



## **CITY COUNCIL & SOUTH GATE UTILITY AUTHORITY**

### **JOINT SPECIAL MEETING AGENDA**

**Tuesday, June 28, 2022 at 5:00 p.m.**

#### **IN-PERSON MEETING**

#### **ZOOM & TELECONFERENCE**

**DIAL-IN-NUMBER: 1 (669) 900-6833**

**MEETING ID: 846 6932 6411**

**<https://us02web.zoom.us/j/84669326411>**

Government Code Section 54953 permits the City Council of the City of South Gate to conduct its City Council meetings via teleconferencing for the benefit of the public and the members of the City Council. Pursuant to Section 54953 (b)(3), notice is hereby given that a member of the City Council will participate at the meeting noticed herein, via teleconference at the following location: City Council Offices. Pursuant to Section 54953(b)(3), the City has posted an agenda at the above teleconference location, which shall also be accessible to the public during the City Council meeting. Because the remote location is also located within City Hall where the regular meeting will be held, the public is encouraged to participate in the City Council Chambers where a majority of the remaining City Council will also be located.

**CALL TO ORDER:** Al Rios, Chairperson

**ROLL CALL:** Yodit Glaze, City Clerk/Recording Secretary

#### **MAYOR/CHAIRPERSON**

Al Rios

#### **VICE MAYOR/VICE CHAIRPERSON**

Maria del Pilar Avalos

#### **COUNCIL/BOARD MEMBERS**

Maria Davila

Gil Hurtado

Denise Diaz

#### **CITY CLERK/RECORDING SECRETARY**

Yodit Glaze

#### **INTERIM CITY MANAGER/INTERIM EXECUTIVE DIRECTOR**

Chris Jeffers

#### **CITY ATTORNEY/AUTHORITY COUNSEL**

Raul F. Salinas

## MEETING COMPENSATION DISCLOSURE

Pursuant to Government Code Section 54952.3: Disclosure of compensation for meeting attendance by City Council Members is \$650 monthly regardless of the amount of meetings and Utility Authority is \$50 per meeting.

### 1. REVIEW DEBT OBLIGATIONS OF SOUTH GATE UTILITY AUTHORITY

The City Council & South Gate Utility Authority will consider: (ADMIN SVCS)

- a. Adopting a **Resolution** \_\_\_\_\_ declaring the 2001 City loan to the South Gate Utility Authority Sewer Enterprise to be deemed satisfied and written off;
- b. Approving revenue pledge from the Sewer Enterprise to the Water Enterprise for estimated allocable share of the 2019 outstanding bond debt service payments; and
- c. Approving updated lease repayment schedules with the Water Enterprise and Sewer Enterprise through 2056.

### 2. MINUTES

The South Gate Utility Authority will consider approving the Meeting minutes of November 26, 2019.

### Adjournment

I, Yodit Glaze, City Clerk, certify that a true and correct copy of the foregoing Meeting Agenda was posted on June 23, 2022 at 12:55a.m. required by law.

/s/ Yodit Glaze, City Clerk

Materials related to an item on this Agenda submitted to the City Council/Utility Authority after distribution of the agenda packet are available for public inspection in the City Clerk's Office  
8650 California Avenue, South Gate, California 90280

(323) 563-9510 \* fax (323) 563-5411 \* [www.cityofsouthgate.org](http://www.cityofsouthgate.org)

In compliance with the American with Disabilities Act, if you need special assistance to participate in the Special Joint City Council/Utility Authority Meetings, please contact the Office of the City Clerk. Notification 48 hours prior to the City Council/Utility Authority Meeting will enable the City to make reasonable arrangements to assure accessibility.

JUN 23 2022

7:45am

*City of South Gate*  
CITY COUNCIL  
SOUTH GATE UTILITY AUTHORITY  
**AGENDA BILL**

For the Special Meeting of: June 28, 2022  
Originating Department: Administrative Services

Department Director: \_\_\_\_\_



Kristopher Ryan

Interim City Manager: \_\_\_\_\_



Chris Jeffers

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**SUBJECT:** REVIEW DEBT OBLIGATIONS OF SOUTH GATE UTILITY AUTHORITY, APPROVE REPAYMENT SCHEDULES FOR WATER AND SEWER ENTERPRISES, AND ADOPT RESOLUTION DECLARING LOAN FROM CITY TO SEWER ENTERPRISE DEEMED SATISFIED AND WRITTEN OFF.

**PURPOSE:** To review the various leases and loans with the South Gate Utility Authority and take recommended action to ensure the financial stability of the Water and Sewer Enterprises.

**RECOMMENDED ACTIONS:** The City Council and South Gate Utility Authority will consider:

- a. Adopting a Resolution declaring the 2001 City loan to the South Gate Utility Authority Sewer Enterprise to be deemed satisfied and written off;
- b. Approving revenue pledge from the Sewer Enterprise to the Water Enterprise for estimated allocable share of the 2019 outstanding bond debt service payments; and
- c. Approving updated lease repayment schedules with the Water Enterprise and Sewer Enterprise through 2056.

**FISCAL IMPACT:** The City's action to declare the 2001 Sewer loan in effect satisfied and written off does not impact the current fiscal position or operations of the General Fund or the Sewer Enterprise fund. It reconciles and eliminates the recorded but inactive interfund receivables (General Fund) and payables (Sewer Fund). Moreover, the loan was entirely used to improve the sewer system, and the value of the enhanced sewer system returned to the City by way of capital improvements exceeds the loan amount extended by the City.

The adoption of the revised and updated SGUA Water lease and Sewer lease repayment schedules in Attachment C clarifies the repayment obligations attributable to the 2001 City and SGUA lease, and the resulting outstanding bond debt service obligations for the water and sewer enterprises.

**ANALYSIS & BACKGROUND:** In the 1990's the California Legislature enacted SB 2111, sponsored by the California Water Association, which amended the California Public Utilities Code to allow municipal corporations (i.e., cities and counties) to sell municipally owned water utilities to a public or private entity with a majority vote of the electorate. The bill further authorized the lease of a municipally owned water utility by a resolution adopted by a majority of its legislative body (Public Utilities Code Section 10061(d)). Such a

lease, if related to a City entity, could preclude a sale of the City's water and sewer enterprise to a private company.

In 2001, the City of South Gate, while complying with Proposition 218 and other statutory requirements, decided to lease their utility system to a newly formed City joint powers authority, the South Gate Utility Authority (the "Utility Authority").

The City and the then Redevelopment Agency created a single purpose joint powers authority, the Utility Authority, to act as lessee of the utility systems, with the City Council as its directors. A public hearing was held pursuant to the California Public Utility Code. There was one lease for the Water Enterprise and one lease for the Sewer Enterprise together with a Water Enterprise Management Agreement and a Sewer Enterprise Management Agreement in which the City delegated management of the water and sewer enterprises to the newly formed Utility Authority.

The leases established: (1) a provision for an annual lease (rental) payment; subject to a total rental for each enterprise as determined by an independent written valuation report; and (2) subordinated the lease payments to operating and maintenance expenses and existing and future debt service of the enterprises. The leases, both dated November 1, 2001, were approved as part of the 2001 Utility Authority formation actions along with approval of the Water and Sewer Enterprise Management Agreements. The amounts of each year's lease payments were to be established annually by the Utility Authority and the City during its budget process based on available revenues after all operating, maintenance, debt service and capital costs were met.

The total lease payments as stated in the lease agreements are \$105,334,004 for water and \$12,798,626 for sewer. These amounts include the valuations from the 2001 utility valuation PSOMAS Report plus net current assets (net cash) on hand in both the water and sewer enterprise funds. Annual lease payments were not identified in the leases. The total lease repayment period was 55 years, terminating December 1, 2056.

In 2001, the Utility Authority's Water Enterprise made an upfront lease payment to the City of \$21,985,000 made possible by the issuance of the South Gate Utility Authority's Subordinate Revenue Bonds 2001 Series (water and sewer system projects) (the "2001 Bonds"), made a second lease payment of \$12,000,000 approved by a City resolution on February 14, 2002 (reloaned by the City to the then Redevelopment Agency), made a third payment of \$6,400,000 from the proceeds of the South Gate Utility Authority's Water Revenue Bonds Series 2012 ("the 2012 Bonds") reportedly paid to the City on July 1, 2014 and made a series of other payments between 2006 and 2018 totaling \$20,633,289. Payments of \$1,430,156 were reportedly paid by the Water Enterprise from 2006-2018 along with an additional payment of \$611,208 on July of 2014.

In 2019, the City's Auditor reviewed the payment history and made audit adjustments to reflect this history. The City's 2021 Audit shows an outstanding balance of \$44,315,715 still owed on the Water Lease. As of June 30, 2021, no lease payment schedule has been adopted by the City or the Utility Authority. The stated lease termination date is December 1, 2056. If equal annual lease payments were adopted, as is proposed as part of this Resolution, based on the remaining term, the Utility Authority Water Enterprise would pay the City \$1,303,403 annually.

The Utility Authority Sewer Enterprise has made no lease payments to the City. As of June 30, 2021, the City's 2021 Audit footnotes shows an outstanding balance of \$12,798,626 still owed on the Sewer Lease. As of June 30, 2021, no lease payment schedule has been adopted by the City or the Utility Authority. The stated lease termination date is December 1, 2056. If equal annual sewer lease payments were adopted, as is proposed as part of this Resolution, based on the remaining term, the Utility Authority would pay the City \$376,430 annually.

Although referenced in the Audit Footnotes, the City's Auditor does not reflect the unpaid Water Enterprise lease payments or the unpaid Sewer Enterprise lease payments as assets of the City General Fund or liabilities of the Utility Authority. It is our understanding that the Auditor has determined that these payments are discretionary and there are no repayment schedules.

As referenced earlier, in 2001, the City made a loan of \$21,985,000 to the Utility Authority's Sewer Enterprise. This loan was equal to the 2001 upfront lease payment it received from the Water Enterprise. The Audit recorded the 2001 General Fund Loan to the Utility Authority Sewer Enterprise Fund (the "City Loan") as an asset of the City General Fund and as a liability of the Utility Authority's Sewer Enterprise Fund. No debt service payments have been made by the Sewer Enterprise Fund on the City Loan to date and there is no repayment schedule.

The South Gate Utility Authority Water Revenue Refunding Bonds Series 2019 ("the 2019 Bonds") is the current debt obligations for the SGUA and are the sole bond obligation for the water enterprise. However, the 2019 Bonds refunded a portion of the 2012 Bonds, which refunded a portion of the 2001 Bonds. The 2001 Bonds funded \$5.875 million in sewer improvements and the sewer enterprise was, therefore, obligated to pay 20% of the 2001 debt service. In tracing through the prior refunding bonds, the 2001 Bond portion of the 2019 Bonds debt service for the Sewer Enterprise is approximately 13.5% or \$338,000 per year.

### **Proposed Action**

The propositions being considered include (a) declaring the City Loan to the Sewer Enterprise of \$21,985,000 as in effect satisfied and written off, (b) pledging revenues from the Sewer Enterprise to the Water Enterprise for the share of sewer improvements paid for by the 2001 Bonds (approximately 13.5% or \$338,000 per year) and (c) establishing a lease repayment schedule for both the Water Enterprise and Sewer Enterprise through 2056.

The Utility Authority's Water Enterprise has the financial ability to make an annual lease payment, but such payments may impact the Water Enterprise capital improvement project ("CIP") spending plan. The Sewer Enterprise may have the initial capacity to make lease payments to the City General Fund but making such lease payments will virtually eliminate the sewer's bonding capacity and ability to fund needed sewer capital improvements. However, the Sewer Enterprise does not have the current capacity to repay both the City loan and make the lease payments, absent a significant sewer rate increase.

### **Recommendation**

Staff recommends that the City Council acknowledge that the 2001 City Loan to the Utility Authority Sewer Enterprise fund for \$21,985,000 is deemed satisfied, and "write off" the City Loan from the City financial statements. The loan from the City to the SGUA was all put back into improving the sewer system. The enhanced value of the improved sewer system that will revert to the City at the end of the lease more than compensates for the loan and hence, is deemed to offset the loan amount. Staff also recommends that the City Council approve the lease repayment schedules with the Water Enterprise and Sewer Enterprise through 2056 and approve a revenue pledge from the Sewer Enterprise to the Water Enterprise for allocable share of the 2019 outstanding bonds debt service payments. Lastly, staff recommends the City Council take such action as may be necessary to assure the Water Enterprise and Sewer Enterprise have sufficient revenues to make these payment obligations, and fund requisite CIP. The impact of designating the City Loan as satisfied and written off would be to eliminate the asset value of the City Loan on the City GF balance sheet and eliminate the liability from the Sewer Enterprise financials.

**ATTACHMENTS:** A. Proposed Resolution  
B. Exhibit A – Utility Authority Restructuring and Financial Plan Memo

RESOLUTION NO. \_\_\_\_

CITY OF SOUTH GATE  
LOS ANGELES COUNTY, CALIFORNIA

**RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SOUTH GATE, CALIFORNIA, DECLARING THE 2001 CITY LOAN TO THE SOUTH GATE UTILITY AUTHORITY SEWER ENTERPRISE FUND TO BE DEEMED SATISFIED AND WRITTEN OFF OF THE CITY'S GENERAL FUND BALANCE SHEET AND THE SOUTH GATE UTILITY SEWER ENTERPRISE FUND TO CONFORM WITH RECOMMENDATIONS FROM THE CITY'S INDEPENDENT OUTSIDE MUNICIPAL FINANCE ADVISORS AND CITY'S OUTSIDE AUDITOR**

**WHEREAS**, in 2001, the City Council of the City of South Gate ("City") decided to lease the water system ("Water Enterprise") and sewer utility system ("Sewer Enterprise") to a newly formed joint powers authority, known as the "South Gate Utility Authority ("Utility Authority"), and did so by entering into separate lease agreements and management agreements for each enterprise, and delegating authority to manage the water and sewer enterprises to the Utility Authority, including tracking the so-called Water Enterprise Fund and Sewer Enterprise Fund;

**WHEREAS**, in 2001, the Utility Authority issued \$30,965,451.15 in Subordinate Revenue Bonds, 2001 Series (the "2001 Bonds") purportedly, among other things, to finance an upfront lease payment of \$21,985,000 from the Water Enterprise Fund to the City ("Upfront Water Lease Payment"), and to finance certain capital improvements to the Water Enterprise and Sewer Enterprise;

**WHEREAS**, in or around 2001, the City used the Upfront Water Lease Payment to loan the Utility Authority \$21,985,000 ("City Loan") to make capital improvements to the Sewer Enterprise;

**WHEREAS**, in 2006, a repayment schedule for the City Loan of \$21,985,000 to the Utility Authority was established requiring repayment from the Water Enterprise Fund, even though the proceeds of the City Loan were used for the benefit of the Sewer Enterprise;

**WHEREAS**, from 2001 through 2019, several payments from the Water Enterprise Fund were used to pay a portion of the City Loan, and none of those payments were made from the Sewer Enterprise Fund;

**WHEREAS**, due to favorable market conditions, the Utility Authority entered into a series of bond transactions in 2012 ("2012 Bond"), and in 2019 ("2019 Bond"), which refunded (i.e., paid off) the 2001 Bond and 2012 Bond, respectively, as are outlined in greater detail in the attached memorandum (Exhibit "A") and incorporated herein by reference;

**WHEREAS**, in 2019, at the recommendation of the outside City Auditor, City Loan repayments of \$20,663,392 made from the Water Enterprise Fund were restated as lease payments from the Water Enterprise, and the City Loan of \$21,985,000 was restored as a debt obligation payable from Sewer Enterprise revenues; this to clarify and reconcile the City's financial statements and the Utility Authority's financial statement given that the City Loan benefited the Sewer Enterprise and no payments had been made by the Sewer Enterprise Fund;



**WHEREAS**, given that the City Loan was used to improve the Sewer Enterprise, and the enhanced value of the improved sewer system with revert back to City when the lease agreement ends in 2056, good cause exists to deem the City Loan of \$21,985,000 as satisfied and written off of the City's General Fund Balance Sheet as an asset, and from the Sewer Enterprise Fund as a liability; and

**WHEREAS**, said financial treatment of the City Loan is recommended by the City's outside independent municipal financial advisor, and has also been reviewed and approved by the City Auditor as consistent with Generally Accepted Accounting Principles ("GAAP") governing the proper standards for financial reporting applicable to municipalities such as the City.

**NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF SOUTH GATE, CALIFORNIA, DOES HEREBY RESOLVE AS FOLLOWS:**

**SECTION 1.** The City Council does hereby declare that the above recitals are true and correct and incorporated herein by reference.

**SECTION 2.** The City Council does hereby authorize for the reasons set forth in the foregoing Recitals, the City Loan of \$21,985,000 of the financial books and records of the City owing from the Sewer Enterprise Fund of the Utility Authority shall be deemed satisfied and written-off.

**SECTION 3.** The City Council does hereby authorize the City Manager to implement this Resolution and to take all such appropriate steps in furtherance thereof, including directing City staff to make the appropriate financial adjustments on the corresponding accounts maintained by the City and the Utility Authority, in accordance with proper GAAP protocols and standards.

**SECTION 4.** The City Clerk shall certify to the adoption of this Resolution which shall be effective upon its adoption.

**PASSED, APPROVED and ADOPTED this 28<sup>th</sup> day of June 2022.**

**CITY OF SOUTH GATE:**

By: \_\_\_\_\_  
Al Rios, Mayor

**ATTEST:**

By: \_\_\_\_\_  
Yodit Glaze, City Clerk  
(SEAL)

**APPROVED AS TO FORM:**

By: Raul F. Salinas  
Raul F. Salinas, City Attorney

**CITY OF SOUTH GATE  
REGULAR UTILITY AUTHORITY MEETING  
MINUTES  
TUESDAY, NOVEMBER 26, 2019**

**CALL TO ORDER**           The regular meeting of the South Gate Utility Authority was called to order by Chairperson Davila at 5:02 p.m.

**ROLL CALL**               Raquel Larios, Recording Secretary

**PRESENT**                 Chairperson Maria Davila, Vice Chairperson M. Belen Bernal, Director Al Rios, Director Bill De Witt and Director Denise Diaz; Acting Executive Director/Director of Administrative Services Jackie Acosta; Authority Counsel Raul F. Salinas, Public Works Director Arturo Cervantes

**ABSENT**                 Executive Director Michael Flad, and Carmen Avalos, Recording Secretary

**COMMENTS FROM STAFF**           Authority Counsel Salinas stated that on the agenda Ms. Avalos is listed as secretary. There is a category in the bylaws stating recording secretary. Ms. Avalos should have been listed as recording secretary.

Authority Council Salinas also stated that the name of Arturo Cervantes was listed on the meeting agenda as Director of Public Works. The bylaws state the Director of Public Works sits on the South Gate Utility Authority as the secretary. The roll and responsibilities as the secretary is to sign documents when it is more than pure attestation of someone else's signature. Ms. Avalos attest as the recording secretary.

It was noted that Mr. Cervantes wasn't officially recognized as the secretary for the organization. The minutes of June 13, 2017 will be approved at tonight's meeting although Mr. Cervantes was not officially acting as secretary or as an authority official for the JPA.

**1**  
**RE-ORGANIZATION**       The South Gate Utility Authority re-organized and made the following appointments by motion of Board Member Davila and seconded by Vice Chairperson Diaz:

- a.     Appointing Mayor Belén Bernal as Chairperson;
- b.     Appointing Vice Mayor Denise Diaz as Vice Chairperson;
- c.     Appointing Council Members Maria Davila, Bill De Witt and Al Rios as Board Members;
- d.     Appointing City Manager Michael Flad as Executive Director;



- e. Appointing City Clerk Carmen Avalos as Recording Secretary;
- f. Appointing Director of Administrative Services Jackie Acosta as Treasurer and Chief Financial Officer;
- g. Secretary position to remain vacant; and
- h. Appointing City Attorney Raul F. Salinas as Authority Counsel.

2

**ESTABLISHING A REGULAR  
MEETING SCHEDULE**

The South Gate Utility Authority unanimously adopted Resolution No. 2019-01-UA entitled – A Resolution of the South Gate Utility Authority of the City of South Gate, California, establishing a regular meeting schedule and providing for other matters related thereto by motion of Board Member De Witt and seconded by Board Member Davila.

Acting Executive Director Acosta gave a brief presentation on this item.

Chairperson Bernal asked if anyone in the audience wished to speak on this item. Seeing no one step forward; Chairperson Bernal closed the audience portion.

Chairperson Bernal asked staff if they foresee any business in the near future.

Ms. Acosta stated only if the City decides on doing another bond issuance.

3

**BOND ADMIN**

The South Gate Utility Authority unanimously adopted Resolution No. 2019-02-UA entitled - A Resolution of the South Gate Utility Authority of the City of South Gate, California, authorizing the issuance of its Water Revenue Refunding Bonds, 2019 Series A, and its Taxable Water Revenue Refunding Bonds, 2019 Series A-T; approving an Indenture of Trust, a Continuing Disclosure Agreement, a Preliminary Official Statement, a Bond Purchase Contract and Escrow Agreements; appointing the professional financing team; and authorizing certain other actions in connection therewith by motion of Chairperson Bernal and seconded by Board Member De Witt.

Acting Executive Director Acosta gave a brief presentation on this item.

Chairperson Bernal asked if anyone in the audience wished to speak on this item. Seeing no one step forward; Chairperson Bernal closed the audience portion.

Chairperson Bernal thanked Ms. Acosta for taking the initiative to begin exploring given the interest rates. Anything that saves the water fund money is appreciated.

Board Member Davila thanked Ms. Acosta and City staff for their hard work on this item.

Board Member De Witt also thanked City staff for bringing this item before them.

4

**DEBT MGMT POLICY**

The South Gate Utility Authority unanimously adopted Resolution No. 2019-03-UA entitled - Resolution of the Utility Authority of the City of South Gate, California, approving a Debt Management Policy and Continuing Disclosure Undertaking Policy and authorizing certain actions in connection therewith by motion of Board Member Davila and seconded by Board Member Rios.

Acting Executive Director Acosta gave a brief presentation on this item.

Chairperson Bernal asked if anyone in the audience wished to speak on this item. Seeing no one step forward; Chairperson Bernal closed the audience portion.

Chairperson Bernal asked Acting Executive Director Acosta if the City has kept the public informed of the water bonds.

Acting Executive Director Acosta stated yes. The reports have been posted on EMMA (Electronic Municipal Market Access) and thru the CAFR (Comprehensive Annual Financial Report).

Authority Counsel Salinas's recommendation to the Utility Authority to direct the Executive Director to make the appropriate disclosure through some source of news release to inform residents of the savings and that the bond rating has increased.

Chairperson Bernal is in agreement with Authority Counsel Salinas's recommendation.

Acting Executive Director Acosta stated an article can be placed on the Vista or post on the City's website.

Chairperson Bernal asked that an article be placed on the Vista and post on the City's website.

Board Member Rios congratulated the team for working on this item.

Acting Executive Director Acosta introduced the team.

5

**MINUTES**

The South Gate Utility Authority will consider approving the Meeting minutes of June 13, 2017 by motion of Chairperson Bernal and seconded by Board Member Davila.

**ROLL CALL:** Chairperson Bernal, yes; Vice Chairperson Diaz, yes; Board Member Davila, yes; Board Member Rios, yes; Board Member De Witt, abstained.

6

**COMMENTS FROM  
THE AUDIENCE**

There were no comments from the audience.

7

**COMMENTS FROM THE  
AUTHORITY MEMBERS**

There were no comments from the Board Members.

**ADJOURNMENT**

Chairperson Bernal unanimously adjourned the meeting at 5:36 p.m. and seconded by Vice Chairperson Diaz.

**PASSED** and **APPROVED** this 28<sup>th</sup> day June 2022.

ATTEST:

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Al Rios, Chairperson

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Yodit Glaze, City Clerk