

To be held at the JOINT ADMINISTRATION OFFICE
1955 Workman Mill Road, Whittier, California

In response to concerns about the Novel Coronavirus (COVID-19), and in accordance with the Governor’s Executive Order N-29-20, Directors will attend these meetings via teleconference. To join the meeting, 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: www.lacsd.org/aboutus/governance/agenda_and_minutes/default.asp

WEDNESDAY October 28, 2020 At 11:00 A.M.

District(s)	Chairperson
SBC, 5	FUREY
1, 8	ANDREWS
2	WARNER (Committee Chairperson)
3	SANTA INES
4	HORVATH
9	KUEHL
14	PARRIS
15	BARAKAT
16	JOE
17	TORNEK
18	TAJ
19	ROGERS
20	HOFBAUER
21	MOSS
22	FINLAY
23	DAVIS
27	BARGER
28	DAVITT
29	HANSEN
SCV	SMYTH

1. Approve Minutes of Special Meeting Held September 23, 2020

2. Re: Financial Policies

Summary: Having sound investment, debt management, and financial reserve policies is crucial to maintaining the Districts’ financial stability. Changes are being proposed to the existing investment and financial reserve policies that will improve the Districts’ performance with little to no risk. No changes are being proposed for the debt management policy. A letter summarizing the proposed policies and changes, along with copies of the policies showing the proposed revisions are attached. The Chief Engineer and General Manager will brief the Committee.

3. Re: First Amendment to Regional Recycled Water Program Agreement (Agreement), a Partnership with Metropolitan Water District of Southern California (MWD)

Summary: The Districts previously approved the Agreement with MWD to jointly investigate production and distribution of purified water at the Joint Water Pollution Control Plant (JWPCP). The Agreement contains provisions only for the demonstration phase of the program and must be amended to proceed with additional work. The attached proposed First Amendment includes provisions for the environmental planning (CEQA/NEPA evaluation), including engineering support and public outreach for the environmental evaluation of the potential full-scale project. Some of the planning work includes evaluating potential modifications to existing wastewater treatment facilities at JWPCP. The Chief Engineer and General Manager will discuss the proposed scope of work and the Districts’ share of costs.

4. Re: Districts Employees Pension’s Unfunded Accrued Liability (UAL) Funding Strategy Utilizing Landfill Post-Closure Funds

Summary: At the September 23, 2020, Personnel Committee meeting, a proposal was presented to utilize the Districts’ Solid Waste system landfill post-closure maintenance funds to pay off the Districts’ UAL in exchange for the Districts funding landfill post-closure maintenance costs. The Committee concurred with the recommendation to conduct additional analysis and evaluation. The additional evaluation has confirmed

4. Contd.

that the proposed strategy reduces costs for all Districts and eliminates long-term uncertainty associated with landfill post-closure costs. The Chief Engineer and General Manager will brief the Committee.

Adjourn**Status 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.



October 23, 2020

Personnel Committee
County Sanitation Districts
of Los Angeles County

Directors:

Financial Policies

The agenda for the October 28, 2020 meeting of the Personnel Committee contains an item regarding financial policies. These policies form the cornerstone of the Districts' financial practices, and are intended to provide guidance when preparing budgets, adopting rates, and developing long-term capital programs. Use of the policies helps create financial stability, allowing us to provide the vital services in a cost-effective manner, weather periods of economic downturn without having to impose significant rate increases, and construct capital projects in a timely fashion despite fluctuations in costs from year to year.

Narrow changes to the investment and financial reserve policies are being brought to the Personnel Committee for its review and consideration. If the proposed changes are endorsed by the Personnel Committee, those policies would be taken to each of the individual Boards of Directors for consideration and adoption. No changes are being proposed to the debt management policy. Copies of the policies showing the proposed revisions are attached. This letter summarizes the recommended changes.

INVESTMENT POLICY

The current policy for all Districts other than District Nos. 17 and 27 and Newhall Ranch allows up to 20% of the Districts' funds to be invested in medium-term corporate notes (MTCN), with no more than 10% limit invested in A-rated MTCNs and the remainder requiring a minimum AA rating. Smaller limits apply to individual issuers.

It is recommended that the 20% limit be increased to 30%. This revision would result in all Districts having the same MTCN limit and would also be consistent with Los Angeles County and most Districts' cities. Over time, the increase will allow for additional investments in MTCNs, which generally provide higher investment returns compared to the County Pooled Surplus Investment Fund or government agency notes. The total additional return could be approximately \$1 million per year across all of the Districts.

WASTEWATER AND SOLID WASTE FINANCIAL RESERVE POLICIES

The wastewater financial reserve policies currently provide for the use of sinking funds, which provide a mechanism for setting aside revenue for certain routine and recurring capital projects. It is recommended that these projects instead be included in the normal planning process for capital projects, thereby eliminating the need for sinking funds.

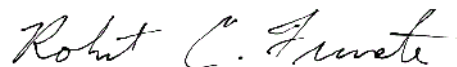
The existing policies provide for a Natural Disaster Fund, which is intended to provide temporary funding in the event of a natural disaster in order to continue Districts' operations with the expectation that reimbursement would eventually be received from insurance or state or federal sources. The fund currently has a balance of approximately \$17 million. It is recommended that use of this fund be expanded to include natural disaster-related expenses not covered by other sources, and to allow use of the fund to pay for insurance claims that fall within the \$5 million Self-Insured Retention layer not covered by the Districts' umbrella liability policy. By expanding the use of this fund, the risk to any one District or solid waste entity from a rare, high-cost event is significantly reduced. The proposed revision also includes a more structured mechanism for reviewing the target for this fund.

In July of this year, new wastewater connection fee ordinances took effect for all Districts other than the City of Los Angeles contract districts (4, 9 and 27). The new ordinances allow for connection fee revenue to be used for all capital projects, whereas the previous ordinances required the funds to only be used for projects that increase capacity of the Districts' facilities. Revisions to the wastewater reserve policies are recommended that will make the reserve policies consistent with the new ordinances.

CONCLUSION/FUTURE ACTIONS

A presentation on this matter will be given at the October 28, 2020 Personnel Committee meeting. If endorsed by the Personnel Committee, these policies would be presented to the individual Boards of Directors at upcoming meetings.

Very truly yours,



Robert C. Ferrante

RCF:MAE

INVESTMENT POLICY

**County Sanitation District No. _____
of
Los Angeles County**

PROPOSED 2020 REVISIONS SHOWN IN RED

Policies for Districts Nos. 1, 2, 3, 4, 5, 8, 9, 14, 15, 16, 18, 19, 20, 21, 22, 23, 28, 29, and 34, Santa Clarita Valley Sanitation District, and South Bay Cities Sanitation District are identical to this policy. District Nos. 27 and 17 and Newhall Ranch Sanitation District have slightly different policies, but these revisions apply to those policies.

TABLE OF CONTENTS

1. Policy Statement.....	1
2. Treasurer; Administration	1
3. Trustee’s Duties and Objectives.....	1
4. Investment Instruments Allowed	2
5. Investment Limits and Allocation	3
6. Maximum Maturities.....	4
7. Purchasing Entities.....	4
8. Investment Safekeeping	4
9. Reporting Requirements.....	5
10. Internal Control	5
11. Ethics and Conflicts of Interest	5
12. Investment Policy Adoption.....	5

Investment Policy

County Sanitation District No. ___ of Los Angeles County

1. Policy Statement

This Investment Policy of County Sanitation District No. ___ of Los Angeles County (District) provides for the prudent investment of the District's funds and the effective management of investment activities. This Policy covers all investment activities directly controlled by the District.

2. Treasurer; Administration

- 2.1 The District's Chief Engineer and General Manager is hereby appointed Treasurer of the District, and is trustee of the District's funds.
- 2.2 The Treasurer, or his or her designee, is hereby authorized to implement this Policy, and to manage, deposit, and invest District funds in accordance with this Policy and all provisions of law.
- 2.3 The Treasurer shall report to the Board of Directors in accordance with the requirements of law and this Investment Policy.

3. Trustee's Duties and Objectives

The District and the Treasurer are trustees of the public funds of the District and shall implement this Policy using the Prudent Investor Standard and the priority of investment objectives below.

3.1 Prudent Investor Standard

The prudent investor standard is set forth in California Government Code Section 53600.3, which provides:

“When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.”

3.2 Investment Objectives

- 3.2.1 The District's priority of investment objectives is set forth in Government Code Section 53600.5, which provides:

“When investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, the primary objective of a trustee shall be to safeguard the principal of the funds under its control. The secondary objective shall be to meet the liquidity needs of the depositor. The third objective shall be to achieve a return on the funds under its control.”

3.2.2 The Treasurer shall pursue these objectives as follows:

- (a) *Safety of Principal:* In safeguarding the principal of District funds the District Treasurer shall evaluate or cause to have evaluated each potential investment, seeking both quality in issuer and in underlying security or collateral, and shall diversify the portfolio to reduce exposure to loss.
- (b) *Liquidity:* In order to meet the District’s liquidity needs, investments must be made so that maturity dates are compatible with cash flow requirements and, when required, permit easy and rapid conversion into cash.
- (c) *Return on Investments:* Investments will be undertaken to produce a market rate of return after first considering safety of principal and liquidity.

4. Investment Instruments Allowed

The District’s funds may be invested in the following investment instruments:

4.1 Los Angeles County Pooled Surplus Investment Fund (PSIF)

The PSIF is a pooled investment fund created under Government Code Section 27000 et seq. and is administered by the Los Angeles County Treasurer and Tax Collector. PSIF is a voluntary government investment pool that allows local agencies to participate in a major portfolio using the investment expertise of the Los Angeles County Treasurer’s investment staff. Investments in PSIF typically consist of those funds required to cover the District’s operating needs.

4.2 State of California Local Agency Investment Fund (LAIF)

LAIF is a pooled investment fund created under Government Code Section 16429.1 et seq. and is administered by the California State Treasurer. LAIF is a voluntary government investment pool that allows local agencies to participate in a major portfolio using the investment expertise of the State Treasurer's Office investment staff.

4.3 United States Treasury Bills, Notes, Bonds, Certificates of Indebtedness

Treasury bills, notes, bonds, and certificates of indebtedness are fixed-income investments issued by the U.S. Treasury Department for which the faith and credit of the United States are pledged for the payment of principal and interest.

4.4 United States Government-Sponsored Enterprises (GSE)

GSEs consist of privately held corporations with public purposes created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy. Members of these sectors include students, farmers and homeowners. GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government.

4.5 Medium-Term Notes

Medium-term notes are all corporate and depository institution debt securities with a maximum original maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. To be eligible as a District investment, medium-term notes must be rated “A” or its equivalent or better by S&P Global Ratings, Moody’s Investor Services, Inc., or Fitch Ratings, Inc.

4.6 County Sanitation Districts of Los Angeles County (LACSD) Debt Instruments

LACSD Debt Instruments, as provided for in Government Code Section 53601(e) and more specifically described in the District’s Debt Management Policy, consist of the District borrowing from its Capital Improvement Fund, and the Joint Outfall System borrowing the Solid Waste System’s closure/post-closure funds for the construction of the Clearwater Tunnel Project.

4.7 Deposits held at Nationally- or State-chartered Banks, or State or Federal Savings and Loan Associations

Banking or savings and loan institutions holding demand deposits for the District must meet the definitions provided in California Financial Code section 5102 and must have a rating of “A” or better on its long-term debt by S&P Global Ratings, Moody’s Investor Services, Inc., or Fitch Ratings, Inc. Demand deposits must be fully collateralized in accordance with California Government Code Section 53652.

4.8 Shares of beneficial interest in funds investing in U.S. dollar-denominated money market securities (Money Market Funds)

Money Market Funds in which the District invests must be registered with the Securities and Exchange Commission under the Investment Company Act of 1940, and have achieved the highest letter ranking by two of the following: S&P Global Ratings, Moody’s Investor Services, Inc., or Fitch Ratings, Inc.

5. Investment Limits and Allocation

5.1 The Treasurer shall continuously evaluate market conditions economic data, interest rate trends and forecasts, and the District’s cash flow requirements. When appropriate, the Treasurer shall obtain quotations from brokers, dealers, banks, savings and loan institutions and the Los Angeles County Treasurer’s Office. Investments in the PSIF and LAIF will be monitored continually. All of these factors must be considered, among other things, in determining where, in what denomination and for what maturity investments are made.

5.2 There are no limits on the percentages of funds invested in any of the allowable investment instruments, except that:

5.2.1 No more than 60% of the District’s funds may be invested in any one GSE.

5.2.2 The total of the medium-term notes may not exceed ~~20%~~^{30%} [note – existing policy of District Nos. 17 and 27 and NRSB already is 30%] of the District’s funds, with no more than 10% in aggregate in medium-term notes rated A.

5.2.3 No more than 10% of the District’s funds may be invested in the securities of any single corporate entity or depository institution rated AA or greater and no more than 2% of the District’s funds may be invested in the securities of any single corporate entity or depository institution rated A.

5.2.4 No more than 20% of the District’s funds may be invested in Money Market Funds, and no more than 10% of the District’s funds may be invested in any single Money Market Fund.

5.3 The percentage limitations in Section 5.2 will apply at the time the investment is made. For purposes of calculating these percentages, District funds include all cash and investments of the District as reflected in the District’s most recent books of account.

6. Maximum Maturities

6.1 The Treasurer shall match investments with anticipated cash flow requirements. Except for LACSD Debt Instruments, the Treasurer will not invest in securities with a remaining maturity of more than five years unless approved by the Board of Directors, either specifically or as a part of an investment program, at least three months prior to purchase.

6.2 Funds may be invested in LACSD Debt Instruments for the lesser of thirty years or until the funds are needed for the purpose for which they were collected or restricted, unless otherwise restricted by law.

7. Purchasing Entities

7.1 As required by Government Code Section 53601.5, investments not purchased directly from the issuer or not purchased using pooled funds in PSIF or LAIF must be purchased from or through:

7.1.1 An institution licensed by the State of California as broker/dealer, as defined in Section 25004 of the Corporations Code;

7.1.2 A member of a federally regulated securities exchange;

7.1.3 A national or state-chartered bank;

7.1.4 A savings association or a federal association; or

7.1.5 A brokerage firm designated as a primary government dealer by the Federal Reserve Bank.

8. Investment Safekeeping

To ensure a high degree of internal safety, all certificates or other evidence of securities or other investments purchased by or for the District will be held for safekeeping as required by law. The Treasurer may require any securities to be held by an entity other than the selling party of the security. Any specific investments must be held for safekeeping by a third-party custodian designated by the Treasurer and must be segregated from and not commingled with the funds of other investors or the County.

9. Reporting Requirements

In accordance with Government Code Section 53646, the Treasurer shall prepare and submit a quarterly report to the Board of Directors. The quarterly report must comply with applicable law and include the security type, issuer, investment yield, date of maturity, par value, amount invested, current market value and source of this valuation. Any investments in PSIF or LAIF will be included with a summary of that pool's most recent investment statement.

10. Internal Control

In addition to the certified public accountant's yearly independent audit of the District, the Treasurer will cause the District's Internal Auditor to conduct quarterly audits of the investment portfolio to ensure compliance with this Investment Policy and related procedures.

11. Ethics and Conflicts of Interest

Officers and employees of the Districts involved in the investment process are prohibited from personal business activities that could conflict with proper execution of the Districts' investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials must disclose to the Treasurer any material financial interests in financial institutions, broker dealers and vendors that conduct business with the Districts' and must disclose any larger financial/investment positions which could relate in a conflicting manner to the performance of the Districts' investment portfolio by filing Form 700 annually.

12. Investment Policy Adoption

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

Adopted this _____ day of _____ .

WASTEWATER
FINANCIAL RESERVE POLICY

County Sanitation District No. __
of
Los Angeles County

PROPOSED 2020 REVISIONS SHOWN IN RED

TABLE OF CONTENTS

1.	Policy Statement	1
2.	Treasurer; Administration.....	1
3.	Types of Funds/Reserves	1
4.	System Funds	2
5.	Unrestricted Funds	2
6.	Designated Reserves	3
7.	Restricted Reserves.....	7
8.	Wastewater Financial Reserve Policy Adoption.....	9

Wastewater Financial Reserve Policy

County Sanitation District No. __ of Los Angeles County

1. Policy Statement

County Sanitation District No. __ of Los Angeles County (District) is a provider of essential public services and, to that end, has made an extensive investment in public infrastructure, operating facilities, and other related assets. Given the impact these essential services have on public health, the environment, and the overall quality of life, very few options exist for service reduction levels in the event of revenue shortfalls or other funding deficiencies. Maintaining prudent financial reserves provides the resources to allow the District to continue to fulfill its commitment to deliver reliable and high quality service to its customers. Financial reserves provide significant benefits including:

- Stabilizes user charge rates, creating more certainty so ratepayers can better plan their budgets;
- Minimizes risk associated with borrowing, which can result in lower interest costs;
- Demonstrates the District's financial stability to credit rating agencies;
- Improves liquidity so capital projects can be constructed in a timely fashion, despite fluctuations in cost from year to year;
- Allows the District to effectively respond to economic, environmental, and regulatory changes.

2. Treasurer; Administration

- 2.1 The District, through its 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) in accordance with the requirements of law and this Policy.

3. Types of Funds/Reserves

The District will maintain its financial assets in various "Funds" as described in this Policy. Fund balances will be maintained in amounts sufficient to meet appropriate target goals, as established in this Policy in cash and/or cash equivalents, and permitted investments as prescribed in the District's Investment Policy. The District's Funds are categorized under this Policy as Unrestricted, Designated, or Restricted as follows:

3.1 Unrestricted

The Unrestricted Fund includes all monies collected or generated by or on behalf of the District, without regard to the source, except those that have been deemed to be Designated or Restricted. ~~These monies are available for spending with no legal, regulatory, or Board-imposed restrictions.~~

3.2 Designated

Designated Reserve Funds are the group of Reserve Funds for which the Board has imposed restrictions on the use of the monies in them for specific purposes such as capital facilities, land acquisition, and repair and replacement of existing assets. The Board may designate these purposes either through specific action or through approval of the annual budget. These monies are not otherwise legally restricted and the Board has the discretion to redesignate the actual or intended usage of these monies.

3.3 Restricted

Restricted Reserve Funds are the group of Reserve Funds that have been established to comply with restrictions that have been imposed externally through law (federal, state, or local governments), administrative action (District adopted ordinances), or contractual arrangements (e.g., bond indentures, State Revolving Fund installment sales agreements). The monies in Restricted Reserve Funds can only be used for the purpose for which they were established or dedicated until the restrictions are removed by the party that imposed them or the contractual agreement that created them has expired.

4. System Funds

The District may participate with other members of the County Sanitation Districts of Los Angeles County (collectively, the Districts) in separate agreements (e.g., the Joint Administration, Joint Outfall System, and Solid Waste System Agreements). Funds necessary for operations related to these agreements will be pooled. Except for Funds dedicated solely to the Solid Waste System, all pooled Funds will be held and managed by County Sanitation District No. 2 of Los Angeles County as the administrative district for the Districts in accordance with the respective agreements and District No. 2's Wastewater Financial Reserve Policy. District No. 2 will separately adopt a Solid Waste Reserve Policy for all Solid Waste Funds.

5. Unrestricted Funds

5.1 Operating Fund

5.1.1 Purpose

Monies in the Operating Fund may be used for any purpose consistent with the budget, other Board direction, legal requirements and this Policy. Operating Fund monies include all types of revenue unless otherwise designated or restricted. The Operating Fund must be sufficient to meet the cash flow needs of the District and to meet current and anticipated expenses in accordance with the long-term budgetary projections.

5.1.2 Targeted Goal

The minimum targeted goal balance on July 1 of each fiscal year is the projected net expenses during the first six months of that fiscal year. Net expenses shall be equal to all projected expenses less any anticipated revenues (e.g., industrial wastewater surcharges) and funding sources (e.g., State Revolving Fund loans).

5.1.3 Review Timeline

The minimum targeted goal shall be reviewed annually in conjunction with the adoption of the District's final budget.

5.1.4 Funding

All revenues other than those placed in Designated or Restricted Reserve Funds shall be placed in the Operating Fund.

6. Designated Reserves

The Designated Reserve Funds include the Emergency Fund, ~~various Sinking Funds~~, the Operations and Maintenance Financial Stability Fund, the Capital Projects Financial Stability Fund, the Natural Disaster Fund, and any other funds designated by the Board of Directors other than Restricted Reserve Funds.

6.1 Emergency Fund

6.1.1 Purpose:

The District budgets for all anticipated expenditures, but emergencies and unforeseen circumstances can occur during the course of the year. The Emergency Fund is intended to provide funding for work that must be undertaken to address emergencies or unforeseen circumstances (such as repairing a sinkhole) and to ensure the District can continue to provide all of its vital public services.

6.1.2 Targeted Goal:

The targeted goal balance is the greater of:

- (a) 0.5% of the Net Sewerage Operations Capital Assets as identified in the most recently filed Comprehensive Annual Financial Report multiplied by the ratio of the total number of sewage units in the District to the total number of sewage units in all Districts; or.
- (b) \$50,000.

6.1.3 Review Timeline:

The targeted goal will be reviewed and adjusted annually in conjunction with the adoption of the District's final budget.

6.1.4 Funding:

The Treasurer will on July 1 of each year transfer from or to its Operating Fund an amount equal to its targeted goal for the new fiscal year less its targeted goal for the just ended fiscal year.

6.2 Operations and Maintenance (O&M) Financial Stability Fund

6.2.1 Purpose:

The O&M Financial Stability Fund is a dynamic fund that will be used to facilitate wastewater rates transitioning smoothly from year to year. Monies will be withdrawn from this Fund in some years, allowing expenses to be met without having to impose spiked increases in the rates. In other years, monies will be deposited into this Fund, replenishing it in lieu of having spiked decreases in the rates. In any given year, as the need arises, the District may use up to 10% of the Fund for any purpose without Board authorization, in addition to any use previously authorized as part of the rate setting and budget process. When monies are used from this Fund that drop the balance below the targeted goal, the Treasurer will prepare a plan to fully restore the Fund to its targeted goal by the latter of

(a) five years; or

(b) six years of the date for which the last adopted service charge becomes or has become effective.

6.2.2 Targeted Goal:

The long-term targeted goal balance is equal to six months of O&M expenses plus one year of debt service (excluding any debt service that has a Debt Service Reserve Fund).

6.2.3 Review Timeline:

The targeted goal will be reviewed and adjusted annually in conjunction with the adoption of the District's final budget.

6.2.4 Funding:

The Treasurer will annually transfer moneys from its Operating Fund to the O&M Financial Stability Fund an amount equal to the annual targeted goal. If the transfer of the full targeted goal amount would cause an undue financial hardship on the District or result in a significant rate hike, the Treasurer may transfer less than the targeted goal provided a plan has been prepared to achieve the targeted goal within ten years. In order for the fund balance to be less than 50% of the targeted goal, the sum of the monies in the fund plus the amount the District can borrow from its Capital Improvement Fund, pursuant to the District's Debt Management Policy, must be greater than 60% of the targeted goal.

6.2.5 Additional Monies

The District may also place additional monies into the O&M Financial Stability Fund at any time so that the balance exceeds the targeted goal. Monies in excess of the targeted

goal can be withdrawn at any time without prior Board authorization as part of the overall plan to stabilize rates.

6.3 Capital Projects Financial Stability Fund

6.3.1 Purpose:

The size and scope of capital projects (and the associated cost) varies from year to year, which could result in peaks and valleys in user charge rates if the projects are to be funded dollar-for-dollar in the year in which the expenses are incurred. This Fund will ensure that monies are not only available to meet capital expenses over the long-term, but also to meet the annual demand without requiring significant rate fluctuations.

6.3.2 Targeted Goal:

The targeted long-term average goal balance will be equal to the greater of

- (a) The difference between the projected maximum and average annual capital expenditures to be cash funded from revenues identified in the Capital Improvement Plan over the ensuing ten years; or
- (b) \$100,000.

6.3.3 Review Timeline:

The targeted goal will be reviewed and adjusted annually in conjunction with the adoption of the District's final budget.

6.3.4 Funding:

The Treasurer will annually transfer monies from its Operating Fund to the Capital Projects Financial Stability Fund an amount equal to the annual targeted goal. If the transfer would cause an undue financial hardship on the District or result in a significant rate hike, the Treasurer may transfer less than the targeted goal provided a plan has been prepared to achieve the target goal within ten years. In no case shall the fund balance be less than \$100,000 immediately after the annual transfer.

6.3.5 Additional Monies

The District may place additional monies into the Capital Projects Financial Stability Fund at any time so that the balance exceeds the targeted goal. Monies in excess of the targeted goal can be withdrawn at any time without prior Board authorization as part of the overall plan to stabilize rates.

~~6.4 Sinking Funds~~

~~6.4.1 Purpose:~~

~~Sinking Funds are the systematic accumulation of funds set aside for a specified time frame for the specific purpose of funding recurring major capital projects or their replacements. A separate sinking fund shall be established for each identified project,~~

~~which can be specific to this District or shared among many Districts. The reserves in the sinking fund can only be drawn upon for the identified project for which it was established, unless otherwise approved by the Board(s) of Directors.~~

~~6.4.2 Targeted Goal:~~

~~The targeted goal balance at the end of the sinking period (i.e. the number of years over which the reserves will be accumulated) will be equal to the total anticipated cost of the project, exclusive of any costs that may be financed with outside funding sources. If the sinking fund is for a project to be undertaken jointly with other Districts, the District's share will be equal to the annual target goal multiplied by the ratio of the total number of sewage units in the District to the total number of sewage units in all of the participating Districts.~~

~~6.4.3 Review Timeline:~~

~~The annual targeted goal will be reviewed and adjusted annually in conjunction with the adoption of the District's final budget.~~

~~6.4.4 Funding:~~

~~The Treasurer will annually transfer from its Operating Fund to each Sinking Fund an amount equal to its share of the targeted goal for that Sinking Fund divided by the number of years in the sinking period.~~

6.56.4 Natural Disaster and Self-Insured Retention (SIR) Fund

6.5.16.4.1 Purpose:

The Natural Disaster and SIR Fund is designated to pay for: 1) short-term costs in the event of an earthquake or other natural disaster in order to continue District operations until state or federal relief funds are received; 2) costs related to a natural disaster that do not result in reimbursement; and 3) costs incurred due to an insurance claim that requires the use of the Districts' SIR amount. This can include funding immediate repairs to existing facilities and, if the Joint Administration Office becomes unusable, securing other office space. The Natural Disaster and SIR Fund will be pooled, shared proportionally among the Districts and Solid Waste entities.

6.5.26.4.2 Targeted Goal:

The initial targeted goal balance for the pooled Natural Disaster and SIR Fund is \$17 million. The targeted goal and the appropriate share for each District and Solid Waste entity may be revised, as needed, to account for changes to risks, property values and SIR requirements. ~~and The Districts' Insurance and Claims Coordinator will determine the appropriate share for each District and Solid Waste entity, taking into consideration such factors as value of assets and risk assessment.~~

6.5.36.4.3 Review Timeline:

The targeted goal balance will be reviewed and adjusted every five years with the first review beginning in 2022 to be completed by June 30, 2022.

6.5.46.4.4 Funding:

At the end of each five-year review period, the Treasurer will make a transfer from the Operating Fund to the Natural Disaster Fund, as necessary, for the District's share of any increase in the targeted goal.

6.66.5 Other Reserve Funds

From time to time, the Board of Directors may deem it prudent to establish other designated reserve funds in order to further the mission of the District. The Treasurer will create such Reserve Funds as directed and will establish appropriate targeted goals, review timelines, and funding mechanisms. This Policy will be amended to reflect the Board's direction with respect to any additional Designated Reserve Funds.

7. Restricted Reserves

7.1 Other Post-Employment Benefits (OPEB) Reserve Fund

7.1.1 Purpose:

The Districts collectively provide health care and dental benefits for all retired employees and their dependents or survivors. The Districts have voluntarily elected to enter into a prefunding plan for their OPEB program. The OPEB funds must be held by a qualified third party trustee.

7.1.2 Targeted Goal:

The yearly targeted goal will be to transfer to the OPEB Reserve Fund an amount equal to the Districts' annual required contribution (ARC) as determined by a qualified actuarial consultant.

7.1.3 Review Timeline:

The actuarial review is required at least biennially.

7.1.4 Funding:

Each year the Treasurer will collectively transfer the ARC to the third party trustee in installments as required under the terms of the agreement with the trustee. Each transfer shall be apportioned among the Districts and Solid Waste entities in proportion to the salaries incurred by the District or Solid Waste entity since the previous transfer was made.

7.2 Debt Service Reserve Fund

7.2.1 Purpose:

Some debt instruments (e.g., bond indentures, installment sales agreements) may require a Debt Service Reserve Fund, typically equal to the maximum annual debt service over the life of the debt. A separate Debt Service Reserve Fund will be established for each

debt instrument that requires it. The monies in each Debt Service Reserve Fund will only be used:

- (a) to support payment of principal and interest of outstanding obligations if revenues pledged for repayment are insufficient to meet the required payment; or
- (b) to extinguish the debt.

7.2.2 Targeted Goal:

The targeted goal balance for any Debt Service Reserve Fund must equal the amount required by the associated debt instrument.

7.2.3 Review Timeline:

Each Debt Service Reserve Fund balance will be reviewed annually as part of the continuing disclosure process required under the debt instrument.

7.2.4 Funding:

Each Debt Service Reserve Fund will generally be funded at the time the debt is incurred, using a portion of the debt proceeds, if allowable. If the debt proceeds cannot be used to fund the Debt Service Reserve Fund, the Debt Service Reserve Fund may be funded from any allowable District's monies. If the District makes a draw on the Debt Service Reserve Fund, the Debt Service Reserve Fund must be replenished in the time and manner specified in the debt instrument.

7.3 Capital ~~Improvement~~ Fund

7.3.1 Purpose:

New users and existing users that significantly increase their wastewater discharge are required to pay a connection fee. ~~The connection fee is intended to recoup the incremental cost of expansion necessary to accommodate the additional discharge.~~ The capital ~~improvement~~ portion of the connection fee is deposited into one or more Capital ~~Improvement~~ Funds in accordance with the District's Master Connection Fee Ordinance. Funds are withdrawn as necessary to fund ~~expansion-related~~ capital projects. If the monies are not needed in the short-term, the District may borrow the funds as long as they are repaid with interest before they are needed.

7.3.2 Targeted Goal:

There is no targeted goal balance for the Capital ~~Improvement~~ Fund. The amount of money deposited into the Capital ~~Improvement~~ Fund is dependent on the rate at which additional burdens are placed on the wastewater system. The Capital ~~Improvement~~ Fund balance varies depending on connection fee revenues, expenditures for capital projects, and permitted borrowing from the Fund.

7.3.3 Review Timeline:

Connection fee rates will be reviewed annually.

7.3.4 Funding:

The capital ~~improvement~~ portion of the connection fees will be deposited into the Capital ~~Improvement~~ Fund in accordance with the District's Master Connection Fee Ordinance.

7.4 Bond Construction Fund

7.4.1 Purpose:

When bonds are issued, all of the proceeds are received at the time of issuance. Except for a small portion which is used for the cost of issuance, the proceeds are placed into a Bond Construction Fund and can only be used for the purposes identified in the Official Statement, Tax Certificate, and Installment Purchase Agreement for the bond issuance.

7.4.2 Targeted Goal:

The amount of money in the Bond Construction Fund is dependent on the size of the bond issuance, with the expectation that the proceeds will be expended in the time frames detailed in the Tax Certificate.

7.4.3 Review Timeline:

No review is necessary as there is a single deposit into each Bond Construction Fund.

7.4.4 Funding:

Bond proceeds, except for the cost of issuance, capitalized interest, any required debt service reserve funds, and refunding escrows, will be deposited into the Bond Construction Fund at the time of issuance.

7.5 Other Reserve Funds

From time to time, it may be necessary to establish other restricted reserve funds in accordance with law or other statutory requirements or with contractual agreements to which the District is a party. The Treasurer will create such Reserve Funds as mandated and will establish appropriate targeted goals, reviews, and funding mechanisms.

8. Wastewater Financial Reserve Policy Adoption

This Policy will be reviewed on an annual basis and any modifications must be approved by the Board. Prior to such 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 _____.

SOLID WASTE
FINANCIAL RESERVE POLICY

County Sanitation District No. 2
of
Los Angeles County

ROPOSED 2020 REVISIONS SHOWN IN RED

TABLE OF CONTENTS

1.	Policy Statement	1
2.	Treasurer; Administration.....	1
3.	Types of Funds/Reserves	1
4.	Unrestricted Funds	2
5.	Designated Reserves	3
6.	Restricted Reserves.....	5
7.	Solid Waste Financial Reserve Policy Adoption	8

Solid Waste Financial Reserve Policy

1. Policy Statement

The Districts Solid Waste System provides essential public services and, to that end, has made an extensive investment in public infrastructure, operating facilities, and other related assets. Maintaining prudent financial reserves provides the resources to allow the continued delivery of reliable and high-quality service. Financial reserves provide significant benefits including:

- Improves liquidity so capital projects can be constructed in a timely fashion, despite fluctuations in cost from year to year;
- Allows the Solid Waste System to effectively respond to economic, environmental, and regulatory changes;
- Allows the Solid Waste System to meet long-term post-closure maintenance costs associated with solid waste landfills.

The Districts Solid Waste System is comprised of the facilities owned by the 15 Sanitation Districts signatory to the Sanitation Districts' Solid Waste System Agreement (System Agreement). County Sanitation District No. 2 of Los Angeles County ("District") acts as the administrative district for the Districts Solid Waste System, as described in the System Agreement. This Policy provides guidance for the management of the reserves for the Districts Solid Waste System. This Policy does not apply to contract landfills, and other contract facilities or funds (e.g., equipment pools, the Southeast Resource Recovery Facility, County Trust Fund, etc.). Unless otherwise noted, all reserves and funds described herein refer to Districts Solid Waste System reserves and funds, which are separate and distinct from those of the District.

2. Treasurer; Administration

- 2.1 The District, through its 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) in accordance with the requirements of law and this Policy.

3. Types of Funds/Reserves

The District will maintain Solid Waste financial assets in various "Funds" as described in this Policy. To the extent possible, Fund balances will be maintained in amounts sufficient to meet appropriate

targeted goals, as established in this Policy in cash and/or cash equivalents, and permitted investments as prescribed in the District's Investment Policy. The Solid Waste Funds are categorized under this Policy as Unrestricted, Designated, or Restricted as follows:

3.1 Unrestricted

The Unrestricted Fund includes all monies collected or generated by or on behalf of the Districts Solid Waste System except those that have been deemed to be Designated or Restricted.

3.2 Designated

Designated Reserve Funds are the group of Reserve Funds for which the Board has imposed restrictions on the use of the monies in them for specific purposes such as capital facilities and land acquisition. These monies are not otherwise legally restricted and the Board has the discretion to re-designate the actual or intended usage of these monies.

3.3 Restricted

Restricted Reserve Funds are the group of Reserve Funds that have been established to comply with restrictions that have been imposed externally through law (federal, state, or local governments), administrative action (District adopted ordinances), or contractual arrangements (e.g., bond indentures). The monies in Restricted Reserve Funds can only be used for the purpose for which they were established or dedicated until the restrictions are removed by the party that imposed them or the contractual agreement that created them has expired.

4. **Unrestricted Funds**

4.1 District Joint Refuse System Operating Fund

4.1.1 Purpose

Monies in the Operating Fund may be used for any purpose consistent with the budget, other Board direction, legal requirements and this Policy. Operating Fund monies include all types of revenue unless otherwise designated or restricted. The Operating Fund must be sufficient to meet the cash flow needs of the District and to meet current and anticipated expenses in accordance with the long-term budgetary projections.

4.1.2 Targeted Goal

The targeted goal balance will be six months of projected operating expenses.

4.1.3 Review Timeline

The targeted goal shall be reviewed annually. At any time, if the operating fund balance is less than one and a half months of projected operating expenses, the Treasurer will notify the District's Board of Directors at the next regularly scheduled Board meeting and present a plan to resolve the issue.

4.1.4 Funding

All revenues other than those placed in Designated or Restricted Reserve Funds shall be placed in the Operating Fund.

4.2 Puente Hills Landfill and Spadra Landfill Operating Funds

4.2.1 Purpose

Each Facility's Operating Fund serves as the source of monies for landfill expenses. These funds are only spent on post-closure operations and maintenance of each respective landfill and, in general, come from restricted post-closure reserves. Monies in each respective Facility's Operating Fund may be used for any purpose consistent with the budget, other Board direction, legal requirements and this Policy. Operating Fund monies include all types of revenue unless otherwise designated or restricted.

4.2.2 Targeted Goal

The minimum targeted goal balance for the Operating Fund must be sufficient to meet the cash flow needs of the District and to meet current and anticipated expenses in accordance with budgetary projections for each landfill.

4.2.3 Review Timeline

The minimum targeted goal shall be reviewed annually.

4.2.4 Funding

The only significant sources of revenue are transfers of interest earnings from the Designated or Unrestricted Reserves of the Districts Joint Refuse System and from respective Post-Closure Funds for each landfill.

5. Designated Reserves

5.1 Natural Disaster and Self-Insured Retention (SIR) Fund

5.1.1 Purpose:

The Natural Disaster and SIR Fund is designated to pay for: 1) short-term costs in the event of an earthquake or other natural disaster in order to continue District operations until state or federal relief funds are received; 2) costs related to a natural disaster that do not result in reimbursement; and 3) costs incurred due to an insurance claim that requires the use of the Districts' SIR amount. This can include funding immediate repairs to existing facilities and, if the Joint Administration Office becomes unusable, securing other office space. The Natural Disaster and SIR Fund will be pooled, shared proportionally among all of the Districts, not just those party to the Solid Waste Agreement, and the Districts Solid Waste System.

5.1.2 Targeted Goal:

The initial targeted goal balance for the pooled Natural Disaster and SIR Fund is \$17 million. The targeted goal and the appropriate share for each District and Solid Waste entity may be revised, as needed, to account for changes to risks, property values and SIR requirements. ~~and The Districts' Insurance and Claims Coordinator will determine the appropriate share for each District and the Districts Solid Waste System, taking into consideration such factors as value of assets and risk assessment.~~

5.1.3 Review Timeline:

The targeted goal balance will be reviewed and adjusted every five years with the first review to be completed by June 30, 2022, beginning in 2022.

5.1.4 Funding:

At the end of each five-year review period, the Treasurer will make a transfer from the Districts System Operating Funds to the Natural Disaster Fund, as necessary, for their share of any increase in the targeted goal.

5.2 Districts Joint Refuse System Capital Reserve Fund

5.2.1 Purpose:

The size and scope of capital projects (and the associated cost) varies from year to year. Additionally, many projects may occur over multiple years. This Fund will ensure that monies are available to meet capital expenses over the next two years.

5.2.2 Targeted Goal:

The targeted goal for this fund is equal to the next two year's planned, cash-funded capital expenses, not including the current fiscal year.

5.2.3 Review Timeline:

The targeted goal will be reviewed and adjusted annually in conjunction with the preparation of the final budget.

5.2.4 Funding:

Once the District Joint Refuse System Operating Fund meets its targeted goal, the Treasurer will annually transfer an amount necessary to reach the targeted goal from its Operating Fund to this Fund.

5.2.5 Additional Monies

The District may place additional monies into this Fund at any time so that the balance exceeds the targeted goal based upon long-term capital needs. Monies in excess of the targeted goal can be withdrawn at any time without prior Board authorization.

5.3 Other Reserve Funds

From time to time, the Board of Directors may deem it prudent to establish other designated reserve funds in order to further the mission of the Districts Solid Waste System. The Treasurer will create such Reserve Funds as directed and will establish appropriate targeted goals, review timelines, and funding mechanisms. This Policy will be amended to reflect the Board's direction with respect to any additional Designated Reserve Funds.

6. Restricted Reserves

6.1 Other Post-Employment Benefits (OPEB) Reserve Fund

6.1.1 Purpose:

The Sanitation Districts of Los Angeles County collectively provide health care and dental benefits for all retired employees and their dependents or survivors. The Districts have voluntarily elected to enter into a prefunding plan for their OPEB program. The OPEB funds must be held by a qualified third-party trustee.

6.1.2 Targeted Goal:

The yearly targeted goal will be to transfer to the OPEB Reserve Fund an amount equal to the Districts' annual required contribution (ARC) as determined by a qualified actuarial consultant.

6.1.3 Review Timeline:

The actuarial review is required at least biennially.

6.1.4 Funding:

Each year the Treasurer will collectively transfer the ARC to the third-party trustee in installments as required under the terms of the agreement with the trustee. Each transfer shall be apportioned among the Districts and Districts Solid Waste System Entities in proportion to the salaries incurred by the Wastewater District or Districts Solid Waste System since the previous transfer was made.

6.2 Puente Hills Landfill and Spadra Landfill Post-Closure Maintenance Reserves

6.2.1 Purpose:

CalRecycle requires operators of solid waste disposal facilities to demonstrate adequate financial assurances for costs of post-closure maintenance. In lieu of establishing a trust account, CalRecycle considers a pledge of revenue to be an acceptable form of demonstration.

6.2.2 Targeted Goal:

The targeted goal is to provide enough interest revenue to pay for post-closure maintenance activities at the Puente Hills and Spadra Landfills.

6.2.3 Review Timeline:

The targeted goal shall be reviewed annually.

6.2.4 Funding:

Any interest earned on these Reserves shall remain in the respective Fund until necessary for meeting post-closure expenses.

6.3 Backup Post-Closure Reserve Fund (Formerly Cost Transition Fund)

6.3.1 Purpose:

In anticipation of the closure of Puente Hills Landfill in 2013, the District developed a comprehensive plan of transitioning from local waste disposal to a remote disposal system in order to ensure sufficient capacity for waste disposal in Los Angeles County. Waste would be processed and sorted at local material recovery facilities (MRFs)/transfer stations and the residual waste would be loaded into containers and transported by truck or rail to remote landfills for disposal. Based on existing conditions, it is not anticipated that the remote disposal system will be necessary for a number of years.

While this fund may not be necessary to provide a cost transition to the Waste-by-Rail system for a number of years, the District has pledged interest from the Districts Joint Refuse System to meet CalRecycle requirements for closed landfills which is discussed further in Section 6.2. Based on the most recent projections, interest from this fund is necessary to meet CalRecycle requirements, and therefore the fund is restricted until interest from this fund is no longer necessary to meet CalRecycle requirements.

6.3.2 Targeted Goal:

The long-term targeted goal is to provide enough supplemental interest revenue to pay for post-closure maintenance activities at the Puente Hills and Spadra Landfills that cannot be covered by their respective post-closure reserve funds.

A review of this Fund will be completed annually to ensure sufficient funds exist to meet CalRecycle requirements.

6.3.3 Funding:

After the initial deposit into this Fund, monies may be transferred from the Districts Joint Refuse Operating Fund if they are available and are needed to reach the targeted goal.

6.4 Puente Hills Landfill and Spadra Landfill Corrective Action Trust Accounts

6.4.1 Purpose:

CalRecycle requires operators of solid waste disposal facilities to demonstrate adequate financial assurances for costs of known or reasonably foreseeable corrective action.

6.4.2 Targeted Goal:

The targeted goal for these Trust Accounts is determined after consultation with a third party consultant to project the cost of any known or reasonably foreseeable corrective action.

6.4.3 Review Timeline:

The minimum targeted goal shall be reviewed every five years by the District and CalRecycle.

6.4.4 Funding:

If additional funding is required, a transfer from the Districts Joint Refuse System Operating Fund would be made to meet the required fund balances.

6.5 Puente Hills Landfill Site Development Fund

6.5.1 Purpose:

The monies in this Fund are restricted to the development, operation and maintenance of a park at Puente Hills Landfill by the County of Los Angeles.

6.5.2 Targeted Goal:

There is no targeted goal. Deposits into this Fund stopped when the Puente Hills Landfill ceased operations. Monies in this Fund will be transferred to the County of Los Angeles at their request until the Fund is fully depleted.

6.5.3 Review Timeline:

No review is necessary as there is no targeted goal.

6.5.4 Funding:

Except for interest on Fund investments, no additional monies will be transferred to this Fund.

6.6 Other Reserve Funds

From time to time, it may be necessary to establish other restricted reserve funds in accordance with law or other statutory requirements or with contractual agreements to which the District in its capacity as administrator of the Districts Solid Waste System is a party. The Treasurer will create such Reserve Funds as mandated and will establish appropriate targeted goals, reviews, and funding mechanisms.

7. Solid Waste Financial Reserve Policy Adoption

This Policy will be reviewed on an annual basis and any modifications must be approved by the Board. Prior to such 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 _____.

FIRST AMENDMENT TO REGIONAL RECYCLED WATER PROGRAM AGREEMENT

This FIRST AMENDMENT TO REGIONAL RECYCLED WATER PROGRAM AGREEMENT (the “First Amendment”) is between THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA (“Metropolitan”) and COUNTY SANITATION DISTRICT NO. 2 OF LOS ANGELES COUNTY (“Sanitation District”), who may be referred to individually as “Party” or collectively as “Parties.”

RECITALS

- A. Metropolitan and the Sanitation District have been in partnership to develop the Regional Recycled Water Program (the “**Program**”), with the goal of producing up to 150 million gallons per day (168,000 acre-feet per year) of purified water. The overall Program would involve construction of an Advanced Water Treatment (“**AWT**”) facility to treat effluent from the Sanitation District’s Joint Water Pollution Control Plant (“**JWPCP**”) located in the City of Carson, California, as well as a new regional conveyance system and associated infrastructure to utilize the purified water to augment regional water supplies. It is currently envisioned that the Program will be constructed in a phased approach so that the eventual ultimate capacity of the Program takes into account the availability of water at the JWPCP and the anticipated demands by the member agencies both for the purposes of groundwater replenishment and raw water augmentation.
- B. From June 2010 through July 2012 the Parties conducted pilot studies to evaluate the feasibility of the Program. The results of those feasibility studies proved that an AWT at the JWPCP is feasible and can result in water that is suitable for potable reuse through groundwater recharge.
- C. Based on the success of the feasibility studies, the Parties entered into that certain REGIONAL RECYCLED WATER PROGRAM AGREEMENT dated November 16, 2015 (the “**2015 Agreement**”) for the purposes of developing a Demonstration Project¹ to further evaluate the feasibility of the Full-Scale Project. The 2015 Agreement also laid the groundwork for potential terms and conditions for future construction of a full-scale AWT facility at the JWPCP.
- D. In accordance with Section 3(b)(i) of the 2015 Agreement, Metropolitan and the Sanitation District cooperated in construction of the Demonstration Project, which has been in operation since October 4, 2019. As a result of the initial success of the Demonstration Project, the Parties now wish to take the next step in determining the feasibility of the Program which includes an environmental evaluation and the preparation of a Conceptual Facilities Plan (“**Conceptual Facilities Plan**”) to support implementation of the Full-Scale Project, if approved.

¹ Terms not defined in this First Amendment shall have the same definition and meaning as described in the 2015 Agreement.

E. The Program may also be expanded in the future to tie-in with a future Advanced Water Treatment Plant at the City of Los Angeles Hyperion Water Reclamation Plant and to serve additional groundwater basins and/or to supplement the raw water supply to a drinking water plant. The potential benefits of incorporating raw water supply in the Program (once approved) warrant phasing program implementation to retain future flexibility.

F. In order to properly evaluate the Full-Scale Project, as well as the overall Program, various subject matter consultants will need to be retained. Among other things, these consultants will assist Metropolitan and Sanitation District in conducting analyses, investigations, evaluations, studies, and public outreach, as needed, to complete any environmental review and documentation required for design and construction of the Full-Scale Project (collectively “**Environmental Planning Phase Services**”). These Environmental Planning Phase Services include Environmental Evaluation, Engineering Support, and Public Outreach, as each of those terms are defined herein. The Program will conform to and comply with the requirements of the California Environmental Quality Act (“**CEQA**”) and any other applicable environmental programs, permitting processes and laws.

THEREFORE, the Parties agree as follows:

AGREEMENT

1. Amendments to Section 4. CALIFORNIA ENVIRONMENTAL QUALITY ACT

a. The following will be inserted as Subsection “c” to Section 4 of the 2015 Agreement:

c. For purposes of the Full-Scale Project and overall Program, the following provisions shall govern the initial research, evaluation and design phases:

- i. Joint Scopes of Work and Selection of Consultants. The Parties shall cooperate to jointly develop, review and agree to one or more scopes of work for the Full-Scale Project and overall Program, including the services to be provided by consultants jointly selected for Environmental Planning Phase Services (individually “**Scope**” and collectively “**Scopes**”). Each Scope will contain, at a minimum, a general project description, a list of tasks and a list of deliverables, along with any other details deemed necessary for the Parties to complete their evaluation of the Scope. Each Scope may be modified or amended by mutual agreement of the Parties at any time and no change in any Scope will be implemented until the Parties each sign an authorization for the change in Scope.

The Parties shall jointly select the persons or firms to provide the Environmental Planning Phase Services. Metropolitan shall act as the lead agency to contract with the selected persons and firms for the completion of the consultant services pursuant to the Scope for those tasks. Any approval or mutual agreement contemplated by the Parties under this First

Amendment shall be authorized by a designated representatives for each Party.

As used in this section, the term “**Environmental Evaluation**” will include, but not limited to, the following: 1) preparing an initial study for the project, 2) assisting with AB 52 notification and consultation processes, 3) determining the appropriate type of environmental review and documentation that is required based on the initial study, 4) refining, as necessary, identified project alternatives, 5) conducting technical studies as appropriate to adequately identify and addressing project-related environmental impacts to resource areas, 6) completing the requisite environmental review and documentation, and 7) managing document distribution.

As used in this section, the term “**Engineering Support**” will include, but not limited to, the following: 1) analyzing project alternatives and developing conceptual designs, 2) completing technical studies as appropriate to support the Environmental Evaluation and define the recommended project alternative, 3) determining construction sequencing and schedule, 4) preparing a cost estimate for the Full-Scale Project, 5) supporting Public Outreach, 6) preparing a Conceptual Facilities Plan with a comprehensive project description, including one or more feasible project alternatives as needed, and 6) managing and coordinating of project task and work efforts.

As used in this section, the term “**Public Outreach**” will include, but not limited to the following: 1) identifying outreach areas and stakeholders, 2) evaluating, recommending, and implementing outreach strategies and communication methods, 3) coordinating stakeholder and public meetings; 4) facilitating public participation in environmental planning process; 5) developing outreach materials, and 6) promoting and ensuring overall community engagement.

Notwithstanding anything to the contrary, this subsection shall not apply to any work, tasks or scopes related to the offsite conveyance and distribution facilities (“**Conveyance Facilities**”) that will be required for the distribution of purified water from Full Scale Project, except for those facilities within the boundaries of the city of Carson. Likewise, this subsection shall not apply to any work, tasks or scopes related to any other facilities and operations (“**Other Facilities**”) that may be required for the Full Scale Project or overall Program and that (a) will be located entirely outside the boundaries of the JWPCP/city of Carson; or (b) will not adversely impact its ongoing or future operations. Metropolitan shall have sole control over and responsibility for all work, tasks or scopes related to Conveyance Facilities and Other Facilities.

- ii. AWT Site Remediation, and Technical Studies for Brine Collection and Biological Treatment. In support of the Environmental Evaluation, the Sanitation District has retained and will retain additional consultants to continue proposed AWT site investigation and remediation and prepare technical studies on brine collection and the biological treatment at JWPCP to determine the optimal nutrient reduction process for the Full-Scale Project. The Sanitation District is the lead on these studies and Metropolitan is an active participant on the biological treatment study.
- iii. CEQA Review and Documentation. The Parties agree that Metropolitan shall be the lead agency and Sanitation District shall be a responsible agency for purposes of conducting any environmental reviews and preparing any environmental documentation that may be required for the Full-Scale Project and overall Program pursuant to CEQA. Costs for such review and documentation shall be allocated as set forth in subsection (v) below. Should additional funds be required to complete the requisite environmental review and documentation, both parties will seek further authorizations from their respective Boards, as needed.
- iv. Consultant Management. Day-to-day management of the Environmental Planning Phase Services shall be performed by Metropolitan. Metropolitan agrees to carry out such management for the benefit of the Parties. Metropolitan shall prepare, execute and administer contracts for the Environmental Planning Phase Services with the selected consultants, and Metropolitan shall be responsible for making all payments due to the selected consultants.

The Parties shall be equally entitled to receive all work product prepared by any consultants performing work in connection with each Scope and may use the work product for any purposes not adverse to the other Party.

- v. Cost Allocation. Each Party shall contribute to the payment of consulting costs for the Environmental Planning Phase Services as follows:

TASK	ESTIMATED COST	COST SHARING
Environmental Evaluation	\$4 Million	50-50 split of costs with each Party paying up to \$2 million.

TASK	ESTIMATED COST	COST SHARING
AWT Site Remediation and Technical Studies	\$6-7 Million	Sanitation District – 100% of costs
Engineering Support	\$12 Million	Sanitation District – approximately 1/6 of the total cost (based on 50-50 cost split for the AWT work at the JWPCP and the Conveyance Facilities in the city of Carson estimated at 1/3 of Engineering Support costs), for a total amount up to \$2 million Metropolitan – Balance of the Cost
Public Outreach	\$800,000	50-50 split of costs with each Party paying up to \$400,000

Metropolitan shall provide an accounting and invoice the Sanitation District on a quarterly basis for the Sanitation District’s share of the costs. Sanitation District shall have the right to review and confirm the invoiced tasks and amount conform to the terms of this First Amendment, and if so approved, the Sanitation District shall pay the invoice within 30 days of receipt.

- vi. Use of Staff. The Parties shall each provide their own staff resources, including without limitation labor, materials, incidentals and information in support of the Full-Scale Project, overall Program and any Scopes approved under this First Amendment at the sole cost and expense of the contributing party. Periodic joint meetings will be scheduled by the Parties to review progress and results.

- b. The second and third sentences in Subsection “a” to Section 4 of the 2015 Agreement are hereby deleted and replaced with the following:

Metropolitan and Sanitation Districts shall split all fees and costs associated with any legal actions of any nature arising out of or relating to the Program’s Environmental Evaluation, except to the extent that any such legal action includes a challenge to either the Conveyance Facilities or Other Facilities. Metropolitan shall be responsible for all costs of compliance relating to the

Program's Environmental Evaluation for the Conveyance Facilities and Other Facilities. Metropolitan shall indemnify, defend, and hold harmless the Sanitation District and its directors, employees, and agents from any losses, claims, or legal actions of any nature solely arising out of or relating to the Program's Environmental Evaluation of the Conveyance Facilities or Other Facilities.

2. **REMAINDER OF AGREEMENT:** Except only as modified by this First Amendment, the 2015 Agreement remains in full force and effect. If there is any conflict or inconsistency between the First Amendment and the 2015 Agreement, this First Amendment prevails.

[Signatures on Following Page]

DRAFT

The Parties are signing this First Amendment in duplicate originals.

**THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA**

By: _____
General Manager

APPROVED AS TO FORM:

By: _____
General Counsel

**COUNTY SANITATION DISTRICT NO. 2
OF LOS ANGELES COUNTY**

By: _____
Chairperson

ATTEST:

By: _____
Secretary to the Board

APPROVED AS TO FORM:
Lewis Brisbois Bisgaard & Smith, LLP

By: _____
District Counsel