MINUTES OF MEETING OF THE FINANCE COMMITTEE OF THE PALMDALE WATER DISTRICT, JULY 12, 2016:

A meeting of the Finance Committee of the Palmdale Water District was held Tuesday, July 12, 2016, at 2029 East Avenue Q, Palmdale, California, in the Board Room of the District office. Chair Henriquez called the meeting to order at 3:30 p.m.

1) Roll Call.

Attendance:	**Others Present:**
Finance Committee:	Dennis LaMoreaux, General Manager
Marco Henriquez, Chair	Matt Knudson, Assistant General Manager
Robert Alvarado, Committee Member	Mike Williams, Finance Manager
	Jennifer Emery, Human Resources Director
	Dawn Deans, Executive Assistant
	1 member of the public

2) Adoption of Agenda.

It was moved by Committee Member Alvarado, seconded by Chair Henriquez, and unanimously carried by all members of the Committee present at the meeting to adopt the agenda, as written.

3) Public Comments.

There were no public comments.

4) Action Items:

4.1) Consideration and Possible Action on Approval of Minutes of Meeting Held June 6, 2016.

It was moved by Committee Member Alvarado, seconded by Chair Henriquez, and unanimously carried by all members of the Committee present at the meeting to approve the minutes of the Finance Committee meeting held June 6, 2016, as written.

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

Finance Manager Williams reviewed the investment funds report as of May, 2016, including the increase in cash of approximately $1 million due to assessments and

redevelopment funds received and then provided an overview of the cash flow statement for May, including assessments, redevelopment funds, and Department of Water Resources' refunds received, followed by discussion of EPA grant funding received and the Butte payment.

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

Finance Manager Williams reviewed in detail the balance sheet, profit and loss statement, year-to-year comparisons, month-to-month comparisons, consumption comparisons, and revenue and expense analysis reports for the period ending May, 2016; stated that most departments are operating at or below the targeted expenditure percentage of 41%; and then reviewed department line items above the targeted expenditure percentage.

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

Assistant General Manager Knudson reviewed the purpose and status of the Committed Contracts and Payout Schedule, which includes approved 2016 engineering projects, projects contractually committed, budgeted but not yet committed projects listed in order of priority, and payments for projects funded from the Water Revenue Series 2013A Bonds followed by discussion of the location of the upcoming meter replacement project and the water main replacement process regarding water service outages.

4.5) 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)

Assistant General Manager Knudson stated that Engineering/Grant Manager Riley previously provided an overview of the financial model for the Palmdale Regional Groundwater Recharge and Recovery Project for grants and to prove to the state that the District has a plan and a process for paying back funds for low interest loans; that the financial model shows the water rate needed for the next three years to fund the

Palmdale Regional Groundwater Recharge and Recovery Project and Littlerock Sediment Removal Project and also shows the negative impact for not implementing enough of a rate increase; that the model indicates a water rate increase of just 4% or 4.25% is needed for the next three years, rather than the 5.5% approved in the Water Rate Plan, to meet the District's financial goals and will prevent large rate spikes in the 2020 - 2025 Water Rate Plan; and that, as stated in previous meetings, staff recommends a Resolution implementing a 4% or 4.25% water rate increase be approved for calendar years 2017, 2018, and 2019 as a long term planning strategy to enable the District to secure low interest loans, funding, and bonds to complete the Palmdale Regional Recharge & Recovery Project and the Littlerock Sediment Removal Project.

He then stated that a bullet list for proceeding with staff's recommendation, as requested by Committee Member Alvarado, will be prepared once staff completes a final analysis of the financial model.

Chair Henriquez then requested an item be placed on a future Committee agenda for "Discussion and possible action on hiring an outside consultant to determine additional cost reductions for the District" to ensure sufficient support for staff's recommendation followed by discussion of the previous organizational assessment, which involved cost efficiencies for both operational and personnel, the high cost of an additional consultant, the time frame for soliciting proposals, and spending $200,000 with an end result that the District is operating at the bare minimum.

The District's audit was then discussed, and General Manager LaMoreaux stated that copies of the State Auditor's audit will be presented for discussion at the next Committee meeting and cautioned that the District could spend a large amount of money on an outside consultant, and the results would still not satisfy some members of the community.

Committee Member Alvarado then clarified that he appointed Chair Henriquez to Chair the Finance Committee for his ability to review numbers and financial matters.

4.6) Consideration and Possible Action on Contract with NHA Advisors to Provide Annual Continuing Disclosure Consulting and Dissemination Agent Services. ($1,500.00/year – Budgeted – Finance Manager Williams)

Finance Manager Williams reviewed the requirement to prepare and disseminate continuing disclosure statements for the District's 2013A Water Revenue Bonds and the

proposal from NHA Advisors to perform this work, and after a further review by Mr. Mark Northcross, of NHA Advisors, the cost of the proposal, and of automatic renewal of the proposal through the life of the bonds, it was moved by Committee Member Alvarado, seconded by Chair Henriquez, and unanimously carried by all members of the Committee present at the meeting to approve a contract with NHA Advisors for 2016 and for staff to present a proposal from NHA Advisors at the next Committee meeting for providing annual Continuing Disclosure Consulting and Dissemination Agent Services through the life of the bonds.

4.7) Consideration and Possible Action to Refund Series 2013A and 2012 Bonds. (Finance Manager Williams)

Mr. Mark Northcross, NHA Advisors, provided an overview of the cost savings to the District from refinancing the Series 2013A and 2012 Bonds, maintaining the District's credit rating, existing debt, refinancing goals and benefits, private placement vs. public offerings, debt service coverage, and the potential schedule and next steps for refinancing, and after a brief discussion of the benefits and cost savings to the District from refinancing, the cost of refinancing, rates, and the refinancing process, it was moved by Committee Member Alvarado, seconded by Chair Henriquez, and unanimously carried by all members of the Committee present at the meeting that the Committee concurs with refinancing the Series 2013A and 2012 Bonds; that this process be presented to the full Board for information at the July 27, 2016 Regular Board Meeting; and that resolutions for the refinancing be presented to the full Board for consideration at the August 24, 2016 Board meeting.

4.8) Consideration and Possible Action on Approving Three-Year Audit Proposal From The Pun Group. ($18,000.00-2016/$18,500.00-2017/$19,000.00-2018 – Budgeted – Finance Manager Williams)

Finance Manager Williams reviewed the proposal received from The Pun Group for performing the District's annual audit for 2016, 2017, and 2018, and after a brief discussion of the audit process and cost, it was moved by Committee Member Alvarado, seconded by Chair Henriquez, and unanimously carried by all members of the Committee present at the meeting to concur with staff's recommendation to approve the three-year audit proposal from The Pun Group in the amount of $18,000.00 for 2016, $18,500.00 for 2017, and $19,000.00 for 2018 and that this item be presented to the full Board for consideration at the July 13, 2016 Regular Board meeting.

5) Information Items.

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

Finance Manager Williams reviewed the District's Debt Service Coverage, which is at 1.22 as of May 31, 2016.

5.2) District Operating Expenses – Five Year Review. (Finance Manager Williams)

Finance Manager Williams stated that this item is a result of discussions regarding long range planning, financial planning, the direction of the District, and areas that can be cut or reduced from the District's budget; that departments have consistently kept costs down at 2007 and 2008 levels; and then presented information to substantiate these levels including actual departmental operational costs excluding personnel costs for 2012, 2013, and 2014, 10 year, 5 year, and 3 year averages by department for expenses, the process for using this information to set the annual budget, and how costs have been maintained in each department.

He then advised that the Committee review this information in detail when considering hiring a consultant to provide this same information and inquired if the Committee would like any other historical or factual information showing that costs are being controlled.

Chair Henriquez then requested presentations from today's meeting be posted on the District's website.

5.3) Review of Age of District Pipelines and Anticipated Water Main and Meter Replacement Projects. (Committee Member Alvarado/Assistant General Manager Knudson)

General Manager LaMoreaux reviewed the upcoming pipeline projects to be performed by District staff after which Assistant General Manager Knudson stated that a map, estimated cost, and timing for these projects will be presented at the next Committee meeting.

5.4) Other.

Finance Manager Williams informed the Committee that 2016 revenue projects were based on 16,500 acre feet of water; that revenues are approximately $300,000 lower than anticipated; and that this reinforces that the Drought Surcharge Fee will need to stay in place.

He then informed the Board of the status of the District's new collection process for delinquent accounts and account shut-offs.

There were no other information items.

6) Board Members' Requests for Future Agenda Items.

It was stated that "Discussion and possible action on hiring an outside consultant to determine additional cost reductions for the District" and "Consideration and possible action on contract with NHA Advisors to provide annual continuing disclosure consulting and dissemination agent services through the life of the bonds" will be placed on the next agenda.

There were no further requests for future agenda items.

It was then determined that the next Finance Committee meeting will be held August 9, 2016 at 4:00 p.m.

7) Adjournment.

There being no further business to come before the Finance Committee, the meeting was adjourned at 5:25 p.m.

Chair