

Notice and Agenda

REGULAR MEETING — BOARD OF DIRECTORS — COUNTY SANITATION DISTRICT NO. 22

To be held at the OFFICE OF THE DISTRICT
1955 Workman Mill Road, Whittier, California

In response to concerns about the Novel Coronavirus (COVID-19), and in accordance with the Governor's Executive Order N-29-20 and N-08-21, Directors will attend these meetings via teleconference. To join the meeting, click <https://us02web.zoom.us/j/8091438308> or enter the Meeting ID 809 143 8308 into the Zoom app on your smartphone or computer. Alternatively, you may join by phone by calling (669) 900-9128 and entering the Meeting ID. You may find further information at: <https://www.lacsd.org/about-us/governance/board-agenda-and-minutes>

THE DISTRICT MAY TAKE ACTION ON ANY AGENDA ITEM LISTED BELOW

WEDNESDAY	September 22, 2021	At 1:30 P.M.
Governing Body	Director	Alternate
ARCADIA	TAY	CHANDLER
AZUSA	GONZALES	ALVAREZ
BALDWIN PARK	ESTRADA	GARCIA
BRADBURY	LEWIS	BARAKAT
COVINA	MARQUEZ	CORTEZ
DUARTE	URIAS	FINLAY (Chairperson)
GLENDORA	K. DAVIS	ALLAWOS
IRWINDALE	ORTIZ	BURROLA
LA VERNE	HEPBURN	M. DAVIS
MONROVIA	ADAMS	SHEVLIN
SAN DIMAS	BADAR	BERTONE
WALNUT	BOB PACHECO	CHING
WEST COVINA	LOPEZ-VIADO	CASTELLANOS
LOS ANGELES COUNTY	SOLIS	BARGER

1. Public Comment
2. Approve Minutes of Regular Meeting Held August 25, 2021
3. Approve July 2021 Expenses in Amount of \$1,472,110.07

Summary: Local District expenses represent costs incurred for operations, maintenance, and capital projects that are the sole responsibility of the individual District. Allocated expenses represent the District's proportionate share of expenses made by District No. 2, the administrative District, on its behalf pursuant to either the Joint Administration Agreement or the Joint Outfall Agreement. These Agreements provide for the joint administration, technical support and management of the operations, maintenance, and capital costs associated with all of the shared facilities for all of the signatory Districts, along with the methodology for determining the proportionate costs for each District. A listing of Districts' payments and previously approved budgets can be found on the Districts' websites at lacsd.org/financial-documents. This item is consistent with the Districts' Guiding Principle of commitment to fiscal responsibility and prudent financial stewardship.

Local District Expenses:	
Operations & Maintenance (O & M)	\$ 100,203.21
Capital	7,954.55
Allocated Expenses:	
Joint Administration	203,986.36
Technical Support	228,679.59
Joint Outfall	931,286.36
Total Expenses	<u>\$1,472,110.07</u>

4. Re: Implementation of Joint Outfall System (JOS) Director [Ad Hoc Committee Report and Recommendations](#)
 - (a) Approve and Order Executed [Joint Outfall Agreement](#)
 - (b) Adopt [Joint Outfall Financial Reserve Policy](#)
 - (c) Adopt [Wastewater Financial Reserve Policy](#)

Summary: The 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

4. Contd.

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. A letter discussing the proposed changes is attached. 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.

5. Approve and Order Executed [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)

Summary: The proposed 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 are attached. 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.

Adjourn

Status Report:

Prior to or during the meeting session, the Chief Engineer and General Manager may update the Directors on various matters concerning the Districts that may be of current interest to the Directors.

Public Comment:

Members of the public may address the Board of Directors on any item shown on the agenda or matter under the Board's authority. A "Request to Address Board of Directors" form is available. In compliance with the Americans with Disabilities Act, if you require special assistance to participate in this meeting, please contact the Secretary to the Boards' Office (562) 908-4288, extension 1100. Notification of 48 hours prior to the meeting will enable staff to make reasonable arrangements to ensure accessibility to this meeting. (28CFR 35.101 et seq. ADA Title II).

Document Requests:

Links to supporting documents are available online at the time of posting. Agendas and supporting documents or other writings that will be distributed to Board members in connection with matters subject to discussion or consideration at this meeting that are not exempt from disclosure under the Public Records Act are available for inspection following the posting of this agenda at the office of the Secretary to the Boards of Directors located at the Districts' Joint Administration Building, 1955 Workman Mill Road, Whittier, California, 90601, or at the time of the meeting at the address posted on this agenda.



September 3, 2021

Board of Directors
Joint Outfall Districts
Los Angeles County Sanitation Districts

Directors:

Implementation of Joint Outfall System (JOS) Director Ad Hoc Committee Recommendations

The agenda for the upcoming meetings of the Boards of Directors contains an item regarding proposed changes to the Joint Outfall System (JOS). The Joint Outfall System 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.

The Ad Hoc Committee's recommendations were as follows:

1. Re-classify all facilities in the JOS Districts as JOS assets¹.
2. Treat all Industrial Waste Revenue as JOS Revenue.
3. Acknowledge that variation in AV tax revenues can lead to variations in service charge even when total cost is similar.
4. Principles for rate-setting should include reaching targeted reserve fund levels in 10 years.

To implement the recommendations, the Joint Outfall Districts must approve a revised Joint Outfall Agreement, adopt a Joint Outfall Financial Reserve Policy, and each District will need to adopt a new Wastewater Financial Reserve Policy. The proposed Joint Outfall Agreement facilitates the transfer of facilities to the JOS, classifies all Industrial Waste revenue as JOS revenue, and provides for the payment of necessary debt and other expenses associated with transferred assets by the JOS. The Joint Outfall Financial Reserve Policy would establish necessary funds to provide financial stability for the JOS. The proposed Wastewater Financial Reserve Policies would reduce the amount of reserves held by the individual Districts commiserate with the increase in reserves held by the JOS.

Copies of the proposed Joint Outfall Agreement, Joint Outfall Financial Reserve Policy, and Wastewater Financial Reserve Policy for each District are attached to the agendas for those Districts

¹ Except small local sewers in District 29 that would traditionally be city-owned but are now maintained by District 29 under special agreement.

considering adopting the proposed changes. If approved, these items would take effect July 1, 2022 and would be used in rate setting recommendations that will be presented to the Boards in early 2022.

Very truly yours,

A handwritten signature in cursive script that reads "Robert C. Ferrante".

Robert Ferrante

RF:av

Enclosures



September 3, 2021

Boards of Directors
Los Angeles County Sanitation Districts

Directors:

**Agreement for Payment of the Districts'
CalPERS Unfunded Accrued Liability (UAL) for Employees' Pensions**

The agendas for the upcoming meetings of the Boards of Directors contain an item recommending approval of a proposed *Joint Agreement for the Payment of the County Sanitation Districts of Los Angeles County Unfunded Accrued Liability for the California Public Employees' Retirement System* (Agreement), which is an agreement among the 24 Districts that effectuates 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 fund landfill post-closure maintenance costs. The proposal will result in a cumulative \$250 million in savings from avoided interest for all Districts and provide a more certain funding source for post-closure maintenance costs. The Personnel Committee endorsed presenting the Agreement to each of the Boards for approval.

UAL

The UAL is the outstanding pension liability owed by the Districts for past service by District employees, and results from CalPERS investments underperforming or demographic assumptions that have shifted resulting in higher retirement liabilities than expected. The UAL is determined annually by CalPERS. The Districts are required to make annual payments to pay down the UAL and these payments are calculated using a 7% interest rate. According to the CalPERS valuation report dated June 30, 2020, if the UAL was paid down in accordance with the minimum payment schedule, there would be approximately \$380 million in interest cost.

CalPERS allows and encourages additional payments above the minimum payment amount, including full payoff of the UAL at any time. A common practice for agencies is to pay the UAL off by issuing Pension Obligation Bonds (POBs) or similar financing mechanisms, which would carry a lower interest rate than the 7% used for UAL payments. An even better alternative is to use available reserves to pay off the UAL.

LANDFILL POST-CLOSURE MAINTENANCE RESPONSIBILITIES

Fifteen of the 24 Districts are signatory to an agreement that formed the Solid Waste System (SW System). As parties to the agreement, these 15 Districts own the Districts' solid waste facilities including two closed landfills: Spadra and Puente Hills. The SW System is required to maintain environmental control systems at the landfills until they no longer pose a threat to the public health and safety and the environment. In order to provide funding for these post-closure maintenance responsibilities, approximately \$590 million has been set aside to provide interest revenue for post-closure maintenance costs, which are currently

approximately \$14 million per year. Earnings on the reserves is currently 1% to 2% and the interest revenue is falling short of maintenance costs.

PROPOSAL TO PAY OFF THE UAL

The proposed agreement calls for the use of up to \$470 million of the post-closure reserves to pay off the current UAL and potentially any new UAL that could be required in the next 2 years' CalPERS valuation reports. In return for use of post-closure maintenance reserves, all Districts would pay into a new "Fee-In-Lieu Fund" (Fund) which would be available for use by the SW System to pay for landfill post-closure maintenance costs. The Fund's purpose, targeted amount, and funding sources are defined in the proposed revisions to the Solid Waste Financial Reserve Policy. Payments into the Fund would continue as needed until the total payments made by the Districts equal the payments that would have been made on POBs. CalRecycle, which requires that the SW System demonstrate and pledge adequate revenue for post-closure maintenance costs, is currently reviewing revisions to the existing pledge of revenue agreement between District No. 2 and CalRecycle that will include the new Fee-In-Lieu fund payments as a source of revenue.

BENEFITS OF THE PROPOSAL

The proposed agreement provides significant benefits to all of the Districts:

- Saves approximately \$250 million in interest that would accrue on the UAL under the CalPERS payment schedule. Individual District savings are shown in the table on page 3.
- The savings translates into an immediate savings across the Districts of approximately \$20 million per year.
- The payments into the Fund in total will be no more than the payments that would have been made toward POBs, and the Districts will benefit from a longer payback period relative to bonds of approximately 40-60 years.
- The SW System achieves more certainty that funding of post-closure maintenance costs will be available, and in effect receives a higher interest rate than would be earned on its post-closure funds.

CONCLUSION / FUTURE ACTIONS

The Agreement was presented to the Personnel Committee at several meetings between September 2020 and April 2021 and the Committee unanimously endorsed presenting the agreement to each of the Boards for consideration. District No. 2 will also consider approval of the revised Solid Waste Financial Reserve Policy. A new pledge of revenue agreement between CalRecycle and District No. 2 will be executed at a future meeting, pending CalRecycle approval of the new revenue arrangement. After each of the documents has been approved and executed, post-closure maintenance funds will be used to pay off up to \$470 million in UAL accrued through June 30, 2022. Any additional or future UA will be addressed separately and is not included in this Agreement.

Very truly yours,



Robert C. Ferrante

Savings by District

District / Entity	Approximate Total Savings
District 1	\$ 12,200,000
District 2	18,900,000
District 3	13,300,000
District 4	300,000
District 5	20,900,000
District 8	13,000,000
District 9	-
District 14	9,300,000
District 15	13,400,000
District 16	5,600,000
District 17	800,000
District 18	10,100,000
District 19	2,300,000
District 20	9,700,000
District 21	13,500,000
District 22	8,000,000
District 23	3,000,000
District 27	-
District 28	200,000
District 29	1,600,000
South Bay Cities	5,000,000
Santa Clarita Valley	28,800,000
District 34	-
Newhall Ranch	1,000,000
Districts' SW System	33,700,000

Cumulative savings of the payments required under the proposed exchange, vs. the minimum payments required by CalPERS toward the UAL. Present value at 1.5% discount rate.



**LOS ANGELES COUNTY
SANITATION DISTRICTS**
Converting Waste Into Resources

CALPERS Unfunded Accrued Liability (UAL)/Post Closure Maintenance Funding Exchange

**For Consideration at
September 2021 Board
Meetings**

September 2021



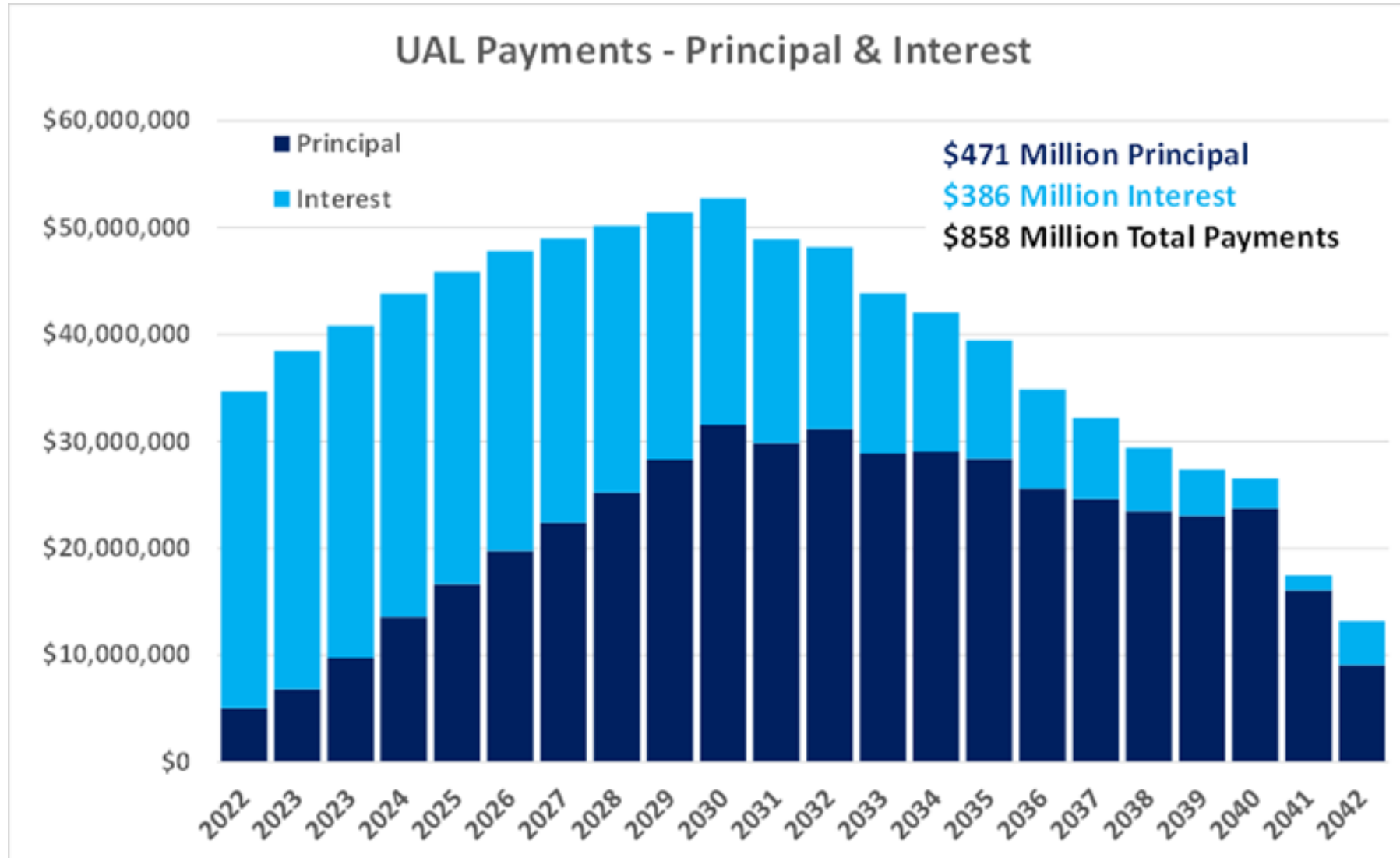
OUR SERVICE AREA

Introduction

- The Districts' Unfunded Accrued Liability (UAL) payments to CalPERS are a significant part of the Districts' labor costs. The payments are calculated as if the UAL was a loan at 7% interest.
- The Districts Solid Waste System Post-Closure Maintenance Funds are earning very low interest revenue.
- The proposal: Use landfill post-closure maintenance funds to pay off Districts' Unfunded Accrued Liability (UAL), and in return the Districts will cover post-closure maintenance costs.



CalPERS UAL Minimum Payment Schedule



Approximate payments as expected to be shown in the June 2020 report.



Landfill Post-Closure Maintenance

- Two distinct requirements:
 - Maintain environmental control systems until they no longer pose a threat to the public health and safety and the environment.
 - Demonstrate to CalRecycle that an ongoing revenue source is available for post-closure maintenance costs *or* turn funds over to trust for CalRecycle to manage.
- Current Pledge of Revenue Agreement with CalRecycle requires interest revenue generated by post-closure reserve funds be used for post-closure maintenance costs.

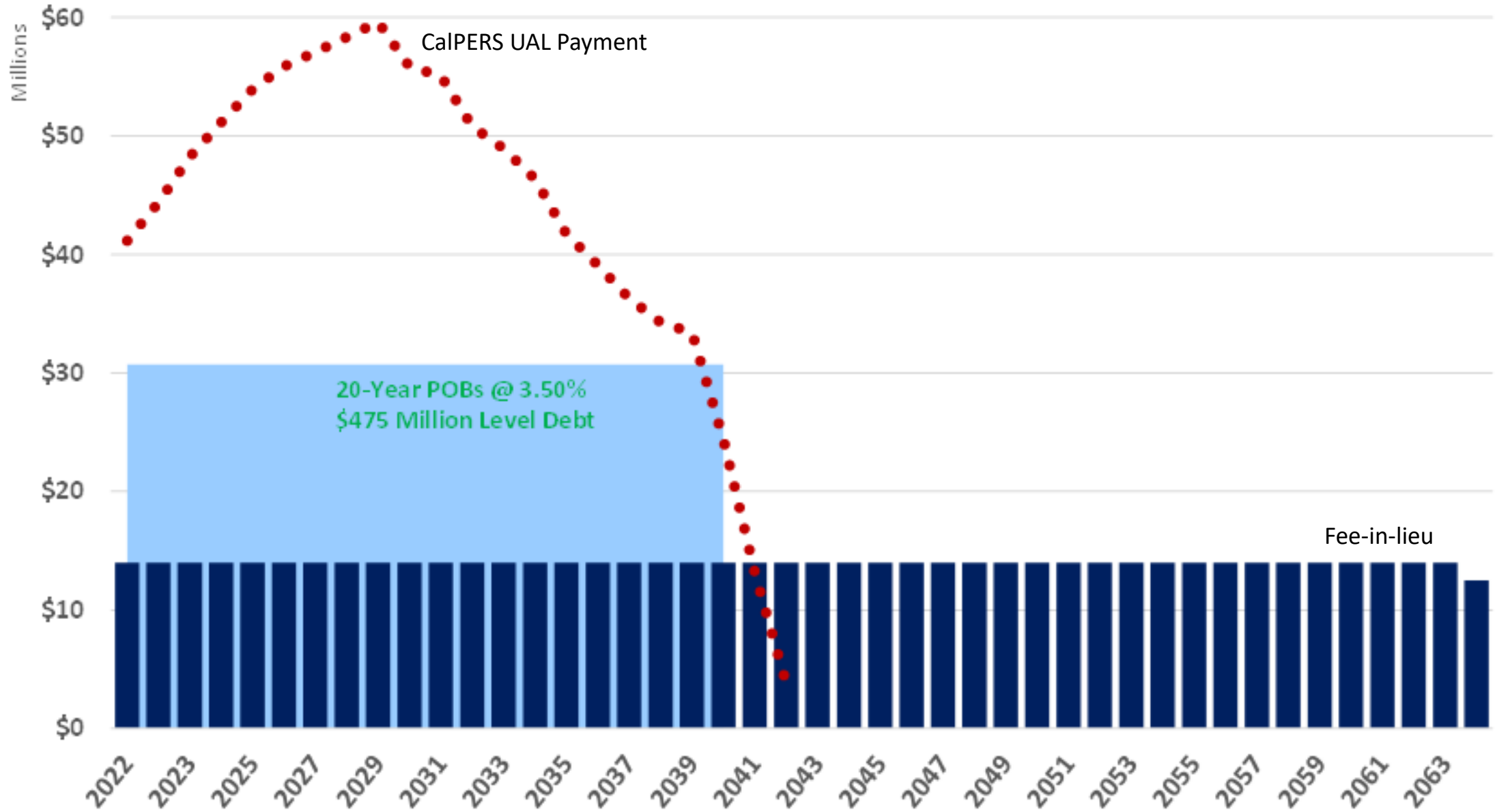


Proposal

- Use up to \$470 million of landfill post-closure maintenance funds to pay off UAL accrued through the June 30, 2022 report.
- In lieu of continuing to pay CalPERS UAL annual payments, Districts will pay a reduced annual fee into a “Fee-in-Lieu” fund.
- The “Fee-in-Lieu” would fund landfill post-closure maintenance costs until the total payments equal the payments that would have been made on Pension Obligation Bonds (POBs).



Annual Cost Comparison



Advantages of Proposed Exchange

Julio Morales, Municipal Advisor, Urban Futures Inc.

- Using reserves is ideal for reducing or eliminating UAL.
- The proposed exchange is a solution that uses reserves that are currently committed to other purposes.
- Pension Obligation Bonds (POBs) are an alternative if no funds are available.
- Financial advantages of the proposed exchange over POBs:
 - Interest would be paid to others instead of supporting District activities.
 - Payments spread over 40 to 60 years, vs. 20 years for POBs.
- Equivalent exchange of obligations – UAL costs vs. post-closure maintenance costs.



Short-Term Annual Savings by District

Continued UAL Payments vs. the Proposed "Fee-in-Lieu" Payments

	Approximate Annual Savings
District 1	\$ 1,540,000
District 2	2,340,000
District 3	1,720,000
District 4	20,000
District 5	2,610,000
District 8	1,200,000
District 9	-
District 14	860,000
District 15	1,810,000
District 16	890,000
District 17	120,000
District 18	1,230,000

	Approximate Annual Savings
District 19	\$ 330,000
District 20	740,000
District 21	1,600,000
District 22	1,130,000
District 23	260,000
District 27	-
District 28	40,000
District 29	120,000
South Bay Cities	540,000
Santa Clarita Valley	2,100,000
District 34	-
Newhall Ranch	60,000
Districts' SW System	3,680,000

Approximate annual savings, average for FY 2022 through FY 2026.



Total Savings by District

Continued UAL Payments vs. the Proposed "Fee-in-Lieu" Payments

	Approximate Total Savings	
District 1	\$	12,200,000
District 2		18,900,000
District 3		13,300,000
District 4		300,000
District 5		20,900,000
District 8		13,000,000
District 9		-
District 14		9,300,000
District 15		13,400,000
District 16		5,600,000
District 17		800,000
District 18		10,100,000

	Approximate Total Savings	
District 19	\$	2,300,000
District 20		9,700,000
District 21		13,500,000
District 22		8,000,000
District 23		3,000,000
District 27		-
District 28		200,000
District 29		1,600,000
South Bay Cities		5,000,000
Santa Clarita Valley		28,800,000
District 34		-
Newhall Ranch		1,000,000
Districts' SW System		33,700,000

Through approximately 2080. Net present value at 1.5% discount rate.



Timeline

- District Boards to consider approval of the Agreement in September 2021.
- District No. 2 to consider revisions of the Solid Waste Financial Reserve Policy.
- New pledge of revenue agreement being reviewed by CalRecycle.
- Execution of new pledge of revenue agreement in fall 2021 pending CalRecycle approval.
- Payment of UAL to occur through 2023 as post-closure reserve fund investments are liquidated and new UAL totals are determined by CalPERS.



Recommendation

- Approval of the proposed agreement by each District.
- Approval of the revised Solid Waste Financial Reserve Policy by District No. 2.
- Actions in the agreement will not begin until CalRecycle approves the revised Pledge of Revenue Agreement.

