**MINUTES OF MEETING OF THE FINANCE COMMITTEE OF THE PALMDALE WATER DISTRICT, AUGUST 9, 2016:**

*A meeting of the Finance Committee of the Palmdale Water District was held Tuesday, August 9, 2016, at 2029 East Avenue Q, Palmdale, California, in the Board Room of the District office. Chair Henriquez called the meeting to order at 4:00 p.m.*

**1) Roll Call.**

| **Attendance:** | **Others Present:** |
|---|---|
| Finance Committee: | Dennis LaMoreaux, General Manager |
| Marco Henriquez, Chair | Kathy Mac Laren, PWD Director |
| Robert Alvarado, Committee Member | Matt Knudson, Assistant General Manager |
| | 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 July 12, 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 July 12, 2016, as written.

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

Finance Manager Williams reviewed the investment funds report as of June, 2016, including the transfer of funds and Butte County payment and then provided an overview of the cash flow statement for June, grant funds received, and year-ending cash balance.

**4.3) Discussion and Overview of Financial Statements, Revenue, and Expense and Departmental Budget Reports for June, 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 June, 2016; stated that most departments are operating at or below the targeted expenditure percentage of 50%; and then reviewed department line items above the targeted expenditure percentage followed by discussion of G.A.C. purchases and health insurance.

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

Assistant General Manager Knudson stated that an update on the Water Revenue Series 2013A Bond funds was included with the agenda packets; that $7.98 million has been paid out to date; that the remaining $500,000 will be paid out by the end of 2016; and that pay-outs for the Upper Amargosa Recharge Project, Littlerock Sediment Removal EIR/EIS/Permit process, and Palmdale Regional Recharge and Recovery project will continue into 2017.

**4.5) Discussion and Overview of State Auditor Audit. (Finance Manager Williams/General Manager LaMoreaux)**

General Manager LaMoreaux stated that past meetings included discussions on the cost effectiveness of the District's operations; that the results of a state audit conducted comparing the District to the Golden State private water company, Waterworks District 40 Region 4, which is Lancaster, and Quartz Hill Water District indicate the District is doing very well in controlling costs; that the two minor recommendations from the state audit to develop a Rate Assistance Program and to provide a clearer way of tracking cost savings have been implemented; that the state audit includes a graphical presentation of water bills for the audited agencies with the

District having the lowest rate increase; that these comparisons and the thoroughness of the state audit provide comfort that the District is operating efficiently, and there are no huge items for the District to address followed by discussion of electricity efficiencies and the number of companies who have investigated the District's energy costs and efficiencies and determined they can provide no service to reduce the District's energy costs as we are already operating as efficiently as possible and the higher water purchase costs of the other agencies.

Chair Henriquez than thanked staff for the audit information as it provides additional documentation on how the District is doing but the audit appears to concentrate on rates to the customers and not on reducing costs after which General Manager LaMoreaux clarified that the audit only found the two recommendations noted and did not recommend any cost reductions.

**4.6) Discussion and Possible Action on Hiring an Outside Consultant to Determine Additional Cost Reductions for the District. (Chair Henriquez)**

Chair Henriquez stated that he requested this item to obtain an opinion from an outside source to see if there are any areas to obtain additional savings.

General Manager LaMoreaux then stated that the information included in the agenda packets shows how the departments have responded over the last ten years to keep costs flat and then reviewed a graph indicating this effort.

Committee Member Alvarado then stated that staff has been very creative on in-house work to save additional monies.

District staffing and retirement plans compared to the City of Palmdale along with these unfair comparisons, the additional services provided by the District compared to Waterworks, and Waterworks' higher rates were then discussed.

Finance Manager Williams then provided a detailed overview of the 10-year, 5-year, and 3-year budget analysis included in the agenda packets followed by discussion of the shifting of staff to meet operational needs and efficiencies, the Committee's desire to make operational rather than personnel cuts, and the development of the budget.

Chair Henriquez then stated that if the District is looking at a rate increase, the ratepayers are owed an answer showing all alternatives for cost reductions have been

reviewed followed by discussion of the time frame and process for a Request for Proposals after which staff clarified that the materials presented to the Committee demonstrate the District has been studied extensively regarding controlling costs, staff has controlled costs and gone beyond any other local water agency to do so, the Request for Proposals process can be done at the same time as the upcoming budget and rate discussions as long term water supply projects are needed for future growth and development, the Request for Proposals, hiring a consultant, and reviewing any recommendations could take a year, and any cost reduction recommendations can be implemented and approved rates lowered, if appropriate.

After a further discussion of the District's minimum reserve levels, conducting a financial Board workshop, the high cost of a financial analysis, and the Request for Proposals content, 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 authorize staff to prepare a Request for Proposals for hiring an outside consultant to determine additional cost reductions for the District and present same at the next Finance Committee meeting for discussion.

**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)**

Assistant General Manager Knudson stated that the financial model developed to show water rates needed for the next three years to meet the District's financial requirements to meet existing customer demands and move forward with the Littlerock Sediment Removal and the Palmdale Regional Groundwater Recharge and Recovery projects indicates that a water rate adjustment of 4.25%, rather than the 5.5% approved in the Water Rate Plan with future water rates anticipated even lower, is needed for each of next three years to construct these projects, meet the Debt Service Coverage for existing and upcoming bond issues, and meet the Reserve Policy; that several scenarios with lower water rate adjustments show the negative impact on the Debt Service Coverage and cash balance; and that both projects are required if any future growth is to occur.

He then stated that staff recommends a Resolution implementing a 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.

The drastic high water rate adjustment needed by 2021 to meet future debt service coverage and payments by not moving forward with staff's recommendation of a 4.25% adjustment, which amounts to $2.20/month per customer, the increase being less than the 5.5% approved in the Water Rate Plan, much lower future rates by approving staff's recommendation, meeting bond payment obligations and low interest loan payments, other agencies' practices for approving a five year Water Rate Plan and annually announcing the increase, nearly meeting reserve levels by 2025, and having two critical water need projects operational were then discussed after which staff recommended their information be presented to full Board for consideration.

The timing for presenting this information to the full Board, preparation of the 2017 budget, a financial workshop, and hosting a public meeting off-site were then discussed after which it was determined that staff prepare a comparison of water rate charges and property tax rates to other agencies and a Financial Workshop be held August 24, 2016 at 4:00 p.m.

Committee Member Alvarado then clarified that information to be provided at the Financial Workshop will include detailed financial information, the need to move from year-to-year budgeting to a three year plan, developing a plan of action to provide information to the ratepayers in a very effective manner, the Board's previous actions to approve less than the 5.5% cap in the Water Rate Plan for the past few years, staff's recommendation to approve less than the 5.5% cap in the Water Rate Plan for the next three years, the potential to adopt lower water rates in future years if staff's recommendation is approved, a comparison of water rates with other agencies to show the financial responsibility of the District, how the District has been cutting costs and not approving recommended rate increases year after year, and how staff's recommendation will create stability for the ratepayers with a $2.20 monthly increase rather than a much higher increase of up to $10.00 monthly which has been approved by other water agencies.

**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)**

After a brief discussion of the Professional Services Agreement, including an escape clause, 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 Professional Services Agreement with NHA Advisors to provide annual Continuing Disclosure Consulting and Dissemination Agent Services through the life of the bonds in the not-to-exceed amount of $1,500/year, $1,000/year for a second bond issue, and $750.00 for subsequent bond issues.

**5) Information Items.**

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

Finance Manager Williams stated that the Debt Service Coverage for June is not available.

**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 the refunding is moving forward; that Resolutions will be presented to the full Board for consideration at the first regular Board meeting in September; that the sale date for the bonds will be October 1, 2016; and that S & P has requested a conference call to discuss the District's credit rating.

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

Assistant General Manager Knudson reviewed a map of the District's pipelines indicating pipes older than 1960, those replaced over the last two years, and upcoming replacement projects and then reviewed a map indicating meters replaced, the location for the upcoming meter replacement project, and stated that all meters will have been replaced by 2020, and the District's other critical infrastructure include tanks, wells, and booster stations.

Chair Henriquez then requested these maps be placed on the lobby display.

**5.4) Other.**

Finance Manager stated that he will present payment type statistics and customer traffic from the hours of 5 – 6 p.m. Monday through Thursday at the Board meeting; provided a brief update on staff's process for updating the Customer Information System; and stated that staff anticipates presenting a proposal from TruePoint to the Committee at the next meeting followed by discussion of the District's cost for payment types.

There were no other information items.

**6) Board Members' Requests for Future Agenda Items.**

Committee Member Alvarado requested an item for "Discussion and overview of meter and pipeline inventory" and "Discussion and overview of the District's Internship Program, the accomplishments of this program, and increasing this program for 2017" be placed on the next agenda as these items may be needed for budget discussions.

Finance Manager Williams requested an item be placed on the next agenda for "Consideration and possible action on proposal received from TruePoint for updating the District's customer information system."

There were no further requests for future agenda items.

It was then determined that the next Finance Committee meeting will be held September 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 6:15 p.m.

Chair