

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

September 15, 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
Hildy Stern, Director from Manhattan Beach
David McGowan, Alternate Director from Palos Verdes Estates
David Bradley, Alternate Director from Rancho Palos Verdes
Frank Zerunyan, Alternate Director from Rolling Hills Estates
Patrick J. Furey, Chairperson, Director from Torrance

Absent: Justin Massey, Alternate Director from Hermosa Beach
Bill Brand, Director from Redondo Beach

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: ALTERNATE DIRECTOR FROM CITY OF TORRANCE A copy of an action taken by the City Council of the City of Torrance at a meeting held June 16, 2021 was presented to the Secretary stating that Ms. Heidi Ashcraft, a member of the City Council of the City of Torrance, was appointed to serve as alternate Director from the city.

Upon motion of Director Pimentel, duly seconded and unanimously carried by a roll-call vote, the action was accepted and ordered filed.

RE: MINUTES Upon motion of Director Pimentel, duly seconded and unanimously carried by a roll-call vote, the minutes of the regular meeting held August 18, 2021, were approved.

RE: DISTRICT EXPENSES The following expenses for the month of July 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	\$105,453.85
Allocated Operations & Maintenance Expenses:	
Joint Administration	86,303.40
Technical Support	90,788.09
Joint Facilities	398,128.40
Allocated Capital Expenses:	
Joint Administration	901.11
Joint Facilities	2,388.12
Total Expenses	<u>\$683,962.97</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 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 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, the Ad Hoc Committee Report, and a letter discussing the proposed changes 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 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 both Districts' agendas is an item to enact the recommendations from the JOS Director Ad Hoc Committee. Last month, he briefed all JOS Districts on the matter. 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 Chairperson Furey for his service and time in Committee. The Committee put in a lot of work and reviewed many details. 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. Approximately half of the JOS Districts approved the actions on Wednesday, September 8, 2021.

Upon motion of Director Zerunyan, duly seconded and unanimously carried by a roll-call vote, the Board of Directors of South Bay Cities Sanitation District 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 the "Signatory Districts" or July 1, 2022. All the terms and conditions of the *Joint Outfall Agreement*, Contract No. 2428C, dated September 15, 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 with estimated interest savings for each District 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 at a meeting held last week, Districts Nos. 2 and 18 approved and executed the Settlement Agreement with Los Angeles County regarding funding the development of the Puente Hills Landfill Park. Both 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 (CalPERS) (Agreement) 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. A copy of the presentation was attached to the agendas.

The Personnel Committee, consisting of the Chairs 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 collecting CalPERS' standard rate of 7 percent interest. The Districts' solid waste system has reserves dedicated to PCM costs for the closed Puente Hills and Spadra Landfills. The PCM funds earn 1 percent interest. The proposal will use landfill PCM reserve 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 (accrued interest), which is equal to \$858 million.

The Districts has two distinct requirements related to landfill PCM. The Districts must maintain environmental control systems for the landfill until they no longer pose a threat to public health and safety to the environment (possibly 75 to 100 years in the future). 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 1 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 ongoing landfill PCM costs until the total payments are equivalent to those that would have 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. The Chief Engineer and General Manager advised that Mr. Morales will be available to answer any questions.

Mr. Morales stated that using reserves, like the PCM fund (earning 1 percent interest), is ideal for reducing or eliminating the UAL to CalPERS (incurring 7 percent interest). The proposed exchange is a solution that uses reserves that are currently committed to other purposes to pay for the agency's most expensive liability that peaks in 2030. 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 that few agencies and cities can implement. This is also the most efficient use of capital.

James T. Butts, City of Inglewood, asked if the proposal is intended to eliminate the UAL entirely. He stated that the UAL is a calculation of the agency's current and retired employees' retirement cost assumptions based on a 7 percent return. In a future year, should the interest increase to 15-16 percent, the debt would be reduced. The City of Inglewood issued POBs to retire half its debt because the UAL is only a projection.

The Chief Engineer and General Manager stated that is correct. After paying off the UAL, the Districts will still have sufficient reserves in the solid waste system. Over time, if CalPERS is not meeting projections, the rate of return could be adjusted down to 6.75 percent to give a buffer in the future and avoid a UAL in case CalPERS underperforms.

Mr. Morales stated that you must view things in slices and determine how it's all looking at the time the liability will be paid off. It is important to have an estimate of the past due amount to be paid off.

Mr. Butts stated that some cities or agencies can go bankrupt if the entire UAL is paid off and the state takes some of the surplus money. He stated that he has great trepidation with this issue. He also stated that paying off the full UAL may not be advantageous if the state assists other agencies that are underfunded as the Districts would then not qualify.

Mr. Morales stated that the state owes 1 percent in Other Postemployment Benefits (or OPEB) and its liability is 66 percent funded. He stated that in his professional and personal opinion, he has never seen the state save local jurisdictions, but rather the opposite. Furthermore, there will be no bail out because of the California Public Employees' Pension Reform Act (PEPRA), which took effect in January 2013, which provides lower

provisions for all new employees. Cities and agencies are stuck with the liability or past due payments. California doesn't allow change of the formula. It is not possible for the state to make further adjustments. The state, schools, and special districts have a significant amount of liability. There are laws preventing change of the formula.

He showed the annual cost comparison of the CalPERS UAL payment over 22 years, POB payment over 20 years, and Fee-in-Lieu. The CalPERS payment peaks at over \$50 million in 2032. 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 spreads out over a longer period than POB payments. The Fee-in-Lieu option spreads out costs over 40 to 60 years, whereas the POBs are set at 20 years.

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.

The timeline, as 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 regarding funding for development of the Puente Hill Landfill Park to review details. CalRecycle wants to ensure that the Districts does not incur additional costs. 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, it is 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, the Chairperson asked if there were any questions from Directors.

Director Frank Zerunyan, City Rolling Hills Estates, recognized staff for looking at ways to save money. He stated that his city paid off a lower percentage of the UAL, which is now 85 percent funded. He has a policy concern that although the Districts is well-funded, the agency is investing underserving infrastructure into soft money. He requested more assurance that the reserves are sufficient to cover any calamity risks. He stated that money is cheap, and he does not mind paying 2 percent to have sufficient funds.

The Chief Engineer and General Manager stated that Director Zerunyan brought up a good point. He advised that the solid waste system is owned by 15 Districts, which includes District No. 5 and South Bay Cities District. The solid waste system and wastewater system have their own finances. The Solid Waste Districts have the final say regarding the solid waste reserves. CalRecycle requires the Pledge of Revenue Agreement. The current agreement uses the interest from the PCM reserve fund to pay for the PCM activities. Due to the low interest rate, the Districts will soon be eating away at the principal, and the fund is not working as it was intended to cover \$14 million per year necessary for post closure costs at the Puente Hills and Spadra Landfills. The state requires that this fund is only used for PCM costs. The proposal uses approximately \$470 million to pay off the UAL and leaves the solid waste system in a better financial position. Financial assurance for Puente Hills and Spadra Landfills is guaranteed for a longer time, and it is estimated that the agency will have funds to cover up to 40 to 60 years depending on future expenses. The solid waste reserves in operating facilities are currently under target. The total amount in these reserves is currently \$26-29 million. The target (six months of operations and maintenance plus two years of capital) is \$50 million. The proposal frees up reserve funds and brings the solid waste operating facilities reserves to target. The residual money can be used for emergency funds/natural calamities.

Director Chris Pimentel, City of El Segundo, asked if there is a chance of stranding opportunity costs, if the UAL is funded 100 percent. There is limited opportunity from the state to protect these costs. He asked if there is any opportunity to fund at a lower rate or splitting between PEPRA and Classic employees, and he inquired about the PEPRA to Classic employee ratio.

The Chief Engineer and General Manager stated that CalPERS had a good fiscal year. Their system is essentially two years behind, and the Districts will not see the benefit of this year until 1.5 years in the future. This will be factored in, so the agency is not overpaying CalPERS.

Director Pimentel stated that stranded money cannot be used for normal costs if the agency is 120 percent funded. He suggested funding up to 80-90 percent to avoid this.

The Chief Engineer and General Manager stated that the Districts will have information when it's time. If CalPERS does well next fiscal year, the Districts can dial back to prevent stranded money. He deferred to Mr. Morales to discuss how this matter would be handled in 1.5 years.

Mr. Morales stated that the Districts cannot use credit to receive an overpayment when the UAL is over 100 percent funded. In 2000, the state increased the benefit level. He stated that the target is 100 percent funded but, due to annual changes, it should be 90-110 percent. Standard and Poor's does not like funding under 80 percent.

In regard to PEPRAs and Classic employees, the liability only applies to Classics. The ratio is 2:1 (approximately 1,050 Classics and 500 PEPRAs). Most agencies have one-third PEPRAs employees. Over time, the ratio will change. Once the UAL is paid off, more PEPRAs will be employed and the liability will be 100 percent funded.

The Chief Engineer and General Manager stated that one thing that CalPERS may do is utilize good years in the next few years by not allowing pay off but decrease the rate of return to 6.8 percent. The Districts won't start paying off the UAL until next year.

Director David Bradley, City of Palos Verdes Estates, asked what the downside is to using reserves in this. He wanted to know if the Districts will lose future functionality or options.

The Chief Engineer and General Manager stated that the Districts looked at the risks of using money dedicated for routine, ongoing post-closure maintenance. He stated that although there will always be risks, the PCM fund is an underperforming investment incurring 1 percent interest and the agency has the CalPERS debt. The Districts is restructuring the solid waste system for use in energy, moving money tied to post-closure maintenance into operational reserves that can be used for other things. This leaves us in a stronger financial situation. Investment is a key component which will bring upfront savings.

Director Zerunyan stated that it may be good to document this information in the form of a memo to post on the Districts' website for transparency. The matter was explained to Directors, but the people the Directors represent are entitled to good information. He highly recommended this so that the Directors' constituents can see the thought process, financial analyses, and work that went into this to be able to understand what the Districts is trying to achieve.

The Chief Engineer and General Manager agreed. He stated that there are detailed presentations and other information that was shared with the Personnel Committee. These can be posted on the internet.

There were no further questions.

Upon motion of Director Zerunyan, duly seconded and unanimously carried roll-call vote, the Board of Directors of South Bay Cities Sanitation District 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 15, 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 Bradley, duly seconded and unanimously carried, the meeting adjourned.

PATRICK FUREY
Chairperson

ATTEST:

KIMBERLY S. CHRISTENSEN
Secretary

/mh