

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

September 23, 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 September 23, 2020, at 11:00 a.m., via teleconference, for the purpose of:

1. Approve Minutes of Special Meeting Held April 22, 2020
2. Re: Districts' General Counsel
3. Re: Districts Employees Pension's Unfunded Accrued Liability Funding Strategies
4. Re: Joint Outfall System Rates

There were present: Patrick J. Furey, South Bay Cities and District No. 5
Dee Andrews, Districts Nos. 1 and 8
Sonny Santa Ines, District No. 3
Lindsey Horvath, District No. 4
Sheila Kuehl, District No. 9
Richard Barakat, District No. 15
Robert S. Joe, District No. 16
Terry Tornek, District No. 17
Ali Sajjad Taj, District No. 18
Todd Rogers, District No. 19
Steve Hofbauer, District No. 20
Cory Moss, District No. 21
Margaret E. Finlay, District No. 22
William "Bill" Davis, District No. 23
Michael T. Davitt, District No. 28
Tina Hansen, District No. 29
Cameron Smyth, Santa Clarita Valley
Cathy Warner, Chairperson, District No. 2

Absent: Kathryn Barger, District No. 27
R. Rex Parris, District No. 14

Also present: Robert Ferrante, Chief Engineer and General Manager
Wesley Beverlin, Committee Counsel
Kimberly S. Christensen, Secretary of the Committee

The Chief Engineer and General Manager reviewed the logistics and protocols for the meeting. He stated that all Directors called in along with most of the Sanitation Districts' support staff. Members of the public were able to submit comments electronically or call in on a separate phone line.

RE: MINUTES Upon motion of Director Finlay, duly seconded with Directors Andrews, Horvath, Davis, and Smyth absent from the vote, by a roll-call vote, the minutes of the special meeting held on April 22, 2020, were approved.

RE: DISTRICTS' GENERAL COUNSEL DISCUSS The Chief Engineer and General Manager advised that the Districts has conducted a selection process for the agency's General Counsel.

The Chief Engineer and General Manager stated that the next item concerns the Districts' General Counsel and Human Resources legal services that was previously discussed with the Personnel Committee last year. As a relatively new Chief Engineer, he felt it was important for the agency to have a selection process for

legal services. As a result, the Districts issued a Request for Proposals(RFP) for legal services for a five-year term. He introduced Mr. Chuck Boehmke, Assistant Chief Engineer and Assistant General Manager to further discuss.

Mr. Boehmke greeted the Directors and said he would discuss the RFP process and recommendation for General Counsel. He gave a brief background on the matter, as shown on a slide. In October 2019, the Personnel Committee endorsed issuing an RFP for General Counsel and Human Resources legal services for a five-year term. The RFP was mailed to 18 law firms in December 2019. Seven proposals were received for General Counsel. A selection panel consisting of two volunteer Directors (Cathy Warner and Lindsay Horvath) and three Districts' staff members, including himself, selected two firms for interviews. The proposals of both firms clearly separated themselves from the rest of the field.

Lewis, Brisbois, Bisgaard & Smith LLP (LBBS) and Woodruff, Spradlin & Smart (WSS) were interviewed on August 12, 2020. The selection criteria included the following:

1. Law firm's qualifications
2. Lead and support attorney's qualifications
3. Fit with Districts' needs
4. Approach to legal matters
5. Rates

He reviewed a table showing the results of the selection criteria for the two firms and discussed the recommendation. The selection panel unanimously recommended LBBS as the Districts' General Counsel for the next five years. With Personnel Committee endorsement of the process and the selection panel's recommendation, a five-year contract with LBBS for Districts General Counsel will be brought before District No. 2 in October.

Staff will interview finalists for Human Resources Counsel over the next few months, with the intention to bring the matter to District No. 2 for approval by the end of the year.

Director Horvath stated that the selection panel had a thorough process. The panel expected to see that LBBS had a depth of understanding after so many years of serving the agency. It was good to see other options that are available.

The Chairperson stated that one of the concerns was a succession plan. This matter was addressed and resolved by LBBS.

Mr. Boehmke stated that WSS is representing the Districts on the legal matter with Los Angeles County regarding the Puente Hills Landfill Park development. The selection committee expressed the fact that if expertise which is beyond the scope of General Counsel is needed, their services can be obtained.

Director Santa Ines thanked staff and Directors Warner and Horvath for their time and efforts on this matter. He asked how large LBBS is compared to WSS.

In response to Director Santa Ines, Mr. Boehmke stated that LBBS is a national firm having over 1,000 attorneys. LBBS has many locations across the country. Mr. Ferrante added that LBBS is one of the largest legal firms in Los Angeles County.

The Chairperson stated that both firms brought a team of four attorneys who would focus on Districts' matters.

Mr. Boehmke stated that the WSS office is in the City of Costa Mesa in Orange County. Mr. Brad Hogin serves as General Counsel for the Orange County Sanitation District (OCSD). Mr. Hogin and several attorneys on his team proposed splitting 50/50 time between OCSD and LACSD. During the interview, they recognized they would need to bring on additional lawyers to support the amount of work needed by the Districts.

In response to Director Santa Ines, Mr. Boehmke stated that during the interview and based on experience, WSS would have performed well on Districts' issues.

Mr. Boehmke stated that since the amount of Human Resources legal counsel work is much smaller than General Counsel and staff driven, the Human Resources legal counsel recommendation will go directly to District No. 2 for consideration.

The Committee unanimously endorsed staff's recommendation to offer Lewis, Brisbois, Bisgaard & Smith LLP a five-year contract for General Counsel and recommended that District No. 2 approve it.

RE: DISTRICTS EMPLOYEES PENSION'S
UNFUNDED ACCRUED LIABILITY FUNDING
STRATEGIES - DISCUSS

The Districts' CalPERS Unfunded Accrued Liability (UAL) is approximately \$438 million based on the most recent CalPERS analysis. Annual payments toward the UAL are currently \$30 million and will rise to \$49 million

in ten years. Because the UAL is effectively financed by CalPERS at 7 percent interest, there are alternative strategies for funding the UAL that reduce the interest cost that will be discussed with the Committee.

The Chief Engineer and General Manager stated that the pension UAL is a complicated issue that the Districts and cities are facing. Staff will discuss the schedule of UAL payments and a potential concept of using dedicated landfill post closure maintenance (PCM) reserves to pay off the UAL with the Districts then taking over the responsibility for landfill PCM. This would eliminate paying close to \$350 million in interest. The Districts is seeking Personnel Committee endorsement to move forward for additional evaluation and analysis of the concept.

He gave a brief overview of the Districts' UAL. The UAL is essentially a 7 percent interest loan that must be repaid over 22 years. He introduced Mr. Julio Morales, a registered Municipal Advisor. Mr. Morales has worked throughout the state for cities and special districts on pension funding strategies.

Mr. Morales stated that the UAL is essentially a past due amount owed to CalPERS. The UAL is a net of the accrued liability and the market value of assets (\$1,857,488,835 - 1,419,317,531) totaling \$438,171,304, as of June 30, 2019. CalPERS always provides their report one year behind, so the amount is slightly higher now.

The UAL is comprised of 21 amortization bases. These amortization bases should be viewed as a series of loans. Every year, CalPERS adjusts the UAL and will add a new base based on the investment performance, numbers of employees and retirees, and other parameters. The agency is required to make fixed dollar payments on the plan. Since the Public Employees' Pension Reform Act (PEPRA) was enacted, each agency was placed on a payment plan.

He showed a bar graph of the Districts' UAL amortization payment schedules. By 2031, the Districts will be paying approximately \$49 million annually. He noted that there is a consistent pattern for most agencies. A peak in payments between 2029 and 2031 is a commonality between all agencies in CalPERS.

UAL payments are fixed dollar payments that are similar to mortgage payments, where there is a significant amount of principal and interest that is paid overtime. The Districts will end up paying a total of \$786 million in payments, which includes \$346 million in interest, if the payments are made per the CalPERS' schedule. Ideally, if \$438 million can be paid off today, the Districts would realize a significant amount of savings.

The Chief Engineer and General Manager stated that UAL payments are part of the labor and benefit costs. Currently, the Districts' UAL cost is equivalent to over 20 percent of salaries. This does not include the other normal CalPERS' costs. In addition, the Districts covers the employees' contribution for Classic employees.

One of the methods that agencies use to mitigate the impact of this high interest loan is to issue Pension Obligation Bonds (POBs), which effectively reduces the interest rate from 7 percent to 3.6 percent. Ideally, agencies would pre-pay the loan with reserves that are not designated and/or excess cash. Many of the wastewater Districts do not have excess reserves and the Solid Waste operation is under its target for operating and capital reserve funds. The solid waste landfill post-closure reserves are a significant dedicated fund that could be applied in this case.

The Solid Waste System is owned by 15 Districts that originally contributed to and formed the system. The Districts owns and maintains two closed landfills: Spadra and Puente Hills Landfills. The Districts is required, by state law, to maintain environmental control systems at these closed landfills until they no longer pose a threat to the public health and safety and the environment.

During the operation of the landfills, tipping fees were set aside to build the post-closure maintenance fund to generate interest revenue. The reserves are used to pay the annual maintenance cost. He noted that interest rates have decreased significantly. Funds that were originally set aside for the waste-by-rail project were moved to these reserve funds to increase the amount of interest generated.

The Districts has extensive experience and knows the costs to maintain closed landfills. The Mission Canyon and Palos Verdes Landfills are maintained on behalf of Los Angeles County. The County owns these sites, although the Districts has been maintaining them for the last 40 to 60 years. The Spadra and Puente Hills Landfills closed in 2000 and 2013, respectively, and the reserve funds being discussed were set aside for these two landfills that are owned by the Districts.

The next slide showed a summary of the post-closure reserves balance of \$593 million. Recent investment returns have been approximately 1.82 percent. This percentage has decreased even more over the last several months. The interest revenue is approximately \$10.8 million and is not meeting the annual maintenance cost of \$14 million. There is a deficit of \$3.2 million. The Districts has been able to use previous interest revenue to make up for the shortfall.

He discussed the proposed funding strategy is a UAL/Post-closure exchange. The post-closure funds would be used to pay off the UAL. Future post-closure costs would be paid for with a "fee in-lieu of UAL" included in labor costs.

The next slide showed a graph comparing the annual UAL costs, bond payment, post-closure costs over the next 22 years. The annual UAL cost is over \$30 million in 2022 then increases to over approximately \$49 million around 2031. The annual cost of bond payment is about \$10 million per year less for the next ten years assuming bonds are sold at 3.6 percent. The post-closure costs are significantly less than the other two payments at roughly \$14 million per year, demonstrating the savings.

The next slide showed the hierarchy of options. If the Districts continues to pay the UAL, the net present value (NPV) of the costs over the next 20 years is \$683 million and \$691 million over the next 50 years. The Districts would incur the highest UAL costs, and landfill PCM funding uncertainty would continue. If the Districts' finances the UAL with POBs, the NPV of the costs over the next 20 years or 50 years is \$566 million. This returns a lower cost; however, the landfill PCM funding uncertainty continues. The proposed UAL/Post-closure exchange returns an NPV cost over the next 20 years of \$257 million and \$557 million over the next 50 years. The agency would receive significant savings over those time periods, and landfill PCM funding would be assured.

The implementation schedule was discussed. All 24 Districts would enter into an agreement to exchange the UAL obligation for post-closure maintenance obligation, with post-closure funds used to pay off the UAL. The transfer of funds would occur over time. Post-closure costs would be paid by the Districts in lieu of the UAL in the same manner that the UAL is currently paid.

He discussed several benefits of the proposal. All Districts would benefit because reserves would effectively be invested at 7 percent instead of 1 to 2 percent. The UAL cost would be reduced 50 to 70 percent over the next 15 to 20 years. Labor cost would be reduced by almost 10 percent or over \$20 million per year. The savings would translate to the ratepayers by the equivalent of approximately \$10 per household. Lastly, there is long-term financial assurance for landfills. The Chief Engineer and General Manager invited Mr. Morales back to discuss the recommendation and future steps.

Mr. Morales stated that, in general, CalPERS set everyone on course to pre-pay the UAL. Special Districts often have some special reserves. The proposed option is very innovative because there is capital only earning 1 percent and an ability to pay off a liability accruing interest at 7 percent.

The Chief Engineer and General Manager stated that Districts' staff is seeking endorsement for additional evaluation and analysis for discussion at the next Personnel Committee meeting. In October, staff will present additional analysis, and if endorsed, an agreement would be drafted. In January the Personnel Committee would consider the agreement for endorsement to all the Boards. The Boards would then consider approval of the agreement.

Director Tornek stated that he appreciated the presentation and asked if the Districts has the legal right to change the post-closure fund mechanism.

In response to Director Tornek, the Chief Engineer and General Manager stated that CalRecycle allows for different mechanisms. In effect, the Districts would be switching from a pledge of interest revenue to a pledge of contract revenue moving forward. CalRecycle generally just requires a pledge of any available revenue and to effectuate this the agreements from all Districts is necessary. Furthermore, these reserves were always designated for the environmental control systems and post-closure maintenance; therefore, they are separate and distinct from the park development. It makes sense, economically, to pay off as much of the high interest debt.

Director Rogers stated that the presentation was very good, and he was in favor of the proposal. He likes the concept and said it is very innovative.

In response to Director Rogers, the Chief Engineer and General Manager stated that the proposal would eliminate existing UAL at this time. CalPERS' investment performance is unknown moving forward. It is possible that one to three years from now we may have another UAL. This possibility does not diminish the benefits that would be received by paying off the current debt. Furthermore, the cost savings benefit is better overall. The cost savings can help the Solid Waste System to break even and hopefully increase its reserves. For the wastewater system, rate increases could be reduced.

In response to Director Finlay, the Chief Engineer and General Manager stated that the exchange would not impact the money made available for the park. The Districts established a separate fund and went through an extensive process to determine what was needed for the park development in the amount of \$13.7 million. The Districts set aside \$35 million for the park development. The post-closure maintenance reserve funds were set aside to protect public health and the environment as required by state law and not part of any park funding.

Director Santa Ines stated that he believes the proposal will work. The 15 Solid Waste System Districts deserve credit for providing the post-closure funds to benefit all the Districts.

In response to Director Santa Ines, the Chief Engineer and General Manager stated that at the time the Solid Waste System was formed in the 1950s, 15 Districts provided initial funding to cover the operations and capital expenses. Liability for post-closure would fall upon them regardless of how it was paid. If there were a shortfall of funds, the 15 Districts would have to pay for it. The proposal would essentially be an exchange. The 24 Districts benefit by utilizing the solid waste reserves and the Solid Waste System benefits by ensuring that the post-closure will be fully funded into perpetuity.

In response to Chairperson Warner, Mr. Morales stated that if there is a shortfall, CalPERS will adjust the amount going forward. PEPRA legislation only allows for making changes to the UAL going forward.

The Chief Engineer and General Manager stated that staff is seeking affirmation to move forward with more detailed research regarding this matter. In October, the item will be brought back for more discussion.

Director Kuehl stated that the proposal looks like a very good idea but asked why uncertainty in funding post-closure maintenance is there.

In response to Director Kuehl, the Chief Engineer and General Manager stated that the reason for the uncertainty is because the post-closure reserve fund might not generate enough interest to pay for operations and maintenance in the future.

Director Kuehl stated that of the three options, staff's recommendation (PCM reserve/UAL exchange) makes the most sense; therefore, she is in support of the proposal.

The Committee unanimously endorsed Districts' staff to evaluate and analyze the exchange of the Unfunded Accrued Liability for the post-closure maintenance reserve funds and if it would make sense for each District to enter into an agreement and report back for discussion at the next Personal Committee meeting.

RE: JOINT OUTFALL SYSTEM RATES
DISCUSS

The Joint Outfall System (JOS) is comprised of 17 Districts in the Los Angeles basin that share in the ownership and operation of a system of sewers, water reclamation plants, and the Joint Water Pollution Control Plant, which is the final treatment plant for all of the wastewater in the JOS. A few opportunities have been identified that could improve how sharing of ownership and costs of the JOS are managed.

The Chief Engineer and General Manager stated that this item is regarding JOS rates. One of the most challenging responsibilities the Districts' has is setting rates. It is a complicated task that involves more than just a formula. The process includes a series of principles and assumptions. Some of these have been in place for 30 to 40 years. It is an opportune time to review these principles and assumptions used for the rate setting process, especially since rates and costs vary between the 17 Districts that are part of the system.

He stated that considering impacts of COVID-19 on Districts' wastewater ratepayers and the issues he will be discussing, staff recommends no service charge increase for JOS Districts and the formation of an ad hoc committee, consisting of Directors, to address the issues and provide guidance moving forward.

The JOS is an interconnected wastewater system, including the biggest wastewater treatment facilities. All Districts are part of the JOS, excluding the Antelope Valley (Districts Nos. 14 and 20), Santa Clarita Valley Sanitation District, Newhall Ranch Sanitation District, and the City of Los Angeles Contract Districts (Districts Nos. 4, 9, and 27). The JOS serves 73 cities and unincorporated LA County, which is equal to approximately 5 million people (2 million sewage units); and 86 to 89 Directors.

The system is successful because it is interconnected and works together. The upstream plants recycle wastewater and send solids to the Joint Water Pollution Control Plant (JWPCP) for combined processing. All the JOS Districts benefit by being interconnected and working together. If each District were separate, they could pay three times or more than current JOS rates and would have to operate and maintain separate and less cost-effective treatment facilities. For example, the Antelope Valley and Santa Clarita Valley Districts cannot benefit from having a combined system and must have their own facilities.

The Chief Engineer then discussed rate setting for the individual Districts. Each District has its specific expenses, JOS expenses, and Joint Administration portion of overhead. Following Proposition 13, the ad valorem tax was divided among many different special districts within each area. The Districts continue to get a percentage of the ad valorem tax. The wastewater expenses are paid with a portion of ad valorem taxes. In addition, the Districts receive revenue from industrial waste (IW) permitted dischargers that pay a separate service charge rate. The IW facilities typically have a high volume of discharge, their own pretreatment system, high load, and are permitted by the Districts to discharge into the system. The service charge is a third revenue source that is needed to cover the Districts' expenses incurred due to residential and commercial users that aren't offset by ad valorem tax revenues. He discussed two scenarios between Districts with high or low ad valorem taxes, which explains the differences between some of the 17 Districts.

He discussed the JOS Districts' key financial indicators. A table highlighted the differences between the districts. IW revenue, ad valorem revenue per household, reserve levels, and local District-specific capital projects all vary significantly. For example, Districts Nos. 8 and 23 have a higher fraction of IW revenue compared to District No. 28 that has zero. The revenue/ad valorem tax applied per sewage unit/single-family household is approximately \$35 to \$45 per household. However, Districts Nos. 23, 28, and South Bay Cities District provide a higher fraction of ad valorem tax compared to other Districts. La Cañada Flintridge and the South Bay have higher real estate values; therefore, ad valorem taxes are higher. Most Districts' reserve levels are slightly over target. However, Districts Nos. 28, 29, and South Bay Cities District are well over target. In these Districts their reserves could be used to cover expenses. District 8 is significantly below target, indicating the need to increase rates to rebuild reserves. Each District has specific charges, consisting of local capital that is the sole responsibility of that District. For example, District No. 8 has \$461 million. Other Districts have fewer assets or are in newer and/or in better condition.

Districts Nos. 14, 20, and the Santa Clarita Valley Sanitation District elected not to increase rates in the current fiscal year.

The difference between District-specific expenses and JOS assets were discussed. JOS assets serve two or more Districts. JOS assets include treatment plants, most pumping plants, and most sewers. However, some assets are considered the sole responsibility of each District. District-specific assets include sewers only serving the District, some pumping plants, and District No. 29 local city sewers. District No. 29 is a special case where the Sanitation Districts took over operations and management of small, local sewers. The issue is that application is inconsistent. One drop into a sewer that crosses District boundaries makes it JOS. While technically valid, this creates a potentially significant impact on local District finances depending on where it is located. One option is to eliminate the use of District-specific assets in rate setting.

The principle behind IW rates is that IW facilities pay an average rate throughout the JOS so that the facility does not use the District as a factor in siting a facility. Expenses and revenue are incurred and received respectively by the District where the facility is located. If the IW rate is greater than the District service charge, then the District's residential/commercial customers benefit, and if the reverse is true, the residential/commercial customers must pay relatively more. The Districts need to determine if there is a better way to charge IW facilities.

Formal reserve policies with targets were recently adopted. Prior to formal reserve policies, reserve targets were not consistently used in rate setting and reserves have diverged over time. Some Districts have significantly exceeded their reserve targets and discussion is needed regarding how to use those reserves in rate setting.

Ad valorem revenue varies by District. Service charge needs to be higher in Districts with lower ad valorem taxes. At a minimum, there needs to be an understanding that service charges vary among Districts. The Districts' differences create differences in service charges.

Districts' staff recommends that there be no rate increase for JOS Districts in the next fiscal year, in part due to additional funds being available from recent changes to the connection fee program. Districts Nos. 14, 20 and the Santa Clarita Valley Sanitation District elected not to increase rates in the current fiscal year. This would be a positive step for residential, commercial, and industrial waste customers who were affected economically by COVID-19. Furthermore, the formation of an ad hoc committee, consisting of Directors, is recommended for the purpose of addressing rate setting issues. The ad hoc committee meetings will hold four to six meetings and will be supported and coordinated by Districts' staff. The committee's goal would be to provide guidance for setting rates for Fiscal Year 2022-23 and beyond.

He showed a list of Directors recommended as ad hoc committee members, as follows:

- Michael Davitt, City of La Cañada Flintridge
- Patrick Furey, City of Torrance
- Robert Joe, City of South Pasadena
- Albert Robles, City of Carson
- Cathy Warner, City of Whittier
- Lori Woods, City of Signal Hill

He stated that he targeted Directors who are dealing with one or more issues, as previously discussed, in their Districts. He reached out to Supervisor Kuehl, although due to the various issues she is dealing with in the county, she could not commit the time. Districts' staff is seeking endorsement to move forward with the recommendations. A kickoff meeting is planned sometime in late-November/December and meetings will start in earnest in January.

Chairperson Warner stated that when she ran for office in 2004, she never thought she would deal with so many sanitation issues in depth. It has been very interesting, and she enjoys the work.

Director Andrews stated that he has never heard such an in-depth report. The report was well done and commended Districts' staff.

Director Kuehl echoed the gratitude for the extent of detail in the report. She has learned so much. She was struck by all the differences among the Districts. She agreed that fees should not be increased until there is a full assessment on the rate setting process. She apologized that she could not commit time to the ad hoc committee, although she approves of both recommendations.

The Chief Engineer stated that unless there is any objection, staff will move forward with no rate increases in the next year and will advise the JOS Boards; and to move forward with convening the Joint Outfall System Ad Hoc Committee.

The Committee unanimously endorsed the formation of a Joint Outfall System Ad Hoc Committee, consisting of Directors, for the purpose of addressing rate setting issues. The ad hoc committee meetings will hold four to six meetings and will be supported and coordinated by Districts' staff. The committee's goal would be to provide guidance for setting rates for Fiscal Year 2022-23 and beyond.

The meeting was adjourned by the Chairperson.

CATHY WARNER
Chairperson

ATTEST:

KIMBERLY S. CHRISTENSEN
Secretary

/ksc