

**MINUTES OF THE BUDGET AND FINANCE COMMITTEE MEETING
OF THE RAINBOW MUNICIPAL WATER DISTRICT
MARCH 8, 2022**

1. **CALL TO ORDER:** The Budget & Finance Committee meeting of the Rainbow Municipal Water District was called to order on March 8, 2022, by Chairperson Nelson in the Board Room of the District Office at 3707 Old Highway 395, Fallbrook, CA 92028 at 1:01 p.m. *(All meetings are being held with in-person attendance following County and State COVID guidelines as well as virtually.)* Chairperson Nelson presiding.

2. **PLEDGE OF ALLEGIANCE**

3. **ROLL CALL:**

Present: Member Hensley, Member Johnson, Member Nelson.

Also Present: General Manager Kennedy, Executive Assistant Washburn, Finance Manager Largent, Operations Manager Gutierrez, Senior Accountant Rubio, Information Systems Specialist Espino.

Absent: Member Stewart.

Also Present Via Teleconference or Video Conference:

Alternate Member Williams, Construction and Meters Supervisor Lagunas.

Three members of the public were present in person, 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 aloud for those attending the meeting via teleconference or video conference.

5. **SEATING OF ALTERNATES**

There were no alternates seated.

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)**

Brian Person asked with all the issues happening in Europe, should the public anticipate increased utility prices. Mr. Kennedy stated within RMWD, the water rates would not increase in the short term; however, should energy prices skyrocket and impact the cost of purchasing commodities or wholesale water, there may be some escalation over the long term.

***8. APPROVAL OF MINUTES**

A. February 8, 2022

Motion:

To approve the minutes.

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

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

Ayes: Member Hensley, Member Johnson, Member Nelson.

Absent: Member Stewart.

9. GENERAL MANAGER COMMENTS

Mr. Kennedy reported the repairs on the SDCWA pipeline that have occurred over the past week are expected to be completed shortly.

Mr. Kennedy stated the regular Municipal Service Review (MSR) was expected to be approved in February; however, SDCWA had requested more time to conduct their review. He noted following their review, SDCWA submitted a list of questions to LAFCO for response. He pointed out during the meeting, SDCWA's general counsel spoke regarding the report prepared by Dr. Hanneman after which the Commission approved the MSR. He mentioned later that same afternoon, SDCWA sent a written comment letter producing a new chart making an assertion that over the next fifteen years, Metropolitan Water District's (MWD's) cost of water will increase from about \$1,100 per acre foot up to \$5,000 per acre foot which SDCWA was now actively publishing via many various media platforms as part of what appears to be some sort of a misinformation campaign. He pointed out SDCWA will be hosting an all-day retreat on March 10th at which the board members will learn how to work better together and how he hoped discussions related to this matter will be take place.

Mr. Nelson inquired as to whether MWD has reacted to this assertion. Mr. Kennedy stated not yet.

10. FINANCE MANAGER COMMENTS

Ms. Largent mentioned staff was starting up the shutoffs with customers this month. She said she does not have an estimate of how many shutoffs there will be due to some customers paying upon receipt of a notice. She reminded the committee RMWD has not done shutoffs for two years due to COVID. She stated although this will be a bit of a change, good messaging will be included in the notices related to the Water Arrearages Program funding RMWD received to assist its customers.

Ms. Largent reported staff was seeing improvements in billing due to both the software and WSUP program.

Mr. Hensley asked how the losses compared to the \$1 million received as part of the Water Arrearages Program. Ms. Largent explained when customers do not pay, their bills are sent to the County to be collected; therefore, RMWD did not have any significant losses. Mr. Kennedy pointed out agricultural customers were not eligible, so none of their bills were reduced.

Ms. Johnson asked what type of consistent statements customers give for not paying their bills. Ms. Rubio stated the most consistent would be that the customer is on a fixed Social Security income; however, staff does not really discuss the reasons but rather try to arrange a payment plan. Ms. Johnson asked if RMWD receives statements from servicemen or servicewomen who are deployed being unable to pay their water bills. Ms. Rubio said not to her knowledge.

11. COMMITTEE MEMBER COMMENTS

Ms. Johnson gave a shout out to those working on the Pipeline 4 repairs. She noted how during the recent huge rain and lightning storm, the light at the jobsite remained lit the entire time and how when the storm subsided, the crews went right back to work. She stated this was very impressive for those who were watching. Mr. Kennedy pointed out this was SDCWA's project with their field and operations teams performing excellent work.

Mr. Nelson issued an invitation to staff related to preparing for committee meetings noting he would be open to hearing any suggestions which would somehow reduce the amount of staff time spent preparing for this committee without denigrating the operation of the committee in any way. Mr. Kennedy acknowledged there is a level of effort required of staff to prepare for these meetings but given that most of the items brought through the committees will eventually be presented to the Board for consideration, it has to be done. He stated during his tenure he has come to learn having an extra public meeting to where staff has to prepare as if they are before the Board, provides an opportunity to determine what does or does not work as well as receive helpful feedback. He noted it may be good to determine if the standard monthly reports are of value to the committee; however, anything being presented to the Board needs to go through the respective committees first.

Mr. Nelson clarified those of who serve on the committee do not know all of the work that takes place behind the scenes to prepare for the committee meetings; therefore, he wanted staff to make sure staff knew that at least the Chair would be very amenable to hearing any suggestions that would allow for staff to spend their time more profitably on the real business of the District.

Ms. Largent agreed with Mr. Kennedy's comments and how she appreciates the one or two times during the year when there are not enough items for an actual Budget and Finance Committee meeting, there has not been a great deal of pushback on cancelling those meetings.

Ms. Johnson stated as someone who has experience with all three RMWD committees, she would like the committee members to consider staff being able to leave for the day at their closing time on committee meeting days. She recommended the committees be respectful in that whenever something needs to be discussed in greater length, it be placed on the next meeting agenda if possible. She said she feels for the staff that is putting the hours when their families are waiting for them. Mr. Kennedy explained part of the responsibility is to communicate with the public and ratepayers and how the committees were one of the vehicles to accomplish such.

Mr. Nelson clarified by issuing this invitation, he did not anticipate suggestions being forthcoming at this very moment, but rather to make staff aware the committee was open to suggestions.

***12. REVIEW OF PROPOSED AMENDMENTS TO ADMINISTRATIVE CODE CHAPTERS 8.01, 8.03, 8.04, 8.11 AND 8.14**

Ms. Largent provided background on this item noting staff has been looking at amending these sections for well over one year and how although it was previously updated to stay in compliance with Senate Bill 889 for water shutoffs, there was more work to be done to identify areas that were ambiguous as to what steps staff should follow in certain circumstances. She noted these

sections are being amended to provide an actual process when properties are sold so staff can start the account setup as opposed to making a customer wait until the escrow closing date.

Ms. Largent pointed out the section related to meter downsizes are also being amended to clarify what options are available to customers in the event they decide to go back to a larger meter as well as the sections related to discontinuance of service for shutoffs making it clear what steps will be taken.

Mr. Kennedy mentioned having this type of document will provide clear direction to staff and understanding to the customers in terms of the new standards and procedures as adopted by the Board.

Mr. Nelson stated he had the benefit of reviewing these proposed changes as part of the Engineering and Operations Committee. Mr. Hensley asked if Mr. Nelson concurred with the all the proposed revisions. Mr. Nelson confirmed his concurrence as well as mentioned a member of the Engineering and Operations Committee had submitted comments on three of these sections which are being taken under consideration by staff.

Ms. Largent pointed out these sections have been pushed through multiple staff levels and has been reviewed in great detail.

Motion:

That this committee recommend the proposed changes to the Administrative Code sections listed under Item #12 be approved by the Board.

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

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

Ayes: Member Hensley, Member Johnson, Member Nelson.

Absent: Member Stewart.

***13. REVIEW OF PROPOSED AMENDMENTS TO ADMINISTRATIVE CODE CHAPTER 8.20 – CROSS-CONNECTION CONTROL**

Mr. Kennedy stated similarly to that described in Item #12, these were updates to the Administrative Code related to cross-connection. He pointed out, as described in the draft Board memo provided, there was one element regarding technical changes related to differences in state law as well as another describing and defining the District's backflow program that has been in practice for several years, including making backflow testing mandatory.

Mr. Nelson mentioned he learned about the many possible variations that can occur when staff is out in the field dealing with a customer related to backflow devices from Mr. Galloway during the Engineering and Operations Committee meeting. He noted these proposed amendments put some boundary fences in writing around what staff can and cannot do when assisting customers with cross-connection issues. He stated the better aspects of having the backflow program codified will be good for customer-district relations as well as staff morale.

Mr. Hensley inquired as to how one knows if an employee reads these policies. Mr. Kennedy explained Mr. Galloway, RMWD's Cross-Connection Control Specialist, assisted with making these proposed amendments and how once they are adopted into the Administrative Code by the

Board, staff will have something to which they can refer. Mr. Nelson added he got the sense from the presentations heard at the Engineering and Operations Committee that once it was decided to review and amend these policies, it was a bottom's up process rather than a top-down process which was something he was much more comfortable with when dealing with codification.

Ms. Largent pointed out staff appreciates having this type of level of detail in the Administrative Code when questions arise so management and employees have something to which they can refer to as a guide.

Motion:

That this committee recommends the Board approve the proposed amendments to Administrative Code Chapter 8.20 conditioned upon looking at the material Mr. Marnett provided at the February 2, 2022 Engineering and Operations Committee meeting and incorporating those comments appropriately.

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

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

Ayes: Member Hensley, Member Johnson, Member Nelson.

Absent: Member Stewart.

14. WHOLESALE WATER EFFICIENCY PROJECT FUNDING UPDATE

Ms. Largent recalled a presentation was provided to this committee last month of what these projects entail, the reasons they will be beneficial to the District, as well as the return on investment just on savings with the transportation costs following which the committee provided staff with direction to move forward with the financing.

Ms. Largent reported staff reached out to four different financial institutions, Chase Bank, Wells Fargo, Union Bank, and Western Alliance Bank. She noted Chase Bank declined to work with the District because they preferred RMWD work with an intermediary financial advisor. She said after reaching out to few financial advisors, she was unsure this would be an added value. She mentioned staff has not heard back from Union Bank yet and that Wells Fargo generally only offers an 8-10 year term for this type of project package.

Ms. Largent reported Western Alliance Bank gave a tentative rate of 3.55% good through April 1st on a 20-year term which would really change the return of investment over the project. She stated RMWD will have cost savings of \$11.7 million over the term of the loan and approximately \$2 million per year thereafter if the District is selling 13,000 acre feet of water. She pointed out even if at 10,000 acre feet in water sales, the District would still have an estimated cost savings of \$3.6 million over the 20-year term of the loan and an annual savings of \$1 million per year.

Ms. Largent stated staff was planning to move forward with the staff report to the Board. She apologized for not being able to get the actual report to this committee; however, all of the information was shared in last month's presentation aside from the interest rate and term. She reiterated the rates until April 1st with tentative approval that will be worked on this month. Discussion followed.

Ms. Johnson inquired as to whether there was a pre-payment penalty should the District wish to pay down the principal balance sooner than the twenty-year span. Ms. Largent stated there were no pre-payment penalties.

Mr. Nelson asked for the current target amount to be borrowed. Ms. Largent stated \$9.7 million noting it was \$3 million higher before identifying two projects that would be completed in-house.

Mr. Hensley asked if Chase Bank indicated why they preferred the District work through a financial advisor. Ms. Largent answered she did not know; however, Chase works with several bigger entities whereas Western Alliance is very familiar with the utility industry and excited about RMWD's efforts.

Ms. Johnson inquired as to whether RMWD or other local agencies have experience in working with Western Alliance. Ms. Largent noted RMWD utilized Western Alliance when getting the Zion financing for the Water Services Upgrade Project (WSUP).

Mr. Hensley asked Ms. Largent to prepare a schedule to share at this committee's next meeting. Ms. Largent reminded him that the analysis tool had been presented to the committee already, so instead agreed to meet with Mr. Hensley after the meeting to go through it.

Mr. Nelson inquired as to how the loan will be funded assuming Board approval is granted in March. Ms. Largent explained generally a money market account is set up from which RMWD draws from to pay expenditures. Mr. Nelson asked if it was the current plan of the District that once the funding is in place that it would proceed on all of the projects at once or would there be significant delays. Mr. Kennedy stated the pump stations would need to move forward first followed by the pipelines depending on crew and pipe availability.

Mr. Kennedy pointed out in an ideal world, RMWD would have waited for the funding of this until it was ready to spend, but with the projected increase in federal interest rates, it seemed to be better to receive some interest during the waiting period as opposed to securing a higher interest rate. Ms. Largent added with projects such as the Thoroughbred Lift Station ramping up, RMWD was forced to liquidate some of its investment; however, once this loan is secured, she will likely leave a great deal more in investments and draw from this loan.

Mr. Williams provided insight as to the different wholesale water efficiency projects noting they would not all start at the exact same time. Mr. Nelson clarified his concern was that a delayed start may drive project costs up to be more than originally anticipated. Discussion followed.

***15. REVIEW OF THE MONTHLY BOARD FINANCE PACKET**

Ms. Rubio reported the current water sales were at approximately 9,300 acre feet which was approximately 91% of sales compared to last year as of March 1, 2022. She stated using conservative projections, it appears RMWD will sell approximately 14,500 acre feet which will not be under the 13,500 budgeted projections. She noted the budget versus actuals report has been updated to include the mid-year budget adjustments. Discussion ensued.

Ms. Johnson inquired as to whether RMWD has analysis as to how many agricultural areas were no longer functioning. Mr. Kennedy stated he has tried to obtain this data; however, it has been difficult to achieve. He pointed out IT was currently working on conducting a trend analysis for specific regions within RMWD. Ms. Johnson explained the reason she asked is that the region is changing and could alter the water production and need. Discussion followed.

Mr. Hensley asked for confirmation that RMWD was down 9% compared to last year at this time. Ms. Largent confirmed this was true.

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

It was noted an update on budget assumptions, budget process review, and loan schedule should be on the next committee meeting agenda.

Mr. Nelson stated unless staff has something of great urgency to share with this committee in April, staff was welcome to recommend upon reflection that the committee not meet.

17. ADJOURNMENT

The meeting was adjourned by Chairperson Nelson.

The meeting adjourned at 2:08 p.m.

Flint Nelson, Committee Chairperson

Dawn M. Washburn, Board Secretary