

and Spadra Landfills are covered well into the future. The proposal would help stabilize the Solid Waste System operations. Their targeted operation and capital reserve levels are low. This exchange would result in these reserve levels increasing and the ongoing cost of operations will be lower. The Personnel Committee, consisting of the Chairs of each District, had four meetings to discuss the proposed exchange and endorsed presenting the Agreement to each of the Boards for consideration.

The UAL is the outstanding pension liability owed to CalPERS by the Districts for accrued underfunded pension costs. That amount is approximately \$460 million. It is payed back over time and is charged 7 percent in interest, which is a high interest rate in today's market. The UAL is determined annually by CalPERS.

The Districts has PCM funds, which were set aside to generate interest revenue to cover the cost to maintain the environmental systems at closed landfills. Landfills leave an environmental legacy requiring heavy monitoring and maintenance of environmental controls, gas systems, water controls, and grade land settlement after they close. The agency has an obligation to maintain environmental control systems until they no longer pose a threat to public health and the environment, including ground water and air quality. The PCM reserve fund has a total of \$585 million to provide the annual interest revenue needed to pay for the required maintenance at these landfills.

The proposed agreement would solve two issues. First, it would save money on high interest UAL payments. Second, the proposal would provide better financial assurance for the two closed landfills. The proposal calls for the use of a portion of the \$585 million post-closure reserves to pay off the full amount of the current UAL to save on the high interest. In return for use of the PCM, all Districts would cover the landfill PCM costs for the next 40 to 60 years.

As of April 2021, the Districts' pension liability or UAL is approximately \$468 million and is charged a relatively high interest of 7 percent. The cost of the interest compared to the proposed exchange is \$50, 000 per day. The minimum annual payments to CalPERS total \$858 million over 22 years resulting in a total of \$390 million interest owed. CalPERS encourages early payoff of the UAL at any time.

A graph of the UAL payment schedule for the next 22 years was shown on a slide. The interest payment was shown in light blue, and principal payment was shown in dark blue. Other agencies and cities frequently choose to issue Pension Obligation Bonds (POBs), which are a financing alternative if no funds are available. The proposal allows for an advance to pay off the UAL and generate savings up front.

The agency is required by law to maintain environmental control systems until they no longer pose a threat to the public health and the environment. It is also required to demonstrate to CalRecycle that an ongoing revenue source is available for PCM costs. Otherwise, the funds must be turned over for CalRecycle to manage. The current *Pledge of Revenue Agreement* with CalRecycle provides that interest revenue generated by post-closure reserve funds is used as revenue to pay for PCM costs. The funds are invested in accordance with the Districts' investment policy.

Next, he discussed the current issues related to PCM. Interest rates are currently too low to generate sufficient coverage for PCM costs. The *Pledge of Revenue Agreement* is not generating revenue as intended. Total annual PCM expenses are \$14 million, and the annual interest revenue generated is now approximately \$8 to 9 million. It is unlikely that interest rates will return to a sustainable level in the near future. If the proposal is not approved and interest revenue does not improve, PCM funds would need to be placed in a trust fund that is controlled by CalRecycle. The Districts would need annual permission to draw from the trust fund.

The proposed agreement provides for the use of \$468 million of the PCM reserve fund to pay off the full amount of the current UAL. In return for paying off the UAL with CalPERS, all Districts would pay a reduced annual fee into a "Fee-In-Lieu Fund" which would be available for use by the Solid Waste System to pay for landfill post-closure maintenance costs.

He introduced Mr. Julio Morales, a Registered Municipal Advisor, to discuss the advantages of the proposed exchange, as shown on a slide. Mr. Morales has worked with cities and special districts on pension funding strategies.

Mr. Morales greeted the Directors. He stated that he works for Urban Futures Inc. Like other agencies in California, the Districts has an unfunded liability which changes over time. The Districts has a unique resource to structure a unique deal. He has been working with the Districts on this matter for several months. The essence of the proposal is to advance a portion of the PCM fund to the Districts to pay off the UAL. CalPERS has two sets of costs. The normal costs are from current employees, and is a percentage of payroll. The other is the UAL

payments which are fixed dollar payments that has to be paid to CalPERS to make up shortfall due to demographic changes and underperformance by CalPERS. CalPERS is 68 to 70 percent funded. The blue line on the chart showed that the payments will go up from \$35 to \$50 million. There are rising and escalating costs over time. It is proposed to take the PCM money to pay off the UAL, then over time replace PCM costs with payments of only \$14 million. The proposed exchange is an innovative solution that uses a portion of the PCM fund to pay off the UAL with CalPERS. Pension Obligation Bonds (“POBs”), which are financed, are an alternative if no funds are available. There are financial advantages of the proposed exchange over POBs. The interest that would be paid to investors would instead go back into the fund to support other District activities. Otherwise, the Districts could go out in the bond market and payments would be made to investors. Payments would be spread over 40 to 60 years versus 20 years for POBs. The Districts would meet its shortfall in operating costs for solid waste. For the most part, other agencies cannot implement a similar proposal because there are not sufficient reserves available. There is an equivalent exchange of obligations between UAL costs and PCM costs.

The Chief Engineer and General Manager showed a graph illustration of the annual cost comparison of the CalPERS UAL payment over the next 20 years (green line). The POB payment (blue line) would be \$30 million per year; and Fee-in-Lieu payment (orange line) would be \$14 million per year. The illustration showed the substantial decrease in cost for the proposed Fee-in-Lieu payment and it would be spread over a longer period of time.

Next, he showed the short-term annual savings by each District over the next five years. For example, District No. 1 would save approximately \$1.5 million per year. The amount of savings per District varies due to their size. The contract Districts with Los Angeles City (Districts Nos. 4, 9, and 27) have minimal labor associated; therefore, these Districts incur minimal savings.

The implementation timeline was discussed. All Districts Boards will consider approval of the proposed Agreement in February and March 2021. Today, District No. 2 will consider revisions of the Solid Waste Financial Reserve Policy. The new *Pledge of Revenue Agreement* is currently being reviewed by CalRecycle. District No. 2 will consider approval of a new *Pledge of Revenue Agreement* in March or April pending CalRecycle approval. Payment of the UAL would occur through September 2021 as post-closure reserve fund investments are liquidated and final UAL totals are determined by CalPERS. Savings would be realized in the next fiscal year.

Districts’ staff recommends approval of the proposed agreement by each District and approval of the revised Solid Waste Financial Reserve Policy by District No. 2. Actions in the agreement will not begin until CalRecycle approves the revised Pledge of Revenue Agreement.

Prior to closing his presentation, he addressed the potential concern discussed at the last Personnel Committee meeting related to the lawsuit between the County of Los Angeles and the Districts regarding the funding for a park at the closed Puente Hills Landfill (PHLF). The trial date is set for April 3, 2023. The trial date is delayed due to the COVID-19 pandemic.

He stated that the County of Los Angeles (County) Directors may be concerned that if the lawsuit ends in their favor, this proposal may reduce the amount of funds for the Puente Hills Landfill Park (Park). In fact, the proposal improves the financial situation for the Solid Waste System in several ways. The Solid Waste System saves approximately \$10 million over the next few years by cutting ongoing operation costs. It increases operation and capital reserves back to the target levels. Also, it assures that the Districts have financial availability to maintain the environmental controls at the landfills into the future.

He stated that there is confusion regarding the Districts position about the development of the Park. He assured the Boards that the Sanitation Districts is committed to having a park on the closed PHLF. He was looking forward to hiking at the Park shortly after the closure of the landfill. Unfortunately, a dispute regarding the funding amount led to the lawsuit. The Districts set aside approximately \$37 million for use for development of the Park. The matter was discussed in closed session with Districts Nos. 2 and 18. A closed session may be held in the future.

He stated that Brad Hogin with Woodruff, Spradlin & Smart, is handling the case regarding the Park. He is available to answer questions regarding this matter. The issues are separate matters. Today is to help solve the issue with CalPERS, help financial assurance, and saves the agency over \$250 million. The lawsuit is a separate issue.

He advised the Directors that the Personnel Committee voted 16 to 3 to endorse moving forward to the Boards for consideration of the agreement. The County Directors voted against endorsement and explained their position for their votes.

This concluded his presentation and he opened up for Directors' questions.

Director Michael Allowos, City of Glendora, asked what the trajectory is on the UAL proposal if approved.

In response to Director Allowos, the Chief Engineer and General Manager stated that if all Districts approve the proposed Agreement and the new *Pledge of Revenue Agreement* is approved by CalRecycle, the UAL could be paid off by fall of this year. The idea of the proposal is an internal transaction to use the PCM funds to pay off the UAL; in turn, the Districts would pay for the PCM costs.

Director Nancy Lyons, City of Diamond Bar, requested a copy of the HHW/E-Waste flyer for her city.

In response to Director Lyons, the Chief Engineer and General Manager stated that staff will send her a copy of the HHW/E-Waste flyer.

Director Letty Lopez-Viado, City of West Covina, asked if the approval of the proposed agreement would affect residents from receiving the Park they were promised over 15 years ago and if this would have any bearing.

In response to Director Lopez-Viado, the Chief Engineer and General Manager stated no, the Park will be developed. The money for the PCM fund was always set aside for maintaining environmental control systems at the site, not meant for any other purpose. Instead of investing outside of the agency the Districts would be investing inside the agency. He stated that there is separate money set aside for the Park by the Districts; the County and Sanitation Districts are committed to development of the Park. The only issue is the level of funding.

Director Jennifer Stark, City of Claremont, asked if the construction of the Park would be delayed due to the proposed agreement. She requested language ensuring the timeline of construction of the Park.

In response to Director Stark, the Chief Engineer and General Manager stated that the delay for the Park development is due to the lawsuit and delay in the court date. This move today will not further delay the Park development because that is a separate issue. The Districts wants to move forward and has \$37 million available to fund the development of the Park. However, there is a lawsuit and the timeline of the Park is tied to that lawsuit. He stated that the Personnel Committee discussed the issue that \$50,000 in interest is paid per day, therefore, there is an urgency to move forward.

Director Lopez-Viado had a concern that if the PCM was used and the County won, would the Districts have the money for the Park.

In response to Director Lopez-Viado, the Chief Engineer and General Manager stated that if the PCM fund was left as-is, it would not be available to fund the Park because the Districts has a financial obligation to maintain the environmental control systems. There is a lot of confusion because some hear the agency has \$580 million in PCM funds and that is enough to maintain and build the Park. The money is dedicated for the protection of public health and safety and the environment. That is a number one priority and the money cannot be diverted because the Districts are required to provide financial assurance.

Chairperson Margaret Finlay, City of Duarte, stated that she has visited the PHLF many times before it closed and since October 2013 when it closed. She recognized that there is a lot more involved than just closing the landfill and there is a need to spend a lot of money for PCM costs. She asked if the \$37 million set aside was the original agreement with the County or how much was set aside and what was committed to years ago for the development of the park.

In response to Chairperson Finlay, the Chief Engineer and General Manager stated that at the time of closure of the PHLF, the Districts' decision that the agreement with Los Angeles County of Parks and Recreation that approximately \$14 million was needed for a passive park. At that time, the Districts' had \$35 million available and believed they were in good standing. The Park Master Plan approved by the County in October 2016 resulted in a park that is estimated to cost \$300 million to build, plus \$200 million to cover annual maintenance costs, which equals a total cost of approximately half a billion dollars. As a result, the County and Sanitation Districts are involved in a dispute regarding the funding amount.

Chairperson Finlay asked if any current Los Angeles County Supervisors were serving at the time the two parties entered into the agreement.

In response to Chairperson Finlay, the Chief Engineer and General Manager stated that former Supervisor Knabe was serving in the 2012-13 timeframe.

Director Diana Mahmud, City of South Pasadena, stated that she applauded staff for the proposal. She understands the issue with constant turnover of Directors. She stated that she supports the proposal, although she was concerned with the Park litigation. She requested a closed session discussion to update new Directors.

Chairperson Hilda Solis, County of Los Angeles, stated that she would like to address questions from her colleagues and whether or not the PHLF will become a park and when. As a District representative, she believes it is important to be very clear on statements the Districts make, publicly and in front of the Boards. She stated that over 25 years ago, she was involved in the creation of legislation that stated when the PHLF closed, the Districts was required to develop a park. Following this, she served in other offices and was not on the Districts' Board at the time the PHLF was ready to be developed into a park. County staff found out that required payments were not being made in an 11-year period. She stated that \$37 million is not enough to open anything. In her opinion, the amount should be between \$170 million to \$280 million to allow for somewhat of a passive park. She did not see that happening for \$37 million. She stated that not only should the PCM be set aside for maintenance and closure but also for development of the Park. It was made clear to the County that the purpose of the PCM fund was only for PCM costs, although now the Districts want to use the fund to pay off the UAL. She stated that \$37 million is not sufficient to create a park for the residents who were impacted by the landfill.

The Chief Engineer and General Manager acknowledged Chairperson Solis' comments. He understands the County's position. The Districts' desires reconciliation with the County. The Districts partners with the County on various matters including HHW/E-Waste events, COVID-19 monitoring, etc. and will continue to work with the County to move forward with the matter of developing the Park.

Chairperson Cathy Warner, City of Whittier, reiterated the importance of avoiding details regarding the lawsuit. She stated that going forward, they will not take questions unless they are related to the UAL exchange and a closed session would be needed to discuss the lawsuit.

Director Susan Jakubowski, City of San Marino, stated that she found the presentation educational. She asked how the remaining \$120 million would be allocated.

In response to Director Jakubowski, the Chief Engineer and General Manager stated that of the \$120 million remaining, approximately \$15 million would be allocated to a reserve PCM back-up fund and approximately \$60 million would be necessary to bring operation and maintenance and capital reserves back to target levels. The remainder would be allocated to reserves as well.

Director Tom Adams, City of Monrovia, stated that he wanted to suggest moving past comments regarding the lawsuit.

Chairperson Richard Barakat, City of Bradbury, stated that he has served on the District's Board for over 20 years. He believes it is the best interest to save money for the constituents. In order to save \$50,000 interest paid each day, he urged the Boards to move forward in support of the proposal.

Chairperson Janice Hahn, County of Los Angeles, who was present during the presentation but absent from the meeting, stated that the proposal seems like a good deal. She wanted to ensure that people know that the County is concerned. She stated that she was also concerned that CalRecycle had not yet approved the *Pledge of Revenue Agreement* and there is a lawsuit pending, the timing of the proposal is problematic and yes there is \$50,000 per day interest that can be saved, but why now. She requested to see another plan that did not involve this pot of money and yes, the County is concerned long-term about the Park that was promised to the constituents and the public. She thanked the Chief Engineer and General Manager for stating that the Districts wants to work with the County. Both parties went through mediation, although there was no resolution. She believes that the matters are tied together and would not support the proposal. She understood that the presentation looks like a good deal and has issues with the timing, wishing for a resolution beforehand.

Director Katherine Lee, City of Alhambra, stated that she is the alternate and discussed the matter with her Mayor and that she was taken by surprise to take these funds to pay down the pension liability. The city of Alhambra is also dealing with the UAL issue. She stated that the source of money is questionable. She appreciated the extra information she received by the County Board of Supervisors because she needed more information to decide and make an informed decision on how to vote on this issue. As a result, she now has a bigger picture.

In response to Director Lee, the Chief Engineer and General Manager stated that this money cannot be used for the Park because there are no other reserves available to fund PCM. The Districts has an obligation to provide financial assurance for landfill PCM. The current fund is not generating enough interest to cover PCM costs. The precarious state that the solid waste system is in was previously discussed with the Boards. Solid

Waste Operations cannot be bailed out by the Wastewater side of the agency. Operations and capital funds are below target. The proposal would lower the ongoing cost for solid waste operations and shore-up the reserves, which is as important as paying down the pension debt to keeping solid waste viable.

Chairperson Barakat stated that the Personnel Committee vote was 16 to 3 in favor of the proposal. The three opponents were the County Supervisors. All of the other Directors were in favor. He stated that we want to save money for our constituents. The money saved is not pocket change. It is the Personnel Committee's job to be good stewards of the money and support the proposal.

Chairperson Warner asked if the proposal is not approved, would a trust fund need to be created with CalRecycle as the next step.

In response to Chairperson Warner, the Chief Engineer and General Manager stated yes, since the Districts is not keeping up with the annual PCM, the money would likely have to be put in a trust fund that is controlled by CalRecycle. The District would need to request annual allocation.

The Chairperson announced this was the time for any questions or comments by members of the public.

The Secretary stated that the following individuals submitted electronic comments, filed at the Districts' office, urging each of the Sanitation Districts' governing boards meeting today to vote no regarding the Districts' Employee Pensions Unfunded Accrued Liability (UAL) Funding Strategy Utilizing Landfill Post-Closure Funds. They state that this action must be delayed until funding for the Puente Hills Landfill Park is resolved by the Sanitation Districts and the Los Angeles County Department of Parks and Recreation. They stated that meeting the commitments to fund this Park is critical and, most importantly, the residents of Sanitation Districts' cities are people who desperately need access to parks and have for decades lived with the impacts of having the second largest landfill in the country in their backyards and communities. They state that this is an equity and social justice issue. They thank the Boards for their consideration.

1. Bryan Matsumoto - resident of Temple City and Program Organizer of Nature for All - He also verbally addressed the Boards at the meeting - He stated that he was involved in the community planning process for the Master Plan five years ago. He was one of the landscape designers who worked with a team of professionals to engage the community. The region is very park poor and he was excited to see Phase I begin in five years. Today, the children at the community workshops are five years older and the community still does not have a park. \$37 million is not enough to create a regional park of scale. Community members and the Board bear the commitment to give a park to residents. He urged the Boards to delay the matter until funding for the Park is resolved between the County and Districts.
2. Belinda Faustino - Executive Director of Nature for All
3. Ariella Dahlin - resident of the City of Pasadena and Project Associate of Emerald Necklace
4. Eva Malis - resident of the City of Altadena and Project Associate of Emerald Necklace
5. Sam Tayag - resident of the City of Covina
6. Nenezin Rodriguez - resident of the City of Alhambra and Project Director of Day One
7. Jennifer Jimenez - resident of the City of Pasadena and Project Director of Day One
8. Andrew Wing Yip - resident of Hacienda Heights
9. Andrew Fung Yip - resident of the City of Arcadia
10. Wansun Song - resident of the City of Los Angeles
11. Christie Insley - resident of the City of Burbank
12. Eric Kung - resident of Rowland Heights
13. Amy J. Wong - resident of the City of El Monte

The following members verbally addressed the Board regarding the Districts' Employee Pensions Unfunded Accrued Liability (UAL) Funding Strategy Utilizing Landfill Post-Closure Funds and the Puente Hills Landfill Park:

14. Wes Wreutimann - Special Programs Director for Active San Gabriel Valley – He stated that over five years ago, he participated with the planning process of the Park and participated in site

visits throughout one year. He stated that this amenity is a tremendous benefit to the communities of Avocado Heights, Bassett and El Monte, which is park poor. This type of recreation would help with health disparities and the mental issues as a result of the pandemic. He pleaded the Directors to delay the matter until funding for the Park is resolved between the County and Districts. The development of the Park shouldn't require further delay.

15. Robert Torres - resident the City of West Covina residing in Avocado Heights – He stated that between the ages of 5 and his teenage years, he recalled seeing Workman Mill Road full of trash trucks. He stated that residents were promised a park for years of suffering the impacts of the landfill. He stated that he was deeply bothered that employees' retirement is prioritized over the public. He appealed for the Director to deny the proposal, especially because of the pending lawsuit with the County. He stated that the Park shouldn't be made a second priority to pension obligations.
16. Margo Pfizer - resident of the City of Montebello – She urged the Boards to vote no on the UAL proposal. She requested the Boards to delay the matter until funding for the Park is resolved between the County and Districts. Meeting your commitments to fund the Park is critical. This is an equity and social justice issue. The Park would provide education, recreation, and the ability to reclaim the land like honoring native people.
17. Ruben Rios - Senior Maintenance and Construction Worker, Los Angeles County Sanitation Districts, and steward member of SEIU 721 – He urged Directors to approve the proposal so that employees can have a pension. He knows all the work that is required to maintain the PHLF. He stated that the issues are separate. He stated that management is in favor of the Park development.

The Chief Engineer addressed the comments of the members of the public. He stated that some speakers recommended delay consideration of the proposal until the lawsuit is resolved. The court hearing is delayed for two years. This recommendation would result in approximately \$40 million in savings over that time. He reminded the Directors that the PCM fund is dedicated for the protection of public health and the environment. The Districts has an obligation to collect gas and even though the landfill is closed, it is still producing gas. The pipe network still has to be maintained as well as the water management. He stated that he is very concerned with the discussion of diverting the PCM, which is meant for protecting public health and the environment, over to recreational use. The only reason the Districts can exchange the money as proposed is because this money is being invested back into the agency and an equivalent amount is being returned for the environmental control systems in exchange. CalRecycle will not formally approve the *Pledge of Revenue Agreement* until the Districts have the UAL agreement approved by all Districts. The Districts is in favor of the Park development and is disappointed in the delay and the lawsuit. The proposal would improve the financial situation of the Solid Waste System if the matter is settled.

Upon motion of Director Eich, duly seconded and unanimously carried by a roll-call vote, the Board of Directors of County Sanitation District No. 34 of Los Angeles County approved the *Joint Agreement for the Payment of the County Sanitation Districts of Los Angeles County Unfunded Accrued Liability for the California Public Employees' Retirement System*.

RE: COMPREHENSIVE ANNUAL
FINANCIAL REPORT FOR FISCAL
YEAR ENDING JUNE 30, 2020
RECEIVE AND ORDER FILED

Prior to meeting in regular session and as reported in the status report, the Chief Engineer and General Manager advised that copies of the Districts' Comprehensive Annual Financial Report (CAFR) for the fiscal year ending June 30, 2020, which includes the annual audit required by state and federal laws, have been previously distributed to the Directors. This item is consistent with the Districts' Guiding Principles of commitment to fiscal responsibility and prudent financial stewardship; and to protect financial and facility assets through prudent investment and maintenance programs. A recommendation was made to receive and order filed the Districts' CAFR for fiscal year ending June 30, 2020.

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

MICHAEL T. DAVITT
Chairperson

ATTEST:

KIMBERLY S. CHRISTENSEN
Secretary

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