

**MINUTES OF THE BUDGET AND FINANCE COMMITTEE MEETING
OF THE RAINBOW MUNICIPAL WATER DISTRICT
JANUARY 8, 2019**

1. **CALL TO ORDER:** The Budget & Finance Committee meeting of the Rainbow Municipal Water District was called to order on January 8, 2019 by Chairperson Stitle in the Board Room of the District Office at 3707 Old Highway 395, Fallbrook, CA 92028 at 1:00 p.m. Chairperson Stitle presiding.

2. **PLEDGE OF ALLEGIANCE**

3. **ROLL CALL:**

Present: Member Stitle, Member Ross, Member Moss, Member Gasca, Alternate Nelson.

Also Present: General Manager Kennedy, Executive Assistant Washburn, Finance Manager Largent, Customer Service Supervisor Rubio.

Absent: Member Hensley.

One member of the public was present.

4. **SEATING OF ALTERNATES**

Mr. Stitle invited Mr. Nelson to serve as an alternate.

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

There were no changes.

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. December 11, 2018

Motion:

Approve the minutes as written.

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

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

Ayes: Member Stitle, Member Ross, Member Moss, Member Gasca, Alternate Nelson.

9. WATER RATE REVIEW

Mr. Kennedy stated Ms. Largent would be presenting the rate model today. He pointed out the transition from RMWD's old 2015-2016 Master Plan to the new Condition Assessment Program has left some artifacts in the capital planning as noted at the previous Engineering and Operations Committee meeting. He noted with the direction of the Board to conduct the Proposition 218 process each year and with the District needing to do a full review of the capital planning to refine it, the rate impacts come from the CIP scenario. He explained he worked with Mr. Strapac and Ms. Largent on a few different scenarios to present to this committee including truncating some of the forecasts. He said the information being presented today would be a proposal, a smoother capital plan based on the District's historical performance for just this one year and then talk about the fixed charge assessment next year.

Ms. Largent gave a presentation on the rate model. She demonstrated various scenarios with making adjustments within the model. Discussion ensued.

Ms. Moss inquired as to whether there was an issue with insufficient staffing. Mr. Kennedy stated he does not have enough data to support the need for additional staff; however, once the data has been developed he would be able to make an informed determination. Discussion followed.

Mr. Ross asked if there was any external agricultural forecast the committee could review. Discussion ensued regarding the challenges involved with forecasting.

Mr. Kennedy explained the proposal staff would like the committee to consider recommending to the Board that rates be increased based on the sample Proposition 218 provided.

Discussion ensued regarding whether the ABM project would impact the water rate model.

Mr. Nelson asked if RMWD was successful with the pipeline replacement and coming up with a more efficient process for the design phase and starting construction sooner, the District will find the production is going to be substantially greater and the output of dollars and work will substantially increase which in turn may give significant argument in favor of utilizing more inhouse staff as opposed to contractors on the projects. He added this would require RMWD being in balance in its programming in terms of design phase complimenting those projects in the construction phase. Discussion followed.

Discussion continued regarding allocating labor expenses.

Motion:

To make a recommendation the Board accept staff's recommendation.

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

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

Ayes: Member Stitle, Member Ross, Member Moss, Member Gasca, Alternate Nelson.

10. ABM PROJECT UPDATE

Mr. Kennedy talked about ABM's invoicing is being carefully reviewed and addressed by staff. Discussion followed regarding the next steps to be taken.

11. FINAL AUDIT REPORT REVIEW

Ms. Largent reported the auditors will at the January 22, 2019 Board meeting to present the final report for approval.

Mr. Nelson made an inquiry on the second bullet item on the first page. It was noted wastewater was embedded in the numbers. Discussion followed.

Ms. Largent pointed out documenting all the procedures and processes are really going to help the District in the area where audit adjustments were made over the past two years.

Mr. Kennedy explained the committee has already seen the information provided today and these were the final copies for their reference.

Ms. Largent stated the committee brought up the allocation of the cash at their last meeting and how she reviewed some of the District policies. She noted she found RMWD's Cash Reserve Policy provides clear direction as to what to do with any surpluses. It was noted this will be discussed more under Item #12.

12. REVIEW OF RESERVE ALLOCATIONS

Ms. Largent referenced the handouts provided in which she highlighted the important areas in the policy that give direction on what to do with different surpluses and operating funds as well as provides support in the adjustment that has been made. She noted RMWD keeps two-month's average net of the cost of water and depreciation in the water, wastewater, and general fund and moved all the excess surplus over to the capital fund.

Ms. Largent noted it was required the Operating Reserve Policy Calculation Report be provided to the committee annually. She pointed out RMWD should have \$2,030,439.00 in the Water Operating Fund which is reflected on Page 1 of the Balance Sheet packet. She explained she will continue to add more transparency to the balance sheets. She mentioned the Board established a Rate Stabilization Reserve the District had not yet started to fund until she started funding it recently. Ms. Moss stated she was very pleased with the changes Ms. Largent was making to these reports.

Ms. Largent confirmed the numbers in red were negative; however, she likes to focus on the year-to-date amounts as opposed to the period amounts. She pointed out the cash for the Water Service Update Program found on Fund 60 of the Balance Sheet was restricted because it was with Zion Bank for draw down once RMWD starts paying the invoices.

Mr. Nelson inquired about the interim financials report provided as a handout and whether the year-to-date information will be provided monthly. Ms. Largent confirmed she would be providing this information every month.

Mr. Kennedy solicited the committee for any changes they would like to have made to the Cash Reserves Policy. Mr. Nelson suggested there be more specifics added to the policy in terms of a "batting order" for the Board to consider. Ms. Largent agreed to bring proposed policy changes to the next committee meeting for discussion.

13. REVIEW THE FOLLOWING:

- A.** Income Statement
- B.** Balance Sheet
- C.** Cash Flow
- D.** Treasurer's Report

Some of these items were discussed under Item #12.

Mr. Nelson asked the other committee members if there was any benefit to having the monthly general ledger provided as part of the handouts. Ms. Largent agreed nothing could be discerned from the general ledger report. It was determined to drop this report from the handouts.

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

It was noted the ABM Project Update and the Review of Reserve Allocations need to be on the next committee agenda.

15. ADJOURNMENT

The meeting was adjourned by Chairperson Stitle.

The meeting adjourned at 2:41 p.m.

Harry Stitle, Committee Chairperson

Dawn M. Washburn, Board Secretary