

**MINUTES OF THE BUDGET AND FINANCE COMMITTEE MEETING
OF THE RAINBOW MUNICIPAL WATER DISTRICT
JUNE 14, 2022**

1. **CALL TO ORDER:** The Budget & Finance Committee meeting of the Rainbow Municipal Water District was called to order on June 14, 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. *(All meetings are being held with 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, Member Johnson, Member Nelson, Member Stewart *(via video conference)*.

Also Present: Executive Assistant Washburn, Finance Manager Largent, Human Resources Manager Harp, Senior Accountant Rubio, Information Systems Specialist Espino.

Also Present Via Teleconference or Video Conference:

Alternate Williams, Operations Manager Gutierrez, Project Manager Tamimi, Grant Specialist Kim, Project Manager Powers.

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**

Alternate Williams was not 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. May 10, 2022

Motion:

To approve the minutes.

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

Vote: Motion carried by unanimous roll call vote (summary: Ayes = 3, Noes = 0, Abstain = 1).

Ayes: Member Hensley, Member Nelson, Member Stewart.

Abstain: Member Johnson

9. GENERAL MANAGER COMMENTS

There were no comments.

10. FINANCE MANAGER COMMENTS

Ms. Largent deferred her comments to the agenda items.

11. COMMITTEE MEMBER COMMENTS

There were no comments.

***12. DISCUSSION AND POSSIBLE ACTION TO ADOPT RESOLUTION NO. 22-14 APPROVING FISCAL YEAR 2022-2023 OPERATING & CAPITAL IMPROVEMENT BUDGET**

Ms. Largent noted there will be a three-part presentation for this item.

Ms. Harp shared a Staffing Analysis presentation she presented to the Budget and Finance Committee two months prior noting some information had been updated since which has already been presented to the Board. She reviewed the overtime trends, turnover trends, general information from the employee survey, the current conditions, organizational structure, retirement eligibility, as well as future staffing needs to meet anticipated goals.

Mr. Stewart asked if the completion of WSUP project would reduce the overtime levels to the closer 2016-2019 average. Ms. Harp stated not by itself; however, it would help in meters, but not in other departments; however, what can be accomplished with more staff is control the average per employee overtime if they have enough staff as to not overburdening a small group of people.

Mr. Nelson asked if there has been consideration given to what to do to reduce the amount of overtime categorized as routine work. Ms. Harp pointed out RMWD being a small agency with a small headcount means there are times it is required to work overtime just to meet the day-to-day operational needs in almost every department. She reviewed the construction overtime as she explained the analysis she conducted regarding labor resources for this department.

Mr. Stewart stated in his experience with organizations he has managed, the analysis is always hiring additional employees to fill up those hours and determining how much more is going to be paid for all the benefits in addition to the hourly rate compared to time and a half and double time for those hours as well as how temporary they are versus permanent. He inquired if this was tough thing to analyze. Ms. Harp agreed.

Ms. Harp noted she conducted a similar analysis in the engineering department as that for construction. Mr. Nelson inquired as to whether exempt employees are compensated for overtime. Ms. Harp stated all salaried RMWD employees are exempt to whom overtime is not paid; therefore, the overtime to which she is referring is only overtime paid to hourly employees.

Ms. Harp continued with the presentation related to the CIP hours from construction as she explained how the estimates presented were determined. She pointed out the purpose of this analysis was to determine how much labor can be in-sourced as opposed to out-sourced.

Ms. Harp reviewed the historical turnover and unemployment rates noting the 30-year average turnover rate is steady at 13%. She talked about the quit rates compared to the national average noting RMWD's averages were still below the state and local government resignation rate.

Ms. Harp gave a quick overview of the current organizational chart noting how many employees directly report to the Finance Manager and Operations Manager, respectively. She also reviewed the generational demographics of RMWD.

Ms. Harp discussed the retirement eligibility noting 19% of RMWD's employees were currently eligible for full retirement. She recapped the information contained in the "Staffing Continuity Plan; Critical Position Inventory" portion of the presentation. She mentioned there was knowledge transfer available for several positions except for the Engineering Technician and Technical Services Lead. She briefly explained the drivers related to turnover, staffing needs, as well as recommended staffing solutions.

Mr. Stewart inquired as to whether engineering work has been outsourced over the past several years. Mr. Williams stated quite a bit is outsourced, especially in design, construction management, project management, and inspections. Mr. Stewart asked whether RMWD would be well-served both financially as well as in productivity to add headcount to in-house positions or to continue to outsource. Mr. Williams explained this was discussed in detail among the staff and in the short-term outsourcing should continue; however, with rate increases and potential detachment from SDCWA, it may be necessary to recruit for a third project manager should financing permit. He noted in terms of design, it would be more efficient to work with third party design firms. Ms. Harp added it is much easier for RMWD to hire project managers as opposed to qualified engineers from a capacity standpoint. Mr. Flint agreed with Mr. Stewart as he shared his thoughts regarding whether it would be more or less expensive to outsource or perform the work inhouse due to the work related to the long-term replacement and rehabilitation program being similar and repetitive in nature.

Ms. Harp noted the recommendation was to add an analyst position in engineering, allow the overlap until the Engineering Technician decides to retire, and then decide on whether to continue with the extra headcount, reduce it back down or replace it with a different type of position. She shared what the labor distribution how it is anticipated it would look with the addition of an analyst along with the current Engineering Technician.

Ms. Harp pointed out the addition of an electrical/electrician technician has been deferred until the next fiscal year. She mentioned the recommendation to change the reporting structure in the finance department as well as to convert part-time HR Assistant to a full-time HR Specialist position. She noted these recommendations will result in no additional headcount.

Mr. Nelson commented about the levels of overtime hours and asked whether these were pushing to being equivalent to five full-time employees. Discussion ensued.

Mr. Stewart stated he thinks some of these trends will work themselves out soon. He inquired as to how much of the overtime is related to a continuing increase in the number of main leaks or aging water system and if so, it would give rise to thoughts of more full-time employees. Ms. Harp stated construction is particularly challenging because even with more full-time employees, a decrease in overtime would not be expected due to the nature of emergency repairs.

Mr. Williams shared a presentation FY21/22 CIP Project updates noting the dollar amounts are through April 2022. He provided a brief history of the four projects completed during the fiscal year (Rainbow Heights Pump Station, Water Service Upgrade Project, Heli-Hydrant, and North River Road Land Outfall Rehabilitation Phase 2 & 3).

Mr. Williams reviewed each of the projects currently in progress beginning with the Programmatic Environmental Impact Report.

Member Stewart excused himself from the meeting at 1:58 p.m.

Mr. Williams continued reviewing the remaining current projects providing the status of each (New District Headquarters, San Luis Rey Imported Return Flow Recovery, Isolation Valve Installation Program, Morro Mixing, Water System Monitoring Program, Camino del Rey Waterline Relocation, Live Oak Park Road Bridge Replacement Project, Rainbow Water Quality Improvements, Corrosion Prevention Program, Gomez & Magee Pump Station Upgrades and Sumac Radio Tower, Manual Transfer Switches, Sarah Ann Drive line 400A/Fallbrook Oaks Force Main and Lift Station, Rice Canyon Tank Pipeline, Lift Station 1 Replacement, Pressure Reducing Stations, Tank Maintenance & Fall Protection, Hutton & Turner Pump Station Upgrades, Gird Road Water Main, Wilt Road Feeder (18-Inch Water Line), Morro Pump Station Upgrades, and Weese WTP Permanent Emergency Interconnect and Pump Station.)

Ms. Johnson stated there was a great deal of valuable information and requested all presentations be emailed to the appropriate committees.

Chairperson Nelson called for a break at 2:26 p.m.

The meeting reconvened the 2:30 p.m.

Ms. Largent gave a presentation titled Operating Budget Assumptions as she reviewed the information being shared in each slide including providing clarification upon request. She pointed out these budget projections are based on 13,500 acre feet in water sales.

Ms. Largent noted the assumptions presented include that staffing analysis changes Ms. Harp presented earlier, fuel increases, reestablishment of training and travel, and wastewater cost of service study. She recapped the information presented to the committee previously.

Mr. Nelson stated he has become familiar with the RMWD crew members working out at Tecolote and how he was asked about RMWD budgeting for fuel increases to which he replied in the affirmative. He noted the crew member asked whether it would be higher cost or cut back on the

quantity to which he replied it was his best understanding RMWD was going to maintain whatever management believed was correct in terms of the amount of fuel needed and raising the budget to reflect the higher cost for fuel. He asked Ms. Largent if his response was correct. Ms. Largent confirmed the response was correct and how staff was always looking at the GIS data to ensure the District was working as efficiently as possible.

Ms. Largent continued with the presentation noting the \$500,000 loss in wastewater will need to be resolved with the cost of service study and rate increases. Mr. Nelson inquired as to whether the study has been included in the budget. Ms. Largent stated it has been included.

Ms. Largent pointed out there was an increase in Board of Directors for travel, garage increasing for fuel expenses, and administration was lower than the previous year due to the changes in professional and legal services. She noted there was additional details for each department should the committee be interested in reviewing such.

Mr. Nelson inquired as to whether the budget is not only including the two additional positions Ms. Harp presented, but also the three positions that were called as recommended. Ms. Harp clarified those positions were not new, but rather changes in classifications for existing staff and that only those that included pay rate changes were included in the budget assumptions.

Ms. Largent reviewed the Water and Wastewater Operating Funds, respectively. She pointed out the Operating Fund balances should have two months of operating expenses not including the cost of water and how the rate stabilization was on schedule to be funded by Fiscal Year 2026. She mentioned the New Water Sources Fund sets aside funds to study and acquire alternate funds and water sources for the purpose of reducing the District's reliance on imported water. She noted the New Water Resources Fund is funded by the water service portion of the standby charge collected through the San Diego County tax revenues so they can be used on projects such as the San Luis Rey Imported Water Return Flow.

Ms. Largent discussed the Capital Budget Assumptions noting the funding will derive from the rate increase revenue, capacity fees, wholesale efficiency loan, and possibly some grant opportunities.

Ms. Largent stated the FY2023 total Capital Budget was \$18 million without the wholesale water efficiency projects which are being budgeted over two years. She mentioned the Five-Year Capital Plan was dependent on rate revenue and how the plan is funded by capacity fees on existing projects in Years 1 and 2 with Years 3-4 based on future projects. Ms. Johnson thanked Ms. Largent for foresight due to the fact there are several things coming up that may need to be addressed.

Mr. Nelson suggested the projected spend column be removed from the report. Ms. Largent agreed it could be hidden since it was used for planning purposes.

Ms. Largent reviewed the Wholesale Water Efficiency Projects presented by Mr. Williams earlier noting there was two years of budget for each. She mentioned future projects under the Wastewater Capital Improvement Plan have been pushed out until funding can be determined.

Ms. Largent concluded with noting staff was asking the Budget and Finance Committee to recommend approval of Resolution 22-14 adopting the Fiscal Year 2022-2023 Budget in its present form, provide feedback, or both.

Motion:

To recommend that the Board approve the budget presented by staff.

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

Vote: Motion carried by unanimous roll call vote (summary: Ayes = 3).

Ayes: Member Hensley, Member Johnson, Member Nelson.

Absent: Member Stewart.

Discussion ensued regarding the chart for remaining debt. Ms. Largent offered to change the title of this report to appropriately reflect the information it contained.

Mr. Nelson complimented Ms. Largent, Ms. Harp, and Mr. Williams for the great work in preparing their respective reports and presentations. Mr. Hensley added he was very impressed.

***13. STATEMENT OF AUDITING STANDARDS (SAS) 114 PLANNING LETTER**

Ms. Largent explained this was the agreement with the auditor describing the scope of work they are to perform that needs to be presented to the Board annually.

Mr. Nelson referenced Page 99 of 105 asking for clarification as to the relevance for the letter. Ms. Largent stated the auditors included it; however, she would contact them to find out if it is necessary.

Motion:

To recommend the Board approve the contract with the accounting firm.

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

Vote: Motion carried by unanimous roll call vote (summary: Ayes = 3).

Ayes: Member Hensley, Member Johnson, Member Nelson.

Absent: Member Stewart.

***14. DISCUSSION AND POSSIBLE ACTION FOR A VARIANCE REQUEST FROM CUSTOMER (AVALOS) FOR THE DIFFERENCE IN ACCOUNT CLASS RATES FROM JUNE 2021 TO APRIL 2022 (Division 1)**

Ms. Largent explained what has transpired in relation to this variance request. She pointed out staff was recommending this request be denied in that it sets a precedence for RMWD to do something it does not generally do as well as because it is outside the current staffing levels. She noted staff was seeking a recommendation regarding this matter as well as input as to how these should be addressed in the future.

Ms. Johnson stated she has also done the same as this customer, but did not go backward; therefore, she suggested that when a request is done, it be done for the next billing cycle. She expressed concern with setting a precedence which can become too much of a gray area.

Mr. Hensley inquired as to whether anyone had concluded the cause of the high usage. Ms. Largent answered not exactly; however, the customer does have a swimming pool that may have played a role.

Motion:

To recommend the Board handle this matter by accepting Staff Recommendation Option 2.

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

Vote: Motion carried by unanimous roll call vote (summary: Ayes = 3).

Ayes: Member Hensley, Member Johnson, Member Nelson.

Absent: Member Stewart.

15. REVIEW OF THE MONTHLY BOARD FINANCE PACKET

Ms. Rubio reported RMWD was still tracking around approximately 93% of prior year demands, revenues are trending at the same level, and water sales are trending to end at 14,800 acre feet for the year.

Mr. Nelson asked for confirmation that the year-to-date revenue trends were crossing and heading above the linear. Ms. Rubio confirmed it was slightly moving upward. Mr. Nelson inquired as to why expenses were running higher than the budget. Ms. Rubio explained some of these expenses are due to expending unexpected services and others were expensed at the beginning of the year which will most likely even out toward the end of the year. Discussion ensued.

Ms. Johnson stated it would be interesting to see what occurs due to the impacts of inflation. Discussion followed.

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

Mr. Nelson suggested cancelling the July meeting unless staff has something that needs to be addressed.

Ms. Johnson asked if RMWD was in a position to collaborate with other agencies with the events that could be possibly happening nationally such as inflation, possible recession, the war, etc. Ms. Largent noted discussions among agencies do take place at most conferences. Ms. Harp added there are also local organizations that participate in events related to emergency planning.

17. ADJOURNMENT

The meeting was adjourned by Chairperson Nelson.

The meeting adjourned at 3:07 p.m.

Flint Nelson, Committee Chairperson

Dawn M. Washburn, Board Secretary