



August 18, 2015

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**Mr. Michael Ott
Executive Officer
San Diego Local Agency Formation Commission
9335 Hazard Way, Suite 200
San Diego, CA 92123**

Subject: Response to Kennedy Letter of August 7, 2015

Dear Mike:

We have reviewed Mr. Kennedy's letter of August 7, 2015. In many cases, we find quite a few disjointed conclusions in their critique of merger financial benefits. We find their responses regarding items 2, 3, 5, 6, 7, 11, 16, and 20 particularly misleading, and respond to them below.

2. The October 2012 Draft Consolidation Study ("the Study") served as the basis for the Rainbow and FPUD boards' decision to form a joint powers authority to prove up study forecasts over a one-year test period. Recorded savings from the JPA operation were documented in "Fallbrook PUD NCJPA Savings Projections" (updated in November 2014) report submitted to LAFCO staff.

Rainbow claims to have independent records of JPA savings but only references the "Fallbrook PUD NCJPA Savings Projections" document. We agree that the documented savings from the JPA operation were developed by now retired Rainbow finance manager, Gene Buckley, and are contained as Exhibits 1 – 4 in the "Fallbrook PUD NCJPA Savings Projections (updated November 14, 2014)." The answer to item no. 7 below addresses Rainbow's computational errors in reviewing this report.

Rainbow makes a new claim of "serious negative service impacts within RMWD during this (JPA operational) period, especially in the areas of executive leadership and customer service." It is more than curious that nearly 16 months into LAFCO staffs' deliberative process, Rainbow decides to voice these new concerns. No mention was made during two separate Special District Advisory Committee meetings. And no data are presented to back up the claims.

3. Chief Water Systems Operator and Wastewater Superintendent are both middle management positions duplicated in the two districts.

Rainbow currently has not one, but two electrical/electronic technicians. FPUD has one maintenance electrician. Functional work group reviews during the JPA operations phase, showed opportunities for rebalancing workloads to free up the equivalent of one "electrician" duties.

While shown as a newly budgeted position for 2015-16, Rainbow doesn't have an IT Technician currently on staff. For many years the work has been contracted out. During the JPA operation, many of the technical details of combining the two districts' IT operations were finalized and integrated. There is a clear sense of IT staffing requirements, and that equates to one technician position.

It is a mistake to use the Olivenhain MWD organization for staffing comparisons. Olivenhain MWD services 60% more customer accounts than a combined FPUD/Rainbow operation. Olivenhain also delivers as much as three times the reclaimed water as FPUD and operates a water treatment plant supplying 34 million gallons per day to their customers. Olivenhain's technical support requirements (i.e., electricians, IT technicians) may well exceed a less complex FPUD/Rainbow agency.

Of the 22 employees filling the 11 management and administrative positions duplicated by the two districts, one-half are currently eligible to retire. And, within the next three years, nine of the targeted 11 duplicate positions will have one or both of the incumbents of retirement age or eligible for a retirement incentive.

Currently, both districts have an administrative assistant within their engineering departments. During the one-year JPA operation phase, the two engineering departments were combined. One administrative assistant proved adequate to support the integrated department, allowing the other assistant to support other department integration efforts.

5. Day in and day out, service levels (response to emergencies, billing inquiries, meter services, etc.) are most impacted by staff that directly interface with the customer. These include customer service representatives, utility field workers, systems operators, wastewater plant operators, and the like. Of those categories one crew leader position (out of 9), one customer service staff position (out of 8), and one system operator (out of 9) are forecasted to be reduced out of a total combined service personnel staffing of 85.
6. Until March 2014, all consultants working on the merger proposal were retained by both FPUD and Rainbow.
7. The summary table on page 2 of "NCJPA Savings Projections" is correct, reflecting the 12-month savings developed by Mr. Buckley and taken from Exhibits 1-4 in the report. Figure 1 in Mr. Kennedy's letter is taken from Exhibit 2. In Figure 1, the two categories:

POSITIONS NOT REPLACED and EMPLOYEE LEASING are treated as separate calculations and are displayed as two different line items on the table on page 2 of the report. Therefore, the monthly cost to Rainbow of leasing a general manager (\$14,735) is contained within Exhibit 2, Jan-June 2013 savings/(cost) Positions not Replaced total of \$448,975. The remaining \$11,714 in Figure 1 reflects all other employee leasing activities from January-June 2013.

Figure 1 incorrectly tries to combine a monthly leasing charge of \$14,735 with a six-month summary of other employee leasing charges and represent the sum as an ongoing monthly leasing obligation. A careful review of Exhibit 2 clears up the misunderstanding.

11. Discussions with LAFCO staff in 2014 included the likelihood of a multi-year restriction on forced staff reductions and the "NCJPA Savings Projections, Updated November 14, 2014" reflected those conditions in the three-year merger strategy. Furthermore, the overarching assumption in every merger analysis going back to 2012 was that staff reductions would be by attrition, not layoffs or filled position eliminations.
16. Rainbow, in their response, makes the valid argument that a larger, combined agency enjoys economies of scale without reducing service levels.
20. There is no transfer of funds from Rainbow to FPUD under the merger proposal. Both districts benefit from the shared savings in administrative and other operating costs.

Thank you for the opportunity to submit our comments.

Sincerely,



Brian J. Brady, P.E.
General Manager

C: Paula de Sousa, Special Legal Counsel