

**MINUTES OF THE BUDGET AND FINANCE COMMITTEE MEETING
OF THE RAINBOW MUNICIPAL WATER DISTRICT
MARCH 9, 2021**

1. **CALL TO ORDER:** The Budget & Finance Committee meeting of the Rainbow Municipal Water District was called to order on March 9, 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 *(via video conference)*, Member Nelson *(via video conference)*, Member Ross *(via video conference)*.

Also Present Via Teleconference or Video Conference:

General Manager Kennedy, Executive Assistant Washburn, Finance Manager Largent, Engineering and Capital Improvement Program Manager Williams, Senior Accountant Rubio, Information and Technology Manager Khattab, Information and Technology Specialist Espino.

Three 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. Kennedy read aloud the instructions for those attending the meeting via teleconference or video conference.

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

There were no amendments to the agenda.

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

There were no comments.

Director Rindfleisch left the meeting at 1:03 p.m.

*7. **APPROVAL OF MINUTES**

A. February 9, 2021

Motion:

To approve the minutes.

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

Vote: Motion carried by unanimous roll call vote (summary: Ayes = 4).

Ayes: Member Hensley, Member Johnson, Member Nelson, Member Ross.

Absent: Member Rindfleisch.

8. GENERAL MANAGER COMMENTS

Director Rindfleisch rejoined the meeting at 1:04 p.m.

Mr. Kennedy reported RMWD received a check from SDCWA totaling more than \$1.3 million which is the proceeds from the MWD lawsuit started in 2010. He noted the Board will determine how the proceeds will be utilized. Mr. Nelson inquired as to the exact amount received. Ms. Largent stated it was \$1,343,382.

Mr. Kennedy announced RMWD employees were now eligible to receive COVID-19 vaccinations and how once multiple staff members are vaccinated, the District will start a process for reopening its offices.

9. FINANCE MANAGER COMMENTS

Ms. Largent reported half of her team is scheduled for vaccinations as well as there are almost 4,000 customers are signed up for autopay.

10. COMMITTEE MEMBER COMMENTS

Mr. Ross reported their house in Fallbrook has been sold and how after receiving permission from the governments to travel to New Zealand where they will reside for the 3-4 months and then shift their primary residence to Montana. He stated since he no longer qualifies to serve on this committee, this will be his last official session. He said it has been a real privilege to work with Ms. Washburn as well as Mr. Kennedy, Ms. Largent, the Board and all their predecessors during the nine years he has served on this committee. He stated he will miss working with the District.

Mr. Kennedy stated on behalf of staff, everything Mr. Ross brought to the table was very appreciated. Ms. Largent thanked Mr. Ross for his service. Ms. Washburn told Mr. Ross it has been a pleasure to work with him over the past several years. Ms. Johnson thanked Mr. Ross for all she has learned from him. Mr. Nelson expressed his appreciation for all he has learned from Mr. Ross and wished him the best in his ventures and business. Mr. Hensley wished Mr. Ross the best of luck going forward. Mr. Rindfleisch also thanked Mr. Ross for his service.

11. DISCUSSION AND POSSIBLE ACTION TO RECOMMEND APPOINTMENT OF A STAFF MEMBER TO SERVE AS A COMMITTEE ALTERNATE

Mr. Kennedy noted it was decided quite some time ago to have the District Engineer serve on this committee as an alternate; however, since that did not happen, this item was being brought back to provide an opportunity for the committee to appoint a member of staff to serve as an alternate.

Motion:

To recommend the Board appoint Chad Williams to serve as an alternate on the Budget and Finance Committee.

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

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

Ayes: Member Rindfleisch, Member Hensley, Member Johnson, Member Nelson, Member Ross.

12. BACKFLOW CHARGE INVESTIGATION

Mr. Kennedy shared a presentation related to RMWD's backflow testing services. He explained this matter has been discussed over the past several months with the committees and now that staff has been able to determine what had transpired, this matter will be taken to the Board to identify an appropriate resolution. He briefed the committee on what was discovered during the investigation as provided in the presentation and some of the options for addressing the matter. He also mentioned RMWD now has five certified testers on staff; therefore, a reoccurrence is unlikely.

Mr. Ross asked if staff was able to segregate the data to isolate those current ratepayers directly affected and credit or charge those customers accordingly. He noted these would be separate from those affected who are no longer RMWD customers. Mr. Kennedy stated this was one of the challenges included as part of the investigation. Mr. Ross said since the District has this information, the easiest and fairest manner in which to resolve this matter would be to credit and/or bill those current customers affected and doing nothing for those who are no longer RMWD customers.

Ms. Johnson agreed with Mr. Ross' suggestion noting it was a very simple procedure in a fair manner. She said it would be professional and equitable that RMWD credit those current customers who paid for a service they did not receive noting this would be the honorable thing to do as well as give RMWD creditability. She recommended accounts be credited as opposed to sending checks.

Mr. Kennedy acknowledged the committee member recommendations noting staff felt the same; however, this was not something budgeted and would require Board approval. He said he would need to work with Ms. Largent to determine software capabilities. Ms. Largent noted there should be a way to do this automatically.

Ms. Johnson stated this was simply customer service.

Mr. Hensley also agreed with Mr. Ross' recommendation.

Mr. Rindfleisch cautioned the District make sure it is legally within its bounds. He stated he liked Mr. Ross' recommendation and that it may be something agreeable to the Board. Mr. Kennedy stated Legal Counsel has been consulted and will also be included in the process of presenting this matter to the Board.

13. WATER SERVICE UPGRADE PROJECT (WSUP) UPDATE

Mr. Williams displayed a worksheet showing the peak workflow and progress in real time. He noted the project was currently 45% complete.

14. BUDGET PROCESS PLAN REVIEW

Ms. Largent displayed the budget calendar for 2021/2022 as she reviewed some of the steps involved with the process. She noted a preliminary look of the budget will be presented to the committee as well as the Board followed by being published in July.

Ms. Largent announced RMWD received confirmation RMWD is a recipient of the budget award.

Mr. Kennedy noted over the past two years, RMWD has not increased its rates in the spirit of the potential detachment from SDCWA; however, with a delay in the detachment process, the Board will need to decide to increase its rates to assist with funding the capital program, defer capital projects, raise rates, or look at debt financing alternatives.

Mr. Rindfleisch asked about the forecast for how long the capacity fees from the Pardee project would sustain the District's capital projects. Mr. Kennedy explained some of the challenges associated with predicting capacity fees as part of the forecasts. He stated depending on which projects go forward, the District would be out of reserves within a year. Mr. Rindfleisch asked Mr. Kennedy to remind him of when the full capacity fees from Pardee are anticipated to be with the District. Mr. Kennedy stated these fees have been split up with the first anticipated to be received at the end of this year and the remainder in another year or year and one-half. Mr. Rindfleisch suggested the best way to tackle something like this for the Board would be to get the best idea of what is happening on a forecast horizon in terms of cash reserves and capital improvement projects and look at this on a monthly basis.

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

Ms. Largent displayed the section of the monthly finance report where the information Mr. Rindfleisch requested is addressed noting RMWD was on track to spend \$5.4 million on capital projects this year which will leave RMWD at a deficit of \$80,000 without the capacity fees. She noted RMWD expects to receive \$1.9 million in capacity fees at the end of this year leaving a remainder of in \$1.8 million in reserves. She pointed out how in Year 3 RMWD would be at a deficit of \$1.7 million; therefore, challenges did need to be addressed.

Mr. Kennedy noted either rate changes or detachment would need to occur to meet the capital program. Mr. Rindfleisch suggested the Board may want to look at the capital improvement projects and possibly decide to make some reductions. Ms. Largent and Mr. Kennedy confirmed everything would need to be reviewed. Mr. Kennedy pointed out capital projects have been delayed for years causing the current situation we are in now with a completely depreciated system with frequent main breaks.

Mr. Kennedy explained with the postponement of the detachment has led to the Board having to make some decisions to address the situation. Mr. Rindfleisch pointed out the punitive nature of the fact water bills are approaching \$300 per residence is overwhelmingly insidious and needs to be discussed with the Board.

Ms. Largent noted the committee will be provided with a more thorough review of the information as the process proceeds.

Discussion ensued regarding information contained in the report.

Mr. Kennedy concluded with stating the main message is change was on the horizon which hoped would be a detachment type of change. He said otherwise, the capital programs will need to be given a hard look to decide what can be done. He noted historically rates have been held low at

RMWD and there was little spending on rehabilitation which has resulted in funding being ramped up to address the issues caused by aging infrastructure. He said some of the grant monies or other funding have not been geared toward water affordability. He pointed out RMWD has limited flexibility within the state laws and California Constitution; therefore, there has to be some other funding mechanism other than raising rates to pay for infrastructure. Mr. Nelson realized there were hard choices to make.

Mr. Rindfleisch stated when he first moved to RMWD almost nine years ago, there were huge increases in rates. He said a normal discussion about setting rates at a percentage standpoint really should not be an issue; however, in 2010 and 2014 there were substantial increases taking the bills from reasonably high to unreasonably high. Mr. Kennedy pointed out most of these increases were passed through from MWD and SDCWA during which time RMWD tried to hold its rates and shave off the impact of wholesale costs by lowering its revenue.

Mr. Ross stated from a capital expenditure standpoint, this year was a good year; however, the District as a whole has really tried to manage the situation conservatively. He said if the detachment does not happen, there will be some really tough choices to make. Mr. Rindfleisch agreed it was tough and asked why RMWD was experiencing such year over year increases in capital expenses compared to other local agencies without monumental increases. Mr. Nelson said although it was easy to push the capital program down the road, but the price to be paid for doing so was something of a disservice to the ratepayers.

Mr. Kennedy excused himself from the meeting at 2:16 p.m.

Ms. Largent referenced the packet noting RMWD has sold some investments and how little things such as this as well as the \$1.3 million coming from SDCWA will assist in paying for the capital program.

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

It was noted the backflow charge investigation, WSUP update, budget update, rate setting options, and appointment of officers should be on the next agenda.

Mr. Hensley stated he was impressed with the budget planning.

17. ADJOURNMENT

The meeting was adjourned by Chairperson Nelson.

The meeting adjourned at 2:19 p.m.

Flint Nelson, Committee Chairperson

Dawn M. Washburn, Board Secretary