

Call, Notice, and Agenda

SPECIAL MEETING – PERSONNEL COMMITTEE – COUNTY SANITATION DISTRICTS OF LOS ANGELES COUNTY

To be held in person and via teleconference per Brown Act, Section 54953(b)&(c), at the:

OFFICE OF THE DISTRICT 1955 Workman Mill Road Whittier, CA 90601 and KENNETH HAHN HALL OF ADMINISTRATION\* 500 West Temple Street, Room 372 Los Angeles, CA 90012

For the public to join the meeting virtually, click https://us02web.zoom.us/j/3397206095 or enter the Meeting ID 339 720 6095 into the Zoom app on your smartphone or computer. Alternatively, you may join by phone by calling (669) 900-9128 and entering the Meeting ID. You may find further information at: http://www.lacsd.org/agendas

THE COMMITTEE MAY TAKE ACTION ON ANY AGENDA ITEM LISTED BELOW

Table with 3 columns: District(s), Chairperson, and Date/Time. Date/Time is WEDNESDAY, September 25, 2024, At 11:00 A.M. Rows list districts from SBC to SCV and their respective chairpersons.

At the call of the Chairperson, a special meeting of the Board of Directors of the Personnel Committee of the County Sanitation Districts of Los Angeles County will be held at the above time and place for the purpose of:

- 1. Public Comment
2. Approve Minutes of Special Meeting Held May 22, 2024
3. Re: Joint Outfall System Financial Review for Fiscal Year 2023-24
4. Re: Update on Pure Water Southern California (PWSC) Program and Proposed Amended and Restated Agreement with Metropolitan Water District of Southern California (MWD)

## 5. Re: Districts' General Counsel

Summary: The Chief Engineer and General Manager will provide an update on the Districts' General Counsel.

## 6. Re: Pension Funding Policy

Summary: The Districts contracts with the California Public Employees' Retirement System (CalPERS) for retirement benefits for employees. Prudent management of the Districts' pension liability, and ensuring pension costs are not subject to unexpected increases, will reduce undesirable impacts on the Districts' reserves and rates. A Pension Funding Policy is proposed to proactively address the Districts' pension obligations. A draft of this policy is attached. The Chief Engineer and General Manager will brief the Committee.

## 7. Re: Director Compensation

Summary: In May 2024, the Personnel Committee provided direction to draft a new Director Compensation Ordinance as the existing Ordinances and rates have not changed since 2001. The proposed Ordinance would increase compensation to \$175 per meeting. For Directors attending meetings for multiple Boards on the same day, they would be compensated at \$125 per meeting. Additionally, the proposed Ordinance allows for an annual increase in these rates based on inflation, not to exceed five percent per year. The proposed Ordinance is attached for review and comments. If endorsed, individual Ordinances will be prepared and presented to each District's Board for their consideration.

**Report:** Prior to or during the meeting session, the Chief Engineer and General Manager may update the Directors on various matters concerning the Districts that may be of current interest to the Directors.

**Public Comment:** Members of the public may address the Board of Directors on any item shown on the agenda or matter under the Board's authority. A "Request to Address Board of Directors" form is available. In compliance with the Americans with Disabilities Act, if you require special assistance to participate in this meeting, please contact the Secretary to the Boards' Office (562) 908-4288, extension 1100. Notification 48 hours prior to the meeting will enable staff to make reasonable arrangements to ensure accessibility to this meeting. (28CFR 35.101 et seq. ADA Title II).

**Document Requests:** Links to supporting documents are available online at the time of posting. Agendas and supporting documents or other writings that will be distributed to Board members in connection with matters subject to discussion or consideration at this meeting that are not exempt from disclosure under the Public Records Act are available for inspection following the posting of this agenda at the office of the Secretary to the Boards of Directors located at the Districts' Joint Administration Building, 1955 Workman Mill Road, Whittier, California, 90601, or at the time of the meeting at the address posted on this agenda.



**LOS ANGELES COUNTY  
SANITATION DISTRICTS**  
*Converting Waste Into Resources*

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# **PENSION FUNDING POLICY**

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*Draft – For Discussion*

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# Pension Funding Policy

## SECTION 1. POLICY STATEMENT

The Los Angeles County Sanitation Districts (Collectively Districts or individually District) recognize that a fully-funded defined benefit pension plan requires financial discipline and long-term commitment. The Districts also recognize that an unfunded pension liability could potentially cause financial stress, impact on operations, and pressure on user rates and charges. This policy reflects the Districts' commitment to achieve a fully funded pension plan in a timely and cost-effective manner.

The Districts have a history of being fiscally conservative and follow prudent financial management practices. Therefore, this policy was developed to:

- Ensure the Districts have the flexibility to respond to changes in future service priorities, revenue levels, and operating expenditures
- Provide fiscal protocols to address the Districts' Unfunded Accrued Liability (UAL)
- Maintain the Districts' financial position
- Preserve the Districts' creditworthiness
- Ensure that all pension funding decisions are made in members best interests and protect the interests of ratepayers, retirees, and employees.

## SECTION 2. TREASURER; ADMINISTRATION

- 2.1 Each District, through the Investment Policy, has appointed the District's Chief Engineer and General Manager as the Treasurer of the District.
- 2.2 The Treasurer, or his or her designee, is hereby authorized to implement this Policy, and establish and maintain all financial reserves in accordance with this Policy and all provisions of law.
- 2.3 The Treasurer shall develop procedures to implement this Policy and shall report to the Board of Directors (Board) of each District in accordance with the requirements of law and this Policy.

## SECTION 3. BACKGROUND

The Districts provide a defined benefit pension plan through the California Public Employees' Retirement System (CalPERS). All qualified full-time Districts employees are required to participate in CalPERS. CalPERS provides retirement, disability benefits, death benefits, and annual cost of living adjustments to plan members and beneficiaries.

The Districts have two (2) pension plans through CalPERS that employees currently have vested pension benefits in:

- Classic Plan (2.0% @ 55) accounts for the significant majority of the Districts' pension liability.

- Public Employment Pension Reform Act Plan “PEPRA” (2.0% @ 62) – enacted by California Legislation for employees hired and new entrants after January 1, 2013.

The Districts are statutorily required to make payments to CalPERS on an annual basis. The Districts’ annual payments to CalPERS are comprised of two components: Normal Costs and unfunded accrued liability (UAL) Payments.

Normal Cost – represents the cost of pension benefits earned by current employees for their current year of service. Normal Costs payments are made monthly to CalPERS, which are based on a percentage of payroll.

UAL Payments – represents the shortfall in assets needed to fully fund prior benefits earned by employees and retirees. UAL payments are annual fixed dollar payments required to fund this shortfall.

The Districts’ UAL represents a significant long-term liability. Given that the CalPERS annual UAL payment is a fixed dollar amount, the liability shall be viewed similarly to the Districts’ long-term loan and bond debts.

### 3.1 UAL Post-Closure Exchange Agreement

The Districts have entered into an “exchange” agreement to apply a portion reserves available in the Landfill Post-Closure Fund toward the Districts’ unfunded pension liability (UAL). The exchange was structured to leverage the Landfill Post-Closure Funds and generate interest costs savings on the CalPERS liability:

- The Districts made a total of \$344.4 Million in Additional Discretionary Payments (ADPs) from the Landfill Post-Closure Fund to partially pay off the UAL at the time in FY 21-22 and FY 22-23.
- Instead of paying annual CalPERS UAL payments, the Districts are required to pay a reduced annual fee into the Fee-In-Lieu Fund.
- Annual Payments are capped at \$634 Million – equal to the payments that would have been paid on a Pension Obligation Bond (POB): \$470 million 30-year POBs @ 3.1%.
- The “Fee In Lieu” Fund is available to pay for post-closure maintenance costs.
- After cap is reached, post-closure maintenance cost responsibility reverts back to solid waste system.
- The “Fee-in-Lieu” Fund’s purpose, target levels and funding are defined in the Districts’ Solid Waste Financial Reserve Policy.

### 3.2 Annual Adjustment to UAL/Amortization Bases

Every year around September, CalPERS releases a new actuarial valuation report, based on values as of June 30th of the previous year. CalPERS calculates the Districts' UAL as of this new valuation date, which increases or decreases from year to year, due to changes in the following factors/assumptions:

- Investment Performance – adjustment for investment gains/losses relative to the stated CalPERS Discount Rate (6.80% as of July 1, 2024);
- Demographic Performance – adjustments made based on actual performance compared to actuarial assumptions, which includes early/late retirement, disability, mortality, promotion, terminations, etc.
- Actuarial Assumptions - changes in the discount rate, life expectancy, rate of inflation, rate of return, etc.);
- Payroll / Benefit Changes - increase/decrease in number of employees or salary increases or adjustments.

## **SECTION 4. FUNDING PLAN AND OBJECTIVES**

The Districts' funding goal is to be 100% funded. The Districts shall review its funding level each year, and take appropriate action(s) to maintain a minimum targeted funded ratio of 90% (based on the most CalPERS annual actuarial report). If the Districts funded ratio drops below 70%, the Treasurer will present to the Districts' Personnel Committee, a plan to address the shortfall.

The Districts will attempt to meet its pension funding obligations as follows:

### 4.1 Actuarially Determined Contributions

Each fiscal year, the Districts will contribute the normal cost and unfunded accrued liability ("UAL") as described in Section 3.

### 4.2 Annual UAL Payment

CalPERS offers the option to make monthly payments on the UAL or prepay the entire annual UAL amount at a discounted level by the end of July. The Districts will prepay its annual UAL payment each July to achieve budgetary savings as long as the Districts' are able to maintain sufficient reserves.

### 4.3 Additional Funding Options

The Districts shall utilize the following methods to ensure funding remains above 90%. In the event that the funding drops below 90%, the Treasurer will utilize the methods below with a goal to return to a 90% funded status within 10 years.

The targets and funding mechanisms shall be re-evaluated as the transition toward fewer Classic employees and retirees progresses. In particular, by 2050 it is expected that less than 5% of employees will be Classic, and the total number of Classic employees and retirees will be significantly reduced, resulting in a smaller and less volatile UAL.

In evaluating the use of the following methods, the Treasurer shall prioritize achieving the lowest overall long-term cost, while continuing to maintain adequate reserves for other needs.

#### 4.3.1. ADPs

The Districts will seek to consistently apply available funds toward its pension liability. The Districts will make annual contribution from excess operating funds, in a manner consistent with the Board's Fund Balance and Reserve Policies.

#### 4.3.2. Tax-Exempt Exchange

To the extent the Districts have pay-go capital projects, the Districts shall seek to finance such projects with tax-exempt bonds and use the scheduled budget amounts to pre-pay the UAL. The Districts shall use the scheduled UAL payments to pay the debt service on the bonds and derive savings from the interest cost differential.

#### 4.3.3. Accelerated Pay-off of New Bases

When new bases are added to the Districts' UAL, the Districts shall seek to accelerate the repayment of such bases over a shorter timeline (e.g., 20-year base repaid in 10 years) using alternative amortization schedules allowed by CalPERS such as Fresh Start.

#### 4.3.4. Internal Loan/ Investment

The Districts shall seek to optimize its capital structure and review the opportunity costs/return of its investment and capital financings. To the extent that the Districts has the capacity to advance, loan and/or invest a portion of its funds designated or restricted for a specific purpose and the expected return is below the current CalPERS Discount Rate (i.e., 6.80%), then it shall consider structuring an internal loan or investment to address the District's retirement benefits.

#### 4.3.5. Section 115 Pension Trust

The Districts shall establish and maintain a pension stabilization fund in the form of a Section 115 Pension Trust (Trust). Assets in the Trust may be used only for pension related costs. The Districts' objective with the Trust is to accumulate assets to fund its CalPERS pension costs and future obligations, as well as mitigate the budget impact of costs associated with future UAL. The Districts will strive to meet the following guidelines:

- Initial Deposit: To begin the funding of the Trust, the Districts will make a one-time contribution of \$5 million to the Trust.
- Ongoing Deposits: The Districts will consider making additional contributions to the Trust on an annual basis. The amount will be calculated as the difference between 25 percent of estimated base salaries less any payments made to CalPERS and payments required in the UAL Post Closure Exchange Agreement. In the event that the calculation is negative, no ongoing deposit will be made. If the total amount of this payment is less than \$10 million, the Treasurer will include this payment in the annual budgets for review and approval by each District. In the event a calculated annual deposit is above that amount, the Treasurer will present the proposed contribution to the Districts' Personnel Committee for review and approval prior to including in each District's budget.



- Investment Portfolio Selection: The Treasurer or his/her designee, will work with the Trust’s investment advisor, to select investment portfolios based on the Districts’ risk tolerance and projected withdrawal schedule from the Trust.
- Use of Trust Funds: Funds as allowed by the Trust may be used for any of the following purposes: (1) the annual UAL payment to CalPERS, (2) the annual normal cost payment to CalPERS, (3) reimbursement to the Districts for CalPERS pension costs, and (4) Additional Discretionary Payments to CalPERS.
- Funding Goals: When measuring its funded ratio, the Treasurer will incorporate assets in the Trust, in addition to the assets under management by CalPERS. The Districts may consider foregoing contributions to the Trust if its funded ratio exceeds the target 90% funded status, or if the current assets on deposit in the Trust are projected to be sufficient to cover budgetary fluctuations in the future.

**SECTION 5. BASE SELECTION STRATEGIES**

When making additional payments to CalPERS, the Districts are required to select which base these monies should be applied. The Districts will select paying off shorter-term bases to have the maximum impact on budgetary savings, and longer-term bases to maximize total UAL savings. In general, the Treasurer will prioritize total savings as long as near-term operational and capital needs can be met.

**SECTION 6. SUPERFUNDED STATUS**

In the event that either of the District plans achieve “superfunded” status, where asset values exceed the accrued liability (i.e., funding level exceeds 100%), the Districts shall direct funds otherwise available for the Additional Funding Options in 4.3 toward the District’s Other Post-Employment Benefits (OPEB) liability. In the event that both the Pension plan and OPEB liabilities are fully-funded or super-funded, no additional funding will be made.

**SECTION 7. PENSION FUNDING POLICY ADOPTION**

This Policy will become effective after approval by all of the Districts Boards. This Policy will be reviewed on an annual basis and any modifications must be approved by the Boards. After each review, the matter will be referred to the Personnel Committee (comprised of the Chairpersons of the Board of Directors of each active County Sanitation District of Los Angeles County) for its consideration.

Adopted this \_\_\_\_\_ day of \_\_\_\_\_

**AN ORDINANCE PROVIDING  
COMPENSATION FOR MEMBERS  
OF THE BOARD OF DIRECTORS  
FOR  
COUNTY SANITATION DISTRICT NO. \_\_  
OF LOS ANGELES COUNTY  
AND REPEALING ORDINANCE NO. \_\_**

**Effective SIXTY (60) DAYS AFTER ADOPTION**

Draft for Consideration by the Personnel Committee September 2024

ORDINANCE NO. \_\_\_\_

**ORDINANCE NO. \_\_**

AN ORDINANCE PROVIDING COMPENSATION FOR MEMBERS OF THE BOARD OF DIRECTORS OF COUNTY SANITATION DISTRICT NO. \_\_ OF LOS ANGELES COUNTY AND REPEALING ORDINANCE NO. \_\_

**SECTION 1.0 -- AUTHORITY**

Pursuant to Section 4733 of the California Health and Safety Code, the Board of Directors of County Sanitation District No. 2 (the “Board”) of the Los Angeles County Sanitation Districts (the “Districts”) may, by ordinance, fix the amount of compensation paid to each Board member for each Board meeting attended or for each day’s service rendered as a Board member, together with any incidental expenses incurred as a result of Board duties (the “Incidental Expenses”). Pursuant to Districts Ordinance number \_\_ titled “An Ordinance Providing Compensation for Members of the Board of Directors For County Sanitation District No. \_\_ of Los Angeles County”, the current rate of compensation is \$125 for each Board meeting attended or for each day’s services rendered, together with any Incidental Expenses.

Pursuant to Section 4733 of the California Health and Safety Code, the Board may, by ordinance adopted pursuant to Water Code Section 20200-20207, increase the amount of compensation to be paid to Board Members for each day’s service.

Pursuant to Water Code Section 20200-20207, the Board may, after holding a public hearing, adopt an ordinance increasing Board Member compensation for each day’s service in an amount not to exceed five percent (5%) for each calendar year following the operative date of the last adjustment.

**SECTION 2.0 -- REPEAL OF ORDINANCE NO. \_\_**

Districts Ordinance number \_\_ titled “An Ordinance Providing Compensation for Members of the Board of Directors For County Sanitation District No. \_\_ of Los Angeles County” is hereby repealed in its entirety and shall immediately become ineffective upon the effective date of this Ordinance.

**SECTION 3.0 -- COMPENSATION**

- A. A member of the Board of this District shall be compensated at the rate of \$175 plus incidental expenses for:
- 1) Each meeting of the Board attended by that member .
  - 2) Each Service Event, in which a member of the Board renders service on behalf of the Districts either individually or in conjunction with other Districts by request of the Board including, but not limited to:
    - a) Attending scheduled tours of Districts facilities.

- b) Attending meetings, other than Board meetings, including meetings of the Personnel and/or Collective Committees, as those same are defined in the Amended Joint Administration Agreement dated September 10, 2014 as that Agreement may be amended from time to time.
- c) Rendering service at the request of the Chief Engineer and General Manager of the Districts on matters the Board has previously delegated authority to the Chief Engineer and General Manager of the Districts and the Board has previously determined are compensable to the Board member and in accordance with the requirements of Sections 53232 *et. seq.* of the California Government Code.
- d) Rendering service on any matter the Board has authorized a member of the Board to act and which the Board has previously determined are compensable to the Board member and in accordance with the requirements of Sections 53232 *et. seq.* of the California Government Code.

3) In the event that the member attends more than one meeting or Service Event on the same day, the rate of compensation is \$125 per meeting or Service Event.

- B. Pursuant to Section 4733 of the California Health and Safety Code, compensation payable to a member of the Board shall be limited to a maximum of six (6) days in any calendar month, together with any Incidental Expenses.
- C. If any of the services rendered by a member of the Board of Directors of this District or incidental expenses are common to more than one County Sanitation District of Los Angeles County which has provided for the payment of compensation to Board members, the compensation to be paid by this District shall be equal to the rate provided in Section 2.0 (A) divided by the number of such County Sanitation Districts of Los Angeles County being represented by the member.
- D. On July 1 of each year, beginning with July 1, 2026, the amount of compensation, as laid out in Section 3A above, shall increase by the increase in the Consumer Price Index for All Urban Consumers (CPI-U) for Los Angeles-Long Beach for the 12 month period ending in the preceding March, rounded to the nearest whole dollar, not to exceed five percent (5%) unless said increase is waived by the Board.

**SECTION 4.0            --            SEVERABILITY**

If any provision of this Ordinance is adjudged by a Court of proper jurisdiction to be invalid, or unenforceable, it is the intention of the Board adopting this Ordinance that all other provisions of this Ordinance shall remain valid and fully enforceable.

**SECTION 5.0            --            EFFECTIVE DATE**

This Ordinance shall become effective January 1, 2025 or sixty (60) days following its adoption, whichever is later. The Clerk of the Board shall certify the adoption of this Ordinance and shall cause a summary to be published in a newspaper of general circulation as required by law.