

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

October 28, 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 October 28, 2020, at 11:00 a.m., via teleconference, for the purpose of:

1. Approve Minutes of Special Meeting Held September 23, 2020
2. Re: Financial Policies
3. Re: First Amendment to Regional Recycled Water Program Agreement (Agreement), a Partnership with Metropolitan Water District of Southern California (MWD)
4. Re: Districts Employees Pension's Unfunded Accrued Liability (UAL) Funding Strategy Utilizing Landfill Post-Closure Funds

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
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: R. Rex Parris, District No. 14
Ali Sajjad Taj, District No. 18
Kathryn Barger, District No. 27

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 Furey, duly seconded with Directors Hofbauer and Moss absent from the roll-call vote, the minutes of the special meeting held on September 23, 2020, were approved.

RE: FINANCIAL POLICIES DISCUSS 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, were attached to the agenda.

The Chief Engineer and General Manager briefed the Personnel Committee. He stated that the Districts' financial policies are updated annually. The Personnel Committee reviews changes to the financial policies on a yearly basis and the proposed changes this year are straightforward. He introduced Mr. Matt Eaton, Department Head of Financial Management, to discuss the proposed changes. Districts' staff is seeking the committee's endorsement to move forward with the proposed changes.

Mr. Eaton stated that the four financial policies are the investment policy, debt management policy, wastewater financial reserve policy, and solid waste financial reserve policy. Changes are being recommended to the investment policies for each District and the reserve policies for each District and the Solid Waste system.

All Districts have an investment policy, which governs how funds are invested. This policy ensures that funds are invested prudently and helps to minimize risks. He discussed a slide showing the three recommended investment policy changes. First, it is recommended to increase the limit on medium-term corporate notes (MTCNs) from 20 to 30 percent. This would make the Districts' policies consistent with Los Angeles County and most member cities. This change would result in all Districts having the same MTCN limit. Districts Nos. 17, 27, and the Newhall Ranch Sanitation District already have a 30 percent limit. 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 Districts. Second, it is recommended that the policy be modified to show that investments in bank and savings and loan association deposits are allowed. This recommendation would formally document current practices. Third, it recommended to allow investment in money-market funds. This also formalizes current practices. These funds are used for short-term (normal seven days or less) investments during gaps in availability of other longer-term investments.

The three recommended changes to the reserve policies were shown on the next slide. First, it is recommended to eliminate the use of sinking funds. Sinking funds were originally intended for funding recurring capital replacement projects. One project of this type is the overhaul of the turbines at the Joint Water Pollution Control Plant (JWPCP), at a cost of several million dollars every five to ten years. These types of projects will now be included in the regular planning process for capital projects. Second, it is recommended to expand the use of the Natural Disaster Fund to include funding Self-Insured Retention (SIR) costs. The Districts has \$17 million in the Natural Disaster Fund. In July, the umbrella liability was renewed and increased from \$1 million to \$5 million. The umbrella liability policy first layer is a \$5 million SIR. In the event of a claim, this fund can be used, reducing the risk to an individual District and spreading the cost among all Districts. Third, it is recommended to modify the Capital Fund. The new connection fee ordinances adopted earlier this year 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. This revision to the wastewater reserve policies will make them consistent with the new ordinances. Further modification of reserve targets may be recommended in the future in order to better reflect the structure of the new connection fee program.

If endorsed by the Personnel Committee, District No. 2 will consider the modified Solid Waste Reserve Policy and all Districts will need to consider approval of the Investment and Wastewater Reserve at upcoming meetings.

In response to Director Santa Ines, Mr. Eaton stated no losses have been incurred on investments of MTCNs in the past. All MTCNs are A or AA rated.

The Chief Engineer and General Manager stated that if there are no objections this item will move forward to all Districts for consideration.

The Committee unanimously endorsed the modified Solid Waste Reserve Policy and recommended that this policy, along with the Investment and Wastewater Reserve, be considered by all Districts at an upcoming meeting.

RE: FACILITIES PLANNING
FIRST AMENDMENT TO THE REGIONAL
RECYCLED WATER PROGRAM
AGREEMENT - METROPOLITAN WATER
DISTRICT OF SOUTHERN CALIFORNIA
ENVIRONMENTAL ANALYSIS - DISCUSS

The Districts previously approved the *Regional Recycled Water Program Agreement* (Agreement) with the Metropolitan Water District of Southern California (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 proposed *First Amendment to the Regional Recycled Water Program Agreement* (First Amendment) that was attached to the agenda 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 discussed the proposed scope of work and the Districts' share of costs.

The Chief Engineer and General Manager stated that the Personnel Committee and all Boards were briefed over the last 10 years regarding the planning for the potential full-scale regional recycled water program (RRWP). The project involves a partnership with MWD to purify recycled water from JWPCP for distribution throughout the Los Angeles County Region. MWD is the only water agency partner capable of implementing the RRWP. MWD management is supportive of the project. In 2015, the Districts and MWD entered into an Agreement to fund and construct a demonstration plant, which is currently online at JWPCP.

The Agreement contains provisions only for the demonstration phase of the program and must be amended to proceed with additional work. The next phase consists of preparation of an Environmental Impact Report and Master Facilities Plan for the full-scale project. The Districts and MWD drafted an amendment, that was attached to the agendas, to the 2015 Agreement which reviews the roles, contribution and funding the planning for the full-scale project. He introduced Mr. Ray Tremblay, Department Head of Facilities Management, to discuss the project and environmental review.

Mr. Tremblay showed a slide of an overview of JWPCP. He pointed out the location of the secondary treatment plant, the last step in the treatment process; and the proposed site of the full-scale water purification facilities. The proposed site, as outlined in blue, consists primarily of the former Fletcher oil refinery. The Districts had the foresight to acquire the property in 2000, and since then has been engaged in cleanup of this site to prepare for future use. MWD has been operating the demonstration plant, as shown on a slide. MWD and the Districts previously demonstrated with a small pilot treatment plant in 2010 that JWPCP recycled water could be purified to meet state standards for potable reuse. The demonstration plant is intended to help inform the design of the proposed full-scale facilities, obtain early regulatory approval for the treatment technologies, and serve as a public outreach venue. Due to COVID-19, on-site tours are currently not being offered, although MWD is offering virtual tours on a regular basis. The next virtual tour is scheduled on November 5.

He showed a map of the potential full-scale RRWP. Purified water would be conveyed through the Districts' service area to replenish groundwater basins. There are potential future options to provide purified water to additional groundwater basins and potentially to MWD's existing drinking water plants. The purified water can potentially be used as a raw water supply source to these drinking water plants once state regulations are modified. The RRWP represents an opportunity to maximize the amount of water reuse from JWPCP.

He reviewed the benefits of the project, as shown on a slide. As stated previously, the RRWP maximizes the use of the recycled water produced by the Districts. The project would also reduce the region's reliance on imported water. The project would provide water resilience by providing a drought proof and earthquake resilient local water supply.

The next slide showed the project's progress to date. MWD has worked with the Sanitation Districts since 2008 on various potential recycling concepts. In November 2015, the parties entered into an agreement to construct a demonstration facility. In October 2019, construction of the demonstration plant was completed. A new agreement will keep the project moving forward.

The next slide showed the potential program schedule. In November, the MWD Board will consider an action to proceed with environmental planning and approval of the amended Agreement. Environmental planning will take place from 2021-2023. Design and construction will take approximately eight years (from 2023 to 2031) due to the need to construct large diameter pipelines to convey the purified water across the region. Start up and operation is expected in the early 2030's.

The basic terms of the First Amendment include joint preparation of environmental documentation and a Master Facilities Plan with MWD as the lead agency for California Environmental Quality Act purposes. The MWD budget is approximately \$30 million. The Districts will contribute approximately \$5 million toward consultant costs and provide \$2.5 million in-kind services. The Districts contribution for consulting costs is based on paying for one half of the environmental documentation and outreach work and a smaller fraction of the engineering work related to the activities at JWPCP. The First Amendment terms also include continued work on ongoing Districts programs in support of the project, including engineering work at JWPCP to evaluate

potential treatment modifications necessary to make JWPCP recycled water suitable for subsequent water purification steps.

The Environmental Planning Phase will include technical studies, an evaluation of project alternatives, preparation of a Master Facilities Plan, an environmental review, and extensive public participation.

The Master Facilities Plan elements will include a description of the necessary treatment and conveyance facilities. The Master Facilities Plan will define the necessary modifications needed to the existing secondary treatment process at JWPCP to remove nitrogen and possibly construction of large storage tanks.

The Chief Engineer and General Manager discussed the next steps and recommendations, as shown on a slide. In November, he will brief all Districts' Boards and District No. 2 will consider approval of the First Amendment on November 16, 2020. On November 10, 2020, the MWD Board will consider approval of the planning budget and First Amendment. The work would start following procurement of consulting services in the late spring/early summer of 2021.

Director Tornek asked if the project might be proceeding prematurely without having a report related to the results of the demonstration plant.

In response to Director Tornek, the Chief Engineer and General Manager stated that the purpose of the demonstration plant is to inform the detailed design and obtain regulatory approval of the treatment process. The Districts and MWD previously demonstrated the efficacy of treatment with pilot scale treatment facilities. MWD has already completed reports containing conceptual and feasibility analyses. MWD has retained an expert panel to advise them on the project. The expert panel consisted of academic professors as well as industry leaders that deemed that the Advanced Treatment System is feasible and conceptually effective. Continued operation of the demonstration plant will provide data for the treatment process in terms of sizing and chemical dosing and use this information to work with the regulators to get the treatment system approved before a full-scale project is built. The environmental review process determines the environmental impacts of the potential future full-scale project. In the master planning process, the detailed cost estimates will be determined.

Director Tornek stated that the inference is that there are no surprises and both parties can move to the next step. The Chief Engineer and General Manager stated that was correct.

In response to the Chairperson, the Chief Engineer and General Manager stated that the project is being pursued in accordance with the Districts' mission to convert waste into resources. The Districts has maximized the amount of water recycling at most of its treatment plants in the Joint Outfall System (JOS) Districts' service area, although there may be potential additional projects in the Antelope Valley and Santa Clarita Valley. In the JOS, all the recycled water from the water reclamation plants is allocated. JWPCP is the last source of potential water for further recycling. The benefits to the region are significant. As discussed earlier by Mr. Tremblay, the benefits include a local and constant new water supply. Secondly, the treatment processes at JWPCP will be reviewed to determine any possible improvements for more efficiency and lowering the amount of nitrogen and other constituents that are currently being discharged to the ocean. In conclusion, the region gets improved treatment and a major contribution to the regional water supply.

In response to the Chairperson, the Chief Engineer and General Manager stated that should the Districts decide to move forward with the full-scale project, we will need to negotiate a cost-sharing agreement related to capital and ongoing costs. The Districts would like to see the overall benefits to the region. The high cost of new equipment for the advanced treatment process should be outweighed by providing a new local water supply to the region.

The Committee unanimously endorsed the recommended First Amendment to the Agreement with MWD. The Chief Engineer and General Manager advised that the First Amendment will be considered by District No. 2 on November 16.

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

The Chief Engineer and General Manager briefed the Personnel Committee. At the September 23, 2020, Personnel Committee meeting, a proposal was presented to utilize the Districts' solid waste system landfill post-

closure maintenance reserve funds to pay off the Districts' UAL in exchange for the Districts paying a similar, but lower, fee that would fund landfill post-closure maintenance costs. The Personnel Committee concurred with the recommendation to conduct additional analysis and evaluation. The additional evaluation has confirmed 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 introduced Mr. Julio Morales, a Registered Municipal Advisor, who was available to answer questions. Mr. Morales has worked throughout the state for cities and special districts on pension-funding strategies. It is recommended that the Personnel Committee endorses drafting of an agreement to effectuate this change. The draft agreement would be presented at the next Personnel Committee meeting scheduled for January 2021.

The Pension Liability or UAL will be approximately \$480 million as of March 2021. The UAL is effectively a loan at 7 percent interest, requiring a total of approximately \$857 million in payments over 22 years. The UAL can be paid off at any time. Additional UAL bases may be added (or credited) in the future. As previously mentioned, CalPERS encourages early pay off to save interest. At the previous meeting, a question was asked regarding if CalPERS can readjust a past UAL. The answer is no; adjustments are made prospectively. Should CalPERS underperform in the next year, a new UAL base would be generated with payment terms. Addressing future UAL is a separate issue.

The landfill post-closure maintenance fund consists of money that the Districts' solid waste system set aside for the Spadra and Puente Hills landfills, which are owned and maintained by the Districts' solid waste system. The solid waste system is owned by 15 Districts. The Districts is required to maintain environmental control systems until they no longer pose a threat to the public health and safety and environment. Approximately \$582 million has been set aside to provide interest revenue for post-closure maintenance costs. Currently, the interest is not meeting these needs with \$14 million in expenses each year, and only \$8 to 9 million in annual interest revenue.

The proposal is to use the landfill post-closure funds, currently earning 1 to 1.5 percent interest, to pay off the 7 percent UAL loan. Post-closure costs will be paid with a "fee in-lieu of UAL," included in all Districts' labor costs. This would be instead of the UAL payment that is currently included in labor costs. The remaining amount of post-closure funds, totaling approximately \$105 million, will remain in the solid waste system in order to boost reserve levels closer to targets.

The "fee in-lieu of UAL" details were reviewed. Solid waste system Districts will pay the "fee in-lieu of UAL" as long as solid waste facilities are not producing sufficient net cash flow to fund post-closure. Unfortunately, solid waste operations had net losses in the last few years. The Districts is optimistic that, in the long-term, solid waste operations will break even or generate net revenue and some of that could be used to fund post-closure in the future. Other Districts will pay the "fee in-lieu of UAL" until total payments equal equivalent to bond payments, which means they will make payments for approximately 60 years. Districts Nos. 14 and 20, Santa Clarita Valley Sanitation District, and the contract Districts (Districts Nos. 4, 9, and 27 and two JOS Districts Nos. 28 and 34) are not part of the solid waste system. These Districts would not take on any additional liability for solid waste costs beyond the fee in-lieu of UAL, and in an amount not to exceed bond payment. They receive the benefit of paying off the UAL at much more favorable payment terms.

The annual potential costs shown in the chart, compare the CalPERS UAL payments, bond payments, and post-closure costs. Post-closure costs are significantly lower than the sale of bonds and the UAL payment. For the next 50 to 60 years, the post-closure option is more favorable due to lower costs.

The roles between solid waste system Districts and non-solid waste system Districts were discussed. All Districts currently make payments toward the UAL as a portion of labor costs. Solid waste system Districts will indefinitely pay a reduced "fee in-lieu of UAL" with the proposed exchange. Non-solid waste system Districts will pay a reduced "fee in-lieu of UAL" with the proposed exchange until the total amount equals to the equivalent bond payments of approximately 60 years.

The labor cost savings is approximately \$29 million in fiscal year (FY) 2022/23. A table showing the savings for each District was shown on a slide.

He discussed CalRecycle's post-closure requirements. The Districts is required to maintain environmental control systems until they no longer pose a threat to the public health and safety and environment. Discussions held with CalRecycle indicate that this potential agreement will meet their requirements. Following the Personnel Committee's endorsement, the draft agreement will be shared with CalRecycle. Other legal aspects have been evaluated, and no issues have been identified.

Districts' staff recommends that the Personnel Committee endorse drafting an agreement for discussion at the next meeting scheduled in January. Following the Personnel Committee endorsement of the draft agreement, all Boards would consider approval in the spring of 2021. The transaction to pay off the UAL would occur in spring/summer 2021. The Districts will realize savings starting FY 2021-22. Following the pay-off of the UAL, the Districts pension fund could be 100 percent funded.

Director Tornek stated that the proposal is innovative, and he was grateful for it.

In response to Director Tornek, the Chief Engineer and General Manager stated that Districts' staff looked at forecasting if there could be any budgetary implications in the future. There will be no service charge rate increase in the JOS in the next FY. An ad hoc committee was formed to review the Districts' analyses and rate setting process to provide guidance for the following FY. The cost reduction could allow the Districts to decrease future rate increases on the wastewater side. The solid waste system will be saving approximately \$4 million per year, which will hopefully allow the solid waste system to break even or generate revenue. The budget will benefit in FY 2022-23 with a total savings of approximately \$29 million Districts-wide, and savings will continue into the future.

Regarding collective bargaining, the previously approved agreement resulted in classic employees contributing 0.5 percent if the total agency cost is more than 25 percent of salaries; or 1 percent if the total agency cost is more than 30 percent. The proposal will drop the agency's percentage paid towards CalPERS; therefore, classic employees would not need to contribute 0.5 percent or 1 percent. Most of the current contracts will expire in the next FY. Classic employees consist of 60 percent of Districts' employees. The 0.5 percent contribution is equivalent to \$1 million per year.

Director Barakat stated that during the pandemic, a guaranteed 3 percent salary increase is an issue when cities are struggling. The Districts must rethink and consider appropriate conditions should the ongoing issues related to COVID-19 continue in the future.

In response to Director Barakat, the Chief Engineer and General Manager stated that the Districts is still over a year away from labor negotiation discussions. These discussions will start early in 2022. There will be time to review the status of finances and evaluate proposal options.

Director Santa Ines thanked staff for coming up with the proposal.

In response to Director Santa Ines, the Chief Engineer and General Manager stated that the Districts' solid waste system, unlike the wastewater system, operates similar to a private enterprise in the open market. There are no additional tax or funding sources aside from the services that the Districts provides. Principal revenue originates from receiving and transferring of waste. The Districts contract with various haulers who bring recyclable waste for processing to generate commodities sold to brokers for export overseas. There is also lease revenue from property and revenue from the gas-to-energy facilities at the Puente Hills (PHLF) and Calabasas Landfills.

Since the 2008 recession and the 2013 closure of the PHLF, which was a large economic engine, solid waste revenue took a downturn. In an attempt to meet the needs of the cities, the Districts is focusing on the food waste program and invested in a high-tech automated sorting line at the Puente Hills Materials Recovery Facility. These allow the Districts to provide important services that others might not be able to. The Districts had to upgrade its transfer truck fleet to natural gas-fueled trucks, whereas the private competitors continue to use diesel trucks. As a result, solid waste costs increased.

In response to Director Santa Ines, the Chief Engineer and General Manager stated that all Districts will equally receive a benefit of reserves paying off the UAL. The solid waste system Districts are getting both the benefit of the reserves paying the UAL and the benefit of implementing a mechanism for paying post-closure costs. Non-solid waste system Districts get the same benefit, but their cost is limited since they don't have responsibility for post-closure costs.

In response to Director Santa Ines, the Chief Engineer and General Manager stated that the post-closure reserves do not come from the 15 solid waste system Districts. The 15 Districts provided seed money for the solid waste system. The post-closure reserve was funded from money that was set aside from the tipping fees collected during operation of the landfills. The solid waste system has been self-funding since the 1950s, which is when the solid waste system Districts first provided funding to start the solid waste system

In response to Director Joe, the Chief Engineer and General Manager stated that the only potential risk is if the post-closure costs increase significantly. However, the Districts has a long history of maintaining closed landfills. Furthermore, the solid waste system Districts will always have liability for solid waste systems regardless of whether this proposal moves forward.

In response to Director Finlay, the Chief Engineer and General Manager stated that the non-solid waste system Districts may have concerns. These Districts may not want additional liability. Language would clearly state that the transaction is a simple exchange, as if bonds were sold. Those Districts are not buying into ownership or taking on liability. All of these concerns would be addressed in the draft agreement. The benefits far outweigh any risks.

Director Santa Ines stated that it is helpful to show the impact by District. He requested to see the comparison of potential savings by District.

In response to Director Santa Ines, the Chief Engineer and General Manager showed the slide of Annual Cost (agency-wide). In January, he will show costs for CalPERS, bond costs, and post-closure cost payments for every District. The overall trend will be similar to this table.

Director Hofbauer stated that he wants to ensure that the transaction does not negatively impact non-solid waste system Districts.

In response to Director Hofbauer, the Chief Engineer and General Manager stated that he understood and that it would be addressed when the agreement is being drafted.

In response to the Chairperson, Mr. Morales stated that CalPERS cannot adjust past liability. CalPERS provides an annual evaluation which may result in adjustments to the UAL going forward. The UAL and the resulting payment plan are adjusted based on investment performance. Each year an additional payment or a credit can be applied. UAL payments for any adjusted UAL start two-years after the adjusted UAL, which gives agencies the opportunity to set a budget.

The Committee unanimously endorsed staff to move forward with drafting an agreement and bring back to the Committee for review. Terms will include cost savings and specify benefits for solid waste and non-solid waste Districts. The Chief Engineer and General Manager advised that should other issues arise that should be discussed in January, Directors may contact his office.

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

CATHY WARNER
Chairperson

ATTEST:

KIMBERLY S. CHRISTENSEN
Secretary

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