

**MINUTES OF THE BUDGET AND FINANCE COMMITTEE MEETING
OF THE RAINBOW MUNICIPAL WATER DISTRICT
OCTOBER 3, 2013**

1. **CALL TO ORDER:** The Budget & Finance Committee meeting of the Rainbow Municipal Water District was called to order by Chairperson Stitle on October 3, 2013 in the Board Room of the District Office at 3707 Old Highway 395, Fallbrook, CA 92028 at 1:01 p.m. Chairperson Stitle presiding.

2. **PLEDGE OF ALLEGIANCE**

3. **ROLL CALL:**

Present: Member Carlstrom
Member Clyde
Member Stitle

Absent: Member Fagan
Member Lucy
Member Ross
Member Hensley

Also Present: General Manager Brady
Executive Assistant/Board Secretary Washburn
Director Brazier

No members of the public were present.

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

There were no comments.

COMMITTEE ACTION ITEMS

5. **COMMITTEE MEMBER COMMENTS**

Mr. Carlstrom was amazed by all the changes and documentation over the past three months.

*6. **APPROVAL OF MINUTES**

A. September 5, 2013

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

7. UPDATE AND DISCUSSION OF RECENT RMWD BOARD MEETING

Mr. Buckley reported the Board voted RMWD would have a monitoring group. Mrs. Plonka noted as of the September Board meeting staff has received 253 responses to the mail survey out of the 1,495 letters sent. She continued to briefly update the committee as to what had transpired over the past several months in regards to the monitoring groups.

Member Ross joined the meeting at 1:07 p.m.

Mr. Buckley mentioned the Board approving a Memorandum of Understanding for sharing infrastructure with Valley Center MWD as well as the annexation for Campus Park West development.

Mr. Buckley pointed out the handouts he provided includes the notice sent out to the public regarding the proposed rate changes.

Member Lucy joined the meeting at 1:19 p.m.

Action:

Member Carlstrom made a recommendation the committee strongly recommend that the Board accept the proposed rate increases. Seconded by Member Stitle.

After consideration, the motion CARRIED by the following vote:

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

8. INFORMATIONAL UPDATE REGARDING PRIORITIZATION OF CONSTRUCTION PROJECTS

Discussion ensued regarding the construction projects.

Mrs. Plonka clarified Caltrans cannot extend the payment period past the construction schedule and that the contractor will be working for Caltrans.

It was noted the developers could not be solely charged by RMWD for the Highway 76 work due to the fact that regardless of developments the work would need to be done by the District.

Ms. Thomas urged the committee to come up with something to recommend to the Board so RMWD's 2,200 sewer customers do not have to pay a huge amount of money upfront. Dr. Brady confirmed it would take Board action to change Ordinance 95-1. Discussion followed.

Discussion continued regarding the Highway 76 realignment, sewer capacity, and timing of sewer hookups.

Agenda items were taken out of order.

Mr. Carlstrom suggested RMWD may need to live a little longer with the infrastructure it has already. Mrs. Plonka stated if this was the case development would need to be postponed which was revenue RMWD needs. It was also noted if there is a major sewer spill RMWD could be fined \$1 million. Discussion continued regarding possible resizing of the lines.

Mrs. Plonka talked about staff attempting to come up with something that would be referred to as impact fees, especially with developments looking to hook up to RMWD's system immediately, rather than trying to negotiate with each developer to pay for needed improvements. She further explained the steps involved with this process. Mr. Carlstrom suggested obtaining an insurance policy or putting aside \$1 million to pay any potential fines for sewer spills as opposed to creating impact fees. It was noted that there could be multiple breaks and therefore that is not a viable option. Mr. Lucy asked if there was a way to work with the developers in order to get them connected to the system sooner, with some type of payback down the road. Dr. Brady explained that this would work for a line extension with a contract including specified conditions, but that this is a more complex situation.

Mrs. Plonka pointed out Horse Creek Ridge already has purchased their EDU's and are ready to hook up once they build the sewer lines; therefore, the new outflow line must be constructed.. She also noted the Bonsall developments are much smaller that they would most likely stop building if they are faced with too large a fee. Discussion followed.

Dr. Brady suggested the committee recommend to the Board take out a loan. It was noted the Board was aware of the issue; however, it was not discussed to this degree.

Mr. Lucy asked if RMWD has utilized all the money it budgeted for the tanks. Mr. Buckley explained it was used up; however, the loan monies were now coming in to replenish that account. Mr. Lucy inquired as to whether money could be shuffled between accounts or water projects that could be delayed to assist with the sewer projects. Mr. Carlstrom suggested delaying the Beck Reservoir project. Mrs. Plonka explained Beck Reservoir could not be postponed due to the California Department of Public Health. Discussion followed.

Dr. Brady mentioned some of the additional things RMWD will be facing in the near future. Mr. Carlstrom expressed concern about the financial repercussions.

Mrs. Plonka provided status updates on the developments listed on the spreadsheet.

Mr. Stitle asked if the rates proposed for the November public hearing to be effective January 1, 2014 would cover everything that is anticipated. Mr. Buckley stated it was too late to change these rates in time for the November meeting; however, a second increase could be implemented later next year. Mrs. Plonka added staff was currently moving forward with an asset management study in order to see what money needed to be spent on what projects and when; therefore, the committee may want to incorporate the results of this study as a component into a possible second rate increase.

Mr. Lucy inquired as to whether there was a quick fix line that could go to FPUD in order for RMWD to avoid experiencing a problem with overflows. Mrs. Plonka explained this was looked at a few years ago and how at that time it did not seem to be cost effective.

Mr. Lucy suggested this discussion be held at the October Board meeting. Dr. Brady and Mrs. Plonka said they preferred this committee make a recommendation to the Board. Mr. Carlstrom suggested a sequence of items be put together by the committee prior to going to the Board.

Mr. Stitle pointed out approximately four years ago rate issues were poorly communicated; therefore, the manner in which it is communicated in the future is very important. It was noted the reason the SRF loans were not subject to Ordinance 95-1 was due to the fact RMWD had no debt. Mr. Stitle stated the first step in authorizing getting additional loans would be recognizing Ordinance 95-1 must be modified or changed. Dr. Brady said he would seek assistance from legal counsel on this matter. Mr. Buckley noted legal counsel has provided assistance on Ordinance 95-1 on behalf of RMWD previously.

It was acknowledged the committee's projections are depending on the development and growth; however, there was the matter of having to put money out in order to get the developers into the district.

Mr. Carlstrom proposed telling the developers RMWD will give them water, but not sewer as a means of separating the two main issues. He suggested there may be a strategy. Mrs. Plonka pointed out the lack of having development would drive the existing customer rates and responsibilities upward due to the fact the sewer fees cover a portion of existing line maintenance. Discussion followed regarding the significant differences in the two concepts.

Mr. Ross agreed public communications must be simple as well as include justification.

It was noted the motion was for the Board to approve the impact fees, the asset management study information, as well as consider a loan to fund the capital sewer projects. Mr. Carlstrom said if a recommendation was not ready for the October Board meeting, it should be brought to the Board at their November meeting. Director Lucy proposed suggesting the Board hold a Joint Special meeting with the Budget and Finance Committee in December in order to address this matter.

Mrs. Plonka thanked the committee for their input and said she would like to take this information and introduce a concept at the next committee meeting from which the committee can work in formulating a recommendation to the Board at their November meeting.

Action:

Moved by Member Stitle a motion to be considered in four parts: 1) that there is a recognition of about \$25 million worth of improvements to the sewer lines to be done over the next four years; 2) that there be impact fees to the developers for improvements to the outfall line, Lift Station 1, the line size on Route 76 being the increased size, and Lift Station for Horse Creek Ridge; 3) the asset for existing ratepayers that the benefits be aligned with the useful life of the actual assets themselves; and 4) that the committee recommend a Special Meeting be called in December to consider the actual numbers expected to be received by the committee in November. Seconded by Member Carlstrom.

After consideration, the motion CARRIED by the following vote:

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

9. UPDATE AND DISCUSSION REGARDING JPA/CONSOLIDATION OF WATER DISTRICTS

Dr. Brady said the districts were moving forward on the JPA/consolidation. He mentioned how in the working model for where things go and where the districts integrate was based on two concepts, the demographic and geographic locations. He stated the next push would be to transition customer service eventually to FPUD followed by looking at what should be done with the RMWD finance department. He talked about the meeting he and staff had with LAFCO regarding entering into their process. He concluded with reviewing the NCJPA expense tracking document created by Mr. Buckley.

10. DISCUSSION AND POSSIBLE ACTION REGARDING FINANCIAL RESERVE POLICIES AND 5-YEAR PROJECTION

Mr. Buckley stated he made some suggested changes. Mr. Ross pointed out the comments found on Page #10-2 should be removed.

Mr. Buckley explained if the policy is adopted by the Board, a recommendation on how to get this funded should be addressed as quickly as possible. Mr. Carlstrom suggested a blank line item be added into the forecast for operating reserve until such time as a number can be plugged in.

Action:

Moved by Member Ross to recommend that the Board adopt the reserve policy as written with the two minor adjustments as recommended. Seconded by Member Carlstrom.

After consideration, the motion CARRIED by the following vote:

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

11. DISCUSSION AND POSSIBLE ACTION REGARDING WATER CAPACITY/CONNECTION FEES

This item was discussed under Item #9 herein.

12. REVIEW OF YEAR-TO-DATE FINANCIAL STATEMENTS

Mr. Buckley said he provided the draft financial statements for committee review. He also reported the audit was complete and how RMWD was given an unqualified status.

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

It was noted all the items herein would come back at the next meeting. Mr. Carlstrom said he would like the committee to strategize how RMWD could possibly get a loan.

Mr. Stitle recommended the committee look at structuring RMWD finances over the next 3-5 years.

14. ADJOURNMENT

Action:

Moved by Member Ross to adjourn. Seconded by Member Stitle.

After consideration, the motion CARRIED by the following vote:

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

NOES: None.

ABSTAINED: None.

ABSENT: Member Fagan and Member Hensley.

Mr. Stitle stated he should be available to attend the October Board meeting.

The meeting adjourned at 3:16 p.m.

Harry Stitle, Committee Chairperson

Dawn M. Washburn, Board Secretary