i.e., customer service representatives, utility field workers, system operators, wastewater plant operators, and maintenance personnel) total only three of 85 positions as a result of the reorganization. These small staff reductions are more than offset by increased efficiencies produced by combining work groups and increasing service back-up support, particularly in “on-call” after-hour staffing. Consequently, service levels after the reorganization are expected to remain high, with opportunities for further improvement.

6. Disclose which agency or agencies and staff, consultants, or volunteers prepared the proforma Budgets presented in the Consolidation Study.

See the answer to question no. 1 above.

7. Provide backup or supporting documents that were used to develop the proforma summaries in the Consolidation Study. For example, provide the full detailed analysis that resulted in the proforma statements presented on page 37 of the Study.

The proforma statements presented on page 37 of the Draft Consolidation Study were updated May 12, 2014, and again six months later (November 14, 2014) based upon the progress achieved during JPA operations phase of the reorganization process. The supporting exhibits and budget assumptions are contained in the 20-page document entitled “Fallbrook PUD NCJPA Savings Projections 05-12-14 (updated November 14, 2014),” which has been on the San Diego LAFCO website for the past eight months and is included as Attachment A herein.

8. The asset and liability table shown on Page 19 of the Study needs to be updated to reflect each of the district’s current liabilities.

This information was provided to the LAFCO staff on July 15, 2015.

9. The Consolidation Study recommends layoffs of 20 positions over three years but the LAFCO recommended action has a two year moratorium on layoffs. Explain the service and financial impact associated with this difference.

The Consolidation Study did not recommend any layoffs of personnel. All reductions in staffing are accomplished by voluntary attrition over a projected three-year period. Thirty-one individuals (26%) within the combined districts' ranks are currently eligible for retirement. Therefore, there is no inconsistency between the proposed LAFCO order and the business plan anticipated for the reorganization.

10. The LAFCO staff report contains early retirement conditions. This condition was not factored into the Consolidation Study. Should this condition be imposed and if so, what possible financial impact would result within 2-5 years following the reorganization?

Early retirement options were contemplated in the Draft Consolidation Study and factored into the proforma financials.

11. The water rate increases from SDCWA shown in the Consolidation Study need to be adjusted to current values.

The November 14, 2014 updated financial proformas referred to in the answer to question no. 7, above, contain financial model assumptions in Exhibit 11, page 20. Water rate increases were forecasted based upon SDCWA historical trends.

12. What is the basis for increasing "all other revenues" by 3% per year on page 37 of the Consolidation Study? What are these revenues?

The escalation assumption for all other revenues of 3% in the Draft Consolidation Study was subsequently reduced to 2% in the November 14, 2014 proforma updates to be more conservative. Financial planning assumptions are contained in Exhibit 11, page 20 of "Fallbrook PUD NCJPA Savings Projections 05-12-14 (updated November 14, 2014)." The report is included herein as Attachment A. All other revenues are non-operating revenue including: property taxes, availability charges, capital improvement charges, leasing income and interest income.

13. The Consolidation Study assumes that the increase in customer rates will match SDCWA rate increases. Is this an accurate assumption?

The Consolidation Study (and subsequent updates in May 2014 and November 2014) assumed that retail water rates would generally trend with

the rise in wholesale rates from the SDCWA. A historic trend of 7% was used.

14. The proforma summary table on Page 38 of the Consolidation Study makes a projection on possible rate impacts. Explain the basis for these conclusions and whether the projections need to be modified.

In response to questions raised by board members of both districts, an analysis was included in the Draft Consolidation Study forecasting the impact on the future merged district's water rates if all the consolidation savings were to be applied to rate stabilization. The analysis showed a significant dampening of the year-over-year retail rate increases caused by imported water price hikes. Applying the same analysis using the savings estimates in the answer to question no. 23 would yield the same conclusions.

15. The cost savings projected in the Consolidation Study were based on a best case scenario. Provide a high to low estimate to accommodate unforeseen elements that may affect cost-savings. Explain the assumptions for the range.

The cost savings developed in the Draft Consolidation Study were based upon a worst-case scenario. The general managers in Fall 2012 (Brady and Seymour) estimated that the ongoing annual savings could reasonably reach \$3.5 million. However, to account for uncertainties in sustaining customer service levels in relation to taking advantage of additional economies of scale, only a small number of service-level positions were eliminated. That is precisely why non-management and administrative reductions in personnel are projected to be only three out of 85 positions (3.5%).

16. What is the relevance of showing the number of employees per water account on page 39 of the Study?

Customer Accounts per Employee (expressed as: total number of customer accounts/total number of employees) is a common metric in the water utility industry used to measure overall organizational efficiency.

17. Provide a quantification of the "other potential benefits" listed on page 40 of the Study in and the likelihood that each would be realized? What is the relative contribution to the \$150K to \$300K cited here from each?

From page 40:

Cost Reduction Opportunities

Annual Savings

Reduced property and liability insurance–JPIA \$20,000-\$30,000

Reduced vehicle fleet –heavy/specialty equipment	\$30,000-\$50,000
Reduced information technology costs	\$10,000-\$15,000
Banking service fee reduction.....	\$10,000-\$15,000
Internal training opportunities.....	\$5,000-\$10,000
One general counsel.	\$50,000-\$100,000
One Board of Directors.....	\$5,000--\$10,000
Combined outsource billing savings.....	\$5,000-\$10,000
Audit costs.....	\$10,000-\$20,000
Eliminating one office location.....	\$25,000-\$40,000
Optimize operations –pumping/storage facilities (capital & operating) ...	TBD
Potential to reduce more costly outsourcing.....	TBD
Potential to outsource existing internal functions performed by staff.....	TBD

The upper range (totaling \$300,000) is considered very conservative and does not include a variety of smaller annual savings (e.g., association memberships, licensing fees, software costs, and so forth).

18. If the reorganization occurs, it is assumed that the Fallbrook PUD's General Manager would become the overall General Manager and the Rainbow GM position would be eliminated. Will a percentage of the Rainbow GM's salary be reallocated to the RMWD side of the accounting system. Conversely, will any other FPUD administrative staff/managers take on additional leadership roles?

As stated, the question is unintelligible. When the Rainbow GM position is eliminated, the budget costs associated with his position are also eliminated. There will be no need to allocate his costs to the Rainbow division. The reorganized FPUD management team (including former Rainbow management) will allocate their time to either the Fallbrook Division or the Rainbow Division, as appropriate.

19. What percentages of these positions would apply and how would they be derived? For example, would it be based on water sales, water accounts, miles of pipes, or what? Once that percentage is derived, how do the relative costs land on each divisional account?

Please refer to Attachment B, an excerpt from the 2012 Draft Consolidation Study, which explains divisional accounting.

20. According to the Consolidation Study, it appears that without reorganization, FPUD may experience a deficit situation each year, but then experiences a surplus after reorganization. Explain this financial situation and indicate if a transfer of funds from RMWD ratepayers to FPUD is the cause for FPUD's improved fiscal condition.

Non-profit water agencies like FPUD and Rainbow set customer rates to collect enough revenue to pay the expenses of providing services. Annual

budgetary planning attempts to match revenues with expenses, creating zero “profit” or “loss”. However, as a practical matter, on a year-to-year basis, agencies do record annual losses or over-collections, which are adjusted in the next year’s budget cycle.

For the purposes of a common starting point for the 2012 Draft Consolidation Study, the fiscal year 2010-11 audited financial statements for Rainbow and FPUD were used as the base period. In that fiscal year FPUD recorded a modest negative change in net position (“loss”), while Rainbow recorded a positive change in net position (“profit”). On the other hand, if the base period had been developed using either fiscal year 2011-12 or 2013-14, Rainbow would have shown a negative change in net assets and FPUD a positive change.

Based upon the above, there is no structural deficit for either FPUD or Rainbow; and, consequently, no transfer of funds between the two districts.

21. Provide adopted service level standards for operating and maintaining systems and responding to customer service requests or system emergencies. An example is: “Respond to a customer service request of no water to house” within a defined timeframe.

Customer Service protocol for emergencies and customer service calls:

District Wide Emergency:

Immediately notify:

- ***Call in the following order:***
 1. ***General Manager***
 2. ***Assistant General Manager***
 3. ***Safety & Risk Administrator***
 4. ***Administrative Services Manager/Treasurer***

Customer Service Calls:

Department 3, Collections

Immediately notify Collection Systems:

- ***Call Collections in the following order:***
 1. ***Foreman***
 2. ***Utility Technician***
 3. ***Utility Technician***
 4. ***The Fallbrook Standby Phone***

5. Emergency and no department response, Assistant General Manager

Department 4, Construction Operations

- **Call Construction Operations in the following order:**
 1. **Foreman**
 2. **Utility Technician**
 3. **Utility Technician**
 4. **The Fallbrook Standby Phone**
- **Emergency and no department response, Assistant General Manager**
- **If not an emergency, leave a voice mail on the Fallbrook Standby Phone with a brief description of the service order.**

Department 5, System Service

- **Call System Service Operations in the following order:**
 1. **Foreman**
 2. **Utility Technician**
 3. **The Fallbrook Standby Phone**
- **Emergency and no department response, Assistant General Manager**
- **If not an emergency, leave a voice mail on the Fallbrook Standby Phone with a brief description of the service order.**

Department 6, System Operations

- **Call System Operations in the following order:**
 1. **Chief Systems Operator**
 2. **Lead System Operator**
 3. **The Fallbrook Standby Phone**
- **Emergency and no department response, Assistant General Manager**
- **If not an emergency, leave a voice mail on the Fallbrook Standby Phone with a brief description of the service order.**

Department 8, Wastewater Plant Operations

- **Call Wastewater Plant Operations in the following order:**
 1. **Chief Plant Operator**
 2. **Lead Plant Operator**
 3. **The Fallbrook Standby Phone**
- **Emergency and no department response, Assistant General Manager**
- **If not an emergency, leave a voice mail on the Fallbrook Standby Phone with a brief description of the service order.**

Answering Service after hours calls are always transferred to departmental "On-Call" personnel:

"On-Call" shall mean that time in a workweek other than the scheduled work hours, during which an employee is required to be able to be contacted by telephone and be able to report to the District office building within forty-five (45) minutes.

Customer service calls of all types during regular work day hours are responded to within 30 minutes unless a system emergency has been declared.

22. Provide a discussion of the expected service level impacts associated with reducing personnel by up to 20 positions in the reorganized FPUD in the next three years.

As explained in the answer to question no. 5, reductions in service personnel (i.e., customer service representatives, utility field workers, system operators, wastewater plant operators, and maintenance personnel) total only three of 85 positions as a result of the reorganization. These small staff reductions are more than offset by increased efficiencies produced by combining work groups and increasing service back-up support, particularly in "on-call" after-hour staffing. Consequently, service levels after the reorganization are expected to remain high, with opportunities for further improvement.

23. Update as necessary, any or all of the proforma statements included in the July 6, 2015 LAFCO staff report, with an explanation describing the update.

The July 6, 2015 LAFCO staff report is based upon the financial analysis in the "Fallbrook PUD NCJPA Savings Projections 05-12-14 (updated November 14, 2014)," which is included herein as Attachment A.

The analysis to determine the net annual benefit of merging the two districts used a "with and without" approach. Proforma financial statements forecasting a five-year period were prepared for each district as stand-alone operations and another forecast of a merged operation.

The data from this analysis show two principal drivers which create the net benefits:

- **Personnel reductions (wage and benefits savings)**
- **Other cost savings (see answer to question no. 17)**

Wage and Benefit Savings:

As described in the answer to question no. 3 above, the total number of staff reductions planned for in the reorganization is a net of 16 (after

adjusting for positions already eliminated during the JPA operations phase from April 2013 to March 2014).

Current FPUD salaries and benefits, by position, were submitted to LAFCO staff on July 15, 2014, and are shown on LAFCO's website as "FPUD 13-14 and 14-15 Staffing by Department Number."

To calculate wage and benefit savings for a reduction in 16 positions, FPUD actual salaries were utilized, except for the general manager and district engineer positions (which used Rainbow's salary numbers). Using FPUD salaries provides a more conservative savings estimate, given that FPUD salaries for equivalent positions are lower than Rainbow, except for general manager and district engineer.

Using the salary and benefit information as described above and applying a 2% July 1, 2015 COLA adjustment yields a \$2,415,258 annual wage and benefit savings from the planned reduction of 16 positions.

Other Cost Savings:

As outlined in the answer to question no. 17 above, other annual cost savings with the reorganization are still estimated to be between \$170,000 (worst case) and \$300,000 (most likely case).

Total Annual Savings:

Based upon the above, current annual savings from the proposed reorganization are forecasted to be between \$2,585,258 and \$2,715,258.

ATTACHMENTS TO QUESTION NO. 1

1. February 25, 2013 Minutes, Fallbrook Public Utility District
2. February 26, 2013 Minutes, Rainbow Municipal Water District

APPROVED IN A PUBLIC MEETING OF THE
BOARD OF DIRECTORS OF THE FALLBROOK

FALLBROOK PUBLIC UTILITY DISTRICT

PUBLIC UTILITY DISTRICT ON 3/25/13

BOARD OF DIRECTORS
REGULAR BOARD MEETING

Mary Lou
SECRETARY, BOARD OF DIRECTORS

MINUTES

MONDAY, FEBRUARY 25, 2013

DISTRICT OFFICE BOARDROOM
990 E MISSION RD, FALLBROOK, CA 92028

OPEN SESSION: 4 PM / CLOSED SESSION TO FOLLOW

PHONE: (760) 728-1125

I. PRELIMINARY FUNCTIONS

CALL TO ORDER / ROLL CALL

President Hayden called the regular meeting of the Board of Directors of the Fallbrook Public Utility District to order at 4:00 p.m. Attendance as follows:

Board of Directors

Present:

Bert Hayden, President
Al Gebhart, Vice President (*left at 5:20 p.m.*)
Milt Davies, Director
Don McDougal, Director
Archie McPhee, Director

District Staff

Present:

Brian J. Brady, General Manager
Jack Bebee, Assistant General Manager
Marcie Eilers, Administrative Services Manager
David Horn, Operations Manager
Casey Walters, Human Resources Administrator
Noelle Denke, Public Affairs Specialist
Mary Lou Boultinghouse, Secretary
Robert James, General Legal Counsel

Various Members of the Public and Staff

REGULAR MEETING / OPEN SESSION

PLEDGE OF ALLEGIANCE

President Hayden led the Pledge of Allegiance.

ADDITIONS TO AGENDA PER GC § 54954.2(b)

There were no additions to the agenda.

APPROVAL OF AGENDA

Director McDougal moved to approve the agenda as submitted; Director Gebhart seconded. Motion carried; Vote:

AYES: Davies, Gebhart, Hayden, McDougal
NOES: McPhee
ABSTAIN: None
ABSENT: None

PUBLIC COMMENT

President Hayden received a speaker slip from **Mr. David Rad** relative to Item L and stated he would call for Mr. Rad's comments at the time Item L is discussed and considered by the Board.

President Hayden called for additional public comments and speaker slips; there were none.

A. EMPLOYEE OF THE QUARTER

1. Donald Parker

General Manager Brady commended Donald Parker for being selected Employee of the Quarter by Todd Jester. Donald received a gift valued at \$100 and a certificate. Donald will be taken to lunch by General Manager Brady, a director, Todd Jester, and a member of the Recognition Committee. President Hayden congratulated Donald, and Public Affairs Specialist Denke took a photograph.

B. YEARS OF SERVICE

1. Ginny Walker

General Manager Brady commended Ginny Walker for receiving a Years of Service Award. President Hayden congratulated Ginny, and Public Affairs Specialist Denke took a photograph.

C. LONGEVITY AWARD

1. Noelle Denke

General Manager Brady and the Board commended Noelle Denke for receiving a Longevity Award.

II. CONSENT CALENDAR ----- (ITEMS D - I)**D. CONSIDER APPROVAL OF MINUTES**

1. Regular Board Meeting of January 28, 2013.

Recommendation: *Approve the minutes of the regular board meeting of January 28, 2013.*

E. RESCHEDULE THE REGULAR MEETING OF THE BOARD OF DIRECTORS FOR THE MONTH OF MAY 2013

Recommendation: *Approve rescheduling the regular meeting of the Board of Directors for the month of May from Monday, May 27th to Wednesday, May 29th due to the Memorial Day holiday.*

**F. CONCURRENCE IN NOMINATION TO ACWA / JPIA'S EXECUTIVE COMMITTEE
RESOLUTION NO. 4779**

Recommendation: *Concur in nomination of Mrs. Melody McDonald of San Bernardino Valley Water Conservation District to serve on the ACWA / JPIA Executive Committee; and, adopt Resolution No. 4779.*

**G. DESIGNATE A PROXY VOTER ON THE SAN DIEGO COUNTY WATER AUTHORITY BOARD OF DIRECTORS
RESOLUTION NO. 4780**

Recommendation: *Confirm the SDCWA director from the Rainbow Municipal Water District as the designated representative on the SDCWA Board to vote in the District representative's absence; and, adopt Resolution No. 4780.*

**H. SUPPORT DEVELOPMENT BY CAL STATE UNIVERSITY SAN MARCOS OF A WATER MANAGEMENT CERTIFICATE PROGRAM
RESOLUTION NO. 4781**

Recommendation: *Support the development of a Water Management Certificate Program by California State University San Marcos by adopting Resolution No. 4781.*

I. WASTEWATER TREATMENT PLANT (WWTP) REHABILITATION PROJECT CONTRACTOR PREQUALIFICATION AND BID SOLICITATION

Recommendation: *Authorize staff to solicit bids from the prequalified contractors for the WWTP Rehabilitation Project.*

Director Davies requested that Item G be pulled from the Consent Calendar and moved to approve the Consent Calendar as amended, and adopt Resolution Nos. 4779 and 4781; Director McDougal seconded. Motion carried; Vote:

AYES: Davies, Gebhart, Hayden, McDougal
NOES: None

ABSTAIN: McPhee
ABSENT: None

President Hayden announced Item G would be discussed and considered next.

**G. DESIGNATE A PROXY VOTER ON THE SAN DIEGO COUNTY WATER
AUTHORITY BOARD OF DIRECTORS
RESOLUTION NO. 4780**

Recommendation: Confirm the SDCWA director from the Rainbow Municipal Water District as the designated representative on the SDCWA Board to vote in the District representative's absence; and, adopt Resolution No. 4780.

Director Davies stated he is concerned with designating the Rainbow Municipal Water District's (Rainbow) San Diego County Water Authority (SDCWA) director, who voted in favor of the desalination project, as the District's designated representative. The District and Valley Center Municipal Water District (Valley Center) voted against the desalination project; for this reason, the Board may wish to consider designating the Valley Center representative to vote in the District representative's absence.

General Manager Brady responded the Rainbow's SDCWA director was absent from the SDCWA meeting when the desalination project was approved, and a proxy vote was not cast on behalf of Rainbow in their absence in favor of the project.

Director Gebhart suggested designating another FPUD board member as a designee. Staff clarified that another SDCWA director must be named as a designated representative and none of our board members are SDCWA directors.

Director Gebhart requested this item be brought back to the Board in March and directed staff to revise the resolution to include a provision for the District's representative to direct the designated representative on how to vote. The Board concurred, and this matter will be postponed for consideration to the March 25, 2013, regular board meeting.

III. INFORMATION ----- (ITEMS J - K)

J. COMMUNITY OUTREACH UPDATE

Presented by: Noelle Denke, Public Affairs Specialist

Director Davies asked General Manager Brady if he is attending Rotary meetings, and General Manager Brady responded he is planning to begin

attending Rotary meetings held at the Grand Tradition within the next couple of weeks.

K. DIRECTOR ORIENTATION PROCESS

Presented by: Brian J. Brady, General Manager

General Manager Brady reported the Directors who were appointed/re-elected in the November General Election will be contacted for participation in the newly-mandated orientation process.

Director Davies requested a workshop be held for all directors to receive orientation. President Hayden stated it has been 13 years since he last toured the District.

IV. ACTION / DISCUSSION CALENDAR ----- (ITEMS L - R)

L. CUSTOMER APPEAL

Recommendation: Deny the customer's request that the District move the customer's water meter to his property and waive a disputed water bill in the amount of \$6,635.33 and a \$250.00 penalty for tampering with the meter and credit him for three months that water was not used.

Engineering Technician Jeff Marchand reported he has been working with Mr. Rad for almost two years relative to the location of Mr. Rad's water meter. In addition to Mr. Rad's concerns with the location of his meter, Mr. Rad has experienced leaks and stated he does not have access to his water meter or water lines to make repairs. Mr. Marchand also reported Mr. Rad was informed his property is serviced by a Remote Meter Agreement, and his meter is located approximately 700 feet to the east on property owned by ACW Medical.

Mr. Rad's attorney requested the District provide a new connection established at Mr. Rad's property, execute a new Remote Meter Agreement in favor of Mr. Rad, and provide an easements for access when needed.

In response to Mr. Rad and his attorney's request, District staff explained the terms of the Remote Meter Agreement to Mr. Rad. District staff informed Mr. Rad the Remote Meter Agreement, which was executed by the previous property owners, stays with the property and any easements needed are the responsibility of the property owner and not the District.

District staff provided Mr. Rad with an estimate in the sum of \$3,497 to relocate his water meter to a new location that is not on ACW Medical property, which would allow Mr. Rad access to his meter. Currently, access to Mr. Rad's meter is blocked by a fence owned by ACW Medical. District staff also provided Mr. Rad

with an estimate in the sum of \$90,300 to relocate the water meter to his property. This estimate includes running a District water line to his property. Mr. Rad was informed he could hire a private contractor that may charge less than the District; however, the contractor would have to build in accordance with District specifications.

In December, District staff discovered small leaks on the District's side of the meter and made those repairs. At the same time, District staff discovered leaks on Mr. Rad's side of the meter.

In January, District staff noted an extreme spike in water usage. Following procedure, an inspection was performed to investigate the spike in water usage. As a result of the inspection, staff discovered the water meter had been tampered with. In accordance with policy, a \$250 meter tampering fee was assessed to Mr. Rad's account. Mr. Rad was informed by a letter dated February 4, 2013, that his account was assessed \$250 and the meter read was indicative of a very large water leak on his property.

In response, Mr. Rad has requested relief from the Board as follows: (1) move the meter to his property, (2) waive the water bill of \$6,635.33 and the \$250 penalty, and (3) credit his account for three months of water that was not used.

Assistant General Manager Bebee outlined the options Mr. Rad may wish to consider: (1) relocate the water meter outside the fence, (2) obtain access to the water meter at its present location and repair his private line, or (3) run a water line to his property and relocate the meter there. The District is not recommending option (3) because of the cost.

Mrs. Rad took the podium and stated they do not have control of the water meter because it is not located on their property, and they do not have access to the water meter because of the fence. Mrs. Rad stated the only way to access the meter is through the ACW foreman. The last time the foreman was contacted, he did not provide access to the meter for 48 hours. After the spike in their bill, the Rads requested the ACW foreman to shut off the water at their meter. Another 48-hour time period elapsed before the foreman shut off the water. Mrs. Rad stated she has not seen a copy of the Remote Meter Agreement and she would like to see it. She also stated her opinion is the Remote Meter Agreement is not binding on them as the new property owners. Mrs. Rad stated she feels \$90,000 is excessive to move the meter to their property, and they should not be assessed a meter tampering fee since they have no access to their meter at its current location.

Mrs. Rad reported they have paid their monthly bills, which have been in the hundreds. All of a sudden, the bill spiked to \$6,000 and then to \$7,000. She stated the spike was apparently due to a leak, but they did not use that water. Mrs. Rad stated her primary concern is the location of the meter and relocating

the meter to their property at the District's expense. Mrs. Rad also stated their water line and meter is on the neighbor's property and both can be tampered with.

President Hayden asked if a title search had been done at the time of purchase. Mr. Rad acknowledged they did purchase title insurance. President Hayden asked if they had easements across neighboring properties. If so, they may have a right to access their pipe and meter.

Mr. Rad requested the meter be relocated to their property, and President Hayden stated the cost is \$93,000. Mrs. Rad asked what remedies the Board could offer. Director Gebhart stated they have three possible options: (1) work with ACW to gain access, (2) check the title report for easements, or (3) pay the District \$93,000 to relocate the meter onto their property. Assistant General Manager Bebee suggested the logical option is to pay \$3,500 to relocate the meter in the road. He also suggested they could possibly save money by hiring a private contractor.

Director McDougal noted the previous owners chose a Remote Meter Agreement to save money. The Agreement was in place at the time of purchase and cannot be negated. He stated the simple solution is to spend \$3,500 to relocate the meter.

After stating he did not have a copy of the Remote Meter Agreement, President Hayden provided Mr. Rad with the copy from his board packet. Mrs. Rad expressed concern over the \$250 meter tampering fee assessed and stated moving the water meter would resolve the issue of tampering. Director McDougal pointed out that if the meter is moved to the road, it can still be tampered with. Mr. and Mrs. Rad replied no one would tamper with the meter because it would be on their property. Director McDougal clarified for \$3,500 the meter would be moved off the ACW property and in the road; not onto their property.

Assistant General Manager Bebee explained the District owns the water lines to the meter, and the customer owns the water lines after the meter. The District must follow certain specifications for construction materials, and those materials are very expensive. The District has approximately 100 customers with Remote Meter Agreements. Those customers typically run a 2-inch PVC line from the water meter to their property, which is considerably less expensive than a water line built according to District Specifications. Mr. Bebee reiterated a private contractor may be less expensive, but the cost would be considerable because of the materials the contractor would be required to use. (The pipe would have to be a 6-inch cement mortar and coated steel line.)

Operations Manager Horn reminded the Rads to call the District after-hours emergency phone number if they suspect a leak. Stand-by personnel are on

duty 24-hours a day and the Rads would not have to wait 48 hours for the ACW foreman to turn off the water at their water meter.

President Hayden asked the Rads if they had an easement over ACW property, and Mrs. Rad replied they would check. Mr. Marchand added he did not know if the Rads had an easement.

Director Davies suggested the Rads contact ACW to request a key for the gate in the fence that blocks access to their water meter. He stated that is the least expensive way to access their meter. The next issue is the water charges and the meter tampering fee. Director Davies further stated the Board cannot prove who tampered with the meter and made a suggestion to the Board to waive the meter tampering fee and the \$6,000 charge for water. Mrs. Rad added they have paid their bills, but the bills are in the hundreds and then spike to the thousands. She stated this inconsistency in usage has occurred two to three times.

Administrative Services Manager Eilers reported District policy is to offer a discount to customers when a spike in water usage occurs and is due to a leak. The discount offered is the difference between the retail and wholesale cost of water. Based on that policy, the Rads can be offered a discount in the sum of \$492.25.

Director Gebhart moved to offer the Rads a discount in the sum of \$492.25 and waive the \$250 meter tampering fee and work out a payment program for the remaining balance. There was no second, and the motion failed.

Mrs. Rad protested and stated they did not use the water. Discussion included the policy that if water runs through a water meter, whether or not the water is used by the customer, the charges are due and payable from the customer.

Director Davies moved to waive the fees because neither the Rads nor the District can prove who used the water; Director McPhee seconded. Motion failed; Vote:

AYES: Davies, McPhee
NOES: Gebhart, Hayden, McDougal
ABSTAIN: None
ABSENT: None

Director McDougal stated his concern is if the Board waives thousands of dollars in charges, the other District ratepayers will be paying for the water that passed through the Rad's meter. If water passes through a meter, the charges are due from the property owner.

Operations Manager Horn expressed his concern that leaks will continue to occur on the Rad's property due to the age of the pipes.

Director McPhee stated he did not understand the rationale that other ratepayers would pay for the amount waived.

President Hayden stated this problem is not unique to the Board and has been previously addressed. He further stated this is a difficult decision but the reality is the pipes are old, not maintained, and probably not buried in the ground. The only solution is to sell the Rads the water at cost, which will save the Rads over \$400, and to waive the meter tampering fee. President Hayden suggested gaining access to the meter by working with ACW to obtain a key to their gate.

Discussion included the importance of determining whether or not the Rads have an easement for access to their pipe and meter. Mrs. Rad requested the Board to meet them half-way, and President Hayden replied the District offers payment arrangements through the Administrative Services Manager.

Director Gebhart moved to waive the meter tampering fee and discount the bill by the wholesale cost of water; Director McDougal seconded. Motion carried; Vote:

AYES: Davies, Gebhart, Hayden, McDougal, McPhee
NOES: None
ABSTAIN: None
ABSENT: None

Assistant General Manager Bebee stated Mr. Marchand will schedule a meeting with the Rads and ACW Medical at the job site to discuss the access issue.

Director McDougal emphasized this issue is between the property owners and is not the District's business to resolve since the Rads purchased the property with the Remote Meter Agreement. The District will attempt to help, but cannot force anything.

President Hayden requested Mr. Marchand report back to the Board at the March regular board meeting with the results of the meeting.

M. COATING INSPECTION SERVICES FOR THE SACHSE RESERVOIR

Recommendation: Authorize the execution of a professional services contract between the District and MCS Inspection Group for the approved, budgeted coating inspection for the Sachse Reservoir for as-needed coating inspection services at a cost not-to-exceed \$50,000.

Assistant General Manager Bebee reported the District is currently soliciting bids from contractors to re-coat one of the District's larger reservoirs, which is a 10 million gallon reservoir. Our staff does not have the expertise to perform coating inspection services; therefore, the District will be requiring the assistance of an outside firm to perform those services. The total cost of the project will be

approximately \$900,000, and those bids will be brought to the Board next month. A request for proposals was sent to four firms, and four proposals were received back. Those proposals were reviewed and ranked, and staff is recommending awarding the contract to MCS Inspection Group for coating inspection services at a cost not-to-exceed \$50,000.

Discussion included that the coating inspection services would be used on an as-needed basis and the contract is a professional services contract.

Director Davies moved to approve the staff recommendation; Director McDougal seconded. Motion carried; Vote:

AYES: Davies, Gebhart, Hayden, McDougal, McPhee
NOES: None
ABSTAIN: None
ABSENT: None

**N. AMENDMENT TO ADMINISTRATIVE CODE – ARTICLE 11, PERSONNEL REGULATIONS
RESOLUTION NO. 4782**

Recommendation: Approve amendments to Article 11 with the proposed changes; and, adopt Resolution No. 4782.

Human Resources Administrator Walters reported that the Public Employees Pension Reform Act (PEPRA) has mandated that new employees, who are also new members, hired after January 1, 2013, be enrolled into the District's CalPERS plan under the 2%@62 formula. Also, due to an oversight when drafting the FPUDEA MOU, the eligible years for tuition reimbursement were not updated. The proposed revisions update the Personnel Regulations with the changes.

Director Davies asked how many employees are taking advantage of tuition reimbursement. Mrs. Walters responded four, and they are not management employees. Director Davies also asked if employees are required to declare a career path, and Human Resources Administrator Walters stated a career path is not required for tuition reimbursement.

Discussion took place relative to the tuition reimbursement amount, and if that amount had been changed in recent years. Human Resources Administrator Walters stated the amount has been the same for years; and if a change were requested, that change would go through the meet-and-confer process.

Director Davies moved to approve the staff recommendation, and adopt Resolution No. 4782; Director Gebhart seconded. Motion carried; Vote:

AYES: Davies, Gebhart, Hayden, McDougal

NOES: None
ABSTAIN: McPhee
ABSENT: None

**O. AMENDMENT TO ADMINISTRATIVE CODE—ARTICLE 27, INVESTMENT POLICY
RESOLUTION NO. 4783**

Recommendation: Approve amendments to Article 27 with the proposed changes; and, adopt Resolution No. 4783.

Administrative Services Manager Eilers reported the Fiscal Policy & Insurance Committee met and reviewed investments allowable under California law and recommended those allowable investments be incorporated into the Investment Policy. Items added are as follows: Mutual Funds and Money Market Mutual Funds, Mortgage Pass through Securities and CD Placement Services.

The Committee also recommended the Treasurer be allowed to exceed the five-year limit by express authority of the Board and the investment must be made at least three months after approval.

Director McDougal moved to approve the staff recommendation to include giving the Treasurer the authority to invest 10 percent of the District's portfolio in products with a term greater than five years, and adopt Resolution No. 4783; Director Gebhart seconded. Motion carried; Vote:

AYES: Davies, Gebhart, Hayden, McDougal, McPhee
NOES: None
ABSTAIN: None
ABSENT: None

General Manager Brady requested the graphs included in the monthly reports be enlarged for easier reading.

P. FORMATION OF THE NORTH COUNTY JOINT POWERS AUTHORITY AND APPROVAL OF FORMATION DOCUMENTS

Recommendation: Approve the JPA documents to form the North County Joint Powers Authority.

General Manager Brady reported the following JPA documents are included in the board packet for consideration: North County Joint Powers Authority Joint Exercise of Powers Agreement, Bylaws, and Employee Leasing Agreement. President Hayden asked if the board members read through all documents, and they responded they had. General Manager Brady stated the documents were

revised by special counsel after the February 12, 2013, joint special board meeting / workshop.

Director McDougal moved to approve staff recommendation and form the North County Joint Powers Authority with Rainbow Municipal Water District. Director Davies seconded. Motion carried; Vote:

AYES: Davies, Gebhart, Hayden, McDougal
NOES: McPhee
ABSTAIN: None
ABSENT: None

Q. APPOINT BOARD MEMBERS TO THE BOARD OF DIRECTORS OF THE NORTH COUNTY JOINT POWERS AUTHORITY

Recommendation: Appoint three board members and one alternate to the Board of Directors of the North County Joint Powers Authority.

General Manager Brady reported since the Board approved the formation of the joint powers authority (JPA), the next task is to appoint three District board members to serve on the JPA Board of Directors and one alternate to serve in the event of an absence.

Director McDougal stated he and Director Davies have served on the ad hoc committee and the Personnel Committee that have been working on the formation of the JPA over the past year. He would like them appointed to the JPA board and would like recommendations for the third JPA board member and the alternate.

President Hayden stated he would be willing to serve as the alternate.

Director McDougal moved to appoint himself, Director Davies, and Director Gebhart to serve on the North County Joint Powers Authority Board of Directors and President Hayden be appointed to serve as the alternate; Director Gebhart seconded. Motion carried; Vote:

AYES: Davies, Gebhart, Hayden, McDougal
NOES: McPhee
ABSTAIN: None
ABSENT: None

R. POSSIBLE VIOLATION OF THE DISTRICT'S ETHICS POLICY BY A MEMBER OF THE BOARD OF DIRECTORS

Recommendation: That the Board consider admonishing Director McPhee for violation of the District's Ethics Policy and the Brown Act and require Director McPhee to work through the General Manager when requesting information.

General Manager Brady reported the Personnel Committee met on February 6, 2013, to investigate possible violations of the District's Ethics Policy and the Brown Act by Director McPhee. After review of the information presented, the Personnel Committee recommended adopting a resolution admonishing Director McPhee for those violations. Additionally, Director McPhee is to cease contacting staff and work through the General Manager's office.

Director McDougal moved this item be postponed for further investigation and brought back to the full Board next month for consideration to adopt a resolution admonishing Director McPhee. Director Davies seconded. Motion carried; Vote:

AYES: Davies, Gebhart, Hayden, McDougal
NOES: None
ABSTAIN: McPhee
ABSENT: None

Director McPhee requested this matter be referred to the Attorney General for a decision and stated he does not feel he will be given a "just settlement."

President Hayden informed Director McPhee the Board is following the recently-adopted ethics and conduct policies, and Director McPhee has the right to present information in his defense. President Hayden also informed Director McPhee that he can present evidence today or at next month's board meeting.

Director McPhee was advised by General Legal Counsel James that he does not have the right to appeal to the Attorney General.

V. ORAL / WRITTEN REPORTS

1. General Counsel – (*written / on file*)
2. SDCWA Representative / General Manager
 - General Manager Brady reported he was appointed Chair of the Engineering and Operations Committee for the SDCWA. One of the largest areas of work for that committee is to make sure the desalination project and the emergency storage program are properly managed.
 - General Manager Brady reported he is currently serving on the State Legislative Committee and the Federal Affairs Committee for the Association of California Water Agencies. He will participate in the Federal Affairs Committee meetings by conference call, and the committee meets four times

a year. Both committees are currently investigating three proposed bills that would collectively transfer the duties of the California Department of Public Health to the State Water Resources Control Board and the Regional Board. The purpose is to improve regulation; however, the majority of the industry is opposed to that proposal.

- General Manager Brady will be representing the District and the SDCWA at the San Diego Chamber of Commerce dinner.

Director Gebhart left at 5:20 p.m.

3. Administrative Services Manager / Treasurer – (*written / on file*)
4. Assistant General Manager – (*written / on file*)
5. Operations Manager – (*written / on file*)
6. Public Affairs Specialist – (*written / on file*)
7. Director Comments / Reports on Meetings Attended
 - Director Davies reported he attended the Council of Water Utilities meeting with General Manager Brady and encouraged others to attend future meetings.
 - Director McDougal reported he attended the CSDA San Diego Chapter dinner. The speaker was Jeff McDonald who is an investigative reporter for the Union Tribune. Director McDougal also reported he participated in Ethics Training at the SDCWA.
 - President Hayden reported he received a letter from Chair Wornham and General Manager Stapleton of the SDCWA to say thank you for allowing them to give their presentation at the January board meeting.

ADJOURN TO CLOSED SESSION

The Board adjourned to Closed Session at 5:22 p.m.

VI. CLOSED SESSION

1. CONFERENCE WITH LEGAL COUNSEL - EXISTING LITIGATION PER GC § 54956.9
U.S. v. FPUD

RECONVENE TO OPEN SESSION

The Board reconvened to Open Session at 5:45 p.m.

REPORT FROM CLOSED SESSION

The Board authorized the General Manager to spend up to \$30,000 for contract services with *Townsend Public Affairs* to support development of the physical solution to resolve *U.S. v. FPUD (Case No. 1247)*.

VII. ADJOURNMENT OF MEETING

Director McDougal moved to adjourn the regular meeting of the Board of Directors of the Fallbrook Public Utility District at 5:50 p.m.; Director Davies seconded. Motion carried; Vote:

AYES: Davies, Hayden, McDougal, McPhee
NOES: None
ABSTAIN: None
ABSENT: Gebhart



President, Board of Directors

ATTEST:



Secretary, Board of Directors

**MINUTES OF THE REGULAR BOARD MEETING
OF THE BOARD OF DIRECTORS OF THE
RAINBOW MUNICIPAL WATER DISTRICT
FEBRUARY 26, 2013**

1. **CALL TO ORDER** - The Regular Meeting of the Board of Directors of the Rainbow Municipal Water District on February 26, 2013 was called to order by President McManigle at 12:02 p.m. in the Board Room of the District, 3707 Old Highway 395, Fallbrook, CA 92028. President McManigle presiding.

2. **ROLL CALL:**

Present: Director Griffiths
Director Lucy
Director McManigle
Director Sanford
Director Brazier

Absent: None

Also Present: Finance Manager Buckley
General Manager Seymour
Executive Assistant/Board Secretary Washburn
Legal Counsel Lemmo
Superintendent Miller
District Engineer Plonka
Superintendent Walker
Utility Worker and REA Representative Heincy
Associate Engineer Rebueno

No members of the public were present before Open Session. Twenty-one members of the public were present for Open Session.

3. **ADDITIONS/AMENDMENTS TO THE AGENDA (Government Code §54954.2)**

There were none.

4. **ORAL/WRITTEN COMMUNICATIONS FROM THE PUBLIC
OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO ADDRESS THE BOARD REGARDING
CLOSED SESSION AGENDA ITEMS (Government Code § 54954.2).**

There were no comments.

(*) - Asterisk indicates a report is attached.

The meeting adjourned to Closed Session at 12:03 p.m.

Time: 12:03 p.m.

5. CLOSED SESSION

- A. Appointment; Employment; Evaluation of Performance – General Manager (Government Code §54957)
- B. Conference with Labor Negotiators (Government Code §54957.6 and §54957)

Agency Designated Representatives

Dave Seymour

Discussions regarding labor negotiations for:

Rainbow Employee Association
Rainbow Association of Supervisor and Confidential Employees
Rainbow Exempt Employees

The meeting reconvened at 1:01 p.m.

6. REPORT ON POTENTIAL ACTION FROM CLOSED SESSION

This item was addressed under Item #8 herein.

Time Certain: 1:00 p.m.

7. PLEDGE OF ALLEGIANCE

8. REPEAT REPORT ON POTENTIAL ACTION FROM CLOSED SESSION

Legal Counsel reported the Board considered and approved a memo to exempt employees concerning retiree health benefits vesting schedules and the Board's memo confirms that the District intends to honor pre-2013 vesting schedules.

9. REPEAT ADDITIONS/DELETIONS/AMENDMENTS TO THE AGENDA (Government Code §54954.2)

President McManigle noted there were no changes to the agenda.

10. ORAL/WRITTEN COMMUNICATIONS FROM THE PUBLIC OPPORTUNITY FOR MEMBERS OF THE PUBLIC TO ADDRESS THE BOARD REGARDING ITEMS NOT ON THIS AGENDA (Government Code § 54954.2).

James Davis addressed the Board as he referenced the minutes of the RMWD January 22, 2013 meeting including all discussions involving Maggie and Tom Tiehen. He noted the Beck Reservoir residents have concerns regarding RMWD's eventual plans for the property immediately adjacent to the reservoir. He suggested the Board was blatantly ignoring those concerns. He asked for assurances from the Board that its activities will not reduce their property values. He pointed out anyone selling their home must have full disclosure and should he sell his home he may have to disclose he lives next to a "chemical treatment plant" which could impact his property sale for which he said the District would be directly responsible. He

(*) - Asterisk indicates a report is attached.

asked the Board if they have a reserve fund for legal fees including theirs when they prevail. He pointed out the valuation might exceed \$200,000 for each of the affected neighbors; therefore, they would be willing to spend a great deal of money to prevent this project. He concluded with telling the Board they were not the enemy and they hoped the District would not be either.

David George introduced himself to the Board as the individual hired to serve as the media director by some of the larger homeowners that will be affected by the proposed plant. He asked for clarification as to why RMWD decided to place the plant directly in a residential neighborhood. He mentioned they have been in contact with Superintendent Bill Horn's office, media contacts with Kimberly Hunt, Steve Turkell of The Turkell Files, as well as some other media outside the area that could see the Directors as a water board that was out of touch with the neighbors. He reiterated the question why the board was electing to do this project. He announced they would do community protests as well as other things that will make everybody's life more difficult. He stated now would be the time for the District to be a good neighbor and to make a decision that would get RMWD some really good press as opposed to getting lawyers and the media involved.

Patrice Bryant Akers introduced herself as the General Manager for Tiehen Farms and announced she will be taking notes and recording this meeting.

Tom Tiehen declined to speak.

Maggie Tiehen pointed out the grand crew of support present today was very serious. She declared this was never going to happen in their neighborhood. She pointed out the individuals present represent \$14M-\$15M worth of homes and land sites; therefore, RMWD was looking at being sued by everyone present from their neighborhood. She reiterated they were deadly serious and they were not going to allow a treatment plant in the middle of their homes in their residential neighborhood with RMWD not coming to them to get their approval to purchase the land.

Frank Grady noted this was his first time at the District due to the fact he was new to the Bonsall area. He expressed concern regarding the high water rates and what could be done as far as discounts for senior citizens. He also inquired as to how a ratepayer could become a member of the RMWD Board of Directors.

Don Maclean mentioned he came to RMWD a few years ago when the District was displaying the plans to build the Pala Mesa Tanks and how at that time he was told by RMWD staff Beck Reservoir was going to be replaced at a later date with additional water tanks. He said there was no mention at that time there was going to a UV treatment plant at that location. He talked about how the District website indicates RMWD was building a wastewater treatment plant. Director Lucy explained to Mr. Maclean he had misinformation and this was not true. President McManigle clarified it would be a water treatment plant and noted RMWD was not currently proposing one either. Mr. Maclean asked whether or not RMWD was proposing an UV treatment facility. President McManigle stated it was in the future plans; however, it was not currently being discussed. Mr. Maclean asked exactly what RMWD was doing at the site in question. Mr. Seymour stated nothing and noted the property was purchased at a good price in the event RMWD does decide to do something in the future; however, the District does not have any firm plans for anything right now.

Mr. Maclean asked for clarification there were two tank pads built at Pala Mesa. Mr. Seymour confirmed this was correct. Mr. Maclean pointed out Pala Mesa was the backup site for Beck Reservoir until the State said the reservoirs had to be covered. President McManigle explained if the State had not stepped to tell RMWD to cover the reservoirs, none of this would have happened. Mr. Seymour pointed out Pala Mesa was the initial primary reservoir before Beck Reservoir. President McManigle pointed out the Pala Mesa tank had enough water for the district for one day and Beck Reservoir has enough water for fourteen days in the event of an emergency. Mr. Maclean asked if RMWD was mandated to cover the reservoirs and what were the plans for Beck Reservoir. President McManigle explained RMWD was mandated to cover or treat the water coming out of Beck. Mr. Seymour pointed out Beck was currently out of service. Mr. Maclean inquired as to whether the proposed treatment was an ultra-violet treatment plant. President McManigle reiterated the District was not proposing anything right now. Mr. Seymour reiterated UV was only one of the options. Mr. Maclean said 17% of RMWD's pipelines have outlived their usefulness and suggested if the District was changing its facilities and putting more demand on those pipes he was concerned as a ratepayer. Mr. Seymour stated the District was not doing this.

Director Lucy explained Beck was a jewel and potential tremendous asset to the community to have this reservoir in the event of an emergency. Mr. Maclean stated nobody was objecting to the reservoir, it was the treatment facility was the issue. Director Lucy pointed out the problem was the water in Beck had to be taken care of. It was confirmed Mr. Maclean knows how a treatment plant works due to the fact he has built one.

Daniel Villalba stated he was new to the area. He asked if this proposed facility was going to be a water treatment plant for the existing waters in the reservoir and if so how would the UV processed water be stored. Mr. Seymour clarified the water would be processed as it goes out to the consumer. Mr. Villalba asked about costs involved for fourteen more days of water. Mr. Seymour explained the District was not planning on doing anything right now; therefore, there were no means of providing the information being requested. Mr. Villalba inquired as to how existing facilities would be handled should a plant be built. President McManigle stressed they do not know due to the fact there was no plan. Mr. Villalba suggested the neighbors who live in close vicinity to the subject property should be brought into any discussions and plans. President McManigle stated there would be a community outreach program for the community whenever there is proposed future development. Mr. Villalba claimed discussions on this project have been done behind closed doors. Mr. Seymour suggested Mr. Villalba has been misled in this regard.

Maureen Rhyne thanked all the members of the audience for attending. She asked if any one of the three will guarantee that once RMWD was "consumed" by FPU, they will not put a recycle sewer distribution plant in Beck Reservoir.

Joe Beyer introduced himself as a twenty-two year resident. He complimented the RMWD monthly newsletter and district communications was outstanding. He urged the Board to address any staff reductions by attrition only should the JPA go through. He encouraged the Board to maintain a proper balance between residential and agricultural users as a means to protect the rural Bonsall and Fallbrook communities. He concluded by thanking the Board and expressed his appreciation for the difficult job they do.

Jill Ouellette asked whether or not a vote has been taken to merge with FPUD. Director Sanford clarified there was no proposal to merge with FPUD, but rather a Joint Powers Authority. Ms. Ouellette asked for confirmation that right now RMWD has no plans to build a treatment facility up at Beck Reservoir. Director Sanford stated this was correct. She stated she was told by someone at RMWD there was nothing that will stop FPUD from creating a wastewater facility at the subject site. The Board noted this was completely inaccurate. President McManigle clarified if there was a sewer facility at the subject site, sewage would have to be pumped up the hill to be treated; therefore, she has been misled. Ms. Ouellette referred to the RMWD website when she inquired about information missing from that was there three weeks ago. She also noted the website referenced a contract securing an additional 500,000 gallons per day in the expansion portion of the project. Mr. Seymour explained this was a project completed several years ago that increased capacity at the Oceanside Treatment Plant. He also noted there was no plan for a wastewater treatment plant. Director Lucy reiterated there have been no decisions made for the property at Beck Reservoir.

Dr. Brady pointed out the RMWD Board has not even made a decision regarding Beck Reservoir. He said if the Joint Powers Authority goes through he would presumably be managing both agencies; however, this Board remains in place managing and making decisions for the RMWD facilities. He added no engineer would put the kind of facility everyone was referring to an elevated location. President McManigle said a sewer treatment facility would never be built at Beck Reservoir site because it does not make sense to pump sewage up hill.

Larry Carlstrom introduced himself as Chairman of the RMWD Budget and Finance Committee as well as he suggested banning the words "treatment plant" and only refer to "sewer treatment plants" and "drinking water treatment plants" to assist in avoiding any confusion.

A member of the public recognized it would be cost prohibitive to put a recycled water treatment facility at Beck Reservoir.

A member of the public inquired as to what was currently happening on Vern Drive. Mr. Seymour explained RMWD had to isolate that reservoir and in order to do so a 5' section of pipe had to be dug up and have some flanges welded on to it.

Jay Work thanked the Board for their time and the fact finding discussion. He inquired as to why the District purchased the land without a plan or possibility of something planned. Mr. Work asked how concerned citizens can find out what the District plans are and when those plans will be implemented. President McManigle suggested attending RMWD's monthly Board meetings. Mr. Work asked the Board to better communicate what was happening with this property. Director Lucy reminded Mr. Work there would be District outreach meetings. Mr. Work stressed RMWD bought a piece of land without expressing to any of the residents what could possibly be built on it. President McManigle explained how the EPA had come up with a statement that every water source in the United States has to be covered or the water coming out of those must be treated. He pointed out RMWD has four reservoirs of which three have been addressed with a feasibility study conducted on Beck which is the largest one. He noted covering Beck would be about the same as treating it for the first twenty years at which time the cover would have to be replaced thereby increasing costs. He said if RMWD was going to do anything with the water in Beck it would have to be taken off line to meet the Department of Health standards; therefore, a tank was built to carry the district over. He explained it was decided if Beck's dam needed any updating RMWD would abandon it; however, the Department of Dam Safety looked at it and reported it to be fine. He mentioned water from Metropolitan Water District was untreated and at a discount; however, it has to be treated which could be done cheaper by RMWD and at a lower cost to the ratepayers than it would cost to purchase treated water which would have to be

stored under a covered reservoir. He stated this was why RMWD was in between which direction to take with one of its best assets (a 240 million gallon reservoir) or should it be abandoned. He concluded with pointing out if RMWD utilizes Beck the water coming out of it must be treated and if its treated by RMWD, it will save the ratepayers a great deal of money. Discussion ensued regarding footprints of other UV treatment plants. President McManigle recommended ratepayers tour FPUD's Red Mountain Reservoir to which Dr. Brady agreed to host.

President McManigle added the property was only available due to the fact it was burned out during the Rice Canyon fire with burnt trees that have since been cleared by RMWD upon purchasing it. Mrs. Tiehen asked why the Board did not come to the neighbors to tell them RMWD was going to purchase the land. She claimed the property was owned by Lewis Land Trust, not RMWD, according to her attorney.

Discussion ensued regarding what types of studies would need to be conducted on the land.

Mrs. Tiehen declared if RMWD moves to get a permit, it will face a class action lawsuit. She said this was the last time the Board will see the residents and lawyers will be present in their place.

President McManigle noted the Board was responsible for looking out for all their ratepayers.

Director Griffiths excused himself from the meeting at 1:49 p.m.

11. ANNIVERSARY ACKNOWLEDGEMENT

A. Chuck Faust (5 Years)

Mr. Seymour noted Mr. Faust was on the Construction Crew and was now working in valve maintenance department. He congratulated Mr. Faust, presented him with a check and plaque as he thanked him for his service at RMWD.

B. Scott Terrell (5 Years)

Mr. Seymour pointed out Mr. Terrell was on the RMWD construction crew and has received multiple certifications. He presented Mr. Terrell with a plaque and check as he thanked him for his five years of service.

***12. APPROVAL OF MINUTES**

A. January 22, 2013 - Regular Board Meeting

Action:

Moved by Director Sanford to approve the minutes as submitted. Seconded by Director Brazier.

After consideration, the motion CARRIED by the following vote:

AYES:	Director Lucy, Director McManigle, Director Sanford and Director Brazier.
NOES:	None.
ABSTAINED:	None.
ABSENT:	Director Griffiths

Discussion went to Item #15.

(*) - Asterisk indicates a report is attached.

13. BOARD OF DIRECTORS' COMMENTS/REPORTS

Directors' comments are comments by Directors concerning District business, which may be of interest to the Board. This is placed on the agenda to enable individual Board members to convey information to the Board and to the public. There is to be no discussion or action taken by the Board of Directors unless the item is noticed as part of the meeting agenda.

A. President's Report (Director McManigle)

President McManigle spoke of free water evaluations offered by Mission Resources.

B. Representative Report (Appointed Representative)

1. SDCWA

Director Sanford reported the desalination unit in Carlsbad has been approved and successfully funded through the sale of bonds. He mentioned MWD was looking into restoring the delta, protecting the smelt, and ensuring Southern California will have water in the event of a major earthquake all of which will cost billions of dollars.

2. CSDA

President McManigle reported on the meeting held on February 21st where it was mentioned a small group of overseers will be visiting smaller agencies like RMWD and making reports to the public about what the agencies are doing. He noted a recent report showed RMWD's director benefits were second lowest out of thirteen with FPUD being the lowest.

3. LAFCO

Director Sanford said there was nothing to report.

4. San Luis Rey Watershed Council

Director Brazier reported on the past two meetings with the first meeting focused on the upcoming Gregory Canyon presentation and how at the second meeting it was decided the Council would send a letter to the Corps of Engineers expressing their concerns and raising questions about how to address those concerns. She provided comment forms for anyone interested in making comments on Gregory Canyon.

5. Santa Margarita Watershed Council

Director Sanford said there was nothing to report.

C. Meeting, Workshop, Committee, Seminar, Etc. Reports by Directors (AB1234)

D. Directors Comments

Director Brazier commented on Mr. Lee leaving the district and gave an overview of his many accomplishments while employed at RMWD. She noted he was the advisor of the Engineering Committee and how during the course of his stay at RMWD reservoirs were covered, Pala Mesa tank was constructed, both of which put RMWD in compliance for the first time in decades with CDPHS. She noted he was instrumental in overhauling RMWD's sewer policy, recalculating EDU's which provided RMWD with capacity to serve new development which will generate income, negotiating win-win contracts, as well as guiding a study foreseeing water availability in RMWD's area. She concluded by stating these were all worthy things and contributed to the well-being of this district and Mr. Lee should be commended for those accomplishments.

Director Griffiths suggested RMWD increase the Director per diems over the next two years in order to promote younger individuals to serve on the Board of Directors. Legal Counsel noted per diem amounts may be increased; however, they are limited.

Discussion went to Item #14.

***14. COMMITTEE REPORTS (Approved Minutes have been attached for reference only.)**

- A. Budget and Finance Committee**
1. December 4, 2012 Minutes
 2. January 10, 2013 Minutes

Mr. Carlstrom reported on the February committee meeting including his suggestion there be a rotation of the Budget and Finance Committee Chairperson. He congratulated Mrs. Plonka on her new position as District Engineer. He noted the committee will be putting together an ongoing working project to follow RMWD's financials. He mentioned the committee had looked at future objectives and urged members of the public to attend the committee meetings over the next several months to get a better understanding of what is taking place at RMWD financially.

Mr. Carlstrom commented on the positive impact the three public volunteer committees have had, especially in providing the public with a full understanding of the happenings at and challenges being faced by RMWD. He congratulated the Board on doing a great job.

Director Brazier said as an observer, it has been the functioning of this committee that has streamlined and made the budget process comprehensible. It was confirmed RMWD was currently under budget.

Director Lucy pointed out there were two new members on the committee.

- B. Communications Committee**
1. December 10, 2012 Minutes
 2. January 7, 2013 Minutes

Mr. O'Leary reminded everyone the RMWD communications are provided by volunteers at the best of their ability. He also reported the last committee meeting was focused on upcoming newsletter and "Communicator" articles.

C. Engineering Committee
1. November 6, 2012 Minutes

Mrs. Plonka reported the committee reviewed the CIP which is a list of capital improvement projects requiring repairs and/or replacements. She noted the committee voted to keep Ms. Brazier as the Board representing committee member and that the Alternative Water Source report was completed which she agreed to present to the Board in the near future.

Discussion went to Item #16.

Time Certain: 1:00 p.m. Public Hearing

***15. PUBLIC HEARING FOR THE PURPOSE OF SOLICITING PUBLIC INPUT REGARDING PROPOSED INCREASE IN WATER RATES OR SERVICE CHARGES IN COMPLIANCE WITH ARTICLE XIIIID, SECTION 6(A) OF THE CALIFORNIA CONSTITUTION. DISTRICT STAFF AND THE FINANCE COMMITTEE HAVE RECOMMENDED SPECIFIC INCREASES IN WATER RATES AND RELATED CHARGES. THE DISTRICT BOARD OF DIRECTORS WILL CONSIDER ADOPTION OF THOSE RATES AND CHARGES AFTER RECEIVING PUBLIC INPUT AT THE PUBLIC HEARING**

President McManigle opened the Public Hearing at 1:52 p.m.

Mr. Seymour noted the proposed increases raises RMWD's commodity component of the rates \$.03 per unit for all but the lifeline rate which would stay at the current rate. He pointed out there was a moderate increase in the fixed O&M costs that ranges from \$1.29 per month for 5/8" meter to a little over \$27.00 per month for 6" meters. He explained the proposal was to eliminate the reservoir upgrade fee due to receipt of the State Revolving Fund Loans which will reduce the average bill by approximately \$14.79 per month depending upon meter sizes. He noted staff and the Budget and Finance Committee was recommending RMWD defer any increase in the sewer rates.

Director Griffiths rejoined the meeting at 1:53 p.m.

A public member noted he has been a ratepayer for thirteen years as he referenced the rate changes made between August 2010 and August 2012. He inquired as to whether or not there was some type of break in rates that could be given to those customers with financial hardships and strongly urged the Board to take matters like this into consideration.

A public member stated although he was new to the area and he understands the rationale behind rate changes; however, he urged the Board to give customers on a fixed income some type of break in the water rates and make water bills a little easier on ratepayers. Discussion ensued regarding how the Board has been looking at ways to cut costs and keep the rates as low as possible.

A public member residing on Avo Hill Road asked RMWD to help maintain the roads in the area that the residents pay for when RMWD trucks damage them. It was noted Avo Hill cannot handle the equipment; therefore, RMWD has to get access through Wild Acres.

Omar Beck inquired as to whether the Board was doing anything regarding MWD's rates. President McManigle stated SDCWA was suing MWD over this matter.

A ratepayer commented on water becoming expensive and how it impacts the growers. Another ratepayer complimented RMWD on the detail provided on the bills; however, he would like to see a line item for infrastructure.

Director Brazier was pleased to see someone acknowledge it costs RMWD to get water to the ratepayers.

President McManigle closed the Public Hearing at 2:17 p.m.

Discussion went to Item #13.

***16. CONSENT CALENDAR**

(The consent calendar items are matters voted on together by a single motion unless separate action is requested by a Board member, staff or member of the audience.)

A. ADOPT RESOLUTION 13-01 FIXING THE TIME AND PLACE OF HEARING AND MEETING ON PROPOSED WATER AVAILABILITY CHARGES FOR IMPROVEMENT DISTRICT NO. 1

B. ADOPT RESOLUTION 13-02 ESTABLISHING CHECK SIGNING RESPONSIBILITIES

Action:

Moved by Director Sanford to accept the consent calendar items. Seconded by Director Lucy.

After consideration, the motion CARRIED by the following vote:

AYES: Director Griffiths, Director Lucy, Director McManigle, Director Sanford and Director Brazier.

NOES: None.

ABSTAINED: None.

ABSENT: None.

President McManigle called for a break at 2:49 p.m.

The meeting reconvened at 3:00 p.m.

Discussion went to Item #17.

BOARD ACTION ITEMS

***17. APPROVAL OF ORDINANCE 13-03 TO ADJUST RMWD WATER AND SEWER RATES**

Action:

Moved by Director Lucy that the Board accept staff recommendation that Ordinance 13-03 and Appendix A with no increase to monthly sewer charges and with an effective date of July 1, 2013. Seconded by Director Sanford.

After consideration, the motion CARRIED by the following vote:

AYES: Director Griffiths, Director Lucy, Director McManigle, Director Sanford and Director Brazier.
NOES: None.
ABSTAINED: None.
ABSENT: None.

Mr. Buckley pointed out both the Finance Committee and staff was making this recommendation that the O&M charge only increase a small amount, the reservoir charges be reduced or eliminated due to receipt of the State Revolving Fund Loan, and sewer charges not increase due to the City of Oceanside reducing their rates significantly. He pointed out the last increase to the RMWD commodity rate was in 2009.

Discussion ensued regarding publishing this information explaining it to the ratepayers including how the State Revolving Fund Loans allows RMWD to keep rates down.

Discussion went to Item #18.

***18. DISCUSSION AND POSSIBLE ACTION TO ADOPT ORDINANCE 13-02 AMENDING AND UPDATING RMWD ADMINISTRATIVE CODE CHAPTER 5.02 – PURCHASING**

Mr. Buckley said most of the changes were housekeeping; however, the minimum petty cash limit was increased to \$50 from \$20.

Action:

Moved by Director Brazier to adopt Ordinance 13-02 amendment and updating RMWD administrative code. Seconded by Director Lucy.

After consideration, the motion carried by the following vote:

AYES: Director Lucy, Director McManigle, Director Sanford and Director Brazier.
NOES: Director Griffiths.
ABSTAINED: None.
ABSENT: None.

Director Griffiths referenced Section 5.02.110 as requested the motion be amended to include the Board be advised when a Request for Proposal is given out. Director Brazier decided not to amend the original motion.

Discussion went to Item #19.

***19. DISCUSSION AND POSSIBLE ACTION REGARDING NORTH COUNTY JOINT POWERS AUTHORITY JOINT EXERCISE OF POWER AGREEMENT**

Mr. Seymour pointed out he had previously emailed redlined copies of the JPA agreement that included the changes from the joint meeting.

Action:

Moved by Director Lucy the Board approves the JPA document to form the North County Joint Powers Authority. Seconded by Director Sanford.

After consideration, the motion carried by the following vote:

AYES: Director Lucy, Director McManigle and Director Sanford.
NOES: Director Griffiths and Director Brazier.
ABSTAINED: None.
ABSENT: None.

Director Brazier stated her and Director Griffiths do not agree on things very often; however, regarding this matter they do agree in that the public should have been involved as well as there could have or should have been some sort of trial to see if this work. She said she was philosophically opposed to the JPA which would be her preference to consolidation. She noted she was opposed to the fact that the process for this JPA has lacked information that was necessary on which to base this decision. She expressed concern the Board has been given a sales job for a year, not been given facts, and questions asked repeatedly have been ignored. She stressed she has quibbles with the way this has been run including the lack of openness and she would like to address her concerns.

Director Sanford disagreed with Director Brazier in that this matter has been discussed at great lengths. Discussion ensued regarding the bases on which the JPA agreement was prepared.

Director Brazier stated forming a JPA was going to be costly. Director Sanford explained the JPA agreement put things into a guideline so action can be taken on some things.

Director Lucy disagreed with Director Brazier in that the Board has been trying to get her to ask questions. She clarified she asked when the promised studies were going to come out and was told by Mr. Seymour there were not going to be any more. She stated there were no specifics presented on which to comment. She recalled Director Sanford's statement several months ago that there would not be a coronation which was true due to the fact it had already been done. It was noted it still had not been decided who would be the Executive Director because that would be up to the JPA Board of Directors.

Director Brazier expressed concern the JPA Board has been set up containing a majority of both member agency boards. She explained if the JPA decides something, a majority of the individual agency Boards have already made a decision; therefore, there was no freedom of discussion. She recommended a five-member board would allow for the fact that there was not a majority of both boards on the JPA. She claimed this was built-in fail safe for the JPA to get things their way in that power does not go from the bottom up in any bureaucracies. She reiterated by having a five-member Board would be better because there would not be a majority of each member agency on that Board deciding something to be filtered down to the individual agencies for decisions. Director Sanford explained Director Brazier was assuming the JPA has the power to bind each respective agency which they do not. Director Brazier agreed; however, if a majority of that agency's voting members on the JPA Board, what would be the odds that those members will not come back to their boards and have a majority vote at their respective agencies. Director Sanford did not disagree; however, the JPA Board does not have the power or authority to bind FPUD or RMWD in that they are still separate entities. Director Brazier questioned the purpose of the JPA if this was the case. Director Sanford said it was to lease employees to each other.

Discussion ensued regarding whether or not there was a huge bureaucracy.

Mr. Carlstrom agreed with Director Brazier's comments in regards to having a majority of both agency boards on the JPA board could be problematic especially in the event when a majority of one of the agency boards votes in the positive for something at the JPA level they will automatically have a majority vote at the individual agency level.

Director Griffiths explained why he thought it would be better ethically and financially to go out for a public vote. Director Sanford noted it would cost \$85K to do so. Discussion followed.

Director Lucy noted this was an opportunity to take one year to look at efficiencies in manpower and operations after which time they can separate if it does not work out. He pointed out this was not being done on the rank-in-file staff members and was a very sound program.

Director Brazier said she believed there was difference in philosophies in regard to attrition of personnel and employees, especially when FPUD was currently hiring when RMWD was short four staff members. She stated it appeared the attrition will all come from RMWD. President McManigle disagreed with Director Brazier noting the JPA was an agreement to lease employees and should it be determined RMWD has to hire people it has every power to do so. He also claimed Directors Brazier and Griffiths only wanted to get into minutia.

Mr. Clyde, member of the Budget and Finance Committee, said he was present as an individual today and noted his background includes experience with numerous mergers and acquisitions with not one of them reaching this stage without proforma financial statements and organizational charts. He said it may be different with government, but in the corporate world something temporary would have been formed to determine if it would work financially and if it would not it would simply dissolve. He said he would not even commit to the agreement presented, but rather certain goals of putting together financial information first. He said although it may be minutia at this point, there was so much built on losing a general manager and a few other key management positions. He anticipated Mr. Brady would be asking for more money for taking on more responsibility and may in turn need to hire assistants to help handle those responsibilities both of which would take away from the proposed savings. He suggested RMWD was operating on a wish and a prayer at this point with no sound documentation that he can see and encouraged the Board not to vote favorable for this today but to defer it until the proper financial substantiation by doing proforma work on financials for all three organizations.

Mr. Carlstrom noted the JPA was an opportunity to do what Mr. Clyde was describing; however, it may not be possible to get this information ahead of time. He said he would favor the JPA producing financial documents as long as RMWD's and FPUD's respective boards stay in control of their own destiny. He then referred to Director Brazier's comments regarding the make-up of the JPA Board and recommended keeping the total members at five not seven.

Mr. Clyde clarified he was not against the JPA or consolidation but was just against moving forward with the information currently available.

Director Griffiths suggested the first step should be a mutual cooperation agreement and reiterated his opinion it was unethical to not go out for a vote of the people.

Director Lucy asked Director Brazier if she were one of the three on the JPA Board would that provide her comfort. He pointed out she could look out for RMWD as well as the JPA over the next year. She said she still has numerous concerns.

Mr. Seymour commented on some of the expressed concerns including should the JPA not work out it can be dissolved by both boards within the first year and how all five board members from either agency can express their opinions at JPA board meetings due to the fact the meetings will be posted as special meetings.

Director Brazier addressed some of her concerns with the JPA document. She referenced Page 1 where it states "the parties have determined that it is in the best interest of the communities which they serve" when she pointed out there was no evidence it was determined. Director Sanford explained this point would take effect upon acceptance of this document. Director Brazier stated she was not going to waste time going through the document point-by-point because there was no point to it due the fact the Board was going to vote for the JPA.

President McManigle asked for clarification that no matter what Director Brazier was not going to vote for the JPA. Director Brazier clarified under the current circumstances this was true; however, she was not saying there are no circumstances under which she could not vote for the JPA just as she has mentioned repeatedly to be financial, staffing, and governance. Discussion followed.

Director Griffiths stated he did not see why they would go forward before getting financials.

Director Brazier noted if they had gone out and sought somebody unconnected with FPUD or RMWD to head the JPA it would have provided assurances to all in that there would be a neutral managing party she could have supported it. She noted her reasons were partly optics and history, but not personal. Director Sanford said this was decision for the JPA Board to make and something he thought they probably should examine and not assume Mr. Brady would necessarily going to be the executive director. It was noted the agreement stated he would be the initial executive director which Director Sanford state makes sense in the overall situation but also could be changed in the future.

President McManigle stated it was a procedure in order for RMWD to benefit their ratepayers and even if it did not go on to consolidation at the end of one year it was at least worth trying.

Discussion went to Item #20.

20. DISCUSSION AND POSSIBLE ACTION REGARDING APPOINTMENT OF DIRECTORS TO THE NORTH COUNTY JOINT POWERS AUTHORITY

Action:

Moved by Director Lucy to appoint Directors McManigle, Brazier and Sanford as Members of the NCJPA Board. Seconded by Director Sanford.

President McManigle declined his nomination to the JPA Board of Directors due to the fact he did not want it to look like it was predetermined in any way.

Director Lucy amended his original motion.

Action:

Moved by Director Lucy to appoint Directors Brazier, Sanford and Lucy to serve as the NCJPA Board Members with Director Griffiths as the alternate. Seconded by Director Sanford.

After consideration, the motion CARRIED by the following vote:

AYES: Director Lucy, Director McManigle and Director Sanford.
NOES: Director Griffiths.
ABSTAINED: Director Brazier.
ABSENT: None.

Discussion went to Item #21.

***21. DISCUSSION AND POSSIBLE ACTION ON APPROVAL OF THE WARNER RANCH WATER SUPPLY ASSESSMENT (WSA)**

Mrs. Plonka explained this item was just a procedural state requirement. Director Lucy made comments and inquiries on the WSA which Mrs. Plonka referred to Mr. Shapori, the development representative.

Mr. Shapori clarified the open land area would be agricultural to be maintained by well water, the water rights would remain with the property, an agreement with Caltrans required a physical improvement to Cole Grade Road, and the pump stations would be paid for by the development. It was noted the word "adequate" was utilized correctly and the turnouts would provide enough water to meet the ultimate demands with 6" lines.

Mrs. Plonka pointed out this was a preliminary report to basically state there was enough water and that the numbers provided were from the most recent Urban Water Management Plan.

Mr. Shapori confirmed Warner Ranch would keep ownership of ground water. Mrs. Plonka noted the savings in acre feet was recognized in RMWD's Urban Water Management Plan.

Mrs. Plonka agreed to verify the acre feet numbers quoted in the document.

Discussion ensued regarding the three successive dry year scenario provided in the WSA.

Mr. Shapori pointed out they planned to use the ground water for use in the common areas. Discussion followed.

Action:

Moved by Director Brazier to approve the Warner Ranch Water Supply Assessment. Seconded by Director Lucy.

After consideration, the motion CARRIED by the following vote:

AYES: Director Griffiths, Director Lucy, Director McManigle, Director Sanford and Director Brazier.
NOES: None.
ABSTAINED: None.
ABSENT: None.

Discussion went to Item #22.

22. DISCUSSION AND POSSIBLE ACTION TO APPOINT DIRECTOR GRIFFITHS TO THE ENGINEERING COMMITTEE (REQUESTED BY: DIRECTOR GRIFFITHS)

Director Griffiths asked to be allowed to serve on the Engineering Committee. Director Brazier pointed out the committee has approved limiting their directors to one member.

Action:

Moved by Director Griffiths that he be added to the Engineering Committee. There was no second.

The motion died for lack of a second.

Discussion went to Item #23.

***23. RECEIVE AND FILE INFORMATION ITEMS FOR JANUARY 2013**

- A. General Manager Comments**
 - 1. Meetings, Conferences and Seminar Calendar
- B. Construction & Maintenance Comments**
 - 1. Construction and Maintenance Report
 - 2. Valve Maintenance Report
 - 3. Garage/Shop Repair
- C. Engineering & Wastewater Comments**
 - 1. Engineering Report
 - 2. Wastewater Report
- D. Customer Service & Water Operations Comments**
 - 1. Water Operations Report
 - 2. Electrical/Telemetry Report
 - 3. Water Quality Report
 - 4. Field Customer Service Report
 - 5. Meters Report
 - 6. Cross Connection Control Program Report
- E. Human Resource & Safety Comments**
 - 1. Human Resources Department Report
 - 2. Changes in Personnel
 - 3. Organizational Chart
 - 4. Safety Report

(*) - Asterisk indicates a report is attached.

Action:

Moved by Director Sanford to receive and file information items. Seconded by Director Brazier.

After consideration, the motion carried by the following vote:

AYES: Director Lucy, Director McManigle, and Director Brazier.
NOES: Director Griffiths.
ABSTAINED: None.
ABSENT: Director Sanford.

Mr. Seymour mentioned the majority of managerial staff was absent due to Emergency Response training.

Director Griffiths made inquiries on Item #23B1 and #23B2.

Director Sanford excused himself from the meeting at 4:35 p.m.

Director Griffiths asked questions about Item #23C1. Mr. Miller agreed to provide Director Griffiths with an SOP of things not to do during SDCWA shutdowns. Mrs. Plonka confirmed the Horse Creek Ranch development will break ground this summer.

Director Griffiths made inquiries on Items #23C2, #23D2, #23D3, and #23D5.

Director Griffiths wanted to discuss something Mr. Seymour advised would need to be discussed in Closed Session. President McManigle denied Director Griffiths' request to go into Closed Session.

Discussion went to Item #24.

***24. RECEIVE AND FILE FINANCIAL STATEMENTS AND INFORMATION FOR JANUARY 2013**

A. Finance Manager Comments

1. Visa Breakdown (December 2012 and January 2013)
2. Directors' Expense
3. Check Register
4. Office Petty Cash
5. Water Purchases & Sales Summary
6. Statistical Summary
7. Projected CIP Cash Flow Report
8. RMWD Sewer Equivalent Dwelling Units (EDU's) Status

Action:

Moved by Director Brazier to receive and file financial statements and information. Seconded by Director Lucy.

(*) - Asterisk indicates a report is attached.

After consideration, the motion CARRIED by the following vote:

AYES: Director Griffiths, Director Lucy, Director McManigle, and Director Brazier.
NOES: None.
ABSTAINED: None.
ABSENT: Director Sanford.

Mr. Buckley pointed out the supplemental information he distributed to everyone.

Director Griffiths made an inquiry on Item #24A1 as well as several inquiries on Item #24A3.

Mr. Seymour cautioned there will be an item in next year's budget in the amount of \$210,000 for two SDCWA shutdowns next year.

Discussion went to Item #25.

25. LIST OF SUGGESTED AGENDA ITEMS FOR THE NEXT REGULAR BOARD MEETING

Director Griffiths requested an agenda item regarding accelerating any work that needs to be done to get Beck Reservoir back in service. It was decided to wait two months.

Discussion went to Item #26.

26. ADJOURNMENT - To Tuesday, March 26, 2013 at 1:00 p.m.

The meeting was adjourned with a motion made by Director Brazier and seconded by Director Griffiths to a regular meeting on March 26, 2013 at 1:00 p.m.

The meeting was adjourned at 5:04 p.m.

George McManigle, Board President

Dawn M. Washburn, Board Secretary

ATTACHMENT A

FALLBROOK PUBLIC UTILITY DISTRICT

Post Office Box 2290, 990 East Mission Road, Fallbrook, California 92088
(760) 728-1125

DATE: May 12, 2014 (*Updated November 14, 2014*)
TO: Michael Ott, Executive Director
San Diego Local Agency Formation Commission
FROM: Brian J. Brady, General Manager
Fallbrook Public Utility District
SUBJECT: North County Joint Powers Authority

NORTH COUNTY JOINT POWERS AUTHORITY (NCJPA) 2013 Financial Performance/Fiscal Years 2015-2019 Pro Forma Budgets

On April, 5 2013, Fallbrook Public Utility District (FPUD) and Rainbow Municipal Water District (RMWD) formed the North County Joint Powers Authority (JPA/Authority) to provide for the administration of the two districts by managing the combined resources of the districts, including staffing and physical plant/infrastructure, to obtain cost-effective means of providing service to the ratepayers, pursuant to the terms of the Employee Leasing Agreement by and between FPUD and RMWD.

Under the JPA Agreement, throughout 2013, comprehensive functional work group analyses were conducted and employee integration programs implemented. Change management workshops, inter-district cross-training, and employee recognition programs also played an important role in the integration process. In addition, FPUD expanded its community outreach and school programs to included RMWD's service territory.

As a result of these efforts, the results to-date have demonstrated achievement of the primary goal of cost-effectiveness while at the same time not only maintaining but improving service levels. The purpose of this report is to document the actual realized savings and to provide projected future savings under a continued consolidated operating framework. Therefore, this report has two main sections. The first section focuses on the actual results to-date while the second section looks at projected future results.

Actual Results to-Date

The actual results of operations under the Authority have produced the cost savings expected. The main drivers of the cost savings relate to savings from a reduction in the workforce. These savings include not only wages from fewer staffing levels but a corresponding reduction in the

related benefit expenses, such as, medical insurance premiums, pension expense, vacation, etc. There are two primary categories of staffing savings to-date:

- Positions not replaced – these are the wages and benefits of positions vacated by attrition in anticipation of, or during, the JPA operating period and determined not necessary for future operation and are therefore counted as monthly savings.
- Employee leasing – these are employees leased from one district to the other for specific jobs or assistance which are recorded as a cost to the district receiving the service and a savings to the district providing the service.

While there were savings that resulted from lower staffing levels, there were some additional costs incurred to implement the JPA. These costs partially offset the realized savings and were generally evenly divided between the two districts.

The first four attachments (Exhibit 1 – Exhibit 4) to this report are tables that provide the details of the staffing reductions and the implementation costs. These tables are being included to allow the reader of this report to see the important details and breakdown of the realized savings. However, below is a key summary of those tables. The summary demonstrates that a savings of \$955,862 was realized in 2013 operating as a JPA. The table below shows the realized savings from each of the primary staffing categories as discussed above and the offsetting other cost from consolidating. Additionally, the table breaks this information out between the two districts and then provides a combined net savings.

FPUD			
	Exhibit 1	Exhibit 3	
	Jan-Jun 2013	July-Dec 2013	
	Savings/(Cost)	Savings/(Cost)	Total
Positions Not Replaced	29,293	89,625	118,918
Employee Leasing	59,021	131,702	190,723
Other	(10,654)	(64,802)	(75,456)
Total	77,660	156,525	234,185
RMWD			
	Exhibit 2	Ehibit 4	
	Jan-Jun 2013	July-Dec 2013	
	Savings/(Cost)	Savings/(Cost)	Total
Positions Not Replaced	448,975	396,896	845,871
Employee Leasing	(11,714)	(10,148)	(21,862)
Other	(10,654)	(91,678)	(102,332)
Total	426,607	295,070	721,677
Combined Total Savings			
	504,267	451,595	955,862

As can be seen from this information, actual meaningful savings have resulted from operation as a JPA.

Projected Future Results

Looking at realized results is important to confirm the anticipated benefits of the JPA are being achieved. Not only does this serve to prove out the concept but creates greater assurance that future savings will also be achieved. This section of the report builds off of the planning that has been done in contemplating the JPA and the actual results realized to provide new and updated projected future results of the JPA.

To accomplish this effort a number of pro forma financial statements were prepared. These were prepared with the input of the districts' management. There are six pro forma statements attached to this report (exhibits 5-10), which provide expected financial results of operations for the next five years. These reports are generated in a consistent format to enable the reader to easily follow from one report to the next. In order to compare the benefits of a consolidated operation such as the JPA versus two individual and distinct districts, pro formas were developed to look at both scenarios. Not only is it important to look at the comparison in total but it is equally important to look at the comparison on a district-by-district basis. Therefore, the following exhibits are included in this report and they serve as the source documents for the later tables within the body of this report:

- Exhibit 5 – CONSOLIDATED PROFORMA BUDGET. This report shows the projected results of the consolidated operations of both FPUD and RMWD. This report is the summation of Exhibit 6 and Exhibit 7.
- Exhibit 6 – Fallbrook PUD 5-Year Proforma Budget. This report shows the projected results of operations for just FPUD with its allocation of the realized current and future benefits of the JPA or consolidated operating structure.
- Exhibit 7 – Rainbow MWD 5-Year Proforma Budget. This report shows the projected results of operations for just RMWD with its allocation of the realized current and future benefits of the JPA or consolidated operating structure.
- Exhibit 8 – SUMMARY DISTINCT PROFORMA BUDGET. This report shows the projected results of a non consolidated operation. This report is the summation of Exhibit 9 and Exhibit 10. This is being included so that a comparison of the consolidated operations can be made. Since these would be two separate and distinct operations under this scenario, there would not actually be a consolidated report in the future but for comparison purposes it has been generated.

- Exhibit 9 – Fallbrook PUD 5-Year Proforma Budget Without Consolidation. This report shows the projected results of operations for just FPU D as a separate and distinct district without any of the benefits of the JPA or consolidated operating structure.
- Exhibit 10– Rainbow MWD 5-Year Proforma Budget Without Consolidation. This report shows the projected results of operations for just RMWD as a separate and distinct district without any of the benefits of the JPA or consolidated operating structure.
- Exhibit 11– Consolidated Proforma Budget Assumptions. This report outlines financial model assumptions.

At the highest level looking forward a comparison can be made of what the results of operations would be under the consolidated or JPA format to the no- consolidated or two separate distinct districts format. Summarizing the key line items from the consolidated pro forma Exhibit 5 and the summary of distinct pro forma budget Exhibit 8, the projected annual savings can be seen. The table below shows this information.

CONSOLIDATED PROFORMA BUDGET						
Fallbrook Public Utility District and Rainbow Municipal Water District						
Fiscal Years Ending 2015, 2016, 2017, 2018 & 2019						
	Adopted Budgets					
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
REVENUE	64,540,846	68,624,065	72,984,416	78,309,592	83,271,740	89,300,953
EXPENSE	68,581,841	71,425,665	74,283,758	78,384,180	82,632,186	87,508,944
Net Operating Gain (Loss)	(4,040,995)	(2,801,601)	(1,299,342)	(74,588)	639,554	1,792,009
Total Nonoperating Revenue (Expense)	6,682,375	6,298,315	9,143,826	6,287,814	6,446,492	6,609,446
Increase (Decrease) in Net Assets	2,641,380	3,496,714	7,844,484	6,213,226	7,086,046	8,401,455
SUMMARY DISTINCT PROFORMA BUDGET						
Non Consolidated Operations - Summary of Distinct Fallbrook Public Utility District and Distinct Rainbow Municipal Water District						
Fiscal Years Ending 2015, 2016, 2017, 2018 & 2019						
	Adopted Budgets					
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
REVENUE	64,540,846	68,624,065	72,984,416	78,309,592	83,271,740	89,300,953
EXPENSE	68,581,841	72,765,123	76,604,122	81,042,290	85,390,500	90,371,348
Net Operating Gain (Loss)	(4,040,995)	(4,141,058)	(3,619,706)	(2,732,698)	(2,118,760)	(1,070,396)
Total Nonoperating Revenue (Expense)	6,682,375	6,298,315	9,143,826	6,287,814	6,446,492	6,609,446
Increase (Decrease) in Net Assets	2,641,380	2,157,256	5,524,119	3,555,116	4,327,731	5,539,050
PROJECTED SAVINGS FROM CONSOLIDATION						
	Adopted Budgets					
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Annual Savings from Consolidation	-	1,339,458	2,320,364	2,658,110	2,758,314	2,862,404
Cummulative Savings from Consolidation		1,339,458	3,659,822	6,317,932	9,076,246	11,938,651

This table was created so that the projected savings from a consolidated operation can be seen. The last section of the above table indicates projected annual savings over the next five years will range from \$1,339,458 to \$2,862,404. Additionally, as can be seen from the table if you add

the total cumulative savings for each of the five years, it totals \$11,938,651. These amounts are not just significant but appear very reasonable outcomes based on the actual results realized above.

There are two primary drivers that create the savings shown above. The first driver includes current and future staffing savings. The staffing savings reduces wages and benefits expense. The second driver is reduced other expenses. Included in this category are reductions in property and liability insurance, heavy/specialty equipment costs, information technology costs, bank service fees, legal expenses, director expenses, contract billing expenses, annual audit costs, redundant general office expenses, and training costs. The savings for each of these are reflected in the appropriate line item of the pro forma statements. To assist the reader of this report additional tables are incorporated within the body of this report highlighting these areas.

Wage and Benefits Savings

The table below highlights and details the projected staffing savings between a consolidated operation and a non consolidated operation. To do this the “Wages and Benefits” line items from the pro forma statements are detailed and compared both on a total basis and on an agency basis. This allows for the reader to not only see how much of the total savings relates to wages and benefits but also how much of this benefits accrues to FPUD and to RMWD.

CONSOLIDATED PROFORMA BUDGET						
Fallbrook Public Utility District and Rainbow Municipal Water District						
Fiscal Years Ending 2015, 2016, 2017, 2018 & 2019						
	Adopted Budgets					
Wages & Benefits	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
FPUD (Exhibit 6)	7,764,810	7,699,006	7,693,302	7,875,568	8,190,591	8,518,215
RMWD (Exhibit 7)	6,845,972	6,743,414	6,699,487	6,842,001	7,115,681	7,400,308
Total (Exhibit 5)	14,610,782	14,442,420	14,392,788	14,717,569	15,306,272	15,918,522
SUMMARY DISTINCT PROFORMA BUDGET						
Non Consolidated Operations - Summary of Distinct Fallbrook Public Utility District and Distinct Rainbow Municipal Water District						
Fiscal Years Ending 2015, 2016, 2017, 2018 & 2019						
	Adopted Budgets					
Wages & Benefits	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
FPUD (Exhibit 9)	7,764,810	8,222,937	8,551,854	8,893,929	9,249,686	9,619,673
RMWD (Exhibit 10)	6,845,972	7,558,940	7,861,298	8,175,750	8,502,780	8,842,891
Total (Exhibit 8)	14,610,782	15,781,877	16,413,153	17,069,679	17,752,466	18,462,564
PROJECTED SAVINGS FROM CONSOLIDATION						
	Adopted Budgets					
Wages & Benefits	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
FPUD	-	523,931	858,553	1,018,360	1,059,095	1,101,459
RMWD	-	815,526	1,161,811	1,333,750	1,387,099	1,442,583
Total	-	1,339,458	2,020,364	2,352,110	2,446,194	2,544,042
CUMMULATIVE PROJECTED SAVINGS FROM CONSOLIDATION						
	Adopted Budgets					
Wages & Benefits	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
FPUD	-	523,931	1,382,484	2,400,844	3,459,939	4,561,398
RMWD	-	815,526	1,977,338	3,311,087	4,698,187	6,140,770
Total	-	1,339,458	3,359,822	5,711,932	8,158,126	10,702,168

As can be seen from the PROJECTED SAVINGS FROM CONSOLIDATION section of the table above, FPUD would realize between \$523,931 and \$1,101,459 in wage and benefits

savings from the consolidated operations. Likewise, RMWD would realize between \$815,525 and \$1,442,583. Wages and benefits drive a significant majority of all the savings from consolidation. Over the five year projection period \$10,702,168 of the total \$11,938,651 comes from wages and benefits. Again, as significant actual savings in this category have already materialized, it is reasonable to expect this to continue.

The wage and benefits savings are based off certain assumptions. These assumptions incorporate both the already existing staffing level reduction and add to it additional expected staffing reductions over the next few years that can be achieved under the continued operation of the consolidated approach.

Wages and Benefits Savings						
	Adopted Budgets					
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
FPUD						
Consolidated (Exhibit 6)		7,699,006	7,693,302	7,875,568	8,190,591	8,518,215
Non-Consolidated (Exhibit 9)		8,222,937	8,551,854	8,893,929	9,249,686	9,619,673
Total Savings		523,931	858,553	1,018,360	1,059,095	1,101,459
New Savings		\$ 376,397	\$ 690,061	\$ 815,526	\$ 815,526	\$ 815,526
Previous Savings that Continue		147,535	168,492	202,834	243,568	285,932
Total Savings		\$ 523,931	\$ 858,553	\$ 1,018,360	\$ 1,059,095	\$ 1,101,459
RMWD						
Consolidated (Exhibit 7)		6,743,414	6,699,487	6,842,001	7,115,681	7,400,308
Non-Consolidated (Exhibit 10)		7,558,940	7,861,298	8,175,750	8,502,780	8,842,891
Total Savings		815,526	1,161,811	1,333,750	1,387,099	1,442,583
New Savings		\$ 376,397	\$ 690,061	\$ 815,526	\$ 815,526	\$ 815,526
Previous Savings that Continue		439,130	471,751	518,223	571,573	627,057
Total Savings		\$ 815,526	\$ 1,161,811	\$ 1,333,750	\$ 1,387,099	\$ 1,442,583
Projected Future Staff Reductions						
	Adopted Budgets					
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
# of Employee's	116	110	105	103	103	103
# of Employee's Savings		6	5	2	0	0
Average Burdened Rate		\$ 60.32	\$ 60.32	\$ 60.32	\$ 60.32	\$ 60.32
Wage & Benefits Savings		\$ 752,794	\$ 627,328	\$ 250,931	\$ -	\$ -
Allocation of Savings						
FPUD		\$ 376,397	\$ 313,664	\$ 125,466	\$ -	\$ -
RMWD		\$ 376,397	\$ 313,664	\$ 125,466	\$ -	\$ -

The table above shows at the bottom the projected future staff reductions over the next few years. Total staffing drops from 116 to 103 or a total of 13 positions over four years. The average burdened rate (included a factor for rate and benefits) is used to calculate the savings for each position assuming a standard 2,080 hours of work annually per employee. The savings is allocated equally to FPUD and RMWD. This savings is then used in this table help reconcile the

projected total savings for each district. Comparing the wage and benefit lines for each district from their consolidated and their non consolidated pro forma statements the total savings is calculated. Below that savings from the future staffing reductions, “new savings”, is added to the savings that continues from the already in-place staff reductions to reconcile the total savings. This is being included to help the reader see what assumptions are being used for new wage and benefit savings and how they add to the already existing savings. It is important to remember that if the districts no longer are consolidated, the positions that have been eliminated would need to come back in order for each district to meet its mission effectively. Therefore, we would conclude that the consolidated operations not only achieves a significant savings related to reduced wage and benefit expense which will continue in the future, but opportunity for greater efficiency beyond what has already been demonstrated can be achieved creating even greater customer value.

Other Cost Savings

The other savings driver occurs in the other cost category. These savings, while much less than the wage and benefit savings, add to the overall cost effectiveness of a consolidated operation. These savings are the results of lower property and liability insurance, heavy/specialty equipment costs, information technology costs, bank service fees, legal expenses, director expenses, contract billing expenses, annual audit costs, redundant general office expenses, and training costs. The table below highlights and details these savings over the next five years.

(The space below intentionally left blank.)

CONSOLIDATED PROFORMA BUDGET						
Fallbrook Public Utility District and Rainbow Municipal Water District						
Fiscal Years Ending 2015, 2016, 2017, 2018 & 2019						
	Adopted Budgets					
Other Operating Expense	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
FPUD (Exhibit 6)	2,862,544	2,919,795	2,828,191	2,884,755	2,942,450	3,001,299
RMWD (Exhibit 7)	5,495,195	5,605,099	5,567,201	5,678,545	5,792,116	5,907,958
Total	8,357,739	8,524,894	8,395,392	8,563,299	8,734,565	8,909,257
SUMMARY DISTINCT PROFORMA BUDGET						
Non Consolidated Operations - Summary of Distinct Fallbrook Public Utility District and Distinct Rainbow Municipal Water District						
Fiscal Years Ending 2015, 2016, 2017, 2018 & 2019						
	Adopted Budgets					
Other Operating Expense	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
FPUD (Exhibit 9)	2,862,544	2,919,795	2,978,191	3,037,755	3,098,510	3,160,480
RMWD (Exhibit 10)	5,495,195	5,605,099	5,717,201	5,831,545	5,948,176	6,067,139
Total	8,357,739	8,524,894	8,695,392	8,869,299	9,046,685	9,227,619
PROJECTED SAVINGS FROM CONSOLIDATION						
	Adopted Budgets					
Other Operating Expense	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
FPUD	-	-	150,000	153,000	156,060	159,181
RMWD	-	-	150,000	153,000	156,060	159,181
Total	-	-	300,000	306,000	312,120	318,362
CUMMULATIVE PROJECTED SAVINGS FROM CONSOLIDATION						
	Adopted Budgets					
Other Operating Expense	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
FPUD	-	-	150,000	303,000	459,060	618,241
RMWD	-	-	150,000	303,000	459,060	618,241
Total	-	-	300,000	606,000	918,120	1,236,482

As can be seen from above, there are projected additional savings of \$300,000 incurring in year 2015/16. These savings continue in each of the subsequent years and are indexed with an assumed inflation amount of 2% per year. The savings is split equally between FPUD and RMWD. The cumulative savings equals \$1,236,482 during the five year pro forma period. While this is a smaller amount than the wages and benefits, it is still a significant amount that carries forward each year and is another example of the overall cost effectiveness of the consolidated operation.

Summary

Diligent effort was expended prior to the formation of the JPA to analyze and project benefits from a cost-effective perspective. To date, the actual results of the operations of the JPA have demonstrated the real savings are occurring and that the projections were reasonable. At the same time the services of the districts continue to be performed at a high quality level and in fact some additional customer services have been added. The current analysis also carefully examines the future benefits of a continued consolidated operation. Not only will the current realized savings continue but there is opportunity for significant additional savings. Most important these savings translate into lower costs for the customers of these districts.

Exhibit 1

FPUD						
SUMMARY OF SHARED COST						
RELATING TO CONSOLIDATION ACTIVITIES						
	FPUD		January-June	2013		
	Former Cost	Increased	Leased	Other Related	Savings	FY To Date 2013 (Apr-Jun)
	Monthly	Wages (1)	Employee (Cost)	(Cost)	(Cost)	Savings
			Savings	Savings	Monthly	(Cost)
POSITIONS NOT REPLACED						
Employee Wages & Benefits						
Engineering Tech I	\$ 7,284				7,284	21,851
Environmental Compliance Tech	11,314	628	3,243		7,442	7,442
TOTALS - POSITIONS NOT REPLACED	\$ 18,597	\$ 628	\$ 3,243	\$ -	\$ 14,726	\$ 29,293
EMPLOYEE LEASING						
Employee Wages & Benefits						
General Manager	26,525		44,205		14,735	44,205
District Engineer/AGM	18,544	990	9,002			9,002
Safety & Risk Administrator	9,889		847			847
Engineering Tech III	9,740		-			-
Engineering Tech III	9,740		2,051			2,051
Engineering Tech II	8,991		597			597
GIS Specialist	10,677		676			676
Sewer - CCTV and Utility Workers	1,744		1,744			1,744
FPUD provided to RMWDMisc Services	1,304		1,304			1,304
RMWD Provided to FPUD Misc Services			(1,405)			(1,405)
TOTALS - EMPLOYEE LEASING	97,154	990	59,021	-	14,735	\$ 59,021
TOTALS - SAVINGS / (COST) EMPLOYEE-RELATED	115,752	1,619	62,264		29,461	\$ 88,314
OTHER COSTS						
Contribution to JPA Budget				(2,000)		(2,000)
JPA Insurance				(124)		(124)
JPA Legal Services						-
JPA Consultants - Studies						-
JPA Directors' Per Diems				(450)		(450)
JPA Office/Board supplies				(558)		(558)
JPA Public Notices/Advertising				(219)		(219)
JPA Other - Meetings etc.				(2,775)		(2,775)
Information Systems				(270)		(270)
Moving expenses						-
Construction expenses				(4,092)		(4,092)
Meetings-GM/Board/staff				(52)		(52)
Other RMWD				(114)		(114)
TOTAL - OTHER	-	-		(10,654)	-	\$ (10,654)
TOTALS - ALL CONSOLIDATION ACTIVITY	115,752	1,619	62,264	(10,654)	29,461	\$ 77,660

Exhibit 2

RAINBOW MWD						
SUMMARY OF SHARED COST						
RELATING TO CONSOLIDATION ACTIVITIES						
January-June 2013						
	RMWD		Leased	Other Related	Savings	FY To Date 2013
	Former Cost	Increased	Employee (Cost)	(Cost)	(Cost)	Savings
	Monthly	Wages (1)	Savings	Savings	Monthly	(Cost)
POSITIONS NOT REPLACED						
Employee Wages & Benefits						
General Manager	\$ 25,625		\$ (14,735)		10,890	32,670
District Engineer/AGM	23,110	(3,105)			20,005	100,025
Maint/Operations Mgr.	21,750	(5,078)			16,672	100,064
Accounting Tech	8,370	(920)			7,450	89,400
Utility Workers (2 positions)	14,040	-		(3,472)	10,568	126,816
TOTALS - POSITIONS NOT REPLACED	\$ 92,895	\$ (9,103)	\$ (14,735)	\$ (3,472)	\$ 65,585	\$ 448,975
EMPLOYEE LEASING						
Employee Wages & Benefits						
Safety Administration			966			966
Engineer			(12,665)			(12,665)
Engineering Tech			(1,420)			(1,420)
Engineering Inspector			(3,756)			(3,756)
Cost Recovery - Developers			3,756			3,756
Welding Crew			1,405			1,405
Sewer - CCTV						-
TOTALS - EMPLOYEE LEASING	-	-	(11,714)	-	-	(11,714)
TOTALS - SAVINGS / (COST) EMPLOYEE-RELATED	92,895	(9,103)	(26,449)		65,585	437,261
OTHER COSTS						
Contribution to JPA Budget				(2,000)		(2,000)
JPA Insurance				(124)		(124)
JPA Legal Services						-
JPA Consultants - Studies						-
JPA Directors' Per Diems				(450)		(450)
JPA Office/Board supplies				(558)		(558)
JPA Public Notices/Advertising				(219)		(219)
JPA Other - Meetings etc.				(2,775)		(2,775)
Information Systems				(270)		(270)
Moving expenses				-		-
Construction expenses				(4,092)		(4,092)
Meetings-GM/Board/staff				(52)		(52)
Other RMWD				(114)		(114)
RMWD Wages for JPA activities						
TOTAL - OTHER	-	-		(10,654)	-	(10,654)
TOTALS - ALL CONSOLIDATION ACTIVITY	92,895	(9,103)	(26,449)	(10,654)	65,585	426,607

Exhibit 3

FPUD							
SUMMARY OF SHARED COST							
RELATING TO CONSOLIDATION ACTIVITIES							
July-December 2013							
	July	August	September	October	November	December	FY To Date 2014
	Savings	Savings	Savings	Savings	Savings	Savings	Savings
	(Cost)	(Cost)	(Cost)	(Cost)	(Cost)	(Cost)	(Cost)
POSITIONS NOT REPLACED							
Employee Wages & Benefits							
Engineering Tech I	7,284	7,284	7,284	7,284	7,284	7,284	43,701
Environmental Compliance Tech	7,112	5,887	7,748	7,937	7,795	9,445	45,924
TOTALS - POSITIONS NOT REPLACED	\$14,396	\$13,171	\$15,032	\$15,220	\$15,079	\$16,728	\$89,625
EMPLOYEE LEASING							
Employee Wages & Benefits							
General Manager	14,735	14,735	14,735	14,735	14,735	14,735	88,410
District Engineer/AGM	2,185	4,492	3,297	2,549	3,156	1,942	17,621
Safety & Risk Administrator	1,228	3,592	3,132	737	1,351	1,719	11,760
Engineering Tech III							-
Engineering Tech III	1,342	1,342	702	1,345			4,730
Engineering Tech II		1,342		468	643	409	2,862
GIS Specialist		1,342		585	526	2,046	4,499
Sewer - CCTV and Utility Workers		1,308	1,308	1,018		2,616	6,250
FPUD provided to RMWDMisc Services			403				403
RMWD Provided to FPUD Misc Services		(466)	(1,773)	(606)	(1,876)	(112)	(4,834)
TOTALS - EMPLOYEE LEASING	\$ 19,490	\$ 27,687	\$ 21,804	\$ 20,829	\$ 18,535	\$ 23,357	\$ 131,702
TOTALS - SAVINGS / (COST) EMPLOYEE-RELATED	\$ 33,886	\$ 40,857	\$ 36,836	\$ 36,050	\$ 33,614	\$ 40,085	\$ 221,327
OTHER COSTS							
Contribution to JPA Budget	(1,737)	(1,737)	(1,736)	(1,736)	(1,736)	(1,736)	(10,418)
JPA Insurance							-
JPA Legal Services							-
JPA Consultants - Studies							-
JPA Directors' Per Diems							-
JPA Office/Board supplies							-
JPA Public Notices/Advertising							-
JPA Other - Meetings etc.							-
Information Systems	(2,639)	(1,853)	(800)	(1,105)	(2,137)	(4,900)	(13,434)
Moving expenses							-
Construction expenses		(749)	(4,000)	(3,556)	(8,625)	(22,694)	(39,624)
Meetings-GM/Board/staff	(54)	(13)	(300)				(367)
Other RMWD				(770)	(77)	(112)	(959)
TOTAL - OTHER	\$ (4,430)	\$ (4,352)	\$ (6,836)	\$ (7,167)	\$ (12,576)	\$ (29,442)	\$ (64,802)
TOTALS - ALL CONSOLIDATION ACTIVITY	\$ 29,456	\$ 36,505	\$ 29,999	\$ 28,883	\$ 21,038	\$ 10,643	\$ 156,525

Exhibit 4

RAINBOW MWD							
SUMMARY OF SHARED COST							
RELATING TO CONSOLIDATION ACTIVITIES							
July-December 2013							
	July	August	September	October	November	December	FY To Date 2014
	Savings	Savings	Savings	Savings	Savings	Savings	Savings
	(Cost)	(Cost)	(Cost)	(Cost)	(Cost)	(Cost)	(Cost)
POSITIONS NOT REPLACED							
Employee Wages & Benefits							
General Manager	\$ 10,890	\$ 10,890	\$ 10,890	\$ 10,890	\$ 10,890	\$ 10,890	\$ 65,340
District Engineer/AGM	20,005	\$ 20,005	\$ 20,005	\$ 20,005	\$ 20,005	\$ 20,005	\$ 120,030
Maint/Operations Mgr.	16,672	\$ 16,672	\$ 16,672	\$ 16,672	\$ 16,672	\$ 16,672	\$ 100,032
Accounting Tech	7,450	\$ 7,450	\$ 7,450	\$ 7,450	\$ 7,450	\$ 7,450	\$ 44,700
Utility Workers (2 positions)	10,742	\$ 10,628	\$ 11,189	\$ 12,505	\$ 14,040	\$ 7,690	\$ 66,794
TOTALS - POSITIONS NOT REPLACED	\$ 65,759	\$ 65,645	\$ 66,206	\$ 67,522	\$ 69,057	\$ 62,707	\$ 396,896
EMPLOYEE LEASING							
Employee Wages & Benefits							
Safety Administration	3,602	2,180	659	3,268	2,796	778	\$ 13,283
Engineer	(2,184)	(4,491)	(2,306)	(2,549)	(3,156)	(1,942)	\$ (16,628)
Engineering Tech		(1,342)	-	(1,052)	-	(2,454)	\$ (4,848)
Engineering Inspector	(1,342)	(2,218)	1,071	(131)	417	112	\$ (2,091)
Cost Recovery - Developers		2,218	702	2,316			\$ 5,236
Welding Crew					290		\$ 290
Sewer - CCTV		(448)	(1,308)	(1,018)		(2,616)	\$ (5,390)
TOTALS - EMPLOYEE LEASING	76	(4,101)	(1,182)	833	347	(6,122)	(10,148)
TOTALS - SAVINGS / (COST) EMPLOYEE-RELATED	65,835	61,544	65,024	68,355	69,404	56,585	386,748
OTHER COSTS							
Contribution to JPA Budget	(1,737)	(1,737)	(1,737)	(1,737)	(1,737)	(1,737)	\$ (10,422)
JPA Insurance							\$ -
JPA Legal Services							\$ -
JPA Consultants - Studies							\$ -
JPA Directors' Per Diems							\$ -
JPA Office/Board supplies							\$ -
JPA Public Notices/Advertising							\$ -
JPA Other - Meetings etc.							\$ -
Information Systems	(2,639)	(1,853)	(800)	(470)	(2,137)	(3,948)	\$ (11,847)
Moving expenses							\$ -
Construction expenses		(1,218)	(4,000)	(3,556)	(8,625)	(23,647)	\$ (41,046)
Meetings-GM/Board/staff	(53)	(13)	(501)	(770)	(77)	(263)	\$ (1,677)
Other RMWD						(746)	\$ (746)
RMWD Wages for JPA activities		(3,728)	(2,572)	(5,464)	(4,394)	(9,782)	\$ (25,940)
TOTAL - OTHER	(4,429)	(8,549)	(9,610)	(11,997)	(16,970)	(40,123)	(91,678)
TOTALS - ALL CONSOLIDATION ACTIVITY	61,406	52,995	55,414	56,358	52,434	16,462	295,070

Exhibit 5

CONSOLIDATED PROFORMA BUDGET

**Fallbrook Public Utility District and Rainbow Municipal Water District
Fiscal Years Ending 2015, 2016, 2017, 2018 & 2019**

	Adopted Budgets					
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
REVENUE						
Water Services Operating Revenue	55,848,034	59,757,396	63,940,414	69,031,243	73,863,430	79,648,870
Sewer Services Operating Revenue	7,656,055	7,809,176	7,965,360	8,178,134	8,286,091	8,507,419
Recycled Services Operating Revenue	1,036,757	1,057,492	1,078,642	1,100,215	1,122,219	1,144,664
Total Operating Revenue	64,540,846	68,624,065	72,984,416	78,309,592	83,271,740	89,300,953
EXPENSE						
Water Purchases	38,655,306	41,361,177	44,256,460	47,719,412	51,059,771	54,998,955
Wages & Benefits	14,610,782	14,442,420	14,392,788	14,717,569	15,306,272	15,918,522
Other Operating Expense	8,357,739	8,524,894	8,395,392	8,563,299	8,734,565	8,909,257
Recycled Operating Expenses	1,062,406	1,083,654	1,105,327	1,127,434	1,149,982	1,172,982
Depreciation	5,895,608	6,013,520	6,133,791	6,256,466	6,381,596	6,509,228
Total Expense	68,581,841	71,425,665	74,283,758	78,384,180	82,632,186	87,508,944
Net Operating Gain (Loss)	(4,040,995)	(2,801,601)	(1,299,342)	(74,588)	639,554	1,792,009
NonOperating Revenue						
Property Taxes & Availability Chgs	2,802,864	2,858,921	2,916,100	2,994,561	3,075,397	3,158,688
Capital Improvement Charges (Water & Sewer)	2,014,000	2,054,280	2,095,366	2,137,273	2,180,018	2,223,619
CSI Rebate	760,400	756,602	752,819	-	-	-
Other Nonoperating Revenues	1,546,694	1,481,641	1,415,195	1,443,499	1,472,369	1,501,816
NonOperating Expense	(641,583)	(1,053,129)	(1,135,654)	(1,187,518)	(1,181,293)	(1,174,677)
Capital Asset Contributions	200,000	200,000	3,100,000	900,000	900,000	900,000
Total Nonoperating Revenue (Expense)	6,682,375	6,298,315	9,143,826	6,287,814	6,446,492	6,609,446
Increase (Decrease) in Net Assets	2,641,380	3,496,714	7,844,484	6,213,226	7,086,046	8,401,455

Exhibit 6

Fallbrook PUD							
5-Year Proforma Budget							
Assumes FY 2015 as first consolidated year							
		Adopted Budget					
		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
REVENUE							
Water Services	Operating Revenue	20,708,554	22,158,153	23,709,223	25,368,869	27,144,690	29,044,818
Sewer Services	Operating Revenue	5,086,486	5,188,216	5,291,980	5,397,820	5,505,776	5,615,892
Recycled Services	Operating Revenue	1,036,757	1,057,492	1,078,642	1,100,215	1,122,219	1,144,664
Total Operating Revenue		26,831,797	28,403,861	30,079,845	31,866,904	33,772,685	35,805,373
EXPENSE							
Water Purchases		14,436,295	15,446,836	16,528,114	17,685,082	18,923,038	20,247,651
Wages & Benefits		7,764,810	7,699,006	7,693,302	7,875,568	8,190,591	8,518,215
Other Operating Expense		2,862,544	2,919,795	2,828,191	2,884,755	2,942,450	3,001,299
Recycled Operating Expenses		1,062,406	1,083,654	1,105,327	1,127,434	1,149,982	1,172,982
Depreciation		3,504,000	3,574,080	3,645,562	3,718,473	3,792,842	3,868,699
Total Expense		29,630,055	30,723,370	31,800,496	33,291,312	34,998,903	36,808,845
Net Operating Gain (Loss)		(2,798,258)	(2,319,510)	(1,720,650)	(1,424,408)	(1,226,218)	(1,003,472)
NonOperating Revenue							
Property Taxes & Availability Chgs		1,835,000	1,871,700	1,909,134	1,947,317	1,986,263	2,025,988
Capital Improvement Charges (Water & WW)		2,014,000	2,054,280	2,095,366	2,137,273	2,180,018	2,223,619
CSI Rebate		760,400	756,602	752,819	-	-	-
Other Nonoperating Revenues		1,140,269	1,067,087	992,350	1,012,197	1,032,441	1,053,090
NonOperating Expense		(484,180)	(691,053)	(789,530)	(857,681)	(851,456)	(844,840)
Capital Asset Contributions		200,000	200,000	200,000	200,000	200,000	200,000
Total Nonoperating Revenue (Expense)		5,465,489	5,258,616	5,160,139	4,439,106	4,547,267	4,657,857
Increase (Decrease) in Net Assets		2,667,231	2,939,106	3,439,489	3,014,697	3,321,049	3,654,385

Exhibit 7

Rainbow MWD							
5-Year Proforma Budget							
Assumes FY 2015 as first consolidated year							
		Adopted Budget	Projected	Projected	Projected	Projected	Projected
		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
REVENUE							
Water Services Operating Revenue		35,139,480	37,599,244	40,231,191	43,662,374	46,718,740	50,604,052
Sewer Services Operating Revenue		2,569,569	2,620,960	2,673,380	2,780,315	2,780,315	2,891,527
Recycled Operating Services Revenue		-	-	-	-	-	-
Total Operating Revenue		37,709,049	40,220,204	42,904,570	46,442,689	49,499,055	53,495,579
EXPENSE							
Water Purchases		24,219,011	25,914,342	27,728,346	30,034,330	32,136,733	34,751,304
Wages & Benefits		6,845,972	6,743,414	6,699,487	6,842,001	7,115,681	7,400,308
Other Operating Expense		5,495,195	5,605,099	5,567,201	5,678,545	5,792,116	5,907,958
Recycled Operating Expense		-	-	-	-	-	-
Depreciation		2,391,608	2,439,440	2,488,229	2,537,994	2,588,753	2,640,528
Total Expense		38,951,786	40,702,295	42,483,262	45,092,869	47,633,283	50,700,099
Net Operating Gain (Loss)		(1,242,737)	(482,091)	421,308	1,349,820	1,865,772	2,795,481
NonOperating Revenue (expenses)							
Property Taxes		967,864	987,221	1,006,966	1,047,244	1,089,134	1,132,699
Other NonOperating Revenue		406,425	414,554	422,845	431,301	439,927	448,726
NonOperating Expense (includes debt service)		(157,403)	(362,076)	(346,124)	(329,837)	(329,837)	(329,837)
Capital Asset Contribution				2,900,000	700,000	700,000	700,000
Total Nonoperating Revenue (Expense)		1,216,886	1,039,699	3,983,686	1,848,709	1,899,225	1,951,589
Increase (Decrease) in Net Assets		(25,851)	557,608	4,404,994	3,198,529	3,764,997	4,747,069

Exhibit 8

SUMMARY DISTINCT PROFORMA BUDGET

Non Consolidated Operations - Summary of Distinct Fallbrook Public Utility District and Distinct Rainbow Municipal Water District

Fiscal Years Ending 2015, 2016, 2017, 2018 & 2019

	Adopted Budgets					
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
REVENUE						
Water Services Operating Revenue	55,848,034	59,757,396	63,940,414	69,031,243	73,863,430	79,648,870
Sewer Services Operating Revenue	7,656,055	7,809,176	7,965,360	8,178,134	8,286,091	8,507,419
Recycled Services Operating Revenue	1,036,757	1,057,492	1,078,642	1,100,215	1,122,219	1,144,664
Total Operating Revenue	64,540,846	68,624,065	72,984,416	78,309,592	83,271,740	89,300,953
EXPENSE						
Water Purchases	38,655,306	41,361,177	44,256,460	47,719,412	51,059,771	54,998,955
Wages & Benefits	14,610,782	15,781,877	16,413,153	17,069,679	17,752,466	18,462,564
Other Operating Expense	8,357,739	8,524,894	8,695,392	8,869,299	9,046,685	9,227,619
Recycled Operating Expenses	1,062,406	1,083,654	1,105,327	1,127,434	1,149,982	1,172,982
Depreciation	5,895,608	6,013,520	6,133,791	6,256,466	6,381,596	6,509,228
Total Expense	68,581,841	72,765,123	76,604,122	81,042,290	85,390,500	90,371,348
Net Operating Gain (Loss)	(4,040,995)	(4,141,058)	(3,619,706)	(2,732,698)	(2,118,760)	(1,070,396)
NonOperating Revenue						
Property Taxes & Availability Chgs	2,802,864	2,858,921	2,916,100	2,994,561	3,075,397	3,158,688
Capital Improvement Charges (Water & WW)	2,014,000	2,054,280	2,095,366	2,137,273	2,180,018	2,223,619
CSI Rebate	760,400	756,602	752,819	-	-	-
Other Nonoperating Revenues	1,546,694	1,481,641	1,415,195	1,443,499	1,472,369	1,501,816
NonOperating Expense	(641,583)	(1,053,129)	(1,135,654)	(1,187,518)	(1,181,293)	(1,174,677)
Capital Asset Contributions	200,000	200,000	3,100,000	900,000	900,000	900,000
Total Nonoperating Revenue (Expense)	6,682,375	6,298,315	9,143,826	6,287,814	6,446,492	6,609,446
Increase (Decrease) in Net Assets	2,641,380	2,157,256	5,524,119	3,555,116	4,327,731	5,539,050

Exhibit 10

Rainbow MWD							
5-Year Proforma Budget							
Without Consolidation							
		Adopted Budget	Projected	Projected	Projected	Projected	Projected
		2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
REVENUE							
Water Services Operating Revenue		35,139,480	37,599,244	40,231,191	43,662,374	46,718,740	50,604,052
Sewer Services Operating Revenue		2,569,569	2,620,960	2,673,380	2,780,315	2,780,315	2,891,527
Recycled Operating Services Revenue		-	-	-	-	-	-
Total Operating Revenue		37,709,049	40,220,204	42,904,570	46,442,689	49,499,055	53,495,579
EXPENSE							
Water Purchases		24,219,011	25,914,342	27,728,346	30,034,330	32,136,733	34,751,304
Wages & Benefits		6,845,972	7,558,940	7,861,298	8,175,750	8,502,780	8,842,891
Other Operating Expense		5,495,195	5,605,099	5,717,201	5,831,545	5,948,176	6,067,139
Recycled Operating Expense		-	-	-	-	-	-
Depreciation		2,391,608	2,439,440	2,488,229	2,537,994	2,588,753	2,640,528
Total Expense		38,951,786	41,517,821	43,795,074	46,579,618	49,176,442	52,301,863
Net Operating Gain (Loss)		(1,242,737)	(1,297,617)	(890,503)	(136,930)	322,613	1,193,716
NonOperating Revenue (expenses)							
Property Taxes		967,864	987,221	1,006,966	1,047,244	1,089,134	1,132,699
Other NonOperating Revenue		406,425	414,554	422,845	431,301	439,927	448,726
NonOperating Expense		(157,403)	(362,076)	(346,124)	(329,837)	(329,837)	(329,837)
Capital Asset Contribution				2,900,000	700,000	700,000	700,000
Total Nonoperating Revenue (Expense)		1,216,886	1,039,699	3,983,686	1,848,709	1,899,225	1,951,589
Increase (Decrease) in Net Assets		(25,851)	(257,919)	3,093,183	1,711,779	2,221,837	3,145,305

Exhibit 11

CONSOLIDATED PROFORMA BUDGET ASSUMPTIONS							
Fallbrook Public Utility District and Rainbow Municipal Water District							
REVENUE							
Water Services Operating Revenue	Units sold to remain flat for FPUD; RMWD will increase due to developments in 2016/17						
Sewer Services Operating Revenue	2% increase annually, year over year						
Total Operating Revenue							
EXPENSE							
Water Purchases	Increase 7% annually based on CWA historic trends						
Wages & Benefits	Actual current wage and benefits plus 4% COLA/merit adjustment. Staffing levels will be Curr. Yr at 116, 2014-15 at 110, 2015-16 at 105, 2016-17 at 103. Using average wage and benefit of \$58/hour(not inflated) to calculate cost reduction. FPUD & RMW to split the staffing reductions (e.g. 2014-15 reductions of 6: 3-FPUD and 3-RMWD)						
Other Operating Expense	inflation factor of 2%						
	Operational efficiencies reduce each agency's expenses by \$150k in 2015-16,						
NonOperating Expense							
Total Expense							
Net Operating Gain (Loss)							
NonOperating Revenue (expenses)							
Property Taxes	inflation factor of 2%						
Other NonOperating Revenue	inflation factor of 2%						
NonOperating Expense	inflation factor of 2%						
Total Nonoperating Revenue (Expense)							
CSI Rebate ends after 15-16							

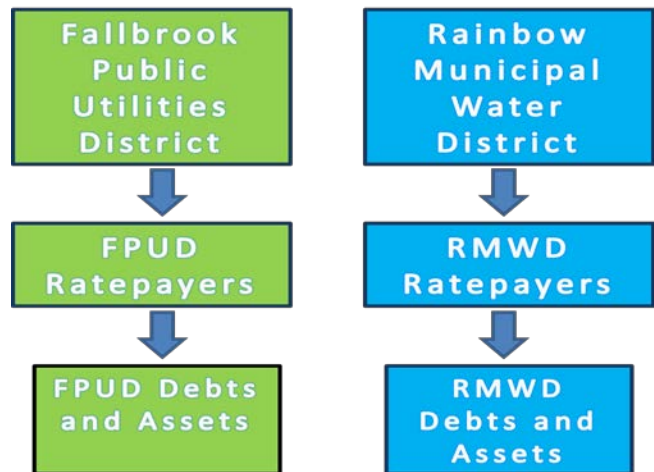
SECTION VI

DIVISIONAL ACCOUNTING

With the potential consolidation of Fallbrook Public Utility District (FPUD) and Rainbow Municipal Water District (RMWD), many stakeholders have focused on the fiscal fairness of combining the two entities:

- How to ensure fiscal equity is achieved.
- Ensuring that the cost of one district does not become the cost of the other.
- Ensuring assets and liabilities of each district remain their assets and liabilities.
- Ensuring that the rates are set to reflect each district's cost of service.
- Ensuring that revenues are applied to the appropriate segments of service.

The current status of the Fallbrook and Rainbow districts is that all existing assets, liabilities, revenues, and expenses of both Fallbrook and Rainbow are recorded within the accounting records of each entity. FPUD and RMWD have separate service areas with

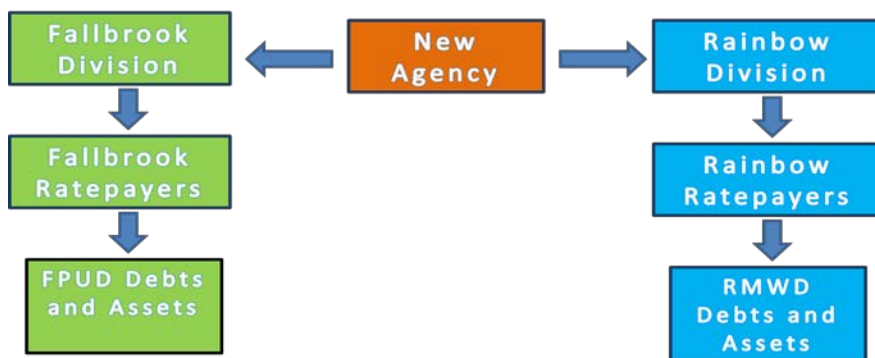


separate rates and charges. In fact, the nature of the operations for many public utilities

requires a detailed accounting system that separates revenues, expenses, and assets and liabilities for different segments of its business. This is also true for FPUD and RMWD today as they already have separate accounting records for water and wastewater customers.

In considering the consolidation of FPUD and RMWD, a determination needs to be made as to the appropriate accounting methodology for the new entity. The approach that best suits the needs of the new entity given both the stakeholder concerns and the consolidation goals would be to utilize a *Divisional Accounting*

technique. Divisional accounting is an accounting method utilized to keep discrete records for two or more divisions of the same



district, but has the flexibility to be tailored to meet the uniqueness of a given situation.

In this case, separate and distinct divisional accounting records would be kept for both FPUD and RMWD. This means that the combining assets, liabilities, revenues, and expenses of Fallbrook and Rainbow would remain their financial components of the newly combined entity. In other words, each division would maintain an accounting system that, at the point of consolidation, gives credit for the assets and liabilities of each district that existed before the merger. While divisional accounting records would exist, the new entity would also be able to consolidate the financial position of each division and generate a consolidated financial report as well.

Since each division would have its own accounting records, the ability to establish accurate divisional budgets and divisional rates and charges based solely on the cost to provide service within each division's service area would also be achieved.

Divisional Accounting provides a framework that addresses the stakeholder concerns related to fairness and equity and concerns that obligations of one division do not become the responsibility of the other. The following are some examples as it relates to assets & liabilities, revenues & expenses, and the overall financial position of the new entity.

Assets and Liabilities

The recording of new assets and liabilities would be recorded in a manner to reflect the benefiting or obligated division. For example, a newly acquired asset purchased or constructed after the consolidation would be credited only to the benefitting division. However, if a newly acquired asset were to benefit both divisions, such as, a pipeline moving water through both divisions, the asset cost would be divided between divisions based on the benefit each division receives.

If assets were acquired that are of joint benefit to both divisions, these could be recorded to a separate division called "Resource Division." For example, a vehicle purchased that would be used in both divisions could be recorded to the "Resource Division" but actual utilization of the asset would later be allocated to the Fallbrook or Rainbow division based on usage or direct labor hours or some other appropriate method.

Revenues and Expenses

The recording of revenues and expenses can also be recorded divisionally. Thus, the revenue for existing or new service accounts specific to Fallbrook or Rainbow would be recorded separately in the divisional accounting records. This ensures the revenues of one division are not used to offset the expenses of the other division.

Generally, expenses incurred would also be directly allocated to the benefitting division at the point of when an expense is incurred. However, there would be other expenses that would need to be accumulated and allocated to the divisions based on the nature of the expense. For example, general and administrative expenses may be accumulated in the "Resource Division" and then allocated to the Fallbrook and Rainbow divisions based on an appropriate method, such as, labor.

These are important concepts as one of the areas of future cost-saving resulting from the consolidation would be from the many duplicate functions now performed by both Fallbrook and Rainbow. Examples include: facility maintenance, system operations repairs, meter reading, customer service, and accounting.

Under the consolidated operations, these functions would be performed by the joint staff. Therefore, these costs

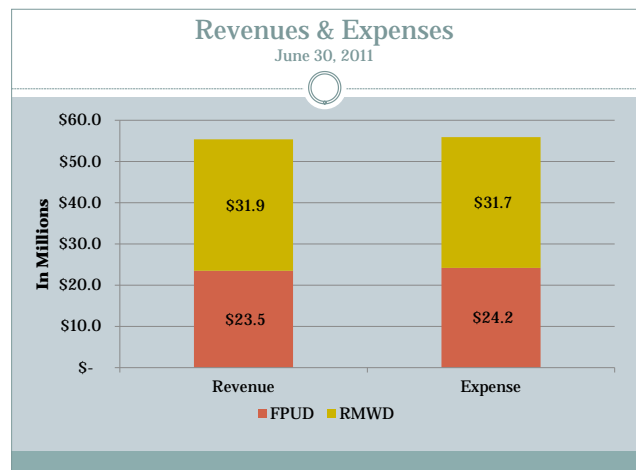
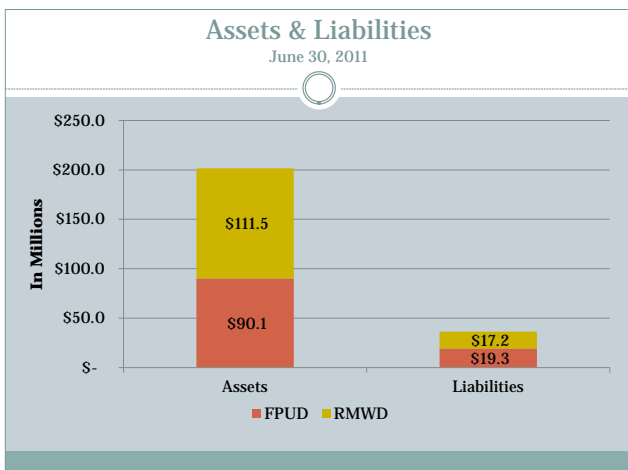
Customer Service Cost Allocation Example		
	Divisional Accounts	Allocated Cost
Fallbrook	9,100 (55.8%)	\$279,000
Rainbow	7,200 (44.3%)	\$221,000
Total	16,300 (100%)	\$500,000
Method assumes total customer service cost of \$500,000 and that these cost are allocated to the two divisions based on relative percentage of customer accounts.		

would need to be allocated to the benefitting division. Thus, a service worker who completes tasks in the morning in the Fallbrook Division and in the afternoon completes

work in the Rainbow Division would need to utilize divisional accounting procedures to track or record work time according to the benefitting division.

Financial Position

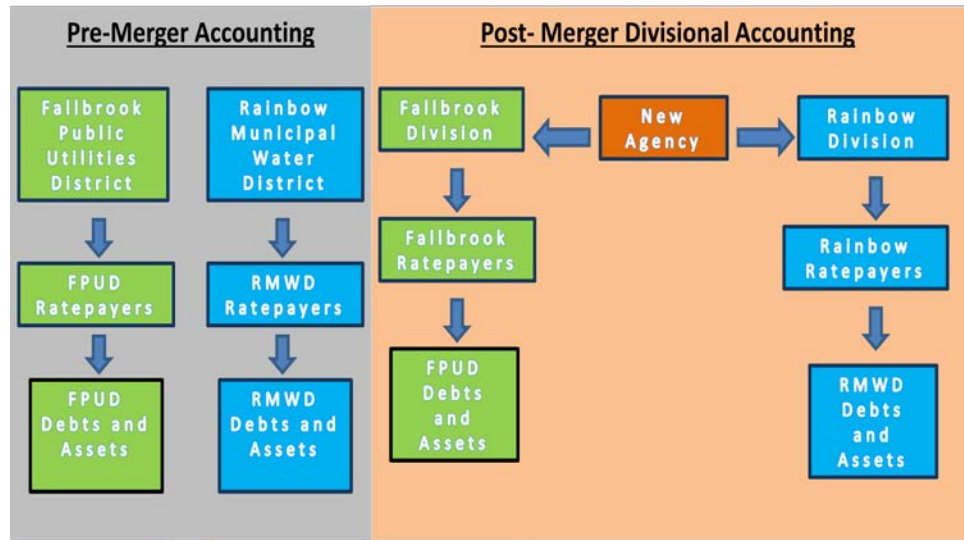
While the divisional records of Fallbrook and Rainbow would be intact, the new entity would realize a greater financial strength from the ability to report the consolidated financial statements. This would result in benefits, such as, an improved cash position and the ability to pool funds for investment purposes which could result in lower investment fees and improved returns. Or if there was a need to obtain long-term bond financing in the future to acquire equipment or to construct facilities, lower borrowing cost could result. The consolidated new entity would have a stronger financial position than either FPUD or RMWD alone and the investment community would recognize that. And again with divisional accounting, the accounting records of the benefitting division would record the appropriate assets and long-term debt if issued ensuring stakeholder concerns are addressed.



Summary

The use of Divisional Accounting provides the mechanism to achieve accurate financial reporting, establishing budgets, and setting rates and charges all on a divisional basis. This is a viable approach to ensure satisfying stakeholder concerns related to fairness and equity to customers of the new entity.

At the same time, Divisional Accounting allows for reporting the consolidated financial results of the new entity which can lead to lower overall cost



to all customers through such benefits as improved credit ratings and lower borrowing cost. FPUD and RMWD both utilize the same accounting system (DataStream) and have functionality which could accommodate Divisional Accounting. Therefore, given the benefits and flexibility, Divisional Accounting would be the preferred method of accounting for the new entity.