

MINUTES OF THE ADJOURNED REGULAR MEETING
OF THE BOARD OF DIRECTORS OF
COUNTY SANITATION DISTRICT NO. 14
HELD AT THE OFFICE OF THE DISTRICT
VIA TELECONFERENCE

September 8, 2022
9:30 o'clock, A.M.

The Board of Directors of County Sanitation District No. 14 of Los Angeles County met pursuant to adjournment as ordered by this Board of Directors at the Regular Meeting on August 24, 2022. A copy of the Order of Adjournment was posted as required by law and that proper affidavits of the posting are on file in the Secretary's office.

There were present: Steven Hofbauer, Director from Palmdale
Kathryn Barger, Alternate Director from Los Angeles County
Marvin Crist, Chairperson pro tem, Alternate Director from Lancaster

Absent: None

Also present: Denise Springer, Deputy Secretary to the Board
Jessica Beckwith, District Counsel

RE: PUBLIC COMMENT The Chairperson pro tem announced this was the time for any questions or comments by members of the public. There were no public comments or questions to address the Board on any matters.

RE: MINUTES Upon motion of Director Hofbauer, duly seconded and unanimously carried by a roll-call vote, the minutes of the adjourned regular meeting held June 9, 2022, were approved.

RE: DISTRICT EXPENSES The following expenses for the months of April, May, and June 2022 were presented and upon motion of Director Hofbauer, duly seconded and unanimously carried by a roll-call vote, were approved:

Local District Expenses:	
Operations & Maintenance (O & M)	\$ 3,047,677.65
Capital	608,523.91
Legal	25,382.87
Allocated Expenses:	
Joint Administration	451,677.56
Technical Support	487,064.27
Legal	19,387.37
Total Expenses	<u>\$4,639,713.63</u>

RE: RESOLUTION 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 - ADOPT

A proposed *Resolution of the Board of Directors of the County Sanitation District No. 14 of Los Angeles County 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*, was presented. Remote 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 must adopt, by majority vote, a 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 was attached to the agenda. A recommendation was made to adopt the Resolution.

Upon motion of the Director Barger, duly seconded and unanimously carried by a roll-call vote, the following Resolution was adopted:

RESOLUTION OF THE BOARD OF DIRECTORS OF THE COUNTY SANITATION
DISTRICT NO. 14 OF LOS ANGELES COUNTY 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 County Sanitation District No. 14 of Los Angeles County (“District”) 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 District’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 District 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 District’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 District 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 COUNTY SANITATION DISTRICT NO. 14 OF LOS ANGELES COUNTY 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 District 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 District'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 District'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 County Sanitation District No. 14 of Los Angeles County this 8th day of September 2022 by the following vote:

AYES: Three (3)

NOES: None

ABSTAIN: None

ABSENT: None

RE: DEFEASANCE OF DISTRICT BONDS
DISCUSS

The Chief Engineer and General Manager reported that over the last 17 years, the District has constructed a number of large capital projects, most significant of

which was the expansion of the Lancaster Water Reclamation Plant in 2005. Bonds issued in 2005 (and subsequently refunded in 2015) were used to fund the work. There is an opportunity to defease a portion of the existing bonds in order to achieve savings. Defeasing the bonds involves setting aside cash in an escrow account to make the future bond payments. This item is consistent with the Districts' Guiding Principle of commitment to fiscal responsibility and prudent financial stewardship.

The Chief Engineer and General Manager advised that there is a brief presentation regarding defeasance of District bonds. The slide presentation was emailed to Directors on Tuesday, September 6. There is an opportunity for the District to take advantage of the current interest rates, set aside some funds, and save money. He introduced Matt Eaton, Deputy Assistant Chief Engineer, to give the presentation.

Mr. Eaton stated that Districts' staff and the Districts' municipal advisor, Mike Kremer of Montague DeRose and Associates, are constantly monitoring opportunities to restructure debt to achieve savings. Mr. Kremer has been the Districts' advisor since 2016 and has assisted the Districts with previous bond defeasances, bond and loan refunding, loans, and other financial transactions. There is currently an opportunity to achieve savings from defeasing a portion of District No. 14's 2015A Revenue Bonds.

A "Cash Defeasance" is a financing tool used to retire outstanding debt early. Cash is used to purchase highly rated federal securities (typically U.S. Treasury obligations) in an amount such that the principal and interest is sufficient to meet the payments due on the debt to be retired. The outstanding debt is deemed as retired and thereby removed as an obligation of the debt issuer. The opportunity cost of employing cash to legally defease debt would be the foregone interest earnings from an alternative investment, like a county Pooled Surplus Investment Fund (County Pool). In the current environment, it is likely to be financially advantageous to utilize cash to legally defease debt rather than leave this cash in a County Pool.

He discussed the details of the proposal, as shown on a slide. District No. 14's 2015A bonds have an outstanding principal of \$122,375,000 after the October 1, 2022, payment. In the base case, the District continues to invest the District's debt service funds in the County Pool until needed for debt service payments. The County Pool posted an earning rate of 1.12 percent in June 2022. The earning rate could rise or drop. The arbitrage yield

on the bonds is 3.05 percent. It is recommended to put approximately \$35 million of available cash in escrow at a fixed 3.05 percent (exact same as debt) for certain maturities. The principal and interest of the escrow would cover scheduled debt service from April 1, 2023, to October 1, 2025, plus the optional redemption of the 2026-2028 maturities on October 1, 2025. The breakeven County Pool earnings rate (where District No. 14 would be indifferent between the two cases) is 3.17 percent. Based on the County Pool's short-term and long-term average interest earnings, it is unlikely that the Pool will average more than 3.17 percent through October 2025; therefore, staff recommends proceeding with defeasance.

In response to Director Hofbauer, Mr. Eaton stated that the coupon rate of the bonds is 5 percent, and the arbitrage yield on the bonds and escrow is 3.05 percent.

Mr. Eaton discussed the impacts of the options on the District through June 30, 2032. Under the base case, the District would be at a minimum 138 percent of targeted reserves. Following defeasance, the targeted reserves would be decreased to 80 percent. Reserves would rebuild in the next 10 years. The District's debt coverage ratio (ratio of net income to debt service) would change from a minimum of 1.27 to a minimum of 1.41. Defeasance takes the pressure off rates by improving debt coverage ratio. The net benefit of cash defeasance (after \$60,000 transaction costs) is estimated at \$560,000-\$970,000. There is a small chance of breaking even or net loss. The savings is estimated at a maximum of \$16 per household. As previously discussed, no rate increases are needed in the next several years. In regard to the next four-year rate package (starting July 1, 2025), the annual rate increase would decrease from \$11 (2.3 percent) to \$9 (1.8 percent).

The benefits of cash defeasance, as shown on a slide, are as follows:

- Lowers annual debt service cost and total cost of debt
- Improves key financial metrics such as debt coverage ratio and debt relative to policy targets
- Expected to reduce future rate increases
- Could improve credit rating
- Could lower future financing costs

To move forward with defeasance, staff would prepare draft escrow agreements and authorizing resolutions. The Municipal Advisor determines escrow securities requirements. District No. 14 would approve the actions at the October 13 Board meeting. On October 26, the Financing Authority would approve the actions. In mid-November, defeasance closes.

Mr. Eaton concluded his presentation and opened the meeting up for questions.

In response to Director Hofbauer, Mr. Eaton stated that the \$2 decrease of the annual rate increase per household is approximately 0.5 percent lower per year for the four-year package.

In response to the Chairperson pro tem, Mr. Eaton stated that under both scenarios, there will likely be a need to increase rates, although with defeasance the rate increase will be lower. He further responded that the District does not have any large capital improvement projects in the next several years; therefore, there is no need for \$35 million.

In response to the Chairperson pro tem, the Chief Engineer and General Manager stated that analysis looks at the current capital improvement projects. In the next two years, there are no rate increases. The District is in good shape financially. This proposal saves money for ratepayers and the District. District No. 14 rates are high because of the nature of the District. District staff wants to do all that is possible to save money for ratepayers.

In response to the Chairperson pro tem, Mr. Eaton stated that there is some risk. The debt coverage ratio will drive the rate increase in the short-term and the amount of reserves relative to target will decrease.

In response to Director Barger, the Chief Engineer and General Manager stated that the item can be deferred until after mid-term elections, although it would result in a reduction in savings. If approved today, the cash defeasance would save \$180,000 per year over six years (\$60,000 spent on transaction costs) and \$35 million is still being used for intended purposes, which is to pay debt service.

In response to Director Barger, the Chief Engineer and General Manager stated that if in the next two years there is a recession and the funds are needed, the District could draw from reserves. He stated that the District's rates are collected on the property tax bill and the District is unlikely to see a drop in revenue. During the pandemic, the District did not incur a decrease in revenue from the collection of charges. If individuals default on their mortgage, typically the bank takes over. The item can be deferred if the Board wishes to be extra cautious.

Mr. Eaton confirmed that the item can be deferred. He stated that the next debt service payments are scheduled in October and April.

Director Hofbauer stated that \$35 million must be paid either way. The interest rate breaks even at 3 percent and the District saves 2 percent interest. The future is unknown. He stated that the scenario that he heard makes sense to move forward.

In response to Director Barger, Mr. Eaton stated that the rate is fixed at the bond arbitrage yield.

In response to the Chairperson pro tem, Mr. Eaton confirmed that cash defeasance would put reserves below target.

The Chief Engineer and General Manager stated that defeasance would drop reserves to 80 percent of the target. According to the Board-adopted reserve policy, the target is equal to annual debt service plus 50 percent of annual operations and maintenance.

In response to Director Hofbauer, the Chief Engineer and General Manager stated that, currently, the District has 138 percent of targeted reserves.

Director Hofbauer stated that he was in favor of staff's recommendation.

Mr. Eaton advised the Board that staff can defease approximately \$25 million, instead of \$35 million, to keep reserves close to 100 percent of target.

Director Barger stated that she was comfortable with deferring the item.

The Chairperson pro tem concurred.

Director Barger requested that the item be deferred to December.

The Chief Engineer and General Manager stated that the numbers would be revised and interest rates will be reviewed, along with other parameters.

Directors Barger and the Chairperson pro tem thanked Mr. Eaton and staff for the work regarding this matter.

RE: STATUS REPORT/DIRECTOR COMMENTS The Chief Engineer and General Manager advised that
ITEMS NOT LISTED ON AGENDA the Districts is working with Biobot to process samples
tributary to the Lancaster Water Reclamation Plant. The Centers for Disease Control and Prevention expanded
testing to include Monkeypox. The start date for testing is unknown. The Districts shares data with the City of
Lancaster on a monthly basis.

Director Hofbauer requested that data be shared with the City of Palmdale.

The Chief Engineer and General Manager agreed.

He stated that analysis is difficult to perform at the Districts' laboratory; therefore, it is beneficial to utilize services of other labs. Per Biobot's data, the SARS-CoV-2 virus levels have decreased. In the last two weeks, the numbers have been static. He plans to update the Board at subsequent meetings.

The meeting was adjourned by the Chairperson pro tem.

MARVIN CRIST
Chairperson pro tem

ATTEST:

DENISE SPRINGER
Deputy Secretary
/ee