MINUTES OF FINANCIAL WORKSHOP SPECIAL MEETING OF THE BOARD OF DIRECTORS OF THE PALMDALE WATER DISTRICT, OCTOBER 19, 2016:

A Financial Workshop Special Meeting of the Board of Directors of the Palmdale Water District was held Wednesday, October 19, 2016, at 2029 East Avenue Q, Palmdale, California, in the Board Room of the District office. President, Robert Alvarado, called the meeting to order at 7:05 p.m.

1) Pledge of Allegiance.

At the request of President Alvarado, Director Estes led the pledge of allegiance.

2) Roll Call.

Attendance:	**Others Present:**
Robert Alvarado, President	Dennis LaMoreaux, General Manager
Vincent Dino, Vice President	Matt Knudson, Assistant General Manager
Marco Henriquez, Treasurer	Mike Williams, Finance Manager
Joe Estes, Secretary	Jennifer Emery, Human Resources Director
	Mike McNutt, Public Affairs & Sustainability Dir.
Kathy Mac Laren, Director -- EXCUSED ABSENCE	Mynor Masaya, Operations Manager
	Peter Thompson II, Deputy Water & Energy Res. Dir.
	Bob Egan, Financial Advisor
	Dawn Deans, Executive Assistant
	0 members of the public

3) Adoption of Agenda.

It was moved by Director Dino, seconded by Director Estes, and unanimously carried to adopt the agenda, as written.

4) Discussion and Overview of Long Term Financial Planning to Ensure Future Water Rate Stability and Long-Term Water Sustainability Projects to Meet Current Water Demands and Future Water Demands for Growth and Recommendation for the Three Remaining Years of the Approved Proposition 218 2014 Water Rate Plan. (Assistant General Manager Knudson/Finance Manager Williams)

Deputy Water & Energy Resources Director Thompson II stated that infrastructure and asset management for the District includes replacement of water mains and water meters; that staff recommends broadening this scope to include wells, the water treatment plant, booster stations, buildings, and the fleet to stay ahead of repairs rather

than run them to fail as this is much more cost effective long term; and that to meet this recommendation, staff is fully assessing the District's infrastructure, determining the cost and manpower to maintain all infrastructure, improving project communication, strategizing improvements and increasing efficiency, prioritizing projects, and tracking work to completion.

He then stated that the ultimate goals for infrastructure are to protect the investments of the District and leave a positive legacy followed by discussion of maintaining assets on a Band-Aid concept, improving project communications both among staff and to the Board, sharing communication with the ratepayers through messages on the water bills, annual budget limits for replacing infrastructure, priorities for repairing infrastructure, the cost of depreciation, the reasons for the District's financial issues and depletion of reserves, the District's bond rating in 2004 of AAA compared to today's bond rating of A-, and meeting the District's mission statement by maintaining infrastructure.

Assistant General Manager Knudson then restated that financial planning focuses on allocating resources efficiently, making long-range plans for new projects, and ensuring funds are directed toward the goals of a strategic plan that is well thought out in advance, implemented, and followed and the annual budget focuses on taking care of day-to-day operating needs without looking to the future to see what is really needed to maintain the District's complex system and reviewed the District's past visionary successes, current Board approved visionary goals, and achieving these goals by following all Board approved Plans, including financial planning documents, and by construction of the approved Palmdale Regional Groundwater Recharge and Recovery Project (PRGRRP) and Littlerock Sediment Removal Project (LRSRP).

He then provided an overview of the financial model funding scenario that determined a 4.25% water rate adjustment is needed and recommended for 2017, 2018, and 2019, which is an overall 8.25% reduction from the approved 2014 Water Rate Study, the benefit to the Board from approving the 4.25% for each of the next three years, and the District's rates being lower than most other area agencies followed by discussion of maintaining a minimum of $10 million in reserves with $5 million of this amount set aside for Littlerock Dam, preparing for natural disasters, future water use and water quality restrictions, potential partners for the PRGRRP and reduced future cost of water through this Project, the additional $600,000 annual cost of removing sediment from Littlerock Dam paid for through the $2.5 million set aside for annual projects, reduced attorney fees from the adjudication settlement process, the 10% to 12% water rate increases of other

agencies, the District's rates being lower than those of Los Angeles County Waterworks, and an assessment comparison with Los Angeles County Waterworks.

Financial Advisor Egan then provided an overview of the District's average rate increases since 1969, which have averaged 4.25% per year excluding 2009, and stated that staff's proposal is not a radical increase and that staff's recommendation of a 4.25% water rate increase for each of the next three years will allow for planning to meet infrastructure requirements and will ensure operating expenses are met.

General Manager LaMoreaux then reviewed the District's available programs, such as the Rate Assistance Program, the Internship Program, the Cash for Grass Program, and variance programs and stated that Los Angeles County Waterworks and other area agencies do not offer these programs.

Assistant General Manager Knudson then, again, clarified staff's recommendation of a 4.25% water rate adjustment for 2017, 2018, and 2019 with staff continuing to look for cost saving measures to lessen future rate adjustments and stated that the 4.25% equates to approximately $0.03 on Tier 1 units of water, $0.04 on Tier 2, and the water meter charge for 1" and below water meters will increase $1.42, which is a total increase of approximately $2.08 to $2.50 per month.

He then reviewed the financial model, meeting the Reserve Policy level, and meeting the District's financial goals after which Finance Manager Williams stated that the 4.25% allows for funds into the Rate Stabilization Fund to help reduce future water rate increases below the 4.25% rate followed by discussion of the potential impact to future rates from the receipt of grants and capital improvement fees.

At 8:16 p.m., President Alvarado called for a ten-minute recess. He reconvened the workshop special meeting at 8:26 p.m.

General Manager LaMoreaux then provided a detailed overview of a Resolution approving a 4.25% water rate adjustment for each of the next three years followed by discussion of cost saving measures to date, current grant applications for specialized capital projects and staff's efforts to receive grant funding, recycled water pipeline projects, grants for statewide storage projects, additional funding available for rebuilding recreational facilities at Littlerock Dam with it now designated as a national monument area, potential capital improvement fees, the District's innovation and diversification of its water supply, passing through savings from all endeavors, growth in Palmdale depending on water supply, clear parameters and criteria for reporting to the Board the

potential for lowering water rates below the 4.25%, the Board's review of the budget, the strength shown to bond rating agencies by the adoption of water rates for the next three years as a long range plan, the Board's responsibility to the agency for long term planning, and no comments being received on the District's water rates during the recent Town Hall Forum.

He then requested any additional Board comments for the Resolution by next week and presented information from the National Infrastructure Advisory Council Water Sector Resilience Report.

Assistant General Manager Knudson then reminded the Board that long range financial planning is required in order to show the District can repay state low interest loans necessary for the construction of the PRGRRP followed by review of different rates in the financial model.

5) Board Members' Requests for Future Agenda Items.

There were no requests for future agenda items.

6) Adjournment.

There being no further business to come before the Board, the meeting was adjourned at 9:44 p.m.

Secretary