

Yolo County Debt Committee

Item #6 – Landfill – Construction of New Waste Management Unit & Leachate Pond

January 20, 2022

| | |
|--------------------------------------|--|
| Financing Mechanism: | Revenue Bonds |
| Requesting Department/Agency: | Community Services Department, Division of Integrated Waste Management |
| Time Duration: | Up to 20 Years |
| Debt Amount Requested: | Up to \$10 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

The Community Services Department, Division of Integrated Waste Management (IWM) anticipated a number of capital projects in the County's 2022-26 Capital Improvement Plan and has identified debt financing as a funding source for at least two of those projects. Those projects are the construction of the new Waste Management Unit (WMU) 6H and reconstruction of the WMU G Leachate Pond (G-Pond). Both projects are vital to the operation of the landfill. The WMU 6H construction is necessary to prepare new space for accepting waste at the landfill. The G-Pond reconstruction will increase the height of the levee around the pond which is essential for flood protection and will provide a better means of access for customers.

The plans and specifications for the WMU 6H construction was adopted at the November 9, 2021 Board of Supervisors meeting. The engineer's estimate for the project was \$7,362,774 which includes a 20 percent contingency. Bids were received on January 13, 2022, and the apparent low bid was \$5,251,120. However, the bids still require further review before an award is made. Construction is slated to begin between April and May of 2022, and the department anticipated funding the entire project with debt financing. The plans and specification for the G-Pond project has not yet been taken to the Board of Supervisors for approval. At this time, the department has identified debt financing as the primary funding source for this project and cannot move forward until financing materialize. The estimated cost of the project is around \$4 million. The exact amount of financing for these two projects has not been determined but could be up to \$10 million based on current cost estimates.

The Department of Financial Services (DFS) has obtained KNN Public Finance (KNN) as the Municipal Financial Advisor to support the above debt issuance. KNN was previously engaged for the issuance of the 2019 Solid Waste Revenue Bonds. Collaboration between staff from IWM, DFS, County Counsel, and advisors from KNN are ongoing.

Like the 2019 debt issuance, the new debt will be issued in the form of Revenue bonds which are bonds that are pledged and solely supported by the landfill tipping fees and other revenues (rather than use of collateral or pledge of general fund as support). Initial discussions with KNN estimated true interest rates to be between 1.71% to 2.50%, depending on terms and method of sale. The scenarios provided for consideration included 15- and 20-year terms with both Public Sale and Direct Purchase options.

A Public Sale can result in more favorable interest rates, as shown in the method of sale analysis provided by KNN. Rates in December for a 15- and 20-year term is 1.71% and 2.07%, respectively. However, it should be noted that interest rates in a Public Sales are not locked in until bonds are priced, which occurs later in the financing process. With expectation that rates will increase in the first two quarters of 2022, there is greater interest rate risk with a public sale, and bond rates may experience an uptick from what is currently projected. The cost of issuance under a public sale is also generally higher as it requires an underwriter and disclosure counsel, which adds to the cost. In addition, the timing required to complete a Public Sale presents a challenge for the department. With more requirements and generally a longer financing timeline, funds may not be available to the department for when construction start in April or May of 2022.

A Direct Purchase Sale typically yields incrementally higher interest rates compared to a Public Sale. As indicated in KNN's method of sale analysis, rates in December for a 15- and 20-year term direct purchase sale are 2.05% and 2.5%, respectively. Despite the higher interest rates, cost of issuance is more favorable and there is the ability to lock in rates in a sooner timeframe. This method would require working with KNN to solicit an RFP, and therefore exact rates and terms and conditions would not be known until proposals are received and reviewed. The direct purchase method of sale is generally faster than a public sale and could be completed in time to meet the financing needs of the department.

After evaluating the pros and cons of each method of sale, staff is recommending the Direct Purchase method for the above financing. The reasons for this recommendation are as follows:

- A shorter financing timeline that better fit the needs of the department.
- The ability to lock in rates earlier in the process.
- Lower cost of issuance.
- Less stringent disclosure requirements.
- Less burden on staff time to complete the sale.

Staff believe this method of sale would yield the best result in securing the finance that is needed. Results of the sale will be presented to the Debt Committee at a future meeting for review before consideration before the full Board of Supervisors.

Attachment A – KNN's Method of Sale Analysis



County of Yolo

2022 Solid Waste System Revenue Bonds

Method of Sale Analysis

December 16, 2021



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A Limited Liability Company

Summary of Method of Sale and Financing Term Analysis

| Scenario: Financing Term: Method of Sale: | A | | B | | C | | D | |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 15 years | | 20 years | | 20 years | | | |
| | Direct Pur. | Public Sale | Direct Pur. | Public Sale | Direct Pur. | Public Sale | Direct Pur. | Public Sale |
| Sources: | | | | | | | | |
| Par Amount: | \$10,150,000 | \$8,615,000 | \$10,150,000 | \$8,815,000 | \$10,150,000 | \$8,815,000 | \$10,150,000 | \$8,815,000 |
| Bond Premium: | 0 | 1,633,752 | 0 | 1,432,676 | 0 | 1,432,676 | 0 | 1,432,676 |
| Total Sources: | \$10,150,000 | \$10,248,752 | \$10,150,000 | \$10,248,752 | \$10,150,000 | \$10,247,676 | \$10,150,000 | \$10,247,676 |
| Uses: | | | | | | | | |
| Project Fund Deposit: ¹ | \$10,000,000 | \$10,000,000 | \$10,000,000 | \$10,000,000 | \$10,000,000 | \$10,000,000 | \$10,000,000 | \$10,000,000 |
| Costs of Issuance: ² | 150,000 | 180,000 | 150,000 | 180,000 | 150,000 | 180,000 | 150,000 | 180,000 |
| Underwriter's Discount: ³ | 0 | 64,613 | 0 | 66,113 | 0 | 66,113 | 0 | 66,113 |
| Rounding: | 0 | 4,139 | 0 | 1,564 | 0 | 1,564 | 0 | 1,564 |
| Total Uses: | \$10,150,000 | \$10,248,752 | \$10,150,000 | \$10,248,752 | \$10,150,000 | \$10,247,676 | \$10,150,000 | \$10,247,676 |
| True Interest Cost: ⁴ | 2.05% | 1.71% | 2.50% | 2.07% | 2.50% | 2.07% | 2.50% | 2.07% |
| Average Annual Payments: ⁵ | \$792,854 | \$774,720 | \$651,094 | \$626,573 | \$651,094 | \$626,573 | \$651,094 | \$626,573 |
| Total Payments: | \$11,892,808 | \$11,620,800 | \$13,021,875 | \$12,531,450 | \$13,021,875 | \$12,531,450 | \$13,021,875 | \$12,531,450 |
| Minimum Parity DS Coverage: | 1.70 | 1.71 | 1.85 | 1.88 | 1.85 | 1.88 | 1.85 | 1.88 |

¹ Project fund deposit amounts assume no interest earnings.

² Costs of issuance for direct purchase includes estimated fees for bond counsel, municipal advisor, bank counsel, CDIAC fee, and misc. Costs for public sale includes estimated fees for bond and disclosure counsel, one credit rating, municipal advisor, trustee, printer, and misc.

³ Underwriter's discount assumed at \$7.50 per \$1,000 of bond par amount.

⁴ Direct purchase indicative interest rates provided by Bank of the West (15-yr.) and First Foundation (20-yr.). Public sale indicative interest rates provided by Raymond James & Associates.

⁵ Reflects market conditions for "AA-" credit as of December 8, 2021.

⁶ All scenarios structured to produce level fiscal year payments.

Estimated Cash Flows

| Year | FY Ending | Scenario A | Scenario B | Scenario C | Scenario D | Existing Parity | Projected |
|--------|-----------|-----------------|--------------|-----------------|--------------|---------------------------|---------------------------|
| | | Direct Purchase | Public Sale | Direct Purchase | Public Sale | Debt Service ¹ | Net Revenues ² |
| 0 | 2022 | 0 | 0 | 0 | 0 | 900,000 | 3,501,077 |
| 1 | 2023 | 793,075 | 774,600 | 653,750 | 624,300 | 897,500 | 4,932,029 |
| 2 | 2024 | 791,083 | 777,400 | 648,750 | 627,500 | 899,300 | 4,783,962 |
| 3 | 2025 | 793,885 | 774,400 | 648,625 | 625,100 | 900,300 | 4,592,546 |
| 4 | 2026 | 791,380 | 775,800 | 653,250 | 627,300 | 900,500 | 2,871,663 |
| 5 | 2027 | 793,670 | 776,400 | 652,500 | 628,900 | 899,900 | 3,057,467 |
| 6 | 2028 | 795,653 | 776,200 | 651,500 | 624,900 | 898,500 | 3,250,160 |
| 7 | 2029 | 792,328 | 775,200 | 650,250 | 625,500 | 901,200 | 3,451,927 |
| 8 | 2030 | 793,798 | 773,400 | 648,750 | 625,500 | 898,000 | 5,110,342 |
| 9 | 2031 | 794,960 | 775,800 | 652,000 | 624,900 | 898,900 | 4,769,122 |
| 10 | 2032 | 795,815 | 772,200 | 649,875 | 628,700 | 898,800 | 4,999,111 |
| 11 | 2033 | 791,363 | 772,800 | 652,500 | 626,700 | 897,700 | 5,237,636 |
| 12 | 2034 | 791,705 | 772,400 | 649,750 | 629,100 | 900,500 | 5,484,600 |
| 13 | 2035 | 791,740 | 776,000 | 651,750 | 625,700 | 897,200 | 5,748,976 |
| 14 | 2036 | 791,468 | 773,400 | 653,375 | 626,700 | 897,800 | 6,018,961 |
| 15 | 2037 | 790,888 | 774,800 | 649,625 | 626,900 | 897,200 | 6,299,288 |
| 16 | 2038 | | | 650,625 | 626,300 | 900,300 | 6,590,791 |
| 17 | 2039 | | | 651,250 | 624,900 | 897,100 | 6,900,585 |
| 18 | 2040 | | | 651,500 | 628,250 | 897,600 | 7,218,050 |
| 19 | 2041 | | | 651,375 | 626,000 | 0 | 7,544,861 |
| 20 | 2042 | | | 650,875 | 628,300 | 0 | 7,888,354 |
| Total: | | \$11,892,808 | \$11,620,800 | \$13,021,875 | \$12,531,450 | \$17,078,300 | |

¹ Existing fiscal year debt service for 2019 Solid Waste Revenue Bonds.

² Total Net Revenues based upon Yolo County cash flow model as of October 22, 2021.

Sensitivity Analysis

- For the 15-year financing term, public sale yields would need to increase approximately 35 basis points for the public sale scenario debt service to break even with the direct purchase scenario debt service.
- For the 20-year financing term, public sale yields would need to increase approximately 53 basis points for the public sale scenario debt service to break even with the direct purchase scenario debt service.

Method of Sale Considerations

Direct Purchase

Public Sale

- Pros:**
- Likely quicker execution with less burden on staff time.
 - Market movement risk mitigated with rate lock.
 - Less stringent continuing disclosure requirements.
 - Possibly more favorable optional call provision.
 - Typically lower costs of issuance.

- Cons:**
- Likely higher cost of funds.
 - Constrains on financing term.
 - Slightly higher execution risk.
 - Potential shifting of some risks to County (taxable gross up, etc.)
 - Solid waste revenue bond structure may result in fewer responses as compared to lease.

- Likely lower cost of funds.
- Less constraints on size or term of financing.
- Predictable financing process.

- Interest rate volatility until pricing of bonds.
- Likely larger burden on staff.
- Typically higher costs of issuance.

Next Steps

- Finalize method of sale.

- Financing team procurement:
 - If direct purchase: Bond Counsel and Placement Agent.
 - If public sale: Bond and Disclosure Counsel and Underwriter.

- Develop financing schedule.

- FY21 system actual results.
 - Update cash flow model, if necessary.