



COUNTY SANITATION DISTRICTS OF LOS ANGELES COUNTY

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GRACE ROBINSON HYDE
Chief Engineer and General Manager

June 14, 2018

Board of Directors
County Sanitation District No. 14
of Los Angeles County

Dear Directors:

Wastewater Revenue Program for Fiscal Year 2018-19

The agenda for the Board meeting on June 21, 2018, contains two items regarding the wastewater revenue program. The first item pertains to the Service Charge Report that was filed with the District Clerk on March 29, 2018. The second item relates to the annual adoption of the state-mandated appropriations limit and the final budget for fiscal year 2018-19.

SERVICE CHARGE REPORT

Adoption of the Service Charge Report is needed for the continued collection of service charges on the property tax roll for residential, commercial and small industrial dischargers. The current service charge rate is \$39.67 per month (\$476 per year) per single-family home (SFH) and no increase is being proposed for fiscal year 2018-19. Multi-family residential units will pay 60% of the adopted SFH rate and condominiums will pay 75% of the adopted SFH rate. Likewise, commercial and industrial dischargers will pay in proportion to their use of the regional wastewater management system compared to a SFH. Dischargers with verified low water usage (particularly seniors and retirees) may also qualify for a reduced charge.

Prior to considering adoption of the Report, the Board must hold a public hearing. The public hearing, as set by the Board, is scheduled for June 21, 2018 at 9:30 a.m. in the Lancaster City Council Chambers. Notice of the public hearing was published twice in newspapers of general circulation within the District. Public testimony will be accepted at the hearing and all written comments must be received at or by this time. After all public input has been received by the Board, the public hearing will be closed and the Board will consider adoption of the Report.

APPROPRIATIONS LIMIT

The Constitution of the State of California places a limit on the authorization to expend the proceeds of taxes levied by state and local governments in California. In addition, the Government Code requires the governing body for each local jurisdiction to establish, by resolution, an appropriations limit for each fiscal year. The appropriations limit for FY 2018-19 has been determined by adjusting the previous limit for FY 2017-18 based upon population change factors for the County and the change in the California Personal Per Capita Income. The appropriations limit has also been adjusted to include both the operational and capital costs of the facilities needed to comply with the mandates of the Regional Water Quality Control Board. All of this is in accordance with the procedures outlined in Article XIII B of the Constitution and Section 7910 of the Government Code. The proposed appropriations limit and anticipated tax revenue are shown in Exhibit No. 1. This information has been available to the public at the Districts' Joint Administration Office in conformance with the requirement that the documentation used in the determination of the appropriations limit be available fifteen days prior to its establishment by the Board of Directors.

FINAL BUDGET FOR FISCAL YEAR 2018-19

Enclosed for your review is the proposed final budget for FY 2018-19, a list of proposed capital projects, and information on the monies set aside in various funds/reserves. These funds and reserves were established in accordance with the District's Wastewater Financial Reserve Policy adopted in October 2017.

The final budget provides a comparison with the current 2017-18 budget and a breakdown of the items included in the budget. It is divided into three sections: anticipated expenses, projected revenues, and transfers to or from reserves. In preparing the budget, it is projected that the general revenue sources available to the District for meeting expenses during the coming fiscal year include a pro rata share of the ad valorem (property) taxes, service charges, industrial wastewater surcharges, sale of recycled water, lease payments from agricultural land owned by District No. 14, interest income, and contract revenue. In addition, monies will be transferred from the Capital Improvement Fund (a restricted fund for the accumulation of connection fees paid by new users) to help cover the costs of expansion-related capital projects. Lastly, previously accumulated monies will be transferred from the designated reserves to help fund the construction of capital improvements.

In addition to the expenses directly incurred by each District for the facilities it owns, the final budget also includes each District's proportionate share of the costs associated with facilities and services jointly shared with other Districts. In accordance with the Joint Administration Agreement, Joint Administration costs are allocated to each signatory District according to the ratio of the number of sewage units in a District to the total number of sewage units in all the Districts signatory to the Agreement. A sewage unit represents the average daily sewage flow and strength (measured in terms of chemical oxygen demand and suspended solids) from a single-family home. This method of allocating costs considers flow as well as the strength of sewage from all types of users and is the most equitable way to distribute Joint Administration and costs.

In past years, certain non-operational expenses were categorized as either O&M-Joint Administration or O&M-Technical Services depending upon which Districts' Department incurred the expense. As part of the process of implementing a new accounting software system, staff has been evaluating those expenses and re-categorizing them according to whether they still provide broad

administrative services to all Districts (i.e. accounting, purchasing) or more technical support (i.e. reuse and compliance, information technology). As a result, the Joint Administration budget has dropped significantly and the Technical Services budget has risen by a similar amount. However, in combination, the budget for these two items has remained nearly identical to last year's combined budget.

As part of the new accounting system, changes have been made to the way interest income is recorded. In prior years, interest on funds in the designated reserves were credited to the reserve account and then transferred to the District's operating account for use as a revenue source. To simplify this process, all of the interest earned is now credited directly as a revenue source.

SIGNIFICANT EXPENDITURES

Mitigation Land – A condition of the *Final Environmental Impact Report for the Lancaster Water Reclamation Plant (WRP) 2020 Facilities Plan* required the District to purchase approximately 300 acres (the mitigation land) in an area east and north of the Lancaster WRP for the long-term protection of alkali mariposa lily habitat. The District is working on an agreement with the Antelope Valley Conservancy, under which they would maintain the mitigation land on behalf of the District. The cost of their efforts, which must be prepaid in the form of an endowment, is reflected in the budget as a separate line item entitled Prepaid Expenses and is estimated to be approximately \$1 million.

Eastern Agricultural Site Groundwater Wells – In November 2017, the District entered into an agreement to lease approximately 1,480 acres of the District's eastern agricultural site to Calandri Farms, LLC. As part of the agreement, the District is required to install three new groundwater wells on the leased property. The total estimated cost is \$3.75 million, all budgeted during fiscal year 2018-19.

Hydrogen Sulfide Treatment Facilities – These scrubbers will remove hydrogen sulfide from biosolids digester gas to meet air emission requirements. In addition, they will greatly reduce reliance on chemical addition and reduce operating costs. The total estimated cost is \$1 million, with \$930,000 budgeted during fiscal year 2018-19.

Biosolids Air Drying – This project will allow biosolids to be further dried before hauled offsite, which will reduce their weight, and hence their hauling costs. The total project cost is estimated at \$630,000 and the project will be complete in fiscal year 2018-19, for which \$560,000 is budgeted.

Water Diversion Diaphragms – These diaphragms will be installed in the recycled water storage reservoirs to provide leak detection and prevent soil erosion in the event a minor leak should develop. The total project cost is estimated at \$800,000, and the project will be completed during fiscal year 2018-19, during which, \$650,000 is budgeted.

Plant Sewer Rehabilitation – As previously reported to the Board, a 36-inch diameter vitrified clay pipe sewer used to convey waste flows from the treatment process to the head of the plant is significantly corroded and must be rehabilitated. The estimated cost of this work is \$250,000, with \$135,000 being budgeted during the 2018-19 fiscal year. Pursuant to the Board's direction, litigation against Mission Clay products, the manufacturer of the defective pipe, has been initiated to seek reimbursement of these costs.

Groundwater Adjudication — Although a judgment was made in the Antelope Valley groundwater basin adjudication case, a limited number of parties remain unsatisfied and have filed an appeal. Additionally, the Watermaster has been going through a difficult and contentious process establishing the

rules and procedures for implementing the judgment. In order to protect their allotment of 3,400 acre-feet per year, Districts Nos. 14 and 20 have had to remain involved in the on-going legal disputes, albeit to a lesser degree. The estimated cost for each District in Fiscal Year 2018-19 is \$100,000.

SUMMARY OF REQUIRED ACTIONS

Although no change is being made to the service charge rate, a public hearing on the Service Charge Report is required under the California Health and Safety Code in order for the District to continue to collect the previously approved wastewater service charge as a separate line item on the property tax roll. This is the most cost-effective and efficient means of collecting the service charges. After the public hearing is closed, the Board must adopt the Service Charge Report in order to ensure collection of the service charge through property tax billing.

It is also recommended, in relation to budgetary matters, that the Board of Directors adopt a resolution establishing the appropriations limit on the proceeds of taxes, adopt the budget for FY 2018-19, adopt a resolution requesting the tax levy, and authorize appropriations in the sewerage system budget, all as shown on the agenda.

Very truly yours,



Grace Robinson Hyde

GRH:gc

Enclosures