

**MINUTES OF THE BUDGET AND FINANCE COMMITTEE MEETING
OF THE RAINBOW MUNICIPAL WATER DISTRICT
FEBRUARY 13, 2024**

1. **CALL TO ORDER:** The Budget & Finance Committee meeting of the Rainbow Municipal Water District was called to order on February 13, 2024, by Chairman Nelson at 1:01 p.m., in the Board Room of the District Office at 3707 Old Highway 395, Fallbrook, CA 92028. Chairman Nelson presiding.

2. **PLEDGE OF ALLEGIANCE**

3. **ROLL CALL:**

Present: Members Nelson, Stewart, Hensley, and Townsend-Smith

Also Present: General Manager Wiley, District Secretary Quintanar, Finance Manager/Chief Financial Officer Aragon, Information Technology Specialist III Espino, Construction and Meters Supervisor Lagunas, and Engineering and CIP Manager Williams

Present Via

Teleconference or

Video Conference: Administrative Manager Harp, Safety Officer Johnson, Cari Dale.

4. **INSTRUCTIONS TO ALLOW PUBLIC COMMENT ON AGENDA ITEMS FROM THOSE ATTENDING THIS MEETING VIA TELECONFERENCE OR VIDEO CONFERENCE**

Chair Nelson read instructions aloud for those wishing to provide public comment virtually.

5. **SEATING OF ALTERNATES**

None were seated.

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

There were none

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

There were none.

*8. **APPROVAL OF MINUTES**

A. January 9, 2024

Motion:

To accept the minutes as presented.

Action: Approve, Moved by Member Stewart, Seconded by Member Townsend-Smith.

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

Ayes: Members Nelson, Stewart, Townsend-Smith, Hensley

9. GENERAL MANAGER COMMENTS

Mr. Wiley reported on the Board vacancy and progress thus far to narrow down a list of candidates to two, who have been invited back to the Board Meeting on February 27, 2024, for additional information exchange and the opportunity to be appointed.

In regard to the efforts to detach from the San Diego County Water Authority (SDCWA) the construction of the pump stations has commenced. Completion is expected between August and October. Development of the Operation Plan is also underway, for the transfer of facilities. Staff is in the process of working out technical and billing details with EMWD and the SDCWA.

Mr. Wiley also introduced the District's new Finance Manager/Chief Financial Officer, Rick Aragon. To kick off this year's budget planning process, he reported on a series of joint workshops planned, which will give the Board Members and Committee Members the forum to discuss the long-term Capital Improvement Project needs, funding, rates, and timing.

10. FINANCE MANAGER COMMENTS

Mr. Aragon reported that the Metropolitan Water District (MWD) has begun initial discussions for their rate increases for the next two calendar years, which are significant. Through Eastern MWD, the currently proposed MWD increases will be approximately 13 percent in 2025, and another 8 percent in 2026. MWD is considering the option to raise property taxes to offset impacts to member agencies. Staff will provide updates as they are available.

He also reported on efforts for active cash management. Reserves are low now and two major projects will be funded by the cash reserves. Liquid cash on hand is the focus. Initial actions were that we sold four investments at a gain to put them into a money market account earning a little over 5 percent interest. \$3.5M was moved from checking into the money market also, to increase investment earnings. We have about \$4.5M in other investments such as government agency maturities that won't mature for a few years. Those are being watched. We have a little over \$13M in unrestricted funds at this time. In addition, he will be looking into a line of credit option.

Future discussion topics will include the reserve policy, and updating some of the target thresholds for various reserve levels. The Administrative Code requires us to have two months of reserves, however, three months of reserves is the recommended minimum.

Mr. Aragon also reported that the District has a contract with the City of Oceanside to treat our wastewater, and due to staff turnover on their end, the City of Oceanside has not billed the District for three years. The District owes \$3.6M and can make interest-free payments over the next seventeen months. Moving forward, this expense will be added to future budgets. Approximately \$1.5M per year was budgeted. Discussion ensued as to reasons why the billing wasn't done, and why the matter was not communicated amongst District auditors and staff.

11. COMMITTEE MEMBER COMMENTS

Chairman Nelson recalled that this Committee and the Board approved a five-year program of water rate increases, and learned that only the first year of increases was implemented. The rate increases were intended to ensure a steady and predictable flow of money for Capital replacement and rehabilitation. He asked if the staff had determined the amount of lost revenue and evaluated the impact of that, considering the SDCWA exit fees owed and declining water sale revenues.

Mr. Wiley explained that, regarding the SDCWA Exit Fee, \$3.1M is due when the pump stations are complete, which completes the detachment process. The remainder, \$12.5M, is the remainder of the exit fee payment, which can be paid within ninety days or over time with interest. Chairman Nelson asked if the shortfall caused when rate increases weren't implemented should be added to the total of our current financial needs. Mr. Aragon referenced a cost-of-service study that was done last year, which included 9 percent increases over five years. The study did not consider savings of the detachment from SDCWA or a complete CIP Plan.

Member Stewart stated that the expectation was that the detachment would be completed two years sooner. He recalled that the estimated savings reduced the need for rate increases a couple of times. He commented on the amount of rainfall over the last couple of rainy seasons, which also caused the decline of reserves, and he complimented staff for their efforts to pare down expenses. Nelson recalled a five-year rate plan, and Ms. Harp added that the Board opted to revisit the need for rate increases on an annual basis.

12. APPOINTMENT OF COMMITTEE CHAIRPERSON

Motion:

Mr. Nelson retain the chairmanship.

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

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

Ayes: Members Nelson, Stewart, Townsend-Smith, Hensley

Member Hensley complimented Chairman Nelson on his ability to perform the duties of Chair. Chairman Nelson acknowledged and commented that he has grown through experience with the District's capable staff, and thanked his fellow committee members for their service.

*13. REVIEW OF PROPOSED ADDITION OF INVESTMENT OPTION – CAMP LOCAL GOVERNMENT INVESTMENT POOL

Mr. Aragon explained that in the effort to manage cash investments until reserves are higher, the investment program should be a balance of money market funds and joint investment pools. We have the advantage of high-interest rates at this time. This option would enable us to invest in a joint powers authority for things like short-term treasuries and securities. It is a highly rated option for local governments. The California Asset Management Program (CAMP) would be used when interest rates are highest for short term maturities. When rates rise quickly, funds are moved to CAMP. When the interest rates start to decline, funds can be moved to LAIF. In both cases, funds are available whenever needed. CAMP is managed by PFM, one of the largest investment firms in the industry. Chairman Nelson referenced Attachment C of the packet and asked for clarification of our \$8.6M in pooled investments. Mr. Aragon answered that those investments

are individually purchased securities, with the one exception of the \$2.2M in the First American Fund, a money market account. If the remaining \$7M were moved into CAMP, we would eliminate the need to use the money market account and realize higher interest. He confirmed that there is very little money in the LAIF account at this time. He continued that several securities reflected in Attachment C have since been sold. We have approximately \$13M in checking, money market, and securities investments. Mr. Aragon explained that, previously, the practice was to keep \$7M in the checking account, and we now keep \$500,000 as a maximum balance. So, we can keep the majority of the funds in higher-interest-earning accounts until needed.

Motion:

To Recommend Board Adoption of Resolution No. 24-05, authorizing the Rainbow Municipal Water District to join with other public agencies as a Participant of the California Asset Management Trust, a joint powers authority (JPA), to invest in shares of the Trust.

Action: Approve, Moved by Member Townsend-Smith, Seconded by Member Hensley.

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

Ayes: Members Nelson, Stewart, Townsend-Smith, Hensley

***14. REVIEW OF PROPOSED CHANGES TO ADMINISTRATIVE CODE – INVESTMENT POLICY**

Mr. Aragon explained that an amendment to the Administrative Code was needed to allow the option to add a local investment pool, revise language to align with the existing California Code, and remove SWAP investments.

Motion:

To recommend Board adoption of Ordinance No. 24-04, revising Administrative Code Chapter 5.03, Investment Policy, relating to the investment of funds.

Action: Moved by Member Stewart, Seconded by Member Townsend-Smith.

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

Ayes: Members Nelson, Stewart, Townsend-Smith, Hensley

***15. REVIEW OF PROPOSED CHANGES TO ADMINISTRATIVE CODE – BANK SIGNERS**

Mr. Aragon explained that currently, the Administrative Code requires a Board Member's signature on checks for \$50,000 or more. This is not a recommended nor common practice and includes the risk of late payment penalties. Digital signatures can be used and the General Manager and Chief Financial Officer can authorize payment to be made. Furthermore, any contract or procurement exceeding \$50,000 receives pre-approval by the Board of Directors, and a detailed listing of expenses is included in each month's meeting packet for transparency. For these reasons, staff recommended the removal of the requirement. Mr. Wiley reiterated that expenditures of this size are approved by the Board ahead of time. Chairman Nelson opined that the requirement was established at a time when additional oversight was needed and stated support for the staff's recommendation.

Motion:

To recommend Board adoption of Ordinance No. 24-03, revising Administrative Code Chapter 5.01.020 – Accounts Payable Signers.

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

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

Ayes: Members Nelson, Stewart, Townsend-Smith, Hensley

16. DISCUSSION OF TENTATIVE PLAN FOR BUDGET AND RATE WORKSHOPS FOR MARCH, APRIL, AND MAY 2024

Mr. Aragon explained the plan for Board and Committee joint workshops. Three workshops are planned to enable the Board and Committee members to participate in discussions and planning leading up to the adoption of the next fiscal year's budget. In March, staff proposes the Board, Budget and Finance Committee and the Engineering and Operations Committee meet to discuss Capital Improvement needs. In April and May, staff proposes joint Board and Budget and Finance Committee meetings to discuss debt, operating budget projections, and long-term funding of Capital Improvements. The reserves policy will also be discussed, as well as the updated rate plan and rate implementation.

Member Stewart asked what is known about costs for services through Eastern Municipal Water District (EMWD). Mr. Wiley responded that we will be obtaining information from EMWD on how they are processing MWD's rate increase. There is a nominal administration fee EMWD will charge of about \$11 per acre-foot added to fixed fees, which are more complex. Opined we will have a good idea within the next couple of months on how RMWD will be affected.

The Committee Members relayed support for the joint workshops.

***17. FY24 MID-YEAR BUDGET REVIEW**

Mr. Aragon reported on key changes to the Operating Budget. Sales are low, and there is a revenue reduction of \$1,597,152, but also a cost decrease of \$2.9M, resulting in a better overall position and a total net revenue impact of \$1.6M. In addition, staff has worked to drop other costs by about \$300,000.

Key changes include a \$741,281 increase to Water Capital Improvement projects, a \$3,577,891 increase to Wholesale Water Efficiency projects, and a \$3,680,787 increase for Wastewater projects, for an overall Capital Improvement Budget increase of \$7,999,959. Mr. Aragon explained that these are the amendments being proposed for Board consideration for the mid-year adjustment for those amounts.

Chairman Nelson inquired about the issue of non-registering meters. Mr. Wiley responded that staff is tracking that water loss, which is about 7 percent, and working on a solution.

Motion:

To recommend Board approval of staff's proposed mid-year budget adjustments.

Action: Moved by Member Nelson, Seconded by Member Stewart.

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

Ayes: Members Nelson, Stewart, Townsend-Smith, Hensley

***18. REVIEW OF MONTHLY BOARD FINANCE PACKET**

Mr. Aragon highlighted the updated Budget to Actual numbers through January. The water sales through January totaled approximately 7,500 acre-feet (af), 20% lower than last year. If the trend continues, we will meet the 10,000 af water sales prediction. He also noted that consultant expenses related to the detachment are winding down.

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

The planned joint workshops will include discussions covering all budget planning aspects.

20. ADJOURNMENT

The meeting was adjourned by Chairman Nelson at 2:26 p.m.



Terese Quintanar, District Secretary



Flint Nelson, Committee Chairperson