

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

February 28, 2024
11:00 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 in person at the Joint Administration Office, 1955 Workman Mill Road, Whittier, California, on February 28, 2024, at 11:00 a.m., for the purpose of:

1. Public Comment
2. Approve Minutes of Special Meeting Held January 24, 2024
3. CLOSED SESSION – Personnel Related Matters
4. Wastewater Revenue Program
5. Re: Director Compensation
6. Re: Director Orientation

There were present: Chris Pimentel, South Bay Cities
Ali Saleh, District No. 1
Suely Saro, District No. 3
Lula Davis-Holmes, Districts No. 8
Richard Barakat, District No. 15
Ali Sajjad Taj, Districts Nos. 18 and 19
Cory Moss, District No. 21
Margaret E. Finlay, District No. 22
Judith Merlo, District No. 23
Lindsey Horvath, Districts No.27 and Newhall Ranch
Michael T. Davitt, District No. 28
Lori Woods, District No. 29

Absent: Cathy Warner, Chairperson, District No. 2
Tim McOsker, District No. 4
Tasha Cerda, District No. 5
Janice Hahn, Districts No. 9
Rex Parris, District No. 14
Victor Gordo, District No. 16
Kathryn Barger, District No. 17
Austin Bishop, District No. 20
Laurene Weste, Santa Clarita Valley

Also present: Robert Ferrante, Chief Engineer and General Manager
Jessica Lienau, Committee Counsel
Kimberly S. Christensen, Secretary of the Committee

Upon motion of Director Taj, duly seconded and unanimously carried, Director Finlay 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 not listed on the agenda. Public comments on items listed on the agenda are included in the item below.

RE: MINUTES

Upon motion of Director Taj, duly seconded and unanimously carried, the minutes of the special meeting

held January 24, 2024, were approved.

RE: PERSONNEL RELATED MATTERS
DISCUSS

The Chief Engineer and General Manager updated the Committee on matters concerning the union-represented, self-represented, and non-represented employee units.

The Secretary called on the following speaker:

Mr. Luis Schmidt, an American Federation of State, County and Municipal Employees representative, addressed the Committee regarding labor negotiations.

District Counsel advised that it would be in the interest of the District to meet in closed session pursuant to Section 54957.6 of the Government Code, *Conference with Labor Negotiators. Agency Designated Representatives: Robert Ferrante, Chief Engineer and General Manager; Martha Tremblay, Assistant Chief Engineer and Assistant General Manager; Matt Eaton, Deputy Assistant Chief Engineer; and Jennifer Allen, Human Resources Director* to discuss matters concerning the self-represented and non-represented employee units.

The Chairperson pro tem took the Committee into closed session at 11:25 a.m. pursuant to Section 54957.6 of the California Government Code, *Conference with Labor Negotiators. Agency Designated Representatives: Robert Ferrante, Chief Engineer and General Manager; Martha Tremblay, Assistant Chief Engineer and Assistant General Manager; Matt Eaton, Deputy Assistant Chief Engineer; and Jennifer Allen, Human Resources Director* to discuss the matters referred to by District Counsel.

The Chairperson pro tem reconvened the meeting in regular session at 12:37 p.m. District Counsel advised that no action was taken of a nature that requires disclosure pursuant to Government Code Section 54957.1.

RE: WASTEWATER REVENUE PROGRAM
DISCUSS

The Chief Engineer and General Manager introduced Mr. Matt Eaton, Deputy Assistant Chief Engineer and Department Head of Financial Management, to give a presentation regarding the Joint Outfall System (JOS) budget and rates.

Mr. Eaton stated that his presentation would include 2022-23 Financial Performance, 2024-25 preliminary budgets, reserve and debt targets, and future rates. He showed maps of the Districts' service area and the JOS service area. The JOS consists of treatment plants and a large, interconnected sewer system. The JOS has one common financial system.

There are key financial objectives, which are used by staff to determine rates and budgets. The financial objectives are as follows: (1) meet current cash needs for funding Operations and Maintenance (O&M), debt repayment, and future capital projects; (2) comply with Board-adopted policies; and (3) implement cost-effective, stable rates.

He discussed the JOS financial performance (actuals vs. budget) for fiscal year 2022-23. Operating revenue (service charge and industrial waste surcharge contracts) and non-operating revenue (Ad Valorem [AV] tax and interest) were 8 percent above budget. O&M expenses were 13 percent above budget. Capital expenses were 32 percent below budget due to being overly optimistic on the timing of completion or payments of construction projects. The total overall expenses were \$73 million, or 10 percent below budget. The ending total balances was \$+93 million or 11 percent above budget.

In response to the Chairperson pro tem, City of Duarte, Mr. Eaton stated that Districts' staff needs to adjust the forecasting construction contract progress and completions. Overall, an increase in capital expenses is expected.

In response to Director Barakat, City of Bradbury, Mr. Eaton stated that capital expenses consist of in-house projects, routine treatment plant projects, sewer projects, construction projects, and the Pure Water Southern California project.

The Chief Engineer and General Manager added that the Districts is always conservative in budgeting.

In response to Director Barakat, Mr. Eaton advised that construction is 100 percent contracted. The Districts' Project Engineers design and oversee most construction projects.

JOS operating expenses 2022-23 (actual vs. budget) were shown on a slide. The Districts spent 42 percent above budget on chemicals and utilities due to high inflation last year. Total JOS operating expenses were 17 percent above budget.

In response to Director Pimentel, Mr. Eaton advised that most operational expenses, including chemicals (chlorine), are affected by the increase in electricity and natural gas prices in 2022-23.

Mr. Eaton continued his presentation. He reviewed the 2023-24 preliminary budget.

In response to Director Woods, Mr. Eaton advised that each District and the JOS has reserves. In accordance with the Board-adopted Financial Policy, the reserves should be targeted at 100 percent.

The two key financial targets that drive calculations of our rate recommendations, as was shown on a slide, are reserves and debt coverage ratio. Reserves are targeted at 100 percent. Reserves are calculated by a sum of short-term cash flow needs, six months of O&M, one year of debt service and stability fund for capital expenses, and provides funding for the first six months of a fiscal year. The cash flow requirement fund target is six months of O&M plus one year of debt service. The O&M Financial Stability Fund target is set to absorb fluctuations in capital spending of the following ten years. The Capital Projects Financial Stability Fund target is 0.5 percent of the Districts' assets.

Debt Coverage Ratio (DCR) targets are 1.10 minimum for bonds, 1.20 minimum for State Revolving Fund Loans and 1.30 is target in the debt policy. DCR is revenue minus O&M expenses, divided by debt service (loan and bond principal and interest payments). DCR is a key factor in credit rating for the sale of bonds. Staff's goal is to have a DCR above 1.3. DCR is a key factor in credit ratings and bond interest rates. Surplus revenue can be set aside for later use when ratio is below minimum requirements, but this may be seen as a negative to rating agencies and investors.

The Chief Engineer and General Manager stated that these are big factors when rates are presented. The Capital Improvement Plan (CIP) is another important factor because it shows how much the agency is spending. When aging infrastructure is replaced, there are O&M expenses that need to be covered.

In response to Director Saro, City of Long Beach, the Chief Engineer and General Manager advised that the Districts has one of the largest organics recycling program in the nation, located at the A.K. Warren Water Resource Facility. The Districts is capable of recycling between 400-600 tons per day of organic waste, which is converted to biogas to create energy or renewable natural gas that is dispensed at the Certified Natural Gas fueling station. In the future, the renewable natural gas will be injected into the SoCalGas pipeline. The Districts is currently working with the City of Long Beach to repurpose the Southeast Resource Recovery Facility.

In response to Director Barakat, Mr. Eaton stated that the Districts used landfill post-closure funds to pay off the unfunded accrued liability (UAL) in exchange for a fee-in-lieu paid by each District. The UAL is treated as an overhead cost. Furthermore, the Chief Engineer and General Manager stated that prior to this exchange, the Districts was paying over 20 percent toward pension costs per employee, then costs dropped to 15-18 percent following the exchange. Currently, the Districts' UAL is 90 percent funded with approximately \$100 million set aside to pay additional UAL. The agency is in a good position in regard to pension UAL.

Mr. Eaton continued his presentation discussing rate projections. The key drivers of future rates are O&M costs (54 percent increase in O&M since fiscal year 2019, utilities, chemicals, and labor) and capital. There are extensive infrastructure investments planned for the next 10 or more years to produce more recycled water, higher treatment, and reliability.

A list of JOS infrastructure projects was shown on a slide, as follows:

- \$3.12 billion in projects on the CIP through fiscal year 2033/34
- Reserves are currently being used to fund capital projects, and over time reserves will lower closer to their targeted level.
- Clearwater Tunnel Project
- Sewer relief and repair
- Pumping Plant and Water Reclamation Plant upgrades

- Pure Water Southern California project
- Earthquake resilience projects

In response to Director Barakat, Mr. Eaton advised that the Clearwater Tunnel Project is slightly behind schedule. The contractor has not made any significant new extra work requests. Furthermore, the Chief Engineer and General Manager stated that the tunnel boring machine has made it over 3.5 miles out of 7 miles and it is making good progress. Due to the high amount of public outreach, the residents have been receptive and understanding. The budget for this project is \$800 million. The tunneling portion is half-way completed. The next phases of the project consist of significant work at the coast and connecting the plant to the new tunnel.

In response to the Chairperson pro tem, the Chief Engineer and General Manager advised that the outfall tunnel is 18 feet in diameter.

In response to Director Horvath, County of Los Angeles, Mr. Eaton advised that the Pure Water Southern California (Pure Water) project is currently in the planning stage. The Districts' cost could be over \$1 billion over 10 years. The design phase will take one to two years and construction will take five years.

In response to Director Pimentel, City of El Segundo, the Chief Engineer and General Manager advised that adjustments to the treatment plant would be required for the Pure Water project. Staff is working on an agreement with Metropolitan Water District of Southern California (MWD). The total cost is over \$6 billion. O&M costs will increase due to the higher level of treatment.

In response to Director Barakat, the Chief Engineer and General Manager advised it has always been the agency's goal to reuse water; provide the partner with free recycled water for their use; and negotiate for the cost of additional treatment to be conveyed. Eventually, the recycled water will be conveyed to the San Gabriel Spreading Basin. MWD is selling recycled water to others. A full agreement hasn't been negotiated as of yet.

A bar graph, as was shown on a slide, displayed increasing JOS capital expenses. Actual capital expenses were shown in blue. Projected capital expenses were shown in green.

The current JOS rate ordinance took effect July 1, 2022, and established rates through June 30, 2026. Rate increases starting in 2026 will likely need to be at least 10 percent per year. Rates are expected to remain below comparable agencies for the foreseeable future. In fall 2025, discussions will commence regarding JOS rates.

In response to the Chairperson pro tem, the Chief Engineer and General Manager stated that the Districts will advertise that the rate increases are for a new water supply, more reliable sewers, higher level treatment, and more protection for the ocean. By law, the Districts cannot provide discounts for senior citizens.

In conclusion, the JOS Districts continue to be in a strong financial position. Inflation pressures continue to be a concern. Extensive infrastructure investments are planned for the JOS. Future JOS rate increases will be more significant than recent increases, but rates will continue to be lower than comparable agencies. In March, the Boards will consider receive and file of the service charge report. In June, the Boards will consider adoption of final budgets and the appropriations limit.

RE: DIRECTOR COMPENSATION - DEFER Upon motion of Director Moss, duly seconded and meeting. unanimously carried, the item was deferred to the next meeting.

RE: DIRECTOR ORIENTATION - DISCUSS The Chief Engineer and General Manager advised that due throughout the year, there is a strong need for Director orientation. Directors receive a stipend for attending orientation. During orientation, he reviews governance, facilities, projects, and tours of facilities. In-person orientations were typically held prior to Coronavirus (COVID-19), and virtual orientations were offered during COVID-19. Approximately 50 percent of Directors have been to an orientation.

Proposed changes were shown on a slide. New Directors will receive a welcome email that contains background information on the Districts. For JOS Directors, an in-person orientation will be provided in January (beginning in 2025) and another in May to coincide with largest turnover periods. The in-person orientation would be held in Whittier and includes a 30-minute presentation followed by tours of the San Jose Creek Water Reclamation Plant and Puente Hills Materials Recovery Facility. For the Santa Clarita Valley Sanitation District and Districts Nos. 14 and 20 Directors, an in-person orientation is provided, coupled with a tour of the nearest treatment plant. Details will be set up impromptu (e.g., no fixed date or format). For JOS Directors (when not

convenient to attend in-person), the Districts will provide a recording of an orientation that Directors can view at their convenience. Once the Director confirms they have reviewed the orientation video, the Districts will provide a stipend.

RE: ANNOUNCEMENTS - DISCUSS

The Chief Engineer and General Manager advised that, at the next meeting, the presentations will consist of an update on labor negotiations, ideas to help cities and the county to prevent future sewer spills during storms, and Director compensation.

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

MARGARET FINLAY
Chairperson pro tem

ATTEST:

KIMBERLY S. CHRISTENSEN
Secretary

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