



San Diego County
Local Agency Formation Commission
 Regional Service Planning | Subdivision of the State of California

MEMORANDUM

Supplement to Agenda Item No. 6a
February 7, 2022 Regular Meeting

February 4, 2022

TO: Commissioners

FROM: Priscilla Allen, Analyst I

SUBJECT: **Public Comments on Fallbrook Region Municipal Service Review**

This memorandum addresses public comments involving Agenda Item No. 6a and the presentation of a final report on the Commission’s scheduled municipal service review (MSR) on the Fallbrook region. The final report follows the presentation of a draft at the Commission’s December 6, 2021 meeting and subsequent initiation of a 45-day public review and comment period through January 31, 2022. Copies of the notice were mailed to all four subject agencies and advertised in the San Diego Union Tribune. A notice was also posted on the LAFCO homepage. Two written comments were received at the end of the review period from North County Fire Protection District (FPD) and Fallbrook Public Utility District (PUD). Both comment letters have been added to the final report as Appendix D. Abbreviated staff responses to both comment letters follows with the invitation to provide additional details during the public hearing on February 7th.

North County FPD Comments

No. 1: Impact of FY2020 Pension Obligation Bonds

“We believe FY 20 was an unusual year due to the timing of the issuance of the Pension Obligation Bonds and the subsequent payments to CalPERS with the proceeds. As noted in the MSR, FY 20 had an increase in total liabilities of \$35.5 million... A preliminary analysis of FY 21 has shown a decrease in total liabilities from FY 20 of \$17.5 million, reflecting the pay down to CalPERS for UAL debt.”

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Response: The five-year report period is FY2016 through FY2020 and corresponds with the availability of audited financial statements for all four affected agencies. Staff revised the report to further document and address the FY2020 issuance of pension bonds and its impact on the FPD's net position consistent with the above comment.

No. 2: Financial Trends in FY2021

“As noted in the Agency Liabilities section of the MSR, all ratios were trending downward as of FY 20. In FY 21, however this trend turns round and most of the ratios are improved. The Current Ratio increased from FY 20 from 2.4 to 1 to 2.8 to 1. The Days' Cash increased in FY 21 from 62.4 to 173.7. In FY 21 the Debt Ratio also decreased from 278% to 184.3%. Total Margin went from 98.7% to 11.2%, the highest margin over the last five years. And lastly, the Operating Margin improved to 8.4%, also the highest in the last five years.”

Response: See above.

No. 3: Organizational Direction

“We are an organization trending financially in the right direction. With continued vigilance and thoughtful oversight, we will continue to be financially stable as we provide exceptional public safety services to the communities of Fallbrook, Bonsall, and Rainbow.”

Response: The report's overall assessment of North County FPD is complimentary and aligns with the above comment. Financial stresses documented during the five-year report period, nonetheless, merit Commission attention given its duties in statute. This said, no actions are recommended given – and among other factors – confidence in the current FPD Board and management.

Fallbrook PUD Comments

No. 1 Agriculture in Fallbrook

“The District requests LAFCO consider adding a statement to identify the challenges that increasing water rates present not just to agriculture but also with the larger customer base given the changing demographic of FPUD including a decrease in median income by 7.6%, a large percentage of fixed income/retirees and a 140% increase in the poverty rate.”

Response: Staff concurs with the above sentiment and relationship therein between the water costs and quality of life – whether agricultural, residential, or other. Staff also recognizes the importance for public enterprise functions – like water service – to recover their full operation costs through user fees with the understanding increases are expected. Staff anticipates a more detailed discussion on this dynamic will be included in the Commission's consideration of Fallbrook PUD's proposed reorganization to detach from the County Water Authority and annex to Eastern MWD.

No. 2: Housing Potential in Fallbrook

“While at a high level given the county-wide housing shortage, the concept of housing replacing agricultural properties that have gone out of production sounds reasonable, the current zoning and access constraints to much of this land needs to be considered. New regulations, such as the proposed Vehicle Miles Traveled (VMT) requirements under consideration by the County Board of Supervisors, also tend to steer development away from many of these agricultural parcels. Additionally, regulations such as Senate Bill 9 (Weiner), that allow lot splitting, also exclude very high fire severity zones. For our District a large segment of the lost avocado groves are in our Deluz service area that are unlikely to see much development of housing.”

Response: Staff concurs significant development is unlikely within the more mountainous portions of De Luz for reasons noted. Staff believes the core service area in Fallbrook, however and as emphasized in the report, will experience development pressures given its proximity to existing transportation corridors (Interstate 15 and State Highway 76) and access to wholesale water supplies.

No. 3: Expansion of Latent Power

“The District requests that in the document LAFCO is clear that the District has in no way expressed any interested in being involved in any efforts associated with incorporation of Fallbrook and the current application for expansion of latent powers by the District is not a transitional vehicle to such an effort.”

Response: The report – draft or final – does not recommend or otherwise suggest incorporation of Fallbrook should be pursued. The report recommends only the Commission independently prepare future analysis on incorporation opportunities in San Diego County to include Fallbrook given past community interest coupled with the Commission’s duties. The report makes clear this recommendation is sourced exclusively to LAFCO. The potential expansion of Fallbrook PUD’s powers reinforces the incorporation topic as being relevant in the long term for reasons detailed in the report.

No. 3: Financial Analysis

“The District suggests that LAFCO engage with the Special District Advisory group to help review and consider updating the financial metrics used in its analysis for future Special District MSRs. The current metrics may not provide the most accurate representation of the financial position of Special Districts generally, and we do not believe presents an accurate representation of Fallbrook Public Utility District.”

Response: Staff agrees engaging the Special Districts Advisory Committee and solicit their input in selecting and/or otherwise enhancing the financial metrics used in municipal service reviews is meritorious. This suggestion also applies to the Cities Advisory Committee and will be proposed as part of an upcoming workplan activity. Staff believes – and irrespective of opportunities for additional enhancements –the financial metrics utilized in the report are appropriate and accurately reflect the fiscal health of all four affected agencies over the five-year report period.

No. 4: Wet Weather Discussion

“...we request LAFCO consider modifying its language about excessive inflow and infiltration threatening feature and significant spills in the call out text with something similar to the following. Fallbrook PUD’s wastewater service is presently operating at 55% of its design dry weather capacity. The system – however has exceeded its peak day wet-weather capacity once during the reporting and the peak day to average day flow ratio is 2.2, while the design ratio was 1.74, which suggests higher inflow and infiltration than the design conditions, which merit further attention.”

Response: Staff agrees with the suggestion and will proceed with making the edit before final publication.

No. 5: Livestream of Public Meetings

“The Fallbrook Public Utility District provides remote public access to the board meeting for listening or participation via zoom. The meeting audio or video recordings, which are retained in accordance with the District’s records retention policy, are available upon request for Board Meetings.”

Response: Staff agrees with the suggestion and will proceed with making the edit before final publication.

Attachments:

- 1) Fallbrook Public Utility District Comment Letter
- 2) North County Fire Protection District Comment Letter



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January 24, 2022

Pricilla Allen
San Diego Local Agency Formation Commission

Dear Ms. Allen,

The Fallbrook Public Utility District appreciates the opportunity to comment on the Draft Municipal Sphere Review for the Fallbrook Region, which includes the Fallbrook Public Utility District (FPUD). Before providing our detailed comments, we would like to recognize that the overall document is well written and provides a good overview of the transitions that have occurred in the region, such as the continued decline in agriculture and the on-going challenges these trends present to the Fallbrook region special Districts.

Our comments are summarize below

1. Discussion on Agriculture and Future Housing:

The District strongly supports LAFCOs effort to help preserve agriculture in the region.

Agriculture is an economic driver for the region and the loss of water demands from agriculture create additional financial stresses on the District. The rising cost of imported water is a key driver on water rates, which have impacted agriculture in our region and specifically high water use crops like avocados. The current factors leading to increasing water rates coupled with the demographic changes and high percentage of Disadvantages Unincorporated Communities in our service area present on-going challenges with water affordability for our ratepayers. The District requests that LAFCO consider adding a statement to identify that challenges that increasing water rates present not just to agriculture but also with the larger customer base given the changing demographic of FPUD including a decrease in median income by 7.6%, a large percentage of fixed income/retirees and a 140% increase in the poverty rate.

While at a high level given the county-wide housing shortage, the concept of housing replacing agricultural properties that have gone out of production sounds reasonable, the current zoning and access constraints to much of this land needs to be considered. New regulations, such as the proposed Vehicle Miles Traveled (VMT) requirements under consideration by the County Board of Supervisors, also tend to steer development away from many of these agricultural parcels. Additionally, regulations such as Senate Bill 9 (Weiner), that allow lot splitting, also exclude very high fire severity zones. For our District a large segment of the lost avocado groves are in our Deluz service area that are unlikely to see much development of housing.

2. Expansion of Latent Power

The District has submitted an application at the request of many local non-profit groups to expand our latent powers to help support some of the services currently provided by volunteers from these groups. The application fee to LAFCO in large part was funded by donations from these groups as they are struggling to continue to provide these volunteer services for items like tree planting, tree trimming and median maintenance. While the District Board agreed to submit the application to provide some limited additional services, the District Board has expressed no interest in any involvement with any incorporation efforts. There have been two previous efforts by residents of Fallbrook to incorporate and both failed by a fairly substantial margin. The District requests that in the document LAFCO is clear that the District has in no way expressed any interest in being involved in any efforts associated with incorporation of Fallbrook and the current application for expansion of latent powers by the District is not a transitional vehicle to such an effort.

3. Financial Analysis

The District suggests that LAFCO engage with the Special District Advisory group to help review and consider updating the financial metrics used in its analysis for future Special District MSR's. The current metrics may not provide the most accurate representation of the financial position of Special Districts generally, and we do not believe presents an accurate representation of Fallbrook Public Utility District. For example, including depreciation in the analysis of operating costs is not consistent with how many auditors present their summary of financial analysis to agencies to more accurately represent actual operating costs. There may be an opportunity to review and update these parameters to provide a more accurate financial picture. We concur that the District continues to experience financial challenges, but we have been able to slightly improve our financial position and reserves, albeit by having to implement substantial rate increases. The report notes that the agency has had to raise rates by almost 50% over the last five years to address the rising cost of water, which is the District's biggest single expense which increased by over 8% annually over the last decade (however without detail on the main driver for the rising cost of water—increases from the County Water Authority). The report also indicates that the District's operating expenses increased by 19% over the period, but this analysis includes depreciation (the largest of all the MRS's categories of operating expense increases), which is not an actual operating expense. This increase in depreciation expense was largely due to an update to the accounting system completed in 2015-16 and a total review of capital asset valuations rather than an actual change in true operating costs. As shown on page 65 of the MSR, the operating costs for each District department were held fairly flat with the exception of the cost of water. The District requests consideration by LAFCO to add a new row for "Total Operating Expense excluding depreciation" into the table and show the average and trend on this value. The way the data is presented, results in presentation of an incorrect picture because it does not fully reflect the efforts the District made to both pass necessary rate increases and at the same time hold down internal operating costs. Auditors typically show total operating costs excluding depreciation when presenting financial data to governing Boards to reflect true operating costs.

4. Wet Weather Discussion

The language regarding wastewater treatment and wet weather capacity needs some clarification. The Water Reclamation Plant (WRP) is designed around the following design conditions as noted in Chapter 4 of the District's Facilities Master plan available at:

<https://www.fpud.com/fpud-facilities-master-plan>

| Design Conditions | Units | Value |
|----------------------------|-------|-------|
| Average Annual Flow | MGD | 2.7 |
| Peak Hour Dry Flow | MGD | 5.2 |
| Maximum Month Flow | MGD | 3.1 |
| Peak Day Wet Weather Flow | MGD | 4.7 |
| Peak Hour Wet Weather Flow | MGD | 6.2 |

The facility is designed for an average day dry weather flow of 2.7 mgd and a peak day wet weather flow of 4.7 mgd. The design peak day to average annual flow ratio was $4.7/2.7 = 1.74$. The plant is not expandable to 4.7 mgd, but rather it is planned to be able to operate and meet all treatment objectives at 4.7 mgd over a 24 hour period in wet weather events. During wet weather events in order to comply with Regional Water Quality Control Board (RWQCB) industrial storm water permit requirements the WRP collects and discharges storm water on site back into the headworks of the WRP. While the District is only required to treat up to the 85th percentile storm it will often continue to treat as long as the plant can meet discharge objectives. This is what occurred in 2019 when the plant treated 5.02 mgd over 24 hours. Given the large size of the WRP site there is a significant amount of water collected and discharged on-site. This makes using the peak day data including on-site storm water difficult to use to draw conclusions on uncontrolled inflow and infiltration (I/I). Looking at peak day flows over just a five year period and drawing conclusions will just identify the years with large rain events and lead to incorrect conclusions about trends. If for example, 2016 was a wet versus dry year then trends would say I/I is decreasing, but this would be a misleading assessment. The District has a sewer relining program that is targeted to reduce I/I and we support LAFCO's conclusion that ongoing reduction of I/I is important, but we request LAFCO consider modifying it's language about excessive inflow and infiltration threatening feature and significant spills in the call out text with something similar to what is proposed below:

"Fallbrook PUD's wastewater service is presently operating at 55% of its design dry weather capacity. The system – however has exceeded it's peak day wet-weather capacity once during the reporting and the peak day to average day flow ratio is 2.2, while the design ratio was 1.74, which suggests higher inflow and infiltration than the design conditions, which merit further attention."

5. Livestream of Public Meetings

The Fallbrook Public Utility District provides remote public access to the board meeting for listening or participation via zoom. The meeting audio or video recordings, which are retained in accordance with the District's records retention policy, are available upon request for Board Meetings.

Again, we appreciate the efforts by LAFCO to develop a comprehensive review of the Fallbrook Public Utility District and support the overall report with some suggested modifications for consideration.

Sincerely,



Jack Bebee
General Manager

12/6/2021

Good morning Commission,

On behalf of the Board of Directors and, the men and women of the North County Fire Protection District, thank you to the LAFCO staff who worked so diligently to complete our organizations Municipal Service Review.

My name is Keith McReynolds, Fire Chief/CEO for the North County Fire Protection District. As indicated throughout our MSR, the state of our Fire District is strong. The very foundation of our organization are our core values of duty, respect, and integrity. We are redefining the meaning of those words through organizational transparency, collaboration, and development.

Our agency employs some of the most dedicated, hardworking, fire service professionals I have ever known. Our leadership team is focused on moving our organization into the future. In just the last 5 months we have launched an unprecedented effort to strengthen our organization on multiple fronts. We have:

- Hired a firm to develop a 3–5-year strategic plan and, a 20-year Master plan with a Standards of Cover component
- We have multiple facility projects underway including maintenance and construction
- Navigated the election redistricting process using 2020 US Census data
- Leveraged assets to increase our reserves
- Reimagined our Fire Prevention Bureau into a Community Risk Reduction Division
- Launched a Community Outreach Task Force
- Continued strengthening our relationships with our community partners, including the Fallbrook Health District whom we share a JPA with for collaborating emergency care services and emergency medical services

As it pertains to our agency financial analysis in the MSR, I would like to make a few comments.

We appreciate the diligent work the LAFCO staff has done using the audited financial statements and information provided from CalPERS to analyze the five-year period 2016-2020. We believe FY 20 was an unusual year due to the timing of the issuance of the Pension Obligation Bonds and the subsequent payments to CalPERS with the proceeds.

As noted in the MSR, FY 20 had an increase in total liabilities of \$35.5 million. The steep increase in non-current liabilities is primarily from the June 2020 issuance of Pension Obligations Bond. The bond proceeds were sent to CalPERS to reduce the Unfunded Actuarial Liability (UAL) in 2020, however the pay down of the UAL debt is not reflected in the District's financial statements until 2021 (following Generally Accepted Accounting Principles). A preliminary analysis of FY 21 has shown a decrease in total liabilities from FY 20 of \$17.5 million, reflecting the pay down to CalPERS for UAL debt.

As noted in the Agency Liabilities section of the MSR, all ratios were trending downward as of FY 20. In FY 21, however, this trend turns round and most of the ratios are improved. The Current Ratio increased from FY 20 from 2.4 to 1 to 2.8 to 1. The Days' Cash increased in FY 21 from 62.4 to 173.7. In FY 21 the Debt Ratio also decreased from 278% to 184.3%. Total Margin went from 98.7% to 11.2%, the highest margin over the last five years. And lastly, the Operating Margin improved significantly from 108.0% to 8.4%, also the highest in the last five years.

We are an organization trending financially in the right direction. With continued vigilance and thoughtful oversight, we will continue to be financially stable as we provide exceptional public safety services to the communities of Fallbrook, Bonsall, and Rainbow.

Thank you,

Keith McReynolds | Fire Chief/CEO

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