THIS MEETING WILL BE CONDUCTED WITH IN PERSON ATTENDANCE PERMITTED. THE CDC STILL RECOMMENDS MASKING FOR ALL INDIVIDUALS BUT IS NOT MANDATORY. PARTICIPATION WILL ALSO BE AVAILABLE VIA VIDEO CONFERENCE OR TELECONFERENCE.

TO PARTICIPATE IN THE MEETING VIA VIDEO OR TELECONFERENCE, GO TO https://rainbowmwd.zoom.us/j/81793411953 OR CALL 1-669-900-6833 or 1-669-444-9171 or 1-719-359-4580 or 1-253-205-0468 or 1-253-215-8782 or 1-346-248-7799 or 1-301-715-8592 or 1-305-224-1968 or 1-309-205-3325 or 1-312-626-6799 or 1-360-209-5623 or 1-386-347-5053 or 1-507-473-4847 or 1-564-217-2000 or 1-646- 931-3860 or 1-689-278-1000 or 1-929-205-6099 (WEBINAR/MEETING ID: 817 9341 1953).

MEMBERS OF THE PUBLIC WISHING TO SUBMIT WRITTEN COMMENT TO THE COMMITTEE UNDER PUBLIC COMMENT OR ON A SPECIFIC AGENDA ITEM MAY SUBMIT COMMENTS TO OUR BOARD SECRETARY BY EMAIL AT DWASHBURN@RAINBOWMWD.COM OR BY MAIL TO 3707 OLD HIGHWAY 395, FALLBROOK, CA 92028. ALL WRITTEN COMMENTS RECEIVED **AT LEAST ONE HOUR IN ADVANCE OF THE MEETING** WILL BE READ TO THE COMMITTEE DURING THE APPROPRIATE PORTION OF THE MEETING. THESE PUBLIC COMMENT PROCEDURES SUPERSEDE THE DISTRICT'S STANDARD PUBLIC COMMENT POLICIES AND PROCEDURES TO THE CONTRARY.

BUDGET AND FINANCE COMMITTEE MEETING

RAINBOW MUNICIPAL WATER DISTRICT
Tuesday, January 10, 2023
Budget and Finance Committee Meeting - Time: 1:00 p.m.

District Office	**3707 Old Highway 395**	**Fallbrook, CA 92028**

Notice is hereby given that the Budget and Finance Committee will be holding a regular meeting beginning at 1:00 p.m. on Tuesday, January 10, 2023.

AGENDA

1. **CALL TO ORDER**

2. **PLEDGE OF ALLEGIANCE**

3. **ROLL CALL: Flint Nelson (Chair)_____** **Julie Johnson (Vice Chair)_____**

   Members: Peter Hensley ____ Bill Stewart _____

   Alternates: Chad Williams_____

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

   CHAIR TO READ ALOUD *- "If at any point, anyone would like to ask a question or make a comment and have joined this meeting with their computer, they can click on the "Raise Hand" button located at the bottom of the screen. We will be alerted that they would like to speak. When called upon, please unmute the microphone and ask the question or make comments in no more than three minutes.*

   *Those who have joined by dialing a number on their telephone, will need to press *6 to unmute themselves and then *9 to alert us that they would like to speak.*

   A slight pause will also be offered at the conclusion of each agenda item discussion to allow public members an opportunity to make comments or ask questions."

5. SEATING OF ALTERNATES

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

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

***8. APPROVAL OF MINUTES**

A. November 15, 2022

9. GENERAL MANAGER COMMENTS

10. FINANCE MANAGER COMMENTS

11. COMMITTEE MEMBER COMMENTS

12. WASTEWATER FINANCIAL PLAN AND PRELIMINARY COST OF SERVICE

13. PRELIMINARY REVIEW OF MID-YEAR BUDGET ADJUSTMENTS

14. DISCUSSION REGARDING COMMITTEE MEMBERSHIP (APPOINTMENTS AND REAPPOINTMENTS)

15. DISCUSSION AND POSSIBLE ACTION TO APPOINT 2023 COMMITTEE CHAIRPERSON

16. REVIEW OF THE MONTHLY BOARD FINANCE PACKET

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

18. ADJOURNMENT

ATTEST TO POSTING:

Pam Moss
Pam Moss
Secretary of the Board

1-4-23 @ 1:30 p.m.
Date and Time of Posting
Outside Display Cases

MINUTES OF THE BUDGET AND FINANCE COMMITTEE MEETING OF THE RAINBOW MUNICIPAL WATER DISTRICT NOVEMBER 15, 2022

1. CALL TO ORDER: The Budget & Finance Committee meeting of the Rainbow Municipal Water District was called to order on November 15, 2022, by Chairperson Nelson at 1:02 p.m. in the Board Room of the District Office at 3707 Old Highway 395, Fallbrook, CA 92028 *(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 *(arrived at 1:03 p.m.)*, Member Nelson, Member Stewart.

Also Present: General Manager Kennedy, Executive Assistant Washburn, Finance Manager Largent, Information Systems Specialist Espino, Accounting Supervisor Poole, Alternate Williams.

Also Present Via Teleconference or Video Conference:

Grant Specialist Kim, Administrative Analyst Barrow.

Two members of the public were 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. October 11, 2022

Motion:

To accept the minutes as written.

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

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

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

Discussion went to Item #10.

Discussion returned from Item #16.

9. GENERAL MANAGER COMMENTS

Mr. Kennedy provided an update on what occurred at the October 26, 2022 LAFCO Special District Advisory Committee meeting noting LAFCO unveiled a prospectus in which laid out some of their preliminary findings on which they were seeking some input. He stated the prospectus describes the processes thus far as well as a few findings including that through all the analysis conducted, the water supplies from Eastern Municipal Water District (EMWD) are reliable and adequate to serve RMWD's needs. He pointed out southern California as a whole can mostly likely see a reduction in allocations next year due to the current conditions at both the Colorado River and Sierras. He stated an additional finding is that RMWD will save money estimated at $8 million per year depending on the amount of water purchased and that the total net revenue impact to SDCWA's on average would be $12.8 million per year. He mentioned LAFCO believes that RMWD should mitigate the impacts on the other member agencies for a period of five years which would equate to $64 million, but they also recognize that when looking at the impacts on SDCWA over a five-year span, you have to look at both the loss of revenue as well as their reduction in expenditures such as a $40 million pump stations that would not need to be built in the event RMWD detaches from SDCWA. He pointed out RMWD and FPUD provided information to LAFCO urging them to look at SDCWA's cash reserves to which RMWD and FPUD residents have contributed but will receive no benefit for in the future, stored water for RMWD and FPUD has also paid, as well as reduction in operation and maintenance expenses SDCWA charges for serving both RMWD and FPUD. He concluded with noting LAFCO is still in the process of considering all the information provided.

Mr. Kennedy pointed out should RMWD and FPUD not detach and the cost of water from SDCWA continues to increase, RMWD and FPUD will need to find a way to fund capital projects while demands and water sales continue to decline. He said LAFCO agrees that the whole concept that all RMWD's and FPUD's ratepayer money belongs to SDCWA into the future no matter what is false; something with which LAFCO seems to agree.

Mr. Kennedy mentioned SDCWA proposed that the vote for detachment go county-wide; however, LAFCO has indicated in their prospectus that this will not happen.

Mr. Kennedy noted LAFCO is accepting comments until November 30, 2022 should anyone wish to provide such. He said following the public comment period conclusion, LAFCO will finalize their staff report which will is tentatively scheduled to be presented to the Commission in early February 2023.

Mr. Stewart inquired about the projections made on RMWD's rates over the five-year period. Mr. Kennedy clarified he does not have any exact numbers at this time; therefore, he did not want to make any forecasts public.

Mr. Hensley stated it was discouraging in that this process is taking much longer than anticipated. Ms. Johnson concurred.

Discussion went to Item #17.

10. FINANCE MANAGER COMMENTS

Ms. Largent had no additional comments.

Discussion went to Item #11.

11. COMMITTEE MEMBER COMMENTS

Mr. Nelson asked if there were any new developments related to the in-house janitorial services matter. Ms. Largent explained this matter was brought to the committee at which time if staff felt swayed to hire someone in-house at that time, it would have needed to go to the Board for approval due to being an addition to the staff headcount; however, it was decided to hold off and extend the contract which can be handled at any time.

Mr. Williams added the janitorial contract was scheduled to be presented to the Board in December to award a three-year contract with two clauses for termination for cause or convenience so that should the Board decide to re-evaluate the situation at a later date. He confirmed the current contract was done as a stand-alone contract to fill in for the company that quit providing janitorial services.

Ms. Johnson inquired as to whether this matter was to reflect the committee's concerns based on what was reported by staff that the services were inadequate. Mr. Williams clarified the current company's services have been good; however, staff was concerned this was the third company over the past five years and the service could decline. He noted a staffing analysis would need to be conducted before proceeding with these services being brought in-house. He stated there were two proposals received and how the current contract was a stand-alone and the District was running low on funds.

Mr. Nelson stated the impression the committee had related to this matter at the last committee meeting was that there was a significant level of concern because there RMWD had a contract with a contractor who was utilizing a sub-contractor that caused some issues with providing inadequate services. He asked if staff was telling the committee is that the subcontractor has since been replaced. Mr. Williams clarified the whole contract with the previous company subbing out their work was terminated and that the company currently under consideration was hired on an emergency interim basis as a stand-along stop gap until the Board considers adopting their contract for a three-year term which has termination clauses.

Discussion went to Item #12.

***12. VARIANCE REQUEST FOR CUSTOMER ROSAS-RAMIREZ**

Ms. Largent noted this was a revisit of this item after it was discussed at the previous committee meeting and how some language has been added based on the feedback received from the committee. She pointed out she and Mr. Williams have discussed some potential changes that could be integrated as part of the new rate model and policies; however, this will take longer to implement. She noted this was being brought back to the committee to review one more time.

Ms. Largent explained the customer was requesting a variance for a new 3/4" on a 2-acre parcel to be installed for their 2,490 square foot home being built since they have no plans for a grove, landscaping, or livestock. She mentioned the customer has stated their house will use 30 units per month; however, Ordinance 21-03 specifically states a lot size less than 1/2 acre may qualify for a 3/4" meter, but this property is a 2-acre parcel. She pointed out RMWD's past precedence has not allowed customers to purchase a smaller meter size without usage history and if this were to be approved, it would be a departure from the recommendations of the capacity class study and adopted fees as well as a violation to the ordinance that was adopted in September 2021.

Ms. Largent noted staff still does not recommend the variance be granted due to the fact it would not be prudent to allow customers to be able to choose their meter size when the District has a vetted study and recommendations in its ordinance. She pointed out the Board ruled against a similar variance requested not allowing a meter smaller than 1" on a 2.17-acre parcel in April 2022. She mentioned staff did feel for the feedback the committee provided on the possibility that they buy in at higher level and end up using less; therefore, integrating something like this will be taken under consideration when the Rate Model Plans are conducted over the next six months so that something like this will not be much of an issue.

Mr. Nelson stated although he has no alternative but to vote in favor of staff's recommendation; however, it is very clear a grove will not be at the property. He expressed concern the customer may need to pay $10,000 with no way of getting any recourse except for monthly bill reductions which will take years and years to offset the initial expense. Ms. Largent stated she reviewed the capacity study again giving the entire process more thought and how she found it would be better to work on the rate model first and then revisit the capacity study.

Ms. Johnson said she has thought about this matter a great deal. She pointed out there are other customers who have purchased properties with groves that have since been cut down resulting in less water usage that may start requesting a smaller meter should this door be opened with approval of this variance. She stated it will either be simple or more involved. Ms. Largent explained the District was already experiencing receiving variances for these types of situations and that although they do not get their capacity fees returned to them, they are charged smaller charges per month. She stated part of redoing the rate structure to eliminate this by putting more of the variable fee on the fixed costs based on historical consumption which would assist in cutting back the number of variances received as well as make it easier to predict the amount of revenue RMWD should receive.

Mr. Nelson asked if the rate study would create issues for those customers who have been recently forced to pay the high capacity fees. Ms. Johnson added she knows many residents within her subdivision are actively cutting down their groves.

Mr. Williams mentioned he has spoken with the property owner's authorized representative and how they have yet to furnish building or grading plans to the District; therefore, everything to date has been based on what the customer is telling the District, but not actually shown. He also pointed out the customer wants the meter now to avoid paying the temporary construction water meter rate off a fire hydrant; however, since nothing has been built and no evidence has been

provided to the District, there is now option but to follow RMWD's Administrative Code policies in this scenario. He agreed he could speculate what is going on with this property, but until the customer shows the District approved plans, it will not be known what is planned.

Mr. Stewart inquired as to what size meter does a 2-acre parcel require under the District's current policy. Ms. Largent stated it requires a 1" meter.

Ms. Largent pointed out if the capacity fees study is redone, it will change the cost difference between a 3/4" meter and 1" meter should it be decided 2-acre parcels get a 3/4" meter because it will change the allocation of costs. She added RMWD will not go back and retroactively adjust any customer capacity fees due to the fact there are customers going back decades who never paid capacity fees.

Mr. Nelson asked for clarification that what is really going on is that RMWD is making assumptions that if a customer is buying more than half an acre, they are planning to use large amounts of water as opposed to the usability of the property which seems odd. Ms. Largent explained the capacity fees study conducted by Willdan was based on the average usage by meter size and then allocated out by parcel size.

Ms. Johnson inquired as to whether the current rulings are still applicable to property owners who have large parcels without agricultural uses. Ms. Largent confirmed the rules are the same with determinations being made based on acreage as opposed to the property's use.

Mr. Nelson reiterated his concern as to manner in which determinations are currently being made as opposed to use or utilities. Ms. Largent stated this was relevant input for with the capacity study is conducted as well as amending the Administrative Code in the future.

Ms. Poole pointed out the customer could delay purchasing the meter now by getting a temporary construction meter which in turn would give the customer time to provided RMWD with their plans; however, they were choosing not to do so. Mr. Nelson agreed this was troublesome, but it still does not seem equitable to him.

Mr. Stewart noted matters such as this have evolved over a long period of time. He stated RMWD has a policy in place with which some do not agree; however, if RMWD was going to amend the policy in any way, it would be for the property owner to install the appropriate meter at the price RMWD charges, the customer would then have to use less than the maximum allotted units of water, and then start the process for requesting a variance. He said when a 2-acre parcel is purchased, the property owner should be required to purchase the pre-requisite meter size and then a variance request be considered based on time and usage as opposed to the property owner simply stating they were not going to use their 2-acre parcel. Mr. Nelson asked whether the variance would allow for the property owner to be refunded on the capacity fees. Mr. Stewart stated there may be several ways to approach this particular matter to make it fairer; however, he would not recommend changing the policy right now unless RMWD was able to continually monitor how each property is utilized on a regular basis. He concluded with noting he could advise against changing the policy right now and how making an exception could cause issues with revenue projections.

Motion:

The committee recommend the Board accept Staff Recommendation Option 2 – Deny the variance request.

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

Mr. Hensley proposed adding language to the motion that at some point down the road, the possibility of giving credits be evaluated after one year based on the true water usage. Mr. Stewart recommended it be usage be evaluated after two years. Ms. Largent recommended this be specific matter be separated out from the one under consideration to allow staff the opportunity to conduct further research.

Discussion ensued.

Ms. Johnson amended her original motion.

Motion:

To recommend the Board approve Option 2 with strong suggestion for the RMWD staff to return to this committee with proposed alternatives for future variance criteria to be expected within Calendar Year 2023.

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

Vote: Motion passed (summary: Ayes = 3, Noes = 1, Abstain = 0).

Ayes: Member Hensley, Member Johnson, Member Stewart.

Noes: Member Nelson.

Discussion went to Item #13.

13. FINAL AUDIT REVIEW

Ms. Largent recalled the committee reviewed the actual results of FY22 at their October meeting and that this was now the final audit report with the auditors stating there were no findings. She pointed out the copies provided were in draft form and currently under review; therefore, she encouraged committee members to read the materials and provide staff with any input so that these can be finalized for publishing as well as submitted for the award received the past two years.

Ms. Largent reported the auditors have stated there will not be a management letter with recommendations of things to fix. Mr. Hensley pointed out this was very rare.

Discussion ensued regarding how hard staff has worked to improve processes over the past few years as well as the awards recently received.

Discussion went to Item #14.

14. BUDGET OVERSIGHT AND PRELIMINARY CAPITAL BUDGET CHANGES

Ms. Largent gave a presentation titled “Operating Budget vs. Actual YTD as of October 31, 2022 and Initial Mid-Year Capital Budget Changes”. She reviewed the improvements made in regard to budget oversight as well as the improvements made to the reporting processes.

Ms. Largent pointed out some of the oversights that have been implemented include financing meeting with engineering to review the capacity fee funding and capital improvement project spending monthly, finance meeting with operations monthly to review where their results were coming in as well as in-house capital project spending, and any projected budget overages for operating capital being cut in other areas whenever possible.

Mr. Nelson asked whether finance was receiving any sense from the other department managers that getting this data quicker and in real time was helpful to running their departments more effectively. Ms. Largent said identifying exactly what issues are occurring, providing more in-depth reporting, as well as cleaning up some processes is assisting department managers in being able to pay more attention to overspending has been helpful.

Ms. Largent continued with reviewing the budget versus actuals for water operating, wastewater operating, and general operating funds. She provided additional information related to the capital fund mid-year analysis. Discussions ensued regarding development progression slowing.

Ms. Largent reviewed the wholesale water efficiency capital spending as well as provided additional details related to the mid-year budget adjustments.

Mr. Nelson asked if the financial overhaul Ms. Largent is reading in conjunction with the explanation provided related to the three pump stations have changed the scope of the work for the project. Mr. Williams confirmed the scope for these projects have remained the same.

Ms. Largent continued with the presentation noting the water capital spending has not changed significantly for the current year; however, there are some items in Years 2 and 4 to focus on the wholesale water efficiency projects. Mr. Kennedy pointed out one of the things that would help RMWD's capital program tremendously would be detachment in that money being spent on projects south of the District could be utilized for local pipeline replacements as well as provide some rate relief to the customers.

Ms. Largent reviewed the water capital fund forecast, wastewater capital spending, and wastewater capital fund forecast. She reported the wastewater cost of service study was nearing completion.

Discussion ensued regarding the money allocated for the cathodic protection program.

Mr. Stewart asked whether the inflation was continuing to impact RMWD's costs. Ms. Largent stated it was due to the fact the cost of service study was conducted for water, RMWD was counting on a 3% inflation rate. Mr. Kennedy added the prices of products coupled with low supply has also brought some impacts. Discussion followed.

Mr. Nelson requested future year projections for wastewater capital project spending be provided in the report.

Discussion went to Item #15.

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

Ms. Poole reported the comparative water sales as of October 2022 were up 103% from the same period last year.

Discussion went to Item #16.

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

Ms. Largent recommended the committee not meet in December due to a lack of topics for discussion. Mr. Nelson agreed to leave this decision to the staff who in turn will notify the committee members as to what is decided.

Discussion returned to Item #9.

Discussion returned from Item #9.

17. ADJOURNMENT

The meeting was adjourned by Chairperson Nelson.

The meeting adjourned at 2:22 p.m.

Flint Nelson, Committee Chairperson

Dawn M. Washburn, Board Secretary