PALMDALE RECYCLED WATER AUTHORITY (PRWA)
HELD AT PALMDALE WATER DISTRICT
2029 EAST AVENUE Q
PALMDALE, CALIFORNIA
REGULAR MEETING AGENDA NO. 17
MAY 20, 2015
7:00 P.M.

www.cityofpalmdale.org
www.palmdalewater.org

WELCOME

NOTE: Materials related to an item on this Agenda submitted to the Palmdale Recycled Water Authority Board of Directors, or after distribution of the agenda packet, are available for public inspection at the City of Palmdale City Hall, located at 38300 Sierra Highway, Suite A, Palmdale, California, and at the Palmdale Water District, 2029 East Avenue Q, Palmdale, California during normal business hours and will also be available at the meeting. Those items provided by others at the meeting will be available at City Hall during normal business hours.

A **three-minute time limit** will be imposed on all speakers other than staff members.

In accordance with the Americans with Disabilities Act of 1990, if you require a disability-related modification or accommodation to attend or participate in this meeting, including auxiliary aids or services, please call the Palmdale Water District at least 48 hours prior to the meeting.

Your courtesy is requested to help our meeting run smoothly. If you'll be kind enough to follow these simple rules, we can make the best possible use of your time and ours:

- Please refrain from public displays or outbursts such as unsolicited applause, comments, cheering, foul language, or obscenities.
- Any disruptive activities that substantially interfere with the ability of the Board of Directors to carry out its meeting will not be permitted and offenders will be requested to leave the meeting.
- Please turn off cell phones and pagers.

1. CALL TO ORDER.

2. PLEDGE OF ALLEGIANCE.

3. **ROLL CALL:** **DIRECTORS JAMES C. LEDFORD, JR., KATHY MAC LAREN, ROBERT ALVARADO, FRED THOMPSON, AND HELEN VELADOR**

4. **WAIVER OF FULL READING OF RESOLUTION(S).**

Motion: Move to waive full reading of the Resolution(s) to be considered and voted on at this meeting. (**Vote by Roll Call** - Requires a majority to waive.)

5. **CONSENT CALENDAR – PUBLIC COMMENTS ONLY:** If you wish to comment on any item(s) listed on the Consent Calendar on this agenda, please come forward to the podium and state the item number(s) and your comments. **PLEASE NOTE: A three-minute time limit** will be imposed on each speaker other than staff members.

6. **CONSENT CALENDAR:**

NOTICE: All matters listed under the Consent Calendar will be enacted by one motion unless an item(s) is pulled by the Board, in which case the item(s) will be removed from the Calendar and will be considered separately following this portion of the Agenda.

6.1 Approve the Minutes from the previous meeting held on March 18, 2015 (7pm). (Staff Reference: Authority Secretary Smith)

6.2 Approve Receipt and Filing of the Treasurer's Report for the four months ending April 30, 2015. (Staff Reference: Treasurer/Auditor Johnston)

6.3 Approve the Receipt and Filing of the Annual Audited Financial Report for 2014. (Staff Reference: Treasurer/Auditor Johnston)

Staff Recommendation: Move to approve the recommendations and findings on all items listed under this Consent Calendar. (**Vote by Roll Call** - Requires a majority to approve.)

7. **ACTION CALENDAR**

7.1 Consideration and Possible Action on Authorizing the submittal of a Water Recycling Grant Application to the State Water Resources Control Board for the Palmdale Recycled Water Authority Recycled Water Line Phase 2 project which includes approval of the following: (Staff Reference: Executive Director LaMoreaux)

1. Approve staff to prepare grant applications to the California State Water Resources Control Board.

2. Approve a planning grant request to the SWRCB to provide $75,000 in cost share funding from the Water Recycling Component of Proposition 1.

3. Approve a construction grant request to the SWRCB to provide up to 35% of construction in grant funding.

4. Adopt Resolution No. PRWA 2015-004, a Resolution Of The Board Of Directors Of The Palmdale Recycled Water Authority Authorizing The Submittal Of A Water Recycling Grant Application To State Water Resources Control Board For The Palmdale Recycled Water Authority Recycled Water Line Phase 2 Project.

5. Authorize the Executive Secretary to transmit the grant applications when completed to SWRCB.

Call for Public Comment

Staff Recommendation: Move to approve all items required to prepare, approve and submit the Water Recycling Grant Application to the SWRCB. (**Vote by Roll Call** – requires a majority to adopt, and per Section 4.9(e) of the Authority's Joint Exercise of Powers Agreement, the affirmative vote of at least one director from each member agency).

8. SPECIAL REPORT

8.1 Discussion and possible action regarding priority of use of Recycled Water and a status on the Recycled Water Allocation Agreements. (Staff Reference: Authority Counsel Ditzhazy)

There is No Staff Report for this Item. The following documents are attached for this item:

- **Joint Exercise of Powers Agreement – 2nd Amendment dated 10/2/2013**
- **Joint Exercise of Powers Agreement – 1st Amendment dated 03/06/2013**
- **Joint Exercise of Powers Agreement – dated 09/26/2012**

Call for Public Comments

9. **NON-AGENDA ITEMS - PUBLIC COMMENTS:** This portion of the Agenda allows an individual the opportunity to address the Board of Directors on any subject regarding Palmdale Recycled Water Authority business. Under state legislation, no action can be taken on items not specifically referenced on the Agenda. **PLEASE NOTE: A three-minute time limit** will be imposed on each speaker other than staff members.

10. **INFORMATIONAL REPORT OF THE BOARD OF DIRECTORS, EXECUTIVE DIRECTOR, AND ASSISTANT EXECUTIVE DIRECTOR.**

11. **ADJOURNMENT** to June 17 at 7:00 p.m. at the City of Palmdale Council Chambers located at 38300 Sierra Highway, Suite B, Palmdale, California

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Complete packets can be viewed at City Hall, located at 38300 Sierra Highway, Suite A, Palmdale, California; the Palmdale Water District, 2029 East Avenue Q, Palmdale, California, and the Main Library, located at 700 East Palmdale Boulevard, Palmdale, California. You can also view the Agenda for the Palmdale Recycled Water Authority on the City's website at www.cityofpalmdale.org or the Palmdale Water District website at www.palmdalewater.org.

Thank you for attending your Palmdale Recycled Water Authority meeting. If you have any further questions, please contact the Secretary's Office at (661) 267-5151, Monday through Thursday, 7:30 a.m. to 6:00 p.m., closed every Friday.

PALMDALE RECYCLED WATER AUTHORITY

BOARD MEMORANDUM

DATE:	May 20, 2015	**May 20, 2015**
TO:	BOARD OF DIRECTORS	**Board Meeting**
FROM:	Karen Johnston, Treasurer-Auditor, PRWA	
VIA:	Mr. Dennis LaMoreaux, Executive Director, PRWA	

RE: AGENDA ITEM NO 6.2 – TREASURER'S REPORT FOR APRIL 30, 2015

Recommendation:

Palmdale Recycled Water Authority (PRWA) staff recommends the Board of Directors to receive and file the Treasurer's Report for the four months ending April 30, 2015.

Background:

To comply with provisions required by Section 4.13 of the Joint Powers of Authority Agreement and responsibilities of Treasurer, a Financial Report is prepared and submitted to the Board of Directors who certifies the availability of funds for the reports presented. These reports are hereby submitted to the Board of Directors for ratification.

Financial Impact:

As of April 30, 2015 the PRWA has $243,353.06 cash in the bank. PRWA earned $77.65 in interest and paid invoices totaling $11,301.68 in expenditures and has $34.99 in unpaid invoices due.

Supporting Documents:

April 30, 2015 Treasurer's Report.

Palmdale Recycled Water Authority
Treasurer's Report
Month Ended April 30, 2015

Cash/Funds Available and held at Bank of America:		
Balance, beginning January 1, 2015		$64,582.49
Add: 2014 Accounts Receivable Received in 2015		$231,625.18
Less: 2014 Accounts Payable Paid in 2015		($41,630.58)
Available Balance, beginning		254,577.09
Deposits:	Interest Earnings	77.65
Expenditures		11,301.68
Balance, ending		$243,353.06

Expenditures:

Wateruse Association, 2015 Membership Dues	2,552.37
Rackspace, Hosting Service (Monitoring & Firewall to Feb 2015)	2,424.87
Travel and Training	1,859.43
Professional Services-VDT Audit Services	4,500.00
Total Expenditures	11,336.67

Accounts Payable:

Travel and Training	34.99
Total Accounts Payable	34.99

Accounts Receivable:

City of Palmdale - Water	0.00
Total Account Receivable	0.00

PALMDALE RECYCLED WATER AUTHORITY

BOARD MEMORANDUM

DATE:	May 20, 2015	**May 20, 2015**
TO:	BOARD OF DIRECTORS	**Board Meeting**
FROM:	Karen Johnston, Treasurer-Auditor, PRWA	
VIA:	Mr. Dennis LaMoreaux, Executive Director, PRWA	

RE: AGENDA ITEM NO. 6.3 – ANNUAL AUDITED FINANCIAL REPORT FOR 2014

Recommendation:

Palmdale Recycled Water Authority (PRWA) staff recommends the Board of Directors to receive and file the Annual Audited Financial Report for 2014.

Background:

To comply with provisions required by Section 4.13 of the Joint Powers of Authority Agreement and Government Code Section 6505, the Treasurer shall contract with a certified public accountant to make an annual audit of the records of the PRWA and the minimum requirements of the audit shall be those prescribed by the Controller for special districts under Section 26909 and conform to generally accepted auditing standards. The Authority has contracted with Vavrinek, Trine, Day & Co., LLP to perform the annual audit of the Authority's financial transactions for the 2014 calendar year. Vavrinek, Trine, Day & Co., LLP have completed their review of the Authority's financial transactions and have issued the attached annual report.

Financial Impact:

None.

Supporting Documents:

2014 Annual Audited Financial Report

PALMDALE RECYCLED WATER AUTHORITY
PALMDALE, CALIFORNIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2014

PALMDALE RECYCLED WATER AUTHORITY

ANNUAL FINANCIAL REPORT
DECEMBER 31, 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Palmdale Recycled Water Authority
Palmdale, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Palmdale Recycled Water Authority (Authority) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2015, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
April 14, 2015

PALMDALE RECYCLED WATER AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2014

The following is a brief discussion of the Palmdale Recycled Water Authority (Authority) activities and financial performance for the year ended December 31, 2014. Please read in conjunction with the Authority's basic financial statements and accompanying notes which follow this section.

FINANCIAL HIGHLIGHTS

- The Authority's total assets were $296,207 at December 31, 2014, an increase of $115,023 from the prior year.
- The Authority's total liabilities at December 31, 2014 were $41,631.
- The Authority's net position at December 31, 2014 was $254,576.
- The Authority's revenues increased by $31,625 as the result of recycled water sales to the City of Palmdale.
- The Authority's operating expenses increased by $38,826 as the result of engineering cost to complete the Recycled Water Facilities Master Plan, cost for first year audit services and increases in water use charges.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe which transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are reported using the economic resources measurement focus, and the accrual basis of accounting.

Under the economic resources measurement focus all assets and liabilities (whether current or noncurrent) associated with these activities are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

The Authority's financial statements, prepared in accordance with generally accepted accounting principles (GAAP), offer key, high-level financial information about Authority's activities during the reporting period. The financial statements of the Authority consist of three interrelated statements designed to provide the reader with relevant information on the Authority's financial condition and operating results. These statements offer short-term and long-term financial information about the Authority's activities utilizing the full accrual basis of accounting.

The *Statement of Net Position* includes all of the Authority's assets, less liabilities, and provides information about the nature and amounts of investments in resources (assets) and the obligations to the Authority's creditors (liabilities), with the difference being reported as net position. It also provides the basis for computing rate of return, evaluating the capital structure of the Authority, and assessing the liquidity and financial flexibility of the Authority.

All the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses, and Changes in Net Position.* This statement measures the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its projected costs through its member contributions.

The final required financial statement is the *Statement of Cash Flows* which presents information about the Authority's cash receipts and cash payments during the reporting period classified as cash receipts, cash payments, and net changes in cash resulting from operations, and investing, non-capital financing and capital and related financing activities.

FINANICAL ANALYSIS OF THE AUTHORITY

Our analysis of the Authority begins on page 3 of the Management's Discussion and Analysis. One of the most important questions asked about the Authority's finances is: "Is the Authority, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Authority's activities in a way that will help answer this question. These two statements report the net position of the Authority and changes in them. You can think of the Authority's net position as the difference between assets and liabilities as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net position is one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, population growth, changes in rates and charges and new or changed government legislation or accounting standards.

STATEMENT OF NET POSITION

The Net Position is the difference between assets, less liabilities, and may serve over time as a useful indicator of a government's financial position. The following is a summary of the Authority's Statement of Net Position as of December 31.

Condensed Statement of Net Position

	2014	2013
Cash and Cash Equivalents	$ 64,582	$ 181,184
Accounts Receivable	231,625	-
Total Assets	296,207	181,184
Current Liabilities	41,631	50,343
Total Liabilities	41,631	50,343
Total Unrestricted Position	$ 254,576	$ 130,841

As can be seen from the financial statement summary above the Authority's assets exceed liabilities by $254,576, as of December 31, 2014. The Authority's Net Position increased by $123,735 or 94.5 percent, primarily as the result of annual contributions received from the Authority's members and water usage revenues invoiced of $31,625 for the first time in 2014.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

While the Statement of Net Position shows the net position, the Statement of Revenues, Expenses, and Changes in Net Position provides information as to the nature and source of these changes. The Authority reported an increase in net position of $123,735 for the year ended December 31, 2014 as compared to the prior year. The following is a summary of the change in the Authority's net position.

Condensed Statements of Revenues, Expenses, and Changes in Net Position

	2014	2013
Revenues:		
Membership Contributions	$ 200,000	$ 200,000
Water Sales	31,625	-
Total Revenues	231,625	200,000
Expenses:		
Operating Expenses	108,020	69,194
Total Expenses	108,020	69,194
Non-operating Revenue		
Interest Revenue	130	35
Total Non-operating revenue	130	35
Change in Net Position	123,735	130,841
Net Position - January 1	130,841	-
Net Position - December 31	$ 254,576	$ 130,841

The changes in Net Position, is directly related to the Authority's member support to offset operating cost. During 2014, the Authority finalized and adopted a Recycled Water Facilities Master Plan, related CEQA/NEPA Documentation and rate study. This allowed the members of the Authority to utilize recycled water at a rate of 75 acre-feet per year freeing up the same amount of potable water. By freeing up potable water the Authority in effect provided potable water for up to 75 homes based on an average use of one acre-foot per year for a family of four.

CONTACTING THE AUTHORITY'S FINANICAL MANAGEMENT

This financial report is intended to provide the Board of Directors, customers, taxpayers, creditors, and other interested parties with general overview of the Authority's financial operations and condition at the year ended December 31, 2014, and to demonstrate the Authority's accountability for the funds it receives. If you have any questions about this report or need additional information, you may contact City of Palmdale, Finance Department, at 38300 Sierra Highway, Suite D, Palmdale, CA 93550, (661)267-5414, http://www.cityofpalmdale.org/city_hall/prwa.html

PALMDALE RECYCLED WATER AUTHORITY

Statement of Net Position

December 31, 2014

ASSETS

Current Assets:	
Cash and Cash Equivalents	$ 64,582
Accounts Receivable	231,625
Total Assets	296,207

LIABILITIES

Current Liabilities:	
Accounts payable	41,631
Total Liabilities	41,631

NET POSITION

Unrestricted	254,576
Total Net Position	$ 254,576

See accompanying notes to the financial statements

PALMDALE RECYCLED WATER AUTHORITY

Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended December 31, 2014

OPERATING REVENUES	
Member Agency Contributions	$ 200,000
Water Sales	31,625
Total Operating Revenues	231,625
OPERATING EXPENSES	
Contract Services-Engineering Services	75,141
Contract Services-Auditing Services	7,500
Marketing and Outreach	7,302
Utilities-Water	18,077
Total Operating Expenses	108,020
Operating Income	123,605
NON-OPERATING REVENUE	
Investment Income	130
Total Non-Operating Revenue	130
Change in Net Position	123,735
Net Position-Beginning of Year	130,841
Net Position-End of Year	$ 254,576

See accompanying notes to the financial statements

PALMDALE RECYCLED WATER AUTHORITY

Statement of Cash Flows

For the Year Ended December 31, 2014

Cash Flows from Operating Activities:	
Cash payments to suppliers	$ (116,732)
Net Cash Used for Operating Activities	(116,732)
Cash Flows from Investing Activities:	
Investment Income	130
Net Cash Provided by Investing Activities	130
Net decrease in cash and cash equivalents	(116,602)
Cash and cash equivalents at the beginning of the year	181,184
Cash and cash equivalents at the end of the year	$ 64,582
Reconciliation of operating income to net cash used for operating activities:	
Operating Income	$ 123,605
Change in accounts receivable:	
Increase in accounts receivable	(231,625)
Change in liabilities:	
Decrease in accounts payable	(8,712)
Net cash provided by operating activities	$ (116,732)

See accompanying notes to the financial statements

Note 1- Organization and Summary of Significant Accounting Policies

A. Reporting Entity

The Palmdale Recycled Water Authority (Authority) was formed under a Joint Exercise of Powers Authority on September 26, 2012, pursuant to Sections 6506 and 6507 of the Exercise of Powers Act, codified at California Government Code sections 6500, authorizes public agencies by agreement to exercise jointly any power common to the contracting parties. The Authority was formed between the City of Palmdale, a California Charter City (City) and Palmdale Water District, an Irrigation District under Division 11 of the California Water Code (PWD). The Authority is an independent public agency separate from the Members.

The purpose of the Authority is to establish an independent public agency to study, promote, develop, distribute, construct, install, finance, use and manage recycled water resources created by the Los Angeles County Sanitation District Nos. 14 and 20 for any and all reasonable and beneficial uses, including irrigation and recharge, and to finance the acquisition and construction or installation of recycled water facilities, recharge facilities and irrigation systems.

B. Basic Financial Statements

The Authority's basic financial statements consist of the Statement of Net Position, the Statement of Revenues, Expenses and Changes in Net Position, the Statement of Cash Flows, and the Notes to the Basic Financial Statements.

C. Basis of Presentation

The Authority accounts for its activities as an enterprise fund. An enterprise fund is a proprietary type fund used to account for operations (a) that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The Authority's basic financial statements have been prepared on the accrual basis of accounting, and are presented on an economic resources measurement focus reporting all economic resources and obligations for the period ended December 31, 2014.

The accounting policies of the Authority are in conformity with generally accepted accounting principles applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing accounting and financial reporting principles.

D. Net Position

In the Statement of Net Position, net position is classified in the following categories:

- Unrestricted net position – This amount is the net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted component of net position.

When both restricted and unrestricted resources are available, it is the Authority's policy to use restricted resources first and then unrestricted resources as they are needed.

E. Operating and Non-Operating Revenues and Expenses

Operating revenues consist of charges for water sales to customers for recycled water and member contributions to defray the cost of the Authority's operation. Operating expenses include the cost of sales and services, maintenance of capital assets and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

F. Cash and Cash Equivalents

Cash and cash equivalents include demand deposits. For the purpose of the Statement of Cash Flows, cash and cash equivalents are defined as short-term deposits with original maturities of three months or less from the date of acquisition.

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Implemented Accounting Pronouncements

During 2014, the Authority adopted GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25.* The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, and* Statement No. 50, *Pension Disclosures*, as they relate to pension plans that are not administered through trust covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pension. The implementation did not have any impact on the Authority's financial statements.

During 2014, the Authority adopted GASB Statement No. 69, *Government Combinations and Disposals of Government Operations.* The objective of this Statement is to establish reporting standards related to government combinations and disposals of government operations. The implementation did not have any significant impact on the Authority's financial statements.

During 2014, the Authority adopted GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees.* The objective of this Statement is to improve the recognition, measurement, and disclosure guidance for state and local governments that have extended or received financial guarantees that are nonexchange transactions. The implementation did not have any impact on the Authority's financial statements.

I. New Future Accounting Pronouncements

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27.* The primary objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This statement results form a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

The statement is effective for periods beginning after June 15, 2014, or the 2015 fiscal year. The Authority has not determined the effect on the financial statements.

GASB Statement No. 71 – In November 2013, GASB issued Statement No. 71, *Pension Transition for Cont ributions made Subsequent to the Measurement Date – an amendment to GASB Statement No. 68*. This statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The provisions of this statement are required to be applied simultaneously with the provisions of Statement 68. The Authority has not determined the effect on the financial statements.

Note 2- Cash and Investments

Cash and investments at December 31, 2014 are classified in the accompanying financial statements as follows:

Statement of net position:	
Cash and Cash Equivalents	$64,582

Cash and investments as of December 31, 2014 consist of the following:

Deposits with financial institutions	$64,582

A. Investment Policy and Authorized Investments

The Authority is authorized under California Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase of reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations as specified in Section 5366. The Authority does not have a formal policy for investments that is more restrictive than the noted Government Code.

B. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Authority will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Authority does not have a policy of custodial credit risk for deposits. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Note 3- Contributions from Member Agencies

Section 5.2 of the Joint Exercise of Powers Agreement creating the Palmdale Recycled Water Authority provides that any member may make contributions of money or assets to the Authority; make or advance payments of public funds to defray the cost of Authority's operation; and contribute personnel, equipment or property instead of or in addition to other contributions or advances. Such contributions shall be paid to and disbursed by the Authority as set out in separate agreements between the Authority and the member and approved by the Board and the governing body of the member. During 2014, each member agency contributed $100,000. This amount has not been received as of December 31, 2014.

Note 4- Related Party Transactions

The Board of the Authority has assigned staff from the Palmdale Water District and the City of Palmdale to serve in various administrative duties of the Authority. All payroll cost related to staff time while serving the Palmdale Recycled Water Authority is incurred by the respective agencies and none of the payroll costs are incurred by the Authority nor are they charged to the Authority for such services.

During 2014, the City of Palmdale purchased recycled water from the Authority in the amount of $31,625.

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Palmdale Recycled Water Authority
Palmdale, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Palmdale Recycled Water Authority (Authority), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated April 14, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
April 14, 2015

PALMDALE RECYCLED WATER AUTHORITY

BOARD MEMORANDUM

DATE:	May 13, 2015	**May 20, 2015**
TO:	BOARD OF DIRECTORS	**Board Meeting**
FROM:	Mr. James Riley, Engineering/Grant Manager, PWD	
VIA:	Mr. Dennis D. LaMoreaux, Executive Director	
RE:	***AGENDA ITEM NO. 7.1 – CONSIDERATION AND POSSIBLE ACTION ON AUTHORIZING THE SUBMITTAL OF A WATER RECYCLING GRANT APPLICATION TO STATE WATER RESOURCES CONTROL BOARD FOR THE PALMDALE RECYCLED WATER AUTHORITY RECYCLED WATER LINE PHASE 2 PROJECT***	

Recommendation:

That the Board:

1. Approve staff to prepare grant applications to the California State Water Resources Control Board.

2. Approve a planning grant request to the SWRCB to provide $75,000 in cost share funding from the Water Recycling Component of Proposition 1.

3. Approve a construction grant request to the SWRCB to provide up to 35% of construction in grant funding.

4. Authorize the Director to execute Resolution No. PRWA 2015-004

5. Authorize the Executive Secretary to transmit the grant applications when completed to SWRCB.

Impact of Taking No Action

1. The Authority would lose the potential for a $75,000 planning grant.

2. The Authority would lose early consideration for grant and loan funding for construction

Background:

On November 4, 2014, California voters approved Proposition 1, the Water Quality Supply and Infrastructure Improvement Act of 2014. The Act authorizes $7.5 billion in general obligation bonds for new water programs.

The Act allocates $630 million for water recycling projects. Projects eligible for funding include those in the planning/design phase such as the Palmdale Recycled Water Authority (Authority) Recycle Water Line Phase 2 Project.

The SWRCB issued draft guidelines in March 2015 regarding applications and criteria for funding. The guidelines state that planning grant funds will cover 75% of eligible costs up to a maximum of $75,000 and construction grant funds would be limited to a maximum of 35% of construction costs with a maximum of $15,000,000. The remaining required funding for planning and construction would come from local cost share by the applicant.

On March 18, 2015, the Authority entered into a contractual agreement with Antelope Valley Engineering, Inc. of Lancaster, California to complete final design and cost estimate for the Recycled Water Line Phase 2 Project. Design is scheduled for completion in the fall of 2015.

It is advantageous for the Authority to submit a request to the SWRCB for grant funding under the Water Recycling component of Proposition 1. By submitting at application at this time, the Authority would better position itself to be considered for grant funding.

Budget:

Preparation of the grant applications would not impact the budget of the Authority.

If planning grant application is approved by the SWRCB, there would be a positive cash inflow of $75,000. Construction grant funding of 35% of construction costs has the potential to result in $7,000,000 in grant funding assuming a construction cost of $20 million.

Supporting Documents:

- Resolution No. PRWA 2015-004

RESOLUTION NO. PRWA 2015 -004

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE PALMDALE RECYCLED WATER AUTHORITY AUTHORIZING THE SUBMITTAL OF A WATER RECYCLING GRANT APPLICATION TO STATE WATER RESOURCES CONTROL BOARD FOR THE PALMDALE RECYCLED WATER AUTHORITY RECYCLED WATER LINE PHASE 2 PROJECT

WHEREAS, The Palmdale Recycled Water Authority (Authority) has completed a Recycled Water Facilities Master Plan; and

WHEREAS, The Authority has adopted a Mitigated Negative Declaration for the Recycled Water Facilities Master Plan Initial Study (Resolution No. PRWA 2015-002); and

WHEREAS, the adopted Mitigated Negative Declaration by the Authority fulfills requirement of CEQA and establishes the eligibility of the Project for construction grant funding; and

WHEREAS, the Authority has entered into a contractual agreement with an engineering firm to provide design and construction cost estimate services for the Recycled Water Line Phase 2 Project (Project); and

WHEREAS, the Proposition 1, the Water Quality, Supply and Infrastructure Act of 2014 provides grant funding for water recycling projects; and

WHEREAS, the Authority has need for grant funding to implement the Recycled Water Line Phase 2 Project.

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors of the Palmdale Recycled Water Authority:

SECTION 1: The Authority staff is directed to complete the grant applications for both planning and construction grants.

SECTION 2: The Authority hereby approves the Chair of the Board to execute Resolution No. PRWA 2015-004.

SECTION 3: The Authority hereby approves the Executive Secretary of the Board to transmit the grant applications when completed to the SWRCB.

SECTION 4: The Secretary of the Authority shall certify to the adoption of this Resolution and enter it into the official records of the Authority.

PASSED, APPROVED and ADOPTED this 20th day of May, 2015, by the following vote:

AYES:_____

NOES:_____

ABSTAIN:_____ ABSENT:_____

PROPOSED

_____
James C. Ledford, Jr., Chair

ATTEST:

_____
Rebecca J. Smith,
Authority Secretary

Approved as to form:

_____
Wm. Matthew Ditzhazy
Authority Counsel

There is No Staff Report For this Item

The following documents are attached for this item:

- Joint Exercise of Powers Agreement – 2nd Amendment dated 10/2/2013
- Joint Exercise of Powers Agreement – 1st Amendment dated 03/06/2013
- Joint Exercise of Powers Agreement – dated 09/26/2012

SECOND AMENDMENT TO THE JOINT EXERCISE OF POWERS AGREEMENT CREATING THE PALMDALE RECYCLED WATER AUTHORITY DATED SEPTEMBER 26, 2012 (CITY AGREEMENT NO. A-4113)

Dated October 2, 2013

This Second Amendment to the "Joint Exercise of Powers Agreement Creating the Palmdale Recycled Water Authority" dated September 26, 2012 (hereinafter "Agreement") is made and entered into this 1st day of October, 2013, by and between the City of Palmdale, State of California, a California Charter City (hereinafter "City") and the Palmdale Water District, an Irrigation District under Division 11 of the California Water Code (hereinafter "District").

WITNESSETH:

WHEREAS, pursuant to Section 1.1, "Definitions", of the Agreement, the District and the City are the constituent "Members" of the Palmdale Recycled Water Authority (hereinafter "PRWA" or "Authority"); and

WHEREAS, Section 7.1, "Amendments", of the Agreement states, "This Agreement may be amended only upon the affirmative vote of both Members."; and

WHEREAS, pursuant to the Agreement Section 4.19 "Authority Documents", the affairs of the Authority must be implemented through duly adopted resolutions approved by the Authority Board, and

WHEREAS, it is the desire of the City and the District as Members of the Authority to amend the Agreement to simplify the adoption of general and routine items of the Authority by eliminating the need for a formal resolution except in more extraordinary matters..

NOW THEREFORE, the City and the District agree as follows:

SECTION 1. Article 4 "Organization", sub-section 4.19 of the Agreement, is amended to add on the following paragraph as follows:

"All actions of the Authority Board pursuant to Section 4.9 "Special Voting Situations" shall be via written resolution formally adopted at a regular or adjourned regular meeting of the Authority. All other Authority Board matters may be adopted via motion and vote and so noted in the minutes."

SECTION 2. EFFECTIVE DATE. This Second Amendment to the Agreement shall become effective when approved by the City Council of the City of Palmdale and the Palmdale Water District Board of Directors and is duly signed by both of those parties.

IN WITNESS WHEREOF, each of the parties have caused this "2nd Amendment to the Joint Exercise of Powers Agreement Creating the Palmdale Recycled Water Authority" dated September 26, 2012," to be executed by their duly authorized representatives as signed below.

CITY OF PALMDALE

James C. Ledford, Jr.
Mayor

PALMDALE WATER DISTRICT

Kathryn Mac Laren
President

APPROVED AS TO FORM:

Wm. Matthew Ditzhazy
City Attorney

APPROVED AS TO FORM:

James D. Ciampa
District Counsel

ATTEST:

Rebecca J. Smith
City Clerk

CITY OF PALMDALE
CITY CLERK ORIGINAL

FIRST AMENDMENT TO THE JOINT EXERCISE OF POWERS AGREEMENT CREATING THE PALMDALE RECYCLED WATER AUTHORITY DATED SEPTEMBER 26, 2012 (CITY AGREEMENT NO. A-4113)

Dated March 12, 2013

This First Amendment to the "Joint Exercise of Powers Agreement Creating the Palmdale Recycled Water Authority" dated September 26, 2012 (hereinafter "Agreement") is made and entered into this 12 day of March 2012, by and between the City of Palmdale, State of California, a California Charter City (hereinafter "City") and the Palmdale Water District, an Irrigation District under Division 11 of the California Water Code (hereinafter "District").

WITNESSETH:

WHEREAS, pursuant to Section 1.1, "Definitions", of the Agreement, the District and the City are the constituent "Members" of the Palmdale Recycled Water Authority (hereinafter "PRWA" or "Authority"); and

WHEREAS, Section 7.1, "Amendments", of the Agreement states, "This Agreement may be amended only upon the affirmative vote of both Members."; and

WHEREAS, pursuant to the Agreement provides for a five-member Authority Board wherein each of the two Members appoint two members from their respective governing boards to serve on the Authority Board and jointly appoint the "Fifth Director", and

WHEREAS, it is the desire of the City and the District as Members of the Authority to amend the Agreement to clarify the conditions under which the Fifth Director may be removed from the Authority Board.

NOW THEREFORE, the City and the District agree as follows:

SECTION 1. Article 4 "Organization", sub-section 4.4 of the Agreement, is amended to add the following paragraph to read as follows:

"*The fifth Director shall serve for renewable one-year terms at the pleasure of both Members. In the case of removal of the fifth Director before the expiration of his or her term, both Members would be required to adopt resolutions for removing said director. Cause for removal need not be stated in the resolutions as the fifth Director serves at the joint pleasure of both Members.*"

SECTION 2. EFFECTIVE DATE. This First Amendment to the Agreement shall become effective when approved by the City Council of the City of Palmdale and the Palmdale Water District Board of Directors and is duly signed by both of those parties.

IN WITNESS WHEREOF, each of the parties have caused this "Joint Exercise of Powers Agreement Creating the Palmdale Recycled Water Authority" dated September 26, 2012," to be executed by their duly authorized representatives as signed below.

CITY OF PALMDALE

James C. Ledford, Jr.
Mayor

PALMDALE WATER DISTRICT

Kathryn Mac Laren
President

APPROVED AS TO FORM:

Wm. Matthew Ditzhazy
City Attorney

APPROVED AS TO FORM:

Thomas S. Bunn, III
District Counsel

ATTEST:

Rebecca J. Smith
City Clerk

CITY OF PALMDALE
CITY CLERK ORIGINAL

A-4113

JOINT EXERCISE OF POWERS AGREEMENT CREATING THE PALMDALE RECYCLED WATER AUTHORITY

This Agreement is made this 25th day of Sept., 2012, by and between the City of Palmdale, a California Charter City ("City") and Palmdale Water District, an Irrigation District under Division 11 of the California Water Code ("PWD").

RECITALS

WHEREAS, the Joint Exercise of Powers Act, codified at California Government Code sections 6500 *et seq.*, authorizes public agencies by agreement to exercise jointly any power common to the contracting parties;

WHEREAS, the City and PWD are each "public agencies" as that term is defined in California Government Code section 6500;

WHEREAS, the City and PWD have each determined that it is in the public interest to create the Palmdale Recycled Water Authority, an entity separate from the City and PWD to, among other things, jointly study, promote, develop, distribute, construct, install, finance, use and manage recycled water resources created by the Los Angeles County Sanitation District Nos. 14 and 20 for any and all reasonable and beneficial uses, including irrigation and recharge, and to finance the acquisition and construction or installation of recycled water facilities, recharge facilities and irrigation systems;

WHEREAS, the City and PWD have entered into a Settlement Agreement dated September 4, 2012, that calls for the creation of the Authority. Under the Settlement Agreement, the City and PWD agreed to use their best efforts to accomplish a reallocation of the recycled water supply produced by County Sanitation Districts Nos. 14 and 20 such that the effluent generated within the City of Palmdale that is tributary to the Palmdale Treatment Plant (Sanitation District No. 20) and to the Lancaster Treatment Plant (Sanitation District No. 14), less that previously allocated for environmental projects by both Sanitation Districts Nos. 14 and 20 and 4,000 acre-feet for the Palmdale Power Plant, is available to the Authority for purchase.

NOW, therefore, in consideration of the mutual promises, covenants and conditions hereinafter contained, the members and each of them do hereby agree as follows:

Article 1 Definitions

1.1 Definitions. As used herein, the following terms have the meaning ascribed thereto, unless the context requires otherwise.

"Act" means the Joint Exercise of Powers Act, codified at California Government Code sections 6500 *et seq.*

"Agreement" means this Joint Powers Agreement.

"Authority" means the Palmdale Recycled Water Authority.

"Authority Document(s)" means document(s) duly adopted by the Board by resolution or motion implementing the powers, functions and activities of the Authority, including but not limited to the Operating Rules and Regulations, the annual budget, and plans and policies.

"Board" means the Board of Directors, which is the governing body of the Authority.

"Bonds" means bonds, notes, commercial paper, floating rate, and variable maturity securities, and any other evidences of indebtedness and also includes certificates of participation, lease-purchase agreements or loan agreements.

"Sanitation Districts" means the Los Angeles County Sanitation Districts Nos. 14 and 20.

"Director" means a member of the Board of Directors.

"Effective Date" means the date on which this Agreement shall become effective and the Authority shall exist as a separate public agency.

"Members" means the City and PWD.

"Operating Rules and Regulations" means the rules, regulations, policies, bylaws and procedures governing the operation of the Authority.

"Public Agency" means those public entities set forth in Section 6500 of the Act.

"Public Capital Improvements" mean one or more projects specified in Section 6546 of the Act.

"Waterworks" means the Los Angeles County Waterworks District No. 40.

"Working Capital" means money to be used by, or on behalf of, a Member for any purpose for which a Member may borrow money pursuant to California Government Code Section 53852.

Article 2 Formation and Purpose

2.1 Effective Date and Term. This Agreement shall become effective and the Authority will come into existence as a separate public agency on the date this Agreement is executed by the City and PWD. The Authority will continue to exist and this Agreement will remain in effect, until this Agreement is terminated pursuant to Article 8.

2.2 Formation. There is formed as of the Effective Date a public agency named the "Palmdale Recycled Water Authority." Pursuant to Sections 6506 and 6507 of the Act, the Authority is an independent public agency separate from the Members. Unless otherwise agreed by the Members, the debts, liabilities, and obligations of the Authority are not debts, liabilities or obligations of the Members.

2.3 Purpose. The purpose of the Agreement is to establish an independent public agency in order to study, promote, develop, distribute, construct, install, finance, use and manage recycled water resources created by the Sanitation Districts for any and all reasonable and beneficial uses, including irrigation and recharge, and to finance the acquisition and construction or installation of recycled water facilities, recharge facilities and irrigation systems.

2.4 Boundary. The boundary of the Authority shall be the jurisdictional boundary of PWD, and shall encompass that portion of the City within the jurisdictional boundary of PWD.

Article 3 Powers

3.1 General Powers. The Authority shall have the powers common to the Members and such additional powers set forth in the Act and other statutes applicable to the Authority, and is hereby authorized to exercise all powers and do all acts necessary and proper to carry out the provisions of this Agreement and fulfill its purposes, including, but not limited to each of the following:

a. Distributing recycled water for reasonable and beneficial uses, including irrigation and recharge;

b. Charging fees for recycled water;

c. Making and entering into contracts;

d. Employing employees, agents, consultants, legal counsel and other experts;

e. Conducting studies, including but not limited to environmental studies;

f. Promoting or advertising the services provided by the Authority;

g. Promoting legislation helpful to the goals of the Authority;

h. Applying for, receiving and complying with requirements for state or federal grants;

i. Acquiring, owning, holding title to, constructing, managing, maintaining, operating, disposing of or donating real or personal property or other assets;

j. Incurring debts, liabilities or obligations and issuing Bonds;

k. Adopting, levying, collecting and/or administering assessments to the extent allowed by law, or assisting the Members to do so;

l. Suing and being sued in its own name, including initiating or otherwise participating in proceedings to validate its actions;

m. Applying for and executing appropriate grants or contracts of financial assistance.

n. Applying for, negotiating and obtaining commercial loans as allowed by law;

o. Administering the funds of the Members for the purposes set out here subject to rules adopted by the Authority for such administration;

p. Coordinating programs provided by the Members to carry out the goals of the Authority;

q. Adopting budgets;

r. Adopting rules, regulations, policies, bylaws and procedures governing the operation of the Authority;

s. Accepting donations;

t. Carrying out and enforcing all provisions of this Agreement and any related agreements.

u. Imposing impact or development fees, including, but not limited to, fees under the Mitigation Fee Act (Government Code sections 66000 *et seq.*)

Article 4 Organization

4.1 Board of Directors. The governing body of the Authority shall be the Board, which shall consist of five Directors. The governing body of each Member shall appoint and designate in writing two Directors who shall be authorized to act for and on behalf of the Member on matters within the powers of the Authority. The person appointed and designated as Director shall be a member of the Member's governing body. The fifth Director shall be appointed jointly by both Members.

4.2 Powers of the Board. The Board shall conduct or authorize to be conducted all business and activities of the Authority consistent with this Agreement, the Authority Documents, the Operating Rules and Regulations, and applicable law.

4.3 Operating Rules and Regulations. The Board may adopt from time to time such Operating Rules and Regulations, including but not limited to policies, procedures, bylaws, rules or regulations, for the conduct of its affairs as deemed necessary by the Board.

4.4 Term of Office. Each Director who is a member of the Member's governing body shall serve on the Board for renewable one year terms and shall cease to serve on the Board if such Director ceases to be an elected official of the Member. Vacancies on the Board shall be filled in the same manner as the original appointment. Notwithstanding anything in this Section to the contrary, each Director shall serve at the pleasure of the

Member that the Director is representing and such Member may remove and replace the Director at any time.

4.5 Meetings of the Authority. Meetings of the Authority shall be governed by the Ralph M. Brown Act (Govt. Code Section 54950 *et seq*, the "Brown Act"). At its organizational meeting, the Authority shall adopt provide for its regular meetings at dates, times and places set out by resolution. That Resolution shall be provided to all Members. The Board shall hold at least one regular meeting during each fiscal year. Pursuant to the Brown Act, the Secretary of the Authority shall cause minutes to be prepared for all regular and special meetings (but not any closed sessions) and copies of such minutes shall be provided to the Directors as soon as possible.

4.6 Conflict of Interest Code. The Authority shall adopt a conflict of interest code.

4.7 Quorum. A majority of the Directors shall constitute a quorum.

4.8 Voting. Except as otherwise provided by law or in section 4.9 below, any action taken by the Authority shall require the affirmative vote of a majority of the quorum present and voting on the item. A Director who has announced a conflict of interest is not considered a part of the quorum. An abstention for other than conflict reasons shall be considered a no vote. Notwithstanding anything in this paragraph to the contrary, less than a quorum may adjourn from time to time in accordance with law.

4.9 Special Voting Situations. The following Board actions require the affirmative vote of at least one Director from the City and one from the PWD:

a. Agreements to provide recycled water to any person or entity other than the City or PWD.

b. Capital expenditures exceeding $100,000.

c. Adoption or modification of any combined recycled water master plan.

d. Settlement of lawsuits over $10,000.

e. Adoption of its initial and all annual operating budgets.

f. Setting recycled water rates.

g. Disposition of assets and funds upon termination, pursuant to section 5.8(d).

4.10 Chair and Vice Chair. The Board shall elect from among themselves a Chair and Vice Chair. The Chair shall be the presiding officer of all Board meetings and shall represent the Authority and execute any contracts and other documents when required by the Operating Rules and Regulations. The Vice Chair shall serve in the absence of the Chair. The term of office of the Chair and Vice Chair shall continue for one year, but there shall be no limit on the number of terms held by either the Chair or Vice Chair.

The office of either the Chair or Vice Chair shall be declared vacant and a new election shall be made if the person serving dies, resigns, or the Member that the person represents removes the person as its representative on the Board.

4.11 Director Compensation. Compensation for work performed by Directors on behalf of the Authority shall be borne by the Member that appointed the Director. The Board, however, may adopt by resolution a policy relating to the reimbursement of expenses incurred by Directors. Members may provide for compensation and/or reimbursement of expenses to the fifth director, as allowed by law.

4.12 Secretary. The Board shall appoint a Secretary, who need not be a member of the Board, who shall be responsible for keeping the minutes and other records of the Authority and shall perform such other duties as specified by the Board.

4.13 Treasurer and Auditor. The Authority shall appoint a qualified person to act as the Treasurer and a qualified person to act as the Auditor, neither of whom needs to be a member of the Board. If the Board so designates, and in accordance with the provisions of applicable law, a qualified person may hold both the office of Treasurer and Auditor.

A qualified person shall be (i) the treasurer or chief financial officer of one of the Members; (ii) a certified public accountant; or (iii) such other consultant, officer or employee of the Authority or an administrative services provider as the Authority deems qualified to act as Treasurer or Auditor, respectively. The Treasurer shall act as the depositary of the Authority and have custody of all the money of the Authority, from whatever source, and as such, shall have all of the duties and responsibilities specified in Section 6505.5 of the Act.

The Treasurer shall report directly to the Board and shall comply with the requirements of treasurers of incorporated municipalities. The Board may transfer the responsibilities of Treasurer to any person or entity as the law may provide at the time.

4.14 Staff. The Authority may appoint, by contract or otherwise, an Executive Director and other staff as necessary. The Executive Director shall have all powers delegated to the Executive Director by the Authority. In addition the Executive Director shall have the power to appoint and remove all employees of the Authority, except for the Auditor, Treasurer and those providing expert services, such as legal counsel, financing consultants, accountants, engineers, architects and other advisors, who shall be appointed by the Board.

4.15 Bonding Persons Having Access to Property. The Members hereby designate the Executive Director and Treasurer, and designee or designees of each of them, as the persons who shall have charge of, handle, or have access to any property of the Authority. Such persons shall file an official bond in an amount to be fixed by the Board.

4.16 Provision of Administrative Services Provider. The Board may approve the use of staff of the Members for purposes of planning, implementing, operating and administering any of the programs approved by the Board.

4.17 Committees. The Authority may appoint *ad hoc* and standing committees to carry out the business of the Board, as deemed necessary and in the manner determined by the Board.

4.18 Technical Advisory Committee. The Board may elect to form a Technical Advisory Committee that will provide assistance and advice to the Board and exercise any powers delegated to it by the Board. The Technical Advisory Committee shall be comprised of three representatives appointed by each Member. The Member's governing body may appoint its representatives to the Technical Advisory Committee, and one alternate representative, in the manner determined to be appropriate by the Member. Such representative or alternate may be any person resident within the jurisdictional boundaries of the Member, or a person possessing knowledge and interests in California water policy.

The Technical Advisory Committee will be subject to the Operating Rules and Regulations established by the Board.

4.19 Authority Documents. The Members acknowledge and agree that the affairs of the Authority will be implemented through various documents duly adopted by the Board through Board resolution, including but not necessarily limited to the Operating Rules and Regulations, the annual budget, and specified plans and policies defined as the Authority Documents by this Agreement. The Members agree to abide by and comply with the terms and conditions of all such Authority Documents that may be adopted by the Board.

4.20 Authority Legal Counsel. The Board may retain and appoint legal counsel for the Authority.

Article 5 Financial Provisions

5.1 Fiscal Year. The Authority's fiscal year shall begin January 1 and shall include the period from then through December 31st. The first year of operation of the Authority shall be a partial year of operation.

5.2 Member Contributions. Except as otherwise prohibited, any Member may make contributions of money or assets to the Authority; make or advance payments of public funds to defray the cost of Authority operation; and contribute personnel, equipment or property instead of or in addition to other contributions or advances. Such contributions shall be paid to and disbursed by the Authority as set out in separate agreements between the Authority and the Member and approved by the Board and the governing body of the Member.

It is hereby acknowledged that the City, at the time of Authority's formation, has contributed the recycled water infrastructure installed to date known as Phase I which provides recycled water to McAdam Park, Palmdale, CA.

5.3 Member Loans. By official action of a Member's governing body, any Member may loan or advance funds to the Authority to meet the Authority's necessary budgeted expenses. Such loans shall bear interest until repaid at a rate agreed upon by the Member and the Authority. All such loans shall be repaid with interest from legally available funds of the Authority. It is anticipated that such funding may continue for an extended period of time. Nothing in this Agreement shall be deemed to obligate or require any of the Members to loan money, advance funds or provide property, assets, staffing or in lieu services to the Authority.

5.4 Depository.

a. All funds of the Authority shall be held in separate accounts in the name of the Authority and not commingled with funds of any Member or any other person or entity.

b. All funds of the Authority shall be strictly and separately accounted for, and regular reports shall be rendered of all receipts and disbursements, at least quarterly during the Fiscal Year. The books and records of the Authority shall be open to inspection by the Members at all reasonable times. The Board shall contract with a certified public accountant or public accountant to make an annual audit of the accounts and records of the Authority, which shall be conducted in accordance with the requirements of Section 6505 of the Act.

c. All expenditures shall be made in accordance with the approved budget and upon the approval of any officer so authorized by the Board in accordance with its Operating Rules and Regulations. The Treasurer shall draw checks or warrants or make payments by other means for claims or disbursements not within an applicable budget only upon the prior approval of the Board.

5.5 Budget. The Board shall adopt an annual budget for the Authority's activities within ninety (90) days of the effective date of this Agreement and by January 1 of each succeeding year. The Board may revise the budget from time to time as may be necessary to address changed circumstances, contingencies and unexpected expenses.

Public funds may not be disbursed by the Authority without adoption of the approved budget and all receipts and disbursements shall be in strict accordance with the approved budget. The budget shall identify the programs of the Authority and allocate funds by the program. The budget and accounting system shall account for direct and overhead costs by program. The Board shall allocate these costs for each program with the adoption of the annual budget.

5.6 Debts and Liabilities. As permitted under Section 6508.1 of the Act, no debt, liability, or obligation of the Authority shall constitute a debt, liability, or obligation of any Member and each Member's obligation hereunder is expressly limited only to the appropriation

and contribution of such funds as may be levied pursuant to this Agreement or as the Members hereto may agree.

5.7 Credit. Notwithstanding the preceding section, the Members agree to pledge their credit as necessary or appropriate to obtain financing for the Authority.

5.8 Disposition of Authority Property, Funds and Other Assets Upon Termination.

a. In the event of termination of the Authority where there is a successor public entity which will carry on the activities of the Authority and assume its obligations, Authority property, funds, and other assets, including any interest earned in deposits, remaining upon termination of the Authority and after payment of all obligations, shall be transferred to the successor public entity.

b. If there is no successor public entity which would carry on any of the activities of the Authority or assume any of its obligations, Authority property, funds, and other assets,, including any interest earned on deposits, remaining upon termination of the Authority and after payment of all obligations, shall first be used to return any unreimbursed contribution of each Member, and the remainder shall be divided equally between the Members.

c. If there is a successor public agency which would undertake some of the functions of the Authority and assume some of its obligations, Authority property, funds, and other assets, including any interest earned on deposits, remaining upon termination of the Authority and after payment of all obligations, shall be allocated by the Board between the successor public entity and Members.

d. In the event the Authority is terminated and remaining funds must be allocated under the circumstances falling with (b) or (c) above, all decisions of the Board with regard to determination of amounts to be transferred to Members or any successor shall be final.

Article 6 Operations

6.1 Recycled Water Contract. Within 65 days after the execution of this Agreement, the City shall assign to the Authority its existing contract with Los Angeles County Sanitation Districts Nos. 14 and 20 to purchase up to 2,000 acre-feet of recycled water, dated July 1, 2009. This shall not be considered to be a Member contribution under section 5.2.

6.2 Master Plan. The Authority shall adopt a master plan for recycled water combining the City's and PWD's existing master plans, following environmental review.

6.3 Price of Recycled Water. The price of recycled water sold to the City or PWD shall be set to cover the purchase price of the recycled water, operation and maintenance costs of the Authority, and financing costs.

6.4 Impact Fee. The Authority shall adopt an impact fee in order to pay capital costs, including reimbursement to the City of the cost of the recycled water infrastructure installed to date known as Phase I, which provides recycled water to McAdam Park.

Article 7 Amendments

7.1 Amendments. This Agreement may be amended only upon the affirmative vote of both Members.

Article 8 Termination

8.1 Termination. This Agreement may be terminated by the mutual agreement of both Members at any time, or by one Member after the tenth anniversary of the execution of this Agreement; provided, however, that prior to any termination by one Member, the Members agree to engage in the dispute resolution procedure under section 9.10, and such termination shall not be effective until six months after the completion of that procedure. Upon termination, payment of the obligations and division of the property of the Authority shall be conducted pursuant to this Agreement.

Article 9 Miscellaneous Provisions

9.1 Liability of Directors, Officers, and Employees. The Directors, officers, and employees of the Authority shall use ordinary care and reasonable diligence in the exercise of their powers and in the performance of their duties pursuant to this Agreement. No current or former Director, officer, or employee will be responsible for any act or omission by another Director, officer, or employee. The Authority shall defend, indemnify and hold harmless the individual current and former Directors, officers, and employees for any acts or omissions in the scope of their employment or duties in the manner provided by Government Code Section 995 *et seq*. Nothing in this section shall be construed to limit the defenses available under the law, to the Members, the Authority, or its Directors, officers, or employees.

9.2 Indemnification of Members. The Authority shall acquire such insurance coverage as is necessary to protect the interests of the Authority, the Members and the public. The Authority shall defend, indemnify and hold harmless the Members and each of their respective Board or Council members, officers, agents and employees, from any and all claims, losses, damages, costs, injuries and liabilities of every kind arising directly or indirectly from the conduct, activities, operations, acts, and omissions of the Authority under this Agreement.

9.3 Severability. If one or more clauses, sentences, paragraphs, or provisions of this Agreement or its application to any person or circumstances shall be held invalid, unlawful or unenforceable, the remainder of this Agreement and the application of the provision to other persons or circumstances shall not be affected thereby. Such clauses, sentences, paragraphs or provisions shall be deemed reformed so as to be lawful, valid and enforced to the maximum extent possible.

9.4 Assignment. Except as otherwise expressly provided in this Agreement, the rights and duties of the Members may not be assigned or delegated without the advance written consent of all of the other Members, and any attempt to assign or delegate such rights or duties in contravention of this Section is null and void. This Agreement inures to the benefit of, and be binding upon, the successors and assigns of the Members.

9.5 No Rights In Third Parties. All of the terms, conditions, rights and duties provided for in this Agreement are, and will always be, solely for the benefit of the Members. It is the intent of the Members that no third party shall ever be the intended beneficiary of any performance, duty or right created or required pursuant to the terms and conditions of this Agreement.

9.6 Agreement Complete. The foregoing constitutes the full and complete Agreement of the Members. There are no oral understandings or agreements not set forth in writing herein.

9.7 Further Assurances. Each Member agrees to execute and deliver all further instruments and documents, and take any further action that may be reasonably necessary, to effectuate the purposes and intent of this Agreement.

9.8 Execution by Counterparts. This Agreement may be executed in any number of counterparts, and upon execution by all Members, each executed counterpart shall have the same force and effect as an original instrument and as if all Members had signed the same instrument. Any signature page of this Agreement may be detached from any counterpart of this Agreement without impairing the legal effect of any signatures thereon, and may be attached to another counterpart of this Agreement identical in form hereto but having attached to it one or more signature pages.

9.9 Members to be Served Notice. Any notice authorized or required to be given pursuant to this Agreement shall be validly given if served in writing either personally, by deposit in the United States mail, first class postage prepaid with return receipt requested, or by a recognized courier service. Notices given (a) personally or by courier service shall be conclusively deemed received at the time of delivery and receipt and (b) by mail shall be conclusively deemed given 48 hours after the deposit thereof (excluding Saturdays, Sundays and holidays) if the sender receives the return receipt. All notices shall be addressed to the office of the clerk or secretary of the Authority or Member, as the case may be, or such other person designated in writing by the Authority or Member. Notices given to one Member shall be copied to all other Members. Notices given to the Authority shall be copied to all Members.

9.10 Dispute Resolution. Representatives of the Members shall meet and use their best efforts to settle any dispute, claim, question or disagreement ("a Dispute") arising from or relating to this Agreement or to the interpretation of this Agreement. To that end, representatives of the Parties shall consult and negotiate with each other in good faith and, recognizing their mutual interests, attempt to reach a just and equitable solution satisfactory to both Parties. If the Parties do not reach such a solution within a period of thirty (30) days after the first meeting regarding a Dispute, then the Parties shall convene a meeting of the Board within sixty (60) days after the first meeting of the Party

representatives regarding a Dispute and attempt to settle the Dispute before the Board meeting. If the Parties do not settle the Dispute within five (5) calendar days after the Board meeting, the Parties shall submit to mediation of the Dispute to be held within thirty (30) days of the request for mediation. If mediation is not successful, any Party may pursue any and all legal and equitable remedies that may be available. Any Party with a Dispute over the amount of money to be paid to the Authority or a Party shall first pay the disputed amount to the Authority or other Party under protest before commencing dispute resolution under this section.

9.11 Governing Law. This Agreement is to be governed by and construed according to the laws of California.

IN WITNESS WHEREOF, the Members hereto have caused this Agreement to be executed by their proper officers thereunder duly authorized and effective as of the date of execution of all Members hereto.

CITY OF PALMDALE

James C. Ledford, Jr.
Mayor

PALMDALE WATER DISTRICT

Gordon Dexter
President

APPROVED AS TO FORM:

Wm. Matthew Ditzhazy
City Attorney

APPROVED AS TO FORM:

ATTEST:

Rebecca Smith
City Clerk