MINUTES OF THE SPECIAL MEETING OF THE
PERSONNEL COMMITTEE OF THE
COUNTY SANITATION DISTRICTS
OF LOS ANGELES COUNTY

September 26, 2018
11:30 o'clock, A.M.

Pursuant to the call of the Chairperson and upon written notice of the Secretary setting the time and place of a special meeting and mailed to each Director at least 24 hours before the meeting, a special meeting of the Personnel Committee of the County Sanitation Districts of Los Angeles County was held at the Joint Administration Office, 1955 Workman Mill Road, Whittier, California, on September 26, 2018, at 11:30 a.m., for the purpose of:

1. Approve Minutes of Special Meeting Held May 23, 2018
2. Re: Personnel Related Matters – Discussion and Possible Action
   (a) CLOSED SESSION – Conference with Labor Negotiators (pursuant to Section 54957.6 of the Government Code) – Discussion only
   (b) OPEN SESSION – Public Comment – 12:00 p.m.
   (c) CLOSED SESSION – Conference with Labor Negotiators (pursuant to Section 54957.6 of the Government Code) – Discussion and Possible Action
3. Re: Financial Policies

There were present:
Dee Andrews, Districts Nos. 1 and 8
Richard Barakat, District No. 15
Robert Joe, District No. 16
Terry Tornek, District No. 17
Kathryn Barger, District No. 19
Curtis Morris, District No. 21
Margaret E. Finlay, District No. 22
William Davis, District No. 23
Leonard Pieroni, District No. 28
Tina Hansen, District No. 29
David Armenta, Chairperson, Districts Nos. 2 and 18

Absent:
Pat Furey, South Bay Cities and District No. 5
Joseph Buscaino, Districts Nos. 3, 4, and 9
Rex Parris, District No. 14
James C. Ledford, District No. 20
Sheila Kuehl, District No. 27
Laurene Weste, Santa Clarita Valley

Also present:
Grace Robinson Hyde, Chief Engineer and General Manager
Robert Ferrante, Assistant Chief Engineer and Assistant General Manager
Wesley Beverlin, District Counsel
Jennifer Allen, Human Resources Manager
Dave Bruns, Head of Financial Management
Matt Eaton, Assistant Department Head of Financial Management
Kimberly S. Christensen, Secretary of the Committee

RE: MINUTES

Upon motion of Director Hansen, duly seconded and unanimously carried, the minutes of the special meeting held on May 23, 2018, were approved.

RE: PERSONNEL RELATED MATTERS - DISCUSSION AND POSSIBLE ACTION

District Counsel requested that the Committee meet in closed session pursuant to Section 54957.6 of the Government Code, *Conference with Labor Negotiators*.

Agency Designated Representatives: Grace R. Hyde, Chief Engineer and General Manager; Robert C. Ferrante, Assistant Chief Engineer and Assistant General Manager; and Jennifer Allen, Human Resources Manager, to discuss matters concerning the union-represented, self-represented, and non-represented employee units.

Upon motion of Director Andrews, duly seconded and unanimously carried, the meeting convened in closed session at 11:39 a.m. pursuant to Section 54957.6 of the Government Code, *Conference with Labor Negotiators*, to discuss the matter referred to by District Counsel.

Upon motion of the Director Andrews, duly seconded and unanimously carried, the meeting reconvened in regular session at 12:03 p.m. District Counsel announced that the Board took no action that requires disclosure under the Brown Act pursuant to Government Code Section 54957.1.

The Secretary announced that members of the public requested to address the Committee on this item. She called upon the following speakers:

Speakers:

Mr. Steve Koffroth, Field Director for the American Federation of State County and Municipal Employees, District Council 36 (AFSCME), addressed the Board regarding employee negotiations. Written speaker notes were submitted to the Secretary and are attached as well as on file.

Mr. Earle Hartling, Recycling Coordinator, Technical Services Department, addressed the Board regarding employee negotiations. Written speaker notes were submitted to the Secretary and are attached as well as on file.

The Chairperson thanked the speakers.

District Counsel requested that the Committee meet again in closed session pursuant to Section 54957.6 of the Government Code, *Conference with Labor Negotiators*. *Agency Designated Representatives: Grace R. Hyde, Chief Engineer and General Manager; Robert C. Ferrante, Assistant Chief Engineer and Assistant General Manager; and Jennifer Allen, Human Resources Manager*, to discuss matters concerning the union-represented, self-represented, and non-represented employee units.

Upon motion of Director Barakat, duly seconded and unanimously carried, the meeting convened in closed session at 12:11 p.m. pursuant to Section 54957.6 of the Government Code, *Conference with Labor Negotiators*, to discuss the matter referred to by District Counsel.

Upon motion of Director Hansen, duly seconded and unanimously carried, the meeting reconvened in regular session at 12:42 p.m. District Counsel announced that while in closed session the Committee gave direction to staff regarding the ongoing negotiations, but took no formal action that requires disclosure under the Brown Act pursuant to Government Code Section 54957.1.

RE: FINANCIAL MANAGEMENT
INVESTMENT, DEBT MANAGEMENT
AND FINANCIAL RESERVE POLICIES
DISCUSS

Having sound investment, debt management, and wastewater financial reserve policies is crucial to maintaining the Districts' financial stability. Policies are mandated to be adopted either by state law or at the request of the Directors. A summary letter and the proposed policies were attached to the agenda. This item is consistent with the Districts' Guiding Principles of commitment to fiscal responsibility and prudent financial stewardship, and to protect financial assets through prudent investment programs.

Mr. Bruns stated that last year each District adopted investment, debt management, and wastewater financial reserve policies. Approval of the investment and debt management policies are required to comply with state law and to ensure the wastewater financial reserve policy conforms to best practices.

The investment policy gives direction on how to invest the Districts' cash. The wastewater financial reserve policy sets up a number of reserves that impact how the agency's budgets are implemented. The Districts are currently in the process of developing the solid waste financial reserve policy. The debt management policy was developed to review the amount of debt that the agency has and whether it is wise to take on any additional debt.

The Committee will be reviewing and considering changes to the investment and financial reserves policies. There are no changes proposed for the debt management policy.

He referred to a slide showing where the Districts' money is currently invested. The liquid investments (day-to-day cash) are in the Los Angeles County Pooled Surplus Investment Fund, which is run by the County Treasury. Approximately 50 percent of the District's funds, the majority of the Districts' specific investments, are placed in Government Sponsored Enterprises (GSEs), such as federal agencies like Fannie Mae or Freddie Mac. Currently, about 10 percent of investments are in Medium Term Corporate Notes (MTCNs). Although the current policy allows the Districts to invest up to 20 percent in AA-rated MTCNs, there are not enough of them available in order to reach that limit. In fact, there are only three entities in the market that currently qualify. Districts' staff is recommending modifications to keep the limit of investment in MTCNs at 20 percent but allow for 10 percent of the funds to be invested in A-rated MTCNs. To mitigate any risk, it is also recommended that the amount in any single corporate entity be limited to 2 percent.

A-rated MCTNs provide an opportunity for better returns by providing additional entities to choose from and have interest rates that are 0.8 percent (80 basis points) higher than GSEs. This could generate an additional $1.3 million in revenue annually. The risk with A-rated MTCNs is minimal. According to a Standard & Poor's study, over the last 37 years, the maximum percentage of defaults in a single year was only 0.39 percent, and, of those, 80 percent occurred more than five years after they were issued. The Districts' policy limits investment in MTCNs to five years or less, which minimizes risk for the agency.

He reviewed the various funds that are established as unrestricted and designated. The unrestricted funds are known as the agency's operating fund, which include the day-to-day expenses. Historically, the operating fund and the cash flow requirement fund have been distinct from one another. Districts' staff recommends that the two funds be combined to avoid transfers back and forth. The emergency and natural disaster fund, O & M financial stability fund, and capital projects financial stability fund are all used to address a variety of expenses to protect against unforeseen emergencies.

Most Districts are in full compliance with the targeted goals for all the reserve funds. He advised that 19 Districts are fully funded and 100 percent compliant and 5 Districts are below the targeted goal for the Capital Stability Fund. These Districts are currently undertaking significant local capital projects, but have rate plans to get reserves back to the targeted levels.

He reviewed the Districts' existing debt instruments, including revenue bonds, state revolving fund (SRF) loans, and clean renewable energy bonds. The Districts tend to favor SRF loans due to their favorable interest rates. There are no changes being proposed to the debt management policy.

Debt metrics provide guidance on the issuance of debt. They determine the Districts' ability to make the annual debt payment and what percentage of budget and assets are debt-related. All Districts, with the exception of Districts Nos. 14 and 20 who took on debt as part of a planned upgrade to treatment facilities to meet regulatory compliance, meet the established criteria. All Districts are above the minimum debt coverage threshold.

Mr. Bruns reviewed the proposed implementation schedule. If the changes are endorsed by the Personnel Committee, the policies will be considered by each District's Board of Directors for consideration and adoption at their upcoming board meetings.

The Committee endorsed the recommended modifications to the Investment and Financial Reserves Policies.

Upon motion of Director Finlay, duly seconded and unanimously carried, the meeting was adjourned.

DAVID ARMENTA
Chairperson

ATTEST:

KIMBERLY S. CHRISTENSEN
Secretary

/ksc

Steve Koffroth
9/26/18 Attachment

What's happening with Pension Payments?

If you recall, the primary reason why upper management said they were pursuing their pension/pay takeaway is because of the expected rise in payments to CalPERS.

In addition to our vested benefit argument, we knew that the increases they cited were due to the 2016 CalPERS investment returns. That year, CalPERS earned 0.6% when they assume they will earn 7% each year. So when they project that experience (you earn far less than you expect) forward, the rates to rise to make up the difference. Those projections became part of the 2016 valuation which was finished in late 2017 for rates that apply for 2018.

However, we also know that in 2017 CalPERS earned 11.2% and in 2018 they earned 8.6%. We argued that once we got those annual valuations, the expected spike in pension payments would fall. We're pleased to report we just received the 2017 valuation and it shows we're right!

The chart below, from each year's CalPERS valuation, shows that the difference is pretty dramatic – more than $25M lower when you look at the overlapping years' projections. The 2018 valuation will also show even lower projections.

	FY 2019-20	FY 2020-21	FY 2021-22	FY 2022-23	FY 2023-24	FY 2024-25	Total
2016 Valuation							
Projected Payroll	$175,597,876	$180,865,813	$186,291,787	$191,880,540	$197,636,956	$203,566,064	
Employer % Contribution	24.5%	26.9%	29.1%	30.9%	31.8%	32.4%	
Projected Payment	$43,021,480	$48,652,904	$54,210,910	$59,291,087	$62,848,552	$65,955,405	$333,980,337
2017 Valuation							
Projected Payroll	$170,243,271	$174,500,128	$179,298,882	$184,229,600	$189,295,915	$194,501,553	
Employer % Contribution	24.9%	26.6%	28.2%	29.4%	29.6%	30.2%	
Projected Payment	$42,390,574	$46,417,034	$50,562,285	$54,163,502	$56,031,591	$58,739,469	$308,304,455
Difference From 2016	$(630,905)	$(2,235,870)	$(3,648,625)	$(5,127,584)	$(6,816,961)	$(7,215,936)	$(25,675,881)

This shows, once again, that their proposals are unnecessary... We have always done a great job providing low-cost, award winning service – cuts to the employees will not only hurt our pocketbooks, but hurt our culture of excellence.

Plan's Funded Status

	June 30, 2015	June 30, 2016
1. Present Value of Projected Benefits	$ 1,706,246,704	$ 1,771,817,381
2. Entry Age Normal Accrued Liability	1,547,706,305	1,608,896,773
3. Market Value of Assets (MVA)	$ 1,231,424,044	$ 1,203,478,555
4. Unfunded Accrued Liability (UAL) [(2) – (3)]	$ 316,282,261	$ 405,418,218
5. Funded Ratio [(3) / (2)]	79.6%	74.8%

This measure of funded status is an assessment of the need for future employer contributions based on the selected actuarial cost method used to fund the plan. The UAL is the present value of future employer contributions for service that has already been earned and is in addition to future normal cost contributions for active members. For a measure of funded status that is appropriate for assessing the sufficiency of plan assets to cover estimated termination liabilities, please see "Hypothetical Termination Liability" in the "Risk Analysis" section.

Projected Employer Contributions

The table below shows the required and projected employer contributions (before cost sharing) for the next six fiscal years. Projected results reflect the adopted changes to the discount rate described in Appendix A, "Actuarial Methods and Assumptions." The projections also assume that all actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur during the projection period. The projected normal cost percentages in the projections below do not reflect that the normal cost will decline over time as new employees are hired into PEPRA or other lower cost benefit tiers.

	Required Contribution	**Projected Future Employer Contributions (Assumes 7.375% Return for Fiscal Year 2016-17)**					
Fiscal Year	**2018-19**	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**
Normal Cost %	7.372%	7.8%	8.7%	8.7%	8.7%	8.7%	8.7%
UAL Payment	23,744,789	29,207,000	32,785,000	37,921,000	42,450,000	45,643,000	48,325,000
*Total as a % of Payroll**	*21.3%*	*24.5%*	*26.9%*	*29.1%*	*30.9%*	*31.8%*	*32.4%*
Projected Payroll	*170,483,375*	*175,597,876*	*180,865,813*	*186,291,787*	*191,880,540*	*197,636,956*	*203,566,064*

*Illustrative only and based on the projected payroll shown.

Changes in the UAL due to actuarial gains or losses as well as changes in actuarial assumptions or methods are amortized using a 5-year ramp up. For more information, please see "Amortization of the Unfunded Actuarial Accrued Liability" under "Actuarial Methods" in Appendix A. This method phases in the impact of unanticipated changes in UAL over a 5-year period and attempts to minimize employer cost volatility from year to year. As a result of this methodology, dramatic changes in the required employer contributions in any one year are less likely. However, required contributions can change gradually and significantly over the next five years. In years where there is a large increase in UAL the relatively small amortization payments during the ramp up period could result in a funded ratio that is projected to decrease initially while the contribution impact of the increase in the UAL is phased in.

Due to the adopted changes in the discount rate for the next two valuations in combination with the 5-year phase-in ramp, the increases in the required contributions are expected to continue for seven years from Fiscal Year 2018-19 through Fiscal Year 2024-25.

For projected contributions under alternate investment return scenarios, please see the "Analysis of Future Investment Return Scenarios" in the "Risk Analysis" section.

Plan's Funded Status

		June 30, 2016		June 30, 2017
1. Present Value of Projected Benefits	$	1,771,817,381	$	1,854,907,312
2. Entry Age Normal Accrued Liability		1,608,896,773		1,678,541,528
3. Market Value of Assets (MVA)	$	1,203,478,555	$	1,300,844,991
4. Unfunded Accrued Liability (UAL) [(2) – (3)]	$	405,418,218	$	377,696,537
5. Funded Ratio [(3) / (2)]		74.8%		77.5%

This measure of funded status is an assessment of the need for future employer contributions based on the selected actuarial cost method used to fund the plan. The UAL is the present value of future employer contributions for service that has already been earned and is in addition to future normal cost contributions for active members. For a measure of funded status that is appropriate for assessing the sufficiency of plan assets to cover estimated termination liabilities, please see "Hypothetical Termination Liability" in the "Risk Analysis" section.

Projected Employer Contributions

The table below shows the required and projected employer contributions (before cost sharing) for the next six fiscal years. Projected results reflect the adopted changes to the discount rate described in Appendix A, "Actuarial Methods and Assumptions." The projections also assume that all actuarial assumptions will be realized and that no further changes to assumptions, contributions, benefits, or funding will occur during the projection period. The projected normal cost percentages in the projections below do not reflect that the normal cost will decline over time as new employees are hired into PEPRA or other lower cost benefit tiers.

	Required Contribution	**Projected Future Employer Contributions (Assumes 7.25% Return for Fiscal Year 2017-18)**				
Fiscal Year	**2019-20**	**2020-21**	**2021-22**	**2022-23**	**2023-24**	**2024-25**
Normal Cost %	8.234%	8.9%	8.9%	8.9%	8.9%	8.9%
UAL Payment	28,355,330	30,914,000	34,648,000	37,659,000	39,214,000	41,439,000
*Total as a % of Payroll**	*24.9%*	*26.6%*	*28.2%*	*29.4%*	*29.6%*	*30.2%*
Projected Payroll	*170,243,271*	*174,500,128*	*179,298,882*	*184,229,600*	*189,295,915*	*194,501,553*

*Illustrative only and based on the projected payroll shown.

Changes in the UAL due to actuarial gains or losses as well as changes in actuarial assumptions or methods are amortized using a 5-year ramp up. For more information, please see "Amortization of the Unfunded Actuarial Accrued Liability" under "Actuarial Methods" in Appendix A. This method phases in the impact of changes in UAL over a 5-year period and attempts to minimize employer cost volatility from year to year. As a result of this methodology, dramatic changes in the required employer contributions in any one year are less likely. However, required contributions can change gradually and significantly over the next five years. In years where there is a large increase in UAL the relatively small amortization payments during the ramp up period could result in a funded ratio that is projected to decrease initially while the contribution impact of the increase in the UAL is phased in.

Due to the adopted change in the discount rate for the next valuation in combination with the 5-year phase-in ramp, the increases in the required contributions are expected to continue for six years from Fiscal Year 2019-20 through Fiscal Year 2024-25.

For projected contributions under alternate investment return scenarios, please see the "Analysis of Future Investment Return Scenarios" in the "Risk Analysis" section.

Earle Hartling
9/26/18 Attachment

2018 DECLARATION OF "NO CONFIDENCE"

We, the undersigned employees of the Sanitation Districts of Los Angeles County, in regard to the ability of this Agency's Upper Management to competently and effectively lead this agency in the future, find the following:

- Upper Management's decisions and subsequent recommendations to the Board of Directors on major capital improvement projects have led to hundreds of millions of dollars in unnecessary and/or underutilized properties, assets and projects. Waste-by-Rail a **self-admitted "miscalculation"** and the Tulare Lake Compost may take generations to be fully utilized, if at all. The proposed Clear Water Tunnel project is unnecessary and will cost almost a billion dollars to complete.

- Upper Management has engaged in an illegal attempt to take a vested compensation benefit using underhanded and unethical practices. The scheme they labeled "soft landing", which has already been imposed on several employee units and is currently being pushed upon a number of others, is nothing more than **long-term, slow motion wage theft** from the dedicated, hard-working, middle-class employees who continue to serve this Agency and our ratepayers.

- Upper Management's actions with regard to labor negotiations and promotion practices have created a work environment for the employees of the Sanitation Districts that is not only saturated with **lowered morale,** but also threatens the ability of this Agency to attract and retain the qualified and trained employees that are critical for the continued high level of competency, efficiency, innovation and service for which we are renowned.

We, the undersigned, are either "classic" employees, who have spent years, even decades, of our careers helping to build the Sanitation Districts' world-class reputation, or "PEPRA" employees, who thought we were joining an agency that valued and respected its employees. We now fear our combined legacy will be damaged or even destroyed. We also find that the hiring practices for PEPRA employees have been ambiguous, if not outright deceptive, leading many to question their future at the Sanitation Districts. We are employees from all departments and facilities, of all job classifications and pay-scales, from represented and non-represented units. We therefore declare that we have **"NO CONFIDENCE"** in Upper Management's ability to maintain our high level of service to the community or to lead us or this agency into the future. We implore the Board of Directors for the Sanitation Districts of Los Angeles County to take immediate action to guide this Agency away from its current path to mediocrity back to its leading position in the wastewater and solid waste industry. Our ratepayers, and our staff, deserve nothing less.

Name (print) **Signature**

Please relum signed petItlons to your Loc<ll Ul1'lon Representative

BARGAINING UNIT	No. of STAFF	No. of SIGNATURES	%
Professional	290	200	69.0
Professional Supervisory	67	42	62.7
Supervisory	78	55	70.5
Confidential'	32	8	25.0
Technical Support	278	217	78.1
White Collar	96	58	60.4
Energy Recovery'	29	6	20.7
Blue Collar	664	403	60.7
TOTAL	1534	**989**	**64.5**

1. The majority of "Confidential" employees report directly or indirectly to Management or the HR Manager.
2. Due to the reduction in positions following the shutdown of the Commerce facility, members of this Unit were not actively pursued for signatures.