Council Agenda #6A
Meeting of March 10, 2009

CITY OF BELMONT
CALIFORNIA

Staff Report

RESOLUTION APPROVING, AUTHORIZING AND DIRECTING THE ISSUANCE OF DEBT BY THE SOUTH BAYSIDE WASTE MANAGEMENT AUTHOURITY (“SBWMA”) IN THE MAXIMUM AMOUNT OF $65,455,000 INCLUDING AN AMOUNT ESTIMATED TO BE SUFFICIENT TO FUND THE SHOREWAY MASTER PLAN IMPROVEMENTS NEEDED TO HANDLE FUTURE TONNAGE FROM THE ROLLOUT OF NEW FRANCHISED COLLECTION SERVICES FOR MEMBER AGENCIES AND TO REDEEM THE SBWMA’S 2000 BONDS; AND FOR THE FINAL PLAN OF FINANCE BE REVIEWED BY THE FINANCE COMMISSION PRIOR TO COUNCIL TAKING ACTION ON THE FINAL ISSUANCE OF DEBT

Honorable Mayor and Council Members:

Summary

The South Bayside Waste Management Authority (SBWMA) is proposing the issuance of debt to fund the Shoreway Master Plan improvements needed to handle future tonnage from the rollout of new franchised collection services for member agencies and to redeem the SBWMA’s 2000 bonds. The issuance of debt will not exceed $65,455,000. At least two-thirds (8 out of the 12) of the member agencies are required to approve any debt sold by SBWMA.

City Council is requested to adopt a resolution approving, authorizing and directing the issuance of debt by the South Bayside Waste Management Authority (“SBWMA”) in the maximum amount of $65,455,000 including an amount estimated to be sufficient to fund the Shoreway master plan improvements needed to handle future tonnage from the rollout of new franchised collection services for member agencies and to redeem the SBWMA’s 2000 bonds; and for the final plan of finance be reviewed by the Finance Commission prior to Council taking action on the final issuance of debt.

Background

In April 2007 the SBWMA Board approved a Shoreway Master Plan detailing transfer station building retrofits, the construction of a new materials recovery facility (MRF) building, purchase of new MRF single stream processing equipment, and traffic and other miscellaneous environmental improvements. See Attachment A for a summary of key master plan milestones to date.

The transfer station operating agreement, entered into in 2000, is set to expire at the end of 2010. Because the 2000 bonds were sold on a tax exempt basis as essential purpose governmental bonds, the formula for determining compensation to a private enterprise operator of the facility is restricted by federal tax rules, and in particular, may not be based on net operating profit. This limitation does not provide adequate incentives to the contractor for superior performance (e.g., increasing the quantity of materials recovered, reducing MRF residuals, increasing the quality of the recyclable materials, increasing the revenue per ton received for commodities, etc.) and in effect caps the operator's profit. Such a "profit-cap" is unusual in these types of operating contracts.

On June 28, 2007 the SBWMA Board approved the 2011-2020 facility operations RFP and associated Operating Agreement with a compensation structure to reflect a more standard industry compensation arrangement based on net operating profit. This change in the operating agreement will require that the Authority's tax-exempt 2000 bonds either be replaced by January 2011 with taxable bonds when the new operating agreement becomes effective or be redeemed with available cash reserves. Debt sold to fund new construction may be tax-exempt after January 2011, although it will be characterized as "exempt facility" debt and be subject to the payment of alternative minimum taxes (AMT). Because more than 25% of the acquisition cost of the transfer station in 2000 was for land, the 2000 bonds do not qualify for refunding with tax-exempt AMT bonds.

Debt Financing:

Shoreway project cost estimates based on 40% engineering plans were presented to the Board in June 2008. The Board approved a resolution 10-0 authorizing the issuance of debt obligations to fund new construction improvements and to refund the SBWMA's 2000 bonds and requesting member agencies to take action to approve the issuance and sale of such debt obligations. The SBWMA's financing team has since determined that using available cash to redeem the 2000 bonds is feasible and is a more cost-effective approach than refunding the 2000 bonds with taxable bonds.

In January 2009 staff presented an update to the bond proforma and financing plan and recommended no change to the requested authorization amount of $65.455 million.
This recommendation was based on the following key factors:

- While there appears to be two viable alternatives for financing the Shoreway improvements, there remains too much volatility in the credit markets to commit to a lower bond issuance amount.
- SBWMA's available reserve balances have been impacted due to the substantial recent decline in commodity revenues. The current bond proforma assumes use of $16.9 million in cash reserves vs. $18.9 million previously assumed. Higher tipping fees have also been projected to partially compensate for $14.1 million in lower commodity revenues over the next four years (2008-2012).
- The updated project cost estimates, based on 100% complete engineering plans, are not appreciably lower than the June 2008 cost estimates. This is due in part to higher than expected engineering fees.
- An overall project contingency of 10% ($5.38 million) is still assumed; this can be reevaluated in April 2009 when construction bids are received for the MRF and Transfer Station construction work.

Shoreway Project Cost Estimates:

One of the more controversial aspects of the Shoreway Master Plan has been the actual cost associated with the proposed plan. Table 1 summarizes the project costs that were provided to the Board in April, 2007 as a planning level estimate without engineering estimates; June, 2008 based upon the 40% completed engineering plans: and the current costs based upon the 100% completed engineering plans.

TABLE 1

SHOREWAY CAPITAL PROJECT COST ESTIMATE			
CAPITAL COST ESTIMATES	**04/26/07**	**06/26/08**	**1/22/2009**
Planning and Design	$0	$1,669,300	$2,269,100
Scale house & traffic improvements	$907,350	$1,955,500	$2,195,000
Transfer Station & MRF buildings	$16,540,956	$29,091,200	$27,668,500
Construction management services	$0	$1,859,500	$2,223,300
Other Costs (e.g., engineering, landscaping, signage, etc.)	$0	$1,606,700	$1,461,000
Building sub-total	**$17,448,306**	**$36,182,200**	**$35,816,900**
MRF Equipment Purchase	$8,500,000	$15,000,000	$15,117,100
MRF Equipment Installation[3]	$0	$2,779,000	$2,840,200
TOTAL BUILDING & EQUIPMENT	**$25,948,306**	**$53,961,200**	**$53,774,200**
Project contingency at 10%		**$5,396,130**	$5,377,400
Total Project Cost w/ contingency		**$59,357,330**	**$59,151,600**

NOTES ON LINE ITEMS ABOVE

4/26/07 estimate: This was a planning level estimate requested by the Board. When the estimate was prepared the SBWMA had not hired an architect and engineer so no design work had even been started. Also, the facility operations RFP wasn't released until 11/1/07 and bids weren't received until 3/4/08; thus no firm costs were available for single stream MRF equipment and installation. The 4/26/07 estimates were updated in July 2007 as part of our FY08 budget; the total project cost was increased to $28,882,724 to account for inflationary factors associated with construction work.

6/26/08 estimate: This estimate was based on 100% construction cost estimate for the scale house and traffic improvements and 40% construction cost estimates for the transfer and MRF buildings. The scale estimate increase was substantially due to the inclusion of a new entranceway into the transfer station as part of the final design package. Construction cost estimates were also updated to reflect the actual phasing of the construction so costs were inflated (e.g., to 2009 or 2010 dollars). Construction management costs were adjusted upwards to reflect bids from 4 CM services firms. The estimate also, for the first time, included "soft costs" for planning, building, and LEED fees; and other construction costs such as landscaping, site signage, PG&E transformer, repainting the exterior of the transfer station, transfer station roof replacement, telecom and security, and education center, etc. Many of these costs weren't previously known as we had not received any feedback on project plans from the City of San Carlos planning and building departments as part of our CUP application.

1/22/09 estimate: The cost estimates shown for the transfer station and MRF buildings is based on 100% complete engineering plans.

Table 1 indicates the revised cost estimate for the Shoreway master plan improvements, including a new MRF building with single stream recycling equipment, is $**59.151 million.** This figure includes a 10% contingency on top of the estimated project costs. The updated cost estimates for site work, transfer station building retrofit and MRF building are based on 100% complete engineering plans. The January 2009 total project cost estimate is about $206,000 less than the June 2008 estimate.

Plan of Finance

The SBWMA financial advisors are currently considering two plans of finance: Variable Rate Demand Bonds (VRDB) and Bond Anticipation Notes (BAN) followed by Long Term Bonds. **Table 2** summarizes the two project funding scenarios. Both of these types of securities are in high demand and both carry interest rates that are lower than the current long-term bond cost estimate of 8.5%.

The previous plan of finance, first developed in May 2008, recommended that the SBWMA sell long-term, fixed rate bonds to take advantage of the then relatively low estimated interest cost of approximately 5.75% for tax exempt bonds subject to the alternative minimum tax (AMT).

Since then credit markets have become completely dysfunctional. The current interest cost estimate for AMT bonds is approximately 8.5% and so other plans of finance are preferred. The plan anticipates the sale of debt in May 2009.

TABLE 2
SBWMA PLAN OF FINANCE

January 09 ***(000's)*** Type of Debt	**Oct '08** **AMT**	**Jan-09** **VRDB PLAN**	**Jan '09** **BAN / LT**
Project Cost	59,357.4	59,151.6	59,151.6
Redemption of 2000 Bonds	14,990.0	13,876.7	13,876.7
2000 Bonds DSRF	(1,690.0)	(1,690.0)	(1,690.0)
SBWMA Capital Reserves	(18,959.0)	(16,991.0)	(16,991.0)
Net Funding Requirement	**$53,698.4**	**$54,347.3**	**$54,347.3**
Issuance Costs	1,397.7	332.5	530.0
Capitalized Interest	3,865.0	4,459.0	4,459.0
Original Issue Discount	900.2	818.1	1,941.9
Debt Service Reserve Fund	5,593.7	5,490.4	5,894.7
Rounding		2.7	2.1
Total Bonds Issued	**$65,455.0**	**$65,450.0**	**$67,175.0**
Long Term Bond			
Term (# Years)	20	25	25
Interest Rate	5.75%	5.23%	7.25%
Annual Payment	$5,593.7	$5,490.4	$5,894.7
Short Term Note			
Term (# Years)			2
Interest Rate			5.00%
Annual Interest Payment			$3,271.5

Refunding of 2000 Bonds included in all Finance Plans.

Two plans of Finance are presented for 2009. Final selection will depend on actual market conditions in place at the time of the planned sale of debt.

VRDBs are long term bonds that are priced as extremely short term debt. The interest rate changes weekly and investors have the opportunity to sell their bonds back to the issuer at par.

An essential security feature is a bank letter of credit (LOC). A remarketing agent re-sells bonds as needed. Current interest rates on VRDBs are under 1%, although rates have averaged closer to 3% since 1990. Total annual costs include the LOC (approximately 1.50%), the remarketing agent (approximately .125%) and variable interest costs (3.06% average since 1990). We have used a 5% total cost in our financing assumptions.

VRDBs are considered a long-term funding mechanism, although they do carry certain risks. In exchange for lower interest rates, issuers must accept interest rate fluctuation risk, credit provider downgrade risk, and tax risk. To partially mitigate interest rate risk, it is recommended that the rate stabilization fund be more fully endowed and used as needed for this purpose.

BANs are short-term funding obligations issued prior to permanent, long-term debt. They generally pay interest only, with their full principal amount coming due upon their maturity. Because their term is short (usually 1 to 3 years), they bear a lower rate of interest than long-term bonds. They must be either re-issued ("rolled") or refunded with another type of debt, usually permanent, long-term funding, upon maturity to avoid default. For issuers with long-term ratings in the "a" category or higher, fixed rate BANs may be issued without a supporting letter of credit.

While a one year term carries the lowest interest cost (approximately 2% in the present market), it also carries greater risk that credit markets will not have returned to normalcy and the note will have to be rolled for another year or two before it can be refunded into a long term bond issue. This would entail an extra set of issuance costs (legal, financial, ratings, underwriting, etc.). Unless the note has to be rolled because long-term funding is not available, it is expected that the note would be refunded with long-term bonds upon its maturity in two years. The expectation is fairly high that a BAN sale could be implemented, even in the present very difficult market.

The first alternative is recommended if a letter of credit can be obtained on reasonable terms; a VRDB has the prospect of providing long-term funding at a lower cost than would a BAN followed by long-term bonds. Furthermore, it is estimated to require less debt than would a two step bond sale, due principally to the issuance cost savings. Sale of a 2-year BAN followed by a long-term bond refunding is the second recommended alternative, and would be implemented if a letter of credit to support VRDBs could not be obtained on satisfactory terms.

The full analysis of the finance options are outlined in **Attachment B.**

General Plan/Vision Statement

The Belmont Vision Statement reads: "Our actions today preserve and enhance Belmont's beauty to make it even lovelier for our grandchildren".

Fiscal Impact

The sale of bonds will increase debt service obligations of the SBWMA. All debt issued by the SBWMA will be secured solely by the net revenues of the SBWMA (total revenues less operating expenses exclusive of debt service and depreciation). Annual debt service for the SBWMA will increase after 2010 by an estimated $3.235 million (VRDB - see **Table 3**). Tipping fees will have to increase by an amount sufficient to produce net system revenues that are at least 1.75 times interest-only debt service during construction and 2.0 times maximum annual debt service by the first full year of stabilized operations, FY2011-12. The current bond proforma produces debt coverage of 2.03 in 2011, 2.41 in 2012 and 2.61 in 2013.

The estimated one-time collection rate impact associated with the new debt service using AMT bonds was previously estimated at 4.89% on 2008 revenue; as shown in **Table 3** as 4.54% (AMT) as more current collection rate revenue figures were used from the approved 2009 rate application. The current rate impact estimates range from **4.42% to 4.89%** depending upon the assumed plan of finance. Once again, this is the rate impact associated solely with the new debt service.

As part of completing the updated bond proforma a collection rate impact was also calculated taking into consideration the projected annual tipping fee increases at Shoreway <u>and</u> the new debt service.

Projected Total Collection Rate Impact:

	2009	2010	2011	2012	2013
% Increase from Tip Fees & New Debt	4.34%	4.39%	3.91%	3.02%	1.67%
% Increase from collection operations	4.50%	4.50%	9.96%*	3.50%	3.50%
Total:	8.84%	8.89%	13.87%	6.52%	5.17%

*Estimated rate impact from rollout of new collection services by Norcal Waste.

It should be noted the projected total rate impacts for 2009 and 2010 have been incorporated into the projected solid waste Collection Fee Analysis. The projected total collection rate impact for 2011 is based upon the best available information as of the writing of this report.

TABLE 3
INCREMENTAL COLLECTION RATE IMPACT OF NEW DEBT SERVICE

January 2009 **(000's)**	**MAXIMUM CASE**		
Date of Project estimate	**Oct '08**	**Jan '09**	**Jan '09**
Type of Debt	***AMT***	***VRDB***	***BAN / LT***
Project Cost to Fund	$59,357	$59,152	$59,152
TOTAL BOND SIZE	$65,455	$65,450	$67,175
Total Annual Debt Service	$5,594	$5,490	$5,895
Less Current 2000 Bonds Debt Service	($1,685)	-1,685	-1,685
Incremental Debt Service	$3,909	$3,805	$4,210
Incremental Debt Service - Franchise (85%)	**$3,322**	**$3,235**	**$3,578**
Current (2009) Collection Rate Revenue	$73,237	$73,237	$73,237
SBWMA Collection Rate Impact	**4.54%**	**4.42%**	**4.89%**

DSRF - debt service reserve fund annual debt service held in reserve & applied to the final year of debt service

Belmont Solid Waste Collection Fee Impacts:

The total worst case estimated collection rate impact (in 2008 dollars) for implementing future collection services are:

Shoreway Facility Improvements	4.89%
Shoreway Operational Costs (new operator)	0.00% or a reduction
Future Collection Services Contractor	9.96%
Total	14.85%

Can Belmont Withdraw from SBWMA?

Under the terms of the existing JPA Agreement, a member agency may withdraw from the JPA after paying off its respective share of any outstanding SBWMA debt. Each member's pro rata share of the SBWMA's outstanding debt will increase once the 2009 bonds are issued. **Table 4** summarizes the debt obligations by member agencies. To be clear, SBWMA debt is not a general fund obligation of Member Agencies.

TABLE 4
2009 BOND ALLOCATION TO MEMBER AGENCIES

January 2009 **(000's)**			**2000 Bond (2009 Balance)**[1]	**2009 Bond**	**Incremental Bond Amount**
Balance		% of	$13,877	$65,450	**$51,573**
2007 Solid Waste Tonnage		Total			
Atherton	3,117	1.4%	$191	$901	$710
Belmont	12,181	5.4%	$747	$3,521	$2,775
Burlingame	29,623	13.1%	$1,816	$8,563	$6,748
EPA	12,802	5.7%	$785	$3,701	$2,916
Fair Oaks	8,218	3.6%	$504	$2,376	$1,872
Foster City	16,039	7.1%	$983	$4,636	$3,653
Hillsborough	4,097	1.8%	$251	$1,184	$933
Menlo Park	21,187	9.4%	$1,299	$6,125	$4,826
RWC	47,854	21.1%	$2,933	$13,833	$10,900
San Carlos	17,397	7.7%	$1,066	$5,029	$3,963
San Mateo	51,509	22.7%	$3,157	$14,890	$11,733
West Bay	2,391	1.1%	$147	$691	$545
TOTAL	226,415	100.0%	$13,877	$65,450	**$51,573**

Based on estimated maximum 2009 bond amount.

Allocation method is same as used to allocate the $11.6M Allied 2004 settlement which was based on SRDC inbound solid waste tons. 2008 tons not available (1/18/09)

[1] *-Includes accrued interest to 5/21/09 and 2% redemption fee*

The Table indicates the City of Belmont’s current bond obligation is $747,000. The City’s future obligation if the bonds are passed by 8 out of the 12 cities will be $2,775,000. This is calculated by subtracting the existing bond obligation ($747,000) from the future bond obligation ($3,521,000).

Finance Commission/Public Contact

The Finance Commission was requested to review, discuss and make a recommendation to Council on the SBWMA debt issuance.

On October 1, 2008, the Finance Commission discussed the debt issuance and concluded additional information was required prior to making a recommendation. A sub-committee was established to further study the matter. The sub-committee met with the Finance and Public Works Directors to discuss the bond issuance.

On December 4, 2008, the Finance Commission further discussed the debt issuance. The meeting was attended by SBWMA's Refunding Manager, Brain Ponty (Redwood City Finance Director), and Financial Advisor, William Euphrat to answer the Commission's questions regarding the debt issuance. **Attachment C** provides a summary of the Finance Commission's Questions and Answers.

The Finance Commission (Moved by Commissioner Callagy, seconded by Commissioner Dompier) by unanimous voice vote confirmed that they have reviewed the recommended financing mechanism and recommended that if City Council believes this is the correct project for SBWMA and Belmont's role in the project, then it is the conclusion of the Finance Commission that the issuance of bonds has been fully vetted and is an acceptable financing mechanism for the project. Furthemore, the Finance Commission recommends that City Council instruct the City's SBWMA board representative to return with a final bond financing package for approval prior to its issuance. **Attachment D** is the Finance Commission's minutes of their meeting.

San Mateo County Civil Grand Jury

The San Mateo County Civil Grand Jury has been interviewing SBWMA staff and Board members regarding the SBWMA and the Contractor Selection RFP process. Ray Davis, Public Works Director and SBWMA Board member, was interviewed by the Grand Jury on Friday, January 30th. He was sworn to secrecy and instructed that he could not discuss the scope of the interviews by the Grand Jury with anybody.

Member Agency Status on Bonds

Pursuant to the SBWMA joint powers agency agreement, at least two-thirds of the member agencies are required to approve any debt sold by the SBWMA.

To date, the following six member agencies have approved the bond financing:

Redwood City approved 7-0 on September 8th
San Mateo approved 5-0 on October 6th
Foster City approved 3-2 on October 6th
San Carlos approved 3-1 on October 13th
East Palo Alto approved 4-1 on December 16th
Menlo Park approved 5-0 on February 24th

Atherton will be considering the bond issuance at their March 9th City Council meeting.

Recommendation

It is recommended City Council adopt a resolution approving, authorizing and directing the issuance of debt by the South Bayside Waste Management Authority ("SBWMA") in the maximum amount of $65,455,000 including an amount estimated to be sufficient to fund the Shoreway master plan improvements needed to handle future tonnage from the rollout of new franchised collection services for member agencies and to redeem the SBWMA's 2000 bonds;

and for the final plan of finance be reviewed by the Finance Commission prior to Council taking action on the final issuance of debt.

Alternatives

1. City Council may elect not to approve the resolution approving and authorizing the sale of debt by the SBWMA. If 5 of the 12 SBWMA member agencies fail to approve the resolution, the SBWMA will not have sufficient funding to proceed with the Shoreway Master Plan as currently proposed. Depending on how the master plan might be revised, this will either delay or prevent the implementation in 2011 of weekly residential collection of single stream recyclables, weekly residential collection of organics (plant materials and food scraps), and rollout of single stream collection for commercial businesses.
2. Recommend SBWMA delay the implementation and explore ways to lower the project cost.
3. Refer back to the Infrastructure Committee
4. Refer back to the Finance Commission
5. Refer back to staff for further information.

Attachments

A. Shoreway Master Plan Critical Milestones
B. Plan of Finance Update
C. Finance Commission Questions and Answers
D. Finance Commission Meeting Minutes

Respectfully submitted,

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Attachment A
Shoreway Master plan (Shoreway Environmental Center)

Critical Milestones

Date	Key Item/Milestone
March 22, 2007	**Informational report** to update the Board on the Shoreway Recycling and Disposal Center (SRDC) master plan work and seek Board input on final master plan concepts. Input from this Board meeting, along with some pending related work efforts, will be used to recommend a **preferred master plan alternative** for consideration at the April 26, 2007 Board meeting.
April 26, 2007	**Board approval of a master plan preferred alternative** consisting of the materials recovery facility (**MRF) Alternative 2** plus the transfer station site improvements to address traffic improvements, self haul tipping, and improved safety and service convenience for public buyback and drop-off recycling. In total, these projects will comprise a “preferred master plan alternative.
September 27, 2007	**Board approval** to begin work scope and cost negotiations with the Design team of JR Miller/HDR Engineering for the Shoreway Environmental Center improvements.
October 25, 2007	**Board approval** of the JRMA scope and budget for the **architectural and engineering work** for the Shoreway Recycling and Disposal Center (SRDC) master plan. JRMA scope of work includes the completion of the facility design programming, production of architectural and engineering drawings that will serve as the basis for construction bidding, and construction services administration.
November 1, 2007	Shoreway **facility operations RFP released**, which included conceptual site plans for master plan improvements.
February 11, 2008	**Conditional Use Permit application** submitted to the City of San Carlos for Shoreway master plan improvements.
March 4, 2008	**Seven proposals received in response to the facility operations RFP**. These proposals included firm cost proposals for the purchase and installation of single stream processing equipment. This is the first time the SBWMA had such firm cost proposals.

April 24, 2008 — Staff presentation and report on the **Shoreway Master Plan and Financing Update.** This detailed an updated analysis of the financing plan for the Shoreway Environmental Center (the new name for the SRDC after the improvements are completed) capital improvements, including the Material Recovery Facility (MRF) processing equipment. As noted in the staff report, a very preliminary financial assessment was completed a year ago as part of the approval process for the Shoreway master plan preferred alternative. This April 2008 updated and much more thorough analysis was completed step-wise as follows:

- Prepared an estimated capital budget for the Shoreway improvements based on:
  - Revised planning level (**not a firm construction cost estimate based on a certain % complete engineering drawings**) cost estimate for building improvements.
  - MRF processing equipment cost estimate derived from the Shoreway Operations RFP responses.
  - MRF processing equipment installation cost estimate derived from the Shoreway Operations RFP responses.

June 26, 2008	Board approval of a resolution authorizing issuance of revenue obligations and requesting member agencies to adopt resolutions approving the sale of bonds to finance improvements to the Shoreway facility **and to refund the bonds issued by SBWMA in 2000**.
July 21, 2008	City of San Carlos Planning Commission **approval of CUP** <u>and</u> approval of mitigated negative declaration.
July 24, 2008	**Board approval** to shortlist South Bay Recycling and Hudson Baylor Corp. for further negotiations as the future operator of the Shoreway Environmental Center.
October 23, 2008	Board approved contract award for scale house construction. This represents Phase 1 of construction activities as part of the Shoreway master plan improvements.
December 2008	Phase I Construction started. This is construction of traffic improvements only.
January 22, 2009	Update on Shoreway masterplan costs and financing plan. Selection committee preliminary recommendation re: future Shoreway operator.
Jan./Feb./Mar. 2009	Member Agency consideration of bond approval.
February 26, 2009	Board consideration of approval of bid documents for Phase 2 Shoreway master plan improvements.
March 26, 2009	Board consideration of approval of final selection of a Shoreway operations contractor.

April 23, 2009	Board consideration of approval of sale of bonds (contingent on two-thirds of member agencies approving bond issuance). Board consideration of approval of contract award for transfer station and MRF construction. This represents Phase 2 of construction activities as part of the Shoreway master plan improvements.
June/July 2009	Phase 2 construction begins. Improvements completed spring 2011.
Spring/Summer 2009	Member Agency consideration of approval of Operations Agreement for the new Shoreway operator.

ATTACHMENT B

PLAN OF FINANCE UPDATE

The plan of finance, first developed in May 2008, recommended that the SBWMA sell long-term, fixed rate bonds to take advantage of the then relatively low estimated interest cost of approximately 5.75% for tax exempt bonds subject to the alternative minimum tax (AMT). Since then credit markets have become completely dysfunctional: banks have stopped lending, institutional bond investors have not had cash to invest and individual investors have flocked to short-term treasuries, driving yields to near zero. Underwriters are struggling to sell all but the best municipal credits and AMT bonds are very difficult to market. The current interest cost estimate for AMT bonds is approximately 8.5%.

Except for retail investors, who are largely limiting their purchases to AA and higher rated general obligation and essential purpose bonds, there are very few buyers for long-term bonds. Demand for short-term bonds, however, remains robust as buyers of all stripes have shortened their investment horizons and cash has poured into the tax-exempt money market funds. Due to lack of demand, short-term AMT paper trades at a wider spread to non-AMT paper than it has done so historically (i.e., .25% more expensive instead of only .05%).

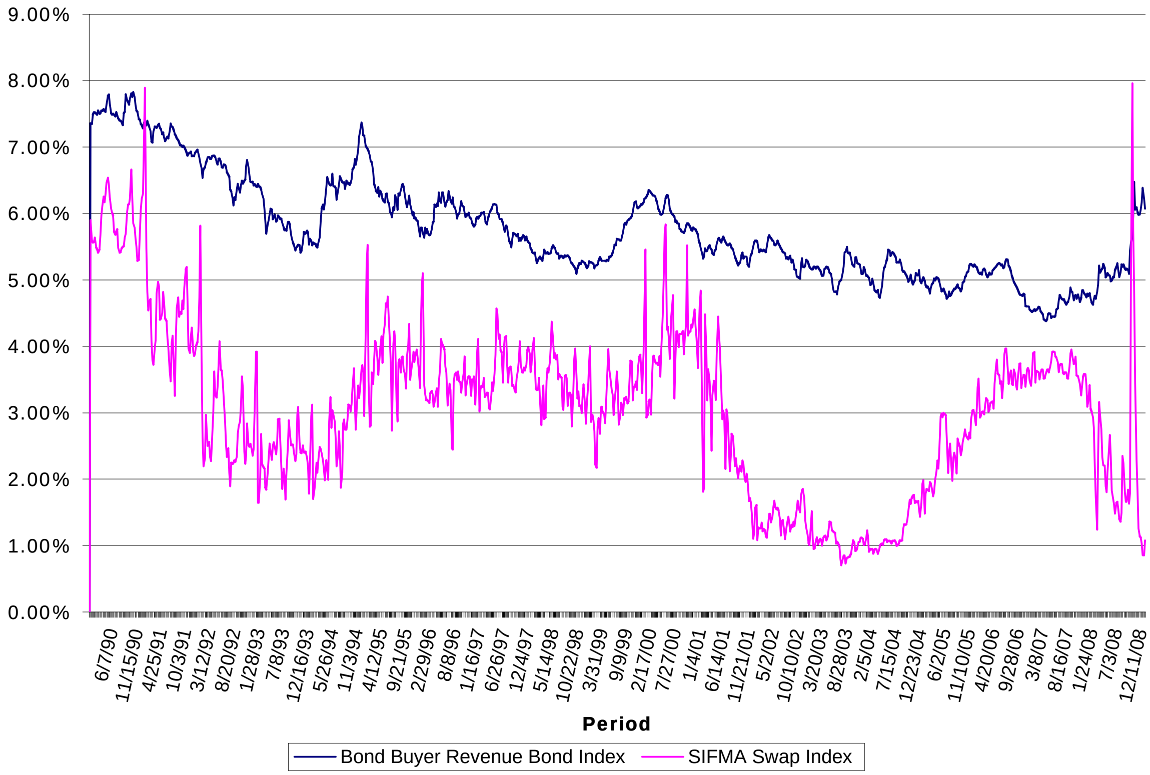
As a result of these developments, the SBWMA's team of financial professionals recommends that the SBWMA shift its plan of finance to the sale of either variable rate demand bonds (VRDBs) or short-term bond anticipation notes (BANs) followed by long term fixed rate bonds. Both of these types of securities are in high demand, and both carry interest rates that are lower than the current long-term bond cost estimate of 8.5%.

VRDBs

Summary -- VRDBs are long term bonds that are priced as extremely short term debt. The rate changes weekly and investors have the opportunity to sell their bonds back to the issuer at par (a "put") on any interest payment date with only 7 day's notice. The put is secured by a bank letter of credit (LOC), which is an essential security feature. A remarketing agent re-sells bonds that are put. Current interest rates on VRDBs are under 1%, although rates have averaged closer to 3% since 1990. Total annual costs include the LOC (approximately 1.50%), the remarketing agent (approximately .125%) and variable interest costs (3.06% average since 1990).

The chart below compares tax-exempt weekly rates to long-term tax-exempt rates for the period from 1990 to December 2008.

Short Term Tax Exempt v. Long Term Tax Exempt Yields



The Letter of Credit – During 2008 demand for letters of credit was very high as issuers rushed to refund auction rate securities (which had their own meltdown last spring), VRDBs secured by bond insurers (all of which have had their ratings downgraded, in some cases to junk bond levels, due to credit exposure to collateralized mortgage obligations) and DEPFA Bank letters of credit (downgraded below marketable levels). As a result, LOCs from highly rated banks are in short supply and fees have risen dramatically.

Total VRDB Costs -If an LOC could be obtained, SBWMA could expect to pay 1.25% - 1.75% annually for a letter of credit[1]. Remarketing fees would be around .125% annually. The AMT penalty on VRDBs is usually around .05%, but is currently about .25%. When these program expenses are added to the 5-year average cost of funds of 3.1%, SBWMA could expect VRDB annual costs, on average, in the range of 4.52% - 5.22%, although they are currently much less.

Risks –shift short term tax exempt rates higher), and credit renewal risk (that the letter of credit cannot be renewed and must be replaced, or the bonds refunded). Interest rate fluctuation risk can be managed in several ways. Derivative products, such as an interest rate cap or an interest rate swap, can be purchased. They come with their own set of risks, such as basis risk (that the index upon which the swap is based does not move in tandem with the VRDB rate) and counter-party risk (that the counter party fails to make payments to the bond issuer). A solution that avoids some of this risk would be to appropriate amounts to the rate stabilization fund at closing and additionally deposit

[1] Although the bonds are long term, the letter of credit will usually only have a term of 3-5 years (three is more likely in the current market), and the letter of credit must be either renewed or replaced prior to its termination. Alternatively, the bonds can be refunded or converted to a fixed interest rate. If none of these events takes place by the time the letter of credit expires, the letter of credit is used to purchase all of the bonds and the bonds covert to a term loan with the bank, usually with a prime-plus rate and a very short amortization period (5-10 years).

annual interest rate savings (the annual debt service appropriation will be at some reasonably conservative assumed interest rate) to the rate stabilization fund in order to accumulate a balance that can be used to self insure against unexpected interest cost spikes or other program expenses (such as the cost of replacing a letter of credit or converting bonds to a fixed rate).

BANs

Summary – BANs are short-term funding obligations issued prior to permanent, long-term debt. They generally pay interest only, with their full principal amount coming due upon their maturity. Because their term is short (usually 1 to 3 years), they bear a lower rate of interest than long-term bonds. They must be either re-issued ("rolled") or refunded with another type of debt, usually permanent, long-term funding, upon maturity to avoid default. For issuers with long-term ratings in the "a" category or higher, fixed rate BANs may be issued without a supporting letter of credit.

Interest Cost – While a one year term carries the lowest interest cost (approximately 2% in the present market), it also carries greater risk that credit markets will not have returned to normalcy and the note will have to be rolled for another year or two before it can be refunded into a long term bond issue. This would entail an extra set of issuance costs (legal, financial, ratings, underwriting, etc.). A 2-year term (5% interest rate sold at a premium to yield 4.25%) or a 3-year term (approximately 4.5%) allows more time for the economy to recover and credit markets to return to historically normal conditions. Unless the note has to be rolled because long-term funding is not available, it is expected that the note would be refunded with long-term bonds upon its maturity. The expectation is fairly high that a BAN sale could be implemented, even in the present very difficult market.

Recommendations – If a letter of credit can be obtained on reasonable terms, a VRDB has the prospect of providing long-term funding at a lower cost than would a BAN followed by long-term bonds, and is therefore recommended as the first alternative. Furthermore, it is estimated to require less debt than would a two step bond sale, due principally to the issuance cost savings. Sale of a 2-year BAN followed by a long-term bond refunding is the second recommended alternative, and would be implemented if a letter of credit to support VRDBs could not be obtained on satisfactory terms. A table comparing key expected sources and uses of funds, costs and other assumptions for the two alternatives follows on the next page. These numbers are for illustration and not final to the SBWMA project plan of finance:

	Alternative 1	Alternative 2	
	VRDB	**BAN**	**Refunding LT Bonds**
Sources of Funds			
Bonds	62,215,000	61,485,000	64,510,000
Orgininal Issue (Discount) Premium	-	1,192,194	(1,861,759)
Prior DSRF	-	-	6,148,500
Total Sources	62,215,000	62,677,194	68,796,741
Uses of Funds			
Project Fund	52,585,133	52,585,133	-
Refund BANs	-	-	61,485,000
Costs of Issuance	333,155	254,461	277,741
Capitalized Interest Allowance	3,300,000	3,074,250	-
Underwriter's Discount	777,688	614,850	1,290,200
Debt Service Reserve Fund (DSRF)	5,219,024	6,148,500	5,743,801
Total Uses	62,215,000	62,677,194	68,796,741
Assumptions			
Interest	5.23%	5.00%	7.25%
Yield	5.23%	4.25%	7.50%
Debt Service	5,219,024	3,074,250	5,743,801
Term to Maturity	25	2	25
Budget debt service at	6.500%	5.00%	7.25%
LOC	1.750%		
Remarketing	0.125%		
Average Interest	3.100%		
AMT Penalty	0.250%		
Average Annual Cost	5.225%		

Despite its risks, a VRDB structure anticipates only one set of issuance costs from the outset. A BAN anticipates at least two sets of issuance costs. The expected long-term average total annual cost of funds with a VRDB is in the range of 4.5% - 5.25% (rounded). The expected annual cost of funds with a BAN would be approximately 4.25% (2-year term), followed by a range of approximately 6% – 7.25% for long term funds. While 6% corresponds to the Bond Buyer Revenue Bond Index average since 1990, adjusted for an AMT penalty, and is a reasonable estimate of the future cost of funds, 7.25% is a more prudent planning number that demonstrates the SBWMA's ability to service debt even if interest rates remain stubbornly high well into the future.

In the present market, letters of credit are difficult to obtain. Banks are so near their credit capacity (or simply unwilling to lend credit) that they are unwilling to provide credit except to those to whom they already provide banking services. Several member agencies, including the SBWMA itself, have banking relationships with Wells Fargo

Bank and the SBWMA have an investment banking relationship with Bank of America. Both are highly rated banks that provide letters of credit for VRDBs on a select basis, and letters of credit would be solicited from each if the Board directs staff to further investigate the feasibility of structuring a VRDB.

Regardless of whether the SBWMA pursues a VRDB structure or a BAN/long-term bond structure, the SBWMA must plan on showing investors that it will be able to repay its debt. Although a VRDB sale may not require the $65.455 million authorization requested, a BAN followed by a long-term bond refunding may need the entire authorization or more. It is recommended that the requested authorization remain at $65.455 million.

ATTACHMENT C

Finance Commission Questions and Answers

Approval of the bonds by the Council should not appear to represent tacit approval of the underlying SBWMA plan to build a new facility. The Finance Commission believes that the proposed bond financing appears to be an appropriate financing mechanism, but the Commission does not have an opinion on the new facility plan itself or on the specific terms or timing of the bonds. With respect to these issues, we suggest that the Council consider the following questions. City staff have reviewed the questions and provided responses, as applicable.

Question 1: Is it clear that the proposed project is superior to rehabilitating the existing facility which might be done for a lower cost (if it's even feasible)?

Response: According to SBWMA, an exhaustive Shoreway master planning process was imitated in July 2005 and completed in April 2007. The alternatives were reviewed by the SBWMA Board, staff members, an outside architectural and engineering firm, a traffic consultant, and local Allied Waste staff. The conclusion of the analysis was that it is more cost effective to construct and operate a new facility than to retrofit the existing.

Question 2: Would it be better to forego the "upgrade" to single-stream recycling, thereby saving the extra cost of this method whose benefits are apparently uncertain?

Response: In April 2007, the SBWMA Board approved the master plan which included single-stream recycling. The proposal for contracts of the new collector was issued with this requirement.

Question 3: What is the highest % that the council wants the bond issued at? Basically, would they take 12% or would they want a note issued instead for the first phase of the project and then try to get the bond at a later date?

Response: The Council has the option to place a "cap" on the maximum interest rate they would accept; however, this decision is ultimately made by the SBWMA Board. If the Council chooses to impose a cap, they should direct this to their representative on the Board.

Question 4: Increase cost in the future to our consumers? SBWMA should come back with some data to show what the increased costs would approximately be so we can plan ahead. It would be preferable to increase the consumer's costs once every 5 or 10 years instead of doing it yearly.

Response: The proposed debt issuance is estimated to increase the City's rate by 4.89%.

Question 5: Reserves are built up to pay for machinery cost. What is the cap that the council wants to put on the reserves? Current estimates show they have $19M in reserves which will pay for some of the new equipment. Is 19M going forward too much?

Response: The amount of the reserve is determined by the SBWMA Board, management and their financial advisors. Generally, SBWMA maintains a reserve of $10-12 million, with the current balance closer to $19 million. A significant portion of the reserves will be used to pay for the Improvements, which decreases the amount to be financed with bonds. Again, the Council can make a recommendation to cap the reserves for SBWMA to consider.

Question 6: I assume that SBWMA is making interest on the reserve and the interest goes directly back in the reserve and not allocated elsewhere?

Response: Not applicable. SBWMA accounts for all activities in a single fund.

In addition, at a time closer to the issuance of the bonds, these questions should be considered:

Question 7: Are the interest rates payable on the bonds significantly higher than "normal" because of current credit market conditions?

Response: The SBWMA Board in conjunction with staff and financial advisors will review the bond market conditions prior to issuance of the debt. Alternative forms of financing may be considered if desirable rates are not available.

Question 8: If the rates are high, would a delay of the bond issuance be desirable even if the delay caused a delay in the project schedule?

Response: See response to question 7.

Finally, please ensure that the Belmont delegate returns to Council before the final bond approval is issued in order to approve the final bond package. The governance of SBWMA has seemed to be an underlying issue that does not appear to have resolution at this time. Should the governance issue be addressed before the final approval is given for a project of this magnitude?

ATTACHMENT D

CITY OF BELMONT
FINANCE COMMISSION MINUTES
December 4, 2008

Commissioners Present:	Montgomery, Sirota, Dompier, Callagy, Wood (arrived 7:51 p.m.)
Commissioners Absent:	Melamed
Staff Present:	Deputy Finance Director Lazzari, Deputy Director Tu, Treasurer Violet, Management Analyst Voelker
Others Present:	Alan Saporta (Belmont resident); Bill Euphrat, SBWMA Financial Advisor; Brian Ponty, SBWMA Refunding Manager (Redwood City Finance Director)

1. Chair Montgomery called the meeting to order at 7:31 p.m. Hearing no public comments, the Commission moved on to agenda amendments. On a motion by Commissioner Callagy, seconded by Commissioner Dompier, by unanimous voice vote, the Commission moved Item 6 to Item 5. Commissioner Callagy also requested to pull the financial reports from the Consent Calendar for discussion later in the meeting.

2. Deputy Director Lazzari briefly introduced the next topic on South Bayside Waste Management Authority (SBWMA) Debt Issuance, explaining that the question before the Commission tonight is whether the City should issue debt to fund the $65M SBWMA facility upgrade. She introduced Redwood City Finance Director and SBWMA Refunding Manager, Brian Ponty and SBWMA Financial Advisor Bill Euphrat.

   Deputy Director Lazzari gave a brief status report on the sub-committee that was formed at the October meeting. She mentioned that they met with Finance Director Fil and Public Works Director Davis regarding several issues surrounding SBWMA. The sub-committee was briefed on the impacts of changing over to single stream recycling as well as the cost savings of a facility retrofit versus use of the existing facility.

   Mr. Ponty gave a brief history of the SBWMA facility and an explanation of the proposed retrofit project. Discussion ensued among the Commission around seismic concerns of the existing building and the assumption of increased recycling as a result of the single stream method.

   Further discussion developed over the financing details of the debt issuance, amortization and payment increases, which are estimated at 4.89%. Treasurer Violet and Mr. Euphrat clarified on tipping fees and commodity prices, and how they will factor in to help fund the City's portion. Mr. Ponty also distributed a handout explaining SBWMA's funding summary for the Commission's review and discussion.

Mr. Euphrat reminded the Commission that solid waste enterprise bonds of this nature usually require higher coverage by rating agencies and thus recommends that surplus revenue be generated (gradual increase of tipping fees) to achieve twice the coverage necessary and ensure good credit with sufficient cash flow. The Commission deliberated over making a decision with so many variables and unknowns, such as the interest on the bonds and exact project costs.

The Commission then moved into a dialogue on other cities' stances on this issue and how they are approaching it; namely, the City of Burlingame. Treasurer Violet reminded the Commission that if they were to approve the issuance, it would not be the City of Belmont taking on this bond but rather, SBWMA. In response to Commissioner Callagy's question, Mr. Ponty explained that if five cities do not approve the bond issuance, the elected officials will likely confer and come up with a solution.

The Commissioners discussed amongst themselves several issues around single stream recycling and how this has affected the project scope overall. They continued to weigh several options and deliberated over cost comparisons and the advantages and disadvantages to debt issuance for the new facility. Treasurer Violet noted that if the Commission recommended non-issuance of debt, they will have to suggest an alternative for Council to consider.

Mr. Ponty and Mr. Euphrat continued to field the Commission's questions, noting that the new facility will likely have a 40-year life span without needed improvements, and the equipment is estimated at about 15 years' life span. The Commission continued to consider the cost analysis and what it would mean for Belmont. Concern surfaced over continually raising rates to achieve the target reserve and discussion ensued over the point at which SBWMA can stop increasing rates to the consumer.

Mr. Euphrat drew the Commission's attention back to the main question of whether SBWMA should issue bonds and noted that, fundamentally, this hinges on the City's stance on single-stream recycling. Commissioner Callagy requested more analysis on cost forecasting and what the cost increase will look like for consumers in the long-run. Mr. Ponty replied that although it's difficult to estimate accurately, he will request that SBWMA conduct a sensitivity analysis based on changes in the commodity revenues and forward the results to the Commission.

Further discussion continued as the Commissioners sought clarification from Mr. Euphrat on their main objective for this item and concurred on a recommendation.

Moved by Commissioner Callagy, seconded by Commissioner Dompier, by unanimous voice vote, the Finance Commission confirmed that they have reviewed the recommended financing mechanism and recommended that if City Council believes this is the correct project for SBWMA and Belmont's role in the project, then it is the conclusion of the Finance Commission that the issuance of bonds has been fully vetted and is an acceptable financing mechanism for the project. Furthemore, the Finance Commission recommends that City Council instruct the City's SBWMA board representative to return with a final bond financing package for approval prior to its issuance.

3. Treasurer Violet gave a brief update on the Audit Committee Report for FY 2008, noting that it was presented to Council and received.

4. The Commission proceeded to their review of the October 1st minutes. Commissioner Callagy confirmed with Deputy Finance Director Lazzari that the cautionary memo regarding budgets and the current economy was distributed to departments.

   Deputy Director Tu then fielded several questions from Commissioners regarding the Monthly Financial Reports.

   Moved by Commissioner Dompier and seconded by Commissioner Wood, by unanimous voice vote, the Consent Calendar, consisting of the October 1st minutes, the August and September 2008 Monthly Financial and the August and September 2008 Treasurer's Reports, was approved with no changes.

5. In the interests of time, Chair Montgomery suggested tabling the item on the SBSA Financing Plan to the February meeting. The Commission concurred.

6. Deputy Director Lazzari mentioned that the Commission received information on upcoming Priority Calendar projects in their packets for information and review purposes only at this time. The Commission agreed to table this item to the February meeting.

7. Chair Montgomery requested that all Commissioners send any follow-up questions or comments on the SBWMA item to her attention. She will compile them and forward them to Management Analyst Voelker for inclusion in the January 13th staff report to Council.

8. On a motion by Commissioner Dompier, seconded by Commissioner Callagy, the meeting was unanimously adjourned at 9:56 p.m.

Sincerely,
Brooke Lazzari
Deputy Finance Director