



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

NOTICE OF PROPOSAL
PRELIMINARY STAFF REPORT

Title of Proposal: “Fallbrook Public Utility District – Eastern Municipal Water District Wholesale Water Reorganization” | Proposed Annexation to Eastern Municipal Water District for Wholesale Water Service with concurrent Detachment from San Diego County Water Authority

Reference No.: RO20-05

Affected APNs: Multiple, District-wide

Date Received: March 24, 2020

Applicant: Fallbrook Public Utility District, by Resolution

Subject Agencies: Fallbrook Public Utility District, Eastern Municipal Water District, San Diego County Water Authority

Sphere Amendment: Yes

Project Manager: Robert Barry | robert.barry@sdcounty.ca.gov

I. Proposal Request

The San Diego Local Agency Formation Commission (LAFCO) has received a resolution of application from Fallbrook Public Utility District (PUD) requesting initiation of proceedings to reorganize the MWD’s wholesale imported water provider from the San Diego County Water Authority (CWA) to the Eastern MWD of Riverside County. The affected territory includes all of the present Fallbrook PUD’s authorized service area within the unincorporated community of Fallbrook in north San Diego County, generally located south of Riverside County, west of Interstate 15, north of SR-76, and east of Camp Pendleton. A copy of the key proposal materials is attached.

II. Proposal Purpose

Fallbrook PUD states the purpose of the proposed reorganization is to replace the PUD’s present wholesale imported water supplier – the San Diego County Water Authority – with the Eastern MWD of Riverside County because of closer proximity to Eastern MWD wholesale water supply infrastructure and expected cost-savings to ratepayers. The proposed reorganization involves annexation of the Fallbrook PUD’s existing retail water service area within San Diego County to the Eastern MWD for wholesale water service, with a concurrent detachment of the affected territory from the San Diego CWA’s wholesale water service area. Establishment of a coterminous sphere of influence for Eastern MWD with a conforming change to the CWA sphere to exclude the affected territory would also be required. No changes are proposed for Fallbrook PUD’s existing authorized retail water service area or adopted sphere of influence. As the proposed reorganization would not

<p>Administration Keene Simonds, Executive Officer County Operations Center 9335 Hazard Way, Suite 200 San Diego, California 92123 T 858.614.7755 F 858.614.7766 www.sdlafco.org</p>	<p>Jim Desmond County of San Diego</p> <p>Chair Dianne Jacob County of San Diego</p> <p>Greg Cox, Alternate County of San Diego</p>	<p>Mary Casillas Salas City of Chula Vista</p> <p>Bill Wells City of El Cajon</p> <p>Paul McNamara, Alternate City of Escondido</p>	<p>Mark Kersey City of San Diego</p> <p>Chris Cate, Alternate City of San Diego</p>	<p>Jo MacKenzie Vista Irrigation</p> <p>Barry Willis Alpine Fire Protection</p> <p>Erin Lump, Alternate Rincon del Diablo MWD</p>	<p>Vice Chair Andy Vanderlaan General Public</p> <p>Harry Mathis, Alternate General Public</p>
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San Diego LAFCO

June 16, 2020

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change the area where existing services are presently authorized and provided, the proposal is expected to be categorically exempt from the California Environmental Quality Act (CEQA) per State CEQA Guidelines Section 15320.

III. LAFCO Considerations

An initial review of the proposal identifies the following pertinent item(s) germane to LAFCO staff’s review and ahead of the Commission’s deliberations:

Reorganization Merit-

The merit of the proposed reorganization serves the primary focus of the analysis given the affected territory presently lies within the San Diego CWA’s wholesale water service boundary and adopted sphere of influence. The LAFCO analysis is prefaced on addressing the proposal review factors required for consideration of proposed changes of organization or reorganization as enumerated under Government Code 56668. The majority of the prescribed review factors for the proposed reorganization will focus on the service and financial capacities of the annexing agency, Eastern MWD. The reorganization proposal’s review will also evaluate any potential service or financial effects on the detaching agency, San Diego CWA. The merits of conforming sphere of influence changes will also be considered, including establishment of an Eastern MWD wholesale water service sphere coterminous with the Fallbrook PUD’s existing retail water service area, and exclusion of the affected territory from the CWA wholesale water service sphere.

IV. Proposal Referrals

This proposal notice and preliminary staff report is being provided to all of the following agencies:

- County of San Diego | County Service Area No. 81 (Fallbrook Parks); County Service Area No. 135 (Regional Communications); Department of Planning and Development Services; Auditor/PTS; Assessor/Mapping; San Diego County Flood Control District; San Diego County Street Lighting District; Fallbrook Community Planning Group; District 5, Office of Supervisor Desmond
- Fire Protection | North County Fire Protection District, San Diego County Fire Authority
- Water District | Rainbow Municipal Water District; San Diego County Water Authority; Eastern Municipal Water District; Metropolitan Water District of Southern California
- Other Agencies | City of Oceanside; Fallbrook Union Elementary School District; Fallbrook Union High School District; Palomar Community College District; Fallbrook Regional Healthcare District; Mission Resource Conservation District

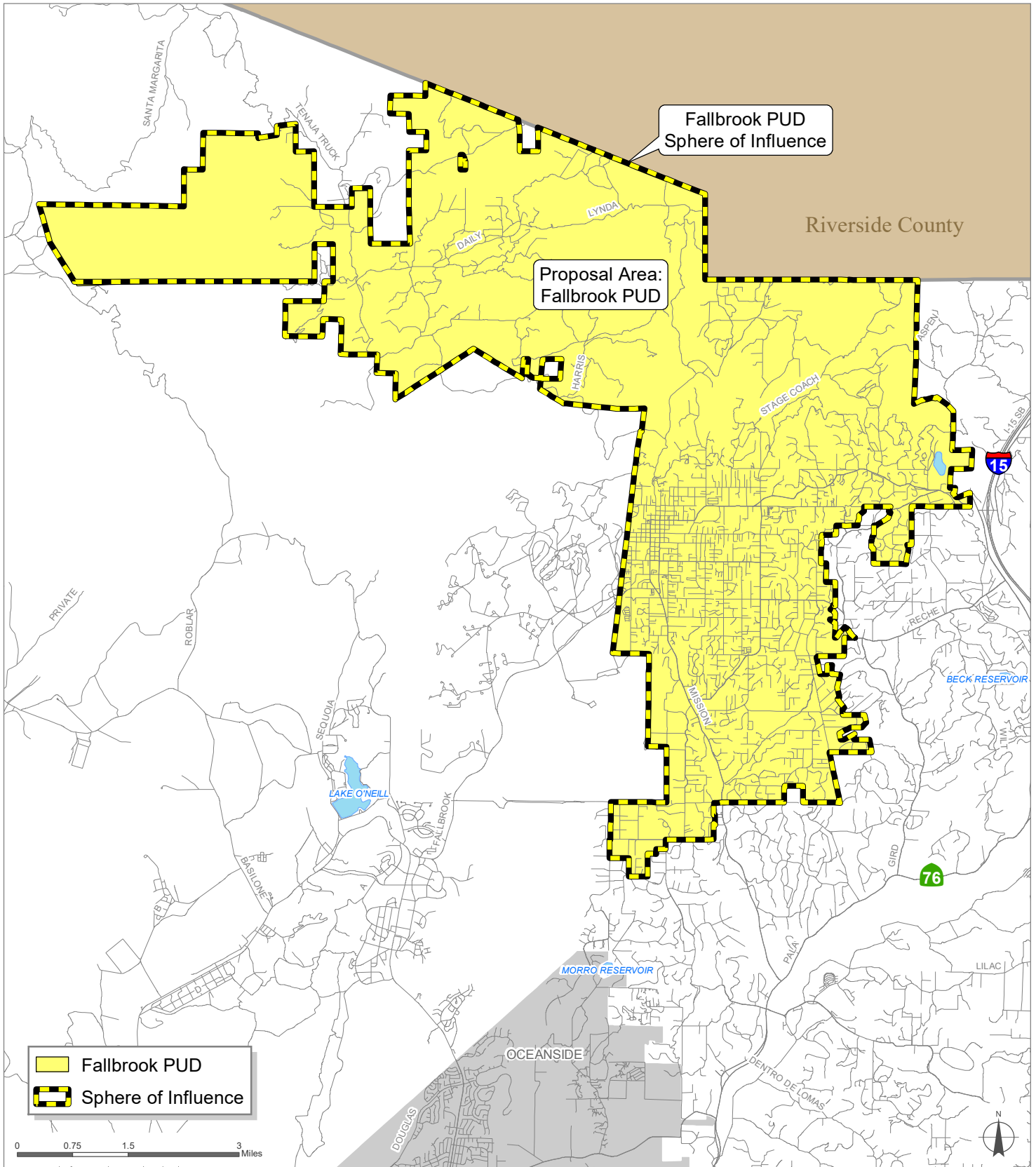
V. Review and Comment

All interested agencies and related stakeholders are invited to review and submit comments on the proposal – including any requested terms – by **Friday, July 10, 2020**. Comments should be directed to LAFCO Chief Analyst Robert Barry at robert.barry@sdcounty.ca.gov.

Attachments:

- 1) Proposal Vicinity Map
- 2) Proposal Materials – Fallbrook PUD Resolution of Application

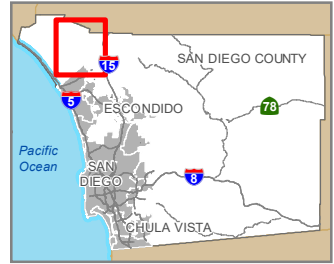
20-05: Fallbrook PUD Vicinity Map



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 Created by Dieu Ngu -- 6/11/2020

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“Fallbrook Public Utility District – Eastern Municipal Water District Wholesale Water Reorganization” | Proposed Annexation to Eastern Municipal Water District for Wholesale Water Service with concurrent Detachment from San Diego County Water Authority (RO20-05)



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RESOLUTION NO. 4985

A RESOLUTION OF APPLICATION BY THE FALLBROOK PUBLIC UTILITY DISTRICT (FPUD) REQUESTING THE SAN DIEGO LOCAL AGENCY FORMATION COMMISSION TO COMMENCE PROCEEDINGS FOR THE DETACHMENT/ EXCLUSION OF FPUD FROM THE SAN DIEGO COUNTY WATER AUTHORITY AND ANNEXATION INTO THE EASTERN MUNICIPAL WATER DISTRICT AS MORE PARTICULARLY DESCRIBED HEREIN AND FINDING THAT THE ACTION IS EXEMPT FROM CEQA

WHEREAS, the Fallbrook Public Utility District ("FPUD") is a Public Utility District formed in 1922, and is organized under the provisions of the Public Utility District Act, (Public Utilities Code § 15500 et seq.); and

WHEREAS, FPUD is authorized to provide water, wastewater, and reclaimed water services, within all or part of its boundaries; and

WHEREAS, FPUD is a member of the San Diego County Water Authority ("County Water Authority") from which it purchase water to serve its rate payers; and

WHEREAS, the County Water Authority is organized under the provisions of the County Water Authority Act (Water Code Appendix Chapter 45); and

WHEREAS, the County Water Authority is a member agency of the Metropolitan Water District of Southern California ("Metropolitan"), which serves as the County Water Authority's largest supplier; and

WHEREAS, since the formation of the County Water Authority in 1944, with FPUD as a charter member, FPUD has contributed almost \$300 Million to construct and operate assets owned by the County Water Authority; and

WHEREAS, over the last 25 years, the County Water Authority has made major investments in new storage and treatment facilities located well south of the FPUD service area, which investments have increased the cost of water to FPUD ratepayer adding several hundred dollars per acre foot to the cost of water; and

WHEREAS, to date FPUD receives the majority of its water directly from Metropolitan pipelines and FPUD's water distribution system is not directly able to receive deliveries from the County Water Authority's new storage and treatment facilities, and as a result FPUD's rate payers currently do not receive the full benefit of these County Water Authority's investments; and

WHEREAS, FPUD's mission is to benefit the community of Fallbrook by providing efficient and reliable services and as part of its efforts to fulfill this mission, FPUD seeks to identify opportunities to reduce the cost of providing efficient and reliable services to its ratepayers; and

WHEREAS, to that end FPUD is currently under contract for the construction of the Santa Margarita River Conjunctive Use Project, which after complete will provide FPUD with a local water supply equal to roughly 30 percent of its current total water supply, providing a

buffer from escalating imported water costs and creating an additional shield against the impacts of drought; and

WHEREAS, Eastern Municipal Water District (“Eastern”), located in Riverside County, is a member agency of Metropolitan receiving water supplies from Metropolitan, which water it provides to retail waster service agencies such as cities and special districts in Riverside County; and

WHEREAS, FPUD has evaluated the possibility of annexing to Eastern as a means of obtaining a lower cost supply of reliable water; and

WHEREAS, based on FPUD’s evaluation, the reliability of supplies from Eastern to FPUD in combination with FPUD local supply resources are sufficient to meet FPUD’s needs; and

WHEREAS, Eastern has indicated its support of the possible annexation of FPUD into its boundaries; and

WHEREAS, if FPUD detaches from the County Water Authority, the County Water Authority and its remaining member agencies will realize future savings associated with no longer needing to complete construction of the North County EPS pump stations to serve FPUD and Rainbow Municipal Water District, which project is currently on hold, but is budgeted at \$40 million; and

WHEREAS, if FPUD detaches from the County Water Authority, the reduction in demand from FPUD for water supplies and expanded water facilities will result in benefit the County Water Authority and its remaining member agencies in that it will increase reliability of supplies from County Water Authority in times of drought and reductions in imported water supplies; and

WHEREAS, Board of Directors of FPUD desires to initiate proceedings pursuant to the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000, Division 3, commencing with Section 56000 of the California Government Code for the exclusion/ detachment of FPUD from the County Water Authority and annexation of FPUD into Eastern (the “Reorganization”); and

WHEREAS, the detachment of FPUD from the County Water Authority is expressly permitted and authorized by the County Water Authority Act, specifically Section 45-11; and

WHEREAS, the Riverside Local Agency Formation Commission and the San Diego Local Agency Formation Commission have executed a memorandum of understanding dated October 24, 2019 by which San Diego Local Agency Formation Commission will undertake the processing of any application by FPUD to proceed with the Reorganization; and

WHEREAS, the reasons for the proposed Reorganization are as follows:

1. Due to the combination of rising wholesale water costs and FPUD infrastructure needs, the Reorganization will help stabilize long-term water costs to address affordability and sustainability issues for FPUD for the benefit of its ratepayers.

2. The Reorganization will enable FPUD to better provide water supplies to those within its boundaries undertaking agricultural activities, in support of the local economy.
3. FPUD already obtains its water supplies directly off of Metropolitan's infrastructure instead of off of County Water Authority's infrastructure, which is unique for County Water Authority member agencies but similar to other cities and special districts receiving water supplies from Eastern. Accordingly, the Reorganization requires no modifications to FPUD infrastructure and the water supply from Eastern can be obtained at significantly lower cost.
3. The Reorganization would permit FPUD to cease funding County Water Authority infrastructure throughout the County that it does not need nor use.
4. The Reorganization would benefit the County Water Authority and its remaining member agencies by permitting the County Water Authority to save, in the future, the \$40 million budgeted for completing construction of the North County EPS pump stations to serve FPUD and Rainbow Municipal Water District should Rainbow Municipal Water District also detach.
5. The Reorganization would benefit the County Water Authority and its remaining member agencies because the reduction in demand from FPUD for water supplies and expanded water facilities will result in increased reliability of supplies from County Water Authority in times of drought and reductions in imported water supplies; and

WHEREAS, the Reorganization is supported by the draft Plan for Providing Services required by Government Code section 56653 attached hereto as Exhibit "A," and by this reference incorporated herein; and

WHEREAS, the external boundaries of FPUD, County Water Authority and Eastern are generally depicted in the maps attached hereto as Exhibit "B," and by this reference incorporated herein; and

WHEREAS, FPUD is inhabited; and

WHEREAS, the Reorganization is not a project within the meaning of CEQA because it does not have the potential to result in a direct physical change in the environment or a reasonably foreseeable indirect physical change to the environment (Pub. Res. Code § 21065; CEQA Guidelines § 15378(a).) The Reorganization will not require the construction of any new infrastructure or any changes to the manner in which FPUD receives its water supplies; and

WHEREAS, even if the Reorganization is a "project" within the meaning of CEQA, it is exempt under the Class 20 exemption for changes in the organization of local agencies. (CEQA Guidelines § 15320.) Under section 15320, changes in the organization of local governmental agencies are exempt if the changes do not modify the geographical area in which previously existing powers are exercised. The Reorganization is a change in FPUD's organization structure that does not modify FPUD's service area; and

WHEREAS, even if the Reorganization is a “project” within CEQA’s meaning, it is exempt under State CEQA Guidelines section 15061(b)(3)-Common Sense Exemption as “it can be seen with certainty that there is no possibility that the activity in question may have a significant effect on the environment.” The Reorganization will not change the type, intensity, or manner of service that FPUD provides. Further, the Reorganization will not result in construction or other physical alteration of the environment because the Reorganization will not require any new infrastructure or any changes to the manner in which FPUD receives its water supplies. None of the exceptions identified in CEQA Guidelines § 15300.2, which prohibit the use of an exemption, apply here. The Reorganization does not present any unusual circumstances that would create a significant effect on the environment. Further, the Reorganization would not create cumulative impacts, damage scenic resources, be utilized on a hazardous waste site, or impact any historic resources.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Fallbrook Public Utility District as follows:

1. **Recitals.** The forgoing recitals are true and correct and are incorporated herein and are made an operative part of this Resolution of Application.
2. **Proposal.** A proposal is hereby made by FPUD to the San Diego Local Agency Formation Commission for a Reorganization as follows:
 - a. This proposal for the Reorganization is made pursuant to the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 commencing with Section 56000 of the California Government Code.
 - b. The nature of the proposed Reorganization is detachment of FPUD from the County Water Authority and annexation of FPUD into Eastern.
 - c. FPUD is inhabited.
 - d. The boundaries of the proposal area are described in the legal description, and depicted on the corresponding maps attached hereto as Exhibit “B,” and by this reference incorporated herein.
 - e. The reasons for proposed Reorganization are as follows:
 - i. Due to the combination of rising wholesale water costs and FPUD infrastructure needs, the Reorganization will help stabilize long-term water costs to address affordability and sustainability issues for FPUD for the benefit of its ratepayers.
 - ii. The Reorganization will enable FPUD to better provide water supplies to those within its boundaries undertaking agricultural activities, in support of the local economy.
 - iii. FPUD already obtains its water supplies directly off of Metropolitan’s infrastructure instead of off of County Water Authority’s infrastructure, which is unique for County Water Authority member agencies but similar to other cities and special districts receiving water supplies from

Eastern. Accordingly, the Reorganization requires no modifications to FPUD infrastructure and the water supply from Eastern can be obtained at significantly lower cost.

- iv. The Reorganization would permit FPUD to cease funding County Water Authority infrastructure throughout the County that it does not need nor use.
 - v. The Reorganization would benefit the County Water Authority and its remaining member agencies by permitting the County Water Authority to save, in the future, the \$40 million budgeted for completing construction of the North County EPS pump stations to serve FPUD and Rainbow Municipal Water District should Rainbow Municipal Water District also detach.
 - vi. The Reorganization would benefit the County Water Authority and its remaining member agencies because the reduction in demand from FPUD for water supplies and expanded water facilities will result in increased reliability of supplies from County Water Authority in times of drought and reductions in imported water supplies; and
- g. It is desired by FPUD that the proposed Reorganization provide for and made subject to the following terms and conditions:
- i. Pursuant to the express provisions of the applicable portion of Section 45-11(a)(2) of the County Water Authority Act, establishing the process for detachments from a county water authority, that the portion of the Reorganization involving detachment from the County Water Authority be subject to the following conditions:
 - (1) That the matter of detachment of FPUD from the County Water Authority be submitted to a vote by only the electors of FPUD. (Water Code Appendix Section 45-11 (a)(2).)
 - (2) That to the extent that there is any, that the taxable property to be detached from the County Water Authority, i.e., FPUD, shall continue to be taxable by the County Water Authority for the purpose of paying the bonded and other indebtedness of the County Water Authority outstanding or contracted for at the time of the detachment and until the bonded or other indebtedness has been satisfied. (Water Code Appendix Section 45-11 (a)(2).)
 - (3) That if the taxable property to be detached from the County Water Authority is, at the time of detachment, subject to special taxes levied or to be levied by the County Water Authority pursuant to the terms and conditions previously fixed under Water Code Appendix Section 45-10 (c) or (d) for the annexation of the property to be detached County Water Authority, the taxable property within the excluded area so subject to the special taxes shall continue to be taxable by the County Water

Authority for the purpose of raising the aggregate sums to be raised by the levy of special taxes upon taxable property within the respective annexing areas pursuant to the terms and conditions for the annexation or annexations as so fixed and until the aggregate sums have been so raised by the special tax levies. (Water Code Appendix Section 45-11 (a)(2).)

The full text of Water Code Appendix Section 45-11 (a)(2) is attached hereto as Exhibit "C," and by this reference incorporated herein.

- ii. That upon the effective date of the Reorganization, the County Water Authority shall retain FPUD's share of and interest in any County Water Authority infrastructure.
- iii. That upon the effective date of the Reorganization, that the County Water Authority ceases collection of the Standby Water Availability Charge from the properties within FPUD.
- iv. That upon the effective date of the Reorganization, that Eastern commence collection of its Standby Assessment/Fee from the properties within FPUD.

3. CEQA Compliance.

- a. For all the reasons set forth in the above Recitals, and based upon all of the substantial evidence in the record as a whole, the Board of Directors finds that proposed Reorganization: (1) is not a "project" subject to environmental review under CEQA pursuant to Public Resources Code § 21065 and State CEQA Guidelines § 15378(a); (2) alternatively, is exempt from CEQA under the Class 20 exemption as a "change in organization" (State CEQA Guidelines § 15320); and (3) alternatively, is exempt from CEQA under the "common sense" exemption because it can be seen with certainty that there is no possibility that Reorganization would have a significant effect on the environment. (CEQA Guidelines § 15061(b)(3)); and (4) none of the exceptions to the application of the exemptions exist under State CEQA Guidelines § 15300.2.
- b. The Board of Directors hereby directs that all documents and other materials constituting the record of proceedings related to this Resolution of Application for approval of the power to exercise the Activated Powers, be maintained by the General Manager of the Fallbrook Public Utility District, or his designee, on file at the Fallbrook Public Utility District 990 East Mission Road, Fallbrook, CA 92028.
- c. The Board of Directors directs Staff to file a Notice of Exemption with the County Clerk for the County of San Diego.

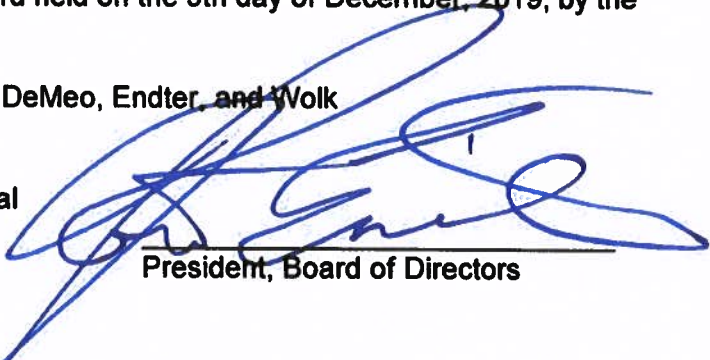
4. Adoption. This Resolution of Application is hereby adopted and approved by the Board of Directors of the Fallbrook Public Utility District and San Diego Local Agency Formation Commission is hereby requested to initiate proceedings as authorized and

in the manner provided by the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000 for the Reorganization described herein.

5. **Plan for Services.** The Board of Directors directs the Fallbrook General Manager to finalize the draft Plan for Services attached hereto as Exhibit "A," and by this reference incorporated herein.
6. **Submission of Resolution of Application and other Application Materials.** The Board of Directors further authorizes and directs the Fallbrook General Manager to file a certified copy of this Resolution of Application together with the required LAFCO application, finalized Plan for Services, maps, other documents with the Executive Officer of the San Diego Local Agency Formation Commission. The Fallbrook General Manager is further authorized and directed to pay the required application filing fee and to pay such additional sums as may be invoiced from the San Diego Local Agency Formation Commission for services rendered in the processing of the Reorganization application.
7. **Effective Date.** This Resolution shall take effect immediately upon adoption by the Board of Directors of the Fallbrook Public Utility District.

PASSED AND ADOPTED by the Board of Directors of the Fallbrook Public Utility District at a regular meeting of the Board held on the 9th day of December, 2019, by the following vote:

AYES:	Directors Baxter, DeMeo, Endter, and Volk
NOES:	None
ABSTAIN:	None
ABSENT:	Director McDougal



President, Board of Directors

ATTEST:



Secretary, Board of Directors

List of Exhibits:

- Exhibit A: Plan for Providing Services**
- Exhibit B: Maps**
- Exhibit C: Text of County Water Authority Act Section 45-11 (A)(2)**

**EXHIBIT A
PLAN FOR PROVIDING SERVICES**

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Fallbrook Public Utility District

Plan for Providing Service

Application for Proposed Reorganization

December 2019

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1.0 INTRODUCTION

This document is part of the application for Reorganization from the Fallbrook Public Utility District (FPUD) to the San Diego County Local Agency Formation Commission (“LAFCO”). FPUD is requesting a governmental reorganization consisting of a) the detachment of FPUD from the San Diego County Water Authority (SDCWA) and b) annexation to the Eastern Municipal Water District (EMWD). The plan provides FPUD, LAFCO, affected property owners and voters, and other interested persons with information regarding existing and proposed local government services for the proposed reorganization.

2.0 MUNICIPAL SERVICES

2.1 Description of Service Territory

2.1.1. Fallbrook Public Utility District (FPUD)

History

Fallbrook is an unincorporated community in San Diego County. The first permanent recorded settlement in Fallbrook was in 1869, in the east area of FPUD, which later became Live Oak County Park. While agriculture has always played a major role in the community, the first plantings were olives and citrus. These crops were replaced in the 1920’s by avocados and it wasn’t long before Fallbrook became generally recognized as the “Avocado Capital of the World.”

Fallbrook Public Utility District (FPUD), organized under the provisions of the Public Utility District Act, Public Utilities Code section 15500 et seq., was formed on June 5, 1922 to serve water from local area wells along the San Luis Rey River. Soon after it was established, FPUD began to grow. Annexations into FPUD have expanded the service area from 500 acres to 28,000 acres (44 square miles). To meet the growing demand for water, additional ground water supplies were developed along both the San Luis Rey and Santa Margarita rivers.

FPUD became a member of the San Diego County SDCWA (SDCWA) at its formation on June 9, 1944, and thus was eligible to receive a portion of Colorado River water that would be diverted by the Metropolitan Water District of Southern California (MWD). When Colorado River water became available in 1948, consumption within FPUD gradually increased to approximately 10,000 acre-feet per year by 1959. Then in 1978, MWD augmented its supply system with water from the California State Water Project and began delivering water from both systems to San Diego County. Today, virtually all of FPUD’s water supplies are from the Colorado River and California State Water Project.

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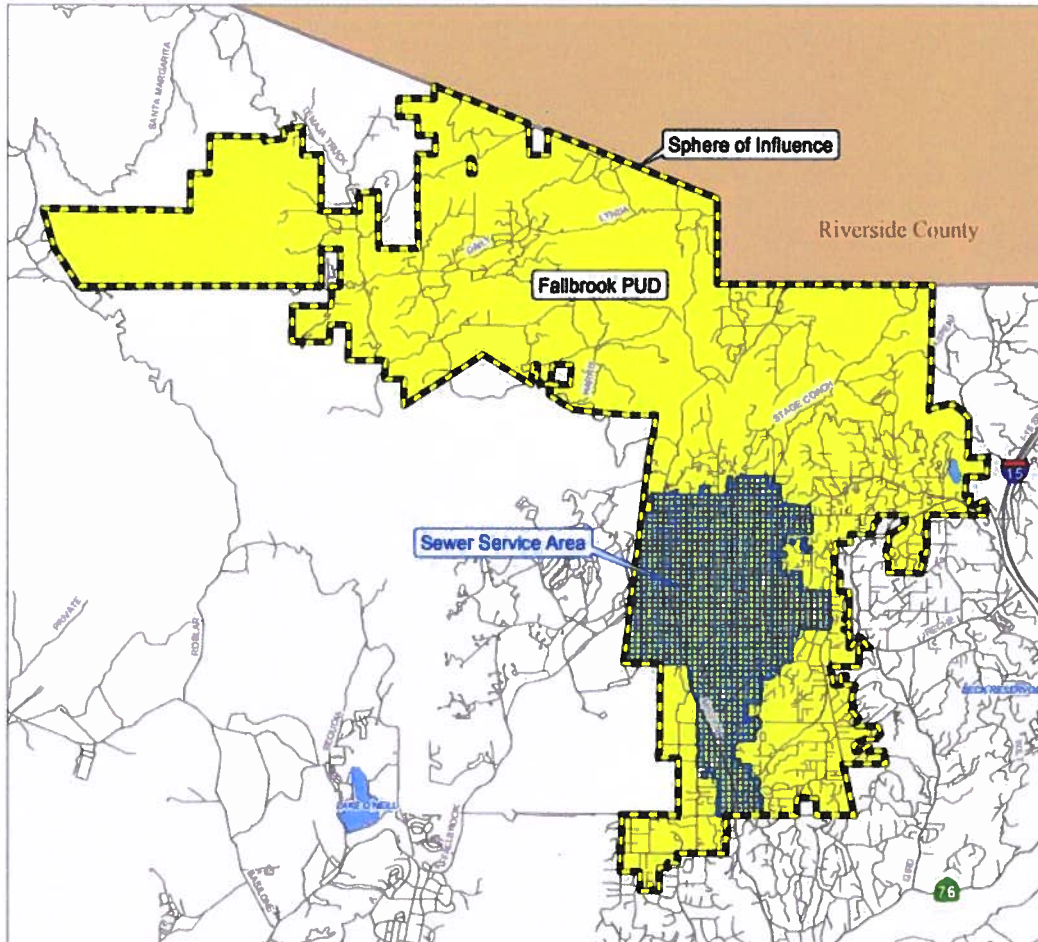
FPUD's scope of operations grew in the 1990's with both the 1990 dissolution of the DeLuz Heights Municipal Water District and annexation of its 12,000-acre service area to FPUD, and the 1994 dissolution of Fallbrook Sanitary District, which was located entirely within FPUD's boundaries. The Sanitary District had provided parts of Fallbrook with recycled water and wastewater service within a 4,200 acre area of downtown. FPUD took over those services, and the same year the playing fields at Fallbrook High School started receiving reclaimed water as its source of irrigation water. So did two new large nurseries. For the next ten years, FPUD's Reclamation Plant (Plant) began receiving a series of awards for safety in operations. In 2015, FPUD completed a major overhaul, upgrade and expansion of the Plant. The \$27 million project took three years to complete, replacing aged and aging equipment, and allowed for a substantial expansion of FPUD's recycled water distribution system. The overhaul involved upgrades to the existing Plant to improve reliability in operation and created much-needed storage space for recycled water.

FPUD provides residents, businesses and agricultural customers with full-service water, wastewater and recycled water services within all or part of its boundaries. **Figure 1** shows FPUD's service area and boundaries.

Because of its geographic location, FPUD is unique and mostly independent of the SDCWA Aqueduct system, its reservoirs and its water treatment plant. Almost all of FPUD's water is treated and delivered through MWD owned facilities. Although FPUD pays SDCWA for emergency water service, due to the lack of regional SDCWA infrastructure directly to FPUD, it cannot physically receive deliveries from SDCWA to serve the vast majority of its service area in a catastrophic emergency or in the event of an extended SDCWA shutdown for repair.

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FIGURE 1—FPUD Service Area



Governance and Organizational Structure

FPUD is governed by a 5-member Board of Directors who serve staggered 4-year terms. Each Director is elected by the registered voters of the subdistrict in which he or she resides. Previous to 2016 FPUD's Board of Directors were elected as at-large representatives. Legislation passed in 2016 allows FPUD to elect its directors by subdistrict. To run for office, a candidate must be a resident and qualified elector of the subdistrict they are running to represent. FPUD is administered by 68 Full Time employees organized by functional departments. The General Manager of FPUD is Jack Bebee, P.E.

Service Area and Local Economy

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Currently, FPUD serves an area of 28,000 acres. Approximately 40% of the annual water deliveries are for agricultural use. This number is significantly lower than in prior years. The remainder is for municipal, residential and industrial uses. Total growth in population over the past 20 years has been about 24%, or about 1.6% annually. It increased from a population of 28,200 in 1995 to a population of 33,476 in 2015. Annual water consumption increased to a high of 19,597 acre-feet/year in 2007, then decreased to 9,000 in 2018 with a projection of even lower sales in 2019. This decrease in water consumption was due to the drought, water use restrictions placed on customers, as well as the increased cost of water.

As an unincorporated area of San Diego County, land use authority for Fallbrook resides with the County Board of Supervisors. The Fallbrook Community Plan (FCP), which is part of the County of San Diego General Plan, was adopted on Dec. 31, 1974 by the Board of Supervisors and updated in November 2015. The FCP did not project land use for intermediate future years but rather produced an ultimate land-use plan. While the Community Plan specifies land use, it does not constitute zoning. All future zoning is legally required to be consistent with the adopted community goals and objectives presented in the FCP.

The following general goal has been adopted in the FCP:

"Perpetuate the existing rural charm and village atmosphere while accommodating growth in such a manner that it will complement and not sacrifice the environment of our rustic, agriculturally oriented community."

The FCP attempts to fulfill this goal by limiting future multiple-use and high-density development to the designated town center and is referred to in the County General Plan as a "Country Town." Land outside the designated town center, extending to the community's boundaries, is intended for agricultural uses and rural, residential development and has parcel size limits of 1, 2, 4 or 8 acres, depending on topography and steepness of the land. Most population increase is occurring within the Country Town as land is developed into subdivisions and apartment units. Outside the Country Town land subdivision has been occurring gradually as 40- and 80-acre parcels are split up over many years down to the permissible minimum size of 2 or 4 acres. Based on the updated General Plan, larger parcels further from roads and utilities may be limited to minimum lot sizes, much larger than 2 to 4 acres.

Agricultural land use has been undergoing a gradual change from primarily avocados and citrus to a mixture of crops including other subtropical fruit and nut orchards such as macadamias, persimmons, kiwis, cherimoyas, grapes, dragon fruit, etc. In addition, ornamental flowers and commercial nurseries are increasing in prominence and will tend to preserve the agricultural orientation of the community. Decreases in agriculture, due to increasing water cost as well as development, are expected to remain close to the historic long-term trend.

2.1.2 San Diego County Water Authority (SDCWA)

History

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SDCWA was established pursuant to legislation adopted by the California State Legislature in 1943 (County Water Authority Act) to provide a supplemental supply of water as the San Diego region's civilian and military population expanded to meet wartime activities. Because of the strong military presence, the federal government arranged for supplemental supplies from the Colorado River in the 1940s. In 1947, water began to be imported from the Colorado River via a single pipeline that connected to MWD's Colorado River Aqueduct located in Riverside County. To meet the water demand for a growing population and economy, SDCWA constructed four additional pipelines between the 1950s and early 1980s that are all connected to MWD's distribution system and deliver water to San Diego County. SDCWA is now the county's predominant source of wholesale water, supplying from 75% to 95% of the region's wholesale water needs depending upon weather conditions and yield from local surface, recycled, and groundwater resources and projects.

Governance & Organizational Structure

The decision-making body of SDCWA is its 36-member Board of Directors. Each of the 24 member agencies of SDCWA has at least one representative on the SDCWA Board of Directors. Member agencies may appoint one additional representative for each additional 5% of total assessed value of property taxable by the CWA for purposes within the public agency's boundaries. As a result, FPUD is entitled to representation by 1 director. The City of San Diego, the largest member agency in terms of assessed value is entitled to 10 Directors.

Under the CWA Act, a member agency's vote is based on its "total financial contribution" to the CWA since the CWA's organization in 1944. Total financial contribution includes all amounts paid in taxes, assessments, fees, and charges to or on behalf of SDCWA or MWD. The CWA Act authorizes each CWA Board of Directors member to cast one vote for each \$5,000,000, or major fractional part thereof, of the total financial contribution paid by the member agency. Based on this formula, FPUD is entitled to 2.32% of the total vote in Calendar Year 2019. For comparison purposes the City of San Diego is entitled to 39.81% of the total vote in calendar year 2018. The four largest urban water agencies (City of San Diego, City of Oceanside, Helix Water District and Otay Water District) have a combined vote total over 58% in calendar year 2018.

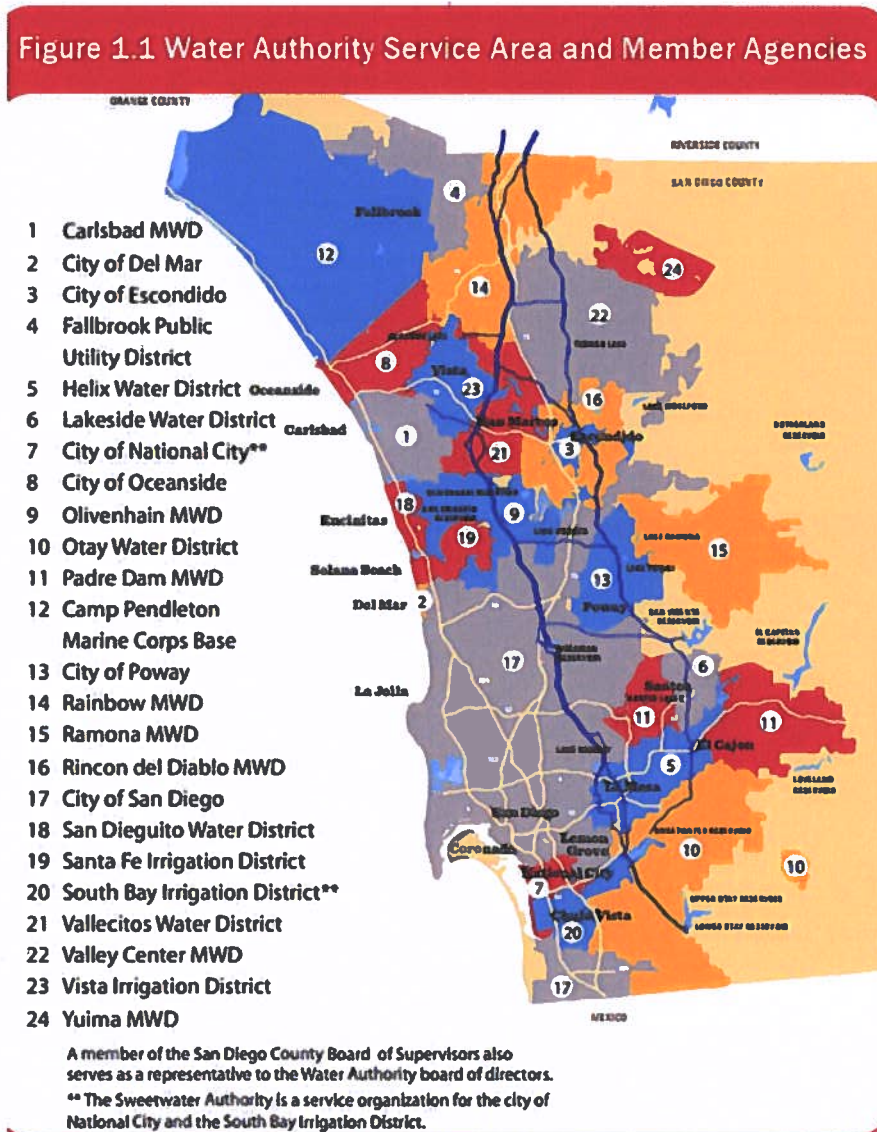
Service Area and Local Economy

SDCWA's boundaries extend from the border with Mexico in the south, to Orange and Riverside counties in the north, and from the Pacific Ocean to the foothills that terminate the coastal plain in the east. With a total of 951,000 acres (1,486 square miles), SDCWA's service area encompasses the western third of San Diego County. **Figure 2** shows SDCWA's service area, its member agencies, and aqueducts (shown as blue lines). SDCWA's 24 member agencies purchase water from SDCWA for retail distribution within their service territories. The member agencies (six cities, five water districts, eight municipal water districts, three irrigation districts, a public utility district, and a federal military reservation) have diverse and varying water needs.

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In terms of land area, the City of San Diego is the largest member agency with 210,726 acres. The smallest is the City of Del Mar, with 1,159 acres. Some member agencies, such as the cities of National City and Del Mar, use water almost entirely for municipal and industrial purposes. Others, including Valley Center, Rainbow, and Yuima Municipal Water Districts, deliver water that is used mostly for agricultural production.

FIGURE 2 –SDCWA Service Area and Member Agencies



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Facilities

Imported water supplies from MWD are delivered to SDCWA member agencies through a system of large-diameter pipelines, pumping stations, and reservoirs. The pipelines deliver supplies from MWD are divided into two aqueduct alignments, both of which originate at Lake Skinner in southern Riverside County and run in a north to south direction through the SDCWA service area. MWD's ownership of these pipelines extends to a "delivery point" six miles into San Diego County. From there, Pipelines 1 and 2 comprise the First San Diego Aqueduct, which reaches from the delivery point to the San Vicente Reservoir. Pipelines 3, 4, and 5 from the Second San Diego Aqueduct. These pipelines are located several miles to the west of the First San Diego Aqueduct.

Storage facilities are used by SDCWA to both manage daily operations and provide reserves for seasonal, drought, and emergency storage needs. SDCWA seasonal, drought, and emergency storage capacity currently includes 234,000 AF of in-region surface water. In addition to the Twin Oaks Valley WTP, SDCWA entered into an agreement with the Helix Water District to purchase 36 MGD of treatment capacity from the R.M. Levy WTP. Water from the Levy plant supplements treated water service to eastern San Diego County, storage and 70,000 AF of out of region leased groundwater storage in the San Joaquin Valley.

Economy

SDCWA's service area characteristics have undergone significant changes over the last several decades. Driven by an average annual population increase of 50,000 people per year, large swaths of rural land were shifted to urban uses to accommodate the growth in population. This shift in land use has resulted in the region's prominent urban and suburban character. San Diego County also has a rich history of agriculture, beginning with the large cattle ranches established in the 18th century and continuing through the diverse range of crops and products grown today. Although the total number of agricultural acres under production has declined, the region maintains a significant number of high value crops, such as cut-flowers, ornamental trees and shrubs, nursery plants, avocados, and citrus. Based on the 2009 Crop Statistics and Annual Report by the San Diego County Department of Agricultural Weights and Measures, the region has 6,687 farms—more than any other county in the nation. San Diego County agriculture is a \$1.5 billion dollar per year industry, and ranks first in the state in gross value of agricultural production for flowers, foliage, and nursery products.

Today, San Diego boasts an economy that is not dominated by any one sector; in fact, no sector accounts for more than 15% of the regional economy. Several sectors are "economic drivers," specifically tourism, the military, and the "innovation" sector, which together make up a third of the regional economy. Tourism is an obvious strength, due in part to the weather, the beaches, the San Diego Zoo, and the Convention Center. The military is pivoting toward Asia and has committed to San Diego, as have many military contractors, like General Dynamics (makers of the Predator drone) and ViaSat (satellite communications leaders). Moreover, innovation will continue to drive San Diego's economy, with forward-looking technologies with massive growth potential from companies like QUALCOMM (pioneers in mobile phone technology), Illumina

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(revolutionized DNA sequencing with tremendous potential to improve healthcare and quality of life), and ESET (cybersecurity experts). San Diego also fares well in industries like healthcare, education, and a lean government sector. These sectors are generally population-driven—they rise in tandem with population—and, like the economic driver sectors, have proven through the Great Recession to be less affected by economic cycles. In sum, “recession-resilient” sectors account for over 60% of the San Diego economy.

2.1.3 Eastern Municipal Water District (EMWD)

History

EMWD is a public water agency formed in 1950 by popular vote. In 1951, it was annexed into the MWD and gained access to a supply of imported water from the Colorado River Aqueduct. When EMWD was formed in 1950 it was a small agency, primarily serving agricultural customers. Since then, potable water use in EMWD’s service area has shifted from primarily agricultural to urban use. The reduction in agricultural demand has two major causes: rural farmland has been transformed to urban housing, and most remaining agricultural demands have been shifted to the recycled water system. EMWD is organized under the provisions of the Municipal Water Law of 1911, Water Code section 71000 et seq.

Today, EMWD remains one of MWD’s 26 member agencies and receives water from Northern California through the State Water Project (SWP) in addition to deliveries through the Colorado River Aqueduct. EMWD’s initial mission was to deliver imported water to supplement local groundwater for a small, mostly agricultural, community. Over time, EMWD’s list of services has evolved to include groundwater production, desalination, water filtration, wastewater collection and treatment, and regional water recycling. EMWD provides both retail and wholesale water service covering a total population of over 750,000. EMWD’s mission is “to provide safe and reliable water and wastewater management services to our community in an economical, efficient, and responsible manner, now and in the future.”

Governance and Organizational Structure

EMWD is governed by a 5-member Board of Directors who serve staggered 4-year terms, representing the district division they were elected to represent. As a member agency of MWD, EMWD also has a member appointed to the MWD Board.

Service Area and Local Economy

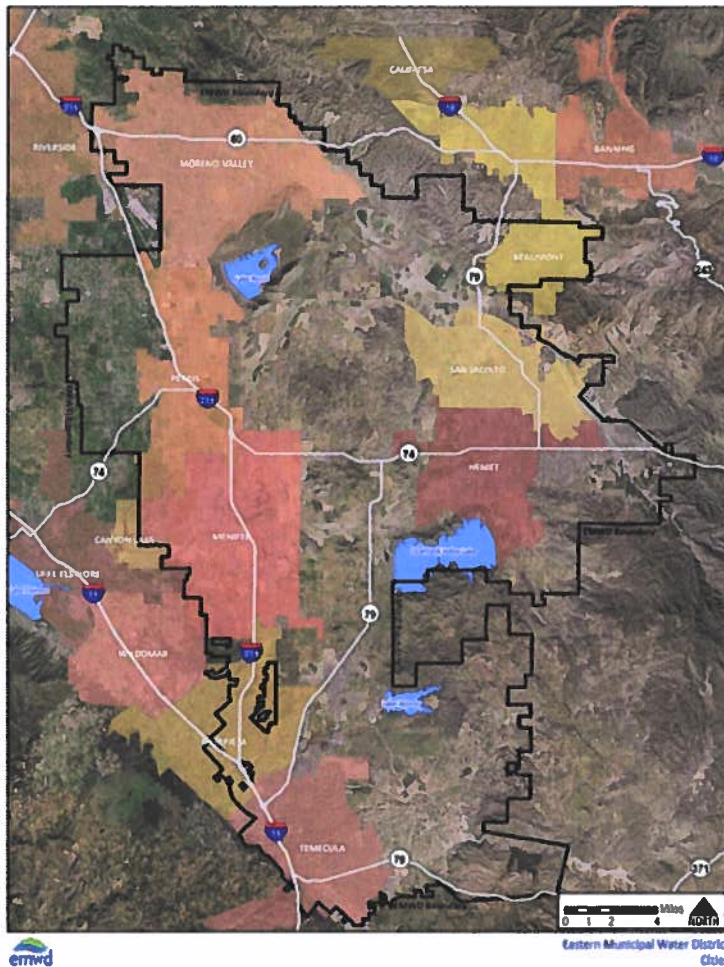
EMWD is located in western Riverside County, approximately 75 miles east of Los Angeles. (Figure 3.) EMWD provides potable water, recycled water, and wastewater services to an area of

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approximately 555 square miles in western Riverside County. The 555 square mile service area includes seven incorporated cities in addition to unincorporated areas in the County of Riverside.

FIGURE 3—EMWD Service Area

Figure 3-1: Areas Within EMWD Boundaries



EMWD is both a retail and wholesale agency, serving a retail population of 546,146 people and a wholesale population of 215,075 people. The agency was initially formed in 1950 to bring imported water to the area and in 1951 was annexed into the MWD. EMWD is now one of MWD's 26 member agencies.

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Facilities

The majority of EMWD's supplies are imported water purchased through MWD from the State Water Project (SWP) and the Colorado River Aqueduct. Imported water is delivered to EMWD either as potable water treated by MWD, or as raw water that EMWD can either treat at one of its two local filtration plants or deliver as raw water for non-potable uses. EMWD's local supplies include groundwater, desalinated groundwater, and recycled water. Groundwater is pumped from the Hemet/San Jacinto and West San Jacinto areas of the San Jacinto Groundwater Basin. Groundwater in portions of the West San Jacinto Basin is high in salinity and requires desalination for potable use. EMWD owns and operates two desalination plants that convert brackish groundwater from the West San Jacinto Basin into potable water. EMWD also owns, operates, and maintains its own recycled water system that consists of four Regional Water Reclamation Facilities and several storage ponds spread throughout EMWD's service area that are all connected through the recycled water system. As of 2014, EMWD has used 100% of the recycled water it produces.

As stated above, since its formation as a water agency, EMWD has shifted from primarily serving agricultural uses to primarily serving urban uses. Today, EMWD's retail customers are mostly residential, with other uses consisting of commercial, industrial, institutional, landscape and agricultural. In addition to retail potable water demand, EMWD delivers water to seven wholesale customer agencies.

Economy

As the population within EMWD's service area continues to grow, the characteristics of the service area are continually changing. Tract homes, commercial centers and new industrial warehouses are replacing areas of agriculture and vacant land. Over the next 25 years, EMWD's total population is projected to grow by over 500,000 people, a 67% increase over the current population.

As part of the broader Inland Empire Southern Riverside county's economy reflects strong sectors in logistics, construction, health care, manufacturing, professional, management & scientific, and finance, insurance and real estate. Construction has historically been the major driver of the economy given its undeveloped land and Southern California's need for single family homes, apartments, industrial facilities, and infrastructure. Health Care firms are expanding in the Inland Empire. These same economic sectors are reflected within EMWD's service area. Much of the service area is characterized by being above the national average in median household income.

EMWD has a history of boom and bust development cycles. From the mid- 1980's to 1990's, population growth in EMWD routinely exceeded 10% per year. In the early 1990's, growth slowed during an economic recession. During the late 1990's, growth began to steadily increase, and the first five years of the 2000's again brought accelerated population growth to the area. Growth within EMWD's service area reached its peak rate in 2005, but then there was a major decline in housing development and growth slowed again. Starting in 2006 EMWD saw a sharp decline in

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the number of new connections added, reaching a low point in 2010. Since 2010, new connections have slowly been increasing; but they remain well below the peak levels of new development seen in the early 2000's.

2.2 Existing Service Providers and Service Provider after Reorganization

Table 1 provides the current public services provider for the FPUD service area and the responsible public service provider if LAFCO's approved the reorganization.

Table 1—Summary of Municipal Services

<u>Municipal Service</u>	<u>Current Provider</u>	<u>Provider After Reorganization</u>
Wastewater Collection and Treatment	Fallbrook Public Utility District	Fallbrook Public Utility District
Water Service	Fallbrook Public Utility District <i>*Imported Water from SDCWA</i>	Fallbrook Public Utility District <i>*Imported Water from EMWD</i>
Recycled Water	Fallbrook Public Utility District	Fallbrook Public Utility District

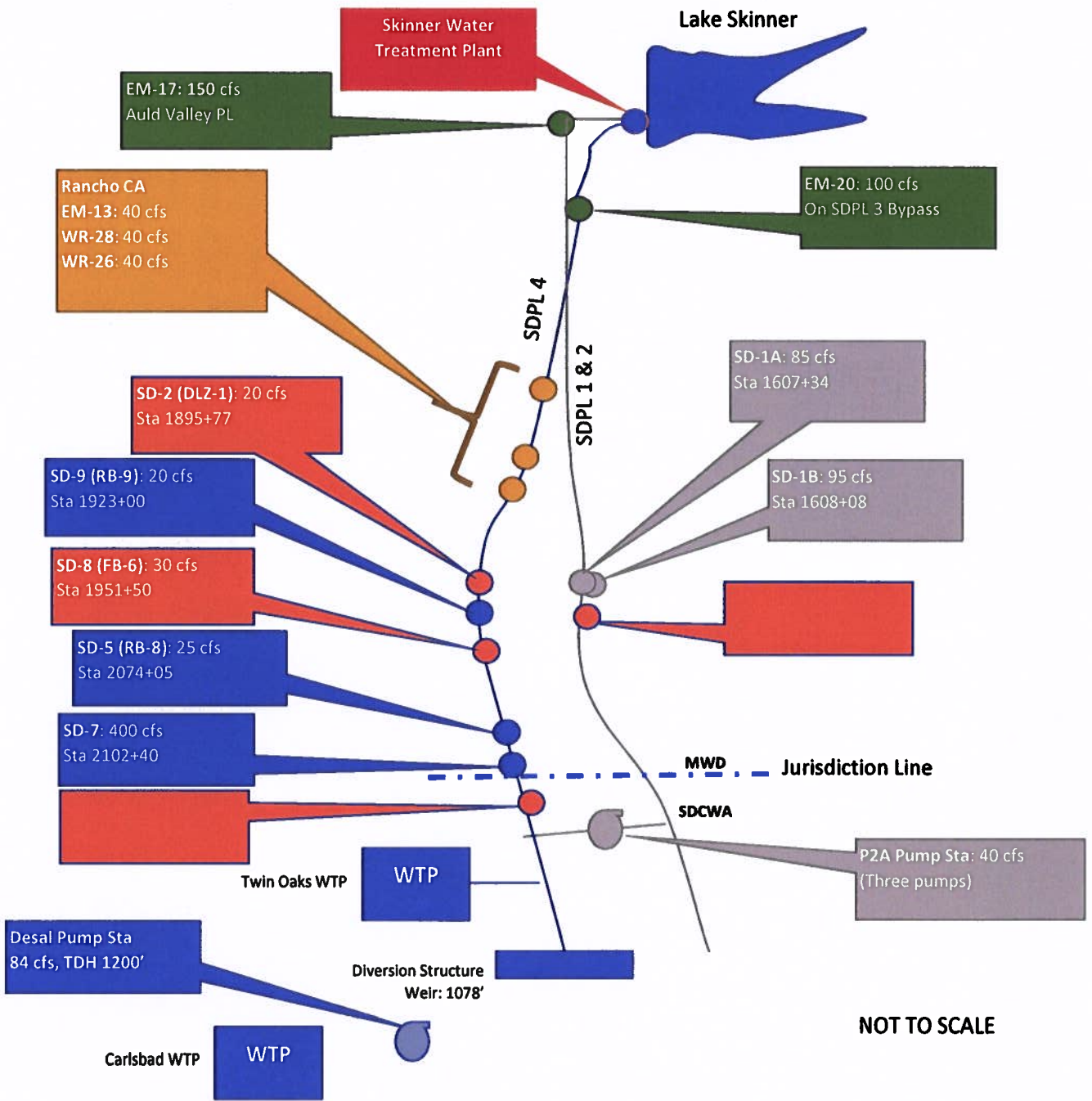
2.2.1 Level and Range of Services To Be Provided

Imported Water

FPUD imports 99% of its potable water from SDCWA with the remaining 1% coming from a local well. FPUD has four connections to SDCWA's system. **Figure 4** provides a schematic of how imported water is delivered to FPUD. Three of these connections are to pipelines owned by the MWD and one connection is to a pipeline owned by SDCWA. SDCWA currently purchases treated water from MWD that is treated at the Skinner Water Treatment Plant (WTP) and delivered to FPUD's connections. With approval of the reorganization, imported water treated at Skinner WTP will continue to be delivered to the same FPUD connections with no physical or operational changes necessary. FPUD does currently have the ability to take deliveries to occur on one connection it has to SDCWA owned pipeline, but FPUD has recently determined that continued deliveries through this connection are not necessary and FPUD will stop taking deliveries on this connection. Because there are no physical or operational change in the delivery of imported water to FPUD under reorganization there are no facilities to be built by EMWD or FPUD to begin service at the same level as today.

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FIGURE 4—How FPUD Receives Water Deliveries



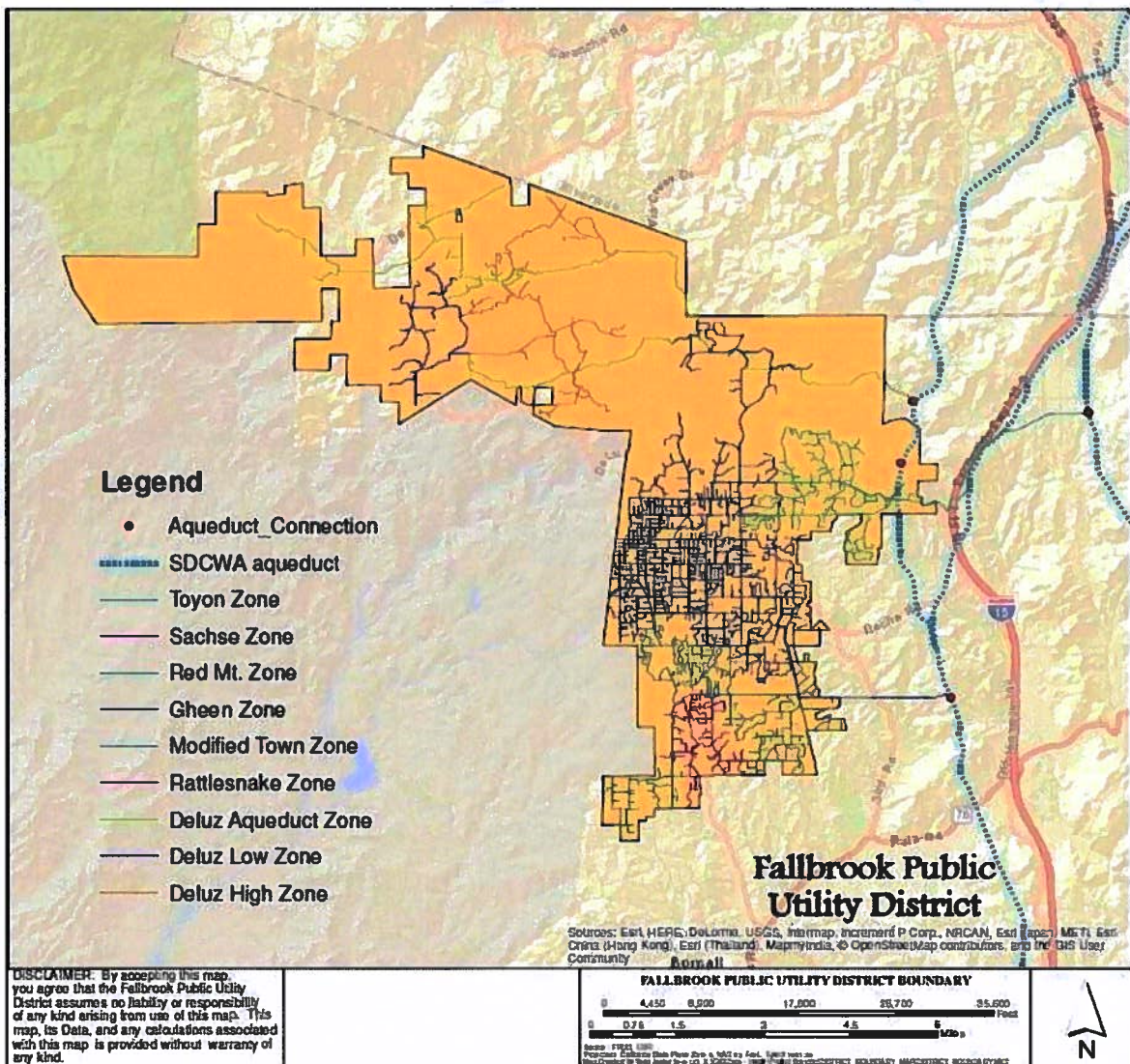
NOT TO SCALE

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Retail Water Distribution

FPUD’s water distribution system (Figure 5) is comprised of 270 miles of pipeline, 6,800 valves, an ultraviolet disinfection water treatment plant, nine steel reservoirs, a 300-million-gallon treated water reservoir, five pump stations and plans for a groundwater treatment plant. District staff operates the system, and conduct all system maintenance and repairs. FPUD is in the middle of an Advanced Metering Infrastructure (AMI) system upgrade that will enable real-time meter reading and provide customers with real-time water use. Reorganization will not result in any changes to retail water distribution in FPUD’s service area.

FIGURE 5—FPUD Water Distribution System



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FPUD Local Water Supply

FPUD also recently signed an agreement with U.S. Marine Corps Base Camp Pendleton to share local water in the Santa Margarita River, of the SMRCUP. The river is expected to provide 30%-40% of FPUD's total water needs, reducing reliance on imported water. Construction of a bi-directional pipeline and groundwater treatment plant is expected to begin in the Fall of 2019 and be operational by 2023. These construction activities and the provision of a new, more reliable water supply will occur as planned under annexation to EMWD which will not affect the provision or cost of this service to District customers.

FPUD's five-year average annual water sales is 10,375 acre-feet. Residential and commercial customers represent 59% of sales, and agricultural customers make up the remaining 41%. FPUD's historic sales trend is down due to improved water efficiency for both residential and commercial indoor and outdoor use, combined with sharp decreases in agricultural water demands. The decrease in agricultural water demands is due to drought restrictions and the increases in water costs over the last decade driven by a sharp rise in the cost of the water we purchase. FPUD's agricultural water sales have reduced from 7,000 acre-feet in Fiscal Year 2008 to 3,200 in Fiscal Year 2017.

No Change In Water Operations

Since there is no change in service boundaries or inclusion of additional territory, FPUD will be able to continue to serve its customers in the same manner if the reorganization is approved. Reorganization approval will not result in the need for any additional infrastructure that would not otherwise be needed if reorganization were not approved and FPUD remained a member of SDCWA.

Other Services

Certain services provided by SDCWA to FPUD will be provided under similar circumstances by EMWD. These include current MWD funded water conservation programs available to FPUD customers under similar conditions as currently provided. Commercial, Multi-Family and Residential rebate programs similarly available as a member agency of SDCWA would be available to FPUD customers under membership in EMWD. Similar to SDCWA, EMWD provides supplement to MWD funding for water conservation programs to its member agencies.

EMWD does not offer agricultural customers a discount water program in exchange for lesser reliability equivalent to SDCWA's Transitional Special Agricultural Water (TSAWR) Program. The SDCWA Board recently took actions to move towards making TSAWR into a Special Agricultural Water Rate Program (SAWR) and allowing new customers to qualify for the program. In exchange for a lesser level of reliability in a water shortage commercial agricultural customers participating in the TSAWR receive a substantial discount on the price of water purchased from SDCWA. However, EMWD has proposed a nominal wholesale charge or mark up to the cost of

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MWD water that results in a lower cost to FPUD customers than SDCWA's TSAWR. **Table 2** compares the different calendar year 2020 SDCWA water rates (TSAWR and Full Service (FS)) to those proposed by EMWD.

Table 2—2020 SDCWA TSAWR, Full Service M&I and Potential EMWD Charges

<i>Rate</i>	<i>TSAWR</i>	<i>SDCWA FS</i>	<i>EMWD</i>
<i>Treated</i>	\$1,231	\$1,686	\$1,078
<i>RTS</i>	28	28	82
<i>CC</i>	24	24	24
<i>IAC</i>	43	43	0
<i>EMWD</i>			11
<i>Total</i>	\$1,326	\$1,781	\$1,195
<i>Rate Differential From SDCWA FS</i>	(\$455/AF)		(\$586/AF)

Source :SDCWA and MWD websites

Note: IAC is converted to \$ per AF based on FPUD/RMWD 2020 shares divided by FPUD/RMWD 3 year average of SDCWA deliveries

MWD RTS is based on FPUD and RMWD 2020 shares divided by FPUD and RMWD 10 year deliveries

MWD CC is based on FPUD and RMWD actual 2020 shares divided by FPUD RMWD 3 year average

Stand-By Availability charge is considered equivalent regardless of membership and not shown

Reliability

In contrast to SDCWA, EMWD is both a retail and wholesale water supplier. As a retailer, approximately 50% of EMWD's supplies consist of local groundwater and recycled water. The remainder are deliveries of imported water from MWD. As a wholesale water supplier EMWD delivers only imported water from MWD. In terms of delivery of water to FPUD, EMWD would act in its wholesale capacity and take delivery of MWD water in the same manner as SDCWA and FPUD would receive delivery of water from EMWD in the same manner as it receives deliveries of wholesale water from SDCWA. While the method of deliver is exactly the same, there are some potential changes in the overall reliability of the imported water supplies from EMWD versus SDCWA during cutbacks that are described in more detail below.

Over the last 25 years SDCWA as a wholesale water supplier, and many of its retail member agencies, have been successfully diversifying the region's water supply portfolio by developing local recycled water, groundwater and seawater desalination supplies. SDCWA has also invested in surface water storage and out-of-region groundwater storage to improve reliability in both drought related and catastrophic emergencies. Because of the success of supply diversification and the significant reduction in water demand through conservation, SDCWA's dependence on imported water from MWD has been reduced and the reliability of its service area has substantially

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improved in the last two drought as compared to the maximum of 32% combined agricultural and non-agricultural shortages SDCWA experienced in 1991-1992 prior to the region's diversification program. The more reliable local supplies available to MWD member agencies, the less reliant they are on MWD imported water supplies in a drought induced shortage, and the higher the agencies level of reliability.

As noted previously, FPUD's TSAWR customers receive a lesser level of reliability in exchange for discounted water from SDCWA. TSAWR customers reliability in a shortage is set at the level of reliability and cutbacks that MWD places on its member agencies. TSAWR customers do not benefit from the reliability investments made through SDCWA's diversification and Carryover Storage Program. If the reorganization is approved FPUD's current TSAWR customers would not benefit from EMWD's local supplies or groundwater storage programs and would similarly be subject to a pass-through of MWD cutbacks.

The benefits of SDCWA's diversification program are realized by FPUD's non TSAWR customers (also referred to as Municipal & Industrial or M&I) in higher levels of reliability during drought related shortages. However, MWD and its member agencies (including SDCWA) have also made significant investments in reliability over the last 25 years and will continue to do so. Local supply development and water conservation has reduced demand on MWD for imported water by just over half of its peak demand. That result along with MWD investments in in-region and out-of-region storage has significantly bolstered its ability to withstand multiyear droughts at cutback levels much lower than 20% experienced by MWD M&I customers in the peak cutback year of 1991. Although MWD planning documents anticipate that it will not experience cutbacks if its assumptions on local and imported supplies are fulfilled, they have experienced two rounds of cutbacks within the last 10 years. Both instances (2010-2011 and 2015-2016) resulted in a maximum cutback level of 15%.

A comparative analysis, which follows, was conducted to estimate the reliability and cutback level FPUD would experience in shortage similar to the maximum cutback of 15% from MWD initiated in the last two droughts. In this analysis it is assumed that FPUD has fully implemented the SMR CUP currently under construction. Both SDCWA and MWD have detailed computer models that calculate member agency allocations including the various adjustments for highly reliable local supplies, extraordinary conservation and population growth used by both agencies. The final allocations to an individual member agency consider what other member agencies supplies and demands are in the allocation year. The analysis contained below uses simplified assumptions based on the allocation methodologies and supply and demand amounts contained in the most recent UWMPs for 2030. (Table 3.)

The analysis is for a single dry year in a prolonged multi-year drought event. The range includes whether SDCWA has carryover storage supplies and in circumstances where it has exhausted those supplies. Shortages under EMWD reduce available MWD supplies by the level of the overall MWD cutback and does not attempt to apply any adjustments to EMWD that may result in it receiving a higher allocation. The analysis also assumes EMWD does not provide FPUD any of its local or stored water supplies. For more accurate estimates of what FPUD's shortage allocation would be it would be necessary to request that SDCWA and potentially MWD run their allocation

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models. A more complete report was prepared for Rainbow Municipal Water District, providing much of the background on SDCWA and MWD reliability planning for the assessment of water reliability that applies also to FPUD. (See **Attachment A - Analysis of RMWD Water Supply Reliability** November 2019.)

Table 3—Reliability Analysis Summary

FPUD Reliability Single Dry Year 2030					
15% MWD Cutback					
	M&I Cutback		TSAWR Cutback	Combined Cutback	
	Low*	High*		Low	High
SDCWA	0%	4%	15%	3%	8%
EMWD	10%		10%	10%	

*** Range is based on use of Carryover Storage supplies and allocation under MWD Water Shortage Allocation Plant (WSAP) or Preferential Rights**

Although the above reliability analysis supports that the overall range in reliability is better under SDCWA, FPUD believes the differences in the severity of the shortage will not have a significant impact given the rural characteristics of the District’s service area and ability to encourage reduced outdoor water use to achieve the cutback target. FPUD benefits from both improved MWD reliability through local supply development and reduced demand on MWD and its own groundwater conjunctive use project. The range of shortages indicated above are well within the historic shortages managed by FPUD without economic harm to its customers. Article 26 of FPUD’s Administrative Code provides the detailed actions FPUD takes in a water shortage. Additionally, the State of California through the Urban Water Management Planning Act (Water Code Section §10610 et seq.) requires preparation of a Shortage Contingency Plan. The Shortage Contingency Plan identifies the stages of action to be undertaken by the urban water supplier in response to water supply shortages, including up to a 50% reduction in water supply, and an outline of specific water supply conditions which are applicable to each stage.

Managing a Water Shortage

In SDCWA’s 2008 Model Drought Response Ordinance provided to its member agencies for regional consistency in drought management, SDCWA established an up to 10% conservation target considered to be a voluntary stage prior to imposing mandatory restrictions. This is reflected in FPUD’s Administrative Code Article 26 and its UWMP Shortage Contingency Plan.

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Table 11-2. Correlation between WSDRP Stages and Model Drought Ordinance Levels

WSDRP STAGE	DROUGHT RESPONSE LEVEL	USE RESTRICTIONS	CONSERVATION TARGET
Voluntary (Stage I)	1 - Drought Watch	Voluntary	Up to 10%
Supply Enhancement (Stage II)	1 - Drought Watch	Voluntary	Up to 10%
	2 - Drought Alert	Mandatory	Up to 20%
Mandatory Supply Cutback (Stage III)	2 - Drought Alert	Mandatory	Up to 20%
	3 - Drought Critical	Mandatory	Up to 40%
	4 - Drought Emergency	Mandatory	Above 40%+

Source: SDCWA Urban Water Management Plan

Although a 10% shortage has resulted in mandatory water use restrictions in previous droughts. Achieving that goal is considered very manageable by most water suppliers. Because FPUD residential customers typically have larger lot sizes that are irrigated a reduction in 10% has been achievable and surpassed in the recent past. A 10% reduction in water use by commercial agricultural customers has also been achievable and is less than those customers would experience under continued participation in TSAWR in a similar 15% MWD cutback.

During the most recent drought, the State of California imposed an Emergency Conservation Regulation that required reduced water use over what was necessary given available MWD and SDCWA supplies. Below (Table 4) is an excerpt from an FPUD Water Supplier monthly report to the state of California addressing FPUD’s performance during implementation of the Emergency Regulation. It compares monthly water use for the summer of 2015 at the height of the last drought and imposition of the most severe restrictions with pre-drought water use for the same months in 2013.

Table 4—FPUD Water Use Report (2015)

Supplier Name	Stage Invoked	Mandatory Restrictions	Reporting Month	REPORTED Total Monthly Potable Water Production	REPORTED Total Monthly Potable Water Production 2013	Reduction in Water Use
Fallbrook Public Utility District	Stage 2	Yes	Sep-19	960.8	1454.2	51%
Fallbrook Public Utility District	Stage 2	Yes	Aug-19	1097.5	1514.9	38%
Fallbrook Public Utility District	Stage 2	Yes	Jul-19	1006.9	1513	50%
Fallbrook Public Utility District	Stage 2	Yes	Jun-19	945.5	1307	38%

Source: https://www.waterboards.ca.gov/water_issues/programs/conservation_portal/docs/2019sept/nw_supplier_data090319.xlsx

FPUD can manage the differences in shortages between SDCWA and EMWD through demand management during a shortage consistent with its UWMP Shortage Contingency Plan. The large

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amount of outdoor irrigation provides FPUD customers with a cushion with which to reduce water usage during a shortage without inflicting economic harm or hardship. FPUD considers this to be more cost effective for its customers than to consistently pay significantly more for its water supply as a member agency of SDCWA.

The most noticeable trend in reliability since the last drought (2015-2016) has been the continued decline in water use. (Table 5.) This continued drop in water use pertains to SDCWA an MWD as large wholesale agencies and to FPUD as an individual water district. In comparing FPUD's monthly water use in the summer of 2018 to its 2013 water use shows a continuance of lower water demand.

Table 5—FPUD Water Use Report (2018)

Supplier Name	Stage Invoked	Mandatory Restrictions	Reporting Month	REPORTED Total Monthly Potable Water Production	REPORTED Total Monthly Potable Water Production 2013	Reduction in Water Use
Fallbrook Public Utility District	Stage 1	Yes	Sep-18	944.8	1454.2	54%
Fallbrook Public Utility District	Stage 1	Yes	Aug-18	1143	1514.9	33%
Fallbrook Public Utility District	Stage 1	Yes	Jul-18	1201.7	1513	26%
Fallbrook Public Utility District	Stage 1	Yes	Jun-18	928.3	1307	41%

Source: https://www.waterboards.ca.gov/water_issues/programs/conservation_portal/docs/2019sept/nw_supplier_data090319.xlsx

Although the 2015 updates of the UWMP were used in conducting the above reliability analysis, updates will be prepared in 2020 with new water demand forecasts. It is assumed that continued decreases and slower growth rates will be included in UWMPs throughout the MWD service area. These lower demand forecasts along with continued local supply development will reduce demand on imported water and strengthen the reliability of imported water supplies from MWD. This continued trend will likely reduce the margin of difference for FPUD in reliability as a member agency of EMWD and SDCWA.

Catastrophic Emergency

For the last 20 years SDCWA has been implementing the Emergency Storage Project (ESP). The ESP is a system of new, existing and expanded reservoirs, pipelines and pump stations that will ensure that its member agencies receive a 75% Level of Service during a catastrophic earthquake that severs San Diego County from MWD's imported water system. SDCWA's ESP manages the risk of seismic events on the San Andreas, San Jacinto and Elsinore faults. Although FPUD has been paying for the ESP through its water rates for 20 years, it is not able to receive ESP service due to a yet to be constructed pump station and appurtenant facilities by SDCWA. It should be noted that SDCWA's planning documents for these facilities indicate that SDCWA will need to use MWD's aqueduct system to make ESP deliveries to FPUD.

If the facilities are constructed FPUD's customers would be able to receive ESP water in a catastrophic emergency. FPUD's M&I customers would receive a 75% level of service while

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FPUD's TSAWR customers would be cut at twice the rate of non-TSAWR customers (50% cutback compared to 25% for non-TSAWR customers). This lower level of reliability is in exchange for the discounted water rate TSAWR customers pay and in recognition that in an emergency outdoor irrigation water will be a low priority.

MWD also has an Emergency Response Plan and emergency water storage for its member agencies and their sub-agencies. MWD maintains sufficient storage in its 800,000 acre foot Diamond Valley Lake and other storage reservoirs to provide a similar 75% Level of Service in the event of earthquakes on the San Andreas and San Jacinto earthquake faults that would sever the imported water conveyance system for the State Water Project and Colorado River. The difference between SDCWA and MWD emergency storage programs is the response to a seismic event on the Elsinore Fault in southern Riverside County that disrupts service from MWD's treatment plants, reservoirs and local pipelines. The Elsinore Fault is considered the least active of the 3 earthquake faults, and MWD in its Emergency Response Plan intends to complete repairs on those facilities within 14 days of the seismic event and restore service to at least the 75% level. When facilities for SDCWA's ESP are completed it expects to provide emergency water for a 75% Level of Service to FPUD customers following the seismic event on the Elsinore Fault and the interruption of imported water deliveries.

In an effort to address the proposed reorganization's potential for 14 days with limited or no service in the event of an earthquake on the Elsinore Fault, FPUD customers will receive local water supply during an emergency from its Santa Margarita River Conjunctive Use Project (SMRCUP). FPUD is constructing the SMRCUP in partnership with U.S. Marine Corps Base Camp Pendleton to share local water in the Santa Margarita River through a groundwater storage and recovery project. Local supply from the SMRCUP will provide an additional layer of water supply reliability to the FPUD service area. Construction of a bi-directional pipeline and groundwater treatment plant is expected to begin in the Fall of 2019 and be operational by 2023. These construction activities and the provision of a new, more reliable water supply will occur as planned under reorganization which will not affect the provision or cost of this service to FPUD customers.

The SMRCUP is planned to produce approximately 9 acre feet per day on average and can meet all the daily indoor health and safety of FPUD residents for the 14 day expedited repair period. Additional drinking water will be available from the SMRCUP, FPUD's Red Mountain Reservoir and other storage tanks to meet very limited irrigation needs of M&I and agricultural customers during this period as well.

The below **Table 6** reflects the Level of Service FPUD customers can expect during a catastrophic emergency as a member agency of SDCWA and under reorganization as a member agency of EMWD.

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Table 6—FPUD Reliability During a Catastrophic Emergency

FPUD Reliability Catastrophic Emergency					
		San Andreas & San Jacinto Faults		Elsinore Fault	
		M&I Level Of Service	TSAWR Level of Service	M&I Level Of Service	TSAWR Level of Service
SDCWA		75%	37%	75%	37%
EMWD		75%	NA	20% to 75%**	NA

****Range is based on MWD emergency planning for seismic event on Elsinore fault is to expedite repairs to facilities in southern Riverside county to restore service within 14 days. Indoor Health and Safety water use minimum level of service form local supplies and storage for 14 day period. SDCWA plans to provide emergency deliveries with earthquake on Elsinore Fault.**

While the SMRCUP is designed to be a baseline supply for FPUD and Camp Pendleton, FPUD is considering entering into an MOU with Rainbow Municipal Water District (RMWD) that will allow a portion of this FPUD’s local water to be provided to RMWD in the event of a catastrophic emergency on the imported water system, such as an earthquake along the Elsinore Fault. A small amount of SMRCUP supply will be provided to RMWD during this 14 day period to supplement RMWD stored supplies in its local reservoirs and storage tanks.

3.0 FINANCING

In California, funding for special districts comes in two distinct types, based on their source (or sources) of revenue: Enterprise Districts and Non-Enterprise Special Districts.

Non -Enterprise Districts deliver services that provide general benefits to entire communities. They are primarily funded by property taxes. Enterprise Districts finance district operations via fees for public service, similar to a business. Under this model, the customers that consume goods or services such as drinking or irrigation water, waste disposal, or electricity, pay a fee. Rates are set by a governing board and there is a nexus between the costs of providing services and the rates customers pay. Sometimes enterprise district may also receive property taxes which comprise a portion of their budget.

FPUD operates as an enterprise fund, which has a set of self-balancing accounts that record the financial position of each of FPUD’s services. The service funds track revenues from service fees and operating expenses specific to each service. This, in turn, makes each service fund independent and self-sufficient, and also ensures service fees are set to recover only costs associated with the particular service.

FPUD’s accounting system and practices are based upon Generally Accepted Accounting Principles (GAAP) and are kept on an accrual basis. Under the accrual basis, revenues are recognized when earned and expenditures are recognized when a liability is incurred. FPUD’s budget is prepared on a cash basis, which means that projected revenues are recognized when cash is assumed to be received and projected expenses are recognized when cash is disbursed.

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Annual Budget Process

Each year, FPUD develops and adopts a new budget for the upcoming fiscal year. The budgeting process begins in January and starts with the budget message. The budget message establishes the priorities of FPUD in the next fiscal year and provides budget managers with guidance on how to prioritize their budget needs.

The capital and operating budget are included in FPUD's preliminary budget. Once assembled, the preliminary budget is reviewed by the General Manager and staff in a series of meetings. Adjustments are made to the preliminary budget and the revised preliminary budget is reviewed by the FPUD Board of Directors Fiscal Policy and Insurance Committee. Once the Committee's comments are incorporated and the proposed budget developed, budget workshops with the Board, if required, are held. The final proposed budget is then sent to the Board for review. Once Board comments are incorporated into the document, a public hearing, if necessary, is held and the recommended budget is adopted.

Budget adjustments are made if projects or expenditures are needed that fall outside FPUD's adopted budget. These items are brought to the Board for approval and to appropriate the funds. A mid-year budget update is also provided to the Board each year to update spending trends and identify early any potential shortfalls or surpluses. FPUD maintains a balanced budget, which means that sources of funds equals uses of funds in instances of shortfall. Reserve fund withdrawals, if necessary, provide a source of funds. Likewise deposits to reserves are a use of funds and are unappropriated balances.

Financial Impacts of Reorganization

The proposed reorganization will have financial impacts to FPUD, EMWD, and CWA. While FPUD has pursued discussions with SDCWA to identify a potential cost structure for detachment, the parties have not made significant progress on reaching consensus. The last communication requested that FPUD meet with each SDCWA member agency separately to negotiate a solution. While FPUD did in fact reach out to each member agency and met with many of them and provided potential concepts for a cost structure for detachment, the general consensus from these meetings is that development of separate agreements with each SDCWA member agency is unworkable. This is because any impacts or benefits to SDCWA resulting from the reorganization, if approved, will impact SDCWA's rate setting process, and the impact on each member agency will vary over time with that agency's water demands.

In absence of a negotiated agreement with SDCWA, FPUD proposes that the detachment from SDCWA be consistent with the County Water Authority (CWA) Act (Water Code Appendix section 45-1 et seq.), the law under which SDCWA exists and is organized. Section 45-11 of the CWA Act sets forth certain requirements a member agency must follow in order to detach (called an "exclusion" in the CWA Act) from SDCWA. In accordance with this provision if the detachment is successful, taxable property within the detaching member agency may still continue

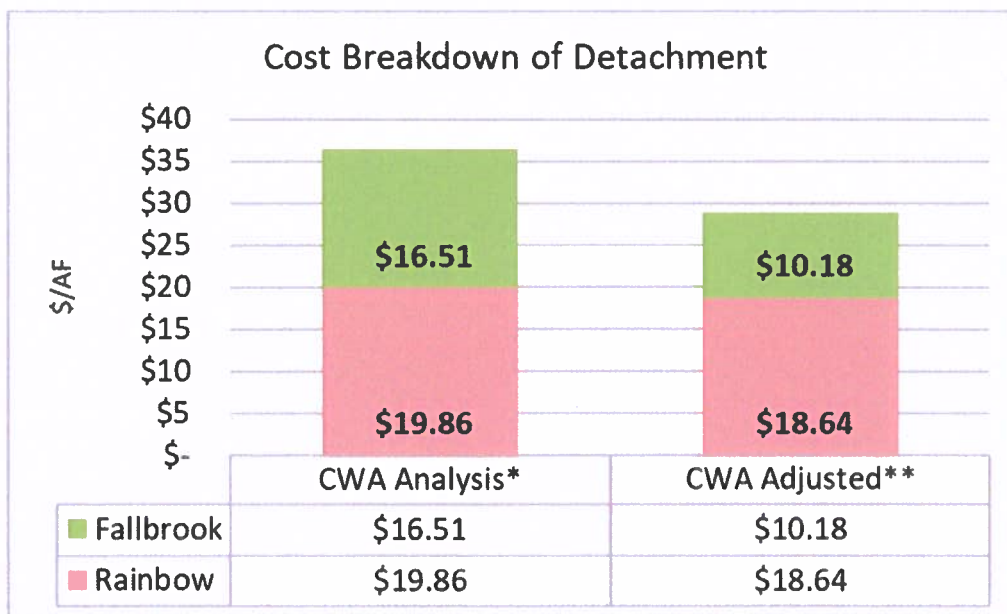
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to be taxable by SDCWA for the purpose of paying bonded and other indebtedness outstanding or contracted for at the time of detachment/exclusion. The amount currently collected annually from FPUD customers is roughly \$150,000. These payments would continue after detachment pursuant to the CWA Act even though FPUD will cease to receive any benefit from any SDCWA facilities.

The remaining SDCWA member agencies would also benefit from past investments made by FPUD in regional infrastructure. As of January 1, 2018 FPUD has contributed approximately \$300 million to help build SDCWA’s infrastructure. These investments helped fund storage projects, emergency water supply projects and secure lower cost water supplies from canal lining projects. These investments will continue to provide benefits to the remaining SDCWA member agencies and FPUD will not recover any value from these regional investments that will continue to support all other member agencies of SDCWA. Further, there is no outstanding SDCWA debt associated with SDCWA facilities that only serve FPUD and that will, consequently, have no benefit to other remaining agencies after detachment.

Figure 6 shows the anticipated impact on SDCWA rates based on current FPUD and RMWD demand projections, including the reduction in SDCWA demands from the local groundwater development. As shown in **Figure 6**, the relative projected impact to SDCWA from FPUD detachment is \$10.18/AF. The current SDCWA rate is approximately \$1686/AF, so this represents an increase of 0.6%. The average rate increase experienced by FPUD over the last 10 years from SDCWA is over 8%. Using recent water usage for the City of San Diego of 91 gallons per capita per day (gpcd) and a rate impact of \$10.18 per AF for FPUD, the average person from the City of San Diego would see an annual cost impact of \$1 per year. Currently the average person from the City of San Diego pays an additional \$41 per year for SDCWA’s desalinated water (excluding the conveyance pipeline costs) and Imperial Irrigation District’s transfer water.

FIGURE 6—Rate Impact of FPUD/RMWD Detachment.

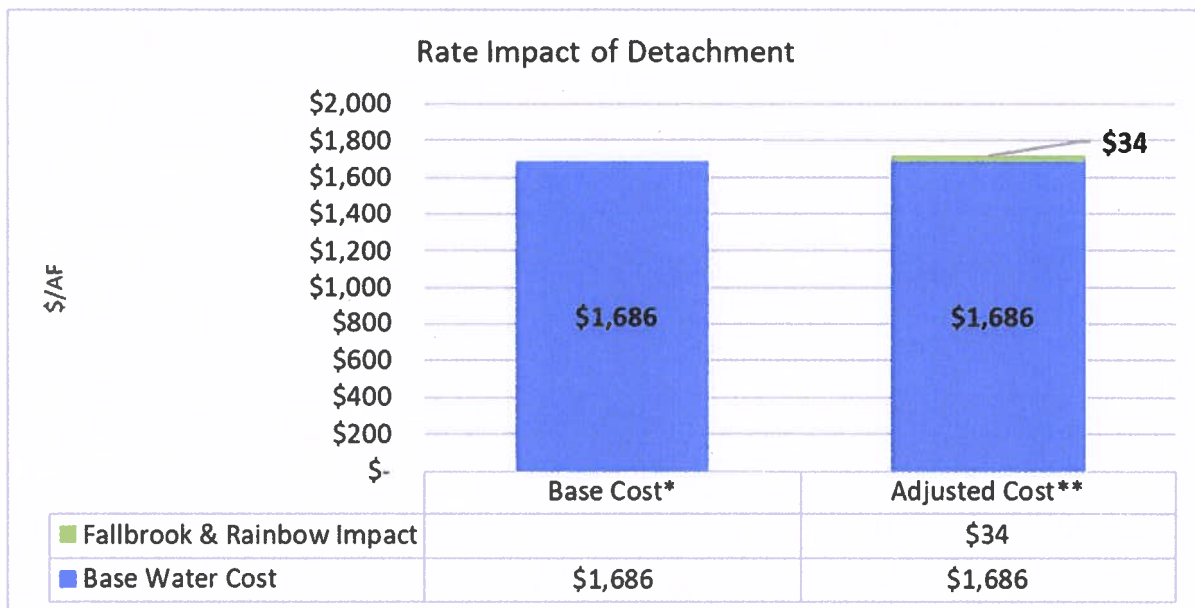


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- * Based upon SDCWA's August Preliminary Financial Impact Analysis | De-Annexation.
- ** Based upon updated water sales projections and includes 3,100 AF of local supplies.

Although all the water purchased by FPUD is received directly from MWD, there will be a reduction in revenue for SDCWA if FPUD began to purchase wholesale water through MWD. SDCWA prepared a summary of the anticipated costs based on FY 2018 water demands and CY 2020 rates in August 2019. This analysis results in an estimated revenue reduction to CWA of approximately \$36.37/AF on top of the existing rate of \$1686/AF for remaining agencies from the detachment of FPUD and RMWD based on their being no cost reduction in SDCWA operations due to detachment. (Figure 7.)

FIGURE 7—SDCWA Projected Rate Impact



- * Based upon CWA's Recommended Calendar Year 2020 Rates and Charges presentation.
- ** Based upon updated water sales projection for CWA of 338,958 AF.

SDCWA's estimate is higher than the actual projected impact for two key reasons:

1. The FY 2018 flows are higher than current and projected flows largely due to a continued decline in agriculture in the region.
2. FPUD is constructing a new groundwater treatment plant that will supply 30-40% of anticipated annual water demands.

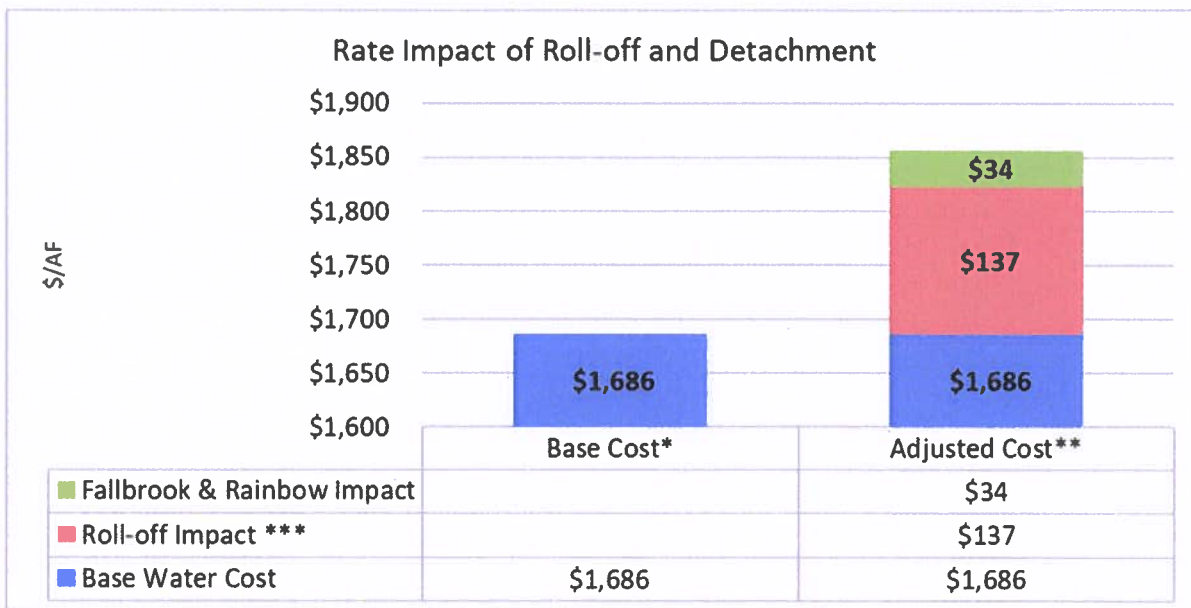
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These factors will reduce the water demands on SDCWA, which will reduce the cost impact of on SDCWA of detachment.

SDCWA has also argued that the detaching agency must ensure revenue neutrality for the remaining agencies. Under this concept, FPUD would continue to make the same net payment to SDCWA, but would receive no services. In turn, SDCWA would use this money to subsidize other member agencies rates to be able to offset the potential 0.56% rate increase associated with the detachment of FPUD. We feel this concept is flawed at a number of levels:

1. This approach is inconsistent with the CWA act and would not have any cost of service basis and would violate proposition 26.
2. Currently member agencies can build local projects and reduce their water demands with a similar effect as detachment. The vast majority of rates allocated to a member agency are based on demands. While some are rolling averages, the costs paid by a District to SDCWA are largely proportional directed to water demands. **Figure 8** shows an example of the rate impacts to other member agencies for three local supply projects that are underway. These projects include Phase I of the City of San Diego Pure Water Program, Pure Water Oceanside and the East County Advanced Purification Facility.

FIGURE 8—Rate Impact of Roll-Off and Detachment



* Based upon SDCWA's Recommended Calendar Year 2020 Rates and Charges presentation.

** Based upon updated water sales projection for SDCWA of 338,958 AF.

*** Pure Water Phase I, East County AWP, Pure Water Oceanside.

As shown in **Figure 8**, the impact of these projects to other remaining member agencies is approximately \$137 per AF or over ten times times the projected impact of the FPUD detachment. If FPUD was required to make each agency revenue neutral for the impact of their reduced water

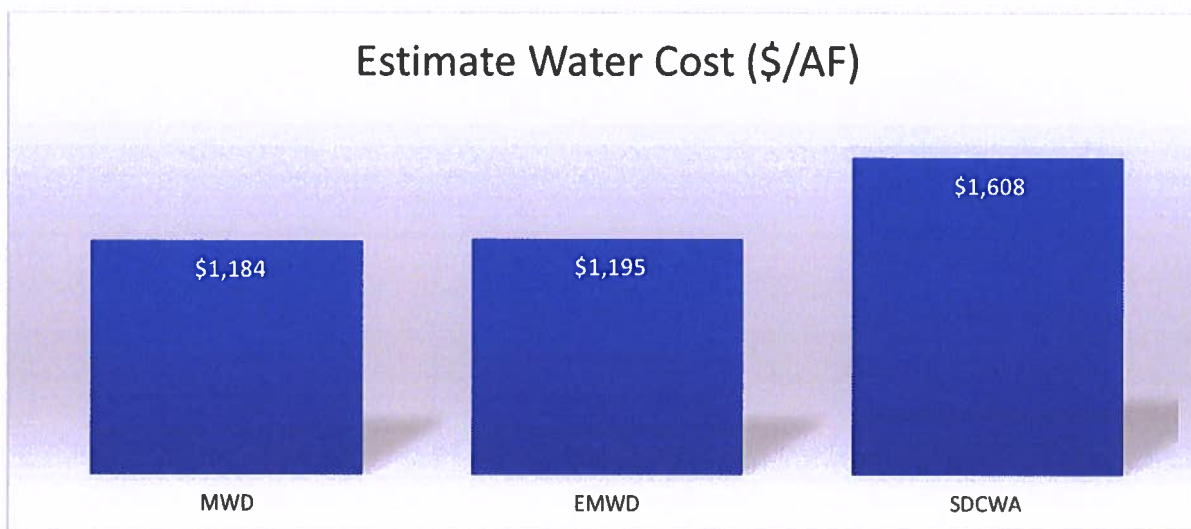
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purchases then the same concept would need to be in place for entities that are rolling off SDCWA and shifting existing SDCWA costs to the remaining agencies including FPUD and RMWD if detachment is not successful.

The majority of water used by FPUD is currently delivered from MWD through MWD facilities, and FPUD pays SDCWA for this water. The cost of treated MWD water to SDCWA is \$1,184/AF. Currently, FPUD is charged by SDCWA over \$450/AF on top of the MWD price versus an additional \$11/AF if the water was supplied by EMWD (See Figure 9). If FPUD detaches from SDCWA and attaches to EMWD, there is a substantial long-term savings to FPUD customers due to this difference in unit water costs.

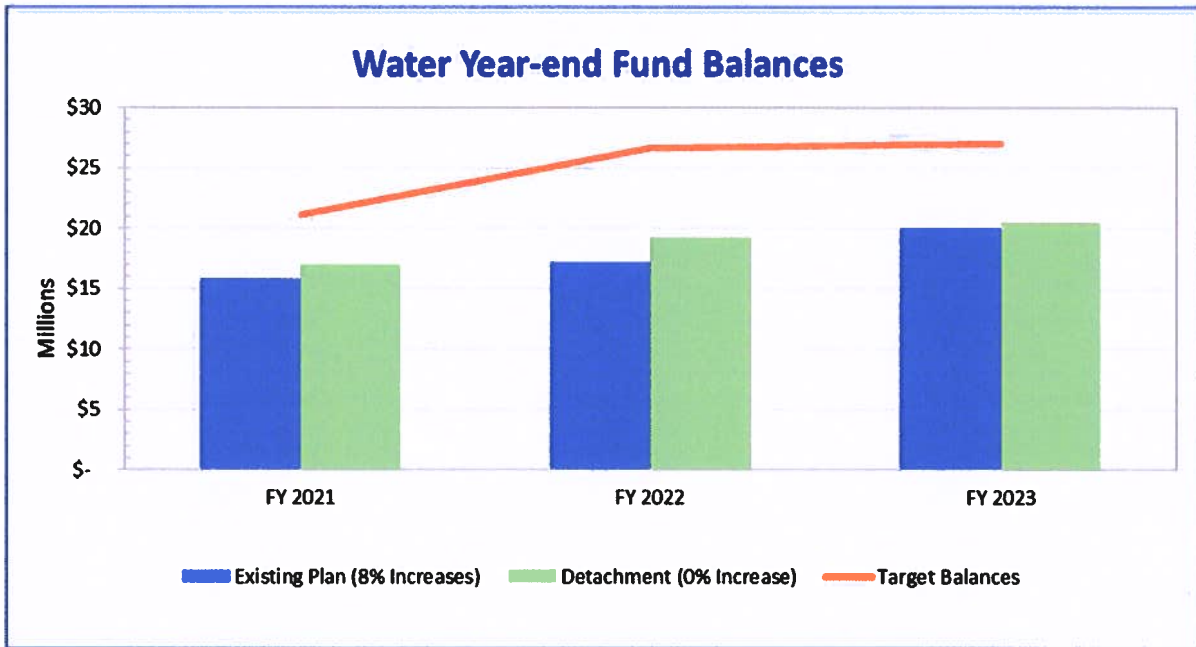
Figure 9 shows the projected water rate increases for FPUD with and without detachment. As shown in Figure 9, without detachment an annual increase of 8% is anticipated over the next three years. With the reorganization it is anticipated that no rate increase could be achieved for 3 years or rates could be slightly decreased based on the reduction in the cost of water with on-going savings in wholesale water costs of over 25%.

FIGURE 9—Wholesale Water Costs



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FIGURE 10—Projected Rate Impacts of Detachment



FPUD has had to implement significant rate increases over the past decade to address the combined impacts of increased water supply costs, declining sales and aging infrastructure needs. Increasing water rates has had a significant impact on the quality of life in our community due to the loss of agriculture and the inability to afford the water costs to maintain a rural lifestyle. These trends will continue into the future and further negatively impact our community unless LAFCO supports efforts by FPUD to reduce its water costs through the process of detachment from SDCWA and annexation to EMWD.