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8/25/2005

TO: Local Agency Formation Commission
FROM: George J. Spiliotis, Executive Officer

SUBJECT: LAFCO 2005-56-3-DISSOLUTION OF MURRIETA COUNTY WATER DISTRICT

PRIOR AGENDAS/RELATED ACTIONS: None

EXECUTIVE SUMMARY: This report addresses a proposal to dissolve the Murrieta County Water District (MCWD). The dissolution has been initiated jointly by unanimous resolutions of the Boards of MCWD and Western Municipal Water District (WMWD). Approximately 85 percent of MCWD is within WMWD, a Metropolitan Water District member agency that provides wholesale and retail service to portions of western Riverside County. WMWD proposes to assume the responsibility for retail water and wastewater services in the area. The staff recommendation is for approval as proposed.

BACKGROUND: Murrieta County Water District was formed in 1963 but was inactive until 1981, when it assumed the assets and functions of the Murrieta Mutual Water Company. A relatively small district, it serves approximately 2400 connections in a rapidly developing, six square mile portion of the City of Murrieta. Connections are expected to increase to over 12,000 by 2020. Although reorganization options have been suggested in the past, measures taken beginning in 2004 represent the most serious efforts to date to explore organizational options for the District.

During the first half of 2004, reorganization options became an increasingly frequent topic of discussion among the MCWD Board of directors and the community. In July 2004 an ad hoc committee of MCWD and WMWD Board Members was established to explore the potential for consolidation/dissolution. The ad hoc committee recommended to the two Boards the formation of a Blue Ribbon Advisory Committee (BRAC) composed of community members. The BRAC began meeting in November 2004 and over the next several months gathered information from staff and consultants regarding district operations, groundwater, infrastructure, future demand and supply, personnel, rates and other fiscal issues. In April 2005, the BRAC issued its final report and recommendation (attached to this report) to the MCWD Board, calling for "final negotiations to merge with the Western Municipal Water District".

Concurrent with these efforts, LAFCO's own Water and Wastewater Municipal Service Review (MSR) was also being prepared. The

Public Review Draft, issued in fall of 2004, recommended exploration of reorganization of MCWD with WMWD or Rancho California Water District.

Staff and consultants from WMWD and MCWD have worked extensively over the last several months toward the goal of a seamless transition of service in the event the dissolution is completed. Toward that end, the two District Boards, in addition to adopting joint resolutions of application in April 2005, have executed a "Transition Agreement" to guide the transfer of assets, obligations, staff, etc., upon dissolution. The Transition Agreement is also attached to this report for the Commission's reference.

GENERAL INFORMATION:

APPLICANT: Initiated by unanimous resolutions of application of WMWD and MCWD.

LOCATION AND AREA: The territory of the District is approximately 6.5 square miles, encompassing most of that portion of the City of Murrieta west of Interstate 15.

POPULATION: Approximately 6,000 people.

REGISTERED VOTERS: The Registrar of Voters reports the current number of registered voters is 4,214.

CEQA DETERMINATION: WMWD, as lead agency, has determined the proposal is exempt from CEQA pursuant to CEQA Guidelines Section 15320 (Class 20 Categorical Exemption) in that the proposal consists of changes in the organization of local governmental agencies where the changes do not change the geographical area in which previously existing powers are exercised.

PROPERTY TAX EXCHANGE: The Transition Agreement adopted by the Boards of WMWD and MCWD has addressed the exchange of property taxes. Pursuant to that agreement, 100 percent of the District's property taxes will accrue to WMWD. Additionally, Eastern Municipal Water District (EMWD) is expected to adopt a resolution transferring MCWD's allocation of property tax within EMWD's service area to WMWD.

EXISTING CONDITIONS: The territory of MCWD includes a wide variety of residential, commercial and industrial uses, as well as significant amounts of vacant land.

LAND USE PLANS: No changes in land use plans are associated with this proposal.

SIGNIFICANT ISSUES:

JUSTIFICATION: Within their application documents, the Districts have cited the following reasons and advantages of dissolution. The proposal will enhance service efficiency by reducing costs in administrative personnel, contracts and office expense. Regional

planning will be improved by having the regional wholesale agency assume responsibility for all water and wastewater planning functions.

Due to the tremendous growth and immediate need for significant capital improvements, MCWD would experience a shortfall in reserves to fund needed improvements. WMWD would be able to solve this short-term cash flow problem through a loan of approximately \$3 million between 2006 and 2010 to supplement MCWD reserves. Payback of the loan would come from development related fees. This would negate the need to seek outside loans with associated borrowing costs.

PLAN OF SERVICES: WMWD has submitted a Plan of Services in support of the proposal. The Plan of Services and accompanying documents summarize several months of cooperative efforts of Board members and staff of the two agencies. There will be virtually no noticeable change in water and wastewater service. As outlined below, WMWD will assume the provision of retail water and sewer services within the MCWD boundaries.

Independent Cost Center: An import consideration early in the discussion process between the two Districts was the establishment of the MCWD service area as a separate cost center of WMWD. Services within the Murrieta cost center will be fully supported by Murrieta ratepayers. Likewise, Murrieta assets will be used for the benefit of Murrieta customers.

Personnel: The majority of MCWD operational staff will have the opportunity to continue to work as WMWD employees within the Murrieta service area. Of the approximately 15 full-time equivalent positions at MCWD, two had announced retirement plans at the time the Plan of Services was prepared. A few more have separated or announced plans to leave prior to the proposed effective date of dissolution. All remaining employees will be offered employment with WMWD. No issues are anticipated as compensation and benefits are very similar between the two agencies. WMWD plans on cross-training MCWD employees to allow them to work in other parts of the WMWD service area. Operations would continue to be provided out of the current MCWD facility.

Water Service: Water demand is expected to increase by approximately 350 percent over the next 20 years, while the area will reach the limit of its groundwater production resources within the next year or so. The need to bring imported water into the area was identified as the most significant issue facing the District. As noted above, WMWD will be able to alleviate short-term capital improvement cash flow problems, thereby facilitating the construction of necessary facilities.

Wastewater Service: MCWD provides wastewater collection within its service area. The District has contracted with Rancho California Water District (RCWD) and EMWD for treatment and disposal services since 1989. These existing contracts will either be assigned to WMWD or new agreements will be executed with the agencies by WMWD.

Rates and Fees: Current MCWD rates are within the range of rates charges by other agencies in the region. Rates and charges have allowed the district to maintain its systems and build reserves for planned infrastructure improvements. Rates are expected to increase in the Murrieta service area as imported water is brought in and as operating costs rise. These increases will occur independent of the dissolution. WMWD does not anticipate any rate changes as a result of assuming the Murrieta service area.

Alternative Reorganizations: The Plan of Services also briefly discusses alternative dissolution/reorganization scenarios that were evaluated. Staff had specifically requested information pertaining to the rejection of reorganization with RCWD. RCWD has retail water surrounding much of MCWD and provides wastewater treatment to approximately 85 percent of MCWD. RCWD annexation fees and its practice to discourage annexation of areas that would be largely dependent on imported water were identified as significant obstacles to reorganization with that agency.

EFFECT OF DISSOLUTION/SUCCESSOR AGENCY: Cortese-Knox-Hertzberg leaves little doubt as to the effect of dissolution. Section 57450 states that upon the effective date "the district shall be dissolved, disincorporated, and extinguished, its existence shall be terminated, and all of its corporate powers shall cease, except as the commission may otherwise provide pursuant to Section 56886 or for the purpose of winding up the affairs of the district and as otherwise provided in this chapter ...".

The Commission is responsible for designating a successor agency that will wind up the affairs of the district consistent with terms and conditions established by the Commission. In the case of the last major dissolution approved by the Commission, the dissolution of Ortega Trail Recreation and Park District, the District had ceased all operations due to lack of funds. The County, as successor agency, was merely responsible for liquidating assets and paying the District's obligations. In the current instance, the successor agency, WMWD, rather than simply "settling the books", will continue to provide services currently provided by MCWD.

As noted earlier in this report, the Districts have entered into a "Transition Agreement" defining each District's responsibilities prior to and after the effective date of dissolution and requesting various terms and conditions to be included in the Commission's actions. Most of the requested terms and conditions or variants are included in the staff recommendation. The Transition Agreement is attached to this report for reference.

COMMENTS FROM AFFECTED AGENCIES/INTERESTED PARTIES: No significant comments have been received to date.

CONCLUSIONS:

Staff and consultants from WMWD and MCWD have worked extensively over the last several months, with occasional input from LAFCO staff, toward the goal of a seamless transition of service in the

event the proposed dissolution is approved. Toward that end, the two District Boards, in addition to adopting joint resolutions of application, have executed a Transition Agreement to guide the transfer of services, assets, obligations, staff, etc., upon dissolution. The collaborative process the Districts have engaged in represents a model for cooperation among public agencies considering dissolution or consolidation. The recommendation is for conditional approval as shown below.

SPECIFIC RECOMMENDATIONS:

Based on the factors outlined above, IT IS RECOMMENDED that the Commission:

1. Find Western Municipal Water District , as lead agency, has determined the proposal is exempt from CEQA pursuant to CEQA Guidelines Section 15320 (Class 20 Categorical Exemption) in that the proposal consists of changes in the organization of local governmental agencies where the changes do not change the geographical area in which previously existing powers are exercised.
2. Determine the proposed dissolution is consistent with the spheres of influence of all affected agencies.
3. Determine the proposed dissolution is legally inhabited.
4. Approve LAFCO 2005-56-3-DISSOLUTION OF MURRIETA COUNTY WATER DISTRICT subject to the following terms and conditions:
 - a. Western Municipal Water District and Murrieta County Water District shall defend, indemnify, and hold harmless the Riverside County Local Agency Formation Commission ("LAFCO"), its agents, officers, and employees from any claim, action, or proceeding against LAFCO, its agents, officers, and employees to attach, set aside, void, or annul an approval of LAFCO concerning this proposal.
 - b. The effective date of the dissolution shall be November 27, 2005 or the date of recordation of the Certificate of Completion, whichever is later.
 - c. Western Municipal Water District shall assume responsibility for all functions and services currently provided or authorized to be provided by Murrieta County Water District and its Community Facilities Districts.
 - d. Western Municipal Water District shall be designated as the successor agency to Murrieta County Water District for the purpose of succeeding to all rights, responsibilities, properties (both real and personal), contracts, equipment, assets, liabilities, obligations, functions, executory provisions, entitlements, permits and approvals attributable to Murrieta County Water District.

- e. In accordance with Government Code Section 56886 (t) and 57330, the subject territory shall be subject to the levying and collection of any previously authorized charge, fee, assessment or tax of Murrieta County Water District.
- f. Western Municipal Water District shall succeed to all contracts to which Murrieta County Water District is a party, including, but not limited to sewer service related agreements with Rancho California Water District and Eastern Municipal Water District, the agreement between Murrieta County Water District and the Metropolitan Water District of Southern California related to annexation issues, and including the agreement between Murrieta County Water District and Community Facilities District 88-1 of Murrieta ("Murrieta Water Public Finance Authority Joint Exercise of Powers Agreement").
- g. As of the date of Commission approval of the subject dissolution, and pursuant to the provisions of Government Code section 56885.5(a)(4), Murrieta County Water District shall be prohibited from taking the following actions unless it first finds an emergency situation exists as defined in Section 54956.5:
 - i. Approving any increase in compensation or benefits for members of the governing board, its officers, staff, or the executive officer of Murrieta County Water District;
 - ii. Appropriating, encumbering, expending, or otherwise obligating any revenue of Murrieta County Water District beyond that provided in the current budget at the time of Commission approval; and
 - iii. Notwithstanding the foregoing, any of the above actions may be taken upon the prior written consent of Western Municipal Water District's General Manager or his designee.
- h. Upon the Effective Date, all assets of Murrieta County Water District, including, but not limited to, water rights, all funds, including cash on hand and money due but uncollected, and all property, real or personal, including but not limited to easements, buildings, including all furnishings, fixtures, equipment, rolling stock, data bases, software, records of various types which will be necessary for the continued provision of service to the Murrieta territory, and other equipment contained therein or otherwise associated with the services provided by facilities owned by Murrieta County Water District shall vest in Western Municipal Water District.
- i. The priorities of use, or right of use, of water, or capacity rights in any public improvements or facilities

or any other property, real or personal, to which Murrieta County Water District is entitled to on the Effective Date shall be transferred to Western Municipal Water District.

- j. Western Municipal Water District shall succeed to all rights, duties and obligations of Murrieta County Water District with respect to the enforcement, performance or payment of any outstanding bonds, including revenue bonds, or other contracts and obligations of Murrieta County Water District and/or its Community Facilities Districts on the Effective Date.
- k. Western Municipal Water District shall have the authority and responsibility for the administration of special tax and special assessment districts, including, but not limited to, the levying and collecting of special taxes and special assessments, including the determination of the annual special tax rate within authorized limits; the management of redemption, reserve, special reserve, and construction funds; the issuance of bonds which are authorized but not yet issued on the Effective Date, including not yet issued portions or phases of bonds which are authorized; supervision of construction paid for with bond or special tax or assessment proceeds; administration of agreements to acquire public facilities and reimburse advances made to the district; and all other rights and responsibilities with respect to the levies, bonds, funds, and use of proceeds that would have applied to Murrieta County Water District.
- l. Pursuant to Government Code Section 57450, Murrieta County Water District shall continue to exist for the sole purpose of winding up its affairs with regard to claims which accrued prior to the Effective Date, and for any of the purposes set forth in Section 57453(a)-(c). Additionally, except as otherwise provided in these terms and conditions regarding the continuation of the provision of services, for the purposes specified in Government Code section 57453, the officers and legislative body of Western Municipal Water District shall have the same powers and duties as the dissolved Murrieta County Water District and of the officers and legislative body of Murrieta County Water District, and shall have all of the powers delineated in Government Code Section 57453(a)-(c), for the sole and exclusive purpose of winding up the affairs of the dissolved Murrieta County Water District. The powers and duties set forth above shall commence upon the Effective Date and shall continue until the time when the affairs of the dissolved Murrieta County Water District have been completely wound up.

- 5. Direct the Executive Officer to initiate Protest Proceedings pursuant to Government Code Section 57000 et seq. upon payment of required fees and authorize the dissolution

August 25, 2005

without election pursuant to the limitations of Government
Code Section 56854.

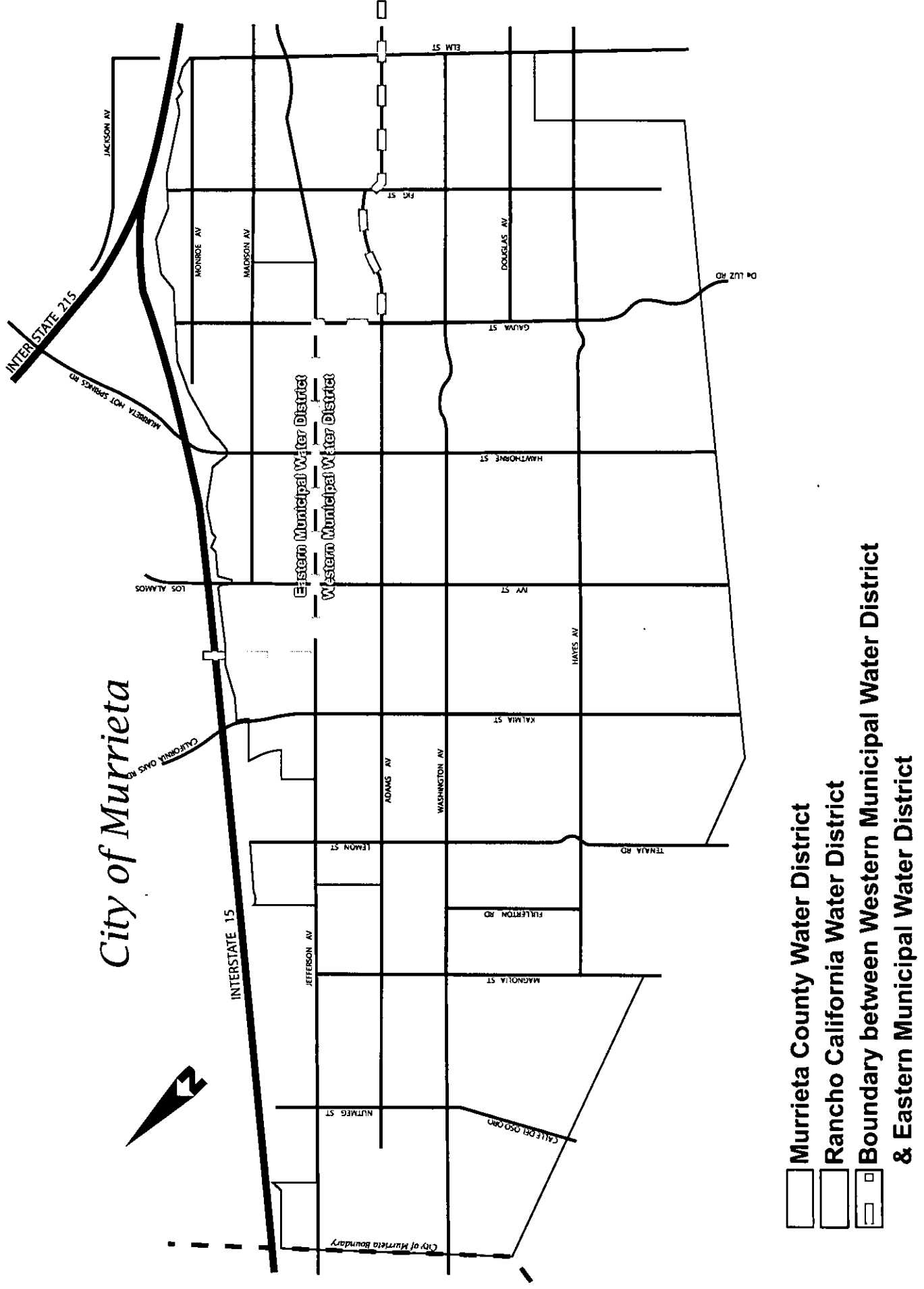
Respectfully submitted,

A handwritten signature in black ink, appearing to read "George J. Spiliotis", written over the printed name.

George J. Spiliotis
Executive Officer

Dissolution of Murrieta County Water District

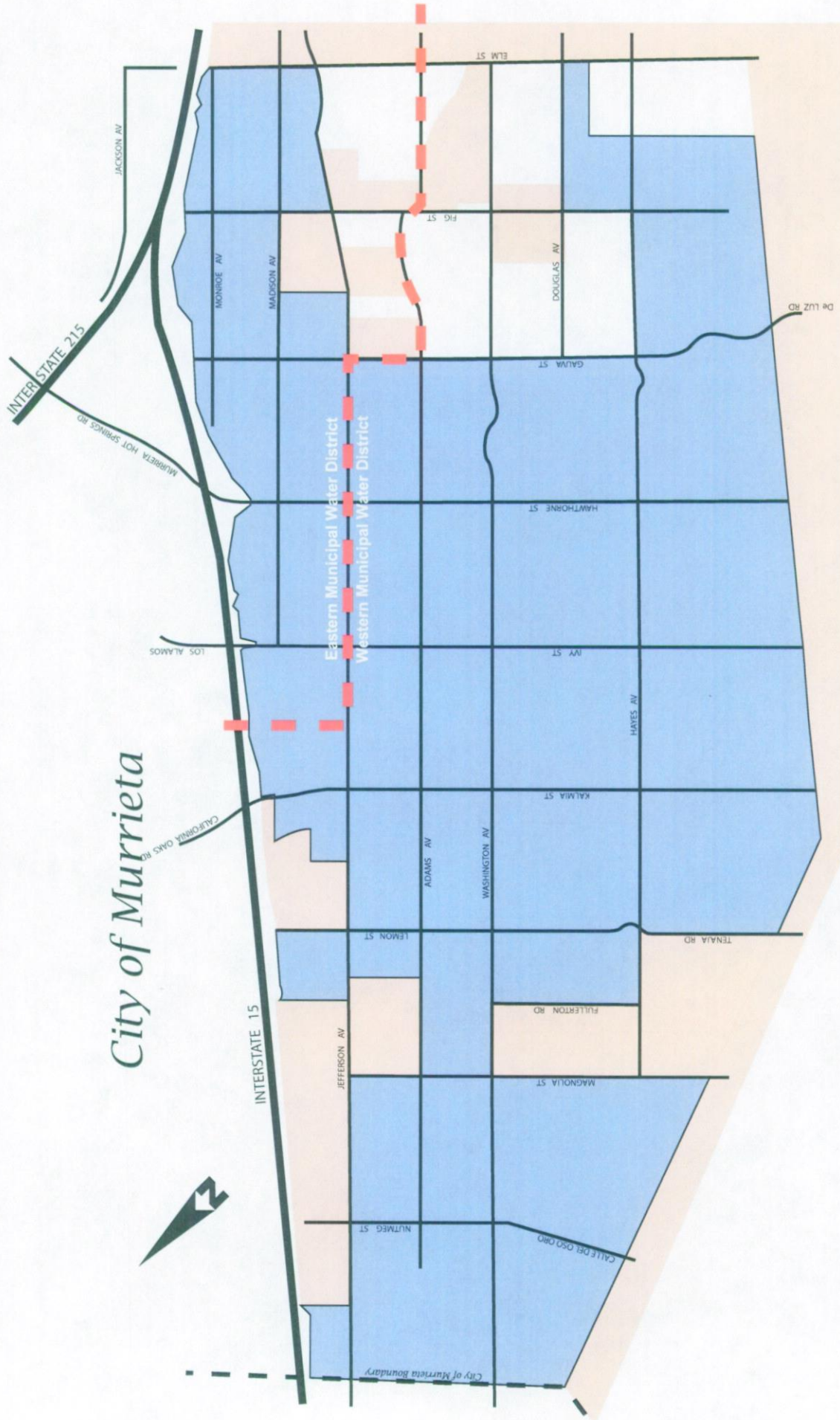
LAFCO 2005-56-3






Dissolution of Murrieta County Water District

LAFCO 2005-56-3

City of Murrieta



-  Murrieta County Water District
-  Rancho California Water District
-  Boundary between Western Municipal Water District & Eastern Municipal Water District

PLAN OF SERVICES

**REPORT TO
RIVERSIDE COUNTY LOCAL AGENCY FORMATION COMMISSION
FROM
WESTERN MUNICIPAL WATER DISTRICT of RIVERSIDE COUNTY
entitled
PLAN OF SERVICE
FOR THE
MURRIETA COUNTY WATER DISTRICT SERVICE AREA
May 21, 2005**

JOINT RESOLUTION

At the respective Board meetings of the Western Municipal Water District (Western) April 20, 2005 and the Murrieta County Water District (Murrieta) April 21, 2005 joint resolutions were adopted making application to LAFCO to take proceedings for a reorganization involving Western and Murrieta.

BOARD OF DIRECTOR'S AD HOC COMMITTEES

A great deal of work was accomplished in the later half of 2004 and the first half of 2005. Western and Murrieta appointed two Board members each to begin exploring a transition plan in July 2004. The ad hoc committees recommended to their respective Boards the formation of a citizen dominated Blue Ribbon Advisory Committee that would meet with the Board's ad hoc committees to investigate and understand the issues. The resulting work of the Blue Ribbon Advisory Committee provides a great deal of background and summarizes elements of the investigation. The Blue Ribbon Committee Report entitled "The Potential Merger of the Murrieta County Water District and the Western Municipal Water District" is appended to this Plan of Service for reference.

BLUE RIBBON ADVISORY COMMITTEE

At its meeting April 18, 2005 the Blue Ribbon Advisory Committee to the Murrieta Board of Directors unanimously approved and signed its report with the signatures of six

citizen representatives, five appointed by the Murrieta Board and one appointed by the Murrieta City Council. The report was transmitted for the Murrieta Board's consideration April 21, 2005. At that meeting, the Murrieta Board unanimously approved the receipt of the report and the Committee's recommendation.

Blue Ribbon Advisory Committee Recommendation:

"The Blue Ribbon Advisory Committee began this process with differing points of view representing the various residents within the District. Through the education process, analysis, and open discussion, a consensus has been reached. Therefore, the Committee's recommendation is that the Board of Directors of the Murrieta County Water District initiates final negotiations to merge with the Western Municipal Water District."

The term "merger" was used by Committees and staff early in the discussion process, prior to learning the word had a specific meaning in state law regarding LAFCO actions. Discussion among ad hoc committee members and the Blue Ribbon Advisory Committee culminated in the concept of Western taking all responsibility for continued water and sewer service in the Murrieta area. The legal term and the term used by LAFCO for the concept discussed is "dissolution". However, the responsibility for providing service to customers must shift with a dissolution; therefore, the term used herein to describe the LAFCO proceeding of Murrieta dissolution with acceptance by Western to accept all administrative and operational functions together with all assets and liabilities to continue water and wastewater service within the current Murrieta boundary, is "Transition".

CONSULTANTS/STAFF AUDITS and REPORTS

Western and Murrieta jointly hired specialized consultants to audit all elements of Murrieta's administration and operations and together with staff expertise presented a complete report of findings to the Blue Ribbon Advisory Committee, as follows:

CFD Financing elements – David Taussig and Associates

Report by: David Taussig

Finance and Accounting (revenue and expenses) Rieter-Lowry and Associates

Report by: Greg Lowry

Water Quality – Water Quality and Treatment Solutions Incorporated

Report by: Issam Najm

Water Supply – Kennedy Jenks Consultants

Report by: Keith London & Sachi Itagaki

Water and Sewer Master Planning - Krieger and Stewart Inc. Engineers and Consultants

Report by: Mark Messersmith

Operations audit – Kenneth C. Dealy, Consultant

Report by: Ken Dealy

Rates and fees comparison - Western staff

Report by: John Rossi & Melodie Johnson

LAFCO application process - Murrieta staff

Report by: Wayne Spencer and Brian Berry

Water costs - Western staff

Report by: John Rossi, Jeff Minkler and Melodie Johnson

BLUE RIBBON ADVISORY COMMITTEE CONCLUSION

From the research, the Blue Ribbon Advisory Committee concluded that:

- The need for additional imported water supplies – up to 4400 acre feet annually - was the largest issue facing Murrieta.
- Murrieta is financially stable with rates and fees within the range of neighboring districts.
- Whether or not Murrieta merges (transitions) with another district, future rate increases are to be expected. Consolidation with another district may help reduce these increases in the long run, but not in the immediate future.
- Facilities and operations are consistent with standard water district operations. However, additional production and storage facilities are needed in the near

future. Financing of these facilities needs to be addressed to meet growing demand.

- Murrieta meets or exceeds all the Department of Health Services (DHS) water quality requirements throughout its production and distribution system.
- Current well owners will continue to rely on their own wells for water supply.
- Native water cannot and will not be exported from the basin.

As addressed in the Blue Ribbon Advisory Committee report, neighboring agencies, including Rancho California Water District, Eastern Municipal Water District, and Elsinore Valley Municipal Water District, as well as Western could be considered Transition partners. Based solely on geography, it might appear that a Transition with Rancho California Water District is most efficient; however, a Transition with Rancho could have negative financial impact either on Murrieta customers because of the probable high annexation fees or on Rancho customers, in the form of subsidies, if the fees were waived. And Rancho's practice has been to annex areas only if the area of consideration is water positive and not dependant on imported water. Murrieta will need considerable imported water to support future development and therefore, would not be considered water positive. Murrieta is primarily within Western's district boundaries and therefore annexation fees are not an issue. A small portion of Murrieta lies within Eastern's service area and could be served in the future, as now, through an inter-agency agreement for supplemental water. Inter-agency agreements are also used with Eastern and Rancho for sewer service. Western and Eastern have numerous inter-agency agreements for service across their common boundary a practice proven to be in the best interest of the property owner, to keep cost of water and sewer service as low as possible and provide service as efficiently as possible.

FUTURE PLAN OF SERVICE

One of the elements discussed with the Board's ad hoc committees and Blue Ribbon Advisory Committee was the need after the Transition, to establish the water and sewer service area within the Murrieta boundary as a self-supporting, independent cost center of Western. Administration and operations would be similar to Western's self

supporting, independent cost center known as Improvement District A, located at the San Diego County line serving a residential community; commercial and industrial area; and border patrol check point together with the highway patrol truck weigh station. With the cost center approach, the plan for administration and operations in the future would be similar to present operation eliminating the need for immediate changes. A major advantage of the independent cost center is that Murrieta assets would remain with and continue to benefit the community of origin.

Western's experience in the area of operational reorganization includes the Western Riverside County Regional Wastewater Authority consisting of a tertiary wastewater treatment facility and sewage conveyance system serving Home Gardens, Norco, Jurupa, Western's Lake Hills and Victoria Grove service areas, and City of Corona on an as needed or emergency basis. Western took over all responsibilities for providing wastewater conveyance and treatment service in the WRCRWA service area and offered every employee a position with Western. Western now provides all administration, operation, maintenance and governance support in order for the WRCRWA to be a self supporting, independent entity with its own budget.

The El Sobrante Mutual Water Company is an example of total reorganization with dissolution of the Mutual Water Company. Western, by contract, offered finance and accounting services to the El Sobrante Mutual Water Company prior to its dissolution. Therefore the major change at the time of dissolution was in governance, operation, capital improvements and water supply planning. Western's assumption of duties in both reorganizations, WRCRWA and El Sobrante, provided a seamless transition of service with minimal impact to the customer.

WATER SERVICE

Murrieta recently completed its 2005 Water Facilities Master Plan. Its previous Water Plan was completed November 2001. The 2005 Water Plan addresses existing and proposed water facilities including production facilities (wells), pipeline, booster pumps

and storage reservoirs together with a comparison of current water demands and future water demands. The following table represents annual water demand and annual source of supply requirements for the next 20 years.

Table 1
Water Demands

Year	Total Demand AF/Y	Groundwater Production AF/Y	Imported Water Supply AF/Y
2005	2900	2900	0
2010	4700	3000	1700
2020	8300	3000	5300
2025	10,100	3000	7100

The 6.5 sq. mile district with its 2400 service connections is expected to expand to 12,000 service connections over the next 20 years. As stated by the Blue Ribbon Advisory Committee in its conclusion, the need for additional imported water supplies is the largest issue facing Murrieta. And financing needs to be addressed for construction of new facilities to meet future growth.

WATER QUALITY

A subdivision development within Murrieta known as the Murrieta Ranchos, has experienced elevated copper levels in the water within some of the homes. In addition to elevated copper levels, which produce blue coloring in the water as the water passes through the copper pipes within the home, there have been allegations in the July 16, 2004 complaint of homeowners verses Murrieta Ranchos LLC, et al, that the homes suffer from numerous deficiencies and defects. A partial list from the public document includes slab and foundation deterioration together with cracking, separations and distress; soil movement and subsidence; cracking and separations of exterior concrete flatwork; insect infestation; slipping roof tiles; roof leakage; sagging of roof structure;

deteriorated stucco; cracking exterior walls; deterioration of countertops; faulty plumbing systems and water; damage to and corrosion of building components and items in contact with water supply and plumbing; leakage; seepage and condensation through slabs, walls, roofs and windows; excessive moisture in the homes and numerous other issues.

Murrieta, as the water purveyor, has been working with homeowners and the developer on the single issue of blue water caused by elevated copper levels in some homes. However, blue water has been experienced by new home buyers in newly constructed homes, randomly, throughout the state and from time to time over many years. One house may experience blue water and the neighboring houses around it may not. Murrieta staff contacted its insurance provider and was assured that Murrieta was fully covered for defense and damages if any, in the event the litigation between homeowners and developer spilled over onto Murrieta. Murrieta's insurance provider is the Special Districts Risk Management Authority (SDRMA), an alliance with the California Special Districts Association.

WASTE WATER SERVICE

Murrieta is currently in the process of finalizing its 2005 Wastewater Facilities Master Plan. The 2005 Wastewater Facilities Master Plan addresses existing and proposed facilities including collection pipelines, lift stations and connection to trunk sewers owned and operated by Eastern and Rancho. Murrieta currently maintains approximately 50,000 lineal feet of sewers ranging in size from 8-inch to 12-inch diameter.

Murrieta has contracted with Eastern and Rancho for the treatment and disposal of wastewater. A specific boundary line has been established to identify treatment areas. Generally, the land east of Jefferson Avenue is in the Eastern treatment area and land west of Jefferson Avenue is in the Rancho treatment area. The boundary line may be shifted as development occurs to facilitate the collection and transport of wastewater

from a proposed development to either the Eastern treatment plant or the Rancho Treatment plant. Approximately 15% of the Murrieta district is within the Eastern treatment area and 85% within the Rancho treatment area. The service area line is based on topographic features such as USGS elevation and is not related in any way to the jurisdictional boundary line separating Western and Eastern.

IMPORTED WATER

Western is currently working on its own Integrated Resource Plan (IRP) to identify water supply needs of all communities within its 510 square mile distribution boundary. It is also working closely with the Metropolitan Water District of Southern California (MWD) on the MWD Riverside Area Study and Skinner Service Area Study. Western and MWD staff are in the process of defining facilities to benefit the Murrieta, Temecula and Elsinore service areas with the goal to bring additional imported water to the areas from MWD's nearby storage at Lake Skinner and Diamond Valley Lake. The concept includes an expansion of MWD treatment and transport facilities with additional local facilities constructed cooperatively by Western and its member agencies. Murrieta customers and property owners will benefit from the Western/MWD cooperative planning effort.

RATES AND FEES

As stated by the Blue Ribbon Advisory Committee in its conclusions, Murrieta is financially stable with rates and fees within the range of neighboring districts. Murrieta through its rate consultant, has been evaluating rates and fees for both water and sewer service and may propose a rate and fee adjustment before the Transition, subject to the consultant's recommendation. However, as the Blue Ribbon Advisory Committee stated in its report, whether or not Murrieta Transitions with another district future rate increases are to be expected. But with the information gathered to date, Murrieta and Western staff have concluded that increases will not be a product of the Transition. Instead, the Transition with Western may help reduce rate increases in the long run. As a result of Murrieta's fiscal policy and its proactive approach to rates and

fees, it has been able to set aside funds each year for future asset replacement, major maintenance and capital improvements benefiting existing customers.

At its close of last fiscal year, June 30, 2004, Murrieta's rates and fees had accumulated approximately \$5.7 million in various reserve accounts. Therefore, Murrieta has adequate reserves to construct improvements immediately needed for new development. And with a loan from Western to the Murrieta cost center formed after the Transition of \$3 million, funding will be adequate to support additional homes and businesses from now until 2010. The construction of the new homes and businesses will bring the Murrieta cost center additional funding for repayment of Western's loan and repayment of borrowing from Murrieta's reserves. As mentioned earlier, the funding issue is a short-term cash flow matter. New development connection fees are set appropriately to pay for all water distribution facilities and sewer collection facilities needed to support growth. Subsequent to the Transition, Western will initiate detailed planning for long term water supply in conjunction with Western's IRP and with the MWD Riverside Area Study. After the completion of those studies, Western will review the Murrieta cost center rates and fees to assure adequate funding continues for all operation, maintenance and capital infrastructure requirements including sources of imported supply.

CAPITAL FINANCING

Murrieta has financed capital improvements with connection fees, and with land secured bond issues. Murrieta sponsored, as lead agency, Community Facilities District 88-1 (CFD 88-1) in 1988 with a total bond authorization of \$14 million for both water facilities and sewers. Proceeds from CFD 88-1 are made available as growth occurs and as assessed values increase in the area covered by the financing. As a result of increased assessed value the past couple years, it has been estimated by Western's and Murrieta's financial consultant that \$2,059,181 in CFD 88-1 bond proceeds will be available July 2005 for water and wastewater capital improvements. Additionally, wastewater improvements can be financed and installed by developers as construction

takes place since most wastewater improvement requirements are for new sewers as opposed to treatment plants and disposal facilities. With sewers funded by developments on an as needed basis, bond proceeds will be available for water capital improvements. As shown by the following table, new water facilities will cost \$26.2 million over the next 20 years for water improvements.

Table 2
Estimated Water Facility Costs

Projects	2005	2010	2020	Ultimate (2025)	Total
Well Pumping Plants	\$2,000,000	\$1,000,000	\$1,000,000	\$1,000,000,	\$5,000,000
Imported Water (1)		\$270,000			\$270,000
Booster Pumping Plant	\$975,000				\$975,000
Storage Facilities	\$1,115,000	\$1,600,000	\$2,800,000	\$300,000	\$5,815,000
Pipelines	<u>\$3,030,000</u>	<u>\$4,870,000</u>	<u>\$2,635,000</u>	<u>\$3,650,000</u>	<u>\$14, 185,000</u>
Total	\$7,120,000	\$7,740,000	\$6,435,000	\$4,950,000	\$26,245,000
(1) Cost includes only the cost for connection facilities. Said cost does not include connection fees or standby charges.					

A cost of \$7,120,000 has been estimated for water facility improvement expenditures between 2005 and 2010. However, immediate needs include wastewater improvements of \$800,000 for the elimination of septic tanks in Old Town Murrieta and

are collectively shown in the following table for water and wastewater improvements amounting to \$4,975,000.

Table 3

Current Water and Wastewater Infrastructure Requirements

One Well Pumping Plant	\$1,000,000
Booster Pumping Plant	\$975,000
Grizzly Peak Reservoir	\$1,200,000
Imported Connection Treatment Facility	\$1,000,000
Old Town Septic Tank Improvements	\$800,000
Total Cost	\$4,975,000

Subsequent to the Transition, Western's plan for Murrieta's water and wastewater capital improvement needs would be to supplement the Murrieta cost center reserves with the necessary funds to construct facilities during years 2006 -2010. Western would explore, with those planning new development, a cooperative approach to funding booster pumping facilities and pipelines. Therefore, Western would be loaning the Murrieta cost center approximately \$3 million over approximately 5 years (\$600,000 per year) and expecting a cooperative effort to fund the additional facilities needed the next 5 years. Any funding needed by Murrieta for the cooperative effort would be from current Murrieta cost center reserves. Payback for the loan and borrowing from reserves would be from connection fees collected at time of recording tract maps.

Connection fees, also known as Development Impact Fees, will continue to be collected to replenish capital improvement reserves. The accumulation of Developer Impact Fees will allow the continuation of capital improvement construction projects until build out has been reached. The Development Impact Fees will be escalated as construction unit costs increase over time. The fee structure will also be modified as more information is gathered to more precisely define imported water supply costs.

MURRIETA STAFFING PLAN

Western's workforce currently numbers about 90 employees and Murrieta currently employs approximately 15 full time equivalents; however, two Murrieta employees have announced retirement prior to the effective date of the Transition. As with the previously discussed reorganization of the operations at WRCRWA, Western would propose to follow the same successful strategy, to offer all full-time Murrieta employees positions with Western. And as experienced in the previous reorganization, it is a near certainty that the transition for Murrieta employees will be uneventful because Western and Murrieta have similar compensation packages and job functions, pay grades/ranges and benefits.

By way of example, both agencies pay a similar portion of the employees' health, vision and dental premiums (with Western's slightly higher); both have a similar number of holidays, Western with 12.5 and Murrieta with 13; both provide life insurance; both allow compensatory time in lieu of pay for overtime; both have paid after-hours call time systems to provide 24 hour service to the customer; both compensate for jury duty; both allow time off for voting and military leave; both allow time off for bereavement; both have similar family care procedures; both provide field staff with five freshly laundered uniforms each week; both provide safety toed boots to field staff and both have bi-weekly pay periods and direct payroll deposit.

As with the reorganization of the WRCRWA operation, Western's management will meet individually with each Murrieta employee to make a personalized job offer in order to tailor the offer to the needs of the employee and the needs of Western's enterprise and non-enterprise business functions. Western's plan is to try to tailor its total compensation package offer to each individual in such a manner as to meet or exceed the individual's current compensation package.

Western's classified employee's have formalized their organization and have elected to operate as an agency shop association in accordance with state law. Mandatory dues

are used to pay a consulting firm to assist the employees with interpretation of Western policy, procedures and practices and provide technical support when negotiating wages, benefits, hours of work, and working conditions. Management and association employees have found the arrangement helpful when communicating employment matters. Western's employee association will expedite the transition of Murrieta staff into Western's structure and culture by providing an employee-to-employee interface. Western management staff proposes to provide time for Association Board members to meet with Murrieta staff to welcome them, answer questions and begin the communication of practices, procedures, structure and culture.

Western has adopted a cross training program linked to pay for performance to benefit the employee and the business. Through the program, the employee increases skills more rapidly than in a traditional setting and with multiple skills provides flexibility to the operation, thereby reducing customer expense. One reward for the employee is the ability to do various jobs thereby allowing the employee to work in various interesting assignments as opposed to the same thing every day in the traditional setting. The other reward is monetary. A highly skilled employee brings value to the business, value that is compensated through the pay for performance system, including annual adjustments to wages and salary together with the possibility of various monetary and non-monetary rewards each year. Murrieta staff will continue to work from the Murrieta office until the cross training can be implemented. Then, a few employees will begin cross training while most Murrieta staff members continue to work from the Murrieta office. The process to fully integrate Western staff and Murrieta staff is expected to take two or more years.

CONTRACTS

As with any enterprise, numerous contracts are necessary to operate the business. The contracts may be with private sector service/materials providers; financial institutions; and public agencies. It will be important to continue the contractual arrangements to make the Transition as seamless as possible. Therefore one of the first functions of the

Western/Murrieta administrative teams will be to review all contracts to determine the need to assign or restructure each contract. In some cases it would be helpful to assign the contract to Western. In other cases it might be best for the contract to be terminated with an immediate execution of a new contract in Western's name.

The following represents a partial list of the types of contracts and agreements that would be addressed:

1. Inter-agencies agreements with neighboring public agencies for water supply, operational services, wastewater treatment, mutual aide, and other matters;
2. Vendor contracts for chemicals, supplies, parts, materials, waste removal;
3. Construction contracts for repairs and capital improvements;
4. Utility services contracts for natural gas, electricity and telephone; and
5. Service contracts for such things as Internet access, office equipment, and maintenance.

PERMITS AND LICENSES

Notification of intent to change ownership information on permits and licenses would be another immediate function and would include by example the following notifications:

Department of Health Services

State Water Resources Control Board

Regional Water Quality Control Board

South Coast Air Quality Management District

REAL PROPERTY TITLES

Although not needed immediately, real property rights - easements and fee title - would be transferred as soon as possible in order to notify anyone searching for ownership information at the County of Riverside that there has been a transfer of rights and/or title. The recordation of transfer of rights will eliminate confusion whenever title searches are performed by individuals and/or title companies. Currently Murrieta owns the headquarters and operations facility; well sites; tank sites; booster

pumping sites; and holds easement rights at various locations. Signage at key locations will help communicate the change in ownership and provide notification information.

TRANSITION AGREEMENT

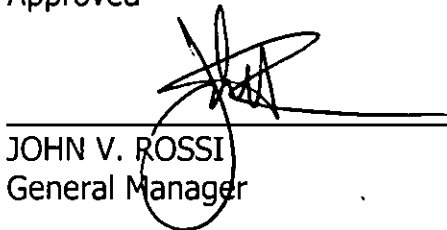
The Transition Agreement deals with legal matters related to the merger including the establishment of an effective date for the merger, 12:01 a.m., January 1, 2006. The Transition Agreement is an integral part of the LAFCO application package together with this Plan of Service and the Joint Resolutions of Application approved by both Western's Board and Murrieta's Board.

Prepared by Western Municipal Water District May 21, 2005.



NORMAN L. THOMAS
Deputy General Manager

Approved



JOHN V. ROSSI
General Manager

TRANSITION AGREEMENT

TRANSITION AGREEMENT BETWEEN WESTERN MUNICIPAL WATER DISTRICT AND MURRIETA COUNTY WATER DISTRICT

THIS AGREEMENT is made and entered into this 2nd day of June 2005 by and between the WESTERN MUNICIPAL WATER DISTRICT OF RIVERSIDE COUNTY, a California Municipal Water District ("Western") and MURRIETA COUNTY WATER DISTRICT, a California County Water District ("Murrieta"). The parties hereto are collectively referred to herein as the "Parties."

RECITALS

WHEREAS, Western is a Municipal Water District, existing and operating pursuant to the provisions of the Municipal Water District Law of 1911, Water Code section 71000 et seq.; and

WHEREAS, Murrieta is a County Water District, existing and operating pursuant to the provisions of the County Water District Law, Water Code section 30000 et seq; and

WHEREAS, the jurisdictional boundaries of Murrieta are generally within the jurisdictional boundaries of Western; and

WHEREAS, in 2004, Murrieta formed the Blue Ribbon Advisory Committee, charged with providing the community with an opportunity for involvement and for advising Murrieta's Board on possible restructuring options, including, consolidation, dissolution and Transition; and

WHEREAS, based on the assistance of Murrieta and Western staff, and the assistance of consultant presentations on operations, facilities, water supply, water quality, financial issues, and sources and uses of funds, the Blue Ribbon Advisory Committee recommended restructuring of Murrieta with Western in order to provide possible long-term cost savings in operational and administration activities; and

WHEREAS, the Parties have also conducted studies through a joint ad hoc committee on the benefits of restructuring Murrieta with Western and the Parties' respective Board of Directors concur in the Blue Ribbon Advisory Committee's recommendation; and

WHEREAS, the Parties seek to accomplish the restructuring by having Western assume service over the Murrieta territory after Murrieta's dissolution (the "Transition"); and

WHEREAS, the Transition requires the approval of the Riverside Local Agency Formation Commission ("LAFCO"), pursuant to the provisions of the Cortese Knox Hertzberg Local Government Reorganization Act of 2000, California Government Code section 56000 et seq (the "CKH Act"); and

WHEREAS, the Parties have agreed to process the Transition with LAFCO by adoption of substantially similar resolutions of application by adoption of a resolution by the Western Board of Directors on April 20, 2005 and by adoption by the Murrieta Board of Directors on

April 21, 2005; and

WHEREAS, the Parties hereto agree to the obligations and responsibilities set forth herein which are necessary to accomplish the Transition.

AGREEMENT

IN CONSIDERATION of the mutual promises set forth herein, the Parties agree as follows:

1. Purpose.

The purpose of this Agreement is as follows:

- A. To set forth the terms and conditions for LAFCO application for the Transition.
- B. To set forth the responsibility of the Parties for that period of time after submission of an application to LAFCO, along with all additionally required documents, for the Transition pursuant to the provisions of the CKH Act, and prior to the effective date of the Transition, as defined below, as approved by LAFCO order ("LAFCO Order").

2. Transition Period / Effective Date.

- A. For purposes of this Agreement the term "Effective Date" shall mean the effective date of the Transition as set forth below, or as otherwise set forth in the LAFCO Order. The "Transition Period" shall mean the period from the date of full execution of this Agreement by both parties to the Effective Date.

3. Process for Proceeding with LAFCO.

The Parties agree that Western shall be the lead agency for purposes of submitting an application to LAFCO for the Transition.

4. Terms and Conditions.

The Parties have negotiated in good faith and have reviewed the reports and recommendations of the Blue Ribbon Committee, and agree that the application for Transition submitted to LAFCO shall include the terms and conditions set forth below. The Parties acknowledge and agree that some of the below terms and conditions delineate responsibilities and obligations of the Parties during the Transition Period. Any such delineated responsibilities and obligations are enforceable against one Party by the other Party.

A. Effective Date.

The Effective Date of the Transition shall be 12:01 a.m. on January 1, 2006.

B. Dissolution and Designation of Successor Agency to Murrieta.

On the Effective Date, Murrieta shall be dissolved and Western shall be designated as the successor agency to Murrieta. Except as otherwise more specifically provided below, upon the Effective Date, Western shall succeed to all rights, responsibilities, properties (both real and personal), contracts, equipment, assets and liabilities, obligations and functions attributable to Murrieta. Western shall assume ownership and maintenance responsibility of the Murrieta territory upon the Effective Date of the Transition.

C. Fees, Charges, Assessments and Rates.

Western shall have the authority to levy, fix, impose and collect Murrieta's previously authorized charges, fees, assessments and taxes within the boundaries of Murrieta, and to levy, fix, impose and collect all applicable charges, fees, assessments and taxes previously approved by Western on the Murrieta territory. Nothing in the terms and conditions for the Transition shall limit the ability of the Western Board of Directors to establish and levy charges, fees, assessments and taxes as it determines necessary, in accordance with all applicable laws, and/ or in accordance with then current service related agreements with Eastern Municipal Water District and/ or Rancho California Water District.

D. Transfer of Sewer Service Related Agreements.

Prior to the Effective Date of the Transition, Murrieta shall cooperate with Western and facilitate negotiation and execution of assignments of and/or new agreements with Eastern Municipal Water District and Rancho California Water District, as such documents may be necessary, as contract providers of sewer related services for the Murrieta territory, including, for example, but not limited to the following agreements:

Eastern Municipal Water District:

"Interjurisdictional Pretreatment Agreement Between Eastern Municipal Water District and Murrieta Water District" dated July 31, 1991.

"Agreement Between Eastern Municipal Water District and Murrieta County Water District for Trunk Sewer, Treatment and Disposal Service" dated March 21, 1989.

Rancho California Water District:

"Agreement Between Murrieta County Water District and Rancho California Water District for Receiving, Treating and Disposing of Wastewater" dated May 1, 1989.

"Agreement Between Murrieta County Water District and Rancho California Water District Amending March 1, 1989 Agreement to Provide

for the Computation of Sewage Discharge Quantities into Rancho California Water District by Murrieta County Water District" dated October 23, 1990.

If no assignments of and/or new agreements replacing the above existing agreements are reached, notwithstanding any provisions in the above existing agreements regarding Murrieta's jurisdiction, rights, obligations, or existence, all burdens, duties, rights and benefits of Murrieta shall become the burdens, duties, rights and benefits of Western.

E. Metropolitan Water District of Southern California.

The Transition shall be subject to any additional terms and conditions set by the Metropolitan Water District of Southern California, pursuant to its authority set forth in the Metropolitan Water District Act. Murrieta shall cooperate with Western, prior to the Effective Date, to facilitate the negotiation and execution of an assignment of and/or amendment to the "Agreement Regarding Annexation of the Murrieta Window Area" dated December 14, 1999 by and between the Metropolitan Water District of Southern California, Eastern Municipal Water District, Western and Murrieta, which may include an extension of time for annexation of "Annexing Areas" as defined therein. If no such assignment and/or amendment is negotiated, notwithstanding any provisions in the above existing agreement regarding Murrieta's jurisdiction, rights, obligations, or existence, all burdens, duties, rights and benefits of Murrieta shall become the burdens, duties, rights and benefits of Western.

F. Transfer of Existing Permits, Entitlements and Obligations.

All executory provisions, entitlements, permits, obligations and rights under which Murrieta is beneficiary shall be transferred or assigned to Western. The priorities of use, or right of use, of water, or capacity rights in any public improvements or facilities or any other property real or personal to which Murrieta is entitled to on the Effective Date shall be transferred to Western. To the extent possible, Murrieta shall, prior to the Effective Date, assist Western in securing any and all permits from regulatory agencies which cannot be assigned as a matter of law. Nothing in this section shall be construed to modify priorities of use, or right to use, water, or capacity rights in any public improvements or facilities that have been fixed and established by a court or an order of the State Water Resources Control Board.

G. Environmental Approvals.

Western shall succeed to the rights of Murrieta as to any and all Murrieta environmental approvals for a particular project or other actions made prior to the Effective Date, and may in its reasonable discretion rely and act upon such approvals to the extent permitted by law.

H. Allocation of Assets.

In addition to assets more generally specified above, the Parties agree to the following terms and conditions.

1. Cash on hand.

All funds of Murrieta, including cash on hand and money due but uncollected, together with all obligations due to Murrieta, including those liabilities that are known and those that may be unknown or are contingent in nature, shall be transferred to Western's Murrieta cost center upon the effective date.

2. Bonds.

Western shall succeed to all rights, duties and obligations of Murrieta with respect to the enforcement, performance or payment of any outstanding bonds, including revenue bonds, or other contracts and obligations of Western.

a. Western shall assume liability for payment of all or any part of the principal, interest, and any other amounts which shall become due on account of all or any part of any outstanding or then authorized but thereafter issued bonds, including revenue bonds, or other contracts or obligations of Murrieta. In addition, Western shall also assume authority for the levying or fixing and collection of any (1) taxes or assessments and/or (2) services charges, rentals or other rates and charges, in the same manner as provided in the original authorization of the bonds, or other contracts or obligations of or by Murrieta, necessary to provide for that payment. Western shall provide notice to each trustee and fiscal agent as to Western's assumption of such rights, duties and obligations, and further Western shall comply with any continuing disclosure obligation with respect to all of Murrieta's outstanding bonds.

b. The transfer of the Community Facilities Districts of Murrieta to Western shall be effective upon the occurrence of the following:

- (i) The legislative body empowered pursuant to this chapter to exercise all authority over the community facilities districts shall be the governing board of Western.
- (ii) The legal name of the community facilities districts shall be changed so that the words "Murrieta County Water District" are deleted therefrom and replaced by the words "Western Municipal Water District."
- (iii) An amended boundary map shall have been recorded with respect to each community facilities district with the county

recorder in conformity with the Mello-Roos Community Facilities Act of 1982 as amended. The amended map shall comply with the requirements of Section 3110 of the Streets and Highways Code, except that the word "proposed" shall not appear on the face of the map and the date and number of the resolution referred to in paragraph (2) of subdivision (b) of Section 3110 shall be the date and number of the resolution adopted by the governing board of Western authorizing the transfer. The amended boundary map shall include on its face the new name of the community facilities district and a statement to the effect that it amends the boundary map for (here insert original name or number of district or both the name and number of community facilities district, together with county), State of California, prior recorded at book _____ of maps of assessment and community facilities districts at page _____ in the office of the county recorder for the County of _____, State of California. The county recorder shall endorse, file, and cross-index the amended boundary map in accordance with Section 3113 of the Streets and Highways Code.

- (iv) An amended notice of special tax lien shall be recorded with the county recorder in the form required by Section 3114.5 of the Streets and Highways Code which shall reference the original notice which it is amending; provided, however, that the notice shall state the amended name of each community facilities district, reference the amended boundary map filed in accordance with subdivision (a) and the names of the owners and the list of assessor's parcel numbers to be appended to the amended notice shall be the list that was attached to the original notice of special tax lien that was filed with respect to the district. The county recorder shall record the amended notice of special tax lien, endorse it, and index it, as further provided in Section 3114.5 of the Streets and Highways Code. The provisions of Section 3115.5 of the Streets and Highways Code shall apply to the amended notice of special tax lien as if it were a notice of special tax lien recorded pursuant to Section 3114.5 of the Streets and Highways Code.
- (v) The clerk of the governing board of Western shall have mailed notice to each property owner within each community facilities district as set forth on the latest secured assessment roll of the county, which notice shall state the amended name of the district, the effective date of

the transfer of jurisdiction, the name and telephone number of the person or office at Western that will be responsible for annually preparing the current roll of special tax levy, as required by subdivision (a) of Section 53340.2, and from whom the notice specified in subdivision (b) of Section 53340.2 and other information regarding the community facilities district may be obtained.

(vi) Western shall have adopted policies as required by Section 53312.7.

(vii) For each community facilities district, replacement bonds stating that the transfer of jurisdiction is being made in accordance with this agreement and the CKH Act shall have been executed and delivered by the governing board of Western and delivered to the fiscal agent for the bonds.

c. Pursuant to Section 7.10 of the Murrieta Water Public Finance Authority Joint Exercise of Powers Agreement, dated September 17, 1996, between Murrieta and Community Facilities District No. 88-1 of Murrieta (the "JPA"), Western shall succeed Murrieta in interest and Western shall assume all rights, duties and obligations of Murrieta thereunder.

3. Taxes.

Western shall have the authority and responsibility for the administration of special tax and special assessment districts, including, but not limited to, the levying and collecting of special taxes and special assessments, including the determination of the annual special tax rate within authorized limits; the management of redemption, reserve, special reserve, and construction funds; the issuance of bonds which are authorized but not yet issued on the Effective Date, including not yet issued portions or phases of bonds which are authorized; supervision of construction paid for with bond or special tax or assessment proceeds; administration of agreements to acquire public facilities and reimburse advances made to the district; and all other rights and responsibilities with respect to the levies, bonds, funds, and use of proceeds that would have applied to Murrieta.

4. Real and Personal Property.

The Parties agree that upon the Effective Date of the Transition, all right, title, interest, and responsibility in any property owned by Murrieta, including the underlying fee title where owned by Murrieta or owned by Murrieta-governed districts located within and outside of Murrieta's boundaries shall vest in Western. Murrieta shall take any and all actions to develop and execute the necessary documentation to complete the

conveyance and transfer of such interests from Murrieta to Western as required herein during the Transition Period.

a. **Easements.**

All easements, whether or not associated with any and all transferred property and facilities transferred from Murrieta to Western, shall transfer from Murrieta to Western upon the Effective Date .

b. **Water Rights.**

Any and all water rights owned or held by Murrieta shall be transferred to Western upon the Effective Date .

c. **Other Assets.**

The Parties agree that upon the Effective Date , all Murrieta governmental buildings, including all furnishings, fixtures, equipment, rolling stock, data bases, software, records of various types which will be necessary for the continued provision of service to the Murrieta territory, and other equipment contained therein or otherwise associated with the services provided by that facility owned by Murrieta shall vest in Western.

d. **Insurance Agreements and Other Risk Coverage Documents.**

Any and all rights held by Murrieta under the terms of any and all insurance policies and insurance risk sharing agreements, whether purchased directly through a commercial insurance carrier or by virtue and as part of Murrieta's membership of any joint powers insurance authority, shall, from the Effective Date forward, vest in Western. Murrieta shall cooperate in and all steps necessary to perfect the vesting of these rights and benefits in Western. Murrieta represents and warrants that it is the beneficiary of those risk sharing agreements and insurance policies identified with more particularity on Appendix ____."

5. **Outstanding Litigation: Blue Water Litigation Arising out of Murrieta Ranchos Community Lawsuit – Murrieta Ranchos LLC, Curtis Development Corporation, and Curtis Ventures, Inc. adv. Murrieta County Water District.**

In connection with the Government Tort Claim filed against Murrieta by the Curtis Development parties, the Parties agree that Murrieta shall take any and all action to keep the current coverage provided by the Special

Risk Management Authority (the "Authority") in full force and effect before, during and after the Transition Period and following the Effective Date so that Western will be fully covered against an award of damages, legal fees and costs in said litigation. In the alternative, Murrieta may obtain, subject to Western's prior review and approval, a settlement and release of all claims from all the parties and potential parties to the ongoing litigation described herein.

I. Employees.

By written correspondence, Western shall offer all current full time Murrieta employees, who have successfully completed Western's employment application process, positions with Western, prior to the Effective Date.

J. Transfer of Local Role Property Tax Revenue.

All available ad valorem-based property tax revenue levied and collected from properties located in Murrieta previously payable to Murrieta, shall be the subject of negotiations initiated by LAFCO and completed by the Parties hereto, in accordance with Revenue and Taxation Code section 99. The Parties agree that all of said ad valorem-based property tax revenues shall be transferred to the Western upon the effective date of the Transition, as established by the LAFCO Order.

K. Limitations.

As of the date of execution of this Agreement, and pursuant to the provisions of Government Code section 56885.5 (a)(4), as modified by this Agreement, Murrieta hereby agrees and acknowledges that it shall be prohibited from taking the following actions unless an emergency situation exists as defined in Section 54956.5:

1. Approving any increase in compensation or benefits for members of the governing board, its officers, staff, or the executive officer of Murrieta;
2. Appropriating, encumbering, expending, or otherwise obligating any revenue of Murrieta beyond what is necessary for day-to-day operations; and
3. Notwithstanding the foregoing, upon the prior written consent of Western's General Manager or his designee, during the Transition Period, any of the above actions may be taken if deemed necessary or desirable by Western's General Manager or his designee.

L. No Impairment of Bondholder or Creditor Rights.

The Transition shall not impair any rights of any bondholder or creditor of Murrieta.

5. **Entire Agreement.**

This Agreement constitutes the entire agreement between the Parties and supercedes all prior oral or written agreements between the Parties with respect to the subject matter of this Agreement. It is understood that there are no oral or written agreements or representations between the Parties hereto affecting this Agreement, and that this Agreement supercedes and cancels any and all previous negotiations, arrangements, representations, estimates, agreements and understandings, if any, made by or between the Parties with respect to the subject matter thereof.

6. **Governing Law.**

The laws of the State of California shall govern this Agreement and venue shall be in any court of competent jurisdiction in the County of Riverside.

7. **Time of Essence.**

Time is of the essence of each and every provision of this Agreement.

8. **Waiver.**

The waiver by one Party of the performance of any covenants, condition, or promise shall not invalidate this Agreement, nor shall it be considered as a waiver by such Party of any other covenant, condition, or promise hereunder.

9. **Attorneys' Fees.**

Should any of the Parties institute any action or proceeding to enforce any provision of this Agreement or for damages by reason of any alleged breach of any provisions of this Agreement, the prevailing party shall be entitled to recover such amounts as the court may judge to be reasonable attorneys' fees and costs for services rendered to the prevailing party in such action or proceeding.

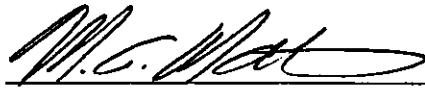
IN WITNESS WHEREOF, the Parties hereto have executed this Agreement on day and year first above written.

WESTERN MUNICIPAL WATER DISTRICT

By: S. R. Al Lopez
President of the Board of Directors

By its Attorney: Jeffrey F. Lee

MURRIETA COUNTY WATER DISTRICT

By: 
President of the Board of Directors



RECEIVED
RIVERSIDE LOCAL AGENCY
FORMATION COMMISSION

05 JUL -6 PM 1:28

MCWD



June 29, 2005

George Spiliotis, Executive Officer
Local Agency Formation Commission
3850 Vine Street, Suite 110
Riverside, CA 92507

**DISSOLUTION OF THE MURRIETA COUNTY WATER DISTRICT (MURRIETA)
WITH CONTINUED SERVICE BY WESTERN MUNICIPAL WATER DISTRICT
(WESTERN)**

The Board of Directors and staff of Murrieta and Western would like to thank you and your staff for your diligence in providing guidance and assistance with the dissolution process. The preparatory work has flowed so smoothly that the districts have concluded an earlier effective date of dissolution is possible and request that the effective date be changed.

By this jointly signed letter, the districts are amending the transfer agreement and changing, with your concurrence, the effective date of dissolution with Murrieta with continued service by Western to 12:01 a.m. November 27, 2005. The time and date correspond with the beginning of Western's pay period.

If you have any questions or comments, please contact Norm Thomas at (951) 789-5000.

Very truly yours,

A handwritten signature in black ink, appearing to read "John V. Rossi", written over a horizontal line.

John V. Rossi
General Manager
Western Municipal Water District

A handwritten signature in black ink, appearing to read "Wayne Spencer", written over a horizontal line.

Wayne Spencer
General Manager
Murrieta County Water District

JVR:NLT/mm

cc: Wayne Fowler, LAFCO

BLUE RIBBON ADVISORY COMMITTEE (BRAC) REPORT

*Report of the Blue Ribbon Advisory Committee
to the
Murrieta County Water District Board of Directors
on*

**The Potential Merger
of the
Murrieta County Water District
and the
Western Municipal Water District**

April 18, 2005

*Blue Ribbon Advisory Committee
Barbara Ankele
Tom Courbat
Ray Jones
Kassen Klein
Gayla Mitchell
Herb Smith*

Introduction

The Murrieta County Water District (MCWD) is the water and sewer purveyor for approximately 2,400 customers with expectations that this number will increase to 12,000 by the year 2020. It was formed in 1963, originally as the Murrieta Water Company (a mutual water company) and today encompasses 6.5 square miles. Six production wells and three water storage tanks are used to deliver water to commercial and residential customers surrounding historic downtown Murrieta. As a result of interagency agreements, two neighboring districts treat wastewater: Eastern Municipal Water District and Rancho California Water District. There are also a good number of properties in the District on septic systems.

While the vast majority of MCWD's current lower cost water supplies come from its wells, some more-expensive imported water is currently used in the District. More than half of future demand will need to be met with additional imported supplies from the Metropolitan Water District.

As a result of increased concern and discussion among the MCWD Board of Directors and the community served by the District about a variety of issues, chief among these the District's ability to meet future needs with existing resources, in 2004, a petition was initiated to recommend that an item be placed on the November, 2005 ballot calling for a dissolution advisory vote.

Since then, the Board has explored various steps in the dissolution process, including a vote by the Board of Directors at its July 27, 2004 meeting to send a letter to the Western Municipal Water District (WMWD) to explore merger discussions. Directors John Arroyo, Jr., and John Zinna were appointed to represent MCWD on an ad hoc committee with WMWD Board members Wayne Holcomb and Kevin Jeffries. In December, 2004, the MCWD Board sent a second letter to WMWD requesting that merger discussions be formally initiated.

The merger of MCWD with another agency would meet a LAFCO recommendation stated in its latest Municipal Service Review. In that review, LAFCO recommends the restructuring of MCWD in order to take advantage of opportunities to reduce costs and reach advantages of scale. Additionally, a merger with a larger agency may provide access to water and other resources not available under the current structure.

Citizen's Blue Ribbon Advisory Committee

As yet another step in the dissolution exploration process, the Murrieta County Board formed the Blue Ribbon Advisory Committee. The Committee was created to provide the community an opportunity for involvement and to serve as a vehicle for advising the Board on a possible restructuring including consolidation, dissolution, and merger. The Committee would perform this advisory function on behalf of the community, in order to provide to the MCWD Board a direct community perspective of the issues.

The Directors appointed citizen volunteers from throughout the Murrieta County Water District, representing a cross-section of the customer and resident base, including new and long-time residents and well owners. One representative was appointed by the City of Murrieta. The appointees were:

Barbara Ankele, new MCWD resident, appointed by Director John Zinna

Gayla Mitchell, new MCWD resident, appointed by Director Brenda Dennstedt

Tom Courbat, long-time MCWD resident, appointed by Director Michael Matteson

Herb Smith, long-time MCWD resident, well owner, appointed by Director John Arroyo, Jr.

Ray Jones, long-time MCWD resident, well owner, appointed by Director Gary Allen

Kassen Klein, MCWD resident, appointed by the Murrieta City Council

Additionally, the ad hoc committee of MCWD and WMWD Directors participated in the BRAC process. Staff, from both MCWD and WMWD, including general managers Wayne Spencer from MCWD and John Rossi from WMWD, facilitated meetings and provided support and technical expertise. Other staff, as appropriate, provided support as needed. All BRAC meetings were open to the public.

The first meeting of the BRAC was held on November 16, 2004. At that meeting, the Committee was charged with the following mission:

"To advise the ad hoc committee, through a consensus-based recommendation, on the appropriateness of merging Murrieta County Water District with Western Municipal Water District."

Two rotating co-chairs, Barbara Ankele and Tom Courbat, were elected to preside over the Committee meetings.

At each meeting, outside consultants and technical experts presented reports on various aspects of District operations, facilities, systems, finances, water supply and water quality in order to provide the Committee members with a solid knowledge foundation from which to make their final recommendation. Three members of the Committee also toured MCWD facilities.

In total, nine meetings of the BRAC were held from November 16, 2004 to April 18, 2005.

Community Issues/Involvement

From the first meeting of the Committee, meeting attendance and feedback by the public was encouraged and staff provided various avenues to facilitate this involvement. These included the MCWD web site, a bulletin board posting on the web site, bill stuffers, quarterly newsletter, and press releases. In addition, each meeting included an opportunity for public comment and individual Committee members were charged with the responsibility for acting as a conduit between those they interacted with in the community and the Committee. Approximately 20 people attended the first meeting of the Committee. This number declined considerably at later meetings.

The first meeting of the Committee also involved discussion of issues that the community was concerned about and which should be the drivers in the Committee's decision-making process. These included:

- Fiscal comparison with other districts
- Fees and charges
- Taxes
- Standby fee
- Modernization of facilities
- Annexation costs
- Consumer confidence
- Local control
- Inability to influence growth

- Groundwater protection
- Operational process
- Water supply reliability – near-term and long-term
- Well ownership
- Transitional plans
- Impact on existing MCWD facilities
- Impact on existing MCWD staff

Consultant and Staff Reports

In order to provide a common base of understanding, the first item presented to the Committee was a discussion by WMWD staff of factors that determine water rates and how these rates sometimes vary among agencies.

Commodity rates, meter service charges, a comparison of typical bills and revenue sources were all discussed and compared between MCWD, two WMWD service areas, Rancho California Water District, and Eastern Municipal Water District.

The current commodity rate among these agencies varies from \$1.12 in WMWD's ID-1 to \$1.52 in Eastern Municipal Water District. Fixed monthly service charge ranged from a low of \$7.59 in Eastern to a high of \$18.71 in Rancho California Water District. MCWD rates are within the ranges of the neighboring jurisdictions.

Other charges that varied widely among the Districts were annexation fees, connection or added facilities fees, distribution fees, ad valorem taxes, property taxes, standby charges, and assessment districts or CFDs.

Western's general manager John Rossi stressed that, should a merger between WMWD and MCWD take place at some point, MCWD, although it would probably be able to take advantage of economy of scale in administration and operations by being part of a larger District, would continue to operate as its own cost center and all costs, fees, charges, and revenues would be held separately in its own enterprise function. This ensures a fair distribution of costs and revenues between the existing and new customers within both agencies. This has been WMWD's practice and the District operates several distinct enterprise functions whose revenues and costs are kept independent.

Subsequent presentations by outside consultants covered the following areas: operations, facilities, water supply, water quality, financial issues, and sources and uses of funds.

From these presentations, the Blue Ribbon Advisory Committee concludes that:

- The need for additional imported water supplies – up to 4400 acre feet annually – is the largest issue facing MCWD. Merging with another agency may help facilitate delivery of imported supplies.
- MCWD is financially stable with rates and fees within the range of neighboring Districts.
- Whether or not MCWD merges with another District, future rate increases are to be expected. Consolidation with another District may help reduce these increases in the long run, but not in the immediate future.
- Facilities and operations are consistent with standard water district operations. However, additional production and storage facilities are needed in the near future. Financing of these facilities needs to be addressed to meet growing demand.
- MCWD meets or exceeds all DHS water quality requirements throughout its production and distribution system. MCWD water is considered hard water because of the high calcium content, but this is not a health issue. In the future, treatment challenges resulting from the blending of imported water with the District's well water will have to be addressed. The Metropolitan Water District, which would provide the imported supply, treats its water, which is surface water, with chloramines, which are a combination of chlorine and ammonia. The District's well water is treated with chlorine.
- Current well owners will continue to rely on their own wells for water supply.
- Native water cannot and will not be exported from the basin.

MCWD is currently involved in a claim regarding certain quality issues by a particular developer. Due to the legal nature of this claim, it was neither discussed nor addressed during the BRAC meetings.

Complete copies of all consultant and staff reports are included in the Appendix of this report.

Possible Merger Partners

Neighboring agencies, including Rancho California Water District, Eastern Municipal Water District, and Elsinore Valley Municipal Water District, as well as WMWD, could be considered merger partners.

Based solely on geography, it might appear that a merger with Rancho California Water District is most efficient. However, a merger with Rancho would likely have a negative financial impact on customers because of the probable high annexation fees, which would range from \$1674.00 to \$1731.00 per acre. MCWD is within WMWD's general district and therefore, no added annexation fees would be required in the event of a merger. A merger with Eastern would require detachment from WMWD and annexation to Eastern of the areas not currently within Eastern. The cost of this is not known at this time, though it is reasonable to assume the cost would be prohibitive and the process complex and time-consuming.

Rancho California, Eastern Municipal, and Elsinore Valley Municipal were each sent letters advising them of the process that MCWD was exploring with WMWD. None of the agencies objected. Copies of their correspondence are included in the Appendix.

Merger with Western Municipal Water District

Western Municipal Water District, a Metropolitan Water District member agency, encompasses a 510 square mile area of western Riverside County. That area includes about ninety percent of MCWD. WMWD, its two Directors, Wayne Holcomb and Kevin Jeffries, general manager John Rossi, and staff, have actively participated in the BRAC meetings. WMWD has been instrumental in establishing and providing on-going assistance with the Metropolitan Water District annexation process. WMWD's principal engineer, Jeff Sims, has provided MCWD with engineering support services for five years. WMWD also provides support to MCWD through its conservation and school education programs. Therefore, prior to the start of the BRAC process, the MCWD Board had looked to WMWD for exploring a merger.

Additional advantages that WMWD bring include the following:

- Possible long-term cost savings in operations and administration activities could occur.
- Additionally, as MCWD considers financing some of the needed capital improvements, being part of WMWD could reduce costs of debt issuance because of its size and resources.

Historically, WMWD has worked regionally and may be able to leverage its position as a Metropolitan Water District member agency in order to negotiate for the needed imported water supplies for Murrieta County Water District.

Staff issues were not discussed in depth during the BRAC process, however, WMWD general manager Rossi has indicated that there may be a possibility of utilizing many of the existing Murrieta staff members to fill needs at WMWD. BRAC committee members strongly recommend that any merger include the retention of current MCWD staff for continuity and maintenance of local service levels.

Recommendation

The Blue Ribbon Advisory Committee began this process with differing points of view representing the various residents within the District. Through the education process, analysis, and open discussion, a consensus has been reached. Therefore, the Committee's recommendation is that the Board of Directors of the Murrieta County Water District initiates final negotiations to merge with the Western Municipal Water District.


ENVIRONMENTAL DOCUMENTATION

PRELIMINARY EXEMPTION ASSESSMENT

(Certificate of Determination
When Attached to Notice of Exemption)

1. **Name or description of Project:** Reorganization Involving the Western Municipal Water District and the Murrieta County Water District.
2. **Location:** Western Municipal Water District
450 Alessandro Blvd.
Riverside, CA 92508
Phone: (951) 789-5000
3. **Entity or person undertaking Project:** Western Municipal Water District
450 Alessandro Blvd.
Riverside, CA 92508
Phone: (951) 789-5000
4. **Staff Determination:** The District's Staff, having undertaken and completed a preliminary review of this activity in accordance with CEQA, the State CEQA Guidelines and the District's Local CEQA Guidelines, has concluded that this action does not require further environmental assessment because it is exempt from CEQA, as described below:
 - (a) ☐ Ministerial project.
 - (b) ☐ Not a project.
 - (c) ☐ Emergency Project.
 - (d) ☒ Categorical Exemption. Class 20, Changes in Organization of Local Agencies.
 - (e) ☐ Declared Emergency.
 - (f) ☐ Statutory Exemption
 - (g) ☒ Other. State CEQA Guidelines section 15378(b)(5); organizational or administrative activities of governments that will not result in direct or indirect physical changes in the environment

Date Received for Filing: 4-20-05


John Rossi
for General Manager
Western Municipal Water District

NOTICE OF EXEMPTION

TO: County Clerk
County of Riverside
2720 Gateway Dr
Riverside, CA 92507

FROM: Western Municipal Water District
450 Alessandro Blvd.
Riverside, CA 92508
Phone: (951) 789-5000

1. **Project Title:** Reorganization Involving the Western Municipal Water District and Murrieta County Water District.
2. **Project Location (specific):** Within Riverside County and the service areas of Western Municipal Water District and Murrieta County Water District.
3. (a) **Project Location - City:** Within Riverside County and the service areas of Western Municipal Water District and Murrieta County Water District.
(b) **Project Location - County:** Riverside County.
4. **Description of nature, purpose, and beneficiaries of Project:** Pursuant to Government Code section 56853, the Western Municipal Water District and the Murrieta County Water District will adopt substantially similar resolutions of application for a reorganization involving the District and Murrieta ("Reorganization"). The Reorganization will provide greater public accountability by eliminating one governmental entity and redundancy of governmental jurisdictions. The Reorganization will enhance regional planning and representation and will enhance service efficiency and reduce costs in administrative personnel, office expense, and contracted costs. The Reorganization is consistent with the conclusions of LAFCO's Final Draft of Western Riverside County and Coachella Valley Water & Wastewater Municipal Service Review, and the Reorganization will enhance legislative and regulatory representation.
5. **Name of Public Agency approving Project:** Western Municipal Water District.
6. **Name of Person or Public Agency carrying out Project:** This NOE is being submitted on behalf of Western Municipal Water District.
7. **Exempt status: (Check One)**
 - (a) ☐ Ministerial project.
 - (b) ☐ Not a project.
 - (c) ☐ Emergency Project.
 - (d) ☒ Categorical Exemption. Class 20, Changes in Organization of Local Agencies.
 - (e) ☐ Declared Emergency.
 - (f) ☐ Statutory Exemption
 - (g) ☒ Other. State CEQA Guidelines section 15378(b)(5); organizational or administrative activities of governments that will not result in direct or indirect physical changes in the environment.

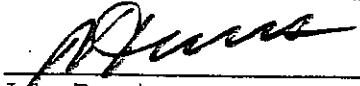
8. **Reason why project is exempt:** This Project is exempt pursuant to Class 20 because it is a consolidation of two or more districts having identical powers. (State CEQA Guidelines § 15320.) This act is merely an organizational or administrative activity which will not result in any reasonably foreseeable adverse environmental impacts. (State CEQA Guidelines § 15378.) The geographic area under the collective powers of Western Municipal Water District and the Murrieta County Water District will not change due to the Reorganization thus exempting the Reorganization from environmental review.

9. **Contact Person:** John Rossi

Telephone: Phone: (951) 789-5000

10. **Attach Preliminary Exemption Assessment (Form "A") before filing.**

Date Received for Filing: 4-20-05



John Rossi

for General Manager

Western Municipal Water District