



COUNTY SANITATION DISTRICTS OF LOS ANGELES COUNTY

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GRACE ROBINSON HYDE
Chief Engineer and General Manager

June 8, 2018

Board of Directors
Santa Clarita Valley Sanitation District
of Los Angeles County

Dear Directors:

Wastewater Budget Matters for Fiscal Year 2018-19

The agenda for the Board meeting on June 15, 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 costs of facilities needed to comply with the chloride limits as imposed by the Los Angeles 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, 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, any surplus will be transferred to the designated reserves to be used for funding the construction of the chloride compliance project.

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 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 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

Chloride Compliance Project — Work on the chloride compliance project was suspended last year, pending revisions to the environmental documents as mandated by the Court. The only work undertaken during that time was to address the Court's specific concerns. A hearing was held in October 2017, after which the Court found in the District's favor to allow work to recommence. During the forthcoming year, it is anticipated that approximately \$18.9 million will be spent on finalizing the design and beginning construction of this project. In addition, another \$430,000 has been budgeted for legal and engineering support related to environmental compliance.

The District has been awarded grants totaling approximately \$7.5 million for the ultraviolet (UV) disinfection portion of the chloride compliance project, of which \$500,000 will be received during FY 2018-19. In addition, staff has applied for State Revolving Fund (SRF) loans to help finance both the UV disinfection and advanced water treatment (AWT) portions of the project. Approximately \$4.4 million in loan proceeds are expected during FY 2018-19. Please note that, because both the grant and loan

programs are reimbursement based, some of the grant and loan funds for work undertaken in FY 2018-19 will not be received until FY 2019-20.

Valencia WRP Process Air System — The secondary treatment system relies upon the infusion of compressed air into the wastewater. The air compressors have been in place since the 1970's and are nearing the end of their useful life. The total cost for new air compressors is estimated at \$2 million, with \$975,000 being budgeted in FY 2018-19.

Valencia WRP Power Distribution System — This project involves the modernization of the power distribution system to include redundant power feeds to improve the maintainability and reliability of the power systems at the plant. This work is projected to be completed by FY 2021-22 at a total cost of \$13.2 million, with \$500,000 budgeted for this work next fiscal year.

Valencia WRP Aeration System Diffuser Upgrades — The treatment plant has discharge limits for nitrogen, and relies on air diffusion equipment for the treatment process to meet these standards. This project will replace obsolete equipment with a new style of diffuser, which will also improve the treatment process. The total estimated cost is \$900,000, with \$400,000 of the total to be spent in FY 2018-19.

Valencia WRP Replacement of Primary Sedimentation Tank Odor Control Covers — Severe corrosion of several of the existing odor control covers at the Primary Sedimentation Tanks has occurred. As a result, the covers need to be replaced. The total estimated cost is \$900,000, with \$200,000 of the total to be spent in FY 2018-19.

Valencia WRP SCADA System Conversion — The existing SCADA network is comprised of proprietary equipment that is outdated and expensive to maintain. This project includes the purchase of new hardware and migration of the old network to a system that meets the Districts current standards. The total estimated cost of the entire project is \$2.1 million, of which \$170,000 will be spent in FY 2018-19.

Saugus WRP Process Improvements — The treatment plant has discharge requirements for treatment plant performance which necessitates use of chemicals and chemical storage. To continue to reliably meet treatment and storage safety requirements, an upgraded polymer dosing station and new sodium bisulfite station are needed. The total estimated cost is \$550,000, with \$200,000 of the total to be spent in FY 2018-19.

Summary of Required Actions

At the June 15, 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