

**MINUTES OF THE BUDGET AND FINANCE COMMITTEE MEETING
OF THE RAINBOW MUNICIPAL WATER DISTRICT
JUNE 5, 2014**

1. **CALL TO ORDER:** The Budget & Finance Committee meeting of the Rainbow Municipal Water District was called to order by Chairperson Stitle on June 5, 2014 in the Board Room of the District Office at 3707 Old Highway 395, Fallbrook, CA 92028 at 1:03 p.m. Chairperson Stitle presiding.

2. **PLEDGE OF ALLEGIANCE**

3. **ROLL CALL:**

Present: Member Carlstrom
Member Clyde
Member Stitle
Member Hensley

Absent: Member Fagan
Member Lucy
Member Ross

Also Present: Executive Assistant/Board Secretary Washburn
Water Operations/Customer Service Manager Atilano
District Engineer Plonka
Director Brazier
FPUD General Manager Brady

No members of the public were present.

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

There were no comments.

Director Brazier mentioned she was going to submit to the Board a resolution amending the Administrative Code that a Director attending a committee meeting that is not a member be allowed to participate at the invitation of the committee.

COMMITTEE ACTION ITEMS

5. **COMMITTEE MEMBER COMMENTS**

There were no comments.

***6. APPROVAL OF MINUTES**
A. May 8, 2014

Action:

Moved by Member Carlstrom to approve the minutes as written. Seconded by Member Hensley.

After consideration, the motion CARRIED by the following vote:

AYES: Member Carlstrom, Member Clyde, Member Stitle and Member Hensley.
NOES: None.
ABSTAINED: None.
ABSENT: Member Fagan, Member Lucy and Member Ross.

7. UPDATE AND DISCUSSION OF RECENT RMWD BOARD MEETING

Ms. Thomas provided an update noting Ordinance No. 14-03 and the Change Order for Beck Reservoir were approved, respectively. She mentioned the letter supporting San Luis Rey Downs was to be revised and that Resolution No. 14-13 was not presented for approval. She concluded by noting the action regarding the public relations consultant will be discussed at the June 9, 2014 Special Board meeting.

8. UPDATE AND DISCUSSION REGARDING FPUD APPLICATION TO LAFCO

Ms. Thomas made mention of the recent update sent out to all the RMWD ratepayers addressing some of the misunderstandings. She noted those employees that have lived in the area for quite some time are also being contacted concerning the matter.

Mrs. Plonka noted LAFCO has sent both RMWD and LAFCO requests for information including each agency's respective Master Plans. She pointed that since it was the end of the fiscal year she was already working on the CIP information and decided to prepare a list of update of the recommended projects identified in the 2006 Master Plan and the status of those currently being worked on. She clarified the Master Plan should be updated every five years; therefore, staff was in the process of gathering the information together. She mentioned since it has not been looked into as to where RMWD was today versus the projects recommended almost ten years ago, the update provided shows RMWD had every single wastewater project in the Master Plan completed within an eight year window and there was significant progress made on the water projects as to getting all the critical needs completed. She stated since RMWD started an Asset Management Plan, the pipelines that were not addressed will be incorporated into this plan because it really was the best way to proceed.

Mr. Clyde asked if those projects marked completed are finalized. Mrs. Plonka confirmed these projects are completed and paid in full.

Mr. Atilano pointed out during the Years 2009-2012 there were not a great deal of water projects being worked on due to the focus being on the reservoirs.

Mr. Carlstrom suggested the money spent on each project be incorporated into the information sheet provided. Mrs. Plonka acknowledged the suggestion, but also pointed out the sheet provided was to show what projects have been completed as opposed for financial forecasting purposes.

Mr. Carlstrom asked if the second application submitted by FPUD was on the LAFCO website. It was confirmed it was available on LAFCO's website. Dr. Brady stated although the dates and the public hearing were noted in the second application, it was pretty much the same as the first application.

Mr. Carlstrom talked about the members of the LAFCO Board listed in the handout provided and how it may be worth contacting them. He inquired about the functions of the LAFCO Advisory Committee. Dr. Brady explained the process LAFCO utilizes for appointing members to the LAFCO Advisory Committee including the one at-large public member. It was confirmed FPUD did not have a representative on this committee.

Mr. Carlstrom continued to review the handout noting Michael Ott was part of the staff working closely with the LAFCO Board of Directors. Ms. Washburn noted the contact information for Mr. Ott and LAFCO will be provided in the RMWD June newsletter and is available on the RMWD website.

Mr. Carlstrom mentioned he was in the process of gathering email addresses for members of his HOA to which he intends to send the longer letter provided in the handout. He pointed out the last page of the handout was a letter to the editor he would be submitting to the San Diego Tribune and The Village News.

Mr. Stitle asked Dr. Brady about three individuals listed and whether they were full time LAFCO staff members. Dr. Brady answered the names listed include five full-time staff members and the rest are as-needed consultants.

Mr. Hensley stated he happens to be the financial manager of his HOA and how water is the biggest expense of each member. He suggested the argument regarding who should be in charge was not a good argument from keeping the reorganization with FPUD from happening. He stated people do not really care and may see the reorganization as a means of keeping their costs down. He recommended possibly getting into some dollars stuff to put some "meat" into the argument that might affect what the ratepayers are going to pay. He noted Mr. Carlstrom's letter improved upon the information provided in the update; however, it was still not enough.

Mr. Carlstrom pointed out the fundamental health of RMWD going forward is much more important financially than what the ratepayers may save in a consolidation. He pointed out RMWD was looking at 2,000-2,500 customers in development which will bring in a significant amount of revenue that would be coming into RMWD. He stressed if this gets threatened by this reorganization with FPUD at all (even a 20%) risk, it would be disaster for RMWD. He noted RMWD has to implement the plans already in place. He pointed out there may be a little savings one way, but a whole lot more with the development which could disappear if not managed properly. He talked about the real threat. He emphasized RMWD has the basis from which to work. Mr. Hensley suggested this be the type of information presented.

Ms. Thomas talked about a newspaper statement made by one of FPUD's Board Members that the \$2.5 million was not going to lower ratepayers' bills. She stated FPUD has never said this; however, this was the customer's perception. She pointed out if the ratepayers were to share the proposed \$2.5 million, once disbursed among all the customers it would amount to \$5.00 each per month. She talked about some of her concerns regarding why FPUD wants RMWD since it is not to cut rates. She reiterated the importance of governance in that with divisional representation, the ratepayers will at least have someone to take their concerns to.

Mr. Hensley suggested following up the information provided in the letter written by Mr. Carlstrom with repeated references as to the real financial impacts.

Ms. Thomas reiterated the community just want their water bills to go down; however, that is not going to happen due to the fact there are not a great deal of water sources.

Mr. Carlstrom explained the way RMWD was able to demonstrate the rates would not increase. Mr. Hensley recommended taking the approach that shows RMWD has a five year plan that allows RMWD to generate some future revenue and then explain how there was no guarantee a reorganization with FPUD would change the forecasts.

Mr. Clyde mentioned there was another perception out there relating to the matter of the drought and why RMWD was adding more subdivisions when there appears to not be enough water already. He suggested it be pointed out the fixed costs are different than the water costs in order to assist the customers as to how this works.

Mr. Carlstrom stated there was a lot of work to do to convince people that the proposal reorganization was not a good thing for the ratepayers. He pointed out RMWD does need those additional customers from the proposed developments in order to get those fixed fees as well as the connection fees. He stressed this was a great deal of revenue. He recommended talking how to put some of the forecast information into something that is easy for people to understand.

Ms. Thomas pointed out the reorganization may have to mainly to do who wants to be in charge and RMWD Board Members decided they want to make decisions for their district. She noted both agencies could help each other in costs without becoming one. She reiterated it was not necessary to become one district to save money. Mr. Hensley suggested this may be a good way to start a new letter.

9. UPDATE ON CALTRANS

Ms. Thomas reported Caltrans would be covering the cost of \$2.43M and there is still discussions going on now regarding the payment schedule for RMWD's portion. Mrs. Plonka explained the bid would not affect the dollar amount.

Mr. Stitle asked if the dollar amount RMWD is expected to pay was bid as a separate items as part of the bidding process. Mrs. Plonka stated they were not. She added it was not a matter of what was being built, but rather what it would cost them if they left RMWD's stuff alone.

Mrs. Plonka noted the documents between Caltrans and RMWD need to be finalized. She explained the \$14M was what was budgeted, but the dollar amounts need to be worked out for when the bid amounts come in. She stated the percentages were all agreed upon during months of meetings where discussion of designs took place.

Mr. Carlstrom asked for clarification about the \$2.43M. Mrs. Plonka explained RMWD hired a third party engineer to go through the plans and come up with his best estimate as to what it would cost Caltrans if they did not do RMWD's project. She stated if Caltrans had to pay for this entirely themselves with RMWD not wanting to upsize its pipes or any of this, then Caltrans would protect RMWD's pipe in place which would cost them so much money to do. She said based on this RMWD's hired independent party went through everything and provided everything he thought Caltrans would need to do to protect RMWD's pipe in place and then Caltrans countered with what they thought needed to be done. She concluded by noting they both came up with numbers and met in the middle.

Mr. Hensley asked how much of the cost could be assigned to developers. Mrs. Plonka stated this has not yet been identified.

Mr. Carlstrom asked whether or not the basis for how the developers assigned contribution would be calculated. Mrs. Plonka stated yes; however, RMWD has to have a third party do it so that it is defensible. Mr. Carlstrom asked her to explain the proposed means of calculating. Mrs. Plonka explained some of the options available for use in calculating developer costs. Mr. Carlstrom inquired as to on what basis will the independent contractor meet this evaluation. Mrs. Plonka answered she would need to provide all the data on the developments, flow projections, and location of all the pipes where upsizing will take place. Mr. Carlstrom asked whether or not RMWD would need to upsize these pipes without the Caltrans project. Mrs. Plonka noted the areas that would need to be upsized regardless. Discussion continued.

Mr. Carlstrom explained he wanted to know the ground rules for splitting the costs. Mrs. Plonka stressed there was discretion involved and it was not something that could be laid out for everyone at this time. She noted RMWD would not have the discretion; however, she was looking out for RMWD's best interest.

Discussion ensued.

Mr. Hensley asked if there was any likelihood that FPUD would be paying for any of these costs. Mrs. Plonka answered there would not due to the fact the project has nothing to do with FPUD at all.

10. UPDATE ON WATER FORECAST

It was confirmed none of the cost just discussed is included in the water forecast due to the fact those costs are associated with sewer.

Mr. Carlstrom noted he had included some interest earnings on the potential capital reserve in the reserve column. He mentioned some of the other minor changes made to the forecast as well as how those changes impacted the forecast both positively and negatively. He noted he chose to keep the interest in the capital reserve itself.

Mr. Stitle if there was any information received regarding the drought situation. Ms. Thomas explained SDCWA was going to talking about this in July 2014 including the availability of water.

11. DISCUSSION AND UPDATE REGARDING DEVELOPER PROJECTS

Mrs. Plonka reported not a great deal has changed. She explained the big concern is if a Stage 2 Drought is declared at which time Metropolitan Water District will not allow any annexations. Discussion ensued.

Mr. Stitle followed up on the spreadsheet he provided to Mrs. Plonka asking if there was anything to add. Mrs. Plonka said although she has received phone calls, nothing that she thought was solid as far as projecting. She noted the projects go very slow; therefore, she may only have something significant to report every six months as opposed to every month.

Mr. Clyde inquired about Horse Creek Ranch wanting to start their infrastructure portion of their development and what that means as far as ultimate hookups. Mrs. Plonka stated the developer still anticipates planning to hook up houses by the end of this calendar year.

12. DISCUSSION AND POSSIBLE ACTION REGARDING BUDGET FOR FISCAL YEAR 2014-15

Ms. Thomas noted summaries have been provided instead of the entire budget book. She explained some variances including items associated with the JPA and the withdrawal from such. She reviewed the Expense Summary.

Mr. Carlstrom asked a question regarding the spending. Ms. Thomas pointed out where this information could be found in the summary. Discussion ensued.

Ms. Thomas referred to the Salary and Benefits portion of the budget as she pointed out she had included the talk of negotiations. She noted she has been told that what may happen is in this budget.

Mr. Carlstrom inquired as to this budget being higher budget than last year and whether or not that increase included the hiring of a full time general manager and possible salary increases. Ms. Thomas explained the salary increases went up approximately \$15,000 including benefits. She referred to the explanation letter that states RMWD was hiring a general manager, will have a finance manager, but will not have an assistant general manager which was a savings.

Ms. Thomas referenced the Water Distribution portion of the budget under which there were some items needed especially under Water Operations. She confirmed the water sales baseline would remain the same. She pointed out the section of the budget would show what the water purchase would be costing.

Mr. Carlstrom asked for verification some of the additional costs were being put toward increased power, vehicles, tank and reservoir maintenance, and interest on the State Revolving Fund loan. Ms. Thomas confirmed this was the case.

Mr. Stitle said he would like to review the budget more between now and the Board meeting. Ms. Thomas asked him to forward any questions he has to her attention.

Ms. Thomas explained the worksheet utilized to calculate averages for the budget.

Discussion ensued regarding the capital improvement project budget. Mr. Carlstrom stated he would compare the total expenditures on capital improvement projects for the rest of this period.

Discussion ensued regarding the highway alignment sewer lines. Ms. Thomas explained this job was currently in progress and was not related to the Highway 76 Caltrans project. She confirmed the budgeted \$1.4M was for the Caltrans project assuming RMWD would end up stretching out the projects over several years.

Action:

Moved by Member Carlstrom the committee support the budget as submitted. Seconded by Member Hensley.

After consideration, the motion CARRIED by the following vote:

AYES: Member Carlstrom, Member Clyde, Member Stitle and Member Hensley.
NOES: None.
ABSTAINED: None.
ABSENT: Member Fagan, Member Lucy and Member Ross.

13. SUGGESTED AGENDA ITEMS FOR NEXT SCHEDULED BUDGET AND FINANCE COMMITTEE MEETING

Mr. Hensley suggested there be an item to discuss revising the five year forecast.

14. ADJOURNMENT

Action:

Moved by Member Hensley to adjourn. Seconded by Member Clyde.

After consideration, the motion CARRIED by the following vote:

AYES: Member Carlstrom, Member Clyde, Member Stitle and Member Hensley.
NOES: None.
ABSTAINED: None.
ABSENT: Member Fagan, Member Lucy and Member Ross.

The meeting adjourned at 2:49 p.m.

Harry Stitle, Committee Chairperson

Dawn M. Washburn, Board Secretary