

MINUTES OF THE REGULAR MEETING OF THE
BOARD OF DIRECTORS OF
SOUTH BAY CITIES SANITATION DISTRICT
HELD AT THE OFFICE OF THE DISTRICT
VIA TELECONFERENCE

August 18, 2021
1:30 o'clock, P.M.

The Board of Directors of South Bay Cities Sanitation District of Los Angeles County met in regular session via teleconference.

There were present: Chris Pimentel, Alternate Director from El Segundo
Michael Detoy, Alternate Director from Hermosa Beach
Suzanne Hadley, Director from Manhattan Beach
David McGowan, Alternate Director from Palos Verdes Estates
David Bradley, Alternate Director from Rancho Palos Verdes
Bill Brand, Director from Redondo Beach
Frank Zerunyan, Alternate Director from Rolling Hills Estates

Absent: Patrick J. Furey, Chairperson, Director from Torrance

Also present: Kimberly S. Christensen, Secretary to the Board
Wes Beverlin, District Counsel

Upon motion of Director Brand, duly seconded and unanimously carried by a roll-call vote, Director Zerunyan was elected Chairperson pro tem.

RE: PUBLIC COMMENT The Chairperson pro tem announced this was the time for any questions or comments by members of the public. There were no public comments or questions to address the Board on any matters.

RE: MINUTES Upon motion of Director Pimentel, duly seconded and unanimously carried by a roll-call vote, the minutes of the special meeting held July 14, 2021, and the regular meeting held July 21, 2021, were approved.

RE: DISTRICT EXPENSES The following expenses for the month of June 2021 were presented and upon motion of Director Pimentel, duly seconded and unanimously carried by a roll-call vote, were approved:

Local District Expenses:	
Operations & Maintenance (O & M) Local District Sewers	\$ 95,399.61
Capital - Local Capital	974.26
Allocated Operations & Maintenance Expenses:	
Joint Administration	99,468.99
Technical Support	85,171.77
Joint Facilities	260,252.51
Allocated Capital Expenses:	
Joint Administration	1,382.03
Joint Facilities	1,981.11
Total Expenses	<u>\$544,630.28</u>

RE: WASTEWATER MANAGEMENT SOUTH BAY CITIES MAIN TRUNK SEWER REHABILITATION BETWEEN MANHOLES 30 0044 AND 30 0043 - CONTRACT NO. 5371 CORRECTION OF ERROR - AUTHORIZE

On July 21, 2021, the District awarded a contract for the South Bay Cities Main Trunk Sewer Rehabilitation Between Manholes 30 0044 and 30 0043 (Project) to Sancon Engineering Inc. Thereafter, it was discovered that the contractor no longer performs work under the name Sancon Engineering Inc., and consequently the

Contract Agreement will need be revised to include the correct name, Sancon Technologies Inc. This item is consistent with the Districts' Guiding Principle of commitment to ethical, respectful, and honest behavior in all interactions. A recommendation was made that the Board authorize a correction of error in the Districts' contract agreement for the Project.

Upon motion of Director Pimentel, duly seconded and unanimously carried by a roll-call vote, the Board authorized a correction of error in the Districts' contract agreement for South Bay Cities Main Trunk Sewer Rehabilitation Between Manholes 30 0044 and 30 0043.

RE: JOINT OUTFALL SYSTEM DIRECTOR
AD HOC COMMITTEE REPORT AND
RECOMMENDATIONS - 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. In September 2020, a recommendation was made to the Personnel Committee that a Director JOS Ad Hoc Committee be formed to explore opportunities to improve how sharing of ownership and costs of the JOS are managed. The Ad Hoc Committee met five times and the results of the Committee's work are presented in the report that was attached to the agenda. The Chief Engineer and General Manager briefed the Committee.

The Chief Engineer and General Manager stated that over the last few years the Districts has undertaken several initiatives to modernize and streamline various aspects including evaluating the JOS system and infrastructure (Clearwater Program) and policies and procedures (Connection Fee Program and Purchasing Policy). Another area for review is the Districts' process for determining wastewater rates for the JOS Districts.

The Ad Hoc Committee met between December 2020 and June 2021 to evaluate four key components to understanding JOS finances and improving financial administration. The goal was to have a fair, simple, and transparent rate-setting process. The Personnel Committee's concurrence was requested to move forward with the recommendations.

There are 24 separate Sanitation Districts, some of which are part of different systems. District No. 14 (which serves the cities of Lancaster and Palmdale), District No. 20 (which serves only Palmdale), Santa Clarita Valley (SCV) Sanitation District (which serves Santa Clarita and unincorporated Los Angeles County), and the new District, Newhall Ranch (NR) Sanitation District, all function as three different systems. Their water is recycled for use in agriculture, municipal re-use, or discharged to the Santa Clara River. SCV and NR will work as one system until the NR is further developed. Districts Nos. 4, 9, and 27 are contract Districts, which serve the City of Los Angeles, Bureau of Sanitation, and portions of the County.

A map of the JOS service area was shown. The JOS serves 73 cities and unincorporated area of the County, which includes approximately five million people. The JOS Districts are governed by 85 Directors and the County Board of Supervisors. The JOS Districts are served by an interconnected system of sewers and pumping plants that convey wastewater to six water reclamation plants (WRPs) using tertiary treatment to produce recycled water. The Joint Water Pollution Control Plant (JWPCP) in the City of Carson handles the remaining and bypass flow before discharge to the ocean outfalls located off the coast of Palos Verdes. The Districts is working with the Metropolitan Water District to reduce the discharge to the ocean and increase recycled water at the JWPCP. The entire system must be considered when planning for changes and growth. Industrial Waste (IW) Facilities such as refineries, metal platers, and other large facilities that produce a lot of wastewater throughout the JOS are managed with one common rate no matter where they are located. The flow is measured for volume and strength of flow, and the IW dischargers pay based on that. Commercial and residential customers pay on their property tax statement, whereas industrial dischargers are directly billed. This principle is used so that an IW facility does not choose a site within the JOS based on surcharge rate. The JOS is administered as one common system.

There are different financial issues that are unique among the Districts. Each District has its own Ad Valorem (AV) taxes, and the amount varies significantly between Districts. The AV revenue is used to offset service charges. Each District has its own reserves of which the amount may vary significantly based on what their service charge and AV has been. Each District sets its own service charge based on its own financial situation, AV revenue, and reserves.

The Directors who participated in the JOS Ad Hoc Committee were, as follows:

- Cathy Warner, Districts Nos. 2, 15, and 18
- Pat Furey, South Bay Cities District and District No. 5
- Lori Woods, District No. 29
- Michael Davitt, Districts Nos. 28 and 34
- Rick Barakat, Districts Nos. 15 and 22

The Chief Engineer and General Manager stated that although Chairperson Pat Furey, City of Torrance, was not present, he thanked him for volunteering his time and valued input. The goal for the Ad Hoc Committee

was to revisit complex assumptions on how service charge rates are determined for the JOS Districts to create a fair, simple, transparent rate-setting process. They reviewed four issues.

Issue 1: District-specific vs. JOS Assets

The Chief Engineer and General Manager stated that, currently, there are District-specific assets and JOS assets. Historically, the principles were clearer to implement. District-specific assets include smaller sewers and pumping plants serving individual Districts. Historically, it made sense to have these two classifications. As the Districts implemented water reuse and added WRPs to the system, it became more challenging to classify assets. Another issue is that one-time large repair projects can impact rates significantly in a specific District. Each District pays for its own expenses. With the current configuration and priority on water reuse, all flow and facilities can be considered part of one system.

The Chief Engineer and General Manager reviewed the ownership of sewers. Property owners maintain their own sewer lines that flow into the city sewers. The city sewer, maintained by the city or the county, flows into a District-specific sewer, then finally into a JOS sewer that flows into a treatment plant. Some inconsistencies have developed with classifying assets since the historic classification method required judgments be made. Even though some assets are District-specific, the system works together and is managed together. It is recommended to re-classify all assets in the JOS Districts as JOS assets. Inconsistencies and judgment calls are eliminated, and the accounting system is less complicated. The rates and costs are stabilized.

He stated that District No. 29 is unique because it maintains what would traditionally be the city's sewers under a separate agreement. The agreement will not be affected. The rate is different, and the ratepayers pay more. Typically, cities maintain their own sewers or contract with the County that provides sewer maintenance of the local city sewers.

Issue 2: Industrial Waste (IW) Facilities' Revenue

The Chief Engineer and General Manager stated that IW Facilities are charged the same rate, based on flow and strength, in the JOS Districts. Revenues generated from those facilities go to each District, and the expenses are paid by the JOS. There is some skewing of the District revenue structure and the necessary service charge when the IW rate is significantly different than the service charge rate. It was recommended by the Ad Hoc Committee to treat all IW revenue as JOS revenue. This better reflects that it was always intended for IW Facilities to be part of the JOS and eliminates the issue with different IW rates and service charges in a District.

Issue 3: AV Taxes

The Chief Engineer and General Manager stated that the Districts receive a portion of the AV taxes that are collected from every parcel in each District. The Districts receives an allocation of one percent of the AV tax. The District has no control over the amount of AV taxes received. There is a significant variation between the amount of revenue received, due to the differences in property value and historical allocation. The net effect is that AV taxes offset the service charge rate in each District to varying degrees. He showed an illustration of four different households and the variations in AV tax revenue. It was recommended that the Directors acknowledge that variations in AV tax revenue between Districts can lead to significant variance in a JOS District's service charge rates even when overall expenses are similar.

Issue 4: Reserve Fund Levels

The Chief Engineer and General Manager stated that, over time, some Districts built up reserves well above target levels. In 2018, reserve policies were adopted with targets for the appropriate levels. Excess reserves can be used to offset service charges. With the adopted reserve policies, it is being recommended that principles for rate-setting should include reaching targeted reserve fund levels in 10 years.

The Chief Engineer and General Manager continued his presentation. He stated that summarizing rate projections, each household and commercial business on average pays approximately the same amount on a per sewage unit basis for services, including the total of AV tax, service charge, and use of excess reserves. For most Districts, the recommended changes lead to service charge rate stability and modest increases. For some Districts, including Districts Nos. 23, 28, and South Bay Cities, they will be able to use their high reserves to offset service charge rates.

He showed a graph of the annual average funding projections in the next 10 years. Districts Nos. 23, 28, and South Bay Cities have higher AV taxes, shown in orange, and can use a portion of the reserves to cover their costs, shown in blue. Other Districts, for example Districts Nos. 3, 5, and 8, must collect extra service charge to

build up reserve levels. Now, with the principle of eliminating Districts-specific assets, there is a stabilizing effect on rates.

He discussed a table showing the service charge rate with the recommendations. Over the next 10 years, there is a relatively modest change in service charge rates, which follows the Consumer Price Index (CPI). The rate increase in District No. 3 is slightly above the CPI to build up reserves. Assuming the Districts approve the UAL exchange proposal and the Districts settles with the County in the case regarding the Puente Hills Landfill Park funding, the service charge is further reduced one to two percent. He noted that District No. 29's higher service charge rate is due to a special agreement for the District to maintain its city sewers.

He stated that the JOS District Boards will be briefed in August. The revised Joint Outfall Agreement, financial policies, and rate ordinances will be presented for approval in fall 2021. The new policies and rates take effect on July 1, 2022. In February, he will be introducing the new rate packages and will incorporate the new principles.

RE: COUNTY OF LOS ANGELES V.
SANITATION DISTRICTS OF LOS ANGELES
COUNTY - PUENTE HILLS LANDFILL PARK
DEVELOPMENT - CONFERENCE WITH LEGAL
COUNSEL-EXISTING LITIGATION - DISCUSS

A dispute has arisen regarding the financial responsibility for development and maintenance of a park on the closed Puente Hills Landfill, as well as the permissible locations for park improvements. On February 27, 2020, the County filed a Complaint with the Court against the Districts. To resolve the Complaint

and allow park development to commence, a tentative settlement agreement between the parties has been drafted. The Chief Engineer and General Manager and District Counsel discussed this matter in closed session.

District Counsel advised that it would be in the interest of the Districts to meet in joint closed session pursuant to Section 54956.9(d)(1) of the California Government Code *Conference with Legal Counsel-Existing Litigation* to confer on the matter of one case – County of Los Angeles v. Sanitation Districts of Los Angeles County et al., Orange County Superior Court Case No. 30-2020-01153422; Puente Hills Landfill Park development.

Upon motion of Director Pimentel, duly seconded and unanimously carried by a roll-call vote, the Board of Directors of South Bay Cities Sanitation District of Los Angeles County met in joint closed session with the Boards of Directors of County Sanitation Districts No. 5 of Los Angeles County at 2:04 p.m.

Upon motion of Director Pimentel, duly seconded and unanimously carried, the meeting reconvened in joint regular session at 2:11 p.m. District Counsel advised that no action was taken that requires disclosure pursuant to Government Code Section 54957.1.

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

FRANK ZERUNYAN
Chairperson pro tem

ATTEST:

KIMBERLY S. CHRISTENSEN
Secretary

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