

**MINUTES OF THE BUDGET AND FINANCE COMMITTEE MEETING
OF THE RAINBOW MUNICIPAL WATER DISTRICT
NOVEMBER 12, 2024**

1. **CALL TO ORDER:** The Regular Budget & Finance Committee meeting of the Rainbow Municipal Water District was called to order on November 12, 2024, by Chairman Nelson at 1:00 p.m. in the Board Room of the District Office at 3707 Old Highway 395, Fallbrook, CA 92028. Chairman Nelson presiding.

2. **PLEDGE OF ALLEGIANCE**

3. **ROLL CALL:**

Present: Members Nelson, Stewart, Hensley, and Townsend-Smith

Also Present: General Manager Wiley, District Secretary Quintanar, Finance Manager/Chief Financial Officer Aragon, Information Technology Specialist III Espino, Operations Manager Gutierrez, Engineering and CIP Manager Williams, Administrative Manager Harp, and Director Johnson

Present Via

Teleconference or

Video Conference: Safety and Risk Management Officer Johnson, Construction & Meters Supervisor Laguna

Members of the public, Rick Carey and Duane Urquhart, were present in person.

4. **SEATING OF ALTERNATES**

No alternates were seated.

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

The order of Items 10 and 11 were reversed.

6. **APPROVAL OF THE AGENDA**

Motion: To approve the Agenda as amended.

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

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

Ayes: Member Nelson, Townsend-Smith, Hensley, and Stewart

7. **PUBLIC COMMENT**

There were no members of the public in attendance.

8. **APPROVAL OF MINUTES**

A. October 9, 2024

Chairperson Nelson requested a typographical correction to the minutes.

Motion: To approve the October 9, 2024, Minutes as amended.

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

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

Ayes: Member Nelson, Townsend-Smith, Hensley, and Stewart

9. COMMENTS & REQUESTS

- A. General Manager's Comments
- B. Finance Manager's Comments
- C. Committee Member's Comments

Mr. Wiley reported on a corrosion-related main leak on Mission Road, at the northern connection to Morrow Reservoir, a critical pipeline that flooded a portion of Mission Road. After approximately 36 hours, the leak was isolated on both ends, and a primus liner will be used to line the pipe, and repairs should be completed next week. The cost is approximately \$87,000 to install the liner and District staff will be assisting. Other facilities can accommodate water demands for the area, in the meantime.

Also, a 16" line break feeding the Lilac Pump Station required repairs, and staff worked many hours, assisted by FPU staff, to complete that work. Due to limited supply and immediate need, Rancho California Water District provided two 20" blind flanges.

In addition, the Garden Fire had also flared up over the weekend, and the District's Heli-hydrant was utilized to fight the fire by air. CBS 8 News contacted the District for more information for a story, and CalFire and North County Fire personnel were also included. More Heli-hydrants may be added to our service area in the future, potentially sponsored by insurance companies or other sources.

The first Exit Fee payment of \$3.2M and the Board authorized financing the entire Exit Fee, the \$12.6M reminder is due in January. Mr. Wiley also reported on the related items that the Board will consider on November 19, 2024. LAFCO has recorded the completion of the detachment, and we now own the facilities. One change will be an infrastructure readiness to serve charge on the property tax bills. The change will be on next year's property taxes, as the County Water Authority charges will drop, and EMWD's smaller per-acre charge will be added. Residents will receive notification of the change.

Mr. Wiley provided a CropSWAP update. More than 60 projects have been approved for our agricultural customers. The funds have been allocated on a first-come, first-served basis. The fourteen additional applications under review will be placed on a waitlist. Additional funding for the continuation of the program will be sought.

MWD will offer the Reverse Cyclic Program to stabilize water sales and provide savings. It's a water pre-purchase program that is likely to be well utilized. Mr. Aragon reported that this is a demand management tool for cash flow and deliveries. We could use their storage for up to five years, at no cost to member agencies.

Mr. Aragon reported that \$2-3M in individually purchased government securities have been unwound to provide liquidity and the last will mature in December. In October, water demands were 21 percent over budget, translating to an approximate \$700,000 net revenue by the end of the year. He also reported on the Budget to Actual report, reflecting slightly increased revenues and water sales. Discretionary spending through September is at or below budget estimations.

Mr. Wiley announced that Rick Aragon has accepted a position at the Western Municipal Water District and will be leaving the District in early December. It was fortuitous and crucial to have Mr. Aragon's expertise over the past year. He referenced examples of instances where Mr. Aragon's guidance has greatly improved the District's financial position. Compliments were expressed by Committee members.

Chairman Nelson commented regarding the General District Election, which may result in the replacement of two of the District's incumbents. He relayed eagerness to work with the new Board Members, to hear their ideas.

10. DISCUSSION OF FINANCIAL OPTIONS FROM ONE TIME SAVINGS FROM EARLY DETACHMENT FROM THE SDCWA

Mr. Aragon explained options for utilizing approximately \$700,000 in unanticipated water purchase savings, due to the early detachment from the San Diego County Water Authority. Staff recommended Option 1, to hold on to the funds until reserves are up to a healthy level. Several Committee Members voiced favor in doing so.

Motion: To approve the recommendation for Board approval of Option 1, to hold on to the funds for potential interest earnings, and to strengthen reserves

Action: Approve, Moved by Member Stewart, Seconded by Member Townsend-Smith

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

Ayes: Member Nelson, Townsend-Smith, Hensley, and Stewart

Mr. Urquhart again urged for review of the water sales forecast considering a substantial reduction of agricultural water use. He encouraged the use of the savings to make efforts to make rates more viable for agricultural growers.

11. CONSIDER A RESOLUTION APPROVING AND AUTHORIZING THE EXECUTION AND DELIVERY OF AN INSTALLMENT PURCHASE AGREEMENT WITH U.S. BANK FOR FINANCING FIFTEEN MILLION EIGHT HUNDRED THOUSAND DOLLARS FOR THE EXIT FEE FROM THE SAN DIEGO COUNTY WATER AUTHORITY

Mr. Aragon explained the recommended action and estimated savings. Annual payments would be approximately \$3.2M for five years, plus interest. A second option is to issue tax exempt financing through U.S. Bank. We could finance the \$15.8M over ten years at a fixed 4.63 percent interest rate, with the option to refinance the debt in five years. The primary advantages are cash flow savings for this year and future. This could cover the \$1.5M needed to fund the three pump stations. It could also enable avoidance of a MWD pass-through rate increase on January 1, 2025. Mr. Wiley added that this could translate to a reduction in costs on January 1, and this option would allow the District to hold the rates steady and will result in a positive impact to our reserves. He opined that it would be beneficial for our rate payers and our reserves.

Chairman Nelson expressed concerns about the payoff of the debt and not passing through the MWD 3.6 percent pass-through fee, and Mr. Wiley explained that there is a window of benefit where we will achieve savings through detachment. We would be extending the savings over ten years. The terms of the debt allow refinancing or early pay off. Vice Chairperson Stewart reminded the Committee that at the time the District asked for the public's vote, the goal was to avoid rate increases. Discussion ensued regarding previous discussions, actions, obligations, and MWD's interruptible water rate.

Motion: To approve the recommendation for Board approval of Option 1

Action: Approve, Moved by Member Hensley, Seconded by Member Townsend-Smith

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

Ayes: Member Nelson, Townsend-Smith, Hensley, and Stewart

12. CONSIDERATION OF THREE RATE RELATED ACTIONS: (1) ADOPTION OF A RESOLUTION RECLASSIFYING PSAWR CUSTOMERS TO AGRICULTURE AND LOWERING AGRICULTURE WATER RATES, (2) PROVIDING DIRECTION TO STAFF TO NOT IMPLEMENT THE 3.6% IMPORTED WATER COST INCREASE PASS-THROUGH RATE INCREASE ON JANUARY 1, 2025, AND (3) ADOPTION OF AN ORDINANCE AMENDING ORDINANCE NO. 23-04 REVISING PROVISIONS RELATING TO CONSTRUCTION WATER RATES

Mr. Aragon explained the origins of the PSAWR program. Due to detachment, we no longer have the San Diego County Water Authority's PSAWR classification, which is a special discount for a subset of our ag customers. Staff recommended lowering all ag variable rates by five percent, creating a lower rate for all ag customers. The variable rate on PSAWR is lower than the ag rate. Currently, about one-third of the District's ag customers have the PSAWR rate.

He continued that there are three items to consider. The first is to reclassify PSAWR customers to the agriculture rate. Staff will also propose lowering the agriculture rate, and to also forego implementing MWD's pass-through rate. There will also be an amendment to the Administrative Code to clarify the rate for temporary construction meters. The ordinance being presented to the Board for consideration would point to commercial rates for construction meters.

Public guests Rick Carey and Duane Urquhart expressed disappointment with the cost of water. Mr. Wiley explained that the options revealed through the Cost of Service Study were carefully reviewed, and a balance between fixed and variable rates was the goal. The District will continue to evaluate options, and the considerations were for the preservation of agriculture at the time of Board action in 2023. CropSWAP is not to increase sales, the goal is to provide support for our existing growers to succeed.

Motion: To approve.

Action: Approve, Moved by Member Townsend-Smith, Seconded by Member Stewart

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

Ayes: Member Nelson, Townsend-Smith, Hensley, and Stewart

13. REVIEW OF THE FISCAL YEAR (FY) 2024-2025 BUDGET

Staff reported that the budget document has been compiled, updated and submitted for award. Chairman Nelson expressed that staff costs are a large part of the Operating Budget and that he was seeking details of staffing costs, burdened and unburdened. He requested a clear breakdown of costs associated with staffing.

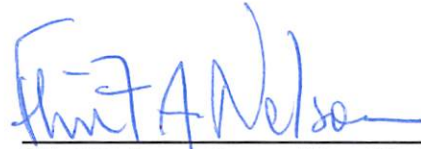
14. REVIEW OF MONTHLY FINANCE PACKET

Chairman Nelson complimented staff's efforts to provide current financial information.

15. SUGGESTED AGENDA ITEMS FOR THE NEXT MEETING

There were no requests.

16. **ADJOURNMENT** - The meeting was adjourned by Chairman Nelson at 3:32 p.m. to December 17, 2024, at 1:00 p.m.



Flint Nelson, Committee Chairperson

Attest:



Terese Quintanar, District Secretary