

MINUTES OF THE REGULAR MEETING OF THE
BOARD OF DIRECTORS OF
COUNTY SANITATION DISTRICT NO. 3
HELD AT THE OFFICE OF THE DISTRICT
VIA TELECONFERENCE

September 8, 2021
1:30 o'clock, P.M.

The Board of Directors of County Sanitation District No. 3 of Los Angeles County met in regular session via teleconference.

There were present: Grace Hu, Director from Cerritos
Jeff Wood, Director from Lakewood
Robert Garcia, Director from Long Beach
Joe Buscaino, Alternate Director from Los Angeles City
Keir Jones, Alternate Director from Signal Hill
Hilda Solis, Director from Los Angeles County
Sonny Santa Ines, Chairperson, Alternate Director from Bellflower

Absent: None

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

RE: PUBLIC COMMENT
The Chairperson 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 Solis, duly seconded and unanimously carried by a roll-call vote, the minutes of the special and regular meetings held August 11, 2021, were approved.

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

Local District Expenses:	
Operations & Maintenance (O & M)	\$ 86,977.18
Capital	62,621.98
Allocated Expenses:	
Joint Administration	378,308.49
Technical Support	373,863.25
Joint Outfall	973,786.15
Total Expenses	<u>\$1,875,557.05</u>

RE: FINANCIAL MANAGEMENT
JOINT OUTFALL AGREEMENT
JOINT OUTFALL FINANCIAL RESERVE
AND WASTEWATER FINANCIAL RESERVE
POLICIES - CONTRACT NO. 2428C
APPROVE

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 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 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 provided recommendations for improvements in the JOS. In July, the Personnel Committee concurred with the Ad Hoc Committee's recommendations, and the JOS District Boards were briefed on the matter in August. Implementation of the recommendations requires approval of a revised Joint Outfall Agreement, a Joint Outfall Financial Reserve Policy, and revised Wastewater Financial Reserve Policies for each District. Copies of the Joint Outfall Agreement, the Policies, and the Ad Hoc Committee Report, and a letter discussing the proposed changes were attached to the agenda. Staff determined that approval of the Agreement does not constitute a "Project" under the California Environmental Quality Act (CEQA) pursuant to California Public Resources Code Section 21065 and Title 14 of the California Code of Regulations ("CEQA Guidelines") Section 15378. This item is consistent

with the Districts' Guiding Principles of commitment to fiscal responsibility and prudent financial stewardship; and to plan for both short-term and long-term needs to minimize the need for significant rate increases. A recommendation was made to approve and order executed a *Joint Administration Agreement* improving how sharing of ownership and costs of the JOS are managed, and order that the Agreement be recorded. Furthermore, a recommendation was made to adopt the *Joint Outfall Financial Reserve Policy* and the *Wastewater Financial Reserve Policy*.

The Chief Engineer and General Manager stated that on all Districts' agendas, except District No. 4 (a contract District that sends wastewater to the City of Los Angeles), is an item to enact the recommendations from the JOS Director Ad Hoc Committee. Last month, he briefed all JOS Districts. A letter, report and recommendations, Joint Outfall Agreement, and financial reserve policies were attached to the agendas. The recommended changes will simplify and standardize the Districts' rate-setting process. The Committee met five times to evaluate the issues. He thanked the Directors who served on the Committee and for their time. Some of the assumptions have not been reviewed in 20-30 years. To effect the changes will be a major and positive move for the agency.

Upon motion of Director Solis, duly seconded and unanimously carried by a roll-call vote, the Board of Directors of County Sanitation District No. 3 of Los Angeles County found and determined that it would be to the advantage of the District to enter into a *Joint Outfall Agreement* with the other "Signatory Districts" providing the Districts to jointly own and operate a common sewerage system known as the "Joint Outfall System," as set forth in the Agreement and under terms and conditions contained therein. This Agreement will supersede the current Joint Outfall Agreement (Contract No. 2428B) effective on the final approval of all for the "Signatory Districts" or July 1, 2022. All the terms and conditions of the *Joint Outfall Agreement*, Contract No. 2428C, dated September 8, 2021, were accepted and approved, and the Chairperson and Secretary were authorized to execute the Agreement on behalf of the District. Furthermore, the Board adopted the *Joint Outfall Financial Reserve Policy* and the *Wastewater Financial Reserve Policy*.

RE: FINANCIAL MANAGEMENT - JOINT AGREEMENT FOR THE PAYMENT OF COUNTY SANITATION DISTRICTS OF LOS ANGELES COUNTY UNFUNDED ACCRUED LIABILITY FOR THE CALIFORNIA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM SOLID WASTE FINANCIAL RESERVE POLICY - ALL DISTRICTS CONTRACT NO. 5357 - APPROVE

The proposed *Joint Agreement for the Payment of the County Sanitation Districts of Los Angeles County Unfunded Accrued Liability (UAL) for the California Public Employees' Retirement System (CalPERS)* (Agreement) will effectuate the payment of the Districts' UAL obligation with CalPERS using funds set aside for Solid Waste landfill post-closure maintenance costs. In return, all Districts will contribute to a "Fee-In-Lieu Fund" that will be available for post-closure maintenance costs. The proposal will result in a

cumulative \$250 million in savings for all Districts and provide a more certain funding source for post-closure maintenance costs. The Personnel Committee endorsed staff's recommendation that the Agreement be presented to each of the Boards for approval. The agreement will only be implemented if approval of a revised Pledge of Revenue Agreement is obtained from CalRecycle. A letter describing the proposed exchange, the Agreement, and presentation slides were attached to the agenda. Staff has determined that approval of the Agreement does not constitute a "Project" under the California Environmental Quality Act (CEQA) pursuant to California Public Resources Code Section 21065 and Title 14 of the California Code of Regulations ("CEQA Guidelines") Section 15378. This item is consistent with the Districts' Guiding Principles of commitment to fiscal responsibility and prudent financial stewardship; and to plan for both short-term and long-term needs to minimize the need for significant rate increases. A recommendation was made to approve and order executed an Agreement.

The Chief Engineer and General Manager stated that after Districts Nos. 2 and 18 consider approval of the Settlement Agreement with Los Angeles County, all Districts' Boards meeting today will be considering approval of a *Joint Agreement for the Payment of the County Sanitation Districts of Los Angeles County Unfunded Accrued Liability for the California Public Employees' Retirement System* that will effectuate the payment of the Districts' UAL obligation with CalPERS using funds set aside for solid waste landfill post-closure maintenance (PCM) costs. He gave a brief presentation regarding the UAL funding strategy.

The Personnel Committee, consisting of the Chairpersons of each District, endorsed moving forward with the UAL funding strategy at a previous meeting held on April 28, 2021. The Districts' UAL payments to CalPERS are a significant part of the Districts' labor costs. The current total UAL is approximately \$500 million. The payments are calculated as if the UAL were a loan at seven percent interest. The Districts' Solid Waste System has reserves dedicated to post closure maintenance (PCM) costs for the closed Puente Hills and Spadra Landfills. The PCM funds earn one percent interest. The proposal will use landfill PCM funds to pay off the Districts' UAL, and in return the Districts will cover PCM costs.

He showed a graph of the CalPERS UAL minimum payment schedule. The graph included the annual UAL payments – principal and interest, from 2022 to 2042. The total UAL payment over those 20 years will be \$471 million (principal payment) plus \$386 million (interest owed), which is equal to \$858 million.

The Districts has two distinct requirements related to landfill PCM. The Districts must maintain environmental control systems until they no longer pose a threat to the public health and safety to the environment. The Districts must demonstrate to CalRecycle that an ongoing revenue source is available for PCM costs or turn funds over to a trust for CalRecycle to manage. The current Pledge of Revenue Agreement with CalRecycle uses interest generated by the PCM funds to pay for PCM costs. The PCM funds are earning one percent in interest.

It is proposed to use up to \$470 million of landfill PCM funds to pay off the UAL. In lieu of continuing to pay CalPERS UAL annual payments, the Districts will pay a reduced annual fee into the “Fee-in-Lieu” fund. The “Fee-in-Lieu” would fund the landfill PCM costs until the total payments are equivalent to those that would have been made on Pension Obligation Bonds (POBs).

He introduced Julio Morales, a Registered Municipal Advisor with Urban Futures, Inc., to discuss the advantages of the proposed exchange. Mr. Morales has worked with cities and many government agencies. He has assisted and guided the Districts regarding this matter.

Mr. Morales stated that using reserves, like the PCM fund (earning one percent interest), is ideal for reducing or eliminating the UAL to CalPERS (incurring seven percent interest). The proposed exchange is a solution that uses reserves that are currently committed to other purposes. POBs are an alternative if there are no funds, like reserves, available. There is an equivalent exchange of obligations between UAL costs and PCM costs. The difference is that the payments are stretched out over a longer time period. He stated that the proposed exchange is an innovative solution.

The Chief Engineer and General Manager advised that Mr. Morales will be available to answer any questions.

He showed the annual cost comparison of the CalPERS UAL payment, POB payment, and Fee-in-Lieu. The savings over the life for the Fee-in Lieu option compared to the POB option, results in \$250 million in savings over 20 years. The difference is that the Fee-in-Lieu option results in cumulative payments lower than CalPERS UAL payments and spread out over a longer period than POB payments. The Fee-in-Lieu option spreads out costs over 40-60 years, whereas the POBs is set at 20 years. The Districts would realize substantial savings of \$600 million.

He showed a table of the short-term annual savings by District (including the Districts’ Solid Waste System) over the first five years. The approximate annual savings shown were the difference between continued UAL payments versus proposed “Fee-in-Lieu” payments. The proposal will minimize future rate increases. He advised that there are no savings shown for Districts Nos. 4, 9, and 27 because they are contract Districts, which send all wastewater to the City of Los Angeles. District No. 34 is a non-active District.

The timeline, as was shown on a slide, was discussed. All Districts’ Boards will consider approval of the Agreement in September 2021. District No. 2 will consider revisions of the Solid Waste Financial Reserve Policy. The new Pledge of Revenue Agreement is currently being reviewed by CalRecycle. CalRecycle awaits the settlement of the lawsuit re: funding for development of the Puente Hills Landfill Park to review details. CalRecycle wants to ensure that the District does not incur additional costs for maintenance of the closed landfill as a result of the Puente Hills Landfill Park. Execution of the new Pledge of Revenue Agreement is scheduled for fall 2021 pending approval by CalRecycle. Once this takes place, payment of the UAL will occur through 2023 as post-closure reserve fund investments are liquidated and new UAL totals are determined by CalPERS.

Pending approval of the settlement agreement between the Districts and Los Angeles County, he recommended that each District approve the proposed Agreement and District No. 2 approves the revised Solid Waste Financial Reserve Policy. Actions in the agreement will not begin until CalRecycle approves the revised Pledge of Revenue Agreement.

At this time, Director Warner, asked if there were any questions from Directors. There were none.

Upon motion of Director Solis, duly seconded and unanimously carried roll-call vote, the Board of Directors of County Sanitation District No. 3 of Los Angeles County found and determined that it would be to the advantage of the District to enter into a *Joint Agreement for the Payment of the County Sanitation Districts of Los Angeles County for California Public Employee’s Retirement System* providing for effectuating the

payment of the Districts' UAL obligations with CalPERS from using funds set aside for Solid Waste landfill post-closure maintenance costs, as set forth in the Agreement and under terms and conditions contained therein. All the terms and conditions of the *Joint Agreement for the Payment of the County Sanitation Districts of Los Angeles County for the California Public Employee's Retirement System*, Contract No. 5357, dated September 8, 2021, were accepted and approved, and the Chairperson and Secretary were authorized to execute the Agreement on behalf of the District.

Upon motion of Director Buscaino, duly seconded and unanimously carried, the meeting adjourned in memory of Michael K. Williams, brother of Alternate Director Michelle Chambers, City of Compton.

SONNY SANTA INES
Chairperson

ATTEST:

KIMBERLY S. CHRISTENSEN
Secretary

/mh