MINUTES OF FINANCIAL WORKSHOP SPECIAL MEETING OF THE BOARD OF DIRECTORS OF THE PALMDALE WATER DISTRICT, AUGUST 23, 2016:

A Financial Workshop Special Meeting of the Board of Directors of the Palmdale Water District was held Tuesday, August 23, 2016, at 2029 East Avenue Q, Palmdale, California, in the Board Room of the District office. President, Robert Alvarado, called the meeting to order at 5:13 p.m.

1) Pledge of Allegiance.

At the request of President Alvarado, Operations Manager Masaya led the pledge of allegiance followed by a moment of silence to support our troops.

2) Roll Call.

Attendance:	**Others Present:**
Robert Alvarado, President	Dennis LaMoreaux, General Manager
Vincent Dino, Vice President	Matt Knudson, Assistant General Manager
Marco Henriquez, Treasurer	Mike Williams, Finance Manager
Joe Estes, Secretary	Jennifer Emery, Human Resources Director
Kathy Mac Laren, Director	Tim Moore, Facilities Manager
	Mynor Masaya, Operations Manager
	Jim Stanton, Information Technology Manager
	Mike McNutt, Public Affairs & Sustainability Dir.
	Laura Gallegos, Public Affairs Specialist
	Bob Egan, Financial Advisor
	Dawn Deans, Executive Assistant
	0 members of the public

3) Adoption of Agenda.

It was moved by Director Estes, seconded by Director Henriquez, and unanimously carried to adopt the agenda, as written.

4) Discussion and Overview of Long Term Financial Planning to Ensure Future Water Rate Stability and Long-Term Water Sustainability Projects to Meet Current Water Demands and Future Water Demands for Growth and Recommendation for the Three Remaining Years of the Approved Proposition 218 2014 Water Rate Plan. (Assistant General Manager Knudson/Finance Manager Williams)

Assistant General Manager Knudson stated that financial planning focuses on allocating resources efficiently, making long-range plans for new projects, and ensuring funds are directed toward the goals of a strategic plan that is well thought out in advance, implemented, and followed and the annual budget focuses on taking care of day-to-day operating needs, such as staff, equipment, supplies, utilities, and benefits; that the District's water rates are now based on balancing the annual budget, which restricts planning for long-term projects; and that long term financial planning ensures the right decisions are made today to put the District in position to meet its goals and long-term vision.

He then stated that the District's past Boards had the incredible vision to construct and finance long-term visionary projects, which have allowed the District to be a regional and industry leader, allowed the District to respond well to changing water quality regulations and water supply challenges, and have made the District the agency others call upon in time of need, and then reviewed the District's current visionary goals of meeting the community's growing population and future water demand needs, diversifying the District's water supply portfolio, responding to drought and the adjudication process, maximizing State Water Project and Littlerock water supplies through the Palmdale Regional Groundwater Recharge and Recovery Project (PRGRRP) and the Littlerock Sediment Removal Project (LRSRP) and how these Projects meet the District's as well as the City of Palmdale's visionary goals, maintaining and replacing aging infrastructure, utilizing the local recycled water resource through the purple pipe project, the Palmdale Recycled Water Authority, and the PRGRRP, meeting changing water quality regulations and being in a good position to respond to these ever-changing regulations, and preparing for natural disasters.

He then reviewed the lower long term cost of water through the PRGRRP and funding scenarios developed with the use of the District's financial model for construction of the PRGRRP and the grade control structure for the LRSRP and stated that the funding scenario determined that a 4.25% water rate adjustment is needed and recommended for 2017, 2018, and 2019 rather than the higher 5.5% water rate adjustment approved in the 2014 Water Rate Study to meet the planning efforts implemented by the vision of the Board; that this rate will allow the District to meet its debt service coverage, needed cash on hand, the Reserve Policy, operational costs, and expenses; and that the Board can clearly demonstrate to the community their ability to reduce water rate adjustments by 8.25% from the approved rates between the years 2015 to 2019 and how their actions will help reduce future water rates.

He then provided a comparison overview of the District's rates and monthly water bills to the rates and monthly water bills of other area agencies after which Public Affairs & Sustainability Director McNutt clarified that the rates of other agencies do not include the completion and implementation of any projects such as the District's, the District's recommended 4.25% for the next three years will cover not only operating expenses but the implementation of two critical water supply projects, the Board will be recognized as visionaries for construction of these projects, and the District's rates will remain lower than other agencies even after the proposed water rate adjustment.

Assistant General Manager Knudson then, again, reviewed staff's recommendations to develop a long-term financial plan and approve a 4.25% water rate adjustment per year for the remaining three years of the approved Proposition 218 Rate Study Plan, which is reduced from the approved water rate adjustment of 5.5%; to adopt a Resolution to implement the reduced rate adjustment recommendation based on financial planning efforts; and to continue to look for cost saving measures that will lessen future rate adjustments beyond the current financial plan and stated that staff is available to help the Board deliver the long term planning message to the community and other agencies and how it will benefit and help the community.

The new annual operating expense of $600,000.00 to remove sediment from Littlerock Reservoir, the high annual cost of insurance because the District's Reserve Policy of $16,000,000.00 is not being met, and needing $12 to $15 million in infrastructure projects but being limited to $1 to $2 million per year were then discussed.

Financial Advisor Egan then stated that during last year's budget briefings, this financial planning concept was presented, and all Directors agreed this is a good and sound idea.

President Alvarado then questioned whether the Board wants to continue to be an active and proactive water agency as a model for the Antelope Valley and stated that this Board has implemented a very aggressive pipe and water meter replacement program, and many projects are in the process of being completed with water revenue bond funds; that prior Boards have kicked the can down the road on rates with a casualty being the LRSRP; that the proposed rates cover large projects as well as expenses; that the Board cannot be as effective as a team for the District if we do not have the tools to make the PRGRRP and the LRSRP successful; that the focus has been on only adopting an annual budget with no long term action; and that staff's proposal will help the District meet goals and allow staff the opportunity to plan and complete critical water supply projects.

Director Dino then stated that the information presented this evening is black and white, is easy to understand, and the Board can present this information to our constituents to help them understand the need for the District's long-term planning efforts; that he agrees with President Alvarado on what the Board must do; that the Board must go forward with approving the three years; that considering this annually costs time and money, and the Board still approves the needed rates; and that it is a great asset if the Board can take care of rate adjustments at one time to see our way clear for the next three years.

An overview of a 0% water rate adjustment was then demonstrated with the financial model showing this option is a disservice to the ratepayers.

Director Estes then stated that he feels the proposed Resolution gives staff permission to tack on the entire 4.25% over the next three years; that he does not agree with this as it takes it out of the Board's hands; that the Board needs to be involved on a yearly basis as things change dramatically; and that it can be done without the Resolution, and he does not agree with the Resolution after which General Manager LaMoreaux clarified the purpose of the Resolution and staff's recommendation to approve the remaining three years of the Water Rate Plan at one time so the rate is set at a rate lower than the 5.5% cap with adjustments to the 4.25% rate brought to the Board's attention for consideration if circumstances change and stated that annual budget discussions regarding operating expenses and efficiencies will continue.

Assistant General Manager Knudson then added that the District has spent close to $4 million for planning and environmental work for the PRGRRP and LRSRP; that this money will be wasted if the Board does not put the District in a position to finance, fund, and implement these critical water supply projects; and that the District must demonstrate to the lenders, the rating agencies, and the bonding agencies that the District has a long term financial plan in place and is committed to repaying loans.

Human Resources Director Emery inquired about the effect on water rates by not qualifying for the state's low interest rate loan and the effect on future water rates, and the financial model indicated the debt service coverage will not be met, cash will be drastically reduced, and future rate adjustments would need to be higher than 5.5% in the next Proposition 218 process.

Director Mac Laren stated that most agencies approve all five years of their Proposition 218 Water Rate Plan all at once; that the District is in a bad stage considering the water rate annually because it polarizes the District; that basically the Board is asking

for approval all over again when the 2014 Water Rate Plan has already been approved; and that the Board should have enough faith in staff that their recommendation is needed for the financial well-being of the District.

General Manager LaMoreaux then stated that cost effectiveness studies and work have been conducted to reduce costs, and the Board will also be considering a new Request for Proposals to have more cost effectiveness work conducted; that the District is constantly criticized and compared to Los Angeles County Waterworks' rates in West Palmdale; and then reviewed a comparison showing the District's rates are lower than Waterworks and that the value from pre-approved rates is much greater than the county's increasing rates with no plan regarding the City's needs for growth.

Finance Manager Williams then reminded the Board that the District has multiple planning documents approved by the Board, which are being followed with the exception of the Water Rate Plan with rates adjusted down annually from the recommendations of that Plan and that all approved plans work together to provide long term financial stability and guidance for the District.

Director Mac Laren then stated that politically, the Board is expected to approve a 0% rate increase; that this does no favor to the District; that the only way to change things is to be brave enough to do the right thing by doing this and learn how to get our ratepayers to understand what it means for them as it is for their benefit; that there are no extras in the requested 4.25%; that she recommends that we do this now, we work with outreach, we work as a team, and we present the message to have the public buy in to investing in their own future; that this choice needs to be made to put the District and the Board in a position to meet the visionary goals and lower costs in the long term; that the District is way ahead of other agencies; that the District is the showcase for nationwide engineering firms for the water treatment plant; and that she does not want to be the one to tell the ratepayers that the Board did not have the vision or guts to carry forward with these projects and wasted $4 million dollars in studies.

General Manager LaMoreaux then stated that he is more than happy to meet with the Directors and their constituents to review the details of the PRGRRP and LRSRP, the funding required, and the lower water rates proposed.

President Alvarado then stated that the Board are elected officials and make decisions on behalf of the ratepayers but at the same time are stewards of the District; that a Resolution is simply a formality; that discussions this evening have been a success; that the headline of an article in Advances in Water Research reads 'underfunded,' and the

District has been underfunded for some time; that when he and Director Mac Laren first came on the Board they were for low or zero rate increases but began to see the needs of the District with aging pipes and water meters; that it is a disservice to the ratepayers and to the District to kick the can down the line; that the deferred maintenance program has been deferred; that the Board needs to see the needs of the ratepayers and of the water agency; that the Board needs to consider staff's recommendations as the District cannot tell funding agencies and our ratepayers that we have not been good financial stewards and do not have the funding or credit rating to secure loans; and that the District has a full time employee to help educate the ratepayers precisely why this is being done and also a grant writer is on staff followed by discussion of increased water sales and projected water use over the next three years.

Public Affairs & Sustainability Director McNutt stated that he sees that everyone present this evening understands the concept of what is being presented; that it comes down to intestinal fortitude to do what we need to do; that the Directors are in elected office to look out for the constituents and to make sure that both the vision of the City of Palmdale and the District are married to each other as the Mayor has laid out his vision for the community, which is about partnerships; that there has been a reluctance to make difficult choices because of individuals in the community having a negative disposition of the District; that the District is in a great spot to showcase the Board's leadership and the District's leadership as an agency not only in the Valley but in the City; that none of those things will happen without the leadership of this Board making the choices for the District's future; that there may be naysayers, but with everyone working together, this will be changed, and the District will be the shining example of what it means to be a successful water agency in a desert where water is limited for any growth; and that he is willing to help each of the Directors be successful in conveying this message to the ratepayers.

General Manager LaMoreaux then again offered to meet with the Directors and their constituents to review the details of tonight's presentation.

A copy of the presentation is hereby made a portion of the minutes of this meeting.

Director Mac Laren stated that she is ready to move forward on this.

Director Estes stated that he will take General Manager LaMoreaux up on his offer to meet with him and several of his constituents.

Director Henriquez requested more detail on the Strategic Water Resources Plan after which Assistant General Manager Knudson stated that a presentation on this Plan can be made at a future Board meeting.

5) Board Members' Requests for Future Agenda Items.

It was stated that a review of the Strategic Water Resources Plan will be placed on the next agenda.

6) Adjournment.

There being no further business to come before the Board, the meeting was adjourned at 7:10 p.m.

Secretary



August 23, 2016

Palmdale Water District

Financial Planning Workshop

Presentation Overview

1. Financial Planning vs. Annual Budget
2. Our Past Visionary Successes as a District
3. Our Current Visionary Goals as a District
4. Planning Efforts to Meet Our Visionary Goals
5. PWD Projects that Meet Ours and the City of Palmdale's Visionary Goals
6. Review Funding Scenarios that Meet Our Goals
7. Service and Rate Comparison
8. Recommendations
9. Questions

Financial Planning vs. Annual Budget

Financial Planning focuses on allocating resources efficiently, making long-range plans for new projects, and ensuring that funds are directed toward goals of a strategic plan that is well thought out in advance, implemented and followed.

Annual Budget focuses on taking care of day-to-day operating needs, such as staff, equipment, supplies, utilities, and benefits.

Our Past Visionary *Successes* as a District



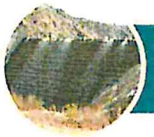
Littlerock Dam



State Water Contractor



Water Treatment Plant



Strengthened Littlerock Dam



Upgraded Water Treatment Plant



Inter-Connections with Agencies

All of these long-term visionary projects have allowed the District to be a regional/industry leader, respond well to changing water quality regulations and water supply challenges, and become the agency that others call upon in the time of need.

Our Current Visionary *Goals* as a District



Meet Our Community's Growing Population and Future Water Demand Needs



Diversify Our Water Supply Portfolio



Maximize SWP and Littlerock Water Supplies



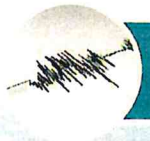
Maintain and Replace Aging Infrastructure



Utilize Local Recycled Water Resource



Meet Changing Water Quality Regulations



Prepare for Natural Disasters

How Do We Achieve Our *Goals*?

1) Follow the Water Supply and Infrastructure Planning documents that have been developed and approved.
   - ✓ Strategic Water Resources Plan
   - ✓ Urban Water Management Plan
   - ✓ Water System Master Plan
   - ✓ Recycled Water Facilities Master Plan
   - ✓ Strategic Plan

2) Follow the Financial Planning documents that have been developed.
   - ✓ 5-year Water Rate and Fee Study
   - ✓ Reserve Policy
   - ✓ Utilize Financial Model to refine needs

Financial Planning focuses on allocating resources efficiently, making long-range plans for new projects, and ensuring that funds are directed toward goals of a strategic plan that is well thought out in advance, implemented and followed.

PWD Projects that Meet Ours and the City of Palmdale's Visionary *Goals*

Palmdale Regional Groundwater Recharge and Recovery Project	Littlerock Reservoir Sediment Removal Project
• Meets our community's growing population and water supply needs for growth within the City of Palmdale	• Maximizes Littlerock Reservoir supply
• Utilizes local recycled water resource	• Maintains critical infrastructure
• Diversifies our water supply portfolio	• Diversifies our water supply portfolio
• Maximizes our State Water Project supply	• Maintains recreational opportunity for the Antelope Valley
• Prepares our community for natural disasters	
• Reduces our impact from groundwater adjudication and droughts	
• Most cost effective long-term water supply strategy for the District	

50 Year Build-Out Water Demand (NPV Options)

Recharge and Recovery vs. Status Quo	Net Present Costs	
	Project	Status Quo
Facilities Subtotal	$83,980,000	$9,800,000
SWP Additional Table A Purchase	$0	$79,790,000
SWP Water Purchase	$132,830,000	$151,110,000
SWP Table A Fixed Cost	$330,720,000	$484,400,000
Recycled Water Purchase	$13,643,526	$0
Water Purchase Subtotal	$477,193,526	$635,510,000
O&M Subtotal	$120,440,000	$121,470,000
Grand Total	$682,000,000	$847,000,000
Unit Water Cost ($/AF)	$423	$526

Funding Scenario that Meets Our *Goals*

Rate Model Assumptions and Targets

- Utilizes approved 2016 Operating Budget as a basis
- Planning period of 2016 – 2025
- Annual growth rate of 1% for new connections and 3% for water demand
- Annual escalator rate of 3% for operating expenses
- Target Debt Service Coverage = 1.5x (Bond and SRF Requirement)
- Target Days of Cash = 180 (Reserve Policy) Approx. $11,000,000
- Target Reserve Levels = $16,000,0000 (Reserve Policy)

Funding Scenario that Meets Our *Goals* – cont.

Rate Model Assumptions and Results

- Palmdale Regional Groundwater Recharge and Recovery Project funded with low interest SRF Loan (No *Grants)**
- Interest only during construction based on amount borrowed at the time and Principal and Interest payments beginning in 2021*
- Littlerock Sediment Removal Project – bond/loan for grade control structure and pay as we go for annual sediment removal activities
- 4.25% rate adjustment recommended for 2017, 2018, and 2019 vs. previously approved 5.5% per 2014 Rate Study/Proposition 218 Plan
- Reduction of 3.75% over next 3-Years and 8.25% since 2014 as compared to the approved Rate Study/Proposition 218 Plan

* = preliminary information and subject to change

Funding Scenario that Meets Our *Goals* – cont.

Results

- Results from these planning efforts and financial model demonstrate that the District will be in a position to fund two critical water supply projects that meet all of our goals presented here by approving this plan. The Board can demonstrate to its' community that as a result of these planning efforts, they were able to *reduce* 8.25% worth of rate adjustments between 2015 and 2019.

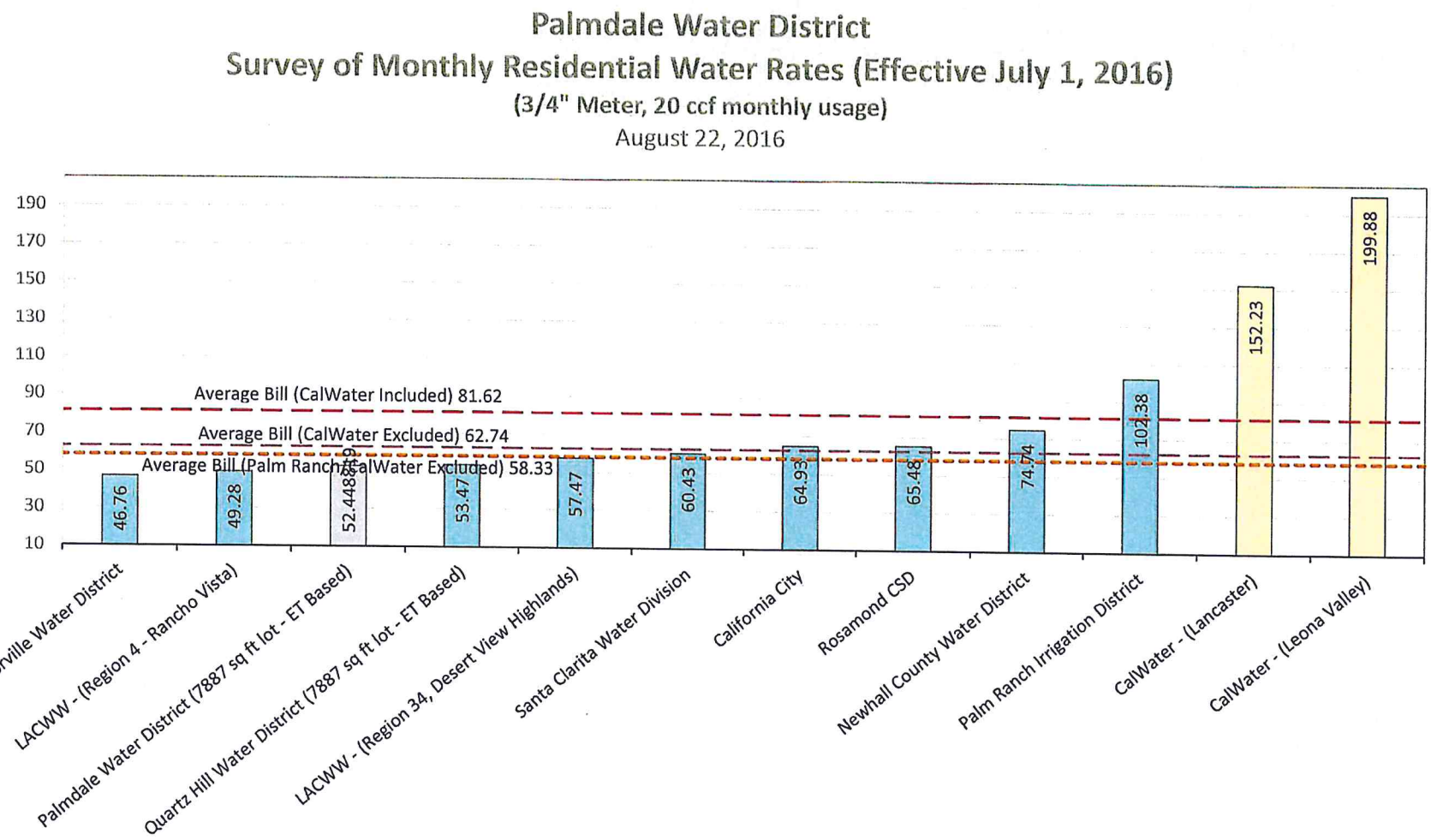
Summary of Approved vs. Actual / Recommended Rate Adjustments – Calendar Year (CY)

Action	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019	Totals
Approved Rate Study Plan	5.5%	5.5%	5.5%	5.5%	5.5%	27.5%
Actual / Recommended	*2.5%*	*4.0%*	4.25%	4.25%	4.25%	19.25%
Savings from Plan	*(3.0%)*	*(1.5%)*	(1.25%)	(1.25%)	(1.25%)	(8.25%)

What are other Agencies doing with Rates?

Agency Name	Rate Adjustment	Effective Date	Prop 218 Completed	Year in Plan
Victorville Water District	6.25%	July 1, 2016	2016	1 of 5
LACWW - (Region 4 - Rancho Vista)	4.80%	January 1, 2016	2015	Annual
Palmdale Water District	4%	January 1, 2016	2014	2 of 5
Quartz Hill Water District	5.75%	July 1, 2016	2016	1 of 5
LACWW - (Reg 34, Desert View Highlands)	4.80%	January 1, 2016	2015	Annual
Santa Clarita Water Division	3.50%	January 1, 2016	2014	3 of 5
California City	17%	July 1, 2016	2014	3 of 5
Rosamond CSD			New RFP	
Newhall County Water District	1.50%	July 1, 2016	2015	1 of 5
Palm Ranch Irrigation District (New Rates)	176% Fixed	July 1, 2016		

Service Cost Comparison



Recommendations

1. Approve a 4.25% vs. 5.5% water rate adjustment per year for the remaining 3-Years of the previously approved Proposition 218 Rate Study Plan.

Action	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019	Totals
Approved Rate Study Plan	5.5%	5.5%	5.5%	5.5%	5.5%	27.5%
Actual / Recommended	*2.5%*	*4.0%*	4.25%	4.25%	4.25%	19.25%
Savings from Plan	*(3.0%)*	*(1.5%)*	(1.25%)	(1.25%)	(1.25%)	(8.25%)

2. Adopt a Resolution to implement the reduced rate adjustment recommendation, based on financial planning efforts.

3. Continue to look for cost saving measures that will lessen future rate adjustments beyond current financial plan.

Future Rates and Charges Based on Recommendations

Year	2016	2017	2018	2019
Rate Adjustment	N/A	4.25%	4.25%	4.25%
Commodity Rates ($/ccf)				
Tier 1	$ 0.78	$ 0.81	$ 0.85	$ 0.88
Tier 2	$ 0.89	$ 0.93	$ 0.97	$ 1.01
Tier 3	$ 2.53	$ 2.64	$ 2.75	$ 2.87
Tier 4	$ 3.81	$ 3.97	$ 4.14	$ 4.32
Tier 5	$ 4.92	$ 5.13	$ 5.35	$ 5.57
Tier 6	$ 6.32	$ 6.59	$ 6.87	$ 7.16
Monthly Meter Charges				
1" and Below	$ 33.33	$ 34.75	$ 36.22	$ 37.76
1.5"	$ 100.00	$ 104.25	$ 108.68	$ 113.30
2.0"	$ 153.35	$ 159.87	$ 166.66	$ 173.74
3.0"	$ 277.83	$ 289.64	$ 301.95	$ 314.78
4.0"	$ 455.66	$ 475.03	$ 495.21	$ 516.26
6.0"	$ 900.23	$ 938.49	$ 978.38	$ 1,019.96
8.0"	$ 1,433.72	$ 1,494.65	$ 1,558.18	$ 1,624.40
10.0"	$ 2,056.14	$ 2,143.53	$ 2,234.63	$ 2,329.60