CITY OF SACRAMENTO

20A

DEPARTMENT OF FINANCE
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September 2, 1982
FA:82276:LT:KMF

City Council
Sacramento, California

APPROVED
BY THE CITY COUNCIL
SEP -7 1
OFFICE OF THE
CITY CLERK

Honorable Members in Session:

SUBJECT: **Vegetal Waste and Landfill Financing**

SUMMARY

This report recommends a General Fund loan of $1.4 million (+ or -) to the Waste Removal Division to finance the construction of the vegetal waste facility. Exercising the option to purchase/develop additional landfill sites will require an additional $600,000-$700,000 which is proposed to be loaned at such time as it is required.

BACKGROUND

Budget Report No. 29, dated June 1, 1982, described three long-range alternatives for funding vegetal waste and landfill capital costs in 1982-83. A copy of this report is attached for reference (Exhibit I).

Vegetal Waste Facility. The City is contractually obligated to the State to build and operate a vegetal waste facility to process lawn and garden refuse collected by the City, which will be used to fuel the State Power Plant at 7th and Q Streets downtown. This facility will be located at the present City landfill, and the processed/burned waste will be trucked to and from the power plant.

Bids for the construction of the vegetal waste facility were due August 24, 1982, with actual construction to begin in early September. Estimated time to completion is four months with the facility being operational December 31, 1982. A Vegetal Waste Processing Facility Time Line is attached for reference (Exhibit II). The option on the additional landfill is due in April, 1983.

Rationale for Short-Term Loan. The ultimate source of funding proposed for this facility and the purchase/development of additional landfill is a $2.5 million revenue bond issue in Spring 1983. However, there will be no market for these bonds until completion of the vegetal waste facility. The City's financial consultants have indicated that funding for this facility and for the landfill should be combined into a single bond issue to reduce costs to the City. It will take from 90-120 days to prepare the bond issue for sale from the time the City first initiates the bond process. This means that the bond sale will likely not occur before March or April 1983.

Because the bond issue will not be available in a timely enough manner to begin making partial payments to contractors as they work on the vegetal waste facility, an interim, short-term method of financing must be implemented as soon as the bids are received and the contract is let. A General Fund loan (from the 1982-83 TRANS issue of $11.3 million) of $1.4 million (exact amount contingent upon amount awarded for contract in bid process) to the Waste Removal Fund for a term of less than one year at the fair market rate of interest appears at this time to be the most advisable method to adopt. Based on the current vegetal waste construction schedule, the sale of the bond issue should come in enough time to repay the General Fund to in turn meet its obligation to repay the TRANS amount by June 28, 1983. Should construction of the facility fall behind schedule, delaying the bond issue, the Risk Management Fund could be utilized to make the repayment, thus the revenue bond issue would then pay off the loan from Risk Management upon sale of the bonds.

Landfill Financing. The present landfill may be filled in 9 to 12 months; the City Engineer's Deparment is considering an additional "lift" to extend this landfill life by an additional 12 months. Even if the SCA/Thermo and/or SMUD waste-to-energy facilities become a reality, the City will need additional landfill space (1) for waste disposal prior to completion of these facilities (estimated by SCA/Thermo at "approximately three years"), (2) as a back-up in case of plant failure or exceeding capacity, and (3) to deposit any by-product of the waste-to-energy process.

The need for funds is a matter of timing and the combination of sites acquired. The City is currently considering three sites adjacent to the present landfill: a 41 acre site owned by Caltrans, on which the City has a $68,280 option to purchase until April 1983 (cost: $682,800 including the option) and a 26 acre site, also owned by Caltrans, and a 7 acre site, privately owned (total cost:$52,000 + or -).

These funds may not be required as soon as for the vegetal waste facility, and it is recommended that a separate loan be arranged at the time appropriation is required.

Interest Rate of Loan. The interest rate on such a General Fund loan can be established as (1) an exact replacement based on what the General Fund would have earned in interest on the amount loaned during the period of the loan, or (2) a fixed rate as determined at the beginning of the loan (fair market rate of interest). Because there is a built-in lag time in determining interest appportionments of up to approximately 50 days at the end of each quarter (during which the Treasurer's office gathers information and makes earned interest apportionments to the various funds) it may prove advantageous to employ the <u>fixed</u> interest rate option at the current rate apportioned to the General Fund when the loan is made. Thus, all parties will know in advance the interest costs involved and administrative actions may be accelerated in transferring funds and closing loans. While a fixed rate means the interest gain will be either higher or lower than would otherwise have been received (under Pool A apportionment), since the period of the loan is by design to be of short duration, this disparity is felt by staff to be of relatively minor concern when weighed against the administrative benefits of using a fixed rate.

FINANCIAL INFORMATION

Assuming a $1.4 million loan at 12% for 180 days, the Waste Removal Fund will pay approximately $84,000 in interest expense to the City General Fund. The Risk Management Fund will be affected only if the bond sale occurs in July 1983 or later; adequate cash exists to make this loan without endangering payment of claims, and the Risk Management Fund will also receive interest during the period it carries the loan.

The following is a summary of vegetal processing and landfill costs:

A. Prior Loan	$ 422,000*
B. Vegetal Waste Facility	
1. Structure & Processor	1,068,840
2. Engineering Inspection	31,160
3. Construction Contingency	100,000
4. Fire Suppression	50,000
Sub-total	$1,350,000
C. Mobile Equipment	300,000
TOTAL	$2,072,000
D. Less State Grant	(227,664)
	$1,844,366

*$206,000 expended 8-30-82
$216,000 residual

<u>Potential</u>

Landfill EIR	$135,000
Roll off Equipment	$ 75,000
	$210,000

Total payback of the loan is $1,800,000 which includes the $422,000 prior loan for which a payback schedule is yet to be arranged.

Staff will report back on (1) the actual loan amount and interest rate, (2) the need for an additional loan for landfill acquisition, (3) any need to have the Risk Management Fund assume the General Fund loan(s), and (4) a proposal to issue revenue bonds to ultimately finance these two projects, as per Budget Report No. 29.

RECOMMENDATION

It is recommended that: (1) The Committee approve the attached resolution authorizing a short-term loan in the amount of the bid for vegetal waste facility construction, from the General Fund to the Waste Removal Fund for a period of less than one (1) year at a fixed rate of interest to be determined by the City Treasurer at the time the contract is let; (2) the Committee approve the concept of the Risk Management Fund "assuming" the General Fund loan should the facility not be completed on schedule.

Respectfully submitted,

Linda Tretheway

LINDA TRETHEWAY
Senior Management Analyst

Attachments

RECOMMENDATION APPROVED;

Walter J. Slipe

WALTER J. SLIPE
City Manager

All Districts
September 7, 1982

CITY OF SACRAMENTO

20A

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JACK R. CRIST
DIRECTOR OF FINANCE

ROBERT C. LELAND
ASSISTANT DIRECTOR

September 2, 1982

Budget and Finance Committee
Sacramento, California

Honorable Members in Session:

SUBJECT: Vegetal Waste and Landfill Financing

SUMMARY

This report recommends a General Fund loan of $1.4 million (+ or -) to the Waste Removal Division to finance the construction of the vegetal waste facility. Exercising the option to purchase/develop additional landfill sites will require an additional $600,000-$700,000 which is proposed to be loaned at such time as it is required.

RECOMMENDATION

It is requested that the Committee recommend approval of this resolution to City Council.

Respectfully submitted,

Linda Tretheway

Linda Tretheway
Senior Management Analyst

Attachment

RECOMMENDATION APPROVED:

Solon Wisham, Jr.

Solon Wisham, Jr.
Assistant City Manager

CITY OF SACRAMENTO

EXHIBIT I

20A

82-83 Budget Report No. 29

DEPARTMENT OF FINANCE
915 I STREET
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SACRAMENTO, CALIFORNIA 95814
TELEPHONE (916) 449-5736

JACK R. CRIST
DIRECTOR OF FINANCE

ROBERT C. LELAND
ASSISTANT DIRECTOR

June 1, 1982
FA:82138:RCL:KMF

Budget and Finance Committee
Sacramento, California

Honorable Members in Session:

SUBJECT: Alternative Long-Range Waste Removal CIP Financing Options

SUMMARY

This report describes three long-range alternatives for funding $2.5 million in vegetal waste and landfill capital costs in 1982-83: (1) issue revenue bonds; (2) borrow from the General Fund; and (3) pay cash via a 25% rate hike in 82-83. Regardless of which alternative is taken, a short-term (less than one year) loan of $1.5 million will be required from the General Fund. The revenue bond alternative is recommended, as already assumed in the 1982-83 Proposed Budget.

SHORT-TERM FINANCING

No matter which long-term option is selected, $1.5 million is required in early FY 82-83 because of vegetal waste contractual obligations which occur from July-October, 1982. As a "short-term" measure the following will be required:

1. From the $11.3 million TRANS issue, $1.5 million would be used to pay vegetal waste costs.

2. The General Fund would formalize a short-term loan with the Waste Removal Fund for the $1.5 million, at the fixed rate (say, 14%) the General Fund would have received on the $1.5 million had it been deposited along with the rest of the TRANS proceeds, so that there will be no investment loss or "opportunity cost" to the General Fund.

3. Waste Removal would repay approximately $500,000 (plus interest) to the General Fund by June 28, 1983, leaving an outstanding balance owed to the General Fund of $1.0 million. This is about the amount assumed to be paid for debt service in 82-83 in determining the 5.3% rate hike.

4. By June 28, 1983, the City must repay the TRANS amount. If the General Fund is cash poor, the Risk Management Fund could provide the remaining $1.0 million.

At this point, one of the three following basic "long-term" options would take over.

LONG-TERM OPTIONS

1. Revenue Bonds. The City would seek a revenue bond issue in Spring 1983, to encompass both the vegetal waste facility and purchase/ development of additional landfill.

   The funding needed is $2,500,000 ($1,500,000 - vegetal waste facility; $1,000,000 - landfill site), but with $135,000 in bond costs and an initial reserve of $565,000, the total bond sale would actually be $3,200,000. Staff assumes a 12% interest rate and a 10 year term. Thus, the total cost of borrowing (principal, interest and bond cost) would be $5,785,000. By the end of the 10 year period, the bond coverage requirements would also have generated cash totalling $1,977,500 (10 years @ $141,250/year plus the original $565,000 reserve), plus accrued interest; assuming a compounded 8% return, the total cash generated would be about $2,938,000. This cash may be used during the 10 year period for capital improvements and after that period it may be used for any Waste Removal purpose. Annual debt service and bond coverage payments total $706,250.

2. General Fund Loan. Choosing this option would negate the need for a separate short-term loan. The General Fund would make a $2.5 million loan in 1982-83, to be repaid by the Waste Removal Fund over a 5 year period at a fixed interest rate equal to investment yields to the General Fund at the time of the loan. Such yields are currently about 14%. While this interest rate is 2% higher than under the bond option, there is no coverage required (and consequently no Waste Removal Fund cash generated). Repayment costs in 1982-83 would total $758,520.

3. Raise Rates - Pay Cash. The City would increase Waste Removal rates by 25% to raise the $2.5 million by the end of FY 82-83. While the rates would increase effective July 1, 1982, there would be insufficient additional revenues to meet the July-October vegetal waste costs, thus still necessitating a short-term loan. The General Fund would be repaid its $1.5 million loan by the end of 82-83 with the remaining $1.0 million in hand to pay landfill costs by summer 1983.

ANALYSIS

There are several ways to measure the advisibility of any of the above three long-term options: (1) total cost of borrowing, (2) net cost of borrowing, (3) impact on user rates, and (4) fiscal flexibility.

Total Cost of Borrowing. There is no doubt that Option 1 (bonds) is the costliest, due to interest accruals over a 10 year period; the ratio of total cost to amount borrowed is 1.81 : 1. The least costly is the cash option (#3), with no borrowing costs.

Net Cost of Borrowing. There is another side to borrowing costs, however. With bonds there is a mandatory "coverage" provision, which staff has assumed to be 1.25 or 25%. This represents cash that must be raised in excess of the annual debt service. This cash accumulates as a function of choosing this option, like an enforced savings account.

By subtracting cash generated from the total borrowing cost, a "net" cost of only 0.98 : 1 is achieved. Options 2 and 3 do not have this automatic cash generating feature. If additional cash is to be raised under Option 2 or 3, garbage rates would have to be raised higher than specifically required just to meet the cost of the capital financing.

Impact on Rates. Options 1 and 2 have a similar effect on rates, with Option 1 (bonds) having a lower 82-83 effect as well as a lower 2-year effect than Option 2 (loan). Option 3 requires a 25.0% rate increase to generate such a large sum of cash in one year (about 14% for the vegetal waste facility and another 11% for the landfill site). In a second year turnabout, with no debt service obligation and a vastly higher rate base, Option 3 allows a significant rate decrease of 19.0%. The irony is that Option 3 thus has the potential for the lowest 2-year change, of +6.0% compared to +9.2% (Option 1) and 9.7% (Option 2).

Fiscal Flexibility. The least disruption to the Waste Removal Budget would be Option 1, with a $706,250 annual commitment for 10 years. Option 3 has a large one-time upheaval in rates over a two year period. Option 2 has a higher annual commitment than Option 1, but over one-half the time. Option 1 will limit the City's ability to use Waste Removal funds for loans or "fixes" during the 10 year period; Options 2 and 3 do not. Option 2 may exacerbate cash flow problems from the General Fund.

Option 1 does generate cash on an orderly schedule which might be used for the next major Waste Removal CIP project(s); Options 2 and 3 will require independent rate increases to generate the same amount of cash. For example, to raise the same amount of cash as does Option 1 by the end of year two ($864,450), the two-year rate change for Option 2 would have to be +14.1% instead of +9.7%, and for Option 3, +13.6% instead of +6.0%.

Option 3 presents the most difficult decision for the Council on rates, with a jump of 25%; Options 1 and 2 propose more moderate annual increases. Although the Option 3 rate may be reduced substantially in year 2, rates could be expected to increase thereafter in response to operating costs increases. Alternatively, the Option 3 rates could be reduced somewhat, but be retained at a level which would continue to generate net revenues to the Waste Removal Fund, to accrue for future CIP needs.

(It should be noted that this analysis does not consider operating budget impacts of the vegetal waste facility and landfill sites, but such impacts would not differ among the three options presented.)

RECOMMENDATION

This is an information item and does not require Committee action. However, staff does reiterate its support for Option 1 as embodied in the 82-83 Proposed Budget, for the following reasons:

1. The cost of the CIP projects is spread over 10 years, allowing lower annual debt service costs.

2. There is no cash flow impact on the General Fund.

3. The required rate increases are moderate.

4. The cash generated from the bond sales will help finance the next major Waste Removal CIP needs and alleviate the Fund's present cash flow difficulties.

5. Long-term planning is facilitated. The discipline of minor annual rate increases provides for an orderly "lay away" approach to meeting our future CIP needs.

6. The cash generated may allow the City to avoid having to issue future bonds.

Respectfully submitted,

Robert C Leland

ROBERT C. LELAND
Assistant Director of Finance

attachment

APPROVED FOR COMMITTEE INFORMATION:

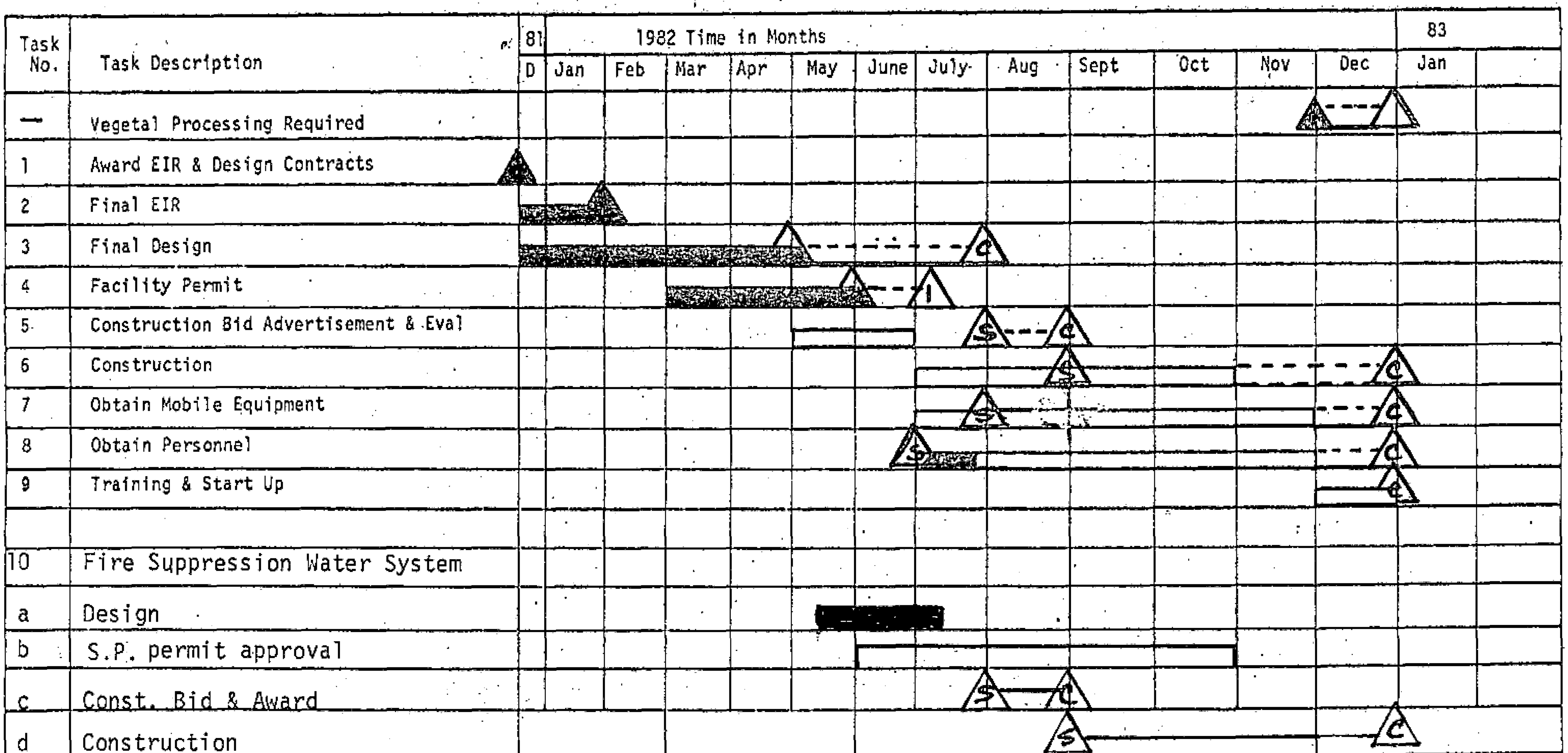
Solon Wisham Jr.

SOLON WISHAM, JR.
Assistant City Manater

COMPARISON OF LONG-TERM WASTE REMOVAL CIP FINANCING OPTIONS

Characteristic	Option 1 (Bonds)	Option 2 (City Loan)	Option 3 (Pay Cash)
1. Term	10 years	5 years	1 year
2. Interest Rate	12 %	14%	N/A
3. Bond Coverage	1.25	N/A	N/A
4. 82-83 Payment	$706,250	$758,520	$2,500,000
5. Amount Borrowed	$3,200,000	$2,500,000	$2,500,000
6. Total Borrowing Cost	$5,785,000	$3,617,270	$2,500,000
7. Ratio (6)/(5)	1.81	1.45	1.00
8. Cash Generated	$2,938,000	-0-	-0-
9. Net Borrowing Cost	$2,847,000	$3,617,270	N/A
-- Ratio (9)/(5)	0.89	1.45	N/A
11. 82-83 Rate Change	+5.30%	+5.90%	+ 25.0%
12. 83-84 Rate Change	+3.9%	+3.8%	-19.0%
13. 2 year total Change	+9.2%	+9.7%	+ 6.0%

VEGETAL WASTE PROCESSING FACILITY TIME LINES



(1) Permit approved by SSWMB (7-8-82)

EXHIBIT II

20A

RESOLUTION NO. 82-636

ADOPTED BY THE SACRAMENTO CITY COUNCIL ON DATE OF

A RESOLUTION AUTHORIZING A SHORT-TERM LOAN FROM THE GENERAL FUND TO THE WASTE REMOVAL FUND FOR THE VEGETAL WASTE FACILITY.

1. WHEREAS, the City is contractually obligated to the State to build and operate a vegetal waste facility, and

2. WHEREAS, ultimate financing for the facility and additional, necessary landfill is a $2.5 million revenue bond issue in Spring 1983, and

3. WHEREAS, funding will be needed immediately upon the contract being let at the end of August, 1982, then

BE IT RESOLVED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

That the City Manager is authorized to execute a short-term loan from the General Fund to the Waste Removal Fund for a period of less than one (1) year at a fixed rate of interest to be determined by the City Treasurer at the time the contract for the vegetal waste facility is let. The amount of the loan will be equal to the amount contracted for construction of the facility. This loan is to be repaid no later than June 28, 1983.

MAYOR

ATTEST:

CITY CLERK

APPROVED
BY THE CITY COUNCIL

SEP - 7 1982

OFFICE OF THE
CITY CLERK