

**MINUTES OF THE BUDGET AND FINANCE COMMITTEE MEETING
OF THE RAINBOW MUNICIPAL WATER DISTRICT
JUNE 9, 2020**

1. **CALL TO ORDER:** The Budget & Finance Committee meeting of the Rainbow Municipal Water District was called to order on June 9, 2020 by Chairperson Flint in the Board Room of the District Office at 3707 Old Highway 395, Fallbrook, CA 92028 at 1:00 p.m. Chairperson Flint presiding.

2. **PLEDGE OF ALLEGIANCE**

3. **ROLL CALL:**

Present: Member Nelson, Member Ross (*via teleconference*), Member Hensley, Member Gasca.

Also Present: General Manager Kennedy, Finance Manager Largent.

Absent: Member Moss.

Present via video teleconference:

Information and Technology Manager Khattab, Operations Manager Gutierrez, Human Resources Manager Harp, District Engineer Strapac.

One members of the public was present.

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

There were no changes.

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

There were no comments.

6. **GENERAL MANAGER COMMENTS**

Mr. Kennedy mentioned SDCWA voted last month to set their rate hearing. He talked about a letter he had written SDCWA relating to the cost drivers for their rate increases. Discussion ensued.

7. **FINANCE MANAGER COMMENTS**

Ms. Largent announced the audit has been scheduled for September 8, 2020.

8. **COMMITTEE MEMBER COMMENTS**

There were no comments.

***9. APPROVAL OF MINUTES**
A. May 12, 2020

Motion:

To approve the minutes.

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

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

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

10. WSUP UPDATE

Mr. Kennedy reported Concord was up and running now with just under 100 units being completed each week. He noted the Teamwork software was currently assisting both Concord and RMWD to work more efficiently. He said there will be a more detailed report provided at the June Board meeting and made available on the District website.

11. COVID-19 UPDATE INCLUDING REVIEW OF AR AGING TRENDS RELATED TO COVID-19

Mr. Kennedy stated RMWD was still operating with a closed front office noting some of the challenges associated with opening while complying with the County's current standards. He said after discussing reopening among staff and the Communications and Customer Service Committee members, it was determined it would be best to delay reopening at this time unless the Board provides different direction.

Ms. Largent referenced her report on the accounts receivable aging trends noting since January there has not been a great deal of change except for the increased growth in the over 120-day amounts which was due to RMWD not shutting off services during the pandemic. She clarified some customers could have some balances in each of the past due categories.

Mr. Nelson asked for clarification regarding whether the 49% of the total amount of money owed from customers was under 30-days past due and how the positions of each month should equal 100% of the money owed to RMWD. Ms. Largent confirmed this was true. Mr. Nelson also asked if it would be correct to say RMWD has approximately \$400,000 that fits into the 120-day past due amounts based on the amounts shown for May 2020. Ms. Largent explained the total amount 120-days past due was \$750,000 which includes large nursery customers.

Mr. Gasca inquired as to what was considered normal amount to have in accounts receivable for a district the size of RMWD as well as all sized districts were taken into consideration what would be the average accounts receivable. Ms. Largent stated said the report was just recently balanced and how the next step will be to determine the industry standards. Discussion followed.

Discussion returned from Item #15.

Mr. Kennedy reported he received an email from Ms. Brazier letting the committee know she has not heard from any members of the public requesting the District be reopened.

Discussion went to Item #16.

12. OPERATING BUDGET FY 2020/2021 REVIEW

Ms. Largent presented the highlights based on what occurred at the Board including the budget would be based on 13,500 acre feet of sales, RMWD would be tentatively passing through SDCWA's rate increases effective January 1, 2021, and removed any RMWD water increases. She pointed out RMWD received the final increase/decreases coming through SDCWA which have been included in the handout and how RMWD was within \$20,000 of its estimation. She shared how this impacts the water operating budget.

Mr. Kennedy stated this will not include any ability to generate revenue for transfer in capital during this fiscal year nor does it include a draw from the Rate Stabilization Fund. Ms. Largent said this was correct.

Ms. Largent referenced an additional slide in the presentation showing different scenarios at various sales levels based on whether RMWD is with SDCWA or EMWD.

Discussion ensued regarding property tax revenues.

Mr. Kennedy explained the June 23, 2020 meeting will be held jointly with the Budget and Finance Committee; however, with there only being so much space in the board room to allow for social distancing, the committee members are asked to attend the meeting via Zoom.

13. INFOR SOFTWARE IMPLEMENTATION UPDATE

Ms. Largent updated the committee on the software noting some of the challenges with utility billing and dynamic portal as well as some of the manual processes staff has had to take in preparation of the audit. She explained the manual process are quite involved and how staff was actively researching other alternatives for utility billing reporting like that she found for creating financial reports.

Ms. Largent pointed out other issues with utility billing that have become cumbersome and taking quite a bit of staff time to resolve. She mentioned some of the most common issues staff was trying to work through and how she will be reaching out to find out of other districts have a solution. Discussion followed.

14. REVIEW OF LATE CHARGE/SHUT OFF MORATORIUM

Mr. Kennedy explained the Governor will not allow RMWD to shut off services but does allow charging late fees. He solicited the committee for input as to whether the District should start charging late fees again.

Mr. Ross supported RMWD charging late fees again due to fairness to all RMWD customers. He suggested charging a reasonable late fee on those payments 60 days past due and then increasing the late fee amount should the payments remain past due longer than 60 days. Mr. Hensley suggested notifying all the customers with a date RMWD will start to charge late fees again.

Ms. Largent pointed out currently RMWD charges 1.5% in late fees for balances over 30 days past due and 5% late fee for balances over 60 days; however, due to the moratorium no late fees have been charged or collected during the past two months. Mr. Kennedy added RMWD pays SDCWA for all water use regardless of whether RMWD customer invoices are paid on time; therefore, it would be fiscally prudent and fair to all RMWD customers for the district to start charging late fees and collecting that revenue.

Mr. Gasca recommended notifying customers approaching 120 days past due payments that their property will have a lien placed on it should they not lower their past due amounts. Ms. Largent because RMWD submits customer liens to the County in September for any outstanding balances as of June 30th, staff could send letters to those customers subject to a potential property lien providing them with sixty days to pay their past due balances to avoid incurring a lien.

Discussion ensued.

Mr. Nelson asked giving the different types of forms of making payment, would it be a good idea to come up with a plan to collect late payments. Mr. Kennedy said this was something to consider. Mr. Gasca inquired as to the difference between a single-family residence as opposed to a grove without a resident. Mr. Kennedy explained essential businesses are exempt in the Executive Order; therefore, it was challenging to decipher the right way to go about collecting past due balances. He reiterated the financial reality is SDCWA charges RMWD for the water used and staff will take the input received from the committee today and work on putting together a plan.

15. LIABILITY INSURANCE OPTIONS

Mr. Kennedy stated Ms. Harp has held extensive discussions with RMWD's liability insurance carrier and found there are some options available within the District's current policy related to how claims can be managed by SDRMA on the District's behalf.

Ms. Harp explained the premiums for liability insurance will increase by approximately 40% for the next fiscal year due to the rate increases that SDRMA has experienced through the reinsurance market. She noted one of the questions the committee asked was whether it was an option to increase RMWD's deductible and how she found RMWD currently has different deductibles for each line of coverage. She noted the current deductibles for property range between \$1,000-\$250,000, auto liability is \$1,000, and general liability is \$100,000. She stated the \$100,000 general liability deductible was in essence a result of RMWD's infrastructure failure and was imposed upon RMWD in 2005 and how to get this amount decreased, SDRMA would need to see RMWD's log book for all claims received over the past ten years as well as RMWD demonstrate infrastructure has been replaced since 2005. She clarified the only option for RMWD to increase the deductibles would need to be for all the lines of coverage be increased and how the highest amount would be \$250,000 which would only reduce RMWD's premium cost by 10% for more than doubling the deductible amounts.

Mr. Nelson asked if determining how many claims were filed on the other lines of coverage over the past three years would assist in deciding whether increasing all the deductibles for a cost savings would be feasible. Ms. Harp answered she was aware of two lawsuits related to vehicle incidents that would have exceeded the \$40,000 in attorney fees and other costs; however, she would have to run the numbers for property and general liability coverage.

Mr. Hensley said all the data about claims have been with the insurance company; therefore, Ms. Harp could contact SDRMA to get data regarding what the costs would have been if RMWD had the policy currently being evaluated in place over the past few years compared to what actually occurred.

Mr. Nelson stated although the committee requested an update, it was ultimately up to Mr. Kennedy to determine if there was something to present to the Board for consideration. He asked if there was a process for getting RMWD in a better position with the carrier. Ms. Harp noted they want to see a log report from the last ten years demonstrating the amount of losses incurred by RMWD were manageable and do not pose an undue risk as well as report the age of the District's

infrastructure. She estimated when SDRMA see this data, RMWD was probably not in the ideal situation right now but could be soon.

Ms. Harp presented a log that does not include claims processed internally by RMWD, but only those processed by SDRMA on the District's behalf. She clarified the \$250,000 deductible would be for each type of coverage and was for each individual claim as opposed to an annual deductible. She provided a breakdown in the potential should the deductible be increased.

Ms. Harp clarified the property coverage is for property owned by RMWD and general liability covers damage caused to someone else's property by RMWD. She mentioned RMWD currently has a \$250,000 deductible for floods because deductibles are determined by type of damage.

Mr. Hensley, Mr. Ross, and Mr. Nelson agreed it would be best to stay with the current insurance structure as opposed to opening up the District to too much risk.

Ms. Harp mentioned staff has received a copy of ACWA's application which provides a guide for RMWD to follow in determining whether RMWD should apply for coverage with them.

Discussion returned to Item #11.

16. REVIEW THE FOLLOWING:

- A. Statement of Revenue and Expenses
- B. Balance Sheet
- C. Treasurer's Report
- D. Surplus Property Report
- E. Outstanding Construction Units Report
- F. Cash Reserve Compliance Report

Ms. Largent referenced the packet provided as handouts. She pointed out Attachment B was updated to include the most current capital spending plan and how Attachment D demonstrates RMWD was well below average in water demand. She provided clarification on the information provided on Page 3 of Attachment B per Mr. Nelson's request. Discussion ensued.

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

It was noted the updates on the WSUP and COVID-19 situation, as well as review of the late charge moratorium should be on the next committee agenda.

18. ADJOURNMENT

The meeting was adjourned by Mr. Nelson.

The meeting adjourned at 2:43 p.m.

Flint Nelson, Committee Chairperson

Dawn M. Washburn, Board Secretary