

**MINUTES OF THE SPECIAL BOARD MEETING
OF THE BOARD OF DIRECTORS/BUDGET AND FINANCE COMMITTEE
OF THE RAINBOW MUNICIPAL WATER DISTRICT
JUNE 6, 2013**

1. **CALL TO ORDER** - The Special Meeting of the Board of Directors/Budget and Finance Committee of the Rainbow Municipal Water District on June 6, 2013 was called to order by President McManigle at 1:02 p.m. the Board Room of the District, 3707 Old Highway 395, Fallbrook, CA 92028. President McManigle and Chairperson Carlstrom presiding.

2. **PLEDGE OF ALLEGIANCE**

3. **BOARD OF DIRECTORS ROLL CALL:**

Present: Director Griffiths
Director McManigle
Director Brazier
Director Sanford

Absent: Director Lucy

BUDGET AND FINANCE COMMITTEE ROLL CALL:

Present: Member Carlstrom
Member Stitle
Member Clyde
Member Ross
Member Hensley

Absent: Member Fagan
Member Lucy

Also Present: General Manager Brady
Assistant General Manager/Finance Manager Buckley
Water Operations & Customer Service Manager Atilano
Human Resources/Safety Manager Bush
District Engineer Plonka
Executive Assistant/Board Secretary Washburn
Superintendent Walker
Superintendent Maccarrone
Superintendent Miller
Senior Accountant Thomas
Supervisor Zuniga

There were no members of the public 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

President McManigle turned the meeting over to Chairperson Stitle.

Mr. Carlstrom asked if the five year forecast would be reviewed at this meeting. Mr. Buckley confirmed some of it would be covered.

*6. APPROVAL OF MINUTES

A. April 4, 2013

Action:

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

After consideration, the motion CARRIED by the following vote:

AYES: Member Carlstrom, Member Stitle, Member Clyde, Member Ross and Member Hensley.

NOES: None.

ABSTAINED: None.

ABSENT: Member Fagan and Member Lucy.

7. REVIEW AND POSSIBLE ACTION REGARDING THE FIRST DRAFT OF THE 2013-14 OPERATING BUDGET (RMWD BOARD WILL ALSO BE PRESENT)

Chairperson Stitle opened the budget discussion for the committee members.

Action:

Moved by Member Carlstrom the committee accepts the budget. Seconded by Member Clyde.

After consideration, the motion CARRIED by the following vote:

AYES: Member Carlstrom, Member Stitle, Member Clyde, Member Ross and Member Hensley.

NOES: None.

ABSTAINED: None.

ABSENT: Member Fagan and Member Lucy.

Discussion went to Item #8.

SUMMARY

Mr. Buckley provided some reminders and refreshers of the discussions held on items provided on the summary page. He noted they were budgeting 20,000 acre feet of water and based on the information available to date, 2014 does not appear to be a drought year.

Mr. Buckley referenced the wages and benefits as he noted RMWD was currently operating with 49 staff members plus one-half of a general manager. He added although the budget under consideration was for 49 positions, the numbers for two approved unfilled positions were still included. He noted RMWD does currently have a temporary employee due to a very great need. Director Brazier inquired as to which positions were not filled. Mrs. Bush answered they were both in Construction and Maintenance.

Director Griffiths suggested the RMWD Board put a hiring freeze in place and hire any additional employees under the North County Joint Powers Authority. He explained the benefit would be to create a two-tier wage and benefit scale due to the fact he felt the pay scales were out of control. Mr. Buckley pointed out RMWD currently hires on a two-tiered system. Director Griffiths also recommended RMWD utilize contractors for specific projects instead of hiring permanent employees in order to keep the number of staff members where it is at now or reduced by attrition.

Dr. Brady stated RMWD has the ability to contract out for projects without having to go the extra step with the NCJPA. Director Griffiths stressed the district must really try to stop any government employee bloat. Dr. Brady assured staff takes a careful look at this.

Action:

Moved by Director Sanford to approve the budget. Seconded by Director Griffiths.

After consideration, the motion CARRIED by the following vote:

AYES: Director McManigle, Director Griffiths, Director Brazier, and Director Sanford.
NOES: None.
ABSTAINED: None.
ABSENT: Director Lucy.

Mr. Buckley continued with reviewing the revenues and rates which was part of the revisions he had sent out. He pointed out the 3.8% rate increases SDCWA and MWD will most likely bring in on January 1, 2014 have already been built into this budget. He mentioned the budget also contains the 5% RMWD rate increase as per the five year forecast recommended by the Budget and Finance Committee as well as 50% of the general manager time. He concluded by noting the possible full time employee reduction for engineering has been included.

Mr. Buckley explained from the NCJPA or even consolidated effort, these are the only positions attempted to be put into this budget and give RMWD some savings. He noted although it did not sound too impressive, RMWD's total salary benefits are reducing by only .5%; however, this was because of what being reduced through the NCJPA was almost being soaked up just by annual rate increases and so on.

Director Brazier asked what the impacts would be on this budget if in the event during the course of this fiscal year RMWD is absorbed to the point where it no longer exists. Mr. Buckley stated this was not reflected in this budget and it was his assumption it would pretty much have to start over with a budget for the new organization. He confirmed the budget under consideration today was only pertinent under the current circumstances. Dr. Brady pointed out if RMWD was absorbed completely that quickly, the budget would become the basis for the divisional budget and primarily the basis for rates.

Mr. Buckley pointed out there was not a whole lot to mention under supplies and services other than the shutdowns and replacement vehicles.

Director Griffiths asked RMWD to consider purchasing its own equipment for future shutdowns as opposed to utilizing rental equipment. Dr. Brady stated staff would be looking into this further. Mrs. Plonka reported it was brought to her attention that one or possibly both of the planned shutdowns would not be taking place this year due to changes in the Caltrans project.

Mr. Buckley talked about the State Revolving Fund will total approximately \$18M of which \$4.5M will be returned to the sewer fund, \$2M allocated to the Morro/Beck project, leaving \$11.5M remaining.

Director Griffiths asked about the urgency of the North River Road upside. Dr. Brady answered the urgency was the condition of the pipe which could be catastrophic.

Director Brazier referenced the employee leasing program as she inquired if there would be any reports as to the status of the equilibrium flow of leasing employees between RMWD and FPUD. Mr. Buckley offered to develop a report for this to provide to the Board monthly.

Director Griffiths asked that this information be shared in the RMWD newsletter to show the public what was transpiring. Dr. Brady explained how at the last Communications Committee member this topic was discussed with some of the members thinking it would be a good idea to show large and small benefits in the newsletter on a regular basis.

SALARIES AND BENEFITS

Mr. Buckley explained JPA Allocated Labor Expense reflects 50% of the general manager salary as well as an engineering estimate. He noted these amounts include wages and benefits combined which does not follow the usual RMWD reporting format.

Mr. Buckley referred to the Five-Year Cash Forecast spreadsheet handed out to everyone as he pointed how at the bottom section there is a line item for the Beck UV project which he strung out over three years due to the fact it was unknown just how this project will proceed. He noted even with Beck reflected in the budget, there was still positive cash. He pointed out in order to get positive cash he had to reduce the other Capital Improvement Program which was originally set at \$4M to \$3M in some years.

Mr. Carlstrom explained the point he was trying to make had to do with reserves with the purpose focused on forward planning in identifying funding sources, rate escalations necessary to fund the water district, and the threats there may be to that funding and what contingencies the committee may be able to come up with such as the \$10.4M under capacity fees. He expressed concern regarding the possibility of having 20% less water available in the future. He noted RMWD has been in a panic mode for several years and now he feels a great sense of relief in the \$18M State Revolving Fund Loans. He expressed concern with the Beck project not happening and the threat this would put on the financial stability of RMWD. He expressed concern the forecast does not show a great deal of cash available at the end of five years; thus, he urged everyone to look at potential threats, try to quantify those threats, and in turn attempt to mitigate them by putting some of this money in a "pot" where monies could be released if in fact these things happen or RMWD may need if they do not happen. He asked the Board to have an item on a future agenda to possibly assign to the B&F committee to come back to the Board with some sort of recommendation as to what they might consider doing in order to establish a "rainy day fund".

Mrs. Plonka addressed Mr. Carlstrom's comments by noting her confidence that the two developments across Interstate 15 were actively moving forward at the anticipated rate. She talked about how after sitting in the SDCWA Urban Water Management Plan as a region plan, quite a lot of the developments RMWD has are already in that plan and the water has already been committed by SDCWA. She added the 20% reduction has already been met by RMWD unfortunately at the expense of agricultural users. She said as District Engineer she did not believe it was an eminent threat the SDCWA was going to cut RMWD's water supplies. She explained the reservoir construction fee established to help fund the reservoir covers and effectively bring water to the table in the event a Level Two drought is declared. She really liked the idea of a reserve for unplanned expenses. She concluded with mentioning how the idea of putting \$4M aside for infrastructure was based on a whole analysis she and Mr. Lee conducted in order to ensure piping was continually being put into the ground at today's prices which has not happened to date; therefore, cutting these funds to make the numbers work does not really work.

Director Brazier pointed out those that have been around for a long time RMWD used to put whatever was left over into the CIP fund; therefore, having a number established was a step in the right direction. Mr. Clyde recalled the \$4M was reluctantly agreed upon due to the fact the numbers should have actually been much higher. Mrs. Plonka pointed out the problem was because RMWD did not do infrastructure, there was more due for replacement. Mr. Carlstrom explained the purpose for discussing this reserve was for this specific reason. He suggested the information be studied, laid out, and documented be a part of the communicative reserve process.

Director Sanford pointed out although SDCWA commits to provide water they have the power to take the commitment back. He mentioned it needed to be taken into account that MWD has approximately \$600M worth of pension benefits they will be forced to recognize starting January 1, 2014 which could impact RMWD. He also pointed out SDCWA has received some very good news regarding some of the lawsuits they have with MWD that could be positive to RMWD financially. He concluded by noting the bay delta renovation is going to happen which will be paid for in part by RMWD. Mr. Carlstrom acknowledged these were all risks requiring consideration.

Mr. Carlstrom expressed concern the five-year forecast has not been followed as closely as anticipated especially in the matter of timely increase. He urged the RMWD Board and financial management to get some process for timely review and possibly implement any rate changes.

Mrs. Plonka pointed out all the reservoir covers will need to be replaced in twenty years; therefore, she encouraged the Board to consider another mechanism to start saving the necessary money in a larger reserve. She noted the liners will last through two coverings so the costs could be potentially cut in half.

Director Griffiths found it completely unacceptable the Beck Reservoir project would run through 2016. Mr. Buckley stressed this was not a construction schedule but his best estimate based on the information available. Dr. Brady reiterated permitting was pacing this project.

Director Sanford suggested the Board consider what will happen with the RMWD and/or FPUD property should the agencies fully consolidate due to the fact it could be of some value even as a one-time lump sum deal.

Ms. Thomas noted there was a balancing act involved with keeping the ratepayers in mind when discussing infrastructure costs and potential rate increases. Mr. Ross stated this was a good point and all the more reason to have a reserve fund. Director Brazier added this was exactly why waiting four years between rate increases was a bad idea.

Mr. Buckley pointed out if the Board approves this budget; it would not approve any rate increases but rather shows how the budget can be funded.

DEBT SERVICE

Director Griffiths asked about the reliability of the Debt Service sheet. Mr. Buckley confirmed it was reliable.

DISTRIBUTION

Director Griffiths inquired as to what deferred compensation meant. Mr. Buckley explained this was a benefit provided to the employees according their MOU's.

Mr. Clyde asked what was actually being approved by the Board at this time. Mr. Buckley clarified the Board would be considering approving the operating budget. Director Griffiths said he would like to see the capital budget. Mr. Buckley explained as far as this operating budget is concerned, the capital budget is the \$4M per year discussed earlier herein. Director Griffiths said he would still like to see the capital budget and organizational chart; therefore, he found the budget to be incomplete. Mr. Buckley noted the organizational chart is provided in the monthly agenda packets. Dr. Brady clarified in terms of this budget process, the Board would be approving a budget level for labor and benefits and it was ultimately his responsibility to manage the staff levels.

It was noted the capital improvement program was provided on Page 2 in the Summary. Discussion followed.

Mrs. Plonka confirmed the Engineering Committee has decided to keep the project prioritizing list as it was for the reason that other emergency projects needed to be addressed.

Director Brazier inquired as to how long of a supply does Pala Mesa tank provide to the area. Mrs. Plonka stated a day; however, if the water was shut off on a peak summer day, it would be less than a day. Director Griffiths stated in such an emergency agricultural connections should be shut off and water rushed to domestic users; however, Dr. Brady said this was not district policy.

Discussion went to Item #9.

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

Mr. Carlstrom recommended an item regarding a reserve policy for RMWD be on the next agenda. It was confirmed Mr. Carlstrom wanted this discussion to be held in his absence.

It was agreed the next committee meeting would be held on July 11, 2013 due to the fact the regularly scheduled date fell on a holiday.

Chairperson Stitle turned the meeting back over to President McManigle.

Discussion went to Item #7.

9. ADJOURNMENT

Action:

Moved by Director Sanford to adjourn. Seconded by Director Brazier.

After consideration, the motion CARRIED by the following vote:

AYES: Director Griffiths, Director McManigle, Director Brazier, and Director Sanford.
NOES: None.
ABSTAINED: None.
ABSENT: Director Lucy.

Action:

Moved by Member Clyde to adjourn. Seconded by Member Carlstrom.

After consideration, the motion CARRIED by the following vote:

AYES: Member Carlstrom, Member Stitle, Member Clyde, Member Ross and Member Hensley.
NOES: None.
ABSTAINED: None.
ABSENT: Member Fagan and Member Lucy.

The meeting adjourned at 2:16 p.m.

Harry Stitle, Committee Chairperson

Dawn M. Washburn, Board Secretary

George McManigle, Board President

Dawn M. Washburn, Board Secretary