

**MINUTES OF THE BUDGET AND FINANCE COMMITTEE MEETING
OF THE RAINBOW MUNICIPAL WATER DISTRICT
MAY 11, 2021**

1. **CALL TO ORDER:** The Budget & Finance Committee meeting of the Rainbow Municipal Water District was called to order on May 11, 2021 by Chairperson Nelson in the Board Room of the District Office at 3707 Old Highway 395, Fallbrook, CA 92028 at 1:00 p.m. *(Due to COVID restrictions the meetings are being held virtually.)* Chairperson Nelson presiding.

2. **PLEDGE OF ALLEGIANCE**

3. **ROLL CALL:**

Present: Member Rindfleisch *(via video conference)*, Member Hensley *(via video conference)*, Member Johnson *(arrived at 1:15 p.m. via video conference)*, Member Nelson, Alternate Williams *(via video conference)*.

Also Present: General Manager Kennedy, Finance Manager Largent.

Also Present Via Teleconference or Video Conference:

Executive Assistant Washburn, Senior Accountant Rubio, Information Technology Manager Khattab, Information Systems Specialist Espino.

One member of the public was present in the Board Room (presenter) and two members of the public were present via teleconference or video teleconference.

4. **INSTRUCTIONS TO ALLOW PUBLIC COMMENT ON AGENDA ITEMS FROM THOSE ATTENDING THIS MEETING VIA TELECONFERENCE OR VIDEO CONFERENCE**

Mr. Nelson read aloud the instructions for those attending the meeting via teleconference or video conference.

5. **SEATING OF ALTERNATES**

There were no alternates seated.

Discussion returned from Item #14.

Ms. Washburn pointed out two members of the committee have excused themselves from the meeting; therefore, a quorum no longer existed without Mr. Williams being seated as an alternate.

Mr. Kennedy suggested the alternate be seated regardless of whether the committee would be taking any action.

Mr. Nelson stated in the interest of remaining in session, Mr. Williams was seated as the alternate.

Discussion went to Item #15.

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

There were no amendments to the agenda.

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

There were no public comments.

***8. APPROVAL OF MINUTES**

A. April 13, 2021

Motion:

To accept the minutes as written.

Action: Approve, Moved by Member Hensley, Seconded by Member Rindfleisch.

Vote: Motion carried by unanimous roll call vote (summary: Ayes = 3).

Ayes: Member Rindfleisch, Member Hensley, Member Nelson.

Absent: Member Johnson.

9. GENERAL MANAGER COMMENTS

Mr. Kennedy reported CalOSHA released the draft rules they would possibly updating related to mask wearing, social distancing, and COVID rules for employers on May 20th. He noted it was anticipated the rules would include relaxing the rules a bit allowing fully vaccinated individuals to meet in person without wearing masks and unvaccinated individuals being required to continue to wear masks as well as possibly be subject to weekly testing. He pointed out RMWD does not currently track who has or has not been vaccinated due to HIPPA rules. Mr. Nelson recalled Ms. Johnson, Mr. Nelson, and Mr. Hensley voluntarily notified RMWD they were vaccinated at the April Budget and Finance Committee meeting.

Mr. Kennedy mentioned LAFCO held a meeting of the ad hoc committee related to the detachment during which time the consultant's extensive study reports and findings were presented. He shared some of the highlights provided in the reports noting the consultant had validated the water reliability and supply from Eastern Municipal Water District was identical to Metropolitan Water District (MWD).

10. FINANCE MANAGER COMMENTS

Ms. Largent withheld her comments until the presentations take place later in the meeting.

11. COMMITTEE MEMBER COMMENTS

There were no comments.

12. RATE PRESENTATION

Mr. Kennedy introduced Andrea Boehling with IB Consulting who would be presenting today to share a rate presentation showing what is required of RMWD to meet and satisfy its capital needs. He pointed out there would be information added to this presentation before it is brought to the Board for consideration related to possibly utilizing some of the proceeds from the MWD settlement to fund creating and hiring for a two-year limited grant writing position. He explained there may be some challenging decisions to be made.

Ms. Johnson joined the meeting at 1:15 p.m.

Ms. Boehling shared a presentation entitled "Rainbow Municipal Water District Water Finance Plan and Rate Study". She reviewed the District's historical rate background pointing out there has not been any RMWD rate adjustments for over two years. She explained a full cost of service study looks at new usage patterns, potential changing rate structures, as well as includes a full administrative report. Discussion ensued.

Ms. Boehling continued presenting impacting factors as well as key assumptions considered when preparing RMWD's financial plan including historical data.

Mr. Rindfleisch stated based on current shifts in agriculture, he anticipates the five-year average will continue to decrease. Mr. Nelson asked when customers change categories, would those customers be switching to higher unit prices. Ms. Boehling pointed out if customers remain within the agriculture customer class based on the proposed rates, there would be not cause for concern; however, there would be concern if those customers change to the single-family residence category which may result in a loss of revenue. Mr. Kennedy asked Ms. Largent to prepare a hypothetical report to evaluate how this type of shift may impact the District.

Ms. Boehling shared water use, demand, and loss assumptions noting the trend shows RMWD was utilizing less water; therefore, the assumptions provided are conservative estimates. Discussion ensued.

Ms. Boehling spoke on the historical SDCWA purchased water rates noting pass-throughs are recommended. She pointed out PSAWR (aka TSAWR) customers were receiving less of a credit than previously. Ms. Largent pointed out SDCWA pass through charges are included each year as part of the budget approval process except for the one year due to special circumstances.

Ms. Boehling continued with the sharing the financial plan in terms of capital projects and asset management. She noted have a robust repair and replacement plan over the course of 5-10 years will assist RMWD in stabilizing its rates.

Mr. Nelson asked if over half of RMWD's system has outlived its useful life would it reflect the value of District's capital assets on the balance sheet at zero value. Ms. Largent explained the capital asset value and cumulated depreciation nets it out.

Ms. Boehling reviewed the reserve funding noting typically they would recommend between 3-6 months of operating including purchased water costs to allow for enough cash on hand in the event something occurs such as billing or financial system failure, which would take several months to resolve. Ms. Largent added RMWD's current lower reserve levels could impede the

ability to receive debt financing for projects. Ms. Boehling continued with reviewing the reserve funding information noting the importance of building up reserves. Ms. Largent stated RMWD currently has operating reserve, capital reserve, rate stabilization reserves, and liability reserve funds in response to Ms. Johnson's question.

Ms. Boehling presented information related to the District's current financial position (including net cashflow, projected revenue, and operating expenses), water capital proposed plan, and water reserves. She noted how in 2023 without revenue or rate adjustments, RMWD would be operating in a deficit again resulting in operations being impacted unless funding for capital projects halts.

Ms. Boehling shared two scenarios to be considered. She noted a lower adjustment in the first year would allow time for the potential detachment to be completed; however, should RMWD remain with SDCWA, RMWD's will need to implement rate increases totaling approximately 31% over the next five years. She noted should RMWD detach from SDCWA, rate increase would be approximately 5% for the first year and 0% each year thereafter.

Ms. Boehling presented information related to the legal requirements, approach, proposed tiers, rate design, proposed monthly fixed charges, proposed variable rates, revenue by customer class, customer impacts, historical demand, main distribution basis, water accounts, and water usage. Discussions ensued.

Mr. Kennedy pointed out the peak demands presented were seasonal peak demands, not daily.

Mr. Nelson stated it appeared the highest rate of increases would be to on the smallest meters and asked how this was justified. Ms. Boehling confirmed noting the justification was due to more costs being allocated on a customer account basis as opposed to meter capacity. Ms. Largent added a great deal of costs were the same regardless of the meter size and how a significant amount of downsize requests remitted by customers to save on fees which has an adverse effect on the District's budget and studies. Mr. Nelson pointed out the politics on this was not very good in that a majority of RMWD's customers who may be income-challenged would be included in the group to receiving the higher rate of increase percentage wise. Mr. Kennedy explained what steps were taken to portion the costs in a justifiable manner while remaining careful to give cause for legal challenges. Discussion ensued.

Ms. Johnson agreed with Mr. Nelson's comments. She asked what size meters will be installed at the new homes being developed along Highway 76. Mr. Kennedy answered the vast majority would be 3/4". Ms. Johnson stated her concern is concurred with Mr. Nelson's in that as the demographics change within this region it would be prudent for RMWD to take this into consideration in that the perception may be that the traditional farmers in this area are getting a break and those building new homes are paying for it. She expressed concern RMWD Directors will be faced with a tough situation here if they are in the District where this is occurring based on what is being perceived which is alarming.

Mr. Kennedy inquired as to whether moving some of the increases to account charges as opposed to meter charges would it smooth it out for this group. Ms. Boehling confirmed if more costs were shifted to meter capacity, they would shift to these bigger meter sizes. Ms. Johnson said although this concept was based on expertise, she was looking at this as a member of the public. Mr. Kennedy stated this was an opportunity for staff to receive feedback from the committee and how it may be possible to do a little finer tuning. Ms. Largent added the purpose of presenting this information to the committee in the form of a workshop was to collect this type of input and feedback.

Mr. Nelson asked if RMWD were to move down the path suggested, would it undermine the overall goal of having a fixed rate recovery system that no longer needs to worry about meter sizes. He pointed out by ultimately going in the direction making meter sizes less relevant, by doing what is done now this task would be made harder in the future. Ms. Largent noted this was a mini step towards that; however, it is painful.

Mr. Rindfleisch asked for clarification regarding the difference between basing costs on meter size as opposed to capacity. Mr. Kennedy provided clarification as well as noted RMWD may be able to make some adjustments which may likely trim the increase down for smaller meters but would increase those for larger meters which may in turn result in more customers requesting their meters to be downsized. He explained some of the legal challenges RMWD needs to avoid by ensuring this matter is addressed properly.

Mr. Rindfleisch inquired about the new requirement for downsizing from a 1" meter to a 3/4" meter due to fire protection. Ms. Largent explained this part of the process was recently moved from RMWD's engineering department to finance and how it is an extra precaution to make sure the customer's sprinkler system does not require a 1" meter which protects the District's as well as the customer's liability and how this requirement is included in the downsize agreement. Mr. Kennedy also pointed out when RMWD considered creating the meter downsize program, the matter of fire protection was taken into consideration. Ms. Boehling mentioned some agencies charge the standard meter size rate for those customers requiring a 1" meter for fire flow.

Mr. Nelson asked why agriculture with residence pay 10% less per unit. Mr. Kennedy explained they are going from a tier to a mixed rate. Ms. Boehling explained some of the variable costs were moved to a fixed component as noted in a previous slide in this presentation.

Mr. Nelson asked what would happen if RMWD figured out an average water rate and charged all RMWD customers the same rate and eliminate tiers. Ms. Boehling stated this was researched and found this concept to be the simplest method and easiest to defend and justify; however, the impact was big to the PSAWR customer class. Mr. Nelson pointed out these are the customers utilizing the most water, so what would be the issue. Mr. Kennedy noted a concern would be the effect of impacting agriculture in the area which could result in a bigger cost burdens landing on single families. Mr. Nelson understood the argument; however, one could also suggest the reason why the agricultural customers are having problems is due to the inability for growers in this area to respond to a market that is competitively based so that water is not putting them out of business but rather other growers undercutting them. Discussion ensued.

Mr. Nelson inquired as to whether RMWD would end up in a worse financial situation if everyone was charged the same rate except for those on PSWAR. Ms. Boehling offered to provide RMWD with a few options with this concept for consideration.

Ms. Boehling mentioned if RMWD could provide IB Consulting with energy costs by pump zone or station, some of the variable pumping rates could be adjusted accordingly. Mr. Kennedy stated the rates were not much different; however, there were some changes to SDGE's pumping schedule favoring daytime pumping which is assumed to reflect operational improvements as opposed to SDG&E lowering their rates.

Ms. Boehling explained the information being presented related to revenue by customer class. Mr. Nelson requested the total of all three columns. Ms. Boehling stated it would total between \$1.5-\$1.8 million; however, there were some small charges not included in the numbers presented. Mr. Kennedy pointed out rate increases would not be implemented until September 2021; therefore, the total is prorated.

Ms. Johnson requested a copy of this presentation be sent to the committee members.

Mr. Rindfleisch suggested taking a look at the proportionality of revenue versus increase in revenue, it appears these types of variances may be a bit problematic. Ms. Largent offered to include percentages and the number of accounts provided in the information being presented.

Mr. Nelson asked for confirmation that if the water usage is taken into account, agriculture uses 60% of the water and carrying the same gross financial burden as single family which only uses 35% of the water. Mr. Kennedy confirmed this was true generally. Ms. Largent agreed this had to be looked at from both sides.

Mr. Nelson reiterated if agriculture was carrying 60% of all RMWD water used, those customers should receive 60% of the increase of the dollars it costs to operate the District because they are using 60% of the water; however, in the information just presented it shows both are carrying 45%. Ms. Boehling explained this was assuming all costs were allocated on a variable when currently there is a mixture of account services, meter capacity, etc. Mr. Rindfleisch confirmed he and Mr. Nelson were on the same page.

Mr. Rindfleisch stated if agriculture customers were alright with every customer receiving a 5% increase across the board, he would not expect them to be as okay with it as a smaller bill customer in the PSAWR category would be however, something that may be a little bit more amendable with some talking points as to why there is so much difference in rate and cost structure may be easier to relay in response to customer inquiries.

Ms. Johnson requested staff take this to the Customer Service and Communications Committee. Mr. Kennedy noted this was already mentioned at the May 6th meeting. Ms. Johnson noted the importance of communicating this information effectively.

Mr. Hensley recommended creating a chart taking 1-2 average customers in each category and show not only the variable cost increase but also the fixed cost increase as a means of determining the total impact to the customers and thereby making evaluating this matter easier.

Ms. Boehling explained some of the tools utilized to allocating some of the costs as well as the summaries provided regarding how each scenario would impact customers. Discussion followed.

Mr. Rindfleisch inquired as to whether enormous growth was not reflected in the information provided. Ms. Largent clarified the information provided reflects total usage as opposed to the number of doors. Mr. Kennedy added forecasts are not made in the Urban Water Management Plan based on increases in demands even if growth occurs as SANDAG predicts.

Ms. Boehling solicited the committee for feedback in terms of what should be examined going forward. Mr. Kennedy recapped the input included taking a look at the account charge versus capacity charges, the bill impact on the agriculture customers to ensure rate increase balance, how to address peaking charges, what occurs if RMWD uses a uniform rate, and including a bar chart with fixed and variables. He noted there would be opportunity for the committee to review this a few more times before this matter is brought to the Board for consideration.

Ms. Johnson suggested the District start to think about how this will be communicated with the community effectively. Mr. Nelson agreed with Ms. Johnson noting it was critical to not to give the impression one or two customer classes are bearing an unequitable share. Discussion ensued

Mr. Hensley asked what percentage of infrastructure would be replaced or repaired over the next five years. Mr. Kennedy answered the metric for RMWD was not as much how much pipeline is replaced, but rather performance of the system.

Ms. Johnson excused herself from the meeting at 3:02 p.m.

13. BUDGET UPDATE

Ms. Largent shared the “Fiscal Year 2021-222 Rainbow MWD Proposed Operation Budget & Capital Improvement Plan” presentation as she summarized the information provided. She noted a 5% revenue adjustment as of September 1, 2021 for RMWD and estimates for SDCWA pass through charges were estimated at 3% for fixed increases and 2% for variable increases were utilized in the calculations. She pointed out RMWD was holding the overall line on operating expenses.

Mr. Nelson inquired as to the labor costs. Ms. Largent confirmed these are embedded into the individual categories. She noted the general fund has mainly increased due to legal and professional fees related to the detachment matter as well as RMWD received a \$300,000 increase in property/liability insurance for which options are being evaluated.

Ms. Largent pointed out a great deal of budget cuts implemented for FY21 have been maintained for the FY22 proposed budget. She referenced the new items for FY22 noting these include any items being requested by the Operations Department as well as the property/liability insurance increase. She pointed out the operating and debt service fund balances assume the 5% revenue increase as well as the assumptions shared up to this point which start stabilizing the amount in the water operating fund as well as allows RMWD to transfer \$1.6 million to the capital fund as a means of getting the District on the path of funding the capital plan and also stabilizing the different operating reserve balances.

Mr. Kennedy stated although staff believes funding an 80% CIP is the best approach in the event something extraordinary occurs; however, staff welcomes any committee member feedback.

Ms. Largent explained to keep the increase at 5% for this year, the \$5 million was transferred from the sewer fund after receiving confirmation from legal counsel and rate consultants this was acceptable. She also pointed out the \$2 million remaining from the Water Service Upgrade Project (WSUP) funding will be allocated to specific projects.

Ms. Largent solicited direction from the committee. Mr. Kennedy pointed out the administrative main drivers include ongoing legal expenditures in response to the Prop 218 case as well as the detachment matter.

It was noted the June 22, 2021 Regular Board meeting will be a joint meeting with the Budget and Finance Committee.

Ms. Largent concluded with noting this budget plan will be contingent upon approval of the proposed rate increases. Mr. Kennedy added he would be recommending the Board approve a full 5-year Prop 218 notice.

Mr. Hensley stated it was easy to overlook how much staff time was put into putting this budget together and thanked staff for their efforts.

Mr. Rindfleisch excused himself from the meeting at 3:19 p.m.

14. WATER SERVICE UPGRADE PROJECT PROGRAM (WSUP) UPDATE

Mr. Kennedy reported the project was 50% complete and how claim rates remain low. Mr. Nelson inquired as to the inventory if more equipment needed to be ordered. Mr. Kennedy stated orders have just been placed to make sure all the equipment was in stock.

Discussion returned to Item #5.

15. BACKFLOW CHARGE INVESTIGATION PROCESS UPDATE

Mr. Kennedy staff met with the Customer Service and Communications Committee at which time the committee members provided input as to how to form the letter to be sent to those customers affected by this matter. Discussion ensued.

Discussion went to Item #16.

***16. REVIEW THE MONTHLY BOARD FINANCE PACKET**

Mr. Nelson referenced Page 16 of 44 inquiring as to whether the list of water capital projects was exactly the same as that presented in the budget presentation today. Ms. Largent confirmed this list was now fixed.

Discussion went to Item #17.

17. LIST OF SUGGESTED AGENDA ITEMS FOR THE NEXT SCHEDULED BUDGET AND FINANCE COMMITTEE MEETING

It was noted a rate presentation, as well as updates on the budget and WSUP should be on the next committee meeting agenda

Discussion went to Item #18.

18. ADJOURNMENT

The meeting was adjourned by Chairperson Nelson.

The meeting adjourned at 3:26 p.m.

Flint Nelson, Committee Chairperson

Dawn M. Washburn, Board Secretary