

MINUTES OF THE SPECIAL MEETING OF THE
PERSONNEL COMMITTEE OF THE
COUNTY SANITATION DISTRICTS
OF LOS ANGELES COUNTY

February 26, 2020
11:00 o'clock, A.M.

Pursuant to the call of the Chairperson and upon written notice of the Secretary setting the time and place of a special meeting and mailed to each Director at least 24 hours before the meeting, a special meeting of the Personnel Committee of the County Sanitation Districts of Los Angeles County was held at the Joint Administration Office, 1955 Workman Mill Road, Whittier, California, on February 26, 2020, at 11:00 a.m., for the purpose of:

1. Approve Minutes of Special Meeting Held January 22, 2020
2. Re: Districts' Connection Fee Ordinances
3. Re: Proposed Solid Waste Financial Reserve Policy
4. Status Report

There were present: Pat Furey, South Bay Cities and District No. 5
Dee Andrews, Districts Nos. 1 and 8
Sonny Santa Ines, District No. 3
Lindsay Horvath, District No. 4
Richard Barakat, District No. 15
Robert Joe, District No. 16
Terry Tornek, District No. 17
Ali Taj, District No. 18
Todd Rogers, District No. 19
Curtis Morris, District No. 21
Margaret E. Finlay, District No. 22
William Davis, District No. 23
Leonard Pieroni, District No. 28
Lori Woods, District No. 29
Cathy Warner, Chairperson, District No. 2

Absent: Sheila Kuehl, District No. 9
Rex Parris, District No. 14
Steven Hofbauer, District No. 20
Kathryn Barger, Districts Nos. 27 and Santa Clarita Valley
Cameron Smyth, Santa Clarita Valley

Also present: Robert Ferrante, Chief Engineer and General Manager
Charles Boehmke, Assistant Chief Engineer and Assistant General Manager
Wesley Beverlin, District Counsel
Matt Eaton, Head of Financial Management
Andrew Hall, Budget Manager
Kimberly S. Christensen, Secretary of the Committee

RE: MINUTES Upon motion of Director Woods, duly seconded with Director Rogers abstaining from the vote, the minutes of the special meeting held on January 22, 2020, were approved.

RE: CONNECTION FEE ORDINANCES DISCUSS Connection fees are paid by new users of Districts' wastewater collection and treatment systems to pay for the cost of expanding facilities to accommodate the incremental discharge from that user. Revisions to the Connection Fee Ordinances and the Joint Outfall Agreement are recommended that will reduce most Connection Fee amounts, provide additional flexibility for capital funds, and bring the Ordinances into compliance with new state laws. In January, the recommended revisions were presented to the Committee. The Committee endorsed proceeding with revisions and requested additional information and analysis. Drafts of the Master Connection Fee Ordinance and Amended Joint Outfall Agreement that incorporate the proposed revisions are attached. Information requested by the Committee will be presented at the meeting.

The Chief Engineer and General Manager stated that the Connection Fee Ordinance requires new developers and expanding users to pay a Connection Fee to connect to the District's wastewater system. Furthermore, the money is set aside for future capacity.

As a result of changed dynamics in our wastewater system, most of the capital expenditures are now focused on rehabilitation/upgrade of treatment plants. Flow has decreased 20-30 percent since 2005-06 due to recent drought and increased water conservation. This, combined with other factors, led to the need to review the Connection Fee structure.

He introduced Mr. Matt Eaton, Head of the Financial Management Department, who had a brief presentation regarding proposed changes to the Connection Fee Ordinance. It was stated that if the Personnel Committee is not ready to endorse the proposed Connection Fee Ordinance, the item can be brought back in April for more discussion.

Mr. Eaton stated that, as previously mentioned by Mr. Ferrante, the Connection Fee Ordinance requires new users to pay a one-time fee toward the cost to construct new facilities to serve their discharge to the Districts' wastewater system.

Under the existing connection fee program, the amount of the fee is based on the unit cost of new sewers and treatment plants. Funds are placed in the Capital Improvement Fund (CIF) and used for expansion necessary to handle additional flow. The CIF cannot be used for non-expansion capital projects. He discussed issues with the existing Connection Fee structure. Currently, expansion due to increased flow is not a critical need. In general, growth has slowed, water use has declined, and there is more infill growth. There are no expansion projects on the horizon, especially for Joint Outfall System (JOS) Districts. Aging facilities will continue to need to be rehabilitated at significant cost. Costly treatment upgrades will continue for the foreseeable future. The Districts must continue to improve facilities due to regulatory compliance.

He discussed options for Connection Fee calculations. Districts' staff looked at various options and presented four different calculations. Incremental expansion, currently being used, uses the cost of facilities per new user regardless of need or timing. Incremental expansion is difficult to accurately calculate because it is based on estimated cost of future facilities and it is unknown when the funds will be needed and what type of facilities will be needed at the time.

In response to Director Rogers, Mr. Eaton stated that incremental expansion is related to how the fee is calculated. The method used to determine that fee drives how those fees are spent.

Capital buy-in takes net assets divided by the number of existing users. Districts' staff is proposing this method. Capital buy-in uses a simple calculation, provides a low rate and flexible use of funds.

In response to Director Woods, Mr. Eaton stated that the rate will vary depending on the District.

The Chairperson stated that new users will be purchasing capital that already exists.

Director Barakat stated that as time goes by, costs will change as the facility depreciates, if there are no additional users, or if there are investments in capital and an increase in users.

In response to Director Santa Ines, Mr. Eaton stated that flow does not affect the capital buy-in method. Waste-water flows peaked in the 1990s. There may be a need for expansion 30 to 40 years in the future. Mr. Ferrante stated that due to increased water conservation, flows have decreased.

The Capital plan method calculates the cost of planned expansion projects over some future period (e.g., 30 or 50 years) divided by expected new users. It is difficult to predict expansion needs and costs. Use of funds is limited.

Lastly, zero or nominal fee requires no fee or only a small administrative fee. All capital is paid by service charges. As previously mentioned, expansion is a relatively small part of the budget, but in this scenario existing users would subsidize growth.

In response to Director Horvath, Mr. Eaton stated that a bulk of the funds come from the annual service charge, which is combined with the ad valorem portion of property taxes and grants. The funds are enough to maintain existing infrastructure. The issue now is that we have built up a significant amount of Connection Fee funds with no significant need for those funds in the next ten-plus years.

Mr. Eaton stated that the zero or nominal fee method would work, although the issue is that it would be shifting 100 percent of costs to existing users and new users would join for free.

In response to Director Tornek, Mr. Eaton stated that a zero or nominal fee option is not out of the question. Capital buy-in may make more sense from an equity standpoint. The Chief Engineer and General Manager stated that it is more common for utilities to use the capital buy-in concept.

In response to Director Woods, Mr. Eaton stated that there is a total of approximately \$600 million (\$500 million in the JOS) in the Districts' wastewater capital improvement fund reserves. The proposed change would allow funds to be used for any capital project. It is the Districts' intention to repurpose what has already been collected and District Counsel has stated that the funds can be repurposed as long as it's for capital improvement.

Director Morris stated that the capital buy-in method makes more sense. The Chief Engineer and General Manager stated that it is the more common approach.

Mr. Eaton presented a slide of other agencies' methods. Most agencies have a buy-in model, whereas a few of them have a hybrid combination with a buy-in model. The Sacramento Regional County Sanitation District used a capital plan model.

The proposed changes, as shown on a slide, were to calculate fees based on capital buy-in, not future expansion. The Connection Fee would be calculated using net assets of the Districts divided by current capacity units in that District. Furthermore, the Districts would allow future and existing Connection Fee funds to be used for any capital project, not just for expansion.

He discussed effects of proposed changes, as shown on a slide. The proposed changes would create significantly-reduced Connection Fees in most Districts. The fee calculation would be simplified and more accurate. There would be more flexibility in funding capital projects. In the short-term, CIF funds are freed up for projects that would otherwise be funded with service charge. In the long-term, the lower Connection Fee revenue will require slightly increased service charge rates.

Most Districts' service charges rates will not be impacted over the next 20 years. The existing rate goes hand-in-hand with using fees only for expansion; therefore, allowing the use of capital investment fund for non-expansion puts downward pressure on most service charge rates over the next ten years. With no change, those funds stay locked up. The Connection Fees for Districts Nos. 14 and 20 are currently being used for bond payments. A small additional increase of \$3 per year for District No. 14 and \$5.75 per year for District No. 20, over four years, will be included in recommended future rate packages to make up for the reduced Connection Fee. The Districts may need to adjust reserve targets.

In response to Director Horvath, Mr. Eaton stated that the connection fee rates mirror the City of Los Angeles' rates for Districts Nos. 4, 9, and 27 as they are passed through to the City of Los Angeles.

Mr. Eaton stated that District No. 28 has a large amount of cash, resulting in an increase in their connection fee rate as compared to the current connection fee.

In response to Director Woods, Mr. Andrew Hall, Budget Manager with the Financial Management Department, stated that the Districts took control of all sewers in District No. 29 including the local sewers; therefore, their case is different from the other Districts, and the connection fee rate is higher. The Chief Engineer and General Manager stated that in other Districts, the cities maintain their own sewers.

Mr. Eaton reviewed examples of users and fees in the JOS and outlying Districts (Districts Nos. 14 and 20 and Santa Clarita Valley Sanitation District). The capital buy-in Connection Fee method will reduce connection fees in most Districts by approximately two-thirds.

The Chief Engineer and General Manager stated that the Districts was advised that the Connection Fees are higher than the City of Los Angeles. Districts' fees would be, similar to the City of Los Angeles's fees with the proposed change.

In response to Director Finlay, Mr. Hall stated that the proposed changes would be presented to customers only after endorsement by the Personnel Committee. Mr. Eaton stated that there shouldn't be much negative feedback from developers. The Connection Fee is approximately six percent of revenue and will decrease to two percent.

In response to Director Woods, Mr. Eaton stated that developers will notice the change more than single-family households.

In response to Director Santa Ines, the Chief Engineer and General Manager stated that the Districts can notify customers of the effective date for the new rates.

In response to the Chairperson, Mr. Eaton stated that Districts' staff is recommending approval of the buy-in model.

In response to Director Santa Ines, Mr. Eaton stated that the Connection Fee in the majority of individual districts will decrease by two-thirds.

Director Rogers stated that the buy-in option makes more sense for utilization of funds while simultaneously being fair to ratepayers.

Mr. Eaton stated that in conjunction with changing the Connection Fee calculation, the Districts should revisit reserve targets. Proposed future reserve targets will likely increase for other funds to compensate for decreases in the CIF.

In response to Director Santa Ines, Mr. Eaton stated that the Districts knows well in advance whether expansion projects are not needed due to current capacity. The Chief Engineer and General Manager stated that in the next 10 to 20 years, as homes are turning over, there will still be room for another 5 to 10 percent drop in numbers.

Director Tornek stated that he opposed the buy-in option. He recommended the zero or nominal fee option.

Director Woods stated that the zero-fee option would be a benefit with state regulation regarding housing expansion.

Director Barakat stated that fees are a small portion of the Developer's costs.

Director Woods stated that it can be a boost to create development for affordable housing.

Director Morris stated that those who are paying have invested in the facilities. He thought the buy-in option was more reasonable.

Mr. Eaton reviewed the implementation schedule, as shown on a slide. In February, the Personnel Committee reviews the draft Ordinances and JOS Agreement Amendments. In March-April, the JOS Agreement Amendment is considered by the Boards. In March-May, ordinances are introduced, public hearings are held, and the Boards consider adoption of the ordinances. The new ordinances would take effect on July 1, 2020.

The Chairperson stated that it is the consensus to move forward and bring back the item to the Personnel Committee in two to three years.

In response to Director Woods, Mr. Eaton reviewed each District's Connection Fees. He stated that the percent of reduction varies, but the proposed fee is based on assets versus the number of units.

In response to Director Barakat, Mr. Hall stated that the Districts will provide talking points regarding the buy-in option.

The Committee endorsed staff's recommended revisions to the Joint Outfall System Agreement and revised Connection Fee Ordinance.

RE: SOLID WASTE - PROPOSED FINANCIAL RESERVE POLICY - ENDORSE

Maintaining prudent financial reserves allows the Districts to provide cost-effective solid waste management services, weather periods of economic downturn, and construct capital projects in a timely manner. The proposed policy establishes targets for the various Solid Waste reserves to help achieve these goals for the Districts' Solid Waste System. A draft policy was presented to the Solid Waste Ad Hoc Committee, comprised of four Sanitation Districts' Directors and four key City/County staff, which endorsed the draft policy. A summary letter and the proposed policy was attached to the agenda.

The Chief Engineer and General Manager stated that in the last couple years, the various financial policies were reviewed. The Solid Waste Financial Reserve Policy (Policy) will be added. He introduced Mr. Andrew Hall, Budget Manager with the Financial Management Department, who worked on the wastewater reserve policy. It is very timely to add this policy due to the current issues in the solid waste market regarding recycling, commodities and setting rates.

Mr. Hall provided some brief background information regarding the Districts' Solid Waste management governance, as shown on a slide. Fifteen districts are party to the Solid Waste System Agreement, which includes facilities and equipment for transfer, recovery, and disposal of solid waste; and conversion of waste to energy. District No. 2 has the delegated authority for acquiring, selling, operating, and maintaining the system.

The Districts' Solid Waste system is broken up into two parts. The Districts' Joint Refuse System, which is Districts owned and operated, consists of the Puente Hills Materials Recovery Facility, Downey Area Recycling and Transfer Facility, South Gate Transfer Station, Waste-by-Rail, and other facilities (PH and Calabasas Gas-to-Energy Facilities, Compressed Natural Gas (CNG) stations, and food waste systems). All these facilities interact in how the Districts handle solid waste and tonnage. The Districts' Post-Closure Landfill System consists of the Puente Hills and Spadra Landfills.

The County Solid Waste System, which is Los Angeles County/Glendale owned and Districts operated, include the operating landfills – Calabasas and Scholl Canyon Landfills; and closed landfills – Palos Verdes and Mission Canyon Landfills. There are liabilities for long-term post-closure activities. The Districts operate these landfills under the Joint Powers Agreements. These landfills are not under the reserve policy.

The Districts' financial policies were discussed, as shown on a slide. The financial policies include an Investment Policy, Wastewater Financial Reserve Policy, Debt Management Policy, and Solid Waste Financial Reserve Policy.

He discussed the need for the financial policies. The Districts' Joint Refuse System Operation Reserves are at all-time lows. The new Solid Waste Rate Ordinance provides flexibility for the Chief Engineer and General Manager to make rate recommendations based on the market. This applies to facilities and programs owned and operated by the Districts and establishes guidelines for building and using funds. Solid Waste Funds are categorized under Unrestricted, Designated, and Restricted, which are like the Wastewater Financial Reserve Policy. The policy has been endorsed by the Solid Waste Ad Hoc Committee.

In response to Director Finlay, the Chief Engineer and General Manager stated that in wastewater management, the bulk of the revenue is collected on the property tax bill. Regarding solid waste, Districts' facilities must compete in the market for revenue. Reserves are at an all-time low. Districts' reserves are projected to dip to one month of Operation & Maintenance (O&M) in the near future. Furthermore, the Policy allows for effective communication to Directors and the public regarding the Districts' financial situation.

In response to Director Horvath, the Chief Engineer and General Manager stated that the members of the Solid Waste Ad Hoc Committee, consisted of Director Finlay (Duarte), Director Bergman (La Habra Heights), Director Tornek (Pasadena), Director Warner (Whittier); and staff from the cities of El Segundo, Lakewood, Paramount, and Los Angeles County. The Ad Hoc Committee generated a report, which will be distributed to Directors.

He discussed the Districts' proposed funds and targets for the Joint Refuse System. The current balance of the Operating Fund is \$34 million. The targeted goal is six months of O&M which is approximately \$50 million. There are no funds in Capital Reserve. The targeted goal would be the next two years of capital expense, which is approximately \$25 million.

The Chief Engineer and General Manager stated that the Districts has \$25 million of capital expenditures in the next two years. The current operating fund balance, less these future capital expenditures, is a net \$10 million, which is equivalent to approximately one month of O&M.

Mr. Hall reviewed proposed funds and targets for other Districts' funds, as shown on a slide. The current balance for Post Closure Operating Funds is \$4.6 million with a targeted goal that is sufficient for annual cash flow. Post Closure Obligation Funds have a total of \$594 million and a targeted goal of principal needed to generate interest for long-term post closure operations. The current balance for Corrective Action Funds is \$3.3 million. The targeted goal is an amount set by regulators. Corrective Action Funds are to be held if needed to correct an environmental issue. The current balance for the PH Landfill (PHLF) site development is \$37.3 million. According to the County feasibility study, the targeted goal is an estimate of \$13.7 million. It is not possible for the Districts to fund a \$100 million park based on the feasibility report.

The implementation schedule was reviewed, as shown on a slide. In February, the draft Policy was presented to the Personnel Committee for endorsement. In March, the Policy will be presented to the Solid Waste System Districts' Boards. In April, District No. 2 will consider adoption of the Policy.

In response to Director Woods, the Chief Engineer and General Manager stated that for the majority of solid waste rates are set through negotiations with haulers. There is growth in food waste, which will bring in additional revenue.

In response to Director Barakat, the Chief Engineer and General Manager stated that it would be more expensive to utilize the waste-by-rail system to store wind farm blades compared to costs for local landfills to take them.

In response to Director Rogers, the Chief Engineer and General Manager stated that the Districts must be very careful about increasing tonnage and increasing rates. The Districts must have a portfolio of operations. Food waste processing is very competitive. The Districts has wastewater and solid waste operations, which is unique. Residual trash is exported to Orange County. Sometimes Districts' operations must operate at a loss, although it's made up elsewhere. The Districts' goal is to get to a stable position and provide benefit to cities. The new recycling sorting line will produce very clean loads and optimize operations.

In response to Director Tornek, the Chief Engineer and General Manager stated that the Solid Waste Ad Hoc Committee report will be distributed to all Directors in the next one to two weeks.

The Committee unanimously endorsed the recommended Solid Waste Financial Reserve Policy.

RE: STATUS REPORT

The Chief Engineer and General Manager welcomed and thanked the members of the Personnel Committee for attending the meeting. He stated Director Morris was retiring from elected service and that it was his last meeting. Director Morris has served on the Personnel Committee for the last 20 years. He has provided a very valuable contribution to the agency with his recommendations. He thanked Director Morris for his service and wished him the best of luck in his endeavors after elected life.

The Chief Engineer and General Manager advised that a closed session will be held at an upcoming meeting with Districts Nos. 2 and 18 regarding the PHLF Park (Park) development. District No. 2 is the Administrative District and District No. 18 is the property owner. The Districts is in dispute with Los Angeles County regarding funding. As previously discussed, the Districts set aside \$37 million for the Park. According to the feasibility study, the County only needed \$13.7 million to fund the park.

A recent claim from the County is requesting hundreds of millions. The Districts does not have reserves available to fund the park as requested by the County. Earlier today, Los Angeles County Counsel informed the Districts that they will file a lawsuit against the Districts for funding.

He stated that a meeting with Supervisors Solis and Hahn was cancelled by the Supervisors. The Districts has never been able to brief Supervisors Hahn and Solis, although a brief five to ten-minute meeting with Supervisor Kuehl was previously held. This matter has serious ramifications to Districts' employees.

Regarding the Payment Register Report, he stated that Districts Nos. 14 and 20 and the South Bay Boards requested warrant lists to be attached to their agendas. The report will now be provided to all Districts for the purpose of increased transparency. The report is becoming a standard practice for government agencies. The report will be available online (via a link on the agendas) and available at Board meetings. The report includes each District's local payments; overhead joint administration and technical support payments; and payments from the Joint Outfall System, Solid Waste, etc. Each District's share is shown on the report, although District No. 2 pays on behalf of all Districts.

The Districts worked with art students to update the agency's logo, as shown on a slide. The agency's tag line "Converting Waste into Resources" reflects the agency's purpose.

In response to Director Santa Ines, the Chief Engineer and General Manager stated that each District is officially named under their respective number; for example, County Sanitation District No. 2 of Los Angeles County. The agency is usually referred to as Los Angeles County Sanitation Districts. Furthermore, District Counsel stated that the reason the agency was created was according to the County Sanitation District Act.

There has been a lot of press regarding the Coronavirus outbreak. An emergency plan is being reviewed by all department heads and the Health and Safety Group.

Director Barakat discussed the statistics with the flu compared to the coronavirus and the perception of fear of the unknown.

The Chief Engineer and General Manager stated that the next Personnel Committee meeting will most likely be scheduled for Wednesday, April 22, and asked Directors to mark their calendars.

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

CATHY WARNER
Chairperson

ATTEST:

KIMBERLY S. CHRISTENSEN
Secretary

/ksc