

SPECIAL MEETING – PERSONNEL COMMITTEE – COUNTY SANITATION DISTRICTS OF LOS ANGELES COUNTY

To be held at the JOINT ADMINISTRATION OFFICE
1955 Workman Mill Road, Whittier, California

In response to concerns about the Novel Coronavirus (COVID-19), and in accordance with the provisions of California Government Code Section 54953(e), Directors will attend these meetings via teleconference. To join the meeting, click <https://us02web.zoom.us/j/3397206095> or enter the Meeting ID 339 720 6095 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: <http://www.lacsd.org/agendas>

THE COMMITTEE MAY TAKE ACTION ON ANY AGENDA ITEM LISTED BELOW

WEDNESDAY	September 28, 2022	At 11:00 A.M.
District(s)	Chairperson	
SBC, 5	BRAND	
1	SALEH	
2	WARNER (Committee Chairperson)	
3	DUNTON	
4	MEISTER	
8, 16	BUSCAINO	
9	HAHN	
14	PARRIS	
15	BARAKAT	
17	BARGER	
18, 19	TAJ	
20	HOFBAUER	
21	MOSS	
22	FINLAY	
23	LOPEZ	
27, NR	MITCHELL	
28	DAVITT	
29	JONES	
SCV	WESTE	

At the call of the Chairperson, a special meeting of the Board of Directors of the Personnel Committee of the County Sanitation Districts of Los Angeles County will be held at the above time and place for the purpose of:

1. Public Comment
2. Approve Minutes of Special Meeting Held May 25, 2022
3. Approve *Resolution of the Board of Directors of the Personnel Committee Proclaiming a Local Emergency, Ratifying the Proclamation of a State of Emergency on March 4, 2020 by California Governor and Authorizing Remote Teleconference Meetings of the Legislative Body*

Summary: The Governor’s two executive orders (N-29-20 & N-08-21), under which the agency has been conducting its teleconferenced meetings, during the continued existence of the Governor’s proclaimed state of COVID-19 emergency, will be conducted under the provisions of AB 361 which added California Government Code Section 54953(e), to the Brown Act. Under the provisions of AB 361 (Government Code Section 54953(e), at their first next meeting, each District and Committee must adopt, by majority vote, an initial resolution making certain findings about the continuing COVID state of emergency and health and safety risks of conducting their meeting in person. By statute, this Resolution and its referenced findings, are only legally valid for 30 days. The Resolution is attached to the agenda.

4. Re: Financial Matters:
 - (a) Investment, Debt Management, and Financial Reserve Policies
 - (b) Purchasing Policy
 - (c) Districts’ Annexation Fee Ordinances

Summary: As part of the continuing effort to ensure the Districts follow best practices as it relates to financial matters, revisions to certain policies and ordinances are being recommended. First, Sound Investment, Debt Management, and Financial Reserve Policies are crucial to maintaining the Districts’ financial stability and changes are being proposed to the existing policies to ensure consistency across the Districts, ensure transparency in Districts’ finances, and improve the Districts’ investment

4. Contd.

performance. Second, the Districts' Purchasing Policy establishes rules for purchase of materials, supplies, equipment, services, and construction projects. Proposed revisions to the policy clarify certain provisions, ensure current practices are incorporated into the policy, and add provisions for related business practices. Finally, annexation fees are assessed when a property owner desires to annex a parcel to a District's service area. An evaluation of the Districts' costs to process an annexation indicated that changing from a per-acre fee to a flat fee is a more appropriate structure for recovering those costs. A letter summarizing these proposed changes, along with copies of the policies showing the proposed revisions are attached. The Chief Engineer and General Manager will brief the Committee.

5. Re: Update on Implementation of Recommendations resulting from Audit of Sewer Maintenance, Operations, and Rehabilitation

Summary: In January 2022, the Districts retained the services of GHD to perform an independent external audit of the sanitary sewer overflow that occurred on December 30, 2021, from the 216th Street Relocation Trunk Sewer, in the City of Carson. GHD's audit scope included an investigation of the physical causes of the sewer failure, the history of inspections and plans for replacement of the sewer line, and the Districts' response to the spill. The audit also included a comprehensive review of the Districts' sewer maintenance and inspection programs, Capital Improvement Program, and emergency procedures relative to industry standards and other local sewer agencies'. The Chief Engineer and General Manager will discuss the status of this work.

6. CLOSED SESSION – Conference with Legal Counsel Pursuant to Government Code Section 54956.9(d)(2) - Potential Litigation - California Regional Water Quality Board – Los Angeles Region, Administrative Civil Liability Complaint relating to SSO Event ID No. ~~871320~~ 878549

Summary: This matter is related to pending and ongoing discussions with the Los Angeles Regional Water Quality Board regarding a sewer spill that occurred December 2021 and discharged to the Dominguez Channel. *The Chief Engineer and General Manager and District Counsel will discuss this matter in closed session.*

7. CLOSED SESSION – Conference with Legal Counsel Pursuant to Government Code Section 54956.9(d)(1) - Three Existing Cases – Westlake Farms, Inc. v. County Sanitation District No. 2, San Luis Obispo County Superior Court Case No. 16CV-0244; Ceil Howe Jr. v. County Sanitation District No. 2, San Luis Obispo County Superior Court Case No. 16CV-0283; and County Sanitation District No. 2 v. Westlake Farms et al., Court of Appeal, Second Appellate District, Case No. B322095

Summary: The Chief Engineer and General Manager and District Counsel will discuss this matter in closed session.

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 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.

RESOLUTION OF THE BOARD OF DIRECTORS OF THE
PERSONNEL COMMITTEE PROCLAIMING A LOCAL EMERGENCY,
RATIFYING THE PROCLAMATION OF A STATE OF EMERGENCY ON MARCH 4, 2020
BY CALIFORNIA GOVERNOR AND AUTHORIZING REMOTE TELECONFERENCE
MEETINGS OF THE LEGISLATIVE BODY

WHEREAS, the Personnel Committee (“Committee”) is committed to preserving and nurturing public access and participation in meetings of the District’s Board of Directors and committees; and

WHEREAS, all meetings of the Committee’s Board of Directors are open and public, pursuant to the requirements of the Ralph M. Brown Act (California Government Code Sections 54950-54963) (the “Brown Act”), so that any member of the public may attend, participate, observe and watch the District’s Board of Directors conduct business; and

WHEREAS, the Brown Act, Section 54953(e), allows for conducting and participating in meetings by members of a legislative body, without compliance with the requirements of the Brown Act Section 54953(b)(3), subject to the existence of certain conditions; and

WHEREAS, a required condition under the Brown Act Section 54953(e) is the declaration of a state of emergency by the Governor pursuant to California Government Code Section 8625, proclaiming the existence of conditions of disaster or of extreme peril to the safety of persons and property within California caused by the conditions outlined and described in California Government Code Section 8558; and

WHEREAS, a proclamation of a state of emergency is made when there is an actual incident, threat of disaster, or extreme peril to the safety of persons and property within the jurisdictions that are within the District’s boundaries, caused by natural, technological, or human-induced disasters; and

WHEREAS, it is further required that the state or local officials have imposed or recommended measures to promote social distancing, or the Board of Directors of the Committee have held a meeting where it considered and determined that meeting in person would present imminent risks to the health or safety of attendees; and

WHEREAS, such conditions now exist in the District as Governor Newsom declared a State of Emergency on March 4, 2020 as a result of the threat of COVID-19; and

WHEREAS, the County of Los Angeles Department of Public Health Order of the Health Officer issued March 3, 2022 (the “County Order”) includes recommendations that all persons within the jurisdiction of the County of Los Angeles public health agency always practice required and recommended infection control measures when among others, especially in an indoor setting; and

WHEREAS, the Committee’s Board of Directors does hereby find that the ongoing and significant risks associated with COVID-19 infection, especially in the absence of capacity limits and physical distancing requirements for indoor activities, on those individuals with underlying health conditions that make them susceptible to severe COVID-19 illness and individuals who are not and cannot be vaccinated, that COVID-19 infection remains a significant health hazard to all residents, and desires to proclaim a local emergency and ratify the proclamation of a state of emergency by the Governor of the State of California, and further, ratify the County Order findings related to the ongoing health hazards of COVID-19; and

WHEREAS, as a consequence of the declared state of emergency and the local emergency, the Board of Directors of the Committee does hereby find that the District shall continue to conduct its meetings in accordance with the provisions and requirements of the Brown Act Section 54953(e), and that the legislative bodies of the District shall comply with the requirements to provide the public with access to, and an opportunity to comment at all meetings of the District’s legislative bodies in accordance with the requirements of the Brown Act Section 54953(e)(2); and

WHEREAS, the District will continue its practice of live streaming its meetings via the Zoom software platform which allows members of the public to observe and participate in the meetings via video or call-in options, and will continue to offer members of the public an opportunity to make oral comments during the meetings and/or submit written comments before the meetings.

NOW, THEREFORE, THE BOARD OF DIRECTORS OF THE PERSONNEL COMMITTEE DOES HEREBY RESOLVE AS FOLLOWS:

Section 1. Recitals. The Recitals set forth above are true, correct, and are incorporated in this Resolution by reference.

Section 2. Proclamation of Local Emergency. The Board of Directors of the Committee does hereby proclaim that a local emergency now exists throughout the territory of the District and, as described in the County Order, recommendations from health officers include ongoing masking, and social distancing practices especially for indoor settings and particularly for individuals who, due to vaccine status or underlying health conditions, continue to be at risk for severe illness, and COVID-19 infection remains a significant health hazard to all residents of the District.

Section 3. Ratification of Governor's Proclamation of a State of Emergency. The Committee's Board of Directors hereby ratifies the Governor of the State of California's Proclamation of a State of Emergency, effective as of its issuance date of March 4, 2020.

Section 4. Remote Teleconference Meetings. The Chief Engineer and General Manager, staff and legislative bodies are hereby authorized and directed to take all actions necessary to carry out the intent and purpose of this Resolution including, without limitation, conducting open and public meetings in accordance with the Brown Act Section 54953(e) and all other applicable provisions of the Brown Act.

Section 5. Effective Date of Resolution. This Resolution shall take effect immediately upon its adoption and shall be effective until the earlier of 30 days after the date of this resolution, or such time that the Committee's Board of Directors adopts a subsequent resolution in accordance with the Brown Act Section 54953(e)(3) to extend the time during which the legislative bodies of the District may continue to teleconference without compliance with the requirements of the Brown Act Section 54953(b)(3).

PASSED AND ADOPTED by the Board of Directors of the Personnel Committee this 28th day of September 2022 by the following vote:

AYES:

NOES:

ABSENT:

ABSTAIN:

Chairperson



September 22, 2022

Personnel Committee
Los Angeles County Sanitation Districts

Directors:

Financial Matters
Financial Policies, Purchasing Policy, and Annexation Fees

The agenda for the September 28, 2022, meeting of the Personnel Committee, contains an item regarding financial matters. As part of the continuing effort to ensure the Districts follow best practices, revisions to certain policies and the Annexation Fee Ordinances are being recommended.

FINANCIAL POLICIES

Financial policies form the cornerstone of the Districts' financial practices and are intended to provide guidance when preparing budgets, adopting rates, and developing long-term capital programs. Use of the policies helps create financial stability, allowing us to provide the vital services in a cost-effective manner, weather periods of economic downturn without having to impose significant rate increases, and construct capital projects in a timely fashion despite fluctuations in costs from year to year.

Revisions to the financial policies are recommended that will ensure consistency across the Districts, ensure transparency in Districts' finances, and improve the Districts' investment performance.

One administrative change is consolidation of each of the individual Districts' policies into a common policy adopted by all of the Districts. With few exceptions, the existing individual District policies are identical to each other. Consolidating the policies will streamline the adoption of the policies and improve transparency.

Other recommended revisions are as follows:

Investment Policy

- Addition of state issued bonds (all 50 states) and local agencies (within California only) as permitted investments.
- Clarification that downgraded securities are treated as "A" rated policies for the purposes of limit testing, eliminating the need to sell securities at a loss when they are downgraded.
- Removal of a provision allowing Investments between the Districts' Solid Waste System and the Joint Outfall System for the Clearwater Tunnel Project. Alternative financing has been secured for the Clearwater Tunnel and this provision is no longer needed.
- Reduction of audits for compliance with investment limits from quarterly to semi-annually.

Debt Management Policy

- Addition of a provision for federal low-interest loans through the Water Infrastructure Finance and Innovation Act or WIFIA.

- Removal of two debt instruments that are no longer applicable.

Financial Reserve Policy

- Update of uses of the Natural Disaster and Self-Insured Retention Fund to include not only deductible and self-insure retention costs, but also costs above the Districts' insured limits.
- Inclusion of all Joint Administration Funds to ensure all funds are covered under the policy.
- Addition of Rate Stabilization Fund to the policy, which is currently tracked but not held as a separate fund.
- Addition of Fee-in-Lieu and Puente Hills Park Settlement related funds in the Solid Waste Policy.

PURCHASING POLICY

Revisions are also recommended for the Purchasing Policy, which establishes rules for purchase of materials, supplies, equipment, services, and construction projects. Most of the revisions clarify and improve wording. Other changes include:

- Authorizes the Purchasing Agent to procure temporary property rights up to \$100,000 to accommodate construction of District's projects.
- Clarifies reporting responsibilities to the Board on any action taken with emergency authority: requires a report at the next Board meeting and approval by the Board when the work is complete.
- Increases authority to settle or reject claims up to \$100,000 from the current authority of \$5,000.
- Adds a provision to allow issuance of orders and contracts without Board approval when there is an urgent need, and the Board is not expected to meet. Ratification by the Board is required at the next meeting.

ANNEXATION FEE ORDINANCE

Annexation fees are assessed when a property owner desires to annex property to a District's service area. The existing annexation fee ordinance for each District requires the property owner to pay a processing fee based on size, with a minimum fee of \$1,450 and increasing based on a tiered structure. For illustration, the fee for 20-acre annexation is \$7,800 and the fee for a 100-acre annexation is \$13,800. An evaluation of the Districts' costs to process an annexation application indicates that our costs are approximately \$2,000 per application regardless of size. It is recommended that the fee be revised from the current per-acre fee to a flat \$2,000 fee per application. Implementing this change will require adoption of a new Annexation Fee Ordinance by each of the Districts.

CONCLUSION/FUTURE ACTIONS

A presentation on these matters will be given at the September 28, 2022, Personnel Committee meeting. Concurrence or further direction from the Committee will be sought. Final versions of the policies and ordinances will be presented at the October 26, 2022, Personnel Committee meeting. If endorsed by the Personnel Committee, the policies and ordinances would be presented to the individual Boards of Directors for adoption at upcoming meetings.

Very truly yours,



Robert C. Ferrante

RCF:MAE



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

INVESTMENT POLICY

Proposed 2022 Revisions

For Clarity, Only Substantive Changes Shown; Formatting and other Minor Edits Not Shown

TABLE OF CONTENTS

Policy Statement 1

Treasurer; Administration 1

Trustee’s Duties and Objectives 1

Investment Instruments Allowed 2

Investment Limits and Allocation 3

Maximum Maturities 4

Purchasing Entities 4

Investment Safekeeping 5

Reporting Requirements 5

Internal Control 5

Ethics and Conflicts of Interest 5

Investment Policy Adoption 5

Investment Policy

SECTION 1. POLICY STATEMENT

This Investment Policy of the Los Angeles County ~~(District)~~Sanitation Districts (each, a “District” and, collectively, the “Districts”) provides for the prudent investment of the ~~District’s~~Districts’ funds and the effective management of investment activities. This Policy covers all investment activities directly controlled by ~~the~~each District.

SECTION 2. TREASURER; ADMINISTRATION

- 2.1 The District’s Chief Engineer and General Manager is hereby appointed Treasurer of ~~the~~each District and is trustee of the ~~District’s~~Districts’ funds.
- 2.2 The Treasurer, or his or her designee, is hereby authorized to implement this Policy, and to manage, deposit, and invest ~~District~~Districts’ funds in accordance with this Policy and all provisions of law.
- 2.3 The Treasurer shall report to the ~~Board~~Boards of Directors in accordance with the requirements of law and this Investment Policy.

SECTION 3. TRUSTEE’S DUTIES AND OBJECTIVES

The District and the Treasurer are trustees of the public funds of the District and shall implement this Policy using the Prudent Investor Standard and the priority of investment objectives below.

3.1 Prudent Investor Standard

The prudent investor standard is set forth in California Government Code Section 53600.3, which provides:

“When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. Within the limitations of this section and considering individual investments as part of an overall strategy, investments may be acquired as authorized by law.”

3.2 Investment Objectives

1. The ~~District’s~~Districts’ priority of investment objectives is set forth in Government Code Section 53600.5, which provides:

“When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the primary objective of a trustee shall be to safeguard the principal of the funds under its control. The secondary objective shall be to meet the liquidity

needs of the depositor. The third objective shall be to achieve a return on the funds under its control.”

2. The Treasurer shall pursue these objectives as follows:

- a. *Safety of Principal:* In safeguarding the principal of District funds the District Treasurer shall evaluate or cause to have evaluated each potential investment, seeking both quality in issuer and in underlying security or collateral, and shall diversify the portfolio to reduce exposure to loss.
- b. *Liquidity:* In order to meet the ~~District's~~Districts' liquidity needs, investments must be made so that maturity dates are compatible with cash flow requirements and, when required, permit easy and rapid conversion into cash.
- c. *Return on Investments:* Investments will be undertaken to produce a market rate of return after first considering safety of principal and liquidity.

SECTION 4. INVESTMENT INSTRUMENTS ALLOWED

The ~~District's~~Districts' funds may be invested in the following investment instruments:

4.1 Los Angeles County Pooled Surplus Investment Fund (PSIF)

The PSIF is a pooled investment fund created under Government Code Section 27000 et seq. and is administered by the Los Angeles County Treasurer and Tax Collector. PSIF is a voluntary government investment pool that allows local agencies to participate in a major portfolio using the investment expertise of the Los Angeles County Treasurer's investment staff. Investments in PSIF typically consist of those funds required to cover the District's operating needs.

4.2 State of California Local Agency Investment Fund (LAIF)

LAIF is a pooled investment fund created under Government Code Section 16429.1 et seq. and is administered by the California State Treasurer. LAIF is a voluntary government investment pool that allows local agencies to participate in a major portfolio using the investment expertise of the State Treasurer's Office investment staff.

4.3 United States Treasury Bills, Notes, Bonds, Certificates of Indebtedness

Treasury bills, notes, bonds, and certificates of indebtedness are fixed-income investments issued by the U.S. Treasury Department for which the faith and credit of the United States are pledged for the payment of principal and interest.

4.4 United States Government-Sponsored Enterprises (GSE)

GSEs consist of privately held corporations with public purposes created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy. Members of these sectors include students, farmers, and homeowners. GSEs carry the implicit backing of the U.S. Government, but they are not direct obligations of the U.S. Government.

4.5 State Obligations

Registered state warrants or treasury notes or bonds of any of the 50 U.S. states, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by any state or by a department, board, agency, or authority of any state.

4.6 California Local Agency Obligations

Bonds, notes, warrants, or other evidences of indebtedness of a local agency within the state of California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

4.7 Medium-Term Notes

Medium-term notes are all corporate and depository institution debt securities with a maximum original maturity of five years or less, issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States. To be eligible as a District investment, medium-term notes must be rated "A" or its equivalent or better by S&P Global Ratings, Moody's Investor Services, Inc., or Fitch Ratings, Inc.

~~4.1—County Sanitation Districts of Los Angeles County (LACSD) Debt Instruments~~

~~LACSD Debt Instruments, as provided for in Government Code Section 53601(e) and more specifically described in the District's Debt Management Policy, consist of the District borrowing from its Capital Improvement Fund, and the Joint Outfall System borrowing the Solid Waste System's closure/post-closure funds for the construction of the Clearwater Tunnel Project.~~

4.8 Deposits held at Nationally- or State-chartered Banks, or State or Federal Savings and Loan Associations

Banking or savings and loan institutions holding demand deposits for the District must meet the definitions provided in California Financial Code section 5102 and must have a rating of "A" or better on its long-term debt by S&P Global Ratings, Moody's Investor Services, Inc., or Fitch Ratings, Inc. Demand deposits must be fully collateralized in accordance with California Government Code Section 53652.

4.9 Shares of beneficial interest in funds investing in U.S. dollar-denominated money market securities (Money Market Funds)

Money Market Funds in which the District invests must be registered with the Securities and Exchange Commission under the Investment Company Act of 1940, and have achieved the highest letter ranking by two of the following: S&P Global Ratings, Moody's Investor Services, Inc., or Fitch Ratings, Inc.

SECTION 5. INVESTMENT LIMITS AND ALLOCATION

5.1 The Treasurer shall continuously evaluate market conditions economic data, interest rate trends and forecasts, and the ~~District's~~Districts' cash flow requirements. When appropriate, the Treasurer

shall obtain quotations from brokers, dealers, banks, savings and loan institutions and the Los Angeles County Treasurer's Office. Investments in the PSIF and LAIF will be monitored continually. All of these factors must be considered, among other things, in determining where, in what denomination and for what maturity investments are made.

5.2 ~~There are no~~The following limits ~~on the percentages of funds shall apply to each District's~~ invested ~~in any of the allowable investment instruments, except that~~funds:

1. No more than 60% of ~~the~~any District's funds may be invested in any one GSE.
2. The total of the medium-term notes may not exceed 30% of ~~the~~any District's funds, with no more than 10% in aggregate in medium-term notes rated A.
3. No more than 10% of ~~the~~any District's funds may be invested in the securities of any single corporate entity or depository institution rated AA or greater and no more than 2% of ~~the~~any District's funds may be invested in the securities of any single corporate entity or depository institution rated A.
4. No more than 20% of ~~the~~any District's funds may be invested in Money Market Funds, and no more than 10% of ~~the~~any District's funds may be invested in any single Money Market Fund.

5.3 The percentage limitations in Section 5.2 will apply at the time the investment is made. For purposes of calculating these percentages, District funds include all cash and investments of ~~the~~a District as reflected in ~~the~~each District's most recent books of account.

5.4 Any investments owned by any District that have been downgraded to a rating below A shall be considered to be rated A for the purposes of calculating percentage limits as prescribed in Section 5.2.

SECTION 6. MAXIMUM MATURITIES

The Treasurer shall match investments with anticipated cash flow requirements. ~~Except for LACSD Debt Instruments, the Treasurer and~~ will not invest in securities with a remaining maturity of more than five years unless approved by the Board of Directors, either specifically or as a part of an investment program, at least three months prior to purchase.

~~6.1 Funds may be invested in LACSD Debt Instruments for the lesser of thirty years or until the funds are needed for the purpose for which they were collected or restricted, unless otherwise restricted by law.~~

SECTION 7. PURCHASING ENTITIES

7.1 As required by Government Code Section 53601.5, investments not purchased directly from the issuer or not purchased using pooled funds in PSIF or LAIF must be purchased from or through:

1. An institution licensed by the State of California as broker/dealer, as defined in Section 25004 of the Corporations Code;
2. A member of a federally regulated securities exchange;

3. A national or state-chartered bank;
4. A savings association or a federal association; or
5. A brokerage firm designated as a primary government dealer by the Federal Reserve Bank.

SECTION 8. INVESTMENT SAFEKEEPING

To ensure a high degree of internal safety, all certificates or other evidence of securities or other investments purchased by or for the ~~District~~Districts will be held for safekeeping as required by law. The Treasurer may require any securities to be held by an entity other than the selling party of the security. Any specific investments must be held for safekeeping by a third-party custodian designated by the Treasurer and must be segregated from and not commingled with the funds of other investors or the County.

SECTION 9. REPORTING REQUIREMENTS

In accordance with Government Code Section 53646, the Treasurer shall prepare and submit a quarterly report to the ~~Board~~Boards of Directors. The quarterly report must comply with applicable law and include the security type, issuer, investment yield, date of maturity, par value, amount invested, current market value and source of this valuation. Any investments in PSIF or LAIF will be included with a summary of that pool's most recent investment statement.

SECTION 10. INTERNAL CONTROL

In addition to the certified public accountant's yearly independent audit of the ~~District~~Districts, the Treasurer will cause the ~~District's~~Districts' Internal Auditor to conduct ~~quarterly~~semi-annual audits of the investment portfolio to ensure compliance with this Investment Policy and related procedures.

SECTION 11. ETHICS AND CONFLICTS OF INTEREST

Officers and employees of the Districts involved in the investment process are prohibited from personal business activities that could conflict with proper execution of the Districts' investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials must disclose to the Treasurer any material financial interests in financial institutions, broker dealers and vendors that conduct business with the ~~Districts'~~Districts and must disclose any larger financial/investment positions which could relate in a conflicting manner to the performance of the Districts' investment portfolio by filing Form 700 annually.

SECTION 12. INVESTMENT POLICY ADOPTION

This Policy will be reviewed on an annual basis and any modifications must be approved by all of the ~~Board~~Districts' Boards of Directors. Prior to that review, the matter will be referred to the Personnel Committee (comprised of the Chairpersons of the Board of Directors of ~~the~~each active ~~County Sanitation District of Los Angeles County~~) for its consideration. This Policy will become effective after approval by all of the Districts Boards and supersedes the Investment Policy for each individual District.

Adopted by all Boards _____ 2022 through _____ 2022



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

DEBT MANAGEMENT POLICY

PROPOSED 2022 REVISIONS

For Clarity, Only Substantive Changes Shown; Formatting and other Minor Edits Not Shown

TABLE OF CONTENTS

- 1. Policy Statement 1
- 2. Treasurer; Administration 1
- 3. Purpose of Debt 1
- 4. Debt Management 2
- 5. Types of Debt 4
- 6. Method of Sale 6
- 7. Criteria for Issuing Debt..... 6
- 8. Refinancing/Refunding Existing Debt 8
- 9. Credit Enhancement..... 8
- 10. CDIAC Reporting..... 8
- 11. Municipal Advisor..... 8
- 12. Debt Management Policy Adoption 9

Debt Management Policy

SECTION 1. POLICY STATEMENT

- 1.1 This Debt Management Policy has been developed to provide guidelines for the issuance of bonds and other forms of debt to finance capital improvements, equipment purchases, and property acquisition for ~~County Sanitation District No. ___ of the~~ Los Angeles County ~~{Sanitation Districts (Collectively Districts or individually District),~~ in compliance with California Government Code Section 8855(i). These guidelines will assist in determining appropriate uses for debt financing, structuring of debt, and meeting ~~the~~each District's financial objectives. While long-term financing is an effective way to spread these costs over time, ~~the~~each District must also consider maintaining and improving credit strength, providing certainty and cash flow flexibility in the annual budgeting process, and prioritizing future capital infrastructure needs.
- 1.2 ~~The~~Each District will follow sound financial management practices, including
1. Multi-year planning to facilitate timely and equitable changes to rates and charges;
 2. Maintaining prudent reserves;
 3. Ensuring access to the credit markets;
 4. Establishing and maintaining good credit ratings;
 5. Achieving the lowest aggregate financing costs consistent with an acceptable degree of risk and the recognition of ratepayer affordability.

SECTION 2. TREASURER; ADMINISTRATION

- 2.1 The Board of Directors (Board) of each District must approve debt issuance for that District.
- 2.2 ~~The~~Each District, through ~~its~~the Investment Policy, has appointed the District's Chief Engineer and General Manager as the Treasurer of the District. The Treasurer, or his or her designee, is hereby authorized to implement this Policy.
- 2.3 The Treasurer will use these guidelines to review and report to the Board any long-term debt implications, including costs of borrowing, historical interest rate trends, credit enhancement capacity, opportunities to refund existing debt obligations, and other financial considerations.

SECTION 3. PURPOSE OF DEBT

3.1 Debt for Long-Term Capital Improvements

Debt financing will only be used to fund long-term capital improvements, including construction, equipment purchases, and property acquisition costs. By spreading the cost of a project over a number of years the financial impact in any given year can be lessened, reducing the impact on the corresponding user charges. Long-term debt also helps ensure that future users, who will benefit from the improvements, will pay a share of its costs.

3.2 Refunding/Refinancing

If economically beneficial and cost-effective, new debt may be issued in order to refinance existing debt. This can include refunding existing bonds, prepaying loans or other debt instruments, and converting short-term debt such as commercial paper into long-term debt.

3.3 Emergencies

Debt may be issued in the event of an unforeseen emergency that either impacts ~~the~~ District's ability to continue to operate or results in depletion of ~~the~~ District's reserves below the targets set ~~by the Board~~ in the District's most recently adopted Wastewater or Solid Waste Financial Reserve Policy.

3.4 No Debt for Operations & Maintenance

Debt will not be used to fund ongoing operational expenses.

SECTION 4. DEBT MANAGEMENT

4.1 Internal Control Procedures on the Use of Debt

Expenditures of the proceeds from each debt instrument must be expended in the manner detailed in the associated documents. Records must be maintained in accordance with any covenants related to the debt instrument and IRS regulations, including the following:

1. Requisitions to the trustee, if one is utilized, from the project construction fund
2. Trustee records relating to other funds and accounts
3. Verifiable information showing payments to third parties
4. An accounting of all proceeds spent on the approved capital project

4.2 Investment of Debt Proceeds

Any proceeds to be held by ~~the~~ District (or a trustee on ~~the~~ District's behalf) between the time the debt is issued and the time the proceeds are expended on the approved capital project will be invested to maximize safety, liquidity, and return. The ~~District's~~ Districts' Investment Policy and the requirements of the debt instrument govern objectives and criteria for investment of proceeds.

4.3 Credit Ratings

The Treasurer will seek to maintain the highest possible credit ratings that can be achieved for debt instruments without compromising rate payer affordability. Ratings are one reflection of the general fiscal soundness of ~~the~~ District and the capabilities of its management. By maintaining the highest possible credit ratings, ~~the~~ District can issue debt at a lower cost. To enhance creditworthiness, ~~the~~ each District is committed to prudent financial management, systematic capital planning, and long-term financial planning.

4.4 Disclosure Requirements and Investor Relations

1. TheEach District will comply with disclosure requirements in a timely and comprehensive manner including:
 - a. Adhering to the “antifraud rules” as promulgated in the Securities Act of 1933, Section 17; Securities and Exchange Act of 1934, Section 10(b); and regulations adopted by the U.S. Security and Exchange Commission’s (SEC) under those Acts, particularly Rule 10b-5.
 - b. Preparing bond disclosures as stipulated by the SEC’s Rule 15c2-12.
 - c. Providing information to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (EMMA) system.
 - d. Maintaining compliance with all accounting and disclosure standards promulgated by state and national regulatory bodies, including the Government Accounting Standards Board (GASB) and the SEC.
 - e. Reporting to the California Debt and Investment Advisory Commission (CDIAC).
 - f. Complying with any other reporting required by the issuer of debt.
2. Disclosure training sessions will be conducted as needed. Training sessions must include education on the District’sDistricts’ disclosure obligations under applicable federal and state securities laws and the disclosure responsibilities and potential liabilities of members of the District’sDistricts’ staff and members of the Board.

4.5 Debt Covenants

General financial reporting and other tax certification requirements embodied in debt covenants must be monitored to ensure that theeach District is in compliance. These may include:

1. Annual appropriation of revenues to meet debt service payments.
2. Timely transfer of debt service payments to the trustee or paying agent.
3. Compliance with insurance requirements.
4. Compliance with rate covenants where applicable.
5. Compliance with all other covenants.

4.6 Debt Service Coverage Target

TheEach District will set user charge rates with a targeted goal of maintaining a projected debt service coverage ratio of 130% on all senior plus subordinate debts. The debt service coverage ratio is calculated as the projected annual net revenues (i.e. revenues remaining after payment of operation and maintenance expenses) divided by the estimated annual debt service. The objective

is to maintain a debt service coverage ratio above the legally-required minimum to sustain a high quality credit rating.

4.7 Debt Service Reserve Fund

A debt service reserve fund will be established only if it:

1. provides an economic or credit advantage that outweighs the cost of funding the reserve; or
2. is a condition of the debt instrument.

If a debt service reserve fund is required, it must be maintained in accordance with the provisions of the debt instrument and the requirements of the District's Wastewater or Solid Waste Financial Reserve Policy.

SECTION 5. TYPES OF DEBT

If the use of debt is appropriate, the Treasurer will evaluate the types of debt available and make a determination as to the debt instrument best suited for the particular purpose. Unless otherwise specifically authorized by the Board, debt will be issued with fixed interest rates through final maturity. Types of debt that may be issued by the District include:

5.1 Revenue Bonds

These bonds are typically long-term obligations issued to fund a specific project or purpose. They are backed solely by the future revenues expected to be received by the District in accordance with the agreed-upon bond covenants. Pledged revenues may include user charges, ad valorem taxes, contract revenue, interest, or any other sources of allowable revenue. Revenue bonds can be issued individually by the District or as part of a pool with other Districts under the Marks-Roos Local Bond Pooling Act of 1985, including through the Los Angeles County Sanitation Districts Financing Authority. Approval by the Financing Authority Commission and the each participating District's Board is required before revenue may be issued bonds.

5.2 Clean Water State Revolving Fund (SRFCWSRF) Loans

The SRFCWSRF program is a low-interest loan program administered by the California State Water Resources Control Board. Loan proceeds can be used to finance a variety of projects related to water quality, including sewers, treatment plants, water recycling facilities, and stormwater improvements. Board approval is required for each SRFCWSRF loan.

5.3 Land-Secured Financing

The Mello-Roos Community Facilities Districts Act of 1982 authorizes the District to form community facilities districts (CFDs), subject to voter approval, for the sole purpose of financing infrastructure and certain services. CFDs are authorized to issue bonds secured by special taxes to finance both localized improvements and regional facilities. In addition to voter approval, Board approval is required to form a CFD.

5.4 Water Infrastructure Finance and Innovation Act (WIFIA)

The WIFIA program is a federal credit program administered by the Environmental Protection Agency. This program provides partial financing for eligible water and wastewater projects set based on U.S. Treasury rates with maturity dates of up to 35 years and up to 5 years of repayment deferral after completion of the project. Board approval is required for each WIFIA agreement.

5.5 Commercial Paper

Commercial Paper is a short-term, unsecured note that pays a fixed rate of interest for a term ranging from seven to 270 days. It may be used as a source of interim construction financing until it is appropriate to replace it with a long-term bond, usually at or near the end of the construction period. Maturing principal and the interest thereon can be rolled to a subsequent maturity date at the then-prevailing interest rate. Board approval is required to issue Commercial Paper debt.

5.6 Clean Renewable Energy Bonds (CREBs)

CREBs can only be used to finance clean renewable energy projects. Because bondholders of this type of debt receive federal tax credits in lieu of all or a portion of traditional bond interest, ~~the~~ District must apply to the Internal Revenue Service for a CREB allocation. Board approval is required before CREBs may be issued.

~~5.1 County Sanitation Districts of Los Angeles County (LACSD) Debt Instruments~~

~~Intra-District Debt — This is a debt in which the District lends itself money from its Capital Improvement Fund for short-term cash flow needs related to the construction of upgrade capital projects. Authorization for this type of loan has previously been established in the District's Master Connection Fee Ordinance.~~

~~Inter-System Debt — This is a structured debt agreement in which the Solid Waste System (with District No. 2 acting as the authorized representative) lends its closure/post-closure funds to Districts within the Joint Outfall System for the construction of the Clearwater Tunnel Project. The funds being loaned will be considered an investment on the part of the Solid Waste System and must comply with District No. 2's Investment Policy. Such an agreement would require consideration by the Personnel Committee and approval by participating Districts' Boards prior to moving forward.~~

5.7 Leases

In certain cases, leases may be considered debt under Government Code Section 8855(i), in particular when the lease may lead to purchase of the asset, the total lease payments approach the value of the asset, or when the lease term approaches the life of the asset. ~~The~~ District will comply with all debt-related requirements for the lease in the event the lease is considered debt under the criteria of Section 8855(i). Board approval is required to enter into such a lease.

5.8 Other Debt Instruments

~~The~~ District may consider other available financing mechanisms that satisfy the conditions of this Debt Policy if the costs and structure are the most cost-effective option for the District. This can include other state or federal loans that, from time to time, may make funds available at or below

market interest rates for specific types of projects or programs. Board approval is required before incurring any such debt.

SECTION 6. METHOD OF SALE

When issuing bonds, the District(s) will select the method of sale which best fits the type of bond being sold, market conditions, and the desire to structure bond maturities to enhance the overall performance of the entire debt portfolio. Three general methods exist for the sale of municipal bonds:

6.1 Competitive Sale

In a competitive sale, underwriters submit sealed bids and the underwriter or underwriting syndicate with the lowest true interest cost is awarded the sale.

6.2 Negotiated Sale

In a negotiated sale, the underwriter or underwriting syndicate is selected through a Request for Proposal (RFP) process. The underwriter's fee is negotiated prior to the sale. The interest rate, redemption features and principal amortization are based on current market conditions on the sale date.

6.3 Private Placement

Private placement bonds are not publicly issued or publicly traded but rather are funded through direct negotiation with one or a select number of private financial institutions. The private financial institution is effectively providing a loan to be repaid over time. In general, private placements do not require many of the disclosure requirements found in public offerings. Private financial institutions typically do not require the bonds to be rated by a credit rating agency.

SECTION 7. CRITERIA FOR ISSUING DEBT

7.1 The Treasurer will evaluate the need for issuing debt, taking into consideration the anticipated capital program and the long-term rate projections. The goals of reasonable and stable rates, compliance with the [Wastewater and Solid Waste](#) Financial Reserve ~~Policy~~[Policies](#), and ensuring operations and maintenance are sufficiently funded per the ~~District~~[Districts](#) mission statement will be factored into the decision-making process.

7.2 Projects will only be financed if ~~the~~ District has the ability to repay the debt and fund appropriate operations and maintenance costs for the asset. The repayment period for any debt must not exceed the anticipated useful life of assets or improvements funded by the debt.

7.3 If incurring debt is the best option for funding a particular project, the following criteria will be used to determine the optimum debt structure: The term, repayment structure, and interest rate mode must ensure other financial objectives are met, specifically the need to comply with the [Wastewater or Solid Waste](#) Financial Reserve Policy and the desire for stable rates.

1. The type of debt instrument must be optimized to achieve the lowest net present value cost.

2. Any conditions for the debt must not place undue burdens or obligations on the District.

7.4 Prior to issuing debt, the following metrics must be calculated for each year during the term of the debt and compared to the indicated goals:

Metric (All District Debt)	Targeted Goal
Debt Service Coverage Ratio	≥ 1.30
Total debt service as a percent of total operating expenses plus debt service	$\leq 30\%$
Debt-to-Capitalization Ratio	$\leq 50\%$

7.5 An anticipated variation from the goals does not mean that the debt issuance cannot move forward but should be justified by a regulatory need or other mitigating factor. For example, a regulatory requirement that results in the construction of a major capital facility could push the percentage of debt to operating budget well above 20%. However, the debt issuance could proceed if the debt service coverage ratio remains above 1.30 and the Treasurer has demonstrated the District(s) have the ability to make the required annual payments and can absorb the debt. Similarly, a high debt-to-capitalization ratio can be offset by limited future capital needs.

7.6 If new debt is being proposed, the Treasurer will calculate both:

1. the proposed new total debt service as a percentage of operating expense plus debt service; and
2. the ensuing debt-to-capitalization ratio.

If either ratio does not comply with the targeted metrics, the Treasurer must develop a plan to address possible means of bringing the District(s) back into compliance or, if it is not possible, the justification for why the District(s) should proceed with issuing the new debt. The Treasurer must document the plan/justification in a report to the Board prior to any approval to take on additional debt.

7.7 Each year the Treasurer will evaluate and compare the District's/Districts' debt service coverage ratio to the targeted goal. If the goal is unmet, the Treasurer will develop a plan to correct the problem and that plan will be used as part of the budget preparation process and for analyzing rates to be proposed during the next rate-setting cycle. The plan to re-establish an appropriate debt service coverage ratio must utilize a combination of adjustments to the anticipated capital projects, service charges adjustments and use of reserves. The plan must also consider compliance with the District's/Wastewater and/or Solid Waste Financial Reserve Policy. The Treasurer will report the debt service coverage ratio, compliance with the goals, and the plan (if needed) to the Board with the annual budget.

SECTION 8. REFINANCING/REFUNDING EXISTING DEBT

- 8.1 A debt refinancing or refunding will be deemed to be of economic benefit and cost effective if the net present value savings as a percentage of the refunded par amount is at least 3% for any current refunding transaction and 5% for any advance refunding transaction.
- 8.2 Some refinancing's or refunding's may be executed for other than economic purposes, such as to restructure debt, to change the type of debt instrument, or to retire a bond issue and indenture for more desirable covenants. Likewise, if the economic benefits outweigh the costs, and the refunding opportunity would otherwise be lost, a refinancing or refunding may be recommended even if the savings do not meet the 3% criteria.

SECTION 9. CREDIT ENHANCEMENT

Credit enhancement may be used to improve or establish a credit rating on a District's debt instrument. Types of credit enhancement include letters of credit, bond insurance, and surety policies. The use of credit enhancement will be evaluated up until the time the debt instrument is priced but will only be used if it reduces the overall cost of the proposed financing or otherwise furthers the ~~District's~~Districts' overall financial objectives.

SECTION 10. CDIAC REPORTING

- 10.1 The Treasurer will report all debt issuances to CDIAC and must comply with all CDIAC requirements in connection with the ~~District's~~Districts' debt issuances.
- 10.2 In the case of debt issued by the Los Angeles County Sanitation Districts Financing Authority, the proceeds of which will be used by the District(s), the Treasurer will make all certifications required under Government Code Section 8855(i) for the purposes of the Financing Authority's Debt Policy or reporting. All certifications required by Government Code Section 8855(1) must be executed by the Treasurer or his or her delegate.

SECTION 11. MUNICIPAL ADVISOR

- 11.1 The ~~District~~Districts may hire a municipal advisor for assistance and advice in structuring its debt portfolio. This can include help in evaluating the best type of debt instrument to use, the merits of the various methods of sale, and assessing whether refunding opportunities exist. In particular with bond transactions, the municipal advisor will assist in selecting the rest of the financing team (including ~~bond counsel~~, underwriters, trustees, and rating agencies), the development of the overall financing schedule, and preparation of the Official Statement.
- 11.2 The municipal advisor can come from a firm that also engages in municipal bond underwriting or brokerage services; however, preference will be given to firms that act as independent municipal advisors. While serving as the ~~District's~~Districts' municipal advisor, any firm that engages in these other services may not act simultaneously or subsequently in those capacities on any financing for which the firm was hired to act as a municipal advisor. Additionally, any firm that is acting as a municipal advisor for the ~~District~~Districts may not act as a municipal advisor or investment banker for another party involved in the same municipal transaction.

SECTION 12. DEBT MANAGEMENT POLICY ADOPTION

This Policy will be reviewed on an annual basis and any modifications made must be approved by ~~the~~each Board. Prior to such review, the matter will be referred to the Personnel Committee (comprised of the Chairpersons of the Board of Directors of each active County Sanitation District of Los Angeles County) for its consideration.

Adopted this _____ day of _____.



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

**JOINT OUTFALL
FINANCIAL RESERVE POLICY**

PROPOSED 2022 REVISIONS

For Clarity, Only Substantive Changes Shown; Formatting and other Minor Edits Not Shown

TABLE OF CONTENTS

- 1. Policy Statement 1

- 2. Treasurer; Administration..... 1

- 3. Types of Funds/Reserves 1

- 4. Unrestricted Reserves..... 2

- 5. Designated Reserves..... 3

- 6. Restricted Reserves..... 5

- 7. Joint Outfall Financial Reserve Policy Adoption 7

Joint Outfall System Financial Reserve Policy

SECTION 1. POLICY STATEMENT

The Joint Outfall System is comprised of 17 individual [Los Angeles](#) County Sanitation Districts¹ (each, a “District” and, collectively, the “Districts”) that are party to the Joint Outfall Agreement². The Joint Outfall System provides essential public services and, to that end, has made an extensive investment in public infrastructure, operating facilities, and other related assets and. Given the impact these essential services have on public health, the environment, and the overall quality of life, very few options exist for service reduction levels in the event of revenue shortfalls or other funding deficiencies. Maintaining prudent financial reserves provides the resources to allow the Joint Outfall System to continue to fulfill its commitment to deliver reliable and high-quality service to its customers. Financial reserves provide significant benefits including:

- Stabilizes user charge rates, creating more certainty so ratepayers can better plan their budgets;
- Minimizes risk associated with borrowing, which can result in lower interest costs;
- Demonstrates financial stability to credit rating agencies;
- Improves liquidity so capital projects can be constructed in a timely fashion, despite fluctuations in cost from year to year;
- Allows the Joint Outfall System to effectively respond to economic, environmental, and regulatory changes.

SECTION 2. TREASURER; ADMINISTRATION

- 2.1 Each District, through its duly adopted Investment Policy, has appointed the District’s Chief Engineer and General Manager as the Treasurer of each District.
- 2.2 The Treasurer, or his or her designee, is hereby authorized to implement this Policy, and establish and maintain all financial reserves in accordance with this Policy and all provisions of law.
- 2.3 The Treasurer shall develop procedures to implement this Policy and shall report to the Board of Directors of each District (“Board”) in accordance with the requirements of law and this Policy.

SECTION 3. TYPES OF FUNDS/RESERVES

District No. 2, on behalf of the Joint Outfall System, will maintain its financial assets in various Funds as described in this Policy. Fund balances will be maintained in amounts sufficient to meet appropriate target goals, as established in this Policy in cash and/or cash equivalents, and permitted investments as

¹ The 17 Joint Outfall System Districts are County Sanitation Districts Nos. 1, 2, 3, 5, 8, 15, 16, 17, 18, 19, 21, 22 , 23, 28, 29 and 34 of Los Angeles County, and South Bay Cities Sanitation District of Los Angeles.

² The most recent Joint Outfall Agreement is entitled *Joint Outfall Agreement* dated July 1, 2022, as amended.

prescribed in each District's Investment Policy. The Joint Outfall System Funds are categorized under this Policy as Unrestricted, Designated, or Restricted as follows:

3.1 Unrestricted

~~The Unrestricted Reserve~~ Funds include all monies collected or generated by or on behalf of the Joint Outfall System except those that have been deemed to be Designated or Restricted.

3.2 Designated

Designated ~~Reserve~~ Funds are the group of Funds for which District No. 2, on behalf of the Joint Outfall System, has imposed restrictions on the use of the monies in them for specific purposes such as capital facilities, land acquisition, and repair and replacement of existing assets. These monies are not otherwise legally restricted and District No. 2, on behalf of the Joint Outfall System and pursuant to the Joint Outfall Agreement, has the discretion to redesignate the actual or intended usage of these monies.

3.3 Restricted

Restricted ~~Reserve~~ Funds are the group of Funds that have been established to comply with restrictions that have been imposed externally through law (federal, state, or local governments), administrative action (adopted ordinances of the Districts), or contractual arrangements (e.g., bond indentures, State Revolving Fund installment sales agreements). The monies in Restricted ~~Reserve~~ Funds can only be used for the purpose for which they were established or dedicated until the restrictions are removed by the party that imposed them or the contractual agreement that created them has expired.

SECTION 4. UNRESTRICTED RESERVES

4.1 Operating Fund

1. Purpose

Monies in the Operating Fund may be used for any purpose consistent with the budget; other direction from District No. 2, on behalf of the Joint Outfall System; legal requirements; and this Policy. Operating Fund monies include all types of revenue unless otherwise designated or restricted. The Operating Fund must be sufficient to meet the cash flow needs of the Joint Outfall System and to meet current and anticipated expenses in accordance with the long-term budgetary projections.

2. Targeted Goal

The minimum targeted goal balance on July 1 of each fiscal year is the projected net expenses during the first six months of that fiscal year. Net expenses shall be equal to all projected expenses less any anticipated revenues (e.g., industrial wastewater surcharges) and funding sources (e.g., State Revolving Fund loans).

3. Review Timeline

The minimum targeted goal shall be reviewed annually in conjunction with the adoption of the Joint Outfall System's final budget.

4. Funding

All revenues other than those placed in a Designated ~~Reserve~~ Fund or Restricted ~~Reserve~~ Fund shall be placed in the Operating Fund.

SECTION 5. DESIGNATED RESERVES

~~The Designated Reserve Funds include the Emergency Fund, the Operations and Maintenance Financial Stability Fund, the Capital Projects Financial Stability Fund, and any other funds designated by District No. 2, on behalf of the Joint Outfall System, other than Restricted Reserve Funds and Unrestricted Funds.~~

5.1 Emergency Fund

1. Purpose

The Joint Outfall System budget is developed for all anticipated expenditures, but emergencies and unforeseen circumstances can occur during the course of the year. The Emergency Fund is intended to provide funding for work that must be undertaken to address emergencies or unforeseen circumstances and to ensure the Joint Outfall System can continue to provide all of its vital public services.

2. Targeted Goal

The targeted goal balance is 0.5% of the Net Sewerage Operations Capital Assets as identified in the most recently filed Annual Comprehensive ~~Annual~~ Financial Report of the Joint Outfall System multiplied by the ratio of the total number of sewage units in the Joint Outfall System to the total number of sewage units in all of the Joint Outfall System.

3. Review Timeline

The targeted goal will be reviewed and adjusted annually in conjunction with the adoption of the District's final budget.

4. Funding

The Treasurer will, ~~on July 1 of each year,~~ annually transfer from or to its Operating Fund an amount sufficient to meet the Emergency Fund's targeted goal specified in Section 5.1.2.

5.2 Operations and Maintenance (O&M) Financial Stability Fund

1. Purpose

The O&M Financial Stability Fund is a dynamic fund that will be used to facilitate wastewater rates transitioning smoothly from year to year. Monies will be withdrawn from this Fund in

some years, allowing expenses to be met without having to impose spiked increases in wastewater rates. In other years, monies will be deposited into this Fund, replenishing it in lieu of having spiked decreases in wastewater rates. In any given year, as the need arises, the Joint Outfall System may use up to 10% of the Fund for any purpose without authorization from the District No. 2 Board, in addition to any use previously authorized as part of the rate setting and budget process. When monies are used from this Fund that drop the balance below the targeted goal, the Treasurer will prepare a plan to fully restore the Fund to its targeted goal by the latter of:

- a. five years; or
- b. six years of the date for which the last adopted service charge becomes or has become effective.

2. Targeted Goal

The long-term targeted goal balance is equal to six months of O&M expenses plus one year of debt service (excluding any debt service that has a Debt Service Reserve Fund).

3. Review Timeline

The targeted goal will be reviewed and adjusted annually in conjunction with the adoption of the Joint Outfall System's final budget.

4. Funding

The Treasurer will annually transfer moneys from the Operating Fund to the O&M Financial Stability Fund an amount equal to the annual targeted goal.

5. Additional Monies

District No. 2, on behalf of the Joint Outfall System, may also place additional monies into the O&M Financial Stability Fund at any time so that the balance exceeds the targeted goal. Monies in excess of the targeted goal can be withdrawn at any time without prior authorization from the District No. 2 Board as part of the overall plan to stabilize rates.

5.3 Capital Projects Financial Stability Fund

1. Purpose

The size and scope of capital projects (and the associated cost) varies from year to year, which could result in peaks and valleys in user charge rates if the projects are to be funded dollar-for-dollar in the year in which the expenses are incurred. This Fund will ensure that monies are not only available to meet capital expenses over the long-term, but also to meet the annual demand without requiring significant rate fluctuations.

2. Targeted Goal

The targeted long-term average goal balance will be equal to the greater of:

- a. The difference between the projected maximum and average annual capital expenditures to be cash funded from revenues identified in the Capital Improvement Plan over the ensuing ten years; or
- b. \$100,000.

3. Review Timeline

The targeted goal will be reviewed and adjusted annually in conjunction with the adoption of the Joint Outfall System's final budget.

4. Funding

The Treasurer will annually transfer monies from its Operating Fund to the Capital Projects Financial Stability Fund an amount equal to the annual targeted goal. If the transfer would cause an undue financial hardship on the Joint Outfall System or result in a significant rate hike, the Treasurer may transfer less than the targeted goal provided a plan has been prepared to achieve the target goal within ten years. In no case shall the fund balance be less than \$100,000 immediately after the annual transfer.

5. Additional Monies

District No. 2, on behalf of the Joint Outfall System, may place additional monies into the Capital Projects Financial Stability Fund at any time so that the balance exceeds the targeted goal. Monies in excess of the targeted goal can be withdrawn at any time without prior authorization from the District No. 2 Board as part of the overall plan to stabilize rates.

5.4 Other Reserve Funds

From time to time, the Board of Directors of District No. 2 may deem it prudent to establish other designated reserve funds in order to further the mission of the Joint Outfall System. The Treasurer will create such Reserve Funds as directed and will establish appropriate targeted goals, review timelines, and funding mechanisms. This Policy will be amended and will not become effective until approved by each of the Joint Outfall System District's Boards.

SECTION 6. RESTRICTED RESERVES

6.1 Debt Service Reserve Fund

1. Purpose

Some debt instruments (e.g., bond indentures, installment sales agreements) may require a Debt Service Reserve Fund, typically equal to the maximum annual debt service over the life of the debt. A separate Debt Service Reserve Fund will be established for each debt instrument that requires it. The monies in each Debt Service Reserve Fund will only be used in accordance with the terms and conditions of the debt instrument.

2. Targeted Goal

The targeted goal balance for any Debt Service Reserve Fund must equal the amount required by the associated debt instrument.

3. Review Timeline

Each Debt Service Reserve Fund balance will be reviewed at least annually as part of the continuing disclosure process required under the debt instrument, but no less than such increments of time as required by any debt instrument.

4. Funding

Each Debt Service Reserve Fund will generally be funded at the time the debt is incurred, using a portion of the debt proceeds, if allowable. If the debt proceeds cannot be used to fund the Debt Service Reserve Fund, the Debt Service Reserve Fund may be funded from any allowable District's monies. If the Joint Outfall System makes a draw on the Debt Service Reserve Fund, the Debt Service Reserve Fund must be replenished in the time and manner specified in the debt instrument.

6.2 Capital Improvement Fund

1. Purpose

New users and existing users that significantly increase their wastewater discharge are required to pay a connection fee. The Joint Capital portion of the connection fee is deposited into the Capital Improvement Fund in accordance with the Master Connection Fee Ordinance of each of the Districts in the Joint Outfall System. Funds are withdrawn as necessary to fund capital projects.

2. Targeted Goal

There is no targeted goal balance for the Capital Improvement Fund. The amount of money deposited into the Capital Improvement Fund is dependent on the rate at which additional burdens are placed on the wastewater system. ~~The Capital Fund balance varies depending on connection fee revenues, expenditures for capital projects, and permitted borrowing from the Fund.~~

3. Review Timeline

Connection fee rates will be reviewed ~~annually~~ in conjunction with setting the District's Service Charge and/or Industrial Waste Surcharge rates.

4. Funding

The Joint Capital portion of the connection fees will be deposited into the Capital Improvement Fund in accordance with the Master Connection Fee Ordinance of each of the Districts in the Joint Outfall System.

6.3 Other Reserve Funds

From time to time, it may be necessary to establish other restricted reserve funds in accordance with law or other statutory requirements or with contractual agreements to which the Joint Outfall System is a party. The Treasurer will create such Reserve Funds as mandated and will establish appropriate targeted goals, reviews, and funding mechanisms.

SECTION 7. ~~WASTEWATER JOINT OUTFALL~~ FINANCIAL RESERVE POLICY ADOPTION

This Policy will become effective ~~on the later of the following~~ approval by each of the Joint Outfall ~~Agreement dated July 1, 2022 or~~ Districts and will supersede the Joint Outfall Financial Reserve Policy that was effective July 1, 2022. This Policy will be reviewed on an annual basis and any modifications must be approved by each District's Board of Directors. Prior to such review, the matter will be referred to the Personnel Committee (comprised of the Chairpersons of the Board of Directors of each active County Sanitation District of Los Angeles County) for its consideration.

Adopted this ____ day of _____.



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

SOLID WASTE FINANCIAL RESERVE POLICY

PROPOSED 2022 REVISIONS

For Clarity, Only Substantive Changes Shown; Formatting and other Minor Edits Not Shown

TABLE OF CONTENTS

- 1. Policy Statement 1
- 2. Treasurer; Administration..... 1
- 3. Types of Funds/Reserves 1
- 4. Unrestricted Funds 2
- 5. Designated Reserves..... 4
- 6. Restricted Reserves..... 6
- 7. Solid Waste Financial Reserve Policy Adoption 10

Solid Waste Financial Reserve Policy

SECTION 1. POLICY STATEMENT

~~The Los Angeles County Sanitation~~ Districts Solid Waste System is comprised of the facilities owned by the 15 Sanitation Districts signatory to the Sanitation Districts' Solid Waste System Agreement (System Agreement). County Sanitation District No. 2 of Los Angeles County ("District") acts as the administrative district for the Districts Solid Waste System, as described in the System Agreement. This Policy provides guidance for the management of the reserves for the Districts Solid Waste System. This Policy does not apply to contract landfills, and other contract facilities or funds (e.g., equipment pools, the Southeast Resource Recovery Facility, Los Angeles County Refuse Disposal Fund, etc.).

The Districts Solid Waste System provides essential public services and, to that end, has made an extensive investment in public infrastructure, operating facilities, and other related assets. Maintaining prudent financial reserves provides the resources to allow the continued delivery of reliable and high-quality service. Financial reserves provide significant benefits including:

- Improves liquidity so capital projects can be constructed in a timely fashion, despite fluctuations in cost from year to year;
- Allows the Solid Waste System to effectively respond to economic, environmental, and regulatory changes;
- Allows the Solid Waste System to meet long-term post-closure maintenance costs associated with solid waste landfills.

~~The County Trust Fund, etc.~~—Unless otherwise noted, all reserves and funds described herein refer to Districts Solid Waste System reserves and funds, which are separate and distinct from those of the District.

SECTION 2. TREASURER; ADMINISTRATION

- 2.1 The District, through its Investment Policy, has appointed the District's Chief Engineer and General Manager as the Treasurer of the District.
- 2.2 The Treasurer, or his or her designee, is hereby authorized to implement this Policy, and establish and maintain all financial reserves in accordance with this Policy and all provisions of law.
- 2.3 The Treasurer shall develop procedures to implement this Policy and shall report to the Board of Directors (Board) in accordance with the requirements of law and this Policy.

SECTION 3. TYPES OF FUNDS/RESERVES

The District will maintain Solid Waste financial assets in various "Funds" as described in this Policy. To the extent possible, Fund balances will be maintained in amounts sufficient to meet appropriate targeted goals, as established in this Policy in cash and/or cash equivalents, and permitted investments as prescribed in the District's Investment Policy. The Solid Waste Funds are categorized under this Policy as Unrestricted, Designated, or Restricted as follows:

3.1 Unrestricted

~~The Unrestricted Fund includes~~ Reserve Funds include all monies collected or generated by or on behalf of the Districts Solid Waste System except those that have been deemed to be Designated or Restricted.

3.2 Designated

Designated Reserve Funds are the group of Reserve Funds for which the Board has imposed restrictions on the use of the monies in them for specific purposes such as capital facilities and land acquisition. These monies are not otherwise legally restricted, and the Board has the discretion to re-designate the actual or intended usage of these monies.

3.3 Restricted

Restricted Reserve Funds are the group of Reserve Funds that have been established to comply with restrictions that have been imposed externally through law (federal, state, or local governments), administrative action (District adopted ordinances), or contractual arrangements (e.g., bond indentures). The monies in Restricted Reserve Funds can only be used for the purpose for which they were established or dedicated until the restrictions are removed by the party that imposed them or the contractual agreement that created them has expired.

SECTION 4. SYSTEM FUNDS

Each District may participate with other members of the Los Angeles County Sanitation Districts (Districts) in separate agreements (e.g., the Joint Administration and Joint Outfall System). Funds necessary for operations related to these agreements will be pooled. The Districts have separately adopted a Wastewater Financial Reserve Policy. The Joint Outfall System Funds are subject to a separate Joint Outfall System Financial Reserve Policy that is adopted by the Joint Outfall Districts pursuant to the Joint Outfall Agreement. Pooled funds described in this policy represent funds that are applicable to the District Joint Refuse System.

~~SECTION 4.~~ SECTION 5. UNRESTRICTED FUNDS

5.1 Operating Fund

1. Applicability

Separate Operating Funds are applicable to the District Joint Refuse System-, the Puente Hills Landfill, and the Spadra Landfill.

~~1.2.~~ Purpose

Monies in the Operating Fund may be used for any purpose consistent with the budget, other Board direction, legal requirements, and this Policy. Operating Fund monies include all types of revenue unless otherwise designated or restricted.

For the District Joint Refuse System: The Operating Fund must be sufficient to meet the cash flow needs of the District and to meet current and anticipated expenses in accordance with the long-term budgetary projections.

For the Puente Hills Landfill and Spadra Landfill: These funds are only spent on post-closure operations and maintenance of each respective landfill and, in general, come from the restricted Fee-in-Lieu Fund.

2.3. Targeted Goal

~~The~~For the District Joint Refuse System, the targeted goal balance will be six months of projected operating expenses. For the Puente Hills Landfill and Spadra Landfill, the minimum targeted goal balance for each Facility's Operating Fund must be sufficient to meet any anticipated expenses in accordance with budgetary projections for each landfill.

3.4. Review Timeline

The targeted goal shall be reviewed annually. At any time, if the operating fund balance of the District Joint Refuse System is less than one and a half months of projected operating expenses, the Treasurer will notify the District's Board of Directors at the next regularly scheduled Board meeting and present a plan to resolve the issue.

4.5. Funding

~~All~~For the District Joint Refuse System, all revenues other than those placed in Designated or Restricted Reserve Funds shall be placed in the Operating Fund. For the Puente Hills Landfill and Spadra Landfill ~~Operating Funds, Each Facility's Operating Fund serves as the source of monies for landfill expenses. These funds are only spent on post-closure operations and maintenance of each respective landfill and, in general, come from restricted post-closure reserves. Monies in each respective Facility's Operating Fund may be used for any purpose consistent with the budget, other Board direction, legal requirements and this Policy. Operating Fund monies include all types of revenue unless otherwise designated or restricted. The minimum targeted goal balance for the Operating Fund must be sufficient to meet the cash flow needs of the District and to meet current and anticipated expenses in accordance with budgetary projections for each landfill. The minimum targeted goal shall be reviewed annually~~The only significant sources of revenue are transfers of interest earnings from the Designated or Unrestricted Reserves of the ~~Districts~~District Joint Refuse System ~~and from,~~ the Fee-in-Lieu Fund, ~~and/or the~~ Post Closure Contingency Fund.

5.2 Districts Business Funds

5.1. Purpose

The Districts maintain several pooled funds for time sensitive cash-flow purposes. These funds are listed in Table 1 of Appendix A.

6.2. Targeted Goal

There is no targeted goal for these funds.

7.3. Review Timeline

These funds are regularly reviewed to ensure that sufficient funds are available for the business need of each fund.

8.4. Funding

Funding for these reserves comes from various Districts Operating Funds based on each District's share of expenses for the business purpose of each fund.

SECTION 5-SECTION 6. DESIGNATED RESERVES

5.16.1 Natural Disaster and Self-Insured Retention (SIR) Fund

1. Purpose

The Natural Disaster and SIR Fund is designated to pay for: 1) short-term costs in the event of an earthquake or other natural disaster in order to continue ~~District~~Districts operations until state or federal relief funds are received; 2) costs related to a natural disaster that do not result in reimbursement; ~~and~~ 3) costs incurred due to an insurance claim that requires the use of the Districts' SIR amount; 4) costs incurred due to an insurance claim that exceeds the Districts' insured limit; 5) costs incurred due to a loss or claim against the Districts for facilities or events for which the Districts are self-insured. This can include funding immediate repairs to existing facilities and, if the Joint Administration Office becomes unusable, securing other office space. The Natural Disaster and SIR Fund will be pooled, ~~shared proportionally among and available to~~ all of the Districts, not just those party to the Solid Waste Agreement, and the Districts Solid Waste System.

2. Targeted Goal

The ~~initial~~current targeted goal balance for the pooled Natural Disaster and SIR Fund is \$~~1725~~ million. The targeted goal and the appropriate share for each District and Solid Waste entity may be revised, as needed, to account for changes to risks, property values and SIR requirements.

3. Review Timeline

The targeted goal balance will be reviewed and adjusted every five years with the ~~first~~next review to be completed by June 30, ~~2022~~2027.

4. Funding

At the end of each five-year review period, the Treasurer will make a transfer ~~from the Districts System Operating Funds~~ to the ~~Natural Disaster~~SIR Fund, as necessary, for their share of any increase in the targeted goal. For significant increases, the Treasurer may elect to make a series of transfers as long as the SIR Fund will meet its targeted goal prior to the next five-year review

6.2 Districts Capital Projects Financial Stability Fund

1. Applicability

This Fund is applicable to the District Joint Refuse System ~~Capital Reserve Fund.~~

5.2. Purpose

The size and scope of capital projects (and the associated cost) varies from year to year. Additionally, many projects may occur over multiple years. This Fund will ensure that monies are available to meet capital expenses over the next two years.

6.3. Targeted Goal

The targeted goal for this fund is equal to the next two year's planned, cash-funded capital expenses, not including the current fiscal year.

7.4. Review Timeline

The targeted goal will be reviewed and adjusted annually in conjunction with the preparation of the final budget.

8.5. Funding

Once the District Joint Refuse System Operating Fund meets its targeted goal, the Treasurer will annually transfer an amount necessary to reach the targeted goal from its Operating Fund to this Fund.

9.6. Additional Monies

The District may place additional monies into this Fund at any time so that the balance exceeds the targeted goal based upon long-term capital needs. Monies in excess of the targeted goal can be withdrawn at any time without prior Board authorization.

6.3 Rate Stabilization Fund

1. Applicability

This Fund is applicable to the District Joint Refuse System.

2. Purpose

The purpose of this fund is to hold District Joint Refuse System funds in excess of targeted balance of the Operating Fund and Capital Projects Financial Stability Fund.

3. Targeted Goal

The minimum targeted goal is the remainder of the Districts' final Park Funding payment as described in the Settlement Agreement and Mutual Release of All Claims between the District

and Los Angeles County regarding the Puente Hills Landfill (Park Settlement) which is currently \$20 million.

4. Review Timeline

The targeted goal will be reviewed and adjusted annually in conjunction with the preparation of the final budget.

5. Funding

Once the District Joint Refuse System Operating Fund and the Capital Project Financial Stability Fund meet their targeted goal, the Treasurer will annually transfer the amount above the targeted goal to the District Joint Refuse System Rate Stabilization Fund. In the event that the District Joint Refuse System Operating Fund or the Capital Project Financial Stability Fund are below their targeted goal, monies will be transferred from this Fund.

5.26.4 Other Reserve Funds

From time to time, the Board of Directors may deem it prudent to establish other designated reserve funds in order to further the mission of the Districts Solid Waste System. The Treasurer will create such Reserve Funds as directed and will establish appropriate targeted goals, review timelines, and funding mechanisms. This Policy will be amended to reflect the Board's direction with respect to any additional Designated Reserve Funds.

~~SECTION 6~~ **SECTION 7. RESTRICTED RESERVES**

6.17.1 Other Post-Employment Benefits (OPEB) Reserve Fund

1. Purpose

The Sanitation Districts of Los Angeles County collectively provide health care and dental benefits for all retired employees and their dependents or survivors. The Districts have voluntarily elected to enter into a prefunding plan for their OPEB program. The OPEB funds must be held by a qualified third-party trustee.

2. Targeted Goal

The yearly targeted goal will be to transfer to the OPEB Reserve Fund an amount equal to the Districts' ~~annual required~~ actuarially determined contribution (ARCADC) as determined by a qualified actuarial consultant.

3. Review Timeline

The actuarial review is required at least biennially.

4. Funding

Each year the Treasurer will collectively transfer the ARCADC to the third-party trustee in installments as required under the terms of the agreement with the trustee. Each transfer shall

be apportioned among the Districts and Districts Solid Waste System Entities in proportion to the salaries incurred by the Wastewater District or Districts Solid Waste System since the previous transfer was made.

6.27.2 Fee-in-Lieu Fund

1. Purpose

The Fee-in-Lieu Fund is used to fund Post Closure operations and maintenance expenses at the Puente Hills Landfill and Spadra Landfill pursuant to the Joint Agreement for the Payment of the County Sanitation Districts of Los Angeles County Unfunded Accrued Liability for the California Public Employees' Retirement System (UAL Agreement). Payments made into the fund are in lieu of payments toward the Districts UAL.

2. Targeted Goal

The targeted goal balance ~~on June 30 of each fiscal year~~ is the projected post closure operations and maintenance costs for the Puente Hills Landfill and Spadra Landfill for the following fiscal year (typically transferred to each landfill's operating fund during June) plus any additional amounts necessary to replenish the Post Closure Contingency Fund, described below.

3. Review Timeline

The targeted goal will be reviewed and adjusted annually in conjunction with the preparation of the final budget.

4. Funding

Funding for the Fee-in-Lieu Fund will be provided by the Sanitation Districts that are party to the (UAL agreement). Additionally, net revenues from the District Joint Refuse Operating Fund and any other revenues pledged to CalRecycle for the post closure operations and maintenance for the Puente Hills Landfill and Spadra Landfill may be transferred to this fund.

6.37.3 Post Closure Contingency Fund

1. Purpose

The purpose of the Post Closure Contingency Fund is to provide funds for unforeseen or unplanned expenses related to post closure operations and maintenance of the Puente Hills Landfill and Spadra Landfill.

2. Targeted Goal

The targeted goal will be equal to one year of operations and maintenance expenses of the Puente Hills Landfill and Spadra Landfill.

3. Review Timeline

The targeted goal will be reviewed and adjusted annually in conjunction with the preparation of the final budget for the Puente Hills Landfill and Spadra Landfill.

4. Funding

In the event that the Post Closure Contingency Fund drops below the targeted goal, a plan will be developed to replenish the fund within ten years through additional funding in the Fee-in-Lieu Fund.

7.4 Corrective Action Trust Fund

1. Applicability

Separate Corrective Action Trust Funds are applicable to the Puente Hills Landfill and the Spadra Landfill. ~~Corrective Action Trust Accounts, and the Mesquite Regional Landfill.~~

5.2 Purpose

CalRecycle requires operators of solid waste disposal facilities to demonstrate adequate financial assurances for costs of known or reasonably foreseeable corrective action.

6.3 Targeted Goal

The targeted goal for these Trust Accounts is determined after consultation with a third-party consultant to project the cost of any known or reasonably foreseeable corrective action.

7.4 Review Timeline

The minimum targeted goal shall be reviewed every five years by the District and CalRecycle.

8.5 Funding

If additional funding is required, a transfer from the Districts Joint Refuse System Operating Fund would be made to meet the required fund balances.

6.47.5 Puente Hills Landfill Site Development Fund (Puente Hills Park Settlement)

1. Purpose

The monies in this Fund are restricted to Park Funding as described in the development, operation and maintenance of a park at Puente Hills Landfill by the County of Los Angeles Park Settlement Agreement.

1-2. Targeted Goal

~~There is no targeted goal. Deposits into this Fund stopped when the Puente Hills Landfill ceased operations. Monies in this Fund will be transferred to the County of Los Angeles at their request until the Fund is fully depleted.~~

The targeted goal is the total of the remaining Park Funding payments except any amounts held in the District Joint Refuse System Rate Stabilization Fund to make the final Park Funding payment.

2-3. Review Timeline

~~No review is necessary as there is no targeted goal.~~

The targeted goal will be reviewed and adjusted annually in conjunction with the preparation of the final budget.

3-4. Funding

Except for interest on Fund investments, no additional monies will be transferred to this Fund.

7.6 UAL Payment Fund

4.1. Purpose

The monies in this Fund are restricted to pay for Unfunded Accrued Liability (UAL) payments as described in Section II.B of the Joint Agreement For The Payment of the County Sanitation Districts of Los Angeles County Unfunded Accrued Liability for the California Public Employees' Retirement System (UAL Agreement). The fund will be closed when the UAL payments have been completed.

2. Targeted Goal

The targeted goal is the difference between the maximum allowable UAL payment described in the UAL agreement and the amount of UAL payments that have been paid.

3. Review Timeline

The targeted goal will be reviewed and adjusted annually in conjunction with the preparation of the final budget.

4. Funding

Except for interest on Fund investments, no additional monies are anticipated to be transferred to this Fund.

7.7 Trust Funds

1. Purpose

The Districts maintain several trust funds required to be held for specific purposes and governed by agreements and/or legal requirements. These funds are listed in Table 2 of Appendix A.

2. Targeted Goal

There is no targeted goal for these funds.

3. Review Timeline

These funds are regularly reviewed to ensure that sufficient funds are available for the business need of each fund.

4. Funding

Funding for these reserves comes from various Districts Operating Funds based on each District's share of expenses for the business purpose of each fund or from Districts' customers.

6.57.8 Other Reserve Funds

From time to time, it may be necessary to establish other restricted reserve funds in accordance with law or other statutory requirements or with contractual agreements to which the District in its capacity as administrator of the Districts Solid Waste System is a party. The Treasurer will create such Reserve Funds as mandated and will establish appropriate targeted goals, reviews, and funding mechanisms.

~~SECTION 7.~~**SECTION 8. SOLID WASTE FINANCIAL RESERVE POLICY ADOPTION**

This Policy will be reviewed on an annual basis and any modifications must be approved by the Board. ~~Prior to such~~After each review, the matter will be referred to the Personnel Committee (comprised of the Chairpersons of the Board of Directors of each active County Sanitation District of Los Angeles County) for its consideration.

Adopted this ____ day of _____.

Appendix A

Table 1. Current Districts Business Funds

Fund	Purpose
Payroll	Payroll funding
Workers Comp	Workers Compensation Claims
Vacation/Sick Leave	Vacation and sick leave payments
Carl Warren Fund	Settle Non-Workers Compensation Claims
Flexible Benefits	Employee payments for Flexible Benefits (e.g., Health Savings Accounts)
Transfer	Pass through fund for received monies. Monies are transferred to the respective District or Solid Waste entity monthly
Suspense	Pass through fund used to facilitate wire transfers from the County to the Payroll Account currently held by Bank of America
Undistributed Receipts	Pass through fund for unknown receipts until the correct receiver can be determined
Petty Cash	Petty Cash
Revolving Funds (Various)	Funds to pay for meal benefit checks

Table 2. Current Districts Trust Funds

Fund	Purpose
Refuse Bonds	Draw down fund for monies deposited by solid waste customers
Miscellaneous	General trust fund for smaller trust account monies (e.g., sewer inspection fee estimates, restitution with a specific purpose, etc.)
Property Security Deposits	Holding fund for deposits for required in Districts' leases
Districts Store	Pass through fund for employee purchases of Districts' merchandise



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

WASTEWATER FINANCIAL RESERVE POLICY

PROPOSED 2022 REVISIONS

For Clarity, Only Substantive Changes Shown; Formatting and other Minor Edits Not Shown

TABLE OF CONTENTS

1. Policy Statement 1

2. Treasurer; Administration..... 1

3. Types of Funds/Reserves 1

4. System Funds 2

5. Unrestricted Reserves..... 2

6. Designated Reserves..... 3

7. Restricted Reserves..... 8

8. Wastewater Financial Reserve Policy Adoption 12

Wastewater Financial Reserve Policy

SECTION 1. POLICY STATEMENT

~~The~~ Los Angeles County ~~(District) is a provider~~ Sanitation Districts (Collectively Districts or individually District) are providers of essential public services and, to that end, ~~has~~have made an extensive investment in public infrastructure, operating facilities, and other related assets. Given the impact these essential services have on public health, the environment, and the overall quality of life, very few options exist for service reduction levels in the event of revenue shortfalls or other funding deficiencies. Maintaining prudent financial reserves provides the resources to allow ~~the~~each District to continue to fulfill its commitment to deliver reliable and high-quality service to its customers. Financial reserves provide significant benefits including:

- Stabilizes user charge rates, creating more certainty so ratepayers can better plan their budgets;
- Minimizes risk associated with borrowing, which can result in lower interest costs;
- Demonstrates ~~the~~each District's financial stability to credit rating agencies;
- Improves liquidity so capital projects can be constructed in a timely fashion, despite fluctuations in cost from year to year;
- Allows ~~the~~each District to effectively respond to economic, environmental, and regulatory changes.

SECTION 2. TREASURER; ADMINISTRATION

- 2.1 ~~The~~Each District, through ~~it~~the Investment Policy, has appointed the District's Chief Engineer and General Manager as the Treasurer of the District.
- 2.2 The Treasurer, or his or her designee, is hereby authorized to implement this Policy, and establish and maintain all financial reserves in accordance with this Policy and all provisions of law.
- 2.3 The Treasurer shall develop procedures to implement this Policy and shall report to the Board of Directors (Board) ~~of each District~~ in accordance with the requirements of law and this Policy.

SECTION 3. TYPES OF FUNDS/RESERVES

~~The~~Each District will maintain its financial assets in various "Funds" as described in this Policy. Fund balances will be maintained in amounts sufficient to meet appropriate target goals, as established in this Policy in cash and/or cash equivalents, and permitted investments as prescribed in the ~~District's~~Districts' Investment Policy. ~~The~~Each District's Funds are categorized under this Policy as Unrestricted, Designated, or Restricted as follows:

3.1 Unrestricted

The Unrestricted Reserve Funds includes all monies collected or generated by or on behalf of ~~the~~each District, without regard to the source, except those that have been deemed to be Designated or Restricted.

3.2 Designated

Designated Reserve Funds are the group of Reserve Funds for which the Board has imposed restrictions on the use of the monies in them for specific purposes such as capital facilities, land acquisition, and repair and replacement of existing assets. The Board may designate these purposes either through specific action or through approval of the annual budget. These monies are not otherwise legally restricted, and the Board has the discretion to redesignate the actual or intended usage of these monies.

3.3 Restricted

Restricted Reserve Funds are the group of Reserve Funds that have been established to comply with restrictions that have been imposed externally through law (federal, state, or local governments), administrative action (District adopted ordinances), or contractual arrangements (e.g., bond indentures, State Revolving Fund installment sales agreements). The monies in Restricted Reserve Funds can only be used for the purpose for which they were established or dedicated until the restrictions are removed by the party that imposed them or the contractual agreement that created them has expired.

SECTION 4. SYSTEM FUNDS

~~The Each~~ District may participate with other members of the Los Angeles County Sanitation Districts ~~of Los Angeles County (collectively, the Districts)~~ in separate agreements (e.g., the Joint Administration, Joint Outfall System, and Solid Waste System Agreements). Funds necessary for operations related to these agreements will be pooled. ~~Except for Funds dedicated solely to the Solid Waste System and the Joint Outfall System, all pooled Funds will be held and managed by County Sanitation District No. 2 of Los Angeles County as the administrative district for the Districts in accordance with the respective agreements and District No. 2's Wastewater Financial Reserve Policy. District No. 2 will~~ has separately ~~adopt~~ adopted a Solid Waste Financial Reserve Policy for all Solid Waste Funds. The Joint Outfall System ~~Districts will separately adopt a~~ Funds are subject to a separate Joint Outfall System Financial Reserve Policy ~~for all Joint Outfall Funds that is adopted by the Joint Outfall Districts pursuant to the Joint Outfall Agreement. Pooled funds described in this policy represent funds that are applicable to at least one District.~~

SECTION 5. UNRESTRICTED RESERVES

5.1 Operating Fund

1. Purpose

Monies in the Operating Fund may be used for any purpose consistent with the budget, other Board direction, legal requirements, and this Policy. Operating Fund monies include all types of revenue unless otherwise restricted. The Operating Fund must be sufficient to meet the cash flow needs of the District and to meet current and anticipated expenses in accordance with the long-term budgetary projections.

2. Targeted Goal

For Districts without an active sewerage system, the targeted goal is sufficient monies to meet projected expenses of the District.

For Districts that participate in the Joint Outfall System¹ (except District 29): The minimum targeted goal balance on July 1 of each fiscal year is twenty percent (20%) of projected service charge and ad valorem tax revenue, which is sufficient for cash flow needed for the individual District. The Joint Outfall System manages operating funds for the system's cash flow needs.

For all other Districts: The minimum targeted goal balance on July 1 of each fiscal year is the projected net expenses during the first six months of that fiscal year. Net expenses shall be equal to all projected expenses less any anticipated revenues (e.g., industrial wastewater surcharges) and funding sources (e.g., State Revolving Fund loans).

3. Review Timeline

The minimum targeted goal shall be reviewed annually in conjunction with the adoption of ~~the~~each District's final budget.

4. Funding

All revenues other than those placed in a Designated Reserve Fund or Restricted Reserve Fund shall be placed in the Operating Fund.

5.2 Districts Business Funds

1. Purpose

The Districts maintain several pooled funds for time sensitive cash-flow purposes. These funds are listed in Table 1 of Appendix A.

2. Targeted Goal

There is no targeted goal for these funds.

3. Review Timeline

These funds are regularly reviewed to ensure that sufficient funds are available for the business need of each fund.

4. Funding

Funding for these reserves comes from various Districts Operating Funds based on each District's share of expenses for the business purpose of each fund.

SECTION 6. DESIGNATED RESERVES

~~The Designated Reserve Funds include the Emergency Fund, the Operations and Maintenance Financial Stability Fund, the Capital Projects Financial Stability Fund, the Natural Disaster and Self-Insured Retention Fund, and any other funds designated by the Board of Directors other than Unrestricted and Restricted Reserve Funds.~~

6.1 Emergency Fund

1. Applicability

This Fund is applicable to Districts 4, 9, 14, 20, 27, 29, the Santa Clarita Valley Sanitation District, and the Newhall Ranch Sanitation District. District 34 is excluded as it does not have an active sewerage system. The remaining Joint Outfall Districts are excluded as they do not own or maintain their own sewerage system and Joint Outfall System reserves are in place to serve this purpose.

1.2. Purpose

~~The~~Each District budgets for all anticipated expenditures, but emergencies and unforeseen circumstances can occur during the course of the year. The Emergency Fund is intended to provide funding for work that must be undertaken to address emergencies or unforeseen circumstances (such as repairing a sinkhole) and to ensure ~~the~~each District can continue to provide all of its vital public services. This fund is only used when insufficient funds are available in a District's Unrestricted and other Designated Reserves.

2.3. Targeted Goal

The targeted goal balance is the greater of:

- a. 0.5% of the Net Sewerage Operations Capital Assets as identified in the most recently filed Annual Comprehensive ~~Annual~~ Financial Report multiplied by the ratio of the total number of sewage units in the District to the total number of sewage units in all Districts; or-
- b. \$50,000.

3.4. Review Timeline

The targeted goal will be reviewed and adjusted annually in conjunction with the adoption of ~~the~~each District's final budget.

4.5. Funding

The Treasurer will, ~~on July 1 of each year,~~ annually transfer from or to its Operating Fund an amount sufficient to meet the Emergency Fund's targeted goal specified in Section 6.1.2. If there are insufficient funds for this transfer, the Treasurer will present to the Board a plan to fully fund this reserve within the next 5 years.

6.2 Operations and Maintenance (O&M) Financial Stability Fund

1. Applicability

This Fund is applicable to Districts 4, 9, 14, 20, 27, 29, the Santa Clarita Valley Sanitation District, and the Newhall Ranch Sanitation District. Other Districts are excluded as discussed in Section 6.1.

2. Purpose

The O&M Financial Stability Fund is a dynamic fund that will be used to facilitate wastewater rates transitioning smoothly from year to year. Monies will be withdrawn from this Fund in some years, allowing expenses to be met without having to impose spiked increases in the rates. In other years, monies will be deposited into this Fund, replenishing it in lieu of having spiked decreases in the rates. In any given year, as the need arises, ~~the~~each District may use up to 10% of the Fund for any purpose without Board authorization, in addition to any use previously authorized as part of the rate setting and budget process. When monies are used from this Fund that drop the balance below the targeted goal, the Treasurer will prepare a plan to fully restore the Fund to its targeted goal by the latter of:

- a. five years; or
- b. six years of the date for which the last adopted service charge becomes or has become effective.

3. Targeted Goal

The long-term targeted goal balance is equal to six months of ~~O&M~~Operational expenses, ~~excluding the District's share Joint Outfall System O&M expenses,~~ plus one year of debt service (excluding any debt service that has a Debt Service Reserve Fund). Any District's share of Joint Outfall System operational expenses are excluded from this calculation as the Joint Outfall System maintains reserves for this purpose.

4. Review Timeline

The targeted goal will be reviewed and adjusted annually in conjunction with the adoption of each District's final budget.

5. Funding

The Treasurer will annually transfer moneys from its Operating Fund to the O&M Financial Stability Fund an amount equal to the annual targeted goal. If the transfer of the full targeted goal amount would cause an undue financial hardship on the District or result in a significant rate hike, the Treasurer may transfer less than the targeted goal provided a plan has been prepared to achieve the targeted goal within ten years. ~~In order for the fund balance to be less than 50% of the targeted goal, the sum of the monies in the fund plus the amount the District can borrow from its Capital Improvement Fund, pursuant to the District's Debt Management Policy, must be greater than 60% of the targeted goal.~~

6. Additional Monies

~~The~~Each District may also place additional monies into the O&M Financial Stability Fund at any time so that the balance exceeds the targeted goal. Monies in excess of the targeted goal can be withdrawn at any time without prior Board authorization as part of the overall plan to stabilize rates.

6.3 Capital Projects Financial Stability Fund

1. Applicability

This Fund is applicable to Districts 4, 9, 14, 20, 27, 29, the Santa Clarita Valley Sanitation District, and the Newhall Ranch Sanitation District. Other Districts are excluded as discussed in Section 6.1.

2. Purpose

The size and scope of capital projects (and the associated cost) varies from year to year, which could result in peaks and valleys in user charge rates if the projects are to be funded dollar-for-dollar in the year in which the expenses are incurred. This Fund will ensure that monies are not only available to meet capital expenses over the long-term, but also to meet the annual demand without requiring significant rate fluctuations.

3. Targeted Goal

The targeted long-term average goal balance will be equal to the greater of:

a. \$100,000 or

a.b. The difference between the projected maximum and average annual capital expenditures, excluding the District's share Joint Outfall System capital expenditures, to be cash funded from revenues identified in the Capital Improvement Plan over the ensuing ten (10) years; or. Any District's share of Joint Outfall System capital expenses are excluded from this portion of the calculation as the Joint Outfall System maintains reserves for this purpose.

4. Review Timeline

The targeted goal will be reviewed and adjusted annually in conjunction with the adoption of ~~the~~ each District's final budget.

5. Funding

The Treasurer will annually transfer monies from its Operating Fund to ~~theirs~~ theirs Capital Projects Financial Stability Fund an amount equal to the annual targeted goal. If the transfer would cause an undue financial hardship on the District or result in a significant rate hike, the Treasurer may transfer less than the targeted goal provided a plan has been prepared to achieve the target goal within ten years. In no case shall the fund balance be less than \$100,000 immediately after the annual transfer.

6. Additional Monies

~~The~~Each District may place additional monies into ~~theirs~~ theirs Capital Projects Financial Stability Fund at any time so that the balance exceeds the targeted goal. Monies in excess of the targeted goal can be withdrawn at any time without prior Board authorization as part of the overall plan to stabilize rates.

6.4 Rate Stabilization Fund

1. Purpose

The Rate Stabilization Fund is a set aside of monies to ensure a District meets its required Debt Coverage Ratio targets included in its adopted Debt Management Policy or in any financial obligations (e.g., bonds) of the District.

1-2. Targeted Goal

The minimum targeted balance for the Rate Stabilization Fund is the minimum amount of reserves projected to be needed to meet the District's Debt Coverage Ratio.

3. Review Timeline

The targeted goal will be reviewed and adjusted annually in conjunction with the adoption of each District's final budget.

4. Funding

The Treasurer will annually transfer monies from its Operating Fund to its Rate Stabilization Fund as necessary and presented to the Board to meet the Targeted Goal.

6.46.5 Natural Disaster and Self-Insured Retention (SIR) Fund

1. Purpose

The Natural Disaster and SIR Fund is designated to pay for: 1) short-term costs in the event of an earthquake or other natural disaster in order to continue District operations until state or federal relief funds are received; 2) costs related to a natural disaster that do not result in reimbursement; ~~and~~ 3) costs incurred due to an insurance claim that requires the use of the Districts' SIR amount; and 4) costs incurred due to an insurance claim that exceeds the Districts' insured limit; 5) costs incurred due to a loss or claim against the Districts for facilities or events for which the Districts are self-insured. This can include funding immediate repairs to existing facilities and, if the Joint Administration Office becomes unusable, securing other office space. The Natural Disaster and SIR Fund will be pooled, ~~shared proportionally among and available to all of~~ to all of the Districts and Solid Waste entities.

2. Targeted Goal

The ~~initial~~current targeted goal balance for the pooled Natural Disaster and SIR Fund is ~~\$1725~~ million. The targeted goal and the appropriate share for each District and Solid Waste entity may be revised, as needed, to account for changes to risks, property values and SIR requirements.

3. Review Timeline

The targeted goal balance will be reviewed and adjusted every five years with the ~~first~~next review to be completed by June 30, ~~2022~~2027.

4. Funding

At the end of each five-year review period, the Treasurer will make a transfer from ~~the~~ District's Operating Fund to the ~~Natural Disaster~~SIR Fund, as necessary, for the District's share of any increase in the targeted goal. For significant increases, the Treasurer may elect to make a series of transfers as long as the SIR Fund will meet its targeted goal prior to the next five-year review.

~~6.56.6~~ Other Future Designated Reserve Funds

From time to time, the Board of Directors may deem it prudent to establish other designated reserve funds in order to further the mission of ~~the~~each District. The Treasurer will create such Reserve Funds as directed and will establish appropriate targeted goals, review timelines, and funding mechanisms. This Policy will be amended to reflect the Board's direction with respect to any additional Designated Reserve Funds.

SECTION 7. RESTRICTED RESERVES

7.1 Other Post-Employment Benefits (OPEB) Reserve Fund

1. Purpose

The Districts collectively provide health care and dental benefits for all retired employees and their dependents or survivors. The Districts have voluntarily elected to enter into a prefunding plan for their OPEB program. The OPEB funds must be held by a qualified third-party trustee.

2. Targeted Goal

The yearly targeted goal will be to transfer to the OPEB Reserve Fund an amount equal to the Districts' ~~annual required~~actuarially determined contribution (ARCADC) as determined by a qualified actuarial consultant.

~~2.3.~~ Review Timeline

The actuarial review is required at least biennially.

~~3.4.~~ Funding

Each year the Treasurer will collectively transfer the ARCADC to the third-party trustee in installments as required under the terms of the agreement with the trustee. Each transfer shall be apportioned among the Districts and Solid Waste entities in proportion to the salaries incurred by ~~the~~each District or Solid Waste entity since the previous transfer was made.

7.2 Debt Service Reserve Fund

1. Purpose

Some debt instruments (e.g., bond indentures, installment sales agreements) may require a Debt Service Reserve Fund, typically equal to the maximum annual debt service over the life

of the debt. A separate Debt Service Reserve Fund will be established for each debt instrument that requires it. The monies in each Debt Service Reserve Fund will only be used:

- a. to support payment of principal and interest of outstanding obligations if revenues pledged for repayment are insufficient to meet the required payment; or
- b. to extinguish the debt.

2. Targeted Goal

The targeted goal balance for any Debt Service Reserve Fund must equal the amount required by the associated debt instrument.

3. Review Timeline

Each Debt Service Reserve Fund balance will be reviewed at least annually as part of the continuing disclosure process required under the debt instrument, but no less than such increments of time as required by any debt instrument.

4. Funding

Each Debt Service Reserve Fund will generally be funded at the time the debt is incurred, using a portion of the debt proceeds, if allowable. If the debt proceeds cannot be used to fund the Debt Service Reserve Fund, the Debt Service Reserve Fund may be funded from any allowable District's monies. If the District makes a draw on the Debt Service Reserve Fund, the Debt Service Reserve Fund must be replenished in the time and manner specified in the debt instrument.

7.3 Capital Improvement Fund

1. Applicability

This Fund is applicable to Districts 4, 9, 14, 20, 27, 29, the Santa Clarita Valley Sanitation District, and the Newhall Ranch Sanitation District. Other Districts are excluded as discussed in Section 6.1.

1.2. Purpose

New users and existing users that significantly increase their wastewater discharge are required to pay a connection fee. The capital portion of the connection fee is deposited into one or more Capital Funds in accordance with the District's Master Connection Fee Ordinance. Funds are withdrawn as necessary to fund capital projects. ~~If the monies are not needed in the short term, the District may borrow the funds as long as they are repaid with interest before they are needed.~~

2.3. Targeted Goal

There is no targeted goal balance for the Capital Improvement Fund. The amount of money deposited into the Capital Improvement Fund is dependent on the rate at which additional burdens are placed on the wastewater system. The Capital Improvement Fund balance varies

depending on connection fee revenues and expenditures for capital projects, ~~and permitted borrowing from the Fund.~~

3.4. Review Timeline

Connection fee rates will be reviewed ~~annually in conjunction with setting the District's Service Charge and/or Industrial Waste Surcharge rates.~~

4.5. Funding

The capital portion of the connection fees will be deposited into the Capital Improvement Fund in accordance with the District's Master Connection Fee Ordinance.

7.4 Joint Sewerage Services Agreement (JSSA) Funds

1. Applicability

This fund is only applicable to the Newhall Ranch Sanitation District and Santa Clarita Sanitation District.

2. Purpose

The JSSA Escrow Fund was established pursuant to the JSSA between the Newhall Ranch Sanitation District and the Santa Clarita Valley Sanitation District.

The JSSA Reserve Fund was established pursuant to the Operating Cost Agreement after first connection between the Newhall Ranch Sanitation District and the Newhall Land and Farming Company.

3. Targeted Goal

There is no targeted goal for these funds.

4. Review Timeline

Balances for these funds are evaluated at least annually.

5. Funding

The JSSA Reserve Fund is only funded through payments from the Newhall Land and Farming Company. The JSSA Escrow fund is funded through payments from the JSSA Reserve Fund.

7.5 Trust Funds

1. Purpose

The Districts maintain several trust funds required to be held for specific purposes and governed by agreements and/or legal requirements. These funds are listed in Table 2 of Appendix A.

2. Targeted Goal

There is no targeted goal for these funds.

3. Review Timeline

These funds are regularly reviewed to ensure that sufficient funds are available for the business need of each fund.

4. Funding

Funding for these reserves comes from various Districts Operating Funds based on each District's share of expenses for the business purpose of each fund or from Districts' customers.

7.47.6 Bond Construction Fund

1. Purpose

When bonds are issued, all of the proceeds are received at the time of issuance. Except for a small portion which is used for the cost of issuance, the proceeds are placed into a Bond Construction Fund and can only be used for the purposes identified in the Official Statement, Tax Certificate, and Installment Purchase Agreement for the bond issuance.

2. Targeted Goal

The amount of money in the Bond Construction Fund is dependent on the size of the bond issuance, with the expectation that the proceeds will be expended in the time frames detailed in the Tax Certificate.

3. Review Timeline

No review is necessary as there is a single deposit into each Bond Construction Fund.

4. Funding

Bond proceeds, except for the cost of issuance, capitalized interest, any required debt service reserve funds, and refunding escrows, will be deposited into the Bond Construction Fund at the time of issuance.

7.57.7 Other Reserve Funds

From time to time, it may be necessary to establish other restricted reserve funds in accordance with law or other statutory requirements or with contractual agreements to which ~~the~~ District is a party. The Treasurer will create such Reserve Funds as mandated and will establish appropriate targeted goals, reviews, and funding mechanisms.

SECTION 8. WASTEWATER FINANCIAL RESERVE POLICY ADOPTION

This Policy will become effective ~~on the later of the approval of the Joint Outfall Agreement dated July 1, 2022 or July 1, 2022, after approval by all of the Districts Boards and supersedes the Wastewater Financial Reserve Policy for each individual District.~~ This Policy will be reviewed on an annual basis and any modifications must be approved by the ~~Board. Prior to such~~Boards. ~~After each~~ review, the matter will be referred to the Personnel Committee (comprised of the Chairpersons of the Board of Directors of each active County Sanitation District of Los Angeles County) for its consideration.

Adopted this _____ day of _____

Appendix A

Table 1. Current Districts Business Funds.

Fund	Purpose
Payroll	Payroll funding
Workers Comp	Workers Compensation Claims
Vacation/Sick Leave	Vacation and sick leave payments
Carl Warren Fund	Settle Non-Workers Compensation Claims
Flexible Benefits	Employee payments for Flexible Benefits (e.g., Health Savings Accounts)
Transfer	Pass through fund for received monies. Monies are transferred to the respective District or Solid Waste entity monthly
Suspense	Pass through fund used to facilitate wire transfers from the County to the Payroll Account currently held by Bank of America
Undistributed Receipts	Pass through fund for unknown receipts until the correct receiver can be determined
Petty Cash	Petty Cash
Revolving Funds (Various)	Funds to pay for meal benefit checks

Table 2. Current Districts Trust Funds

Fund	Purpose
Liquid waste	Draw down fund for monies deposited by liquid waste customers
Connection Fee Collateral	Holding fund for collateral associated with Connection Fees
State Board of Equalization (SBE)	Pass through fund for monies due to the State Board of Equalization due to Annexations
Local Agency Formation Commission (LAFCO)	Pass through fund for monies due to the Local Agency Formation Commission due to Annexations
Miscellaneous	General trust fund for smaller trust account monies (e.g., sewer inspection fee estimates, restitution with a specific purpose, etc.)
Local Strike Force	Accumulated restitution payments and settlement funds from successfully prosecuted cases involving the Districts resulting in efforts with other local government agencies
Property Security Deposits	Holding fund for deposits for required in Districts' leases
Federal Lab Strike Force	Accumulated restitution payments and settlement funds from successfully prosecuted cases involving the Districts resulting in efforts with the Federal Government.
Districts Store	Pass through fund for employee purchases of Districts' merchandise
Duck Farm SEP (Escrow & Interest)	Funds associated with the River Park Supplemental Environmental Project (SEP) that was formerly known as the Duck Farm SEP
Tesoro	Funds held in escrow to address potential future groundwater remediation costs in Long Beach at the Golden-Baker site per settlement agreement with Tesoro SoCal Pipeline



PURCHASING POLICY

Rules, Regulations, and Policies for the
Purchase or Lease of Materials, Supplies,
Equipment, Services, and Construction
Projects, and for the Sale and Disposition of
Districts' Property

Proposed 2022 Revisions

For Clarity, Only Substantive Changes Shown; Formatting and other Minor Edits Not Shown

TABLE OF CONTENTS

1.	General.....	1
2.	Procedures for Purchase or Lease of Materials, Supplies, Equipment, Services, and Construction Projects.....	2
3.	Emergency Authority.....	5
4.	Bidding Regulations.....	5
5.	Disposition of District Property.....	6
6.	Outreach Program.....	7
7.	Administrative and Business Transactions.....	8

**RULES, REGULATIONS AND POLICIES FOR THE PURCHASE OR LEASE OF
MATERIALS, SUPPLIES, EQUIPMENT, SERVICES, AND CONSTRUCTION PROJECTS
AND FOR THE SALE AND DISPOSITION OF DISTRICTS' PROPERTY**

SECTION 1. GENERAL

- 1.1 The County Sanitation Districts of Los Angeles County ("Districts" or individually "District") are special districts organized and operating pursuant to the County Sanitation District Act, California Health and Safety Code, Sections 4700, et seq.
- 1.2 Health and Safety Code section 4763 provides that all powers of the District shall be exercised by the District Board unless otherwise specified. Pursuant to Health and Safety Code section 4840, each of the Districts has found and declared by resolution that it is for the interest or advantage of the Districts to enter into an agreement for the maintenance of a centralized and joint administrative organization to carry out the purposes there set forth, which powers include:
- a. to purchase or lease personal property, including materials, equipment, supplies and services that are necessary or convenient for the construction, maintenance, and operation of their sewerage and refuse transfer and disposal systems (Health and Safety Code 4740),
 - b. to sell or dispose of interests in property that are no longer required for District purposes (Health and Safety Code sections 4743), and
 - c. to sell or dispose of by-products from the operation of their sewerage and refuse transfer and disposal systems (Health and Safety Code section 4743).
- 1.3 Each District hereby confirms said action by approving this Policy by resolution.
- 1.4 The Purchasing Agent is its Chief Engineer and General Manager or his or her designee.
- ~~1.41.5~~ The Board of Directors hereby delegates to the Purchasing Agent the authority set forth in the following rules, regulations, and policies, which shall be known as the Districts' Purchasing Policy (Policy) and shall, among other things, constitute the policies and procedures, including bidding regulations to advertise and receive bids in accordance with all applicable statutes and regulations, required by Government Code Sections 54201, et seq.
- ~~1.5 The Purchasing Agent is its Chief Engineer and General Manager (Chief Engineer) or his or her designee.~~
- 1.6 The Purchasing Agent shall develop detailed procedures as needed to implement the requirements of this Policy.
- 1.7 As the administrative District, as described in the Amended Joint Administration Agreement, District No. 2 is authorized to issue purchase orders or enter into contracts on behalf of each of the other Districts. When Board approval is required by this Policy, the Board of District No. 2 shall approve, execute, or authorize purchases, agreements leases, contracts, etc., that involve joint or

- b. More than \$60,000 up to \$200,000 The Purchasing Agent shall let to contract by the informal procedures set forth in CUPCCAA.
- c. More than \$200,000 The Purchasing Agent shall let to contract by formal bidding procedures that comply with the requirements of the Public Contract Code.

2.5 The Purchasing Agent need not comply with the solicitation requirements of sections 2-3 when the Purchasing Agent determines that any of the following reasons or circumstances exist:

- a. An emergency condition as described in section 3 of this Policy.
- b. Construction or repair completion dates cannot be met, and delays will lead to costs that exceed possible savings from following the bid requirements.
- c. Patented, licensed, or proprietary materials or services are required.
- d. Compatibility with existing equipment is necessary.
- e. Single-Source Procurement – Prior experience has proven that a particular-make or type of equipment, material, supply, ~~or~~ service is more satisfactory or economical from one supplier than any other available product or service ~~for District purposes~~ from other suppliers.
- f. Sole Source Procurement – Equipment, material, supply, or service is only available from one source.
- f.g. Piggybacking – The procurement is available at pricing established by and available through an existing governmental purchasing cooperative or a City, County, State, or Federal contract.

2.6 The following may be purchased by means of a Purchase Order:

- a. Purchases of materials, supplies, equipment, and services of any dollar value.
- b. Projects procured using the procedures set forth in CUPCCAA ~~up to \$60,000~~ and JOC.

The following shall be procured by a contract:

- ~~c. Any project procured using the procedures set forth in CUPCCAA over \$60,000.~~
- ~~d.c.~~ Whenever a contract is needed to clarify or supplement the terms and conditions and related documents associated with a purchase order.
- ~~e.d.~~ When required by any law or regulation.

2.7 A request for proposals may be issued when the purchase involves one or more of the following: significant unknown conditions or scope; evaluation of the providers' abilities; ~~other~~ selection factors other than price; or it is required or allowed by law.

- 2.8 All dollar limits in this policy are exclusive of taxes and delivery fees.
- 2.9 Projects, purchases and contracts shall not be split or separated for purposes of evading the dollar limits given in this Policy or mandated by law. For ~~ongoing or recurring orders~~, blanket ~~orders~~, or ~~multi-year~~ orders, the dollar limits in this Policy are to be applied considering the annual estimated purchases ~~under that order~~.
- 2.10 When the purchase of materials, supplies, equipment ~~or~~ services, including maintenance and public works projects, has previously been authorized by the Board of Directors, the Purchasing Agent may, during the term of the original authorization, purchase additional quantities of such materials, supplies, equipment, or services, including maintenance and public works projects, up to 25 percent of the cost originally authorized without additional Board approval. Thereafter, if exceeding 25 percent of the original cost of \$100,000 or greater, Board approval is required.
- 2.11 The law requires that private architectural, landscape architectural, engineering, environmental, land surveying, or construction project management services shall be selected based on demonstrated competence and on the professional qualifications necessary for the satisfactory performance of the services required. The Purchasing Agent shall comply with the requirements of Government Code Section 4525 et seq. When in the best interest of the Districts, such services shall be obtained by issuing a request for competitive proposals utilizing a two-envelope process (one for qualifications and one for costs) in accordance with the procedures described in Government Code Section 4527 and 4528.
- 2.12 The Purchasing Agent may purchase used equipment without following the bid procedures in this Policy and without prior authorization by the Board of Directors if savings can be realized only by making such purchase before the next regular meeting of the District Board of Directors. Any such purchase in excess of \$100,000 shall be reported to the Board of Directors at its next regular meeting.
- 2.13 The Purchasing Agent is authorized to participate in research studies or programs with other public, private, or academic organizations, or become a member of an organization, if the resulting research or membership has the potential to benefit District facilities or services or otherwise further a statutory purpose of the District, and the District's contribution will not exceed \$100,000 per year, without approval by the Board of Directors.
- 2.14 The ~~Chief Engineer~~Purchasing Agent is authorized to arrange for utility services as required for operation of District facilities, including executing agreements and contracts as required to obtain utility services without Board approval.
- 2.15 The ~~Chief Engineer~~Purchasing Agent is authorized to execute service agreements and similar agreements related to software, internet and other information services purchases without obtaining Board approval beyond the purchasing approvals otherwise required in the Policy.
- 2.16 The Purchasing Agent is authorized to purchase dirt, used asphalt, and other similar materials for solid waste site operations at rates determined necessary and appropriate (including at no charge when appropriate) to provide materials in quantities required without Board approval.

SECTION 3. EMERGENCY AUTHORITY

- 3.1 ~~The Chief Engineer~~Pursuant to Public Contract Code, Section 1102, The Purchasing Agent shall have the authority to take immediate action, including the expenditure of District funds, to repair, restore, replace, or protect District facilities, or to prevent or correct damage caused by District operations, for protection of public health, safety, property, or the environment, without prior authorization of the Board of Directors upon his or her finding that:
- a. It is necessary to repair, restore, replace or protect District facilities or prevent or correct damage caused by District operations for protection of public health, safety, property or the environment;
 - b. It is infeasible to secure prior authorization of the Board of Directors or to contract for such work in accordance with formal competitive bidding procedures.
- 3.2 The amount of expenditures authorized by section 3-1 is unlimited, except that the ~~Chief Engineer and General Manager~~Purchasing Agent shall not incur an indebtedness that is anticipated to exceed ~~\$500,000.00~~ without the concurrence of the Chairperson of the Board of Directors, or, in his or her absence, the concurrence of any other Board member. If the ~~Chief Engineer~~Purchasing Agent, after reasonable effort under the circumstances, is unable to contact the Chairperson or other board member, the ~~Chief Engineer~~Purchasing Agent is authorized to take immediate action without the prior concurrence of the Chairperson or other Board member.
- 3.3 The ~~Chief Engineer~~Purchasing Agent shall report any action taken pursuant to section 3-1 ~~and that exceeds \$100,000~~ to the Board of Directors at its next regular board meeting.
- 3.4 The ~~Chief Engineer~~Purchasing Agent shall have the authority to issue a purchase order or execute a contract agreement that would normally otherwise require prior Board authorization if any delays to the issuance of the purchase order would result in significant economic losses, such as downtime at an energy or commodity-producing facility or delays to other contractors or District forces or when there are tangible benefits to the Districts such as associated with project staging costs and/or minimizing project impacts to surrounding communities. When possible, the order shall be issued to a vendor ~~that~~who has previously been awarded similar work ~~as a result~~because of a formal bid process. An analysis of the economic and other any factors justifying the issuance of the purchase order shall be documented. Action confirming the issuance of the purchase order shall be obtained from the Board of Directors at its next regular board meeting.

SECTION 4. BIDDING REGULATIONS

- 4.1 The Purchasing Agent shall establish bidding procedures that are in the best interest of the Districts, and that comply with all applicable provisions of law and this Purchasing Policy and the specific requirements of this Section.
- 4.2 As used in this Section, the word "bid" shall include any offer to provide materials, equipment, supplies and services, including maintenance and public works projects, to the Districts.

- 4.3 Procurements shall be awarded to the lowest responsive, responsible bidder.
- 4.4 The Purchasing Agent shall have the right to reject all bids, to accept one part of a bid and reject another in accordance with bid specifications, to waive technical defects, and to consider alternate bids if to do so best serves the interests of the Districts.
- 4.5 All bids submitted to the Districts that do not substantially comply with the instructions for bidding or that contain unauthorized conditions, limitations, or provisions, or that substitute items shall be deemed non-responsive and may be rejected by the Purchasing Agent. The Purchasing Agent may waive minor errors, omissions, or irregularities and accept bids if the error, omission, or irregularity does not affect the award or provide any other advantage to the bidder.
- 4.6 In the event of a discrepancy, the bid price shown for the unit price or for a lump sum item shall take precedence over the bid price shown for the total.
- 4.7 Any ~~bid~~bids received after a bid ~~closing~~—date and ~~hour~~time will not be ~~returned~~unopened/considered.
- 4.8 Contractors must supply such bidders' security, payment bonds, or performance bonds required by law or District specifications. The Purchasing Agent shall establish reasonable minimum requirements for bonds and surety companies.
- 4.9 All bids shall remain confidential until the time for bid opening. All responses to Requests for Proposals shall remain confidential until a contract or purchase order has been awarded.
- 4.10 All methods of procurement, including bids, requests for quotations, requests for proposals, etc., must be conducted in a manner that is fair and transparent.
- 4.11 The Purchasing Agent shall maintain written records of all purchasing activity as required by law or the District's document retention practices or policy. Electronic records, including but not limited to scanned documents, emails, and purchasing data in the District's accounting and asset management systems, shall be considered adequate written records for this purpose.

SECTION 5. DISPOSITION OF DISTRICT PROPERTY

- 5.1 The Purchasing Agent shall dispose of property that is no longer required for District purposes in such manner and for such consideration as the Purchasing Agent determines will best benefit the District. Property having a current value of \$100,000 or greater shall not be disposed of without prior authorization of the District's Board of Directors.
- 5.2 The Purchasing Agent may exchange used District property in connection with a purchase of materials, supplies, or equipment, subject to the limitations in this section.
- 5.3 Disposition of all real property, regardless of value, requires Board approval.

SECTION 6. OUTREACH PROGRAM

6.1 Policy Statement

- a. The Districts reaffirm a commitment to cost efficiency, fair and open public processes, and equal opportunity for purchasing and contracting.
- b. The Districts support and encourage participation by businesses owned and controlled by minorities ("MBE"), women ("WBE"), disabled veterans ("DVBE"), disadvantaged ("DBE"), small business enterprises ("SBE"), and other disadvantaged businesses.
- c. Therefore, the Districts have adopted the following Outreach Program ("Program"):

6.2 The Program

- a. Public Works Contracts: Districts' staff shall encourage participation by all members of the community including MBE/WBE/DVBE/DBE/SBE businesses in the process of bidding for public works contracts as defined by Section 1101 of the California Public Contract Code by means of an outreach program.
- b. Purchases of Materials, Supplies, Equipment or Services: Districts' staff shall periodically review purchases of materials, supplies, equipment, or services for possible participation by MBE/WBE/DVBE/DBE/SBE businesses. Districts' staff shall determine the availability of MBE/WBE/DVBE/DBE/SBE businesses in the applicable trade or industry and will notify them of contract opportunities.
- c. Federal and State Projects: Projects that are funded in whole or in part by the federal and/or state government shall be administered according to requirements of the respective state and/or federal programs.

6.3 The Program shall not apply to contracts let pursuant to emergency authority delegated to the ~~Chief Engineer~~Purchasing Agent as provided for elsewhere in this Policy.

6.4 Certification

- a. MBE/WBE/DVBE/DBE/SBE businesses shall have been certified as such by one or more of the following agencies: the City of Los Angeles, Department of Public Works; WMBE Clearinghouse, Los Angeles, California (California Public Utilities Commission); California Department of Transportation (CalTrans); Los Angeles County Metropolitan Transportation Authority (MTA); County of Los Angeles, Consumer and Business Affairs, Office of Small Business; or such other agencies deemed authoritative by the ~~Chief Engineer~~Purchasing Agent. Certifications from other agencies may be accepted on a case-by-case basis.
- b. The ~~Chief Engineer~~Purchasing Agent shall accept small businesses certified as such under the Federal Government's Small Business Administration 8(a) program and the State of California's Office of Small and Minority Businesses.

- 6.5 All businesses that have been certified in accordance with the procedures set forth above shall be placed in a database that categorizes them according to type of industry, trade, or commodity.
- 6.6 Districts' Goals and Reporting
- a. To encourage participation, an aspirational goal of 20% of Purchase Orders issued to MBE/WBE/DVBE/DBE/SBE businesses has been established for the Program. The goal will be communicated to prospective bidders in the specifications for each project.
 - b. Contractors awarded projects of \$100,000 and greater in value will be required to report levels of participation by MBE/WBE/DVBE/DBE/SBE suppliers and subcontractors. The information will be used by the Districts for statistical purposes.
- 6.7 The following methods shall be utilized by Districts' staff as appropriate to increase awareness of opportunities for MBE/WBE/DVBE/DBE/SBE business participation in contracting opportunities:
- a. Participate in working groups with other local agencies, such as OneLA Regional Collaborative.
 - b. Maintain a database that contains pertinent information on various certified MBE/WBE/DVBE/DBE/SBE firms, including the type of trade or industry in which the business is engaged.
 - c. Actively participate in business fairs sponsored by various city and county agencies, as well as MBE/WBE/DVBE/DBE/SBE business associations.
 - d. Notify contractor associations regarding bidding opportunities.
 - e. Place notices in local newspapers and trade journals regarding upcoming projects.
- 6.8 Efforts shall be made to eliminate or minimize requirements that have the potential to discourage or prevent disadvantaged businesses from participating in bids including:
- a. Insurance requirements shall not be more than what would be appropriate for the risk associated with the scope of work.
 - b. Bonds, licenses, experience requirements, etc. shall not be more than what is required by law or what is needed to ensure the quality of the work and the qualifications of the vendor.
 - c. When it will not unduly impact the Districts ability to operate efficiently, the scope of work associated with each bid or proposal solicitation shall be structured to maximize opportunities for vendors that have limited size or capabilities.

SECTION 7. ADMINSTRATIVE AND BUSINESS TRANSACTIONS

- 7.1** The Purchasing Agent is authorized to procure and pay for required regulatory fees, permit fees, taxes, etc. for payments to government agencies without Board approval.

7.2 The Purchasing Agent is authorized to procure and pay for legally required newspaper notices without board approval.

7.3 The Purchasing Agent is authorized to procure temporary property rights, that do not exceed \$100,000, necessary to accommodate construction of Districts' projects without approval by the Board of Directors.

7.4 The Purchasing Agent or his or her designee is authorized to settle and reject claims against the Districts not to exceed \$100,000.

7.97.5 The Purchasing Agent is authorized to issue Purchase Orders and enter into Contracts greater than \$100,000 without board approval, if the next board meeting is not expected to take place for more 30 days, and delay of the order or contract until the next board meeting would result in significant economic losses, regulatory issues, or delays to critical work. The Purchasing Agent shall request approval at the next meeting of the Board of Directors, not to exceed 90 days from the date the purchase order or contract was issued.

SECTION 7. SECTION 8. PURCHASING POLICY ADOPTION

This Policy will become effective after approval by all of the Districts Boards and supersedes the Purchasing Policy for each individual District. This Policy will be reviewed on an annual basis and any modifications must be approved by the Boards. After each review, the matter will be referred to the Personnel Committee (comprised of the Chairpersons of the Board of Directors of each active County Sanitation District of Los Angeles County) for its consideration.

Adopted by All Boards 2022 through 2022