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November 12, 2014

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SAN DIEGO LAFCO

Mr. Michael D. Ott  
Executive Officer  
San Diego LAFCO  
9335 Hazard Way, Suite 200  
San Diego, California 92123

Subject: Response to Kennedy Letter of November 6, 2014  
Re: Misrepresentation of Facts

Dear Mr. Ott:

Thank you for providing a copy of Mr. Kennedy's November 6<sup>th</sup> letter, outlining his complaints of "misrepresentation" contained in Fallbrook's informational materials on the reorganization application before LAFCO. Our responses to his claims follow:

FPUD's Wholesale Water Cost

Our statement: "FPUD negotiated a lower wholesale water rate from the San Diego County Water Authority and passes that discount on to all customers."

The above statement expresses three key facts:

1. Since 2006, FPUD's overall cost for treated water from SDCWA is structurally less than most other member agencies due to the elimination of a transportation charge on most FPUD water purchases.
2. FPUD passes on those savings to its customers.
3. FPUD actively pursued and successfully advocated (read negotiated) this reduction as part of the SDCWA Board's rate-setting process.

To this third point, it is well documented that in 2002, North County water agencies filed suit against the Water Authority claiming that the postage stamp transportation rate unfairly shifted costs to North County. The lawsuit was eventually decided in the Water Authority's favor. However, through the subsequent rate-setting process, an exception was carved out for agencies taking water service directly from MWD facilities. The primary beneficiary of this decision was FPUD. FPUD's general manager, being a member of the Water Authority Board of Directors, was heavily involved in that deliberative process.

#### FPUD's Debt

Our statement: "The approximate current outstanding long-term debt for each district:

- Rainbow \$18 million
- FPUD \$21 million"

The above statement merely compares the relative debt load of the two districts to each other. The term "current" refers to July 1, 2014, the beginning of the fiscal year for each district. FPUD will release its audited financial statements on December 8, 2014, which will show a snapshot as of June 30 of long-term debt at \$21.3 million. It is unknown what Rainbow's audit will reveal.

Mr. Kennedy's belief that FPUD debt is "nearly \$40 million" reflects his misunderstanding of actual vs. authorized funding. At this point in time, FPUD has drawn about \$10 million in funds for the water treatment plant rehabilitation.

#### Rainbow's Budget and Operations

Mr. Kennedy expresses displeasure about the fact that FPUD has highlighted significant swings in Rainbow's budget line item funding for 2014-15. From our perspective, leaving four important budget positions unfilled, shifting monies to fund merger opposition activities, and relying on outside consulting services to shore up accounting and engineering functions do not constitute sustainable management strategies.

Mr. Kennedy mistakenly is under the impression that I was involved with development of the final 2014-2015 budget. I was not. Had I participated, I would have strongly advocated for a continuation of the JPA partnership of Rainbow and FPUD.

#### Cost Savings from the Joint Power Authority (JPA)

Our statement: "The year 2013 was a great success. The two districts recorded nearly \$1 million in collaborative savings."

Mr. Kennedy attaches to his letter Exhibit E, which is one of Mr. Buckley's (retired Rainbow finance manager) summary of shared cost documents and tracks Rainbow's share of JPA

savings. Mr. Kennedy further references \$428,200 in savings for the period July 2013 to March 2014 as being the total savings from the JPA operation.

Unfortunately, Mr. Kennedy's exhibit is only marginally relevant to the question of 2013 savings and it completely ignores FPUD's share of savings. The table below affords a more complete picture:

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

As shown above, the combined net 2013 savings was nearly \$1 million. Exhibits 1-4 referenced in the above table are attached.

### Impact of Proposed Governance Structure

In his final complaint, Mr. Kennedy contends that the governance structure proposed by FPUD (four divisional, three at-large elections) would disadvantage Rainbow ratepayers because of the voting power of the Fallbrook Village area. He supports his claim with his Exhibit F.

Once again, Mr. Kennedy uses the wrong illustration (Exhibit F); which – rather than showing the accurate comparison for this discussion of four divisions – instead reflects ten separate divisions. Our Exhibit 5 (attached) from the same analysis (Shepherd & Staats, referenced by Mr. Kennedy) clearly shows four divisions, with only Area 1 representing the Fallbrook Village area.

Finally, the notion put forth by Mr. Kennedy that “the Fallbrook area would dominate [in an election] based on population although Rainbow has a higher percentage of registered voters”

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simply lacks credibility; or for that matter, empirical data. In fact, currently, four of the five sitting FPUD directors reside in FPUD service territory outside of the Fallbrook Village.

In summary, we find all five of Mr. Kennedy's claims of misrepresentation on the part of FPUD to be without merit. Thank you for the opportunity to provide our response.

Sincerely,

  
Brian J. Brady, Ed.D., P.E.  
General Manager

Attachments (5)

Exhibit 1

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

Exhibit 2

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

**Exhibit 3**

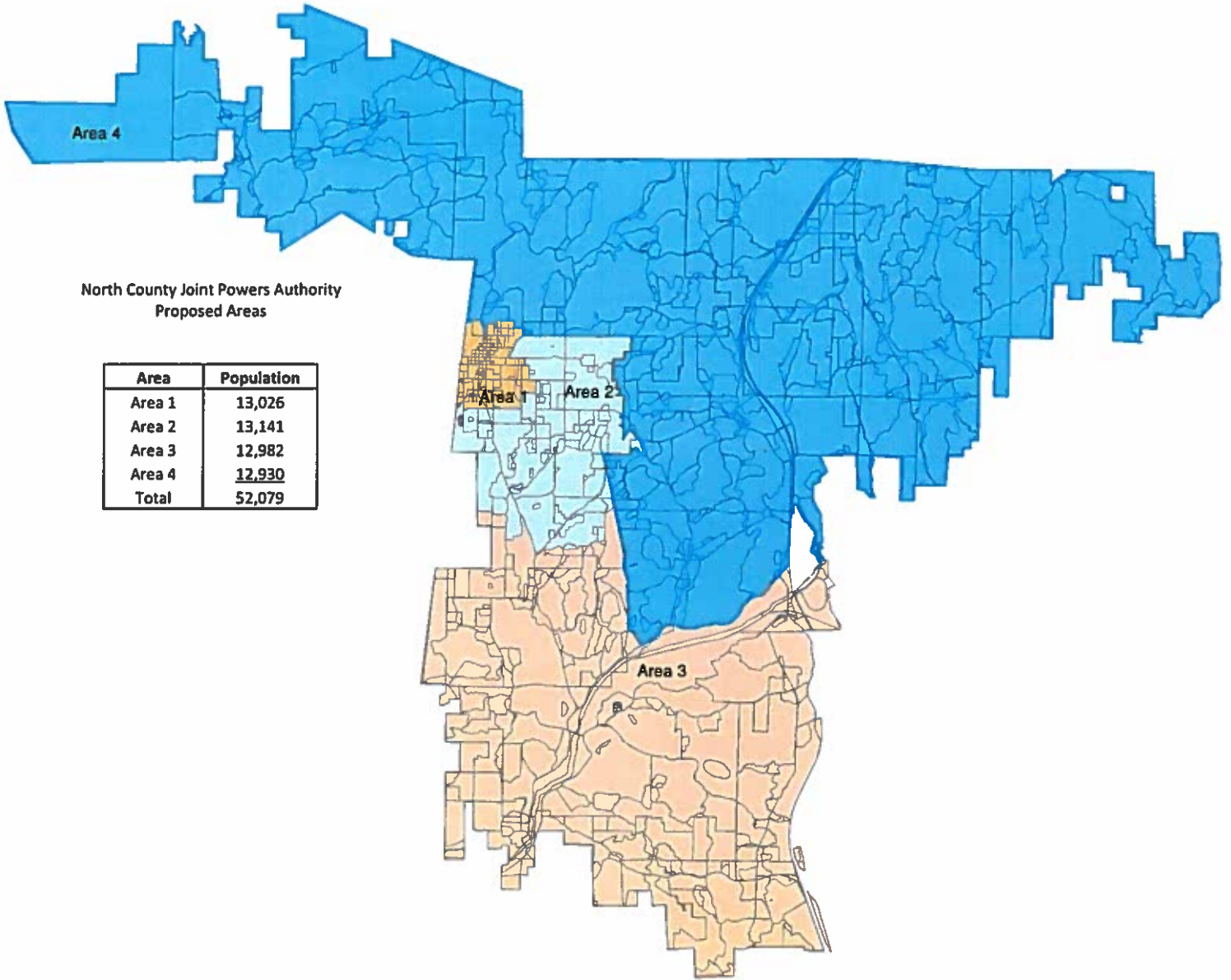
FPUD SUMMARY OF SHARED COST RELATING TO CONSOLIDATION ACTIVITIES							
	July-December 2013						
	July Savings (Cost)	August Savings (Cost)	September Savings (Cost)	October Savings (Cost)	November Savings (Cost)	December Savings (Cost)	FY To Date 2014 Savings (Cost)
<b>POSITIONS NOT REPLACED</b>			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

Exhibit 4

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



# EXHIBIT 5



North County Joint Powers Authority  
Proposed Areas

Area	Population
Area 1	13,026
Area 2	13,141
Area 3	12,982
Area 4	<u>12,930</u>
Total	52,079