MINUTES OF WORKSHOP OF THE BOARD OF DIRECTORS OF THE PALMDALE WATER DISTRICT DECEMBER 11, 2012:

A Workshop meeting of the Board of Directors of the Palmdale Water District was held Tuesday, December 11, 2012, at 2029 East Avenue Q, Palmdale, California, in the Board Room of the District office. President, Gordon Dexter, called the meeting to order.

1) Pledge of Allegiance.

President Dexter led the pledge of allegiance.

2) Roll Call.

Attendance:	**Others Present:**
Gordon Dexter, President	Dennis LaMoreaux, General Manager
Gloria Dizmang, Vice President	Mike Williams, Finance Manager
Kathy Mac Laren, Treasurer	Matt Knudson, Engineering Manager
Robert Alvarado, Secretary	Peter Thompson II, Operations Manager
Steve Cordova, Director	Tim Moore, Facilities Manager
	Jim Stanton, Information Technology Manager
	Bob Egan, Financial Advisor
	Claudette Beck, Water Conservation Spvsr.
	Randy Hardenbrook, Equipment Mechanic Spvsr.
	Kelly Jeters, Systems Supervisor
	Dennis Hoffmeyer, Senior Accountant
	Dawn Deans, Executive Assistant
	2 members of the public

3) Adoption of Agenda.

It was moved by Director Dizmang and seconded by Director Mac Laren to suspend the adoption of the agenda in order to provide comment.

Director Dizmang then requested clarification on the 2013 draft budget regarding whether the draft includes a rate increase; whether the District is operating at approximately $2 million less than 2012 with no rate increase; and why the Board did not receive the draft budget until yesterday after which General Manager LaMoreaux clarified that the draft does not include a rate increase, but options for a rate increase have been presented; that no Board action is requested this evening; and that the intent of the workshop is to provide an overview of the draft budget.

Director Dizmang then stated that a $20 million budget has been presented; that most Board members did not receive the draft until yesterday; that she has had no time to prepare a comparison with the 2012 budget or develop questions; and then requested that a Budget Workshop be scheduled the first week in January and that management cut $2.5 million from the 2013 budget followed by discussion of reductions in revenue resulting from the City settlement, reviewing the draft budget with staff input and comment, having General Manager LaMoreaux make cuts to the budget, responsibility to the ratepayers if the Board considers a rate increase, building reserves, staff's efforts to cut overall expenses over the past several years, completing an organizational assessment prior to budget approval, options and past practice for the Board's review of the budget, and focusing on infrastructure.

Director Dizmang then withdrew her motion to suspend the adoption of the agenda, and Director Mac Laren withdrew her second.

It was then moved by Director Cordova, seconded by Director Dizmang, and unanimously carried to adopt the agenda, as written.

4) Public Comments for Non-Agenda Items.

Alisha Semchuck, of the Antelope Valley Press, requested a cost estimate for performing an organizational assessment and was informed such a study will cost approximately $20,000.

There were no further public comments.

5) 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.)

5.1) Discussion and Workshop on 2013 Budget. (General Manager LaMoreaux/Department Heads)

General Manager LaMoreaux reviewed budget trends for the past several years including water sales, total cash cost of the District, staff's efforts to keep costs 9.5% below budget and operating at 2006 budget department levels, deferred maintenance and the effect on the overall value of the District's system, the District's financial rating, water main replacement projects and mainline leaks for the past six years, projects proposed for 2013, departmental requests, the District's performance and merit appraisal process, the

current budget status, options to the draft 2013 budget for increasing reserves and meeting debt service coverage, the average bill and effect of a 5% or 8% rate increase, and an 8% rate increase averaging only a 3% increase due to the settlement with the City of Palmdale.

The effect of an 8% rate increase, the District's increasing costs, department efforts to hold expenses at 2006 levels, conservative revenue estimates, savings from converting the District's Kaiser plan to ACWA/JPIA, and cost of living increases were then discussed, after which Director Alvarado requested that rate increase options based on a 2%, 4%, and 6% rate increase be presented.

The income statement, cash flow, water purchases, Granular Activated Carbon purchases, and anticipated projects for the Palmdale Recycled Water Authority were then reviewed, after which Financial Advisor Egan reviewed in detail the cash flow projections and the cost of needed projects placed on hold and then urged the Board to reduce the budget through a combination of budget cuts and water rate revenue increases and to focus on maintaining reserves, followed by discussion of the need to cut costs and raise rates.

Director Mac Laren then requested an organizational assessment be conducted.

At 8:55 p.m., President Dexter called for a five-minute recess. He reconvened the workshop at 9:00 p.m.

All departmental budgets were then reviewed in detail for reductions followed by discussion of insurance, legal fees, contracted services, computer software, the age of the District's fleet and options for replacement, and meter replacements.

President Dexter then requested a list of consultants and the services they provide be presented prior to the time of the next budget workshop.

Finance Manager Williams then informed the Board that the age of the District's vehicles and comments to maintain the infrastructure are the result of not having revenue increases on a regular basis and that the rate study called for annual rate increases in order to retain the infrastructure and operations of the District, followed by discussion of capital projects, carryover items, replacement projects, and items listed in the budget appendices.

Director Dizmang then stated that the budget needs to be cut by $2.5 million and that she is willing to look at various rate increases and appreciates staff's efforts in providing breakdowns for the budget.

Director Cordova requested General Manager LaMoreaux thoroughly review the budget for additional reductions.

It was then determined that another budget workshop will be held the first week in January, 2013.

5) Board Members Requests for Future Agenda Items.

There were no requests for future agenda items.

6) Adjournment.

There being no further business to come before the Board, the meeting was adjourned.

Robert E. Alvarez

Secretary