

MINUTES OF THE REGULAR MEETING OF THE
BOARD OF DIRECTORS OF
COUNTY SANITATION DISTRICT NO. 17
HELD AT THE OFFICE OF THE DISTRICT
VIA TELECONFERENCE

September 22, 2021
1:30 o'clock, P.M.

The Board of Directors of County Sanitation District No. 17 of Los Angeles County met in regular session via teleconference.

There were present: Victor Gordo, Chairperson, Director from Pasadena
Hilda Solis, Director from Los Angeles County
Kathryn Barger, Chairperson, Director from Los Angeles County

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 regular meeting held June 23, 2021, were approved.

RE: DISTRICT EXPENSES
The following expenses for the months of May, June, and July 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)	\$ 15,326.20
Allocated Expenses:	
Joint Administration	80,395.31
Technical Support	76,887.73
Joint Outfall	<u>313,910.55</u>
Total Expenses	<u>\$486,519.79</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. 2, 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 are 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 Committee and for their time. The changes will take effect in the next fiscal year's rate cycle.

Upon motion of Director Solis, duly seconded and unanimously carried by a roll-call vote, the Board of Directors 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 for 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 22, 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 THE COUNTY SANITATION DISTRICTS
OF LOS ANGELES COUNTY UNFUNDED
ACCRUED LIABILITY FOR THE CALIFORNIA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
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 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 earlier this month, Districts Nos. 2 and 18 approved the Settlement Agreement with Los Angeles County related to funding for the development of the Puente Hills Landfill Park. The County is scheduled to approve the Settlement Agreement next week. These motions allow the Districts to move forward to address the UAL proposal. All Districts' Boards, except District No. 2, 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.

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 including principal and interest, from 2022 to 2042. The total UAL payment over those 20 years is a sum of \$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 been made on Pension Obligation Bonds (POBs).

He showed the annual cost comparison of the CalPERS UAL payment (red dotted line), POB payment (shaded light blue), and Fee-in-Lieu (dark blue bars). If the UAL payments were to continue as-is, they would peak in about 10 years up to approximately \$60 million compared to POBs. Twenty years of POB payments at 3.5 percent interest would be over \$30 million. 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 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 is ideal for reducing or eliminating the UAL to CalPERS. 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.

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

He showed a table of the short-term annual savings by District (including the Districts' Solid Waste System) over the next five years. The approximate average 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 shown on a slide, was discussed. All Districts' Boards will consider approval of the Agreement in September 2021. District No. 2 previously approved 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 and approval of the UAL by all Districts to review details. 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. District No. 2 previously approved the revised Solid Waste Financial Reserve Policy. Actions in the agreement will not begin until CalRecycle approves the revised Pledge of Revenue Agreement.

Director Jakubowski, City of San Marino, asked how many employees are covered.

In response to Director Jakubowski, the Chief Engineer and General Manager stated that, currently, there are 1,700 employees and approximately 2,000 retirees.

Director Hahn, County of Los Angeles, stated that she will vote to approve this item. She stated that she wanted to take the opportunity to thank the Chief Engineer and General Manager, her staff, and Supervisor Solis'

staff. Since the UAL proposal was first presented, all Directors realized that this was the best deal to save money for the agency; although, the Supervisors felt that the surrounding community was promised a park once the landfill closed down, and they wanted to ensure that the community was spoken for. She stated that the Settlement Agreement did that. She thanked everyone for working towards a common goal for a fiduciary deal to move forward and take care of all local residents who had to endure the impacts of the landfill; and for everyone's steadfast patience in arriving to today.

The Chief Engineer and General Manager thanked Supervisor Hahn and her staff. He stated that he was glad to be near the end of this matter. He thanked her and Supervisor Solis for getting involved and moving the matter forward.

Chairperson Warner, District No. 2, on behalf of all the Directors, thanked Supervisor Hahn and staff for all their work and for her leadership.

Director Hahn thanked the Chief Engineer and General Manager and Chairperson Warner, District No. 2, for their willingness to get it done. When agencies like the Sanitation Districts and the County come together with a common goal, it is special.

Director Allowos, City of Glendora, asked for more explanation of the \$1.1 million savings for District No. 22. He asked if there were no lawsuit, where would the money come from and what does it cost the Districts if nothing happens.

In response to Director Allowos, the Chief Engineer and General Manager stated that for District No. 22, \$1.1 million is the annual savings per year over the first five years. \$18 million is the total savings over the life of the Fee-in-Lieu program. The CalPERS payments is already budgeted. The net savings following the payment of the UAL transitions to lower service charge and an increase in operating costs in the solid waste system. The Fee-in-Lieu is not an additional cost. Regarding the settlement, more money was provided for the park development, in doing so, moving forward, the agency can avoid a lawsuit. As previously mentioned, the trial date is set for 2023 due to delays caused by the pandemic. The agency saves \$25 million, which is a significant benefit for all 5 million ratepayers. The Board of Supervisors are scheduled to consider approval of the Settlement Agreement next Tuesday, September 28 at their next Board Meeting. Then the Districts will draft a Pledge of Revenue Agreement and finalize it with CalRecycle. These are the steps that must take place prior to pay off of the UAL . Furthermore, if nothing happens, it will cost the Districts \$40,000-\$50,000 per day.

Director Hepburn, City of La Verne, stated that the proposal is a good idea. His city opted to do POBs. He advised to stay diligent because the amount of liability can creep up with the number of employees that the agency has. He stated that the agency should continue to be aggressive to pay down the UAL.

In response to Director Hepburn, the Chief Engineer and General Manager stated that he had a good point. The action today addresses a large amount of debt. The UAL must be paid down as we go. Districts' staff is tasked to research different alternatives to pay off the liability or set up another fund.

Director Solis thanked Director Hahn for her statement. She also thanked the Chief Engineer and General Manager, Districts' staff, Chairperson Warner, District No. 2, and County staff for working together to give a park to the surrounding community who endured the impact of the landfill. She advised that the County is working through the final aspects. She stated that she did not expect any major hurdles and thanked everyone for their patience.

The Chief Engineer and General Manager thanked Director Solis for moving things forward.

Director Gordo stated that he agreed that the agency is taking the right steps. He expressed his appreciation for staff's work and patience. He stated that this will be the right outcome only if future debt is also paid off with a 115 Trust or other means. In the long run, the UAL might bite again. He strongly encouraged staff to come back with a long-term plan regarding pension obligations, and POBs should be avoided.

Chairperson Warner, District No. 2, requested that the Chief Engineer and General Manager add an agenda item regarding this matter for the Personnel Committee to discuss.

The Chief Engineer and General Manager advised that he planned to discuss the plan for future pension obligations with the end of year review of the financial policy. The discussion is planned for the end of this year or next year. He advised that he would continue to update Directors through the process.

Chairperson Warner, District No. 2, recognized all Districts' staff for making everything happen behind the scenes for Board meetings. She gave kudos to all Directors for the major items that were approved today.

Upon motion of Director Solis, duly seconded and unanimously carried by a roll-call vote, the Board of Directors of County Sanitation District No. 17 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 Unfunded Accrued Liability for the California Public Employees' Retirement System* providing for the payment of the Districts' UAL obligation with CalPERS using funds set aside for the Solid Waste 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 Unfunded Accrued Liability for the California Public Employee's Retirement System*, Contract No. 5357, dated September 22, 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 Solis, duly seconded and unanimously carried, the meeting adjourned.

KATHRYN BARGER
Chairperson

ATTEST:

KIMBERLY S. CHRISTENSEN
Secretary

/mh