

Yolo County Debt Committee

Item #7 – Landfill – New Waste Management Unit Construction

April 9, 2019

Financing Mechanism:	Revenue Bonds
Requesting Department/Agency:	Community Services Department/ Yolo County Landfill
Time Duration:	Up to 20 Years
Debt Amount Requested:	Up to \$11 million
Reason before Debt Committee:	1) Amount of debt or obligation exceeds \$500,000. 2) Annual debt service or obligation may exceed \$150,000 3) Borrowing, debt or obligation may result in significant change in County Financial Health.

Purpose/Project

As adopted at the January 15, 2019 Board of Supervisors meeting, the County Landfill adopted plans and specifications for the construction of a new Waste Management Unit (WMU) 6F at the Landfill. This new construction project is needed in order to prepare a new space for the acceptance of waste at the landfill. Additionally, the landfill is preparing to close and cap WMU's 4 and 5 at the landfill to comply with California Regional Water Quality Control Board requirements that these modules be closed this year. The WMU 4&5 closure project is also out to bid with bids due April 9, 2019.

The project for construction of the new WMU has been part of the landfill's long term planning and was anticipated in the County's Capital Improvement plan and plans and specifications were submitted to the Central Valley Regional Water Quality Control Board for approval in December, 2018.

The engineer's estimate for the WMU 6F project was \$9,343,549 which includes a 20 percent contingency. Bids for the project were received on March 26, 2019. The apparent low bidder bid was \$8,434,668 however two bid protests have been received which are being reviewed by the Purchasing Agent. The Department is hopeful to still award to the apparent low bidder but if award to the second or third bidder is necessary, their bids were \$8,851,787 and \$8,919,835 respectively. Bid award is expected to go to the Board of Supervisors at the April 23, 2019 board meeting. The project is intended to be funded with a combination of Sanitation Enterprise funds and a long term financing. The amount of financing has not yet been determined but would be minimized to the extent possible however could be up to \$11 million if the entire amount of the WMU 6F project needed to be financed as well as a portion of the WMU 4&5 project. Analysis of the level of funding available within the Sanitation Enterprise Fund is still underway as the fund needs to retain prudent cash reserves, fund the capping and closing projects for WMU 4 and 5 described

above and also planned to be used for an Organic Digester project that is necessary for the landfill to keep up with new regulations.

The Department of Financial Services solicited proposals for a Municipal Financial Advisor which closed on April 1, 2019 in order to obtain an advisor to support various debt issuances including (1) HHSA Facilities, (2) Landfill WMU Financing, and (3) 2020 Capital Improvement Projects. The evaluation of firms is currently underway however a decision is not expected until early in the week of April 15, 2019.

In order to determine viability of the Landfill for Debt Financing, an update was done of the Landfill debt capacity model that was previously done in 2013. This model determines that the landfill appears to have sufficient debt capacity to issue Revenue Bonds which would be bonds that are pledged and solely supported by future landfill tipping fees and other revenues (rather than use of collateral or pledge of general fund as support). This is a traditional method of Solid Waste Financing and is the method of choice for financing the Landfill improvements.

The Solid Waste Revenue Bond market is somewhat opaque and it is a bit challenging to peg an exact interest rate range based on the current market however based on limited sources available to the Department of Financial Services, it appears the County may expect an interest rate between 4.2-5.2% on the issuance. The interest rate will vary widely based on how the County ends up being rated by a Nationally Recognized Statistical Rating Organization (such as Moody's or S&P). The County currently does not have a rating in this category as it has not issued or have outstanding Revenue Bonds.

One thing to consider is that with a Revenue Bond is that it would require a revenue and/or rate covenants. The Landfill will be required to meet those revenues and or rate covenants moving forward and should a debt covenant not be met, this will require disclosure to investors and may force certain actions such as raising rates to ensure that debt service coverage ratios are met. For example, if the Revenue Bond requires a 150% Debt Service Coverage Ratio and if the debt service was \$1 million, then the landfill would need to earn \$1.5 million in revenues before debt service, depreciation and some other minor accounting adjustments to stay compliant with debt service covenants.

The reason this item is coming to the Debt Committee at this time is that should a contract be awarded to complete the construction of the new Landfill WMU 6F, it will require the County to issue debt not to exceed \$11 million (depending on how much cash the fund has available to contribute). The debt is in excess of \$500,000 and debt service will be over \$150,000 per year and will have a significant impact on the landfill finances thus warranting review by the Debt Committee before consideration before the full Board of Supervisors.

Attachment A – Landfill Debt Capacity Model

Net Revenues and Amounts Available to Pay Debt Service

Column	1	2	3	4	5	6	7	Five
	CAFR	CAFR	CAFR	CAFR	CAFR	CAFR	CAFR	Year Actual
Fiscal Year Ending June 30,	2012	2013	2014	2015	2016	2017	2018	Average
Net Revenues								
Total Operating Revenue	7,946,089	8,056,980	9,972,526	10,387,889	12,335,850	15,456,443	15,859,877	
Total Operating Expenses	(8,706,102)	(17,107,660)	(8,960,460)	(10,059,207)	(8,792,255)	(12,382,821)	(12,323,634)	
Add-Back Depreciation & Amortization	686,958	596,543	596,475	563,461	530,043	600,945	617,663	
Add-Back Closure/Post Closure Expenses	669,489	8,701,934	566,748	874,180	55,189	786,223	(2,656,118)	
Interest Income (from Other Sources)	49,969	(35,596)	(270)	(29,071)	(324)	(652)	(642)	
Non Capital Grants and Contributions (1)	120,000	142,423	134,211	196,766	239,529	571,533	935,342	
Net Revenues	766,403	354,624	2,309,230	1,934,018	4,368,032	5,031,671	2,432,488	
Interest Income								
Contributions to the Closure Fund	230,758	-	873,579	-	343,811	222,409	85,321	
Available for Operations or Debt Service	49,969	(35,596)	(270)	(29,071)	(324)	(652)	(642)	
Total Interest Income	280,727	(35,596)	873,309	(29,071)	343,487	221,757	84,679	
Available to Pay Debt Service								
Debt Service Coverage Assumption, "AA" Rating	2.25x	2.25x	2.25x	2.25x	2.25x	2.25x	2.25x	2.25x
Available to Pay Debt Service	340,624	157,611	1,026,324	859,564	1,941,348	2,236,298	1,081,106	1,428,928
Debt Service Coverage Assumption, "A" Rating	1.50x	1.50x	1.50x	1.50x	1.50x	1.50x	1.50x	1.50x
Available to Pay Debt Service	510,935	236,416	1,539,487	1,289,345	2,912,021	3,354,447	1,621,659	2,143,392
Debt Service Coverage Assumption, "BBB" Rating	1.15x	1.15x	1.15x	1.15x	1.15x	1.15x	1.15x	1.15x
Available to Pay Debt Service	666,437	308,369	2,008,026	1,681,755	3,798,289	4,375,366	2,115,207	2,795,729
Debt Service Coverage Assumption, County Credit Support	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x	1.00x
Available to Pay Debt Service	766,403	354,624	2,309,230	1,934,018	4,368,032	5,031,671	2,432,488	3,215,088

Notes:

Source: Yolo County CAFR's, S&P report Dated 08/13/2012

(1) 2012 amount was \$199,210 which was greater than typically received for e-waste disposal.

The County estimates a typical value of \$120,000.

Yolo County Central Landfill Debt Capacity

Column

Scenario #1	Scenario #2
"A" Rated	"BBB" Rated
Revenue Bond	Revenue Bond

Sources:

Bond Proceeds	52,711,560	66,054,180
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Uses:

Project Fund	49,535,000	61,963,000
Debt Service Reserve Fund (1)	2,143,000	2,796,000
Costs of Issuance (2)	1,033,560	1,295,180
Total Uses	52,711,560	66,054,180

Other Data:

True Interest Cost	4.73%	5.23%
Debt Service Coverage	Approx. 1.50x	Approx. 1.15x
Maximum Annual Debt Service	2,143,000	2,796,000
Debt Service Structure	Level	Level
Final Maturity	20-Year	20-Year

Notes:

- (1) Assumes a DSRF of maximum annual debt service
- (2) Assumes a COI of 2% of the Project Fund Amount

Bond Buyer's 20-Bond GO Index of 20 Year GO 4.23%

Table showing approx 50 bp difference between "AA", "A", and "BBB"

<http://www.muni-bondadvisor.com/market.htm>