

**MINUTES OF THE BUDGET AND FINANCE COMMITTEE MEETING
OF THE RAINBOW MUNICIPAL WATER DISTRICT
FEBRUARY 5, 2015**

1. **CALL TO ORDER:** The Budget & Finance Committee meeting of the Rainbow Municipal Water District was called to order by Chairperson Stitle on February 5, 2015 in the Board Room of the District Office at 3707 Old Highway 395, Fallbrook, CA 92028 at 1:04 p.m. Chairperson Stitle presiding.

2. **PLEDGE OF ALLEGIANCE**

3. **ROLL CALL:**

Present: Member Stitle
Member Carlstrom
Member Lucy

Absent: Member Ross
Member Clyde
Member Hensley
Member Fagan

Also Present: General Manager Kennedy
Executive Assistant Washburn
Finance Manager Thomas
Acting District Engineering Kirkpatrick
Director Brazier
FPUD General Manager Brady

No members of the public were present.

Mr. Stitle inquired as to why Mr. Fagan was still considered a member when he has not attended for several years. Mr. Kennedy suggested this be put on the next committee agenda for consideration. Director Lucy stated there was a grower who would be interested on serving on either committee.

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

There were no comments.

COMMITTEE ACTION ITEMS

5. **COMMITTEE MEMBER COMMENTS**

There were no comments.

***6. APPROVAL OF MINUTES**

A. January 8, 2015

Action:

Moved by Member Carlstrom to approve the minutes. Seconded by Member Stitle.

After consideration, the motion CARRIED by the following vote:

AYES: Member Lucy, Member Carlstrom, and Member Stitle

NOES: None

ABSTAIN: None

ABSENT: Member Ross, Member Clyde, Member Hensley, and Member Fagan

7. UPDATE ON WATER RATE INCREASE ISSUE

Mr. Kennedy mentioned SDCWA increased their variable costs by 4% at the beginning of the year. He noted Raftelis was conducting a water rate analysis that staff will review.

Ms. Thompson talked about the net operating revenue and expenses.

Mr. Carlstrom asked if the Board has decided what to do about rate increases and pass through. Mr. Kennedy noted the Board did approve the Master Plan study. Discussion ensued regarding Beck Reservoir.

Mr. Carlstrom asked if the Board has to make a policy change about Beck Reservoir so that it can be taken out of the CIP. Mr. Kennedy said this was a policy question for the Board.

Mr. Lucy pointed out it was decided a long time ago that RMWD would pass through all MWD and SDCWA rate increases. He said he was just trying to keep consistent; however, he likes the idea of not having to pass through these costs.

Discussion continued regarding Beck Reservoir options.

Mr. Carlstrom noted the higher revenues is a sign the drought is continuing which is not good news. Mr. Kennedy agreed stating each year the budget will have to take a look at this and be adjusted accordingly. Mr. Carlstrom recommended it be thought through very carefully.

Mr. Kennedy noted this was the last year RMWD can collect pass-through rate increases without going through the whole process again. He explained this was why the rate study was necessary. He pointed out Proposition 218 states if an agency is going to change rates, it requires going through the full process. He confirmed rates have been changed every year; however, the study being conducted by Raftelis will show how RMWD should proceed. He explained Raftelis will be going through and conducting a more detailed forecast of where RMWD is in the budgets by taking a look at everything and providing the District with some determinations of what will happen if rates are increased or not. He stated should it be decided rates need to be increased, that information will come back to this committee for recommendation to the Board. He pointed out the results could show RMWD may not want to increase rates and then the Board will need to determine to delay Beck Reservoir and to shift CIP projects around.

Mr. Carlstrom talked about processes that have been sort of engraved in how rates should be handled; however, the drought could change the outcome. He reiterated this needs to be

thought through very carefully. Mr. Kennedy talked about all the factors that would be taken into consideration.

Mr. Kennedy mentioned the Board considering putting together a strategic plan which addresses Board policies on many levels.

8. MONTHLY FINANCIAL REPORT REVIEW

Mr. Stitle inquired as to the water purchases and sales for December/January do not seem to make sense. Ms. Thomas explained part of the issue is that two-thirds of the water is from the month before due to RMWD's three-cycle billing. Mr. Stitle expressed concern over the difference between November and December/January. Mr. Kennedy pointed out staff was working on figuring out the information in Mr. Buckley's spreadsheets to determine where the error occurred. Discussion continued.

9. CIP REPORT

Mrs. Kirkpatrick provided a CIP update. She noted the middle section of the Highway 76 realignment was complete, the Beck Reservoir project was on hold, the Gird to Monserate and Wrightwood water lines were still on the list for this year, Tarek Terrace was being worked on internally, and the San Luis Rey Groundwater Study should be completed by the end of this fiscal year. She gave an update on the wastewater projects including the Highway 76 project as well as Lift Station 1 currently being in design.

Mr. Kennedy provided additional information regarding negotiations with Caltrans for a lift station site. He explained the reason behind negotiating alternatives for moving the station. Mr. Carlstrom inquired about depreciation. Mr. Kennedy noted the way this is processed in the Data Stream asset model as well as in GIS utilized by RMWD's engineering department. Discussion followed regarding how depreciation values are calculated.

10. SPRINGBROOK UPDATE

Ms. Thomas reported several required questionnaires were close to being completed.

Mr. Kennedy added the kickoff was anticipated to start in the middle of next month.

Mr. Stitle asked about the scheduled installation date. Mr. Kennedy said staff was hoping to get through the GL and financials by the end of the fiscal year and if everything keeps on schedule, the utility billing would be completed near October 2015. He noted these were really aggressive schedules; therefore, the end of the year would be a great outcome.

Discussion ensued regarding how much easier it will be to produce reports with the new software. It was also noted how much this information will help managers and supervisors making decisions by having good quality information.

11. RAFTELIS UPDATE

Mr. Kennedy pointed out he had provided the members with a copy of the Raftelis proposal for their review and discussion at the next committee meeting. He mentioned one of the things Raftelis will do is look at RMWD's consumption patterns to make sure the costs allocated are based on the cost of provided service.

Discussion ensued regarding costs being based on meter sizes.

Mr. Kennedy encouraged the committee members to take the proposal to review and then discuss it at the next committee meeting to determine if they would like to make a recommendation to the Board. He noted this was a multi-month process, but once approved discussion can take place regarding the policy and implications of various rate structures.

Mr. Stitle said the price seems fair for the amount of work that will be done. Mr. Kennedy pointed out Raftelis will also provide RMWD with the model.

Discussion ensued regarding Proposition 218 and its impact on multiple agencies.

12. MONTHLY WATER SALES REPORT

This items was discussed earlier in the meeting.

13. BOARD MEETING REVIEW

Mr. Kennedy reviewed actions the Board took at the meeting. He pointed out Atkins was selected to do the Water and Wastewater Master Plan updates. He noted the Board approved a contract with Valley Center Municipal Water District to participate in a study for the Meadowood development.

Mr. Kennedy noted the changes made to the Administrative Code per Board approval.

14. BECK RESERVOIR UPDATE

This item was discussed earlier in the meeting.

15. LAFCO UPDATE

Mr. Kennedy reported there have been a series of meeting with both RMWD's and FPUD's general managers and board presidents and Mike Ott. He noted one of the proposals made was to increase the board membership from seven to nine to help dilute the defect of at-large elections; however, the RMWD Board considered this at their last meeting in Closed Session at which time they rejected the proposed concept. He stated at the next meeting they went back and proposed restarting the JPA or to have a municipal water district as the successor agency in order to keep divisional elections. He said they were unable to come to any conclusion; however, there were some statements made by FPUD's board president that they want to keep at-large elections as well as retain the latent powers due to the fact they felt the County was not doing enough for the Fallbrook area which he said should include RMWD as part of the assessment. He pointed out this was a completely different discussion than was talked about during the JPA.

Mr. Kennedy noted when Mike Ott of LAFCO asked FPUD's board president if he wanted to continue with the application, the response was affirmative. Mr. Kennedy said based on RMWD's efforts to try to work this out, it appears it is not going to happen and Mr. Ott will continue with the process.

Mr. Carlstrom asked if there would be a mandatory vote. Mr. Kennedy answered RMWD believes LAFCO has the power to call an election, but there was no guarantee.

Discussion ensued as to why LAFCO would proceed when one agency clearly does not want to merge with the other, especially when this has never been past practice.

Mr. Kennedy mentioned Mr. Ott has talked about while there are cost savings was it enough for the Commission to overcome the objections of so many ratepayers and take action to dissolve an agency. He noted Mr. Ott also indicated LAFCO has the ability to determine whether it be a public utility district (PUD) or municipal water district (MWD).

Mr. Kennedy expressed that RMWD did not want to have these conversations; however, the Board has made it very clear that RMWD did not ask for this fight, but they are in it regrettably of the things that will have to be done to win.

Mr. Lucy pointed out RMWD's newest Board Member was pushing the idea that an MWD has greater access to sourcing water than a PUD. Mr. Kennedy explained there are some ways PUD's can acquire those; however, it was part of MWD's principal act. He added RMWD thought the whole time the two districts were talking water and wastewater and now it appears that had changed to wanting latent powers for future use.

Mr. Stitle wondered why would Rainbow taxpayers want to pay for Fallbrook's improvements. Dr. Brady stated they would not due to the fact this cannot be done due to the fact it would be divisional accounting. He said the only reason FPUD was pushing the PUD is that JPA Board voted for that unanimously regardless of Mr. Kennedy's rhetoric. Mr. Lucy clarified there was a big misunderstanding due to the lack of information when that vote was taken. He stressed RMWD would have never ever voted for that if it were known a PUD has at-large elections; something that was not clearly laid out. Dr. Brady replied then Legal Counsel Moser should have made it clearer.

Dr. Brady talked about the groundwater management and how since 1992 all local agencies providing water to customers have the ability to develop groundwater management plans. He said there is no advantage of an MWD or a PUD; therefore, this was really not an issue.

Discussion ensued regarding golf courses using well water and where aquifers are located.

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

It was suggested an item on committee structure and having staff serve as alternates.

Mr. Carlstrom asked if meeting the first Thursday was cast in concrete for this committee to meet. He acknowledged nothing could be decided at this meeting, but he would like an item on the next agenda to change the meeting date to the first Tuesday of the month. Mr. Kennedy said he would have Ms. Washburn to look at the calendar to see if there are any conflicts.

17. ADJOURNMENT

Action:

Moved by Member Lucy to adjourn to Tuesday, March 3, 2015. Seconded by Member Stitle.

After consideration, the motion CARRIED by the following vote:

AYES: Member Lucy, Member Carlstrom, and Member Stitle

NOES: None

ABSTAIN: None

ABSENT: Member Ross, Member Clyde, Member Hensley, and Member Fagan

The meeting adjourned at 2:37 p.m.

Harry Stitle, Committee Chairperson

Dawn M. Washburn, Board Secretary