MINUTES OF MEETING OF THE FINANCE COMMITTEE OF THE PALMDALE WATER DISTRICT, JUNE 6, 2016:

A meeting of the Finance Committee of the Palmdale Water District was held Monday, June 6, 2016, at 2029 East Avenue Q, Palmdale, California, in the Board Room of the District office. Chair Henriquez called the meeting to order at 4:00 p.m.

1) Roll Call.

Attendance:	**Others Present:**
Finance Committee:	Matt Knudson, Assistant General Manager
Marco Henriquez, Chair	Mike Williams, Finance Manager
Robert Alvarado, Committee Member	Dennis Hoffmeyer, Accounting Supervisor
	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 Meeting Held May 10, 2016.

It was moved by Committee Member Alvarado, seconded by Chair Henriquez, and unanimously carried to approve the minutes of the Finance Committee meeting held May 10, 2016, as written.

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

Finance Manager Williams reviewed the investment funds report as of April, 2016, including the increase in cash of approximately $2 million due to assessments received and then provided an overview of the cash flow statement for April, including

assessments received and Department of Water Resources' refunds, and stated that the projected year-end balance is tracking as planned.

4.3) Discussion and Overview of Financial Statements, Revenue, and Expense and Departmental Budget Reports for April, 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 April, 2016; stated that most departments are operating at or below the targeted expenditure percentage of 33%; and then reviewed department line items above the targeted expenditure percentage followed by discussion of monies available under the Water Revenue Series 2013A Bonds, uncollectible accounts, health insurance tracking higher due to funding of HSA accounts, and operating expenses for Directors.

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 Overview of Water Budget Rate Structure and 2014 Water Rate Plan Adopted September 17, 2014. (General Manager LaMoreaux)

Assistant General Manager Knudson provided an overview of Resolution No. 14-16 Approving Changes in Rates, Fees, and Charges for Water Service after which Finance Manager Williams provided an overview of the District's water budget rate structures and Water Rate Plan prepared by Bartle Wells and adopted by the Board of Directors September 17, 2014 including recommendations to build reserves and the need for consistent rate increases approved in the Water Rate Plan in order to issue bonds needed for water supply and infrastructure projects followed by discussion of the public outreach process for the Water Rate Plan, understanding the indoor and outdoor allocation, and including more information in The Pipeline and on the website regarding the allocation.

4.6) Discussion and Possible Action on Long Term Financial Planning and Adoption of Remaining Three Years of Approved Proposition 218 Water Rate Plan. (Assistant General Manager Knudson/Finance Manager Williams)

Assistant General Manager Knudson stated that as discussed under Agenda Item No. 4.5, the Board of Directors adopted the Water Rate Plan accepting the recommendations of Bartle Wells on September 17, 2014; that these recommendations are discarded during annual budget discussions, and the focus becomes only meeting financial needs for the current budget year; and that to avoid this short term planning strategy, staff recommends a Resolution implementing the 5.5% water rate increase approved in the Water Rate Plan for calendar years 2017, 2018, and 2019 be adopted as a long term planning strategy to enable the District to secure low interest loans, funding, and bonds to complete the Palmdale Regional Recharge & Recovery Project and the Littlerock Sediment Removal Project.

He continued that this foresight into long range planning will enable the Board to convey to the ratepayers that the new Water Rate Plan for years 2020 – 2025 will forecast a minimal 3% water rate increase for each of those five years, will ensure the District continues to meet minimum targets for Debt Service Coverage and reserves, and will demonstrate the District's ability to repay low interest state loans.

After a brief discussion of accepting staff's and Bartle Wells' recommendation, the minimal protests and public comments received on the 2014 Water Rate Plan, the salary survey, and of presenting this item to the full Board for consideration, Chair Henriquez requested an additional meeting with General Manager LaMoreaux, Assistant General Manager Knudson, and Finance Manager Williams for an in-depth review and discussion of the District's water budget rate structure, extensive salary survey conducted by Human Resources Director Emery, CSDA's salary survey, and hiring a consultant in addition to Financial Advisor Egan and Finance Manager Williams to determine areas where costs can be reduced.

Finance Manager Williams then stated that staff will present a five-year review of the District's operating expenses, which have been flat since 2009, at the next Committee meeting.

The method and rate increases for the Sanitation Districts, the higher rates of Los Angeles County Waterworks and Quartz Hill Water District, the need for long-term

planning, and the damaging effects of delaying rate increases experienced by neighboring water agencies were then discussed.

Committee Member Alvarado then requested a bullet list of all reasons supporting the adoption of the remaining three years of the Water Rate Plan for discussion at the next Committee meeting.

5) Information Items.

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

Finance Manager Williams reviewed the District's Debt Service Coverage, which is at 1.25 as of April 30.

5.2) Other.

Finance Manager Williams informed the Committee that the Audit was accepted in draft form; that GASB 68 and 71 numbers in the Audit will be updated when CalPERS issues its 2016 numbers; that the auditors have issued a letter stating same; and that this information has been posted on the District's website.

He then informed the Committee that 2016 revenue projects were based on 16,500 acre feet of water; that as of May, revenues are lower than expected; and that the Drought Surcharge Fee will need to be continued to reduce the gap between projected and actual revenues followed by discussion of Department of Water Resources' charges and refunds.

There were no other information items.

6) Board Members' Requests for Future Agenda Items.

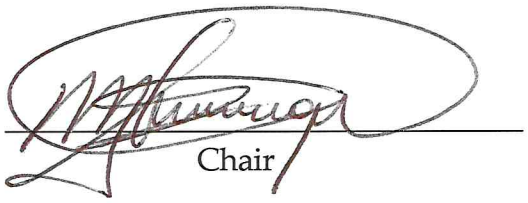
Committee Member Alvarado requested the financial impact of replacing the District's aging fleet after which it was stated that a lease option item will be discussed at next week's Facilities Committee meeting.

There were no further requests for future agenda items.

It was then determined that the next Finance Committee meeting will be held July 12, 2016 at 3:30 p.m.

7) Adjournment.

There being no further business to come before the Finance Committee, the meeting was adjourned at 5:35 p.m.



Chair