

MINUTES OF THE REGULAR MEETING OF THE
BOARD OF DIRECTORS OF
SOUTH BAY CITIES SANITATION DISTRICT
HELD AT THE TORRANCE CITY HALL

June 21, 2023
1:30 o'clock, P.M.

The Board of Directors of South Bay Cities Sanitation District of Los Angeles County met in regular session.

There were present: Richard Montgomery, Director from Manhattan Beach
Jim Roos, Director from Palos Verdes Estates
Barbara Ferraro, Director from Rancho Palos Verdes
Nils Nehrenheim, Alternate Director from Redondo Beach
Britt Huff, Director from Rolling Hills Estates
George Chen, Director from Torrance

Absent: Drew Boyles, Director from El Segundo
Raymond Jackson, Director from Hermosa Beach

Also present: Denise Springer, Deputy Secretary to the Board
Jessica Lienau, District Counsel

Upon motion of Director Montgomery, duly seconded and unanimously carried, Director Chen was elected Chairperson pro tem.

RE: PUBLIC COMMENT

The Chairperson pro tem announced this was the time for any questions or comments by members of the public.

There were no public comments or questions to address the Board on any matters.

RE: MINUTES

Upon motion of Director Montgomery, duly seconded and unanimously carried, the minutes of the regular

meeting held May 17, 2023, were approved.

RE: DISTRICT EXPENSES

The following expenses for the month of March 2023 were presented and upon motion of Director Montgomery, duly

seconded and unanimously carried, were approved:

Local District Expenses:

Operations & Maintenance

\$1,041

Total Expenses

\$1,041

RE: APPROPRIATIONS LIMIT
FOR FISCAL YEAR 2023-24
ESTABLISH AND ADOPT

A letter discussing the 2023-24 fiscal year budget matters accompanied the agenda. The Government Code requires the governing body of each local jurisdiction to establish, by resolution, an appropriations limit for each fiscal year.

The documentation used in the determination of the appropriations limits must be available 15 days prior to this action being taken. The method by which the Districts' appropriations limits were calculated has been available to the public at the Districts' Joint Administration Office since May 18, 2023, and was provided to the Directors with the letter of June 2, 2023, mailed with the agenda. This item is consistent with the Districts' Guiding Principles of commitment to fiscal responsibility and prudent financial stewardship; and to plan for both short-term and long-term needs to minimize the need for significant rate increases.

The appropriations limit for fiscal year 2023-24 has been determined by adjusting the previous fiscal year's limits using the factors specified in the Government Code. The appropriations limit has also been adjusted to include mandated costs, all in accordance with the procedures outlined in Article XIII B of the Constitution and Section 7910 of the Government Code. A recommendation was made that, in order to comply with legal requirements, this Board adopt an appropriations limit of \$30,420,746 for fiscal year 2023-24.

Upon motion of Director Montgomery, duly seconded and unanimously carried, the following resolution was adopted:

BE IT RESOLVED, that pursuant to Section 7910 of the Government Code of the State of California, the Board of Directors of South Bay Cities Sanitation District of Los Angeles County does hereby establish and adopt an appropriations limit of \$30,420,746 for fiscal year 2023-24, utilizing the population change and the change in the personal per capita income.

RE: BUDGET 2023-24
OPERATING FUND

The Chief Engineer and General Manager introduced Mr. Matt Eaton, Deputy Assistant Chief Engineer, to give a brief presentation of the wastewater budget

matters for fiscal year 2023-24.

Mr. Eaton stated that today's agendas include items related to wastewater matters and he would spend a few minutes providing an overview of the final budgets, which are attached to the Directors' agendas.

The final budgets are consistent with preliminary budgets presented earlier in the year and with the detailed presentation given to the Personnel Committee in January. Both Districts are part of the Joint Outfall System (JOS). The JOS consists of 17 Districts that operate as one physical system of sewers and water reclamation plants, with each District paying for its share of expenses. The vast majority of costs for each District go toward the JOS.

He showed a slide of a simplified summary of the JOS final budget. Operating revenue consists of the payments from individual Districts, contracts and industrial waste revenue. Non-operating revenue is interest. Capital revenue is capital payments from individual Districts, plus the Districts is budgeting additional debt of approximately \$290 million in the next fiscal year. The expenses are those required for ongoing operations, capital projects and debt service.

As previously discussed a number of times over the last year or so, capital spending has increased significantly and is projected to continue, due to the desire to accelerate our sewer repair and rehabilitation work, new water recycling projects, and new regulatory requirements. In addition, Operations and Maintenance (O & M) costs are higher than expected primarily due to higher costs of chemicals and utilities. As a result, the JOS is drawing down reserves and will be issuing the new debt as mentioned. Although reserves are projected to be at 74 percent of target at the end of the year, the Districts expect to approach target in the following three to five years. The reserves are more than adequate to cover current needs.

The JOS current service charge rates are part of a four-year package with about 2 percent annual increase in most Districts. In 2026, a new rate package will be presented. Staff expects the next round of increases to be significantly higher – at least 10 percent per year. Despite the higher increase, rates are expected to remain below those of comparable agencies for the foreseeable future.

In response to Director Hahn, Mr. Eaton stated that, usually the Districts' financials are closer to breaking even because capital expenses have historically been lower. Furthermore, the Chief Engineer and General Manager stated that reserve target factors in the O & M budget, cash flow needs, debt service, and capital stability funds. The amount of reserves fluctuates over time. The final budget is conservative. Chemical costs increased by 40 to 50 percent due to inflation. As a result of the Carson spill, capital improvement projects are being accelerated.

Director Hahn asked if \$100 million is the most that the Districts has drawn down.

In response to Director Hahn, Mr. Eaton stated that this is likely the largest drawdown and the amount of reserves fluctuates year to year depending on capital spending and bond and loan proceeds. He advised that there is a long-term plan in place to ensure adequate reserves for the next 20 years. Chemical prices have stabilized somewhat.

In response to Director Butts, Mr. Eaton stated that this capital spending for fiscal year 2023-24 is the highest to date and it is likely some will roll over.

In response to Director Wilson, City of Rolling Hills, Mr. Eaton stated that capital expense includes acceleration of sewer rehabilitation projects scheduled in the next year. Typically the JOS spend \$30 to \$40 million on sewer capital improvement projects. Next year, the Districts is spending \$150 million, which was not included in previous long-term plans.

The Chairperson pro tem resonated the concern regarding capital expense and draw down of reserves, although he stated that he isn't hearing that the "sky is falling."

Director Butts stated that he understands the Districts reasoning behind being aggressive with capital improvement projects for the purpose of avoiding future failures.

The Chief Engineer and General Manager stated that there are ongoing negotiations related to the fine resulting from the Carson spill. Following the Carson spill, the Districts has accelerated capital improvement projects, which are a bulk of capital expenditure. It is not normal for the Districts to draw down \$100 million of reserves.

In response to Director Nehrenheim, Mr. Eaton stated that the reserve target includes cash flow plus a combination of funds. There is a long-term plan for managing reserves and ensuring adequate reserves. The drawdown was planned and is largely result of restructuring the connection fee program which freed up funds for capital projects and the JOS consolidation.

The Chairperson pro tem suggested that the Districts should consider placing the reserves in a separate bucket for capital improvement projects.

In response to the Chairperson pro tem, Mr. Eaton stated that the Districts has a Capital Improvement Fund (CIF). He can provide more detail on the CIF along with long-term projections.

The Chief Engineer and General Manager stated that many utility companies have dedicated funds. Next year, a detailed presentation will include information regarding the CIF.

Director Hahn asked where in the budget are funds set aside for mitigation efforts to prevent future catastrophes; for example, a landslide at the Palos Verdes (PV) Peninsula. She inquired if the Board could suggest an item for consideration. She suggested that Districts' staff invest in preventative measures to avoid a catastrophe related to a landslide at the PV Peninsula.

In response to Director Hahn, the Chief Engineer and General Manager stated that capital spending is planned for mitigation and to prevent future catastrophes. A list of JOS Capital Improvement Projects is attached to the agendas. Each project is analyzed based on need and criticality. Directors may request an item for consideration at a Personnel Committee meeting. Districts' staff is currently working with the City Manager of Rancho Palos Verdes (City). The Districts and the City are seeking grant funding. The Districts provided comments on the City's Environmental Impact Report.

In a letter dated June 2, 2023, to the Board, matters were discussed pertaining to the budget for the 2023-24 fiscal year. A sewerage system final budget for the 2023-24 fiscal year was presented and a recommendation was made that the budget be adopted.

Upon motion of Director Montgomery, duly seconded and unanimously carried, the sewerage system final budget for 2023-24 was approved, adopted, and ordered filed.

RE: TAX LEVY
OPERATING FUND

Data for the tax levy necessary for the Operating Fund was presented and a recommendation was made that the tax levy be requested in accordance therewith.

Upon motion of Director Montgomery, duly seconded and unanimously carried, the following resolution was adopted:

BE IT HEREBY DETERMINED, RESOLVED, AND ORDERED AS FOLLOWS:

That pursuant to the provisions of Article 6, Section 4815 of the County Sanitation District Act (Chapter 3, Part 3, Division V, of the Health & Safety Code of the State of California), the Board of Directors of South Bay Cities Sanitation District of Los Angeles County does hereby find and declare that the sum of \$7,548,000 is and will be the amount necessary to maintain, operate, extend, or repair any work or improvements of the District for the collection, treatment, and disposal of sewage, and to defray all other expenses incidental to the exercise of any of the District's powers, except the amounts necessary to acquire, construct, maintain, and operate a refuse transfer or disposal system, or both, and any other expenses incidental to the operation of the system during the ensuing year and prior to the annual levy of taxes for the fiscal year 2024-25, and the Board of Supervisors of Los Angeles County is hereby requested to cause to be levied and collected at the same time and in the same manner as the next general tax levy for the County a tax upon the real property in the District, in an amount sufficient to raise the required amount, to wit: \$7,548,000, to be paid into the County Treasury to the credit of the Operating Fund of the District.

The Secretary is hereby instructed to furnish a copy of this resolution and statement to the Board of Supervisors of Los Angeles County at least fifteen (15) days before the first day of September 2023.

RE: APPROPRIATIONS
OPERATING FUND 2023-24

Upon motion of Director Montgomery, duly seconded and unanimously carried, the appropriations from the

Operating Fund for fiscal year 2023-24 were ordered made as shown in the Operating Fund Final Wastewater Budget that was attached to the agenda.

RE: STATEMENT FROM DISTRICT COUNSEL
ITEMS NOT LISTED ON AGENDA.

The Chief Engineer and General Manager stated that the Districts' legal counsel team at the firm of Lewis, Brisbois, Bisgaard, and Smith LLP (LBBS) consists of a dedicated legal team within LBBS that focuses on Districts' matters. Unfortunately, there was recent negative news coverage of LBBS related to attorneys leaving the firm and their email correspondence. He introduced Ms. Jessica Lienau, District's General Counsel, to make a statement regarding this matter.

Ms. Lienau's statement to the Board is as follows:

"Thank you to the Chief Engineer and the Directors for allowing me the opportunity to address the Boards. As the Chief Engineer stated, the Districts' legal counsel is at the law firm of Lewis, Brisbois, Bisgaard & Smith. Our team of lawyers feels privileged to serve the Districts and we continually strive to provide efficient and quality legal representation.

Lewis Brisbois, as a law firm (Firm), has recently faced some serious challenges that you may have read about in the press. First, a group of labor and employment lawyers left the Firm. Following the departure of these attorneys, an anonymous complaint was lodged against two of the former partners concerning their behavior while at the firm. The Firm's investigation into both of these former partners revealed private emails between the two containing unacceptable and offensive language aimed at Firm colleagues, clients, opposing counsel, and even judges. Some of the emails apparently included other Firm lawyers or third parties, but Firm management has stated that any other Firm attorneys were passive recipients of these emails and did not participate in the email correspondence. Firm management has stated that any Firm attorneys who received these emails no longer work at the Firm. Further, none of the Firm attorneys who handle Districts' legal work were even aware of these emails prior to their publication in the last few weeks (and were not copied on any of the emails). The Firm's investigation is ongoing, we want to make it clear that the Firm and we individual attorneys strongly condemn their conduct and will do everything within our power to ensure that nothing like this ever happens again.

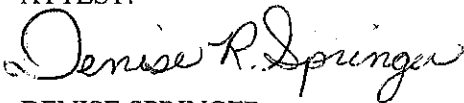
Going forward, the Firm will continue to take all measures necessary to hold ourselves to the highest standards of professional conduct that are truly reflective of our commitment to diversity, equity and inclusion (DEI) as well as basic human decency. Various controls are being discussed among the Firm and a DEI consultant. The Firm has hired Dr. Steven Jones as its DEI consultant. Dr. Jones will conduct an independent investigation into the emails and perform a DEI audit of the Firm. Dr. Jones expects to have preliminary findings and recommendations for the Firm within six months. The Firm has always been a leader amongst law firms in DEI efforts and the despicable conduct of two former partners does not negate the decades of work that the Firm has done nor is it representative of the more than 1500 other quality attorneys at the Firm.

We, your Districts Counsel team, were embarrassed and shocked to learn of the conduct of our former partners which we learned about at the same time the emails were provided to the media. However, their conduct is in no way representative or reflective of the team of lawyers who serve the Districts or the Firm at large. Our Districts legal team – and the Firm at large – are committed to maintaining the highest ethical and professional standards in the delivery of quality legal work. Thank you."

The Chief Engineer and General Manager stated that he has worked with the attorneys from LBBS for 25 years. They have never exhibited any behavior such as that described in the press. The Districts Counsel team has always been very professional. As he recently stated during Mr. Wes Beverlin's announcement of his transition to partial retirement, the Districts' legal team at LBBS has always exhibited high ethical standards towards Districts' staff and its team.

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

ATTEST:



DENISE SPRINGER
Deputy Secretary
/ee

GEORGE CHEN
Chairperson pro tem

