MINUTES OF MEETING OF THE FINANCE COMMITTEE OF THE PALMDALE WATER DISTRICT, MAY 10, 2016:

A meeting of the Finance Committee of the Palmdale Water District was held Tuesday, May 10, 2016, at 2029 East Avenue Q, Palmdale, California, in the Board Room of the District office. Chair Henriquez called the meeting to order at 4:03 p.m.

1) Roll Call.

Attendance:
Finance Committee:
Marco Henriquez, Chair
Robert Alvarado, Committee Member

Others Present:
Dennis LaMoreaux, General Manager
Matt Knudson, Assistant General Manager
Mike Williams, Finance Manager
Jim Riley, Engineering/Grant Manager
Dennis Hoffmeyer, Accounting Supervisor
Bob Egan, Financial Advisor
Dawn Deans, Executive Assistant
0 members of the public

2) Adoption of Agenda.

It was moved by Committee Member Alvarado, seconded by Chair Henriquez, and unanimously carried to adopt the agenda, as written.

3) Public Comments.

There were no public comments.

4) Action Items:

4.1) Consideration and Possible Action on Approval of Minutes of Special Meeting Held April 25, 2016.

It was moved by Committee Member Alvarado, seconded by Chair Henriquez, and unanimously carried to approve the minutes of the special Finance Committee meeting held April 25, 2016, as written.

4.2) Discussion and Overview of Cash Flow Statement and Current Cash Balances as of March, 2016. (Financial Advisor Egan)

Financial Advisor Egan reviewed the investment funds report as of March, 2016, including the decrease in cash of $3.6 million due to the payment of semi-annual principal and interest bond payments and operations costs and then provided an overview of the cash flow report for March and April, including assessments received in April, anticipated RDA pass-through funds, grant funds, Department of Water Resources refunds to be received, upcoming Butte payments, scheduled semi-annual principal and interest bond payments, and the projected year-end balance, which is tracking as planned.

Chair Henriquez inquired about the capital and printer leases followed by discussion of the benefit of these leases.

4.3) Discussion and Overview of Financial Statements, Revenue, and Expense and Departmental Budget Reports for March, 2016. (Finance Manager Williams)

Finance Manager Williams reviewed in detail 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 March, 2016; stated that most departments are operating at or below the targeted expenditure percentage of 25%; and then reviewed department line items above the targeted expenditure percentage followed by clarification of long-term debt.

4.4) Discussion and Overview of Committed Contracts Issued and Water Revenue Bond Projects. (Assistant General Manager Knudson)

Assistant General Manager Knudson reviewed the purpose and status of the Committed Contracts and Payout Schedule, which includes approved 2016 engineering projects, projects contractually committed, budgeted but not yet committed projects listed in order of priority, and payments for projects funded from the Water Revenue Series 2013A Bonds.

4.5) Discussion and Possible Action on Long Term Financial Planning. (Assistant General Manager Knudson/Engineering/Grant Manager Riley)

Assistant General Manager Knudson stated that budget numbers are reviewed on a monthly basis with an estimate for year-end cash; that staff recommends projections be made at a minimum of five-year increments to better manage long-term

financial planning for large projects, such as the Littlerock Sediment Removal Project and Palmdale Regional Recharge and Recovery Project; that the District's financial planner assisting with long-term financial planning to cover the cost of these large projects has developed a financial model and scenarios for funding these Projects; and that staff's goal is for the Finance Committee to focus on long-range financial planning versus year-to-year planning.

Engineering/Grant Manager Riley then presented an overview and the findings of the financial model, which calculates the amount of funds needed for the District's large projects, future bonds, potential grant funding, low interest state loans, and consistent revenues necessary for funding future water supplies based on the adopted Proposition 218 Water Rate Plan.

Assistant General Manager Knudson and Finance Manager Williams then emphasized the importance of following the approved Proposition 218 Water Rate Plan for future rate increases rather than revisiting the Plan every year as this approach focuses on immediate reserve needs rather than meeting long term debt service and long term water supply needs, and staff and management encourage the Finance Committee and the Board to adopt the remaining three years of the approved Proposition 218 Water Rate Plan to begin the foundation for long term financial planning and to be able to finance and complete needed projects for the District's future water supplies.

Financial Advisor Egan then stated that adopting the remainder of the approved Proposition 218 Water Rate Plan will relieve pressure on the Board and management, will provide clear direction on funds available with no guesswork in the budgeting process, and will ensure the District's bond rating is strong to ensure the District can obtain low interest loans from the state.

The Committee then requested the financial model be presented to the full Board to help show the need for consistent water rate adjustments.

5) Information Items.

5.1) Status of Debt Service Coverage. (Financial Advisor Egan)

Financial Advisor Egan reviewed the District's Debt Service Coverage, which has maintained at 1.1 and above, followed by discussion of the effect of new debt on the

Debt Service Coverage and the process for maintaining the capacity of Littlerock Reservoir followed by discussion of capital improvement funds.

5.2) Other.

Finance Manager Williams reviewed payment transaction types for the first quarter over the past seven years including a breakdown of electronic types of payments and customer activity between the hours of 5:00 p.m. and 6:00 p.m. for the past quarter.

There were no other information items.

6) Board Members' Requests for Future Agenda Items.

Chair Henriquez requested a presentation on the District's budget-based rates be made to the Committee and the Proposition 218 Water Rate Plan be considered after the presentation.

General Manager LaMoreaux then recommended sample summaries from the financial model and the full Proposition 218 Water Rate Plan be presented to the Committee to provide a better understanding of the financial model.

Financial Advisor Egan then informed the Committee that he will be unavailable to attend Finance Committee or Board meetings through the end of August but will be providing monthly written reports and will be available via teleconference if needed.

There were no further requests for future agenda items.

It was then determined that the next Finance Committee meeting will be held June 6, 2016 at 4:00 p.m.

7) Adjournment.

There being no further business to come before the Finance Committee, the meeting was adjourned at 5:29 p.m.

Chair