

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

1. **CALL TO ORDER:** The Budget & Finance Committee meeting of the Rainbow Municipal Water District was called to order on February 8, 2022, by Chairperson Nelson in the Board Room of the District Office at 3707 Old Highway 395, Fallbrook, CA 92028 at 1:00 p.m. (*This meeting was held with limited 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 (*via video conference*), Member Johnson (*via video conference*), Member Nelson (*via video conference*), Member Stewart.

Also Present: Executive Assistance Washburn, Member Stewart, Human Resources Manager Harp.

Also Present Via Teleconference or Video Conference:

General Manager Kennedy, Alternate Williams, Finance Manager Largent,
Senior Accountant Rubio, Operations Manager Gutierrez, Information
Technology Manager Khattab, Information Systems Specialist Espino.

One member of the public was 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 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)**

There were no comments.

*8. **APPROVAL OF MINUTES**

A. January 11, 2022

Motion:

To approve the minutes as written.

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

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

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

9. GENERAL MANAGER COMMENTS

Mr. Kennedy reported LAFCO has completed RMWD's Municipal Service Review and was scheduled to be approved by LAFCO yesterday; however, SDCWA requested it not be approved until March after the LAFCO Detachment Ad Hoc Committee has an opportunity to review it. He shared some of highlights of the report. He mentioned he was a member of the LAFCO Special District Advisory Committee who will be convening a subcommittee to provide some recommendations and address RMWD's as well as North County Fire's similar concerns.

Mr. Kennedy also reported RMWD was notified two weeks ago by SDCWA there is a 96" pipe that has bands under tension; therefore, SDCWA will be doing an emergency shutdown in the next couple of weeks with the hope the pipeline will not break before it can be repaired. He stated RMWD was mobilizing in as rapid a fashion as possible to put up backup pumping system utilizing temporary pumps. He pointed out the current cost estimate is approximately \$150,000.

Mr. Nelson inquired as to whether RMWD has ever had a contingency fund for emergency events such as this put aside as opposed to having to finding funds within an existing budget. Mr. Kennedy stated there are some funds put aside within the operations budget; however, not \$150,000 worth.

Mr. Gutierrez noted the shutdown will take ten days starting February 28th during which time crews will be working 24/7. He mentioned the homeowners have been notified of this activity.

Mr. Stewart asked if this project was relined as part of the aqueducts approved for relining by SDCWA. Mr. Kennedy confirmed this section has not been relined. Mr. Gutierrez reported SDCWA has relined approximately 50% of their pipelines to date. Mr. Stewart expressed concern this should have been addressed as a higher priority.

10. FINANCE MANAGER COMMENTS

Ms. Largent stated she had nothing further to add.

11. COMMITTEE MEMBER COMMENTS

There were no comments.

12. WHOLESALE WATER PROJECT EFFICIENCIES

Ms. Largent recalled a presentation was provided at the January committee meeting and how she has since met with Western Alliance Bank again to further along the process of RMWD receiving the funding as well as with Chase Bank who they generally only work on this with a financial advisor. She solicited the committee for input as to whether they would like RMWD to work with a financial advisor or work with financial institutions with which RMWD has existing relationships. She stated she did not see a real benefit of working with a financial advisor; however, she wanted to get input from the committee.

Ms. Johnson inquired as to the cost involved with hiring a financial advisor. Ms. Largent stated it would be approximately \$30,000-\$40,000.

Mr. Hensley suggested staff consider interviewing a financial advisor, showing them what staff has, and finding out whether they would recommend doing something differently. Ms. Largent liked this idea and agreed to reach out to see if the rate currently shopped for can be beat. Mr. Stewart agreed with Mr. Hensley's recommendation.

Ms. Largent displayed a spreadsheet as she walked through the information provided for the committee members. Discussions ensued.

Mr. Nelson stated it was very clear that these projects need to be done no matter what; however, he was concerned that mid to late March there is a very high likelihood that the federal fund rates will increase one-half point and that unless RMWD has a Letter of Commitment stating the District will be given the rate even if the federal fund rates increase. He said although it is a great idea to speak with a financial advisor; however, if doing so is going to cause delays in locking in the low rate, he feels that getting this done sooner than later would be best. He inquired as to what extent do increases in the federal fund rates affect this rate. Ms. Largent answered although she does not have an exact correlation, should she finish the follow up questions this week, she will have an answer in the next two weeks.

Mr. Stewart supported Mr. Nelson's comments. He pointed out interest rates are going to rise soon. He stated even though this was not a real long-term loan, it was a long enough term that the interest alone could be a savings that is blown in addition to the cost associated with hiring a financial advisor. He pointed out there are so many arguments for this even if the cost of money were higher or the rates from SDCWA do not increase, a case could be made based just on avoiding temporary costs similar to those about to be incurred and some of the other positives that come with this; therefore, it was his belief this committee should encourage the Board to resolve the unresolved questions quickly and get this before the Board this month for consideration.

Ms. Johnson concurred with both Mr. Nelson and Mr. Stewart on this matter. Ms. Largent confirmed it sounded as though the committee would prefer staff taking this to the Board in February without the use of a financial advisor. Mr. Hensley concurred.

Motion:

That the committee express its support for obtaining the loan for these projects as soon as possible with the intent of locking in the 3.8% rate before the federal fund rates increase.

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

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

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

***13. FISCAL YEAR 2021-22 MID-YEAR OPERATING AND CAPITAL BUDGET REVIEW AND ADJUSTMENTS**

Ms. Largent shared a presentation of the Operating Budget Adjustments noting the biggest adjustment was for the shutdown rental pumps which was estimated to be \$125,000. She noted there were some adjustments for operating and pumping departments related to inventory costs as well as a new folding/insert machine due to an increase in mailers.

Ms. Largent mentioned the liability insurance coverage has been changed from \$5 million to \$10 million which has decreased the costs a bit. Mr. Kennedy clarified the deductible was not raised, but the coverage level was low. Ms. Harp confirmed the coverage was \$10 million and has been reduced to \$5 million which reduced the premiums from approximately \$625,000 to \$475,000. She mentioned RMWD has received indication that should SDRMA continue to provide coverage, there would be additional premium increases; therefore, staff was actively seeking other options to find out what is available.

Mr. Stewart asked if a good part of the adjustments upward is covered by the insurance change. Ms. Largent confirmed this was true with the difference totaling just over \$200,000 with over half being for the SDCWA shutdown.

Ms. Largent continued with reviewing the remaining information provided in the presentation as well as provided historical background in terms of what the District has spent in prior years.

Mr. Nelson inquired about Rainbow Heights and the monthly burn rate on this project. Mr. Williams explained the Notice of Completion will be presented to the Board in March or April.

Mr. Nelson requested more detail related to the San Luis Rey Imported Return Flow project and on what the money will be spent. Mr. Kennedy explained this project where RMWD was going to try to recover groundwater from its imported return flow. Mr. Williams added the Request for Proposal will be sent out soon with anticipation that the Board will be presented with an award of contract to consider at their April meeting. Mr. Kennedy recommended the funds be trimmed back a bit for this fiscal year.

Mr. Nelson referenced the isolation valve project where RMWD was basically adding \$460,000 noting it was his understanding there was difficulty in equipment deliveries. Mr. Gutierrez explained the valves were ordered in October 2020 and how the last update was that these would not ship until February 15, 2022. He pointed out these plug valves have already been accounted for some developer projects. Discussion ensued regarding how these costs should be reflected.

Mr. Nelson inquired about spending \$630,000 on cathodic protection. Mr. Williams confirmed this was correct. Mr. Nelson asked for clarification on the Rice Canyon project and whether the \$150,000 being remove now will be added later due to the project starting later than anticipated. Mr. Williams stated this was correct as well.

Ms. Largent reviewed the information contained in the updated water capital projected balances noting the nice thing about this mid-year process is that it really gets RMWD pushed into the budgeting analysis which is the next step. She noted things have been kept pretty much in line with where the target balance was planned to land and how one of the bonuses was no longer having these listed as 80% of the proposed amounts which will be less confusing. Discussion ensued.

Mr. Nelson inquired as to what Department Level Capital Expenses means. Ms. Largent explained these are expenses that staff made in the departments that are in excess of the amount that can be capitalized to make it known they will be added as capital assets according to the Administrative Code. Mr. Nelson asked about the \$483,000 or 386,400 budgeted with no expenses year to date. Ms. Largent confirmed this was done at the end of the year.

Motion:

To recommend the Board approve staff's recommendation (Option 1) to approve adopting the Amended Operating Budget FY 2021-22 as provided in Attachment A with a Projected Net Budget Operating Expense Increase of \$223,000, Water Capital Project Decrease of \$403,610, and Wastewater Decrease of \$1,263,242.

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

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

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

14. DEVELOPMENT LOCATION UPDATE

Mr. Williams shared a presentation titled "Development Location Update" showing the boundaries of thirteen developments of more than five units. He reviewed the developments, provided additional details, and answered any questions regarding each. Discussions ensued.

Mr. Nelson requested a copy of this presentation be sent to the committee members. Mr. Williams said he would get this to Ms. Washburn to forward on to the committee.

15. COVID-19 UPDATE

Mr. Kennedy reported the State will be relaxing some of the mask requirements; however, the District will need to wait to see what the new CalOSHA requirements will be so the District can follow those accordingly. He said the committee members will be kept updated.

16. WATER SERVICE UPGRADE PROJECT (WSUP) PROGRAM UPDATE

Mr. Gutierrez reported the project was approximately 97% complete with vacuuming anticipated to be completed by the end of this week with plans to work on the larger and Return to Utility meters immediately following. He mentioned the Notice of Completion should be ready to be presented to the Board in April.

Mr. Hensley inquired as to the expected completion date for the pressure reducing station work on Tecelote. Mr. Gutierrez stated although this project has taken longer than anticipated due to the recent main line breaks, the crews were close to completing this project.

Mr. Stewart asked where most of the crew time that has been consistently applied to the WSUP program going to be reassigned when it is complete. Mr. Gutierrez explained half of the crew will continue working on with the project doing the 3" and 4" meters which were not part of the contract with Concord and the other half will be fully staffed back into construction to work on planned replacement projects. Ms. Largent added doing a Wholesale Water Efficiency Projects were changed to be done in-house.

Mr. Nelson referenced Page 19 of 96 explaining why he found the WSUP financial chart very confusing. Ms. Largent agreed to simplify or remove the chart.

***17. DISCUSSION AND POSSIBLE ACTION TO UPDATE ADMINISTRATIVE CODE CHAPTERS 8.01, 8.03, 8.04, 8.11, & 8.14 – DISTRICT RULES AND REGULATIONS (WATER) (ENGINEERING/FINANCE)**

Mr. Kennedy asked the committee member to review the proposed revisions provided in the agenda packet and then provide any input or comments at their March committee meeting.

It was noted providing a summary of the proposed revisions to the committee members would be helpful when conducting their review. Staff offered to provide prepare and provide a summary highlighting any significant changes.

18. DISCUSSION REGARDING PROPOSED AMENDMENTS TO ADMINISTRATIVE CODE CHAPTER 8.20 - BACKFLOW (OPERATIONS)

This item was addressed under Item #17.

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

Ms. Rubio pointed out the main highlights will be the budget versus the actual reflecting the December year-to-date. She noted it was important to note the mid-year adjustments reviewed earlier were not included since they have not yet been approved by the Board of Directors. She also mentioned there were several year-end accruals that would be completed until the end of the year as part of the audit process; therefore, this was not a true reflection. She concluded with noting the water demand chart shows RMWD was at a little lower percentage than the previous year.

Discussion ensued regarding the information contained in the reports.

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

It was noted the Administrative Code changes for the Title 8 chapters, an update on the Water Services Upgrade Project (WSUP) program and Water Efficiency Projects should be on the next committee agenda.

21. ADJOURNMENT

The meeting was adjourned by Chairperson Nelson.

The meeting adjourned at 2:40 p.m.

Flint Nelson, Committee Chairperson

Dawn M. Washburn, Board Secretary