

Since 1918



PALMDALE WATER DISTRICT

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Attorneys

October 13, 2016

***Agenda for a Financial Workshop Special Meeting
of the Board of Directors of the Palmdale Water District
to be held at the District's office at 2029 East Avenue Q, Palmdale***

Wednesday, October 19, 2016

7:00 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) Pledge of Allegiance.
- 2) Roll Call.
- 3) Adoption of Agenda.



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

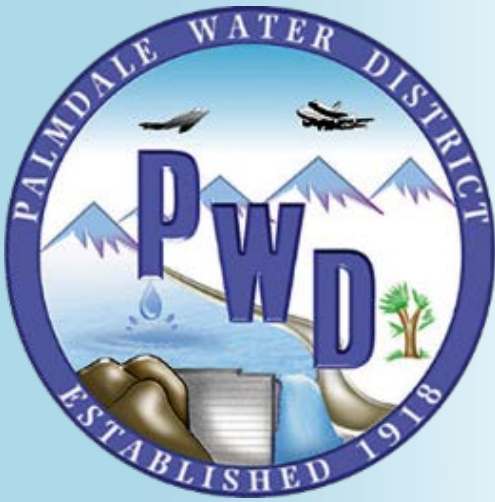


- 4) Discussion and overview of long term financial planning to ensure future water rate stability and long-term water sustainability projects to meet current water demands and future water demands for growth and recommendation for the three remaining years of the approved Proposition 218 2014 Water Rate Plan. (Assistant General Manager Knudson/Finance Manager Williams)
- 5) Board members' requests for future agenda items.
- 6) Adjournment.



DENNIS D. LaMOREAUX,
General Manager

DDL/dd



August 23, 2016
and
October 19, 2016

Palmdale Water District

Financial Planning
Workshops

Presentation Overview

1. Financial Planning vs. Annual Budget
2. Our Past Visionary Successes as a District
3. Our Current Visionary Goals as a District
4. Planning Efforts to Meet Our Visionary Goals
5. PWD Projects that Meet Ours and the City of Palmdale's Visionary Goals
6. Review Funding Scenarios that Meet Our Goals
7. Service and Rate Comparison
8. Recommendations
9. Questions



Financial Planning vs. Annual Budget

Financial Planning focuses on allocating resources efficiently, making long-range plans for new projects, and ensuring that funds are directed toward goals of a strategic plan that is well thought out in advance, implemented and followed.

Annual Budget focuses on taking care of day-to-day operating needs, such as staff, equipment, supplies, utilities, and benefits.



Our Past Visionary Successes as a District



Littlerock Dam



State Water Contractor



Water Treatment Plant



Strengthened Littlerock Dam



Upgraded Water Treatment Plant



Inter-Connections with Agencies

All of these long-term visionary projects have allowed the District to be a regional/industry leader, respond well to changing water quality regulations and water supply challenges, and become the agency that others call upon in the time of need.



Our Current Visionary Goals as a District



Meet Our Community's Growing Population and Future Water Demand Needs



Diversify Our Water Supply Portfolio



Maximize SWP and Littlerock Water Supplies



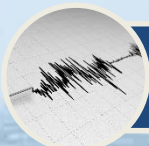
Maintain and Replace Aging Infrastructure



Utilize Local Recycled Water Resource



Meet Changing Water Quality Regulations



Prepare for Natural Disasters



How Do We Achieve Our Goals?

- 1) Follow the Water Supply and Infrastructure Planning documents that have been developed and approved.
 - ✓ Strategic Water Resources Plan
 - ✓ Urban Water Management Plan
 - ✓ Water System Master Plan
 - ✓ Recycled Water Facilities Master Plan
 - ✓ Strategic Plan

- 2) Follow the Financial Planning documents that have been developed.
 - ✓ 5-year Water Rate and Fee Study
 - ✓ Reserve Policy
 - ✓ Utilize Financial Model to refine needs

Financial Planning focuses on allocating resources efficiently, making long-range plans for new projects, and ensuring that funds are directed toward goals of a strategic plan that is well thought out in advance, implemented and followed.



PWD Projects that Meet Ours and the City of Palmdale's Visionary Goals

Palmdale Regional Groundwater Recharge and Recovery Project	Littlerock Reservoir Sediment Removal Project
<ul style="list-style-type: none">• Meets our community's growing population and water supply needs for growth within the City of Palmdale	<ul style="list-style-type: none">• Maximizes Littlerock Reservoir supply
<ul style="list-style-type: none">• Utilizes local recycled water resource	<ul style="list-style-type: none">• Maintains critical infrastructure
<ul style="list-style-type: none">• Diversifies our water supply portfolio	<ul style="list-style-type: none">• Diversifies our water supply portfolio
<ul style="list-style-type: none">• Maximizes our State Water Project supply	<ul style="list-style-type: none">• Maintains recreational opportunity for the Antelope Valley
<ul style="list-style-type: none">• Prepares our community for natural disasters	
<ul style="list-style-type: none">• Reduces our impact from groundwater adjudication and droughts	
<ul style="list-style-type: none">• Most cost effective long-term water supply strategy for the District	



50 Year Build-Out Water Demand (NPV Options)

Recharge and Recovery vs. Status Quo	Net Present Costs	
	Project	Status Quo
Facilities Subtotal	\$83,980,000	\$9,800,000
SWP Additional Table A Purchase	\$0	\$79,790,000
SWP Water Purchase	\$132,830,000	\$151,110,000
SWP Table A Fixed Cost	\$330,720,000	\$484,400,000
Recycled Water Purchase	\$13,643,526	\$0
Water Purchase Subtotal	\$477,193,526	\$635,510,000
O&M Subtotal	\$120,440,000	\$121,470,000
Grand Total	\$682,000,000	\$847,000,000
Unit Water Cost (\$/AF)	\$423	\$526



Funding Scenario that Meets Our Goals

Rate Model Assumptions and Targets

- Utilizes approved 2016 Operating Budget as a basis
- Planning period of 2016 – 2025
- Annual growth rate of 1% for new connections and 3% for water demand
- Annual escalator rate of 3% for operating expenses
- Target Debt Service Coverage = 1.5x (Bond and SRF Requirement)
- Target Days of Cash = 180 (Reserve Policy) Approx. \$11,000,000
- Target Reserve Levels = \$16,000,000 (Reserve Policy)



Funding Scenario that Meets Our Goals – cont.

Rate Model Assumptions and Results

- Palmdale Regional Groundwater Recharge and Recovery Project funded with low interest SRF Loan (No *Grants*)*
- Interest only during construction based on amount borrowed at the time and Principal and Interest payments beginning in 2021*
- Littlerock Sediment Removal Project – bond/loan for grade control structure and pay as we go for annual sediment removal activities
- 4.25% rate adjustment recommended for 2017, 2018, and 2019 vs. previously approved 5.5% per 2014 Rate Study/Proposition 218 Plan
- Reduction of 3.75% over next 3-Years and 8.25% since 2014 as compared to the approved Rate Study/Proposition 218 Plan

* = preliminary information and subject to change



Funding Scenario that Meets Our Goals – cont.

Results

- Results from these planning efforts and financial model demonstrate that the District will be in a position to fund two critical water supply projects that meet all of our goals presented here by approving this plan. The Board can demonstrate to its' community that as a result of these planning efforts, they were able to reduce 8.25% worth of rate adjustments between 2015 and 2019.

Summary of Approved vs. Actual / Recommended Rate Adjustments – Calendar Year (CY)

Action	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019	Totals
Approved Rate Study Plan	5.5%	5.5%	5.5%	5.5%	5.5%	27.5%
<i>Actual</i> / Recommended	<i>2.5%</i>	<i>4.0%</i>	4.25%	4.25%	4.25%	19.25%
Savings from Plan	(3.0%)	(1.5%)	(1.25%)	(1.25%)	(1.25%)	(8.25%)



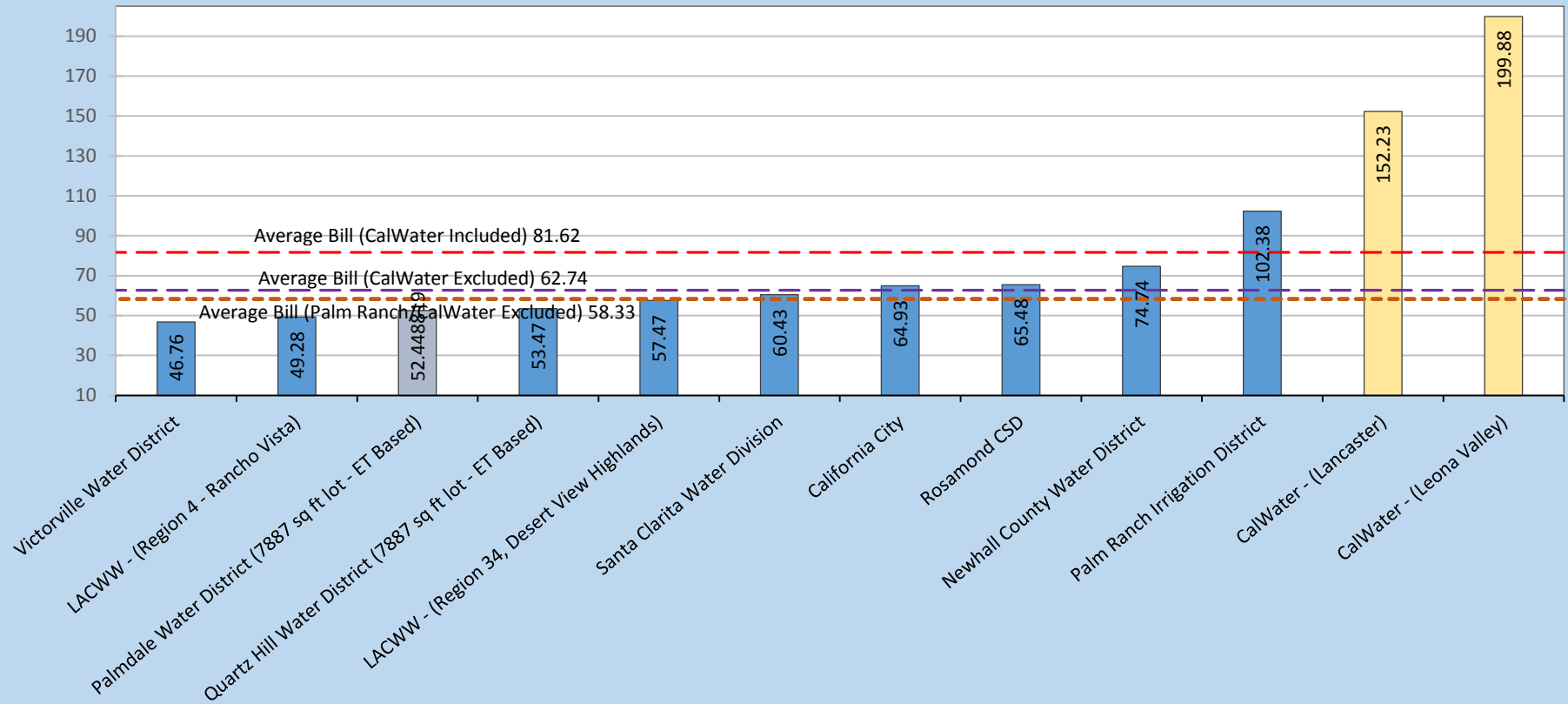
What are other Agencies doing with Rates?

Agency Name	Rate Adjustment	Effective Date	Prop 218 Completed	Year in Plan
Victorville Water District	6.25%	July 1, 2016	2016	1 of 5
LACWW - (Region 4 - Rancho Vista)	4.80%	January 1, 2016	2015	Annual
Palmdale Water District	4%	January 1, 2016	2014	2 of 5
Quartz Hill Water District	5.75%	July 1, 2016	2016	1 of 5
LACWW - (Reg 34, Desert View Highlands)	4.80%	January 1, 2016	2015	Annual
Santa Clarita Water Division	3.50%	January 1, 2016	2014	3 of 5
California City	17%	July 1, 2016	2014	3 of 5
Rosamond CSD			New RFP	
Newhall County Water District	1.50%	July 1, 2016	2015	1 of 5
Palm Ranch Irrigation District (New Rates)	176% Fixed	July 1, 2016		



Service Cost Comparison

Palmdale Water District Survey of Monthly Residential Water Rates (Effective July 1, 2016) (3/4" Meter, 20 ccf monthly usage) August 22, 2016

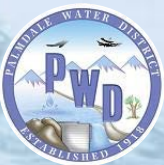


Recommendations

1. Approve a 4.25% vs. 5.5% water rate adjustment per year for the remaining 3-Years of the previously approved Proposition 218 Rate Study Plan.

Action	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019	Totals
Approved Rate Study Plan	5.5%	5.5%	5.5%	5.5%	5.5%	27.5%
<i>Actual</i> / Recommended	<i>2.5%</i>	<i>4.0%</i>	4.25%	4.25%	4.25%	19.25%
Savings from Plan	(3.0%)	(1.5%)	(1.25%)	(1.25%)	(1.25%)	(8.25%)

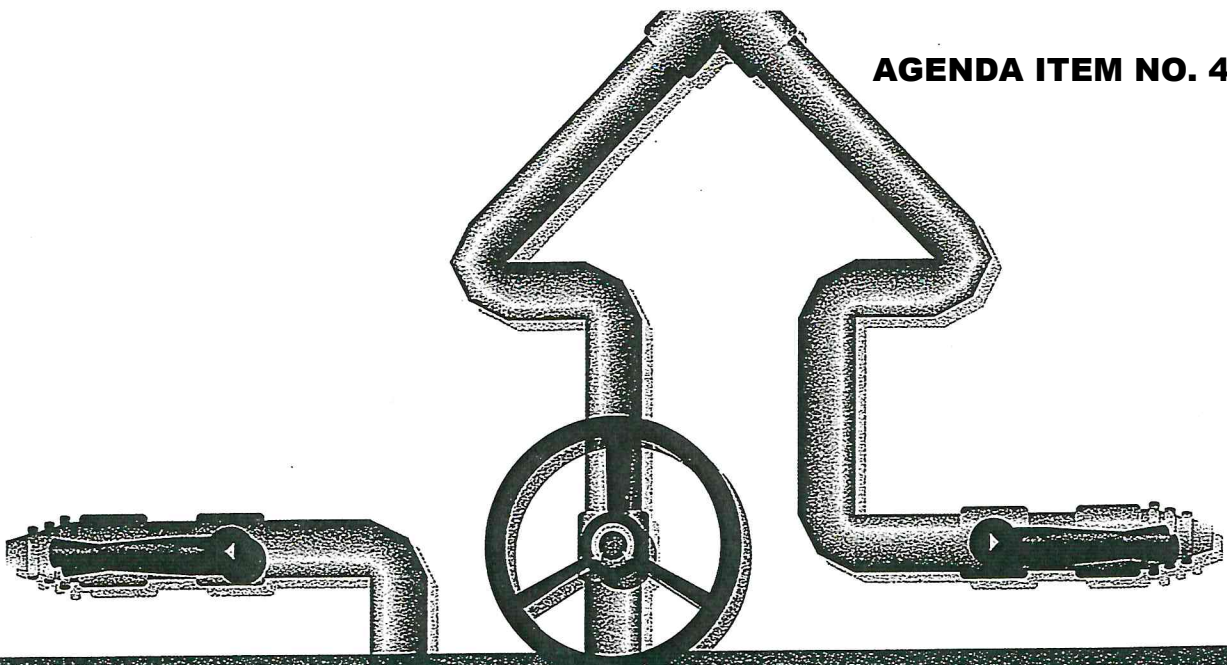
2. Adopt a Resolution to implement the reduced rate adjustment recommendation, based on financial planning efforts.
3. Continue to look for cost saving measures that will lessen future rate adjustments beyond current financial plan.



Future Rates and Charges Based on Recommendations

Year	2016	2017	2018	2019
Rate Adjustment	N/A	4.25%	4.25%	4.25%
Commodity Rates (\$/ccf)				
Tier 1	\$ 0.78	\$ 0.81	\$ 0.85	\$ 0.88
Tier 2	\$ 0.89	\$ 0.93	\$ 0.97	\$ 1.01
Tier 3	\$ 2.53	\$ 2.64	\$ 2.75	\$ 2.87
Tier 4	\$ 3.81	\$ 3.97	\$ 4.14	\$ 4.32
Tier 5	\$ 4.92	\$ 5.13	\$ 5.35	\$ 5.57
Tier 6	\$ 6.32	\$ 6.59	\$ 6.87	\$ 7.16
Monthly Meter Charges				
1" and Below	\$ 33.33	\$ 34.75	\$ 36.22	\$ 37.76
1.5"	\$ 100.00	\$ 104.25	\$ 108.68	\$ 113.30
2.0"	\$ 153.35	\$ 159.87	\$ 166.66	\$ 173.74
3.0"	\$ 277.83	\$ 289.64	\$ 301.95	\$ 314.78
4.0"	\$ 455.66	\$ 475.03	\$ 495.21	\$ 516.26
6.0"	\$ 900.23	\$ 938.49	\$ 978.38	\$ 1,019.96
8.0"	\$ 1,433.72	\$ 1,494.65	\$ 1,558.18	\$ 1,624.40
10.0"	\$ 2,056.14	\$ 2,143.53	\$ 2,234.63	\$ 2,329.60





Under-Funded No Longer

John Mastracchio and Amy Santos, Arcadis

Our nation's water utilities are grappling with daunting financial challenges due to aging water systems, changing regulations, decreasing water sales, and a struggling economic climate that limits the ability and willingness to raise rates. It does not take an economist to know that increasing costs with decreasing revenues is a recipe for disaster, yet utility leaders continue to struggle for approval of financially responsible rates.

To support utilities in better understanding the rate approval process and communicating needs, WRF funded project #4455, *Rate Approval Process Communication Strategy and Toolkit* (Mastracchio et al. 2016). This recently completed project provides water professionals with a framework and tools for effective rate communications that can garner support for necessary rate adjustments.

In addition to conducting a review of literature related to water utility communications, a written survey was sent to utility managers and governing board members of 5,750 cities and counties across the United States, aimed at identifying the critical elements of successful rate case communications. Group and one-on-one interviews with governing board members and utility managers were held with 10 water utilities of various sizes and

governance structures. Focus group webinars were held to gather additional information regarding successful rate case communications to supplement the results from the survey and interviews.

The research revealed that many of the challenges utilities face as part of the rate-setting process can clearly be identified as communication issues. Governing board members and customers need a greater understanding of the value of water, the need for infrastructure reinvestment, the need for rate adjustments, and the benefits that the investment can bring to the service area and community.

The results also showed that water rate increases recommended by utility managers to their governing boards varied greatly, but most rate requests were for rate increases in the range of 1% to 12% (Figure 1). Furthermore, the majority of the governing boards that were surveyed (92%) approved the rate modifications that were requested of them (Figure 2). However, approximately 45% of utility managers reported that the rate increases requested and approved would fail to cover the capital needs of the system (Figure 3). This was a significant and concerning finding that may occur because some utilities propose rate increases that they think the governing board will approve, rather than what they think they actually need. Further, it indicates a lack of effective communication between utility managers and governing board members about the need for adequate rate increases.

Building trust, both with the governing board and the community, is vitally important in securing necessary rate increases for investment in utility systems. Personal relationships, credibility, and integrity are critical to establishing a long-term foundational strategy

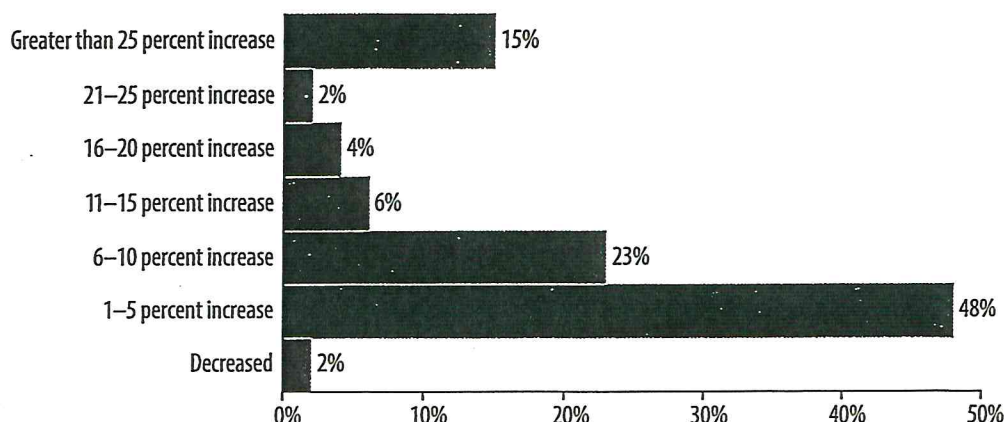


Figure 1. Percent of respondents by amount of rate modifications requests

that helps make adopting rate increases a relative non-issue. Trust can be built by improving relationships with governing board members and the public, following through on commitments, conducting business in an open and transparent manner, focusing on customer service, and being visible and active in the community.

Providing the right information is also key. The research suggested that utility managers may underestimate the value that governing boards place on linking rate adjustments to specific long-term financial needs. The specific types of information that board members preferred most in making their rate adoption decisions included the following:

- List of drivers for the rate increases, including prioritized capital improvement program (CIP) information, an explanation of how the rate change

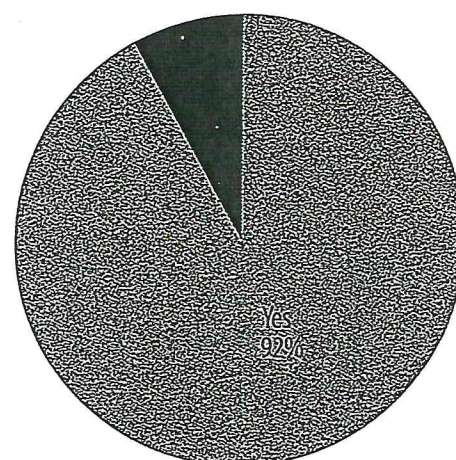


Figure 2. Percent of staff respondents indicating that their governing boards approved requested rate modifications (n = 1,330)

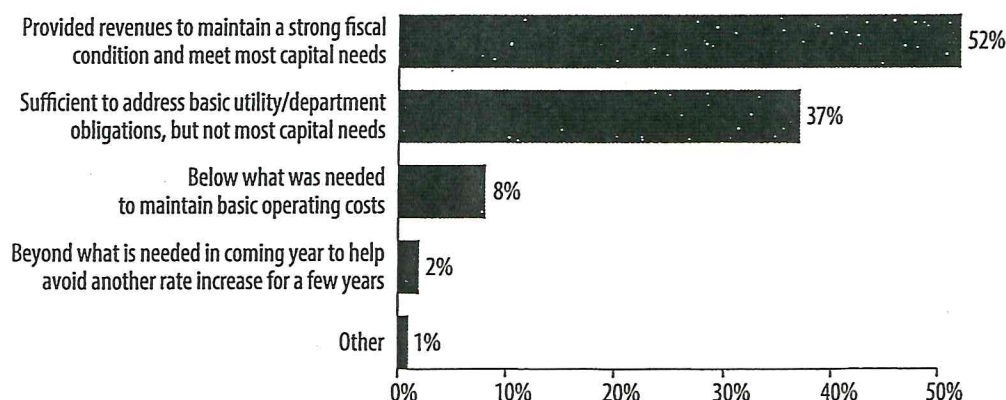


Figure 3. Utility staff opinions regarding the financial sufficiency of the last rate increase recommended to their board (n = 1,349)

fits with the long-term utility strategy, how it results in meeting regulatory requirements, and how it addresses system condition issues

- Financial information, including a summary of future financial projections, rating agency opinions, and supporting credit rating metrics
- Utility accomplishments, including those related to the environment, sustainability, water quality and regulatory compliance, and information on how the utility has saved money and become more efficient
- Rate adjustment information and impacts to the rate payer, including rate study information showing that rates are effective and fair, and affordability information, such as cost as a percent of median household income and number of shutoffs
- Comparison of rates and typical customer bills with other utilities
- Results from customer satisfaction surveys and other customer feedback regarding customer satisfaction

This research supports the importance of creating a utility culture with a strong focus on customer service, community involvement, and visibility, as this type of culture provides a strong foundation for a successful rate adoption process. In addition, utilities should maintain a high level of continued communication with governing board members and customers; striving to educate them so they obtain a deep understanding of utility issues, challenges, and the need for rate adjustments.

At a more pragmatic level, when planning to communicate a change to utility rates, utilities should start by preparing a long-term Rate Communications Strategy. The Rate Communications Strategy can be developed on its own, or, ideally, as an integral part of the utility's broader long-term rate communication design. When building this strategy, utilities need to follow communication best practices and focus on the following four areas:

1. Identify the need for the rate request and the consequences to the utility if


the board does not approve the rate change

2. Understand and prepare for the special communication needs of Governing Board members
3. Connect the need for the rate change with community values
4. Build trust and understanding by being visible, transparent, and involved in the community

The communication strategy should use a consistent unifying message. Creating one overarching message that conveys information about desired rate changes provides consistency between communications and presenters. The research suggests that messages are more likely to resonate when tied to community values, such as system resiliency, leaving a good legacy for future generations, or affordability.

Several ready-to-use communication tools were developed to support successful rate adoption based on the results of the research. These deliverables accompany the research report (#4455A), and include the following:

- A *Rate Communication Toolkit* (#4455B, PDF format) that provides a roadmap, worksheets, and summary guidance and training materials
- Interactive scorecard for conveying key information to governing board members (Excel®-based web tool)
- Video that introduces the *Rate Communication Toolkit* and how to use it

All deliverables are posted on the WRF website on the #4455 project page. 

Reference

MASTRACCHIO, J., A. Santos, R. Giardina, R. Raucher, K. Raucher, M. Wyatt Tiger, J. Hughes, and R. Atwater. 2016. *Rate Approval Process Communication Strategy and Toolkit*. Project #4455. Denver, Colo.: Water Research Foundation.