LAFCO

San Diego Local Agency Formation Commission

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July 10, 2015

Brian Brady, General Manager
Fallbrook Public Utility District
990 East Mission Road
Fallbrook, CA 92028

Tom Kennedy, General Manager
Rainbow Municipal Water District
3707 Old Highway 395
Fallbrook, CA 92028

Dear Brian and Tom:

I indicated earlier this week that Harry and I would be requesting a number of documents from each of you, as well as responses to a series of questions to assist in the gathering and analysis of supplemental financial information related to the proposed reorganization. Our intent is not to duplicate the report prepared for the July 6, 2015 hearing; instead, to provide updated financial data and elaboration on assumptions associated with reorganization. I also indicated this would likely be a three step process.

Step One involves inviting both districts to identify questions and types of data that would be necessary to confirm, reject, and update the pro forma projections. Your suggestions would be integrated with those generated by LAFCO staff. A due date for suggestions was set for **July 8, 2015**, and I am pleased to report that both districts provided responses by the deadline. **Deadline: July 8, 2015. *Status: Complete***

Step Two involves LAFCO staff posting the documents requested in Step One on LAFCO's website. Both districts have reported difficulty in accessing financial reports and associated supporting documents from the RMWD and FPUD websites. Therefore, LAFCO staff determined that it would be best if LAFCO obtained the associated documents and posted them on our website. The requested documents should be readily available from each district; therefore, three (3) business days will be given to each district to provide either a pdf, memory stick, or link to your websites so that LAFCO can download the documents. If the items will be posted on your websites, we ask that you send us a specific link, rather than a vague reference or pointer to a particular page on your website. **Deadline: July 15, 2015. *Status: In Process***

Step Three involves giving each district an opportunity to review the RMWD and FPUD financial documents (on LAFCO's website). Each district will be asked to confirm, reject, or update the original pro forma projections. You may need to explain, document, recalculate and offer conclusions citing the updated financial data and the areas of agreement and disagreement. You will be given approximately two weeks to perform this task after the specified documents are placed on LAFCO's website. LAFCO staff will then compile the RMWD and FPUD conclusions/recalculated tables and incorporate them into our September 14th report, along with LAFCO staff's independent conclusions. **Deadline: July 31, 2015. *Status: In Process***

As I mentioned, these tasks involve some work on everybody's part, but it will hopefully result in a comprehensive and updated evaluation of the proposed reorganization. Below are the required and requested documents that we need from each district.

Respectfully submitted,

MICHAEL D. OTT
Executive Officer

MDO:trl

Attachments:
Request for Information: District Documents
Request for Information: Questions

REQUEST FOR INFORMATION: District Documents
DUE DATE: July 15, 2015

Proposed
"Fallbrook Public Utility District and Rainbow Municipal Water District Reorganization"
(RO14-04; LPE14-04]

Financial Documents / Data Requests: FPUD and RMWD:

- 2014-2015: Adopted Budget (forecast and actual).
- 2015-2016: Adopted Budget (forecast).
- 2013-2014 and 2014-2015: Staffing levels by department (budgeted and actual) including numbers and compensation of position by department (budgeted and actual).
- 2015-2016: Staffing levels by department, including proposed staffing levels by department.
- 2014-2015 and 2015-2016: Organization charts showing positions authorized and positions filled.
- Most recent audited financial statements and Comprehensive Annual Financial Reports (if CAFRs are completed).
- Most recent district financial reports showing District Net Position; unrestricted funds; and balance sheet (if not included in any of the above documents).
- 2015-2016 to 2020 Capital Improvement Program including current year costs and future year's costs and sources of funding.
- List of approved debt including current year expense and projected expense for the term of the debt; include any multi-year contracts for services or facilities unless they have a severance clause with no damages due.
- Assumptions used in developing the 2015-16 Budget for water sales (AF or Units) and purchases (AF and amounts) including conservation targets by SWRCB.
- Any cost of service studies completed within the past three years for water and/or sewer rates.
- Contract amounts entered into within the past year for professional services broken down by categories, such as legal, engineering or public affairs, etc.
- A list of any known pending legal claims or judgments and estimated financial responsibility of the district.
- Notices of violation from the RWQCB or Department of Public Health for water or sewer systems in the past three years. If notices have been received, provide an explanation.
- Provide a copy of the salary survey and associated supporting documents that Fallbrook PUD conducted in 2015.

**Note: Both districts need to supply full documentation for the above requests. LAFCO found that not all of the supporting documents were readily available from the respective websites of the districts for some of these items.*

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

Proposed
"Fallbrook Public Utility District and Rainbow Municipal Water District Reorganization"
(RO14-04; LPE14-04]

List of Questions: FPUD and RMWD:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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