

**MINUTES OF THE BUDGET AND FINANCE COMMITTEE MEETING
OF THE RAINBOW MUNICIPAL WATER DISTRICT
APRIL 11, 2017**

1. **CALL TO ORDER:** The Budget & Finance Committee meeting of the Rainbow Municipal Water District was called to order by Chairperson Stitle on April 11, 2017 in the Board Room of the District Office at 3707 Old Highway 395, Fallbrook, CA 92028 at 1:02 p.m. Chairperson Stitle presiding.

2. **PLEDGE OF ALLEGIANCE**

3. **ROLL CALL:**

Present: Member Stitle, Member Ross, Member Hensley, Member Clyde.

Also Present: Executive Assistant Washburn, Engineering Manager Kirkpatrick, Alternate Martinez, Associate Engineer Powers.

Absent: Member Moss.

One member of the public was present.

4. **SEATING OF ALTERNATES**

Mr. Stitle noted there was a quorum and alternates would not need to be seated.

5. **ADDITIONS/DELETIONS/AMENDMENTS TO THE AGENDA (Government Code §54954.2)**

Mrs. Kirkpatrick requested her items be discussed first due to her having to attend another meeting.

6. **PUBLIC COMMENT RELATING TO ITEMS NOT ON THE AGENDA (Limit 3 Minutes)**

There were no comments.

COMMITTEE ACTION ITEMS

7. **COMMITTEE MEMBER COMMENTS**

There were no comments.

*8. **APPROVAL OF MINUTES**

A. March 14, 2017

Motion:

Approve the minutes.

Action: Approve, Moved by Member Ross, Seconded by Member Clyde.

Vote: Motion carried by unanimous vote (summary: Ayes = 4).

Ayes: Member Stitle, Member Ross, Member Hensley, Member Clyde.

9. DISCUSSION AND POSSIBLE ACTION REGARDING CAPACITY FEES

Mrs. Kirkpatrick gave a presentation on the asset value findings provided by Raftelis based on the report from Willdan. She noted the numbers are for the most part finalized and the final report will be provided to the committee at their next meeting. She mentioned this same presentation was shared with the Engineering Services Committee last week.

Mrs. Kirkpatrick stated the final report would be provided at the next meeting. She said she would confer with Mr. Kennedy regarding the public review period. Discussion followed.

Discussion went to Item #11.

10. DISCUSSION REGARDING DEPRECIATION AND NEW ASSET VALUES

Mrs. Martinez explained depreciation was a non-cash expense on the profit and loss statement that bridges an important gap between investment and operating costs by allocating a portion to expense and measures portion of assets used each operation year for comparability. She gave a presentation on depreciation funding.

Discussion ensued regarding the Moosa Creek damage caused by the recent storms.

Mrs. Martinez said she would have a draft of the budget which would include the Capital Improvement Plan. Mr. Stitle encouraged including a five-year forecast.

Discussion went to Item #12.

11. DEVELOPER UPDATE

Mrs. Kirkpatrick referenced the handouts provided to the committee. She reported D.R. Horton have stated their construction start date and model schedule for July 2017. She pointed out the new proposed capacity fees previously discussed have been incorporated into the spreadsheet.

Mrs. Kirkpatrick noted Golf Green Estates have completed on-site utilities; therefore, it was expected there could be some homes in place by June. She briefed the committee on the remaining developments listed.

Discussion went to Item #10.

12. DISCUSSION REGARDING CALPERS PENSION LIABILITY

Mrs. Martinez talked about the reform GASB 68 notifying government employees that sponsor defined benefit plans must recognize a Net Pension Liability which was recognized in RMWD's audit year 2015-2016. She pointed out this was also known as the Unfunded Actuarial Accrued Liability on the agency's balance sheet. She noted the liability represents the difference between RMWD's total pension liability and actual planned assets. She mentioned the new accounting standards fundability changed the methods and assumptions used to project benefits payments.

Mrs. Martinez pointed out the plan's share of unfunded liability for the miscellaneous plan was 77% unfunded and for PEPRAs miscellaneous plan was 94%. She explained the cause for this large gap was due to part of the funding that makes up the pension amounts is the funding from the employer, employee, and pooled investments. She noted CalPERS projected almost 8% rate of return for several years; however, that has not always been met. She said based on this CalPERS was starting to reduce their rate of return assumptions which could increase the cost on a per payroll basis from the employer's standpoint. She mentioned there were several options available to address the unfunded liabilities.

Mrs. Martinez explained every payroll, RMWD must report the bi-weekly earnings for all its members to CalPERS. She noted the District pays its share as well as deduct the employee's share bi-weekly and then in turn CalPERS invoices the District for the unfunded amount for that fiscal year which is paid. She pointed out the options available to RMWD is to continue to pay the minimum annual required dollar amount, work with CalPERS to establish an alternate amortization schedule, accelerate payments about the minimum annual contributions without establishing an alternate amortization schedule, pre-fund pension obligations through IRS approved independent retirement plan administrator, or establish a separate fund dedicated for use in stabilizing future CalPERS cost fluctuations.

Mr. Hensley asked if any of the unfunded amount is collected from the employees. Mrs. Martinez stated right now it was 100% paid by the employer; however, one of the other options would be to start charging the employees a percentage. She pointed out the unfortunate thing right now at RMWD as well as other agencies, is the employees pay 8% as well as into Social Security for a total of 14% for both pension plans. She added this was in addition to the other employee deductions. She pointed out Social Security will look at CalPERS upon retirement; therefore, it employees may or may not get 100% of what they have paid into Social Security.

Discussion ensued regarding how when one agency defaulted, CalPERS responded that the last resort was withholding funds from the retirees. It was noted although CalPERS has taken a first step in reducing its rate of return assumption, it should continue to remain conservative to work with the trend of the rate of return assumption.

Mrs. Martinez pointed out the information and options are outlined in the handout provided. She also noted a list of all the CalPERS agencies are available online. She explained as employees rotate from the classic to PEPRAs plans, it will assist RMWD in minimizing the liability.

Discussion ensued regarding the categories under which assumptions are based.

Mrs. Martinez said she would continue to look at options. She noted this information has not yet been presented to the Board.

Mr. Ross stated this was something that needed to be presented and understood by all parties involved.

Mr. Stille said Mr. Kennedy should present this information to the Board. Mrs. Martinez said it may be easier if the employees did not have to pay into Social Security and then be asked to pay contribute an additional 1% toward CalPERS; however, she was unsure of the process to make this happen. She confirmed any changes such as this would need to coincide with the current labor contract negotiations. It was requested that an update on the labor negotiations be discussed at the next committee meeting.

Discussion went to Item #13.

13. REVIEW THE FOLLOWING:

- A.** Income Statement
- B.** Balance Sheet
- C.** Cash Flow

Mrs. Martinez reported Mr. Kennedy and her will participate in a conference call with Springbrook next week to discuss updates on their software.

Mrs. Martinez talked about the cash flow referencing Page 5 of the handout provided. She noted RMWD was fully back to resuming the collection efforts; therefore, the cash flow for March increased. She pointed out part of the increase was due to some customers who utilize the auto pay system only recently signed up for the new on-line payment system.

Mrs. Martinez reported the audit came back to the District with a question on capacity fee recognition which has been addressed. She said once the final audit is received, she will give a presentation to the committee.

14. LIST OF SUGGESTED AGENDA ITEMS FOR THE NEXT SCHEDULED BUDGET AND FINANCE COMMITTEE MEETIN

It was noted the audit, the CalPERS matter and an update on the Memorandum of Understanding negotiations will be on the next agenda.

15. ADJOURNMENT

The meeting was adjourned with a motion made by Member Hensley and seconded by Member Clyde.

The meeting adjourned at 2:33 p.m.

Harry Stitle, Committee Chairperson

Dawn M. Washburn, Board Secretary