



COUNTY SANITATION DISTRICTS OF LOS ANGELES COUNTY

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GRACE ROBINSON HYDE
Chief Engineer and General Manager

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Board of Directors
County Sanitation District No. 23
of Los Angeles County

Dear Directors:

Wastewater Budget Matters for Fiscal Year 2018-19

The agenda for the Board meeting on June 13, 2018, contains an item relating to wastewater budget matters for fiscal year (FY) 2018-19. These matters include establishing an appropriations limit on the proceeds of taxes, adopting the sewerage system final budget, requesting the tax levy, and authorizing appropriations per the sewerage system budget.

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 Los Angeles County and the change in the California Personal Per Capita Income. The appropriations limit has also been adjusted to include the increased operation and maintenance costs of secondary treatment needed to comply with federal requirements. 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, grants, state low-interest loans, 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 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 and Joint Outfall Agreements, Joint Administration and Joint Outfall 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 each 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. In the Joint Outfall System (JOS), there are approximately 1.9 million sewage units. 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 Joint Outfall 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 CAPITAL EXPENDITURES

The issues outlined below relate to the Joint Outfall System (JOS). This is the system of trunk sewers and treatment plants jointly owned by the seventeen Districts signatory to the Joint Outfall Agreement. The costs discussed below are the combined total for the JOS, of which each District in the JOS is required to pay its proportionate share of the costs. In addition, a District may have costs related to sewers and pumping plants specifically owned by that District. Those costs are solely borne by that specific District.

Sewer System Repair and Rehabilitation – One of the naturally occurring processes in sewer systems is the formation of hydrogen sulfide gas. Through a series of complex biological and chemical reactions this gas is transformed into sulfuric acid, which can lead to extensive corrosion of the sewers. In an effort to slow down the corrosion rate and to control odors, iron salts and sodium hydroxide are routinely added to the sewer system and the crowns of the sewer pipes are sprayed with acid-neutralizing

magnesium hydroxide. Although the chemical addition has reduced the rate of corrosion, it has not eliminated the problem. Where feasible, the Districts' sewer rehabilitation program utilizes technological advancements for the in-place repair of sewer lines by inserting corrosion-resistant liners into the sewers. These liners restore the structural integrity of damaged lines and represent a permanent solution as they prevent further corrosion from occurring. In some instances, corroded sewers are being replaced with pipelines containing corrosion-resistant material. For fiscal year 2018-19, capital expenses related to the repair and rehabilitation of the sewers is estimated to be \$33.8 million. This total, which is higher than what was shown in the preliminary budget, includes projects that were scheduled to be completed during fiscal year 2017-18 but have carried over to fiscal year 2018-19.

Concrete Protection – The concrete at the various treatment plants is subject to corrosion in the same way that the sewers are. Liners were installed a number of years ago to protect concrete structures at the plants that were subject to significant corrosion. These liners have reached the end of their useful life. In order to preserve the structural integrity of the plants, it is necessary to remove the old liners, repair any existing damage, and then add new protective liners to prevent future corrosion. The proposed budget for fiscal year 2018-19 includes \$10.1 million related to this work.

Clearwater — Effluent from the Joint Water Pollution Control Plant (JWPCP) in Carson is conveyed to the ocean through two tunnels, one completed in 1937 and the other in 1958. Both tunnels have had continual flow in them and cannot be taken out of service under any condition. As has been discussed extensively with the Boards, construction of a third tunnel (the Clearwater Project) has been proposed. District No. 2, acting in its capacity as the administrative agent for the Joint Outfall System, previously approved prequalification of potential contractors for the Clearwater Project and entered into a Project Labor Agreement with the Los Angeles/Orange Counties Building and Construction Trades Council.

The Clearwater Project will be funded with a combination of monies accumulated in the Capital Improvement Fund (fees paid by new users of the system and dedicated to capital projects) and debt financing. The Districts previously sold bonds in 1993 (which have subsequently been refinanced), with debt service that expires between 2021 and 2023. It is proposed to use the Capital Improvement Fund monies first and wait until the existing debt is retired before issuing the new debt. Because the two debts are fairly similar in size, the impact on the rates will be minimized. The total estimated construction cost of the Clearwater Project, scheduled to be completed in fiscal year 2025-26, is \$700 million, with \$80 million to be spent in this next fiscal year.

Flow Equalization at the San Jose Creek Water Reclamation Plant (WRP) — Influent flows at the treatment plants are not static; they vary over the course of the day with peaks and valleys occurring at different times. Unfortunately, flows are highest during the day when the demand for recycled water is lowest, meaning that water may be discharged to the San Gabriel River and go unused. Conversely, flows are lowest at night when the demand for recycled water is highest, meaning that some of the need may go unmet. An 8 million gallon storage tank is being constructed at the San Jose Creek WRP that will store the peak flows during the day and then feed them back into the plant during the low-flow periods. This will make more recycled water available and also improve the operational efficiency of the WRP. This project, which is already under construction, is scheduled to be complete in fiscal year 2020-21, with estimated expenses in fiscal year 2018-19 of \$20 million.

Power Distribution System – This project involves the modernization of the power distribution systems at the various treatment plants to include redundant power feeds to improve the maintainability and reliability of those systems. \$8.4 million budgeted for this work next fiscal year.

Process Air Compressors – All of the upstream treatment plants bubble ambient air through the secondary treatment system to enhance the biological treatment process. This air is first compressed and then injected into the aeration tanks through a series of diffusers. As the equipment ages or as technology improves, the process air compressors (PACs) must be replaced to ensure maximum efficiency in the transfer of oxygen, which leads to lower overall operating costs. Scheduled replacement of the PACs will occur through fiscal year 2020-21, with \$4.9 million anticipated to be spent on this work next fiscal year.

Summary of Required Actions

At the June 13, 2018 Board meeting, it will be recommended 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