



PALMDALE WATER DISTRICT
A CENTURY OF SERVICE

January 31, 2019

BOARD OF DIRECTORS

ROBERT E. ALVARADO
Division 1

DON WILSON
Division 2

MARCO HENRIQUEZ
Division 3

KATHY MAC LAREN
Division 4

VINCENT DINO
Division 5

DENNIS D. LaMOREAUX
General Manager

ALESHIRE & WYNDER LLP
Attorneys



**AGENDA FOR A MEETING
OF THE FINANCE COMMITTEE
OF THE PALMDALE WATER DISTRICT**
**Committee Members: Marco Henriquez-Chair, Robert Alvarado
to be held at the District's office at 2029 East Avenue Q, Palmdale**
THURSDAY, FEBRUARY 7, 2019
4:30 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) Roll call.
- 2) Adoption of agenda.
- 3) Public comments for non-agenda items.
- 4) Action Items: (The public shall have an opportunity to comment on any action item as each item is considered by the Committee prior to action being taken.)

- 4.1) Consideration and possible action on approval of minutes of meeting held December 6, 2018.
- 4.2) Discussion and overview of Cash Flow Statement and Current Cash Balances as of December 2018. (Financial Advisor Egan)
- 4.3) Discussion and overview of Financial Statements, Revenue, and Expense and Departmental Budget Reports for December 2018. (Finance Manager Williams)
- 4.4) Discussion and overview of committed contracts issued. (Finance Manager Williams)
- 4.5) Consideration and possible action on revisions to the District's Capitalization Policy. (Finance Manager Williams)
- 5) Information items.
 - 5.1) Status of Debt Service Coverage. (Financial Advisor Egan)
 - 5.2) Status on Request for Proposals for 2019 Water Rate Study. (Finance Manager Williams)
 - 5.3) Other.
- 6) Board members' requests for future agenda items.
- 7) Adjournment.



DENNIS D. LaMOREAUX,
General Manager

DDL/dd

**PALMDALE
WATER DISTRICT
BOARD MEMORANDUM**

DATE: January 31, 2019 February 7, 2019
TO: FINANCE COMMITTEE **Committee Meeting**
FROM: Mr. Bob Egan, Financial Advisor
RE: ***AGENDA ITEM NO. 4.2 – DISCUSSION AND OVERVIEW OF CASH
FLOW STATEMENT AND CURRENT CASH BALANCES AS OF
DECEMBER 2018.***

A report on this item will be either hand-delivered prior to the Finance Committee meeting or presented at the meeting.

**PALMDALE WATER DISTRICT
BOARD MEMORANDUM**

DATE: January 31, 2019 **February 7, 2019**
TO: FINANCE COMMITTEE **Finance Committee Meeting**
FROM: Michael Williams, Finance Manager
VIA: Dennis D. LaMoreaux, General Manager
RE: ***AGENDA ITEM NO. 4.4 – DISCUSSION AND OVERVIEW OF
COMMITTED CONTRACTS ISSUED.***

A report on this item will be either hand-delivered prior to the Finance Committee meeting or presented at the meeting.

PALMDALE WATER DISTRICT
BOARD MEMORANDUM

DATE: January 31, 2019 **February 7, 2019**
TO: FINANCE COMMITTEE **Committee Meeting**
FROM: Mr. Michael Williams, Finance Manager/CFO
VIA: Mr. Dennis D. LaMoreaux, General Manager
RE: ***AGENDA ITEM NO. 4.5 – CONSIDERATION AND POSSIBLE ACTION ON REVISIONS TO THE DISTRICT’S CAPITALIZATION POLICY.***

Recommendation:

Staff recommends the Finance Committee approve and recommend approval by the Board of Directors the attached revised Capitalization Policy. The policy is a requirement under GASB 34 and was originally adopted September 26, 2007.

Alternative Options:

The Board can not approve and keep the current outdated policy.

Impact of Taking No Action:

There is no impact from no action.

Background:

The policy is based on current best practices as seen by the California Society of Municipal Finance Officer (CSMFO) of which I am a member, as well as the State Controller’s Office (SCO) Special District Uniform Accounting and Reporting Procedures manual. The threshold of \$5,000.00 and the depreciable life of the asset is based on appendix “A” of the SCO manual.

Strategic Plan Initiative/Mission Statement:

This item is under Strategic Initiative No. 4 – Financial Health and Stability. This item directly relates to the District’s Mission Statement.

Budget:

This item has no impact on the budget.

Supporting Documents:

- Revised Capitalization Policy

Palmdale Water District

Capitalization Policy

Adopted: September 26, 2007

Revised: February 25, 2019

1.0 Purpose of the Policy

The purpose of this policy is to establish guidance in identifying, capitalizing, depreciating, and accounting for District capital assets.

1.1 Definitions

A capital asset is defined under this Policy as an asset owned by the District that – 1) is acquired for use in District operations, 2) is long-term in nature (i.e., useful life exceeds 2 years), and 3) is subject to depreciation.

2.0 Policy

It is the policy of the District that the following types of assets will be considered Capital Assets of the District.

2.1 Capital Assets

The District operations program will be maintained at a level that assures system reliability and efficiency. A well thought out maintenance program will extend the life of the water production and distribution system and in turn reduce infrastructure costs in the long-term.

- A. Funding to Meet Regulations and Standards - The District will adequately fund costs to meet current industry standards and regulations (e.g. Safe Drinking Water Act, etc.) in the annual budgeting process.
- B. Capital Improvement Plan - The District, as part of its routine planning process, will develop a Water System Master Plan and update it.
- C. Adopted Capital Plan - The District will undertake all capital improvements approved by the Board annually at budget adoption according to the District's Asset Management Practice.
- D. Types of Capital Projects - The District's capital improvement program will consider mandated capital, growth related capital and renewal and replacement capital.
 - E. Financing of Growth-Related Projects - The financing of growth-related capital projects will be funded from Capital Improvement Fee Policy.

2.2 Capital Asset Categories

Capital assets shall be segregated into the following categories:

- A. Land and Land Improvements with a limited life, such as driveways, walks, fences, landscaping, and parking areas.
- B. Buildings and Building Improvements, such as HVAC equipment, interior remodeling features, and landscaping.
- C. Hydrants, pressure modulating facilities, Valves and related appurtenances.
- D. Transmission and Distribution pipelines.
- E. Water Storage Facilities.
- F. Groundwater Wells
- G. Pumps, Motors and Water Treatment Facilities
- H. Water Meters.
- I. Machinery and Equipment, such as generators, compressors, jackhammers, tools, trimmers, etc.
- J. Fleet Equipment, such as cars, trucks, trailers and backhoes.
- K. Office Equipment such as furniture and fixtures.
- L. Computer Systems, Purchased Software and Telephones.
- M. Intangible Assets, such as easements and internally generated computer software.
- N. SCADA, including location and mapping features.

2.3 Capitalization Thresholds

Capital assets eligible for capitalization, must have:

- 1) an estimated useful life of at least two years from the date of acquisition
- 2) and a minimum value of \$5,000,
- 3) Once Furniture, fixtures and office equipment, computers are fully depreciated, they will be removed from the capitalization valuation in the Districts financial system as the residual value will be minimal and the amounts immaterial to continue to track; and
- 4) Such criteria shall be applied to individual assets and not to groups of assets.

3.0 Valuation of Capital Assets

The value assigned to capital assets shall be determined as follows:

3.1 Purchased Capital Assets

The capitalized value of purchased Capital assets shall be determined using the original cost of the asset. Specific costs eligible for capitalization are identified under section 3.4. If the original cost of an asset is not available or cannot be reasonably determined, an estimated current cost may be utilized.

3.2 District-Constructed Capital Assets

District-constructed water system infrastructure assets intended to be used in District operations are eligible for capitalization. The capitalized value of such assets shall be determined using direct costs and material costs associated with the construction up until the time the asset is complete and ready for use.

3.3 Donated Capital Assets

The capitalized value of donated assets shall be determined using the fair market value at the time of donation. If the fair market value of the asset is not available or cannot be reasonably determined, an estimated cost may be determined using the best available information. The value of donated intangible assets shall be accounted for separate from donated tangible capital assets.

3.4 Capitalizable Costs

Costs eligible for capitalization under this policy are:

For land:

- Purchase price or appraised value, whichever is more readily determinable;
- Closing costs, such as title fees, attorneys’ fees, environmental assessments, appraisals, taxes and recording fees;
- Costs necessary to get the land ready for its intended use, such as grading, clearing, filling, draining, surveying, and demolition of existing structures;
- Assumptions of liens, encumbrances or mortgages;

For purchased assets other than land:

- Purchase price, including all taxes
- Freight, handling and in-transit insurance charges
- Assembling and installation charges
- Professional fees of engineers, inspectors, attorneys, consultants, etc.;
- Applicable purchase discounts or rebates

For District-constructed assets:

- Direct labor costs (to include wages and benefits);
- Direct materials cost;
- Professional fees of engineers, inspectors, attorneys, consultants, etc.;
- Insurance premiums and related costs incurred during construction;
- Costs necessary to get the site ready for its intended use, such as grading, clearing, filling, draining, surveying, and demolition of existing structures;
- Costs for intangible assets as determined in accordance with Governmental Accounting Standards Board, Statement No. 51 “Accounting and Financial Reporting for Intangible Assets.”

For donated Capital assets:

- Fair Market or Appraised Value at date of donation;
- Installation costs;
- Professional fees of engineers, inspectors, attorneys, consultants, etc.;
- Other normal or necessary costs required to place the asset in its intended location and condition for use.

4.0 Capitalization of Costs Subsequent to Acquisition

Additional costs incurred after a capital asset is placed in use shall be accounted for as follows:

4.1 Additions

An “Addition” is defined as an expenditure that either significantly extends the useful life or productivity of the existing capital asset or creates a new capital asset. All “Additions” to existing capital assets should be capitalized if the asset meets the criteria of section 2.3 above.

4.2 Improvements and Replacements

“Improvements and Replacements” are defined as expenditures that involve substituting a similar capital asset, or portion thereof, for an existing one. All “Improvements and Replacements” to existing capital assets should be capitalized if the asset meets the criteria of section 2.3 above. If the existing asset’s book value is determinable, then the existing asset should be removed from the books at the time the replacement is recorded. If the existing asset is not separately identifiable, then the replacement should still be capitalized as the existing asset’s book value is assumed to be negligible.

4.3 Rearrangement or Reinstallation

“Rearrangement or Reinstallation” costs are defined as expenditures that involve moving an existing asset to a new location or reinstalling a similar asset in place of an existing asset. All “Rearrangement or Reinstallation” costs should be expensed in the period incurred.

4.4 Repairs and Maintenance

“Repairs and Maintenance” costs are defined as expenditures that involve maintaining the asset in good or ordinary repair. All “Repairs and Maintenance” costs should be expensed in the period incurred.

5.0 Depreciation or Amortization of Capital Assets

Capital assets shall be depreciated or amortized on a straight-line basis beginning the first day of the month following acquisition in accordance with the following schedule:

Category	Depreciation/Amortization Period
Land	None
Land Improvements	15 Years
Buildings	50 Years
Building Improvements	10 Years
Hydrants, PRV Stations, Valves and similar assets	30 Years
Transmission and Distribution pipelines	80 Years
Storage Facilities (reservoirs)	40 Years
Pumps	25 Years
Wells	50 Years
Water Meters	10-15 Years
Machinery and Equipment (generators, compressors, jackhammers, tools and equipment)	5 Years
Fleet Equipment (cars, trucks, backhoes, other mobile motorized equipment)	5-10 Years
Office Furniture and Fixtures	7 Years
Computer Equipment, Purchased Software and Telephones	4 Years
Intangible Assets, such as easements	Permanent Easements – None;

5.1 Physical Inventory of Capital Assets

A physical inventory of the following categories of capital assets shall be performed at least annually:

- Inventory Items
- Machinery and Equipment Fleet
- Equipment
- Office Furniture and Fixtures
- Computer Equipment, Purchased Software and Telephones

The results of the physical inventory shall be reconciled with the District's asset inventory system. Differences will be reported, along with explanations, to the Board of Directors.

6.0 Disposal of Capital Assets

Capital assets that have become obsolete shall be disposed in a manner most favorable and advantageous to the District.

7.0 Policy Review

This policy shall be reviewed at least biennially.

**PALMDALE
WATER DISTRICT
BOARD MEMORANDUM**

DATE: January 31, 2019 **February 7, 2019**
TO: FINANCE COMMITTEE **Committee Meeting**
FROM: Mr. Bob Egan, Financial Advisor
RE: *AGENDA ITEM NO. 5.1 – STATUS OF DEBT SERVICE COVERAGE.*

A report on this item will be either hand-delivered prior to the Finance Committee meeting or presented at the meeting.