

**MINUTES OF THE BUDGET AND FINANCE COMMITTEE MEETING
OF THE RAINBOW MUNICIPAL WATER DISTRICT
JANUARY 12, 2012**

1. **CALL TO ORDER:** The Budget & Finance Committee meeting of the Rainbow Municipal Water District was called to order by Chairperson Carlstrom on January 12, 2012 in the Board Room of the District Office at 3707 Old Highway 395, Fallbrook, CA 92028 at 1:04 p.m. Chairperson Carlstrom presiding.

2. **PLEDGE OF ALLEGIANCE**

3. **ROLL CALL:**

Present: Member Lucy
Member Carlstrom
Member Clyde
Member Stitle

Absent: Member Fagan
Alternate Duganski
Member S. Walson
Member Petty

Also Present: General Manager Seymour
Finance Manager Buckley
Customer Service Manager Atilano
Engineer Lee
Associate Engineer Plonka

Two members of the public were present.

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

There were no public comments.

COMMITTEE ACTION ITEMS

5. **COMMITTEE MEMBER COMMENTS**

There were no comments.

*6. **APPROVAL OF MINUTES**

A. November 3, 2011

Action:

Moved by Member Clyde to approve the minutes as written. Seconded by Member Stitle.

After consideration, the motion CARRIED by the following vote:

AYES: Member Lucy, Member Carlstrom, Member Clyde and Member Stittle.
NOES: None.
ABSTAINED: None.
ABSENT: Member Fagan, Alternate Duganski, Member S. Walson and Member Petty.

7. DISCUSSION OF MOST RECENT RMWD FINANCIAL RESULTS

Mr. Buckley explained RMWD was continuing along at about the same pace. He said in units of water sold, RMWD was under the budget by approximately 3% but 4% over for the same period one year ago. He pointed out RMWD's expenses were catching up to the budget now; however, staff was trying to keep as tight a reign as possible on it.

Mr. Buckley mentioned some Request for Proposals for audit services were being sent out to approximately ten firms with a response deadline of late February. He noted he did send a request to the audit firm RMWD utilized the past six years.

Mr. Buckley referenced the Budget Calendar and how he would place the calendar in the January board agenda. He explained that the calendar is not etched in stone, but simply a guideline to keep us on track.

Discussion ensued regarding RMWD receiving money from FEMA for erosion damage.

Mr. Carlstrom asked if it were safe to say the projects were coming in at the projected costs. Mr. Lee stated there were two projects coming in below budget; however, a significant amount of work still needed to be completed at both projects. Mr. Buckley stated he may need to look at the project expenses and budget again to confirm whether or not projects are actually staying within the budget.

Mr. Clyde said the information provided as is without any input indicated there would be a \$787,000 left at the end of June 2012. Mr. Buckley pointed out this included the additional reservoir charge as well as transfers from operations to be able to arrive at this number.

Discussion ensued regarding the numbers used in the forecast spreadsheets provided by Mr. Carlstrom.

8. UPDATE AND DISCUSSION OF CASH FLOW PROJECTIONS IN FIVE AND TEN YEAR FORECASTS

Mr. Carlstrom mentioned the email he had sent out to the Committee Members as well as staff to set up for discussion on the five and ten year forecasts. He solicited the committee members for comments and/or input. He summarized what was said in the email.

Mr. Carlstrom recalled that last year the committee settled on a spreadsheet that showed the cash balance after five years of \$1,055,000 with numerous assumptions. He noted this spreadsheet became sort of a basis for what the Budget and Finance Committee recommended to the Board as operating plan going forward which they informally agreed to. He mentioned how in the fall of 2011 he started updating the spreadsheet at which time he was surprised to discover RMWD had a great deal more cash after five years than forecasted in the original spreadsheet. He stated although he attended the last Board meeting, he was not prepared to provide the Board with numbers or explanations as to the difference between the two spreadsheets without first meeting with the Budget and Finance Committee.

Mr. Carlstrom went on to explain the spreadsheet he prepared on January 12, 2012 (Revision 5) that explains the difference in the previous forecasts. He noted he had overestimated what RMWD would receive from the reservoir surcharge by \$400,000. He noted Mr. Buckley had recognized additional revenue in property taxes and other sources of income. He continued to explain how these two transactions impacted the forecast spreadsheets.

Discussion ensued regarding the expense items cut when preparing the current budget.

Mr. Carlstrom reviewed the current spreadsheet and explained why the current forecast looks better than the previous versions. He continued with his presentation by noting changes that could be incorporated into the spreadsheet in order to see how the forecast would be impacted. He solicited committee input regarding the forecast.

Mr. Clyde asked which of the projects on the other side of Interstate 15 are included in the 200 water meters each year. Mr. Buckley confirmed it was just the Campus Park/Passarelle project. Mr. Lee confirmed Meadowwood was not within the District boundaries; however, at the December Board meeting the Directors requested he open dialogue with Meadowwood to see if they would be interested in annexing into RMWD due to the fact they are currently with San Luis Rey Water District which is non-providing water district. It was noted the Meadowwood project for approximately 900 homes was recently approved by the County Board of Supervisors. Mr. Lee pointed out Campus Park West was not in RMWD's boundaries, it is surrounded by RMWD and that the Board has directed staff to move forward on potentially annexing this project of 400 homes into the District boundaries.

Mr. Carlstrom referred to the ten year forecast prepared at the request of Mr. Petty.

Mr. Davis from Passarelle asked when Mr. Carlstrom incorporates 200 units into his forecast does it reflect a revenue after the meters are installed or the connection fees. Mr. Carlstrom stated it was both; however, most the revenue comes from connection fees.

Mr. Lee updated the Budget and Finance Committee by explaining the Engineering Committee was working on updating RMWD's Water Policy with the recognition future development within the District would be potentially smaller lot sizes and homes than what has been seen historically. He said the basic premise is that a 1" meter was not appropriate to provide service to those homes; therefore, the Engineering Committee was looking at providing an opportunity for smaller meters to be sold at RMWD. He noted 5/8" and 3/4" meters are the two standard sizes. He stated it could be assumed the average meter sales would cut the anticipated revenue in half. He added; however, the 200 meters was based on Passarelle being the only development that moves forward. But in fact other developments within the District boundaries are already in planning stages. He said based on this he would be comfortable with adding an additional 100 meters per year to RMWD's forecast starting in 2013-2014.

Discussion continued as Mr. Carlstrom continued to manipulate the forecast spreadsheet with various scenarios. Mr. Lee explained anyone within the District has the right to purchase a meter should they so choose. Mr. Seymour added should RMWD go to smaller meters, the odds are there will be two meters per property that would be charged a monthly fee.

Mr. Seymour inquired as to whether the new spreadsheet included the same monthly and annual increases as in the first spreadsheet. Mr. Carlstrom confirmed the increases were included.

Mr. Lee stated RMWD was probably 3-4 months away from making a recommendation to the Board regarding the newly proposed meter requirements. He clarified for Mr. Lucy the fire and sprinkler system requirement for 1" meter; however, the Engineering Committee was currently discussing the 1" meter being sized for an emergency situation that may not be used and whether or not it was fair to charge ratepayers a capacity fee for something they will hopefully never use.

Discussion continued regarding variances within the forecast spreadsheet.

It was suggested the current spreadsheet be presented to the Board noting RMWD's current position based upon the prior assumptions that have been updated and then do exactly what Mr. Carlstrom has done today before the committee. It was recommended that he demonstrate the various impacts by changing lines items one-by-one to show the Board how those changes would affect the District. It was noted this would make it easier for the Board to follow than trying to change the entire spreadsheet with numerous changes at once.

Mr. Seymour pointed out the bottom line was RMWD was in better shape than initially thought by making some of the right moves.

Mr. Carlstrom inquired as to how the committee thought the forecast could get formalized. He noted some of the concerns the Board may have when presented with the spreadsheet and how any concerns should be addressed.

Mr. Seymour suggested completing the budget in order to see what the impact is on the water rates and then make a recommendation to approve the budget and/or the water rates at the same time. He said this may make it easier due to the fact everyone will be thinking about the same things when they are fresh on everyone's mind. He stated by doing everything all at once would be a great deal easier.

Discussion ensued regarding the current status of the Metropolitan Water District lawsuit. Mr. Seymour stated he believed it could take several years before it the matter gets resolved.

Mr. Lucy stated if the Board really wants to be supportive of the agricultural community, they are going to have to give in on certain other areas. He pointed out by holding the water rates steady would encourage farmers to stay around a little longer. Discussion followed.

Mr. Seymour explained how it may benefit RMWD ratepayers by placing potential increases on its O&M charges. Mr. Lucy agreed with the concept. Mr. Seymour noted RMWD will need to educate the rest of its consumers that even though their monthly fixed costs are going to go up, in reality by keeping its larger water users in business would ultimately keeps costs down. He pointed out if agriculture goes away, residential customers will have to pick up all the costs for the infrastructure which are costs that will never go down.

Mr. Clyde asked for clarification that going from 200 units to 100 units there would be a \$6M change. Mr. Carlstrom explained right now there was \$12M in revenue from meters and when you cut that in half it comes to \$6M. It was noted this was based on the 800 meters over the period of four years. Discussion continued.

Ms. Thomas inquired as to whether encouraging the Board to allow the annexing would bring in more fixed ratepayers and would help keep the agricultural users in business. Mr. Carlstrom confirmed it would help. Ms. Thomas mentioned how her adult children and their friends have lived in the Fallbrook area all their lives and have decided to stay in the area to raise their families. Ms. Brazier pointed out this was a good point that it does not have to be an "either or"

proposition due to the fact the houses are not stealing anything from the agriculture community. It was agreed upon that annexing would help both residential and agricultural ratepayers while still keeping Fallbrook's character.

Mr. Clyde pointed out the some Board Members were elected to stop development on the other side of Interstate 15; however, it did not work due to the fact the developments are still going forward. He stressed the need for these Board Members to realize there is a need to do this now. Mr. Lucy pointed out he was one of the Board Members elected based on he did not want massive amounts of homes developed across the I-15 as well as growth; however, what is now being proposed was more reasonable than what was originally proposed.

Mr. Lee pointed out RMWD has 8,333 EDU's in its system based on 180 gallons per day per EUD.

Mr. Lucy stressed the need to say what has been said today to the Board. He suggested it all be summarized.

9. DISCUSSION AND POSSIBLE ACTION REGARDING BUDGET YEAR 2012-13 CALENDAR, ASSUMPTIONS AND PROJECTIONS

Mr. Buckley talked about incorporating any of the final changes to the forecast into the budget so that they cannot be overlooked. He noted the budget calendar was in the Board agenda packet and that he would email the calendar to the committee members as well.

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

Mr. Lucy said he would maybe like to have Mr. Buckley put together something showing the relationship between rainfall and water sales during the period of July 1st to June 30th in order to see how those figures impact making projections. Discussion followed.

Ms. Plonka suggested if the committee was going to look at how much rainfall was received per year, it may be a good idea to look at the weather conditions as well. Mr. Seymour added there was also the price of avocados, fires, etc. to also consider as variables. Mr. Carlstrom stated this was a business; therefore, as much revenue as possible should be generated in order to keep the business efficient, water rates down, etc.

Mr. Davis requested a placeholder be on the next committee agenda regarding meter rates. Mr. Carlstrom referred this request to the Engineering Committee to update the Budget and Finance Committee as far as what they are thinking about on revenues from meters.

Ms. Brazier said it was her understanding as a member of the Engineering Committee if that committee was to discuss an issue with the goal of making a recommendation to the Board, the Budget and Finance Committee would consider the implications of that recommendation prior to taking it to the Board for consideration.

11. ADJOURNMENT

Action:

Moved by Member Clyde to approve the minutes as written. Seconded by Member Stitle.

After consideration, the motion CARRIED by the following vote:

AYES: Member Lucy, Member Carlstrom, Member Clyde and Member Stitle.

NOES: None.

ABSTAINED: None.

ABSENT: Member Fagan, Alternate Duganski, Member S. Walson and Member Petty.

The meeting adjourned at 2:41 p.m.

Larry Carlstrom, Committee Chairperson

Dawn M. Washburn, Board Secretary