MINUTES OF MEETING OF THE FINANCE COMMITTEE OF THE PALMDALE WATER DISTRICT, NOVEMBER 7, 2016:

A meeting of the Finance Committee of the Palmdale Water District was held Monday, November 7, 2016, at 2029 East Avenue Q, Palmdale, California, in the Board Room of the District office. Chair Henriquez called the meeting to order at 4:20 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	Kathy Mac Laren, PWD Director
	Mike Williams, Finance Manager
	Mike McNutt, Public Affairs & Sustainability Dir.
	Bob Egan, Financial Advisor
	Dennis Hoffmeyer, Accounting Supervisor
	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 on Non-Agenda Items.

Chair Henriquez welcomed Director Mac Laren to the meeting.

There were no public comments on non-agenda items.

4) Action Items:

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

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

Financial Advisor Egan reviewed the investment funds report as of September, 2016, including the decrease of funds due to the bond principal and interest payments and then provided an overview of the cash flow statement, DWR refunds, Butte County payments, and anticipated assessments and year-end cash followed by discussion of CD maturity dates.

4.3) Discussion and Overview of Financial Statements, Revenue, and Expense and Departmental Budget Reports for September, 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 September, 2016 and stated that most departments are operating at or below the targeted expenditure percentage of 75% followed by discussion of the Director's budget.

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

Assistant General Manager Knudson provided an update on the Water Revenue Bond Series 2013A Bond funds and reviewed payments to date and projected complete payout.

4.5) Discussion and Review of Draft 2017 Budget. (Finance Manager Williams)

Finance Manager Williams provided an overview of the draft 2017 budget including the five-year cash flow, the projected year-end cash balance for 2017, zero investments in infrastructure, and increased costs due to organization chart changes and operating expenses followed by discussion of the unpredictability of receiving capital improvement fees, organizational structure changes, and necessity line items versus requested line items.

Financial Advisor Egan then reviewed revenue comparisons and stated that the District's ratepayers paid less for water currently than in 2013; that the draft 2017 budget needs to be reviewed to reduce expenses; and that there is a large backlog of infrastructure projects, which will not be addressed in the budget as presented.

The cumulative effect of a continued drop in revenue and a continued drop in the reserve balance resulting from approving rate increases below the recommended 5.5% approved in the Water Rate Plan were then discussed, and the need for a steady stream of revenue was emphasized.

After a further discussion of needed revisions to the draft 2017 budget, it was determined that a special Finance Committee meeting will be held November 15, 2016 at 4:00 p.m. to further review the draft 2017 budget.

4.6) Consideration and Possible Action on Resolution No. 16-17 Being a Resolution of the Board of Directors of the Palmdale Water District Adopting a Reduced Water Rate Adjustment of 4.25% for Each Calendar Year 2017, 2018, and 2019, Amending Appendix C to the Rules and Regulations of the Palmdale Water District, and Establishing Prudent Parameters to Consider Further Water Rate Adjustment Reductions. (Assistant General Manager Knudson/Finance Manager Williams)

Assistant General Manager Knudson reviewed the revisions to Resolution No. 16-17 and stated that the Resolution addresses the Board's concerns raised at the recent Financial Workshop, is well thought out, and justifies the need for the water rate adjustment after which Financial Advisor Egan stated that Rosamond Community Services District just approved a $7 per month water rate increase, which is more than staff is proposing for three years, meeting the reserve goal is extremely difficult, and staff's intent is to be sensitive to the customers while meeting operating expenses and planning for future projects.

After a further review of Resolution No. 16-17, revenue projections, and covering increasing fixed costs, 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 recommend approval of Resolution No. 16-17 being a Resolution of the Board of Directors of the Palmdale Water District Adopting a Reduced Water Rate Adjustment of 4.25% for Each Calendar Year 2017, 2018, and 2019, Amending Appendix C to the Rules and Regulations of the Palmdale Water District, and Establishing Prudent

Parameters to Consider Further Water Rate Adjustment Reductions to the full Board at the November 9, 2016 Regular Board meeting.

4.7) Consideration and Possible Action on Request for Proposals for Hiring an Outside Consultant to Determine Additional Cost Reductions for the District. (Chair Henriquez)

Chair Henriquez requested this item be held over to the next Finance Committee meeting.

5) Information Items.

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

Financial Advisor Egan stated that the Debt Service Coverage for the period of October, 2015 through September, 2016 is 1.38, which meets the Debt Service Coverage.

5.2) Status on Refunding 2012 Installment Purchase Agreement and a Portion of the 2013A Water Revenue Bonds. (Finance Manager Williams)

Finance Manager Williams stated that savings as of today are only slightly above 4% and that bonds will not sell unless the target savings of 5% is met after which Financial Advisor Egan stated that the bond financing group may lower their fees to meet the 5% savings if the savings continue to rise above 4%.

5.3) Status of Staff's Efforts to Ensure District Efficiencies and Cost Savings. (Committee Member Alvarado/General Manager LaMoreaux)

General Manager LaMoreaux stated that this information will be developed and presented as part of Agenda Item No. 4.7 and will also be included as part of the discussions at the budget workshop.

5.4) Other.

Finance Manager Williams stated that representatives from TruePoint, the District's new billing software provider, were on site last week to review the District's business practices and data conversion.

Committee Member Alvarado inquired if a soda vending machine will be purchased to reduce the cost of sodas for District employees followed by discussion of the District's two soda vending machines and the cost of the drinks.

There were no other information items.

6) Board Members' Requests for Future Agenda Items.

There were no requests for future agenda items.

It was determined that the next Finance Committee meeting will be held December 13, 2016 at 4:00 p.m.

7) Adjournment.

There being no further business to come before the Finance Committee, the meeting was adjourned at 5:56 p.m.

Chair