

Chairman

Bill Horn
County Board of
Supervisors

July 6, 2015

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Vice Chairman

Sam Abed
Mayor
City of Escondido

TO: Local Agency Formation Commission
FROM: Executive Officer
Local Governmental Consultant

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Members

Dianne Jacob
County Board of
Supervisors

SUBJECT: Municipal Service Review and Sphere of Influence Review of Water and Wastewater Services within the Fallbrook Public Utility District (MSR13-66; SR13-66) and Rainbow Municipal Water District (MSR13-82; SR13-82)

Andrew Vanderlaan
Public Member

Lorie Zapf
Councilmember
City of San Diego

Adoption of an Amendment to the Spheres of Influence for the Fallbrook Public Utility District (SA14-04a) and Rainbow Municipal Water District (SA14-04b)

Lorraine Wood
Councilmember
City of Carlsbad

Jo MacKenzie
Vista Irrigation District

Proposed "Fallbrook Public Utility District and Rainbow Municipal Water District Reorganization" (Fallbrook Public Utility District; Rainbow Municipal Water District); Dissolution of the Rainbow Municipal Water District; Annexation of territory formerly within the Rainbow Municipal Water District to the Fallbrook Public Utility District; and Expansion of Fallbrook Public Utility District's Latent Powers for Assumption of Sewer Service Responsibility from the Rainbow Municipal Water District (RO14-04; LPE14-04)

Vacant
Special District

Alternate Members

Greg Cox
County Board of
Supervisors

Chris Cate
Councilmember
City of San Diego

Racquel Vasquez
Councilmember
City of Lemon Grove

Ed Sprague
Olivenhain Municipal
Water District

EXECUTIVE SUMMARY

Proposal Description

Harry Mathis
Public Member

This staff report is comprised of a Municipal Service Review (MSR), Sphere of Influence Review (SR), and Reorganization Proposal involving the Fallbrook Public Utility District (PUD) and Rainbow Municipal Water District (MWD). Three distinct jurisdictional changes of organization are included in the proposed reorganization: (1) Dissolution of the Rainbow MWD; (2) Annexation of the Rainbow MWD territory to Fallbrook PUD; and (3) Expansion of Fallbrook PUD's Sewer Latent Powers. If the reorganization is

Executive Officer

Michael D. Ott

Legal Counsel

Michael G. Colantuono

approved, then the Fallbrook PUD would be authorized to provide water and wastewater services within the territory of the former Rainbow MWD. Approval of the reorganization would not change the area in which previously authorized services have been provided within the Rainbow MWD.

A Preliminary Staff Report (PSR) was distributed for comment for an extended public review period of nine weeks and the proposed reorganization was also subject to review by LAFCO's Special Districts Advisory Committee in December 2014 and February 2015. The current LAFCO staff report has been released for an extended public review period of approximately 30 days.

Justification

The proposed reorganization was initiated by the Fallbrook PUD on April 28, 2014. The Fallbrook PUD indicates that consolidating with Rainbow MWD will save considerable public funds. When projected over a three-year period, both the Fallbrook PUD and Rainbow PUD estimated that a reduction in staff of up to 20 full-time equivalents could be accomplished while maintaining existing service levels. Estimated annual cost savings were projected to be about \$2.5 million per year (\$1.3 million in the first year to \$2.5 million in the fifth year). Cost savings figures were developed in 2013-14 by the staffs of both the Fallbrook PUD and Rainbow MWD. As discussed in the LAFCO staff report, the Rainbow MWD now disputes the extent of the cost savings, but nonetheless acknowledges that some level of cost savings will result from reorganization.

The reorganization was proposed by the Fallbrook PUD in response to promising results derived from the North County Joint Powers Authority (North County JPA), a voluntary partnership between the PUD and MWD that was formalized on April 5, 2013. The purpose of the North County JPA was to provide for the administration of the member agencies by managing combined resources, including staffing and physical plant/infrastructure, and to obtain a cost-effective means of providing service to the ratepayers, pursuant to the terms of the Fallbrook PUD and Rainbow MWD Employee Leasing Agreement.

Under the JPA Agreement, comprehensive functional work group analyses were conducted and employee integration programs implemented through 2013. Change management workshops, inter-district cross-training, and employee recognition programs were also used in the integration process. In addition, Fallbrook PUD expanded its community outreach and school programs to include Rainbow MWD's service territory. In 2013, the net combined savings from the JPA was slightly over \$1 million. This reportedly exceeded original expectations. The savings breakdown by district was approximately 80 percent accruing to Rainbow MWD, with the remainder to Fallbrook PUD.

A jurisdictional reorganization of the two districts was discussed because of the estimated annual cost savings of \$2.5 million, coupled with the additional benefits beyond labor savings (e.g., integration of equipment and operations). An additional \$300,000 of annual cost savings was projected through the following areas of increased efficiency:

- Capturing economies of scale and reducing administrative overhead
- Sharing equipment and vehicle fleet reduction

- Improving emergency response
- Enhancing coverage for service zones and pressure zones at district boundaries
- Integrating and consolidating both districts' management and staff
- Improving water resource management via use of recycled water
- Improving the ability of the combined district to fully utilize local water supplies
- Strengthening financial capacity

Reorganization Opposition

After the Fallbrook PUD initiated a jurisdictional reorganization with LAFCO on April 28, 2014 over the objections of the Rainbow MWD, the Rainbow MWD Board filed with LAFCO a Resolution of Objection on July 23, 2014. The areas of objection were varied, but were concentrated on governance issues and the decision that Fallbrook PUD made to move forward to LAFCO without support and involvement of the Rainbow MWD Board. The extent to which the Rainbow MWD has opposed the proposed reorganization is widely known, and perhaps, best epitomized by comments made by several of its board members and staff. Rainbow MWD Board member Jack Griffiths states: "Rainbow is considering the hiring of a P.R. Company to encourage public outrage at the hostile takeover situation and the persons and organizations involved." After that comment was made by Mr. Griffiths at a LAFCO public comment period on May 4, 2014, the Rainbow MWD Board retained a public relations firm for approximately \$10,000 per month, and also subsequently retained contractors and legal counsel to oppose the reorganization.

In addition, as a part of its opposition campaign, the Rainbow MWD issued some questionable statements, one of which was made to LAFCO's Special Districts Advisory Committee on December 19, 2014 regarding assessed value of land and associated protest and election provisions in State Law (Government Code Sections 57077.1-4). In an attempt to discredit the Advisory Committee Report, the Rainbow MWD requested that certain assessed value of land figures cited by LAFCO staff needed to be corrected and a LAFCO staff report reissued. However, the Advisory Committee concluded that the Rainbow MWD had misrepresented the matter by overstating the assessed value of land provisions in State Law by \$2 billion (in Rainbow's favor). As discussed in the LAFCO staff report, these land value figures are of major importance when implementing protest and election provisions.

A Rainbow MWD Board member (George McManigle) also made highly emotional comments in 2014 by inferring that the Fallbrook PUD was in collusion with the San Diego LAFCO by scheduling pre-application meetings with LAFCO staff prior to the submittal of the reorganization application. As the Commission is aware, all LAFCO applicants are encouraged to schedule pre-application meetings with LAFCO staff to discuss application requirements per the Commission's adopted rules.

Other public comments submitted to LAFCO by an August 1, 2014 deadline can be viewed directly from the San Diego LAFCO's website (sdlafco.org). The major areas of opposition raised by the Rainbow MWD and ratepayers cover the following:

1. Notice and hearing requirements
2. Affected Agency Initiation Provisions
3. Relevancy of water rate comparison
4. Capitalizing on Rainbow MWD's Assets and Growth
5. Status of Rainbow MWD's Ordinance No. 95-1
6. Debt of Rainbow MWD and Fallbrook PUD
7. Relevancy of JPA cost savings
8. Validity of reorganization cost savings
9. Effect on Agriculture
10. Governance and California Voting Rights Act
11. Rainbow MWD's Position on JPA and Governance
12. Election Provisions
13. Payment of Election Costs
14. Rainbow MWD staff objections
15. Respecting the JPA contractual process
16. Proposition 218 notification

As discussed in this LAFCO staff report, the major recurring theme associated with most opposition comments pertains to governance. Per the proposal initiated by the Fallbrook PUD, the Fallbrook PUD would be the successor to the Rainbow MWD, and the Fallbrook PUD Board would be expanded from five to seven members per the PUD Principal Act. Four board members are proposed to be elected by territorial unit (division), and three board members would be elected at-large. The Rainbow MWD and a considerable number of residents demand that the PUD Board instead consist members elected exclusively by territorial unit (division). The Rainbow MWD believes that unless the board of the reorganized Fallbrook PUD consists of all board members elected by division, voting rights would be adversely affected and challenges would occur under the California Voting Rights Act (CVRA).

The Mexican American Legal Defense and Educational Fund (MALDEF) submitted a letter to the Fallbrook PUD (and copied to LAFCO) on March 18, 2015 demanding that the Fallbrook PUD convert to a divisional form of governance. MALDEF's analysis of population data from census figures showed that 44 percent of the population of Fallbrook PUD is Latino. However, MALDEF states that none of the five current members of the Fallbrook PUD Board is Latino. MALDEF states that there has been no Latino Board member elected going back at least seven election cycles, perhaps longer. Based on LAFCO staff's review of the information submitted by MALDEF covering election returns; demographic information; Spanish-surname analysis of votes cast by precinct; and the lack of success of Latino voters in selecting candidates of their choice, a determination as to whether racially polarized voting occurred within the Fallbrook PUD cannot be conclusively reached or rejected.

The Fallbrook PUD has also reviewed the CVRA issues raised by Rainbow MWD and MALDEF. Fallbrook PUD concluded that a determination could not be reached that racially polarized voting was present in past Fallbrook PUD elections. Fallbrook PUD states that Rainbow MWD's position has been less about racial disparity or racial issues and more about disenfranchisement of communities of interest, including the agricultural base in the region. Fallbrook PUD concludes that an agricultural base or community is not considered a protected class of voters under the CVRA. Fallbrook PUD also states that Rainbow MWD has not provided any case law, statute, or other legal authority for its position that the Fallbrook PUD or LAFCO could independently change the PUD election system, absent a specific state statute. Lastly, Rainbow MWD submitted a voluminous amount of information regarding voter data and voting behavior, but did not retain an expert to conduct regression analysis to determine if racially polarized voting has in fact occurred.

Despite the voluminous amount of raw data submitted by the Rainbow MWD, MALDEF, and voters, LAFCO staff believes that it is not possible to definitively conclude that racially polarized voting has or has not occurred within the Fallbrook PUD. In addition, LAFCO staff also believes the MALDEF data is somewhat superficial and spurious. It is interesting to note that the original MALDEF correspondence sent to the Fallbrook PUD (and copied to LAFCO) contained a critical transposition error. MALDEF referred to the Fallbrook PUD as a "city council" and also confused the Fallbrook PUD with the Merced City Council in Stanislaus County. MALDEF's subsequently re-sent a corrected letter to the Fallbrook PUD, but it is clear that in MALDEF's zeal, that its voting conclusions were generically developed, and perhaps, based on electoral issues pertaining to the wrong local agency within the wrong county (i.e., City of Merced in Stanislaus County rather than the Fallbrook PUD in San Diego County). Notwithstanding the errors in MALDEF's letter, LAFCO staff believes that there may be some merit for the Fallbrook PUD to convert to a divisional form of governance as a condition of the proposed reorganization – albeit for different reasons than those cited by MALDEF and Rainbow MWD. LAFCO staff believes that the reasons for converting to a divisional form of governance are driven by a need to statutorily harmonize Government Code Section 56000 et seq. with the PUD Act, rather than the inconclusive racial and elections data presented by MALDEF and the Rainbow MWD.

While there are competing interpretations regarding how to best harmonize Government Code Section 56000 et seq. with the PUD Act, LAFCO staff has concluded that the governance provisions of both statutes need to be construed in a manner that reasonably and fairly implement LAFCO's overall purpose and legislative priorities. These legislative purposes and priorities place an emphasis on the accountability for community service needs, including governmental structure and operational efficiencies. LAFCO staff believes that if the Commission were to impose a requirement on the Fallbrook PUD to convert to a divisional form of governance that these important LAFCO priorities could be accomplished most effectively.

Imposing such a requirement on the proposed reorganization is not without risk, though. The risk is that LAFCO can mandate governance changes on local agencies as part of LAFCO proposals as long as those changes comport with the Principal Act of a local

agency. As previously discussed, there is some question as to conformance with the PUD act. Nonetheless, LAFCO staff believes that if the Commission decides to approve the reorganization that it should consider taking a risk and require that the Fallbrook PUD Board be converted to a divisional form of governance. While the Rainbow MWD had previously indicated that it could only support the reorganization if all members of the reorganized district are elected by division, we are unaware whether the Fallbrook PUD would support a possible LAFCO modification requiring that all board members be elected by territorial unit (division).

If the Commission is adverse to risk, it should not require that the Fallbrook PUD convert to a divisional form of governance. LAFCO staff believes that if the Commission does not require that the Fallbrook PUD convert to a divisional form of governance, that it should either approve the reorganization based on establishing the Fallbrook PUD with a combined board composition (e.g., combination of board members elected by division and at-large), or it should disapprove the proposed reorganization in its entirety. It could be argued that a combined district and at-large based election system provides the best of both worlds in that voters would have an opportunity to be represented by both divisions and an at-large geographic system of voting areas.

The Rainbow MWD's legal counsel originally opined on this matter on December 12, 2013 and concluded that LAFCO can essentially approve any board structure, including a requirement that all board members be elected by division per Government Code Section 56000, et seq., rather than deferring to the Principal Act of a PUD. On April 20, 2015, the Rainbow MWD General Manager contradicted this determination and indicated that "LAFCO does not have authority to unilaterally change the Fallbrook PUD from their current system of elections to a district-based election." And then on May 12, 2015, the President of the Rainbow MWD provided yet another contradictory statement indicating that the Fallbrook PUD may convert to a district-based election system in light of case law. Such position reversals make it very difficult to discern a coherent position from the Rainbow MWD on this important matter.

The Fallbrook PUD Legal Counsel disagrees with most of the statements made by the Rainbow MWD and believes that a change to the PUD Act should be made in order for the Fallbrook PUD to convert to a district-based elections system. The Fallbrook PUD is currently involved with proposing amendments to Senate Omnibus Bill 184, which if enacted, would enable PUD board members in San Diego County to be elected by or from sub-districts (divisions). The proposed amendments in SB 184 would allow Public Utility Districts that are wholly or partially in San Diego County to elect members of their boards of directors at large, by sub-districts, or from sub-districts, subject to the approval of the board of supervisors, or as part of a change of organization or a reorganization conducted pursuant to the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000.

If the option of requiring a divisional form of governance is approved by the Commission, then we would also recommend that the initial board consist of nine members that are all elected by territorial unit and then transition through normal expiration of terms to seven members, again with all members elected by territorial unit (division). We would also

recommend that the Fallbrook PUD be required to pay for any related litigation costs associated with this potential modification to the reorganization proposal.

A second and entirely different jurisdictional option would be to name a different successor district than the Fallbrook PUD. For example, it would be possible to name a Municipal Water District as the successor. Under this option, all board members of a Municipal Water District would be required to be elected by division according to the Municipal Water District Principal Act (Water Code Section 71000 et seq.). The Fallbrook PUD, however, opposes the naming of an MWD as successor, because it does not believe the MWD's powers and authorities conform to community needs. Another jurisdictional alternative would be to modify the proposal and designate a new district, such as a Community Services District (CSD), as successor. According to the Principal Act for a CSD (Government Code Section 61000 et seq.), board members may be elected entirely by division. An issue associated with either option, however, pertains to the status of retirement benefits for existing and future employees. Officials from the California Public Employees Retirement System (CalPERS), have indicated that there would be a nine month lag time after the effective date, in which the successor agency would need to reapply for reinstatement into CalPERS. During this lag time, existing and future employee's participation in CalPERS would be suspended. While CalPERS officials have unofficially determined that the reinstatement would likely occur, this nine-month delay and uncertainty would likely be of concern to current and future employees.

Reorganization Support

Over 30 letters of support were submitted to LAFCO from ratepayers stating that a reorganization of the two districts is necessary. Reasons cited by reorganization supporters covered topics, such as: (1) Disappointment with the service, reliability and management of the Rainbow Water District; (2) Lack of proper maintenance within Rainbow MWD has resulted in facility maintenance problems; (3) Management of Rainbow MWD is unwilling to address costs of operating a reliable service and instead hold down rates; (4) Reorganization will result in more reliable water service and an expanded ratepayer base that can produce savings from economy of scale; (5) Elimination of specialized equipment will avoid duplication; (6) Rainbow MWD has been misleading regarding governance issues; (7) Rainbow MWD's residential water rates are excessive and reorganization will produce cost savings that could equalize rates; (8) Reorganization of the two districts will result in a single, more efficient and logical entity; (9) Rainbow MWD's operations have been detrimental to residential customers; (10) The ability to elect directors in Rainbow MWD via public vote is circumvented by Rainbow's rules; (11) Rainbow MWD's management is incompetent and ineffective; (12) Rainbow MWD lacks adequate customer service and Rainbow employees need improvement; (13) Dissolution of Rainbow MWD will improve economies of scale and efficiency; (14) Reorganization may have a positive effect on water rates; and (15) Reorganization will reduce administrative costs and produce cost savings to ratepayers.

Political Practices Commission Filings

The Rainbow MWD and Fallbrook PUD have made filings with the Fair Political Practices Commission regarding expenditures for political purposes in excess of \$1,000. Effective January 1, 2008, expenditures related to a change of organization or reorganization proposal that will be or has been submitted to LAFCO are subject to reporting and disclosure requirements of the Political Reform Act of 1974 and the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000. According to the most recent reports filed with the Fair Political Practices Commission, the Rainbow MWD has spent \$143,322 (through April 2015) to oppose the reorganization and the Fallbrook PUD has spent \$2,970 (through April, 2015) to support the reorganization.

Effect on Employees

As discussed in this staff report, the 2012 consolidation study jointly prepared by the Rainbow MWD and Fallbrook PUD concluded that reorganizing the two districts would result in annual operational savings of about \$2.8 million (\$2.5 million in labor savings and \$300,000 in miscellaneous savings from insurance premiums, combined training, etc.). The 2012 projected labor savings were based on the assumption that the staffing of 123 positions would be gradually reduced over a 2-3 year time period to 103 positions. This would be accomplished primarily through attrition and leaving certain positions unfilled. It should be noted that during the one-year existence of the North County JPA in 2013, actual staffing levels dropped to 114. After the termination of the JPA in 2014, the combined staffing of the Rainbow MWD and Fallbrook PUD has now risen to 118, with a concurrent increase in the use of contractors/consultants.

Based on a review of the Rainbow MWD's and Fallbrook PUD's organization charts; a re-examination of the potential staff reductions; and an analysis of the actual results of North County JPA, we conclude that the initial staffing reduction estimates made by the two districts in 2012 still appears valid. If the current salary and benefits costs are applied through a reduction of 15 positions, then the overall labor cost savings would be about \$2.45 million to \$2.5 million. During the fifth year of the reorganization.

There was better comparability of salaries and benefits between the Rainbow MWD and Fallbrook PUD in 2012-13 than in 2014-15, because the salary and benefits package for Rainbow MWD has recently changed and is now about 17% higher than that of Fallbrook PUD. This figure is derived from an independent compensation survey conducted by Koff Associates in 2014. According to that survey, 16 benchmarked classifications were utilized based on a survey of 15 public agencies considered to be representative in San Diego and Southwest Riverside Counties. The Survey results show that the Rainbow MWD topped the salary survey as first, second, or third in nearly 50% of the benchmarked positions (Accounting Supervisor, Customer Service Assistant II, Administrative Office Specialist, Chief System Operator, Foreman/Superintendent, Secretary, Utility Worker II/III). This is a significant finding within the survey, given that that the Rainbow MWD is one of the smaller agencies included in the survey.

The compensation survey conclusion that Rainbow MWD salaries are on average 17% higher than Fallbrook PUD's salaries and will possibly decrease to a level of comparability after the Fallbrook PUD considers a new wage and benefit plan for its employees later this fiscal year. The terms and conditions, as modified and recommended by LAFCO staff, specify that employees of the Rainbow MWD are all to become employees of the Fallbrook PUD, and that all full time employees, contract employees, and temporary or limited term employees will be offered equivalent employment as determined by the Fallbrook PUD.

Any former Rainbow MWD employees whose salary range is higher than the equivalent range within the Fallbrook PUD will be Y-rated (kept at the prior compensation level) until the respective Fallbrook PUD salary range equals or exceeds that (prior) amount. This is a common practice used by organizations when blending employee work units. Former Rainbow MWD employees that are Y-rated would still receive annual performance appraisals, but would not be eligible for merit increases until the respective Fallbrook PUD salary range is increased. Former Rainbow MWD employees who are Y-rated would also be eligible to receive cost-of-living adjustments provided to all employees in their work unit at the discretion of the Fallbrook PUD, and the respective Fallbrook PUD salary range shall be adjusted as necessary to accommodate the cost-of-living adjustment. Refer to Exhibit G for a comparison of Rainbow MWD classifications to Fallbrook PUD classifications.

Further, contracts for all employees with ongoing contracts will be transferred from the dissolved Rainbow MWD to the Fallbrook PUD for the duration of such contract(s). No additional personnel would be hired as a result of the reorganization, and all obligations of the dissolved Rainbow MWD would continue through the Fallbrook PUD including but not limited to costs associated with contract benefits, payment of retirement liabilities and administrative costs. Employees within the dissolved Rainbow MWD will also retain seniority with the Fallbrook PUD as though no interruption in service had occurred. Seniority would be used to determine rates for the administration of annual leave, sick leave, and to establish layoff lists, if applicable. All existing annual leave and sick leave accrued by former employees of the dissolved Rainbow MWD prior to dissolution will be frozen at the applicable hourly rate for each employee prior to the dissolution. Probationary employees of the Rainbow MWD will continue in a probationary status with the Fallbrook PUD until completion of their remaining probationary period. New hires and promotions will be conducted by the Fallbrook PUD pursuant to the current system and lists of the dissolved Rainbow MWD. Lastly, it is recommended that a liaison from among the employees of the dissolved Rainbow MWD be appointed by the Fallbrook PUD for a period of up to three years following the effective date of the reorganization to assist with the transition.

Sphere of Influence and Service Review

Consideration of the proposed reorganization of the Rainbow MWD and Fallbrook PUD involves a review of the adopted Spheres of Influence and Municipal Service Reviews for both districts. Spheres of Influence are one of LAFCO's jurisdictional planning tools used in combination with other factors to review jurisdictional boundaries and other changes of

local agency organization. Information contained in service review reports help LAFCO in the preparation and update of spheres through an examination of growth projections, facility conditions, finances, etc.

In 1984, Rainbow MWD's sphere was originally adopted. Since that time, eight amendments have been approved, thus making the sphere coterminous with the District's existing boundary until LAFCO updated the sphere on April 7, 2014, and placed some additional territory in the sphere. The Municipal Service Review that was adopted in 2014 concluded that no major service issues were present. However, it was noted that the District has undergone periods of instability in terms of governance and administration. It was noted that the Rainbow MWD experienced high employee turnover and 11 general managers from 1994-2006. The District had also experienced a high turnover rate during this time frame with respect to non-executive positions having 7 retirements, 30 resignations, and 9 terminations over a five-year period that was covered in LAFCO's Request for Information in 2006. This situation appears to have stabilized recently, with the exception of the general manager position noted above.

LAFCO also noted that conditions improved from 2006-12. However, from 2013-14, the Rainbow MWD again experienced instability by having 4 different general managers (two general managers and two interim managers). It should be noted that the Rainbow MWD concurred with these conclusions in LAFCO's service review when the MSR was adopted by LAFCO in 2014, but current Rainbow MWD staff now dispute the conclusions. Nonetheless, Rainbow MWD has been unable to provide evidence to support the areas of its disagreement. Refer to the minutes of LAFCO's Sphere and Municipal Service Review hearing on June 2, 2014 for further information.

In 1985, Fallbrook PUD's original sphere was adopted that is coterminous with the district boundary. There were five amendments to the sphere between 1985 and 1990 and no amendments after that date. Since adoption, the sphere was amended five times; the last sphere amendment was approved 24 years ago in 1990 and resulted in the addition of 12,000 acres corresponding with the De Luz Heights MWD Reorganization; the De Luz Heights MWD was dissolved and its service area annexed to the Fallbrook PUD. In 2007, the Commission reaffirmed the PUD's sphere coterminous with the District's boundary. An MSR was conducted of the PUD in 2007 and no service issues were identified.

As part of the 2015 MSR, LAFCO staff noted no significant service or governance issues with respect to the Fallbrook PUD. The Fallbrook PUD has exhibited long-term stability with respect to governance and employee turnover. With respect to the governance, 1 board member resigned, 0 retired, and 0 were recalled prior to the end of their terms within the last ten years. Prior to this time period (between 1992 and 2006), 2 directors resigned, 0 retired, and 0 directors were recalled.

One governance issue that was identified, but has since been resolved pertained to one Fallbrook PUD board member. This board member (Archie McPhee) refused to take part in the required board member orientation briefings and failed to uphold confidentiality requirements associated with closed session board meetings on personnel and litigation issues. The Fallbrook PUD board sanctioned Mr. McPhee by excluding him from

subsequent closed sessions. Mr. McPhee unsuccessfully campaigned for reelection in 2014 and was defeated in November 2014.

With respect to the Fallbrook PUD's 66 employees, the District has experienced an average turnover rate in the past five years (2009-14) consisting of: 15 retirements, 12 resignations, and 2 terminations. This is the time period covered in LAFCO's Request for Information. Since 1994, the Fallbrook PUD has had 3 general managers (Tinker, Lewinger, and Brady), in comparison to the Rainbow MWD that during the same time period had 11 different general managers. Rainbow also experienced a higher turnover rate for non-executive positions during that time period having 7 retirements, 30 resignations, and 9 terminations over the five-year period that was covered in LAFCO's Request for Information in 2006. This situation appears to have stabilized recently, with the exception of the general manager position noted above as Rainbow MWD had 6 retirements, 6 resignations, and 0 terminations between the years 2009-14. As of 2014, the number of employees totaled 56 and in 2009, the number was 65.

In reviewing the Spheres of Influence for both districts, the Commission may assess the feasibility of governmental reorganization of the subject agencies and recommend reorganization when it is found to be feasible. Feasibility is usually achieved when a reorganization is determined to further the goals of orderly development and efficient and affordable service delivery. If the Commission believes that justification has been provided in this staff report to warrant a possible reorganization, then it would be appropriate to amend the Sphere of Influence of the Rainbow MWD to a transitional sphere designation and transfer the territory that is currently in the Rainbow MWD's sphere to the Fallbrook PUD's sphere. Statements of Determinations are included with this staff report, in the event the Commission decides to take this action.

Protest Provisions

If LAFCO approves a jurisdictional proposal, the proposal is then subject to "protest proceedings". With respect to the proposed reorganization of Rainbow MWD and Fallbrook PUD, protest provisions contained in Government Code Sections 57077.3, 56876, and 56877 would be followed. These provisions pertain to reorganization proposals involving latent powers, district dissolution, and annexation to another district. Section 57077.3(b)(3) specifies that the Commission must order the reorganization without confirmation of the voters, except that if 25 percent or more voters or landowners who also own at least 25 percent of the assessed value of land file written protest, then the reorganization is subject to an election. If 50 percent or more of the voters residing within the dissolution territory file written protest with LAFCO, then the proceedings are terminated and an election is not held.

Rainbow MWD contends that LAFCO may bypass this protest process entirely for the proposed reorganization, and directly order an election. We disagree with Rainbow MWD and believe that if LAFCO orders an election without protest, it would expose LAFCO to great legal risk. Rainbow has reached this conclusion by applying Government Code Sections 56876 and 56877 in isolation of mandatory protest and election provisions contained in Government Code Sections 57077.3 and 57077.4. Sections 57077.3 and

57077.4 require that a reorganization be ordered without confirmation by voters, unless protest has been registered meeting the 25 percent thresholds contained in State Law.

With respect to this protest issue, we believe that if the Commission approves the proposed reorganization, the following options are available:

1. LAFCO should acknowledge that multiple interpretations can be made with respect to the protest provisions. The Commission should acknowledge Rainbow MWD's conclusion that LAFCO may order the proposed reorganization subject to an election without conducting protest proceedings, but decline to use this conclusion/approach for the reasons stated in this staff report.
2. LAFCO should only order an election if 25 percent of landowners or voters submit timely protest (within the Rainbow MWD) per provisions in State Law.
3. If a protest compels an election, LAFCO should require that an election be held within both districts, and that separate majorities would be required within Rainbow MWD and Fallbrook PUD. While permissible, but subject to increased legal risk, LAFCO could require that the voters within Rainbow alone approve the reorganization, or an election where separate majorities of Fallbrook voters and the combined electorate of the two districts would be required to approve the ballot measure. Again, it would be most legally defensible if Rainbow and Fallbrook voters were treated alike, allowing neither or both a separate veto over the proposal.

Advisory Committee Review

On December 19, 2014, the proposed reorganization was referred to LAFCO's Special Districts Advisory Committee for review and comment. The Committee received presentations from LAFCO staff, Fallbrook PUD, and Rainbow MWD. Committee members felt that the proposed reorganization is financially feasible. Representatives from Fallbrook PUD and Rainbow MWD concurred with that assessment; however, Rainbow MWD representatives believe that the margin of feasibility is not as high as reported and that governance is the number one issue.

In terms of governance, a majority of committee members expressed support for a larger PUD board than what was proposed, perhaps as many as nine board members, with the board decreasing in size over time. The committee also discussed whether there were possible alternatives to the PUD governance structure such as a Municipal Water District that would allow all members of the Board to be elected by territory area (division). The Fallbrook PUD believes that a PUD is the best Principal Act for service delivery in terms of community service needs.

Most committee members concluded that the fundamental issues pertaining to cost savings and efficiency were valid and Rainbow MWD's objections regarding costs were not adequately substantiated. The general manager of Rainbow MWD (Tom Kennedy) indicated that the proposed reorganization is financially feasible, but questioned the margin of feasibility. Committee members strongly felt that the analysis showed potential ongoing savings. Most committee members felt that with more time, added savings might also be

realized. None of the committee members felt that Rainbow’s objections had merit. The majority of the committee stated support for the two organizations to continue discussions with the hope that a solution could be found benefitting both organizations.

A majority of the committee stated their hope and expectation that all parties (Rainbow MWD, Fallbrook PUD, and LAFCO) would continue to discuss possible alternatives and solutions to the proposal. LAFCO’s Executive Officer offered to facilitate discussions between the two districts and return to the committee with a progress report. Three ad hoc meetings were accordingly scheduled by LAFCO staff. Rainbow representatives were asked to respond to whether the full Rainbow board would support increasing the size of the governing board of the reorganized district from seven to nine members either permanently or temporarily, with 5 to 6 board seats subject to divisional elections. Fallbrook representatives were requested to develop territorial unit maps showing a 9-member board with 5 to 6 seats subject to divisional elections. On February 3rd, Rainbow MWD reiterated its opposition to any governance alternative that had an at-large governance component.

Rainbow MWD offered two alternatives for Fallbrook PUD to consider regarding the proposed reorganization: (1) Reorganization of Fallbrook PUD into a Municipal Water District, and/or (2) Reconstitution/reactivation of the North County JPA for functional consolidation purposes.

The Fallbrook PUD reiterated its opposition to the modification of the reorganization that would involve changing the principal act for the successor agency from a Public Utility District to a Municipal Water District. Fallbrook PUD stated that the powers available to Public Utility Districts versus the powers available to Municipal Water Districts conform to the historic and future service needs of the community. Below is a summary of services that may be provided by PUDs and MWDs per provisions in State Law (Public Utilities Code Sections 16461–16463 and Water Code Sections 71610–71689.7).

SERVICES AUTHORIZED BY SPECIAL DISTRICT PRINCIPAL ACTS

Type of District	Fire	Garbage	Park and Recreation	Roads	Sewer	Water	Lights	Power	Heat	Communication	Transportation	Drainage	Groundwater
Municipal Water District	X	X	X ¹		X	X		X ¹					X
Public Utility District	X	X	X	X	X	X	X	X	X	X	X	X	X

¹ There are restrictions on provision of this service by this type of district.

Regarding Rainbow’s request to reactivate the North County JPA, the Fallbrook PUD expressed opposition based on Rainbow’s assertion that a third general manager (e.g., Executive Director) would need to be hired at an additional expense to run the JPA.

After holding two LAFCO ad hoc meetings between the Rainbow MWD and Fallbrook PUD, agreement was reached on one matter—that being the existence of an impasse. LAFCO staff offered to hold additional ad hoc meetings to further discuss and resolve issues; however, both sides stated that unless movement/compromise was equally made by both districts regarding governance, that there would be no need for additional ad hoc meetings.

Based on these impediments, an impasse occurred and LAFCO staff began finalization of an extensive staff report for consideration by the full Commission.

RECOMMENDATIONS AND CONCLUSIONS

There appears to be unanimity as to the financial and service feasibility of reorganization, as confirmed by representatives of both districts. There is, however, some disagreement regarding the specific margin of feasibility, but overall feasibility is not at question. In terms of governance, the Fallbrook PUD has proposed that the reorganized district be governed by seven board members -- with four board members elected by territorial unit (division) and three members elected at-large. Rainbow MWD disagrees and claims that Fallbrook PUD's proposed governance structure is inadequate and demands that the reorganized board change to a divisional election system. Similar comments and demands have been made by MALDEF and a substantial number of Rainbow MWD ratepayers regarding governance.

In reviewing the data and discussion provided by MALDEF and Rainbow MWD, LAFCO staff is unable to conclusively determine the presence or absence of minority vote dilution and a history of racially polarized voting. The data that has been presented deals with local agencies that are governed exclusively by an at-large election system, and not the combined type of system proposed by the Fallbrook PUD. Consequently, there is an absence of compelling arguments documenting minority vote dilution in a combined system of governance.

Even though the data presented by the Rainbow MWD does not support the need to change the system of governance within the Fallbrook PUD, LAFCO staff believes that other reasons exist for changing Fallbrook PUD's system of governance. These reasons pertain to LAFCO's legislative priorities. LAFCO's legislative priorities and objectives per Government Code Sections 56000 et seq., place an emphasis on the accountability for community service needs, including governmental structure and operational efficiencies. We accordingly believe that conversion of the Fallbrook PUD to a divisional system of governance would be the most effective means by which to achieve these priorities. Therefore, LAFCO staff recommends that if the proposed reorganization is approved, that the Commission consider making a concurrent modification requiring that the reorganized Fallbrook PUD be governed by board members elected exclusively by territorial unit (division). We further believe that the initial board should consist of nine members, with all members elected by territorial unit. Through normal expiration of terms the board would then transition to seven members, again elected by territorial unit.

As discussed in the LAFCO staff report, there are competing interpretations regarding LAFCO's authority to specify a governance structure other than what is spelled out in a district's Principal Act. However, LAFCO staff concludes that harmonization of the PUD Act

with relevant provisions in Government Code Section 56000 et seq. is necessary. Harmonization will allow the Commission to specify that the Fallbrook PUD board consist of all members elected by territorial unit (division) upon reorganization. We further conclude that the governance provisions of both statutes need to be construed in a manner to reasonably and fairly implement LAFCO's overall purpose and legislative priorities.

If the Commission disagrees with LAFCO staff regarding governance, then it may consider Fallbrook PUD's governance proposal and specify that four members be elected by territorial unit and three members be elected at-large. This combined type of governance is not a LAFCO staff preference; however, it may still assist in the fulfillment of overall LAFCO objectives of enhancing accountability for community service needs, including governmental structure and operational efficiencies. A combined system of governance is opposed, though, by the Rainbow MWD. However, we do not believe that the Rainbow MWD has presented compelling and conclusive evidence to support its position.

LAFCO staff additionally concludes that approval of the sphere, service review and reorganization (as modified) will assist the Fallbrook PUD and Rainbow MWD capture economies of scale and reduce administrative overhead; share equipment and reduce vehicle fleet including heavy equipment; improve emergency response; enhance coverage for service zones and pressure zones at district boundaries; integrate and consolidating both districts' management and staff; improve water resource management via use of recycled water; improve the ability of the combined district to fully utilize local water supplies; strengthen financial capacity. However, even with these likely results from reorganization, the Commission is not required to approve the proposal. If the Commission does approve the reorganization, we would recommend that the Fallbrook PUD be required to pay for any related litigation costs associated with the reorganization proposal, plus the modifications that may be approved by LAFCO.

If the Commission is opposed to the Fallbrook PUD's governance proposal, or if the Commission is adverse to risk, then it should consider disapproving the reorganization in its entirety. While sufficient justification has been provided warranting the approval (or modified approval) of the associated sphere and service review determinations, and the proposed reorganization -- the Commission may disapprove the reorganization and associated actions. Any or all of the following reasons presented by the Rainbow MWD and members of the public could be cited by the Commission in disapproving the proposal, provided the Commission concurs with those reasons: (1) Insufficient evidence has been provided validating the financial and service feasibility of the proposed reorganization; (2) Opposition and objections to the reorganization are considerable justifying disapproval; (3) Evidence presented regarding potential voting rights issues cannot be satisfactorily addressed either through the approval of the reorganization as proposed, or through modifications presented in this staff report; (4) Fallbrook PUD's method of initiating the reorganization was not appropriate; (5) Negative effect on water rates; (6) Capitalization on Rainbow MWD's assets and growth; (7) Negative effect on Rainbow MWD's debt ordinance; (8) Irrelevancy of JPA Cost Savings; (9) Invalidity of Reorganization Cost Savings; (10) Effect on agriculture; (11) Conformance with the California Voting Rights Act;

(12) Misrepresentation of Rainbow's position on JPA and governance; (13) Lack of support from Rainbow MWD employees.

Since the Commission is not obligated to approve the proposed reorganization of the Fallbrook PUD and Rainbow MWD, approval and disapproval language is accordingly provided in the recommendation language at the end of the staff report.

SERVICE / SPHERE REVIEW DISCUSSION

Agency Profile: Fallbrook Public Utility District

Fallbrook Public Utility District (PUD) is a Public Utility District organized under the Public Utility District Act (Public Utility Code § 15501 et seq.). Fallbrook PUD was originally formed in 1922 to provide water service for residential and agricultural customers from the Santa Marguerite and San Luis Rey River Basins. In 1937, the Fallbrook Irrigation District voted to dissolve and a portion of the former Irrigation District became a part of Fallbrook PUD, increasing the size of the District to 5,000 acres. The Fallbrook PUD responded to growth by developing additional groundwater supplies from both the San Luis Rey and the Santa Margarita rivers. The PUD was a charter member of the San Diego County Water Authority (CWA) and entitled to Colorado River water when it arrived in San Diego County in 1948; approximately 97 percent of the PUD water supply is imported. By 1959, Fallbrook PUD was consuming 10,000 acre-feet per year. (An acre-foot is about 326,000 gallons, or enough water to meet the needs of eight household people for one year.) Significant expansions of the District service area took place in 1950 when it annexed the last remaining portion of the Fallbrook Irrigation District, and in 1958, when the area to the north of town on both sides of the Santa Margarita River annexed to the District.

Use of Santa Margarita River water continued until 1969 when floods destroyed the District's diversion works. These facilities were not replaced because in 1968 a Memorandum of Understanding and Agreement was signed with the Federal Government to develop a two dam and reservoir project on the river for the benefit of Fallbrook PUD and the U.S. Marine Corps Base Camp Pendleton. This agreement was the culmination of 17 years of water rights litigation. In 1978, Fallbrook PUD began getting water from the California State Water Project. The entire southern California region was growing and to meet that demand, the Metropolitan Water District began delivering water to San Diego County from the State Water Project as well as the Colorado River.

The Fallbrook PUD was included in two incorporation proposals in 1981 and 1987, and was proposed to be established as a subsidiary agency of the proposed new city. Both incorporation proposals were rejected by voters. The District expanded significantly in 1990 when the De Luz Heights Municipal Water District was dissolved and the 12,000-acre service area was annexed to the PUD. In 1994, voters approved dissolution of the 4,500-acre Fallbrook Sanitary District, which was located entirely within the Fallbrook PUD. The PUD was authorized to provide wastewater services as a latent power and became successor to the sanitary district. Wastewater service within the Fallbrook PUD is restricted to territory of the former sanitary district.

Currently, the Fallbrook PUD has a service boundary of 43.99 square miles and a population of 33,569 people (2013 SANDAG Population Estimates). Today, the Fallbrook PUD provides imported water service to 35,000 residents in a 28,000 acre service area; sewer service is provided in a substantially smaller area. Almost half of the water is used by agriculture. The District also produces about one and one-half million gallons of recycled water daily that is used to irrigate nurseries, playing fields, landscaped freeway medians and common areas.

Population

The Fallbrook PUD has projections developed by San Diego Association of Governments (SANDAG) to forecast future water needs as identified in the District's 2010 Urban Water Management Plan. It is estimated that future development likely will be primarily lower density in nature and rely primarily on both onsite septic systems and connections to its sewer system. The Fallbrook PUD is projecting a need to extend approximately 2,000 water connections and approximately 1,000 connections to the public sewer system within the next 20 years. Based on the District's Urban Water Management Plan, the overall increase in water demands by 2035 is projected to only increase by 15 percent from peak demands in 2005 due to conservation and changes in land use. The Fallbrook PUD does not expect to need to add additional system capacity to provide water service at this level. The Fallbrook PUD wastewater treatment system is operating at approximately two-thirds capacity and is anticipated to meet build-out demand per evaluation done as part of the Connection/Capacity Fees and Sewer Annexation Fees Board Report (April 2012). Given the limited future increase in water and sewer demands, the primary focus for the Fallbrook PUD is replacement of aging infrastructure.

Currently, the Fallbrook PUD is in the process of addressing infrastructure deficiencies and other needs identified in its 10-year Capital Budget Projection. The projection is based on needs identified based on the condition of pumping and storage facilities as well as all pipelines as identified in the water and sewer pipeline asset management plans. Capital improvements and upgrades that have recently been completed and are planned include: upgrades and replacements to water storage, pumping and distribution system, and wastewater conveyance and treatment systems. The District recently implemented an increase in the water and wastewater capital improvement charge to provide a long-term sustainable fund for these improvements. The cost for these improvements over the next ten years is detailed in the District's Capital Budget Projection.

Governance

The Fallbrook PUD operates under the Public Utility District Act and is governed by a five-member Board of Directors elected at-large (Public Utilities Code Section 15501 et seq.). As part of the service review conducted by LAFCO, no significant service or governance issues were identified, and the Fallbrook PUD exhibited stability with respect to governance and employee turnover. With respect to the governance, 1 board member resigned (Battle, medical reasons), 0 retired, and 0 were recalled prior to the end of their terms within the last ten years. Prior to this time period (between 1992 and 2006), 2 directors resigned (Willis; Knock, moved out of service territory), 0 retired, and 0 directors were recalled. Between 2006 and 2014, 1 director resigned (Battle), 0 directors retired, and 0 directors were recalled. Directors receive a per diem of \$127.63, which increases by 5 percent in the beginning of each calendar year, for attendance at all regular board meetings. Directors are authorized reimbursement for mileage, lodging, and meal expenses associated with travel.

According to LAFCO research, only the following governance issue has been experienced by the Fallbrook PUD governing board. In the 2010 election cycle, candidate Archie

McPhee won the fourth seat on the PUD board, defeating incumbent Al Gebhart. Mr. McPhee could be characterized as a contrarian, opposing the majority of the PUD board on most votes. Mr. McPhee also refused to take part in the required board member orientation briefings and failed to uphold confidentiality requirements associated with closed session board meetings on personnel and litigation issues. In response to this problem, the PUD board sanctioned Mr. McPhee by excluding him from subsequent closed sessions. Mr. McPhee unsuccessfully campaigned for reelection in 2014 and was defeated in November 2014.

In addition, in 2004 former General Manager Lewinger sought reimbursement from both Fallbrook PUD and the San Diego CWA for the same business expenses in the amount of \$3,368, but later rescinded this reimbursement request after it was reported that the reimbursement was inappropriate.

To encourage professional development, directors are reimbursed for expenses incurred for tuition, travel, lodging, and meals resulting from training, courses, participation in professional organizations, and attendance at conferences. Attendance at such conferences is considered a day of service for the purpose of board member compensation, according to provisions in the PUC Section 16001, et seq., and the Fallbrook PUD Administrative Code.

Regular meetings of the Board of Directors are held on fourth Monday of each calendar month. The meeting time is 4:00 p.m. All regular meetings are conducted in the Board Room of the District at 990 East Mission Road, Fallbrook, CA 92028. Each meeting is open to the public, and the public is encouraged to attend.

District Personnel and Contract Services

While having approximately 66 employees, the Fallbrook PUD provides some services on a contractual basis, such as: general legal counsel, engineering, and administrative. Based on the total number of employees, the District had experienced an average turnover rate in the past five years (2009-14) consisting of: 15 retirements, 12 resignations, and 2 terminations. This is the time period covered in LAFCO's Request for Information. Since 1994, the Fallbrook PUD has had 3 general managers (Tinker, Lewinger, and Brady).

Revenue sources include a share of property taxes, service fees, connection fees, investment income, and fees charged for annexation of property. Specific policies regulating reserve funds have been adopted, and the Board annually approves reserve fund levels for infrastructure replacement and improvement.

Contractual Service Agreements

The Fallbrook PUD reported that services are provided by contract to several areas outside the boundary and sphere of influence. These arrangements were created in circumstances where the District could provide water and/or wastewater service more efficiently than another entity.

The District provides wastewater treatment for the Fallbrook Naval Weapons Station and the San Diego County's Fallbrook Sports Park under a contractual agreement. Water

service is provided to APN 918-030-014, in Riverside County, under an agreement with Western Municipal Water District. In addition, some parcels are served by Rainbow MWD despite being located within the Fallbrook PUD because the parcels are in closer proximity to Rainbow. These parcels include APN 123-230-68 and consist of 4.00 total acres.

Conversely, some areas in Rainbow MWD are served by the Fallbrook PUD on a contractual basis. These properties are located as follows: APNs 105-650-50, 105-650-51, 105-650-52, 105-650-53, and 105-650-55 consisting of 21.52 acres.

Functional Consolidation

On April 5, 2013, Fallbrook PUD and Rainbow MWD partnered in a cost savings venture that functionally consolidated services. This effort resulted in the creation of the North County Joint Powers Authority (North County JPA).

The expressed purposes of the North County JPA were to: provide for the administration of the Member Agencies by managing the combined resources of the member agencies, 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 Fallbrook PUD and Rainbow MWD.

Under the JPA Agreement, comprehensive functional work group analyses were conducted and employee integration programs implemented throughout 2013. Change management workshops, inter-district cross-training, and employee recognition programs also played an important role in the integration process. In addition, Fallbrook PUD expanded its community outreach and school programs to include Rainbow MWD's service territory. Effective April 5, 2014, the Rainbow Board of Directors terminated its involvement with the North County JPA. Refer to the consolidation study prepared by the Rainbow MWD and Fallbrook PUD for further information.

Water Connection Data

The water connection breakdown of the Fallbrook PUD as of 2014 is:

<u>Category: Water</u>	<u>No. of Connections</u>
Residential	7,581
Agricultural	209
Ag/Domestic	454
Irrigation	6
Commercial	549
Construction	5
Fire Service	90
Multi-Family	217
Governmental	33
Reclaimed	26
Total	9,170

Wastewater Service

As previously discussed, LAFCO approved the dissolution of the Fallbrook Sanitary District and the associated activation of the Fallbrook PUD's latent sewer service powers in 1994. The sanitary district was located entirely within Fallbrook PUD's boundary, so the PUD's exterior boundary did not change. As a result of this proposal, the Fallbrook PUD was authorized by LAFCO to provide wastewater service only within the former boundaries of the 4,500 acre sanitary district.

To provide wastewater services outside of this restricted area, LAFCO authorization is required for the expansion of the Fallbrook PUD's latent sewer powers. The reorganization between the Fallbrook Sanitary District and Fallbrook PUD was opposed by the sanitary district, but it was projected to result in considerable cost savings; therefore, it was approved by LAFCO, and ultimately by the voters.

Fallbrook PUD is now responsible for providing wastewater collection and treatment and produces Title 22 reclaimed water. The PUD produces about one and one-half million gallons of recycled water daily that is used to irrigate nurseries, playing fields, landscaped freeway medians, and common areas. The PUD retains 2.4 million gallons per day capacity in the Oceanside ocean outfall.

The wastewater connection breakdown of the Fallbrook PUD as of 2014 is:

<u>Category: Wastewater</u>	<u>No. of Connections</u>
Sewer Connections	4,992
Expressed as EDU	8,389

Financials

Refer to Table 1 (5-Year Pro forma Budget) containing revenue and expense information projected over a five-year period for the Fallbrook PUD. This table contains pro forma budgetary information extracted from the consolidation study prepared by the Fallbrook PUD and Rainbow MWD. The proposed budget is based on data for FY 2013-14 to FY 2018-19, assuming the continued existence of the Fallbrook PUD and Rainbow MWD as separate local governmental agencies.

**Table 1 - Fallbrook PUD
5-Year Proforma Budget
Without Reorganization**

	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	8,222,937	8,551,854	8,893,929	9,249,686	9,619,673
Other Operating Expense	2,862,544	2,919,795	2,978,191	3,037,755	3,098,510	3,160,480
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	31,247,302	32,809,048	34,462,672	36,214,058	38,069,485
Net Operating Gain (Loss)	(2,798,258)	(2,843,441)	(2,729,203)	(2,595,768)	(2,441,373)	(2,264,112)
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	2,415,175	2,430,937	1,843,337	2,105,894	2,393,746

Agency Profile: Rainbow Municipal Water District

The Rainbow Municipal Water District (MWD) was formed in 1953 to provide water and wastewater collection services within approximately 80 square miles of a predominately rural and agricultural area. The Rainbow MWD is organized under the Municipal Water District Law of 1911 (Water Code, § 71000 et seq.). Rainbow MWD is located in northern San Diego County with the northern boundary coterminous with the San Diego/Riverside County border. The MWD provides potable water and wastewater collection services within portions of the unincorporated north county communities of Bonsall, Fallbrook, Pala, and Rainbow.

The Fallbrook PUD, and the Rainbow MWD are members of the San Diego CWA; imported water purchased from the SDCWA is the District's sole water source. The Rainbow MWD annually purchases approximately 20,000 acre feet of water to distribute to 7,300 metered connections.

District wastewater collection services are provided in limited areas. Wastewater collected in the MWD is transported to the City of Oceanside's San Luis Rey Water Pollution Control Facility (WPCF) for treatment and disposal through the Oceanside outfall. The District owns, through contract, capacity to treat one million gallons of sewage per day at the Oceanside plant. Currently the plant is being rehabilitated and expanded and the District is participating in its contracted obligation to fund a proportionate share of the rehabilitation costs.

A contract has also been made to secure an additional 500,000 gallons per day of treatment capacity in the expansion portion of the project. The District maintains the pipelines and pumping equipment from the District to the Oceanside plant. Sewer service is provided to only about 14 percent of developed parcels; the majority of existing residences utilize septic systems.

Population

The Rainbow MWD consists of 79.69 square miles and has a population of 20,117 (2013 SANDAG Population Estimate). Rainbow MWD has predicted that future development likely will be very low-density in nature and on-site septic systems can be utilized. Moreover, a District ordinance stipulates that only parcels within 250 feet of sewer mains and trunk lines can connect to the system. This situation, in combination with the 2006 inventory of less than 100 EDUs available for sewer service, resulted in minimal capacity for growth and having no surplus capacity available to share with other agencies.

Increased demand for sewer service would have required construction of additional conveyance, treatment, and disposal facilities. Two options to address this issue would have been: (1) upgrading the Oceanside treatment plant to accommodate increased volume in conjunction with purchasing additional capacity; or (2) constructing and operating a new wastewater treatment plant. However, in 2012, Rainbow MWD staff reported having more than 2,600 EDUs of capacity available in the sewage collection system.

Currently, Rainbow MWD is in the process of addressing infrastructure deficiencies and other problems noted in a 2006 report. Improvements and upgrades have been made to infrastructure resulting in increased water pressure. In addition, the open reservoirs have been covered to reduce risk to water quality so that the District currently is in compliance with all water quality laws.

Governance

The Rainbow MWD operates under the Municipal Water District statutes (Water Code Sections 71000 et seq.). Per this principal act, the Rainbow MWD is governed by a five-member Board of Directors elected by geographic division with terms of four years and elections conducted each even-numbered year. Elections are conducted each even-numbered year.

As part of the 2014 MSR conducted by LAFCO, it was noted that the MWD had experienced a degree of instability with respect to governance. The district had high employee turnover and 11 general managers from 1994-2006. LAFCO also noted that conditions improved from 2006-12. From 2013-14, the Rainbow MWD has again experienced some instability by having four different general managers in a short period of time (two general managers and two interim managers). The minutes of LAFCO's Municipal Service Review hearing on June 2, 2014 reflect that Rainbow MWD's Engineer (Kirsten Plonka), representing the Rainbow MWD concurred with these LAFCO conclusions and determinations.

Within each of the MWD's divisions, directors have resigned, retired, or were recalled prior to the end of their terms within the last ten years. For example, between 1992 and 2006, 5 directors resigned, 2 directors retired, and 4 directors were recalled. Directors receive a per diem of \$150 for attendance at all regular board meetings or specific meetings listed in the Rainbow MWD Administrative Code, and are authorized reimbursement for mileage, lodging, and meal expenses as appropriate.

In 2004, the Rainbow MWD Board of Directors voted to eliminate all district-financed payments for district benefits to directors. Thereafter, any directors electing to have benefits must reimburse the MWD. To encourage professional development, directors are reimbursed for expenses incurred for tuition, travel, lodging, and meals resulting from training, courses, participation in professional organizations, and attendance at conferences. Attendance at such conferences is considered a day of service for the purpose of board member compensation.

Regular meetings of the Board of Directors are held on the fourth Tuesday of each calendar month. The meeting time is 11:00 a.m. All regular meetings are conducted in the Board room of the District at 3707 Old Highway 395, Fallbrook, CA 92028. Each meeting is open to the public, and the public is encouraged to attend.

The Board governs the District through an appointed general manager. The District has experienced a fairly high turnover rate with respect to this position in recent years, and recently hired a new general manager after several interim managers resigned or retired in 2014. The Rainbow MWD is governed by an elected (by division) five-member Board of Directors.

District Personnel and Contract Services

While having approximately 50 employees, the District receives some services on a contractual basis, such as general legal counsel, engineering, tank maintenance, and

administrative support. Based on the number of employees, the District had experienced a high turnover rate in the past having 7 retirements, 30 resignations, and 9 terminations over a five year period that was covered in LAFCO's Request for Information in 2006. This situation appears to have stabilized recently, with the exception of the general manager position noted above.

Revenue sources include a share of the property tax, service fees, connection fees, investment income, capacity availability charge, and fees charged for annexation of property. While specific policies regulating reserve funds have not been adopted, the Board annually approves monies earmarked as a reserve fund for infrastructure replacement and improvement.

To address fiscal accountability and implement cost saving measures, the Board adopted an ordinance limiting the borrowing of money via loans or bonds; established a meter replacement program; and required that new facilities necessary for new development be funded by the developer and that those facilities ultimately are dedicated to the District. Moreover, membership in the San Diego CWA not only provides for shared financing, construction, operation, and maintenance of the water supply system, but also allows access to the water authority's public information, education, and water conservation programs.

Contractual Service Agreements

The District reported that services are provided by contract to several areas outside the boundary and sphere of influence. These arrangements were created in circumstances where the District could provide water service more efficiently than another entity. One of these areas is Gilligan Groves—a 200-acre agricultural area on the District's southwestern boundary—that is located in the City of Oceanside. In addition, other parcels are served by Rainbow MWD despite being located in either the Fallbrook PUD or the City of Oceanside. Conversely, some areas in Rainbow MWD are served by the Fallbrook PUD on a contractual basis.

Functional Consolidation

As with the Fallbrook PUD, Rainbow MWD partnered in a cost savings venture that functionally consolidated services. This effort resulted in the creation of the North County Joint Powers Authority (North County JPA). Effective April 5, 2014, the Rainbow Board of Directors terminated its involvement with the North County JPA. One of the primary reasons for Rainbow MWD's termination of the JPA pertains to the governance structure proposed for the reorganized Fallbrook PUD. According to Rainbow MWD's Resolution of Objection, this matter has been the subject of misrepresentation by the Fallbrook PUD. Rainbow asserts that statutory authority may exist to permit elections by division (territorial units) under the California Voting Rights Act. Rainbow MWD also states that the Fallbrook PUD never took the position that elections by division were not legally permitted under the PUD Act during the North County JPA discussions.

Rainbow asserts that had Fallbrook PUD indicated early on that elections by division of all directors are not legally permitted by the PUD Act that Rainbow would never have

supported a Public Utility District governance structure. Rainbow MWD is insistent that the Fallbrook PUD misrepresented this particular issue whenever the subject of termination of the North County JPA is discussed.

Water Connection Data

The Rainbow MWD annually purchases approximately 20,000 acre feet of water to distribute to over 7,800 metered connections. A detailed break-down of water connections as of 2014 within Rainbow MWD follows:

<u>Category: Water</u>	<u>No. of Connections</u>
Agricultural (non–discounted rate)	425
Commercial	341
Construction	34
Domestic	5,552
Multi–family	93
Special Agricultural Commercial	326
Special Agricultural Domestic	1,026
Inactive	23
Total	7,819

Wastewater Services

The Rainbow MWD serves a relatively rural area; however, district wastewater collection services are provided in limited areas. Wastewater collected in the MWD is transported to the City of Oceanside’s San Luis Rey Water Pollution Control Facility (WPCF) for treatment and disposal through the Oceanside outfall. The District contracts for one million gallons per day of capacity within the WPCF. The wastewater connection breakdown of the Rainbow MWD as of 2014 is:

<u>Category: Wastewater</u>	<u>No. of Connections</u>
Sewer Connections	2,050
Expressed as EDU	3,852

Financials

Refer to Table 2 (5-Year Pro forma Budget) containing revenue and expense information projected over a five-year period for the Rainbow MWD. This table contains pro forma budgetary information extracted from the consolidation study prepared by the Fallbrook PUD and Rainbow MWD. The proposed budget is based FY 2013-14 to FY 2018-19 assuming the continued existence of the Rainbow MWD and Fallbrook PUD as separate local agencies.

**Table 2 - Rainbow MWD
5-Year Proforma Budget
Without Reorganization**

	Adopted Budget 2013/14	Projected 2014/15	Projected 2015/16	Projected 2016/17	Projected 2017/18	Projected 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	3,145,304

PROJECTED GROWTH AND LAND USE

Population Growth

The Fallbrook Public Utility District provides services to nearly 35,000 residents within an approximate 44 square mile service boundary. The District also produces about one and one-half million gallons of recycled water daily used to irrigate nurseries, playing fields, landscaped freeway medians and common areas.

The Rainbow Municipal Water District provides imported water for distribution to the District's approximate 19,000 residents within a 79 square mile service area. The district is responsible for the facilities necessary to collect and transmit sewage from the district to a treatment plant located in Oceanside. The District owns, through contract, capacity to treat one million gallons of sewage per day at the Oceanside plant.

Refer to Table 3 containing the current and projected population of the individual and combined service area(s).

Table 3: Projected Service Area Population¹						
Year	2010	2015	2020	2025	2030	2035
FPUD	34,894	33,822	35,917	38,999	41,839	43,726
RMWD	19,495	19,944	20,696	22,520	24,904	27,238
Combined	54,389	53,766	56,613	61,519	66,743	70,964

¹Fallbrook PUD and Rainbow MWD 2010 Urban Water Management Plans, based on SANDAG data.

Land Use and Development

The Fallbrook PUD and Rainbow MWD are both primarily general planned and zoned as rural residential and rural with some limited areas of commercial development. There is no change in land uses as a result of the proposed reorganization. Rainbow MWD is currently processing the annexation of the Campus Park West development near I-15 and SR-76 and Warner Ranch development on SR-76 near the Pala Indian Reservation. This development was approved by LAFCO in 2015 and development of the annexation site will occur sometime after that date. The Campus Park West development consists of 538 EDUs. The Warner Ranch development consists of 780 EDUs. No change in these developments and proposed annexation is anticipated as a result of the proposed reorganization. These proposed development projects have been subject to County of San Diego land use approvals and associated and environmental review.

The proposed reorganization and the related sphere and service review determinations will not affect development approvals and the successor agency would be required to honor the contractual obligations associated with extension of services to these project areas. There are no additional jurisdictional boundary changes planned by the Fallbrook PUD, with the exception of the reorganization of the Fallbrook PUD and Rainbow MWD.

SERVICE REVIEW

Background

The current Sphere of Influence and Service Review Program, which conforms to the five-year cycle requirements of State Law and Commission Policy L-102, was initiated by sending a questionnaire to each of the 100 local agencies under San Diego LAFCO's jurisdiction. Every agency, including Rainbow MWD and Fallbrook PUD, responded and provided additional information as part of the study process. The information submitted has been analyzed and LAFCO data bases updated.

Municipal Service Review Determinations

Government Code Section 56430 requires that LAFCO conduct a Municipal Service Review (MSR) when preparing or updating spheres of Influence. In the case of the Rainbow MWD and Fallbrook PUD, the spheres of the two districts have already been prepared and are being considered for possible amendments, rather than an update. Nonetheless, an MSR has been prepared covering subjects such as growth and population projections; disadvantaged unincorporated communities; capacity of public facilities; adequacy of public services, infrastructure needs or deficiencies; financial ability of agencies to provide services; accountability for service needs; and other matters related to effective and efficient service delivery. The following summary covers the pertinent MSR determinations. The proposed statements of determinations are attached to this report.

(1) Growth and population projections for the affected area.

Efficient provision of public services is linked to an agency's ability to plan for future needs. For example, a water purveyor must be prepared to supply water for existing and future levels of demand, and also be able to determine where future demand will occur. MSRs will give LAFCO, affected agencies, and the public the means to examine both the existing and future need for public services and will evaluate whether projections for future growth and population patterns are integrated into an agency's planning function.

Rainbow MWD

The population of the Rainbow MWD is projected to increase moderately over the next 25 years from about 19,495 to 27,238 in 2035. Territory in the Rainbow MWD is primarily zoned as rural residential and rural with some limited areas of commercial development. The primary land uses are residential and agricultural with limited areas of commercial use. Rainbow Municipal Water District is currently processing the annexation of the Campus Park West development approved by LAFCO near I-15 and SR-76 and Warner Ranch development on SR-76 near the Pala Indian Reservation. The Campus Park West development consists of 538 EDUs.

Fallbrook PUD

The Fallbrook PUD serves 44 square miles and the Rainbow MWD serves 79 square miles. The combined service area would be 123 square miles. The Fallbrook PUD provides imported water and sewer services to nearly 35,000 residents living in Fallbrook. The

population of the Fallbrook PUD is projected to increase moderately over the next 25 years from 34,894 to 43,726 in 2035. Territory in the Fallbrook PUD is primarily zoned as rural residential and rural with some limited areas of commercial development. The primary land uses are residential and agricultural with limited areas of commercial use. The zoning is based on the County of San Diego General Plan. There is no change in land uses anticipated based on the proposed reorganization.

(2) Location and characteristics of any disadvantaged unincorporated communities in the area.

Rainbow MWD and Fallbrook PUD

On March 4, 2013, San Diego LAFCO adopted Statements of Determinations for disadvantaged unincorporated communities associated with the Rainbow and Fallbrook PUDs. These determinations have not changed.

(3) Present and planned capacity of public facilities, adequacy of public services, and infrastructure needs or deficiencies including needs or deficiencies related to sewers, municipal and industrial water, and structural fire protection in any disadvantaged unincorporated communities within or contiguous to the sphere of influence.

Rainbow MWD and Fallbrook PUD

On March 4, 2013, San Diego LAFCO adopted Statements of Determinations for disadvantaged unincorporated communities associated with the Rainbow MWD and Fallbrook PUD. These determinations have not changed.

(4) Financial ability of the agency to provide services.

(5) Status of and the opportunity for shared facilities.

Rainbow MWD and Fallbrook PUD

Several times over the operating histories of Rainbow MWD and Fallbrook PUD, discussions have taken place at both staff and governing board levels regarding the possible combination of the two districts' operations into one consolidated district. These discussions were prompted, in part, by the contiguous service areas and similar operating environments. For various reasons, discussions never resulted in a consolidation process moving forward. Discussions resumed in late 2010 to 2014 with an emphasis on exploring shared savings opportunities while still maintaining two separate operations and governance structures. Identified projects included joint communication system upgrades, customer billing efficiencies, and equipment sharing.

In the course of these new discussions, near-term retirements within Rainbow MWD senior management prompted another look at a full-scale consolidation or creation of a joint management team through the use of a Joint Powers Authority (JPA) formed by the two districts. The JPA provided for some cost reduction by potentially moving the general manager and some management staff into the JPA for oversight of both districts.

It is estimated that up to eight positions could be consolidated through a JPA primarily in the management and administrative staff.

The operations structure would need to remain largely independent to maintain the separate Fallbrook PUD and Rainbow MWD organizations under the JPA model. It is estimated that the labor savings would be up to \$850,000 per year by year three, since the labor savings is generally in the higher paid management positions. The pro forma statements would be similar to the savings under the reorganization/consolidation, except the overall labor savings would be achieved in the first year with little subsequent labor savings. Potential benefits of reorganizing the districts or the use of a JPA include:

- Optimizing operating assets
- Improving emergency response
- Capturing economies of scale (warehousing, purchasing, risk management)
- Reducing administrative overhead
- Expanding water reclamation
- Consolidating operating management
- Advancing technology
- Strengthening financial capacity

It is estimated that a jurisdictional reorganization of the Rainbow MWD and Fallbrook PUD provides for additional cost reduction over the JPA by integration of both districts' management and staff. It is estimated that over a three-year period, a reduction in staff of up to 20 full-time equivalents could be accomplished while maintaining the existing level of service. This full reorganization would provide an annual estimated savings of up to \$2.5 million per year. The consolidation could also be accomplished over a longer time period or the staff reduction could be reduced in order to increase the level of service provided by the district, but full consolidation with optimized staffing levels would provide the greatest savings to ratepayers.

There are additional savings beside labor savings that can be achieved by combining the organization and integrating equipment and operations. These activities include:

- Reduced property and liability insurance
- Reduced vehicle fleet including heavy/specialty equipment
- Reduced information technology costs
- Reduced banking service fee and greater investment revenue
- Expanded internal training opportunities
- Reduced general counsel costs
- Reduced director costs
- Reduced audit costs
- Reduced operational costs of one office location with potential for rental income
- Optimized service area potential and pressure zones at district boundaries
- Reduced outsourcing potential and leverage future outsourcing needs

It is estimated that these items could provide another \$150,000 to \$300,000 in annual savings.

(6) Accountability for community service needs, including governmental structure and operational efficiencies.

LAFCO's role in encouraging efficiently provided public services depends, in part, on helping local agencies explore opportunities that improve accountability for community service needs. Sometimes changing the government structure or the governance via jurisdictional reorganization may also yield greater operational efficiencies and responsiveness.

Rainbow MWD and Fallbrook PUD

Currently, the Fallbrook PUD is governed by five at-large members of the board that are elected for staggered terms of four years each. Rainbow MWD has five directors that are elected by division for staggered terms of four years each. Under Public Utility Code Section 15973.1, LAFCO may condition a reorganization or consolidation on increasing the number of directors to an odd number, such as 7, 9, or 11 members. However, since the total number of directors on the Rainbow MWD and Fallbrook PUD is currently ten (10), an eleven member board could not be selected as an option. LAFCO could also impose a condition whereby the number of directors is initially higher and then decreases with the expiration of board member terms. The PUD Principal Act specifies that the number would be reduced until it equals the number of members permitted by the Principal Act (five), unless a larger number is specified by LAFCO.

Per Government Code Sections 56886(k) and (n), LAFCO also has authority beyond specifying the number of directors to serve on the board of the reorganized district. While a provision contained in Sections 15951 and 15954 of the PUD Principal Act requires that PUD boards either be comprised of members elected at-large or a combination of members elected at-large or by territorial unit, LAFCO does have some latitude with respect to governance structure pursuant to Government Code Sections 56000 et seq. Given the voting issues and need to harmonize the PUD Act with Government Code Section 56000 et seq., plus the need to encourage accountability for provision of services, LAFCO may need to consider the merits of harmonizing the governance provisions contained in the LAFCO statutes with the PUD Act. Accordingly, LAFCO staff believes that if the proposed reorganization of the Fallbrook PUD and Rainbow MWD is approved, LAFCO may consider a modification to the proposal submitted by Fallbrook and require that the reorganized Fallbrook PUD Board consist of all members elected by territorial unit (division). In our opinion, this presents some legal risk, but it is a legally defensible method to harmonize conflicting provisions in Government Code Section 56000 et seq. with the PUD Act.

While, the Fallbrook PUD has proposed that the reorganized PUD be expanded to a seven-member board with four members elected by territorial unit (division) and three members at-large, LAFCO staff believes that if the reorganization is approved, the board should initially consist of nine members (elected by territorial unit or a combination of members elected by territorial unit and at-large) and eventually decrease to seven members (elected by territorial unit or a combination of members elected by territorial unit

and at-large) through attrition. After the initial selection of board members, elections would then be held upon the expiration of the terms of the board members. Selection of the initial board would be based on appointments made by each of the districts. The choice of the North County JPA was seven members for the reorganized Fallbrook PUD.

SPHERES OF INFLUENCE

Over forty years ago, the State Legislature instructed LAFCOs to establish a sphere of influence for each city and special district under LAFCO jurisdiction. Spheres, which are defined in State Law as... a plan for the probable physical boundaries and service area of a local agency, promote logical and orderly development and coordination of local agencies, inhibit duplication of services, and support efficient public service delivery. Inclusion within an agency's sphere is a prerequisite -- but not a guaranty for annexation. Spheres of Influence are only one of several factors that commissions must consider in reviewing proposals for jurisdictional changes.

San Diego LAFCO has established and maintained spheres for all independent and dependent special districts and each city in San Diego County. Spheres are periodically reevaluated to ensure that they reflect current conditions and remain credible planning tools. Changes such as general plan and zoning amendments or new legislation concerning revenue streams can positively or negatively affect agencies' abilities to extend service into new territory.

In 2008, San Diego LAFCO adopted Policy L-102, which coupled with adopted implementing procedures, requires spheres be revisited at five-year intervals, commencing in 2008 and every five years thereafter, State Law requires that LAFCOs shall, as necessary, review and update each sphere of influence per Government Code 56425(g).

LAFCOs are also required to prepare a Municipal Service Review (MSR) to analyze information regarding the efficiency and effectiveness of municipal services when adopting a new sphere or updating an existing sphere. MSRs are not required when an existing sphere can be affirmed or adjusted slightly and then affirmed. Policy L-102 discourages major amendments to a sphere that has been adopted, affirmed or updated—with noteworthy exceptions, such as a situation where the sphere review did not anticipate a need for public services—and conditions have significantly changed.

The proposed reorganization of the Fallbrook PUD and Rainbow MWD was referenced as a possible future jurisdictional change affecting Rainbow MWD. Policy L-102 also discourages the duplication of services within special district areas. Since the sphere review and MSR program was initiated in 2001, all local agency spheres have been included in at least one cycle of review and affirmation or update. MSRs have been prepared for numerous complex projects, and when warranted, sphere updates have been approved. The chronology of sphere review and MSR activity is annually updated and made available in the Commission's Summary of Sphere of Influence and Municipal Service Review activity.

Sphere of Influence Determinations

Consideration of the proposed reorganization of the Rainbow MWD and Fallbrook PUD involves a review of the adopted Spheres of Influence and Municipal Service Reviews for both districts. Spheres of Influence are one of LAFCO's jurisdictional planning tools used in combination with other factors to review jurisdictional boundaries and other changes of local agency organization. Information contained in service review reports help LAFCO in the preparation and update of spheres through an examination of growth projections, facility conditions, finances, etc. Refer to the Sphere of Influence determinations attached to the LAFCO staff report for further information.

In 1984, Rainbow MWD's original sphere was adopted. Since that time, eight amendments have been approved, thus making the sphere nearly coterminous with the District's existing boundary. Currently, there are two islands in the District's external boundary. One is a small, square-shaped area in the District's northeastern region that represents a non-contiguous portion of the neighboring Pauma MWD. The second is the western, non-contiguous portion of the San Luis Rey MWD. At the April 7, 2014 LAFCO hearing, the Commission updated Rainbow MWD's sphere and approved the following amendments:

- (1) Inclusion in the sphere of a non-contiguous portion of the San Luis Rey MWD, the Warner Property, the segment of Pala Road adjacent to the Warner Property, as well as three areas located north of San Luis Rey MWD and south of Rainbow MWD; and
- (2) Resolution of the I-15 Special Study Area.

In 1985, Fallbrook PUD's original sphere was adopted. The sphere boundary is coterminous with the district boundary. There were five amendments to the sphere between 1985 and 1990 and no amendments after that date. In 2007, the Commission reaffirmed the PUD's sphere coterminous with the District's boundary. It would be necessary to assign a transitional sphere designation to the Rainbow MWD and include the MWD territory within the Fallbrook PUD's sphere prior to the proposed reorganization of the Fallbrook PUD and Rainbow MWD. This action could occur at the same meeting at which the reorganization is scheduled for consideration.

Disadvantaged Unincorporated Communities

On March 4, 2013, the San Diego LAFCO approved the Senate Bill 244 Local Agency Matrix, which references the status of disadvantaged unincorporated communities (DUC) for each city and affected special district related to fire protection, sewer, and water service. A disadvantaged unincorporated community is defined as an unincorporated area, containing at least 12 registered voters where the annual median household income is 80 percent or less of the statewide annual median. As of July 1, 2012, a qualifying disadvantaged unincorporated community had an annual median household income of \$46,166 or less.

An area meeting the criteria of a disadvantaged unincorporated community is located within the sphere of influence of the Fallbrook PUD. This area is part of the Fallbrook Town

Center and within the Fallbrook Community Planning Area of the County of San Diego. The land uses in the disadvantaged unincorporated community are primarily Village Residential, with densities from 7.3 to 30 dwelling units per acre. Other land uses include Village Core Mixed Use, General Commercial, and Limited Impact Industrial.

This area receives fire protection service from North County Fire Protection District; and both sewer and water services from the Fallbrook PUD. These service providers have planned for the respective needs and deficiencies related to fire protection, sewer, and/or water services and facilities within the identified disadvantaged unincorporated community through their relevant planning documents (Master Service Plan/Capital Improvement Program, Auto-Aid Agreements, etc.). The subject service providers also coordinate their service demand planning with County of San Diego General Plan land use designations and SANDAG population projections. To the west of the Fallbrook PUD is Camp Pendleton, which contains qualifying DUC census tracts, however, the area is exempted from LAFCO's DUC Program due to its Federal military status.

As of July 1, 2014, no disadvantaged unincorporated communities have been identified in or contiguous to Rainbow MWD's service area, except for Federal lands located within Camp Pendleton. These Federal lands are not subject to LAFCO's DUC Program. Currently, most of the service area of the district is agricultural in nature with small areas of low-density residential development adjacent to some main roadways (Gird, Gopher Canyon, and West Lilac Roads as well as Tecolote Drive). In addition, Lake Rancho Viejo is a newly constructed, suburban-type residential development located just east of I-15 and south of SR-76. Pockets of denser land uses, which generally consist of commercial areas, are located along SR-76.

(1) Present and planned land uses in the area, including agricultural and open-space lands.

Rainbow MWD

The Rainbow Municipal Water District provides imported water for distribution to the district's approximate 19,495 residents. In the areas served by the District's public sewer, the district is responsible for the facilities necessary to collect and transmit sewage from the district to a treatment plant located in Oceanside. The district owns, through contract, capacity to treat one million gallons of sewage per day at the Oceanside plant. The population of the Rainbow MWD is projected to increase moderately from about 19,495 to 27,238 in 2035.

Territory in the Rainbow MWD is primarily zoned as rural residential and rural with some limited areas of commercial development. The primary land uses are residential and agricultural with limited areas of commercial use. The zoning is based on the County of San Diego General Plan. There is no change in land uses anticipated based on the proposed reorganization and sphere amendment.

Rainbow Municipal Water District is currently processing the annexation of the Campus Park West development approved by LAFCO near I-15 and SR-76 and Warner Ranch development on SR-76 near the Pala Indian Reservation. The Campus Park West

development consists of 538 EDUs. The Warner Ranch development consists of 780 EDUs. No change in these developments and proposed annexation is anticipated as a result of the proposed reorganization. These proposed development projects will be subject to County of San Diego land use approvals and associated and environmental review.

The proposed reorganization and the related sphere of Influence and service review determinations will not affect these development approvals and the successor agency would be required to honor the contractual obligations associated with extension of services to these project areas. On April 7, 2014, the Commission updated Rainbow MWD's sphere of influence and approved the following additions and changes to the sphere:

- (1) A non-contiguous portion of the San Luis Rey MWD was added to the sphere, along with the Warner Property, the segment of Pala Road adjacent to the Warner Property, as well as three areas located north of San Luis Rey MWD and south of Rainbow MWD; and
- (2) Resolution of the I-15 Special Study Area.

If the Commission believes that a reorganization involving dissolution of the Rainbow MWD, annexation of the dissolved district area to Fallbrook PUD, and expansion of Fallbrook PUD's latent sewer powers should occur, then it would be necessary to first amend the Rainbow MWD's sphere and assign the MWD a transitional sphere designation. The Fallbrook PUD sphere would also need to be amended by receiving the (former) sphere designation of the Rainbow MWD.

Fallbrook PUD

The Fallbrook PUD serves 44 square miles and the Rainbow MWD serves 79 square miles. The combined service area would be 123 square miles. The Fallbrook Public Utility District provides imported water and sewer services to nearly 35,000 residents living in Fallbrook. The District also produces about one and one-half million gallons of recycled water daily that is used to irrigate nurseries, playing fields, landscaped freeway medians and common areas. The population of the Fallbrook PUD is projected to increase moderately from 34,894 to 43,726 in 2035.

Territory in the Fallbrook PUD is primarily zoned as rural residential and rural with some limited areas of commercial development. The primary land uses are residential and agricultural with limited areas of commercial use. The zoning is based on the County of San Diego General Plan. There is no change in land uses anticipated based on the proposed reorganization. The Fallbrook Public Utility District sphere will be amended to include all territory within the Rainbow Municipal Water District sphere. If the reorganization of the Fallbrook Public Utility District and Rainbow Municipal Water District does not occur, then the Fallbrook Public Utility District sphere will be reaffirmed and not amended.

(2) Present and probable need for public facilities and services in the area.

(3) Present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.

Rainbow MWD

A Capital Facilities Assessment for the Rainbow MWD and Fallbrook PUD facilities was completed by the engineering and planning manager for Fallbrook PUD and the assistant general manager/district engineer for Rainbow MWD. Rainbow MWD provides service to a larger service area with higher overall water demands, but fewer customers. Rainbow MWD is a retail agency for both water and wastewater.

Rainbow MWD purchases all of its water from the San Diego County Water Authority. In 2011, water sales totaled 18,000 acre-feet a year (7,800 water accounts) and wastewater production was the equivalent of 820 acre-feet a year (2,300 accounts). Due to topography of the Rainbow MWD service area, substantial pumping is required (7 pump stations with an average horsepower of 406). The average age of the pump stations is 25 years. The District's pump stations require ongoing investment and maintenance, but are considered reliable. Due to the age of facilities, the older pumping facilities will need to be replaced in the future.

The Rainbow MWD has four tanks/reservoirs with varying sizes from 8 million gallons to 200 million gallons. To comply with regulatory requirements, the Rainbow MWD has had to cover, install treatment, or remove reservoirs from service. Rainbow MWD has complied with these requirements by installing covers and taking one storage facility out of service. Rainbow MWD has also recently recoated their storage tanks. In terms of pipelines, the Rainbow MWD primarily has cement mortar lined and coated steel water lines. Rainbow MWD has a large percentage of pipelines that are reaching the end of their predicted useful life; approximately 17 percent of the pipelines are older than 50 years. The Rainbow MWD relies on imported water from the San Diego County Water Authority for all of its water needs. The MWD does not currently own or operate any wells or water treatment facilities.

With respect to wastewater/recycled water, the Rainbow MWD has six lift stations of varying capacity. The average flow (Gallons per Day) is 126,000 GPD and the average age is 30 years. The Rainbow MWD will have growing capital needs as the age of its pump stations reach the end of their predicted useful life. The Rainbow MWD has 55 miles of sewer lines and none of the lines are older than 50 years. The Rainbow MWD is a retail agency customer by contract of the City of Oceanside, which provides treatment at the City's San Luis Rey Wastewater Treatment Plant. The MWD pays a percentage of any capital improvements at the treatment plant based on their respective capacity ownership of the plant.

Fallbrook PUD

A Capital Facilities Assessment for the Fallbrook PUD and Rainbow MWD facilities was completed by the engineering and planning manager for Fallbrook PUD and the assistant general manager/district engineer for Rainbow MWD. Fallbrook PUD is a retail agency for water and wastewater, as well as, wastewater treatment and conveyance.

Fallbrook PUD purchases almost all of its water from the San Diego County Water Authority and has very limited local water supplies. In 2011, water sales totaled 10,700 acre feet a year (9,134 water accounts) and wastewater production was the equivalent of 2,000 acre-feet a year (4,973 accounts). Due to topography, the majority of the PUD service area is fed by gravity and pumping is required primarily in the De Luz area (4 pump stations with an average horsepower of 160). The average age of the pump stations is 20 years. The District's pump stations require ongoing investment and maintenance, but are considered reliable. Due to the age of facilities, the older pumping facilities will need to be replaced in the future.

The Fallbrook PUD has one large uncovered earthen reservoir (Red Mountain Reservoir). To comply with regulatory requirements, the Fallbrook PUD has had to cover, install treatment, or remove reservoirs from service. The District has complied with these requirements by installing treatment at this one reservoir site. In terms of pipelines, the Fallbrook PUD primarily has cement mortar lined and coated steel water lines.

Fallbrook PUD has a moderate percentage of pipelines that are reaching the end of their predicted useful life; approximately 4 percent of the pipelines are older than 50 years. The Fallbrook PUD primarily relies on imported water from the San Diego County Water Authority for its water needs. However, the Fallbrook PUD does own and operate one small well that produces 100 Acre Foot a Year this well has limited capital requirements. The District has also installed Ultra Violet disinfection for treatment of water from Red Mountain Reservoir to comply with federal Environmental Protection Agency regulations. The facility was completed in 2009 for \$7 million and will require equipment replacements in about 10 years.

With respect to wastewater/recycled water, the Fallbrook has six lift stations of varying capacity. The average flow (Gallons per Day) is 40,000 GPD and the average age is 38 years. The Fallbrook PUD will have growing capital needs as the age of its pump stations reach the end of their predicted useful life.

The Fallbrook PUD has 78 miles of sewer lines and none of the lines are older than 50 years. The Fallbrook PUD's conveyance facilities are somewhat old and are reaching the end of their predicted useful life; replacement or rehabilitation are options. The District has relatively little pipeline per account and per annual wastewater production, so the capital requirement is less than for conveyance facilities. In addition, the Fallbrook PUD owns 22.5 miles of recycled pipelines including their ocean outfall. These facilities are used to convey recycled water. Unsold excess recycled water is disposed of through the ocean outfall. The average age of the recycled water facilities is 30 years.

(4) Existence of any social or economic communities of interest in the area.

Rainbow MWD

The community of Rainbow is located in the rough, foothill portion of northern San Diego County, bordered on the north by Riverside County. The foothill peaks adjacent to the valley are both rocky and steep, reaching a maximum elevation of 1,800. Large live oaks and sycamores can be found on the valley floor while scrub oak and green chaparral cover the rocky hillsides.

A small historic Rural Village remains in the Rainbow Valley serving local residents. This scenic rural community contains riparian valleys in Stewart Canyon and Rainbow Valley and the steep rocky slopes of Mount Olympus. A large portion (approximately 7,900 acres) of Rainbow remains underdeveloped. Steep slopes surrounding the valleys, combined with a high groundwater table and lack of a public sewer system, limits the amount of future growth the Rainbow can accommodate.

Rural residential land use comprises approximately 70 percent of the developed portions of the community. While there is no multi-family development, there is an established mobile home park that occupies a 23-acre site located west of I-15. Commercial development occupies a smaller portion of the community, primarily to serve residents in the immediate vicinity. A 20-acre area adjacent to Frontage Road/Old Highway 395, two small commercial corners on 5th Street, and acreage on the east and west sides of I-15 on the northern border of the community comprise the commercially-designated areas in Rainbow.

Agriculture is an existing and potential resource within Rainbow with 3,520 acres of the Rainbow Community Planning Area's (CPA) 9,660 acres in agricultural production. This acreage has continued to increase over the past 20 years. Avocado, citrus, flowers, nut crops, and commercial nurseries primarily characterize agricultural uses in Rainbow. In addition, small-scale tree and vine crops are grown in conjunction with residential uses. Although there are no industrial areas within the Rainbow CPA, a limited impact industrial use along the east side of the I-15 corridor is currently serving the needs of the local community. The Rainbow MWD is located within the Rainbow Community Planning Group, Bonsall Community Sponsor Group, and the Bonsall and Vallecitos School Districts.

Fallbrook PUD

The community of Fallbrook consists of 36,000 acres and is located south of Riverside County and east of Camp Pendleton. Its neighboring communities are Bonsall to the south, Pala to the east and Rainbow to the northeast. Most of the area is characterized by rolling hills covered in avocado and citrus orchards. However, as the topography changes, it creates natural buffers that separate Fallbrook from its neighbors.

The Santa Margarita River crosses through the rugged terrain in the northern portion of the planning area and the San Luis Rey River runs along the southern boundary that Fallbrook shares with Bonsall. The eastern portion is dominated by steep slopes and I-15. A Town Center is located near the western boundary. The Town Center includes a historical district that has become the focus of a current revitalization effort. Bonsall, Rainbow, and De Luz

are Fallbrook's neighboring communities, and share the same general history and rural characteristics as Fallbrook.

Fallbrook PUD provides a variety of goods and services for these adjacent communities, in addition to medical personnel and facilities, schools, recreation, and entertainment opportunities. Immediately west of downtown Fallbrook is Marine Corps Base Camp Pendleton and the Naval Weapons Station. Many current and retired Marine and Navy families make their home in Fallbrook.

(5) For an update of a sphere of influence of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protection, the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence.

Rainbow MWD and Fallbrook PUD

Both districts provide these services upon request and application to all applicable properties. Additionally, this issue has been addressed by the commission in the SB 244 Local Agency Matrix and implementation plan approved by the commission on March 4, 2013.

***“Fallbrook Public Utility District and Rainbow Municipal Water District
Reorganization”***
(Ref. No.: RO14-04)

PROPOSED REORGANIZATION

Initiation of Reorganization Proposal

The reorganization of the Fallbrook Public Utility District (PUD) and Rainbow Municipal Water District (MWD) was originally initiated by the Fallbrook PUD on March 10, 2014 and reinitiated on April 28, 2014 after the Rainbow MWD requested the Fallbrook PUD to initiate the proposal subject to a noticed public hearing. As proposed, the reorganization involves: (1) Dissolution of the Rainbow MWD; (2) Annexation of the Rainbow MWD territory to Fallbrook PUD; and (3) Expansion of Fallbrook PUD’s Sewer Latent Powers. If the reorganization is approved, the Fallbrook PUD would be authorized to provide water and wastewater services within the territory of the former Rainbow MWD. Approval of the reorganization and naming the Fallbrook PUD as successor to the Rainbow MWD would therefore not change the area in which services are provided within the Rainbow MWD. A Preliminary Staff Report (PSR) was distributed for comment for an extended public review period of nine weeks and the reorganization proposal was also subject to review by LAFCO’s Special Districts Advisory Committee in late 2014. The current LAFCO staff report has been released to the public approximately 30 days in advance of the Commission meeting.

The Rainbow MWD contends that the Fallbrook PUD’s March 10th, Resolution of Application to LAFCO (Resolution No. 4813) violated the notice and hearing requirements of law. In response to Rainbow MWD’s contention, the Fallbrook PUD published a notice for a public hearing pursuant to Government Code § 56824.12, and on April 28, 2014, passed Resolution No. 4815, which superseded and amended Resolution No. 4813. Resolution No. 4815 was submitted to LAFCO together with an Application for Reorganization on April 29, 2014.

The Fallbrook PUD formally responded to Rainbow’s allegation that the PUD violated notice provisions of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 Act by a letter dated April 23, 2014. In the April 23rd letter, the Fallbrook PUD stated that its March 10, 2014 Special Meeting, met all applicable legal requirements, however, the PUD explained that in an abundance of caution, a public hearing was subsequently conducted to correct the alleged procedural defect.

Given that the Fallbrook PUD already has LAFCO authorization to provide water service district-wide and wastewater service within a portion of the PUD, the proposed reorganization does not necessarily constitute the exercise of a “new or different function or class of services” per Government Code Section 56824.12(c)(1).

Rather, proposals involving the expansion of latent powers are governed by a statute (Government Code Section 56425(i)) that does not require an initiating agency to hold a public hearing. In conclusion, the Rainbow MWD’s assertion that the Fallbrook PUD’s

initiation of the reorganization on March 10th without a hearing violated State Law is understandable, but not correct.

Justification for Reorganization

The Fallbrook PUD requests that the Commission approve the reorganization, because the PUD believes that the proposal will simplify service provision and result in cost savings, projected to be about \$2.5 million per year. The Fallbrook PUD cites compelling reasons as the basis for moving forward with the reorganization, without the support of Rainbow MWD.

The PUD believes that proceeding with the district reorganization will continue the cost savings that resulted when operations and administration were functionally consolidated in 2013, through the establishment of the North County Joint Powers Authority (JPA). Primarily through attrition, the combined staffing levels between the two districts were reduced via the JPA (from a high of 124 in 2011) to approximately 114 at year-end 2013.

According to a report prepared by both districts, the 2013 net combined savings was slightly over \$1 million, significantly exceeding original expectations. The Rainbow MWD recently commented that those savings would be \$570,000, rather than \$1 million -- with the majority of the savings related to position vacancies within Rainbow MWD. This figure presented by the Rainbow MWD is not supported by information reviewed by LAFCO staff, however, Rainbow's comment is noted for the record.

The operational success of the 2013 partnership between the Fallbrook PUD and the Rainbow MWD established the basis for Fallbrook PUD to consider moving forward independently with a formal application to LAFCO. Fallbrook PUD states that a cost-effective means of providing service was achieved for ratepayers, pursuant to the terms of the JPA's Employee Leasing Agreement.

In addition, the Fallbrook PUD states that a reorganization is necessary because it believes the Rainbow MWD took destabilizing actions jeopardized current and future economic and efficiency-based benefits to ratepayers within both Rainbow MWD and Fallbrook MWD. The Rainbow MWD objects to this statement because it feels that the most destabilizing action was caused by the initiation of the reorganization application -- without the support and involvement of Rainbow.

The Fallbrook PUD states that the Rainbow MWD Board is the entity that took provocative actions by: (1) rehiring a general manager and other senior management positions, plus considered a proposal to double board member compensation, and (2) initiating the termination of the North County JPA, effective April 5, 2014. The Fallbrook PUD claims that these actions eliminate the savings gained in 2013, as well as cause major disruptions within employee work groups. *It should be noted that the Rainbow MWD subsequently decided not to double board member compensation.*

Fallbrook PUD indicates in its application to LAFCO that combining the two districts will:

- Capture economies of scale and reducing administrative overhead
- Share equipment and reducing vehicle fleet including heavy/specialty equipment
- Improve emergency response
- Enhance coverage for service zones and pressure zones at district boundaries
- Integrate and consolidate both districts' management and staff
- Improve water resource management via use of recycled water
- Improve the ability of the combined district to fully utilize local water supplies; and
- Strengthen financial capacity of both districts

The Fallbrook PUD estimates that over a three-year period, a reduction in staff of up to 20 full-time equivalents could be accomplished while maintaining the existing level of service. The estimated cost savings of \$2.5 million and projected staff reduction figures were developed by the staffs of the Fallbrook PUD and Rainbow MWD (Rainbow MWD's General Manager, Dave Seymour, with the assistance of Rainbow Finance Manager, Gene Buckley). Both Mr. Seymour and Mr. Buckley have since retired from the Rainbow MWD.

Additional cost savings, estimated to be approximately \$300,000 annually, were also projected from the following areas of increased operational efficiency: reduced property and liability insurance; reduced vehicle fleet including heavy/specialty equipment; reduced information technology costs; reduced banking service fees and greater investment performance; expanded internal training opportunities; reduced legal costs; reduced director costs; reduced audit costs; reduction in general office expenses; optimization of service areas and pressure zones at district boundaries; and reduction in more costly outsourcing.

State Law permits any affected agency to initiate jurisdictional changes such as the proposed reorganization of the Rainbow MWD and Fallbrook PUD -- even without the concurrence of subject agencies (Government Code Section 56654). The reorganization was proposed after the Fallbrook PUD determined that the cost savings achieved through the functional consolidation between the two agencies in 2013 warranted the initiation of an application with LAFCO. The reorganization was, therefore, initiated by resolution of the Board of Directors of the Fallbrook PUD on April 28, 2014, without the concurrence/approval of the Rainbow MWD.

Plan for Service

Proposals for a change of organization or reorganization include a Plan for Service prepared by the applicant. The Plan for Services include the following information: (1) Enumeration and description of the services to be extended to the affected territory; (2) The level and range of those services; (3) Indication of when those services can feasibly be extended to the affected territory; (4) Indication of any improvement or upgrading of structures, roads, sewer or water facilities, or other conditions the local agency would impose or require within the affected territory if the change of organization or reorganization is completed; and (5) Information with respect to how those services will be financed.

Enumeration of Services

The Fallbrook PUD states that it provides imported water and sewer services to 35,000 residents living in Fallbrook. The District also produces about one and one-half million gallons of recycled water daily that is used to irrigate nurseries, playing fields, landscaped freeway medians and common areas.

The Rainbow MWD provides imported water for distribution to the District's 18,000 residents. In the areas served by the District's public sewer, the District is responsible for the facilities necessary to collect and transmit sewage from the District to a treatment plant located in Oceanside. The District owns, through contract, capacity to treat one million gallons of sewage per day at the Oceanside plant.

Level, Range, and Extension of Services

Both Fallbrook PUD and Rainbow MWD are long-standing water and wastewater utilities serving San Diego North County since 1922 and 1953, respectively. The current and ongoing integration of the Districts' work groups (i.e., customer service, engineering, and so forth) have demonstrated ability to provide greater customer value. Therefore, the level and range of services to be provided by a combined agency are expected to be equal to or superior to the current service levels of either district alone. From a customer perspective, the Fallbrook PUD reorganization should prove to be a largely seamless process. Service levels will be uninterrupted.

Improvements and Upgrades

Upgrades to the combined infrastructure of the two districts is ongoing as part of the JPA management structure. These upgrades focus on consolidating administrative offices, linking technologies (computers, telephones, internet) and aligning software systems. The majority of these upgrades are budgeted and planned within the current calendar year.

Financing

The primary source of funding for operations will continue to be provided through charges and fees to water and wastewater customers of the reorganized district. Capital projects will be funded through charges and fees to customers and connection fees for new development. The reorganized district may secure long-term borrowing for large construction projects when necessary. The reorganized district shall maintain divisional accounting procedures which would allow the predecessor districts to continue their individual rate structures, taxing authorities, and capital reserve balances.

FACTORS OF ANALYSIS / REVIEW

The relevant factors, determinations, and/or findings be considered and made by LAFCO associated with the proposed reorganization of the Rainbow MWD and Fallbrook PUD are contained in a number of state statutes (Government Code Sections 56668, 56668.3, 56824.10–56824.14, 56881, 56375, and 57102).

Per Government Code Section 56668, these factors generally pertain to population and population growth; need for organized community services; present cost and adequacy of governmental services and affects in the area and adjacent areas; effect on mutual social and economic interests and local government structure; conformity with commission policies; effect on maintaining the integrity of agricultural lands; certainty of boundaries; regional transportation planning; conformity with land use designations and general plans; spheres of local agencies applicable to the proposal; comments from local agencies, ability of the receiving agency to provide services; availability of water supplies; regional housing needs; comments from resident, voters, and landowners; information related to land use designations; and promotion of environmental justice, and adequacy and service availability/capacity, objections submitted by the Rainbow MWD, etc.

Per Government Code Section 56668.3, additional factors include whether the proposed annexation will be for the interest of landowners or present or future inhabitants within the district and within the territory proposed to be annexed to the district; in the case of a city detachment, whether the proposed detachment will be for the interest of the landowners or present or future inhabitants within the city and within the territory proposed to be detached from the city; any other factors which may be considered by the commission as provided in Government Code Section 56668; any resolution raising objections to the action that may be filed by an affected agency; any other matters which the commission deems material. The commission must give great weight to any resolution raising objections to the action that is filed by a city or a district. The commission's consideration must be based only on financial or service related concerns expressed in the protest per the definitions of these terms in State Law.

Government Code Section 56668 Review Factors

- *Population and population density; land area and land use; per capita assessed valuation; topography, natural boundaries, and drainage basins; proximity to other populated areas; the likelihood of significant growth in the area, and in adjacent incorporated and unincorporated areas, during the next 10 years.*

The population of the Rainbow MWD is projected to increase moderately over the next 25 years from about 19,495 to 27,238 in 2035. Territory in the Rainbow MWD is primarily zoned as rural residential and rural with some limited areas of commercial development. The primary land uses are residential and agricultural with limited areas of commercial use. Rainbow Municipal Water District is currently considering the annexation of the Campus Park West development near I-15 and SR-76 and Warner Ranch development on SR-76 near the Pala Indian Reservation. The Campus Park West development consists of 538 EDUs.

The Fallbrook PUD serves 44 square miles and the Rainbow MWD serves 79 square miles. The combined service area would be 123 square miles. The Fallbrook Public Utility District provides imported water and sewer services to nearly 35,000 residents living in Fallbrook. The population of the Fallbrook PUD is projected to increase moderately over the next 25 years from 34,894 to 43,726 in 2035. Territory in the Fallbrook PUD is primarily zoned as rural residential and rural with some limited areas of commercial development.

The primary land uses are residential and agricultural with limited areas of commercial use. The zoning is based on the County of San Diego General Plan. There is no change in land uses anticipated based on the proposed reorganization.

- *Need for organized community services; present cost and adequacy of governmental services and controls in the area; probable future needs for those services and controls; probable effect of the proposed incorporation, formation, annexation, or exclusion and of alternative courses of action on the cost and adequacy of services and controls in the area and adjacent areas.*

As part of a joint consolidation study, a Capital Facilities Assessment for the Rainbow MWD and Fallbrook PUD facilities was completed by the engineering and planning manager for Fallbrook PUD and the assistant general manager/district engineer for Rainbow MWD. Rainbow MWD provides service to a larger service area with higher overall water demands, but fewer customers. Rainbow MWD is a retail agency for both water and wastewater. Rainbow MWD purchases all of its water from the San Diego County Water Authority. In 2011, water sales totaled 18,000 acre feet a year (7,800 water accounts) and wastewater production was the equivalent of 820 acre-feet a year (2,300 accounts). Due to topography of the Rainbow MWD service area, substantial pumping is required (7 pump stations with an average horsepower of 406). The average age of the pump stations is 25 years. The District's pump stations require ongoing investment and maintenance, but are considered reliable. Due to the age of facilities, the older pumping facilities will need to be replaced in the future.

The Rainbow MWD has four tanks/reservoirs with varying sizes from 8 to 200 million gallons. To comply with regulatory requirements, the Rainbow MWD has had to cover, install treatment, or remove reservoirs from service. Rainbow MWD has complied with these requirements by installing covers and taking one storage facility out of service. Rainbow MWD has also recently recoated their storage tanks. In terms of pipelines, the Rainbow MWD primarily has cement mortar lined and coated steel water lines. Rainbow MWD has a large percentage of pipelines that are reaching the end of their predicted useful life; approximately 17 percent of the pipelines are older than 50 years. The Rainbow MWD relies on imported water from the San Diego County Water Authority for all of its water needs. The MWD does not currently own or operate any wells or water treatment facilities.

With respect to wastewater/recycled water, the Rainbow MWD has six lift stations of varying capacity. The average flow (Gallons Per Day) is 126,000 GPD and the average age is 30 years. The Rainbow MWD will have growing capital needs as the age of its pump stations reach the end of their predicted useful life. The Rainbow MWD has 55 miles of sewer lines and none of the lines are older than 50 years. The Rainbow MWD is a retail agency of the City of Oceanside, which provides treatment at the City's San Luis Rey Wastewater Treatment Plant. The MWD pays a percentage of any capital improvements at the treatment plant based on their respective capacity ownership of the plant.

A Capital Facilities Assessment for the Fallbrook PUD and Rainbow MWD facilities was completed by the engineering and planning manager for Fallbrook PUD and the assistant

general manager/district engineer for Rainbow MWD. Fallbrook PUD is a retail agency for both water and wastewater, as well as wastewater treatment and conveyance. Fallbrook PUD purchases almost all of its water from the San Diego County Water Authority and has very limited local water supplies. In 2011, water sales totaled 10,700 acre-feet a year (9,134 water accounts) and wastewater production was the equivalent of 2,000 acre-feet a year (4,973 accounts). Due to topography, the majority of the PUD service area is fed by gravity and pumping is required primarily in the De Luz area (4 pump stations with an average horsepower of 160). The average age of the pump stations is 20 years. The District's pump stations require ongoing investment and maintenance, but are considered reliable. Due to the age of facilities, the older pumping facilities will need to be replaced in the future. The Fallbrook PUD has one large uncovered earthen reservoir (Red Mountain Reservoir). To comply with regulatory requirements, the Fallbrook PUD has had to cover, install treatment, or remove reservoirs from service. Fallbrook PUD has complied with these requirements by installing treatment at this one reservoir site.

In terms of pipelines, the Fallbrook PUD primarily has cement mortar lined and coated steel water lines. Fallbrook PUD has a moderate percentage of pipelines that are reaching the end of their predicted useful life; approximately 4 percent of the pipelines are older than 50 years. The Fallbrook PUD primarily relies on imported water from the San Diego County Water Authority for its water needs. However, the Fallbrook PUD does own and operate one small well that produces 100 Acre Foot per Year. This well has limited capital requirements. The PUD has also installed UV disinfection for treatment of water from Red Mountain Reservoir to comply with federal EPA regulations. The facility was completed in 2009 for \$7 million and will require equipment replacements in about 10 years.

With respect to wastewater/recycled water, the Fallbrook has six lift stations of varying capacity. The average flow is 40,000 GPD and the average age is 38 years. The Fallbrook PUD will have growing capital needs as the age of its pump stations reach the end of their predicted useful life. The Fallbrook PUD has 78 miles of sewer lines and none of the lines are older than 50 years. The Fallbrook PUD's conveyance facilities are somewhat old and are reaching the end of their predicted useful life. Replacement or rehabilitation are options. The PUD has relatively little pipeline per account and per annual wastewater production, so the capital requirement is less than for conveyance facilities. In addition, the Fallbrook PUD owns 22.5 miles of recycled pipelines including their ocean outfall. These facilities are used to convey recycled water. Unsold excess recycled water is disposed of through the ocean outfall. The average age of the recycled water facilities is 30 years.

- *Effect of the proposed action and of alternative actions, on adjacent areas, on mutual social and economic interests, and on the local governmental structure of the county.*

The community of Rainbow is located in the rough, foothill portion of northern San Diego County, bordered on the north by Riverside County. The foothill peaks adjacent to the valley are both rocky and steep, reaching a maximum elevation of 1,800. Large live oaks and sycamores can be found on the valley floor while scrub oak and green chaparral cover the rocky hillsides.

A small historic Rural Village remains in the Rainbow Valley serving local residents. This scenic rural community contains riparian valleys in Stewart Canyon and Rainbow Valley and the steep rocky slopes of Mount Olympus. A large portion (approximately 7,900 acres) of Rainbow remains underdeveloped.

Steep slopes surrounding the valleys, combined with a high groundwater table and lack of a public sewer system, limits the amount of future growth the Rainbow can accommodate. Rural residential land use comprises approximately 70 percent of the developed portions of the community. While there is no multi-family development, there is an established mobile home park that occupies a 23-acre site located west of I-15. Commercial development occupies a much smaller portion of the community, primarily to serve residents in the immediate vicinity. A 20-acre area adjacent to Frontage Road/Old Highway 395, two small commercial corners on 5th Street, and acreage on the east and west sides of I-15 on the northern border of the community comprise the commercially-designated areas in Rainbow.

Agriculture is an existing and potential resource within Rainbow with 3,520 acres of the Rainbow Community Planning Area's (CPA) 9,660 acres in agricultural production. This acreage has continued to increase over the past 20 years. Avocado, citrus, flowers, nut crops, and commercial nurseries primarily characterize agricultural uses in Rainbow. In addition, small-scale tree and vine crops are grown in conjunction with residential uses. Although there are no industrial areas within the Rainbow CPA, a limited impact industrial use along the east side of the I-15 corridor is currently serving the needs of the local community.

The community of Fallbrook consists of 36,000 acres and is located south of Riverside County and east of Camp Pendleton. Its neighboring communities are Bonsall to the south, Pala to the east and Rainbow to the northeast. Most of the area is characterized by rolling hills covered in avocado and citrus orchards. However, as the topography changes, it creates natural buffers that separate Fallbrook from its neighbors. The Santa Margarita River crosses through the rugged terrain in the northern portion of the planning area and the San Luis Rey River runs along the southern boundary that Fallbrook shares with Bonsall.

The eastern portion is dominated by steep slopes and I-15. A busy and vibrant town center is located near the western boundary. The town surrounds a unique historical district that has become the focus of a current revitalization effort. Bonsall, Rainbow, and DeLuz are Fallbrook's neighboring communities, and share the same general history and rural characteristics as Fallbrook provides a variety of goods and services for these adjacent communities, in addition to medical personnel and facilities, schools, recreation, and entertainment opportunities. Immediately west of downtown Fallbrook is Marine Corps Base Camp Pendleton and the Naval Weapons Station. Many current and retired Marine and Navy families make their home in Fallbrook.

- *Conformity of both the proposal and its anticipated effects with both the adopted commission policies on providing planned, orderly, efficient patterns of urban development, and the policies and priorities in Section 56377.*

The Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 has directed each LAFCO to consider the availability of a reliable and adequate long term water supply when the Commission makes a decision on pending proposals. Per State law, local agencies must examine the factors outlined in Government Code Section 56668– 56668(k) states “Timely availability of water supplies adequate for projected needs” and includes the requirement to comply with Government Code Section 65352.5 (adequacy of existing and planned water supplies).

In April 2008, the Commission requested that staff and the Special Districts Advisory Committee review and consider how San Diego LAFCO should address water supply and reliability in the context of project review. With input from LAFCO’s Special Districts Advisory Committee members, policy guidelines were drafted and then approved in May 2010 to deal with water issues particularly in light of existing and potential future drought conditions. Thus, during the review and processing of proposals related to provision of water service, the Commission was directed to utilize information from the local purveyor responsible for the availability of water supply and delivery. A water agency is then required to verify that sufficient water is reasonably expected to be available.

Both the Rainbow MWD and Fallbrook PUD have conducted capital facility assessments as part of the joint consolidation study that was completed on October 22, 2012. As indicated in that study, both districts rely on imported water from the San Diego County Water Authority (CWA) for almost all their water needs. Fallbrook PUD owns and operates one small well that produces 100 AFY. This small well has limited capital requirements. In addition, Fallbrook PUD installed UV disinfection for treatment of water from Red Mountain Reservoir to comply with EPA regulations. This facility was completed in 2009 for approximately \$7 million and will require some equipment replacements in 10-15 years. Rainbow MWD does not currently own or operate any wells or water treatment facilities.

Both agencies have water delivery areas that require pumping. For Fallbrook PUD, the majority of the District is fed by gravity and pumping is required primarily in the De Luz area. Due to the topography of the Rainbow MWD service area, more substantial pumping is required. A summary of the pumping facilities for each district is provided in the staff report. Rainbow MWD has more pump stations of larger capacity. Both districts’ pump stations are of similar age and require ongoing investments to maintain reliable service. Due to the age of the facilities, both districts will have growing capital needs for replacement of some of the older pumping facilities. In summary both the Rainbow MWD and Fallbrook PUD have provided assurances that sufficient resources are available to supply water within their respective boundaries and this condition is expected to continue whether or not a reorganization of the districts occurs.

- *Effect of the proposal on maintaining the physical and economic integrity of agricultural lands, as defined by Section 56016.*

The geographical area in which previously existing powers are exercised will remain the same if the proposed reorganization of the Rainbow MWD and Fallbrook PUD is approved. No physical changes to the environment, including agriculture resources, will result from the reorganization. While the Rainbow MWD has claimed that if the Fallbrook PUD's

reorganization application is approved, the successor board would have the authority and the ability to set policies and priorities regarding or affecting the agricultural community, this is a speculative comment that lacks any basis. Over 50 percent of Fallbrook PUD's water sales are currently to groves and nurseries and farmers within the PUD pay 15 to 20 percent less for water, compared to Rainbow MWD farmers. Fallbrook PUD also claims that it sells water to farmers with no markup in price in contrast to Rainbow MWD. If the Fallbrook PUD rate-setting policies were applied to agricultural rates within Rainbow, it could potentially benefit the physical and economic integrity of agricultural lands. Therefore, the potential impact of the reorganization on agriculture may be positive, however, any related rate-setting or other policies that the proposed successor district may approve is not subject to LAFCO purview, and the proposed successor district has not indicated that it intends to amend or adopt such policies within the reorganization area.

- *Definiteness and certainty of the boundaries of the territory, the nonconformance of proposed boundaries with lines of assessment or ownership, the creation of islands or corridors of unincorporated territory, and other similar matters affecting the proposed boundaries.*

According to the County Assessor the boundaries of the proposed reorganization are definite and certain and generally follow lines of assessment and ownership. The proposed reorganization will not create any islands or corridors of unincorporated territory.

- *Regional transportation plans adopted pursuant to Section 65080, and its consistency with city or county general and specific plans.*

The SANDAG Board of Directors adopted the 2050 Regional Transportation Plan (RTP) and Sustainable Communities Strategy (SCS) on October 28, 2011. The plan calls for a balanced vision for the evolution of the region's transportation system over the next 40 years. Many of the capital projects outlined in the RTP are in development. As part of the action taken to approve the 2050 RTP and its SCS, Directors also approved:

- Evaluating alternative land use scenarios as part of the Regional Comprehensive Plan (RCP) update to attempt to address the so-called "backsliding" of greenhouse gas levels between years 2035-2050.
- Developing an early action program for projects included in the Regional Bicycle Plan.
- Planning for the broader Active Transportation Program, including Safe Routes to School and Safe Routes to Transit, within the next two years.
- Implementing an action to develop a Regional Transit-Oriented Development Policy in the 2050 RTP Sustainable Communities Strategy to promote and incentivize sustainable development.
- Continuing to make enhancements to the travel demand models; the activity-based models currently under development will be "open source" and available for the next RTP update.
- Developing a regional complete streets policy within the next two years.

The 2050 RTP lays out a plan for investing an estimated \$214 billion in local, state, and federal transportation funds expected to come into the region over the next 40 years. The largest proportion of the funds will go toward transit, which will receive 36 percent of the funds in the first 10 years, with 34 percent going to highway improvements (largely for the addition of high occupancy vehicle lanes to existing freeway corridors), and 21 percent to local roads and streets. The percentage dedicated to transit will grow each decade, up to 44 percent from 2021 to 2030, 47 percent in the third decade, and 57 percent in the last decade of the plan.

Along with the 2050 RTP, the Board adopted the Sustainable Communities Strategy (SCS). The SCS details how the region will reduce greenhouse gas emissions to state-mandated levels over time. The inclusion of the SCS is required by Senate Bill 375, and the San Diego region is the first in California to produce a regional transportation plan with an SCS. The SCS land use pattern accommodates 79 percent of all housing and 86 percent of all jobs within the Urban Area Transit Strategy Study Area where the greatest investments in public transit are being made. About 80 percent of new housing in the region will be attached multifamily.

The SCS land use pattern also protects and preserves about 1.3 million acres of land, more than half the region's land area. These open space lands include habitat conservation areas, parks, steep slopes, floodplains, and wetlands. The local land use data incorporated information on existing development, general plans, constraints to development (e.g., flood plains, steep slopes, habitat preserves, historic districts, building height restrictions, and zoning), and permitted projects in the development pipeline. SANDAG has prepared maps that identify the general location of land uses in the region.

After the 2030 RTP and 2030 Regional Growth Forecast were adopted, changes to local general plans resulted in a significant increase in residential capacity region-wide. The 2030 Regional Growth Forecast projected a shortfall of nearly 100,000 homes by the year 2030 (which was addressed by projecting significant interregional commuting between San Diego County and Riverside, Orange, and Imperial Counties, as well as Baja California, Mexico). But the 2050 Regional Growth Forecast and SCS land use pattern contain sufficient residential capacity (more than 435,000 housing units) to accommodate the region's projected growth in population of 1.25 million people.

In the development of the 2050 Regional Growth Forecast, LAFCO and SANDAG consulted regularly and exchanged written correspondence regarding sphere of influence determinations, impacts of proposed jurisdictional changes, and factors considered in the review of proposals. The 18 incorporated cities and the County of San Diego were asked about sphere of influence issues during the 2050 Regional Growth Forecast land use input process. Adjustments were made to sphere-area land use as requested by the local jurisdictions to achieve consistency.

- *Sphere of Influence of any local agency which may be applicable to the proposal being reviewed.*

The Fallbrook PUD sphere of influence was originally adopted in 1985 and is generally coterminous with district boundaries. Since adoption, the sphere was amended five times; the last sphere amendment was approved 24 years ago in 1990 and resulted in the addition of 12,000 acres corresponding with the De Luz Heights MWD Reorganization; the De Luz Heights MWD was dissolved and its service area annexed to the Fallbrook PUD. A municipal service review was conducted of the PUD in 2007 and no service issues were identified.

The Rainbow MWD is located in northern San Diego County coterminous with the San Diego/Riverside County border. The Rainbow MWD provides water and wastewater collection services within approximately 80 square miles of a predominately rural and agricultural area. Today, the District provides potable water and wastewater collection services within portions of the unincorporated North County communities of Bonsall, Fallbrook, Pala, and Rainbow. Sewer service is provided to about 14 percent of developed parcels; the majority of existing residences utilize septic systems.

In 1984, Rainbow MWD's original sphere was adopted. Since that time, eight amendments have been approved, thus making the sphere generally coterminous with the District's existing boundary. Currently, there are two islands in the District's boundary. One is a small, square-shaped area in the District's northeastern region that represents a non-contiguous portion of the neighboring Pauma MWD. The second is the western, non-contiguous portion of the San Luis Rey MWD.

On April 7, 2014, LAFCO updated Rainbow MWD's sphere and approved the following amendments: (1) Inclusion in the sphere of a non-contiguous portion of the San Luis Rey MWD, the Warner Property, the segment of Pala Road adjacent to the Warner Property, as well as three areas located north of San Luis Rey MWD and south of Rainbow MWD; and (2) Resolution of the I-15 Special Study Area.

A Municipal Service Review was adopted in 2014 in conjunction with the sphere of influence update for Rainbow MWD. No major service issues were identified. However, it was noted that the District has undergone periods of instability in terms of governance and administration. The Commission received information during the service review that the Rainbow MWD exhibited instability by having high employee turnover and 11 general managers from 1994-2006.

The Commission also noted that conditions improved from 2006-12. However, as reported to the Commission's Special Districts Advisory Committee on December 19, 2014, from 2013-14, the Rainbow MWD has again experienced some instability by having 4 different general managers in a short period of time (two general managers and two interim managers). The minutes of LAFCO's Municipal Service Review hearing on June 2, 2014 reflect that Rainbow MWD's Engineer (Kirsten Plonka), representing the Rainbow MWD was concurred with the LAFCO sphere and service review determinations.

If the Commission believes that a reorganization involving dissolution of the Rainbow MWD, annexation of the dissolved district area to Fallbrook PUD, and expansion of Fallbrook PUD's latent sewer powers should occur, then the Rainbow MWD's sphere

needs to be assigned a transitional sphere designation. The Fallbrook PUD sphere would also need to be amended by re-assigning the (former) sphere designation of the Rainbow MWD to the PUD.

- *Comments of any affected local agency or other public agency.*

Comment letters have been submitted by the Rainbow MWD, Mission Resource Conservation District and Valley Center Municipal Water District.

The Rainbow MWD disputes the justification for reorganization and is actively working with ratepayers to oppose the reorganization. In addition to directly urging ratepayers to oppose the reorganization, the Rainbow MWD has also placed statements on its website requesting that ratepayers communicate their objections to LAFCO's Executive Officer.

The Rainbow MWD has expressed the following objections: Fallbrook PUD's application violated notice and hearing requirements and the PUD should have received consent from the Rainbow MWD before proceeding; Fallbrook PUD's proposed reorganization will neither lower or raise rates and there is no obvious financial benefit to the reorganization; Fallbrook PUD is trying to capitalize on Rainbow's growth; Fallbrook PUD will terminate Rainbow MWD's debt ordinance (No. 95-1) thereby depriving Rainbow ratepayers of a right to vote on additional public debt; Fallbrook PUD needs Rainbow's \$100 million in assets to leverage more borrowing; Fallbrook PUD's claim of savings from a terminated JPA and equipment sharing is either irrelevant or impractical; Fallbrook PUD's representations regarding savings have not addressed the loss of efficiency or impact on service to ratepayers; Fallbrook PUD will marginalize Rainbow's agricultural community; Fallbrook PUD's governance structure will impair the ability of a protected class to elect candidates of its choice or to influence the outcome of election in violation of the California Voting Rights Act; Fallbrook PUD has misrepresented Rainbow MWD's position on governance; Fallbrook PUD's proposal does not take into consideration Rainbow MWD staff objections; Fallbrook PUD failed to respect the JPA contractual process; and Fallbrook PUD improperly initiated the LAFCO application, and violated the Ralph M. Brown Act. A response to each of Rainbow MWD's objections is addressed in this staff report in addition to an assessment as to the validity of the MWD's objections.

The Mission Resource Conservation District disagrees with the reorganization and believes that an environmental impact report is necessary because, "the Rainbow water district is the size of the City of San Diego, with rural density." A response to the environmental comments raised by the conservation district is addressed in the staff report. In that response, LAFCO staff concluded that the environmental comments raised by the Mission Resource Conservation District are speculative and not based on fact because the proposal will neither change the level of services, nor the area in which services will be provided by the proposed successor district.

The Valley Center MWD considered a request from the Rainbow MWD to oppose the proposed reorganization on August 18, 2014. After consideration, the Valley Center MWD states given the history of the reorganization issue, it is best that the LAFCO process move forward. The Valley MWD adds, "if the issues of local control and representation are

important to the Rainbow residents, ratepayers, and landowners, then they will have the opportunity to participate, mount a protest, and with an election and outcome favorable to Rainbow MWD, stop the process.”

- *Ability of the newly formed or receiving entity to provide the services which are the subject of the application to the area, including the sufficiency of revenues for those services following the proposed boundary change.*

The joint Consolidation Study prepared by the Rainbow MWD and the Fallbrook PUD concluded that significant cost savings will result from consolidation. The study projected that consolidation would simplify service provision and result in cost savings projected to be about \$2.5 million annually. Prior to the termination of the Rainbow/Fallbrook JPA, an estimated annual savings of \$1 million was achieved that Fallbrook PUD believes demonstrates that the successor/receiving entity will have sufficient revenues to provide services following the reorganization. The Rainbow MWD now disputes that figure and believes that the cost savings amounted to about \$570,000. Nonetheless, based on the results of the JPA, it is highly probable that the consolidated successor agency will experience significant cost savings compared to the operations of two separate agencies. Thus, the successor agency will have sufficient revenues to support service provision following reorganization.

- *Timely availability of water supplies adequate for projected needs as specified in Section 65352.5.*

Refer to the above factor regarding the conformity of both the proposal and its anticipated effects with both the adopted commission policies on providing planned, orderly, efficient patterns of urban development, and the policies and priorities in Section 56377. If approved, the proposed reorganization will transfer the spheres of influence and service responsibility from an existing agency to a successor agency; therefore, the proposal will not affect timely availability water supplies per Section 65352.5.

- *Extent to which the proposal will affect a city or cities and the county in achieving their respective fair shares of the regional housing needs as determined by the appropriate council of governments consistent with Article 10.6 (commencing with Section 65580) of Chapter 3 of Division 1 of Title 7.*

If approved, the proposed reorganization will transfer the spheres of influence and service responsibility from an existing agency to a successor agency; therefore, the proposal will not affect regional housing needs per Government Code Section 65580 any differently than if the district reorganization did not occur.

- *Information or comments from the landowner or owners, voters, or residents of the affected territory.*

Approximately 396 letters of opposition and 23 letters of support were submitted by a comment deadline of August 1, 2014. Responses to the issues areas contained in the comments have been addressed in the LAFCO staff report.

- *Information relating to existing land use designations.*

If approved, the proposed reorganization will transfer the spheres of influence and service responsibility from an existing agency to a successor agency; therefore, the proposal will not affect existing or proposed land use designations.

- *Extent to which the proposal will promote environmental justice. As used in this subdivision, "environmental justice" means the fair treatment of people of all races, cultures, and incomes with respect to the location of public facilities and the provision of public services. (Amended by Stats. 2010, Ch. 328, Sec. 93. Effective January 1, 2011.)*

If approved, the proposed reorganization will transfer the spheres of influence and service responsibility from an existing agency to a successor agency; therefore, the proposal will not affect the location of public facilities and the provision of public services with respect to the Statutes of 2010.

Government Code Section 56668.3 Review Factors

Government Code Section 56668.3 requires the Commission to consider whether a proposed annexation will be for the interest of landowners or present or future inhabitants when a district annexation is included within a reorganization proposal. The proposed reorganization of the Fallbrook PUD and Rainbow MWD does involve a district annexation; therefore, this statute is applicable. The Commission must also give great weight to any resolution raising objections. The Commission's consideration can only be based on financial or service related concerns that meet the definitions for these types of concerns. The Commission may also consider any of the factors as provided in Section 56668.

A jurisdictional reorganization of the two districts is projected to result in cost savings that will be in the interests of present and future inhabitants. It was estimated that over a three-year period, a reduction in staff of up to 20 full-time equivalents could be accomplished while maintaining existing service levels. A full reorganization of the districts was thought to accordingly provide an estimated annual savings of up to \$2.5 million annually. Additional benefits beyond labor savings were also projected. This includes integration of equipment and operations, resulting in up to \$300,000 of additional annual cost savings. The cost savings can be reinvested within the reorganized district to benefit the landowners/inhabitants.

Refer to the section of the LAFCO staff report pertaining to discussion and response to the Resolution of Objection submitted by the Rainbow MWD.

Government Code Section 56824.10-56824.14 Service Plan Review

Commission proceedings for the exercise of new or different functions or classes of services to provide particular functions or classes of services, within all or part of the jurisdictional boundaries of a special district is subject to Government Code Section 56824.12. These proceedings can only be initiated by the agency that is seeking a change in service functions.

As previously discussed in this report, the Fallbrook PUD has the authority to provide water service districtwide, but LAFCO limited its authority to provide sewer service to a geographically specific area within Fallbrook. This area corresponds to the former boundaries of the Fallbrook Sanitary District. The Fallbrook Sanitary District was dissolved and absorbed by the Fallbrook PUD about twenty years ago in 1994. Any subsequent change of the Fallbrook PUD's sewer service area, therefore, requires LAFCO approval. The San Diego LAFCO refers to this approval process for enlarging an existing special district's sewer service area, as "Expansion of Latent Powers".

The Plan for Services and related service and financial documents submitted by the Fallbrook PUD covers the information necessary per Government Code Section 56810.10-14. This information covers:

- a. The total estimated cost to provide the new or different function or class of services within the special district's jurisdictional boundaries.
- b. The estimated cost of the new or different function or class of services to customers within the special district's jurisdictional boundaries.
- c. An identification of existing providers.
- d. A written summary of whether the new or different function or class of services or divestiture of the power to provide particular functions or classes of services, within all or part of the jurisdictional boundaries of a special district, pursuant to subdivision (b) of Section 56654, will involve the activation or divestiture of the power to provide a particular service or services, service function or functions, or class of service or services.
- e. A plan for financing the establishment of the new or different function or class of services within the special district's jurisdictional boundaries.
- f. Alternatives for the establishment of the new or different functions or class of services within the special district's jurisdictional boundaries.

The commission has authority over the review and approval with or without amendments, wholly, partially, or conditionally, or disapproval of proposals for the establishment of new or different functions or class of services. LAFCO cannot, however, approve a proposal for the establishment of new or different functions or class of services within the jurisdictional boundaries of a special district unless the special district in question will have sufficient revenues to carry out the proposed new or different functions of class of services.

A series of pro forma financial statements were prepared by the Fallbrook PUD and Rainbow MWD staff to assess the financial feasibility of a reorganization. The six pro forma statements are accordingly summarized in this report and available for download from LAFCO's website (www.sdlafco.org). The statements were originally prepared by the Rainbow MWD and Fallbrook PUD staffs with the input of both district management staffs. These financial statements indicate that the Fallbrook PUD has sufficient revenue to carry out the provision of sewer services within the proposed former boundaries of the Rainbow MWD.

The proposed reorganization will result in operational cost savings through the consolidation of operations and administration. The two primary reasons for the cost savings relate to current and future staffing savings and a reduction in miscellaneous expenses. The staffing savings relate to wage and benefits cost reductions.

The miscellaneous expenses reductions include anticipated decreases 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 items of the pro forma statements in the exhibits at the end of this staff report. The financial statements thus cover the total estimated costs to provide services within the reorganized service territory.

No change to estimated costs to customers would occur; however, the Fallbrook PUD has stated that cost savings may positively affect customers through rate stabilization. The application submitted by the Fallbrook PUD also covers the status quo—that being no change in jurisdictional boundaries and the associated financial ramifications of retaining the two independent districts.

It is estimated that if reorganization does not occur an annual savings of \$2.5 million would not occur. The financial information and Plan for Services submitted by the Fallbrook PUD demonstrate that the reorganized PUD will have sufficient revenue to provide the proposed functions and class of services within the proposal territory. Therefore, if the Commission approves the proposed reorganization, it will not need to condition its approval on the concurrent approval of new revenue sources pursuant to Government Code Section 56886.

Table 4 below shows the revenues and expenses associated with operations under a reorganized or JPA structure, compared to the non-consolidated structure of two separate districts. The last section of the table indicates projected annual savings over the next five years may range from \$1,339,458 in year two to \$2,862,404 in year five. Total cumulative savings for each of the five years when added together total \$11,938,651.

Table 4

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

Government Code Section 56881 Determinations/Factors

Government Code Section 56881 states that resolutions making determinations must include any of the findings or determinations pursuant to Section 56375. These findings and determinations are generic to most all LAFCO applications and only a small fraction of them apply to the proposed reorganization. A discussion of the determinations and their applicability to the proposed reorganization follows.

- *Section 56375(a) states that LAFCO may review and approve with or without amendment, wholly, partially, or conditionally, or disapprove proposals for changes of organization, consistent with written policies, procedures, and guidelines of the Commission.*

If the Commission approves the proposed reorganization, this determination will be made and it will be incorporated in direction provided to the Executive Officer for purposes of preparing an associated resolution approving the reorganization. The resolution will reference required San Diego LAFCO CEQA determinations, and applicable LAFCO policies, such as reference to the San Diego LAFCO's Policy L-101 (Preservation of Open Space and Agricultural Lands), L-102 (Sphere of Influence); L-106 (Strategy of Conducting Municipal Service Reviews); and L-107 (Jurisdictional Conflicts); and sphere consistency determinations per Government Code Section 56425.

Policy L-101 (Preservation of Open Space and Agricultural Lands)

In terms of LAFCO Policy L-101, this policy pertains to preservation of open space and agricultural lands. Policy L-101 discourages proposals that would convert prime agricultural land or open space to other uses unless such actions would not promote the planned, orderly efficient development of areas. As previously discussed, the Rainbow MWD claims that dissolution of Rainbow MWD would marginalize Rainbow's agricultural community and threaten the existence of important local farms.

Rainbow MWD claims that if the Fallbrook PUD's application is approved, the successor board would have the authority and the ability to set policies and priorities, and rates regarding or affecting the agricultural community. Rainbow MWD also disagrees with the Fallbrook PUD's determination that the proposed reorganization is exempt from environmental review. Rainbow MWD accordingly demands that LAFCO evaluate and identify the potential environmental impacts that could result from the proposed reorganization, and take affirmative action to avoid or mitigate those impacts.

In response to Rainbow MWD's statements in relation to LAFCO Policy L-101, a review of Fallbrook PUD water sales statistics show that over 50 percent of PUD water sales are to groves and nurseries; farmers within the PUD pay 15 to 20 percent less for water, compared to Rainbow farmers. Fallbrook PUD claims that it sells water to farmers with no markup in price in contrast to Rainbow MWD. If the Fallbrook PUD rate-setting policies were hypothetically applied to agricultural rates within Rainbow, it could potentially benefit Rainbow farmers/agriculture. Nonetheless, the potential impact on agriculture is highly speculative and would be either unchanged or positive.

In terms of CEQA review, LAFCO staff reviewed the categorical exemption cited by the Fallbrook PUD and believes that it is an appropriate exemption, because the geographical area in which previously existing powers are exercised will remain the same. No physical changes to the environment, including agriculture resources, will result from the reorganization. Any future decisions that Fallbrook PUD may take is not associated with the proposed reorganization and would be subject to subsequent CEQA review.

The Rainbow MWD had an opportunity to challenge Fallbrook PUD's environmental determination after the exemption was cited on April 28, 2014, but decided not to pursue a challenge. LAFCO would be acting as a responsible agency pursuant to CEQA and not the lead agency for the reorganization.

Policy L-102 (Sphere of Influence)

With respect to LAFCO Policy L-102 (Sphere of Influence), this LAFCO policy was adopted to establish the manner in which the Commission establishes and updates spheres of influence. For example, per Policy L-102, it is the policy of the Commission to:

- Designate spheres in close cooperation with affected agencies and communities.
- Utilize spheres to guide deliberations on jurisdictional changes; discourage duplication of service responsibility; need for reorganization studies; preservation of community identities; encourage political and functional reorganizations; encourage annexation of territory specified for urban development; encourage extension of services to existing urban areas.
- Encourage cities to reconcile incompatible land uses.
- Review spheres in approximate five–year intervals.
- Discourage major amendments outside of the sphere update process, unless there are public health or safety needs; split ownerships; reorganizations of two or more agencies and each jurisdiction agrees to the sphere amendments/reorganization; or adequate documentation has been provided showing that conditions have significantly changed.
- Conduct sphere updates prior to the five–year interval if an affected jurisdiction submits a request based on adequate justification and the appropriate processing fees.
- Facilitate communicate with affected public agencies, communities, property owners and residents.

The process used by LAFCO staff to conduct the sphere review of the Rainbow MWD and Fallbrook PUD has been conducted in coordination with affected agencies and communities. If adopted, the 2015 sphere and service review/update will guide deliberations on jurisdictional changes and address duplication of service responsibility. Community identify will not be effected by the proposed jurisdictional changes because the area in which services will be provided in the future will not changes. In addition, divisional accounting will maintain the usage of discrete finance systems, and divisional governance will maintain and, perhaps, increase voter representation.

The possibility of a reorganization and subsequent sphere and service review was anticipated when a previous sphere and service review was conducted in 2014: Municipal Service Review and Sphere of Influence Review: Study of Sewer, Water, and Recycled Water Services in the Bonsall and Pala Hydrologic Subareas of the San Luis Rey River Watershed. The overall sphere review process has been conducted in a manner that has facilitated communication with affected public agencies, communities, property owners and residents. LAFCO staff received over 400 letters and emails, and the proposed reorganization and related sphere and service review was considered by LAFCO's Special Districts Advisory Committee. LAFCO staff also held numerous ad hoc meetings between the two subject agencies to facilitate communication and resolution of issues.

Policy L-106 (Strategy of Conducting Municipal Service Reviews)

LAFCO Policy L-106 pertains to the strategy for conducting and using service reviews. This policy is intended to be used to establish the framework for the timing, funding, and preparation of service reviews, while maintaining appropriate focus on service review determinations. The reviews are intended to focus on service delivery, procedures, policies, rather than individuals. LAFCO staff is encouraged to utilize the LAFCO Special Districts Advisory Committee, affected jurisdictions, or other appropriate organizations. This process was recently used in 2013-14 for the Rainbow MWD and more recently in 2014-15 for the Fallbrook PUD and Rainbow MWD. A comprehensive LAFCO staff report has been prepared for the sphere and service review, and the associated reorganization proposal involving both the Rainbow MWD and Fallbrook PUD. Both districts have been in regular contact with LAFCO staff and a number of meetings have been held by LAFCO staff with the objective of resolving associated issues.

Policy L-107 (Resolution of Jurisdictional Conflicts)

LAFCO Policy L-107 was adopted by the San Diego LAFCO to establish a procedure to resolve jurisdictional conflicts associated with development projects requiring LAFCO discretionary approvals. Policy L-107 does not apply to the proposed reorganization of the Rainbow MWD and Fallbrook PUD, because the reorganization does not involve a development project. However, LAFCO staff requested the Fallbrook PUD to attempt to comply with the jurisdictional conflict resolution part of the policy with the hope of facilitating a compromise with the Rainbow MWD, and in turn reducing, public opposition. After holding nearly twenty joint meetings between 2013 and 2014, the Fallbrook PUD determined that an impasse existed and referred the matter to LAFCO. LAFCO staff scheduled the matter before the Special Districts Advisory Committee in 2014 and then scheduled three ad hoc meetings attended by the respective board presidents and general managers in 2015. Both districts agreed on one matter during the ad hoc meetings—that being on an impasse. The primary subject area of the impasse pertained to governance of the proposed reorganized Fallbrook PUD.

- **Section 56375(a)(2-3) applies to LAFCO-initiated proposals, such as consolidations, dissolutions, mergers, subsidiary districts, and formations.**

This determination is not applicable because Section 56375 (a)(2-3) determinations only relate to LAFCO-initiated proposals. The proposed reorganization was initiated by the Fallbrook PUD and not LAFCO.

- **Section 56375(4,5,7,8) pertains to city annexations.**

Section 56375(4,5,7,8) pertains to city annexations. The proposed reorganization does not involve city jurisdictional changes and therefore this determination is not applicable.

- **Section 56375(a)(5) pertains to LAFCO's being prohibited from regulating land use.**

This statute is not applicable because LAFCO has not imposed any conditions that would directly regulate land use density or intensity, property development, or subdivision requirements.

- **Section 56375(b) relates to whether the affected territory in the reorganization is inhabited or uninhabited.**

If approved, the associated resolution will state that the proposed reorganization area is inhabited.

- **Section 56375(c-f) pertains to consolidations or city annexations.**

This provision is not applicable to the proposed reorganization because the reorganization does not involve consolidation or city annexation.

- **Section 56375(g-k) covers general LAFCO operational matters (e.g., adoption of written procedures, standards, enforcement of regulations, retention of personnel, etc.).**

Section 56375(g-k) covers general LAFCO operational matters and is not applicable to the proposed reorganization.

- **Section 56375(l) pertains to whether the boundaries of the territory in any proposal are definite and certain.**

If approved, the resolution associated with the proposed reorganization will reference the County Assessor's determinations regarding the certainty of the proposed reorganization boundaries.

- **Sections 56375(m-p) pertains to city annexations.**

Sections 56375(m-p) applies to city annexations and is not applicable to the proposed reorganization.

- **Section 56375(q) pertains to multi-county proposals.**

Section 56375(q) applies to multi-county proposals and is not applicable to the proposed reorganization.

- **Section 56375(r) pertains to LAFCO authorities related to mutual water companies.**

The proposed reorganization involves public agencies that provide water service and it will not affect mutual water companies.

- **Section 56375.2 pertains to Marin LAFCO.**

This section applies to Marin LAFCO only and is inapplicable to the proposed reorganization.

- **Section 56375.3 pertains to city island annexation proposals.**

This provision pertains to city island annexation proposals and is not applicable to the proposed reorganization.

Dissolution Findings

Dissolution Ordered Without Election

In any resolution ordering a dissolution, LAFCO must make certain findings related to use of corporate powers; whether a district is a registered voter district; whether a board of directors has by unanimous resolution consented to dissolution (Government Code Section 57102); and whether the district dissolution is consistent with a prior action of the Commission pursuant to the adoption of special studies (Section 56378), Spheres of Influence (Section 56425), or service review (Section 56430). If these findings are made, then LAFCO may order the dissolution of a district without an election. LAFCO staff has concluded that none of these findings can be made; therefore, the election process cannot be waived for the proposed reorganization of the Fallbrook PUD and Rainbow MWD. The necessary findings will be recited and included in the Executive Officer's recommendations. Refer to the protest provision section of this staff report for further discussion about the election provisions applicable to the proposed reorganization.

Reorganization Options

Prior to initiating the reorganization with LAFCO, the Fallbrook PUD considered the merits of retaining the JPA management structure, as well as, pursuing a formal reorganization under LAFCO procedures. The Fallbrook PUD notes that the JPA model provides for cost reductions by utilizing the Fallbrook PUD general manager and senior staff for the management of both districts. The PUD estimated that up to eight positions from both districts could be eliminated, primarily in both the Fallbrook PUD and Rainbow MWD management and administrative ranks. The operations structure would remain largely independent to maintain the separate public agencies under the JPA model. Fallbrook PUD estimates that the consolidated operational/labor savings could be as much as \$850,000 per year by the third year.

On the other hand, it was projected that a reorganization would provide for significantly more cost reductions over the Joint Powers Authority (JPA). This is based on the total integration of district management and staff. The PUD estimates that over a three-year period, a reduction in staff of up to 20 full-time equivalents could be accomplished while maintaining the existing level of service. Annual savings derived from a total reorganization are estimated to be \$2.5 million annually.

Breakdown of Reorganization Discussions

During 2013, the seven-member North County JPA board, comprised of three members each from the Fallbrook PUD and Rainbow MWD Boards and one appointed public member, met at least monthly. In addition to tracking the progress of the staff integration process, considerable effort was devoted to developing a joint resolution to initiate consolidation with LAFCO. Some progress was made discussing the size of the successor agency board and the principal acts (laws) to be followed. The districts determined that the successor agency should operate under the Public Utility District Act. However, an impasse resulted with respect to how directors should be elected. The Fallbrook PUD board initially proposed that the board members of the successor agency all be elected at large, while

the Rainbow MWD board insisted on elections by divisions. However, as previously discussed, the option of having all board members elected by division was problematic because this subject is not addressed clearly in the Public Utility District Act.

On February 5, 2014, Fallbrook PUD's representatives on the North County JPA Board put forth a compromise proposal in which four directors would be elected by division and three directors would be elected at large. Such a governance format, permitted under the Public Utility District Act, would provide board representation for residents of each of the four divisions while also provide greater accountability to all of the district's residents. The Rainbow MWD representatives rejected this proposal in favor of election by division. Effective April 5, 2014, the Rainbow MWD Board of Directors terminated its involvement with the North County JPA.

Pointing to the cost savings associated with reorganization and associated operational/service efficiencies, the Fallbrook PUD decided to initiate a reorganization with LAFCO on March 10, 2014 without the approval and involvement of Rainbow MWD. The application was then resubmitted to LAFCO on April 29, 2014 after the Fallbrook PUD held a public hearing. According to the Fallbrook PUD, the reasons for pursuing reorganization are compelling and warranted the initiation of the reorganization without the consent of the MWD.

Feasibility Indicators

Cost Savings and Efficiencies

The Fallbrook PUD cites the cost savings and efficiencies resulting from the JPA as the basis for moving forward and submitting a reorganization application with LAFCO. At the time, the Rainbow MWD and Fallbrook PUD were members of the North County JPA. Both districts believed that significant cost savings would result from consolidation. The bulk of the savings would be from attrition within the Rainbow MWD.

In 2013, the combined staffing levels between the two districts were reduced (from a high of 124 in 2011) to approximately 114 at year-end 2013 as a result of the JPA. 2013 net combined savings for the two districts was slightly over \$1 million, exceeding original expectations. The savings breakdown by district was approximately 80 percent accruing to Rainbow MWD, with the remainder to Fallbrook PUD.

A jurisdictional reorganization of the two districts was discussed because it was projected to provide for additional cost savings over the Joint Powers Authority by fully integrating district management and staff. It was estimated that over a three-year period, a reduction in staff of up to 20 full-time equivalents could be accomplished while maintaining existing service levels. A full reorganization of the districts was thought to accordingly provide an estimated annual savings of up to \$2.5 million per year. Additional benefits beyond labor savings were also projected. This includes integration of equipment and operations, resulting in up to \$300,000 of additional annual cost savings.

According to the Fallbrook PUD, the reorganization would continue the efficiencies realized through the North County JPA by optimizing service and minimizing cost to the unified service area by:

1. Capturing economies of scale
2. Reducing administrative overhead
3. Sharing equipment
4. Reducing vehicle fleet including heavy/specialty equipment
5. Improving emergency response
6. Enhancing coverage for service and pressure zones at district boundaries
7. Integrating and consolidating both districts' management and staff
8. Improving water resource management through use of recycled water
9. Improving the ability to fully utilize local water supplies
10. Strengthening financial capability

Additional Benefits from Reorganization

The Fallbrook PUD's reorganization application states that additional benefits would result beyond labor savings, including combining the organizations and integrating equipment and operations. A joint study prepared by both districts estimates that an additional annual savings of \$300,000 could be achieved if reorganization occurs. The additional savings and benefits include:

1. Reduced property and liability insurance
2. Reduced vehicle fleet including heavy/specialty equipment
3. Reduced information technology costs
4. Reduced banking service fees and greater investment performance
5. Expanded internal training opportunities
6. Reduced legal costs
7. Reduced director costs
8. Reduced audit costs
9. Reduction in general office expenses
10. Ability to optimize service areas and pressure zones at district boundaries
11. Potential reductions to current and future outsourcing cost

Indicators of Feasibility

An indicator of the feasibility of reorganization between Fallbrook PUD and Rainbow MWD is the functional consolidation that occurred between the two agencies in 2013 via the North County JPA, as well as projected future results under a combined organization. The JPA was predicated on combining the resources of both districts, including staffing and physical plant/infrastructure, to obtain a cost-effective means of providing service to the ratepayers, pursuant to the terms of the Employee Leasing Agreement by and between Fallbrook PUD and Rainbow MWD. Under the JPA Agreement, comprehensive functional work group analyses were conducted and employee integration programs implemented.

Change management workshops, inter-district cross-training, and employee recognition programs also were used during the integration process. In addition, Fallbrook PUD expanded its community outreach and school programs to include Rainbow MWD's service territory. Based upon these efforts, the results during the brief existence of the JPA seemed to have demonstrated the primary goal of cost-effectiveness.

At the same time, service levels were maintained and the potential for improvement was realized. Although the JPA has since been disbanded, the JPA framework may illustrate the actual realized savings that could be achieved and the projected future savings under a continued consolidated operating system. The following sections cover actual results and projected future results under a combined organization.

Actual Results

According to both the Rainbow MWD and Fallbrook PUD, the actual results of operations under the JPA produced cost savings. The main area of cost savings was a reduction in the workforce. These savings included salary expenditure reductions from fewer staff and a corresponding reduction in benefit expenses such as, medical insurance premiums, pension expense, vacation, etc.

According to the JPA results, the primary categories of staffing savings included positions not replaced and a program referred to as employee leasing. These categories are described below:

- Positions not replaced

Includes wages and benefits for positions vacated by attrition in anticipation of, or during, the JPA operating period and determined not necessary for future operation. These were counted as monthly savings.

- Employee Sharing (leasing)

Includes employees shared (leased) from one district to the other. Services provided were for specific jobs or assistance. Costs were recorded when a district received the service and/or savings to the district providing the service.

Some savings resulted from lower staffing levels, and there were some additional (primarily one-time costs incurred to implement the JPA). These costs included general office improvements, information technology upgrades, and JPA administrative charges. These costs partially offset the realized savings and were generally evenly divided between the two districts.

A summary of the staffing reductions and the implementation costs from January to June 2013 and July 2013 to December 2013 follows. The summary provides a snapshot of important details and breakdown of the realized savings and shows that a savings of nearly \$1 million (\$955,862) was realized in 2013 operating as a JPA. The tables show 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 summary of combined net savings. The time period covered by the summary is January to June 2013 and July 2013 to December 2013.

Although the Rainbow MWD staff helped prepare the information contained in this table, the MWD now disputes the level of cost savings and indicates that cost savings did occur, but were more in the neighborhood of \$570,000. In addition, the Rainbow MWD indicates that savings are nearly entirely due to unfilled positions at Rainbow account for a purposed savings of nearly \$600,000 over the life of the JPA (Rainbow MWD Correspondence, November 6, 2014). In reviewing the data presented by both districts, it appears that the Rainbow MWD's calculations did not include about half of a fiscal year of cost savings associated with the JPA for the period July 2013 to December 2013. This error seems to account for the lower projection reported by the Rainbow MWD. However, whether the cost savings were \$570,000 or \$955,862, it can still be concluded that substantial cost savings did occur as a result of the JPA. A summary of actual cost savings resulting from the consolidation of the two districts through the North County JPA follows (refer to Table 5 and Table 6 below):

Table 5: Fallbrook PUD / North County JPA Cost Savings			
	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

Table 6: Rainbow MWD / North County JPA Cost Savings			
	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
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Source: North County Joint Powers Authority, Actual Results To-Date, November 14, 2014

Projected Future Results

The realized results from the functional consolidation combined with future projections provide an indication of the feasibility expected from a jurisdictional reorganization. A series of reorganized (consolidated) pro forma financial statements were prepared to assess the financial feasibility of a jurisdictional reorganization. The six pro forma statements are accordingly summarized below and provide detailed financial projections of operations for the next five years. The statements were originally prepared by the Rainbow MWD and Fallbrook PUD staffs with the input of both district management staffs.

Table 7 below shows the revenues and expenses associated with operations under a reorganized or JPA structure, compared to the non-consolidated structure of two separate districts. The last section of the table indicates projected annual savings over the next five years may range from \$1,339,458 in year two to \$2,862,404 in year five. Total cumulative savings for each of the five years when added together total \$11,938,651. LAFCO staff reviewed these calculations and confirmed their accuracy. The two primary reasons for the cost savings relate to current and future staffing savings and a reduction in miscellaneous expenses. The staffing savings relate to wage and benefits cost reductions. The miscellaneous expenses reductions include anticipated decreases 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.

Table 7

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
Cumulative Savings from Consolidation		1,339,458	3,659,822	6,317,932	9,076,246	11,938,651

Wage and Benefits Savings

Table 8 depicts projected staffing savings of the consolidated organization compared to separate operations of the Fallbrook PUD and Rainbow MWD. The Wages and Benefits line items below are extracted from the pro forma statements prepared by the Rainbow MWD and Fallbrook PUD. The exhibits provide more detailed information presented in a reorganized (total basis) as well as on a separate agency basis. This allows a comparison of total savings attributable to the reorganized PUD with respect to wages and benefits, and how that figure relates to Fallbrook PUD and Rainbow MWD individually. The below table shows projected cost savings attributable to the Fallbrook PUD ranging from \$523,931 in 2014-15 to \$1,101,459 in 2018-19. Rainbow MWD would realize wage and benefit savings of \$815,526 in 2014-15 to \$1,442,583 in 2018-19. Wages and benefits result in a majority of all the savings from reorganization. Over the five year projection period, the cumulative cost savings are projected to compound. The cumulative cost savings derived from both agencies are projected to be \$1,339,458 in year one (FY 2014-15) and \$10,702,168 in year five (2018-19). The projections are based on the assumption that actual savings resulted from the now disbanded JPA, and that cost savings would continue at the same level as a result of reorganization. LAFCO staff believes that this is a realistic projection assumption. Note that the combined staffing of both districts has now risen to 118 employees.

Table 8

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

Table 9 depicts projected future staff reductions over the next five years. Total staffing decreases from a high of 116 in 2013-14 to 103 in 2016-17 and beyond. This represents a decrease in 13 staffing years (positions) during a four year period. The projections use an averaged burdened rate to calculate the savings for each position assuming a full time staffing equivalent of 2,080 hours of work annually per employee. For projection purposes, the savings are shown equally to Fallbrook PUD and Rainbow MWD. Refer to projected staff reductions at the bottom of the table. Projected savings are allocated to the top of the table for projection purposes to account for projected total savings for each district. The “new savings” category adds to the savings that continue from the “already in place” staff reductions to reconcile total savings. The “previous savings” category shown in Table 9 consists of leased employee and shared general manager savings achieved during 2013 operating as a JPA. This was included to disclose the assumptions used for new wage and benefit savings and how they add to the already existing savings. This projection methodology is conservative and depicts how the reorganized district would be able to achieve cost savings related to reduced wage and benefit expense which will continue in the future. Note that the combined staffing of both districts has risen to 118 employees.

Table 9

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	\$ -	\$ -

Other Cost Savings

The other savings associated with reorganization occur in other categories, which are referred to as “Other” or miscellaneous in this report. These “other” savings are substantially less than the wage and benefit savings, but add to the overall cost savings of a reorganized operation. These savings are associated with 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. Table 10 depicts these “other” savings over the next five years. These miscellaneous savings are projected to total an additional \$300,000 in year 2015-16; cumulative savings may total \$1,236,482 during the end of the projection period. An assumed inflation factor of 2 percent per year was used in the projections. The savings are divided equally between Fallbrook PUD and Rainbow MWD.

Table 10

CONSOLIDATED PROFORMA BUDGET						
Fallbrook Public Utility District and Rainbow Municipal Water District						
Fiscal Years Ending 2015, 2016, 2017, 2018 & 2019						
Other Operating Expense	Adopted Budgets					
	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						
Other Operating Expense	Adopted Budgets					
	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						
Other Operating Expense	Adopted Budgets					
	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						
Other Operating Expense	Adopted Budgets					
	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

Capital Facilities Assessment

A Capital Facilities Assessment for the Fallbrook PUD and Rainbow MWD facilities was completed by the engineering and planning manager for Fallbrook PUD and the assistant general manager/district engineer for Rainbow MWD. A summary of the general services provided by each district is presented below. As shown below, Rainbow MWD provides service to a larger service area with higher overall water demands, but fewer customers. Rainbow MWD is a retail agency for bot water and wastewater, while Fallbrook PUD does provide wastewater treatment as well as conveyance, which requires additional capital investments. In addition, Fallbrook PUD produces and sells recycled water. Both agencies buy almost all their water from the San Diego CWA and have very limited local water supplies.

OVERVIEW OF SERVICES	<u>Fallbrook PUD</u>	<u>Rainbow PUD</u>
Service Area (acres)	28,000 (44 sq. miles)	51,000 (78 sq. miles)
Services Provided	Water distribution, water treatment, wastewater conveyance, wastewater treatment, recycled water	Water distribution, wastewater conveyance
Water Sales 2011 (AFY)	10,700	18,000
Wastewater Production (AFY)	2,000	820
Water Accounts	9,134	7,800
Wastewater Accounts	4,973	2,300

Source: Fallbrook PUD/Rainbow MWD District Consolidation Study, 2012

Water Supply Facilities

Pump stations

Both agencies have water delivery areas that require pumping. For Fallbrook PUD, the majority of the District is fed by gravity and pumping is required primarily in the De Luz area. Due to the topography of the Rainbow MWD service area, more substantial pumping is required. A summary of the pumping facilities for each district is provided in the table below. Rainbow MWD has more pump stations of larger capacity. Both districts' pump stations are of similar age and require ongoing investments to maintain reliable service. Due to the age of the facilities, both districts will have growing capital needs for replacement of some of the older pumping facilities.

SUMMARY OF PUMPING FACILITIES

	<u>Fallbrook PUD</u>	<u>Rainbow PUD</u>
Number of Pump Services	4	7
Average Horsepower	160	406
Average Age (years)	20	25

Source: Fallbrook PUD/Rainbow MWD District Consolidation Study, 2012

Tanks and Reservoirs

Both districts have a combination of constructed steel/concrete water storage tanks and earthen reservoirs. Fallbrook PUD has one large uncovered earthen reservoir (Red Mountain Reservoir), while Rainbow MWD has four with varying sizes from 8 MG to 200 MG. Due to regulatory requirements, it was necessary to either cover, install treatment, or remove the reservoir from service. Fallbrook PUD elected to install treatment at their one reservoir, while Rainbow MWD has complied by installing covers and taking one out of service (Beck). Both districts have completed the projects or have projects underway to comply with the regulatory requirements. In addition to earthen reservoirs, both districts have a similar number of water storage tanks of similar capacity and age. Rainbow MWD has recently recoated all their tanks while Fallbrook PUD has a number of tanks that have not been recoated. A summary of the tanks and reservoirs for both districts are provided below.

TANK AND RESERVOIR SUMMARY

	<u>Fallbrook PUD</u>	<u>Rainbow PUD</u>
Number Covered Reservoirs	0	3
Average Capacity (MG)	N/A	61
Average Age (years)	N/A	*2
Number of Uncovered Reservoirs	1	**1
Average Capacity (MG)	330	204
Average Age (years)	27	32
Number of Tanks	20	25
Average Capacity (MG)	3.5	3.2
Average Age (years)	36	31

Note: *Average age of covers shown in table, not reservoirs. **Proposed for removal.

Source: Fallbrook PUD/Rainbow MWD District Consolidation Study, 2012

Pipelines

Both districts primarily have cement mortar lined and coated steel water lines. FPUD's system is generally more of a gridded and looped system, while Rainbow MWD has more of a linear-based system due to density and topography. As shown in the below table, Rainbow MWD has more miles of pipeline and a larger percentage that are getting close to the end of their predicted useful life. Overall, the average ages of the pipelines are similar. Since Rainbow MWD has fewer accounts, there are substantially more miles of pipeline per account which requires more capital investment per account; but since Rainbow MWD water sales are higher on a volume basis, the capital obligation per annual water sales is less than Fallbrook PUD.

PIPELINE SUMMARY

	<u>Fallbrook PUD</u>	<u>Rainbow PUD</u>
Pipelines (miles)	270	320
Percentage of Pipelines Greater than 50 years old	4	17
Average Age (years)	35	30

Wastewater Treatment Facilities

Fallbrook PUD treats all its 1.8 MGD of annual average wastewater production at its treatment plant. The treatment plant has a capacity of 2.7 MGD average annual dry weather flow so additional unused capacity is available. The facility was built in phases but the last major improvement project was in 1988 so all the major facilities are over 24 years old so an extensive rehabilitation is underway. Rainbow MWD is a retail agency of the City of Oceanside which provides wastewater treatment at their San Luis Rey Wastewater Treatment Plant (San Luis Rey WWTP). Rainbow MWD pays a percentage of any capital improvements at the City of Oceanside's San Luis Rey WWTP based on their capacity ownership of the plant.

Miscellaneous Facilities

Fallbrook PUD owns and operates two solar production facilities which generate approximately 40 percent of the District's energy demands. One small 60 KW facility is located at the district's main yard and one large 1,000 KW facility is located at their Wastewater Treatment Plant (WWTP). The larger facility is under an O&M contract with warranties that cover any major capital costs so capital requirements are limited. Some small electrical improvements are required at the office.

Infrastructure Conclusions

Overall Fallbrook PUD and Rainbow MWD are similar in terms of amount and type of infrastructure and age of facilities. Rainbow MWD has slightly older water system infrastructure, while Fallbrook PUD has an older wastewater system infrastructure. Fallbrook PUD has a large part of its water and sewer service area that is denser, which results in less capital infrastructure per customer account. Both districts have completed substantial capital improvements required by the EPA for their uncovered finished water reservoirs by either covering or providing treatment. Fallbrook PUD has a substantial capital need at their WWTP to maintain reliability of this facility. The majority of district assets are buried water and sewer pipelines that are reaching the end of their predicted useful life which will require increased capital rehabilitation and replacement funds.

Governance

Board Members by Territorial Unit (Division) Versus At-Large

Currently, the Fallbrook PUD is governed by five at-large members of the board elected to staggered terms of four years each. Rainbow MWD currently has five directors that are elected by division to staggered terms of four years each. Per the reorganization proposal initiated by the Fallbrook PUD, the Fallbrook PUD would be the successor to the Rainbow MWD and the PUD would be expanded from five members to seven members. Four board members of the reorganized Fallbrook PUD are proposed to be elected by territorial unit (division), and three board members would be elected at-large. The Fallbrook PUD selected a board elected by both territorial unit and at-large components because the PUD Act, does not explicitly permit the governing board to be comprised of members elected exclusively by territorial unit. The Rainbow MWD believes that unless the board of the

reorganized Fallbrook PUD consists of all board members elected by division, voting rights would be adversely affected and challenges would occur under the California Voting Rights Act.

California Voting Rights Act

The California Voting Rights Act of 2001 (CVRA) expands on the Federal Voting Rights Act of 1965, making it easier for minority groups in California to prove that their votes are being diluted in "at-large" elections. In 1986, the U.S. Supreme Court established conditions that must be met to prove that minorities are being disenfranchised; the CVRA eliminated one of these requirements. Unlike the federal Voting Rights Act, the CVRA does not require plaintiffs to demonstrate a specific geographic district where a minority is concentrated enough to establish a majority. This makes it easier for minority voters to sue local governments and eliminate at-large elections. The Act was signed into law on July 9, 2002.

In 2007, the California Supreme Court ruled the Act constitutional in *Sanchez v. City of Modesto*. The City claimed that the act was unconstitutional because it inherently favored people of color; the court concluded that the act was not racist in nature and returned the case to the trial court. Critics of the act argue that it inappropriately makes race a predominant factor in elections and that it does not make sense to eliminate the requirement to establish a geographic district where there is a minority concentration. Advocates argue that at-large elections allow bloc voting that effectively keeps minorities out of office.

On March 18, 2015, the San Diego LAFCO received a copy of a letter sent to the Fallbrook PUD from the Mexican American Legal Defense and Educational Fund (MALDEF). MALDEF's letter demands that the Fallbrook PUD change its election system from an at-large to a by-district form of governance. MALDEF claims that it received complaints from Latino citizens and voters of the Fallbrook PUD stating that candidates to the Fallbrook board results in minority vote dilution and prevents minority voters from electing candidates of their choice or influencing the results of elections.

Upon investigating the demographic and electoral information with particular attention to the prohibitions of the CVRA, MALDEF concluded that Fallbrook's at-large election system violates the CVRA and must be changed to a district (territorial unit) election system. MALDEF's analysis of population data from census figures shows that 44 percent of the population of Fallbrook PUD is Latino. MALDEF states that none of the five current members of the Fallbrook Board is Latino. MALDEF adds that there has been no Latino Board member elected going back at least seven election cycles, perhaps longer. Based on its review of election returns, demographic information, Spanish-surname analysis of votes cast by precinct, MALDEF believes that the lack of success of Latino voters in selecting candidates of their choice may result from racially polarized voting by the electorate. MALDEF states that its methodology is consistent with that universally accepted by federal courts, as Section 14026(e) of the CVRA. Should the Fallbrook PUD and Rainbow MWD be reorganized, MALDEF believes that subsequent elections would also violate the CVRA, unless the Fallbrook PUD converts to a divisional governance system.

It is interesting to note that the original correspondence sent to the Fallbrook PUD (and copied to LAFCO) contained a critical transposition error. MALDEF referred to the Fallbrook PUD as a “city council” and also confused the Fallbrook PUD with the Merced City Council in Stanislaus County. MALDEF’s subsequently re-sent a corrected letter to the Fallbrook PUD, but it is clear that in MALDEF’s zeal, that the voting conclusions were generic and, perhaps based on electoral issues pertaining to the wrong county and wrong jurisdiction (i.e., City of Merced in Stanislaus County rather than the Fallbrook PUD in San Diego County).

Given the potential CVRA issues, LAFCO staff invited both the Rainbow MWD and Fallbrook PUD to provide evidence of racially polarized voting. On April 10, 2015, both districts responded to LAFCO’s request. The Rainbow MWD provided evidence that inconclusively demonstrated polarized voting, but believes that if extensive historical regression analysis is performed that evidence would support the presence of racially polarized voting within the Fallbrook PUD. The Rainbow MWD states that roughly 44 percent of the Fallbrook PUD’s population is Latino, and yet to their knowledge no Latino representation is currently on the PUD. Rainbow states that this type of data makes the Fallbrook PUD ripe for a CVRA challenge. The Rainbow MWD also states that from the 2014 election cycle, there is strong data showing racially polarized voting within the PUD. The MWD states that its preliminary investigation shows that there is a difference in the choice of candidates that are preferred by votes in a protected class, and in the choice of candidates that are preferred by voters in the rest of the electorate—indicating a pattern of racially polarized voting. The Rainbow MWD also consulted with the former Registrar of Voters in San Diego County (McCormack) and this former elections official believes that racially polarized voting has occurred in the Fallbrook PUD. Lastly, the MWD states that the CVRA trumps the Public Utility District Act and that LAFCO must require that the PUD be converted to a divisional governance system.

The Fallbrook PUD reviewed the CVRA issues raised by Rainbow MWD and MALDEF and concluded that a conclusion could not be reached that racially polarized voting was present in past Fallbrook PUD elections. Fallbrook states that Rainbow MWD’s position has been less about racial disparity or racial issues and more about disenfranchisement of communities of interest, including the agricultural base in the region. Fallbrook PUD concludes that an agricultural base or community is not considered protected class of voters under the CVRA. Fallbrook also states that Rainbow MWD has not provided any case law, statute, or other legal authority for its position that the Fallbrook PUD or LAFCO could independently change the PUD election system, absent a specific state statute. The Fallbrook PUD is currently involved with Senate Omnibus Bill 184, which if enacted, would enable PUD board members in San Diego County to be elected by or from sub-districts (divisions). The proposed amendments in SB 184 would allow Public Utility Districts that are wholly or partially in San Diego County to elect members of their boards of directors at large, by sub-districts, or from sub-districts, subject to the approval of the board of supervisors, or as part of a change of organization or a reorganization conducted pursuant to the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000.

Lastly, Rainbow MWD submitted a voluminous amount of information regarding voter data and voting behavior, but did not retain an expert to conduct regression analysis to determine if racially polarized voting has in fact occurred.

The Fallbrook PUD also disputes the overall conclusions reached by the Rainbow MWD. Based on Citizen Voting Age Population (CVAP), the Fallbrook PUD determined that between 2009-13, there were 18,525 citizens 18 years or older in the Fallbrook Census Designated Place. Of those, more than two-thirds were white, 4380 were Hispanic or Latino, or 23.6 percent. Based on that data, Fallbrook was unable to conclude that any class of minority voters could influence an election. Fallbrook also analyzed election data from 1992 to 2014. Fallbrook acknowledged that there might not have been any candidates with Latino surnames that ran for office during this time frame, but that it would not be possible to conclude that candidates for the PUD were members of a protected class where not elected to the board. The Fallbrook also reiterates that LAFCO lacks statutory authority to require the PUD to convert to a divisional system of governance.

As to challenges under the CVRA, legal claims typically require a showing that racially polarized voting has occurred in a district's governing board elections. In the case of the proposed reorganization, there is no voting history under a combined governance structure and no claim of racially polarized voting. Furthermore, the few cases that have been litigated on CVRA challenges have not challenged a combined (blended) voting structure as proposed by the Fallbrook PUD. Rather, the litigation has involved solely at-large elections. While virtually any governance matter can be litigated, a hybrid election system, evidence that relies on the prior electoral history of a formerly composed agency would likely be a weakness for parties that may initiate a CVRA lawsuit. Accordingly, to the extent no claim of racially polarized voting could be proven under the old voting systems, it is unknown whether a viable claim would exist under the CVRA at this time.

Based on the evidence provided by the Rainbow MWD, MALDEF, and voters, LAFCO staff believes that it is not entirely possible to conclude that racially polarized voting has or has not occurred within the Fallbrook PUD. We also do not believe that it is LAFCO's responsibility to adjudicate this particular subject. Nonetheless, if the reorganization is approved, the Commission may consider the merits and legality of whether LAFCO has the authority to require that all board members be elected by territorial unit (division).

Government Code Sections 56886(k) and (n) do provide LAFCO with the authority to impose conditions providing direction on the establishment and continuation of board positions, as well as the method for the selection of members of the legislative body of a district. However, these conditions must be imposed in conformance with the principal act of a special district. The principal act for a Public Utility District does not explicitly permit PUDs to consist of board members elected exclusively by territorial unit; however, there are competing interpretations regarding this matter. If the Commission determines that the reorganization should be approved subject to a condition requiring the PUD board consist of members elected exclusively by territorial unit, then there may be a question as to the legality of this requirement.

While there are competing interpretations regarding LAFCO's authority to specify a

governance structure other than what is spelled out in a district principal act, LAFCO staff has concluded that these provisions should be construed in a manner that reasonably and fairly implement LAFCO's overall purpose and legislative priorities contained in Government Code Section 56001. LAFCO staff believes that there is merit to the Fallbrook PUD to convert to a territorial unit system of governance and the reasons for converting to this form of governance are driven by a need to statutorily harmonize Government Code Section 56000 et seq. with the PUD Act, rather than the inconclusive data presented by MALDEF or the Rainbow MWD.

LAFCO staff has concluded that the governance provisions of both of the above statutes need to be construed in a manner that reasonably and fairly implement LAFCO's overall purpose and legislative priorities. These legislative purposes and priorities should place an emphasis on the accountability for community service needs, including governmental structure and operational efficiencies per Government Code Sections 56001 and 56430. LAFCO staff believes that if the Commission were to impose a requirement on the Fallbrook PUD to convert to a divisional form of governance that these important LAFCO priorities could be accomplished. Imposing such a requirement on the proposed reorganization is not without risk, though. The risk is that there is some question as to conformance of this requirement with the PUD act. Nonetheless, LAFCO staff believes that if the Commission decides to approve the reorganization that it should consider taking a risk and require that the Fallbrook PUD Board be converted to a divisional form of governance. If the Commission is risk adverse, then it should not require that the Fallbrook PUD convert to a governance system based on a divisional form of governance. In that case, the Commission should either condition the reorganization on the establishment of a reorganized Fallbrook PUD board consisting of board members elected by territorial unit and division, or it should disapprove the reorganization in its entirety.

The Rainbow MWD's legal counsel originally opined on this matter on December 12, 2013 and concluded that LAFCO can essentially approve any board structure, including a requirement that all board members be elected by division per Government Code Section 56000, et seq., rather than deferring to the Principal Act of a PUD. On April 20, 2015, the Rainbow MWD General Manager contradicted this determination and indicated that "LAFCO does not have authority to unilaterally change the Fallbrook PUD from their current system of elections to a district-based election." On May 12, 2015, the President of the Rainbow MWD provided a contradictory statement indicating that the Fallbrook PUD may convert to a district-based election system in light of case law. The Fallbrook PUD Legal Counsel disagrees with most of the statements made by the Rainbow MWD and believes that a change to the PUD Act should be made in order for the Fallbrook PUD to convert to a district-based elections system.

Whether the Commission requires that the Fallbrook PUD board consist of a blended board (i.e., members elected at-large and by territorial unit) or a divisional board (territorial unit), we believe that the initial board should consist of nine members and then transition down to seven members. After the initial selection of members of the reorganized board, elections would then be held upon the expiration of the terms of the reorganized district.

While the Rainbow MWD had previously indicated that it could only support the reorganization if all members of the reorganized district are elected by division, we are unaware whether the Fallbrook PUD would support a possible LAFCO modification requiring that all board members be elected by territorial unit.

Principal Act of Successor District

The Rainbow MWD indicates that LAFCO could designate a Municipal Water District (e.g., Rainbow MWD or a new MWD) as the successor agency, instead of the Fallbrook PUD. Per California Water Code Sections 71590-71689.27, a Municipal Water District may supply water for beneficial purposes; construct, improve, and operate public recreational facilities appurtenant to facilities operated or contracted to be operated by the district; acquire, construct, and operate facilities for providing fire protection, and emergency medical services, including ambulance and paramedic services; acquire waterworks or a waterworks system, waters or water rights; and acquire, construct, and operate facilities for sanitation, storm water and the collection and disposal of garbage, waste, and trash. Municipal Water Districts may be involved with ground water replenishment and utilize any part of its water facilities to provide, generate, and deliver hydroelectric power and provide, generate, and deliver electric power.

The Fallbrook PUD has indicated that the powers/functions of Municipal Water District are somewhat different than a PUD and therefore the Fallbrook PUD opposes the designation of an MWD as the successor agency. Per Public Utilities Code Section 16461, a PUD may acquire, construct, own, operate, control, or use, within or without or partly within and partly without the district, works for supplying its inhabitants with light, water, power, heat, transportation, telephone service, or other means of communication, or means for the disposition of garbage, sewage, or refuse matter. In addition per Section 16463, a PUD may also acquire, construct, own, complete, use, and operate a fire department, street lighting system, public parks, public playgrounds, golf courses, public swimming pools, public recreation buildings, buildings to be used for public purposes, and works to provide for the drainage of roads, streets, and public places, including, but not limited to, curbs, gutters, sidewalks, and pavement of streets. While LAFCO has considerable authority to modify proposals, the Fallbrook PUD has selected a Public Utility District because it believes that a PUD's functions and powers (e.g., transportation, telephone, other communications, power, heat, etc.) conform to historic/future community needs in the Fallbrook/Rainbow area of the County. It should be noted that the Fallbrook cannot provide any new services other than water and wastewater services without first obtaining latent powers (activation) authorization from LAFCO.

Had the Rainbow MWD proposed that the MWD be the successor agency, the Rainbow MWD could have submitted an application to LAFCO within 60 days from the submittal date of the Fallbrook PUD's proposal. A proposal was not initiated by Rainbow MWD within this time frame; therefore, LAFCO must base its decision on the proposal, as submitted by the Fallbrook PUD. Case law requires that LAFCO exercise caution in modifying a proposal so as not to change the general purpose or effect of the original proposal (*Fallbrook Sanitary District v. San Diego LAFCO*, 208 Cal. App. 3d 753 (1989) 256 Cal. Rptr. 590).

The Fallbrook PUD believes that this modification would represent a substantial change of the general purpose of the proposal because Fallbrook residents and the PUD may request LAFCO at a future date to activate PUD specific powers that are not permitted to be activated by MWDs. It is debatable whether the modification of the proposal submitted by the Fallbrook PUD would constitute a substantial change to the general purpose and characteristics of the proposal. If the Commission concurs with the Fallbrook PUD, then the Commission should decline to use its authority to modify the proposed reorganization.

Reorganization Process and Protest Proceedings

Mandatory or Optional Protest and Election Proceedings

After a LAFCO determination on whether a change of organization should be approved, State Law requires that protest proceedings be conducted. Protest proceedings are conducted for all jurisdictional changes, except for incorporation or disincorporation, which proceed directly to the ballot. The purpose of protest proceedings is to provide landowners and registered voters an opportunity to file written protest, and depending upon the level of protest, either terminate proceedings, or force the matter to be placed on the ballot.

The Rainbow MWD has stated that the Commission may use its broad powers under the State Law to make an election a condition of approval (and avoid the protest process). Rainbow claims that Government Code Section 56885.5 in particular states that “the commission **may make that approval conditional upon...**approval or disapproval, **with or without election**, as may be provided by this division, of any resolution or ordinance ordering that change of organization or reorganization.” LAFCO staff already responded to Rainbow regarding its misinterpretation of State Law; however, for the Commission’s information, we disagree. Government Code Sections 56880, 56885.5, and 56886 contain provisions located in Part 3 (Section 56000 et seq.) of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000. These particular provisions pertain to the Commission’s general authorities involving the approval or disapproval of proposals with or without elections. In addition, these authorities and powers are constrained by specific provisions that pertain to protests and elections in Part 4 of the Act (referred to as the Conducting Authority Proceedings for Changes of Organization and Reorganization. The provisions in Part 3 of the Act cannot be interpreted in isolation of mandatory protest and election provisions contained in Part 4 of the Act (Section 57000 et seq.).

Per Section 57000 et seq., protest proceedings must be taken pursuant to Part 4 of the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 after adoption of any resolution making determinations pursuant to Part 3—except for incorporations or disincorporations. The primary weakness associated with Rainbow’s interpretation of the election provisions pertains to the elimination of an important statutory provision that all landowners and voters are provided in State Law. For example, if LAFCO were to follow Rainbow MWD’s interpretation and hold a protest hearing for the proposed reorganization per Section 57077.3 or 57077.4, and 25% or more of the voters submitted valid written protest requiring an election, then under Rainbow’s interpretation, the protest could be ignored, and the reorganization could be approved *conditionally* without an election. As stated previously, Rainbow MWD states that Section 56885.5 permits a commission to

conditionally approve a proposal with or without an election. This would be illogical and unfair because it could conceivably permit written protests to be disregarded, no matter what percentage of signatures may be submitted, or whether or not compliance with Section 57077.1 had been achieved.

When viewed from another perspective, if the commission would follow Rainbow's interpretation and approve the reorganization subject to a *conditional* election without holding a protest hearing per Section 57077.1–57077.4, then there would be no opportunity for a majority protest per Section 57078. Section 57078 is a mandatory provision that requires an opportunity for majority protest in the case of any reorganization or change of organization, except for incorporations or disincorporations. Following Rainbow's interpretation would, therefore, result in a highly questionable outcome whereby it would deprive voters of an opportunity to terminate proceedings per longstanding provisions in State Law.

Protest Thresholds

Government Code sections 57077.3 and 57077.4 (regardless of which applies) require LAFCO to conduct a protest proceeding. Per these provisions LAFCO may not call an election in the absence of a 25 percent protest.

Section 57077.3 states, in relevant part:

- (a) If a proposal consists of a reorganization not described in Section 57075 [change of organization or reorganization consisting of any combination of special district annexations, detachments, or the exercise of new powers], or 57076 [regarding landowner-voter districts], 57077 [regarding incorporation or disincorporation of a city], 57077.4 [discussed below], or 57111 [regarding a reorganization proposal comprised only of constituent proposals not subject to election], the commission shall order the reorganization without confirmation by the voters except that if the reorganization meets the requirements of subdivision (b) as shown below, then the commission shall order the reorganization subject to confirmation of the voters.
- (b) The Commission shall order the reorganization subject to confirmation of the voters as follows:
 -(3) If the commission has approved a proposal not initiated by the commission, and if a subject agency has objected by resolution to the proposal, written protests have been submitted as follows:
 - (A) In the case of inhabited territory, protests have been signed by either of the following:
 - (i) At least 25 percent of the number of landowners within any subject agency within the affected territory who own at least 25 percent of the assessed value of land within the territory.
 - (ii) At least 25 percent of the voters entitled to vote as a result of residing within, or owning land within, any subject agency within the affected territory.

....(c) This section shall not apply to reorganizations governed by Sections 56853.5 and 56853.6 [governing expedited reorganizations without agency opposition]. (Emphasis added.)

Section 57077.4 is to the same effect and provides, in relevant part:

- (a) If a reorganization consists of the dissolution of one or more districts and the annexation of all or substantially all the territory to another district not initiated pursuant to Section 56853 [i.e., by resolution of both affected districts] or by the commission pursuant to Section 56375, the commission shall order the reorganization without confirmation by the voters except that if the reorganization meets the requirements of subdivision (b), the commission shall order the reorganization subject to confirmation by the voters.
- (b) The commission shall order the reorganization subject to confirmation by the voters as follows:
 - (1) In the case of inhabited territory, protests have been signed by either of the following:
 - (A) At least 25 percent of the number of landowners within any subject agency within the affected territory who own at least 25 percent of the assessed value of land within the territory.
 - (B) At least 25 percent of the voters entitled to vote as a result of residing within, or owning land within, any subject agency within the affected territory.

Government Code Section 57077.4 can be read as inapplicable because it requires a proposal to “consist of” a dissolution and annexation. If “consist of” means “consist solely of” then the inclusion of the activation of latent powers for Fallbrook would take it outside this section and Section 57077.3 would apply. However, other provisions within Government Code Section 56000 et seq. use the phrase “consist solely of” such as section 57075. Normally different phrasing requires a different meaning and, for that reason, the better reading may be that Section 57077.4 applies here. LAFCO does not necessarily need not resolve and choose between these competing reasons, however, because either statute denies LAFCO authority to call an election on this proposal in the absence of a 25 percent protest. It would also be unreasonable to read these sections such that neither applies because that seems unlikely to have been the Legislature’s intent.

Location of Election

In the context of the reorganization of the Fallbrook PUD and Rainbow MWD, a very important aspect associated with the protest provisions pertains to where the election would be held if sufficient protest is registered. We conclude that LAFCO has discretion to determine the electorate. If a 25 percent protest (within the Rainbow MWD) compels LAFCO to call an election on the proposed reorganization, then LAFCO may determine the electorate among four options. The statutes that govern this issue are Government Code Sections 56876 and 56877.

Government Code Section 56876 states:

In any order approving a proposal for an annexation to, or detachment from, a district, the commission may determine that any election called upon the question of confirming an order for the annexation or detachment shall be called, held, and conducted upon that question under either of the following conditions:

- (a) Only within the territory ordered to be annexed or detached.
- (b) Both within the territory ordered to be annexed or detached within all or any part of the district which is outside of the territory.

It is not clear that Section 56876 applies to the proposed reorganization, because there are two potential readings of this statute. Turning on the meaning of “proposal”, Section 56069 defines this term to include either a proposal for a change of organization (one jurisdictional change) or a reorganization (multiple jurisdictional changes). Under the second reading, the Fallbrook proposal is governed by section 56876 as a reorganization that is “for” an annexation to a special district. Thus, under Section 56876, if an election is required, LAFCO may determine that both the Rainbow electorate and the combined electorates of Rainbow and Fallbrook must approve the proposal.

Government Code Section 56877 states:

This section creates two more options and states, in relevant part:

When a change of organization or a reorganization includes the annexation of inhabited territory to a district and the assessed value of land within the territory equals one-half or more of the assessed value of land within the district, or the number of registered voters residing within the territory equals one-half or more of the number of registered voters residing within the district, the commission may determine as a condition of the proposal that the change of organization or reorganization shall also be subject to confirmation by the voters in an election to be called, held, and conducted within the territory of the district to which annexation is proposed.

This language applies here because this is a reorganization proposal that “includes the annexation of inhabited territory to a district” (i.e., Fallbrook) and the territory to be annexed (Rainbow) has a greater assessed valuation of land than the territory of the district to which it is to be annexed (Fallbrook). According to County of San Diego Assessor records, the assessed value of land within the Rainbow MWD is \$1.6 billion and \$1.3 billion within Fallbrook PUD.

The essential language of this Section 56877 is itself ambiguous. The phrase “shall also be subject to confirmation” raises the question—“also” to what? The language can be read to mean that in addition to the electorate required of an election called pursuant to the Conducting Authority (which, under Section 56876—if it applies—is either Rainbow’s voters alone or voters of both Districts), LAFCO may require a separate tally in Fallbrook (i.e., “within the territory of the district to which annexation is proposed”).

Alternatively, this language can be read to mean that the requirement of an election among Fallbrook voters alone can be imposed in addition to the other conditions and procedures

require for consideration and approval of the proposal. We favor the first reading because it avoids a direct conflict with the language of Sections 57077.3 and 57077.4 above (quoted in bold) that states LAFCO may not call an election without a 25 percent protest. In addition, we are not sure it is rational to require an election among Fallbrook's voters without an election among Rainbow's. This is to say, the apparent purpose to protect the voters of the smaller district from being outvoted by the larger annexation area is not served by making those voters the only voters to be heard. A reading which allows their voice to be heard, but not determinative, is the reading which gives force to Section 56877 only if an election is required due to a 25 percent protest.

Because contrary readings of Section 56877 are plausible, we read Section 56877 as granting LAFCO the authority to require a vote of Fallbrook's voters only when an election is otherwise required. However, even if the statute does confer such discretion, we believe the Commission should decline to exercise it because an election of Fallbrook voters alone is does not appear to be appropriate or necessary given the other means by which voters and property owners of both districts may be heard on this matter.

Under Government Code Section 56876, if an election is mandated under section 57077.4, LAFCO may require the reorganization to be confirmed by the voters within the annexation area, i.e. Rainbow MWD's voters, or both Rainbow MWD's voters and Fallbrook PUD's together, i.e. the voters of the proposed new district. Additionally, under Government Code Section 56877, LAFCO may require Fallbrook PUD's voters to separately confirm the proposed reorganization.

In addition to these statutory issues, we believe the Commission must consider a constitutional concern—does Equal Protection allow LAFCO to treat Rainbow and Fallbrook voters differently? In this view, we believe LAFCO can rationally require a concurrent majority in both Rainbow MWD and Fallbrook PUD's areas, even though the concurrent majority requirement does not meet the usual one-person, one-vote standard. Both districts are somewhat similar in terms of numbers of voters and assessed valuation. Voters in both districts will also be similarly affected by the proposed reorganization. Rather than giving voters in one or the other district more say in this decision, we recommend the two districts be treated alike.

In summary, if protest requires an election, LAFCO may choose any of the electorates outline below; however, we believe that the Commission should treat Rainbow and Fallbrook voters alike, allowing neither or both a separate veto over the proposal. If the Commission concurs that Rainbow and Fallbrook voters should be treated alike, then we recommend the selection of either option 2 or 3, and eliminate option 1 and 4. The four possible electorates are:

1. Rainbow's voters alone under Section 53876, subdivision (a), reading it to apply here;
2. Rainbow's and Fallbrook's voters, collectively, under section 53876, subdivision (b), reading that Section to apply here;

3. Fallbrook's voters in addition to Rainbow's voters under one of the competing readings of Section 53877; or,
4. Fallbrook's voters in addition to the voters of both districts under one of the competing readings of Section 53877 (i.e., the measure must pass overall and in Fallbrook, but need not pass in Rainbow).

Waiting Period Following Election

If an election is held and voters reject the reorganization ballot measure, then reorganization would not occur and no substantially similar reorganization proposal could be resubmitted for a period of two years per Government Code Section 57090. The Commission may waive the requirements of this provision if it finds the provision detrimental to the public interest. LAFCO staff does not believe justification exists for the waiver of this provision and therefore we recommend against its waiver.

Election costs

If the Commission approves the reorganization, it would need to provide direction as to whether the Fallbrook PUD should be required to pay for associated election costs regardless of the success or failure of the ballot measure. If direction is not provided, then the costs would be potentially deducted from Rainbow MWD's remaining assets if the ballot measure was successful per Government Code Section 57150. If the ballot measure failed, then the costs would be paid by the County. Again, LAFCO staff believes the Fallbrook PUD should pay any and all election costs whether the associated ballot measure succeeds or fails.

According to the Registrar of Voters Office, the cost for an election would vary depending on when the election is scheduled and whether a stand-alone election is conducted. For example, if a consolidated election was held during the November 2014 Gubernatorial General Election, costs would range from \$3,200 to \$3,700 in Rainbow MWD and \$3,400 to \$3,900 in Fallbrook PUD. If an election were held during the June 2016 Presidential Primary Election, then the costs would be between \$9,000 to \$14,000 in Rainbow MWD and \$10,000 to \$15,000 Fallbrook PUD. Cost projections for special stand-alone elections are considerably more expensive and could range from \$73,000 per agency to about \$335,000 for both districts, depending on when and how an election would be conducted. A breakdown of these stand-alone elections costs follow:

Cost projections for special Stand-alone elections

Polls election:

Rainbow MWD	\$160k - \$165k
Fallbrook PUD	\$165k - \$170k
Consolidation poll election	\$220k - \$235k

Vote-by-Mail election:

Rainbow MWD	\$ 73k - \$78k
Fallbrook PUD	\$ 79k - \$84k
Consolidation special election	\$110k - \$115k

Election costs could change based on what contests ultimately appear on the ballot. Election costs, for example, are shared among participants in a consolidated election. Primary election costs are higher due to the fewer number of participating jurisdictions compared to a general election. Election cost estimates may also increase in the future due to the fluidity of what contests will ultimately appear on future ballots. The Registrar of Voters assigns election costs in a consolidated election through the use of a weighted average method. This attributes costs to each jurisdiction based on the number of contests; the number of registered voters; and the number of sample ballot pages. The number of participating jurisdictions and number of contests will be known after the 88th day before the respective election. The actual costs are likely to vary depending on how many jurisdictions participate. The figures provided are a projection based on past elections that were similar in size and scope. If the Commission decides to approve the proposed reorganization with or without modifications, it would be advisable for a condition to be placed on the reorganization requiring that the Fallbrook PUD pay for any and all election costs, whether the ballot measure succeeds or fails.

COMMENTS RECEIVED DURING THE PUBLIC REVIEW PERIOD

An extended public review period was provided to local agencies and the public for this proposal from April 29, 2014 to August 1, 2014. A total of 23 letters of support and 396 letters of opposition were submitted by the comment deadline of August 1, 2014 and additional letters were submitted after this deadline, both in opposition and support. Another 217 letters of opposition and 9 letters of support were filed with LAFCO between August 2, 2014 and April 23, 2015. Some of these letters are from the same individuals that sent letters prior to the August 1st deadline. A summary of the primary areas of opposition and support follows.

Reorganization Support

Over 30 letters of support were submitted to LAFCO from ratepayers stating that a reorganization of the two districts is necessary. Reasons cited by reorganization supporters covered topics, such as: (1) Disappointment with the service, reliability and management of the Rainbow Water District; (2) Lack of proper maintenance within Rainbow MWD has resulted in facility maintenance problems; (3) Management of Rainbow MWD is unwilling to address costs of operating a reliable service and instead hold down rates; (4) Reorganization will result in more reliable water service and an expanded ratepayer base that can produce savings from economy of scale; (5) Elimination of specialized equipment will avoid duplication; (6) Rainbow MWD has been misleading regarding governance issues; (7) Rainbow MWD's residential water rates are excessive and reorganization will produce cost savings that could equalize rates; (8) Reorganization of the two districts will result in a single, more efficient and logical entity; (9) Rainbow MWD's operations have been detrimental to residential customers; (10) The ability to elect directors in Rainbow MWD via public vote is circumvented by Rainbow's rules; (11) Rainbow MWD's

management is incompetent and ineffective; (12) Rainbow MWD lacks adequate customer service and Rainbow employees need improvement; (13) Dissolution of Rainbow MWD will improve economies of scale and efficiency; (14) Reorganization may have a positive effect on water rates; and (15) Reorganization will reduce administrative costs and produce cost savings to ratepayers.

Reorganization Opposition

On July 23, 2014, the Rainbow MWD filed with LAFCO a Resolution of Objection to the proposed reorganization. The objections contained in Rainbow MWD's resolution encompass the similar objections raised by the general public and cover the following: (1) Notice and hearing requirements; (2) Affected Agency Initiation Provisions; (3) Relevancy of water rate comparison; (4) Capitalizing on Rainbow MWD's Assets and Growth; (5) Status of Rainbow MWD's Ordinance No. 95-1; (6) Debt of Rainbow MWD and Fallbrook PUD; (7) Relevancy of JPA Cost Savings; (8) Validity of reorganization cost savings; (9) Effect on Agriculture; (10) Governance and California Voting Rights Act; (11) Rainbow MWD's Position on JPA and Governance; (12) Election Provisions; (13) Payment of Election Costs; (14) Rainbow MWD staff objections; (15) Respecting the JPA contractual process; and (16) Proposition 218 notification. Under state statute, LAFCO must give great weight to a *Resolution of Objection* that is based on ***service and financial concerns*** [Government Code Section 56668.3(b)].

Per Government Code Section 56857(d), the Commission's consideration can only be based on financial or service related concerns as defined in state statute. These particular statutes contain narrow definitions of financial and service concerns. Per Government Code Section 56857(d)(1), "financial concerns" mean that the proposed uses within the territory proposed to be annexed do not have the capacity to provide sufficient taxes, fees, and charges, including connection fees, if any, to pay for the full cost of providing services, including capital costs. Cost allocation shall be based on general accepted accounting principles and shall be subject to all constitutional and statutory limitations on the amount of the tax, fee, or charge.

Per Government Code Section 56857(d)(2), "service concerns" refer to a district's inability to provide services that are the subject of the application without imposing level of service reductions on existing or planned future uses in the district's current service area. Service concerns do not include a situation when a district has the ability to provide the services or the services will be available prior to the time that services will be required.

LAFCO's Special Districts Advisory Committee assisted LAFCO staff review the objections raised by the Rainbow MWD on December 19, 2015 and the committee concluded that the objections do not have merit and unsatisfactorily meet the financial and service criteria specified in Government Code Sections 56668.3(b) and 56857(d). LAFCO concurs in the determination and conclusion made by the Special Districts Advisory Committee. LAFCO staff's response and discussion of the objections follow.

Notice and Hearing Requirements

The Rainbow MWD contends that the Fallbrook PUD's March 10, 2014 Resolution of Application to LAFCO (Resolution No. 4813) violated various notice and hearing requirements. In response to this contention, the Fallbrook PUD decided to re-initiate the reorganization after publishing a notice for a public hearing per Government Code Section 56824.12. On April 28, 2014, the PUD passed Resolution No. 4815, which amended Resolution No. 4813. The amended resolution (No. 4815) was initiated on April 28, 2014 and submitted to LAFCO together with an "Application for Reorganization" on April 29, 2014. The Rainbow MWD filed with LAFCO a Resolution of Objection, pursuant to State Law, with specific reference to Sections 56668.3(a)(4) and 56668.3(b) of the California Government Code.

Response: The Fallbrook PUD formally responded to Rainbow's allegation by holding a public hearing on April 28, 2014. The notification issue raised by Rainbow MWD has been resolved by the Fallbrook PUD and is no longer an issue. In summary, the rapid manner in which the proposal was initiated by the Fallbrook PUD has resulted in a highly contentious relationship between the two districts; however, the method of initiation does not constitute "financial" or "service" concerns per Government Code Sections 56857(d)(1) and (2). This objection accordingly lacks merit.

Affected Agency Initiation Provisions

Rainbow MWD objects to the Fallbrook PUD Resolution and Application because the proposal was initiated without the consent or approval of Rainbow. Members of the Rainbow board of directors and staff appeared at Fallbrook PUD's April 28, 2014 public hearing and verbalized this objection directly to the Fallbrook PUD. Rainbow MWD states that it should be allowed to continue operating as a special district and that hostile takeovers of neighboring districts are bad public policy, foster distrust, deflate public confidence, and should be discouraged.

The Rainbow MWD additionally states that the Fallbrook PUD Board of Directors and General Manager acted hastily and unlawfully in filing its application with LAFCO by not providing proper notice of the March 10, 2014 hearing. Rainbow MWD believes that Fallbrook PUD violated the Ralph M. Brown Act (Government Code Section 54950 et seq.) by discussing, deliberating, or taking action related to the March 10th resolution and application for reorganization outside of a noticed public meeting. The Rainbow MWD also believes the PUD deprived the public of information and the opportunity to witness, discuss or question these discussions, deliberations, or actions, in violation of the Brown Act. The Rainbow MWD claims that the Fallbrook PUD's General Manager, who also served as Rainbow's General Manager from April 2013–March 2014, failed to properly report to the Rainbow Board of Directors and took action to plan a hostile takeover of Rainbow.

Response: The submittal of the reorganization to LAFCO without the consent from the Rainbow MWD is a recurring theme of opposition from the Rainbow MWD and ratepayers. This has resulted in a highly negative relationship between the two districts and the public. The Rainbow MWD believes that the reorganization should not have been initiated by the Fallbrook PUD in this manner, and the proposal should accordingly be disapproved by LAFCO. Pursuant to Government Code Section 56375, LAFCO may review and approve

with or without amendment, wholly, partially, or conditionally, or disapprove most proposals for changes of organization. The only exceptions are consolidation proposals (initiated by a majority of the subject districts) and municipal island annexations (if initiated by a subject city). District consolidation and island annexation proposals must be approved by LAFCO. The proposed reorganization of the Rainbow MWD is neither a consolidation nor a municipal island annexation proposal; therefore, LAFCO has complete discretionary authority to disapprove, approve, or modify the reorganization.

While there is no question as to the legality of Fallbrook PUD's authority to initiate the dissolution of the Rainbow MWD per Government Code Section 56654, the Rainbow MWD is philosophically against the reorganization because it was initiated without the consent of Rainbow. However, Government Code Section 56654 permits an affected local agency to initiate by resolution, an application for a jurisdictional change affecting another local agency. Consent from a subject agency (district) is not required per this statute. This law has been codified for over fifty years and has been used for decades by the approximate 3,500 special districts and 500 cities in California. Regardless of the legality of the initiation, the San Diego LAFCO does have authority to disapprove the proposed reorganization, in addition to its authority to approve, modify (amend) the proposal (wholly, partially, or conditionally).

The subject of whether the Fallbrook PUD appropriately initiated the proposed reorganization was previously addressed in this staff report. With respect to alleged Brown Act violations, the Fallbrook PUD, by letter to the Rainbow MWD Board of Directors on April 23, 2014, formally responded to Rainbow's allegations. Per Government Code Section 54950 et seq., Fallbrook PUD denied any violation of the Brown Act, and in turn identified several (alleged) Brown Act violations made by Rainbow MWD. The Fallbrook PUD also specifically denied the allegation regarding violation of fiduciary responsibility of its general manager. Both claims have no bearing on the Fallbrook PUD's Resolution of Application, especially since no factual evidence has been presented to LAFCO regarding alleged Brown Act violations, aside from the allegation itself. The former president (George McManigle) of the Rainbow MWD claims that LAFCO's acceptance of the Fallbrook PUD's application makes LAFCO an "accomplice in an illegal effort." Again, this inflammatory remark is untrue and not supported by evidence.

Regarding the Rainbow MWD's claim that the Fallbrook PUD General Manager did not keep the Rainbow MWD updated about pre-application meetings with LAFCO staff, adopted LAFCO guidelines encourage applicants to confer with LAFCO staff by scheduling pre-application meetings (LAFCO Procedures Guide, 2013 Special Edition, page 5). In summary, the rapid manner in which the dissolution proposal was initiated resulted in a public relations issue with individual Rainbow board members and ratepayers; however, the reorganization application was properly initiated and pre-application meetings are encouraged. Whether the Fallbrook PUD General Manager should have kept the Rainbow MWD Board updated about pre-application meetings is a personnel matter that should be dealt with between Rainbow MWD and the Fallbrook PUD General Manager. In summary, the objections raised by the Rainbow MWD lack basis and merit, and do not constitute

“financial” or “service” concerns per Government Code Sections 56857(d)(1) and (2).

Relevancy of Water Rate Comparison

Rainbow MWD objects to the Fallbrook PUD’s reorganization proposal, because the MWD states that water rates will not automatically increase or decrease for either Rainbow MWD or Fallbrook PUD ratepayers. The Rainbow MWD further questions the relevancy of water rate analysis commissioned by the Fallbrook PUD in the context of the proposed reorganization. Rainbow states that a comparison of water rates between the two districts is irrelevant because divisional accounting will keep ratemaking separated for a “Rainbow” and a “Fallbrook” division. The Fallbrook PUD has responded that it conducted a water rate comparison because ratepayers within the Rainbow MWD made an opposition cornerstone out of the water rates issue. The PUD also states that divisional accounting does not restrict the passing of shared savings onto both groups of ratepayers; thus, applying the Fallbrook PUD’s rate-setting policies to Rainbow agricultural users would be beneficial to Rainbow customers. The Rainbow MWD also contends that based upon keeping the finances of the two agencies separate into the future (divisional accounting), there will be no obvious financial benefit associated with the proposed reorganization.

A number of ratepayers, on the other hand, have contended that the proposed reorganization will result in rate increases. For ratepayers, an important measure of a district’s financial performance is the price paid for utility service. Ratepayers within Rainbow MWD have made a large issue about water rates and claim that Fallbrook PUD’s reorganization application will result in higher rates. Claims have also been made that water rates are higher in the Fallbrook PUD than in the Rainbow MWD. To determine the validity of these claims, the Fallbrook PUD commissioned a rate comparison study (Michael Bell Consulting Management Consulting—MBMC). According to this report, the following findings were made:

- Fixed charge domestic rates are lower in the Fallbrook PUD than in the Rainbow MWD. Fallbrook PUD’s domestic customer water bills were estimated to be about 10-15 percent lower than those for Rainbow MWD customers during the time the two districts were cooperatively exploring consolidation. In 2014, the MBMC report concluded that the ¾ inch meter class within the Rainbow MWD was 13.1 percent higher than in Fallbrook (\$219 annual savings). The 1 inch meter class within Fallbrook PUD was 18.6 percent lower than in Rainbow (\$352 annual savings).
- Agricultural rates appear to be lower in the Fallbrook PUD than in the Rainbow MWD. Fallbrook PUD’s fixed charges (agricultural class) were estimated to be about 20 percent less than in the Rainbow MWD in 2013 at the time the two districts were exploring consolidation. In 2014, the MBMC report concluded that Fallbrook PUD’s water rates are about 20.50 percent less than the agricultural rates in the Rainbow MWD. Based on the comparison for all consumption levels, the Fallbrook PUD customer with a 2” meter has a monthly savings of 20 percent -- a range of savings for all meters sizes is 10.5 to 20.5 percent. The Rainbow MWD disputes these

figures, however, the Rainbow MWD's statements and claims cannot be validated by either Rainbow MWD's budget records or by San Diego County Water Authority documents. The Rainbow MWD has also claimed that the MBMC report used the wrong Special Agricultural Water Rate from respective rate schedules of both districts, and that MBMC improperly included capital improvement charges in its calculations. Again, these claims do not appear to be valid.

Response: In reviewing this rate issue, there are several factors to consider. Under state statute, if a change of organization includes a district annexation, LAFCO must consider whether the proposed annexation will be in the interests of landowners and future inhabitants [Government Code Section 56668.3(b)]. The Commission must also give great weight to Resolutions of Objection based on financial or service related concerns. The Commission's consideration per this statute, however, can only be based on financial or service related concerns as defined in state statute. According to a review of the proposed uses within the territory proposed to be annexed, sufficient taxes, fees and charges, including connection fees exist to pay for the full cost of providing services. Fallbrook PUD has also postulated that cost savings resulting from reorganization are in the interests of landowners and future inhabitants. In summary, the objections raised by the Rainbow MWD lack basis and merit, and do not constitute "financial" or "service" concerns per Government Code Sections 56857(d)(1) and (2).

Capitalization on Rainbow MWD's Assets and Growth

Rainbow MWD states that it rests on a strong financial footing and stands to gain further strength from anticipated growth of residential, educational and commercial developments. In contrast, Rainbow MWD contends that the Fallbrook PUD is nearly built out, and is trying to capitalize on Rainbow's growth. Rainbow MWD's assertion that Fallbrook PUD could use Rainbow's \$100 million in assets in order to leverage more borrowing for Fallbrook PUD's future construction needs has been disputed by the Fallbrook PUD. Based upon divisional accounting requirements and generally accepted rate-making principles, the PUD states that it will not be able to use Rainbow MWD's assets to benefit Fallbrook PUD projects; nor can Fallbrook PUD's assets be used to benefit Rainbow MWD's projects.

Response: According to a review of the proposed uses within the territory proposed to be annexed, sufficient taxes, fees and charges, including connection fees to pay for the full cost of providing services appear to exist, or will be generated. The Fallbrook PUD's Engineering Department estimates that at build-out, an additional 1,000 meter installations should be expected. No evidence has been presented indicating that the Fallbrook PUD has insufficient capacity to provide sufficient taxes, fees, and charges, including connection fees, if any, to pay for the full cost of providing services, including capital costs. In addition, evidence has not been provided demonstrating Fallbrook PUD's inability to provide services, or that it will need to impose service level reductions on existing or planned future uses in the district's current service area. In summary, the objections raised by the Rainbow MWD lack basis and merit, and do not constitute "financial" or "service" concerns per Government Code Sections 56857(d)(1) and (2).

Status of Rainbow MWD's Ordinance No. 95-1

Rainbow MWD contends that Rainbow's Ordinance No. 95-1 keeps Rainbow's debt low and manageable and allows the public to participate in the public indebtedness decision-making process. Ordinance No. 95-1 was adopted by the Rainbow MWD board of directors in 1995 after more than 15 percent of Rainbow's voters signed petitions to support a public debt initiative. According to the Rainbow MWD, this ordinance serves an important purpose of protecting Rainbow and its ratepayers against incurring excessive public debt by securing the right of ratepayers to vote upon proposed additional public debt. Per this ordinance, whenever Rainbow carries cumulative debt in excess of \$1 million, it cannot incur additional public debt unless additional public debt is first placed on the ballot. Rainbow MWD states that dissolution of the MWD and annexation of Rainbow territory to Fallbrook PUD would terminate Ordinance No. 95-1, thereby depriving Rainbow ratepayers of their right to vote upon proposed additional public debt in the reorganized district. It is also claimed that termination of Ordinance No. 95-1 would subject the Rainbow ratepayers to increased public indebtedness and could increase rates for Rainbow ratepayers.

Response: The Fallbrook PUD's proposal does not state that Rainbow MWD's Ordinance No. 95-1 is to be terminated. However, LAFCO staff believes that if the proposed reorganization is approved, a term and condition should be added providing assurances that all of Rainbow's lawful obligations will be retained and become a responsibility of the Fallbrook PUD. Questions have been raised before LAFCO's Special Districts Advisory Committee as to the overall validity of Ordinance No. 95-1, plus the lack of harmonization between that Ordinance and other state statutes, such as the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, Elections Code, Water Code, etc. A close examination of Ordinance No. 95-1, may even reveal that the Ordinance is currently unlawful and/or not effective, as to the Rainbow MWD. For example, the Ordinance may amount to the equivalent of an unlawful local amendment to the Municipal Water District Act (Water Code Section 71000 et seq.), preempted by the Act itself. Analogous reasoning appears in cases arising from Proposition 218, such as *Howard Jarvis Taxpayers Assn v. San Diego* (charter amendment could not require two-thirds voter approval of general taxes which the Constitution permits with majority approval) and *Bighorn-Desert View Water Agency v. Verjil* (Water District Initiative could not require two-thirds voter approval of water rates which the Constitution authorizes the District Board to impose without an election).

The Fallbrook PUD has also claimed that the Rainbow MWD has circumvented its own ordinance accumulating debt in excess of \$1 million. Fallbrook states that on October 23, 2012, the Rainbow MWD Board passed Resolution No. 12-12, authorizing Rainbow's general manager to incur new debt totaling \$18,227,880 through the Safe Drinking Water State Revolving Fund, even though Rainbow's outstanding debt at the time stood at \$3.4 million. Fallbrook states that technically, the Rainbow MWD Board may have met the "letter of the law" by voting to reduce Rainbow's \$3.4 million in debt before incurring \$18 million in new debt. However, Fallbrook believes the Rainbow MWD Board violated the spirit and intent of the ordinance, which requires two-thirds voter approval to incur public debt

whenever Rainbow carries a cumulative public debt exceeding \$1 million.

It is neither within LAFCO's responsibility nor authority to adjudicate this debt issue on behalf of the Fallbrook PUD, however, LAFCO staff believes that consideration should be given to modifying the proposed terms and conditions by adding a provision requiring the transfer of responsibility for the debt provision obligation per Ordinance No. 95-1 to the successor district (Fallbrook PUD) provided that adoption of debt Ordinance No. 95-1 is lawful. This would be considered an existing obligation. Government Code Section 56886(c) authorizes LAFCO to impose conditions related to the imposition, exemption, transfer, division, or apportionment of obligations of dissolved districts. In summary, while this objection does not constitute "financial" or "service" concerns per Government Code Sections 56857(d)(1) and (2), a term and condition should be added to the proposed reorganization specifying that responsibility for all obligations of the Rainbow MWD will become the responsibility of the Fallbrook PUD as long as those obligations have been lawful enacted and comport with provisions in State Law.

Rainbow MWD & Fallbrook PUD's Debt

Rainbow MWD claims that it is a low-debt, budget-conscious district that has reduced costs and prevented rate hikes, while Fallbrook PUD has shown a history of ineffective long-term financial planning. The Rainbow MWD states that the PUD has amassed significant debt, and needs Rainbow's \$100 million in assets in order to leverage more borrowing for Fallbrook PUD's future construction. Rainbow MWD believes that reorganization of the two agencies into one would permit the successor board to create policies and make decisions which could negatively impact Rainbow's revenue and increase public indebtedness, to the detriment of ratepayers.

Response: Rainbow MWD's claim that the MWD is a low-debt, budget conscious district, while Fallbrook PUD has amassed significant debt appears to be based on speculation. Facts do not support this statement. A review of each district's financial statements reveals that both Rainbow MWD and Fallbrook PUD have comparable financing characteristics and debt levels. The Fallbrook PUD's current total debt outstanding is \$20.6 million. When the PUD's Wastewater Treatment Facilities project is completed at year-end in 2015, Fallbrook PUD's estimated total debt outstanding will be approximately \$37 million. In comparison, when a pending CALTRANS agreement is finalized with the Rainbow MWD, total outstanding Rainbow debt will possibly rise to over \$31 million in 2014-15. Below is a breakdown of the Fallbrook PUD's and Rainbow MWD's debt:

- Fallbrook PUD has a \$7.2 million Qualified Energy Conservation Bond for a 1.0 MW solar facility (balance is \$5.57M) with an effective interest rate of 1.72% (70% federal subsidy). The bond is essentially self-funded, paid for by a California Solar Initiative rebate and savings offset from not having to pay SDG&E for power. This is Wastewater Department debt.
- Fallbrook PUD has a \$6.2 million SRF (State Revolving Fund) loan for the Red Mountain Reservoir UV Treatment Facility (balance is \$5.3M). Interest rate is 2.57%.

- Fallbrook has a \$28.3 million SRF* loan for an in-progress major Wastewater Treatment Plant Rehabilitation. As May 31, 2014, Fallbrook PUD has drawn down \$9.8 million in funds. The interest rate is 2.2%.
- Rainbow MWD has two outstanding SRF* loans totaling \$18.2 million. Both loans have an interest rate of 2.09%.
- Rainbow MWD has an action pending on a \$12 to \$14 million reimbursement agreement to CALTRANS for sewer realignment in the Highway 76 East Segment Project. Rainbow MWD's May 27, 2014 CIP forecast shows a projected 10 year repayment schedule at an unspecified interest rate.
- Rainbow MWD's current total debt outstanding is \$18.2 million. When the pending CALTRANS agreement is finalized, Rainbow MWD's total outstanding debt could rise to over \$31 million by year-end 2014.

With respect to using another district's operating assets as collateral for loans, this practice would be unlikely to occur as both districts borrow most of their construction funds from the State of California. The state requires a pledge of revenues, not assets, to secure loans. Assets do not have value in this type of borrowing process. In addition operating assets (pipes, pumps, reservoirs, trucks and buildings) are considered long-term liabilities because they depreciate, wear out or become obsolete and need to be replaced. Therefore, they represent future costs, not collateral. Lastly, divisional accounting procedures included as a term and condition, plus accounting rules would prevent cross-subsidies between both districts.

The Rainbow MWD has also questioned the accuracy of the statements in the LAFCO staff report regarding debt. The Rainbow MWD states that the MWD should be "roughly" \$2 million and not \$18.2 million or \$31 million. The source document used for the debt discussion in the staff report was a CIP budget document prepared by the Rainbow MWD. This document was reviewed by LAFCO's Special Districts Advisory Committee. According to Rainbow MWD's CIP Update (June 30, 2014), debt associated with Rainbow's Highway 76 project was \$13,920,000 (line item 22). The Rainbow MWD subsequently reported to LAFCO's Special Districts Advisory Committee that this figure should be "roughly" \$2 million and will be paid out of reserves, as of June 30, 2014. Other than this assertion, no additional substantiation has been provided by the water district to LAFCO staff showing that the debt figure should be decreased to \$2 million. If documentation is provided, then the debt disclosures in the LAFCO staff report can be footnoted. In summary, regardless of which debt figure is validated as correct, the Rainbow MWD's overall assertions about debt lack merit and do not constitute "financial" or "service" concerns per Government Code Sections 56857(d)(1) and (2).

Relevancy of JPA Cost Savings

Rainbow MWD states that any cost savings previously experienced from the terminated Joint Powers Authority and Employee Leasing Agreements are now irrelevant because the

two agencies are again operating independently. Rainbow MWD believes that Fallbrook PUD should not be exaggerating the cost savings benefits from the JPA, since the JPA was disbanded over a year ago. Furthermore, Rainbow believes that to force the agencies to merge again would result in more costs and inconveniences.

Response: In general, efforts that save public funds are to be encouraged. Achieving cost savings through jurisdictional reorganizations or through functional consolidations, such as joint powers agreements enables agencies to improve their ability to provide services without the need to raise taxes, fees and charges, including connection fees to pay for the full cost of providing services. In summary, Rainbow MWD's objection lacks merit because it does not meet the criteria for a "financial concern" as it does not indicate that "the proposed uses within the territory proposed to be annexed do not have the capacity to provide sufficient taxes, fees and charges, including connection fees" to "pay for the full cost of providing services" per Government Code Section 56857(d)(1).

Validity of Reorganization Cost Savings

Rainbow MWD claims that the Fallbrook PUD overstates reorganization cost savings and did not reveal how an estimated \$2.5 million in cost savings was calculated. The Rainbow MWD also claims that the consolidation study was performed without input from Rainbow senior staff or department heads resulting in speculative projections regarding staffing. Fallbrook PUD's application additionally identifies \$300,000 of savings from sharing of heavy equipment, such as backhoes and sewer maintenance trucks; however, Rainbow MWD believes that sharing this equipment is not practical. Additionally, Rainbow MWD claims that Fallbrook PUD's representations regarding savings have not addressed the loss of efficiency or impact on service to ratepayers, contractors, or developers resulting from the reduction in district employees, and/or the relocation of employees to/from Fallbrook PUD from Rainbow MWD. Lastly, Rainbow MWD claims that most of the savings from staff reductions identified in the reorganization application were achieved before creation of the Joint Powers Authority. Rainbow MWD states that it has reduced its labor force by 15 percent over the past four years.

Response: The consolidation study referenced by the Rainbow MWD was co-authored by Fallbrook PUD and Rainbow MWD, therefore, the claim that the study was performed without input of Rainbow senior staff is not supported by evidence. Rainbow MWD's General Manager, Dave Seymour, and Rainbow MWD's Finance Manager, Gene Buckley, helped prepare the study in consultation with Fallbrook PUD management staff. The 2013 operating results of the two districts working under the umbrella of the North County Joint Powers Authority resulted in about \$1 million in collaborative savings, which appear to confirm assumptions contained in the consolidation study. In terms of heavy equipment statements made by the Rainbow MWD, there was not a proposal for the two districts to share a single sewer maintenance truck (Vactor) or a single backhoe. The proposal was to eliminate one of the three Vactor trucks (the oldest) and one of the backhoes (the oldest). The majority of the \$300,000 annual projected savings is estimated to be in reduced administrative and general expenses such as duplicate insurance premiums, audit costs, training costs, association membership fees, etc.

In response to the substance of this Rainbow objection, the nearly \$1 million in net collaborative savings in 2013 took into account additional commuting time caused by the relocation of services to FPUD's offices for employees, vendors, and customers. In response to Rainbow MWD's comments about staff reductions implemented prior to the JPA, the MWD is currently under-staffed in key areas, as the engineering department is staffed with just one engineer, one administrative assistant, and one inspector. This staffing level is probably inadequate to manage the forecasted three-year construction budget of over \$40 million. Increases in the use of consultants, temporary staffing, and overtime will likely be necessary to provide district engineering and other services. Other areas of staffing concern are Finance and Accounting (one individual with no backup) and Customer Service (long-term use of field personnel to compensate for inadequate customer representative staffing levels).

Although the Rainbow MWD staff helped prepare the information contained in the fiscal projections, the MWD now disputes the level of cost savings and indicates that cost savings did occur. Nonetheless, the MWD claims that substantial savings still resulted from the activation of the JPA and that cost savings were in the neighborhood of \$570,000. In addition, the Rainbow MWD indicates that savings are nearly entirely due to unfilled positions at Rainbow account for a purposed savings of nearly \$600,000 over the life of the JPA (Rainbow MWD Correspondence, November 6, 2014). In reviewing the data presented by both districts, it appears that the Rainbow MWD's calculations account for only about half of a fiscal year of cost savings associated with the JPA for the period July 2013 to December 2013. Rainbow's calculation error appears to account for the lower projection stated by the Rainbow MWD. Whether the cost savings were \$570,000 or \$955,862, it can still be concluded that substantial cost savings did occur as a result of the JPA. A highlight of the actual cost savings resulting from the functional consolidation of the two districts was previously discussed and outlined in this report. In summary, Rainbow MWD's objection lacks merit because it does not meet the criteria for a "financial concern". The objection lacks merit because it does not indicate that "the proposed uses within the territory proposed to be annexed will not have the capacity to provide sufficient taxes, fees and charges, including connection fees" to "pay for the full cost of providing services" per Government Code Section 56857(d)(1).

Effect on Agriculture

The Rainbow MWD claims that dissolution of Rainbow MWD would marginalize Rainbow's agricultural community and threaten the existence of important local farms. Rainbow MWD claims that if the Fallbrook PUD's application is approved, the successor board would have the authority and the ability to set policies and priorities, and rates regarding or affecting the agricultural community. Rainbow MWD also disagrees with the Fallbrook PUD's determination that the proposed reorganization is exempt from environmental review. Rainbow MWD accordingly demands that LAFCO evaluate and identify the potential environmental impacts that could result from the proposed reorganization, and take affirmative action to avoid or mitigate those impacts.

Response: In response to Rainbow MWD's statements, a review of Fallbrook PUD water

sales statistics show that over 50% of PUD water sales are to groves and nurseries; farmers within the PUD pay 15 to 20 percent less for water, compared to Rainbow farmers. Fallbrook PUD claims that it sells water to farmers with no markup in price in contrast to Rainbow MWD. If the Fallbrook PUD rate-setting policies were hypothetically applied to agricultural rates within Rainbow, it could potentially benefit agriculture. Therefore, the potential impact on agriculture is highly speculative and would be either unchanged or positive.

In terms of CEQA review, the Fallbrook PUD exempted the reorganization from CEQA review, because the geographical area in which previously existing powers are exercised will remain the same. No physical changes to the environment, including agriculture resources, will result from the reorganization. Any future decisions that Fallbrook PUD may take regarding policies and priorities would be subject to CEQA review. The Rainbow MWD had an opportunity to challenge Fallbrook PUD's environmental determination after the exemption was cited on April 28, 2014, but decided not to pursue a challenge. LAFCO would be acting as a responsible agency pursuant to CEQA and not the lead agency for the reorganization. In summary, Rainbow MWD's Resolution of Objection fails to identify service related concerns, pursuant to Government Code Section 56668.3(b). The objection lacks merit because it has not shown that the Fallbrook PUD will be unable to provide the services that are the subject of the application to the territory proposed to be annexed and that Fallbrook PUD will not need to impose level of service reductions on existing and planned future uses in the district's current service area. Any future decisions by the reorganized Fallbrook PUD would also be subject to CEQA review as applicable.

Governance and California Voting Rights Act

One of the primary subject areas contained in Rainbow MWD's Resolution of Objection pertains to governance. Currently, members of the Rainbow MWD are elected by division pursuant to Water Code Section 71250. The proposed reorganization calls for the successor board to be elected by both an "at-large" and "division" (territorial unit) governance structure per the Public Utility District Act (Public Utilities Code Section 15973.1). Rainbow claims that "at-large" voting allows bloc voting that effectively renders the votes of racial and ethnic minorities meaningless. Rainbow MWD states that this election method subjects the reorganized district to risks of lawsuit under the California Voter's Rights Act (Elections Code Section 14025 et seq.). Rainbow MWD also questions whether the successor agency for the reorganization should instead be a municipal water district.

Response: Refer to the previous section of the LAFCO staff report regarding voting rights. In summary, Rainbow MWD's objection lacks merit because it does not meet the criteria for a "financial or service concerns" per Government Code Section 56857(d)(1) and (2). However, as recommended by LAFCO staff for other reasons, all members of the proposed reorganized Fallbrook PUD should be elected by territorial unit (division).

Rainbow MWD's Position on JPA and Governance

The Rainbow MWD objects to the Fallbrook PUD's reorganization proposal because it

believes the Fallbrook PUD misrepresented Rainbow's position regarding operation of the former North County JPA and the proposed successor agency under the Public Utility District Act. The Rainbow MWD states that the PUD never took the position that elections by divisions were not legally permitted under the Public Utility District Act, and would have instead supported operation under the Municipal Water District Law with Rainbow as the successor agency. Organization under the Municipal Water District Law requires a district to be divided into five divisions in such manner as to equalize, as nearly as practicable, the population in the respective divisions (Water Code Section 71160).

Response: Refer to the previous sections of this report regarding governance. In summary, Rainbow MWD's objection lacks merit because it does not meet the criteria for a "financial or service concerns" per Government Code Section 56857(d)(1) and (2).

Rainbow MWD Staff Objections

Rainbow MWD objects to the proposed reorganization on behalf of its staff, who oppose the proposed reorganization because the MWD believes that the two agencies have incompatible employee benefit structures, which would disadvantage the Rainbow employees and cause additional expense. Further, the Rainbow MWD believes the Fallbrook PUD has medical retirement benefit intricately woven into the Vacation Holiday, and Sick leave plans (VHS) plan; while Rainbow's medical retirement benefit stands apart from the Paid Time Off (PTO) program. In addition, Rainbow MWD claims that combining the two employee groups under the same CalPERS retirement contract creates additional expenses for the Rainbow ratepayers. Rainbow MWD also states that current employer retirement contribution for its employees is 14.66 percent of payroll, while Fallbrook PUD's employer contribution is 28.39 percent. A reorganization of the two agencies into one would force the Rainbow employees to operate under one contract, which Rainbow believes will create a lower cost for Fallbrook PUD ratepayers but a higher cost for Rainbow ratepayers.

Response: A review of the benefits for the two employee groups reveals that employee benefits are similar between the two districts. Modifications necessary to develop a common MOU would involve a meet-and-confer process. Informal meetings between shared Fallbrook PUD/Rainbow management and the two district employee associations had begun in late 2013. The issue raised by the Rainbow MWD regarding the employer retirement contributions also appears debatable. As of July 1, 2014 the contributions were very similar: Rainbow MWD: 15.7 percent and Fallbrook PUD: 16.6 percent. The nine-tenths of one percent (0.9%) difference in rates represents a survivor benefit provision in the Fallbrook PUD contract that is absent in the Rainbow contract. Post reorganization, when combined as a single workforce, the net impact of this enhanced retirement benefit would be in the range of \$30,000 per year.

Rainbow MWD also states that the two agencies' employee benefit structures would inconvenience the Rainbow employees and may, in the long run, increase costs for Rainbow ratepayers. According to Rainbow, a reorganization of the two agencies into one would force the Rainbow and PUD employees to operate under one contract, which would likely create a lower cost for PUD ratepayers but a higher cost for Rainbow ratepayers.

Again, in reviewing the benefit structures of Fallbrook PUD and Rainbow MWD, both organizations appear to have similar employee MOUs and CalPERS retirement contracts. As Rainbow MWD employees transition to the Fallbrook PUD retirement contract, their benefits could be enhanced compared to the current Rainbow MWD contract (e.g. additional survivor benefit provisions). Fallbrook PUD's employer contribution was scheduled to drop to about 16 percent as of July 1, 2014. Divisional accounting will also prevent cross subsidies between customer groups.

As discussed in this staff report, the 2012 consolidation study jointly prepared by the Rainbow MWD and Fallbrook PUD concluded that reorganizing the two districts would result in annual operational savings of about \$2.8 million (\$2.5 million in labor savings and \$300,000 in miscellaneous savings from insurance premiums, combined training, etc.). The 2012 projected labor savings were based on the assumption that the staffing of 123 positions would be gradually reduced over a 2-3 year time period to 103 positions. This would be accomplished primarily through attrition and leaving certain positions unfilled. It should be noted that during the one-year existence of the North County JPA in 2013, actual staffing levels dropped to 114. After the termination of the JPA in 2014, the combined staffing of the Rainbow MWD and Fallbrook PUD has now risen to 118, with a concurrent increase in the use of contractors/consultants.

Based on a review of the Rainbow MWD's and Fallbrook PUD's organization charts; a re-examination of the potential staff reductions; and an analysis of the actual results of North County JPA, we conclude that the initial staffing reduction estimates made by the two districts in 2012 still appears valid. If the current salary and benefits costs are applied through a reduction of 15 positions, then the overall labor costs would be about \$2.45 million to \$2.5 million cost savings in the fifth year of the reorganization.

There was better comparability of salaries and benefits between the Rainbow MWD and Fallbrook PUD in 2012-13 than in 2014-15, because the salary and benefits package for Rainbow MWD has recently changed and is now about 17% higher than that of Fallbrook PUD. This figure is derived from an independent compensation survey conducted for the Fallbrook PUD by Koff Associates in 2014. According to that survey, 16 benchmarked classifications were utilized based on a survey of 15 public agencies considered to be representative in San Diego and Southwest Riverside Counties. The Survey results show that the Rainbow MWD topped the salary survey as first, second, or third in nearly 50% of the benchmarked positions (Accounting Supervisor, Customer Service Assistant II, Administrative Office Specialist, Chief System Operator, Foreman/Superintendent, Secretary, Utility Worker II/III). This is a significant finding within the survey, given that that the Rainbow MWD is one of the smaller agencies included in the survey.

The compensation survey conclusion that Rainbow MWD salaries are on average 17% higher than Fallbrook PUD's salaries and will possibly decrease to level of comparability after the Fallbrook PUD considers a new wage and benefit plan for its employees later this fiscal year. The terms and conditions, as modified and recommended by LAFCO staff, specify that employees of the Rainbow MWD are all to become employees of the Fallbrook PUD, and that all full time employees, contract employees, and temporary or

limited term employees will be offered equivalent employment as determined by the Fallbrook PUD.

Any former Rainbow MWD employees whose salary range is higher than the equivalent range within the Fallbrook PUD will be Y-rated (kept at the prior compensation level) until the respective Fallbrook PUD salary range equals or exceeds that (prior) amount. This is a common practice used by organizations when blending employee work units. Former Rainbow MWD employees that are Y-rated would still receive annual performance appraisals, but would not be eligible for merit increases until the respective Fallbrook PUD salary range is increased. Former Rainbow MWD employees who are Y-rated would also be eligible to receive cost-of-living adjustments provided to all employees in their work unit at the discretion of the Fallbrook PUD, and the respective Fallbrook PUD salary range shall be adjusted as necessary to accommodate the cost-of-living adjustment. Refer Exhibit G for a comparison of Rainbow MWD classifications to Fallbrook PUD classifications.

Further, contracts for all employees with ongoing contracts will be transferred from the dissolved Rainbow MWD to the Fallbrook PUD for the duration of such contract(s). No additional personnel would be hired as a result of the reorganization, and all obligations of the dissolved Rainbow MWD would continue through the Fallbrook PUD including but not limited to costs associated with contract benefits, payment of retirement liabilities and administrative costs. Employees within the dissolved Rainbow MWD will also retain seniority with the Fallbrook PUD as though no interruption in service had occurred. Seniority would be used to determine rates for the administration of annual leave, sick leave, and to establish layoff lists, if applicable. All existing annual leave and sick leave accrued by former employees of the dissolved Rainbow MWD prior to dissolution will be frozen at the applicable hourly rate for each employee prior to the dissolution. Probationary employees of the Rainbow MWD will continue in a probationary status with the Fallbrook PUD until completion of their remaining probationary period. New hires and promotions will be conducted by the Fallbrook PUD pursuant to the current system and lists of the dissolved Rainbow MWD. Lastly, it is recommended that a liaison from among the employees of the dissolved Rainbow MWD be appointed by the Fallbrook PUD for a period of up to three years following the effective date of the reorganization to assist with the transition.

In summary, Rainbow MWD's objection lacks merit because the financial and service projections used in the reorganization application are still valid and the objections raised by the Rainbow MWD do not meet the criteria for "financial or service concerns" per Government Code Section 56857(d)(1) and (2).

Respecting the JPA Contractual Process

The Rainbow MWD states that the Fallbrook PUD failed to respect the contractual processes laid out in the Joint Powers Agreement. In March 2014, after a year of attempting to work with Fallbrook PUD, Rainbow MWD decided that it was not in the best interest of its ratepayers to consolidate with Fallbrook PUD, and began the formal termination process pursuant to the terms of the Joint Powers Agreement. Instead of respecting Rainbow's decision to withdraw from the joint powers authority, the Rainbow

MWD states that the Fallbrook PUD took the equivalent of a hostile action and filed an application with LAFCO to dissolve the MWD. The Rainbow MWD believes the PUD's actions show a disregard for the consensus-building process previously agreed to by the agencies, and resulted in a trust issue.

Response: Rainbow MWD was within its rights to provide notice and no longer be a party to the North County JPA. As with Rainbow MWD, the Fallbrook PUD was also within its rights under the Cortese-Knox-Hertzberg Act to submit an application for reorganization. Whether it was strategically advisable for the Fallbrook PUD to submit an application at the time it decided to do so was questionable given the strong opposition from the Rainbow MWD, ratepayers, and employees. However, The Fallbrook PUD did not violate any LAFCO statutes in initiating the reorganization application. This initiation issue was previously addressed in the report. In summary, Rainbow MWD's objection lacks merit because it does not meet the criteria for a "financial or service concerns" per Government Code Section 56857(d)(1)(2).

Reorganization Support

Approximately 32 letters of support from ratepayers were submitted to LAFCO stating the following: (1) Disappointment with the service, reliability and management of the Rainbow Water District; (2) Lack of proper maintenance within Rainbow MWD has resulted in facility maintenance problems; (3) Management of Rainbow MWD is unwilling to address costs of operating a reliable service and instead hold down rates; (4) Reorganization will result in more reliable water service and an expanded ratepayer base that can produce savings from economy of scale; (5) Elimination of specialized equipment will avoid duplication; (6) Rainbow MWD has been misleading regarding governance issues; (7) Rainbow MWD's residential water rates are excessive and reorganization will produce cost savings that could equalize rates; (8) Reorganization of the two districts will result in a single, more efficient and logical entity; (9) Rainbow MWD's operations have been detrimental to residential customers; (10) Ability to elect directors in Rainbow MWD via public vote is circumvented by Rainbow's rules; (11) Rainbow MWD's management is incompetent and ineffective; (12) Rainbow MWD lacks adequate customer service and Rainbow employees need improvement; (13) Dissolution of Rainbow MWD will improve economies of scale and efficiency; (14) Reorganization may have a positive effect on water rates; and (15) Reorganization will reduce administrative costs and produce cost savings to ratepayers.

Response: The subject areas covered by the letters of support parallel the justification for the reorganization, as proposed by the Fallbrook PUD. The discussion of the Fallbrook PUD's reasons for pursuing the reorganization has already been addressed in this staff report and should be referred to for further information.

TERMS AND CONDITIONS

The proposed reorganization of the Fallbrook PUD and Rainbow MWD is subject to a number of proposed terms and conditions per Government Code Section 56886. These terms and conditions cover successor rights and duties with respect to enforcement, performance or payment of any outstanding bonds or other obligations; capacity rights;

employee Memorandum of Understandings and transfer of Rainbow MWD employees to Fallbrook PUD; employee contract provisions regarding retirement under CalPERS; latent powers expansion (sewer); transfer of property; usage of divisional accounting practices; continuation of charges, fees, assessments, or taxes; prohibitions set forth in Government Code Section 56885.5(a)(4) regarding increases in compensation or benefits for the governing board of Rainbow MWD and appropriating or otherwise obligating revenue beyond what is provided in the current Rainbow MWD budget; and the selection of the governing board of the reorganized Fallbrook PUD. Exhibit F of the staff report contains the terms and conditions as recommended by LAFCO staff.

If the Commission approves the proposed reorganization, then modifications to the proposed terms and conditions of reorganization will be necessary. In general, these modifications, include: (1) changing references from “division” to “territorial unit” regarding the governance of the reorganized district; (2) requiring that all members of the reorganized PUD be elected by territorial unit (division); (3) establishing a deadline for the submittal of the names of board members of the reorganized district by both Rainbow MWD and Fallbrook PUD prior to the date of recordation; (4) submittal of maps depicting the proposed territorial units; (5) clarification of how the Fallbrook PUD will continue the lawful obligations made by the Rainbow MWD regarding provision of service to proposed development, including Debt Ordinance No. 95-1; (6) payment by the Fallbrook PUD of associated election, if an election is held; (7) requiring that if an election is held, that a majority of voters within both the Rainbow MWD and Fallbrook PUD would be required in order to confirm the approval of the reorganization; and (8) addition of conditions guiding the transfer of employees.

If the Commission approves the proposed reorganization, then the following modifications to the Fallbrook PUD’s proposed terms and conditions would be needed:

Proposed Terms and Conditions

1. The Rainbow Municipal Water District shall be dissolved and all of its corporate powers shall cease, except as the Commission may otherwise provide pursuant to Section 56886 or for the purpose of winding up the affairs of the district.

Comment: This condition as amended is authorized per Government Code Section 57450 which describes the effect of dissolution.

2. All territory (formerly) in Rainbow Municipal Water District shall be annexed to the Fallbrook Public Utility District.

Comment: This condition is redundant in that it is already covered in the list of jurisdictional changes contained in the Resolution of Application submitted by the Fallbrook PUD. However, there is no harm in including the condition, pursuant to Government Code Sections 56886(o) and (r).

3. Fallbrook Public Utility District shall be the successor to the Rainbow Municipal Water District for the purpose of succeeding to all of the rights, duties and lawful obligations of the dissolved Rainbow Municipal Water District, with respect to enforcement, performance or payment of any outstanding bonds or other lawfully

enacted contracts, obligations, including the provisions of and other liabilities of the dissolved Rainbow Municipal Water District, including but not limited to:

- i. As of its 2013 audit, the Rainbow Municipal Water District has \$11,223,207 in total liabilities. \$6,702,680 is long-term debt under the Safe Drinking Water State Revolving Fund/American Recovery and Reinvestment Act, with State subsidy for 50 percent (50%) of the principal of the debt.
- ii. The Rainbow Municipal Water District also received a \$18.2 million State Revolving Fund loan for the Morro Reservoir project and the Pala Mesa Tank project, with loan proceeds received after June 20, 2013 and therefore not reflected in the audit. The Rainbow Municipal Water District has an agreement with the City of Oceanside for wastewater treatment and outfall capacity. Under Government Code section 57500, the successor district will succeed to all of the powers, rights, duties, and obligations of this water service contract, and any other contracts of the Rainbow Municipal Water District.
- iii. Rainbow Municipal Water District's Employee Association Memorandum of Understanding ("MOU").
- iv. Rainbow Municipal Water District's Ordinance No. 95-1.

Comment: This condition covers successor agency responsibilities per Government Code Sections 56886 (m) and is an acceptable term and condition.

4. Fallbrook Public Utility District's authorization to provide latent sewer powers services shall be expanded to include territory formerly in Rainbow Municipal Water District.

Comment: This condition as amended is authorized per Government Code Sections 56425(i), 56824.10, and 56886(r), and is a condition of the 1994 reorganization of the Fallbrook PUD and Fallbrook Sanitary District.

5. The Fallbrook Public Utility District upon the effective date of the Reorganization shall continue to exist and operate pursuant to the provisions of the Public Utility District Act (Public Utilities Code Section 15500 *et seq.*), and shall provide the services previously provided within the boundaries of both Fallbrook Public Utility District and Rainbow Municipal Water District.

Comment: This condition covers Principal Act subject matter and is permitted per Government Code Section 56886(q).

6. All property, whether real or personal, including all monies (including cash on hand and monies due to uncollected) of the Rainbow Municipal Water District shall be transferred to and vested in Fallbrook Public Utility District, including but not limited to:
 - i. As of its 2013 audit, the Rainbow Municipal Water District has \$104,316,335 in total assets. Key capital assets include 7 pump stations, 12 holding tanks,

4 reservoirs, 318 miles of water pipeline, 6 sewage lift stations, and 55 miles of gravity/force main sewer pipeline.

Comment: This condition covers the transfer of properties and funds associated with reorganization and is permitted per Government Code Sections 56886 (h) and (i).

7. Fallbrook Public Utility District will use divisional accounting to keep discrete records for two divisions of the district, demarcated by the boundaries of Rainbow Municipal Water District and Fallbrook Public Utility District that existed before the Reorganization. Under this system, an accounting system will be maintained for each division that, at the point of reorganization, gives credit for the assets and liabilities of each district that existed before the Reorganization. This will allow Fallbrook Public Utility District, after the Reorganization, the ability to establish accurate divisional budgets and rates and charges based solely on the cost to provide services within each division's service area, so rates in each service area will not be affected by the Reorganization of the other. Fallbrook Public Utility District will generate a consolidated financial report. Based upon divisional accounting requirements and generally accepted rate-making principles, Fallbrook PUD shall track Rainbow MWD's assets, revenues, and expenditures, separately from the assets, revenues, and expenditures within the boundaries of the Fallbrook PUD as of the effective date of reorganization. For purposes of this condition, existing assets, revenues, and expenditures mean the assets, revenues, and expenditures within each district on the effective date of the proposed reorganization.

Comment: This condition covers the accounting of assets and liabilities of each district and is permitted per Government Code Sections 56886(h) and (i).

8. Upon the effective date of the Reorganization, Fallbrook Public Utility District shall be authorized and entitled to extend and/or continue to levy, impose, or fix and collect any previously authorized charge, fee, assessment or tax approved, imposed and/or levied by Rainbow Municipal Water District and Fallbrook Public Utility District, including but not limited any rates and charges for the provision of water, sewer and other services and including previously approved and adopted Water Standby/Availability Charges of both the dissolved Rainbow Municipal Water District and Fallbrook Public Utility District. Responsibility for any pending changes of jurisdictional organization and service commitments submitted to or approved by the Rainbow MWD shall be assumed and continued by the Fallbrook PUD as successor agency with no change of status or consideration.

Comment: This condition covers the extension and continuation of services and charges per Government Code Sections 56886(r-t).

9. The employees of the Rainbow Municipal Water District will all become employees of the Fallbrook Public Utility District. As of the effective date, employees of the dissolved Rainbow MWD (full time employees, contract employees, and temporary or limited term employees) shall be offered equivalent employment that is as closely

defined in duties, functions, and responsibilities with the employee's current position, as determined by the Fallbrook PUD. Any former Rainbow MWD employees whose hourly wage upon the effective date of the reorganization exceeds the Fallbrook PUD salary range for the position in which they were placed will be Y-rated (kept at the prior Rainbow MWD compensation level) at that salary until the Fallbrook PUD salary range equals or exceeds that amount. Former Rainbow MWD employees who are Y-rated will still receive an annual performance appraisal but will not be eligible for any merit increases. At the discretion of the Fallbrook PUD, former Rainbow MWD employees who are Y-rated will be eligible for cost-of-living adjustments provided to all employees in their work unit at the discretion of the Fallbrook PUD, and the Fallbrook PUD salary ranges shall be adjusted as necessary to accommodate the cost-of-living adjustment(s). Contracts for all employees with ongoing contracts shall be transferred from the dissolved Rainbow MWD to the Fallbrook PUD for the duration of such contract. No additional personnel will be hired as a result of the reorganization. All obligations of the dissolved Rainbow MWD shall continue through the Fallbrook PUD including but not limited to costs associated with contract benefits, payment of retirement liabilities and administrative costs. The current full-time employees of the Rainbow MWD shall be transferred to, and become employees of the Fallbrook PUD. Employees within the dissolved Rainbow MWD shall retain seniority with the Fallbrook PUD as though no interruption in service had occurred. Seniority shall be used to determine rates for the administration of annual leave, sick leave, and to establish layoff lists, if applicable. All existing annual leave and sick leave accrued by former employees of the dissolved Rainbow MWD prior to dissolution will be frozen at the applicable hourly rate for each employee prior to the dissolution. Compensation for employee frozen annual leave and sick leave will be subject to the adopted rules, ordinances, and directives of the Fallbrook PUD. Time and rate shall be used to determine or establish vacation selection. Probationary employees of the Rainbow MWD will continue in a probationary status with the Fallbrook PUD until completion of their remaining probationary period. New hires and promotions will be conducted by the Fallbrook PUD pursuant to the current system and lists of the dissolved Rainbow MWD. Eligible personnel from the dissolved Rainbow MWD may take upcoming promotional exams with the Fallbrook PUD if they meet all posted requirements. Any other currently existing differences in salaries and benefits will be addressed in the next negotiation cycle for the successor MOUs with the Fallbrook PUD. The needs and impacts of and on former Rainbow MWD employees will be given careful consideration during the negotiation process. After a minimum transition period of two years from the effective date of the reorganization, the Fallbrook PUD shall have the ability to offer early retirement incentives if the reorganization or future events not foreseen in the reorganization process result in duplication of positions that countermand the cost effectiveness of the reorganization. A liaison from among the employees of the dissolved Rainbow MWD shall be appointed by the Fallbrook PUD for a period of up to three years following the effective date of the reorganization to assist with the transition.

Comment: This condition covers the transfer of employees from the dissolved district to the successor and is permitted per Government Code Section 56886(l). Modifications have been made to this condition to provide greater certainty for former Rainbow MWD employees and clearer direction for the Fallbrook PUD Board of Directors.

10. The Fallbrook Public Utility District and Rainbow Municipal Water District each have an Employee Association Memorandum of Understanding (“MOU”). These MOUs will remain in place for employees until the third quarter of 2014 after the effective date of the reorganization, at which time the districts will develop a combined MOU, unless the MOUs are amended prior to the effective date of the reorganization, to become effective upon the date of the Reorganization.

Comment: This condition covers the transfer of employees from the dissolved district to the successor and is permitted per Government Code Section 56886(l).

11. The Boards of Directors of the Fallbrook Public Utility District and Rainbow Municipal Water District each have contracts with the Board of Administration of the California Public Employees’ Retirement System (“PERS”) under the PERS “classic” 2.5% at 55 formula. The Fallbrook Public Utility District and PERS will develop a combined contract that shall be deemed a continuation of both districts’ PERS contracts pursuant to Government Code section 20508. The Fallbrook Public Utility District’s contract shall preserve the classic formula for continuing employee members of PERS. Accumulated contributions, assets and liability for service under the former districts’ contracts are vested rights of continuing employee members of PERS, and shall be merged into the contract of the successor district upon reorganization pursuant to Government Code Section 20508.

Comment: This condition covers the continuation or transfer of employment contracts, retirement rights for employees and is permitted per Government Code Section 56886 (l).

12. The Reorganization shall be subject to the prohibitions set out in Government Code section 56885.5(a)(4):
 - (A) Approving any increase in compensation or benefits for members of the governing board, its officers, or the executive officer of the agency.
 - (B) Appropriating, encumbering, expending, or otherwise obligating, any revenue of the agency beyond that provided in the current budget at the time the dissolution is approved by the commission.

Comment: This condition is a standard condition and needs to be imposed. The proposed condition is authorized by Government Code Section 56885.5 and will ensure that actions are not taken that may adversely affect the feasibility of dissolution.

13. ~~The Board of Directors of the Fallbrook Public Utility District shall be a seven-member board, composed of three directors from the Rainbow Municipal Water District board (selected by the Rainbow Municipal Water District board), and four directors from the Fallbrook Public Utility District board (selected by the Fallbrook Public Utility District board). It is proposed that three of the directors of the FPUD~~

successor board will be elected at-large and four directors by division. The Board of Directors of the reorganized Fallbrook Public Utility District shall be a nine-member board, composed of all members elected by territorial unit, unless the Commission or a court determines that the board must consist of a combination of territorial units and at-large representatives. In that case, then five members of the reorganized district shall be elected by territorial unit and 4 members shall be elected at-large. Upon the expiration of the terms of the members of the board of directors of the reorganized district, the total number of members on the board of directors shall be reduced to seven members. The reduction to seven members shall be based on the terms of members that first expire following the effective date of the reorganization. Upon the reduction of the board to seven members, all members shall be elected by territorial unit, or if the Commission or a court determines that the board must consist of territorial units and at-large representatives, then four members shall be elected by territorial unit and three members shall be elected at-large.

Comment: An increase in the number of board members from five to nine members, and then a reduction to seven members is permitted by Government Code Sections 56886(k) and (n), plus Public Utilities Code Section 15973.1.

14. The initial board of directors on the nine-member reorganized Fallbrook PUD shall be selected as follows: The Rainbow MWD shall provide to LAFCO the names of four existing members from the Rainbow MWD that will serve on the reorganized Fallbrook PUD prior to LAFCO's issuance of the Certificate of Completion. The Fallbrook PUD shall provide to LAFCO the names of five existing members from the Fallbrook PUD that will serve on the reorganized Fallbrook PUD. If either the Rainbow MWD or Fallbrook PUD do not submit to LAFCO said names of nine (9) board members prior to the issuance of the Certificate of Completion, then the Executive Officer shall by lot name the members from among the existing districts that have not submitted names to serve on the reorganized district.

Comment: The continuation and method of selection of the board of directors is a permitted term and condition authorized by Government Code Sections 56886(k) and (n), plus Public Utilities Code Section 15973.1.

15. The Fallbrook PUD shall submit maps to LAFCO depicting the proposed territorial units prior to the recordation date of the proposed reorganization.

Comment: The submittal of maps for the territorial units is a permitted term and condition authorized by Government Code Section 56886(k) and (v).

16. Determination by LAFCO that if sufficient written protest is submitted to the proposed reorganization from within the boundaries of the Rainbow MWD, an election will be held confirming the proposed reorganization per Government Code Section 57077.3 or 57077.4. If sufficient written protest is submitted, then an election shall be called within both the Rainbow MWD and Fallbrook PUD and a majority of the votes cast within both Rainbow MWD and Fallbrook PUD shall be

necessary to confirm the Commission's order approving the proposed reorganization.

Comment: The territory that may be included within an election is covered in Government Code Sections 56877, 57077.3, 57077.4, 56885.5. Authorization for this term and condition is covered by Government Code Section 56886(p) and (v).

17. Payment by the Fallbrook PUD of associated conducting authority protest, and election costs.

Comment: All proper expenses incurred in conducting elections shall be paid according to Government Code Sections 57150 (a-e), unless otherwise provided by agreement between the Commission and proponents. The San Diego LAFCO will require as a term and condition that the applicant, Fallbrook PUD pay all expenses associated with conducting authority protest proceedings and an election, if an election is required. Authorization of this term and condition is per Government Code Sections 57150 and 56886(v).

18. As the successor to the Rainbow MWD, the Fallbrook PUD shall conduct a review of the finances, infrastructure, staffing, and service commitments of the Rainbow MWD prior to the recordation of the proposed reorganization.

Comment: The Fallbrook PUD shall be given an opportunity to conduct a review of the Rainbow MWD prior to recordation to ensure a smooth reorganization transition. This will also assist in the identification and succession of all application rights, duties, and obligations of the dissolved district. Authorization for this term and condition is covered in Government Code Section 56886(m, r-t).

California Environmental Quality Act (CEQA) Determination

As the lead agency, the Fallbrook PUD reviewed the proposed reorganization and exempted it from the California Environmental Quality Act (CEQA). The PUD determined that the geographic area in which previously existing powers are exercised under the collective powers of the Rainbow MWD and Fallbrook PUD will not change as a result of the reorganization; the reorganization is an organizational and administrative activity that will not result in any direct or indirect physical changes to the environment; and the reorganization does not have the potential for causing a significant effect on the environment, thus exempting the reorganization and related sphere changes from environmental review conforms to categorical exemptions in Sections 15320, 25378(b)(5), and 15061(b)(3) of the CEQA Guidelines.

In addition, Section 15306 of the State CEQA Guidelines is applicable to municipal service reviews because the service review process consists of basic data collection and analysis and will not result in disturbance to an environment resource.

A CEQA determination must be made for projects in which there is a government action. Section 15002(b) states that a governmental action includes activities undertaken by, financed by or activities that require the approval of a government agency.¹ The PUD has

¹ Section 15002 (b) Governmental Action. CEQA applies to governmental action. This action may involve:

requested that LAFCO approve a consolidation or reorganization of special districts into a single local agency; therefore, since this is an action in which there is an approval of a governmental agency (LAFCO), a CEQA determination is required as defined in Section 15002(b). The specific jurisdictional changes and spheres actions associated with the proposed reorganization include:

- Dissolution of Rainbow MWD
- Annexation of the dissolved MWD territory to Fallbrook PUD
- Expansion of the Fallbrook PUD's wastewater powers to include the territory formerly within Rainbow MWD
- Sphere amendment/update whereby Rainbow MWD's sphere will be amended to a transitional (zero) designation and Fallbrook PUD would inherit the previous sphere designation of Rainbow MWD

Once an agency has determined that an activity is subject to CEQA, the agency can determine if the project is exempt from CEQA. There are statutory and categorical exemptions provided under CEQA. The review for exemptions is defined in Section 15061.² As the lead agency, the Fallbrook PUD reviewed the proposed reorganization and exempted it from the California Environmental Quality Act (CEQA). The PUD determined that the geographic area in which previously existing powers are exercised under the collective powers of the Rainbow MWD and Fallbrook PUD will not change as a result of the reorganization; the reorganization is an organizational and administrative activity that will not result in any direct or indirect physical changes to the environment; and the reorganization does not have the potential for causing a significant effect on the environment, thus exempting the reorganization and related sphere changes from environmental review conforms to categorical exemptions in Sections 15320, 25378(b)(5), and 15061(b)(3) of the CEQA Guidelines.

The Fallbrook PUD and Rainbow MWD lands are primarily zoned as rural residential and rural with some limited areas of commercial development. The primary land uses are residential and agricultural with limited areas of commercial use. The zoning is based on the County of San Diego General Plan and no change in land uses is anticipated. Rainbow Municipal Water District is processing the annexation of the Campus Park West development approved by LAFCO near I-15 and SR-76 and Warner Ranch development on SR-76 near the Pala Indian Reservation. The Campus Park West development consists of 538 EDUs. The Warner Ranch development consists of 780 EDUs. No changes in these developments and annexations are anticipated from the proposed reorganization.

(1) Activities directly undertaken by a governmental agency,

(2) Activities financed in whole or in part by a governmental agency, or

(3) Private activities which require approval from a governmental agency.

2 15061. REVIEW FOR EXEMPTION

(a) Once a lead agency has determined that an activity is a project subject to CEQA, a lead agency shall determine whether the project is exempt from CEQA.

(b) A project is exempt from CEQA if:

(1) The project is exempt by statute (see, e.g. Article 18, commencing with Section 15260).

(2) The project is exempt pursuant to a categorical exemption (see Article 19, commencing with Section 15300) and the application of that categorical exemption is not barred by one of the exceptions set forth in Section 15300.2.

A review of the statutory and categorical exemptions identified a categorical exemption that applies to the organization of local agencies. The exemption cited by the San Diego LAFCO (Section 15320) states that changes of organization/reorganization of local governmental agencies where the changes do not change the geographical boundaries are exempt from CEQA. An example of an action that meets the intent of the exemption is provided referencing a consolidation or reorganization of two or more districts that have authorization to provide the same services.³ If a project is exempt from CEQA, no additional environmental review is required. The proposed LAFCO action, as summarized above, is a reorganization of PUD and MWD and an associated sphere amendment. Therefore, the proposed action meets the criteria for being categorically exempt.

As a note, there are exceptions provided for certain classes of project that must be considered prior to making a final determination of whether that project is exempt. Those exceptions are associated with exemptions designated as Class 3, 4, 5, 6, and 11. Those exemptions that are designated in one of these designated classes, are subject to an evaluation of whether the action could have an adverse effect on sensitive environmental resources. The referenced exception does not apply to this proposed action. This exemption is designated as Class 20 and the referenced exceptions do not apply to the Class 20 exemption that pertains to organization of local agencies⁴. Conditionally, even if the exception applied to this exemption, the proposed action does not have an adverse effect on sensitive environmental resources. The action does not include any changes to land uses that could potentially have an adverse effect on sensitive resources. There are two projects (Campus Park West and Warner Ranch developments) under consideration by other lead agencies. The proposed action by LAFCO would not authorize any change in these developments and the proposed annexation is anticipated as a result of the proposed reorganization.

In summary, the proposed action is a project as defined by CEQA and LAFCO action on the proposal requires a CEQA determination as defined in Section 15002 (b) of CEQA. Once the determination was made that the project was subject to CEQA, LAFCO, in accordance with Section 15061, conducted a review for exemption. This review concluded that the proposed action meets the requirements for a categorical exemption in accordance with Section 15320 that addresses changes in the organization of local agencies. Therefore, no additional CEQA evaluations are required.

3 15320. CHANGES IN ORGANIZATION OF LOCAL AGENCIES

Class 20 consists of changes in the organization or reorganization of local governmental agencies where the changes do not change the geographical area in which previously existing powers are exercised. Examples include but are not limited to:

- (a) Establishment of a subsidiary district;
- (b) Consolidation of two or more districts having identical powers;
- (c) Merger with a city of a district lying entirely within the boundaries of the city.

4 15300.2. EXCEPTIONS

(a) Location. Classes 3, 4, 5, 6, and 11 are qualified by consideration of where the project is to be located – a project that is ordinarily insignificant in its impact on the environment may in a particularly sensitive environment be significant. Therefore, these classes are considered to apply all instances, except where the project may impact on an environmental resource of hazardous or critical concern where designated, precisely mapped, and officially adopted pursuant to law by federal, state, or local agencies.

LAFCO Special Districts Advisory Committee Review

On December 19, 2014, the proposed reorganization was referred to LAFCO's Special Districts Advisory Committee for review and comment. The Committee received presentations from LAFCO staff, Fallbrook PUD, and Rainbow MWD. Per the approved minutes of the December 19th Advisory Committee, discussion focused on four major topics, including:

1. Rainbow MWD and Fallbrook PUD Financial and Service Plan Feasibility: Committee members felt that the proposed reorganization is financially feasible. Representatives from Fallbrook PUD and Rainbow MWD concurred with this assessment; however, Rainbow MWD representatives believe that the margin of feasibility is not as high as reported and that governance is the number one issue. Rainbow does not believe that governance was satisfactorily addressed by the Fallbrook PUD in its reorganization proposal. With exception of one committee member, none of the other committee members believed that financial issues require further review.
2. Governance: A majority of the committee members expressed support for a larger PUD board than what was proposed, perhaps as many as nine board members, with the board decreasing in size over time. The committee also discussed whether there were possible alternatives to the PUD governance structure such as a Municipal Water District that would allow all members of the Board to be elected by territory area (division). The Fallbrook PUD maintained that a PUD is the best principal act for service delivery in terms of community service needs.
3. Validity of Rainbow MWD's objections: Most of the committee concluded that Rainbow MWD's objections regarding cost issues were not substantiated, and that conclusions reached by LAFCO staff pertaining to cost savings and efficiency were valid. LAFCO staff brought to the advisory committee's attention that Rainbow MWD made a number of erroneous assertions, the most significant pertaining to Rainbow's \$2 billion overstatement of assessed value figures that are used in protest proceedings per Government Code Section 57000 et seq. Several committee members strongly felt that the analysis showed potential ongoing savings. Some committee members referred to prior efforts and savings of the North County JPA as evidence of cost savings and efficiencies. Most committee members felt that with more time, added savings might be realized. None of the committee members felt that Rainbow's objections had merit, although one member of the committee stated concern that not just voters but "stakeholders" such as businesses and conservation groups be encouraged to review and give input to the proposal. The majority of the committee stated support for the two organizations to continue discussions of their interests and concerns to see if a solution could be found benefitting both organizations.
4. Election and Protest Provisions: If approved by LAFCO and protests are submitted triggering an election, a majority of the committee stated support for the election to be held in both areas (Rainbow MWD and Fallbrook PUD). Several committee

members asked that this issue be further discussed and clarified if a solution to the objections is not identified. As far as election costs, a majority of the committee stated that the proponent, Fallbrook PUD, should pay all election costs. At the close of the committee discussion, a majority of the committee stated their hope and expectation that the parties (Rainbow MWD and Fallbrook PUD), including LAFCO continue to hold discussions on possible alternatives and solutions to the proposal and objections. LAFCO's Executive Officer offered to facilitate discussions between the two districts and return to the committee with a progress report.

Issue Resolution

Per urging of LAFCO's Special Districts Advisory Committee, the Executive Officer offered to convene discussions with the hope of reaching a compromise in 2015. Three ad hoc meetings were accordingly scheduled by LAFCO staff (Mike Ott and Harry Ehrlich) with representatives of Fallbrook PUD (General Manager Brian Brady and PUD President Don McDougal) and Rainbow MWD (General Manager Tom Kennedy and MWD President Dennis Sanford) for January 12, 20, and 27, 2015. At the January 12th ad hoc meeting, LAFCO staff made several requests of both Rainbow MWD and Fallbrook PUD. Rainbow representatives were asked to respond to whether the full Rainbow board would support increasing the size of the governing board of the reorganized district from seven to nine members either permanently or temporarily, with five to six board seats subject to divisional elections. Fallbrook representatives were requested to develop territorial unit maps showing a 9-member board with five to six seats subject to divisional elections. The divisional maps were subsequently developed by Fallbrook PUD and forwarded to Rainbow MWD staff, so that the ad hoc committee could consider Rainbow's response on January 20th.

The January 20th ad hoc meeting was subsequently canceled and postponed until January 27th at the request of Rainbow MWD, so that the Rainbow ad hoc committee members Kennedy and Sanford could first confer with additional members of the Rainbow board. The January 27th meeting was then canceled and rescheduled to February 3rd at the request of Fallbrook ad hoc members Brady and McDougal, so that the entire ad hoc committee could receive comments from the full Rainbow board. On behalf of the Rainbow MWD board, Rainbow President Dennis Sanford sent a formal response to LAFCO staff on behalf of the full board on January 29, 2015. The Fallbrook PUD verbally responded to Rainbow's January 29th letter on February 3rd, and a written response from Fallbrook was later sent to LAFCO staff on February 4th.

On February 3rd, Rainbow MWD reiterated its opposition to any governance alternative that had an at-large governance component. Rainbow MWD offered two alternatives for Fallbrook PUD to consider regarding the proposed reorganization: (1) Reorganization of Fallbrook PUD into a Municipal Water District, and/or (2) Reconstitution/reactivation of the North County JPA for functional consolidation purposes.

The Fallbrook PUD reiterated its opposition to the modification of the reorganization that would involve changing the principal act for the successor agency from a Public Utility District to a Municipal Water District. Fallbrook stated that the powers available to Public Utility Districts versus the powers available to Municipal Water Districts conforms to the historic and future

service needs of the community. Rainbow MWD claimed that a Municipal Water District has the requisite powers to best manage groundwater resources and replenishment. The Fallbrook PUD disputed Rainbow’s claim that the water code explicitly allows the Rainbow MWD to engage in water replenishment activities. The Fallbrook PUD also indicated that AB 3030 authorizes any local agency (MWDs and PUDs) to manage groundwater resources, despite what may be included in the principal act of the agency. Fallbrook also stated that the groundwater claims made by Rainbow are invalid because groundwater management authorities are granted to any local agency via AB 3030.

Below is a summary of services that may be provided by PUDs and MWDs per provisions in State Law (Public Utilities Code Sections 16461–16463 and Water Code Sections 71610–71689.7).

SERVICES AUTHORIZED BY SPECIAL DISTRICT PRINCIPAL ACTS

Type of District	Fire	Garbage	Park and Recreation	Roads	Sewer	Water	Lights	Power	Heat	Communication	Transportation	Drainage	Groundwater
Municipal Water District	X	X	X ¹		X	X		X ¹					X
Public Utility District	X	X	X	X	X	X	X	X	X	X	X	X	X

¹ There are restrictions on provision of this service by this type of district.

Regarding another one of Rainbow’s requests to reactivate the North County JPA, the Fallbrook PUD expressed opposition based on Rainbow’s assertion that a third general manager (e.g., Executive Director) would need to be hired at an additional expense to run the JPA.

After holding two LAFCO ad hoc meetings between the Rainbow MWD and Fallbrook PUD, agreement was reached on one matter – that being the existence of an impasse. LAFCO staff offered to hold additional ad hoc meetings to further discuss the issues; however, both sides stated that unless movement/compromise was equally made by both districts regarding governance issues, that there would be no need for any additional ad hoc meetings.

CONCLUSION AND RECOMMENDATION

LAFCO staff has concluded that the primary area of opposition to the proposed reorganization of the Fallbrook PUD and Rainbow MWD pertains to governance. There appears to be unanimity as to the financial and service feasibility of reorganization, as confirmed by representatives of both districts. There is, however, some disagreement regarding the specific margin of feasibility, but overall feasibility is not at question. In terms of governance, the Fallbrook PUD has proposed that the reorganized district be governed by board members that are elected at-large and by territorial unit. Fallbrook PUD proposes that there be four territorial units and three at-large members of the reorganized district.

Rainbow MWD claims that Fallbrook PUD's proposed governance structure is inadequate and demands that the reorganized board consist all board members elected by territorial unit. MALDEF and a substantial number of Rainbow MWD ratepayers share the same view as the Rainbow MWD regarding governance. However, the arguments presented by both MALDEF and Rainbow MWD appear to pertain more to local agencies that are governed exclusively by an at-large election system. There have been no compelling or conclusive arguments presented to LAFCO staff regarding minority voter dilution issues associated with the combination election system proposed by the Fallbrook PUD.

In addition, LAFCO staff also questions the validity of the data provided by MALDEF and Rainbow MWD. The data inconclusively demonstrates a history or potential for minority vote dilution and racially polarized voting within the Fallbrook PUD. Nonetheless, we conclude for different reasons than cited by Rainbow MWD and MALDEF, that accountability for community service needs can be more effectively achieved through a governance system predicated on divisions (territorial units). Therefore, LAFCO staff recommends that if the proposed reorganization be approved, that LAFCO approve a modification requiring that the reorganized Fallbrook PUD be governed by a board with all members elected by territorial unit. We further believe that the initial board should consist of nine members, with all members elected by territorial unit. Through normal expiration of terms the board would then transition to seven members, elected by territorial unit.

As discussed in the LAFCO staff report, there are competing interpretations regarding LAFCO's authority to specify a governance structure other than what is spelled out in a district Principal Act. However, LAFCO staff concludes that harmonization of the PUD Act with relevant provisions in Government Code Section 56000 et seq. is necessary. Harmonization will allow the Commission to specify that the Fallbrook PUD board consist of all members elected by territorial unit (division) upon reorganization. LAFCO staff has concluded that the governance provisions of both statutes need to be construed in a manner that reasonably and fairly implement LAFCO's overall purpose and legislative priorities. These legislative purposes and priorities place an emphasis on the accountability for community service needs, including governmental structure and operational efficiencies. If the Commission disagrees with LAFCO staff regarding governance, then it may consider Fallbrook PUD's governance proposal and specify that four members be elected by territorial unit and three members be elected at-large. This combined type of governance is not a LAFCO staff preference, and is opposed by the Rainbow MWD and MALDEF. However, a combined governance system will still increase accountability for community service needs.

LAFCO staff further concludes that approval of the sphere, service review and reorganization (as modified) will assist the Fallbrook PUD and Rainbow MWD capture economies of scale and reducing administrative overhead; share equipment and reducing vehicle fleet including heavy equipment; improve emergency response; enhance coverage for service zones and pressure zones at district boundaries; integrate and consolidating both districts' management and staff; improve water resource management via use of recycled water; improve the ability of the combined district to fully utilize local water

supplies; strengthen financial capacity. However, even with these likely results from reorganization, the Commission is not obligated to approve the proposal. We would also recommend that the Fallbrook PUD be required to pay for any related litigation costs associated with this potential modification to the reorganization proposal.

If the Commission is adverse to risk, then it should consider disapproving the reorganization in its entirety. While sufficient justification has been provided warranting the approval (or modified approval) of the associated sphere and service review determinations, and the proposed reorganization, the Commission is not obligated to approve the reorganization and associated actions. Any or all of the following reasons presented by the Rainbow MWD and members of the public could be cited by the Commission in disapproving the proposal, provided the Commission concurs with those reasons: (1) Insufficient evidence has been provided validating the financial and service feasibility of the proposed reorganization; (2) Opposition and objections to the reorganization are considerable justifying disapproval; (3) Evidence presented regarding potential voting rights issues cannot be satisfactorily addressed either through the approval of the reorganization as proposed, or through modifications presented in this staff report; (4) Fallbrook PUD's method of initiating the reorganization was not appropriate; (5) Negative effect on water rates; (6) Capitalization on Rainbow MWD's assets and growth; (7) Negative effect on Rainbow MWD's debt ordinance; (8) Irrelevancy of JPA Cost Savings; (9) Invalidity of Reorganization Cost Savings; (10) Effect on agriculture; (11) Conformance with the California Voting Rights Act; (12) Misrepresentation of Rainbow's position on JPA and governance; (13) Lack of support from Rainbow MWD employees.

If the Commission disapproves the proposed reorganization, then no further proceedings would be taken on that proposal. Furthermore, no similar proposal involving the same or substantially the same territory shall be initiated for one year after the date of adoption of the resolution terminating proceedings. The commission may, however, waive this requirement if the requirement is detrimental to the public's interest (Government Code Section 56884).

Since the Commission is not required to approve the proposed reorganization of the Fallbrook PUD and Rainbow MWD, approval and disapproval language is accordingly provided in the recommendation language below. Therefore, it is:

RECOMMENDED:

Reorganization Option 1: *Approve the proposed reorganization of the Rainbow MWD and Fallbrook PUD*

1. Find in accordance with the Executive Officer's determination that pursuant to Section 15061(b)(3) of the State CEQA Guidelines, sphere updates, affirmations, and amendments are not subject to the environmental impact evaluation process because it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment and the activity is not subject to CEQA.

2. Find in accordance with the Executive Officer's determination that pursuant to Section 15306 of the State CEQA Guidelines, the service review is not subject to the environmental impact evaluation process because the service review consists of basic data collection, research, management, and resource evaluation activities that will not result in a serious or major disturbance to an environmental resource. The project is strictly for information gathering purposes and is a part of a study leading to an action that has not yet been approved, adopted or funded.
3. Concur in the determination of the Fallbrook PUD that pursuant to Section 15378(b)(5) of the State CEQA Guidelines, that the reorganization is an organizational or administrative activity that will not result in any direct or indirect changes to the environment.
4. Find in accordance with the Executive Officer's determination that pursuant to Section 15061(b)(3) of the State CEQA Guidelines, that the proposed reorganization is not subject to the environmental impact evaluation process because it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment and the activity is not subject to CEQA.
5. Find, in accordance with the Executive Officer's determination that pursuant to Section 15320 of the State CEQA Guidelines, that the proposed reorganization consists of changes of organization of local agencies where the changes do not change the geographical area in which previously existing powers are exercised.
6. Determine, pursuant to Government Code Section 56430, the San Diego Local Agency Formation Commission is required to conduct a service review before, or in conjunction with an action to establish or update a sphere of influence.
7. Determine, pursuant to Government Code Section 56425, the San Diego Local Agency Formation Commission is required to develop and determine a sphere of influence for each local governmental agency within the County, and review and update, as necessary.
8. Determine that the Commission originally adopted a sphere of influence for the Rainbow MWD on December 3, 1984 and updated On April 7, 2014.
9. Determine that the Commission originally adopted a sphere of influence for the Fallbrook PUD on January 7, 1985; affirmed on August 6, 2007; and amended it on July 6, 2015.

10. Determine the Rainbow MWD and Fallbrook PUD have undergone a supplemental sphere of influence and municipal service review in 2015 and has been amended the sphere of influence for the Rainbow MWD to a transitional designation the sphere of influence for the Fallbrook PUD has been affirmed and amended by assigning the Fallbrook PUD a sphere that is the same as the sphere of the Rainbow MWD prior to the proposed amendment, and adopt the written Statement of Determinations for the associated service and sphere review as shown on Maps 1 thru 4 and proposed in Exhibits A thru D, attached hereto.
11. Determine that per Government Code Section 56425(i), the written statements on file with the Commission specifying the nature, location, and extent of any functions or classes of services provided by the Rainbow MWD will be consolidated with the written statements on file with the Fallbrook PUD, and the Fallbrook PUD shall have all the powers and authorities of the Rainbow MWD with respect to the nature, location, and extent of those functions or classes of services within subject reorganization area.
12. Determine that if the Rainbow MWD / Fallbrook PUD Reorganization is disapproved by the Commission or if the voters reject the reorganization, then the Rainbow MWD sphere of influence will remain as currently designated on July 6, 2015, and its written statements on file with LAFCO per Government 56425(i) shall not be consolidated with Fallbrook PUD's written statements.
13. Determine that the proposed reorganization of the Rainbow MWD and Fallbrook PUD is consistent with the proposed sphere of influence and service review, whereby, the Rainbow MWD's sphere is proposed to be amended to a transitional designation (contingent on approval of the Rainbow MWD / Fallbrook PUD Reorganization), and the Fallbrook PUD is proposed to be assigned a sphere that is the same as the sphere of the Rainbow MWD prior to the proposed dissolution of the MWD.
14. Determine that a resolution of application was submitted to the San Diego LAFCO for a reorganization involving dissolution of the Rainbow MWD, annexation of the dissolved Rainbow MWD territory to Fallbrook PUD, and expansion of the Fallbrook PUD's latent sewer powers to provide sewer service within the former boundaries of the Rainbow MWD and provision of water service within the former boundaries of the Rainbow MWD.
15. Determine that the primary reasons for the proposed reorganization are to capture economies of scale and reduce administrative overhead; share equipment and reduce vehicle fleet including heavy/specialty equipment; Improve emergency response; enhance coverage for service zones and pressure zones at district boundaries; Integrate and consolidate both districts' management and staff; improve water resource management via use of recycled water; improve the ability of the combined district to fully utilize local water supplies; strengthening financial capacity; reduce property and liability insurance; reduce vehicle fleet including

heavy/specialty equipment; reduce information technology costs; reduce banking service fees and produce greater investment performance; expand internal training opportunities; reduce legal costs; reduced director costs; reduce audit costs; reduce general office expenses; optimize service areas and pressure zones at district boundaries; reduce costly outsourcing and leverage future outsourcing needs.

16. Determine that the territory proposed for reorganization is as described in the application on file with the Local Agency Formation Commission.
17. Determine that the proposal, as approved, consists of a reorganization involving dissolution of the Rainbow MWD, annexation of the dissolved Rainbow MWD territory to Fallbrook PUD, and expansion of the Fallbrook PUD's latent sewer powers to provide sewer service within the former boundaries of the Rainbow MWD, and water service within the former boundaries of the Rainbow MWD for the reasons set forth in the Executive Officer's report.
18. Pursuant to Government Code Section 57077.3, order the reorganization without confirmation of the voters except that if the reorganization meets the requirements of subdivision (b) of Section 57077.3, the reorganization shall be subject to confirmation of the voters within the Rainbow MWD.
19. Acknowledge that contrary interpretations of Government Code Sections 56876, 56877, 57077.3 and 57077.4 may be possible, and concur with the following conclusions:
 - a. Determine that Section 56876 will not apply to the proposed reorganization, because Section 56876 applies to a proposal involving only annexation or detachment, whereas, the proposed reorganization involves annexation, detachment, and expansion of latent powers. Further conclude that if Section 56876 were to be applied to the proposed reorganization that an election would only be called due to the submittal of protest.
 - b. Determine that Section 56877 grants LAFCO authority to require a vote within the territory of the district to which annexation is proposed (Fallbrook PUD) if certain assessed value of land and voter requirements are met and find that the information contained in the Executive Officer's report concludes that that these assessed value of land and voter requirements are applicable to the proposed reorganization. Determine that Section 56877 only will only to the proposed reorganization when an election has been called due to the submittal of written protest.
 - c. Determine that Section 57077.3 applies to the proposed reorganization because the reorganization is not described in Sections 57075, 57076, 57077, 57077.4, or 51711.
 - d. Determine that Section 57077.4 does not apply because the proposed reorganization consists of an action other than dissolution and annexation.

- e. Determine that if Sections 56876, 56877, or 57077.4, or other statute apply, that San Diego LAFCO declines to exercise discretion to order an election absent the submittal of written protest. Further determine that the exercise of such discretion would be inappropriate given the other means by which voters and landowners of both districts may be heard on this matter.
20. Determine that if the reorganization is subject to an election within the Rainbow MWD pursuant to Government Code Section 57077.3(b), then the reorganization shall also be subject to confirmation by the voters in an election within the Fallbrook PUD pursuant to Government Code Section 56877, and that a majority of the voters within both the Rainbow MWD and Fallbrook PUD must favor the reorganization in order to confirm the reorganization.
21. Per the Executive Officer's report, find that the number of voters residing within the Rainbow MWD and the assessed value of land within the Rainbow MWD is greater than one-half or more than the number of voters and/or assessed value of land within the Fallbrook PUD.
22. Determine that if an election is held and voters reject the reorganization ballot measure, then reorganization would not occur and no substantially similar reorganization proposal shall be resubmitted for a period of two years per Government Code Section 57090.
23. Determine that if the Commission approves the proposed reorganization with or without modifications, a condition will be added to the terms and conditions requiring that the Fallbrook PUD pay for any and all election costs, whether the ballot measure succeeds or fails, and any of LAFCO's costs associated with reviewing written protests per Government Code Section 57150.
24. Determine pursuant to Government Code Section 56668.3, the Commission has given great weight to the Rainbow MWD resolution raising objections to the proposed reorganization, but concludes that the objections lack merit and the reasons for the reorganization as set forth in the said staff report are compelling and justify the Commission's action approving the reorganization with modifications recommended by LAFCO staff.
25. Conclude that the Commission's consideration of the Rainbow MWD's resolution of objection is based only on financial or service related concerns pursuant to the definitions of these terms per Government Code Sections 56668.3(b) and 56857, and the Commission is not required to make any express findings concerning any of the factors under consideration.
26. Determine that the Fallbrook PUD has sufficient revenue to provide water and sewer service within the boundaries of the (former) boundaries of the Rainbow MWD per the reasons contained in the Executive Officer's report pursuant to Government Code Section 56824.14.

27. Determine that the Commission has considered the factors enumerated in Government Code Sections 56425 and 56668 as discussed in the Executive Officer's report.
28. Determine that the reorganization is in compliance with LAFCO Policies L-101 and L-102, L-106, and L-107 in that the reorganization will simplify governmental services, stabilize rates for agricultural and non-agricultural water users, and result in planned, orderly, and efficient development patterns, and will help maintain the physical and economic integrity of agricultural lands; and conforms to LAFCO's related sphere and service review, and conflict resolution policies.
29. Determine that the resolution making determinations per Government Code Section 56881 include the following applicable findings or determinations pursuant to Section 56375.
 - a. Conclude that the Commission has reviewed the proposed reorganization and sphere changes per CEQA, applicable LAFCO policies, such as LAFCO's Policy L-101(Preservation of Open Space and Agricultural Lands), L-102 (Sphere of Influence); L-106 (Strategy of Conducting Municipal Service Reviews; and L-107 (Jurisdictional Conflicts).
 - b. Find that Government Code Section 56375 (a)(2-3) is not applicable because Section 56375 (a)(2-3) determinations only relate to LAFCO-initiated proposals. The proposed reorganization was initiated by the Fallbrook PUD and not LAFCO.
 - c. Find that Government Code Section 56375(4,5,7,8) pertains to city annexations and is not applicable.
 - d. Find that Government Code Section 56375(a)(5) is not applicable because LAFCO has not imposed any conditions that would directly regulate land use density or intensity, property development, or subdivision requirements.
 - e. Find that Government Code Section 56375(b) relates to whether the affected territory in the reorganization is inhabited or uninhabited; determine that the proposed reorganization is inhabited.
 - f. Find that Government Code Section 56375(c-f) pertains to consolidations or city annexations and is not applicable to the proposed reorganization because the reorganization does not involve consolidation or city annexation.
 - g. Find that Government Code Section 56375 (g-k) covers general LAFCO operational matters (e.g., adoption of written procedures, standards, enforcement of regulations, retention of personnel, etc.) and is not applicable to the proposed reorganization.

- h. Find that Government Code Section 56375(l) pertains to whether the boundaries of the territory in any proposal are definite and certain and that the proposed reorganization will reference the County Assessor's determinations regarding the certainty of the proposed reorganization boundaries
 - i. Find that Government Code Sections 56375 (m-p) pertains to city annexations and is not applicable to the proposed reorganization.
 - j. Find that Government Code Section 56375(q) pertains to multi-county proposals and is not applicable to the proposed reorganization.
 - k. Find that Government Code Section 56375(r) pertains to LAFCO authorities related to mutual water companies and the proposed reorganization will not affect mutual water companies.
 - l. Find that Government Code Section 56375.2 pertains to Marin LAFCO and is inapplicable to the proposed reorganization.
30. Find that Government Code Section 56375.3 pertains to city island annexation proposals and is not applicable to the proposed reorganization.
- a. Determine that none of the findings per Government Code Section 57102 *are applicable*; therefore, the election process shall not be waived for the proposed reorganization of the Fallbrook PUD and Rainbow MWD because:
 - b. The corporate powers of the Rainbow MWD have been used per Government Code Section 56871.
 - c. The Rainbow MWD has not by unanimous resolution consented to the dissolution.
 - d. The proposed reorganization is not consistent with a prior action of the Commission pursuant to the adoption of special studies (Section 56378), spheres of influence (Section 56425), or service review (Section 56430).
31. Approve the reorganization subject to the terms and conditions attached hereto Exhibit F for the reasons set forth in the Executive Officer's report, and delegate to the Executive Officer pursuant to Government Code Section 57000(c) to commence Conducting Authority proceedings.
32. Determine that the territory to be reorganized is shall be designated the " Fallbrook Public Utility District / Rainbow Municipal Water District Reorganization"(Fallbrook Public Utility District; Rainbow Municipal Water District), with exterior boundaries that are definite and certain and consist of approximately 123.51 square miles Rainbow Municipal Water District: 79.5 square miles / Fallbrook Public Utility District: 44.01 square miles and generally conform to lines of assessment and ownership.

33. Find that both districts are registered-voter districts; utilize the regular County assessment roll and any existing general bonded indebtedness will transfer over to the Fallbrook PUD as successor agency.
34. Specify that the effective date for this reorganization shall be the date of recordation, unless otherwise specified in the terms and conditions.
35. (a) Modify the applicant's proposed governance for the Fallbrook PUD and specify that the governing board of the Fallbrook PUD shall be increased to nine members with all members elected by territorial unit (division); five members shall be selected among those members of the Fallbrook PUD and four members selected by the Rainbow MWD and that the size of the board shall decrease to seven members with all members elected by territorial unit based upon the expiration of board terms per Public Utilities Code Section 15973.1.

(b) The initial board of directors on the nine-member reorganized Fallbrook PUD shall be selected as follows: The Rainbow MWD shall provide to LAFCO the names of four existing members from the Rainbow MWD that will serve on the reorganized Fallbrook PUD prior to LAFCO's issuance of the Certificate of Completion. The Fallbrook PUD shall provide to LAFCO the names of five existing members from the Fallbrook PUD that will serve on the reorganized Fallbrook PUD. If either the Rainbow MWD or Fallbrook PUD do not submit to LAFCO said names of nine (9) board members prior to the issuance of the Certificate of Completion, then the Executive Officer shall by lot name the members from among the existing districts that have not submitted names to serve on the reorganized district.
36. Acknowledge that notice of the public hearing has been given pursuant to Government Code Sections 56661, 56155, and 56157.
37. Determine that if the Commission approves the proposed reorganization with or without modifications that the Fallbrook PUD will be required to agree to pay or reimburse the San Diego LAFCO for any legal and/or litigation related expenses. If a binding agreement is not prepared in advance of the hearing on the proposed reorganization, LAFCO's Legal Counsel is directed to prepare said agreement requiring that the Fallbrook PUD pay for or reimburse the San Diego LAFCO for any legal and/or litigation related expenses.
38. Direct the Executive Officer to implement these actions contained in the resolution approving the reorganization and to mail copies of the resolution as may be required by State Law and make any and all required filings with the County Assessor, County Auditor, and the State Board of Equalization as required by Section 57200, et seq., of the Government Code. Refer to Exhibit E for a Draft Resolution.

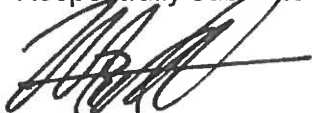
Or

Reorganization Option 2: *Disapprove the proposed reorganization of the Rainbow MWD and Fallbrook PUD.*

1. Find in accordance with the Executive Officer's determination that pursuant to Section 15061(b)(3) of the State CEQA Guidelines, sphere updates, affirmations, and amendments are not subject to the environmental impact evaluation process because it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment and the activity is not subject to CEQA.
2. Find in accordance with the Executive Officer's determination that pursuant to Section 15306 of the State CEQA Guidelines, the service review is not subject to the environmental impact evaluation process because the service review consists of basic data collection, research, management, and resource evaluation activities that will not result in a serious or major disturbance to an environmental resource. The project is strictly for information gathering purposes and is a part of a study leading to an action that has not yet been approved, adopted or funded.
3. Determine, pursuant to Government Code Section 56430, the San Diego Local Agency Formation Commission is required to conduct a service review before, or in conjunction with an action to establish or update a sphere of influence.
4. Determine, pursuant to Government Code Section 56425, the San Diego Local Agency Formation Commission is required to develop and determine a sphere of influence for each local governmental agency within the County, and review and update, as necessary.
5. Determine that the Commission originally adopted a sphere of influence for the Rainbow MWD on December 3, 1984 and updated On April 7, 2014.
6. Determine that the Commission originally adopted a sphere of influence for the Fallbrook PUD on January 7, 1985; affirmed on August 6, 2007; amend on July 6, 2015.
7. Determine the Rainbow MWD and Fallbrook PUD have undergone a supplemental sphere of influence for the Rainbow MWD, affirm and amend the sphere of influence for the Fallbrook PUD, and adopt the written Statement of Determinations for the associated service and sphere review as shown on Maps 1-4 and proposed in Exhibits A thru D, attached hereto.
8. Determine that per Government Code Section 56425(i), the written statements on file with the Commission are still up to date specifying the nature, location, and extent of any functions or classes of services provided by the Rainbow MWD and the Fallbrook PUD.
9. Find that the corporate powers of the Rainbow MWD have been used as specified in Government Code Section 56871 and that the MWD is a registered voter district, is inhabited, and the board of directors has not consented to dissolution pursuant to Government Code Section 57102.

10. Direct the Executive Officer to implement all of the items contained in the Executive Officer's recommendations and directives of the Commission in the form of resolution updating and amending the municipal service review and spheres of influence and disapproving the proposed reorganization.
11. Determine that great weight has been given to the resolution adopted by the Rainbow MWD raising objections to the proposed reorganization of the Rainbow MWD and Fallbrook PUD and disapprove the proposed reorganization.
12. Direct the Executive Officer to return to the Fallbrook PUD any unspent processing fees submitted by the PUD in association with the proposed reorganization, municipal service review, and sphere of influence study.
13. Direct the Executive Officer to prepare a resolution of denial based on the aforementioned items.

Respectfully submitted,



MICHAEL D. OTT
Executive Officer



HARRY EHRLICH
Local Governmental Consultant

MDO:HE:trl

Attachments:

Vicinity Maps (1 thru 4)

Exhibit A: Municipal Service Review Statement of Determinations: Rainbow MWD

Exhibit B: Municipal Service Review Statement of Determinations: Fallbrook PUD

Exhibit C: Sphere Review Statement of Determinations: Rainbow MWD

Exhibit D: Sphere Review Statement of Determinations: Fallbrook PUD

Exhibit E: Draft Resolution: "*Fallbrook PUD and Rainbow MWD Reorganization*"

Exhibit F: Terms and Conditions: "*Fallbrook PUD and Rainbow MWD Reorganization*"

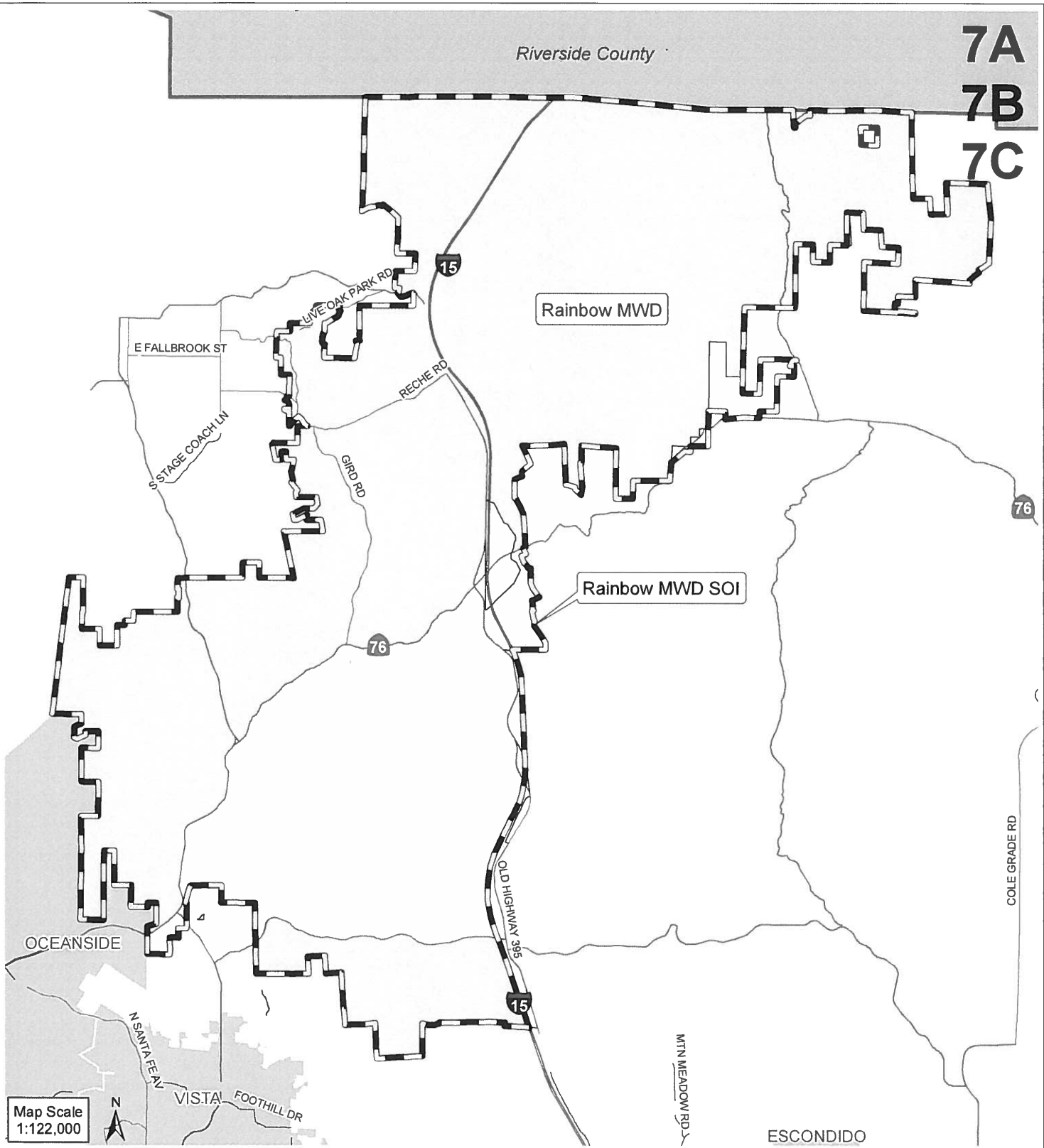
Exhibit G: Compensation of Rainbow MWD Classifications to Fallbrook PUD Classifications

Supporting documents can be downloaded from the link:

- http://www.sdlafco.org/Webpages/fallbrook_rainbow_reorg.htm

Riverside County

7A
7B
7C



Rainbow MWD

Rainbow MWD SOI

Map Scale
1:122,000



RO14-04
SA14-04a, SA14-04b
LPE14-04
MSR/SR13-66
MSR/SR13-82

MAP 1: Rainbow MWD

Proposed "Fallbrook PUD & Rainbow MWD Reorganization"
(Fallbrook PUD; Rainbow MWD): District dissolution, annexation,
and latent powers expansion for sewer service

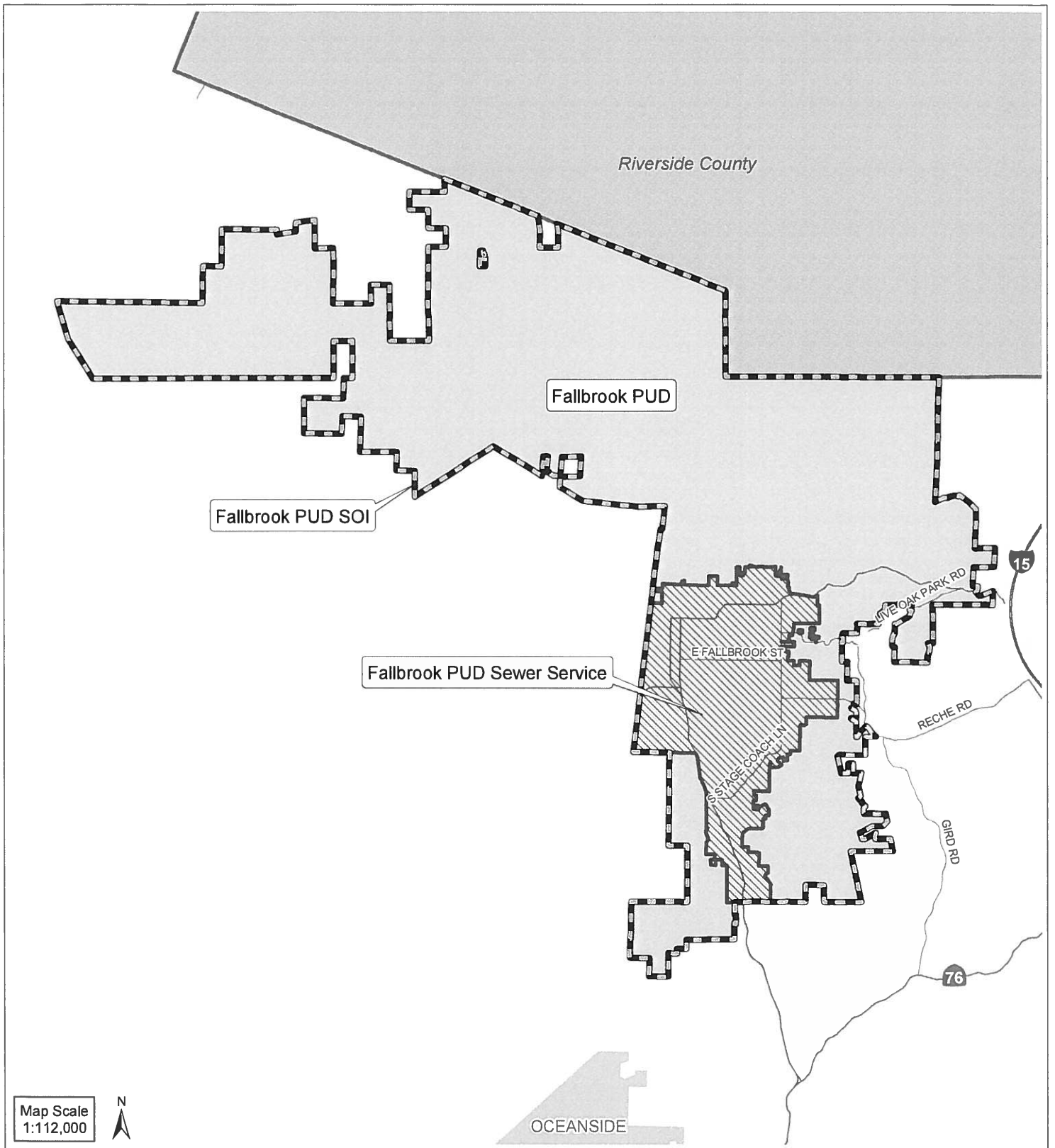
- Rainbow MWD
- Rainbow MWD SOI

SOI = Sphere of Influence

SAN DIEGO **LAFCO**



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Map Scale
1:112,000






OCEANSIDE

RO14-04
SA14-04a, SA14-04b
LPE14-04
MSR/SR13-66
MSR/SR13-82

MAP 2: Fallbrook PUD

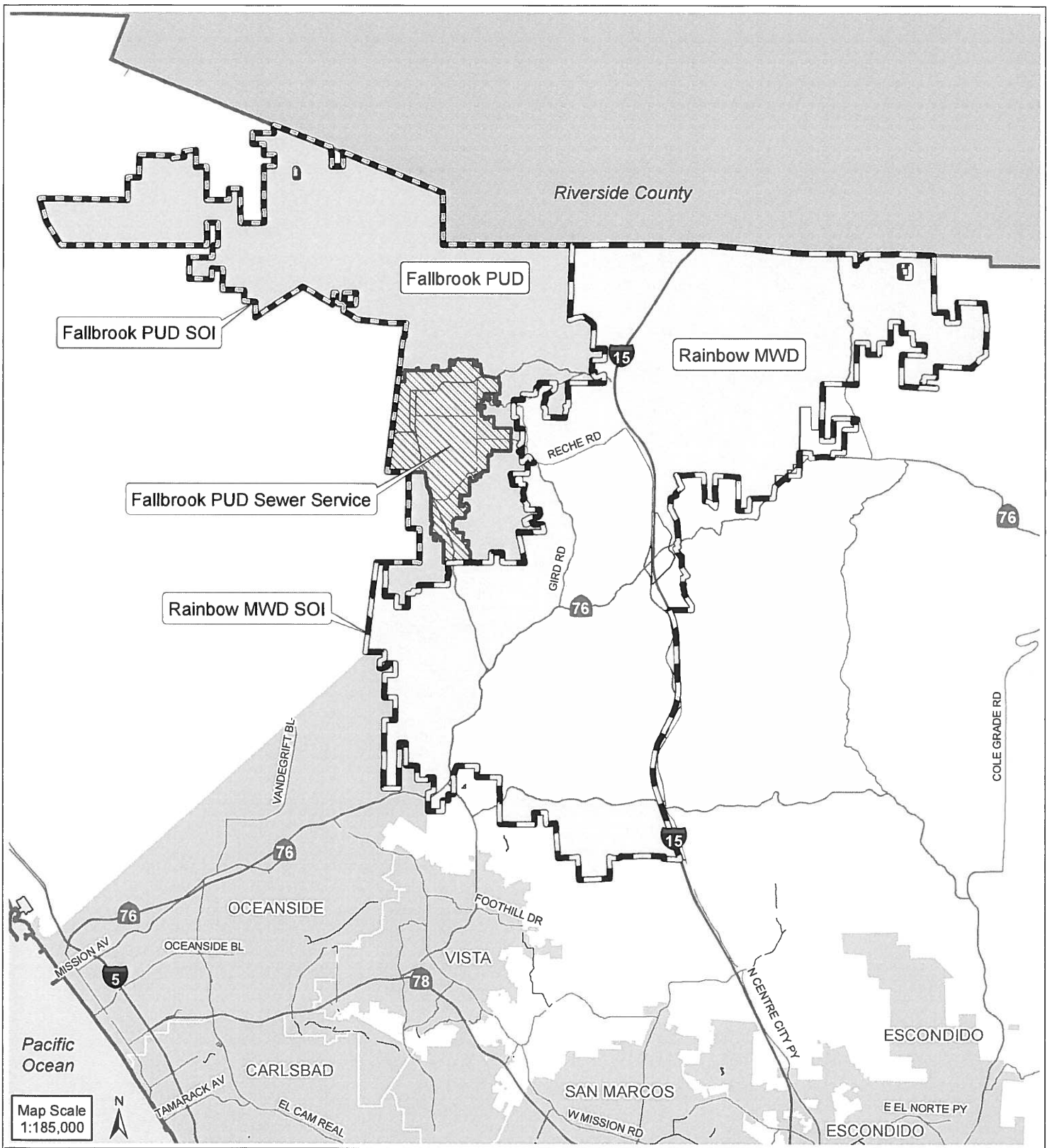
Proposed "Fallbrook PUD & Rainbow MWD Reorganization"
(Fallbrook PUD; Rainbow MWD): District dissolution, annexation,
and latent powers expansion for sewer service

-  Fallbrook PUD
 -  Fallbrook PUD SOI
 -  Fallbrook PUD Sewer Service
- SOI = Sphere of Influence

SAN DIEGO **LAFCO**

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RO14-04
 SA14-04a, SA14-04b
 LPE14-04
 MSR/SR13-66
 MSR/SR13-82

MAP 3: Fallbrook PUD and Rainbow MWD

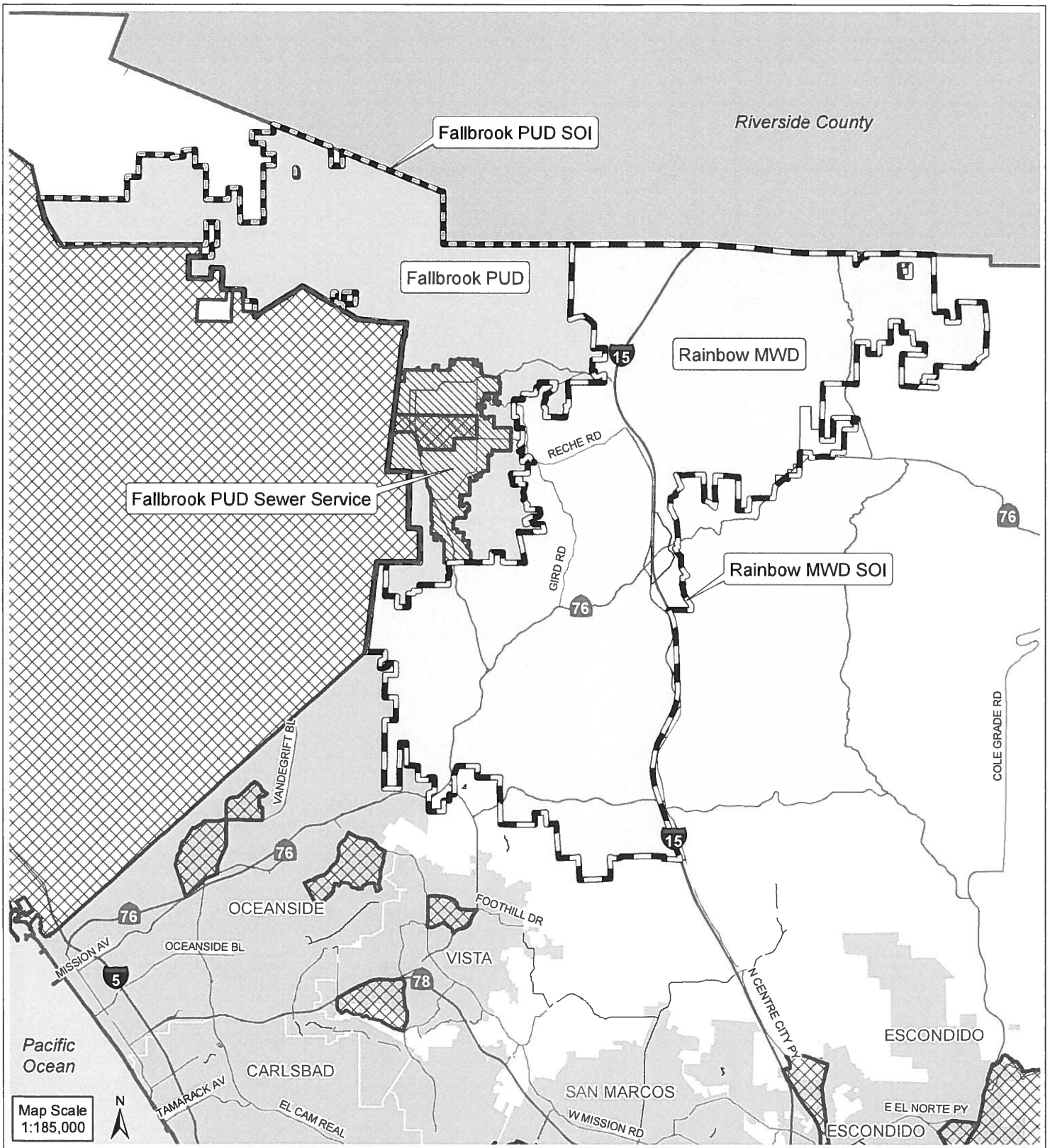
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 (Fallbrook PUD; Rainbow MWD): District dissolution, annexation,
 and latent powers expansion for sewer service

- Fallbrook PUD
- Fallbrook PUD SOI
- Fallbrook PUD Sewer Service
- Rainbow MWD
- Rainbow MWD SOI
- SOI = Sphere of Influence

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RO14-04
 SA14-04a, SA14-04b
 LPE14-04
 MSR/SR13-66
 MSR/SR13-82

**MAP 4: Disadvantaged Unincorporated Communities (DUC)
 Census Tracts with Median Household of \$46,166 or less**
 Proposed "Fallbrook PUD & Rainbow MWD Reorganization"
 (Fallbrook PUD; Rainbow MWD): District dissolution, annexation,
 and latent powers expansion for sewer service

- Median Household of \$46,166 or less
- Fallbrook PUD
- Fallbrook PUD Sewer Service
- Rainbow MWD
- SOI = Sphere of Influence

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**RECOMMENDED STATEMENT OF DETERMINATIONS
MUNICIPAL SERVICE REVIEW
RAINBOW MUNICIPAL WATER DISTRICT
MSR13-82**

**7A
7B
7C**

The following statement of determinations is prepared pursuant to section 56430 of the Government Code and fulfills LAFCO requirements regarding a service review for the Rainbow Municipal Water District. A written statement specifying the functions or classes of services provided by the District and establishing the nature, location, and extent of the functions or classes of district services is on file with the San Diego Local Agency Formation Commission.

(1) Growth and population projections for the affected area.

Efficient provision of public services is linked to an agency's ability to plan for future needs. For example, a water purveyor must be prepared to supply water for existing and future levels of demand, and also be able to determine where future demand will occur. MSRs will give LAFCO, affected agencies, and the public the means to examine both the existing and future need for public services and will evaluate whether projections for future growth and population patterns are integrated into an agency's planning function.

The population of the Rainbow Municipal Water District is projected to increase moderately over the next 25 years from about 19,495 to 27,238 in 2035. Territory in the Rainbow Municipal Water District is primarily zoned as rural residential and rural with some limited areas of commercial development. The primary land uses are residential and agricultural with limited areas of commercial use. Rainbow Municipal Water District is currently processing the annexation of the Campus Park West development approved by LAFCO near I-15 and SR-76 and Warner Ranch development on SR-76 near the Pala Indian Reservation. The Campus Park West development consists of 538 EDUs.

(2) The location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence.

On March 4, 2013 the San Diego LAFCO adopted Statements of Determinations for disadvantaged unincorporated communities associated with Rainbow Municipal Water District. These determinations have not changed.

(3) Present and planned capacity of public facilities, adequacy of public services, and infrastructure needs or deficiencies including needs or deficiencies related to sewers, municipal and industrial water, and structural fire protection in any disadvantaged unincorporated communities within or contiguous to the sphere of influence.

On March 4, 2013 the San Diego LAFCO adopted Statements of Determinations for disadvantaged unincorporated communities associated with Rainbow Municipal Water District.

(4) Financial ability of agencies to provide services; and

(5) Status of, and opportunities for, shared facilities.

Several times over the operating histories of Rainbow MWD and Fallbrook PUD, discussions have taken place at both staff and governing board levels regarding the possible combination of the two districts' operations into one consolidated district. These discussions were prompted, in part, by the contiguous service areas and similar

operating environments. For various reasons, discussions never resulted in a consolidation process moving forward. Discussions resumed in late 2010 to 2014 with an emphasis on exploring shared savings opportunities while still maintaining two separate operations and governance structures. Identified projects included joint communication system upgrades, customer billing efficiencies, and equipment sharing.

In the course of these new discussions, near-term retirements within Rainbow MWD senior management prompted another look at a full-scale consolidation or creation of a joint management team through the use of a Joint Powers Authority (JPA) formed by the two districts. The JPA provided for some cost reduction by potentially moving the general manager and some management staff into the JPA for oversight of both districts. It is estimated that up to eight positions could be consolidated through a JPA primarily in the management and administrative staff.

The operations structure would need to remain largely independent to maintain the separate Fallbrook PUD and Rainbow MWD organizations under the JPA model. It is estimated that the labor savings would be up to \$850,000 per year by year three, since the labor savings is generally in the higher paid management positions. The pro forma statements would be similar to the savings under the reorganization/consolidation, except the overall labor savings would be achieved in the first year with little subsequent labor savings. Potential benefits of reorganizing the districts or the use of a JPA include:

- Optimizing operating assets
- Improving emergency response
- Capturing economies of scale (warehousing, purchasing, risk management)
- Reducing administrative overhead
- Expanding water reclamation
- Consolidating operating management
- Advancing technology
- Strengthening financial capacity

It is estimated that a jurisdictional reorganization of the Rainbow MWD and Fallbrook PUD provides for additional cost reduction over the JPA by integration of both districts' management and staff. It is estimated that over a three-year period, a reduction in staff of up to 20 full-time equivalents could be accomplished while maintaining the existing level of service. This full reorganization would provide an annual estimated savings of up to \$2.5 million per year. The consolidation could also be accomplished over a longer time period or the staff reduction could be reduced in order to increase the level of service provided by the district, but full consolidation with optimized staffing levels would provide the greatest savings to ratepayers.

There are additional savings beside labor savings that can be achieved by combining the organization and integrating equipment and operations. These activities include:

- Reduced property and liability insurance
- Reduced vehicle fleet including heavy/specialty equipment
- Reduced information technology costs
- Reduced banking service fee and greater investment revenue
- Expanded internal training opportunities
- Reduced general counsel costs
- Reduced director costs

- Reduced audit costs
- Reduced operational costs of one office location with potential for rental income
- Optimized service area potential and pressure zones at district boundaries
- Reduced outsourcing potential and leverage future outsourcing needs

It is estimated that these items could provide another \$150,000 to \$300,000 in annual savings.

(6) Accountability for community service needs, including governmental structure and operational efficiencies.

LAFCO's role in encouraging efficiently provided public services depends, in part, on helping local agencies explore opportunities that improve accountability for community service needs. Sometimes changing the government structure or the governance via jurisdictional reorganization may also yield greater operational efficiencies and responsiveness.

Currently, the Fallbrook PUD is governed by five at-large members of the board that are elected for staggered terms of four years each. Rainbow MWD has five directors that are elected by division for staggered terms of four years each. Under Public Utility Code Section 15973.1, LAFCO may condition a reorganization or consolidation on increasing the number of directors to an odd number, such as 7, 9, or 11 members. However, since the total number of directors on the Rainbow MWD and Fallbrook PUD is currently ten (10), an eleven member board could not be selected as an option. LAFCO could also impose a condition whereby the number of directors is initially higher and then decreases with the expiration of board member terms. The PUD Principal Act specifies that the number would be reduced until it equals the number of members permitted by the Principal Act (five), unless a larger number is specified by LAFCO.

Per Government Code Sections 56886 (k) and (n), LAFCO also has authority beyond specifying the number of directors to serve on the board of the reorganized district. While a provision contained in Sections 15951 and 15954 of the PUD Principal Act requires that PUD boards either be comprised of members elected at-large or a combination of members elected at-large or by territorial unit, LAFCO does have some latitude with respect to governance structure pursuant to Government Code Sections 56000 et seq. Given the voting issues and need to accommodate the PUD Act with Government Code Section 56000 et seq., plus the need to encourage accountability for provision of services, LAFCO may need to consider the merits of harmonizing the governance provisions contained in the LAFCO statutes with the PUD Act. Accordingly, LAFCO staff believes that if the proposed reorganization of the Fallbrook PUD and Rainbow MWD is approved, LAFCO may consider a modification to the proposal submitted by Fallbrook and require that the reorganized Fallbrook PUD Board consist of all members elected by territorial unit (division). In our opinion, this presents some legal risk, but it is legally defensible method to harmonize conflicting provisions in Government Code Section 56000 et seq. with the PUD Act.

While, the Fallbrook PUD has proposed that the reorganized PUD be expanded to a seven-member board with four members elected by territorial unit (division) and three members at-large, LAFCO staff believes that if the reorganization is approved, the board should initially consist of nine members (elected by territorial unit or a combination of members elected by territorial unit and at-large) and eventually decrease to seven

members (elected by territorial unit or a combination of members elected by territorial unit and at-large) through attrition. After the initial selection of board members, elections would then be held upon the expiration of the terms of the board members. Selection of the initial board would be based on appointments made by each of the districts. The choice of the North County JPA was seven members for the reorganized Fallbrook PUD.

(7) Any other matter related to effective or efficient service delivery, as required by commission policy.

Additional matters related to effective or efficient service delivery as required by commission policy are not necessary in considering MSR13-82 for the Rainbow Municipal Water District.

**RECOMMENDED STATEMENT OF DETERMINATIONS
MUNICIPAL SERVICE REVIEW
FALLBROOK PUBLIC UTILITY DISTRICT
MSR13-66**

**7A
7B
7C**

The following statement of determinations is prepared pursuant to section 56430 of the Government Code and fulfills LAFCO requirements regarding a service review for the Fallbrook Public Utility District. A written statement specifying the functions or classes of services provided by the District and establishing the nature, location, and extent of the functions or classes of district services is on file with the San Diego Local Agency Formation Commission.

(1) Growth and population projections for the affected area.

Efficient provision of public services is linked to an agency's ability to plan for future needs. For example, a water purveyor must be prepared to supply water for existing and future levels of demand, and also be able to determine where future demand will occur. MSRs will give LAFCO, affected agencies, and the public the means to examine both the existing and future need for public services and will evaluate whether projections for future growth and population patterns are integrated into an agency's planning function.

The Fallbrook Public Utility District serves 44 square miles and the Rainbow Municipal Water District serves 79 square miles. The combined service area would be 123 square miles. The Fallbrook Public Utility District provides imported water and sewer services to nearly 35,000 residents living in Fallbrook. The population of the Fallbrook Public Utility District is projected to increase moderately over the next 25 years from 34,894 to 43,726 in 2035.

Territory in the Fallbrook Public Utility District is primarily zoned as rural residential and rural with some limited areas of commercial development. The primary land uses are residential and agricultural with limited areas of commercial use. The zoning is based on the County of San Diego General Plan. There is no change in land uses anticipated based on the proposed reorganization.

(2) The location and characteristics of any disadvantaged unincorporated communities within or contiguous to the sphere of influence.

On March 4, 2013 the San Diego LAFCO adopted Statements of Determinations for disadvantaged unincorporated communities associated with Fallbrook Public Utility District. These determinations have not changed.

(3) Present and planned capacity of public facilities, adequacy of public services, and infrastructure needs or deficiencies including needs or deficiencies related to sewers, municipal and industrial water, and structural fire protection in any disadvantaged unincorporated communities within or contiguous to the sphere of influence.

On March 4, 2013 the San Diego LAFCO adopted Statements of Determinations for disadvantaged unincorporated communities associated with Fallbrook Public Utility District. These determinations have not changed.

(4) Financial ability of agencies to provide services; and

(5) Status of, and opportunities for, shared facilities.

Several times over the operating histories of Rainbow MWD and Fallbrook PUD, discussions have taken place at both staff and governing board levels regarding the possible combination of the two districts' operations into one consolidated district. These discussions were prompted, in part, by the contiguous service areas and similar operating environments. For various reasons, discussions never resulted in a consolidation process moving forward. Discussions resumed in late 2010 to 2014 with an emphasis on exploring shared savings opportunities while still maintaining two separate operations and governance structures. Identified projects included joint communication system upgrades, customer billing efficiencies, and equipment sharing.

In the course of these new discussions, near-term retirements within Rainbow MWD senior management prompted another look at a full-scale consolidation or creation of a joint management team through the use of a Joint Powers Authority (JPA) formed by the two districts. The JPA provided for some cost reduction by potentially moving the general manager and some management staff into the JPA for oversight of both districts. It is estimated that up to eight positions could be consolidated through a JPA primarily in the management and administrative staff.

The operations structure would need to remain largely independent to maintain the separate Fallbrook PUD and Rainbow MWD organizations under the JPA model. It is estimated that the labor savings would be up to \$850,000 per year by year three, since the labor savings is generally in the higher paid management positions. The pro forma statements would be similar to the savings under the reorganization/consolidation, except the overall labor savings would be achieved in the first year with little subsequent labor savings. Potential benefits of reorganizing the districts or the use of a JPA include:

- Optimizing operating assets
- Improving emergency response
- Capturing economies of scale (warehousing, purchasing, risk management)
- Reducing administrative overhead
- Expanding water reclamation
- Consolidating operating management
- Advancing technology
- Strengthening financial capacity

It is estimated that a jurisdictional reorganization of the Rainbow MWD and Fallbrook PUD provides for additional cost reduction over the JPA by integration of both districts' management and staff. It is estimated that over a three-year period, a reduction in staff of up to 20 full-time equivalents could be accomplished while maintaining the existing level of service. This full reorganization would provide an annual estimated savings of up to \$2.5 million per year. The consolidation could also be accomplished over a longer time period or the staff reduction could be reduced in order to increase the level of service provided by the district, but full consolidation with optimized staffing levels would provide the greatest savings to ratepayers.

There are additional savings beside labor savings that can be achieved by combining the organization and integrating equipment and operations. These activities include:

- Reduced property and liability insurance
- Reduced vehicle fleet including heavy/specialty equipment
- Reduced information technology costs

- Reduced banking service fee and greater investment revenue
- Expanded internal training opportunities
- Reduced general counsel costs
- Reduced director costs
- Reduced audit costs
- Reduced operational costs of one office location with potential for rental income
- Optimized service area potential and pressure zones at district boundaries
- Reduced outsourcing potential and leverage future outsourcing needs

It is estimated that these items could provide another \$150,000 to \$300,000 in annual savings.

(6) Accountability for community service needs, including governmental structure and operational efficiencies.

LAFCO's role in encouraging efficiently provided public services depends, in part, on helping local agencies explore opportunities that improve accountability for community service needs. Sometimes changing the government structure or the governance via jurisdictional reorganization may also yield greater operational efficiencies and responsiveness.

Currently, the Fallbrook PUD is governed by five at-large members of the board that are elected for staggered terms of four years each. Rainbow MWD has five directors that are elected by division for staggered terms of four years each. Under Public Utility Code Section 15973.1, LAFCO may condition a reorganization or consolidation on increasing the number of directors to an odd number, such as 7, 9, or 11 members. However, since the total number of directors on the Rainbow MWD and Fallbrook PUD is currently ten (10), an eleven member board could not be selected as an option. LAFCO could also impose a condition whereby the number of directors is initially higher and then decreases with the expiration of board member terms. The PUD Principal Act specifies that the number would be reduced until it equals the number of members permitted by the Principal Act (five), unless a larger number is specified by LAFCO.

Per Government Code Sections 56886 (k) and (n), LAFCO also has authority beyond specifying the number of directors to serve on the board of the reorganized district. While a provision contained in Sections 15951 and 15954 of the PUD Principal Act requires that PUD boards either be comprised of members elected at-large or a combination of members elected at-large or by territorial unit, LAFCO does have some latitude with respect to governance structure pursuant to Government Code Sections 56000 et seq. Given the voting issues and need to accommodate the PUD Act with Government Code Section 56000 et seq., plus the need to encourage accountability for provision of services, LAFCO may need to consider the merits of harmonizing the governance provisions contained in the LAFCO statutes with the PUD Act. Accordingly, LAFCO staff believes that if the proposed reorganization of the Fallbrook PUD and Rainbow MWD is approved, LAFCO may consider a modification to the proposal submitted by Fallbrook and require that the reorganized Fallbrook PUD Board consist of all members elected by territorial unit (division). In our opinion, this presents some legal risk, but it is a legally defensible method to harmonize conflicting provisions in Government Code Section 56000 et seq. with the PUD Act.

While, the Fallbrook PUD has proposed that the reorganized PUD be expanded to a seven-member board with four members elected by territorial unit (division) and three members at-large, LAFCO staff believes that if the reorganization is approved, the board should initially consist of nine members (elected by territorial unit or a combination of members elected by territorial unit and at-large) and eventually decrease to seven members (elected by territorial unit or a combination of members elected by territorial unit and at-large) through attrition. After the initial selection of board members, elections would then be held upon the expiration of the terms of the board members. Selection of the initial board would be based on appointments made by each of the districts. The choice of the North County JPA was seven members for the reorganized Fallbrook PUD.

(7) Any other matter related to effective or efficient service delivery, as required by commission policy.

Additional matters related to effective or efficient service delivery as required by commission policy are not necessary in considering MSR13-66 for the Fallbrook Public Utility District.

**RECOMMENDED STATEMENT OF DETERMINATIONS
PROPOSED TO A TRANSITIONAL SPHERE OF INFLUENCE FOR THE
RAINBOW MUNICIPAL WATER DISTRICT
SR13-82**

**7A
7B
7C**

The following statement of determinations is prepared pursuant to Section 56425 of the Government Code for designation of the area shown on the attached map as an amendment to the sphere of influence for the Rainbow Municipal Water District. A written statement specifying the functions or classes of services provided by the District and establishing the nature, location, and extent of the functions or classes of District services is on file with the San Diego Local Agency Formation Commission.

(1) The present and planned land uses in the area, including agricultural and open space lands.

The Rainbow Municipal Water District provides imported water for distribution to the district's approximate 19,495 residents. In the areas served by the District's public sewer, the District is responsible for the facilities necessary to collect and transmit sewage from the District to a treatment plant located in Oceanside. The district owns, through contract, capacity to treat one million gallons of sewage per day at the Oceanside plant. The population of the Rainbow Municipal Water District is projected to increase moderately from about 19,495 to 27,238 in 2035.

Territory in the Rainbow Municipal Water District is primarily zoned as rural residential and rural with some limited areas of commercial development. The primary land uses are residential and agricultural with limited areas of commercial use. The zoning is based on the County of San Diego General Plan. There is no change in land uses anticipated based on the proposed reorganization and sphere amendment.

Rainbow Municipal Water District is currently processing the annexation of the Campus Park West development approved by LAFCO near I-15 and SR-76 and Warner Ranch development on SR-76 near the Pala Indian Reservation. The Campus Park West development consists of 538 EDUs. The Warner Ranch development consists of 780 EDUs. No change in these developments and proposed annexation is anticipated as a result of the proposed reorganization. These proposed development projects will be subject to County of San Diego land use approvals and associated and environmental review.

The proposed reorganization and the related sphere of influence and service review determinations will not affect these development approvals and the successor agency would be required to honor the contractual obligations associated with extension of services to these project areas. On April 7, 2014, the Commission updated Rainbow Municipal Water District's sphere of influence and approved the following additions and changes to the sphere:

- (1) A non-contiguous portion of the San Luis Rey Municipal Water District was added to the sphere, along with the Warner Property, the segment of Pala Road adjacent to the Warner Property, as well as three areas located north of San Luis Rey Municipal Water District and south of Rainbow Municipal Water District; and
- (2) Resolution of the I-15 Special Study Area.

If the Commission believes that a reorganization involving dissolution of the Rainbow Municipal Water District, annexation of the dissolved district area to Fallbrook Public Utility District, and expansion of Fallbrook Public Utility District's latent sewer powers should occur, then it would be necessary to first amend the Rainbow Municipal Water District's sphere and assign the municipal water district a transitional sphere designation. The Fallbrook Public Utility District sphere would also need to be amended by receiving the (former) sphere designation of the Rainbow Municipal Water District.

- (2) The present and probable need for public facilities and services in the area; and**
- (3) The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.**

A Capital Facilities Assessment for the Rainbow MWD and Fallbrook PUD facilities was completed by the engineering and planning manager for Fallbrook PUD and the assistant general manager/district engineer for Rainbow MWD. Rainbow MWD provides service to a larger service area with higher overall water demands, but fewer customers. Rainbow MWD is a retail agency for both water and wastewater.

Rainbow MWD purchases all of its water from the San Diego County Water Authority. In 2011, water sales totaled 18,000 acre-feet a year (7,800 water accounts) and wastewater production was the equivalent of 820 acre-feet a year (2,300 accounts). Due to topography of the Rainbow MWD service area, substantial pumping is required (7 pump stations with an average horsepower of 406). The average age of the pump stations is 25 years. The District's pump stations require ongoing investment and maintenance, but are considered reliable. Due to the age of facilities, the older pumping facilities will need to be replaced in the future.

The Rainbow MWD has four tanks/reservoirs with varying sizes from 8 million gallons to 200 million gallons. To comply with regulatory requirements, the Rainbow MWD has had to cover, install treatment, or remove reservoirs from service. Rainbow MWD has complied with these requirements by installing covers and taking one storage facility out of service. Rainbow MWD has also recently recoated their storage tanks. In terms of pipelines, the Rainbow MWD primarily has cement mortar lined and coated steel water lines. Rainbow MWD has a large percentage of pipelines that are reaching the end of their predicted useful life; approximately 17 percent of the pipelines are older than 50 years. The Rainbow MWD relies on imported water from the San Diego County Water Authority for all of its water needs. The MWD does not currently own or operate any wells or water treatment facilities.

With respect to wastewater/recycled water, the Rainbow MWD has six lift stations of varying capacity. The average flow (Gallons per Day) is 126,000 GPD and the average age is 30 years. The Rainbow MWD will have growing capital needs as the age of its pump stations reach the end of their predicted useful life. The Rainbow MWD has 55 miles of sewer lines and none of the lines are older than 50 years. The Rainbow MWD is a retail agency customer by contract of the City of Oceanside, which provides treatment at the City's San Luis Rey Wastewater Treatment Plant. The MWD pays a percentage of any capital improvements at the treatment plant based on their respective capacity ownership of the plant.

(4) The existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency.

The community of Rainbow is located in the rough, foothill portion of northern San Diego County, bordered on the north by Riverside County. The foothill peaks adjacent to the valley are both rocky and steep, reaching a maximum elevation of 1,800. Large live oaks and sycamores can be found on the valley floor while scrub oak and green chaparral cover the rocky hillsides.

A small historic Rural Village remains in the Rainbow Valley serving local residents. This scenic rural community contains riparian valleys in Stewart Canyon and Rainbow Valley and the steep rocky slopes of Mount Olympus. A large portion (approximately 7,900 acres) of Rainbow remains underdeveloped. Steep slopes surrounding the valleys, combined with a high groundwater table and lack of a public sewer system, limits the amount of future growth the Rainbow can accommodate.

Rural residential land use comprises approximately 70 percent of the developed portions of the community. While there is no multi-family development, there is an established mobile home park that occupies a 23-acre site located west of I-15. Commercial development occupies a smaller portion of the community, primarily to serve residents in the immediate vicinity. A 20-acre area adjacent to Frontage Road/Old Highway 395, two small commercial corners on 5th Street, and acreage on the east and west sides of I-15 on the northern border of the community comprise the commercially-designated areas in Rainbow.

Agriculture is an existing and potential resource within Rainbow with 3,520 acres of the Rainbow Community Planning Area's (CPA) 9,660 acres in agricultural production. This acreage has continued to increase over the past 20 years. Avocado, citrus, flowers, nut crops, and commercial nurseries primarily characterize agricultural uses in Rainbow. In addition, small-scale tree and vine crops are grown in conjunction with residential uses. Although there are no industrial areas within the Rainbow CPA, a limited impact industrial use along the east side of the I-15 corridor is currently serving the needs of the local community. The Rainbow MWD is located within the Rainbow Community Planning Group, Bonsall Community Sponsor Group, and the Bonsall and Vallecitos School Districts.

(5) For an update of a sphere of influence of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protection, that occurs pursuant to subdivision (g) on or after July 1, 2012, the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence.

The Rainbow MWD provides these services upon request and application to all applicable properties. Additionally, this issue has been addressed by the Commission in the SB 244 Local Agency Matrix and implementation plan approved by the Commission on March 4, 2013.

**RECOMMENDED STATEMENT OF DETERMINATIONS
PROPOSED AMENDMENT OF A LARGER THAN DISTRICT
SPHERE OF INFLUENCE FOR THE
FALLBROOK PUBLIC UTILITY DISTRICT
SR13-66**

The following statement of determinations is prepared pursuant to Section 56425 of the Government Code for designation of the area shown on the attached map as an amendment to the sphere of influence for the Fallbrook Public Utility District. A written statement specifying the functions or classes of services provided by the District and establishing the nature, location, and extent of the functions or classes of District services is on file with the San Diego Local Agency Formation Commission.

- (1) The present and planned land uses in the area, including agricultural and open space lands.**

The Fallbrook PUD serves 44 square miles and the Rainbow MWD serves 79 square miles. The combined service area would be 123 square miles. The Fallbrook Public Utility District provides imported water and sewer services to nearly 35,000 residents living in Fallbrook. The District also produces about one and one-half million gallons of recycled water daily that is used to irrigate nurseries, playing fields, landscaped freeway medians and common areas. The population of the Fallbrook PUD is projected to increase moderately from 34,894 to 43,726 in 2035.

Territory in the Fallbrook PUD is primarily zoned as rural residential and rural with some limited areas of commercial development. The primary land uses are residential and agricultural with limited areas of commercial use. The zoning is based on the County of San Diego General Plan. There is no change in land uses anticipated based on the proposed reorganization. The Fallbrook Public Utility District sphere will be amended to include all territory within the Rainbow Municipal Water District sphere. If the reorganization of the Fallbrook Public Utility District and Rainbow Municipal Water District does not occur, then the Fallbrook Public Utility District sphere will be reaffirmed and not amended.

- (2) The present and probable need for public facilities and services in the area;
and
(3) The present capacity of public facilities and adequacy of public services that the agency provides or is authorized to provide.**

A Capital Facilities Assessment for the Fallbrook PUD and Rainbow MWD facilities was completed by the engineering and planning manager for Fallbrook PUD and the assistant general manager/district engineer for Rainbow MWD. Fallbrook PUD is a retail agency for water and wastewater, as well as, wastewater treatment and conveyance.

Fallbrook PUD purchases almost all of its water from the San Diego County Water Authority and has very limited local water supplies. In 2011, water sales totaled 10,700 acre feet a year (9,134 water accounts) and wastewater production was the equivalent of 2,000 acre-feet a year (4,973 accounts). Due to topography, the majority of the PUD service area is fed by gravity and pumping is required primarily in the De Luz area (4 pump stations with an average horsepower of 160). The average age of the pump stations is 20 years. The District's pump stations require ongoing investment and maintenance, but are considered reliable. Due to the age of facilities, the older pumping

facilities will need to be replaced in the future.

The Fallbrook PUD has one large uncovered earthen reservoir (Red Mountain Reservoir). To comply with regulatory requirements, the Fallbrook PUD has had to cover, install treatment, or remove reservoirs from service. The District has complied with these requirements by installing treatment at this one reservoir site. In terms of pipelines, the Fallbrook PUD primarily has cement mortar lined and coated steel water lines.

Fallbrook PUD has a moderate percentage of pipelines that are reaching the end of their predicted useful life; approximately 4 percent of the pipelines are older than 50 years. The Fallbrook PUD primarily relies on imported water from the San Diego County Water Authority for its water needs. However, the Fallbrook PUD does own and operate one small well that produces 100 Acre Foot a Year this well has limited capital requirements. The District has also installed Ultra Violet disinfection for treatment of water from Red Mountain Reservoir to comply with federal Environmental Protection Agency regulations. The facility was completed in 2009 for \$7 million and will require equipment replacements in about 10 years.

With respect to wastewater/Recycled Water, the Fallbrook has six lift stations of varying capacity. The average flow (Gallons per Day) is 40,000 GPD and the average age is 38 years. The Fallbrook PUD will have growing capital needs as the age of its pump stations reach the end of their predicted useful life.

The Fallbrook PUD has 78 miles of sewer lines and none of the lines are older than 50 years. The Fallbrook PUD's conveyance facilities are somewhat old and are reaching the end of their predicted useful life; replacement or rehabilitation are options. The District has relatively little pipeline per account and per annual wastewater production, so the capital requirement is less than for conveyance facilities. In addition, the Fallbrook PUD owns 22.5 miles of recycled pipelines including their ocean outfall. These facilities are used to convey recycled water. Unsold excess recycled water is disposed of through the ocean outfall. The average age of the recycled water facilities is 30 years.

(4) The existence of any social or economic communities of interest in the area if the commission determines that they are relevant to the agency.

The community of Fallbrook consists of 36,000 acres and is located south of Riverside County and east of Camp Pendleton. Its neighboring communities are Bonsall to the south, Pala to the east and Rainbow to the northeast. Most of the area is characterized by rolling hills covered in avocado and citrus orchards. However, as the topography changes, it creates natural buffers that separate Fallbrook from its neighbors.

The Santa Margarita River crosses through the rugged terrain in the northern portion of the planning area and the San Luis Rey River runs along the southern boundary that Fallbrook shares with Bonsall. The eastern portion is dominated by steep slopes and I-15. A Town Center is located near the western boundary. The Town Center includes a historical district that has become the focus of a current revitalization effort. Bonsall, Rainbow, and De Luz are Fallbrook's neighboring communities, and share the same general history and rural characteristics as Fallbrook.

Fallbrook PUD provides a variety of goods and services for these adjacent communities, in addition to medical personnel and facilities, schools, recreation, and entertainment opportunities. Immediately west of downtown Fallbrook is Marine Corps Base Camp Pendleton and the Naval Weapons Station. Many current and retired Marine and Navy families make their home in Fallbrook.

- (5) For an update of a sphere of influence of a city or special district that provides public facilities or services related to sewers, municipal and industrial water, or structural fire protection, that occurs pursuant to subdivision (g) on or after July 1, 2012, the present and probable need for those public facilities and services of any disadvantaged unincorporated communities within the existing sphere of influence.**

The Fallbrook Public Utility District provides these services upon request and application to all applicable properties. Additionally, this issue has been addressed by the commission in the SB 244 Local Agency Matrix and implementation plan approved by commission on March 4, 2013.

Minute Items: 7B and 7C
Ref. Nos.: SA14-04a; SA14-04b; RO14-04; LPE14-04

**RESOLUTION OF THE
LOCAL AGENCY FORMATION COMMISSION
OF THE COUNTY OF SAN DIEGO APPROVING THE
ADOPTING AMENDMENTS TO THE SPHERES OF INFLUENCE FOR
THE FALLBROOK PUBLIC UTILITY DISTRICT(a) AND
RAINBOW MUNICIPAL WATER DISTRICT(b)
AND
MAKING DETERMINATIONS AND APPROVING THE
“FALLBROOK PUBLIC UTILITY AND RAINBOW MUNICIPAL WATER
DISTRICT REORGANIZATION”
(FALLBROOK PUBLIC UTILITY DISTRICT; RAINBOW MUNICIPAL
WATER DISTRICT)
AND
APPROVING THE PROPOSED EXPANSION OF LATENT POWERS
FOR SEWER SERVICE WITHIN
FALLBROOK PUBLIC UTILITY DISTRICT**

On motion of Commissioner xxx, seconded by Commissioner xxx, the following resolution is adopted:

WHEREAS, pursuant to Government Code Section 56425, the San Diego Local Agency Formation Commission is required to develop and determine a sphere of influence for each local governmental agency within the County; and

WHEREAS, said Government Code Section 56425 further provides that a sphere of influence, after adoption, shall be used by the Commission as a factor in making regular decisions over which it has jurisdiction; and

WHEREAS, the Commission’s Sphere of Influence Guidelines provide that the sphere of influence provides guidance in reviewing jurisdictional proposals and promotes efficient provision of organized services; and

WHEREAS, the Commission originally adopted the sphere of influence for the Fallbrook Public Utility District on January 7, 1985; affirmed on August 6, 2007 and amended on July 6, 2015; and

WHEREAS, the Commission originally adopted the sphere of influence for the Rainbow Municipal Water District on December 3, 1984; and updated on April 7, 2014; and

WHEREAS, the Commission approved an amendment to the sphere of influence for the Rainbow Municipal Water District to a transitional designation (zero sphere); and Fallbrook Public Utility District to larger than agency sphere of influence on July 6, 2015.

WHEREAS, the Commission adopted a transitional designation (zero sphere) for Rainbow Municipal Water District on July 6, 2015.

WHEREAS, the Expansion of Latent Powers for Sewer Service includes the territory of the dissolved Rainbow Municipal Water District: and

WHEREAS, an application has been made to amend, update, and/or affirm the spheres of influence for the Rainbow Municipal Water District and Fallbrook Public Utility District; and

WHEREAS, a resolution of application was submitted to this Commission for dissolution of Rainbow Municipal Water District, annexation of territory formerly within Rainbow Municipal Water District territory to the Fallbrook Public Utility District, and Assumption of Sewer Service Authority from the Rainbow Municipal Water District, and latent powers expansion and provision of sewer service; which resolution was adopted by the Board of Directors of the Fallbrook Public Utility District as Resolution No. 4815, dated April 28, 2014, pursuant to Title 5, Division 3, commencing with Section 56000 of the Government Code; and

WHEREAS, the reason for the proposed sphere updates, affirmations, amendments, reorganization and an expansion of latent powers for sewer service are to capture economies of scale and reduce administrative overhead; share equipment and reduce vehicle fleet including heavy/specialty equipment; improve emergency response; enhance coverage for service zones and pressure zones at district boundaries; integrate and consolidate both districts' management and staff; improve water resource management via use of recycled water; improve the ability of the combined district to fully utilize local water supplies; strengthening financial capacity; reduce property and liability insurance; reduce vehicle fleet including heavy/specialty equipment; reduce information technology costs; reduce banking service fees and produce greater investment performance; expand internal training opportunities; reduce legal costs; reduced Director costs; reduce audit costs; reduce general office expenses; optimize

service areas and pressure zones at district boundaries; reduce costly outsourcing and leverage future outsourcing needs; and

WHEREAS, the territory proposed for sphere updates, affirmations, amendments, reorganization, dissolution, and expansion of latent powers is as described in the application on file with the Local Agency Formation Commission; and

WHEREAS, the Executive Officer of the Commission has filed his report on said sphere updates, affirmations, reorganization, dissolution, and expansion of latent powers for assumption of sewer service from the Rainbow Municipal Water District, which was received and considered by the Commission; and

WHEREAS, pursuant to Government Code Section 56427, the Executive Officer of this Commission set a public hearing on the proposed sphere updates, affirmations, amendments, reorganization, dissolution, and expansion of latent powers, sphere of influence and service review for July 6, 2015, and gave notice of the date, time, and place of said hearing in accordance with Government Code Sections 56834 and 56835.

NOW THEREFORE, BE IT RESOLVED, that the Commission hereby finds, determines, and orders as follows:

(1) The sphere amendment hearing was held on the date set therefore, and due notice of said hearing was given in the manner required by law.

(2) At that hearing the Commission called for, heard, and considered all interested parties and read and considered the report of the Executive Officer.

(3) The Commission finds in accordance with the Executive Officer's determination that pursuant to Section 15061(b)(3) of the State CEQA Guidelines, the sphere updates, affirmations, and amendments are not subject to the environmental impact evaluation process because it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment and the activity is not subject to CEQA.

(4) The Commission finds in accordance with the Executive Officer's determination that pursuant to Section 15306 of the State CEQA Guidelines, the service review is not subject to the environmental impact evaluation process because the service review consists of basic data collection, research, management, and resource evaluation activities that will not result in a serious or major disturbance to an environmental resource. The project is strictly for

information gathering purposes and is a part of a study leading to an action that has not yet been approved, adopted or funded.

(5) The Commission concurs in the determination of the Fallbrook Public Utility District that pursuant to Section 15378(b)(5) of the State CEQA Guidelines, that the reorganization is an organizational or administrative activity that will not result in any direct or indirect changes to the environment.

(6) The Commission finds in accordance with the Executive Officer's determination that pursuant to Section 15320 of the State CEQA Guidelines, that the proposed reorganization consists of changes of organization of local agencies where the changes do not change the geographical area in which previously existing powers are exercised.

(7) Determine, pursuant to Government Code Section 56430, the San Diego Local Agency Formation Commission is required to conduct a service review before, or in conjunction with an action to establish or update a sphere of influence.

(8) Determine, pursuant to Government Code Section 56425, the San Diego Local Agency Formation Commission is required to develop and determine a sphere of influence for each local governmental agency within the County, and review and update, as necessary.

(9) Determine that the Commission originally adopted a sphere of influence for the Rainbow Municipal Water District on December 3, 1984 and updated on April 7, 2014.

(10) Determine that the Commission originally adopted a sphere of influence for the Fallbrook Public Utility District on January 7, 1985; affirmed on August 6, 2007 and amended on July 6, 2015.

(11) Determine the Rainbow Municipal Water District and Fallbrook Public Utility District have undergone a supplemental sphere of influence and municipal service review in 2015 and has been amended the sphere of influence for the Rainbow Municipal Water District to a transitional designation and the sphere of influence for the Fallbrook Public Utility District has been affirmed and amended by assigning the Fallbrook Public Utility District a sphere that is the same as the sphere of the Rainbow Municipal Water District prior to the proposed amendment, and adopt the written Statement of Determinations for the associated service and sphere review as shown on Maps 1 thru 4 and proposed in Exhibits A thru D, attached hereto.

(12) Determine that per Government Code Section 56425(i), the written statements on file with the Commission specifying the nature, location, and extent of any functions or classes of services provided by the Rainbow Municipal Water District will be consolidated with the written statements on file with the Fallbrook Public Utility District, and the Fallbrook Public Utility District shall have all the powers and authorities of the Rainbow Municipal Water District with respect to the nature, location, and extent of those functions or classes of services within subject reorganization area.

(13) Determine that if the Rainbow Municipal Water District and Fallbrook Public Utility District Reorganization is denied by the Commission or if the voters reject the reorganization, then the Rainbow Municipal Water District sphere of influence will remain as currently designated on April 7, 2014, and its written statements on file with LAFCO per Government 56425(i) shall not be consolidated with Fallbrook Public Utility District's written statements.

(14) Determine that the proposed reorganization of the Rainbow Municipal Water District and Fallbrook Public Utility District is consistent with the proposed sphere of influence and service review, whereby, the Rainbow Municipal Water District's sphere is proposed to be amended to a transitional designation (contingent on approval of the Rainbow Municipal Water District and Fallbrook Public Utility District Reorganization), and the Fallbrook Public Utility District is proposed to be assigned a sphere that is the same as the sphere of the Rainbow Municipal Water District prior to the proposed dissolution of the Municipal Water District.

(15) Determine that a resolution of application was submitted to the San Diego LAFCO for a reorganization involving dissolution of the Rainbow Municipal Water District, annexation of the dissolved Rainbow Municipal Water District territory to Fallbrook Public Utility District, and expansion of the Fallbrook Public Utility District's latent sewer powers to provide sewer service within the former boundaries of the Rainbow Municipal Water District and provision of water service within the former boundaries of the Rainbow Municipal Water District

(16) Determine that the reasons for the proposed reorganization are to capture economies of scale and reduce administrative overhead; share equipment and reduce vehicle fleet including heavy/specialty equipment; Improve emergency response; enhance coverage for service zones and pressure zones at district boundaries; integrate and consolidate both districts' management and staff; improve water resource management via use of recycled water; improve the ability of the combined district to fully utilize local water supplies;

strengthening financial capacity; reduce property and liability insurance; reduce vehicle fleet including heavy/specialty equipment; reduce information technology costs; reduce banking service fees and produce greater investment performance; expand internal training opportunities; reduce legal costs; reduced Director costs; reduce audit costs; reduce general office expenses; optimize service areas and pressure zones at district boundaries; reduce costly outsourcing and leverage future outsourcing needs.

(17) Determine that the territory proposed for reorganization is as described in the application on file with the Local Agency Formation Commission.

(18) Determine that the proposal, as approved, consists of a reorganization involving dissolution of the Rainbow Municipal Water District, annexation of the dissolved Rainbow Municipal Water District territory to Fallbrook Public Utility District, and expansion of the Fallbrook Public Utility District's latent sewer powers to provide sewer service within the former boundaries of the Rainbow Municipal Water District, and water service within the former boundaries of the Rainbow Municipal Water District for the reasons set forth in the Executive Officer's report.

(19) Pursuant to Government Code Section 57077.3, order the reorganization without confirmation of the voters except that if the reorganization meets the requirements of subdivision (b) of Section 57077.3, the reorganization shall be subject to confirmation of the voters within the Rainbow Municipal Water District.

(20) Acknowledge that contrary interpretations of Government Code Sections 56876, 56877, 57077.3 and 57077.4 may be possible, and concur with the following conclusions:

- a. Determine that Section 56876 will not apply to the proposed reorganization, because Section 56876 applies to a proposal involving only annexation or detachment, whereas, the proposed reorganization involves annexation, detachment, and expansion of latent powers. Further conclude that if Section 56876 were to be applied to the proposed reorganization that an election would only be called due to the submittal of protest;
- b. Determine that Section 56877 grants LAFCO authority to require a vote within the territory of the district to which annexation is proposed (Fallbrook Public Utility District) if certain assessed value of land and voter requirements are met and find that the information contained in the Executive Officer's report

concludes that that these assessed value of land and voter requirements are applicable to the proposed reorganization. Determine that Section 56877 only will only to the proposed reorganization when an election has been called due to the submittal of written protest;

- c. Determine that Section 57077.3 applies to the proposed reorganization because the reorganization is not described in Sections 57075, 57076, 57077, 57077.4, or 51711;
- d. Determine that Section 57077.4 does not apply because the proposed reorganization consists of an action other than dissolution and annexation; and
- e. Determine that if Sections 56876, 56877, or 57077.4, or other statute apply, that San Diego LAFCO declines to exercise discretion to order an election absent the submittal of written protest. Further determine that the exercise of such discretion would be inappropriate given the other means by which voters and landowners of both districts may be heard on this matter.

(21) Determine that if the reorganization is subject to an election within the Rainbow Municipal Water District pursuant to Government Code Section 57077.3(b), then the reorganization shall also be subject to confirmation by the voters in an election within the Fallbrook Public Utility District pursuant to Government Code Section 56877, and that a majority of the voters within both the Rainbow Municipal Water District and Fallbrook Public Utility District must favor the reorganization in order to confirm the reorganization.

(22) Per the Executive Officer's report, find that the number of voters residing within the Rainbow Municipal Water District and the assessed value of land within the Rainbow Municipal Water District is greater than one-half or more than the number of voters and/or assessed value of land within the Fallbrook Public Utility District.

(23) Determine that if an election is held and voters reject the reorganization ballot measure, then reorganization would not occur and no substantially similar reorganization proposal shall be resubmitted for a period of two years per Government Code Section 57090.

(24) Determine that if the Commission approves the proposed reorganization with or without modifications, a condition will be added to the terms and conditions requiring that the Fallbrook Public Utility District pay for any and all election costs, whether the ballot measure succeeds or fails, and any of

LAFCO's costs associated with reviewing written protests per Government Code Section 57150.

(25) Determine pursuant to Government Code Section 56668.3, the Commission has given great weight to the Rainbow Municipal Water District resolution raising objections to the proposed reorganization, but concludes that the objections lack merit and the reasons for the reorganization as set forth in the said staff report are compelling and justify the Commission's action approving the reorganization with modifications recommended by LAFCO staff.

(26) Conclude that the Commission's consideration of the Rainbow Municipal Water District's resolution of objection is based only on financial or service related concerns pursuant to the definitions of these terms per Government Code Sections 56668.3(b) and 56857, and the Commission is not required to make any express findings concerning any of the factors under consideration.

(27) Determine that the Fallbrook PUD has sufficient revenue to provide water and sewer service within the boundaries of the (former) boundaries of the Rainbow Municipal Water District per the reasons contained in the Executive Officer's report pursuant to Government Code Section 56824.14.

(28) Determine that the Commission has considered the factors enumerated in Government Code Sections 56425 and 56668 as discussed in the Executive Officer's report.

(29) Determine that the reorganization is in compliance with LAFCO Policies L-101 and L-102, L-106, and L-107 in that the reorganization will simplify governmental services, stabilize rates for agricultural and non-agricultural water users, and result in planned, orderly, and efficient development patterns, and will help maintain the physical and economic integrity of agricultural lands; and conforms to LAFCO's related sphere and service review, and conflict resolution policies.

(30) Determine that the resolution making determinations per Government Code Section 56881 include the following applicable findings or determinations pursuant to Section 56375.

- a. Conclude that the Commission has reviewed the proposed reorganization and sphere changes per CEQA, applicable LAFCO policies, such as LAFCO's Policy L-101(Preservation of Open Space and Agricultural Lands), L-102 (Sphere of Influence); L-106 (Strategy of Conducting Municipal Service Reviews; and L-107 (Jurisdictional Conflicts);

- b. Find that Government Code Section 56375(a)(2-3) is not applicable because Section 56375(a)(2-3) determinations only relate to LAFCO-initiated proposals. The proposed reorganization was initiated by the Fallbrook Public Utility District and not LAFCO;
- c. Find that Government Code Section 56375(4,5,7,8) pertains to city annexations and is not applicable;
- d. Find that Government Code Section 56375(a)(5) is not applicable because LAFCO has not imposed any conditions that would directly regulate land use density or intensity, property development, or subdivision requirements;
- e. Find that Government Code Section 56375(b) relates to whether the affected territory in the reorganization is inhabited or uninhabited; determine that the proposed reorganization is inhabited;
- f. Find that Government Code Section 56375(c-f) pertains to consolidations or city annexations and is not applicable to the proposed reorganization because the reorganization does not involve consolidation or city annexation;
- g. Find that Government Code Section 56375(g-k) covers general LAFCO operational matters (e.g., adoption of written procedures, standards, enforcement of regulations, retention of personnel, etc.) and is not applicable to the proposed reorganization;
- h. Find that Government Code Section 56375(l) pertains to whether the boundaries of the territory in any proposal are definite and certain and that the proposed reorganization will reference the County Assessor's determinations regarding the certainty of the proposed reorganization boundaries;
- i. Find that Government Code Sections 56375(m-p) pertains to city annexations and is not applicable to the proposed reorganization;
- j. Find that Government Code Section 56375(q) pertains to multi-county proposals and is not applicable to the proposed reorganization;
- k. Find that Government Code Section 56375(r) pertains to LAFCO authorities related to mutual water companies and the proposed reorganization will not affect mutual water companies;

- I. Find that Government Code Section 56375.2 pertains to Marin LAFCO and is inapplicable to the proposed reorganization; and
- m. Find that Government Code Section 56375.3 pertains to city island annexation proposals and is not applicable to the proposed reorganization.

(31) Determine that none of the findings per Government Code Section 57102 *are applicable*; therefore, the election process shall not be waived for the proposed reorganization of the Fallbrook Public Utility District and Rainbow Municipal Water District because:

- a. The corporate powers of the Rainbow Municipal Water District have been used per Government Code Section 56871;
- b. The Rainbow Municipal Water District has not by unanimous resolution consented to the dissolution; and
- c. The proposed reorganization is not consistent with a prior action of the Commission pursuant to the adoption of special studies (Section 56378), spheres of influence (Section 56425), or service review (Section 56430).

(32) Approve the reorganization with boundaries as described in Exhibit F subject to the terms and conditions attached hereto for the reasons set forth in the Executive Officer's report, and to include the following actions:

- a. Dissolution of Rainbow Municipal Water District.
- b. Annexation of the Rainbow Municipal Water District territory to the Fallbrook Public Utility District.
- c. Expansion of Fallbrook Public Utility District's latent sewer powers coterminous with the boundaries of the dissolution.

(33) Delegate to the Executive Officer pursuant to Government Code Section 57000(c) to commence Conducting Authority proceedings.

(34) Determine that the territory to be reorganized shall be designated the "*Fallbrook Public Utility District and Rainbow Municipal Water District Reorganization*" (*Fallbrook Public Utility District; Rainbow Municipal Water District*), with exterior boundaries that are definite and certain and consist of approximately 123.51 square miles (Rainbow Municipal Water District: 79.5 square miles and Fallbrook Public Utility District: 44.01 square miles) and generally conform to lines of assessment and ownership.

(35) Find that both districts are registered–voter districts; utilize the regular County assessment roll and any existing general bonded indebtedness will transfer over to the Fallbrook Public Utility District as successor agency.

(36) Specify that the effective date for this reorganization shall be the date of recordation, unless otherwise specified in the terms and conditions.

(37) Modify the applicant's proposed governance for the Fallbrook Public Utility District and specify that the Governing Board of the Fallbrook Public Utility District shall be increased to nine members with all members elected by territorial unit (division); five members shall be selected among those members of the Fallbrook Public Utility District and four members selected by the Rainbow Municipal Water District and that the size of the board shall decrease to seven members with all members elected by territorial unit based upon the expiration of board terms per Public Utilities Code Section 15973.1.

(38) The initial board of directors on the nine member reorganized Fallbrook Public Utility District shall be selected as follows: The Rainbow Municipal Water District shall provide to LAFCO the names of four existing members from the Rainbow Municipal Water District that will serve on the reorganized Fallbrook Public Utility District prior to LAFCO's issuance of the Certificate of Completion. The Fallbrook Public Utility District shall provide to LAFCO the names of five existing members from the Fallbrook Public Utility District that will serve on the reorganized Fallbrook Public Utility District. If either the Rainbow Municipal Water District or Fallbrook Public Utility District do not submit to LAFCO said names of nine board members prior to the issuance of the Certificate of Completion, then the Executive Officer shall by lot name the members from among the existing districts that have not submitted names to serve on the reorganized district.

(39) Acknowledge that notice of the public hearing has been given pursuant to Government Code Sections 56661, 56155, and 56157.

(40) Determine that if the Commission approves the proposed reorganization with or without modifications that the Fallbrook Public Utility District will be required to agree to pay or reimburse the San Diego LAFCO for any legal and/or litigation related expenses. If a binding agreement is not prepared in advance of the hearing on the proposed reorganization, LAFCO's Legal Counsel is directed to prepare said agreement requiring that the Fallbrook Public Utility District pay for or reimburse the San Diego LAFCO for any legal and/or litigation related expenses.

(41) Direct the Executive Officer to implement these actions contained in the resolution approving and ordering the reorganization and to mail copies of the resolution as may be required by State Law and make any and all required filings with the County Assessor, County Auditor, and the State Board of Equalization as required by Section 57200 et seq., of the Government Code.

DRAFT

Passed and adopted by the Local Agency Formation Commission of the County of San Diego this xxx day of xxxx, 2015, by the following vote:

AYES:

NOES:

ABSENT:

ABSTAINING:

STATE OF CALIFORNIA)

COUNTY OF SAN DIEGO)

I, MICHAEL D. OTT, Executive Officer of the Local Agency Formation Commission of the County of San Diego, State of California, hereby certify that I have compared the foregoing copy with the original resolution adopted by said Commission at its regular meeting on July 6, 2015, which original resolution is now on file in my office; and that same contains a full, true, and correct transcript therefrom and of the whole thereof.

Witness my hand this 5th day of August, 2015.

MICHAEL D. OTT, Executive Officer
San Diego Local Agency Formation Commission

PROPOSED
TERMS and CONDITIONS

*“Fallbrook Public Utility District and Rainbow Municipal Water District Reorganization”
(Fallbrook Public Utility District; Rainbow Municipal Water District)
District Dissolution and Annexation of Rainbow Municipal Water District
and
Expansion of Latent Powers for Assumption of Sewer Service Authority within the
Fallbrook Public Utility District
(RO14-04; LPE14-04)*

1. The Rainbow Municipal Water District shall be dissolved and all of its corporate powers shall cease, except as the Commission may otherwise provide pursuant to Section 56886 or for the purpose of winding up the affairs of the district.
2. All territory (formerly) in Rainbow Municipal Water District shall be annexed to the Fallbrook Public Utility District.
3. Fallbrook Public Utility District shall be the successor to the Rainbow Municipal Water District for the purpose of succeeding to all of the rights, duties and lawful obligations of the dissolved Rainbow Municipal Water District, with respect to enforcement, performance or payment of any outstanding bonds or other lawfully enacted contracts, obligations, including the provisions of and other liabilities of the dissolved Rainbow Municipal Water District, including but not limited to:
 - i. As of its 2013 audit, the Rainbow Municipal Water District has \$11,223,207 in total liabilities. \$6,702,680 is long-term debt under the Safe Drinking Water State Revolving Fund/American Recovery and Reinvestment Act, with State subsidy for 50 percent (50%) of the principal of the debt.
 - ii. The Rainbow Municipal Water District also received a \$18.2 million State Revolving Fund loan for the Morro Reservoir project and the Pala Mesa Tank project, with loan proceeds received after June 20, 2013 and therefore not reflected in the audit. The Rainbow Municipal Water District has an agreement with the City of Oceanside for wastewater treatment and outfall capacity. Under Government Code section 57500, the successor district will succeed to all of the powers, rights, duties, and obligations of this water service contract, and any other contracts of the Rainbow Municipal Water District.
 - iii. Rainbow Municipal Water District’s Employee Association Memorandum of Understanding (“MOU”).

- iv. Rainbow Municipal Water District's Ordinance No. 95-1.
4. Fallbrook Public Utility District's authorization to provide latent sewer powers services shall be expanded to include territory formerly in Rainbow Municipal Water District.
 5. The Fallbrook Public Utility District upon the effective date of the Reorganization shall continue to exist and operate pursuant to the provisions of the Public Utility District Act (Public Utilities Code Section 15500 et seq.), and shall provide the services previously provided within the boundaries of both Fallbrook Public Utility District and Rainbow Municipal Water District.
 6. All property, whether real or personal, including all monies (including cash on hand and monies due to uncollected) of the Rainbow Municipal Water District shall be transferred to and vested in Fallbrook Public Utility District, including but not limited to:
 - i. As of its 2013 audit, the Rainbow Municipal Water District has \$104,316,335 in total assets. Key capital assets include 7 pump stations, 12 holding tanks, 4 reservoirs, 318 miles of water pipeline, 6 sewage lift stations, and 55 miles of gravity/force main sewer pipeline.
 7. Fallbrook Public Utility District will use divisional accounting to keep discrete records for two divisions of the district, demarcated by the boundaries of Rainbow Municipal Water District and Fallbrook Public Utility District that existed before the Reorganization. Under this system, an accounting system will be maintained for each division that, at the point of reorganization, gives credit for the assets and liabilities of each district that existed before the Reorganization. This will allow Fallbrook Public Utility District, after the Reorganization, the ability to establish accurate divisional budgets and rates and charges based solely on the cost to provide services within each division's service area, so rates in each service area will not be affected by the Reorganization of the other. Fallbrook Public Utility District will generate a consolidated financial report. Based upon divisional accounting requirements and generally accepted rate-making principles, Fallbrook PUD shall track Rainbow MWD's assets, revenues, and expenditures, separately from the assets, revenues, and expenditures within the boundaries of the Fallbrook PUD as of the effective date of reorganization. For purposes of this condition, existing assets, revenues, and expenditures mean the assets, revenues, and expenditures within each district on the effective date of the proposed reorganization.

8. Upon the effective date of the Reorganization, Fallbrook Public Utility District shall be authorized and entitled to extend and/or continue to levy, impose, or fix and collect any previously authorized charge, fee, assessment or tax approved, imposed and/or levied by Rainbow Municipal Water District and Fallbrook Public Utility District, including but not limited any rates and charges for the provision of water, sewer and other services and including previously approved and adopted Water Standby/Availability Charges of both the dissolved Rainbow Municipal Water District and Fallbrook Public Utility District. Responsibility for any pending changes of jurisdictional organization and service commitments submitted to or approved by the Rainbow MWD shall be assumed and continued by the Fallbrook PUD as successor agency with no change of status or consideration.

9. The employees of the Rainbow Municipal Water District will all become employees of the Fallbrook Public Utility District. As of the effective date, employees of the dissolved Rainbow MWD (full time employees, contract employees, and temporary or limited term employees) shall be offered equivalent employment that is as closely defined in duties, functions, and responsibilities with the employee's current position, as determined by the Fallbrook PUD. Any former Rainbow MWD employees whose hourly wage upon the effective date of the reorganization exceeds the Fallbrook PUD salary range for the position in which they were placed will be Y-rated (kept at the prior Rainbow MWD compensation level) at that salary until the Fallbrook PUD salary range equals or exceeds that amount. Former Rainbow MWD employees who are Y-rated will still receive an annual performance appraisal but will not be eligible for any merit increases. At the discretion of the Fallbrook PUD, former Rainbow MWD employees who are Y-rated will be eligible for cost-of-living adjustments provided to all employees in their work unit at the discretion of the Fallbrook PUD, and the Fallbrook PUD salary ranges shall be adjusted as necessary to accommodate the cost-of-living adjustment(s). Contracts for all employees with ongoing contracts shall be transferred from the dissolved Rainbow MWD to the Fallbrook PUD for the duration of such contract. No additional personnel will be hired as a result of the reorganization. All obligations of the dissolved Rainbow MWD shall continue through the Fallbrook PUD including but not limited to costs associated with contract benefits, payment of retirement liabilities and administrative costs. The current full-time employees of the Rainbow MWD shall be transferred to, and become employees of the Fallbrook PUD. Employees within the dissolved Rainbow MWD shall retain seniority with the Fallbrook PUD as though no interruption in service had occurred. Seniority shall be used to determine rates for the administration of annual leave, sick leave, and to establish

layoff lists, if applicable. All existing annual leave and sick leave accrued by former employees of the dissolved Rainbow MWD prior to dissolution will be frozen at the applicable hourly rate for each employee prior to the dissolution. Compensation for employee frozen annual leave and sick leave will be subject to the adopted rules, ordinances, and directives of the Fallbrook PUD. Time and rate shall be used to determine or establish vacation selection. Probationary employees of the Rainbow MWD will continue in a probationary status with the Fallbrook PUD until completion of their remaining probationary period. New hires and promotions will be conducted by the Fallbrook PUD pursuant to the current system and lists of the dissolved Rainbow MWD. Eligible personnel from the dissolved Rainbow MWD may take upcoming promotional exams with the Fallbrook PUD if they meet all posted requirements. Any other currently existing differences in salaries and benefits will be addressed in the next negotiation cycle for the successor MOUs with the Fallbrook PUD. The needs and impacts of and on former Rainbow MWD employees will be given careful consideration during the negotiation process. After a minimum transition period of two years from the effective date of the reorganization, the Fallbrook PUD shall have the ability to offer early retirement incentives if the reorganization or future events not foreseen in the reorganization process result in duplication of positions that countermand the cost effectiveness of the reorganization. A liaison from among the employees of the dissolved Rainbow MWD shall be appointed by the Fallbrook PUD for a period of up to three years following the effective date of the reorganization to assist with the transition.

10. The Fallbrook Public Utility District and Rainbow Municipal Water District each have an Employee Association Memorandum of Understanding ("MOU"). These MOUs will remain in place for employees until the third quarter of 2014 after the effective date of the reorganization, at which time the districts will develop a combined MOU, unless the MOUs are amended prior to the effective date of the reorganization, to become effective upon the date of the Reorganization.
11. The Boards of Directors of the Fallbrook Public Utility District and Rainbow Municipal Water District each have contracts with the Board of Administration of the California Public Employees' Retirement System ("PERS") under the PERS "classic" 2.5% at 55 formula. The Fallbrook Public Utility District and PERS will develop a combined contract that shall be deemed a continuation of both districts' PERS contracts pursuant to Government Code section 20508. The Fallbrook Public Utility District's contract shall preserve the classic formula for continuing employee members of PERS. Accumulated contributions, assets and liability for

service under the former districts' contracts are vested rights of continuing employee members of PERS, and shall be merged into the contract of the successor district upon reorganization pursuant to Government Code Section 20508.

12. The Reorganization shall be subject to the prohibitions set out in Government Code section 56885.5(a)(4):
 - (A) Approving any increase in compensation or benefits for members of the governing board, its officers, or the executive officer of the agency.
 - (B) Appropriating, encumbering, expending, or otherwise obligating, any revenue of the agency beyond that provided in the current budget at the time the dissolution is approved by the commission.
13. ~~The Board of Directors of the Fallbrook Public Utility District shall be a seven-member board, composed of three directors from the Rainbow Municipal Water District board (selected by the Rainbow Municipal Water District board), and four directors from the Fallbrook Public Utility District board (selected by the Fallbrook Public Utility District board). It is proposed that three of the directors of the FPUD successor board will be elected at-large and four directors by division. The Board of Directors of the reorganized Fallbrook Public Utility District shall be a nine-member board, composed of all members elected by territorial unit, unless the Commission or a court determines that the board must be consist of a combination of territorial units and at-large representatives. In that case, then five members of the reorganized district shall be elected by territorial unit and 4 members shall be elected at-large. Upon the expiration of the terms of the members of the board of directors of the reorganized district, the total number of members on the board of directors shall be reduced to seven members. The reduction to seven members shall be based on the terms of members that first expire following the effective date of the reorganization. Upon the reduction of the board to seven members, all members shall be elected by territorial unit, or if the Commission or a court determines that the board must consist of territorial units and at-large representatives, then four members shall be elected by territorial unit and three members shall be elected at-large.~~
14. The initial board of directors on the nine-member reorganized Fallbrook PUD shall be selected as follows: The Rainbow MWD shall provide to LAFCO the names of four existing members from the Rainbow MWD that will serve on the reorganized Fallbrook PUD prior to LAFCO's issuance of the Certificate of Completion. The Fallbrook PUD shall provide to LAFCO the names of five existing members from the Fallbrook PUD that will serve

on the reorganized Fallbrook PUD. If either the Rainbow MWD or Fallbrook PUD do not submit to LAFCO said names of nine (9) board members prior to the issuance of the Certificate of Completion, then the Executive Officer shall by lot name the members from among the existing districts that have not submitted names to serve on the reorganized district.

15. The Fallbrook PUD shall submit maps to LAFCO depicting the proposed territorial units prior to the recordation date of the proposed reorganization.
16. Determination by LAFCO that if sufficient written protest is submitted to the proposed reorganization from within the boundaries of the Rainbow MWD, an election will be held confirming the proposed reorganization per Government Code Section 57077.3 or 57077.4. If sufficient written protest is submitted, then an election shall be called within both the Rainbow MWD and Fallbrook PUD and a majority of the votes cast within both Rainbow MWD and Fallbrook PUD shall be necessary to confirm the Commission's order approving the proposed reorganization.
17. Payment by the Fallbrook PUD of associated conducting authority protest, and election costs.
18. As the successor to the Rainbow MWD, the Fallbrook PUD shall conduct a review of the finances, infrastructure, staffing, and service commitments of the Rainbow MWD prior to the recordation of the proposed reorganization.

CURRENT FPUD CLASSIFICATIONS/PAY RANGES

CLASSIFICATION	MIN. PER MO.	MAX. PER MO.
ACCOUNTING/CUSTOMER SERVICES ASST I	\$ 3,753.00	\$ 4,687.00
ACCOUNTING/CUSTOMER SERVICES ASST II	\$ 4,141.00	\$ 5,172.00
ACCOUNTING SUPERVISOR	\$ 6,150.00	\$ 7,680.00
ADMIN ASST TO WATERMASTER I	\$ 4,351.00	\$ 5,432.00
ADMIN ASST TO WATERMASTER II	\$ 5,304.00	\$ 6,621.00
ADMINISTRATIVE OFFICE SPECIALIST	\$ 4,042.00	\$ 5,047.00
ADMINISTRATIVE SERVICES MANAGER/TREASURER	\$ 10,333.11	\$ 13,557.94
ASSISTANT GENERAL MANAGER	\$ 10,333.11	\$ 13,557.94
BACKFLOW/CROSS-CONNECTION TECH	\$ 4,351.00	\$ 5,432.00
CHIEF PLANT OPERATOR	\$ 6,351.25	\$ 8,579.17
CHIEF SYSTEM OPERATOR	\$ 6,351.25	\$ 8,579.17
CUSTOMER SERVICE REPRESENTATIVE I	\$ 3,000.00	\$ 3,753.00
CUSTOMER SERVICE REPRESENTATIVE II	\$ 3,484.00	\$ 4,351.00
CUSTOMER SERVICE SPECIALIST	\$ 3,943.00	\$ 4,924.00
DROUGHT MANAGEMENT COORDINATOR	\$ 3,075.00	\$ 3,846.00
ENGINEERING TECH I	\$ 4,141.00	\$ 5,172.00
ENGINEERING TECH II	\$ 4,801.00	\$ 6,150.00
ENGINEERING TECH III	\$ 5,047.00	\$ 6,480.00
ENVIRONMENTAL COMPLIANCE TECH	\$ 5,571.00	\$ 7,131.00
EQUIPMENT MECHANIC	\$ 3,943.00	\$ 4,924.00
EQUIPMENT TECH	\$ 4,460.00	\$ 5,710.00
FOREMAN	\$ 5,710.00	\$ 7,680.00
GENERAL MANAGER	\$ 19,160.70	\$ 24,660.00
GIS SPECIALIST	\$ 5,172.00	\$ 6,480.00
HUMAN RESOURCES ADMINISTRATOR	\$ 7,759.96	\$ 10,181.75
INFORMATION SYSTEMS TECH	\$ 5,172.00	\$ 6,480.00
INSTRUMENTATION & CONTROL SPECIALIST	\$ 5,304.00	\$ 7,131.00
LABORATORY TECH I	\$ 4,801.00	\$ 6,150.00
LABORATORY TECH II	\$ 5,172.00	\$ 6,621.00
LEAD PLANT OPERATOR	\$ 5,047.00	\$ 6,480.00
LEAD SYSTEM OPERATOR	\$ 5,172.00	\$ 6,621.00
MAINTENANCE ELECTRICIAN	\$ 4,460.00	\$ 5,710.00
MECHANICAL TECHNICIAN	\$ 4,924.00	\$ 6,480.00
OPERATIONS MANAGER	\$ 8,953.97	\$ 11,748.39
OPERATIONS TECH	\$ 4,924.00	\$ 6,480.00
PLANT MAINTENANCE WORKER I	\$ 3,397.00	\$ 4,460.00
PLANT MAINTENANCE WORKER II	\$ 3,661.00	\$ 4,924.00
PLANT OPERATOR I	\$ 4,141.00	\$ 5,172.00
PLANT OPERATOR II	\$ 4,574.00	\$ 5,852.00
PUBLIC AFFAIRS SPECIALIST	\$ 5,710.00	\$ 7,131.00
SAFETY & RISK ADMINISTRATOR	\$ 5,432.00	\$ 7,131.00
SECRETARY	\$ 5,571.00	\$ 6,956.00
SYSTEM OPERATOR I	\$ 3,943.00	\$ 5,047.00
SYSTEM OPERATOR II	\$ 4,574.00	\$ 5,852.00
UTILITY TECH	\$ 4,245.00	\$ 5,852.00
UTILITY WORKER I	\$ 3,397.00	\$ 4,460.00
UTILITY WORKER II	\$ 3,661.00	\$ 4,924.00
WAREHOUSE/PURCHASING SPECIALIST	\$ 4,141.00	\$ 5,172.00
WAREHOUSE/SHOP SUPERVISOR	\$ 5,710.00	\$ 7,490.00

RAINBOW MWD SIMILAR POSITIONS

7/1/15 RAINBOW 2% COLA

RAINBOW CLASSIFICATION	MIN PER MONTH	MIN DIFF.	MAX PER MONTH	MAX DIFF.	MAX % DIFF	MIN PER MONTH	MIN DIFF.	MAX PER MONTH	MAX DIFF.	MAX % DIFF
ACCOUNTING/HR SPEC I	\$ 4,694.00	\$ 941.00	\$ 6,159.00	\$ 1,472.00	31%	\$ 4,787.88	\$ 1,034.88	\$ 6,282.18	\$ 1,595.18	34%
ACCOUNTING/HR SPEC II	\$ 5,181.00	\$ 1,040.00	\$ 6,799.00	\$ 1,627.00	31%	\$ 5,284.02	\$ 1,143.62	\$ 6,934.98	\$ 1,762.98	34%
SR. ACCOUNTANT	\$ 7,819.00	\$ 1,669.00	\$ 10,259.00	\$ 2,579.00	34%	\$ 7,975.38	\$ 1,825.38	\$ 10,464.18	\$ 2,784.18	36%
ADMINISTRATIVE ASST II	\$ 4,468.00	\$ 426.00	\$ 5,862.00	\$ 815.00	16%	\$ 4,557.36	\$ 515.36	\$ 5,979.24	\$ 932.24	18%
FINANCE MANAGER	\$ 10,009.00	\$ (324.11)	\$ 13,133.00	\$ (424.94)	-3%	\$ 10,209.18	\$ (123.98)	\$ 13,395.66	\$ (162.28)	-1%
DISTRICT ENGINEER	\$ 10,516.00	\$ 182.89	\$ 13,797.00	\$ 239.06	2%	\$ 10,726.32	\$ 393.21	\$ 14,072.94	\$ 515.00	4%
WATER OPS SUPERINTENDENT	\$ 7,819.00	\$ 1,467.75	\$ 10,259.00	\$ 1,679.83	20%	\$ 7,975.38	\$ 1,624.13	\$ 10,464.18	\$ 1,885.01	22%
CUST SVC REP I	\$ 3,490.00	\$ 490.00	\$ 4,580.00	\$ 827.00	22%	\$ 3,559.80	\$ 559.80	\$ 4,671.60	\$ 918.60	24%
CUST SVC REP II	\$ 3,853.00	\$ 369.00	\$ 5,055.00	\$ 704.00	16%	\$ 3,930.06	\$ 446.06	\$ 5,156.10	\$ 805.10	19%
SR CUST SVC REP	\$ 4,694.00	\$ 751.00	\$ 6,159.00	\$ 1,235.00	25%	\$ 4,787.88	\$ 844.88	\$ 6,282.18	\$ 1,358.18	28%
ENGINEERING INSPECTOR II	\$ 5,181.00	\$ 134.00	\$ 6,799.00	\$ 339.00	5%	\$ 5,284.62	\$ 237.62	\$ 6,934.98	\$ 474.98	7%
EQUIP MECH I	\$ 4,253.00	\$ 310.00	\$ 5,880.00	\$ 656.00	13%	\$ 4,338.06	\$ 395.06	\$ 5,891.60	\$ 767.60	16%
EQUIP MECH II	\$ 4,932.00	\$ 472.00	\$ 6,717.00	\$ 761.00	13%	\$ 5,030.64	\$ 570.64	\$ 6,600.42	\$ 890.42	16%
CREW LEADER	\$ 6,009.00	\$ 299.00	\$ 7,884.00	\$ 204.00	3%	\$ 6,129.18	\$ 419.18	\$ 8,041.68	\$ 361.68	5%
GENERAL MANAGER	\$ -	\$ -	\$ 16,667.00	\$ (2,493.70)	-13%	\$ -	\$ -	\$ 17,009.34	\$ (2,166.36)	-11%
HR/SAFETY MANAGER	\$ 10,009.00	\$ 4,837.00	\$ 13,133.00	\$ 6,673.00	29%	\$ 10,209.18	\$ 2,449.22	\$ 13,395.66	\$ 3,213.91	32%
ELECTRICAL/ELECTRONIC TECH II	\$ 4,932.00	\$ (240.00)	\$ 6,471.00	\$ 11.00	-9%	\$ 5,030.64	\$ (273.36)	\$ 6,600.42	\$ (530.58)	-7%
SYSTEM OPERATOR III	\$ 5,181.00	\$ 134.00	\$ 6,799.00	\$ 339.00	3%	\$ 5,284.62	\$ 112.62	\$ 6,934.98	\$ 313.98	5%
ELECTRICAL/ELECTRONIC TECH I	\$ 4,932.00	\$ (240.00)	\$ 6,471.00	\$ (150.00)	5%	\$ 5,030.64	\$ 570.64	\$ 6,600.42	\$ 450.42	7%
WATER OPERATIONS MANAGER	\$ 10,009.00	\$ 5,085.00	\$ 13,133.00	\$ 6,673.00	12%	\$ 10,209.18	\$ 1,255.21	\$ 13,395.66	\$ 1,647.27	14%
SAFETY ADMIN II	\$ 4,694.00	\$ (1,016.00)	\$ 6,159.00	\$ (972.00)	-14%	\$ 4,787.88	\$ (644.12)	\$ 6,282.18	\$ (846.82)	-12%
ES&C ASST/BOARD SECRETARY	\$ 6,009.00	\$ 577.00	\$ 7,884.00	\$ 793.00	13%	\$ 6,129.18	\$ 558.18	\$ 8,041.68	\$ 1,085.68	16%
SYSTEM OPERATOR I	\$ 4,253.00	\$ (1,318.00)	\$ 5,880.00	\$ 580.00	11%	\$ 4,338.06	\$ 395.06	\$ 5,891.60	\$ 644.60	13%
SYSTEM OPERATOR II	\$ 4,694.00	\$ 751.00	\$ 6,159.00	\$ 1,112.00	5%	\$ 4,787.88	\$ 213.88	\$ 6,282.18	\$ 430.18	7%
CREW LEADER	\$ 6,009.00	\$ 1,435.00	\$ 7,884.00	\$ 2,032.00	35%	\$ 6,129.18	\$ 1,884.18	\$ 8,041.68	\$ 2,189.68	37%
UTILITY WORKER I	\$ 3,853.00	\$ (392.00)	\$ 5,055.00	\$ (797.00)	13%	\$ 3,930.06	\$ 533.06	\$ 5,156.10	\$ 696.10	16%
UTILITY WORKER II	\$ 4,253.00	\$ 856.00	\$ 5,880.00	\$ 1,120.00	13%	\$ 4,338.06	\$ 677.06	\$ 5,891.60	\$ 767.60	16%
GENERAL SERVICES TECH II	\$ 4,694.00	\$ 1,033.00	\$ 6,159.00	\$ 1,235.00	19%	\$ 4,787.88	\$ 646.88	\$ 6,282.18	\$ 1,110.18	21%

¹ = FPUD position is also Treasurer.

² = Position is listed on Rainbow's org chart but not on monthly pay rates.

³ = Safety Admin is assistant to HR/Safety Manager.