MINUTES OF REGULAR MEETING OF THE BOARD OF DIRECTORS OF THE PALMDALE WATER DISTRICT, NOVEMBER 9, 2016:

A regular meeting of the Board of Directors of the Palmdale Water District was held Wednesday, November 9, 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 7:00 p.m.

1) Pledge of Allegiance.

At the request of President Alvarado, Mr. Andy Giest led the pledge of allegiance followed by a moment of silence in honor of our troops and our law enforcement.

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	Eric Dunn, General Counsel
Joe Estes, Secretary	Jennifer Emery, Human Resources Director
Kathy Mac Laren, Director	Jim Riley, Engineering/Grant Manager
	Mike McNutt, Public Affairs & Sustainability Dir.
	Tim Moore, Facilities Manager
	Mynor Masaya, Operations Manager
	Laura Gallegos, Public Affairs Specialist
	Bob Egan, Financial Advisor
	Dawn Deans, Executive Assistant
	11 membersof the public

3) Adoption of Agenda.

It was moved by Director Mac Laren, seconded by Director Dino, and unanimously carried by all members of the Board of Directors present at the meeting to adopt the agenda, as written.

4) Public Comments for Non-Agenda Items.

There were no public comments.

5) Presentations:

5.1) None at This Time.

There were no presentations.

6) Action Items – Consent Calendar: (The Public Shall Have an Opportunity to Comment on Any Action Item on the Consent Calendar as the Consent Calendar is Considered Collectively by the Board of Directors Prior to Action Being Taken.)

6.1) Approval of Minutes of Financial Workshop Special Meeting Held October 19, 2016.

6.2) Approval of Minutes of Regular Meeting Held October 26, 2016.

6.3) Payment of Bills for November 9, 2016.

President Alvarado announced the items included in the Consent Calendar after which Director Henriquez requested Agenda Item No. 6.2 be removed from the Consent Calendar for separate consideration.

It was then moved by Director Mac Laren, seconded by Director Henriquez, and unanimously carried by all members of the Board of Directors present at the meeting to approve those items included in the Consent Calendar with the exception of Agenda Item No. 6.2.

Director Henriquez then requested the October 26, 2016 minutes be amended under Agenda Item No. 7.4 Consideration and possible action on new video and voting system for main Board room to include "Director Henriquez stated that this item is probably not needed at the moment but at the same time staff is looking into ways to save money into this item" and then moved to approve the minutes of the regular meeting held October 26, 2016, as amended. The motion was seconded by Director Estes and carried on a 4-0 vote by all members of the Board of Directors present at the meeting with Director Mac Laren abstaining.

7) Action Items - Action Calendar (The public shall have an opportunity to comment on any action item as each item is considered by the Board of Directors prior to action being taken.)

7.1) Status Report on Cash Flow Statement and Current Cash Balances as of September, 2016. (Financial Advisor Egan)

Financial Advisor Egan reviewed the investment funds report as of September, 2016, including the decrease of funds due to the bond principal and interest payments and then provided an overview of CD maturity dates, the cash flow statement, DWR

refunds, Butte County payments, anticipated assessments and year-end cash, and carry-over expenses for 2017.

7.2) Status Report on Financial Statements, Revenue, and Expense and Departmental Budget Reports for September, 2016. (Finance Manager Williams)

Financial Advisor Egan reviewed the balance sheet, profit and loss statement, year-to-year comparisons, month-to-month comparisons, consumption comparisons, and revenue and expense analysis reports for the period ending September 30, 2016 and stated that most departments are operating at or below the targeted expenditure percentage of 75%, and revenues and expenses are as expected within this range.

7.3) Status Report on Committed Contracts Issued and Water Revenue Bond Projects. (Assistant General Manager Knudson)

Assistant General Manager Knudson provided an update on the Water Revenue Bond Series 2013A Bond funds and reviewed payments to date and projected complete payout.

President Alvarado then requested a brief summary of the infrastructure projects completed with these bond funds as investing in the District's infrastructure saves millions of dollars for the District therefore saving money for the ratepayers after which Assistant General Manager Knudson reviewed the water main replacement projects completed and two critical long term water supply planning projects being the removal of sediment from Littlerock Reservoir to restore significant water storage capacity in the Reservoir reducing additional ground water pumping and importing of costly State Water Project water and the Palmdale Regional Groundwater Recharge and Recovery Project's feasibility study, preliminary design, and environmental work.

7.4) Consideration and Possible Action on Resolution No. 16-17 Being a Resolution of the Board of Directors of the Palmdale Water District Adopting a Reduced Water Rate Adjustment of 4.25% for each Calendar Year 2017, 2018, and 2019, Amending Appendix C to the Rules and Regulations of the Palmdale Water District, and Establishing Prudent Parameters to Consider Further Water Rate Adjustment Reductions. (Assistant General Manager Knudson/Finance Manager Williams/Finance Committee)

Assistant General Manager Knudson provided an overview of revisions to Resolution No. 16-17 and stated that two workshops have been held regarding the need

and benefit to the District of long term financial planning and staff's recommendation to approve a 4.25% rate increase for 2017, 2018, and 2019, which is 1.25% less per year than the Water Rate Plan and is based on the financial model to meet reserve levels, implementing critical projects, and replacing aging infrastructure; that the Proposition 218 Water Rate Plan approved in 2014 calls for a 5.5% annual rate increase but a 2.5% and a 4.0% rate adjustment have been implemented to date; and that the Finance Committee recommended Resolution No. 16-17 be presented to the full Board for approval this evening.

President Alvarado then thanked staff for working hard to ensure all questions and concerns of the Board have been addressed and reflected in Resolution No. 16-17.

Assistant General Manager Knudson then reviewed Appendix C of the Rules and Regulations listing the rates, charges, and effective date of the proposed rates through 2019, graphs showing rate comparisons to other agencies in the Antelope Valley along with a side-by-side comparison with Los Angeles County Waterworks showing the District's rates are significantly lower, and the $7.00 per month rate increase recently approved by Rosamond Community Services District.

Director Henriquez then inquired about funding and the guidelines for the Rate Stabilization Fund after which General Manager LaMoreaux reviewed how operating funds are allocated to the Rate Stabilization Fund to reduce water rates in future years and the targets, or guidelines, included in Resolution No. 16-17 for adding to this Fund and clarified that an influx of cash from development, higher than expected water sales, and grant funding could all offset costs, and these factors are included in Resolution No. 16-17 for determining if water rates can be further reduced from the recommended 4.25%.

The District's bond rating and increasing this rating were then reviewed.

Financial Advisor Egan then provided additional clarification on the Rate Stabilization Fund as a debt service coverage vehicle and protection to the ratepayers and the advantage of increasing the Rate Stabilization Fund.

President Alvarado then requested an explanation of protocol for developing resolutions from the staff level, the appropriate Board Committee, and the Committee's responsibilities for presenting items to the full Board after which Assistant General Manager Knudson provided an overview of the process for the development of

Resolution No. 16-17, its presentation to the Finance Committee, and the Finance Committee's recommendation to the full Board to approve Resolution No. 16-17.

Ms. Sandra Saint-Felix, Mr. Felix Menendez, Ms. Patricia Salazar, and Dora, Palmdale residents, then expressed their concerns with the proposed water rate increase, the impact for low income residents, and communicating with the ratepayers after which President Alvarado clarified that the 4.25% increase will add $1.40 per month to water bills along with $0.03 per unit of water for Tier 1 water users, and General Manager LaMoreaux clarified this amount and communication methods with ratepayers, informed the public of the District's Rate Assistance Program for low income residents offering as much as $16.00 per month in assistance towards the cost of the bills, reviewed all other cost saving programs, variances, and services available to the ratepayers, reviewed the policy for having a Spanish interpreter at Board meetings for public comments, and reviewed reasonable cost and the District's increasing operational costs.

Staff's efforts to maximize the use of Granular Activated Carbon in the water treatment process and how these savings are passed on to the ratepayers was then reviewed.

President Alvarado then stated that he and Director Henriquez work together on the Finance Committee and this recommendation for the 4.25% was approved at the Committee level to be presented and considered by the full Board after which Director Henriquez stated that it comes to the full Board as a recommendation but at the same time he feels the entire Board should decide on Resolution No. 16-17 and stated that his concern with the proposed rate increase is the lower income levels in east Palmdale, the District needs to be mindful of who it serves, and reviewed the increase in his personal water bill.

Public Affairs & Sustainability Director McNutt then clarified that the average increase to a family of four's water bill will be approximately $2.00 to $2.50 per month and that for perspective, this is slightly more than the cost of one 16 oz. bottle of water and is $0.79 for 748 gallons of water.

Director Mac Laren then stated that after the Finance Committee's recommendation, of working for years with staff to reduce costs, of ensuring the District can continue to provide water that is safe to drink, of being responsible to provide long term water supply and water banking projects, and of ensuring the storage capacity of Littlerock Reservoir can be restored to prevent having to import water, this increase is

the most responsible action the Board can take and then moved to approve Resolution No. 16-17 being a Resolution of the Board of Directors of the Palmdale Water District Adopting a Reduced Water Rate Adjustment of 4.25% for each Calendar Year 2017, 2018, and 2019, Amending Appendix C to the Rules and Regulations of the Palmdale Water District, and Establishing Prudent Parameters to Consider Further Water Rate Adjustment Reductions. The motion was seconded by Director Dino.

Director Henriquez then stated that he said his comments before and thinks that maybe the rates should be something lower and inquired about the status of grants after which General Manager LaMoreaux reviewed the status on the District's current grant applications.

Director Mac Laren then stated that she hopes the Board can decide together on this matter to show the community the Board is working together.

General Manager LaMoreaux then stated that Resolution No. 16-17 is a very unique way of looking at things; that he is not aware of any other District who has passed a Resolution of this kind which sets the rates but also sets parameters to be able to lower rates as long as the financial health of the District is protected; and that the full Board can be proud of the product developed through this process.

The motion then carried on a 3 – 2 vote by all members of the Board of Directors present at the meeting, with Directors Henriquez and Estes opposed.

A copy of said Resolution No. 16-17 is hereby made a portion of the minutes of this meeting.

7.5) Consideration and Possible Action on Award of Consulting Engineering Contract with ESA to Prepare a Program Environmental Impact Report for the 2016 Palmdale Water District Water Master Plan. ($174,715.00 – Budgeted – Engineering/Grant Manager Riley)

Engineering/Grant Manager Riley provided an overview of the Water Master Plan process and required environmental work, and after a brief discussion of the CEQA work required by law, it was moved by Director Mac Laren, seconded by Director Dino, and unanimously carried by all members of the Board of Directors present at the meeting to award a Consulting Engineering Contract with ESA to prepare a Program Environmental Impact Report for the 2016 Palmdale Water District Water

Master Plan in the not-to-exceed amount of $174,715.00 and to authorize General Manager LaMoreaux to execute a Professional Services Agreement with ESA for same.

7.6) Consideration and Possible Action on USGS Groundwater Elevation and Water Quality Monitoring Program Through Antelope Valley State Water Contractors Association. ($7,750.00 – Budgeted – Assistant General Manager Knudson)

Assistant General Manager Knudson provided an overview of the USGS Groundwater Elevation and Water Quality Monitoring Program, the District's cost, and the need for this Program for grant applications, and after a brief discussion of it being too soon for the Antelope Valley Watermaster Board to assume the responsibility for this Program, it was moved by Director Henriquez, seconded by Director Estes, and unanimously carried by all members of the Board of Directors present at the meeting to authorize the USGS Groundwater Elevation and Water Quality Monitoring Program through the Antelope Valley State Water Contractors Association in the not-to-exceed amount of $7,750.00.

7.7) Consideration and Possible Action on Authorization of the Following Conferences, Seminars, and Training Sessions for Board and Staff Attendance Within Budget Amounts Previously Approved in the 2016 Budget:

a) None at This Time.

There were no conferences, seminars, or training sessions to consider.

8) Information Items:

8.1) Reports of Directors:

a) Meetings/General Report.

Director Estes reported that on November 8, he attended a Board briefing with General Manager LaMoreaux; that as an amendment to a previous report, he attended a Board briefing with General Manager LaMoreaux on July 11 rather than on July 12; and that on July 21, he attended a meeting with General Manager LaMoreaux and General Counsel Dunn.

Director Henriquez reported that on November 7, he attended the Finance Committee meeting where they considered the items presented this evening.

Director Mac Laren reported that on October 17, she attended the Antelope Valley Watermaster Board meeting; that on November 7, she attended the Personnel Committee meeting; that also on November 7, she attended the Antelope Valley Watermaster Board meeting; that on November 9, she attended a briefing with General Manager LaMoreaux, Public Affairs & Sustainability Director McNutt, Brandon Ida, ACWA Regional Affairs Representative, and Kathleen Tiegs, ACWA President, where they shared the District's goals and accomplishments, ACWA was pleased with the District's projects, and they encouraged the District to showcase these accomplishments through ACWA; and that she is attending the Board meeting this evening.

Director Dino reported that on November 7, he attended a Board briefing with General Manager LaMoreaux; that also on November 7, he attended the Personnel Committee meeting; that on November 8, he attended the AVEK Board meeting; that on November 9, he also attended the meeting with General Manager LaMoreaux, Public Affairs & Sustainability Director McNutt, Brandon Ida, ACWA Regional Affairs Representative, and Kathleen Tiegs, ACWA President; and that he is attending the Board meeting this evening.

President Alvarado reported that on November 1, he attended an agenda review and approval meeting with General Manager LaMoreaux; that on November 7, he attended the Finance Committee meeting; and that on November 8, he attended a Board briefing with General Manager LaMoreaux.

He then stated that he is proud he did not vote against Strategic Plan Initiative No. 1 - Water Resource Reliability involving the 2015 Urban Water Management Plan drought response and the Palmdale Regional Groundwater Recharge & Recovery Project, and he did not vote against the Littlerock Reservoir Sediment Removal Project, Recycled water allocation and use, and many other wonderful things the District is doing and that he is proud to serve the public as the Board President and make sure as leaders and Directors staff is provided with the tools to be successful in performing their jobs, and the Board really appreciates staff.

b) Standing Committee/Assignment Reports (Chair):

1) Personnel Committee

2) Finance Committee

President Alvarado stated that reports on these meetings were provided earlier in the meeting.

8.2) Report of General Manager.

a) Distribution of 2017 Budget. (Finance Manager Williams)

General Manager LaMoreaux distributed a draft 2017 Budget and stated that a Budget Workshop is scheduled for November 22, 2016 at 4:00 p.m. after which Financial Advisor Egan reviewed the preliminary 2017 Budget and stated that staff will be refining the budget for reductions and reviewing same with the Finance Committee next week.

General Manager LaMoreaux then reported that the information packet from the meeting with ACWA representatives is in the Board's office and that for those attending the ACWA Conference, Directors and staff have been invited to a dinner with Aleshire & Wynder and with Kennedy/Jenks Consultants and RSVP's are needed for these dinners.

8.3) Report of General Counsel.

General Counsel Dunn reported that a recent A.V. Press article refers to the Antelope Valley Union High School District switching their elections to even-numbered years to comply with SB415; that SB415 seeks to increase voter turnout and applies to all political subdivisions holding elections in odd-numbered years; that irrigation district law states elections must be held in odd-numbered years; that voter turnout is difficult to measure; that changes to election years must be effective by January, 2018 but can be extended to 2022 if a plan to change has been implemented; that switching to even-numbered election years would add an additional year to Board members' terms; and that he will conduct additional research and provide a written report on this matter for consideration at a future Board meeting.

9) Public comments on closed session agenda matters.

There were no public comments on closed session agenda matters.

10) Break prior to closed session.

At 9:05 p.m., President Alvarado called for a seven-minute recess. He reconvened the regular meeting at 9:12 p.m.

11) Closed session under:

11.1) Conference with Legal Counsel – Existing Litigation: A closed session will be held, pursuant to Government Code §54956.9 (d)(1), to confer with Special Litigation Counsel regarding pending litigation to which the District is a party. The title of such litigation is as follows: *Antelope Valley Ground Water Cases.*

At 9:12 p.m., President Alvarado called for a closed session pursuant to Government Code §54956.9 (d)(1), to confer with Special Litigation Counsel regarding pending litigation to which the District is a party, the title of such litigation being the *Antelope Valley Ground Water Cases.* He reconvened the regular meeting at 9:24 p.m.

12) Public report of any action taken in closed session.

At 9:24 p.m., President Alvarado stated that a closed session was held pursuant to Government Code §54956.9 (d)(1), to confer with Special Litigation Counsel regarding pending litigation to which the District is a party, the title of such litigation being the *Antelope Valley Ground Water Cases*; that the Board was updated on the status of this matter; but that no reportable action was taken.

13) Board Members' Requests for Future Agenda Items.

There were no requests for future agenda items.

14) Adjournment.

There being no further business to come before the Board, the meeting was adjourned at 9:25 p.m.

Secretary

PALMDALE WATER DISTRICT
RESOLUTION NO. 16-17

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE PALMDALE WATER DISTRICT ADOPTING A REDUCED WATER RATE ADJUSTMENT OF 4.25% FOR EACH CALENDAR YEAR 2017, 2018, AND 2019, AMENDING APPENDIX C TO THE RULES AND REGULATIONS OF THE PALMDALE WATER DISTRICT, AND ESTABLISHING PRUDENT PARAMETERS TO CONSIDER FURTHER WATER RATE ADJUSTMENT REDUCTIONS

WHEREAS, the Palmdale Water District (the "District") is authorized to collect charges and set rates for water service pursuant to the Irrigation District Law, codified at Division 11 of the Water Code, specifically at Sections 22280 through 22284; and

WHEREAS, the Board of Directors of the Palmdale Water District has developed and adopted several water supply and infrastructure plans outlining long range water supply projects to meet the water supply needs of the community's growing population and the future growth of Palmdale, and long range financial planning to finance these projects is required; and

WHEREAS, the Board of Directors of Palmdale Water District unanimously adopted an updated Strategic Plan in 2016 with Initiative 4 – Financial Health and Stability that includes a goal of sustainable and balanced water rate structure and adjustments; and

WHEREAS, District staff has, and will continue to, search for cost saving measures including the active pursuit of grant funding; and

WHEREAS, the Board of Directors of the Palmdale Water District previously approved a 5-Year Water Rate Plan on September 17, 2014 authorizing annual water rate adjustments up to 5.5% through calendar year 2019; and

WHEREAS, the Board of Directors of the Palmdale Water District approved a reduced water rate adjustment of 2.5% in 2015 and a reduced water rate adjustment of 4.0% in 2016; and

WHEREAS, the Board of Directors of the Palmdale Water District now desires to meet the Strategic goal of sustainable and balanced water rates by providing customers predictable and stable water rate adjustments for each calendar year 2017, 2018, and 2019 to ensure adequate funds to meet current and future water demands; to continue to maintain the Rate Assistance Program, the Internship Program, the Cash for Grass Program and other Rebate Programs; to continue to provide high quality water through innovative treatment technologies; and to construct long range water supply projects, including the Palmdale Regional Groundwater Recharge and Recovery Project and the necessary removal of sediment from Littlerock Reservoir; and

WHEREAS, District staff has completed extensive financial modeling for the next several years that shows water rate adjustments of 4.25% for the years 2017, 2018, and 2019 will accomplish those goals at a reduced amount from the approved 5.5% water rate adjustments; and

WHEREAS, District staff has reviewed the District's water rate adjustment history beginning in 1969 that shows water rate adjustments of 4.25% for the years 2017, 2018, and 2019 will be less than the average annual water rate adjustment of 5.94% between 1969 and 2016; and

WHEREAS, the benefits of the Palmdale Regional Groundwater Recharge and Recovery Project include meeting the water supply needs of the community's growing population and the water supplies required for growth within the City of Palmdale; utilizing local recycled water; diversifying the District's water supply portfolio; maximizing the State Water Project supply and additional State Water Project supplies acquired through water transfer options; preparing to meet water supply needs during a natural disaster; reducing the impact to the District and to its customers from groundwater adjudication and droughts; and being the most cost effective long-term water supply strategy, which can potentially reduce future water rate adjustments; and

WHEREAS, the benefits of the Littlerock Reservoir Sediment Removal Project include maximizing the water supply from Littlerock Reservoir; maintaining this critical and cost effective water resource; diversifying the District's water supply portfolio; and preserving a recreational opportunity for the residents of Palmdale and the Antelope Valley; and

WHEREAS, a better financial position in the years 2018 and 2019 than anticipated in the financial modeling is possible due to reductions in expenses, the receipt of additional grant funding, or other circumstances that may allow further reduction in water rate adjustments; and

WHEREAS, the Board of Directors desires to create clear parameters to monitor and assess the District's financial position for District staff to evaluate and report on; and

WHEREAS, these parameters will be assessed and reported on annually, along with proposed projects and expenditures, to the Board of Directors during annual budget discussions for each calendar year 2018 and 2019; and

WHEREAS, if circumstances allow and a water rate adjustment less than 4.25% is sufficient to meet all District operations, expenses, projects, and current and future water demands, said reduction will be presented to the Board of Directors for consideration; and

WHEREAS, the adoption of this resolution is exempt from the requirements of the California Environmental Quality Act ("CEQA") pursuant to Public Resources Code Section 21080(b)(8) and Section 15273 of the State CEQA Guidelines codified at 14 CCR §15273 because the resolution pertains to the adoption of charges necessary to maintain services within the District's existing service area.

NOW, THEREFORE, BE IT RESOLVED THAT, the Board of Directors does hereby:

1) Approve a reduced water rate adjustment of 4.25% for each calendar year 2017, 2018, and 2019, the remaining three years of the previously approved 2014 Water Rate Plan, effective January 1, 2017.

2) Revise Appendix "C" of the Palmdale Water District's Rules and Regulations to reflect this reduction.

3) Direct District staff to continue researching cost saving measures, including grants, to lessen future rate increases beyond the 2014 Water Rate Plan.

4) Direct District staff to assess and report on the following parameters using actuals through August 31st and projecting through December 31st of the year as part of the annual budget process for 2018 and 2019. A "Yes" answer from the District staff analysis for any three (3) parameters will allow for the consideration of a reduced water rate adjustment provided the reduced water rate adjustment continues to satisfy the same "Yes" parameters:

a. Do the District's reserves meet the following end of year target reserve levels while providing a minimum of $2.5M annually for projects?
   2017 - $10.9M
   2018 - $11.5M
   2019 - $12.1M

b. Can projects be funded at a level that is equal to the year's depreciation while maintaining a minimum reserve level of $10.5M?

c. Does the Rate Stabilization Fund match or exceed the planned amounts of $1,080,000 in 2017, $1,080,000 in 2018, and $1,480,000 in 2019?

d. Is the projected Debt Coverage Ratio adequate to meet current bond covenants?

e. Has the District's bond rating been re-evaluated to AA or higher by either Standard & Poor's or Fitch rating agencies which are currently A- and A+ respectively?

PASSED AND ADOPTED this 9th day of November, 2016 by the Board of Directors, the governing body of the Palmdale Water District.

PALMDALE WATER DISTRICT

Robert E. Alvarado

ROBERT ALVARADO, President

ATTEST:

JOE ESTES, Secretary

APPROVED AS TO FORM:

By: _____
Aleshire & Wynder, General Counsel