

**MINUTES OF THE RAINBOW MUNICIPAL WATER DISTRICT
JOINT BOARD OF DIRECTORS, ENGINEERING AND
OPERATIONS COMMITTEE, & BUDGET AND FINANCE COMMITTEE
SPECIAL MEETING
MAY 6, 2025**

1. **CALL TO ORDER** - The Special Meeting of the Board of Directors, the Engineering and Operations Committee, and the Budget and Finance Committee of the Rainbow Municipal Water District on May 6, 2025, was called to order by President Hamilton at 1:01 p.m. in the Board Room of the District, 3707 Old Highway 395, Fallbrook, CA 92028. President Hamilton presiding.

2. **ROLL CALL:**

Present: Directors Hamilton, Mack, Townsend-Smith, Irvine, and Hoffman

Committee Members Hensley, Nelson, Stewart, Marnett, Gasca, Johnson, and McKesson

Also Present: General Manager Wiley, District Secretary Quintanar, Engineering and CIP Program Manager Williams, Chief Operating Officer Gutierrez, Finance Manager Shilkov, Administrative Services Manager Harp, Information Technology Manager Khattab, Management Analyst Lan

Also Present in Person, Via Teleconference or Video Conference:

Legal Counsel Smith, Senior Project Manager Tamimi, Administrative Assistant Montano, Administrative Analyst II Barrow, and Risk and Safety Officer Johnson, Rodney Smith, Carol Wilson, Duane Urquhart, CDR Joe Beyer, public

3. **PLEDGE OF ALLEGIANCE**

4. **ADDITIONS/DELETIONS/AMENDMENTS TO THE AGENDA**

There were none.

5. **APPROVAL OF THE AGENDA**

Motion: To approve the Agenda as presented.

Action: Approve, Moved by Director Irvine, Seconded by Director Hamilton

Vote: Motion carried by unanimous vote (summary: Ayes = 5)

Ayes: Directors Hamilton, Mack, Hoffman, Townsend-Smith, and Irvine

6. **PUBLIC COMMENT**

Mr. Urquhart commented that he did not see any information about agricultural rates included in the meeting packet materials. He provided and referenced a summary of Proposition 218 and pointed out that, as Rainbow Water has detached from SDCWA, the District is no longer bound to the assumptions used in the rate study. He also mentioned that within the Bonsall Community Plan, in which Rainbow Water is included, is the preservation of agriculture. This has to be

addressed, as Rainbow Water is driving farmers out of business and this is contradictory to the Community Plan.

Rainbow Water customer Commander Beyer relayed great compliments about the Rainbow Water Newsletter. In regard to water bills, he requested the addition of details to explain what projects are being paid for through the fixed fees. He suggested the same detail would be helpful to those who want to better understand the origins of Rainbow's sewer-related fees. In regard to the Wildfire Symposium, he commended staff who attended to provide information and opined that it was a very worthwhile event. He also complimented the District's parking lot flags, exhibiting the District's core values. He concluded with words of support for local agricultural efforts and opined that residential customers should suffer a little in order to support the farmers.

7. REVIEW OF DRAFT FISCAL YEAR 2025/26 BUDGET

Mr. Wiley explained the intent to present all of the information to everyone, summarizing the Operating and Non-Operating Budget components reviewed and discussed thus far, which include the Capital Improvement Project Budget, reviewed in March, and the Staffing Budget that was reviewed last month. He referenced the December Newsletter, which explained the costs avoided due to the detachment from the SDCWA. The SDCWA imposed a 14% increase in January, and another proposed 16% increase that Rainbow Water customers were not subject to. In July 2024, the District implemented a 4.5% water rate increase, with the intent to keep water rates flat until January 2026. With the extension of the SDCWA Exit Fee payment financing, the District has relief by lowering the annual payment and creating generational equity. In addition, the team has invested a lot of time into optimizing efficiencies, including management of chemical costs, energy efficiencies to offset the 9% SDG&E increase, shared services agreements with neighboring agencies, and lowered legal costs. Despite increases beyond the District's control, the District will only need to implement the 4% pass-through from MWD. The 4% also fully funds our CIP budget, and will fully fund projects in about 3-4 years. This is the first year of the five-year plan.

Regarding the Wastewater Budget, Mr. Wiley reported that staff have been working with the City of Oceanside to help reduce those costs and minimize rate impacts. Increases to the \$50M Operating Budget are very small.

Finance Manager Shilkov shared the Budget approval timeline. The Water Fund expenditures include six major cost drivers, which include: a 9.5% increase in treated water purchases from Metropolitan Water District, an 11.5% increase in Metropolitan's fixed Capacity Charge, a 20% increase in CalPERS Unfunded Liability (UAL), a 5.6% increase in labor costs, primarily driven by a 7% rise in health insurance, a 9% increase in electricity costs from SDG&E, and Compliance costs related to new environmental and state regulations.

Past, present, and future estimated water purchases were shared, and Mr. Shilkov noted that fixed charges are higher in the drier months. As of February 2025, water sales are at 10,000 acre feet (AF). With MWD's fixed charges being considerably less than the SDCWA, costs decreased by 49% in March. The District now pays \$1,642 AF, and therefore, total water purchases for FY 2025 are estimated to be \$21,978,415.33 for \$13,290 AF. The estimated water purchase budget for FY 2026 is \$18,273,278, based on water sales of 11,000 AF and an estimated 8% water loss. Mr. Wiley added that we are no longer subject to increased SDCWA Fixed Charges, and although the Exit Fee was painful, we have a fixed ten-year debt that is not subject to rate increases. This will help the District stabilize rates in the future.

Debt obligation payments will increase by 62%, or \$2.4M, compared to FY 25, and the financing of the Exit Fee of \$15.8M will sunset in FY2035. Labor costs are increasing by 5.6%, driven by a 7% increase in health insurance, Cost of Living (COLA), and merit increases. The CalPERS Unfunded

Accrued Liability (UAL) increased 23% this year and will increase by 20% next year. He explained that PERS has a two-year delay in how they calculate their rates, and recommended funding the UAL at 80%.

No major increases are anticipated for the Operations and Maintenance (O&M) Budget, and in accordance with GASB standards, the tank maintenance costs will be moved to the CIP Budget. This is because the District capitalizes the labor when extending the life of an asset. A Water Sales comparison was shared, showing that agricultural sales make up 62% and residential sales are at approximately 30%. We are budgeting \$50.5M in revenues, assuming 11,000 AF in sales. Total expenses are estimated at \$50.5M, for a net zero profit. The proposed plan for the Water Fund includes an increase of variable and fixed water rates by 4%. Mr. Wiley added that there will be no increase on July 1, 2025.

Chairman Nelson referenced Slide No. 13, asking if the District budgets to establish reserves. He also asked if the \$6.3M debt service and \$8M and CIP Budget could be funded with long-term bonds. Mr. Wiley responded that the District cannot finance assets beyond their estimated useful life. Also, there are limits on refinancing in some cases. There are some future CIP projects, such as pipeline replacements and pump station rehabilitations, that may be funded through long-term financing. The District has to maintain sufficient debt coverage in order to avoid having to borrow at a very high interest rate. Mr. Nelson encouraged the District to plan for reserves.

The City of Oceanside's O&M charges were recalculated, and with \$1.2M of O&M and \$500K in CIP, the increase will be 3.44%. The City of Oceanside's catch-up payments for \$4,097,422 in unbilled O&M and CIP charges were split into 17 payments in FY 2025. There are three payments remaining. Wastewater Reserves are currently below the required minimum level. Another debt obligation is the \$5M to fund the Thoroughbred Lift Station. O&M Expenditures for the Wastewater Fund also include an increase in odor control costs. The breakdown for FY2026 revenue estimates \$6M, with a 13% sewer rate increase being implemented on July 1, 2025. This increase is driven by the catch-up payments to the City of Oceanside. Total net revenue and expenses are estimated at \$7,092,688, and are funded by EDU Fixed Charges and grant revenue. Due to the District not increasing rates for several years and the impact of the City of Oceanside catch-up payments, staff proposed a 13% Wastewater Rate Increase.

The five-year unrestricted cash projection predicts a slow and steady recovery for FY 2025/26. Additional debt issuance to finance CIP projects is anticipated for 2028. Any excess revenue will be kept in the rate stabilization fund in order to maintain steady rates. Mr. Shilkov concluded by announcing that a rate study should be completed prior to the January 4% water rate increase. Director Irvine recommended explaining the 4% rate increase, despite the 9.5% pass-through increase from MWD and other increased costs beyond the District's control, in the next Newsletter.

8. INFORMATION ITEMS

No additional information was provided.

9. ADJOURNMENT – President Hamilton adjourned the meeting at 2:08 p.m.

Attest:



Terese Quintanar, District Secretary



Hayden Hamilton, Board President