

Since 1918



# PALMDALE WATER DISTRICT

2029 East Avenue Q • Palmdale, California 93550 • Telephone (661) 947-4111

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## Board of Directors

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Division 2

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Division 3

KATHY MAC LAREN  
Division 4

VINCENT DINO  
Division 5

ALESHIRE & WYNDER LLP  
Attorneys

August 4, 2016

***Agenda for a Meeting  
of the Finance Committee of the Palmdale Water District  
Committee Members: Marco Henriquez-Chair, Robert Alvarado  
to be held at the District's office at 2029 East Avenue Q, Palmdale  
Tuesday, August 9, 2016  
4:00 p.m.***

**NOTE:** To comply with the Americans with Disabilities Act, to participate in any Board meeting please contact Dawn Deans at 661-947-4111 x1003 at least 48 hours prior to a Board meeting to inform us of your needs and to determine if accommodation is feasible.

Agenda item materials, as well as materials related to agenda items submitted after distribution of the agenda packets, are available for public review at the District's office located at 2029 East Avenue Q, Palmdale (Government Code Section 54957.5). Please call Dawn Deans at 661-947-4111 x1003 for public review of materials.

**PUBLIC COMMENT GUIDELINES:** The prescribed time limit per speaker is three-minutes. Please refrain from public displays or outbursts such as unsolicited applause, comments, or cheering. Any disruptive activities that substantially interfere with the ability of the District to carry out its meeting will not be permitted and offenders will be requested to leave the meeting. (PWD Rules and Regulations, Appendix DD, Sec. IV.A.)

Each item on the agenda shall be deemed to include any appropriate motion, resolution, or ordinance to take action on any item.

- 1) Roll call.
- 2) Adoption of agenda.
- 3) Public comments.
- 4) Action Items: (The public shall have an opportunity to comment on any action item as each item is considered by the Committee prior to action being taken.)



*Providing high quality water to our current and future customers at a reasonable cost.*



- 4.1) Consideration and possible action on approval of minutes of regular meeting held July 12, 2016.
- 4.2) Discussion and overview of Cash Flow Statement and Current Cash Balances as of June, 2016. (Financial Advisor Egan)
- 4.3) Discussion and overview of Financial Statements, Revenue, and Expense and Departmental Budget Reports for June, 2016. (Finance Manager Williams)
- 4.4) Discussion and overview of committed contracts issued and water revenue bond projects. (Assistant General Manager Knudson)
- 4.5) Discussion and overview of State Auditor Audit. (Finance Manager Williams/General Manager LaMoreaux)
- 4.6) Discussion and possible action on hiring an outside consultant to determine additional cost reductions for the District. (Chair Henriquez)
- 4.7) Discussion and possible action on long term financial planning and adoption of remaining three years of approved Proposition 218 Water Rate Plan to ensure future water rate stability and long-term water sustainability projects to meet current and future water demands. (Assistant General Manager Knudson/Finance Manager Williams)
- 4.8) Consideration and possible action on Professional Services Agreement with NHA Advisors to provide annual continuing disclosure consulting and dissemination agent services through the life of the bonds. (\$1,500.00/year – Budgeted – Finance Manager Williams)
- 5) Information items.
  - 5.1) Status of Debt Service Coverage. (Financial Advisor Egan)
  - 5.2) Status on refunding 2012 Installment Purchase Agreement and a portion of the 2013A Water Revenue Bonds. (Finance Manager Williams)
  - 5.3) Review of age of District pipelines and anticipated water main and meter replacement projects. (Committee Member Alvarado/Assistant General Manager Knudson)
  - 5.4) Other.
- 6) Board members' requests for future agenda items.
- 7) Adjournment.



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DENNIS D. LaMOREAUX,  
General Manager  
DDL/dd

**PALMDALE  
WATER DISTRICT  
BOARD MEMORANDUM**

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**DATE:** August 4, 2016 August 9, 2016  
**TO:** FINANCE COMMITTEE Committee Meeting  
**FROM:** Mr. Bob Egan, Financial Advisor  
**RE:** *AGENDA ITEM NO. 4.2 – DISCUSSION AND OVERVIEW OF CASH  
FLOW STATEMENT AND CURRENT CASH BALANCES AS OF  
JUNE, 2016.*

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Attached is the Investment Funds Report and current cash balance as of June 30, 2016. The reports will be reviewed in detail at the Finance Committee meeting.

**PALMDALE WATER DISTRICT  
INVESTMENT FUNDS REPORT  
June 30, 2016**

					June 2016	March 2016
CASH						
1-00-0103-100	Citizens - Checking				965,932.46	89,300.49
1-00-0103-200	Citizens - Refund				(1,633.48)	-
1-00-0103-300	Citizens - Merchant				72,329.45	129,087.46
				Bank Total	1,036,628.43	218,387.95
1-00-0110-000	PETTY CASH				300.00	300.00
1-00-0115-000	CASH ON HAND				5,400.00	5,400.00
				TOTAL CASH	1,042,328.43	224,087.95
INVESTMENTS						
1-00-0135-000	Local Agency Investment Fund			Acct. Total	11,790.36	11,790.36
1-00-0120-000 UBS Money Market Account General (SS 11469)						
	UBS RMA Government Portfolio				2,619,500.19	4,104,559.65
	UBS Bank USA Dep acct				250,000.00	250,000.00
	Accrued interest				7,767.47	7,390.24
					2,877,267.66	4,361,949.89
US Government Securities						
CUSIP #	Issuer	Maturity Date	Rate	PAR	Market Value	Market Value
912828SJ0	US Treasury Note	02/28/2017	0.87	1,000,000	1,002,580.00	1,001,410.00
				1,000,000	1,002,580.00	1,001,410.00
Certificates of Deposit						
	Issuer	Maturity Date	Rate	Face Value		
1	Safra National Bank	08/16/2016	0.60	240,000	240,040.80	240,100.80
2	First Bank PR	11/07/2016	0.80	240,000	240,201.60	240,242.40
3	Compass Bank	02/07/2017	0.95	240,000	240,441.60	240,482.40
4	GE Cap Retail Bank	04/27/2017	1.84	200,000	201,440.00	201,512.00
5	Discover Bank	05/02/2017	1.73	240,000	241,965.60	242,073.60
6	Merrick Bank	06/12/2017	1.00	100,000	100,326.00	100,317.00
7	Level One Bank	06/19/2017	0.65	101,000	101,229.27	101,215.13
8	GE Cap Retail Bank	06/22/2017	1.78	200,000	202,038.00	202,158.00
9	Capitol One Bank	08/14/2017	1.20	240,000	241,063.20	241,080.00
10	Triumph Bank	09/26/2017	0.80	200,000	200,652.00	200,636.00
11	MB Finl Bank	10/26/2017	0.85	200,000	200,008.00	199,940.00
				2,201,000	2,209,406.07	2,209,757.33
				Acct. Total	6,089,253.73	7,573,117.22
1-00-1110-000 UBS Money Market Account Capital (SS 11475)						
	UBS Bank USA Dep acct				7.56	7.56
	UBS RMA Government Portfolio				-	-
				Acct. Total	7.56	7.56
1-00-0125-000 UBS Access Account General (SS 11432)						
	UBS Bank USA Dep acct				221,323.91	229,550.45
	UBS RMA Government Portfolio				-	-
	Accrued interest				21,711.82	17,539.08
					243,035.73	247,089.53
US Government Securities						
CUSIP #	Issuer	Maturity Date	Rate	PAR	Market Value	Market Value
3133EDMN9	FFCB Bond	06/02/2016	0.37	1,000,000	-	1,000,000.00
912828XF2	US Treasury Note	06/15/2018	1.125	1,000,000	1,010,040.00	-
912828KD1	US Treasury Note	02/15/2019	2.610	1,500,000	1,581,090.00	1,571,430.00
912828P53	US Treasury Note	02/15/2019	0.75	1,000,000	1,001,950.00	993,670.00
				4,500,000	3,593,080.00	3,565,100.00
Certificates of Deposit						
	Issuer	Maturity Date	Rate	Face Value		
1	Goldman Sachs Bk	11/07/2016	1.00	240,000	240,405.60	240,501.60
2	CIT Bank	11/06/2017	1.60	240,000	240,232.80	240,271.20
3	BMW Bank	11/15/2018	1.96	240,000	245,160.00	245,128.80
4	American Express	04/29/2019	1.44	240,000	243,640.80	243,391.20
5	Synchrony Bank	04/14/2020	1.83	240,000	246,112.80	245,647.20
				1,200,000	1,215,552.00	1,214,940.00
				Acct. Total	5,051,667.73	5,027,129.53
				Total Managed Accounts	11,152,719.38	12,612,044.67
1-00-1121-000 UBS Rate Stabilization Fund (SS 24016) - District Restricted						
	UBS Bank USA Dep acct				250,000.00	250,000.00
	UBS RMA Government Portfolio				230,290.46	230,281.82
				Acct. Total	480,290.46	480,281.82
				GRAND TOTAL CASH AND INVESTMENTS	12,675,338.27	13,316,414.44
				Increase (Decrease) in Funds	(641,076.17)	13,316,414.44
1-00-1130-000 2013A Bonds - Project Funds (BNY Mellon)						
	Construction Funds				597,345.70	671,401.88



**PALMDALE WATER DISTRICT**

## 2016 Cash Flow Report (Based on Jan. 19, 2016 Approved Budget)

2016 Cash Flow Report (Based on Jan. 19, 2016 Approved Budget)														Budget 2017 Carryover Information	
	January	February	March	April	May	June	July	August	September	October	November	December	YTD		
Total Cash Beginning Balance (BUDGET)	12,253,595	11,996,708	12,070,140	9,443,313	11,240,278	11,923,901	11,779,269	10,981,346	11,574,708	9,220,541	9,395,698	9,267,781		(582,380)	
Total Cash Beginning Balance	12,253,595	12,534,672	12,719,333	10,275,232	12,340,454	13,316,414	12,675,338	12,119,309	11,995,258	9,731,179	9,687,139	9,562,607			
Budgeted Water Receipts	1,541,128	1,523,788	1,575,809	1,590,982	1,790,396	1,946,460	2,165,382	2,202,231	2,030,994	1,946,460	1,688,521	1,673,349	21,675,500		
Water Receipts	1,836,145	1,903,857	1,602,349	1,518,640	1,618,564	1,843,912	2,165,382	2,202,231	2,030,994	1,946,460	1,688,521	1,673,349	22,030,404		
DWR Refund (Operational Related)				1,718	28								1,746		
Other													-		
Total Operating Revenue (BUDGET)													-		
Total Operating Revenue (ACTUAL)	1,836,145	1,903,857	1,602,349	1,520,358	1,618,592	1,843,912	2,165,382	2,202,231	2,030,994	1,946,460	1,688,521	1,673,349	22,032,150		
Total Operating Expenses excl GAC (BUDGET)	(1,237,486)	(1,217,967)	(1,591,629)	(1,550,533)	(1,568,100)	(1,439,060)	(1,770,025)	(1,614,651)	(1,795,266)	(1,449,785)	(1,434,170)	(1,550,028)	(18,218,700)		
GAC (BUDGET)	(362,730)		(190,000)			(190,000)			(190,000)		(190,000)		(1,122,730)		
Operating Expenses excl GAC (ACTUAL)	(1,356,117)	(1,281,496)	(1,961,054)	(1,361,831)	(1,377,208)	(1,883,383)	(1,770,025)	(1,614,651)	(1,795,266)	(1,449,785)	(1,434,170)	(1,550,028)	(18,835,013)		
GAC	(62,730)	(183,290)	(275,135)					(190,000)			(190,000)		(901,154)		
Prepaid Insurance (paid)/refunded		(66,457)											(66,457)		
Total Operating Expense (ACTUAL)	(1,418,847)	(1,531,243)	(2,236,189)	(1,361,831)	(1,377,208)	(1,883,383)	(1,770,025)	(1,804,651)	(1,795,266)	(1,449,785)	(1,624,170)	(1,550,028)	(19,802,625)		
Non-Operating Revenue Expenses:															
Assessments, net (BUDGET)	664,439	253,955	14,289	2,027,090	739,781	11,042	75,342	127,302	-	-	129,251	2,452,512	6,495,000		
Actual/Projected Assessments, net	684,181	313,172	15,308	2,078,805	818,666	12,539	70,859	127,302	-	-	129,251	2,452,512	6,702,594		
RDA Pass-through (Successor Agency)					307,851								307,851		
Interest	3,168	4,991	9,069	8,540	9,385	9,296	2,915	2,915	2,915	2,915	2,915	2,935	61,958		
Market Adjustment	7,983	(12,780)	7,384	(3,392)	(4,736)	19,028							13,486		
Grant Re-imbursement						306,915						177,000	483,915		
Capital Improvement Fees							234,459						234,459		
DWR Refund (Capital Related)				98,537	37,228				50,000			50,000	235,765		
Other	3,415	26	590	(202)	(33)	(106)	8,330	8,330	8,330	8,330	8,330	8,370	53,710		
Total Non-Operating Revenues (BUDGET)													-		
Total Non-Operating Revenues (ACTUAL)	698,746	305,408	32,351	2,182,288	1,168,361	347,671	316,563	138,547	61,245	11,245	140,496	2,690,817	8,093,739		
Non-Operating Expenses:															
Budgeted Capital Expenditures	(514,999)	(306,567)	(287,878)	(40,796)	(48,676)	(26,296)	(91,743)	(91,743)	(91,743)	(91,743)	(91,744)	(918,263)	(2,602,191)		
Actual/Projected Capital Expenditures	(93,505)	(302,341)	(24,615)	(62,302)	(242,404)	(31,036)	(319,467)	(38,796)	(26,296)	(160,581)	-	-	(1,301,344)		
Uncommitted Capital Expenditures	-	-	-	-	-	-	(210,000)	(430,000)	(215,000)	(200,000)	(138,000)	-	(1,193,000)		
WRB Capital Expenditures	-	-	-	-	-	-	-	-	-	-	-	(347,629)	(347,629)		
SWP Capitalized	(717,495)	(170,388)	(196,069)	(170,390)	(170,390)	(170,390)	(717,492)	(170,390)	(201,804)	(170,388)	(170,388)	(170,388)	(3,195,972)		
Butte County Water Transfer						(726,859)						(726,859)	(1,453,719)		
Bond Payments - Interest			(1,084,814)						(1,076,522)				(2,161,336)		
Principal			(537,114)						(1,020,439)				(1,557,553)		
Capital leases - Go West (2012 Lease)	(17,296)	(17,296)	-	(35,624)	(17,296)	(17,296)	(17,296)	(17,296)	(17,296)	(17,296)	(17,296)	(17,296)	(208,585)		
Capital leases - Wells Fargo (Printer Lease)	(6,672)	(3,336)	-	(7,277)	(3,695)	(3,695)	(3,695)	(3,695)	(3,695)	(3,695)	(3,695)	(3,695)	(46,846)		
Total Non-Operating Expenses (ACTUAL)	(834,969)	(493,362)	(1,842,612)	(275,592)	(433,785)	(949,277)	(1,267,950)	(660,177)	(2,561,052)	(551,961)	(329,379)	(1,265,868)	(11,465,983)		
Total Cash Ending Balance (BUDGET)	11,996,708	12,070,140	9,443,313	11,240,278	11,923,901	11,779,269	10,981,346	11,574,708	9,220,541	9,395,698	9,267,781	10,300,285			
Total Cash Ending Balance (ACTUAL)	12,534,672	12,719,333	10,275,232	12,340,454	13,316,414	12,675,338	12,119,309	11,995,258	9,731,179	9,687,139	9,562,607	11,110,877			
											Budget	10,300,285			
											Difference	810,592			
Indicates actual expenditures/revenues:															
Indicates anticipated expenditures/revenues:															

Information for this item will be distributed at the Committee meeting.

# **PALMDALE WATER DISTRICT BOARD MEMORANDUM**

**DATE:** August 4, 2016 **August 9, 2016**  
**TO:** FINANCE COMMITTEE **Committee Meeting**  
**FROM:** Mr. Matthew R. Knudson, Assistant General Manager  
**VIA:** Mr. Dennis LaMoreaux, General Manager  
**RE:** ***AGENDA ITEM NO. 4.4 – DISCUSSION AND OVERVIEW OF COMMITTED CONTRACTS ISSUED AND WATER REVENUE BOND PROJECTS.***

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Attached is an updated spreadsheet for the Series 2013A Water Revenue Bond. The updated Project Payout Schedule will be distributed at the meeting.

**Supporting Documents:**

- Water Revenue Bond – Series 2013A Summary and Payout Detail

# Water Revenue Bond - Series 2013A

Updated: August 3, 2016

Project	Work Order	Description	Allocated Based on Bond	Contractual Commitment	Payout to Date	Grant Funds/Operating Budget	Uncommitted Bond \$
Spec. 1204	603-12	Ave. Q - Q-3, Division and Sumac	\$ 725,000	\$ 765,085	\$ 765,085	\$ -	\$ (40,085)
Spec. 1201	606-11	20th, Puerta, Sweetbriar, and 22nd St. E.	\$ 1,450,000	\$ 1,487,261	\$ 1,487,261	\$ -	\$ (37,261)
Spec. 1205	605-12	Frontier, 31st St. E., etc. between Ave. Q and Q-4	\$ 1,200,000	\$ 1,291,539	\$ 1,291,539	\$ 485,000	\$ (91,539)
Spec. 1207	607-12	10th St. E. between Ave. P and Palmdale Blvd.	\$ 1,400,000	\$ 1,327,806	\$ 1,327,806	\$ -	\$ 72,194
LRDSR	501-04	Littlerock Sediment Removal (EIR/EIS/Permits)	\$ 975,000	\$ 645,443	\$ 635,442	\$ -	\$ 329,557
LCGRRP	400-12	Littlerock Recharge and Recovery (Feasibility)	\$ 1,500,000	\$ 769,891	\$ 769,891	\$ -	\$ 730,109
UAR	TBD	Upper Amargosa Recharge (Project Capacity)	\$ 1,250,000	\$ 1,250,000	\$ 129,215	\$ 445,009	\$ -
Spec. 0905	601-09	15th St. E. between Ave. P and Ave. Q (Material)	\$ -	\$ 362,984	\$ 362,984	\$ -	\$ (362,984)
PRGRRP	501-04	Palmdale Regional Recharge and Recovery (Permits)	\$ -	\$ 1,530,000	\$ 1,213,223		\$ (1,530,000)
<b>Totals:</b>			\$ 8,500,000	\$ 9,430,009	\$ 7,982,447	\$ 930,009	\$ (930,009)

Requisition No.	Payee	Date Approved	Invoice No.	Project	Payment Amount
2	Issuance Costs	Jul 8, 2013	N/A	WRB	\$ 24,815.84
3	BV Construction - Progress Payment #1	Jul 9, 2013	1	Spec. 1204	\$ 98,552.53
4	JT Eng. - Design Progress Payment	Jul 17, 2013	5187	Spec. 1207	\$ 9,108.00
5	BV Construction - Progress Payment #2	Aug 5, 2013	2	Spec. 1204	\$ 145,175.44
6	BV Construction - Progress Payment #3-4	Sep 4, 2013	3 and 4	Spec. 1204	\$ 167,790.43
7	Aspen - EIR/EIS Progress Payment	Sep 30, 2013	1116.002-01	LRDSR	\$ 18,499.60
8	BV Construction - Progress Payment #5	Sep 30, 2013	5	Spec. 1204	\$ 46,862.08
9	BV Construction - Progress Payment #6	Oct 24, 2013	6	Spec. 1204	\$ 51,052.05
10	Aspen - EIR/EIS Progress Payment	Oct 24, 2013	1116.002-02	LRDSR	\$ 8,410.32
11	BV Construction - Progress Payment #7	Nov 7, 2013	7	Spec. 1204	\$ 87,960.50
12	BV Construction - Progress Payment #8	Dec 4, 2013	8	Spec. 1204	\$ 70,650.08
13	Aspen - EIR/EIS Progress Payment	Dec 4, 2013	1116.002-03	LRDSR	\$ 11,054.97
14	Kennedy/Jenks - Progress Payment	Jan 2, 2014	78236	LCGRRP	\$ 24,066.25
14	BV Construction - Progress Payment #1	Jan 2, 2014	1	Spec. 1201	\$ 29,925.00
14	BV Construction - Progress Payment #9	Jan 2, 2014	9	Spec. 1204	\$ 58,787.84
14	Aspen - EIR/EIS Progress Payment	Jan 2, 2014	1116.002-04	LRDSR	\$ 36,178.95
14	JT Eng. - Design Progress Payment	Jan 2, 2014	5200	Spec. 1207	\$ 9,518.00
15	BV Construction - Progress Payment #2 & #3	Jan 21, 2014	2 & 3	Spec. 1201	\$ 114,095.00
16	Aspen - EIR/EIS Progress Payment	Feb 24, 2014	1116.002-05	LRDSR	\$ 4,917.47
16	BV Construction - Progress Payment #4 & #5	Feb 24, 2014	4 & 5	Spec. 1201	\$ 131,743.15
17	BV Construction - Retention Payment	Mar 3, 2014	10	Spec. 1204	\$ 38,254.26
17	Kennedy/Jenks - Progress Payment	Mar 3, 2014	79010 & 80391	LCGRRP	\$ 113,652.66
18	BV Construction - Progress Payment #6	Mar 31, 2014	6	Spec. 1201	\$ 126,834.50
18	Aspen - EIR/EIS Progress Payment	Mar 31, 2014	1116.002-06 and 07	LRDSR	\$ 17,080.04
19	Kennedy/Jenks - Progress Payment	Apr 16, 2014	78236	LCGRRP	\$ 28,228.60
19	BV Construction - Progress Payment #7	Apr 16, 2014	7	Spec. 1201	\$ 252,741.80
20	BV Construction - Progress Payment #8	May 15, 2014	8	Spec. 1201	\$ 69,825.00
20	Aspen - EIR/EIS Progress Payment	May 15, 2014	1116.002-08	LRDSR	\$ 33,388.96
20	Kennedy/Jenks - Progress Payment	May 15, 2014	82422 & 80900	LCGRRP	\$ 135,858.74
21	BV Construction - Progress Payment #9	Jun 4, 2014	9	Spec. 1201	\$ 67,260.00
21	Aspen - EIR/EIS Progress Payment	Jun 4, 2014	1116.002-09	LRDSR	\$ 31,845.93
22	BV Construction - Progress Payment #10	Jun 30, 2014	10	Spec. 1201	\$ 139,498.00
23	Kennedy/Jenks - Progress Payment	Jun 30, 2014	83735	LCGRRP	\$ 30,172.21
23	Aspen - EIR/EIS Progress Payment	Jun 30, 2014	1116.002-10	LRDSR	\$ 10,672.32
24	BV Construction - Progress Payment #11	Jul 21, 2014	11	Spec. 1201	\$ 141,217.50
24	Kennedy/Jenks - Progress Payment	Jul 21, 2014	84147	LCGRRP	\$ 26,431.83
24	Aspen - EIR/EIS Progress Payment	Jul 21, 2014	1116.002-11	LRDSR	\$ 6,274.20

25	BV Construction - Progress Payment #12	Aug 19, 2014	12	Spec. 1201	\$ 84,386.60
25	Aspen - EIR/EIS Progress Payment	Aug 19, 2014	1116.002-12	LRDSR	\$ 11,115.51
26	BV Construction - Progress Payment #13	Sept 10, 2014	13	Spec. 1201	\$ 47,654.85
26	Aspen - EIR/EIS Progress Payment	Sept 10, 2014	1116.002-13	LRDSR	\$ 37,715.30
27	BV Construction - Progress Payment #14	Sept 29, 2014	14	Spec. 1201	\$ 122,741.90
27	PWD - Reimbursement	Sept 29, 2014	N/A	Spec. 0905	\$ 260,611.31
28	Cedro Construction - Progress Payment #1	Oct 14, 2014	1	Spec. 1207	\$ 310,752.41
28	City of Palmdale - Recharge Project	Oct 14, 2014	PWD-2014	UAR	\$ 38,402.47
29	Aspen - EIR/EIS Progress Payment	Oct 23, 2014	1116.002-14	LRDSR	\$ 56,223.72
29	Kennedy/Jenks - Progress Payment	Oct 23, 2014	87036	LCGRRP	\$ 80,732.32
30	BV Construction - Progress Payment #15	Nov 12, 2014	15	Spec. 1201	\$ 84,974.65
30	Aspen - Bio and Cultural Report	Nov 12, 2014	3277.001-01	Spec. 1205	\$ 10,608.08
30	Cedro Construction - Progress Payment #2	Nov 12, 2014	2	Spec. 1207	\$ 195,802.84
31	ANM Construction - Paving	Nov 17, 2014	011115-1	Spec. 0905	\$ 102,373.00
32	Aspen - Bio and Cultural Report	Nov 26, 2014	3277.001-02	Spec. 1205	\$ 1,147.81
32	Aspen - EIR/EIS Progress Payment	Nov 26, 2014	1116.002-15	LRDSR	\$ 76,161.79
33	Kennedy/Jenks - Progress Payment	Dec 29, 2014	88741	LCGRRP	\$ 71,831.14
33	BV Construction - Progress Payment #16 (Retention)	Dec 29, 2014	16 - Retention	Spec. 1201	\$ 74,363.05
33	Aspen - EIR/EIS Progress Payment	Dec 29, 2014	1116.002-16	LRDSR	\$ 6,136.99
34	Cedro Construction - Progress Payment #3	Jan 7, 2015	3	Spec. 1207	\$ 294,189.21
35	BV Construction - Progress Payment #1	Jan 26, 2015	1	Spec. 1205	\$ 152,445.08
35	Aspen - EIR/EIS Progress Payment	Jan 26, 2015	1116.002-17	LRDSR	\$ 13,105.63
36	Kennedy/Jenks - Progress Payment	Feb 2, 2015	89538	LCGRRP	\$ 78,066.17
37	BV Construction - Progress Payments #2 and #3	Feb 19, 2015	2 and 3	Spec. 1205	\$ 195,962.20
37	Aspen - EIR/EIS Progress Payment	Feb 19, 2015	1116.002-18	LRDSR	\$ 8,814.60
38	BV Construction - Progress Payment #4	Mar 9, 2015	4	Spec. 1205	\$ 123,500.00
38	Cedro Construction - Progress Payment #4	Mar 9, 2015	4	Spec. 1207	\$ 70,371.25
39	BV Construction - Progress Payment #5	Mar 31, 2015	5	Spec. 1205	\$ 144,210.00
39	Aspen - EIR/EIS Progress Payment	Mar 31, 2015	1116.002-19	LRDSR	\$ 12,057.52
39	Kennedy/Jenks - Progress Payment	Mar 31, 2015	90983	LCGRRP	\$ 134,407.47
40	Cedro Construction - Progress Payment #5	Apr 13, 2015	5	Spec. 1207	\$ 116,680.99
41	BV Construction - Progress Payment #6	Apr 27, 2015	6	Spec. 1205	\$ 125,003.43
41	Aspen - EIR/EIS Progress Payment	Apr 27, 2015	1116.002-20	LRDSR	\$ 7,540.62
42	Cedro Construction - Progress Payment #6	May 19, 2015	6	Spec. 1207	\$ 103,592.13
43	BV Construction - Progress Payment #7	Jun 8, 2015	7	Spec. 1205	\$ 72,296.90
43	Aspen - Native American Monitoring	Jun 8, 2015	3277.001-03	Spec. 1205	\$ 7,702.52
43	Aspen - EIR/EIS Progress Payment	Jun 8, 2015	1116.002-21	LRDSR	\$ 44,109.14
44	Aspen - EIR/EIS Progress Payment	Jun 23, 2015	1116.002-22	LRDSR	\$ 34,285.59
44	Cedro Construction - Progress Payment #7	Jun 23, 2015	7	Spec. 1207	\$ 60,299.73
45	BV Construction - Progress Payment #8	Jul 15, 2015	8	Spec. 1205	\$ 111,492.00
45	Kennedy/Jenks - Progress Payment	Jul 15, 2015	93555	LCGRRP	\$ 46,443.99
45	Kennedy/Jenks - Progress Payment	Jul 15, 2015	93556	PRGRRP	\$ 251,714.21
46	Aspen - EIR/EIS Progress Payment	Jul 21, 2015	1116.002-23	LRDSR	\$ 16,484.80
46	Aspen - Native American Monitoring	Jul 21, 2015	3277.001-04	Spec. 1205	\$ 4,152.75
46	City of Palmdale - Recharge Project	Jul 21, 2015	PWD-2015	UAR	\$ 54,977.18
47	BV Construction - Progress Payment #9	Aug 11, 2015	9	Spec. 1205	\$ 107,542.76
47	Kennedy/Jenks - Progress Payment	Aug 11, 2015	94435	PRGRRP	\$ 238,422.35
48	Aspen - EIR/EIS Progress Payment	Sept 14, 2015	1116.002-24	LRDSR	\$ 9,024.21
48	Cedro Construction - Final Payment/Retention	Sept 14, 2015	Final Retention	Spec. 1207	\$ 157,491.76
49	Aspen - EIR/EIS Progress Payment	Sept 28, 2015	1116.002-25	LRDSR	\$ 1,034.50
49	Kennedy/Jenks - Progress Payment	Sept 28, 2015	95632	PRGRRP	\$ 190,705.91
50	Aspen - Native American Monitoring	Oct. 12, 2015	3277.001-05	Spec. 1205	\$ 5,581.50
50	BV Construction - Progress Payment #10	Oct. 12, 2015	10	Spec. 1205	\$ 92,241.20
51	Aspen - Native American Monitoring	Nov. 4, 2015	3277.001-06	Spec. 1205	\$ 4,707.50

51	Kennedy/Jenks - Progress Payment	Nov. 4, 2015	96460	PRGRRP	\$ 129,704.49
52	Aspen - Native American Monitoring	Dec. 28, 2015	96461	Spec. 1205	\$ 3,013.50
52	Kennedy/Jenks - Progress Payment	Dec. 28, 2015	97775	PRGRRP	\$ 159,241.36
53	Kennedy/Jenks - Progress Payment	Jan. 21, 2016	98545	PRGRRP	\$ 67,612.54
53	Aspen - EIR/EIS Progress Payment	Jan. 21, 2016	1116.002-25 & 27	LRDSR	\$ 3,751.40
54	BV Construction - Progress Payment #11	Feb. 3, 2016	11	Spec. 1205	\$ 67,200.17
55	BV Construction - Retention Payment	Feb. 23, 2016	Retention	Spec. 1205	\$ 62,731.78
55	Kennedy/Jenks - Progress Payment	Feb. 23, 2016	99318	PRGRRP	\$ 58,537.45
56	Aspen - EIR/EIS Progress Payment	Mar. 28, 2016	1116.003-01	LRDSR	\$ 33,898.64
56	Kennedy/Jenks - Progress Payment	Mar. 28, 2016	99918	PRGRRP	\$ 57,193.72
57	Kennedy/Jenks - Progress Payment	Apr. 19, 2016	100572	PRGRRP	\$ 7,364.72
58	Aspen - EIR/EIS Progress Payment	May 23, 2016	1116.003-02	LRDSR	\$ 5,535.88
58	Kennedy/Jenks - Progress Payment	May 23, 2016	101354	PRGRRP	\$ 26,258.21
59	Aspen - EIR/EIS Progress Payment	Jun 20, 2016	1116.003-03	LRDSR	\$ 37,001.22
59	Kennedy/Jenks - Progress Payment	Jun 20, 2016	102083	PRGRRP	\$ 5,389.60
60	Aspen - EIR/EIS Progress Payment	Jul 21, 2016	1116.003-05 & 05	LRDSR	\$ 43,122.23
60	Kennedy/Jenks - Progress Payment	Jul 21, 2016	103204	PRGRRP	\$ 21,078.38
61	City of Palmdale - Recharge Project	Jul 27, 2016	PWD-2016	UAR	\$ 35,834.85



# AGENDA ITEM NO. 4.5 PALMDALE WATER DISTRICT

2029 East Avenue Q • Palmdale, California 93550 • Telephone (661) 947-4111

Fax (661) 947-8604

[www.palmdalewater.org](http://www.palmdalewater.org)

ALESHIRE & WYNDER LLP  
Attorneys



## Board of Directors

ROBERT E. ALVARADO  
Division 1

JOE ESTES  
Division 2

GLORIA DIZMANG  
Division 3

KATHY MAC LAREN  
Division 4

VINCENT DINO  
Division 5

June 12, 2014

Elaine M. Howle, State Auditor  
621 Capitol Mall, Suite 1200  
Sacramento, CA 92814

**RE: ANTELOPE VALLEY WATER RATES - REPORT NO. 2013-126**

Dear Ms. Howle:

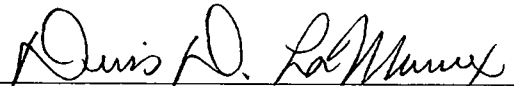
The District appreciates the opportunity to comment on the above-referenced report. Several comments in the body of the report were discussed with your staff during a telephone conversation on June 11, 2014. The comments generally focused on clarifications and consumer controls over public agencies.

The report contains two recommendations for Palmdale Water District. The first is to maintain documentation to demonstrate anticipated and experienced cost savings that help keep water rates reasonable. The District agrees with this recommendation and will develop methods or procedures to better document those efforts.

The second recommendation is to continue with existing efforts to develop a method to provide assistance to low-income water customers. The District began investigating this type of program prior to being notified of the work performed by your office. Staff will continue to develop a program with the intention of presenting it to the Board of Directors for consideration later this year. Therefore, the District agrees with this recommendation.

Please feel free to contact me at (661) 456-1017 if you have any questions.

Very truly yours,

  
DENNIS D. LaMOREAUX,  
General Manager

DDL/dh

June 10, 2014

RECEIVED  
JUN 10 2014

2013-126

Dennis LaMoreaux, General Manager  
Palmdale Water District  
2029 East Avenue Q  
Palmdale, California 93550

Dear Mr. LaMoreaux:

Enclosed for your review and comment are two redacted draft copies of our report on an audit that we were requested to do by the Joint Legislative Audit Committee. Our draft report, titled "Antelope Valley Water Rates: Various Factors Contribute to Differences Among Water Utilities," must be kept confidential as required by California Government Code, sections 8545(b) and 8545.1. To protect this draft report from unauthorized release, it should not be reproduced. We ask that you respond in writing to this report by 5 p.m. on June 16, 2014. Your comments will be included in the report when issued.

We ask that you submit your written response to this report in the enclosed envelope. Also, to facilitate uploading of the final report and response, please copy your entire response, including cover letter and any attachments, on the enclosed CD using a Microsoft Word file or a PDF file. Please note that this draft report is subject to final editorial review, and page numbers may change as a result of that review. If you wish to discuss the report or your comments, please contact John Baier, Principal Auditor, at (916) 445-0255.

Sincerely,

*Elaine M. Howle*

ELAINE M. HOWLE, CPA  
State Auditor

Enclosures




RECEIPT FOR REPORT(S)  
from the  
CALIFORNIA STATE AUDITOR'S OFFICE

On June 10, 2014 I received two redacted draft copies of Report No. 2013-126 titled "Antelope Valley Water Rates: Various Factors Contribute to Differences Among Water Utilities," from the California State Auditor on behalf of Dennis LaMoreaux, General Manager, Palmdale Water District.

MICHAEL WILLIAMS  
Print your name here

FINANCE MANAGER  
Position

  
Sign your name here

2:00 PM   
Time of Receipt

**Note: Upon receipt of this draft report, please fax this receipt back to Tanya Elkins at (916) 323-0913**

# Send Result Report



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Elaine M. Howle State Auditor  
Doug Cordiner Chief Deputy

### RECEIPT FOR REPORT(S) from the CALIFORNIA STATE AUDITOR'S OFFICE

On June 10, 2014 I received two redacted draft copies of Report No. 2013-126 titled "Antelope

Valley Water Rates: Various Factors Contribute to Differences Among Water Utilities," from the

California State Auditor on behalf of Dennis LaMoreaux, General Manager, Palmdale Water

No.	Date and Time	Destination	Times	Type	Result	Resolution/ECM
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**2013-126 Cal Water Antelope Valley  
Water Rates**

**ANALYSIS OF AUDIT REQUEST  
August 21, 2013**

**I. AUDIT REQUEST**

Assemblymember Fox is requesting an audit to evaluate the rates charged by water suppliers in the Antelope Valley as they relate to the increased cost of water and the variations in rates within the same neighborhood.

**II. BACKGROUND**

Residents of the Antelope Valley receive their water from several retail suppliers, including the California Water Service Company (Cal Water), the Los Angeles County Waterworks District No. 40 (Los Angeles County Waterworks), the Palmdale Water District, and the Quartz Hill Water District. Cal Water is an investor-owned company while the three districts are public entities. These four water retailers get their water from two primary sources: groundwater, which they pump themselves, and imported water, which they obtain from the State Water Project through a water wholesaler. The Palmdale Water District also obtains surface water from a nearby lake.

The mechanisms that exist to protect ratepayers from unjustified rate increases by retail water suppliers depend on whether the retailer is government operated or investor owned. For government-operated retailers, these mechanisms include transparency and consumer advocacy. Government-operated retailers often hold public meetings at which they discuss rate proposals and accept public comment. In addition, they adopt their rates at public meetings, such as city council meetings. Furthermore, Proposition 218, passed by voters in 1996, amended the California Constitution to enact procedures to be followed when a local government adopts, extends, or increases taxes, property-related assessments, or property-related fees and charges for, among other things, water service. It requires local government-operated retail water suppliers to provide property owners with written notice of any proposed rate increase at least 45 days in advance of a public hearing, and to explain the purpose for any increase. Proposition 218 prohibits local government-operated retail water suppliers from increasing rates if a majority of property owners present written protests.

Investor-owned retailers support their proposed rate increases with documentary evidence and testimony when they file a "general rate case" with the California Public Utilities Commission

(CPUC). The CPUC is responsible for the regulation and oversight of Cal Water and other investor-owned utility companies in California. Large investor-owned water utilities, such as Cal Water, are required to submit a formal application every three years with the CPUC for consideration and approval before implementing rate changes. Members of the public and consumer groups can participate in general rate cases either informally through written or verbal public comments or formally as an intervenor in the case. Moreover, the CPUC's Division of Ratepayer Advocates represents consumer interests in proceedings with the CPUC.

Assemblymember Fox is concerned about the rising cost of his constituents' water and that working families and retirees in his district cannot afford their water rates. He asked that we evaluate Cal Water, the Los Angeles County Waterworks, the Palmdale Water District, and the Quartz Hill Water District as part of this audit.

### III. AUDIT SCOPE AND OBJECTIVES

The audit by the California State Auditor (state auditor) will provide independently developed and verified information related to rates charged by four retail water suppliers in the Antelope Valley—California Water Service Company (Cal Water), the Los Angeles County Waterworks District No. 40 (Los Angeles County Waterworks), the Palmdale Water District, and the Quartz Hill Water District—and will include, but not be limited to, the following:

1. Review and evaluate the laws, rules, and regulations significant to the audit objectives.
2. For a time period to be determined by the state auditor, and to the extent possible, evaluate the process each water supplier used to establish its water rates and the reasons why its rates increased.
3. Identify and analyze the significant factors that contributed to each water supplier's rates and, to the extent possible, assess the causes of major differences between the suppliers' rates.
4. To the extent possible, identify actions that each retail water supplier has taken to keep its rates reasonable.
5. Review and assess any other issues that are significant to water rates in the Antelope Valley.

### IV. OTHER WORK IN THE GENERAL AREA

*2012-104 Southeastern Los Angeles County: Various Reasons Affect the Rates Water Suppliers Charge and the Rate Increases They Have Imposed (January 2013)*

*2000-016 Water Replenishment District of Southern California: Although the District Has Eliminated Excessive Water Rates, It Has Depleted Its Reserve Funds and Needs to Further Improve Its Administrative Practices (May 2002)*

**V. RESOURCE REQUIREMENTS**

We estimate that this audit would require approximately 2,052 hours of audit work at a cost of approximately \$219,564 plus travel and administrative expenses and the costs related to an outside consultant, if necessary. We will conduct this audit using our existing budget authority to the extent funding is available for audits approved by the Joint Legislative Audit Committee.

**VI. REQUIRED DATE OF COMPLETION**

Assemblymember Fox did not request a completion date for this audit.



---

ELAINE M. HOWLE, CPA  
State Auditor

STATE CAPITOL  
P.O. BOX 942849  
SACRAMENTO, CA 94249-0036  
(916) 319-2036  
FAX (916) 319-2136

DISTRICT OFFICE  
41319 12TH STREET WEST, SUITE 105  
PALMDALE, CA 93551  
(661) 267-7536  
FAX: (661) 267-7736

EMAIL  
Assemblymember.Fox@asm.ca.gov

# Assembly California Legislature



**STEVE FOX**  
ASSEMBLYMEMBER, THIRTY-SIXTH DISTRICT

COMMITTEES  
HIGHER EDUCATION  
JOBS, ECONOMIC DEVELOPMENT,  
AND THE ECONOMY  
VETERANS AFFAIRS

SELECT COMMITTEES  
CHAIR: COMMUNITY COLLEGES  
AEROSPACE  
COMMUNITY AND NEIGHBORHOOD  
DEVELOPMENT

August 2, 2013

2013-126

Members  
Joint Legislative Audit Committee  
1020 N Street, Room 107  
Sacramento, CA 95814

Dear Members of the Committee:

I respectfully request approval of an audit to evaluate water rates in the Antelope Valley. Specifically, I would like the State Auditor to focus on the significant factors that contribute to a customer's water bill to identify the reasons for the escalating cost of water and the significant variations in rates within the same neighborhood.

My constituents have repeatedly stated their concerns about the rising cost of water. Earlier this year, constituents became incensed when California Water Service Company (Cal Water) proposed a 60% rate increase. Cal Water Antelope Valley customers pay an average of \$140 per month for water and the proposed increase would bring an average bill to more than \$225 per month. The working families and retirees in my district cannot afford these rates.

What is more concerning is the varying rates of water within neighborhoods. Again, an average bill for a Cal Water customer is \$140. If that same customer moved across the street and was provided water by L.A. County Waterworks or the Quartz Hill Water District, the average bill would be \$50 for the same amount of water.

To address these concerns, I would like the State Auditor to review and evaluate the following water suppliers in the Antelope Valley: Cal Water, L.A. County Water Works, Quartz Hill Water District and the Palmdale Water District. As part of the evaluation, I would like to identify the process each water supplier uses to establish its water rates. I would also like to identify the factors that contribute to the water rates and any major differences in water rates charged by each water supplier. Lastly, I would like the State Auditor to provide recommendations for making water rates more cost effective in the Antelope Valley.

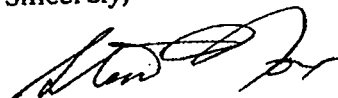
Page 1 of 2



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Thank you for your consideration of this request. Should you have any questions, please contact Jaspreet Johl in my office at (916) 319-2715.

Sincerely,

A handwritten signature in black ink, appearing to read 'Steve Fox', with a stylized flourish at the end.

STEVE FOX  
Assembly Member, 36<sup>th</sup> District



**CALIFORNIA WATER SERVICE COMPANY**  
2632 W. 237<sup>TH</sup> STREET • TORRANCE, CA 90505-5272  
(310) 257 - 1485

**GOVERNMENT RELATIONS**

August 20, 2012

The Honorable Members  
Joint Legislative Audit Committee  
California State Capitol  
1020 North N Street, Room 107  
Sacramento, CA 95814

Dear Members of the Joint Legislative Audit Committee:

California Water Service Company (Cal Water) provides safe, reliable water utility service to approximately 2 million Californians, with service areas from Chico in the north to the Palos Verdes Peninsula in the south. In the Antelope Valley, Cal Water provides service to approximately 3,400 residents in the communities of Fremont Valley, Lake Hughes, Lancaster, and Leona Valley, through 1,400 individual service connections.

We sincerely appreciate Assemblyman Fox's interest in the cost of water utility service and support his request for the State Auditor to evaluate those costs in the Antelope Valley. We believe that the evaluation will assist customers from each of the water utilities better understand how their water rates are determined.

With this in mind, we respectfully request that the following items be included in the State Auditor's evaluation:

- An analysis of the revenue each utility generates from taxes, fees, and assessments that do not appear on a customer's monthly water bill (e.g. parcel assessments, property taxes, connection fees, and development fees) and a reconciliation of water rates between the utilities with these charges in mind.
- An analysis of the revenue each utility generates from non-recurring service fees (e.g. meter test fees, meter exchange fees, name change fees) and a reconciliation of water rates between the utilities with these charges in mind.
- An analysis of the reliance of each of the utilities on "reserve" funds and a reconciliation of water rates between the utilities with this reliance in mind.
- An analysis of the degree to which each of the utilities has deferred needed maintenance and/or replacement of its infrastructure.
- An analysis of the per capita investment each of the utilities has made to its infrastructure.
- An analysis of the contribution of each of the utilities to local, state, and federal tax revenue streams.
- An analysis of the programs and services each of the utilities has in place to assist customers facing economic hardship.
- An analysis of the water conservation programs and services each of the utilities provides to its customers.
- An analysis of the services, in addition to delivering drinking water, each of the utilities provide to customers (e.g. automated telephone notifications in the case of a water quality emergency).





CALIFORNIA WATER SERVICE COMPANY

August 20, 2013  
The Honorable Members  
Page 2

- An analysis of the sources of water supply each of the utilities relies upon and any additional costs associated with that supply (e.g. treatment costs).

We believe that the inclusion of these items in the State Auditor's evaluation will help to provide the Committee, the Legislature, and, most importantly, the residents of the Antelope Valley pertinent information regarding the true cost of receiving safe, reliable water utility service.

We are looking forward to working with the State Auditor on this important endeavor.

If you have any questions, please feel free to contact me at (310) 257-1485 or Meg Catzen-Brown, of the Nossaman firm, at (916) 442-8888.

Respectfully,

A handwritten signature in cursive script, reading "Justin Skarb".

Justin Skarb  
Government & Community Relations Manager

cc: Assemblyman Steve Fox  
Senator Steve Knight  
Ms. Debbie Meador

6/11/14  
MARKED COMMENTS  
DISCUSSED w/AMB62  
RONAN OF STATE AUDITOR'S  
OFFICE IN A PHONE  
CALL & FOLLOWUP EMAIL.  
Doris Ramsey

## **CONFIDENTIAL**

**In accordance with Section 8545.1 of the California Government Code, it is a misdemeanor for an employee of any state agency that has been furnished a draft copy of a report for comment or review to divulge or make known in any manner not expressly permitted by law any part of this report.**

# **Report 2013-126 Summary - July 2014**

## **Antelope Valley Water Rates:**

### **Various Factors Contribute to Differences Among Water Utilities**

#### **HIGHLIGHTS**

Our audit concerning Antelope Valley water rates revealed the following:

- Of the four water utilities we reviewed—Los Angeles County Waterworks, District 40 (LA District 40), Palmdale Water District (Palmdale), Quartz Hill Water District (Quartz Hill), and California Water Service Company (Cal Water)—water rates differed considerably based on the various costs they incur.
  - Cal Water, an investor-owned utility, incurs costs that government-owned utilities (public utilities) do not, which include property and franchise taxes.
  - Public utilities—LA District 40, Palmdale, and Quartz Hill—receive revenues, primarily from property taxes, that help cover costs and contribute to lower rates.
  - A utility's source of water contributes to cost variations.
- Processes are in place to protect consumers from unreasonable rate increases and each of the water utilities generally followed these processes.
- In some cases, the water utilities could not quantify their efforts to reduce water rates.
- Cal Water offers two rate assistance programs while the three public utilities do not offer discounts to their customers.

#### **RESULTS IN BRIEF**

The Antelope Valley region (valley) occupies northeastern Los Angeles, southeastern Kern, and western San Bernardino counties, and its water customers are served, depending on location, by four main water utilities: Los Angeles County Waterworks, District 40 (LA District 40), Palmdale Water District (Palmdale), Quartz Hill Water District (Quartz Hill), and California Water Service Company (Cal Water), and by several smaller utilities. Water rates differ considerably among these four water utilities. For example, in April 2013 a typical residential customer of Cal Water paid just over 304 percent more than a customer of LA District 40 with similar water usage. Although there are legal and other differences among the four water utilities, the primary explanation for the differences in rates and rate increases is the difference in the costs paid by each water utility. Also, the four utilities can pass through inflation and increased costs of purchased water as rate increases to their customers.

One major factor that contributes to the dissimilarity in costs among the utilities is the inherent difference between investor owned utilities (investor utilities), such as Cal Water, and government owned utilities (public utilities), such as Palmdale, Quartz Hill, and LA District 40. For example, investor utilities incur costs that public utilities do not, including property and franchise taxes. In addition to the dissimilarities in costs, each water utility has access to



different revenue sources due to the legal distinctions between public and investor utilities. For example, as an investor utility, Cal Water can receive revenues only through monthly water rates, which includes a return on its investments in capital improvements. Public utilities receive revenues from monthly water rates and from additional sources, primarily taxes based on the assessed value of properties in their service area. These additional revenue sources help public utilities cover their costs, and therefore can contribute to lower monthly water rates for their customers. Other factors specific to each water utility can also contribute to variations in their costs, including the sources of water and energy costs to pump water. We grouped these costs into the major expenditure categories of personnel, operations, water purchases, power, water treatment, and, where applicable, taxes. Although the four water suppliers have similar types of expenditures, the costs they incurred varied.

Furthermore, processes are in place to protect consumers from unreasonable rate increases, and each of the water utilities generally followed these processes. The investor utility we reviewed, Cal Water, must file a general rate case every three years with the California Public Utilities Commission (commission) for review and approval before adjusting rates. The three public utilities we reviewed also must adhere to an approval process. Proposition 218, a constitutional provision that limits the authority of local government agencies to impose property-related assessments, fees, and charges, requires public utilities to provide parcel owners with written notice of any proposed rate increase at least 45 days in advance of a public hearing, and to explain the purpose for any increase. However, although Quartz Hill included the basis for calculating its rate increase in this notice, we believe it could have included more detail for the basis of its fee methodology. We noted that the requirements for the level of detail contained in the notice could be clarified by the Legislature to provide further guidance to public utilities. Furthermore, Quartz Hill and LA District 40 followed Proposition 218's public notice requirements, but they lacked documentation showing that they followed statutory provisions requiring them to notify parcel owners of automatic increases in water rates to pass through inflation and increased costs of purchased water for all three years we reviewed. Additionally, Quartz Hill did not adopt a schedule of fees showing the effect of its pass-through increases, as required by law. Proposition 218 also prohibits public utilities from increasing rates if a majority of parcel owners submit written protests; however, due to the number of property owners served by each public utility, we believe it is unlikely that a majority of them would protest.

In an effort to keep rates reasonable, the four water utilities shared with us examples of their efforts to reduce their costs. Because of concerns expressed by valley water customers regarding increasing water rates, we would expect that the water utilities would be able to quantify these efforts. However, in some instances this was not the case. For example, Palmdale suggested that the annual efficiency audit of the electrical usage for its groundwater wells, conducted by its electricity utility, was a cost-saving effort. However, because the electricity utility performs this annual audit, we did not consider this to be an effort that Palmdale took outside the normal course of business to keep its water rates reasonable. In contrast, LA District 40 will begin a five-year effort in fiscal year 2014-15 to replace its vehicle fleet with more efficient vehicles, which it was able to demonstrate could save \$148,000 a year once completed.

As an investor utility, Cal Water is authorized by the commission to offer rate assistance programs and currently offers two different types of assistance to certain demographics of valley

water customers. For example, the Low Income Rate Assistance program provides a monthly discount of 50 percent of the water customer's service charge, up to a maximum of \$12 per month, for water customers whose annual income for a family of four is at or below \$47,700. The public utilities we visited do not currently offer rate assistance, nor are they required to do so. In fact, Proposition 218 prohibits public utilities from using revenues from water rates to offer rate assistance programs to any one water customer demographic. However, the public utilities are not prohibited from using revenues from other sources to offer rate assistance programs.

## RECOMMENDATIONS

To ensure that water customers are able to have a better understanding of how rate increases are determined, Quartz Hill should include information in its public notices providing reasonably sufficient details regarding the basis of its fee methodology.

To provide guidance to local public agencies in implementing the notice requirements of Proposition 218, the Legislature should enact legislation that provides guidance to public utilities regarding the level of detail to include in the public notices required by Proposition 218.

LA District 40 and Quartz Hill should ensure that they can demonstrate compliance with the statutory requirements of Proposition 218 when adopting any future pass-through rate increases. Furthermore, Quartz Hill should ensure that it adopts a schedule of fees showing the effect of its pass-through rate increases.

To show water customers that they are attempting to keep rates reasonable, each water utility should ensure that it can demonstrate any savings expected or achieved as a result of its cost saving efforts.

The three public utilities should work with their respective governing bodies to consider the feasibility of offering rate assistance programs for low-income water customers.

## AGENCY COMMENTS

LA District 40, Palmdale, and Cal Water generally agreed with our conclusions and recommendations. However, Quartz Hill disagreed with our concerns regarding its compliance with the notice requirements of Proposition 218.

- [View this entire report in Adobe Portable Document Format \(PDF\)](#)
- Agencies/Departments Related to This Report:
  - [California Water Service Company](#)
  - [Los Angeles County Waterworks, District 40](#)
  - [Palmdale Water District](#)
  - [Quartz Hill Water District](#)
- [Return to the home page of the California State Auditor](#)



**Elaine M. Howle** State Auditor

**CONTACT:** Margarita Fernández | (916) 445-0255, x343 | [MargaritaF@auditor.ca.gov](mailto:MargaritaF@auditor.ca.gov)

**The California State Auditor released the following report today:**

## **Antelope Valley Water Rates**

*Various Factors Contribute to Differences Among Water Utilities*

### **BACKGROUND**

Occupying northeastern Los Angeles, southeastern Kern, and western San Bernardino counties, the Antelope Valley region's water customers are served—depending on location—largely by four main water utilities: Los Angeles County Waterworks, District 40 (LA District 40), Palmdale Water District (Palmdale), Quartz Hill Water District (Quartz Hill), and California Water Service Company (Cal Water). While Cal Water is an investor-owned utility and its rate changes must be approved by the California Public Utilities Commission, the other three utilities are government-owned (public utilities) and must comply with Proposition 218 when making rate changes.

### **KEY FINDINGS**

During our review of the rates charged by the four water utilities in the Antelope Valley, we noted the following:

- Water rates differed considerably based on the various costs incurred or revenues generated by each of the utilities.
  - ✓ Purchased water has a significantly higher cost per acre-foot than pumped groundwater. In fact, in 2013 Cal Water spent \$482 per acre-foot for purchased water but only \$276 per acre-foot on pumped groundwater.
  - ✓ Unlike investor-owned utilities, public utilities have sources of revenue other than water rates—such as property taxes—that they can rely on for their operations and infrastructure improvements and that can contribute to lower rates.
- While all four utilities generally followed their respective required processes for increasing their rates, two public utilities—Quartz Hill and LA District 40—could not demonstrate that they met certain requirements when making pass-through rate increases (automatic adjustments) in one or more of the three years we reviewed and the level of detail Quartz Hill provided in the written notice to the public about its rationale for rate increases fell short.
- Although public utilities cannot increase rates if the majority of property owners submit written protests, due to the number of parcel owners in a given public utility's service area, it is unlikely that there would ever be sufficient protests to reject a rate increase in most circumstances.
- Each of the four water utilities increased its rates between 2011 and 2013—the increase in a typical monthly water bill for a family of three over those three years ranged from 7.1 percent to 17.6 percent.
- Though each of the four utilities provided examples of how they manage operating costs in order to keep rates reasonable, they were not always able to quantify the savings that have resulted from their actions.
- Cal Water is the only utility we reviewed that offers rate assistance programs; one is offered to water customers whose income is below a certain level and the other is offered to certain water customers in high-cost service areas.

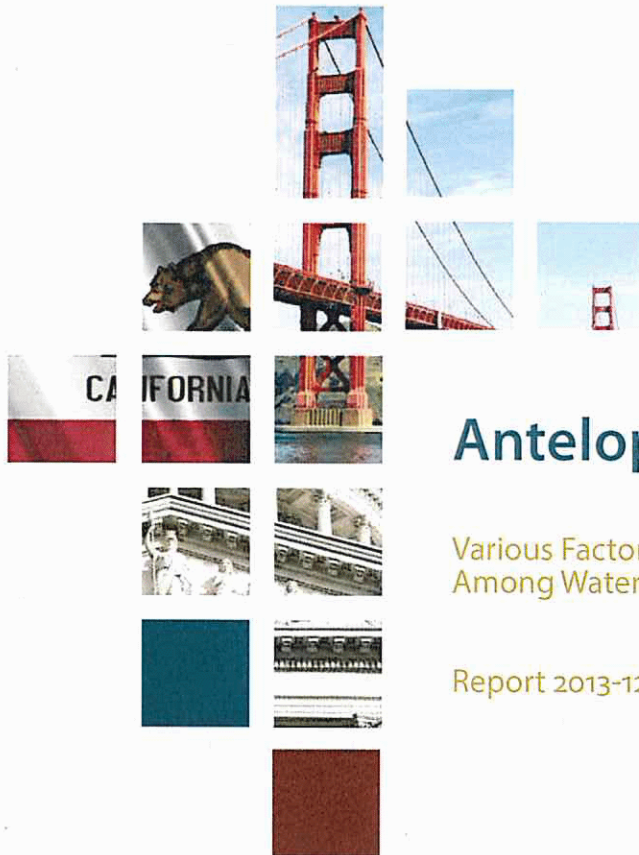
### **KEY RECOMMENDATIONS**

We made several recommendations to the Legislature and to all four utilities as follows:

- The Legislature should provide guidance to local public agencies regarding the level of detail to include in the public notice regarding water rate increases.
- Quartz Hill and LA District 40 should retain information that demonstrates they properly notified their water customers and made them aware of pass-through rate increases. Further, Quartz Hill should ensure it adopts a schedule of fees showing the effect of its pass-through rates before they take effect.
- To demonstrate that they are attempting to keep rates reasonable, all four utilities should document any cost savings expected or achieved as a result of cost-saving efforts.
- The three public utilities should consider the feasibility of implementing rate assistance programs for low-income water customers.

**Date:** July 8, 2014

**Report:** 2013-126



## Antelope Valley Water Rates

Various Factors Contribute to Differences  
Among Water Utilities

Report 2013-126

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July 8, 2014

2013-126

The Governor of California  
President pro Tempore of the Senate  
Speaker of the Assembly  
State Capitol  
Sacramento, California 95814

Dear Governor and Legislative Leaders:

As requested by the Joint Legislative Audit Committee (committee), the California State Auditor presents this audit report concerning the rates charged by four water utilities in the Antelope Valley (valley). Specifically, we were asked to audit the rates that three government-owned utilities (public utilities)—Los Angeles County Waterworks, District 40 (LA District 40), Palmdale Water District, Quartz Hill Water District (Quartz Hill)—and one investor-owned utility (investor utility), California Water Service Company (Cal Water) charge their respective customers. In addition, the committee requested that we identify and evaluate significant factors contributing to each water utility's rates.

This report concludes that water rates differ considerably among the four water utilities and that various cost factors affect the water rates that each of them charges. For example, investor utilities incur costs that public utilities do not, including property and franchise taxes. In addition, each utility has access to different revenue sources, with public utilities receiving revenues in addition to monthly water rates, primarily property taxes, which help them cover their costs and contribute to lower rates. A utility's sources of water also contribute to cost variations.

Our review also found that all four utilities increased their water rates between 2011 and 2013 and the utilities were generally able to substantiate reasons for their increases. Furthermore, processes are in place to protect consumers from unreasonable rate increases, which each water utility could demonstrate it followed, with some exceptions for Quartz Hill and LA District 40. However, the requirements for notice under Proposition 218 could be clarified by the Legislature to provide further guidance to public utilities. In addition, a constitutional provision under that same law allowing parcel owners to protest a rate increase is unlikely to prohibit increased rates because it requires that a majority of parcel owners submit a written request.

Finally, the utilities attested to a variety of cost saving efforts to keep their water rates reasonable, but were not always able to demonstrate that these efforts generated any quantifiable cost savings to their customers. Additionally, Cal Water offers two rate assistance programs to qualified customers in the valley while the three other utilities do not currently offer rate assistance programs or discounts to their customers' monthly water bills.

Respectfully submitted,



ELAINE M. HOWLE, CPA  
State Auditor

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## Summary

### Results in Brief

The Antelope Valley region (valley) occupies northeastern Los Angeles, southeastern Kern, and western San Bernardino counties, and its water customers are served, depending on location, by four main water utilities: Los Angeles County Waterworks, District 40 (LA District 40), Palmdale Water District (Palmdale), Quartz Hill Water District (Quartz Hill), and California Water Service Company (Cal Water), and by several smaller utilities. Water rates differ considerably among these four water utilities. For example, in April 2013 a typical residential customer of Cal Water paid just over 304 percent more than a customer of LA District 40 with similar water usage. Although there are legal and other differences among the four water utilities, the primary explanation for the differences in rates and rate increases is the difference in the costs paid by each water utility. Also, the four utilities can pass through inflation and increased costs of purchased water as rate increases to their customers.

One major factor that contributes to the dissimilarity in costs among the utilities is the inherent difference between investor-owned utilities (investor utilities), such as Cal Water, and government-owned utilities (public utilities), such as Palmdale, Quartz Hill, and LA District 40. For example, investor utilities incur costs that public utilities do not, including property and franchise taxes. In addition to the dissimilarities in costs, each water utility has access to different revenue sources due to the legal distinctions between public and investor utilities. For example, as an investor utility, Cal Water can receive revenues only through monthly water rates, which includes a return on its investments in capital improvements. Public utilities receive revenues from monthly water rates and from additional sources, primarily taxes based on the assessed value of properties in their service area. These additional revenue sources help public utilities cover their costs, and therefore can contribute to lower monthly water rates for their customers. Other factors specific to each water utility can also contribute to variations in their costs, including the sources of water and energy costs to pump water. We grouped these costs into the major expenditure categories of personnel, operations, water purchases, power, water treatment, and, where applicable, taxes. Although the four water suppliers have similar types of expenditures, the costs they incurred varied.

Furthermore, processes are in place to protect consumers from unreasonable rate increases, and each of the water utilities generally followed these processes. The investor utility we reviewed, Cal Water, must file a general rate case every three years with the

### Audit Highlights...

*Our audit concerning Antelope Valley water rates revealed the following:*

- » *Of the four water utilities we reviewed—Los Angeles County Waterworks, District 40 (LA District 40), Palmdale Water District (Palmdale), Quartz Hill Water District (Quartz Hill), and California Water Service Company (Cal Water)—water rates differed considerably based on the various costs they incur.*
  - *Cal Water, an investor-owned utility, incurs costs that government-owned utilities (public utilities) do not, which include property and franchise taxes.*
  - *Public utilities—LA District 40, Palmdale, and Quartz Hill—receive revenues, primarily from property taxes, that help cover costs and contribute to lower rates.*
  - *A utility's source of water contributes to cost variations.*
- » *Processes are in place to protect consumers from unreasonable rate increases and each of the water utilities generally followed these processes.*
- » *In some cases, the water utilities could not quantify their efforts to reduce water rates.*
- » *Cal Water offers two rate assistance programs while the three public utilities do not offer discounts to their customers.*

California Public Utilities Commission (commission) for review and approval before adjusting rates. The three public utilities we reviewed also must adhere to an approval process. Proposition 218, a constitutional provision that limits the authority of local government agencies to impose property-related assessments, fees, and charges, requires public utilities to provide parcel owners with written notice of any proposed rate increase at least 45 days in advance of a public hearing, and to explain the purpose for any increase. However, although Quartz Hill included the basis for calculating its rate increase in this notice, we believe it could have included more detail for the basis of its fee methodology. We noted that the requirements for the level of detail contained in the notice could be clarified by the Legislature to provide further guidance to public utilities. Furthermore, Quartz Hill and LA District 40 followed Proposition 218's public notice requirements, but they lacked documentation showing that they followed statutory provisions requiring them to notify parcel owners of automatic increases in water rates to pass through inflation and increased costs of purchased water for all three years we reviewed. Additionally, Quartz Hill did not adopt a schedule of fees showing the effect of its pass-through increases, as required by law. Proposition 218 also prohibits public utilities from increasing rates if a majority of parcel owners submit written protests; however, due to the number of property owners served by each public utility, we believe it is unlikely that a majority of them would protest.

In an effort to keep rates reasonable, the four water utilities shared with us examples of their efforts to reduce their costs. Because of concerns expressed by valley water customers regarding increasing water rates, we would expect that the water utilities would be able to quantify these efforts. However, in some instances this was not the case. For example, Palmdale suggested that the annual efficiency audit of the electrical usage for its groundwater wells, conducted by its electricity utility, was a cost-saving effort. However, because the electricity utility performs this annual audit, we did not consider this to be an effort that Palmdale took outside the normal course of business to keep its water rates reasonable. In contrast, LA District 40 will begin a five-year effort in fiscal year 2014–15 to replace its vehicle fleet with more efficient vehicles, which it was able to demonstrate could save \$148,000 a year once completed.

As an investor utility, Cal Water is authorized by the commission to offer rate assistance programs and currently offers two different types of assistance to certain demographics of valley water customers. For example, the Low-Income Rate Assistance program provides a monthly discount of 50 percent of the water customer's service charge, up to a maximum of \$12 per month, for water customers whose annual income for a family of four is at or below \$47,700. The public utilities we visited do not currently



offer rate assistance, nor are they required to do so. In fact, Proposition 218 prohibits public utilities from using revenues from water rates to offer rate assistance programs to any one water customer demographic. However, the public utilities are not prohibited from using revenues from other sources to offer rate assistance programs.

### **Recommendations**

To ensure that water customers are able to have a better understanding of how rate increases are determined, Quartz Hill should include information in its public notices providing reasonably sufficient details regarding the basis of its fee methodology.

To provide guidance to local public agencies in implementing the notice requirements of Proposition 218, the Legislature should enact legislation that provides guidance to public utilities regarding the level of detail to include in the public notices required by Proposition 218.

LA District 40 and Quartz Hill should ensure that they can demonstrate compliance with the statutory requirements of Proposition 218 when adopting any future pass-through rate increases. Furthermore, Quartz Hill should ensure that it adopts a schedule of fees showing the effect of its pass-through rate increases.

To show water customers that they are attempting to keep rates reasonable, each water utility should ensure that it can demonstrate any savings expected or achieved as a result of its cost-saving efforts.

The three public utilities should work with their respective governing bodies to consider the feasibility of offering rate assistance programs for low-income water customers.

### **Agency Comments**

LA District 40, Palmdale, and Cal Water generally agreed with our conclusions and recommendations. However, Quartz Hill disagreed with our concerns regarding its compliance with the notice requirements of Proposition 218.

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## Introduction

### Background

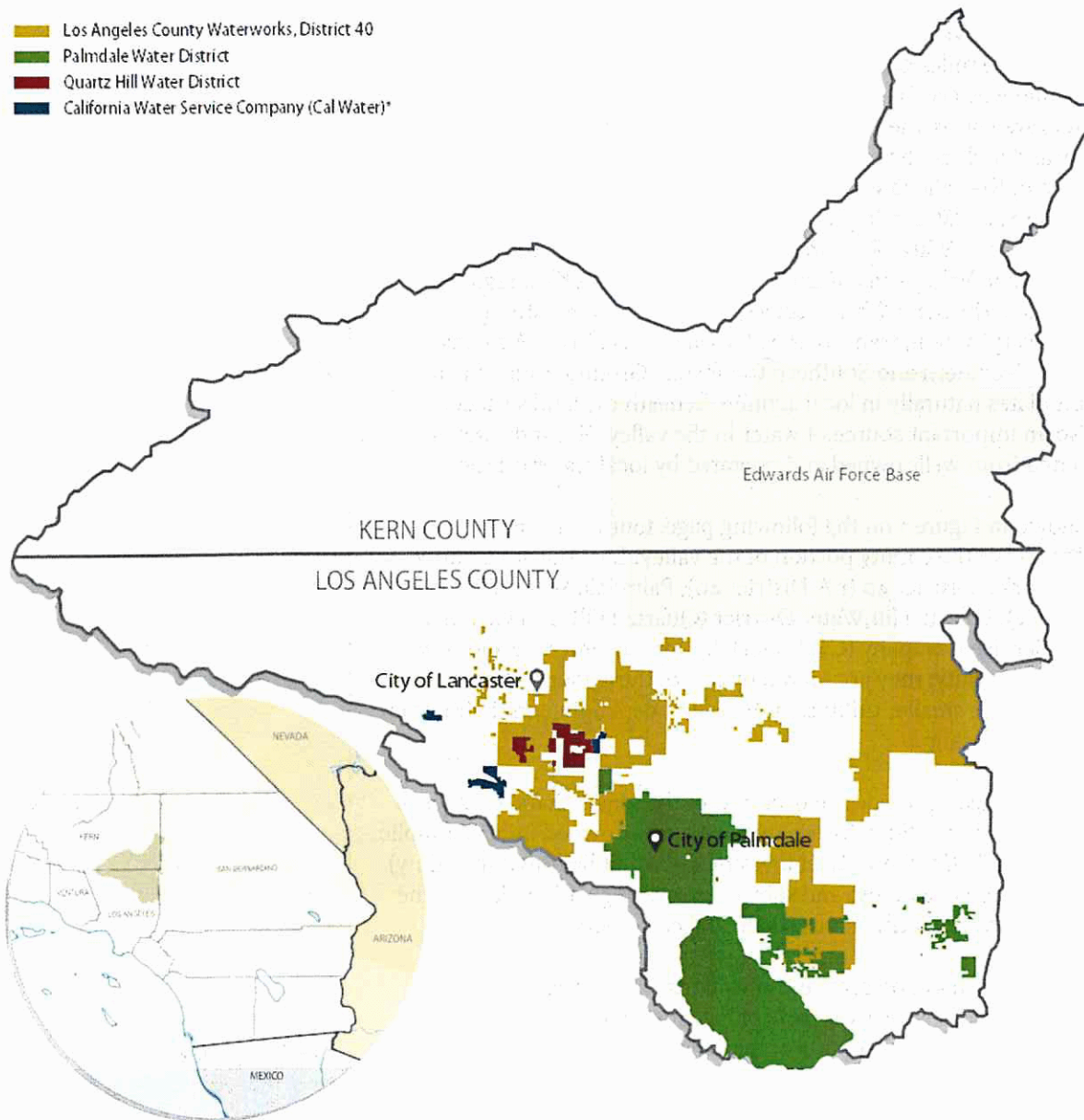
The Antelope Valley region (valley) encompasses approximately 2,400 square miles occupying northeastern Los Angeles, southeastern Kern, and western San Bernardino counties. The largest population centers are within the Los Angeles County (county) portion of the valley and include the cities of Palmdale and Lancaster. A significant portion of the valley's water supply comes from water purchased from the State Water Project, either directly from the California Department of Water Resources (Water Resources) or through the Antelope Valley–East Kern Water Agency (AVEK), a regional wholesaler. The State Water Project, California's water storage and delivery system, transports water via the California Aqueduct between Northern and Southern California. Groundwater, which accumulates naturally in local aquifers beneath the land surface, is also an important source of water in the valley. Groundwater is obtained from wells owned and operated by local water utilities.

As shown in Figure 1 on the following page, four main water utilities serve the county portion of the valley: Los Angeles County Waterworks, District 40 (LA District 40), Palmdale Water District (Palmdale), Quartz Hill Water District (Quartz Hill), and California Water Service Company (Cal Water). Water customers cannot select their water utility; they are served by one of these four utilities or another of the smaller utilities in the valley, depending on their home or business location.

Table 1 on page 7 provides an overview of the major characteristics of these four water utilities. Three are government-owned utilities (public utilities), while Cal Water is an investor-owned utility (investor utility) headquartered in San Jose and subject to state regulation. Each of the water utilities primarily serves residential customers.

With more than 55,000 service connections and 54 wells, LA District 40, which serves parts of the cities of Lancaster and Palmdale, as well as other parts of the valley, has more than twice as many service connections and wells as the next largest utility, Palmdale. LA District 40 is managed by the Los Angeles County Department of Public Works, and its policy-making body is the county board of supervisors. Palmdale is the second largest water utility in the valley, with 26,000 service connections and 25 wells. It serves the central and southern parts of the city of Palmdale, as well as some unincorporated areas of Los Angeles County. Unlike the other utilities, Palmdale contracts directly with Water Resources for the water it purchases through the State Water Project. Palmdale also owns the Littlerock Reservoir, which has a capacity of 3,500 acre-feet of water and in 2013 provided about 7 percent of Palmdale's water supply.

**Figure 1**  
**Antelope Valley Service Locations of the Four Water Utilities We Reviewed**



Sources: Service areas are approximate based on Antelope Valley's Integrated Regional Water Management Plan, and information each water utility provided.

Note: This map represents the Antelope Valley (valley), which covers parts of Los Angeles and Kern counties and is intended to provide the relative size and approximate location of each water utility's service areas. Other water utilities provide water to the unmarked areas.

\* Cal Water has an additional service area—Fremont Valley—not shown on this map. Although it is outside of the valley, the California Public Utilities Commission considers Fremont Valley to be part of Cal Water's valley service area.



**Table 1**  
**Characteristics of Water Utilities in Antelope Valley**

	LOS ANGELES COUNTY WATERWORKS, DISTRICT 40 (LA DISTRICT 40)	PALMDALE WATER DISTRICT (PALMDALE)	QUARTZ HILL WATER DISTRICT	CALIFORNIA WATER SERVICE COMPANY
Utility type	Government-owned	Government-owned	Government-owned	Investor-owned
Date established in Antelope Valley	1993*	1918	1954	2000
Population served	174,000	109,400	17,000	3,400
Service connections	55,600	26,000	5,500	1,400
Number of wells	54	25	10	8
<b>Sources of water in 2013</b>				
Groundwater	37%	44%	33%	87%
Purchased from the Antelope Valley–East Kern Water Agency	63	NA	67	13
Purchased from the California Department of Water Resources	NA	49	NA	NA
Other source†	NA	7	NA	NA
<b>Types of services offered‡</b>				
Residential	94%	96%	97%	96%
Nonresidential	6	4	3	4
Service area	Eight regions that include parts of the cities of Lancaster and Palmdale and all of Pearblossom, Little Rock, Sun Village, Rock Creek, and Lake Los Angeles	The central and southern parts of the city of Palmdale and unincorporated portions of Los Angeles County	Parts of the cities of Lancaster and Palmdale and unincorporated portions of Los Angeles County	Parts of the city of Lancaster and all of Lake Hughes and Leona Valley, which are west of Lancaster. It also serves the Fremont Valley, north of Lancaster
	554 square miles	140 square miles	6 square miles	7.6 square miles
	Noncontiguous service areas	Noncontiguous service areas	Noncontiguous service areas	Noncontiguous service areas

Sources: California State Auditor's review of each water utility's 2010 urban water management plan and other documents.

NA = Not applicable.

\* LA District 40 has eight regions, the first of which was established in the Antelope Valley in 1919, and the last in 1968. The eight regions merged to create LA District 40 in 1993.

† Palmdale's other source of water is the Littlerock Reservoir.

‡ Percentages based on number of water meters. Nonresidential types of services include government, industrial, commercial, landscape, and other services.

Quartz Hill provides services to residents in parts of Lancaster and unincorporated areas of the county. It has 5,500 service connections and is the most dependent of the four utilities on purchased water, which it purchases from AVEK. Cal Water is the smallest of the four water utilities, with only 1,400 service connections. It serves parts of Lancaster and other smaller, isolated communities in four separate locations. Unlike the other three water utilities, which receive less than one-half of their water supply from local groundwater, Cal Water is almost entirely reliant on local groundwater.

### Differences Between Public and Investor Utilities

As Table 2 illustrates, there are several fundamental differences between public and investor utilities, including their governance, the process to increase water rates, and their access to different revenue sources. Public utilities are governed by a publicly elected board of directors. Under state law, the board of directors has the authority to collect the funds necessary to cover public utilities' operations and maintenance costs. On the other hand, the California Public Utilities Commission (commission) regulates all investor utilities, including water utilities.

**Table 2**  
**Fundamental Differences Between Investor-Owned and Government-Owned Utilities**

	INVESTOR-OWNED UTILITIES	GOVERNMENT-OWNED UTILITIES
Governance	Regulated by the California Public Utilities Commission (commission)	Report to a publicly elected governing body
Process to increase rates	File a general rate case every three years	Comply with Proposition 218 requirements
Impact of taxes	Pay property and franchise taxes; receive no tax revenues	Pay no taxes; can receive property tax revenues
Have balancing accounts	Yes; used to account for differences between projected and actual revenues and expenditures	No
Can make a profit on capital improvements	Yes, as permitted by the commission	No
Can use revenues from water charges for rate assistance and discounts	Yes	No

Sources: California State Auditor's review of a 2010 Rate Difference Study that the California Water Service Company provided, other documents, interviews with staff at each water utility, and state law.

In addition to differences in governance, public and investor utilities must follow different processes to increase their rates. Public utilities must comply with Proposition 218<sup>1</sup> when seeking rate increases. Proposition 218 protects parcel owners from unreasonable rate increases by limiting the authority of local government agencies to impose property-related assessments, fees, and charges, including increases in water rates. Specifically, Proposition 218 requires that public utilities provide parcel owners with written notice of any proposed rate increase at least 45 days in advance of a public hearing at which the board of directors decides whether to approve the rate increase. This notice must explain the amount of and purpose for any increase and the basis upon which

<sup>1</sup> Proposition 218, which voters approved in the November 5, 1996, statewide general election, amended the California Constitution to add the requirements described in this paragraph.



the increase is calculated. In addition, Proposition 218 prohibits public utilities from increasing rates if a majority of parcel owners submit written protests against the proposed rate increase.

Investor utilities such as Cal Water, on the other hand, must justify their proposed rates by presenting cost information to the commission during general rate case proceedings, which take place every three years. The commission regulates all investor utilities in the State and is responsible for authorizing the rates these utilities may charge water customers. It has broad authority over investor utilities, including the authority to inspect and audit their records at any time. A general rate case proceeding is intended to provide the commission, the Office of Ratepayer Advocates,<sup>2</sup> advocacy groups, and the public the opportunity to determine whether the costs that an investor utility proposes to recover in its rates are necessary, reasonable, and fair.

Additionally, the three public utilities we reviewed receive revenues from taxes based on the assessed value of properties in their service areas, which they generally use for infrastructure projects and operating expenses. Unlike public utilities, investor utilities do not receive property tax revenues; they can receive revenues only through monthly water rates, which includes a commission-approved return on any investments they make in capital improvements. Investor utilities also must pay property and franchise taxes and business license fees. In 2013 Cal Water reported paying \$66,000 in taxes and fees for its valley office.

### Water Sources and Costs

All four water utilities acquire water from two main sources—they purchase water from the State Water Project, either directly or through a water wholesaler, and they pump groundwater—and the costs for these two sources are significantly different. Specifically, all four water utilities we reviewed purchase water from the State Water Project, but the cost of this water depends on whether the water utility purchases directly from Water Resources or from a wholesaler. Palmdale is a state water contractor, so it purchases untreated water directly from Water Resources. To remove impurities and toxins from the water to make it drinkable for customers, Palmdale operates a water treatment plant. The other three water utilities, LA District 40, Quartz Hill, and Cal Water,

<sup>2</sup> The Office of Ratepayer Advocates is an independent office within the commission that represents the interests of investor-utility customers, with the goal of obtaining the lowest possible rate for service consistent with reliable and safe service levels.

purchase water from AVEK, a regional water wholesaler. Because AVEK must treat the water before selling it to these utilities, it charges higher rates to recover its water treatment costs.

In addition to obtaining water from the State Water Project, all four water utilities obtain water from groundwater wells. Costs to pump groundwater include electricity to power the pumps, chemical costs to treat the water, and labor costs to maintain the pumps. Ultimately, these costs are lower than the cost of purchasing water. For example, in the last year of our review—either fiscal year 2012–13 or calendar year 2013, depending on the utility—the four water utilities we reviewed spent an average of \$441 per acre-foot<sup>3</sup> to purchase and treat water, but incurred costs averaging only \$178 per acre-foot to pump and treat groundwater. This cost is lower partly because each utility obtains groundwater itself and partly because groundwater generally costs less to treat.

#### **Other Factors That Contribute to Water Rates**

Other common factors that contribute to differences in water rates include the size of the service area and its elevation. For instance, as shown in Table 3, the nature of a water utility's service area can have an impact on its rates. Service areas with a dense population of service connections allow water utilities to disperse their fixed costs over a larger number of water customers, resulting in lower overall monthly bills, whereas service areas with fewer service connections result in higher monthly bills because the water utilities must spread their fixed costs across fewer water customers.

#### **Potential Changes in Groundwater Rights May Increase Water Rates in the Future**

Depending on the outcome of nearly 10 years of litigation involving the adjudication of groundwater rights in the valley, the water utilities' access to groundwater may be reduced. The Los Angeles Superior Court (superior court) has determined that the valley's groundwater basin has been in overdraft for over 50 years—that is, the amount of water that is being pumped out of the basin is more than the amount that is being replenished into the basin—and the superior court is determining the priority to pump groundwater and other matters. The litigation is nearing an end and the parties are negotiating an agreement to settle the remaining issues, which the court will hear in August 2014. If the superior court approves a settlement agreement, some water utilities may lose water rights—

<sup>3</sup> One acre-foot is equivalent to 325,850 gallons of water.

the right to pump an allocated amount of groundwater from their wells—which will cause them to purchase more water from the State or a wholesaler to make up for the loss. As we discussed earlier, purchased water is considerably more expensive than groundwater, meaning that the utilities' water rates would increase to offset the higher water costs. However, it is still unclear when and to what extent this loss of water rights will occur.

**Table 3**  
**Significant Factors That Contribute to Water Rates**

FACTOR	RATES WILL TEND TO BE:	
	HIGHER IF:	LOWER IF:
Sources of water	Imported Reliance on wholesaler that purchases from State Water Project	Groundwater Direct from State Water Project
Energy costs	Higher elevation	Lower elevation
Service area characteristics	Low-density population	High-density population
	Remote	Accessible
	Fewer service connections	More service connections
Maintenance needs of infrastructure	More maintenance	Less maintenance
Water quality needs	More treatment	Less treatment
Pays taxes and fees	Yes	Few or none
Receives property tax revenues	No	Yes

Source: California State Auditor's review of a 2010 Rate Difference Study that the California Water Service Company provided.

### Scope and Methodology

The Joint Legislative Audit Committee (audit committee) directed the California State Auditor to perform an audit to evaluate the rates charged by four water utilities in the Antelope Valley—LA District 40, Palmdale, Quartz Hill, and Cal Water—as they relate to the increased costs of water and the variations in rates within the same neighborhood. The audit analysis the audit committee approved contained five separate objectives. We list the objectives and the methods we used to address them in Table 4 on the following page.



**Table 4**  
**Audit Objectives and the Methods Used to Address Them**

AUDIT OBJECTIVE	METHOD
1 Review and evaluate the laws, rules, and regulations significant to the audit objectives.	Reviewed relevant laws, regulations, and other background materials applicable to the four utilities we reviewed.
2 For a time period to be determined by the California State Auditor, and to the extent possible, evaluate the process each water utility used to establish its water rates and the reasons why its rates increased.	<ul style="list-style-type: none"> <li>Because some water utilities have different rates for different classes of water, we focused our review on water utilities' largest group of customers, the single-family residential customer.</li> <li>For the four utilities we reviewed, identified, documented, and summarized the water rates charged and rate structures in effect between 2011 and 2013. We identified and documented changes in water rates over this period to determine whether the utilities sufficiently justified them. We also identified the extent to which the public was informed of the rate increases and whether the public was afforded an opportunity to provide input into proposed rate changes.</li> </ul>
3 Identify and analyze the significant factors that contributed to each water utility's rates and, to the extent possible, assess the causes of major differences between the utilities' rates.	<ul style="list-style-type: none"> <li>We interviewed key staff and reviewed accounting and budget documents the water utilities used when increasing their rates to better understand what costs have a significant effect on water rates and the extent to which these costs have increased over time. Because Los Angeles County Waterworks, District 40, and the Antelope Valley office of the California Water Service Company are part of a parent entity, we worked with their staff to segregate their revenues and expenditures from those of the parent entities. Our analysis focused on those costs that are directly related to providing water service and did not include non-cash expenditures.</li> <li>We established a baseline consumer usage level and determined the water bills paid by single-family residential customers purchasing water from each of the four suppliers we reviewed.</li> </ul>
4 To the extent possible, identify actions that each retail water utility has taken to keep its rates reasonable.	Interviewed key staff at each utility and gathered documentation on ways they have attempted to keep rates reasonable, and the impact of any rate assistance programs between 2011 and 2013.
5 Review and assess any other issues that are significant to water rates in the Antelope Valley.	We did not identify any other significant issues.

Sources: California State Auditor's analysis of Joint Legislative Audit Committee audit request number 2013-126, planning documents, and analysis of information and documentation identified in the table column titled *Method*.



## Audit Results

### Water Utilities Charge Different Water Rates Based on the Different Costs They Each Incur

As mentioned in the Introduction, a variety of cost factors contribute to the water rates of the four water utilities in the Antelope Valley (valley). Although the four water utilities we reviewed—Los Angeles County Waterworks, District 40 (LA District 40), Palmdale Water District (Palmdale), Quartz Hill Water District (Quartz Hill), and California Water Service Company (Cal Water)—have similar types of expenditures, the costs they incurred varied. Figure 2 on the following page shows each cost category's percentage of the total costs for each water utility. These costs are grouped into the major expenditure categories of personnel—which consists of salaries, benefits, pension contributions, and other postemployment benefits—operations, water purchases, power, and water treatment. We reviewed each water utility's costs over a three-year period; however, Figure 2 shows only the last year reviewed. The Appendix has data for all three years that we reviewed. As Figure 2 notes, the last year we reviewed was either fiscal year 2012–13 or calendar year 2013, depending on how each utility maintains its accounting records.

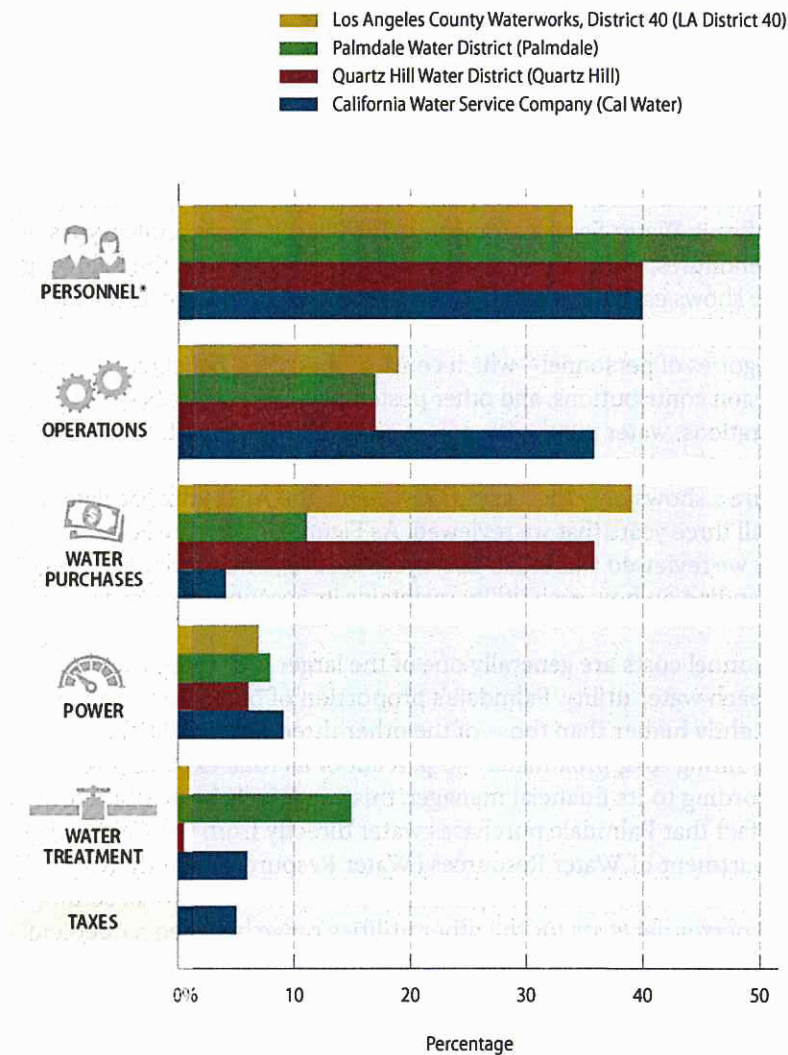
Personnel costs are generally one of the larger cost categories for each water utility. Palmdale's proportion of personnel costs is slightly higher than those of the other three water utilities, amounting to approximately 50 percent of its total expenditures. According to its financial manager, this can largely be attributed to the fact that Palmdale purchases water directly from the California Department of Water Resources (Water Resources) and therefore operates a water treatment plant, which requires additional staffing. The personnel costs for the other utilities range between 34 percent and 40 percent of their total expenditures.

Another large category is operations costs—which include administration, maintenance, supplies, insurance, and facilities. The four water utilities' operations costs ranged from 17 percent to 36 percent of their total costs. Power costs are the most consistent category among the four water utilities, ranging from 6 percent to 9 percent. As noted previously, the water utilities all incur power costs to pump the water from groundwater wells and to pump water to their customers.

In addition to the differences in expenditures, a water utility's source of water has a significant impact on water rates. As shown in Table 5 on page 16, all four water utilities have two main sources of water: purchased water—either from a water wholesaler or, in the case of Palmdale, directly from Water Resources—and groundwater pumped from local wells. As discussed in the Introduction, purchased water

*A water utility's source of water has a significant impact on water rates.*

**Figure 2**  
Relevant Cost Factors for the Four Utilities in Calendar Year 2013 or  
Fiscal Year 2012–13



Sources: California State Auditor's analysis of each utility's relevant cost factors.

Note: Financial data for Palmdale and Cal Water are for calendar year 2013, while the data for Quartz Hill and LA District 40 are for fiscal year 2012–13.

\* Personnel costs include salaries and benefits, including postemployment benefits.

has a significantly higher cost per acre-foot<sup>4</sup> than groundwater. For example, in 2013 Cal Water spent \$482 per acre-foot for purchased water but only \$276 per acre-foot on pumped groundwater. The costs of purchased water vary depending on the source and time of year

<sup>4</sup> One acre-foot is equivalent to 325,850 gallons of water.



purchased, and they also include the costs of labor and treatment. LA District 40, Quartz Hill, and Cal Water purchase water from the Antelope Valley–East Kern Water Agency (AVEK), a State Water Project wholesaler. AVEK's prices reflect what it paid the State for the water, plus its treatment costs. Palmdale purchases its water directly from Water Resources at a lower wholesale rate. However, because the water it purchases is untreated, Palmdale incurs costs to ready this water for consumption.

As shown in Figure 2, Cal Water's cost to purchase water was only 4 percent of its total costs, the lowest among the water utilities. As noted in the Introduction, Cal Water relies on groundwater wells for 87 percent of the water it supplies to its customers. The cost to pump this groundwater is reflected in Cal Water's operating and power costs. LA District 40 and Quartz Hill purchased 63 percent and 67 percent, respectively, of their water supply from wholesalers. As a result of their heavier reliance on wholesalers, their cost to purchase water represents a greater proportion of their total costs—39 percent and 36 percent, respectively. Additionally, Palmdale receives water from the Littlerock Reservoir, which it transports through a gravity-driven system to its water treatment facility. Palmdale's general manager stated that this process generates no costs and that the only labor involved is to open the valve a few times a year. In 2013 roughly 7 percent of Palmdale's water supply—1,600 acre-feet—came from the Littlerock Reservoir. Had it needed to purchase this water at the wholesale rate, we estimate that Palmdale would have paid approximately \$292,000.

Other factors related to non-operating expenditures and revenues differ between government-owned utilities (public utilities) and investor-owned utilities (investor utilities), and these may also affect water rates. For instance, Cal Water allocates some costs from its central headquarters in San Jose for services such as water quality and engineering to its field offices across the State, including the valley. Cal Water's records show that this allocation ranged from \$140,000 to \$215,000 in calendar years 2011 through 2013, which according to Cal Water, represents less than 0.5 percent of the central headquarters' operating costs. We have included these costs in operations in Figure 2 since they reflect the costs related to Cal Water's services in the valley.

With regard to non-operating revenues, public utilities have a source of revenue other than rates that they can rely on for their operations. As mentioned in the Introduction, the three public utilities we reviewed receive revenue from property taxes based on the assessed value of properties in their service areas. For example, Palmdale received property tax revenues of \$7.3 million in calendar

*Public utilities have a source of revenue other than rates that they can rely on for their operations.*

**Table 5**  
Annual Sources and Costs of Water for the Four Water Utilities We Reviewed

		LOS ANGELES COUNTY WATERWORKS, DISTRICT 40 (LA DISTRICT 40)			PALMDALE WATER DISTRICT (PALMDALE)			QUARTZ HILL WATER DISTRICT (QUARTZ HILL)			CALIFORNIA WATER SERVICE COMPANY (CAL WATER)		
		ACRE-FOOT*	COST PER ACRE-FOOT	TOTAL COST†	ACRE-FOOT*	COST PER ACRE-FOOT	TOTAL COST†	ACRE-FOOT*	COST PER ACRE-FOOT	TOTAL COST†	ACRE-FOOT*	COST PER ACRE-FOOT	TOTAL COST†
Pumped groundwater	2011	11,471	\$260	\$2,983,129	7,025	\$113	\$796,376	1,389	\$145	\$201,921	863	\$172	\$148,664
	2012	19,756	206	4,074,769	7,543	102	770,877	1,720	135	232,440	917	254	232,943
	2013	19,992	193	3,865,586	9,378	107	998,930	1,959	135	265,250	704	276	194,377
California Department of Water Resources	2011	NA	NA	NA	14,333	390	5,593,175	NA	NA	NA	NA	NA	NA
	2012	NA	NA	NA	19,056	366	6,971,186	NA	NA	NA	NA	NA	NA
	2013	NA	NA	NA	10,567	499	5,277,457	NA	NA	NA	NA	NA	NA
Antelope Valley – East Kern Water Agency	2011	36,294	296	10,744,609	NA	NA	NA	4,234	269	1,138,746	105	336	35,287
	2012	30,705	403	12,373,868	NA	NA	NA	3,868	327	1,263,346	109	405	44,174
	2013	33,151	406	13,471,862	NA	NA	NA	3,963	374	1,483,722	108	482	52,106
Other sources‡	2011	NA	NA	NA	2,569	–	–	NA	NA	NA	NA	NA	NA
	2012	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
	2013	NA	NA	NA	1,600	–	–	NA	NA	NA	NA	NA	NA

Sources: California State Auditor's analysis of the water utilities' rate schedules, meter readings, and accounting records.

Note: LA District 40 and Quartz Hill report their costs by fiscal year, while Palmdale and Cal Water report their costs by calendar year.

NA = Not applicable.

– = No cost associated with the water.

\* One acre-foot is equivalent to 325,850 gallons of water.

† Total cost includes the costs to acquire and treat the water.

‡ Other sources of water include water that Palmdale receives from the Littlerock Reservoir, at no cost.



year 2013, most of which—\$4.9 million—pays its assessment for the capital costs related to the State Water Project. The remaining amount is derived from other property taxes. Similarly, LA District 40 and Quartz Hill received property taxes of \$1.3 million and \$323,000, respectively, in fiscal year 2012–13. The public utilities indicated that these property taxes help support their operations, in addition to the revenues they receive from customers for water service, and also pay for infrastructure improvements.

### **Water Utilities Must Undergo Public Review Processes to Justify Their Rates**

Public utilities must comply with Proposition 218, which limits the authority of local government agencies to impose property-related assessments, fees, and charges. On the other hand, investor utilities must receive approval from the California Public Utilities Commission (commission) before increasing rates. Our review found that all four utilities generally followed the required process before increasing their rates. However, although Quartz Hill included the basis for calculating its rate increases in the notice it is required to send to parcel owners, we believe that it could have included more detail. Furthermore, LA District 40 and Quartz Hill could not demonstrate that they met certain requirements of the implementation statute of Proposition 218 when making pass-through rate increases for one or more of the three years we reviewed.

### ***The Three Public Utilities Substantially Met Public Notice Requirements When Increasing Water Rates***

Proposition 218, a constitutional provision, requires public utilities to follow a number of procedural requirements before seeking increases to their water rates. As seen in the text box, Proposition 218 specifies the procedural steps a local government entity must take before it adopts, extends, or increases a property-related fee or charge for public utilities, including water service.

### **Proposition 218 Constitutional Requirements for Public Utilities**

#### **Procedural**

- The parcels that the fee or charge will be imposed on are identified.
- The amount of the proposed fee or charge is calculated.
- Written notice by mail is provided to parcel owners.
- The written notice will include:
  - The amount of the fee or charge.
  - The basis upon which the amount of the proposed fee or charge was calculated.
  - The reason for the fee or charge.
  - The date, time, and location of a public hearing, which is to be held not less than 45 days after the notice is mailed.
- At the public hearing, the agency considers all written protests against the proposed fee or charge. If a majority of parcel owners object, the agency cannot impose the fee or charge.

#### **Substantive**

- Revenues derived from the fee or charge cannot exceed the funds required to provide the property-related service.
- Revenues derived from the fee or charge cannot be used for any purpose other than that for which the fee or charge was imposed.
- The amount of a fee or charge imposed on a parcel or property owner shall not exceed the proportional cost of the service attributed to the parcel.
- No fee or charge may be imposed for a service unless that service is actually used by, or immediately available to, the owner of the property in question. Fees or charges based on potential or future use of a service are not permitted.
- No fee or charge may be imposed for a general governmental service that is available to the public at large in substantially the same manner as it is to property owners.

Source: California Constitution, Article XIIIID, Section 6.

*Although Quartz Hill satisfied the procedural requirement to set forth the basis on which it calculated a fee increase, we believe it did not provide the public with a full understanding of its rationale for the increase.*

As Table 6 shows, all three public utilities complied with the procedural requirements for increasing water rates under Proposition 218, with some exceptions for Quartz Hill and LA District 40. Although Quartz Hill satisfied the procedural requirement to set forth the basis upon which it calculated the fee increase, we believe the level of detail fell short of providing the public with a full understanding of its rationale for the increase. This requirement is contained in Proposition 218 but is not clearly defined, nor has the Legislature provided any statutory guidance, nor has any court construed the meaning of this provision. Our legal counsel has advised us that an agency would likely comply with this procedural requirement if it provided reasonably sufficient information in the notice to allow a water customer to determine whether or not to file a written protest against the proposed rate increase. Quartz Hill's notice of public hearing provided only a short statement describing the two costs—a flat rate that covers the cost of maintaining water service and a water usage rate determined by the water wholesaler. In contrast, Palmdale included detailed information regarding its rate structure in its notice of public hearing for the 2009 rate increase. LA District 40 did not increase its general water rates during the period we reviewed, but it did pass through cost increases, as discussed in the next paragraph.

Further, as Table 6 shows, LA District 40 and Quartz Hill could not demonstrate that they complied with statutory requirements for pass-through rate increases for one or more of the three years we reviewed. In implementing the requirements of Proposition 218, the Legislature enacted a statutory provision that permits water utilities to adopt a schedule of fees or charges that authorizes automatic rate adjustments without an additional public hearing for a period of no more than five years after a general rate increase, provided the utility gives 30 days' notice to water customers before each rate increase. These adjustments, known as pass-through rate increases, offset increases in wholesale water costs, inflation, or both. LA District 40 and Quartz Hill implemented pass-through rate increases during 2011 to 2013 and both attested to meeting the requirement to provide a 30-day notice. However, we were unable to verify that LA District 40 had done so for its 2012 rate increase and that Quartz Hill had done so for all three years because they did not retain documentation to show when they mailed the notices for those years. A senior civil engineer for LA District 40 stated that it retained a copy of the 2012 notice but not the mailing information. Quartz Hill's general manager explained that it provided the notice on customers' water bills, but he could not show us this notice because the company that prints and mails its water bills can retrieve data only for the previous three months.



**Table 6**  
**Government-Owned Utilities' Level of Compliance With the Public Disclosure Requirements of Proposition 218 During Our Three-Year Audit Period**

PROCEDURAL REQUIREMENTS	LOS ANGELES COUNTY WATERWORKS, DISTRICT 40 (LA DISTRICT 40)	PALMDALE WATER DISTRICT	QUARTZ HILL WATER DISTRICT (QUARTZ HILL)
Parcel identified	✓	✓	✓
Written notice of rate increases by mail	✓	✓	✓
Notice includes amount of proposed increase	✓	✓	✓
Notice includes basis for calculating increase	✓	✓	✓
Notice includes reason for increase	✓	✓	✓
Notice includes date, time, and location of public hearing	✓	✓	✓
Public hearing held not less than 45 days after mailing	✓	✓	✓
Written protests against increase were considered	✓	✓	✓
Adopted a schedule of fees or charges for pass-through rate increases to offset increases in wholesale water costs or inflation*	✓	NA	✗
Period that the schedule covers does not exceed five years*	✓	NA	✓
Notice of a pass-through rate increase was given no less than 30 days before the effective date	●	NA	●

Source: California State Auditor's analysis of government-owned utilities' compliance with Proposition 218.

NA = Not applicable.

✓ = The water utility complied with procedural requirements of state law (Proposition 218 amendments to state constitution and implementation statute) with regard to notification of parcel owners or ratepayers prior to a rate increase and the contents of those notifications.

✗ = The water utility did not comply with the requirement.

● = We were unable to determine whether LA District 40 complied with the requirement for 2012 and whether Quartz Hill complied with this requirement for 2011 to 2013.

\* Although Quartz Hill's public notice did not include a schedule of pass-through fees or charges, it did indicate that the time period for the increase would not exceed five years.

In addition, Quartz Hill did not adopt a schedule of fees or charges authorizing pass-through rate increases, as is required of utilities that approve such increases. This schedule might have been included in the public notice showing projected increases over the period the schedule was in effect, or it might have provided a reference to an inflation index that would be used to calculate increases. Instead, Quartz Hill's notice explained only that it would adjust the rate to reflect changes in wholesale costs, without indicating what the new rate may be or giving water customers a way to estimate it. Thus, Quartz Hill's water customers would

*The procedural requirements imposed on public utilities give property owners the opportunity to contest proposed rate increases through written protests.*

have difficulty determining how a pass-through rate increase was calculated. According to its general manager, Quartz Hill did not adopt a schedule of fees authorizing pass-through rate increases because it did not have information from AVEK regarding future wholesale rate increases at the time the rate increases were proposed. However, LA District 40 was able to make water customers aware—both at the time the pass-through rate increase was proposed and for each annual increase thereafter—of how much their bills might increase based on projected increases in AVEK water costs and inflation.

The procedural requirements imposed on public utilities by Proposition 218 give property owners the opportunity to contest such fees or charges through written protests. However, the likelihood that a majority of the individual property owners in a service area would submit written protests seems remote, based on our review. For example, Palmdale provides water service to over 26,000 connections. Therefore, if each connection represents a parcel of land, Palmdale would need to receive over 13,000 written protests from property owners in its service area to reject a proposed rate increase. Given that the over 2,100 protests submitted by property owners in Palmdale's service area were insufficient to stop proposed rate increases in 2009—the highest number of protests received among the three public utilities—it seems unlikely that there would ever be sufficient protests to reject a rate increase in most circumstances. Similarly, LA District 40 and Quartz Hill received few written protests against their most recent rate increases.

Finally, Proposition 218 also imposes a number of substantive requirements that local governments must meet to justify their fees or charges. These requirements are primarily meant to restrict local governments' ability to impose property-related fees and charges. The substantive provisions of Proposition 218 are outside of the scope of this audit. However, in 2011 a state appellate court found Palmdale in violation of the substantive portions of Proposition 218, including the proportionality requirement for using differing water budget allocation proportions for single-family residential, commercial/industrial, and irrigation customer classes. Following the ruling, Palmdale changed its usage rate structure so that the proportion of water allocated in each of the five tiers was equal across customer classes and issued credits to affected water customers.

#### ***Cal Water Complied With the Commission's Process for Rate Approval***

State law prohibits investor utilities from making any changes to rates unless the commission finds that the rate change is justified. The water rates Cal Water charged between 2011 and 2013 were approved by the commission. Further, Cal Water's general rate case complied with the commission's process. State law requires that investor utilities



with more than 10,000 service connections,<sup>5</sup> such as Cal Water, file a general rate case application every three years to propose rate increases for the subsequent three-year period. This application includes projected revenues and costs in addition to proposed rates. As described in the Introduction, a fundamental component of this review process includes an examination of the application by the commission and other parties to ensure that the costs a utility presents in support of its proposed rate increases are reasonable, necessary, and fair. The proposed rate increases are subject to change during this process, and the commission ultimately authorizes the rates the utility will charge its customers after hearing testimony from all involved parties. Because of the time needed to review the documents supporting the rates and to reach agreement on the proposed rates, the review process for Cal Water's general rate case for 2011 to 2013 was scheduled to take 20 months.

As described in the text box, state law also requires Cal Water to notify water customers within 45 days after it submits the general rate case application and specifies the items to include in this notification. Similar to the Proposition 218 process, the general rate case process allows the public to participate in the rate change process through public hearings before the commission. At the conclusion of the general rate case process for Cal Water's proposed rates for 2011 to 2013, the commission approved the proposed rate increases but with modifications, after various parties that disagreed with Cal Water's proposed rates reached a settlement agreement. Additionally, Cal Water complied with the commission's general rate case process by submitting the general rate case application on time, notifying water customers within 45 days of the submitted application, holding public hearings, receiving feedback on the application from both the commission and other parties, and participating in all required conferences and hearings related to the application.

#### General Rate Case Customer Notification Requirements

Within 45 days of submitting an application to the California Public Utilities Commission (commission), the investor-owned utility (investor utility) shall notify its customers affected by the rate increase of the following items:

- The amount of the rate change, expressed in both dollar and percentage terms, for each customer classification.
- A brief statement of the reasons the rate change is required or sought.
- The mailing address or e-mail address at the commission to which any customer inquiries may be directed regarding how to participate in or receive further notices regarding the date, time, or place of any hearing regarding the application.
- The investor utility's mailing address for any customer inquiries about the proposed rate.

Source: California Public Utilities Code, Section 454.

Investor utilities also can make requests to the commission for various approvals and authorizations, including changes to the utility's rates, through an informal filing known as an advice letter. Cal Water submitted 13 advice letters between 2011 and 2013 that requested changes to rates in the valley. For example, Cal Water requested a surcharge of approximately 44 cents per unit of water used each month over an 18-month period for water customers in all four locations it serves to recover a shortfall in projected revenues. Cal Water indicated that under commission rules, additional advance customer notification of

<sup>5</sup> Cal Water has over 10,000 service connections throughout California.

these changes was not required because the commission had previously approved them as part of Cal Water's general rate case and customers had been notified during the general rate case process.

### Each Water Utility Increased Its Water Rates Between 2011 and 2013

Each of the four water utilities serving the valley increased its rates between 2011 and 2013 and, as noted previously, generally followed the processes outlined in state law. Figure 3 shows that in April 2013 a typical residential customer with a family of three using the utilities' most common<sup>6</sup> meter size and approximately 21 units<sup>7</sup> of water per month would have paid the most—\$110—if Cal Water was the utility, followed by \$46 if served by Palmdale, \$38 if served by Quartz Hill, and \$36 if served by LA District 40. Figure 3 also shows that Cal Water's rate increases were the highest between 2011 and 2013, increasing by almost 18 percent, or over \$16, during this period. The monthly bills of Quartz Hill and LA District 40 customers increased by 8 percent and nearly 15 percent, respectively, during the three-year period. Finally, Palmdale's monthly bill increased by 7 percent during this same period.

*Of the four utilities we reviewed, each uses a different formula and factors to determine how much a customer will pay for water each month.*

Each of the four utilities we reviewed uses a different formula and factors to determine how much a customer will pay for water each month. Therefore, we used certain benchmarks in order to ensure an accurate comparison across utilities. For example, we chose the month of April because the water utilities agreed that it was one of the most comparable months. The benchmark meter size is either 5/8 inch or 3/4 inch because at each utility the meters of a majority of the single-family residential customers were of this size. Finally, 21 units of water is the average monthly consumption for a family of three living in the valley, based on our analysis using data from Water Resources' 20x2020 *Water Conservation Plan*.

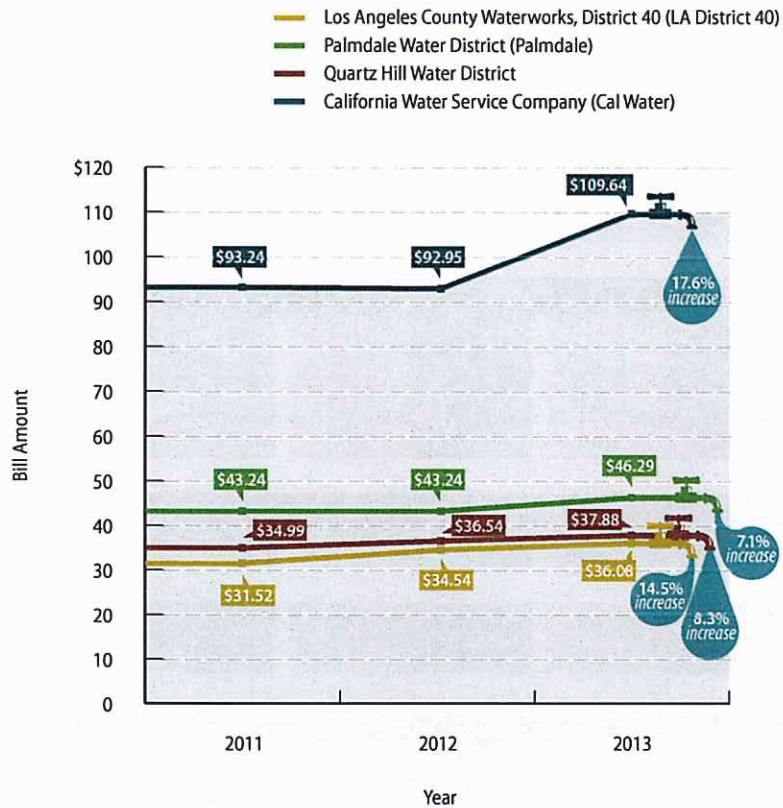
As Table 7 on page 24 shows, the water rate of each water utility generally comprises three categories: a flat monthly service charge for basic service; tiered usage charges, which for public utilities must be proportional based on the quantity of water used; and various surcharges to cover special circumstances. Each utility determined the general rate increases applied to these charges using a water rate study or model that considered anticipated future costs or, for the pass-through rate, increases in wholesale water costs, inflation, or both. As we describe in the sections that follow, in addition to using a water rate study or model to determine rate increases, each utility also provided specific reasons why the rate increases were necessary.

<sup>6</sup> Either a 5/8-inch or 3/4-inch meter size.

<sup>7</sup> One unit of water is equivalent to 100 cubic feet, which is equivalent to 748 gallons of water.



**Figure 3**  
**Typical Monthly Water Bill for a Family of Three Between 2011 and 2013**



**Assumptions for all water utilities:**

Meter size	Residential meter: 5/8 or 3/4 inch, depending on the utility
Customer type	Single-family residential
Household size	3 people in household
Consumption	21 hundred cubic feet per month
Month of bill	April of each year

**Additional assumptions for LA District 40:**

Region	Region 04 Lancaster
Surcharges and/or fees	Facilities/construction surcharge

**Additional assumptions for Palmdale:**

Base elevation	2,800 feet
Lot size	7,000 square feet

**Additional assumptions for Cal Water:**

Region	Lancaster
Surcharges and/or fees	Varies by year

Sources: California State Auditor's analysis of water utilities' rate schedules and related documents.

Note: Bill amounts for Cal Water and LA District 40 include surcharges and surcredits that were in effect.

**Table 7**  
**Water Rate Increases by Utility and Type of Charge**

	2010	2011	2012	2013			
	WATER RATES	NEW RATES	PERCENTAGE INCREASE	NEW RATES	PERCENTAGE INCREASE	NEW RATES	PERCENTAGE INCREASE
Los Angeles County Waterworks, District 40							
Monthly service charge*	\$15.28	\$16.03	4.9%	\$17.57	9.6%	\$18.34	4.4%
Usage charge (tier I)†	0.77	0.81	4.7	0.89	9.5	0.93	4.5
Facilities surcharge†	0.08	0.08	5.1	0.09	9.8	0.09	4.0
Palmdale Water District							
Monthly service charge*	\$23.78	\$24.97	5.0%	\$24.97	0.0%	\$26.97	8.0%
Usage charge (tier I)†	0.64	0.67	5.0	0.67	0.0	0.72	7.5
Elevation booster surcharge†	0.23	0.16	(30.4)	0.16	0.0	0.15	(6.3)
Water quality fees†	0.20	0.20	0.0	0.20	0.0	0.20	0.0
Quartz Hill Water District (Quartz Hill)†							
Monthly service charge*	\$20.63	\$21.13	2.4%	\$21.63	2.4%	\$22.13	2.3%
Usage charge (tier I)							
Winter†	0.63	0.66	4.8	0.71	7.6	0.75	5.6
Summer†	0.78	0.81	3.9	0.87	7.4	0.91	4.6
California Water Service Company (Cal Water)§							
Monthly service charge*	\$31.22	\$41.63	33.3%	\$41.94	1.0%	\$41.36	(1.0%)
Usage charge (tier I)†	1.49	1.99	33.6	2.01	1.0	1.98	(1.0)
Surcharges†	0.40	0.49	22.5	0.77	57.0	1.06	38.0
Surcredits (per month)	0.13	2.50	1,823.1	1.82	(27.0)	2.26	24.0

Source: California State Auditor's review of the water utilities' rate schedules.

\* The monthly service charge is based on the water utilities' most common meter size for a single-family residential customer.

† Except for the monthly service charge, or as otherwise noted, amounts are per 100 cubic feet of water consumed.

‡ Quartz Hill has no surcharges.

§ The surcharges and surcredits for Cal Water are often limited in duration. Therefore, those shown are based on the last rate sheet for the year.

**Palmdale Water District**

Palmdale based its proposed rate increase on a water rate study that its consultant prepared. That study included an update to Palmdale's five-tier structure for water usage rates and developed indoor and outdoor water budgets for each single-family residential customer. The indoor budget was calculated for each water customer based on household size, allowable water usage, and the number of days in the month; the outdoor budget was based on property square footage, local weather data, and drought conditions. Water customers who use 100 percent of their water budget or less fall



into tier 1, with each subsequent tier increasing by increments of 30 percent. In addition, the study recommended that Palmdale adopt an additional surcharge—a water quality fee—to fund upgrades to its water treatment plant and that it extend an existing surcharge to water customers at higher elevations. The consultant's study recommended increases in the monthly service charge, the tiered usage charges, and the elevation surcharge. These increases consisted of a 14 percent increase in the monthly and tiered usage charges in 2010 followed by an 8 percent increase each year through 2014. The elevation surcharge was to increase by 8 percent over the same period. Additionally, the consultant recommended that Palmdale establish the water quality fee at 20 cents per 100 cubic feet of water, with small annual increases that would bring the fee to 23 cents in 2014. However, as Table 7 shows, although the board approved the recommended increases, Palmdale never fully implemented them. In fact, between 2011 and 2013, the monthly service charge increased less than recommended, the water quality fee never increased, and the elevation surcharge either decreased or remained flat. According to Palmdale's financial manager, the board was concerned about the impact on water customers, and so it directed Palmdale to make an effort to control costs.

Palmdale also cited a number of specific reasons for its rate increases in the notice of public hearing it mailed to property owners before approving the increases. These included a 16 percent increase in past costs due to inflation; water treatment plant upgrades to comply with federal and state environmental and safe drinking water rules; the increased cost of purchased water; and the need to operate, maintain, repair, and replace infrastructure. Palmdale was generally able to substantiate these reasons. Specifically, Palmdale's records show that it made upgrades to its water treatment plant, spending nearly \$5 million between 2010 and 2013 for equipment that filters impurities. In addition, Palmdale's expenditures for purchased water increased by 65 percent between 2005 and 2008. However, the consumer price index that Palmdale provided us shows only a 10 percent increase in inflation between 2005 and 2008, the years between the last and most current rate increases. Palmdale was unable to explain why its public notice cited a 16 percent increase in past costs when its supporting documentation showed that past costs had increased by 10 percent.

*Palmdale was unable to explain why its public notice cited a 16 percent increase in past costs when its supporting documentation showed past costs increased by only 10 percent.*

#### **Quartz Hill Water District**

Other than the fact that it has no surcharges, Quartz Hill's rate structure for a single-family residential customer is similar to Palmdale's, with a monthly charge and a tiered usage charge. For the tiered usage charge, Quartz Hill calculates a total water allotment for each water customer by combining a fixed indoor allotment of

4,200 gallons of water, which is based on three persons living full-time in the residence, with an outdoor allotment based on the square footage of a water customer's lot. Water customers fall into one of five tiers, depending on their water usage. The base rate tier establishes the charge for water customers who stay within their allotment. Those who are under the allotment by 25 percent or more pay 94 percent of the base rate. Those who use more than their allotment pay a higher rate. For instance, water customers who use between 101 percent and 150 percent of their allotment are charged one and a half times the base rate.

Additionally, Quartz Hill used a water rate model that it developed internally in November 2010 to determine how much it needed to increase general rates to cover projected costs. According to the general manager, using this model, Quartz Hill determined that it needed to increase rates for the monthly service charge on 3/4-inch meters, the meter size used by most residential users in its service area, by 50 cents, or roughly 2 percent, each year between 2011 and 2015. Unfortunately, we were unable to recalculate Quartz Hill's rates because, according to its general manager, Quartz Hill did not retain the supporting information for the water rate model. We did, however, verify that the percentage increases in the pass-through rate matched increases in wholesale water costs that AVEK charged between 2011 and 2013. In the public notice sent to property owners before the approval of the rate increase, Quartz Hill cited increased electricity costs as well as new environmental regulations requiring that all new water fixtures be lead free as the main reasons for higher rates. Quartz Hill's general manager was unable to provide documentation to support the increased electricity prices. However, citing billing invoices, Quartz Hill asserted that the price it paid for similar water fixtures increased by 73 percent between 2007 and 2010.

#### ***Los Angeles County Waterworks, District 40***

LA District 40 has three categories of charges: a monthly service charge, a tiered usage charge, and a facilities surcharge. The monthly service charge provides for 500 cubic feet of water per billing unit per month for a 3/4-inch residential meter. Unlike Palmdale and Quartz Hill, LA District 40 does not develop separate indoor and outdoor water allocations for each customer. However, the range of its tiers fluctuates between higher allocations in summer and lower allocations in winter to reflect seasonal variations in water demand, although the rate for each tier remains the same regardless of the season. The facilities surcharge is used to fund the construction and replacement of water system facilities.

*Unlike Palmdale and Quartz Hill, LA District 40 does not develop separate indoor and outdoor water allocations for each customer.*



Unlike Quartz Hill, which applied a pass-through rate increase only to the usage charge, between 2011 and 2013 LA District 40 increased each of its three charges by the amount of the pass-through rate increase. LA District 40 determined the pass-through rate increase by calculating increases in the costs of water purchased from AVEK and inflation. Using this methodology, LA District 40 increased its monthly service charge by 4.9 percent in 2011, 9.6 percent in 2012, and 4.4 percent in 2013. Documentation that LA District 40 provided us substantiated both the increased cost of purchased water and the inflation adjustments. LA District 40's facilities surcharge was less than \$2 in each year's monthly bill amount as shown in Figure 3 on page 23.

### **California Water Service Company**

Cal Water's rate structure and its method for determining rate increases are similar to those of the three public utilities. Cal Water has two main charges: a monthly service charge and a tiered usage charge. The tiered usage charge was approved as a trial program in 2008 in response to a commission effort to promote water conservation. Prior to that, Cal Water customers were charged a single-quantity rate. The usage charge consists of three tiers. The first tier covers the first 1,400 cubic feet of water used, with increased rates for usage above that amount. As explained previously, the commission approves water rates for investor utilities through the general rate case process.

Similar to the public utilities, Cal Water calculated its proposed water rate increase using a rate model. In its 2009 general rate case, which established the water rates for 2011, Cal Water proposed increases in the tiered usage charge of 118 percent. The proposed increase for its monthly rate was just 5 percent. However, as shown in Table 7, the commission ultimately approved increases of 33 percent for both rates. Further, under the advice letter process, Cal Water increased its rates in 2012 to recover increased costs associated with the construction of a water storage tank and lowered them in 2013 to decrease the rate of return it would earn on capital investments, but the rates in these two years deviated only slightly from those for 2011. Cal Water offered a number of reasons for increasing its rates in 2011 for the valley, the primary of which was the need to replace aging infrastructure and to add water supply facilities. Documentation that Cal Water provided indicates that of the \$1.4 million for 23 infrastructure projects included in its general rate case settlement agreement for 2011 and 2012, it completed eight at a total cost of \$214,000, or only 16 percent of the cost of the planned projects. Cal Water's documentation further indicates that nine projects with a value of \$724,000 have been initiated or are in progress, while the remaining

*Cal Water proposed increases in the tiered usage charge of 118 percent in its 2009 general rate case, which established the water rates for 2011, but the commission ultimately approved an increase of 33 percent.*

six projects were cancelled. According to Cal Water, its 2012 general rate case does not include the value of these cancelled projects as part of its revenue requirement.

As described earlier, investor utilities such as Cal Water can submit advice letters seeking adjustments to their rates. As with public utilities, this is often done, but unlike public utilities, investor utilities reimburse water customers for overcharges included in rates through surcredits. Some of Cal Water's surcharges apply to all of its customers and may fund activities not directly related to water service, such as a surcharge for a rate assistance program. These surcharges are a uniform amount across all of Cal Water's customers in California. Other surcharges are temporary or one time, allowing Cal Water to request changes to its rates to account for differences between projected and actual revenues or costs on an ongoing basis as a condition of its general rate case. For example, the water revenue adjustment mechanism ensures that Cal Water and its customers are not at risk for the under- or over-collection of revenues following the commission's approval of rate structure changes to encourage water conservation. Therefore, if Cal Water overestimates its costs, the difference would show up as a surcredit on water customers' bills. The surcharges per month are significant. For example, in the April 2013 bill amount of nearly \$110 shown in Figure 3 on page 23, the net amount of the commission-approved surcharge is \$25.67 for Cal Water, which increased from the previous amount of \$6.51 for April 2012.

#### **Some of the Water Utilities Have Undertaken Cost-Saving Efforts, but They Cannot Always Document the Amounts Saved**

Because the increasing cost of water has been a concern for valley residents, we would have expected the water utilities that we reviewed to be able to demonstrate how much they have saved with the various efforts they have undertaken. Each water utility expressed to us its intention to operate as efficiently as possible to keep rates low for water customers. However, although each of the four utilities provided examples of various ways it manages operating costs in order to keep rates reasonable, the utilities were not always able to quantify the savings that resulted from these actions.

*Palmdale shared with us several efforts to reduce its energy costs; however, none of these constituted a specific effort directed toward curbing escalating water rates.*

Palmdale shared with us several efforts to reduce its energy costs; however, none of these constituted a specific effort directed toward curbing escalating water rates. For example, Palmdale suggested that one cost-saving effort was an annual efficiency audit of the electrical usage for its groundwater wells that its electricity utility conducts. However, because the electricity utility performs this



audit annually, we did not consider this to be an effort that Palmdale took outside the normal course of its business as a way to keep its water rates reasonable.

In contrast, LA District 40 could demonstrate that some of the actions it was taking could result in cost savings. LA District 40 estimated that it could save nearly \$148,000 a year after completing a five-year plan to replace its current vehicles with more efficient vehicles. LA District 40 plans to begin the vehicle replacement in fiscal year 2014–15. Also, a senior civil engineer for LA District 40 indicated that as a division within the Los Angeles County Department of Public Works (public works), LA District 40 has the ability to transfer staff to other units within public works and leave positions temporarily unfilled if it identifies a need to keep operating costs low. He also stated that LA District 40 will postpone less critical maintenance until it has adequate funding to cover the maintenance costs. However, the senior engineer could not cite any specific instances in which it transferred employees to other units or postponed maintenance during our period of review.

*LA District 40's senior civil engineer could not cite any specific instances in which it transferred employees to other units or postponed maintenance to keep operating costs low during our period of review.*

Further, using a process known as water banking, both LA District 40 and Quartz Hill pre-purchased water from AVEK for later use during dry years when purchased water rates are higher. LA District 40 banked 11,500 acre-feet of water in 2011 and 2012 at a cost of \$4.2 million and plans to withdraw 10,350 acre-feet between fiscal years 2013–14 and 2014–15. Had it needed to purchase this water from AVEK at the current dry-year rates, we estimate LA District 40 would have spent between \$8.3 million and \$10.4 million for the same amount of water. Similarly, Quartz Hill banked 3,430 acre-feet of water between 2010 and 2013 at a cost of \$736,000. While Quartz Hill plans to withdraw some water from its water bank in 2014, as of May 2014, it was unsure of how much it will need to extract.

In addition, Quartz Hill's general manager described two other recent cost-saving efforts. In January 2013 its board of directors approved the purchase of solar panels at a cost of \$1.3 million. The vendor that sold the solar panels to Quartz Hill estimated that the solar panels will provide nearly \$5.6 million in electricity savings over 30 years. The general manager also indicated that in 2012 Quartz Hill reached an agreement with its employees' union to reduce medical coverage for all represented employees. However, Quartz Hill has not quantified the savings that have resulted from this effort.

As a statewide water utility, Cal Water centralizes engineering, water quality, water conservation, accounting, billing, and information technology functions at its San Jose headquarters and allocates a proportional share of these costs to its customers

across California, including those in the valley. Cal Water asserted that centralizing these functions ensures that each of its customers receives the full benefit of these services, but at a significantly lower cost. To illustrate, Cal Water indicated that it charges valley customers less than 0.5 percent of the costs for these centralized services, which amounted to \$140,000 in 2013. Cal Water also installed an alert system in the valley to eliminate the need for staff to manually monitor the status of water facilities. Cal Water did not provide the cost savings that resulted from installing this system, but it stated that the system has improved operational efficiency. Further, Cal Water contended that being regulated by the commission helps ensure that it is operating as efficiently as possible and that its expenses are prudent and justified. Cal Water indicated that the general rate case process provides the commission and other parties the opportunity to review Cal Water's records to ensure that its costs are in the best interests of customers. However, all investor utilities are subject to the commission's review, and thus this process is not a specific cost-saving effort that Cal Water undertook.

#### **Cal Water Offers Rate Assistance Programs, While the Three Public Utilities Currently Do Not**

Of the four water utilities we reviewed, only Cal Water—the investor utility—offers rate assistance programs, as authorized by the commission. It currently offers two different programs to qualified customers in the valley: the Low-Income Rate Assistance (LIRA) program and the Rate Support Fund (RSF). The LIRA program assists water customers whose income is below a certain level—for example, below \$47,700 for a family of four. This program provides a monthly discount of 50 percent of the water customer's service charge, up to a maximum of \$12 per month. The RSF program is offered to water customers in high-cost service areas. For the period we reviewed, Cal Water offered the RSF program to water customers in only one of the four locations it serves in the valley, providing a discount of \$12.10 off their monthly water bill. Cal Water funds two rate assistance programs with surcharges to other water customers. In its most recent general rate case, which began in 2012,<sup>8</sup> Cal Water has proposed expanding the number of water customers who qualify for the RSF program and increasing the amount of the discounts offered by both programs.

*Cal Water funds two rate assistance programs with surcharges to other water customers.*

<sup>8</sup> As of May 2014 Cal Water's 2012 general rate case was still in progress, and no decision had been reached.



Unlike investor utilities such as Cal Water, public utilities must adhere to the requirements of Proposition 218 when increasing rates, as we discussed earlier. Proposition 218 prohibits public utilities from increasing water rates or making changes in their rate structures unless they comply with specified substantive requirements. In particular, a public utility may not use revenues derived from water fees for any purpose other than delivering water and may not impose a fee that exceeds the proportional cost of providing water service to the parcel. Because a rate assistance program funded by revenues derived from water fees would result in one group of ratepayers subsidizing the fees paid by another group of ratepayers, Proposition 218 would prohibit such a program. However, water utilities can use other funding sources to offer rate assistance programs. For example, the city of Davis—although not a public utility—adopted a Lifeline Water Utility Rate Assistance Program in May 2013 that uses revenues from late fees to assist up to 250 low-income water customers by discounting their monthly bills by \$10 a month.

Currently, none of the three public utilities we reviewed offer rate assistance programs. However, Palmdale's finance manager stated that the finance committee of its board of directors recently considered implementing a rate assistance program to assist low-income senior water customers, which would be funded using revenues from cell phone tower leases. Palmdale proposed this program in a March 2014 finance committee meeting, but the finance committee has yet to make a decision as to whether it will propose this program to the board of directors. Similarly, Quartz Hill proposed a low-income rate assistance program to its board of directors in December 2013, but the board did not approve the proposal because it would have required some customers to pay for other customers' bills and it believes the proposal would conflict with Proposition 218. LA District 40's senior civil engineer stated that no formal consideration has been given to implementing a rate assistance program. Alternatively, pending legislation that, if enacted, would be known as the Low-Income Water Rate Assistance Act, would require the California Department of Community Services and Development to develop a plan to fund and implement a program and report to the Legislature no later than January 2016 on the feasibility of such a program.

## Recommendations

To ensure that water customers are able to have an understanding of how rate increases are determined, Quartz Hill should include information in its public notices providing reasonably sufficient details of the basis of its fee methodology.

*Under Proposition 218, a public utility may not use revenues derived from water fees for any purpose other than delivering water, such as a rate assistance program.*

To provide guidance to local public agencies in implementing the notice requirements of Proposition 218, the Legislature should enact a statute that specifies the level of detail required to satisfy the requirement that the notice specify "the basis upon which the amount of the proposed fee or charge was calculated."

To ensure that LA District 40 and Quartz Hill can demonstrate that they comply with the public notification requirements of Proposition 218, they should retain documentation demonstrating that they mailed required Proposition 218 notifications of pass-through rate increases to water customers during the period that the increased rates are in effect.

To ensure that water customers are aware of pass-through rate increases, Quartz Hill should adopt a schedule of fees showing how these increases will affect its tiered usage charges before the new rates take effect.

To ensure that its water customers have access to Quartz Hill's rate methodology and other factors that help it determine rate increases, the utility should keep all documentation it uses to calculate or otherwise explain the need for rate increases for as long as the rate increases are in effect.

To show water customers that they are attempting to keep rates reasonable, each water utility should maintain documentation to demonstrate any cost savings expected or achieved as a result of its cost-saving efforts.

To assist low-income water customers, Palmdale, LA District 40, and Quartz Hill should work with their respective governing bodies to consider the feasibility of using revenues from sources other than water rates to implement rate assistance programs for low-income water customers.



We conducted this audit under the authority vested in the California State Auditor by Section 8543 et seq. of the California Government Code and according to generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives specified in the scope section of the report. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,



ELAINE M. HOWLE, CPA  
State Auditor

Date: July 8, 2014

Staff: John Baier, CPA, Audit Principal  
Amber Ronan  
Brianna J. Carlson  
Joseph S. Sheffo, MPA

Legal Counsel: J. Christopher Dawson

For questions regarding the contents of this report, please contact  
Margarita Fernández, Chief of Public Affairs, at 916.445.0255.

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## Appendix

### EXPENDITURES FOR THE WATER UTILITIES WE REVIEWED

Table A shows the relevant cost factors for each water utility for the three years we reviewed. As mentioned in the Introduction, a variety of cost factors contribute to water rates of the four water utilities in the Antelope Valley. For the purposes of this table, these costs are grouped into the major expenditure categories of personnel—which is made up of salaries and benefits—operations, water purchases, power, water treatment, and, when applicable, taxes. Table A shows the percentage increases for each category and for total expenditures between fiscal years 2010–11 and 2012–13, or calendar years 2011 through 2013, depending on the water utility. It also shows the proportion of cost types to total costs for each water utility for the last year shown. Figure 2 on page 14 in the Audit Results presents this information for only the last year that we reviewed.

**Table A**  
**Relevant Cost Factors for the Four Water Utilities We Reviewed**  
(Dollars in Thousands)

TYPE OF COST*	2011	2012	2013	PERCENTAGE CHANGE†	PERCENTAGE OF TOTAL COSTS (2013)
<b>LOS ANGELES COUNTY WATERWORKS, DISTRICT 40 (LA DISTRICT 40)</b>					
Personnel‡	\$14,689	\$12,117	\$11,736	(20%)	34%
Operations	8,334	6,379	6,591	(21)	19
Water purchases	10,745	12,374	13,472	25	39
Power	1,782	2,445	2,337	31	7
Water treatment	272	332	370	36	1
Taxes	NA	NA	NA	NA	NA
<b>Totals</b>	<b>\$35,822</b>	<b>\$33,647</b>	<b>\$34,506</b>	<b>(4%)</b>	<b>100%</b>
<b>PALMDALE WATER DISTRICT (PALMDALE)</b>					
Personnel‡	\$10,717	\$10,560	\$10,353	(3%)	50%
Operations	4,721	3,922	3,600	(24)	17
Water purchases	2,658	3,615	2,247	(15)	11
Power	1,259	1,214	1,608	28	8
Water treatment	2,936	3,356	3,031	3	15
Taxes	NA	NA	NA	NA	NA
<b>Totals</b>	<b>\$22,291</b>	<b>\$22,667</b>	<b>\$20,839</b>	<b>(7%)</b>	<b>100%</b>

continued on next page ...

TYPE OF COST*	2011	2012	2013	PERCENTAGE CHANGE†	PERCENTAGE OF TOTAL COSTS (2013)
<b>QUARTZ HILL WATER DISTRICT (QUARTZ HILL)</b>					
Personnel‡	\$1,388	\$1,517	\$1,649	19%	40%
Operations	959	611	708	(26)	17
Water purchases	1,139	1,263	1,484	30	36
Power	204	225	261	28	6
Water treatment	34	37	16	(53)	§
Taxes	NA	NA	NA	NA	NA
<b>Totals</b>	<b>\$3,724</b>	<b>\$3,653</b>	<b>\$4,118</b>	<b>11%</b>	<b>100%</b>
<b>CALIFORNIA WATER SERVICE COMPANY (CAL WATER)</b>					
Personnel‡	\$433	\$477	\$507	17%	40%
Operations	425	500	461	8	36
Water purchases	35	44	52	49	4
Power	62	106	121	95	9
Water treatment	87	129	76	(13)	6
Taxes	57	63	66	16	5
<b>Totals</b>	<b>\$1,099</b>	<b>\$1,319</b>	<b>\$1,283</b>	<b>17%</b>	<b>100%</b>

Sources: California State Auditor's analysis of each utility's relevant cost factors.

NA = Not applicable.

\* LA District 40 and Quartz Hill report their costs by fiscal year, while Palmdale and Cal Water report their costs by calendar year.

† Percentage change is between 2011 and 2013.

‡ Personnel costs include salaries and benefits, including postemployment benefits.

§ Less than 1 percent.





GAIL FARBER, Director

**COUNTY OF LOS ANGELES****DEPARTMENT OF PUBLIC WORKS***"To Enrich Lives Through Effective and Caring Service"*

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ALHAMBRA, CALIFORNIA 91803-1351  
Telephone: (626) 458-5100  
<http://dpw.lacounty.gov>

ADDRESS ALL CORRESPONDENCE TO:  
P.O. BOX 1460  
ALHAMBRA, CALIFORNIA 91802-1460

June 17, 2014

IN REPLY PLEASE

REFER TO FILE: FI-2

Ms. Elaine M. Howle  
State Auditor  
California State Auditor's Office  
621 Capitol Mall, Suite 1200  
Sacramento, CA 95814

Dear Ms. Howle:

**RESPONSE TO STATE AUDITOR RECOMMENDATIONS  
ANTELOPE VALLEY WATER RATES**

On behalf of the Los Angeles County Waterworks District No. 40, Antelope Valley (LA District 40), the Department of Public Works thanks you for the opportunity to comment on the proposed audit report for the Antelope Valley Water Rates: Various Factors Contribute to Differences Among Water Utilities. We have the following comments and would like to submit for your review and consideration to be incorporated in the final audit report.

**Recommendation 1:**

*To ensure that Los Angeles County Waterworks District No. 40, Antelope Valley (LA District 40), can demonstrate that they comply with the public notification requirements of Proposition 218, they should retain documentation demonstrating that they have mailed Proposition 218 notifications of pass-through rate increases to the water customers during the period that the increased rates are in effect.*

**Response: Agree**

While Proposition 218 does not stipulate a record retention requirement establishing proof of mailing, we will endeavor to retain those records going forward. In the future we will retain notice information including:

- the district number of the mailer;
- the number of notices mailed;
- the invoice for the vendor that performed the notice printing and mailing;
- the date of the notice mailing; and
- the confirmation that vendor completed the notice printing and mailing.

Ms. Elaine M. Howle  
June 17, 2014  
Page 2

We complied with the notice requirement and the inability to produce a complete paper trail is not evidence that the LA District 40 failed to provide the requisite notice. LA District 40 has been diligent in following Proposition 218.

**Recommendation 2:**

*To show water customers that they are attempting to keep rates reasonable, LA District 40 should maintain documentation to demonstrate any cost savings expected or achieved.*

**Response: Partially Agree**

During the audit, LA District 40 provided a list and reference documents citing various cost-saving measures. For some of the measures, LA District 40 was able to provide documentation that quantified the costs savings exclusively for LA District 40. Examples of cost saving with sufficient documentation were the Right Sizing of the Fleet and the Water Banking Program. There were other cost savings measures that LA District 40 could not provide sufficient documentation quantifying the specific cost savings to LA District 40 (LA County Department of Public Works oversees six [6] separate water agencies). Examples, of these savings were:

- Staff Reduction – from 2011 to 2012 staffing for all districts was reduced by 29 employees;
- Energy Management – LA District 40 installed time clocks at their pump stations to avoid paying higher Time of Use power rates; and
- Deferred Maintenance – LA District 40 deferred lower priority maintenance activities until there was funding available to complete these tasks.

LA District 40 will work in the future to quantify and document cost savings measures and provide this information to their customers upon request.

**Recommendation 3:**

*To assist low-income water customers, LA District 40 should work with their respective municipalities to consider the feasibility of using revenues from sources other than water rates to implement a rate assistance program for low-income water customers.*

**Response: Agree**

LA District 40 will assess the feasibility of securing state or local grants or other financing mechanisms from the local agencies to provide a low income rate assistance program, consistent with State Law. Per the cost of service rules embedded into the language of Proposition 218 laws, the LA District 40 cannot use

Ms. Elaine M. Howle  
June 17, 2014  
Page 3

water sales revenues to fund or subsidize a discount to a specific group of customers. Water agencies regulated by the Public Utilities Commission do not have such restrictions and can provide low income rate assistance programs to its customers.

If you have any questions, please contact Ms. Angelica Cobian of our Internal Audit Group at (626) 458-6551.

Very truly yours,

  
GAIL FARBER  
Director of Public Works

AC:dbm

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Subsystem:

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**P A L M D A L E   W A T E R   D I S T R I C T**  
**B O A R D   M E M O R A N D U M**

**DATE:** August 3, 2016 **August 9, 2016**  
**TO:** FINANCE COMMITTEE **Committee Meeting**  
**FROM:** Mr. Mike Williams, Finance Manager/CFO  
**VIA:** Mr. Dennis D. LaMoreaux, General Manager  
**RE:** ***AGENDA ITEM NO. 4.6 – CONSIDERATION AND POSSIBLE ACTION ON  
HIRING AN OUTSIDE CONSULTANT TO DETERMINE ADDITIONAL  
COST REDUCTIONS FOR THE DISTRICT.***

---

**Recommendation:**

Staff recommends the Committee review the attached information detailing the District's cost reduction averages for the past 10, 5, and 3 years when considering hiring an outside consultant to perform this same analysis.

**Background:**

Staff has presented requested information to the Finance Committee for the past several months regarding staff's recommendation to adopt the remaining three years of the approved Proposition 218 Water Rate Plan. Adoption of the remaining three years will enable long term financial planning for the District and will ensure future water rate stability and long-term water sustainability projects are able to be constructed to meet current and future water demands for the District's existing customers as well as for the future growth and development of Palmdale.

At the last Finance Committee meeting, staff recommended a water rate amount less than that approved in the Water Rate Plan be adopted for the next three years, and staff also presented the attached budget analysis showing 10-year, 5-year, and 3-year averages of budget cuts and cost reductions in all departments. This analysis clearly shows staff's exhaustive efforts to keep costs and expenses at a minimum and near 2007 levels even though overall operating costs for the business of the District to provide high quality water have risen.

While staff understands the Committee's desire to ensure sufficient data to support staff's recommendation, several years ago proposals to conduct an organizational assessment were solicited with costs ranging from \$35,000 to \$200,000. This organizational assessment was conducted by The Mathis Group and included a review of cost efficiencies for both operations and personnel. Staff has made additional budget cuts and organizational changes to meet the results of this review. In addition, the time frame to solicit and review proposals is approximately four – six months with consultant work anticipated to take an additional four – six months. Budget discussions for 2017 are now underway.

**Budget:**

Staff anticipates proposals for outside consultant work to range from \$35,000 to \$200,000.

**Strategic Plan Initiative:**

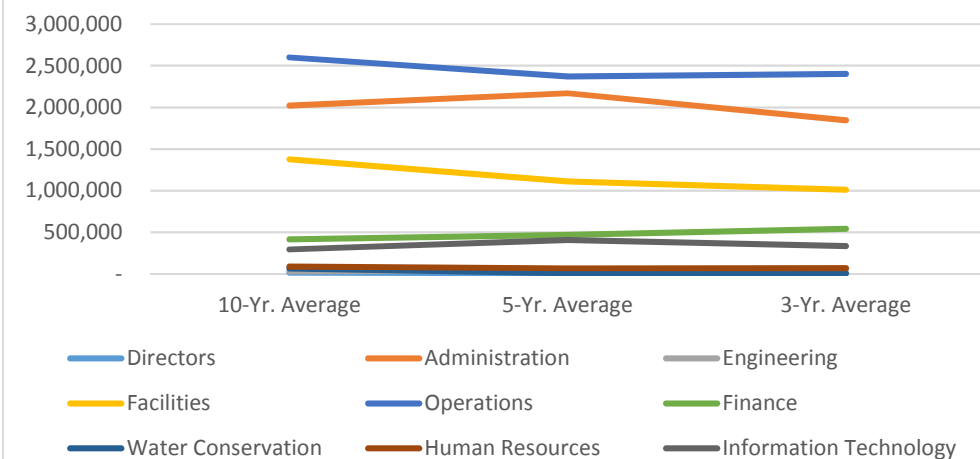
Strategic Plan Initiative No. 4 – Financial Health & Stability: *Sustainable and balanced rate structure.*

**Supporting Documents:**

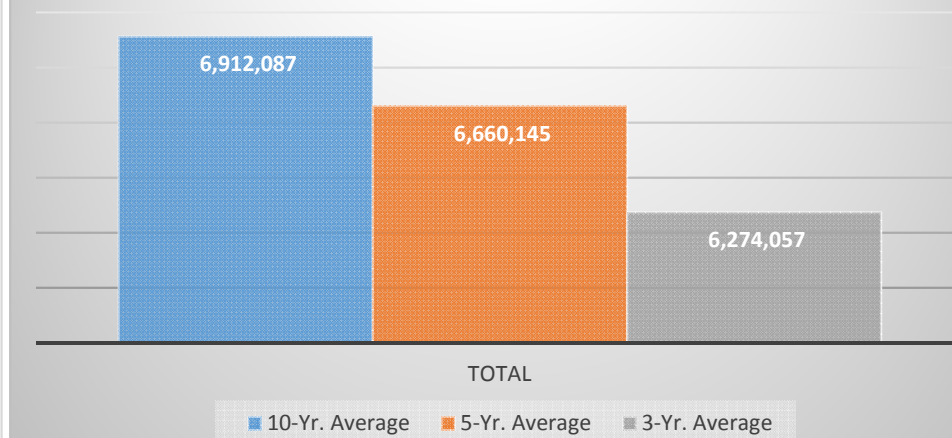
- 10-year, 5-year, and 3-year budget analysis

	2005 - 2014 10-Yr. Average	2010 - 2014 5-Yr. Average	2012 - 2014 3-Yr. Average
<i>Directors</i>	16,426	7,799	7,442
<i>Administration</i>	2,021,451	2,168,925	1,845,674
<i>Engineering</i>	32,348	46,225	54,615
<i>Facilities</i>	1,376,319	1,110,902	1,010,361
<i>Operations</i>	2,598,923	2,369,786	2,403,480
<i>Finance</i>	415,724	471,488	542,142
<i>Water Conservation</i>	66,777.53	8,708.65	7,149.29
<i>Human Resources</i>	89,189	68,385	69,018
<i>Information Technology</i>	294,930	407,926	334,176
<b>Total</b>	<b>6,912,087</b>	<b>6,660,145</b>	<b>6,274,057</b>

**10YR; 5YR; & 3YR AVERAGE BY DEPT**

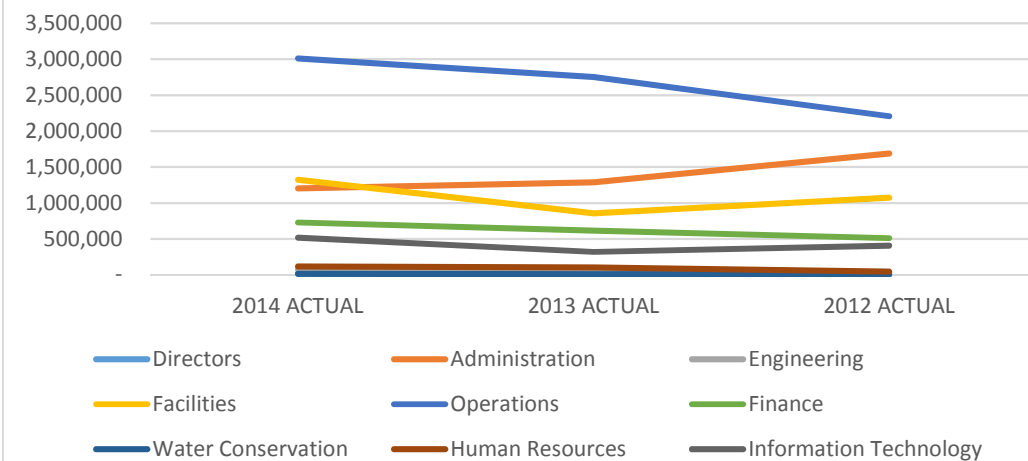


**10YR; 5YR; & 3YR DEPT AVG**

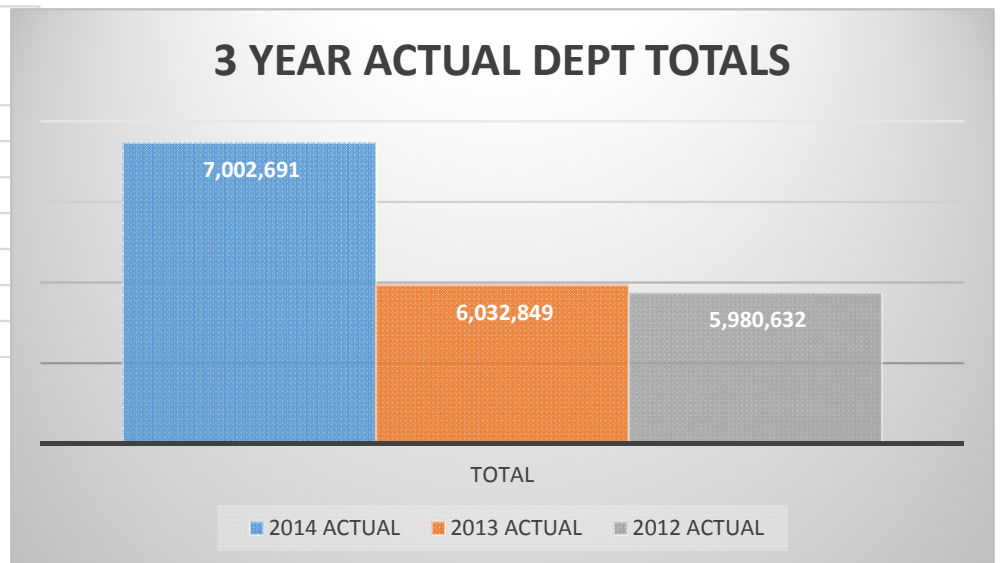


	2014 ACTUAL	2013 ACTUAL	2012 ACTUAL
<i>Directors</i>	15,677	3,229	3,419
<i>Administration</i>	1,202,851	1,287,160	1,688,829
<i>Engineering</i>	72,600	91,259	34,264
<i>Facilities</i>	1,322,239	855,488	1,076,246
<i>Operations</i>	3,011,712	2,751,063	2,206,755
<i>Finance</i>	728,713	614,632	511,180
<i>Water Conservation</i>	15,318	8,953	8,942
<i>Human Resources</i>	116,414	101,887	45,348
<i>Information Technology</i>	517,167	319,178	405,648
<b>Total</b>	<b>7,002,691</b>	<b>6,032,849</b>	<b>5,980,632</b>

**3 YEAR ACTUAL BY DEPT**



**3 YEAR ACTUAL DEPT TOTALS**





**PALMDALE WATER DISTRICT  
2016 BUDGET**

**Directors**

		PROPOSED	PROJECTED	BUDGET	ACTUAL	ACTUAL	ACTUAL	10-Yr. Average	5-Yr. Average	3-Yr. Average
		2016	2015	2015	2014	2013	2012	2005 - 2014	2010 - 2014	2012 - 2014
1-01-4000-000	Directors Fees	50,000	62,000	45,000	71,100	49,950	40,650	60,826	50,588	53,900
Benefits										
1-01-4005-000	Payroll Taxes	5,500	5,000	5,500	5,405	3,821	3,167	2,192	4,383	4,131
1-01-4010-000	Health Insurance	59,000	58,000	58,000	53,150	45,405	62,579	42,953	64,893	53,711
	Subtotal (Benefits)	64,500	63,000	63,500	58,555	49,226	65,746			
	Personnel Expenses	114,500	125,000	108,500	129,655	99,176	106,396			
OPERATING EXPENSES:										
1-01-4050-000	Director's Travel, Seminars & Meetings	14,000	14,000	10,000	15,677	3,229	3,419	16,426	7,799	7,442
	Total Operating Expense	14,000	14,000	10,000	15,677	3,229	3,419			
	Total Departmental Expenses	128,500	139,000	118,500	145,332	102,406	109,815	14.75%		

**PALMDALE WATER DISTRICT  
2016 BUDGET**

**Administration**

		PROPOSED	PROJECTED	BUDGET	ACTUAL	ACTUAL	ACTUAL	10-Yr. Average	5-Yr. Average	3-Yr. Average
		2016	2015	2015	2014	2013	2012	2004 - 2013	2009 - 2013	2011 - 2013
1-02-4000-000	Salaries	897,000	914,000	860,500	787,919	493,945	499,688	708,950	616,965	515,090
1-02-4000-100	Salaries - Departmental Overtime	8,250	7,500	8,250	7,992	7,450	8,678	3,002	6,004	7,448
1-02-4000-200	Salaries - District-wide Oncall/Standby	95,000	92,000	67,500	53,711	57,569	54,620	22,682	45,363	56,829
	Subtotal (Salaries)	1,000,250	1,013,500	936,250	849,623	558,963	562,986	734,634	668,333	579,368
Employee Benefits										
1-02-4005-000	Payroll Taxes	68,500	63,000	66,000	49,348	30,878	30,681	47,308	37,636	32,352
1-02-4010-000	Health Insurance	135,000	133,750	134,000	110,746	80,560	82,661	128,616	111,538	89,357
1-02-4015-000	Pers	530,500	335,250	169,000	148,467	86,034	91,869	103,976	98,289	88,649
1-02-4020-000	Worker's Comp (District-wide)	125,000	105,000	125,000	118,517	110,558	126,579	183,350	156,325	131,412
1-02-4025-000	Vacation Benefit Expense (District-wide)	35,000	24,000	35,000	1,748	33,866	(91,399)	91,139	(7,250)	(8,710)
1-02-4030-000	Life Insurance/EAP Program (District-wide)	8,000	7,500	8,000	7,572	7,283	7,115	3,921	6,256	7,425
	Subtotal (Benefits)	902,000	668,500	537,000	436,398	349,179	247,505			
	Personnel Expenses	1,902,250	1,682,000	1,473,250	1,286,021	908,143	810,492			
OPERATING EXPENSES:										
1-02-4050-000	Staff Travel	-	-	-	11,286	6,058	8,537	10,703	8,965	7,198
1-02-4050-100	General Manager Travel	5,000	6,500	5,000	7,808	6,056	5,679	7,059	4,774	5,900
1-02-4060-000	Staff Conferences & Seminars	-	-	-	3,670	1,150	754	5,569	1,299	761
1-02-4060-100	General Manager Conferences & Seminars	4,000	6,000	4,000	3,460	2,631	2,184	3,831	2,185	2,240
1-02-4070-000	Employee Expense	-	-	-	-	24,014	41,677	45,465	50,913	34,383
1-02-4080-000	Other Operating	20,000	17,500	20,000	18,355	19,627	13,460	33,850	19,199	19,533
1-02-4110-000	Consultants	160,000	145,000	175,000	121,710	42,590	202,170	353,079	272,324	160,076
1-02-4115-000	Settlements	-	-	-	-	-	-	35,000	-	-
1-02-4115-100	Settlements - City of Palmdale	-	-	-	-	-	-	2,000	4,000	-
1-02-4115-200	Settlements - Mr. Hill's Contract	-	-	-	-	-	-	37,790	75,580	-
1-02-4125-000	Insurance	300,000	299,000	285,000	275,100	254,505	296,966	238,834	294,967	276,718
1-02-4130-000	Bank Charges	140,000	145,000	140,000	136,637	118,886	108,284	95,722	121,039	118,634
1-02-4135-000	Groundwater Adjudication	80,000	100,000	75,000	228,195	299,901	228,378	342,341	503,511	527,320
1-02-4140-000	Legal Services	160,000	160,000	160,000	183,460	121,927	395,212	374,540	410,326	288,779
1-02-4140-100	Legal Services - Consultants	-	-	-	-	-	25,000	16,528	33,055	55,092
1-02-4150-000	Accounting Services	27,500	25,000	25,000	25,285	23,692	22,304	22,114	24,211	23,914
1-02-4155-000	Contracted Services	-	-	-	-	27,955	25,057	95,409	30,309	26,623
1-02-4155-205	Contracted Services - Landscape Services	-	-	-	10,200	-	-	-	-	-
1-02-4155-210	Contracted Services - Janitorial Services	-	-	-	14,375	-	-	-	-	-
1-02-4155-215	Contracted Services - Elevator Services	-	-	-	3,112	-	-	-	-	-
1-02-4155-220	Contracted Services - GASB45 Actuarial	-	-	-	-	-	-	-	-	-
1-02-4160-000	Collection Related Fees	-	-	-	-	-	-	1,516	114	-
1-02-4165-000	Memberships/Subscriptions	210,000	134,000	210,000	22,955	207,832	106,298	113,735	133,913	135,671
1-02-4170-000	Elections	50,000	-	-	-	-	78,451	32,205	31,097	26,150
1-02-4175-000	Permits	17,500	17,500	10,000	9,061	9,230	9,111	16,009	14,193	9,685
1-02-4180-000	Postage	25,000	23,000	27,500	25,085	16,640	21,056	34,091	23,964	20,024
1-02-4190-000	Public Relations	-	-	-	-	-	-	-	-	-

**PALMDALE WATER DISTRICT  
2016 BUDGET**

**Administration**

		PROPOSED	PROJECTED	BUDGET	ACTUAL	ACTUAL	ACTUAL	10-Yr. Average	5-Yr. Average	3-Yr. Average
		2016	2015	2015	2014	2013	2012	2004 - 2013	2009 - 2013	2011 - 2013
1-02-4190-100	Public Relations - Publications	30,000	12,500	35,000	17,002	33,949	25,928	41,762	34,055	32,657
1-02-4190-900	Public Relations - Other	1,000	-	1,000	706	1,201	1,437	7,252	4,941	1,246
1-02-4200-000	Advertising	4,000	3,500	3,500	2,439	2,095	4,325	3,107	2,819	3,055
1-02-4205-000	Office Supplies	18,000	16,500	18,000	25,888	17,886	17,878	13,262	18,503	18,199
1-02-4210-000	Office Furniture	-	8,250	-	-	-	-	44	-	-
1-02-4215-200	Natural Gas - Office Building	-	-	-	3,954	3,529	3,637	2,712	3,336	3,902
1-02-4220-200	Electricity - Office Building	-	-	-	53,108	45,805	45,048	35,126	43,740	45,783
1-02-4230-110	Mtce & Rep Office -Equipment	-	-	-	-	-	-	61	123	205
1-02-4255-000	Office Furniture	-	-	-	-	-	-	556	1,112	1,853
1-02-6300-100	Supplies - Janitorial	-	-	-	-	-	-	180	361	73
Total Operating Expense		1,252,000	1,119,250	1,194,000	1,202,851	1,287,160	1,688,829	2,021,451	2,168,925	1,845,674
1-02-4900-000	Budget Inclusion Expense	-	-	-	-	-	-			
Total Departmental Expenses		3,154,250	2,801,250	2,667,250	2,488,872	2,195,303	2,499,320	4.78%		

**PALMDALE WATER DISTRICT  
2016 BUDGET**

**Engineering**

		PROPOSED	PROJECTED	BUDGET	ACTUAL	ACTUAL	ACTUAL	10-Yr. Average	5-Yr. Average	3-Yr. Average
		2016	2015	2015	2014	2013	2012	2004 - 2013	2009 - 2013	2009 - 2013
1-03-4000-000	Salaries	831,250	810,000	809,000	678,494	802,373	761,583	808,529	790,308	780,610
1-03-4000-100	Salaries - Departmental Overtime	6,750	5,000	6,750	9,781	5,977	1,173	2,329	4,658	5,969
	Subtotal (Salaries)	838,000	815,000	815,750	688,275	808,349	762,756	810,858	794,966	786,579
Employee Benefits										
1-03-4005-000	Payroll Taxes	63,750	62,750	61,000	54,550	60,690	57,388	60,140	59,273	58,562
1-03-4010-000	Health Insurance	147,500	137,600	154,500	134,005	165,163	157,833	138,754	150,058	158,088
1-03-4015-000	PERS	125,750	117,150	142,000	136,655	139,915	143,557	121,338	134,877	139,364
	Subtotal (Benefits)	337,000	317,500	357,500	325,210	365,768	358,778	320,233	344,208	356,014
	Personnel Expenses	1,175,000	1,132,500	1,173,250	1,013,485	1,174,118	1,121,535	1,131,090	1,139,174	1,142,593
OPERATING EXPENSES:										
1-03-4050-000	Staff Travel	-	-	-	2,881	4,218	4,239	5,917	4,530	4,244
1-03-4060-000	Staff Conferences & Seminars	-	-	-	1,515	1,460	1,415	3,791	1,652	1,811
1-03-4155-000	Contracted Services	-	-	-	-	11,023	4,186	3,854	7,707	8,241
1-03-4155-305	Contracted Services - GIS Services	40,000	55,000	40,000	50,000	-	-	-	-	-
1-03-4155-310	Contracted Services - Reproduction	18,000	-	18,000	-	-	-	-	-	-
1-03-4155-315	Contracted Services - Prod./Demand Database	2,500	-	-	-	-	-	-	-	-
1-03-4155-320	Contracted Services - Plotter/Scanner	2,500	-	2,500	2,763	-	-	-	-	-
1-03-4155-325	Contracted Services - Backflow Software	1,000	-	1,000	-	-	-	-	-	-
1-03-4155-330	Contracted Services -	-	-	-	-	-	-	-	-	-
1-03-4165-000	Memberships/Subscriptions	2,500	2,250	2,000	1,889	1,390	2,798	1,725	2,499	2,317
1-03-4250-000	General Materials & Supplies	3,000	2,750	2,500	2,162	6,268	1,870	1,294	2,240	3,176
1-03-4330-000	Inspection - Non Recovered	-	-	-	-	-	-	136	-	-
1-03-4230-110	Maintenance & Repair - Office Equipment	-	-	-	-	-	-	404	134	200
1-03-8100-100	Computer Software - Maint. & Support	31,000	10,000	12,900	11,391	66,900	19,757	15,226	27,463	34,628
	Total Operating Expense	100,500	70,000	78,900	72,600	91,259	34,264	32,348	46,225	54,615
1-03-4900-000	Budget Inclusion Expense	-	-	-	-	-	-	-	-	-
	Total Departmental Expenses	1,275,500	1,202,500	1,252,150	1,086,084	1,265,376	1,155,799			



**PALMDALE WATER DISTRICT  
2016 BUDGET**

<b><u>Facilities</u></b>		PROPOSED	PROJECTED	BUDGET	ACTUAL	ACTUAL	ACTUAL	10-Yr. Average	5-Yr. Average	3-Yr. Average
		2016	2015	2015	2014	2013	2012	2004 - 2013	2009 - 2013	2011 - 2013
1-04-4000-000	Salaries	2,154,750	1,922,000	2,049,000	1,553,408	1,307,909	1,423,089	1,350,223	1,450,576	1,367,296
1-04-4000-100	Salaries - Departmental Overtime	100,000	90,000	65,000	78,544	51,484	29,565	17,424	34,849	42,740
	Subtotal (Salaries)	2,254,750	2,012,000	2,114,000	1,631,952	1,359,393	1,452,654	1,367,647	1,485,425	1,410,035
Employee Benefits										
1-04-4005-000	Payroll Taxes	171,500	156,000	157,000	129,425	106,666	113,849	105,633	114,290	111,405
1-04-4010-000	Health Insurance	465,500	427,500	466,000	349,246	380,429	393,665	307,036	353,576	371,793
1-04-4015-000	PERS	286,000	285,500	362,000	278,180	224,502	269,180	209,114	246,930	245,686
	Subtotal (Benefits)	923,000	869,000	985,000	756,851	711,598	776,694			
	Personnel Expenses	3,177,750	2,881,000	3,099,000	2,388,803	2,070,991	2,229,348			
<b>OPERATING EXPENSES:</b>										
1-04-4050-000	Staff Travel	-	-	-	6,943	731	78	4,698	454	478
1-04-4060-000	Staff Conferences & Seminars	-	-	-	1,652	2,225	449	5,561	1,139	1,585
1-04-4155-000	Contracted Services	-	-	-	-	65,671	27,017	41,845	36,786	39,249
1-04-4155-405	Contracted Services - Landscape Svcs (All Sites)	15,500	11,000	15,500	1,675	-	-	-	-	-
1-04-4155-410	Contracted Services - Landscape Svcs (Wells)	30,000	30,000	26,000	28,640	-	-	-	-	-
1-04-4155-415	Contracted Services - Alarm Services	5,000	3,125	5,000	3,076	-	-	-	-	-
1-04-4155-420	Contracted Services - Janitorial Services (All Sites)	24,000	30,000	24,000	7,143	-	-	-	-	-
1-04-4155-425	Contracted Services - Pest Control Svcs (Contracted)	5,500	3,500	5,500	1,729	-	-	-	-	-
1-04-4155-430	Contracted Services - Pest Control Svcs (Plm Dam)	23,000	23,050	23,000	23,040	1,920	-	192	384	640
1-04-4155-435	Contracted Services - Elevator Services	3,500	3,225	3,500	-	-	-	-	-	-
1-04-4155-440	Contracted Services - SCADA Software	15,000	12,000	12,000	-	-	-	-	-	-
1-04-4155-445	Contracted Services - SCADA Hardware	20,000	-	3,500	-	-	-	-	-	-
1-04-4155-450	Contracted Services - Seismic Valve Controllers	7,500	-	6,000	-	-	-	-	-	-
1-04-4155-455	Contracted Services - Annual Tank Service	330,000	330,000	330,000	319,100	-	-	-	-	-
1-04-4155-460	Contracted Services -	-	-	-	-	-	-	-	-	-
1-04-4155-499	Contracted Services - Miscellaneous	1,000	1,000	1,000	5,357	-	-	-	-	-
1-04-4175-000	Permits (Littlerock & Palmdale Dams)	50,000	30,000	50,000	27,026	45,887	-	4,589	9,177	15,296
1-04-4215-100	Natural Gas - Wells & Boosters	225,000	180,000	236,000	-	-	-	-	-	-
1-04-4215-200	Natural Gas - Buildings	9,000	7,500	9,000	3,052	3,185	3,093	3,156	3,575	3,342
1-04-4220-100	Electricity - Wells & Boosters	1,480,000	1,400,000	1,515,000	-	-	-	-	-	-
1-04-4220-200	Electricity - Buildings	88,000	85,750	75,000	22,579	19,777	28,758	11,678	17,321	20,067
1-04-4225-000	Maint. & Repair - Vehicles	35,000	30,000	40,000	28,861	33,536	34,347	41,852	37,168	37,161
1-04-4230-100	Maint. & Rep. Operations - Office Building	15,000	6,500	15,000	11,007	4,036	79,565	18,626	33,911	31,305
1-04-4230-110	Maint. & Rep. Office - Equipment	-	-	-	-	-	-	263	86	-
1-04-4235-110	Maint. & Rep. Operations - Equipment	6,500	6,000	6,500	10,424	7,156	7,259	6,227	5,915	6,701
1-04-4235-400	Maint. & Rep. Operations - Wells	75,000	72,500	75,000	81,768	41,435	67,600	249,275	70,211	71,549
1-04-4235-405	Maint. & Rep. Operations - Boosters	50,000	30,000	50,000	29,172	56,137	39,274	63,287	41,712	49,670
1-04-4235-410	Maint. & Rep. Operations - Shop Bldgs	10,000	3,000	10,000	8,959	9,209	6,618	5,653	8,267	12,275
1-04-4235-415	Maint. & Rep. Operations - Facilities	15,000	28,000	15,000	9,395	13,145	18,919	36,833	17,928	13,992
1-04-4235-420	Maint. & Rep. Operations - Water Lines	225,000	200,000	240,000	313,799	242,173	342,999	340,422	443,256	329,876
1-04-4235-425	Maint. & Rep. Operations - Littlerock Dam	15,000	-	15,000	3,164	-	16,524	23,489	18,290	12,057

**PALMDALE WATER DISTRICT  
2016 BUDGET**

**Facilities**

		PROPOSED	PROJECTED	BUDGET	ACTUAL	ACTUAL	ACTUAL	10-Yr. Average	5-Yr. Average	3-Yr. Average
		2016	2015	2015	2014	2013	2012	2004 - 2013	2009 - 2013	2011 - 2013
1-04-4235-430	Maint. & Rep. Operations - Palmdale Dam	7,500	1,000	7,500	1,020	-	27,339	19,394	20,847	17,959
1-04-4235-435	Maint. & Rep. Operations - Palmdale Canal	10,000	1,000	10,000	960	230	373	1,741	157	262
1-04-4235-440	Maint. & Rep. Operations - Large Meters	10,000	2,000	7,870	-	-	-	-	-	-
1-04-4235-445	Maint. & Rep. Operations - Telemetry	4,000	3,500	2,250	-	-	-	-	-	-
1-04-4235-450	Maint. & Rep. Operations - Hypo Generators	10,000	1,000	12,000	-	-	-	-	-	-
1-04-4235-455	Maint. & Rep. Operations - Heavy Equipment	45,000	46,000	35,000	54,748	29,289	33,212	29,913	38,506	30,854
1-04-4235-460	Maint. & Rep. Operations - Storage Reservoirs	5,000	3,000	5,000	381	223	104	23,502	972	1,415
1-04-4235-465	Maint. & Rep. Operations - Fire Hydrants	-	-	-	-	-	-	-	-	-
1-04-4235-470	Maint. & Rep. Operations - Meter Exchanges	225,000	125,000	211,950	-	-	-	-	-	-
1-04-4250-000	General Material & Supplies	-	-	-	-	-	-	12	25	-
1-04-4250-100	Materials - Hot Tapping	-	5,550	-	-	-	-	103	206	-
1-04-4270-300	Telecommunication - Other	4,000	3,550	2,750	-	-	-	-	-	-
1-04-4300-200	Testing - Large Meter Testing	12,500	12,000	10,955	-	-	-	-	-	-
1-04-4300-300	Testing - Edison Testing	30,000	-	6,000	-	-	-	-	-	-
1-04-5010-000	Service Costs Construction	-	-	-	-	-	-	150,503	-	-
1-04-6000-000	Waste Disposal	20,000	13,000	25,000	12,987	21,687	39,172	24,025	24,087	27,109
1-04-6100-100	Fuel and Lube - Vehicle	105,000	85,000	130,000	115,177	114,837	135,193	94,290	106,298	125,615
1-04-6100-200	Fuel and Lube - Machinery	40,000	36,500	43,000	41,755	25,012	40,573	28,870	27,433	32,227
1-04-6200-000	Uniforms	22,500	25,500	22,500	22,624	20,783	17,031	22,561	20,050	18,233
1-04-6300-000	Supplies	-	-	-	-	-	-	342	684	-
1-04-6300-100	Supplies - General	47,500	47,000	47,500	51,515	39,783	38,922	88,403	74,869	40,072
1-04-6300-200	Supplies - Hypo Generators	6,500	1,000	6,500	-	-	-	-	-	-
1-04-6300-300	Supplies - Electrical	3,000	500	3,000	-	-	-	-	-	-
1-04-6300-400	Supplies - Telemetry	5,000	4,000	5,000	-	-	-	-	-	-
1-04-6300-800	Supplies - Construction Materials	35,000	45,000	35,000	48,419	33,398	46,509	14,516	29,031	48,386
1-04-6400-000	Tools	25,000	20,000	12,000	11,065	11,207	12,863	9,600	9,470	10,680
1-04-7000-100	Leases -Equipment	12,500	14,000	12,500	14,027	12,817	12,457	10,899	12,686	12,307
	Total Operating Expense	3,463,500	3,021,250	3,459,775	1,322,239	855,488	1,076,246	1,376,319	1,110,902	1,010,361
1-04-4900-000	Budget Inclusion Expense	-	-	-	-	-	-			
	Total Departmental Expenses	6,641,250	5,902,250	6,558,775	3,711,042	2,926,478	3,305,594			

**PALMDALE WATER DISTRICT  
2016 BUDGET**

<b><u>Operations</u></b>		PROPOSED	PROJECTED	BUDGET	ACTUAL	ACTUAL	ACTUAL	10-Yr. Average	5-Yr. Average	3-Yr. Average
		2016	2015	2015	2014	2013	2012	2004 - 2013	2009 - 2013	2011 - 2013
1-05-4000-000	Salaries	1,094,750	1,078,500	1,104,500	1,496,842	1,620,378	1,643,361	1,239,747	1,481,088	1,611,741
1-05-4000-100	Salaries - Departmental Overtime	56,000	53,000	53,750	96,084	96,652	88,128	36,657	73,315	99,542
	Subtotal (Salaries)	1,150,750	1,131,500	1,158,250	1,592,926	1,717,029	1,731,489	1,276,404	1,554,403	1,711,284
Employee Benefits										
1-05-4005-000	Payroll Taxes	78,500	86,000	90,750	126,006	130,648	132,513	99,306	117,088	129,298
1-05-4010-000	Health Insurance	206,000	206,000	200,000	319,084	357,431	359,376	234,683	309,975	354,166
1-05-4015-000	PERS	142,000	161,500	203,000	292,061	274,670	308,076	196,465	251,129	285,322
	Subtotal (Benefits)	426,500	453,500	493,750	737,151	762,750	799,965			
	Personnel Expenses	1,577,250	1,585,000	1,652,000	2,330,077	2,479,779	2,531,453			
<b>OPERATING EXPENSES:</b>										
1-05-4050-000	Staff Travel	-	-	-	8,563	9,618	7,329	8,163	6,935	9,336
1-05-4060-000	Staff Conferences & Seminars	-	-	-	3,472	6,177	10,530	7,377	6,555	9,521
1-05-4120-100	Training - Lab Equipment	-	-	-	6,867	-	1,962	392	785	1,308
1-05-4120-200	Training - SCADA Network Equipment	-	-	-	5,401	3,729	-	746	746	1,243
1-05-4155-000	Contracted Services	-	-	-	-	127,564	57,871	52,550	67,973	82,769
1-05-4155-505	Contracted Services - Landscape Services	2,000	1,620	2,000	1,620	-	-	-	-	-
1-05-4155-510	Contracted Services - Alarm Services	1,000	900	1,000	900	-	-	-	-	-
1-05-4155-515	Contracted Services - Janatorial Services	-	-	-	5,989	-	-	-	-	-
1-05-4155-520	Contracted Services - Pest Control Services	-	-	-	400	-	-	-	-	-
1-05-4155-525	Contracted Services - Wind Turbine Services	25,000	40,000	30,000	10,769	3,507	-	351	701	1,169
1-05-4155-530	Contracted Services - CMMS Software	10,000	2,000	10,000	10,025	-	-	-	-	-
1-05-4155-535	Contracted Services - SCADA Software	-	-	-	11,509	-	-	-	-	-
1-05-4155-540	Contracted Services - Lab Software	1,500	-	1,500	1,470	-	-	-	-	-
1-05-4155-545	Contracted Services - Lab Equipment Services	20,000	20,000	6,000	2,970	-	-	-	-	-
1-05-4155-550	Contracted Services - Water Quality Svcs (SolarBee)	32,000	27,200	25,000	24,883	-	-	-	-	-
1-05-4155-555	Contracted Services - SCADA Hardware	-	-	-	3,574	-	-	-	-	-
1-05-4155-560	Contracted Services - Seismic Valve Controllers	-	-	-	5,685	-	-	-	-	-
1-05-4155-599	Contracted Services - Miscellaneous	2,000	-	2,000	-	-	-	-	-	-
1-05-4175-000	Permits	40,000	28,000	40,000	28,733	36,598	39,536	40,205	47,932	35,655
1-05-4215-100	Natural Gas - Wells & Boosters	-	-	-	309,877	152,638	100,834	283,989	126,746	114,620
1-05-4215-200	Natural Gas - Water Treatment Plant	3,000	1,500	3,000	1,616	2,571	914	2,185	1,927	1,996
1-05-4220-100	Electricity - Wells & Boosters	-	-	-	1,682,458	1,455,798	1,113,121	1,304,419	1,244,754	1,245,868
1-05-4220-200	Electricity - Water Treatment Plant	125,000	100,000	125,000	147,472	112,683	131,036	115,044	157,543	142,097
1-05-4230-110	Maint. & Rep. Office - Equipment	500	-	500	463	395	-	631	272	243
1-05-4235-110	Maint. & Rep. Operations - Equipment	11,500	10,000	11,500	17,730	10,787	12,475	14,850	8,744	9,620
1-05-4235-410	Maint. & Rep. Operations - Shop Bldgs	6,000	2,250	6,000	10,301	15,254	2,674	10,462	5,667	6,174
1-05-4235-415	Maint. & Rep. Operations - Facilities	45,000	38,000	45,000	84,532	49,150	43,234	39,822	36,751	44,733
1-05-4235-445	Maint. & Rep. Operations - Telemetry	-	-	-	663	4,807	4,962	3,718	4,953	8,086
1-05-4235-450	Maint. & Rep. Operations - Hypo Generators	18,000	-	18,000	48,265	22,296	4,013	9,578	7,807	9,218
1-05-4235-500	Maint. & Repair - Wind Turbine	10,000	9,500	6,000	6,183	-	-	711	-	-
1-05-4236-000	Palmdale Lake Management	-	22,000	25,000	10,575	10,114	14,742	24,128	15,825	13,167

**PALMDALE WATER DISTRICT  
2016 BUDGET**

**Operations**

		PROPOSED	PROJECTED	BUDGET	ACTUAL	ACTUAL	ACTUAL	10-Yr. Average	5-Yr. Average	3-Yr. Average
		2016	2015	2015	2014	2013	2012	2004 - 2013	2009 - 2013	2011 - 2013
1-05-4250-000	General Material & Supplies	-	-	-	-	-	-	4,854	233	389
1-05-4270-300	Telecommunication - Other	-	-	-	3,087	2,784	2,557	2,507	2,737	2,781
1-05-4300-300	Testing - Edison Testing	-	-	-	9,770	5,385	11,700	6,732	7,861	7,490
1-05-5011-000	Emergency Repair & Recovery	-	-	-	-	-	-	1,785	2,498	4,164
3-05-4300-100	Filter Media Testing/Inspection	30,000	-	-	-	-	-	1,098	2,195	3,658
1-05-4320-000	EPA / Regulatory Compliance	-	-	-	-	-	-	-	-	-
1-05-6000-000	Waste Disposal	20,000	4,000	14,000	24,600	23,904	3,161	26,660	13,829	21,141
1-05-6200-000	Uniforms	12,000	14,100	12,000	14,763	12,355	9,973	9,843	9,790	10,063
1-05-6300-100	Supplies - General	15,000	9,000	15,000	24,817	21,774	17,897	12,311	14,661	16,569
1-05-6300-200	Supplies - Hypo Generators	-	-	-	6,535	3,750	5,785	9,471	6,567	5,042
1-05-6300-300	Supplies - Electrical	-	-	-	405	2,414	4,145	2,731	2,909	2,954
1-05-6300-400	Supplies - Telemetry	-	-	-	2,055	7,819	7,577	10,685	4,306	3,823
1-05-6300-600	Supplies - Lab	40,000	35,000	35,000	35,387	35,310	34,075	29,664	32,076	33,558
1-05-6300-700	Outside Lab Work	92,000	67,000	64,000	44,565	103,006	46,580	69,330	72,412	73,768
1-05-6400-000	Tools	6,500	6,500	6,500	6,827	5,807	4,190	4,589	4,733	5,558
1-05-6500-000	Chemicals	400,000	275,000	463,000	384,205	502,609	513,587	474,755	446,731	475,093
1-05-7000-100	Leases -Equipment	3,000	1,000	3,000	1,729	460	297	11,082	609	606
1-05-8100-200	Computer Software - Software and Upgrades	-	-	-	-	-	-	1,510	3,019	-
	Total Operating Expense	971,000	714,570	970,000	3,011,712	2,751,063	2,206,755	2,598,923	2,369,786	2,403,480
1-05-4900-000	Budget Inclusion Expenses	-	-	-	-	-	-			
	Total Departmental Expenses	2,548,250	2,299,570	2,622,000	5,341,789	5,230,842	4,738,208			



**PALMDALE WATER DISTRICT  
2016 BUDGET**

**Finance**

		PROPOSED	PROJECTED	BUDGET	ACTUAL	ACTUAL	ACTUAL	10-Yr. Average	5-Yr. Average	3-Yr. Average
		2016	2015	2015	2014	2013	2012	2004 - 2013	2009 - 2013	2011 - 2013
1-06-4000-000	Salaries	673,750	801,000	819,000	1,540,946	1,524,644	1,533,269	1,348,035	1,571,626	1,522,212
1-06-4000-100	Salaries - Departmental Overtime	5,500	4,750	5,500	18,203	32,826	18,656	9,464	18,928	27,476
	Subtotal (Salaries)	679,250	805,750	824,500	1,559,149	1,557,470	1,551,925	1,357,499	1,590,554	1,549,688
Employee Benefits										
1-06-4005-000	Payroll Taxes	51,500	61,500	64,500	120,148	119,116	117,568	104,129	120,382	118,889
1-06-4010-000	Health Insurance	83,000	136,000	143,000	334,581	344,111	369,836	279,547	347,654	359,990
1-06-4015-000	PERS	94,500	138,000	165,000	306,168	272,569	289,841	214,808	268,978	275,611
	Subtotal (Benefits)	229,000	335,500	372,500	760,897	735,796	777,245			
	Personnel Expenses	908,250	1,141,250	1,197,000	2,320,046	2,293,266	2,329,170			
<b>OPERATING EXPENSES:</b>										
1-06-4050-000	Staff Travel	-	-	-	269	412	-	4,000	365	195
1-06-4060-000	Staff Conferences & Seminars	-	-	-	562	920	928	3,096	581	768
1-06-4155-000	Contracted Services	-	-	-	-	-	-	5,205	7,068	-
1-06-4155-100	Contracted Services - Infosend	225,000	198,000	205,000	200,535	185,652	215,422	205,232	213,208	205,504
1-06-4155-200	Contracted Services - Infosend Drought Related	-	4,000	-	3,224	-	-	-	-	-
1-06-4155-300	Contracted Services - Vendors	-	-	-	-	9,088	12,577	4,490	8,979	14,965
1-06-4155-605	Contracted Services - Assessor Data (Realquest)	-	1,650	1,750	9,900	-	-	-	-	-
1-06-4155-610	Contracted Services - Credit Reporting Services	-	290	300	3,979	262	-	26	52	87
1-06-4155-615	Contracted Services - AMR Services (Itron)	-	-	-	6,298	-	-	-	-	-
1-06-4155-620	Contracted Services - Letter Extractor (OPEX)	2,500	2,500	2,500	2,590	-	-	-	-	-
1-06-4155-625	Contracted Services - GASB Actuarial Reports	3,500	3,150	3,250	-	-	-	-	-	-
1-06-4165-000	Memberships/Subscriptions	500	220	500	220	-	220	174	225	165
1-06-4210-000	Office Furniture	-	-	-	-	-	-	704	-	-
1-06-4215-200	Natural Gas - Office Building	-	-	-	-	-	-	503	-	-
1-06-4220-200	Electricity - Office Building	-	-	-	-	-	-	6,469	-	-
1-06-4230-100	Maintenance & Repair - Office Building	-	-	-	-	-	-	13,995	-	-
1-06-4230-110	Maintenance & Repair - Office Equipment	500	-	500	-	-	117	3,820	3,580	108
1-06-4235-440	Maint. & Rep. Operations - Large Meters	-	2,130	2,130	45,117	7,520	13,802	11,700	15,345	9,990
1-06-4235-470	Maint. & Rep. Operations - Meter Exchanges	-	138,045	138,050	392,128	351,146	210,001	73,516	147,031	245,052
1-06-4250-000	General Material & Supplies	3,000	3,000	4,500	5,111	8,056	2,810	4,347	5,654	5,620
1-06-4260-000	Business Forms	7,500	7,500	6,500	8,675	10,394	7,851	11,211	11,606	8,469
1-06-4270-100	Telecommunication - Office	12,000	18,500	12,000	13,814	10,863	13,995	24,001	21,645	17,667
1-06-4270-200	Telecommunication - Cellular Stipend	18,500	18,075	17,000	15,570	14,465	15,170	14,504	17,293	15,160
1-06-4270-300	Telecommunication - Cellular (District On-Call)	-	-	-	-	213	1,564	1,947	902	1,401
1-06-4300-100	Testing - Meter Testing	-	-	-	-	-	-	34	67	-
1-06-4300-200	Testing - Large Meter Testing	-	4,045	4,045	18,122	13,140	14,335	10,634	15,697	14,350
1-06-6300-000	Supplies	-	-	-	-	-	-	12,590	-	-
1-06-7000-100	Leases - Equipment	3,000	3,100	3,000	2,600	2,501	2,389	1,794	2,189	2,640
1-06-8000-000	Computer Equipment	-	-	-	-	-	-	1,734	-	-
	Total Operating Expense	276,000	404,205	401,025	728,713	614,632	511,180	415,724	471,488	542,142
1-06-4900-000	Budget Inclusion Expense	-	-	-	-	-	-			
	Total Departmental Expenses	1,184,250	1,545,455	1,598,025	3,048,759	2,907,898	2,840,351			

**PALMDALE WATER DISTRICT  
2016 BUDGET**

**Water Conservation**

		PROPOSED	PROJECTED	BUDGET	ACTUAL	ACTUAL	ACTUAL	10-Yr. Average	5-Yr. Average	3-Yr. Average
		2016	2015	2015	2014	2013	2012	2004 - 2013	2009 - 2013	2011 - 2013
1-07-4000-000	Salaries	195,500	177,000	175,000	113,405	159,129	152,210	90,650	151,554	153,711
1-07-4000-100	Salaries - Departmental Overtime	2,000	1,250	1,000	2,792	1,104	1,000	399	798	1,015
	Subtotal (Salaries)	197,500	178,250	176,000	116,197	160,233	153,210	91,049	152,352	154,726
Employee Benefits										
1-07-4005-000	Payroll Taxes	15,000	13,750	13,500	9,373	12,244	11,710	6,917	11,559	11,817
1-07-4010-000	Health Insurance	38,000	37,250	38,000	22,807	27,415	20,340	10,393	17,845	21,022
1-07-4015-000	PERS	18,000	16,250	20,000	16,332	28,866	29,602	14,914	26,357	28,312
	Subtotal (Benefits)	71,000	67,250	71,500	48,512	68,524	61,652			
	Personnel Expenses	268,500	245,500	247,500	164,709	228,757	214,862			
OPERATING EXPENSES:										
1-07-4050-000	Staff Travel	-	-	-	1,224	571	116	561	307	229
1-07-4060-000	Staff Conferences & Seminars	-	-	-	695	1,338	399	481	431	591
1-07-4190-300	Public Relations - Landscape Workshop/Training	1,000	250	1,000	71	243	442	259	459	553
1-07-4190-400	Public Relations - Contests	1,000	1,000	1,000	-	709	-	340	153	255
1-07-4190-500	Public Relations - Education Programs	2,500	-	2,500	413	906	3,995	1,758	1,527	1,839
1-07-4190-700	Public Relations - General Media (Public Outreach)	25,000	40,000	25,000	4,418	1,535	875	5,005	3,191	803
1-07-4190-900	Public Relations - Other	2,000	8,000	2,000	787	180	3,116	330	659	1,099
1-07-6300-100	Supplies - Misc.	5,000	4,000	5,000	7,710	3,472	-	1,967	1,982	1,780
	Water Awareness	-	-	-	-	-	-	56,079	-	-
	Total Operating Expense	36,500	53,250	36,500	15,318	8,953	8,942	66,777.53	8,708.65	7,149.29
1-07-4900-000	Budget Inclusion Expense	-	-	-	-	-	-	25,250	8,671	-
	Total Departmental Expenses	305,000	298,750	284,000	180,027	237,710	223,804			

**PALMDALE WATER DISTRICT  
2016 BUDGET**

**Human Resources**

		PROPOSED	PROJECTED	BUDGET	ACTUAL	ACTUAL	ACTUAL	10-Yr. Average	5-Yr. Average	3-Yr. Average
		2016	2015	2015	2014	2013	2012	2004 - 2013	2009 - 2013	2011 - 2013
1-08-4000-000	Salaries	112,500	110,000	101,000	95,372	90,676	105,474	43,265	86,530	107,060
1-08-4000-200	Salaries - Intern Program	80,000	48,300	55,750	9,249	-	-	-	-	-
	Subtotal (Salaries)	192,500	158,300	156,750	104,621	90,676	105,474	43,265	86,530	107,060
Employee Benefits										
1-08-4005-000	Payroll Taxes	17,750	12,225	7,750	8,333	6,677	8,432	3,098	6,196	7,600
1-08-4010-000	Health Insurance	18,250	17,750	18,000	16,993	-	14,396	6,310	9,679	11,580
1-08-4015-000	Pers	7,500	7,000	6,500	6,170	434	18,557	5,920	11,840	13,968
	Subtotal (Benefits)	43,500	36,975	32,250	31,496	7,110	41,384			
	Personnel Expenses	236,000	195,275	189,000	136,117	97,787	146,858			
<b>OPERATING EXPENSES:</b>										
1-08-4050-000	Staff Travel	27,500	26,000	25,250	1,721	60	231	321	641	539
1-08-4060-000	Staff Conferences & Seminars	25,000	22,000	20,500	749	-	250	297	595	531
1-08-4070-000	Employee Expense	45,000	60,000	40,000	40,673	-	-	-	-	-
1-08-4090-000	Temporary Staffing	-	-	-	-	59,256	-	16,104	14,172	20,407
1-08-4095-000	Employee Recruitment	3,000	2,500	3,000	18,848	3,611	515	4,063	2,784	1,742
1-08-4100-000	Employee Retention	20,000	20,000	20,000	17,757	1,457	2,014	946	1,672	2,204
1-08-4105-000	Employee Relations	3,500	3,500	3,500	2,683	3,506	2,974	3,149	2,819	3,222
1-08-4110-000	Consultants	1,000	-	1,000	-	-	-	10,796	3,220	-
1-08-4120-100	Training - Safety	35,000	45,000	35,000	13,031	25,710	17,118	33,763	21,138	21,441
1-08-4120-200	Training - Speciality	25,000	20,000	21,000	-	-	-	-	-	-
1-08-4121-000	Safety/HR Program	1,000	500	1,000	68	-	-	3,818	591	-
1-08-4165-000	Memberships/Subscriptions	1,600	500	1,600	1,093	599	1,946	383	767	1,230
1-08-4165-100	HR/Safety Publications	1,000	500	1,000	1,546	289	348	227	454	627
1-08-4210-000	Office Furniture	-	-	-	-	-	-	20	39	65
1-08-6300-500	Supplies - Safety	20,000	20,000	20,000	18,245	7,400	19,952	15,302	19,491	17,010
	Total Operating Expense	208,600	220,500	192,850	116,414	101,887	45,348	89,189	68,385	69,018
1-08-4900-000	Budget Inclusion Expense	-	-	-	-	-	-			
	Total Departmental Expenses	444,600	415,775	381,850	252,531	199,673	192,206			

**PALMDALE WATER DISTRICT  
2016 BUDGET**

**Information Technology**

		PROPOSED	PROJECTED	BUDGET	ACTUAL	ACTUAL	ACTUAL	10-Yr. Average	5-Yr. Average	3-Yr. Average
		2016	2015	2015	2014	2013	2012	2004 - 2013	2009 - 2013	2011 - 2013
1-09-4000-000	Salaries	228,500	224,650	221,500	221,954	220,881	218,357	63,592	127,184	211,973
1-09-4000-100	Salaries - Departmental Overtime	2,500	2,500	2,500	1,676	2,583	1,956	631	1,262	2,104
	Subtotal (Salaries)	231,000	227,150	224,000	223,630	223,463	220,313	64,223	128,446	214,076
Employee Benefits										
1-09-4005-000	Payroll Taxes	17,500	17,350	17,000	16,153	16,193	15,942	4,617	9,234	15,390
1-09-4010-000	Health Insurance	38,000	37,000	37,500	38,400	41,624	39,804	11,998	23,996	39,994
1-09-4015-000	PERS	32,250	37,000	44,000	44,888	38,495	39,467	11,139	22,278	37,131
	Subtotal (Benefits)	87,750	91,350	98,500	99,441	96,312	95,212			
	Personnel Expenses	318,750	318,500	322,500	323,071	319,775	315,525			
OPERATING EXPENSES:										
1-09-4050-000	Staff Travel	-	-	-	397	997	500	282	564	941
1-09-4060-000	Staff Conferences & Seminars	-	-	-	12,628	11,402	8,167	2,428	4,856	8,094
1-09-4120-100	Cogsdale Reimplementation and Templates	-	-	-	-	-	21,236	49,398	64,724	13,713
1-09-4155-200	Contracted Services - ACS	-	-	-	-	-	-	60,627	73,821	-
1-09-4155-300	Contracted Services - Computer Vendors	-	-	-	-	56,850	119,450	23,497	46,993	66,214
1-09-4155-905	Contracted Services - Offsite Services	5,000	5,000	5,000	4,920	-	-	-	-	-
1-09-4155-910	Contracted Services - Printer Services	3,000	3,000	1,500	3,957	-	-	-	-	-
1-09-4155-915	Contracted Services - Website Design Services	45,000	20,000	45,000	33,535	-	-	-	-	-
1-09-4155-920	Contracted Services - Telephony Services	3,500	-	3,500	1,200	-	-	-	-	-
1-09-4155-925	Contracted Services - Cloud Services	25,000	25,000	25,000	29,775	-	-	-	-	-
1-09-4155-930	Contracted Services - Network Services	45,000	42,500	45,000	43,509	-	-	-	-	-
1-09-4165-000	Memberships/Subscriptions	2,000	2,000	1,000	1,607	-	240	58	116	193
1-09-4230-120	Maintenance & Repair - Computer	-	-	-	-	-	-	1,668	-	-
1-09-4270-100	Telecommunication - Office Phone	16,500	16,500	16,500	16,897	16,235	-	1,623	3,247	5,412
1-09-4270-125	Telecommunication - Office Backbone	18,750	18,750	18,750	14,035	13,188	-	1,319	2,638	4,396
1-09-4270-150	Telecommunication - WTP Backbone	15,000	14,350	13,500	13,188	13,188	-	1,319	2,638	4,396
1-09-4270-300	Telecommunication - Cellular (Data & On-Call)	29,000	26,000	29,000	22,079	12,199	-	1,220	2,440	4,066
1-09-8000-100	Computer Equipment - Computers	20,000	20,000	20,000	21,104	18,251	53,420	23,863	29,308	38,657
1-09-8000-200	Computer Equipment - Mobility	10,000	7,000	6,600	579	-	87	677	1,354	2,256
1-09-8000-300	Computer Equipment - Monitors	2,000	-	2,000	-	493	1,918	368	736	1,017
1-09-8000-400	Computer Equipment - Printers	-	-	-	-	12	1,905	1,310	2,620	1,276
1-09-8000-500	Computer Equipment - Printer Supplies	3,000	1,000	3,000	1,883	1,324	5,503	3,291	6,582	6,719
1-09-8000-550	Computer Equipment - Telephony	2,500	500	2,500	-	-	-	-	-	-
1-09-8000-600	Computer Equipment - Other	40,000	3,000	20,000	38,264	8,684	35,723	11,010	19,255	17,891
1-09-8100-100	Computer Software - Maint. and Support	60,000	50,000	44,000	50,332	37,321	49,534	36,037	55,423	40,294
1-09-8100-140	Computer Software - Starnik Maint. & Support	130,000	110,000	110,000	166,375	94,800	39,500	26,860	26,860	44,767
1-09-8100-150	Computer Software - Dynamics GP Maint. & Support	60,000	49,000	36,000	40,580	27,795	43,124	27,937	44,699	60,119
1-09-8100-200	Computer Software - Software and Upgrades	20,000	10,000	14,000	322	6,441	25,339	20,139	19,051	13,755
	Total Operating Expense	555,250	423,600	461,850	517,167	319,178	405,648	294,929.81	407,925.59	334,175.98
	Total Departmental Expenses	874,000	742,100	784,350	840,237	638,953	721,173			



**PALMDALE WATER DISTRICT  
BOARD MEMORANDUM**

**DATE:** August 3, 2016 **August 9, 2016**  
**TO:** FINANCE COMMITTEE **Committee Meeting**  
**FROM:** Michael Williams, Finance Manager/CFO  
**VIA:** Mr. Dennis D. LaMoreaux, General Manager  
**RE:** ***AGENDA ITEM NO. 4.8 – CONSIDERATION AND POSSIBLE ACTION  
ON PROFESSIONAL SERVICES AGREEMENT WITH NHA ADVISORS  
TO PROVIDE ANNUAL CONTINUING DISCLOSURE CONSULTING  
AND DISSEMINATION AGENT SERVICES***

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**Recommendation:**

Staff recommends approving professional services agreement with NHA Advisors for the annual preparation and dissemination of Continuing Disclosure Statements as required under the bond covenant for our Water Revenue Bonds, Series 2013A at an annual cost of \$1,500.00, a second bond issue at \$1,000.00, and subsequent bond issues at \$750.00.

**Background:**

The initial proposal to prepare the continuing disclosure statement and dissemination was accepted by the Finance Committee at the July 12, 2016 meeting. At that time the request was made to bring back a multiyear agreement to provide the service. The term of the contract is through December 31, 2020, or completion of scope of work. The agreement also has provisions for extensions.

**Strategic Plan Initiative:**

This work is part of Initiative No. 4, Financial Health and Stability.

**Budget:**

This will be under Budget Item number 1-02-4150-000, accounting services.

**Supporting Documents:**

- NHA Advisors professional services agreement
- Sample Continuing Disclosure Document

August 2, 2016

Dennis LaMoreaux  
General Manager  
Palmdale Water District  
2029 East Avenue Q  
Palmdale, CA 93550

RE: Palmdale Water District – Continuing Disclosure Services

This letter specifies the terms of the engagement between NHA Advisors, LLC, located at 4040 Civic Center Drive, Suite 200, San Rafael, CA 94903 and the Palmdale Water District, 2029 East Avenue Q Palmdale, CA 93550.

This engagement between the Palmdale Water District (the “District”) and NHA Advisors, LLC shall become effective as of the date of its acceptance as provided below.

**Scope of Municipal Advisory Activities to be Performed:**

- Continuing Disclosure Consulting Services – Exhibit A

**Independent Registered Municipal Advisor (“IRMA”)**

If acting in the capacity of an Independent Registered Municipal Advisor (“IRMA”) with regard to the IRMA exemption of the SEC Rule, NHA Advisors, LLC will review all third party recommendations submitted to NHA Advisors, LLC in writing by the District.

**Term of Engagement Agreement**

The commencement date of the agreement is July 1, 2016 and the end date is December 31, 2020 or at time of scope completion. Any extensions must be mutually agreed upon by all parties in writing.

**Termination and Modification**

**Termination.** District may cancel this Agreement at any time and without cause upon written notification to NHA Advisors, LLC.

NHA Advisors, LLC may cancel this Agreement upon 45 days’ written notice to District and shall include in such notice the reasons for cancellation.

In the event of termination, NHA Advisors, LLC shall be entitled to compensation for services performed to the effective date of termination; District, however, may condition payment of such compensation upon NHA Advisors, LLC delivering to District any or all documents, photographs, computer software, video and audio tapes, and other materials provided to NHA Advisors, LLC or prepared by or for NHA Advisors, LLC or the District in connection with this Agreement.

**Extension.** District may, in its sole and exclusive discretion, extend the end date of this Agreement beyond that provided herein. Any such extension shall require a written amendment to this Agreement, as provided for herein. NHA Advisors, LLC understands and agrees that, if District grants such an extension, District shall have no obligation to provide NHA Advisors, LLC with compensation beyond the maximum amount provided for in this Agreement. Similarly, unless authorized by the Contract Administrator, District shall have no obligation to reimburse NHA Advisors, LLC for any otherwise reimbursable expenses incurred during the extension period.

**Amendments.** The parties may amend this Agreement only by a writing signed by all the parties.

**Assignment and Subcontracting.** District and NHA Advisors, LLC recognize and agree that this Agreement contemplates personal performance by NHA Advisors, LLC and is based upon a determination of NHA Advisors, LLC's unique personal competence, experience, and specialized personal knowledge. Moreover, a substantial inducement to District for entering into this Agreement was and is the professional reputation and competence of NHA Advisors, LLC. NHA Advisors, LLC may not assign this Agreement or any interest therein without the prior written approval of the Contract Administrator. NHA Advisors, LLC shall not subcontract any portion of the performance contemplated and provided for herein, other than to the subcontractors noted in the proposal, without prior written approval of the Contract Administrator.

**Survival.** All obligations arising prior to the termination of this Agreement and all provisions of this Agreement allocating liability between District and NHA Advisors, LLC shall survive the termination of this Agreement.

**Options upon Breach by NHA Advisors, LLC.** If NHA Advisors, LLC materially breaches any of the terms of this Agreement, District's remedies shall include, but not be limited to, the following:

- 1) Immediately terminate the Agreement;
- 2) Retain the plans, specifications, drawings, reports, design documents, and any other work product prepared by NHA Advisors, LLC pursuant to this Agreement;

- 3) Retain a different consultant to complete the work described in Exhibit A not finished by NHA Advisors, LLC; or
- 4) Charge NHA Advisors, LLC the difference between the costs to complete the work described in Exhibit A that is unfinished at the time of breach and the amount that District would have paid NHA Advisors, LLC pursuant to the following section (Compensation and Out-of-Pocket Expenses) if NHA Advisors, LLC had completed the work.

**Compensation and Out-of-Pocket Expenses**

For work described under Exhibit A, NHA Advisors, LLC will be compensated upon project completion (documents posted to EMMA). The compensation will be \$1,500 for the first bond issue, \$1,000 for a second bond issue, and \$750 for each subsequent bond issue.

*Out-of-Pocket Expenses* – In the event that a third-party contractor is required to obtain information required by the Continuing Disclosure Certificate, NHA Advisors, LLC will pass through the expense to the District (with no additional mark-up).

**Fiduciary Duty**

NHA Advisors, LLC is registered as a Municipal Advisor with the SEC and Municipal Securities Rulemaking Board (“MSRB”). As such, NHA Advisors, LLC has a Fiduciary duty to District and must provide both a Duty of Care and a Duty of Loyalty that entails the following.

**Duty of Care:**

- a) exercise due care in performing its municipal advisory activities;
- b) possess the degree of knowledge and expertise needed to provide District with informed advice;
- c) make a reasonable inquiry as to the facts that are relevant to District’s determination as to whether to proceed with a course of action or that form the basis for any advice provided to District; and
- d) undertake a reasonable investigation to determine that NHA Advisors, LLC is not forming any recommendation on materially inaccurate or incomplete information; NHA Advisors, LLC must have a reasonable basis for:
  - i. any advice provided to or on behalf of District;
  - ii. any representations made in a certificate that it signs that will be reasonably foreseeably relied upon by District, any other party involved in the municipal securities transaction or municipal financial product, or investors in District securities; and
  - iii. any information provided to District or other parties involved in the municipal securities transaction in connection with the preparation of an official statement.



**Duty of Loyalty:**

NHA Advisors, LLC must deal honestly and with the utmost good faith with District and act in District's best interests without regard to the financial or other interests of NHA Advisors, LLC. NHA Advisors, LLC will eliminate or provide full and fair disclosure (included herein) to Issuer about each material conflict of interest (as applicable). NHA Advisors, LLC will not engage in municipal advisory activities with District as a municipal entity, if it cannot manage or mitigate its conflicts in a manner that will permit it to act in District's best interests.

**Conflicts of Interest and Other Matters Requiring Disclosures**

- As of the date of the Agreement, there are no actual or potential conflicts of interest that NHA Advisors, LLC is aware of that might impair its ability to render unbiased and competent advice or to fulfill its fiduciary duty. If NHA Advisors, LLC becomes aware of any potential conflict of interest that arise after this disclosure, NHA Advisors, LLC will disclose the detailed information in writing to District in a timely manner.
- The fee paid to NHA Advisors, LLC increases the cost of investment to District. The increased cost occurs from compensating NHA Advisors, LLC for municipal advisory services provided.
- NHA Advisors, LLC does not act as principal in any of the transaction(s) related to this Agreement.
- During the term of the municipal advisory relationship, this agreement will be promptly amended or supplemented to reflect any material changes in or additions to the terms or information within this agreement and the revised writing will be promptly delivered to District.
- NHA Advisors, LLC does not have any affiliate that provides any advice, service, or product to or on behalf of the client that is directly or indirectly related to the municipal advisory activities to be performed by NHA Advisors, LLC;
- NHA Advisors, LLC has not made any payments directly or indirectly to obtain or retain the District's municipal advisory business;
- NHA Advisors, LLC has not received any payments from third parties to enlist NHA Advisors, LLC's recommendation to District of its services, any municipal securities transaction or any municipal finance product;
- NHA Advisors, LLC has not engaged in any fee-splitting arrangements involving NHA Advisors, LLC and any provider of investments or services to District;
- NHA Advisors, LLC does not have any conflicts of interest from compensation for municipal advisory activities to be performed, that is contingent on the size or closing of any transactions as to which NHA Advisors, LLC is providing advice;
- NHA Advisors, LLC does not have any other engagements or relationships that might impair NHA Advisors, LLC ability either to render unbiased and competent advice to or on behalf of District or to fulfill its fiduciary duty to the District, as applicable; and
- NHA Advisors, LLC does not have any legal or disciplinary event that is material to the District's evaluation of the municipal advisory or the integrity of its management or advisory personnel.

**Recommendations**

If NHA Advisors, LLC makes a recommendation of a municipal securities transaction or municipal financial product or if the review of a recommendation of another party is requested in writing by District and is within the scope of the engagement, NHA Advisors, LLC will determine, based on the information obtained through reasonable diligence of NHA Advisors, LLC whether a municipal securities transaction or municipal financial product is suitable for District. In addition, NHA Advisors, LLC will inform District of:

- the evaluation of the material risks, potential benefits, structure, and other characteristics of the recommendation;
- the basis upon which NHA Advisors, LLC reasonably believes that the recommended municipal securities transaction or municipal financial product is, or is not, suitable for District; and
- whether NHA Advisors, LLC has investigated or considered other reasonably feasible alternatives to the recommendation that might also or alternatively serve the District's objectives.

If District elects a course of action that is independent of or contrary to the advice provided by NHA, NHA Advisors, LLC is not required on that basis to disengage from District.

**Facilities and Equipment**

Except as set forth herein, NHA Advisors, LLC shall, at its sole cost and expense, provide all facilities and equipment that may be necessary to perform the services required by this Agreement. District shall make available to NHA Advisors, LLC only the facilities and equipment listed in this section, and only under the terms and conditions set forth herein.

District shall furnish physical facilities such as desks, filing cabinets, and conference space, as may be reasonably necessary for NHA Advisors, LLC's use while consulting with District employees and reviewing records and the information in possession of the District. The location, quantity, and time of furnishing those facilities shall be in the sole discretion of District. In no event shall District be obligated to furnish any facility that may involve incurring any direct expense, including but not limited to computer, long-distance telephone or other communication charges, vehicles, and reproduction facilities.

**Insurance Requirements**

Before beginning any work under this Agreement, NHA Advisors, LLC, at its own cost and expense, unless otherwise specified below, shall procure the types and amounts of insurance listed below against claims for injuries to persons or damages to property that may arise from or in connection with the performance of the work hereunder by the NHA Advisors, LLC and its agents, representatives, employees, and subcontractors. Consistent with the following provisions, NHA Advisors, LLC shall provide proof satisfactory to District of such insurance that meets the requirements of this section and under forms of insurance satisfactory in all respects, and that such insurance is in effect prior to beginning work to the District. NHA Advisors, LLC shall maintain the insurance policies required by this section throughout the term of this Agreement. The cost of such insurance shall be included in the NHA Advisors, LLC's bid. NHA

Advisors, LLC shall not allow any subcontractor to commence work on any subcontract until NHA Advisors, LLC has obtained all insurance required herein for the subcontractor(s) and provided evidence that such insurance is in effect to District. Verification of the required insurance shall be submitted and made part of this Agreement prior to execution. NHA Advisors, LLC shall maintain all required insurance listed herein for the duration of this Agreement.

**Workers' Compensation.** NHA Advisors, LLC shall, at its sole cost and expense, maintain Statutory Workers' Compensation Insurance and Employer's Liability Insurance for any and all persons employed directly or indirectly by NHA Advisors, LLC. The Statutory Workers' Compensation Insurance and Employer's Liability Insurance shall be provided with limits of not less than \$1,000,000 per accident. In the alternative, NHA Advisors, LLC may rely on a self-insurance program to meet those requirements, but only if the program of self-insurance complies fully with the provisions of the California Labor Code. Determination of whether a self-insurance program meets the standards of the Labor Code shall be solely in the discretion of the Contract Administrator. The insurer, if insurance is provided, or the NHA Advisors, LLC, if a program of self-insurance is provided, shall waive all rights of subrogation against the District and its officers, officials, employees, and volunteers for loss arising from work performed under this Agreement.

NHA Advisors, LLC does not currently employ any persons qualifying for the workers' compensation requirement. In the event, at a future time, NHA Advisors, LLC employs persons subject to such insurance, NHA Advisors, LLC will be required to acquire such policy.

**Commercial General and Automobile Liability Insurance.**

**General requirements.** NHA Advisors, LLC, at its own cost and expense, shall maintain commercial general and automobile liability insurance for the term of this Agreement in an amount not less than \$1,000,000 per occurrence, combined single limit coverage for risks associated with the work contemplated by this Agreement. If Commercial General Liability Insurance or an Automobile Liability form or other form with a general aggregate limit is used, either the general aggregate limit shall apply separately to the work to be performed under this Agreement or the general aggregate limit shall be at least twice the required occurrence limit. Such coverage shall include but shall not be limited to, protection against claims arising from bodily and personal injury, including death resulting therefrom, and damage to property resulting from activities contemplated under this Agreement, including the use of owned and non-owned automobiles.

**Minimum scope of coverage.** Commercial general coverage shall be at least as broad as Insurance Services Office Commercial General Liability occurrence form

CG 0001 (most recent edition) covering comprehensive General Liability on an “occurrence” basis. Automobile coverage shall be at least as broad as Insurance Services Office Automobile Liability form CA 0001 (most recent edition), Code 1 (any auto). No endorsement shall be attached limiting the coverage.

**Additional requirements.** Each of the following shall be included in the insurance coverage or added as a certified endorsement to the policy:

- The Insurance shall cover on an occurrence or an accident basis, and not on a claims-made basis.
- District, its officers, officials, employees, and volunteers are to be covered as additional insured as respects: liability arising out of work or operations performed by or on behalf of the NHA Advisors, LLC; or automobiles owned, leased, hired, or borrowed by the NHA Advisors, LLC
- For any claims related to this Agreement or the work hereunder, the NHA Advisors, LLC’s insurance covered shall be primary insurance as respects the District, its officers, officials, employees, and volunteers. Any insurance or self-insurance maintained by the District, its officers, officials, employees, or volunteers shall be excess of the NHA Advisors, LLC’s insurance and shall not contribute with it.
- Each insurance policy required by this clause shall be endorsed to state that coverage shall not be canceled by either party, except after 30 days’ prior written notice has been provided to the District.

#### **Professional Liability Insurance.**

**General requirements.** NHA Advisors, LLC, at its own cost and expense, shall maintain for the period covered by this Agreement professional liability insurance for licensed professionals performing work pursuant to this Agreement in an amount not less than \$1,000,000 covering the licensed professionals’ errors and omissions. Any deductible or self-insured retention shall not exceed \$250,000 per claim.

**Claims-made limitations.** The following provisions shall apply if the professional liability coverage is written on a claims-made form:

- The retroactive date of the policy must be shown and must be before the date of the Agreement.

- Insurance must be maintained and evidence of insurance must be provided for at least five years after completion of the Agreement or the work, so long as commercially available at reasonable rates.
- If coverage is canceled or not renewed and it is not replaced with another claims-made policy form with a retroactive date that precedes the date of this Agreement, NHA Advisors, LLC must purchase an extended period coverage for a minimum of five years after completion of work under this Agreement.
- A copy of the claim reporting requirements must be submitted to the District for review prior to the commencement of any work under this Agreement.

### **All Policies Requirements.**

**Acceptability of insurers.** All insurance required by this section is to be placed with insurers with a Bests' rating of no less than A:VII.

**Verification of coverage.** Prior to beginning any work under this Agreement, NHA Advisors, LLC shall furnish District with complete copies of all policies delivered to NHA Advisors, LLC by the insurer, including complete copies of all endorsements attached to those policies. All copies of policies and endorsements shall show the signature of a person authorized by that insurer to bind coverage on its behalf. If the District does not receive the required insurance documents prior to the NHA Advisors, LLC beginning work, it shall not waive the NHA Advisors, LLC's obligation to provide them. The District reserves the right to require complete copies of all required insurance policies at any time.

**Deductibles and Self-Insured Retentions.** NHA Advisors, LLC shall disclose to and obtain the written approval of District for the self-insured retentions and deductibles before beginning any of the services or work called for by any term of this Agreement. At the option of the District, either: the insurer shall reduce or eliminate such deductibles or self-insured retentions as respects the District, its officers, employees, and volunteers; or the NHA Advisors, LLC shall provide a financial guarantee satisfactory to the District guaranteeing payment of losses and related investigations, claim administration and defense expenses.

**Wasting Policies.** No policy required by this section shall include a "wasting" policy limit (i.e. limit that is eroded by the cost of defense).

**Waiver of Subrogation.** NHA Advisors, LLC hereby agrees to waive subrogation which any insurer or contractor may require from vendor by virtue of the



payment of any loss. NHA Advisors, LLC agrees to obtain any endorsements that may be necessary to affect this waiver of subrogation.

The Workers' Compensation policy shall be endorsed with a waiver of subrogation in favor of the entity for all work performed by the consultant, its employees, agents, and subcontractors.

**Subcontractors.** NHA Advisors, LLC shall include all subcontractors as insureds under its policies or shall furnish separate certificates and endorsements for each subcontractor. All coverages for subcontractors shall be subject to all of the requirements stated herein.

**Remedies.** In addition to any other remedies District may have if NHA Advisors, LLC fails to provide or maintain any insurance policies or policy endorsements to the extent and within the time herein required, District may, at its sole option exercise any of the following remedies, which are alternatives to other remedies District may have and are not the exclusive remedy for NHA Advisors, LLC's breach:

- Obtain such insurance and deduct and retain the amount of the premiums for such insurance from any sums due under the Agreement;
- Order NHA Advisors, LLC to stop work under this Agreement or withhold any payment that becomes due to NHA Advisors, LLC hereunder, or both stop work and withhold any payment, until NHA Advisors, LLC demonstrates compliance with the requirements hereof; and/or
- Terminate this Agreement.

#### **Status of NHA Advisors, LLC**

**Independent Contractor.** At all times during the term of this Agreement, NHA Advisors, LLC shall be an independent contractor and shall not be an employee of District. District shall have the right to control NHA Advisors, LLC only insofar as the results of NHA Advisors, LLC's services rendered pursuant to this Agreement and assignment of personnel pursuant to Subparagraph 1.3; however, otherwise District shall not have the right to control the means by which NHA Advisors, LLC accomplishes services rendered pursuant to this Agreement. Notwithstanding any other District, state, or federal policy, rule, regulation, law, or ordinance to the contrary, NHA Advisors, LLC and any of its employees, agents, and subcontractors providing services under this Agreement shall not qualify for or become entitled to, and hereby agree to waive any and all claims to, any compensation, benefit, or any incident of employment by District, including but not limited to eligibility to enroll in the California Public Employees Retirement System (PERS) as an employee of District and entitlement to any contribution to be paid by District for employer contributions and/or employee contributions for PERS benefits.

**NHA Advisors, LLC Not an Agent.** Except as District may specify in writing, NHA Advisors, LLC shall have no authority, express or implied, to act on behalf of District in

any capacity whatsoever as an agent. NHA Advisors, LLC shall have no authority, express or implied, pursuant to this Agreement to bind District to any obligation whatsoever.

## Legal Requirements

**Governing Law.** The laws of the State of California shall govern this Agreement.

**Compliance with Applicable Laws.** NHA Advisors, LLC and any subcontractors shall comply with all laws applicable to the performance of the work hereunder.

**Other Governmental Regulations.** To the extent that this Agreement may be funded by fiscal assistance from another governmental entity, NHA Advisors, LLC and any subcontractors shall comply with all applicable rules and regulations to which District is bound by the terms of such fiscal assistance program.

**Licenses and Permits.** NHA Advisors, LLC represents and warrants to District that NHA Advisors, LLC and its employees, agents, and any subcontractors have all licenses, permits, qualifications, and approvals of whatsoever nature that are legally required to practice their respective professions. NHA Advisors, LLC represents and warrants to District that NHA Advisors, LLC and its employees, agents, any subcontractors shall, at their sole cost and expense, keep in effect at all times during the term of this Agreement any licenses, permits, and approvals that are legally required to practice their respective professions.

**Legal Events and Disciplinary History.** NHA Advisors, LLC does not have any legal events and disciplinary history on its Form MA and Form MA-I, which includes information about any criminal actions, regulatory actions, investigations, terminations, judgments, liens, civil judicial actions, customer complaints, arbitrations and civil litigation. District may electronically access NHA Advisors, LLC's most recent Form MA and each most recent Form MA-I filed with the Commission at the following website:

[www.sec.gov/edgar/searchedgar/companysearch.html](http://www.sec.gov/edgar/searchedgar/companysearch.html)

There have been no material changes to a legal or disciplinary event disclosure on any Form MA or Form MA-I filed with the SEC.

**Nondiscrimination and Equal Opportunity.** NHA Advisors, LLC shall not discriminate, on the basis of a person's race, religion, color, national origin, age, physical or mental handicap or disability, medical condition, marital status, sex, or sexual orientation, against any employee, applicant for employment, subcontractor, bidder for a subcontract, or participant in, recipient of, or applicant for any services or programs provided by NHA Advisors, LLC under this Agreement. NHA Advisors, LLC shall comply with all applicable federal, state, and local laws, policies, rules, and requirements related to equal opportunity and nondiscrimination in employment, contracting, and the provision of any services that are the subject of this Agreement, including but not

limited to the satisfaction of any positive obligations required of NHA Advisors, LLC thereby.

NHA Advisors, LLC shall include the provisions of this Subsection in any subcontract approved by the Contract Administrator or this Agreement.

### **Miscellaneous Provisions**

**Attorneys' Fees.** If a party to this Agreement brings any action, including an action for declaratory relief, to enforce or interpret the provision of this Agreement, the prevailing party shall be entitled to reasonable attorneys' fees in addition to any other relief to which that party may be entitled. The court may set such fees in the same action or in a separate action brought for that purpose.

**Venue.** In the event that either party brings any action against the other under this Agreement, the parties agree that trial of such action shall be vested exclusively in the state courts of California in the County of Los Angeles.

**Severability.** If a court of competent jurisdiction finds or rules that any provision of this Agreement is invalid, void, or unenforceable, the provisions of this Agreement not so adjudged shall remain in full force and effect. The invalidity in whole or in part of any provision of this Agreement shall not void or affect the validity of any other provision of this Agreement.

**No Implied Waiver of Breach.** The waiver of any breach of a specific provision of this Agreement does not constitute a waiver of any other breach of that term or any other term of this Agreement.

**Successors and Assigns.** The provisions of this Agreement shall inure to the benefit of and shall apply to and bind the successors and assigns of the parties.

**Use of Recycled Products.** NHA Advisors, LLC shall prepare and submit all reports, written studies and other printed material on recycled paper to the extent it is available at equal or less cost than virgin paper.

**Solicitation.** NHA Advisors, LLC agrees not to solicit business at any meeting, focus group, or interview related to this Agreement, either orally or through any written materials.

**Contract Administration.** This Agreement shall be administered by the District's Finance Manager or General Manager ("Contract Administrator"). All correspondence shall be directed to or through the Contract Administrator or his or her designee.

**Notices.** Any written notice to NHA Advisors, LLC shall be sent to:

Mark Northcross, Principal  
NHA Advisors, LLC  
4040 Civic Center Drive, Suite 200  
San Rafael, CA 94903

Any written notice to District shall be sent to:

Dennis LaMoreaux, General Manager  
Palmdale Water District  
2029 East Avenue Q  
Palmdale, CA 93550

**Counterparts.** This Agreement may be executed in multiple counterparts, each of which shall be an original and all of which together shall constitute one agreement.

**Record Retention**

Effective July 1, 2014, pursuant to the Securities and Exchange Commission (SEC) record retention regulations, NHA Advisors, LLC is required to maintain in writing, all communication and created documents between NHA Advisors, LLC and District for 5 years.

If there are any questions regarding the above, please do not hesitate to contact NHA Advisors, LLC. If the foregoing terms meet with your approval, please indicate your acceptance by executing both copies of this letter and returning one copy.

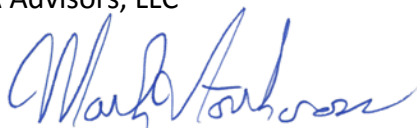
Sincerely,

Acknowledged:

NHA Advisors, LLC

Palmdale Water District

By:



Mark Northcross, Principal

By:

\_\_\_\_\_

Dennis LaMoreaux, General Manager

**EXHIBIT A****CONTINUING DISCLOSURE CONSULTING SERVICES  
SCOPE OF SERVICES**

Each bond issue has distinct disclosure requirements. The primary reporting requirements include the filing of:

- Audited financial statements
- Other financial information and operating data
- Other material information
- Notices of Significant Events

District must notify NHA Advisors, LLC immediately upon the occurrence of a Significant Event. Significant Events generally include:

- Principal and interest payment delinquencies;
- Non-payment related defaults;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers, or their failure to perform;
- Adverse tax opinions or events affecting the tax-exempt status of the security;
- Modifications to rights of security holders;
- Contingent or unscheduled bond calls;
- Defeasances;
- Release, substitution, or sale of property securing repayment of the securities; and
- Rating changes.

NHA Advisors, LLC will make its best efforts to monitor rating changes for both the issuer and bond insurer associated with each outstanding obligation, as well as the other Significant Events listed above. However, to best meet this obligation, open lines of communication between the District and NHA Advisors, LLC are vital.

Upon submittal of the aforementioned Annual Reports to the appropriate repositories and recipients, NHA Advisors, LLC will file a report with the District stating the date each Annual Report was filed.